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From cash to capital: Leveraging remittances for Yemen's economic future

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- Remittances are Yemen's largest source of external finance, accounting for nearly 20% of GDP in 2023. An estimated 70-75% of remittance income is used to meet immediate household needs, including food, rent, healthcare, and basic education.
- Yemen's remittance landscape is shaped by structural constraints, including financial sector fragmentation, limited access to formal banking services, and weak regulatory oversight. These factors limit the ability of remittances to contribute to longer-term economic recovery.
- Over the past decade, international anti-money laundering and counter-terrorism financing measures have contributed to Yemen's financial isolation by eroding correspondent banking relationships. Despite this, Yemen remains one of the least expensive destinations globally for sending remittances.
- Experiences from other remittance-receiving countries, including Somalia, Kenya, Sri Lanka, Rwanda, India, and Pakistan, highlight how financial inclusion, digital infrastructure, and regulatory coordination can improve the economic impact of remittances.
- The Government Central Bank of Yemen has undertaken a series of regulatory and technical measures aimed at facilitating remittance flows and maintaining links to regional and international financial systems. Building on these efforts, six priority reforms are identified to improve efficiency, inclusion, and trust in Yemen's remittance ecosystem.

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For millions of Yemenis, remittances are more than income: they are a financial lifeline. Amid a decade-old conflict and the collapse of domestic livelihoods, money sent by workers abroad has become one of Yemen's most reliable sources of support. Official recorded remittance flows accounted for nearly 20% of GDP in 2023. However, structural barriers, financial fragmentation, and regulatory challenges continue to prevent these funds from being fully leveraged for economic recovery.

This policy brief summarises findings from the report 'From Cash to Capital: Leveraging Remittances for Yemen's Economic Future', which provides an in-depth analysis of how remittances function within Yemen's economy, the obstacles that limit their impact, and potential policy solutions to improve their efficiency while maintaining accessibility. The analysis was based on a comprehensive literature review, expert interviews, a migrant survey conducted by researchers, and secondary data sources.

Yemen's remittance landscape

In fragile and conflict-affected economies, remittances are not just financial inflows - they are a fundamental mechanism of survival. Unlike foreign aid or trade revenues, which are subject to shifting donor priorities and geopolitical conditions, remittances provide a relatively stable source of household income.

Following the collapse of oil exports in 2015, which had previously generated between USD 2 and 3 billion annually, remittances stepped in to fill the gap, helping to sustain households during widespread economic instability. Since then, remittances have become Yemen's most reliable external financial inflow. Formally recorded remittance inflows reached approximately USD 3.8 billion in 2023. When informal channels are included, total remittance inflows are substantially higher, up to USD 10 billion by some estimates (Ahmed et al., 2019; World Bank, 2024a). These figures underscore both the scale of remittance dependence and the importance of informal transfer mechanisms in Yemen's economy.

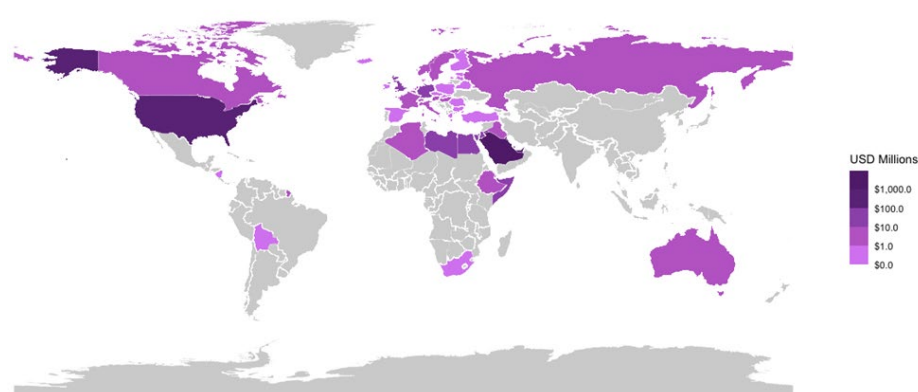
The majority of Yemen's remittances originate from the Kingdom of Saudi Arabia and other Gulf Cooperation Council (GCC) countries, which collectively account for 90% of total inflows (ACAPS, 2021; Alhannom and Mushabeb, 2021). Saudi Arabia alone contributes 61% of total remittance inflows, making its labour policies a key determinant of Yemen's remittance trends (Figure 1).

