



RETHINKING
YEMEN'S ECONOMY

YEMEN'S ACCELERATING ECONOMIC WOES DURING THE COVID-19 PANDEMIC



By:
Sana'a Center
Economic Unit

October 2020

YEMEN'S ACCELERATING ECONOMIC WOES DURING THE COVID-19 PANDEMIC

By:
**Sana'a Center
Economic Unit**

October 2020



This white paper was prepared by the Sana'a Center for Strategic Studies, in coordination with the project partners DeepRoot Consulting and CARPO – Center for Applied Research in Partnership with the Orient.

Note: This document has been produced with the financial assistance of the European Union and the Embassy of the Kingdom of the Netherlands to Yemen. The recommendations expressed within this document are the personal opinions of the author(s) only, and do not represent the views of the Sana'a Center for Strategic Studies, DeepRoot Consulting, CARPO - Center for Applied Research in Partnership with the Orient, or any other persons or organizations with whom the participants may be otherwise affiliated. The contents of this document can under no circumstances be regarded as reflecting the position of the European Union or the Embassy of the Kingdom of the Netherlands to Yemen.

Co-funded by
the European Union



Kingdom of the Netherlands

A vendor wears a face mask while waiting for customers at Al-Taweel market in Crater, Aden, on May 2020 ,23. // Sana'a Center photo by Ahmed Al-Shutiri



TABLE OF CONTENTS

Table of Contents	3
Executive Summary	4
Yemen's Pre-COVID19- Economic Vulnerability	5
Without Oil, An Overwhelming Economic Dependence on Remittances and Foreign Aid	7
Economic Shocks for Yemen Resulting from COVID19-	11
Declining Remittances	11
Shortfall in Foreign Aid	15
Economic Contraction and Collapse in Public Revenue Streams	19
Exhausted Central Bank Reserves and Looming Rial Depreciation	22
Disruptions in Supply Chains	23
Recommendations:	24
- <i>To the UN and International Stakeholders</i>	24
- <i>To Saudi Arabia and Other GCC States</i>	25
- <i>To the Internationally recognized Yemeni government and the de-facto authorities in Sana'a (the armed Houthi movement)</i>	26

EXECUTIVE SUMMARY

Since early 2015, when the onset of war led to the cessation of large-scale oil exports, Yemen has been almost completely dependent on three main external sources to secure foreign currency inflows and stimulate economic activity: foreign humanitarian aid, Saudi financial support to the Yemeni government, and – by far the most significant – remittances from Yemeni expatriates, most working in Saudi Arabia. All three of these foreign currency sources have dramatically declined in 2020.

The Saudi response to the COVID-19 global pandemic, in concert with record low oil prices, led to historic economic contractions and spending cuts in the kingdom, in turn undermining the ability of hundreds of thousands of Yemenis to work there and send money home. This occurred alongside a steep decline in international donor funding for the Yemen relief effort and the Central Bank of Yemen in Aden effectively exhausting the US\$2 billion Saudi deposit it received in 2018.

Roughly half the population in Yemen was already food insecure before the onset of the current armed conflict. The general economic collapse the war precipitated led to millions more requiring emergency food assistance to survive. The current acute shortage of foreign currency sources has profound implications for the value of Yemen's domestic currency, and the country's ability to finance fuel and basic commodity imports, and is likely to lead to the rapid intensification of the humanitarian crisis.

This paper presents policy recommendations to address this situation for the United Nations and other international stakeholders, Saudi Arabia and other Gulf states, as well as the internationally recognized Yemeni government and the de facto authorities in Sana'a (the armed Houthi movement, Ansar Allah).

YEMEN'S PRE-COVID-19 ECONOMIC VULNERABILITY

Yemen was already the poorest, least developed, and most food-insecure country in the Middle East before the onset of conflict in the country. In 2014, Yemen was importing as much as 90 percent of its food along with most of its medicine and fuel necessities,⁽¹⁾ unemployment was very high – at about 45 percent among youth⁽²⁾ – half of the population was food insecure, and an estimated 8.4 million lacked adequate access to health care.⁽³⁾

In September 2014, the armed Houthi movement took over the capital, Sana'a, prompting a steady economic decline as foreign investment and international aid began to withdraw. Insufficient financing then led the Social Welfare Fund to halt its cash transfer program to the poorest segments of Yemeni society in late 2014, denying around 1.5 million families – 9 million people – of their primary income source.⁽⁴⁾ The most profound driver of Yemen's war-time economic collapse, however, was the near complete suspension of hydrocarbon exports in the lead up to, and immediately following the Saudi- and Emirati-led military intervention in the conflict in March 2015.

Prior to the conflict, the oil and gas industry had been by far Yemen's largest exporting sector, making up nearly 50 percent of its foreign exchange reserves and 50-60 percent of public budget financing.⁽⁵⁾ The loss of hydrocarbon export revenues thus instigated a public finance and liquidity crisis, which by August 2016 left most of Yemen's roughly 1.25 million public sector employees – and around 7 million of their dependents⁽⁶⁾ – without regular income. By the end of 2019, Yemen's cumulative contraction in real gross domestic product (GDP) was

- 1) "Missiles and Food: Yemen's man-made food security crisis," Oxfam, December 2017, https://d1tn3vj7xz9fdh.cloudfront.net/s3fs-public/file_attachments/bn-missiles-food-security-yemen-201217-en.pdf. Accessed May 13, 2020.
- 2) "Yemen, Republic of - Unlocking the potential for economic growth," World Bank, October 1 2015, <http://documents.worldbank.org/curated/en/673781467997642839/Yemen-Republic-of-Unlocking-the-potential-for-economic-growth>. Accessed April 18, 2020.
- 3) "2015 Yemen Humanitarian Needs Overview - ReliefWeb," OCHA, December 22, 2014, <https://reliefweb.int/report/yemen/2015-yemen-humanitarian-needs-overview>. Accessed April 18, 2020.
- 4) "Emergency Cash Transfer Project," UNICEF Yemen, <https://www.unicef.org/yemen/emergency-cash-transfer-project>. Accessed Jul 17, 2020.
- 5) "Yemen Policy Note 2 - Economic, Fiscal and Social Challenges in the early phase of a Post Conflict Yemen," World Bank, May 23, 2016, <http://documents1.worldbank.org/curated/es/528701508409003246/pdf/120535-WP-P159636-PUBLIC-Yemen-Policy-Note-2-edited-final-clean.pdf>. Accessed May 5, 2020.
- 6) "Yemen: Humanitarian Response Plan January-December 2017," UN OCHA, February 8, 2017, <https://reliefweb.int/report/yemen/yemen-humanitarian-response-plan-january-december-2017-enar>. Accessed July 16, 2020.

around 45 percent and cumulative losses in economic activity were estimated at about \$66 billion.⁽⁷⁾ The World Bank estimated the number of Yemenis living under the poverty line had risen from 48 percent in 2014 to 70 percent at the end of 2016.⁽⁸⁾

Without new oil receipts, continued demand for fuel and basic commodity imports forced the Central Bank of Yemen (CBY) to adopt an impulsive short-term foreign exchange policy by drawing down on its foreign currency reserves to protect the rial. Consequently, the country's foreign currency reserves fell from \$4.6 billion in September 2014 to \$700 million by September 2016, when the internationally recognized Yemeni government issued a decree to relocate the CBY's headquarters from Sana'a to Aden.⁽⁹⁾ The transfer split the institution into two entities, which have since competed for control over monetary policy, financial sector activities and import financing. The ensuing fragmentation has hampered both efforts to address the banking sector liquidity crisis and cohesive economic stabilization policies. Consequently, the Yemeni rial exchange rate experienced general decline mixed with bouts of extreme volatility, depreciating from YR215 per US\$1 in 2015 to an all-time low of more than YR800 per US\$1 by early October 2018, a loss of some three-quarters of its value. At the beginning of 2020, the exchange rate was YR582 per US\$1.

