



# Instruments of Pain (I): Conflict and Famine in Yemen

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## I. Overview

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Yemenis are starving because of war. No natural disaster is responsible. No amount of humanitarian aid can solve the underlying problem. Without an immediate, significant course change, portions of the country, in the 21st century and under the watch of the Security Council, will likely tip into famine. The projected disaster is a direct consequence of decisions by all belligerents to weaponise the economy, coupled with indifference and at times a facilitating role played by the international community, including key members of the Security Council such as the U.S., UK and France.

Avoiding famine, if this is still possible, requires the Saudi Arabia-led coalition, supporting the government of President Abed Rabbo Mansour Hadi against Huthi rebels and fighters aligned with former President Ali Abdullah Saleh, to halt what promises to be a bloody battle for Yemen's most important port, Hodeida. It also requires immediate action by both sides to put aside differences and enable central bank technocrats to address the liquidity problem, pay public-sector salaries nationally and regulate the riyal. For this to be sustainable, Yemenis need a ceasefire and a durable political settlement to have a chance at rebuilding the shattered economy.

## II. Famine and Conflict<sup>1</sup>

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By numbers, Yemen is suffering from the largest food crisis in the world. According to the UN, an estimated seventeen million persons, 60 per cent of the population and three million more than were so afflicted at the start of the year, are food inse-

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<sup>1</sup>The UN has issued a warning of impending famine in four nations: Yemen, South Sudan, Somalia and parts of Nigeria. "USG/ERC Stephen O'Brien Statement to the Security Council on Missions to Yemen, South Sudan, Somalia and Kenya and an Update on the Oslo Conference on Nigeria and the Lake Chad Region", UN Office for the Coordination of Humanitarian Affairs (OCHA), 10 March 2017, <http://reliefweb.int/report/yemen/usgerc-stephen-o-brien-statement-security-council-missions-yemen-south-sudan-somalia>. This briefing is the first of a series Crisis Group will issue on the four situations. Crisis Group Statement, "Instruments of Pain: Conflict and Famine", 13 April 2017. Crisis Group has reported extensively on Yemen since 2003. For the most recent analysis, see Crisis Group Middle East Report N°174, *Yemen's al-Qaeda: Expanding the Base*, 2 February 2017; Alert, "Central Bank Crisis Risks Famine in Yemen", 29 September 2016; Report N°167, *Yemen: Is Peace Possible?*, 9 February 2016; and Middle East Briefing N°45, *Yemen at War*, 27 March 2015.

cure and require urgent humanitarian assistance to save lives. Seven of the country's 22 governorates are at a phase four emergency food insecurity level, one step away from phase five: famine. Areas affected include both government and Huthi/Saleh controlled governorates. UNICEF reports that 460,000 children suffer from severe acute malnutrition.<sup>2</sup>

The evolving hunger crisis has both a supply and demand side, with an underlying motif of combatants pursuing war by any means with little to no regard for the population. According to a prominent Yemeni entrepreneur, "the real story of the humanitarian crisis is that Huthi/Saleh forces and the corrupt people around President Hadi are all benefitting from the war economy while the people of Yemen suffer".<sup>3</sup>

On the supply side, both Huthi/Saleh forces and the Hadi government and its Saudi-led coalition allies repeatedly have hindered the movement of aid and commercial goods to the population. Huthi/Saleh violations are most egregious in the city of Taiz, where their fighters have enforced a full or partial blockade since 2015, with devastating humanitarian consequences. They routinely interfere with the work of humanitarians, at times demanding the diversion of aid to themselves or denying aid workers access to populations in need, revoking visas or even detaining them.<sup>4</sup> They heavily tax all imports into their areas in part to finance the war effort and also run a black market in fuel, enriching military elites while driving prices up for transport of vital commodities.<sup>5</sup>

The Saudi-led coalition has strangled the flow of commodities into the country's largest and most important port, Hodeida, which is under Huthi/Saleh control. Yemen is over 90 per cent dependent on imports for staple commodities such as wheat and rice; the UN estimates that 80 per cent of all imports for the north currently pass through Hodeida.<sup>6</sup> Under the cover of UN Security Council Resolution 2216 (April 2015), which called for an arms embargo against Huthi/Saleh forces, the Saudi-led coalition aggressively imposed a naval blockade for the first year of the war. Three months after their military intervention, only 15 per cent of pre-war imports were entering the country, prompting UN humanitarian agencies to issue initial famine warnings. Following bureaucratic delays on the part of the Security Council, the coalition and the Yemeni government, the problem was partially resolved in May 2016