Whether remittances drive economic development or merely alleviate poverty is a central question in academic literature. In fragile and conflict-affected settings (FCS) like Yemen, with unemployment exceeding 17% of the total labour force and with 74% of the population living in poverty (World Bank, 2024a), remittances predominantly serve immediate consumption needs – purchasing

food, healthcare, and rent – rather than being reinvested into productive activities. This limits their potential to foster financial inclusion or catalyse long-term economic transformation. High inflation and currency volatility further discourage future-oriented financial planning, pushing households to prioritise short-term survival over long-term goals (World Bank, 2024b).

Nevertheless, remittance systems in FCS have shown remarkable resilience, continuing to operate despite conflict, economic collapse, and financial restrictions. Yemen is no exception. This resilience is largely underpinned by two factors: the adaptability of informal transfer mechanisms – particularly *hawala* networks, explained below – and the flexibility of remittance channels in responding to evolving regulatory and economic conditions.

Figure 1. Global sources of remittances to Yemen (USD millions)



Note: Estimated remittance inflows to Yemen by country of origin, measured in USD millions. Darker shades indicate higher remittance volumes. Data sourced from the World Bank and authors' calculations.

Internal factors affecting remittance flows

Yemen's remittance landscape is shaped by a range of internal challenges that complicate the flow of funds and limit their broader economic impact. Systemic inefficiencies – such as reliance on informal networks, financial fragmentation, and weak regulatory oversight – prevent remittances from being fully leveraged for long-term stability and growth.

Reliance on informal remittance networks

In a typical informal or *hawala* transaction, a sender provides funds to a local agent along with the recipient's details. A counterpart agent in the recipient's location then delivers the equivalent amount, often within hours. Settlements between agents are handled through informal mechanisms such as offsetting transactions or trade credits, eliminating the need for physical cash transfers

across borders. This system allows *hawala* networks to operate efficiently even in regions with limited financial infrastructure.

Hawala networks thrive in Yemen due to limitations in formal financial services. With banks frequently suspended, underfunded, or restricted by sanctions, many Yemenis rely on *hawala* agents to receive money quickly and at lower costs than formal banking institutions (Ahmed et al., 2019; World Bank, 2024a). Their ability to operate across frontlines and reach remote areas makes them particularly well suited in Yemen's conflict-affected environment.

Despite their accessibility and resilience, *hawala* networks pose some regulatory and economic challenges. Their informal nature - characterised by a lack of documentation and oversight - makes it difficult to monitor transactions, raising concerns about money laundering, fraud, and illicit finance. The absence of oversight also complicates integration with international financial systems (Khan and Gunwant, 2024; Alhannom and Mushabeb, 2021). Another major limitation is scalability. While *hawala* systems work efficiently for small-scale household transfers, they lack the infrastructure and accountability mechanisms necessary to support large-scale investments or formal development initiatives.

Bifurcation of Yemen's financial sector

Following the outbreak of war, monetary authority in Yemen became bifurcated between the Government Central Bank of Yemen (Government CBY), operating under the Internationally Recognised Government from Aden in the South, and the Houthis-controlled Central Bank (HC-CB) based in Sana'a in the North. These authorities administer parallel monetary and regulatory systems, resulting in fragmented oversight, dual exchange rates, and inconsistent banking regulations. This bifurcation has increased transaction costs, reduced the predictability of remittance values, and weakened confidence in formal financial channels.