Downward pressures on the Yemeni rial induced high inflationary movement, with the inflation rate increasing from around 40 percent in 2015 to about 55 percent in 2018.⁽¹⁰⁾ As a result, general purchasing power has fallen during the conflict, limiting access to food and medicine, with the national average monthly cost of the minimum food basket per capita surging by nearly 112 percent during the period 2015-2018.⁽¹¹⁾ By the end of 2019, an estimated 75 percent of Yemenis were living below the poverty line.⁽¹²⁾

7) "Yemen Socio-Economic Update, Issue 44 - August 2019," Ministry of Planning and International Cooperation, <https://reliefweb.int/report/yemen/yemen-socio-economic-update-issue-44-august-2019-enar>. Accessed July 17, 2020.

8) "Economic, fiscal and social challenges in the early phase of a post-conflict Yemen," World Bank, May 27, 2014, <https://documents.worldbank.org/curated/en/528701508409003246/Economic-fiscal-and-social-challenges-in-the-early-phase-of-a-post-conflict-Yemen>. Accessed July 14, 2020.

9) "Yemen Without a Functioning Central Bank," The Sana'a Center for Strategic Studies, November 2, 2016, <https://sanaacenter.org/publications/main-publications/55>. Accessed August 11, 2020.

10) "Yemen Economic Monitoring Brief - Fall 2018," World Bank, October 22, 2018, <https://www.worldbank.org/en/country/yemen/publication/yemen-economic-monitoring-brief-fall-2018>. Accessed April 28, 2020.

11) "Yemen Economic Monitoring Brief- Winter 2019," World Bank, March 14, 2019, <https://www.worldbank.org/en/country/yemen/publication/yemen-economic-monitoring-brief-winter-2019>. Accessed May 1, 2020.

12) "Prolonged conflict would make Yemen the poorest ..." UNDP, September 26, 2019, https://www.undp.org/content/undp/en/home/news-centre/news/2019/Prolonged_conflict_would_make_Yemen_poorest_country_in_world_UNDP.html. Accessed April 28, 2020.

Without Oil, An Overwhelming Economic Dependence on Remittances and Foreign Aid

Since the suspension of oil exports in early 2015, Yemen has become nearly completely dependent on three main external sources to secure foreign currency inflows and stimulate economic activity: foreign humanitarian aid, Saudi financial support to the Yemeni government, and remittances from Yemeni expatriates mainly working in other Gulf countries. Between 2015 and 2019, the country received around \$15 billion in humanitarian aid and more than \$2.5 billion in Saudi bilateral support that was channeled through the CBY in Aden to help economic stabilization and ease downward pressures on the value of rial.⁽¹³⁾ The amount of external aid to Yemen peaked in 2018 at about \$5.2 billion in reported aid funding.⁽¹⁴⁾

Remittances, following the revenue losses in the hydrocarbon sector, have become the country's main source of foreign currency, providing vital support to reduce the country's balance of payments deficit and mitigate the food security crisis. During the conflict, the average annual amount of remittances transferred through official financial networks was US\$3.4 billion.⁽¹⁵⁾ However, the real amount of remittances is likely much larger, given the formal Yemeni banking sector's poor capacity to attract migrant transfers and the tendency of expats, particularly those based in the Gulf, to refrain from sending their money via the formal banking sector to avoid punishments associated with the irregularity and informality in their employment in Gulf Cooperation Council (GCC) labor markets.

Between 2015 and 2016, remittances funded more than 50 percent of food and non-food commodity imports on average.⁽¹⁶⁾ Since the beginning of the conflict, the Sana'a Center estimates that foreign exchange support and remittances together have accounted for more

13) The total Commitment fund to Yemen between 2015 to 2019 was US\$15,085,277,760; "Yemen - Financial Tracking Service," OCHA, <https://fts.unocha.org/countries/248/summary/2020>. Accessed April 28, 2020.

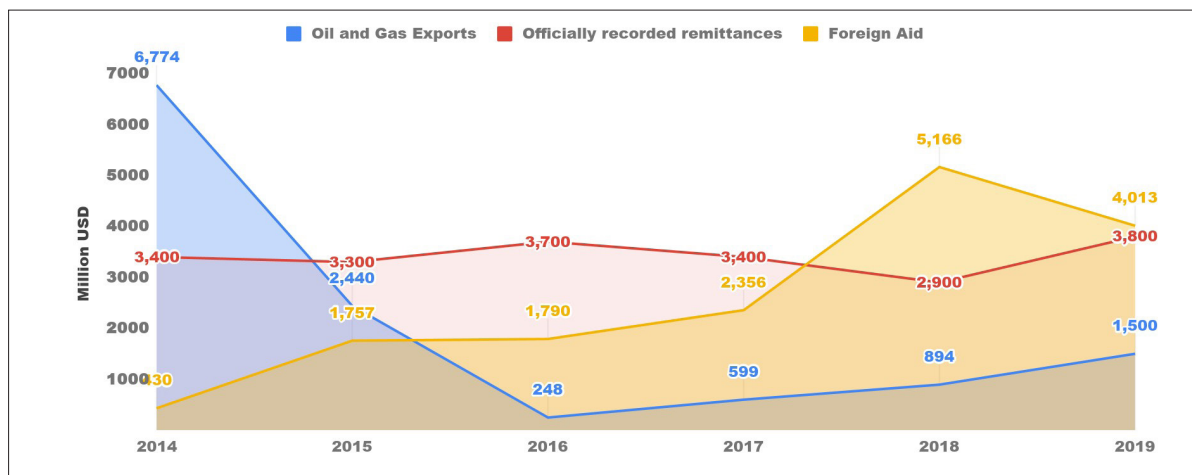
14) Ibid.

15) Central Bank of Yemen Annual Report 2016; World Bank's Bilateral Remittance Estimates for 2017, 2018, and 2019, <https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>. Accessed April 28, 2020.

16) "Yemen Socio-Economic Update, Issue 32 - February 2018," Ministry of Planning and International Cooperation, https://reliefweb.int/sites/reliefweb.int/files/resources/YSEU32_English_Final.pdf. Accessed April 21, 2020.

than 70 percent of total foreign exchange inflows into the country.⁽¹⁷⁾

Graph (1): Inflows of Foreign Exchange into Yemen by Source



Sources: CBY annual report 2015;⁽¹⁸⁾ Yemen Socio Economic Updates, Issue 32, February 2018;⁽¹⁹⁾ Yemen - Financial Tracking Service - OCHA;⁽²⁰⁾ World Bank Yemen Economic Monitoring Brief - Winter 2019;⁽²¹⁾ and WB's estimates⁽²²⁾

17) In 2018, the total foreign exchange supply to Yemen was estimated at **\$11.11 billion**, which came from the following FX sources: **\$1.305 billion** of hydrocarbon and non-hydrocarbon exports: **\$2.9 billion** of migrant remittances (Yemen Economic Monitoring Brief- Winter 2019," Mar 14, 2019), **\$0.356 billion** of actual disbursements allocated to fund commodity imports drawing on the Saudi deposits made to Aden CBY (<https://sanaacenter.org/publications/the-yemen-review/6808>); **\$1.2 billion** paid by KSA and UAE in form of military payroll to the Yemeni government military and security apparatuses; **0.180 billion** as fuel derivatives subsidy for the Yemeni government (https://www.acaps.org/sites/acaps/files/products/files/20200609_acaps_yemen_analysis_hub_end_of_saudi_financial_support_to_yemen_scenarios.pdf);

\$5.17 billion of humanitarian aid (<https://fts.unocha.org/appeals/657/summary>). To calculate the share of remittances and foreign aid as of the total FX supply in 2018, the Saudi deposit of about \$2.2 billion was adjusted to reflect only the actually withdrawn amount to fund importers' Letters of Credit (LCs), while the total amount of foreign humanitarian aid (estimated at \$5.17 billion) was adjusted to reflect only the humanitarian aid money directly flowing into Yemen (estimated by ACAPS at \$2.6 billion) plus the amount of aid spent outside for funding international suppliers to import commodities into Yemen. We could estimate that 40 percent of the total humanitarian aid (\$5.17 billion*0.40), about \$2 billion, was allocated to cover operating expenses of humanitarian organizations and the remaining amount, \$3.12 billion, is the actual amount flowing directly or supporting imports into Yemen. Taking all of these into calculation, remittances and all sources of foreign support including Saudi disbursed deposits and other foreign exchange payments accounted for at least 70 percent of total foreign exchange supply sources.