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<sup>2</sup> "Yemen: IPC Analysis – Summary of Findings, Acute Food Insecurity Current Situation Overview, March-July 2017", IPCinfo, 1 March 2017, <http://reliefweb.int/report/yemen/yemen-ipc-analysis-summary-findings-acute-food-insecurity-current-situation-overview-o>. Yemen Humanitarian Snapshot (March 2015-March 2017), UNICEF, [http://reliefweb.int/sites/reliefweb.int/files/resources/20170317\\_hum.snapshot\\_final\\_o.pdf](http://reliefweb.int/sites/reliefweb.int/files/resources/20170317_hum.snapshot_final_o.pdf).

<sup>3</sup> Crisis Group interview, March 2017.

<sup>4</sup> Statement to the Security Council on Yemen, Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator, Stephen O'Brien, 31 October 2016. Crisis Group interviews, representatives of humanitarian organisations operating in Yemen, March 2017.

<sup>5</sup> If goods are moved from Aden to Sanaa, they are taxed twice, once in the port of Aden by the Yemeni government and again when they enter Huthi/Saleh territory. Importers and businessmen confirm that neither Hodeida port nor Aden port is functioning properly, as corruption is rampant at each. On the roads, militias in both Huthi/Saleh and government-controlled areas charge fees for movement of goods. Crisis Group interviews, March, April 2017.

<sup>6</sup> "Yemen on the 'brink of famine' as more than one third of the population faces starvation, UN warns", ABC News, 24 February 2017, <http://www.abc.net.au/news/2017-02-24/yemen-on-brink-of-famine-mass-starvation-un-warns/8299776>.

through a UN Verification and Inspection Mechanism (UNVIM) that led to an easing of restrictions, but by then coalition airstrikes had already damaged the port's throughput capacity, contributing to long queues and delays.<sup>7</sup>

The situation is about to become much worse, as the coalition appears determined to break a military stalemate that has largely held since September 2015 by attempting to capture the Red Sea coast, including Hodeida. It says that taking the port is necessary to stem the flow of weapons to Huthi/Saleh fighters and to bring them to the bargaining table. This reasoning is questionable, since the Saudi-backed Hadi government, not the Huthi/Saleh bloc, officially rejected the latest peace initiative of the UN special envoy, and the coalition's navy and the UNVIM already monitor, albeit not perfectly, the port.

In any case, the campaign's humanitarian risks are clear. Unlike Aden and areas in the south, coalition forces would not be greeted as liberators, and Huthi/Saleh fighters have had ample time to prepare defensive positions. The battle would likely be protracted and could close and further damage this vital entrepôt. Even if the coalition is able to secure the city, it is far from clear it would have the will or capacity to ensure imports cross battle lines into Huthi/Saleh-controlled areas of the north, where the bulk of Yemen's population resides. Indeed, there is widespread agreement among Yemenis that the Hadi government would use control of the port to further squeeze Huthi/Saleh-controlled areas economically in an attempt to break that alliance or engender an internal uprising against it, an outcome the Saudi-led coalition has long predicted.<sup>8</sup> The costs of such a strategy would fall disproportionately on the civilian population, with Huthi/Saleh fighters being the last to starve.

Humanitarians argue that even at its reduced capacity, there is no alternative to using Hodeida in terms of location and infrastructure.<sup>9</sup> If the city is attacked and the port closed, it will become the most important choke point in what already is a massive hunger challenge.