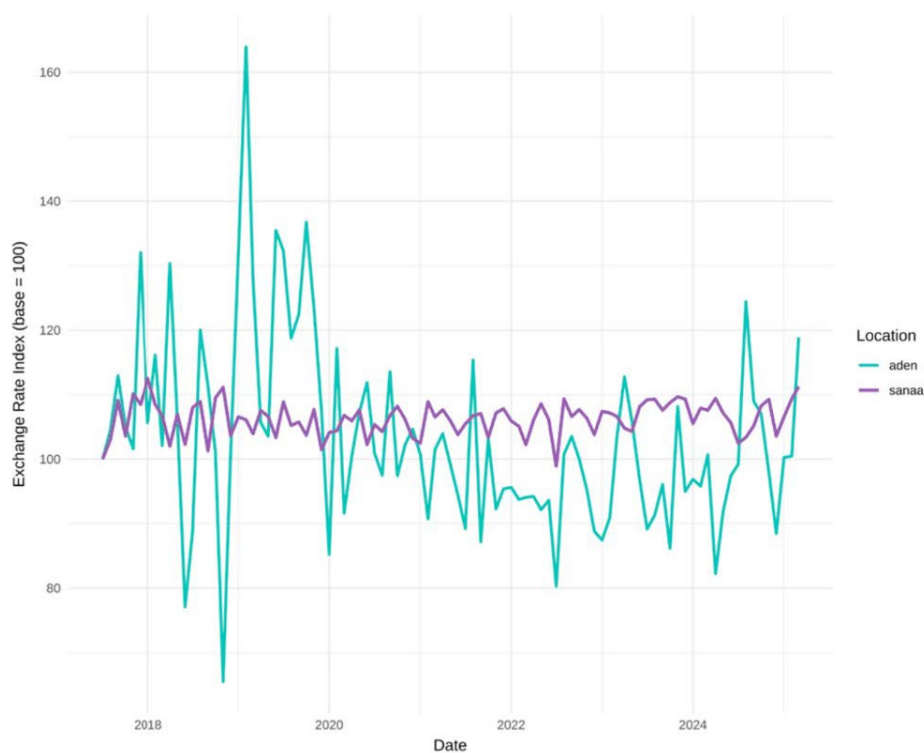
One of the most immediate effects of this bifurcation has been the emergence of a dual exchange rate system, which has exacerbated economic disparities along territorial lines. Government CBY permits the Yemeni riyal to fluctuate in line with market conditions, resulting in significant depreciation and inflationary pressure in government-controlled areas. In contrast, HC-CB maintains strict controls over foreign exchange in areas under its control, stabilising the nominal exchange rate while introducing trade distortions and administrative pricing mechanisms.

By February 2025, the exchange rate divergence remained substantial: 1 USD = 530 YER in *HC* areas, compared to 1 USD = 1,550 YER in IRG areas (Figure 2). Despite the stronger exchange rate in *HC* areas, commodity prices in Sana'a remain higher when converted to USD or Saudi Riyal (SAR). As a result, remittance-dependent households in *HC* regions can purchase fewer goods than

their counterparts in the South, leaving them more vulnerable to economic hardship.

The institutional divide between Government CBY and HC-CB has amplified compliance risks and regulatory uncertainty, discouraging international financial institutions from facilitating remittance flows to Yemen. Fragmented oversight has also weakened enforcement of anti-money laundering and combating the financing of terrorism (AML/CFT) regulations. Yemen's Financial Information Unit, which is responsible for implementing these safeguards, operates under politically divided authorities, limiting its ability to enforce due diligence on financial operators. As a result, regulatory gaps persist, allowing many banks, exchange houses, and financial operators to function with minimal oversight.

Figure 2. Diverging exchange rates in Yemen (2018 – 2025, monthly average)



Note: Exchange rates are expressed in YER per USD Government CBY (green) and HC-CB (purple), respectively. The rates shown are monthly averages, calculated as a simple average of the buy and sell prices, following the recommendation of the Government CBY. Data covers the period from 2018-2025. Source: YETI, ACAPS 2025.

Low public trust in financial institutions

Since 2015, repeated withdrawal freezes, cash shortages, and government-imposed restrictions on bank assets have severely undermined public confidence in Yemen's formal banking sector. For many Yemenis, these disruptions confirmed the perception that banks posed more risk than they offered protection, prompting a widespread shift towards informal financial systems. As a result, deposits in commercial banks declined from 24% of GDP in 2014 to 15.6% by

the end of 2022, while the volume of money circulating outside the banking system more than doubled (World Bank, 2024a).

This crisis of trust is compounded by structural barriers. Yemen's weak digital infrastructure and low levels of financial literacy continue to limit the uptake of formal financial services (Saleh & Manjunath, 2020). A significant proportion of the population remains unfamiliar with digital banking tools, mobile money platforms, and electronic payment systems, making it difficult for remittance recipients to engage with secure, regulated channels. These constraints reinforce reliance on informal networks and limit the broader integration of remittances into Yemen's financial system.

External factors affecting remittance flows

While internal financial fragmentation has played a major role in shaping Yemen's remittance landscape, external factors have also shaped the efficiency and accessibility of remittance flows.

Structural issues in cross-border transactions

Over the past decade, international AML/CFT measures have reshaped Yemen's financial landscape, introducing both direct and indirect barriers to cross-border transactions. Since 2012, the United States of America, the United Kingdom, the European Union, and the United Nations have imposed financial sanctions targeting individuals, entities, and institutions under the justification of preventing illicit financial flows and terrorist financing.

One of the most consequential effects of these restrictions has been the erosion of Yemen's connections to the global banking system. In response to heightened compliance risks, many international banks, particularly in the US and Europe, have severed correspondent banking relationships with Yemeni financial institutions. This financial isolation has likely contributed to the growing reliance on *hawala* networks, which function outside formal banking channels and are not subject to the same compliance requirements or oversight.