18) "Annual Report 2015," Cooperative and Agricultural Credit Bank, [https://www.cacbank.com.ye/uploads/%D8%AA%D9%82%D8%B1%D9%8A%D8%B1%202015\(1\).pdf](https://www.cacbank.com.ye/uploads/%D8%AA%D9%82%D8%B1%D9%8A%D8%B1%202015(1).pdf). Accessed June 30, 2020.

19) "Yemen Socio-Economic Update, Issue 32 - February 2018," Ministry of Planning and International Cooperation, https://reliefweb.int/sites/reliefweb.int/files/resources/YSEU32_English_Final.pdf. Accessed April 21, 2020.

20) "Yemen - Financial Tracking Service," OCHA, <https://fts.unocha.org/countries/248/summary/2020>. Accessed June 30, 2020.

21) "Yemen Economic Monitoring Brief - Winter 2019," World Bank, Mar 14, 2019, <https://www.worldbank.org/en/country/yemen/publication/yemen-economic-monitoring-brief-winter-2019>. Accessed June 30, 2020.

22) World Bank estimation, Migrant Remittances Inflows 2017-2019: <https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>. Accessed June 30, 2020.

Both external aid and remittances have played a crucial role in mitigating socio-economic suffering and stimulating economic activity in Yemen during wartime. Officially recorded remittances as a share of GDP increased from about 10 percent pre-conflict to nearly 20 percent in 2016, and about 24 percent in 2017.⁽²³⁾ While there is a lack of reliable statistics to measure the extent to which foreign aid is stimulating overall economic activity in Yemen, the provision of cash and non-cash support (e.g, social cash transfers, food vouchers, in-kind food assistance, cash-for-work payments, and logistical assistance) from international non-governmental organizations (INGOs) has played a crucial role stimulating the supply and demand sides of the economy. UNICEF reported that its Emergency Cash Transfer programs delivered cash assistance to 1.5 million beneficiary cases from the Social Welfare Fund, benefiting 9 million people between August 2017 and end of 2019.⁽²⁴⁾ During 2018 and 2019, the United Nations Development Programme (UNDP) reported employing about 364,000 Yemenis in cash-for-work programs.⁽²⁵⁾ Meanwhile, the World Food Programme provided food assistance to nearly 13 million beneficiaries on a monthly basis as of April 2020.⁽²⁶⁾

The final outcome of the foreign aid includes a wide range of benefits as it is dispersed through the economy, with thousands of jobs created. Aid provides an important source of income for millions of Yemeni citizens, particularly the most vulnerable ones. It also induces economic activity and creates lifelines for the private sector, the financial sector, civil society organizations, and many small and medium enterprises to help them survive and remain resilient during the war. Though it is difficult to quantify the advantages generated by aid to businesses and enterprises, benefits are easily observed in private sector engagement on the ground with partners, providers of goods and services, and implementers and contractors in aid projects. For instance, Yemeni banks are recipients and managers of aid funding on behalf of INGOs and donors. This has proven crucial in improving their liquidity, allowing them to implement cash aid projects or act as intermediary agents to fund the import of aid, food and non-food commodities.

23) "Yemen Socio-Economic Update, Issue 32 - February 2018," Ministry of Planning and International Cooperation, https://reliefweb.int/sites/reliefweb.int/files/resources/YSEU32_English_Final.pdf. Accessed April 21, 2020.

24) "Emergency Cash Transfer Project," UNICEF Yemen, <https://www.unicef.org/yemen/emergency-cash-transfer-project>. Accessed Jul 17, 2020.

25) "UNDP Yemen 2019 Fast Facts," UNDP, January 1, 2020, <https://reliefweb.int/report/yemen/undp-yemen-2019-fast-facts>. Accessed April 29, 2020.

26) "Yemen," World Food Programme, <http://www.wfp.org/countries/yemen>. Accessed April 29, 2020.

ACAPS, a humanitarian needs analysis provider, estimated that half of the US\$5.2 billion aid support given to Yemen in 2018 was allocated to pay aid suppliers via international clearance mechanisms to import medicines, food and emergency kits, as well as to pay the costs of INGO staff residing outside Yemen; the remaining amount was directly sent into the Yemeni economy in form of humanitarian aid money via the Yemeni financial system.⁽²⁷⁾ This has contributed to lessening pressures on the rial. Furthermore, services provided through aid projects help subsidize living costs, while cash income contributes to increasing the ability of individuals and households to access basic public services such as health, education, and water.

27) "Volatility of the Yemeni Riyal: drivers and impact," ACAPS, January 29, 2020, <https://www.acaps.org/special-report/volatility-yemeni-riyal-drivers-and-impact>. Accessed May 13, 2020.

ECONOMIC SHOCKS FOR YEMEN RESULTING FROM COVID-19

Declining Remittances

Among the biggest economic consequences of the COVID-19 for Yemen is the large drop in remittances from Yemeni workers abroad. In April 2020, the World Bank estimated a decline in inflows of remittances to the MENA region by 19.6 percent, from \$58 billion in 2019 to \$47 billion in 2020 due to the coronavirus outbreak.⁽²⁸⁾ The drop in remittances can be traced to the fact that COVID-19, and government responses to try and contain the spread, have created massive disruptions in economic activity and distorted labor market demand worldwide.

An estimated 1.2 million Yemenis worked abroad as migrant workers in 2018. Of these, nearly 85 percent work in the GCC labor markets, with 90 percent of these based in Saudi Arabia alone.⁽²⁹⁾ The authors, based on financial analysis and interviews with 30 Yemeni expats, project that a 40-60 percent decline in remittances could occur this year. This is mainly attributed to the economic crises in the Gulf related to COVID-19 mitigation measures and low global fuel price, as well as to weak coping mechanisms available to Yemeni expats, who are generally among the more marginally employed and thus less resilient to increasing competition in GCC labor markets caused by the deteriorating demand for migrant workers.⁽³⁰⁾ Projecting a prolonged economic crisis and recovery in host countries, remittances would be prone to further downside pressures. The UN estimated in April 2020 that in the subsequent months Yemen could witness a decline in remittances of 70 percent.⁽³¹⁾

Yemeni expatriates, particularly those based in the GCC, have been suffering from a dual shock due to COVID-19: restrictive measures leading to business breakdown, and a general economic stagnation.

28) "World Bank Predicts Sharpest Decline of Remittances in Recent History," World Bank, April 22, 2020, <https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history>. Accessed May 13, 2020.

29) "Yemen: Directing the remittances of Yemeni expatriates and workers abroad towards development," UN ESCWA, August 2014, https://www.unescwa.org/sites/www.unescwa.org/files/page_attachments/y1-1.pdf. Accessed April 29, 2020.

30) "Yemen Socio-Economic Update, Issue 47 - April 2020," Ministry of Planning and International Cooperation, April 30, 2020, <https://reliefweb.int/report/yemen/yemen-socio-economic-update-issue-47-april-2020-enar>. Accessed May 13, 2020.

31) "Nine things you need to know about Yemen right now," UN Humanitarian, April 20, 2020, <https://unocha.exposure.co/nine-things-you-need-to-know-about-yemen-right-now>. Accessed May 2, 2020.

COVID-19 has increasingly spread in many parts of the GCC, with Saudi Arabia recording the highest number of cases.⁽³²⁾ Attempting to contain the pandemic, Saudi authorities enacted full or partial quarantines, strict lockdowns, and travel bans, halting many business activities and paralyzing the labor market demand. On April 6, the Saudi government began implementing a 24-hour curfew in four of Saudi Arabia's largest cities – Riyadh, Jeddah, Mecca and Medina – home to the majority of Yemeni expatriate laborers.⁽³³⁾ In addition, preventive coronavirus measures have been enforced in other Saudi cities nationwide. From April 30, Saudi authorities started gradually lifting COVID-19 restrictive measures, and as of June 21, they completely lifted curfews by allowing businesses to reopen and loosening travel restrictions despite registering new coronavirus cases. As of August 11, there were 289,947 confirmed cases of COVID-19 and 3,199 deaths in Saudi Arabia.⁽³⁴⁾ Saudi Arabia easing restrictions should allow remittances to Yemen to recover somewhat, given that many Yemenis migrants will be able to return to work as the construction and retail sectors, and small and medium enterprises reopen.