The more acute current problem, however, is on the demand side. Notwithstanding mounting challenges, food is still widely available in the markets, including Sanaa. Yet, Yemenis throughout the country increasingly are unable to purchase it. After two years of ground fighting and air bombardment, the economy is in tatters. Families and communities are approaching a breaking point, having sold their assets, spent their savings and exhausted extended networks of support. The situation is most severe for the more than three million internally displaced persons (IDPs) and residents of governorates like Hodeida, who were the poorest before the conflict. It also takes a particularly harsh toll on women and girls, who are typically the last to eat

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<sup>7</sup> "In Hindsight: The story of the UN Verification and Inspection Mechanism in Yemen", Security Council Report, 1 September 2016, [http://www.securitycouncilreport.org/monthly-forecast/2016-09/the\\_story\\_of\\_the\\_un\\_verification\\_and\\_inspection\\_mechanism\\_in\\_yemen.php](http://www.securitycouncilreport.org/monthly-forecast/2016-09/the_story_of_the_un_verification_and_inspection_mechanism_in_yemen.php). The major air damage was done already in August 2015.

<sup>8</sup> Crisis Group interviews, three prominent members of Saleh's General People's Congress Party, four Yemeni businessmen, Adeni journalist, Hadi government official, Yemeni analyst from Taiz, March 2017.

<sup>9</sup> "Statement on behalf of the Humanitarian Country Team in Yemen, on the Critical Importance to Maintain Al Hudaydah Port Open", ReliefWeb, 4 April 2017, <http://reliefweb.int/report/yemen/statement-behalf-humanitarian-country-team-yemen-critical-importance-maintain-al>.

and in December 2016 made up 62 per cent of the four million people suffering from acute malnutrition.<sup>10</sup>

A critical component of the purchasing power crisis is the inability of the central bank to consistently pay public-sector salaries since August 2016. This is a product of shrinking state finances, an acute liquidity crisis and the bank's inability to move financial resources between areas controlled by conflict parties. The issue has become deeply politicised. Prior to President Hadi's 19 September decision to move the central bank from Sanaa to Aden, there had been a tacit agreement between the warring sides to allow the institution to function relatively free of interference. Diplomats and economists widely agreed that the bank had remained largely impartial, facilitating the import of an increasingly limited list of basic commodities, protecting the value of the riyal and paying public-sector salaries nationally under increasingly difficult economic circumstances. But this did not last. Without revenues from hydrocarbons, which accounted for approximately half the government's budget in 2014, or donor support, both solvency and immediate liquidity came under immense strain.<sup>11</sup>

By moving the bank, the government argued, it could prevent the Huthi/Saleh bloc from using central bank funds for its war effort, while allowing the bank to disperse public-sector salaries nationally and stabilise the economy. The bank in Aden has printed much-needed currency to address the liquidity crisis (a move that was blocked by the Hadi government when the bank was in Sanaa); at least 160 billion Yemeni riyals (approximately \$640 million) have been delivered to Aden as part of a 400-billion riyal (\$1.6 billion) order from a printing company in Russia.<sup>12</sup> However, there is little transparency as to how the money has been disbursed. Moreover, since the relocation, some salaries have been paid in the south but far fewer in the north, and the banking system has all but collapsed, putting additional pressures on the supply side, as commodity importers can no longer access letters of credit.<sup>13</sup>

More worrying yet, the government has not received a much-needed injection of foreign currency Hadi supporters expected would come from Gulf backers once the bank moved. The small amount of domestic revenue that is generated is not being deposited in central bank accounts, as the country's various administrative centres are acting autonomously. Neither Huthi/Saleh-controlled territories nor Marib governorate, which is technically controlled by the Hadi government and is the main producer of oil and gas for Yemeni consumption, are making revenues available to

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<sup>10</sup> At the same time, child marriage is on the rise as parents use it to raise funds. Women are also carrying greater burdens; as many as 30 per cent of displaced women head their families. Fact-sheet, Gender Snapshot, Yemen, Care International, December 2016.

<sup>11</sup> Crisis Group Alert, "Central Bank Crisis Risks Famine in Yemen", 29 September 2016.

<sup>12</sup> Crisis Group interview, Yemeni bank technocrat and Western diplomat, April 2017.