Transaction cost trends

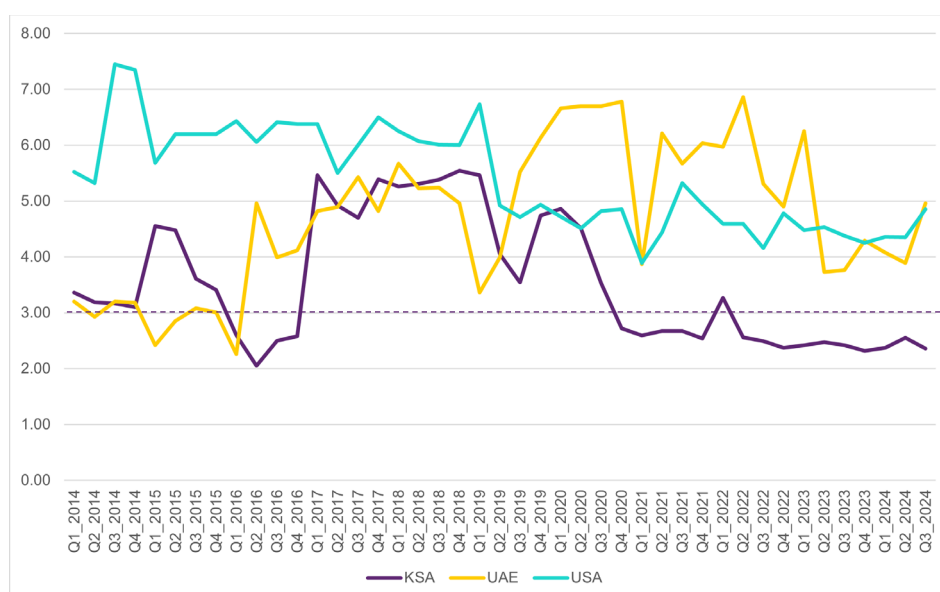
The World Bank's Remittance Prices Worldwide database provides quarterly updates on official remittance transaction costs across bilateral corridors, capturing both the exchange rate margin and the transaction fee paid by the sender (World Bank, n.d.). As of Q2 2024, the global average cost of sending USD 200 through official channels was 6.65%.

By contrast, the average total cost of sending remittances to Yemen has remained consistently below the global average for nearly a decade. In Q2 2024,

the average total cost of sending money to Yemen stood at 3.74%. According to FXC Intelligence, a provider of cross-border payments data, Yemen ranked as the ninth least expensive remittance destination in 2024.

The corridors from Saudi Arabia, the United Arab Emirates, and the US are among the least costly. Yemen's overall low average is primarily driven by the Saudi Arabia-Yemen corridor, which accounts for the majority of remittance flows due to the large Yemeni migrant workforce in Saudi Arabia. This corridor is currently outperforming the UN Sustainable Development Goal (SDG) 10.c target, which aims to reduce transaction costs to below 3% (Figure 3).

Figure 3. The least costly corridors to Yemen



Note: Average total cost (percentage of USD 200) of remittances from KSA, the UAE, and the US to Yemen from Q3 2014 to Q3 2024. The SDG target is 3% (dotted line). Source: World Bank Remittance Prices Worldwide.

Illustration: country case studies

Several major remittance-receiving countries have successfully leveraged remittances to strengthen economic resilience, deepen financial inclusion, and promote long-term development. The case studies below highlight diverse approaches and key lessons that may be relevant for Yemen.

Somalia successfully transitioned from a largely informal remittance system to a more regulated framework. This shift was driven by a combination of strengthened oversight, compliance, financial innovation, and industry cooperation. A key enabler was the high penetration of mobile technology, which was already deeply embedded in the daily lives of average Somalis and facilitated the adoption of digital financial services.

Rwanda expanded access to financial services for remittance recipients, especially in rural areas, and introduced targeted initiatives to channel remittances into investments in housing, agriculture, and small businesses. Remittances also played a key role in fostering reconciliation and social cohesion (Caarls, 2012).

Sri Lanka focused on financial literacy programmes for remittance recipients, improving the way the remittances were used, and encouraging recipients to shift from short-term consumption to longer-term investments in education, small enterprises, and savings. When remittance flows declined after 2014, due to restrictions on female domestic worker migration and reduced labour demand in GCC countries, households that had participated in financial literacy training were better able to adapt to the shock.