The decline in global demand for oil during the COVID-19 crisis has further negatively impacted GCC countries. Demand shrunk by 29 million barrels per day in April alone.⁽³⁵⁾ Prices consequently dropped dramatically, from around \$53 per barrel in early February to a low of under US\$17 in mid-April. As of the end of June, the price had rebounded somewhat to around \$39 per barrel.⁽³⁶⁾ This has induced economic contraction and created large deficits in the fiscal budgets of the oil-dependent GCC economies. The IMF estimated that the GCC would be subject to 2.7 percent economic contraction in their GDPs during 2020.⁽³⁷⁾ In the first quarter of 2020 alone, Saudi Arabia experienced a roughly US\$9 billion deficit in its budget due to a 22 percent decline

32) "Coronavirus Disease (COVID-19) Dashboard - Saudi Arabia," World Health Organization, <https://covid19.who.int/region/emro/country/sa>. Accessed July 16, 2020.

33) "24-hour curfew in Riyadh, Jeddah and other cities," Arab News, April 6, 2020, <https://www.arabnews.com/node/1654376/saudi-arabia>. Accessed July 2, 2020.

34) "Coronavirus Disease (COVID-19) Dashboard - Saudi Arabia," World Health Organization, <https://covid19.who.int/region/emro/country/sa>. Accessed July 16, 2020.

35) Jennifer Gnana, "Oil demand to shrink by 29 million barrels per day in April, IEA says," The National, April 16, 2020, <https://www.thenational.ae/business/energy/oil-demand-to-shrink-by-29-million-barrels-per-day-in-april-iea-says-1.1006392>. Accessed May 5, 2020.

36) "Crude Oil WTI," Barchart.com, <https://www.barchart.com/futures/quotes/CLG20>. Accessed August 10, 2020.

37) "Regional Economic Outlook: Middle East and North Africa," IMF, April 2020, <https://www.imf.org/~media/Files/Publications/REO/MCD-CCA/2020/April/English/mreo0420-full-report.ashx?la=en>. Accessed April 22, 2020.

in revenues compared to the same period the previous year.⁽³⁸⁾ Saudi Arabia has also cut production, which peaked at 12 million barrels per day (bpd) in April, to 7.5 million bpd for June, though this has not proven enough to compensate for short-term demand shock from lockdowns. To cover its budget deficit, the Saudi Ministry of Finance expects to borrow US\$58 billion for 2020.⁽³⁹⁾

The loss in revenues is further compounded by Saudi suspension of travel for Umrah and Hajj (for those living outside the Kingdom), which together attract some 9.3 million visitors⁽⁴⁰⁾ and generate about \$10 billion for the kingdom on an annual basis.⁽⁴¹⁾ This economic downturn has led to a reduction in employment opportunities for both Saudi nationals and foreigners as well as increasing living costs. On May 11, Saudi Arabia announced several fiscal policies including the tripling of VAT, a policy expected to generate US\$27 billion in a total revenue in 2020.⁽⁴²⁾

In the early outbreak of COVID-19, the Saudi authorities enacted measures to mitigate the negative economic impact of the crisis, but these measures fell short of reducing the financial impact on migrant workers. In March, Riyadh announced a relief package of US\$32 billion, of which \$18.7 billion was allocated to support the private sector, with \$2.39 billion of this directed to pay 60 percent of employee salaries for a three-month period,⁽⁴³⁾ exclusively to Saudi nationals and not foreign laborers. The Saudi employment-related response to tackle COVID-19 has also included measures granting employers the right to negotiate options with foreign workers over reducing wages to be in alignment with actual time spent working, and giving employees unpaid vacation or an exceptional leave. In March 2020, the Saudi Directorate General of Passports started to renew residency permits free of charge for all expatriate workers with permits expiring between March and June 2020, while enabling employers to receive refunds for unused work visas. Still, the Saudi Ministry of Human Resources and

38) "Saudi Arabia releases Q1 budget performance report," Al Arabiya, April 29, 2020, <https://english.alarabiya.net/en/business/economy/2020/04/29/Saudi-Arabia-releases-Q1-budget-performance-report-deficit-at-about-9-bln>. Accessed 5 May, 2020.

39) "Middle East Economy Watch," PWC, June 1, 2020, <https://www.pwc.com/m1/en/publications/economy-watch/pdf/me-economy-watch-june-2020.pdf>. Accessed June 30, 2020.

40) Ministry of Hajj and Umrah website [AR]. <https://www.haj.gov.sa/ar/InternalPageCategories/Details/49>. Accessed April 23, 2020.

41) "50 Billion riyals in revenue expected from Hajj season by 2030 [AR]," Al Arabiya, August 19, 2018, <https://www.alarabiya.net/ar/aswaq/economy/2018/08/19/50-مليار-ريال-ايرادات-متوقعة-من-موسم-الحج--بحلول-2030>. Accessed April 23, 2020.

42) "Middle East Economy Watch," PWC, June 1, 2020, <https://www.pwc.com/m1/en/publications/economy-watch/pdf/me-economy-watch-june-2020.pdf>. Accessed June 30, 2020.

43) "COVID-19 crisis response in MENA countries," OECD, June 9, 2020, <https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-mena-countries/>. Accessed June 30, 2020.

Social Development has not until now announced any relaxation in measures under the Saudization scheme intended to nationalize many professions, which has included restrictions and increased costs for non-nationals to work in the private sector.⁽⁴⁴⁾

While reliable data is unavailable, author interviews with 30 Yemeni expats⁽⁴⁵⁾ working in Saudi Arabia and other Gulf states has offered an anecdotal assessment of the situation, with almost all interviewees reporting they have been impacted by pandemic lockdown measures and the temporary halt of activity in most job sectors. Yemeni laborers in particular largely work in the informal sector in day-to-day employment, making them highly vulnerable to income loss, job layoffs or involuntary deportation for violating quarantine rules. Comparatively, Yemenis employed in fixed recruitment contracts reported having been forced to take 30-40 percent wage cuts, non-paid vacation, or exceptional leave. Many Yemeni workers lacking accumulated savings have become increasingly indebted, and unable to find new employment. Given that roughly four out of five Yemeni migrant workers in the Gulf have limited skilled and education and thus are low income earners,⁽⁴⁶⁾ these individuals could be in need of humanitarian assistance to survive depressed working conditions, while their families back home are deprived of life-saving income, with the World Bank estimating that one in ten Yemenis wholly relies on remittances to meet basic needs.⁽⁴⁷⁾ These workers also encountered difficulties traveling home due to COVID-19 restrictions and the closure of land borders with Yemen during March and April of the year. These border controls prevented Yemenis who traveled back to their home country from returning to work in Saudi Arabia. As of early June, the internationally recognized Yemeni government declared that Yemen expats could return home after undergoing a COVID-19 test. Due to lack of required tests, the local authority in Sayoun declared in late June that many Yemeni expats have returned home through the Wadea border crossing with Saudi Arabia without being tested.⁽⁴⁸⁾

44) Wadhah Al-Awlaqi, Saleh Al-Hada, Yousef al-Shawthabi, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittance in Mitigating Economic Collapse," Rethinking Yemen's Economy, May 31, 2019, https://devchampions.org/publications/white_papers/Yemens_Expatriate_Workforce_Under_Threat. Accessed June 30, 2020.

45) Researchers interviews with Yemeni expats between April and May 2020, of whom 80 percent were working Saudi Arabia, with the remaining 20 percent in other Gulf states such as the UAE, Qatar, and Bahrain.

46) Edward Burke, "One blood and one destiny? Yemen's relations with the Gulf Cooperation Council", Kuwait Programme on Development, Governance and Globalisation in the Gulf States - London School of Economics, June 2012, eprints.lse.ac.uk/55241/1/Burke_2012.pdf. Accessed June 30, 2020.

47) "Remittances to Yemen plummet as needs surge amid war and coronavirus", Oxfam, June 1, 2020, <https://reliefweb.int/report/yemen/remittances-yemen-plummet-needs-surge-amid-war-and-coronavirus>. Accessed June 30, 2020.