<sup>13</sup> The total public sector salary bill based on 2014 (pre-war) lists is approximately 75 billion Yemeni riyals (\$300 million) per month. As such, the recently delivered riyals are far short of what is needed to meet outstanding public salary payments since September 2016. The bank in Aden has reportedly paid public sector salaries for December 2016 in all areas under its control, but only a small fraction of salaries in Huthi/Saleh-controlled areas for that same month. It cites as reason for non-payment lack of access to reliable employment lists in these areas (which the government says the Huthis refuse to share, an accusation the Huthi/Saleh authorities deny), the difficulty and risks associated with transferring funds to Huthi/Saleh-controlled territories and the Huthis/Saleh authorities' unwillingness to deposit local tax and import revenues into the central bank in Aden. Crisis Group interview, Yemeni bank technocrat, April 2017.

the central bank in Aden. The Hadi government is also not depositing oil export revenues from the Masila basin in Hadramout, which came back online in August 2016, and is instead using an external account in Saudi Arabia with no oversight of expenditures.<sup>14</sup> In the absence of access to foreign exchange, pumping additional riyals into the market would create inflationary pressures.

Each side blames the other for the economic disaster. The government says it cannot pay salaries in Huthi/Saleh-controlled territories until these remit tax and other import revenues to the bank in Aden (nationally these revenues accounted for around 30 per cent of pre-war government income). The Huthi/Saleh authorities accuse the government of trying to starve the north and refuse to recognise or share accounts with Aden. As the two sides bicker, Yemenis across the country are slowly starving.

### **III. What Is Needed**

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Addressing the looming famine is a complex challenge that requires immediate action to prevent a worsening of the situation and to deliver lifesaving assistance to those most in need. Yemenis are set to starve as a result of the financial consequences of the war, but this trend can still be arrested and even reversed if political actors choose to do so. The following steps are urgent:

- The Saudi-led coalition should halt plans to invade the port of Hodeida.
- The Huthi/Saleh authorities, the Yemeni government and the Saudi-led coalition should work with the UN envoy to reach a deal that allows technocrats in the central bank in Aden and Sanaa to devise a plan for the resumption of public-sector salaries nationally, disbursement of social-welfare cash transfers to the poorest Yemenis and performance of basic banking functions free of political interference until a comprehensive political settlement is reached. This compromise should contain several elements, including:
  - cooperation between the central bank in Aden and the branch in Sanaa, where the majority of bank technocrats and infrastructure are still located;
  - agreement by the Huthi/Saleh forces and the government not to interfere with decisions made by technocrats in the central bank, nor to divert the bank's injections of liquidity for other purposes;
  - commitment by all parties to ensure that hydrocarbon, customs and tax revenues are accurately deposited/reflected in the national central bank system; and that the central bank has access to at least some commercial banks and to foreign central banks where it has reserves on deposit. (Currently its accounts

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<sup>14</sup> Crisis Group interviews, Western diplomat, Adeni businessman, April 2017. Letter from the Yemeni foreign ministry in Sanaa presented to the International Monetary Fund, World Bank, European Union, Russian Federation, and UN special envoy to Yemen, 31 March 2017, on file with Crisis Group. A bank technocrat argued that the reason for opening an external account in Saudi Arabia is technical. The central bank in Aden lacks a functioning SWIFT system (which it says will be resolved soon), the ability to interact with correspondent banks and access to its international accounts. The government thus opened the external account so it could mobilise money for expenditures related to, for example, the gradual resumption of some debt financing. Crisis Group interview, April 2017.

are blocked, in part as a result of uncertainties on the part of foreign central banks regarding the move from Sanaa to Aden and the appointment of a new bank management by President Hadi.)

- agreement to pay public-sector salaries nationally based on 2014 pay lists (these exclude any additions made by the Huthi authorities since the February 2015 coup); and
- Saudi Arabia and the United Arab Emirates should agree to help finance, along with the World Bank and other donors, the approximately \$500 million needed to fund emergency cash transfers to the poorest Yemenis for one year using 2014 social-welfare lists.

To be successful, these stopgap measures ultimately must be supplemented and supported by a ceasefire and peace agreement that allow Yemenis the chance to rebuild state institutions and the economy. To this end:

- the Huthi/Saleh authorities and the government should reengage immediately with the UN special envoy to secure a ceasefire and resumption of talks based on the UN envoy's roadmap; and
- the UN Security Council should take prompt action to rejuvenate the political track by passing a long-overdue new resolution under its mandatory Chapter VII authority demanding an immediate ceasefire, unfettered humanitarian access and a return to talks based on the existing UN roadmap, which requires compromises from both sides.

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Appendix A: Map of Yemen





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