Kenya benefited from M-PESA, a pioneering mobile-based money transfer and microfinance service. By offering an alternative to cash-based transfers and informal remittance agents, M-PESA significantly reduced transaction costs and improved financial inclusion, particularly in rural areas with limited banking infrastructure (Jack & Suri, 2011). However, in recent years, M-PESA has faced criticism for leveraging its market dominance to impose high transaction fees, disproportionately affecting low-income users. This has prompted regulatory intervention and serves as an important lesson on the need for oversight of non-traditional financial service providers.

India has successfully integrated remittances into the formal financial systems through its Jan Dhan-Aadhaar-Mobile strategy. By linking biometric identification with mobile banking and financial inclusion programmes, India has facilitated secure, low-cost, and efficient remittance transfers. Under this model, funds are deposited directly into recipients' bank accounts, improving transparency and financial access (Morgan, 2022).

Pakistan has systematically enhanced the efficiency and accessibility of remittance inflows, gradually shifting away from informal channels. These efforts have included incentives to encourage the use of formal banking systems, the expansion of digital financial services, and improvements in financial accessibility for overseas Pakistanis. A notable initiative is the Roshan Digital Account, which allows non-resident Pakistanis to open accounts remotely and send funds directly into the formal financial system.

Policy recommendations

To enhance the efficiency, accessibility, and developmental impact of remittances in Yemen, this brief proposes six key policy recommendations for relevant stakeholders, including the Government CBY, the IRG, financial

institutions, and international organisations. Each recommendation is structured across short-, medium-, and long-term timeframes to support phased implementation and institutional alignment.

1. Strengthening the role of the Government CBY

- **Short term:** Build strategic partnerships with international financial institutions to re-establish global banking links and open additional formal remittance corridors.
- **Medium term:** Rebuild correspondent banking relationships to improve cross-border liquidity and reduce reliance on informal networks.
- **Long term:** Institutionalise international financial cooperation and ensure sustainable access to global payment systems.

2. Developing telecommunications infrastructure

- **Short term:** Expand mobile banking services and invest in telecommunications networks to support digital financial inclusion.
- **Medium term:** Facilitate partnerships with fintech firms to create secure, low-cost digital remittance solutions, especially for remote and rural areas.
- **Long term:** Strengthen nationwide connectivity to support inclusive access to digital financial services.

3. Enabling digital and financial innovation

- **Short term:** Streamline Know Your Customer (KYC) requirements and reduce bureaucratic barriers to allow expatriates easier access to formal financial services.
- **Medium term:** Promote the use of digital wallets and mobile payment platforms to improve remittance accessibility and reduce transaction costs.
- **Long term:** Institutionalise digital innovation by establishing a regulatory environment that enables safe experimentation, such as regulatory sandboxes.

4. Enhancing financial inclusion and literacy

- **Short term:** Launch financial literacy programmes targeting both remittance recipients within Yemen and the Yemeni diaspora.
- **Medium term:** Expand the footprint of formal banking services in under-served areas to reduce dependence on informal money transfer channels.
- **Long term:** Integrate financial education into national curricula and community outreach initiatives to build long-term financial capability.

5. Establishing an expatriate investment fund

- **Short term:** Design a structured investment vehicle to channel remittances into productive sectors such as small and medium enterprises (SMEs) and infrastructure.
- **Medium term:** Introduce incentives, including tax breaks and concessional loans, to encourage diaspora engagement in Yemen's economic recovery.
- **Long term:** Institutionalise the fund as a long-term development tool to align remittance flows with national reconstruction and resilience goals.

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6. Rebuilding public trust in the financial system

- **Short term:** Mandate clear solvency and liquidity disclosures; launch public awareness campaigns to promote formal banking channels.
- **Medium term:** Enforce governance standards and align reporting with international best practices, including third-party audits.
- **Long term:** Institutionalise trust metrics and integrate transparency into national financial oversight and recovery plans.

Conclusion

While remittances alone cannot deliver economic transformation, ensuring their safe, efficient, and affordable flow can play a critical role in stabilising Yemen's financial system and laying the foundation for long-term recovery. In a context of ongoing conflict and institutional fragmentation, policy reforms must remain adaptable, accounting for governance uncertainties and regulatory constraints. The strategies outlined in this brief balance immediate financial resilience with long-term structural reforms.

With sustained collaboration between the Yemeni government, financial institutions, and international stakeholders, Yemen has the opportunity to build a more inclusive, stable, and accessible remittance ecosystem – one that supports both migrant workers abroad and the families who depend on them at home.

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