48) Khoulood al-Hallali, "3 planes and one airport waiting for thousands of stranded Yemenis [AR]," The Independent Arabic, <https://www.independentarabia.com/node/126121/-/3طائرات-العربي-العالم-الأخبار> ومطار واحد بانتظار آلاف اليمنيين العالقين. Accessed June 30, 2020.

Shortfall in Foreign Aid

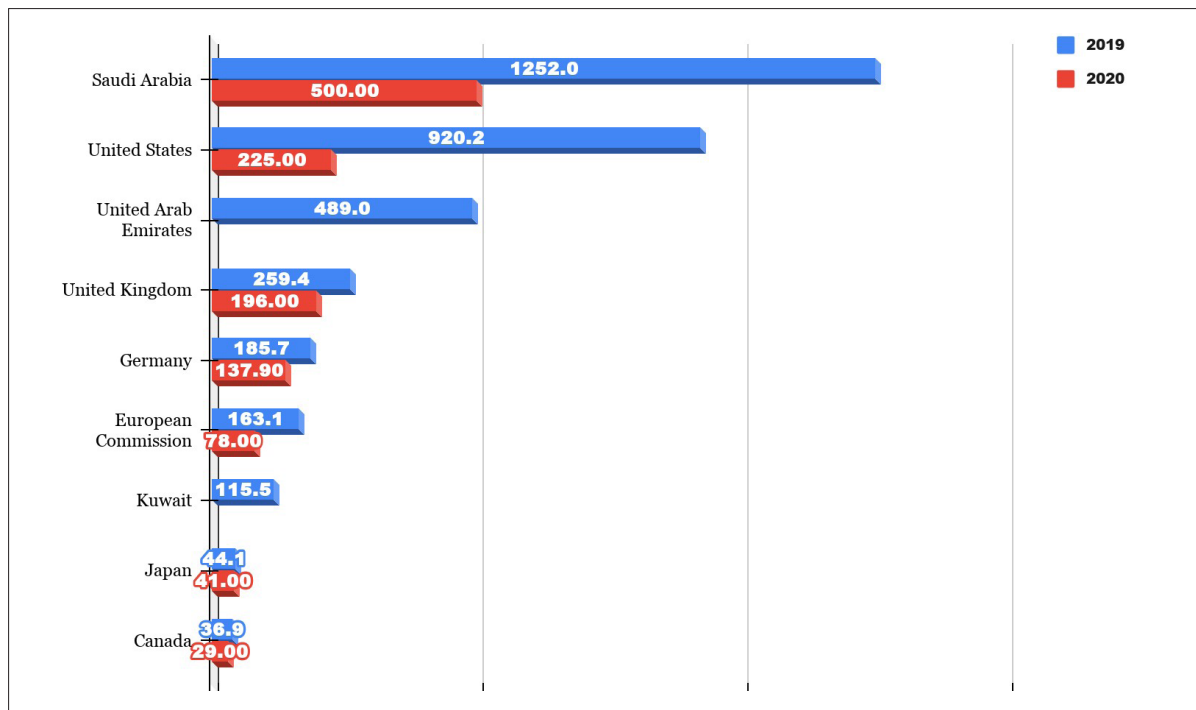
Amid the focus on COVID-19, the 2020 Yemen humanitarian funding plan has been eclipsed in priority for international aid donors. After delays, Saudi Arabia hosted a virtual High-Level Pledging Event on June 2 in which donors pledged US\$1.35 billion – falling far short of the \$2.4 billion requested by the United Nations to fund the Yemen humanitarian response plan through the rest of 2020, including US\$180 million to support COVID-19 response.⁽⁴⁹⁾ Out of this amount, Saudi Arabia pledged US\$500 million, including US\$25 million for coronavirus activities.⁽⁵⁰⁾ This financial pledge was only 40 percent of the \$1.25 billion in financial aid pledged by Saudi Arabia in 2019. The United States, Yemen's second largest donor with US\$920 million of aid pledges in 2019, substantially cut down its contribution for 2020, only pledging US\$225 million, just 24 percent of its last year's aid commitment. On May 6, the US announced its \$225 million commitment in emergency aid would go to fund the World Food Programme's food plan in southern areas while limiting operation in northern Yemen, where Houthi obstruction of aid remains an unresolved issue.⁽⁵¹⁾ All Gulf countries beside Saudi Arabia – including the United Arab Emirates (UAE), Qatar and Kuwait – did not announce any pledges for funding Yemen humanitarian response at this year's event. In 2019, the UAE was the third largest donor to Yemen with US\$489 million of pledged and paid aid contribution.

49) "Yemen Situation Report," OCHA, June 3, 2020, <https://reliefweb.int/report/yemen/yemen-situation-report-3-june-2020-enar>. Accessed July 1, 2020.

50) "Yemen aid pledges come up short," The New Humanitarian, June 3, 2020, <https://www.thenewhumanitarian.org/news/2020/06/03/Yemen-coronavirus-aid-pledges-Saudi-Arabia>. Accessed July 10, 2020.

51) "United States Announces Additional Humanitarian Aid for the people of Yemen," USAID, May 7, 2020, <https://www.usaid.gov/news-information/press-releases/may-6-2020-united-states-announces-additional-humanitarian-aid-people-yemen>. Accessed May 10, 2020.

Graph (3): Diversion in Donors Pledge for Yemen, 2019 and 2020 (in Million USD)



Source: UN OCHA financial tracking service⁽⁵²⁾

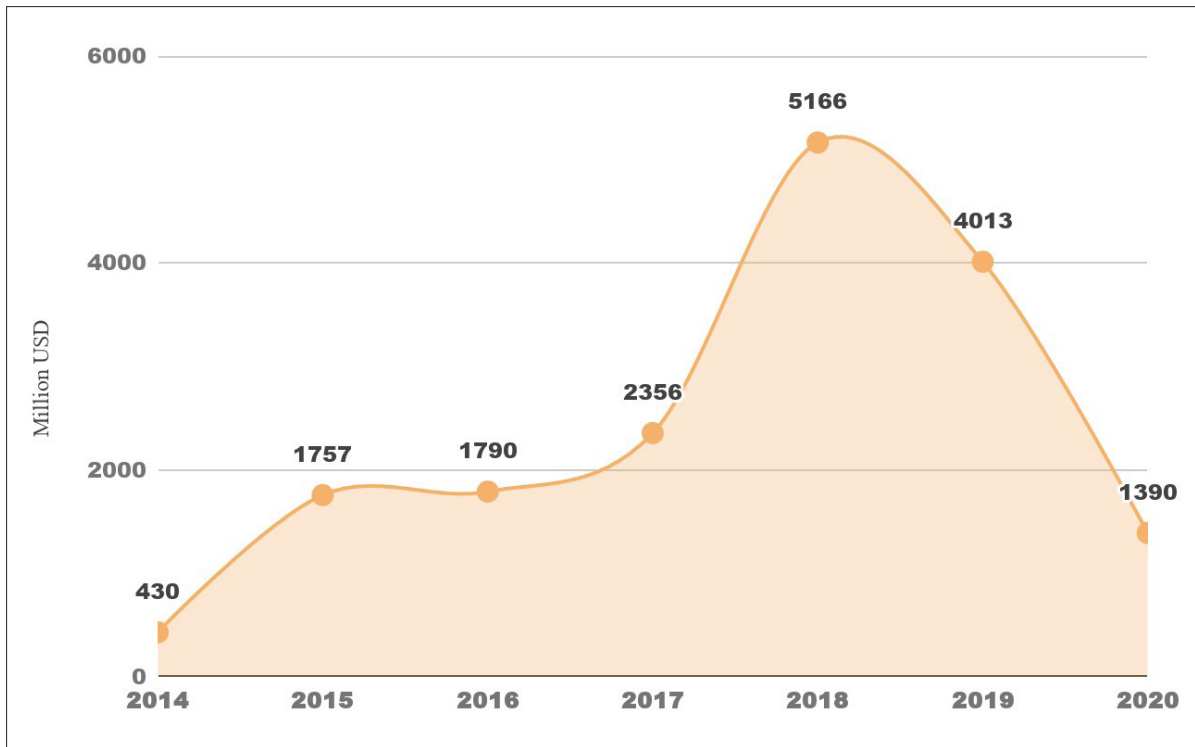
Broadly speaking, as of early July Yemen had received about US\$602 million in external aid pledges, about 17.8 percent of the \$3.38 billion total requirements for the Yemen Humanitarian response plan in 2020 and half of the \$1.27 billion of contributions paid at this point of time last year.⁽⁵³⁾ This large aid reduction, coinciding with the spread of COVID-19 that amplifies the country’s need to further aid support, forebodes a tragic magnification of the existing humanitarian crisis. Since April, the COVID-19 pandemic has continued to spread throughout Yemen, with Houthi authorities in particular covering up high mortality rates in an attempt to preserve economic interests and expand their military control across war frontlines.⁽⁵⁴⁾

52) “Yemen - Financial Tracking Service,” OCHA, <https://fts.unocha.org/countries/248/summary/2020>. Accessed April 28, 2020; “Online Event: Crisis and Survival Amidst COVID-19 in Yemen,” The Center for Strategic and International Studies, April 29, 2020, <https://www.csis.org/events/online-event-crisis-and-survival-amidst-covid-19-yemen>. Accessed May 5, 2020.

53) Ibid.

54) Osamah Al-Rawhani, “Houthi Coronavirus Coverup Unleashes Death, Suffering as Yemen Marks Eid,” Sana’a Center for Strategic Studies, May 22, 2020, <https://sanaacenter.org/publications/analysis/9994>. Accessed July 17, 2020.

Graph (4): Trends of Foreign Aid to Yemen during the Conflict



Source: UN OCHA, Trends in response plan/appeal requirements, ⁽⁵⁵⁾ 2020⁽⁵⁶⁾

The biggest threat to aid reduction originates from overall adverse implications of the coronavirus crisis on many countries, including Yemen’s key donors. Many previous donor countries may have been shifting their spending to domestic priorities or toward other international emergency programs for fighting the pandemic. At the end of March, the UN established a global humanitarian response plan to address the consequences of COVID-19 in vulnerable countries. So far donors have contributed \$1.57 billion to support the plan, out of total \$7.32 billion in funding requirements.⁽⁵⁷⁾

Some Yemeni aid funding is also being redirected from several life-saving humanitarian clusters (e.g. food security and protection clusters) to COVID-19-related relief activities. A senior expert working for one

55) “Yemen 2020 (Humanitarian response plan),” UN OCHA, <https://fts.unocha.org/appeals/925/summary>. Accessed July 11, 2020.

56) “Yemen Conference 2020,” OCHA, June 2, 2020, <https://reliefweb.int/report/yemen/yemen-conference-2020-high-level-pledging-event-humanitarian-crisis-yemen-financial>. Accessed July 11, 2020.

57) “OCHA AND COVID-19,” OCHA, <https://www.unocha.org/covid19>. Accessed April 30, 2020.

of the biggest INGOs operating in Yemen revealed that an international aid donor that previously promised US\$1 million for implementing a children-focused relief program had suddenly canceled its aid pledge and redirected it to another country hit by the recent pandemic.⁽⁵⁸⁾ In April, The New Humanitarian reported that aid budgets would likely be subjected to adjustments in the coming months in response to the pandemic, with the effect of potentially diverting spending from other priorities.⁽⁵⁹⁾

Separately from COVID-19 issue, donor countries and international agencies prior to the pandemic had moved to roll back programs as part of a larger dispute with Houthi authorities over aid diversion and access restrictions. The US Agency for International Development (USAID) in March suspended aid to Houthi-held territories, home to 70 percent of the Yemeni population, in response to Houthi obstruction of humanitarian operations.⁽⁶⁰⁾ The World Food Programme announced it would cut down humanitarian food assistance to Houthi-controlled areas by 50 percent, impacting an estimated 8.5 million beneficiaries in the midst of Coronavirus-related lockdowns and job losses.

The potential reductions in aid has been reflected in the recent incapacitation of many INGOs' ability to continue supporting humanitarian operational needs across the country. UN Undersecretary-General for Humanitarian Affairs Mark Lowcock told the Security Council in mid-April that 31 out of 41 United Nations projects operating in Yemen were being halted due to funding shortages.⁽⁶¹⁾ The UN Secretary-General António Guterres' reiterated this warning at the June Pledging Conference for Yemen.

The health sector, currently reeling under disastrous repercussions of the COVID-19 pandemic, is facing larger humanitarian aid cuts. The World Health Organization (WHO) warned that 80 percent of its health services could be halted from the end of April, including the incentives and allowances that have been paid by the WHO to health workers across

58) Interview with a senior expert working in a Sana'a based INGO, Sana'a, early April 2020.

59) "Coronavirus emergency aid funding," The New Humanitarian, April 23, 2020, <https://www.thenewhumanitarian.org/news/2020/04/23/Coronavirus-emergency-aid-funding>. Accessed July 16, 2020.

60) Sarah El Deeb and Maggie Michael, "Curfews extended as USAID declares aid suspension in Yemen," The Associated Press, March 27, 2020, <https://apnews.com/da725942eb2c1f2761b28cba55816fec>. Accessed July 16, 2020.

61) "Conflict, poverty and inequality undermine COVID-19 fight in Yemen," UNDP, April 19, 2020, <https://www.ye.undp.org/content/yemen/en/home/blog/2020/conflict-poverty-and-inequality-undermine-the-covid-19-fight-in-.html>. Accessed April 20, 2020.

the country.⁽⁶²⁾ In early June, the UN stopped disbursements for 10,000 frontline healthcare workers⁽⁶³⁾ while UNFPA, the sole provider of life-saving reproductive health medicines and supplies in the country, said it will have to close up to 90 percent of its life-saving reproductive activities operating across the country.⁽⁶⁴⁾ For 2020, of UNICEF's nearly US\$514 million appeal – including US\$53 million for the COVID-19 response – only 10 percent has been funded.⁽⁶⁵⁾ Unless necessary funds are secured, UNICEF said it will have to gradually suspend its activities and completely close down by the end of October, depriving 5 million citizens in 15 major cities in Yemen of access to clean water and pushing millions of children to “the brink of starvation” due to associated decline in their nutrition status.⁽⁶⁶⁾

Economic Contraction and Collapse in Public Revenue Streams

While definitive indicators are unavailable, it is beyond question that COVID-19's impact will be profound on Yemen's fragile economy, already devastated by five years of conflict. The anticipated decline in external foreign resources will cause drastic contraction in GDP, widen the deficit gaps in the government's current account balance and public budget, and incapacitate key economic institutions like the CBY. A 70 percent drop in remittances, as potentially forecast by the UN, would lead to a projected 10-15 percent contraction in GDP.⁽⁶⁷⁾ The steep reduction in economic activities would likely see a massive reduction in employment opportunities and millions of Yemeni citizens deprived of their essential income. The substantial decline in foreign aid available to Yemen in 2020 compared to the previous year would alone result in the layoffs of many Yemeni citizens recruited directly or indirectly by the humanitarian aid sector across the country.

62) “Online Event: Crisis and Survival Amidst COVID-19 in Yemen,” The Center for Strategic and International Studies, April 29, 2020, <https://www.csis.org/events/online-event-crisis-and-survival-amidst-covid-19-yemen>. Accessed May 5, 2020.

63) “Yemen aid operations at risk after fundraiser falls \$1bn short,” BBC, June 3, 2020, <https://www.bbc.com/news/world-middle-east-52903440>. Accessed July 1, 2020.

64) “Life and death for Yemen's women and girls, as funding evaporates,” UN News, May 30, 2020, <https://news.un.org/en/story/2020/05/1065122>. Accessed July 1, 2020.

65) “Yemen 5 years on: Children, Conflict and COVID-19,” UNICEF, June 26, 2020, <https://www.unicef.org/yemen/reports/yemen-5-years-children-conflict-and-covid-19>. Accessed July 1, 2020.

66) Ibid.

67) Given that remittances' share of GDP was 19.9 percent in 2016 and 23.7 percent in 2017, a reduction by 70 percent means its contribution to GDP would decline between 10 to 15 percent.

Coronavirus containment and lockdown measures in Houthi-held northern areas have impacted several sectors and more adversely the micro, small, and medium-sized enterprises (MSMEs) that predominate the private sector and shape the informal sector, responsible for employing around 73 percent of the total labor force in Yemen.⁽⁶⁸⁾ Due to the pandemic outbreak, private education was closed mid-school year. Restaurants suffered a large decline in demand, with activity limited to takeaway food. The transportation sector was disrupted by restrictions on movement imposed by authorities in both Sana'a and Aden, which have reduced the movement of goods and people across Yemen's international and internal borders. These restrictions have adversely hit vehicle rental firms as well as individual drivers who make their living and depend on the transportation service to generate income. Industrial and commercial activities were highly paralyzed by declining demand and restrictions on the movement of goods, as well as being double taxed, by the authorities in Aden as well as Sana'a. Some relief came on July 13, however, when the Sana'a-based Cabinet lifted containment measures by allowing restaurants, public baths, wedding halls, and parks to reopen.⁽⁶⁹⁾

Unlike many countries in the MENA region, which have deployed a series of relief measures, including support to labor force, deferrals of tax and other payments, and financial support to affected sectors and SMEs, neither the Yemeni government nor the de facto authorities have adopted any policies to mitigate negative impacts on the private sector.

The Yemeni government's already weak public finances are likely to see an even larger shortfall as a result of the COVID-19-linked economic disruptions and a drop in bilateral support from Saudi Arabia to the CBY Aden. This was further compounded by the Southern Transitional Council's (STC) April 25 announcement of emergency self-rule across all southern Yemen, following which they took control of public institutions and redirect all taxes and levies in Aden as well as surrounding governorates, such as Lahj and Al-Dhalea, into accounts opened at the National Bank of Yemen (NBY).⁽⁷⁰⁾ This has shattered the authority of the Yemeni government, splintered state resources, and

68) "Generating new employment opportunities in Yemen," Rethinking Yemen's Economy, October 17, 2018, <https://devchampions.org/publications/policy-brief/Generating-new-employment-opportunities>. Accessed July 4, 2020.

69) "Sanaa: A Decision has been issued to reopen...[AR]," Yemen Press Agency, July 13, 2020, <http://www.yagency.net/276724>. Accessed July 15, 2020.

70) For further and detailed information on the issue, please see: "Yemen Economic Bulletin, STC's Aden Takeover Cripples Central Bank and Fragments Public Finances," The Sana'a Center for Strategic Studies, June 17, 2020, <https://sanaacenter.org/publications/analysis/10219>. Accessed July 30, 2020.

deepened the economic crisis and fragmentation, with three conflicting parties – the internationally recognized Yemeni government, the armed Houthi movement, and the STC – all operating parallel economic institutions vying for control of state monetary and fiscal policies. This schism has prevented the emergence of any cohesive actions to tackle the socio-economic consequences of pandemic.

Meanwhile, revenues from taxes and tariffs are expected to decline relatively in line with contraction in economic activities. In just the hydrocarbon sector, the drop in international oil prices would see public revenues fall by about 60 percent in 2020.⁽⁷¹⁾

The Yemeni government has also been facing a critical liquidity shortage in rial banknotes. To address the shortage and offset the increasing deficit in the public budget, the CBY Aden adopted impulsive expansionary monetary policy of printing new banknotes, receiving around YR300 billion in newly-printed bills from the Russia-based Goznak Printing Company in three batches between May and the end of June.⁽⁷²⁾ Of this total amount, YR60 billion (the second batch) and YR130 billion (the third batch) in new rial banknotes were seized at Aden seaport and Mukalla airport by the STC. The move came as part of an STC policy announced in mid-June to prevent any new issuance of rial banknotes, a decision that has been regarded as an informal intervention in CBY's monetary functions but seen through the STC's lens as necessary to curb recent devaluation in the YR-US\$ exchange rate.⁽⁷³⁾ With the greatest bulk of rial liquidity under STC control, it is unclear whether some banknotes will be issued to cover high government spending, including an estimated monthly public servant salary bill of YR62 billion.⁽⁷⁴⁾ The drastic division over public finance administration, accompanied by reduced revenues in areas outside of Houthi control, will likely result in a suspension of public servant salary and retired employee pension payments, in turn further shrinking the aggregate economic demand that is essential for stimulating economic growth and creating jobs.

71) The decline in oil receipts from the sales of Yemen's exported crude oil is based on the fact that the Yemeni government had set the price of oil in the 2020 public state budget at \$50 per barrel.

72) "Yemen Economic Bulletin, STC's Aden Takeover Cripples Central Bank and Fragments Public Finances," The Sana'a Center for Strategic Studies, June 17, 2020, <https://sanaacenter.org/publications/analysis/10219>. Accessed July 30, 2020.

73) "Corona and the 'Transitional' are pushing the government to expand the printing of money [AR]," Al-Masdar Online, June 30, 2020, <https://almasdaronline.com/articles/197055>. Accessed July 2, 2020.

74) Mansour Ali al-Bashiri, "Economic Confidence Building Measures – Civil Servant Salaries," Rethinking Yemen's Economy, March 18, 2019, <https://devchampions.org/publications/policy-brief/civil-servant-salaries>. Accessed May 5, 2020.

Exhausted Central Bank Reserves and Looming Rial Depreciation

The Central Bank of Yemen in Aden has nearly depleted its foreign currency reserves, which are essential for funding the country's high level of imports bill and maintaining the value of the Yemeni rial. As of writing this paper, the CBY has almost fully used up the \$2 billion Saudi deposit made available in the spring of 2018 to fund the import of five essential selected commodities. Currently, foreign currency exchange holdings from the Saudi deposit stand at less than \$200 million, an amount insufficient to cover one month of imports. Until now, Saudi Arabia has not shown any sign of providing a new deposit to replenish the CBY's reserves. The foreign exchange crisis may thus be further compounded simultaneously by the decline in hydrocarbon revenues in line with the decrease in international oil prices.

The interruption of stable inflows of foreign exchange to support food imports into the country would also lead to renewed macroeconomic volatility, a deepening rial crisis and potentially drive millions of Yemenis to the edge of unprecedented food famine. At the present, Yemen is facing great challenges financing its high imports bill, which includes 90 percent of the country's nutritional necessities. With the looming depletion of the Saudi deposit, the Aden-based CBY is expected to suspend the existing mechanism for financing imports in the coming few months.

The shrinking foreign resources supporting the Yemeni rial indicate that its value is likely to experience a new cycle of major depreciation. The dual currency system resulting from Houthi authorities' ban on the use of new rial notes has also enlarged the diversion in exchange rates between Sana'a and Aden and driven up prices of food commodities.⁽⁷⁵⁾ At the end of June, the exchange rate in Sana'a was YR617 per US\$1, while in Aden it diverted up to YR755 per US\$1, compared to YR666 per US\$1 on April 11 in Aden when the first case of COVID-19 was officially declared in Yemen.⁽⁷⁶⁾

Furthermore, an anticipated monetary expansion policy from CBY Aden to compensate for dwindling public resources would amplify rial volatility. This could have the knock-on effect of further undermining Yemen's rial-based monetary system, with locals increasingly turning to foreign currencies, such as the US dollar or the Saudi riyal, to preserve value and conduct financial transactions.

75) Anthony Biswell, "Yemen Economic Bulletin: The War for Monetary Control Enters a Dangerous New Phase" Sana'a Center for Strategic Studies, January 21, 2020, <https://sanaacenter.org/publications/analysis/8674>. Accessed July 17, 2020.

76) "Deterioration of the foreign exchange rate of the Yemeni rial," Rethinking Yemen's Economy, July 7, 2020, https://devchampions.org/publications/flash-reports/deterioration_of_the_foreign_exchange_rate_of_the_yemeni_rial. Accessed Aug 11, 2020.

Under the imminent downward pressures, the rial is likely to depreciate rapidly to its lowest levels in history, exceeding the psychological threshold of YR1,000 per US\$1 in the parallel exchange market by the end of the year should the dire economic conditions remain unaddressed. Should current external financial support – mainly from remittances and foreign aid – fall by 30-50 percent, the current 17 million people in urgent need of emergency food assistance would increase to more than 20 million.

Disruptions in Supply Chains

Compounding financing issues are COVID-19-related travel restrictions on business traders and on the movement of goods across regional borders of Gulf countries, which have adversely affected the supply magnitude of goods flowing into Yemen. In 2016, the UAE, Saudi Arabia, and Oman accounted for around 41 percent of total imports to Yemen.⁽⁷⁷⁾ Meanwhile, China is the fourth largest exporter of goods – mainly machines, electric devices, automated tools, and clothes – to Yemen. The adverse effects of coronavirus-related factory closures in the Chinese market and distortions in Yemen's other largest exporters have been felt in the Yemeni manufacturing, trade, and retail sectors, and in small and medium enterprises, which have been experiencing disruptions in supply chains, delays, increased costs, and shortages in the supply of raw materials essential to produce goods.

The spread of COVID-19 in Yemen and surrounding countries has also led to uncoordinated anti-coronavirus measures that is also likely affecting Yemen's exporting industries such as agriculture, fisheries, and hydrocarbons. Commercial trucks have been held up at checkpoints and border crossings, sometimes forced to queue for days and quarantine. These restrictions on movement have delayed the arrival of vital food commodities for up to one month to northern markets and could be responsible for catalyzing the gradual depletion of the country's food, medicine, and complementary commodity stocks.⁽⁷⁸⁾ The disruptions in supply chains have also driven up the prices of non-food materials used to combat the spread of COVID-19, such as facemasks, disposable gloves, sterilizers, and liquid soap, which increased more than 800 percent since early March.⁽⁷⁹⁾

77) "Yemen Trade Data," World Integrated Trade Solutions, <https://wits.worldbank.org/countrysnapshot/en/YEM>. Accessed July 2, 2020.

78) The goods imported through sea and land ports are subject to double check measures, once in Yemeni government-held ports and land borders and then in Houthi-seized territorial borders with each party quarantining goods for 14 days.

79) Interview with Yemeni pharmacists, Sana'a, April 2020.

RECOMMENDATIONS:

To the UN and International Stakeholders

- The UN, supported by key international stakeholders, should place actionable pressures on the parties to the conflict to sign an unconditional cease-fire agreement that ends fighting on all military frontlines and lift unjustified restrictions by war actors on humanitarian access, delivery of aid, and movement of all commodities and trade supplies, including COVID-19 related medical supplies into the country and across Yemen.
- UN agencies, international humanitarian NGOs and donors should respond with sufficient support to critical priorities on the ground for both mitigating the adverse repercussions of COVID-19 and safeguarding the interests of vulnerable families and communities to regular access to sufficient food and nutrition, clean water, healthcare and life-saving income. The support should take an integrated approach to providing humanitarian aid and addressing the pandemic.
- An emergency fund should be established to collect financial aid from potential donors such as the COVID-19 Global Humanitarian Response Fund, Saudi Arabia, the UAE and others, and channel the aid to address the economic and social repercussions of COVID-19. The fund should be governed by an inclusive management and coordinating mechanism with representatives from the UN, GCC countries, INGOs, local NGOs, representatives of the Sana'a and Aden authorities as well as the internationally recognized government, the private sector and civil society organizations. Part of the emergency fund proceeds could be allocated to support the private sector, in particular small and medium enterprises, to safeguard economic activities and assist low income families impacted by pandemic preventive measures and business lockdown.
- As part of mitigating the COVID-19 pandemic, international stakeholders should make the economic file a top priority. Efforts should be placed in particular on ending the current fragmentation among key economic institutions, most importantly the Central Bank of Yemen; pushing for a unified monetary policy to halt to the dual rial currency war; ending the contradictory policies governing banking sector activities; and regulating the importation of food and fuel necessities.
- A new approach for ending the fragmentation in Yemen's import policies could envision the establishment of an inclusive import financing mechanism that involves the two CBY branches, Yemeni

banks, and the Yemeni Commercial Chamber as key players in facilitating country imports to guarantee fair access to food and non-food basic commodities for all Yemeni regions. The private sector and local organizations should be engaged in the mechanism to monitor the flows of imports and distribution of essential commodities (e.g. Private Sector Cluster Group and SMEPS).

- International stakeholders should advocate for a gradual resumption of salary payments across the country by activating the Hudaydah Salary Wage Initiative and maintaining the social cash transfers made to the the most impoverished communities and elderly people registered on the social pension institutions' retirement bill.
- International stakeholders should pressure belligerent parties in the south to allow a gradual resumption of oil and gas production in several blocks on the ground to help the Yemeni government compensate for the substantial decline in public revenues mainly caused by the direct and indirect consequences of COVID-19 globally and at the national level.

To Saudi Arabia and Other GCC States

- Saudi Arabia should sustain its bilateral financial support to the internationally recognized government by channeling a new deposit to replenish the CBY's nearly-depleted foreign reserves and restore its capacity to fund the importation of essential commodities, including food and medicine, and preserve the value of the rial and people's purchasing power.
- The GCC states – in particular the UAE, a key member in the Saudi-led military coalition and one of Yemen's largest donors in the previous years to Yemen humanitarian response plan – should continue aid support around the country and development projects in Yemeni government-controlled areas. The UAE has the moral responsibility to address the humanitarian crisis caused by the multifaceted conflict it has been party to.
- Saudi Arabia and other Gulf countries should enact concrete policies to help Yemeni migrant workers survive the adverse impacts of COVID-19 in their labor markets. These actions should involve exempting Yemeni expats from paying the residency fees for themselves and their dependents, sponsorship transferring fee, and other financial burdens imposed under GCC nationalization policies until the end of the pandemic and running conflict.

To the Internationally recognized Yemeni government and the de-facto authorities in Sana'a (the armed Houthi movement)

- The Yemeni government and the authorities in Sana'a should implement policies to waive tax payments in critical sectors vulnerable to the pandemic crisis, such as medical and pharmaceutical firms and health facilities, in an exchange for a commitment to reduce the cost of service. In addition, the authorities should introduce tax and custom duties exceptions for nationally produced and externally imported food and essential commodities.
- The parties to the conflict should revise their budgets in order to allocate sufficient domestic resources and prioritize spending on the public health facilities as a means of restoring their minimum capacities to meet essential health services and contain the spread of COVID-19.

RETHINKING YEMEN'S ECONOMY

The Rethinking Yemen's Economy initiative aims to contribute to peacebuilding and conflict prevention, (economic) stabilization and sustainable development in Yemen by building consensus in crucial policy areas through engaging and promoting informed Yemeni voices from all backgrounds in the public discourse on development, economy and post-conflict reconstruction in Yemen and by positively influencing local, regional and international development agendas. The project is implemented by CARPO – Center for Applied Research in Partnership with the Orient, DeepRoot Consulting and the Sana'a Center for Strategic Studies. It is funded by the European Union and the Embassy of the Kingdom of the Netherlands to Yemen.

For more information and previous publications: www.devchampions.org

Implementing Partners

The project is implemented by a consortium of the following three partners:



The Sana'a Center for Strategic Studies is an independent think-tank that seeks to foster change through knowledge production with a focus on Yemen and the surrounding region. The Center's publications and programs, offered in both Arabic and English, cover political, social, economic and security related developments, aiming to impact policy locally, regionally, and internationally.

www.sanaacenter.org



DeepRoot Consulting is a dynamic social enterprise passionate about Yemen's development. DeepRoot aims to help international development actors, the private sector, local civil society organizations and the Yemeni Government anchor their interventions in a deep understanding of Yemen's national and local contexts, and international best practices. Our leadership team and advisory board has decades of combined experience working in Yemen and internationally in the public, private and nonprofit sectors.

www.deeproot.consulting



The Center for Applied Research in Partnership with the Orient (CARPO) is a Germany-based organization whose work is situated at the nexus of research, consultancy and exchange with a focus on implementing projects in close cooperation and partnership with stakeholders in the Middle East. The CARPO team has longstanding experience in the implementation of projects in cooperation with partners from the region and a deep understanding of the Yemeni context.

www.carpo-bonn.org

Co-funded by: the European Union and the Embassy of the Kingdom of the Netherlands to Yemen

Contact: Sana'a Center for Strategic Studies, Haddah Street, Sana'a, Yemen | Email: info@devchampions.org