

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

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Acronyms

AQAP	Al-Qaeda in the Arabian Peninsula
AML	Anti-Money Laundering
BMZ	German Federal Ministry for Economic Cooperation and Development
CBY	Central Bank of Yemen
CBS	Central Bank of Somalia
CFT	Combating the Financing of Terrorism
CSO	Central Statistical Organisation (Yemen)
CPI	Corruption Perception Index
EU	European Union
FAO	Food and Agriculture Organisation
FAOSTAT	FAO Statistical Database
FATF	Financial Action Task Force
FCDO	Foreign, Commonwealth & Development Office (UK)
FDT	Financial Data Transparency
FERC	Foreign Exchange Remittance Card
FDI	Foreign Direct Investment
FIU	Financial Information Unit
FPS	Faster Payment System
FTO	Foreign Terrorist Organisation
FXC	FXC Intelligence
GCC	Gulf Cooperation Council
HC	<i>Houthi</i> -Controlled
HDX	Humanitarian Data Exchange
IBAN	International Bank Account Number
IMF	International Monetary Fund
IRG	Internationally Recognised Government
JAM	Jan-Dhan Aadhaar-Mobile
KSA	Kingdom of Saudi Arabia
KYC	Know Your Customer
MTO	Money Transfer Operator
ODA	Official Development Assistance
OCHA	Office for Coordination of Humanitarian Affairs
OFAC	Office of Foreign Assets Control
PMJDY	Pradhan Mantri Jan Dhan Yojana
PPP	Public-Private Partnership
PRI	Pakistan Remittance Initiative
RDA	Roshan Digital Account
RPW	Remittance Prices Worldwide
RTGS	Real-Time Gross Settlement
SAR	Saudi Riyal
SDG	Sustainable Development Goal
SOMTA	Somalia's Money Transfer Association
SME	Small and Medium Enterprises

SWIFT	Society for Worldwide Interbank Financial Telecommunications
UAE	United Arab Emirates
UK	United Kingdom
UIDAI	Unique Identification Authority of India
UN	United Nations
UN IOM	United Nations International Organisation for Migration
UNHCR	United Nations High Commissioner for Refugees
UNMONEY	Unified Network for Money Transfers
UNSC	United Nations Security Council
U.S.	United States
USDC	USD Coin (a type of cryptocurrency)
USD	United States Dollar
WFP	World Food Programme
YER	Yemeni Riyal

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Key Definitions

For the purpose of this report, definitions of key terms should be interpreted as follows:

Anti-money laundering (AML) refers to regulations and procedures aimed at preventing illicit financial activities, such as money laundering.

Bifurcation of monetary policy means the fragmentation of monetary policy, where competing authorities operating the Government Central Bank and *Houthi*-controlled Central Bank manage parallel financial systems, leading to disparities in exchange rates, banking regulations, and economic policies.

Central Bank of Yemen

- *Government Central Bank* (Government CBY) operates under the Internationally Recognised Government based in Aden. The central bank was relocated to Aden in 2016 after the outbreak of war in 2014, and the takeover of Sana'a by the *Houthis*
- *Houthi-controlled Central Bank* (HC-CB) is based in Sana'a and under the control of the *Houthis*.

Competing exchange rate system refers to a foreign exchange regime where a country maintains two different exchange rates, an official rate set by the government and a parallel market rate. In the case of Yemen, the official rate is set by the Internationally Recognised Government (IRG), while the parallel market rate is set by *Houthis*.

Compliance risk refers to the potential for financial institutions to face legal, regulatory, or reputational consequences due to non-compliance with AML/ CFT regulations. Correspondent banking relationships refer to partnerships between banks that enable international financial transactions, particularly in countries with limited direct access to global financial networks.

Countering financing for terrorism (CFT) involves policies designed to prevent financial flows to terrorist organisations through regulatory oversight and transaction monitoring.

Cross-line transfers refer to money transfers that move funds across active or de facto conflict frontlines, typically between areas controlled by different political or military authorities. In conflict settings such as Yemen, these transfers often cross separate monetary, regulatory, and enforcement regimes and are frequently facilitated through informal or semi-formal channels due to restrictions on formal banking and payment systems.

Digital economy refers to economic activities that are powered by digital technologies, including online banking, e-commerce, and digital payments.

Digital platforms refer to mobile payments and online payment portals that allow remitters to send funds home and eliminate the need for paper-based transactions.

Exchange houses are financial institutions that specialise in currency exchange and money transfers, often facilitating cross-border transactions. *Licensed* exchange houses are those that have been registered with the Government CBY.

Financial de-risking is the practice of financial institutions reducing or terminating business relationships with clients or sectors perceived as high-risk.

Financial inclusion refers to the accessibility of formal financial services, such as banking, credit, and insurance, for individuals and businesses.

Fintech, short for financial technology, encompasses innovations that improve and automate financial services, such as mobile payment platforms, blockchain-based transactions, and digital lending.

Houthis/ Ansarallah started as an insurgency movement in the northern mountains of Yemen, which took over the capital Sana'a in September 2014 and became the de facto power controlling the North -of the country. *HC* areas are also referred to as the North in the report.

Internationally Recognised Government refers to Yemeni state institutions acknowledged by the international community. Since February 2015, the IRG has operated from the interim capital, Aden, following President Abdrabbuh Mansur Hadi's departure from Sana'a after the city was seized by the *Houthis* in September 2014. IRG areas are also referred to as South in the report.

Know-Your-Customer refers to the process that financial institutions use to verify the identity of their clients, ensuring compliance with AML and CFT regulations.

Migrant survey was administered by the research team of migrant workers and their relationships to remittances for this research. The survey was conducted online and yielded 51 total responses, of which nine were women, and 42 were men. The survey is not representative at the national level. Details on the survey and its instruments are included in Technical Appendix A.

Money transfer organisations (MTOs) are companies that provide remittance services outside the traditional banking system. *Licensed* MTOs are those that have been registered with the Government CBY.

Regulatory fragmentation refers to the fragmentation of regulatory oversight as a result of competing authorities operating the Government CBY and *HC-CB* with overlapping and contested mandates. This fragmentation limits visibility, coordination, and enforcement across the financial system creating significant challenges for remitters.

Regulatory sandboxes are controlled environments established by financial regulators that allow fintech companies to test new financial products and services with temporary regulatory exemptions before full-scale implementation.

Remittances refer to international money transfers sent by migrants, primarily to family members and occasionally for business purposes. For the purposes of this report, we define remittances as international transfers. However, given Yemen's unique context—where families may have migrated internally between the North and South—we also reference internal remittances, clearly specifying when this is the case.

Remittance channels

- *Formal* channels refer to financial institutions that operate under the oversight of a recognised central banking authority, including banks, licensed MTOs, and regulated digital services. In Yemen's fragmented financial system, this includes institutions licensed by the Government CBY, such as Al Kuraimi Islamic Bank and Amal Bank, as well as exchange houses registered with the Government CBY. Institutions licensed by the Sana'a-based authorities operate under a separate de facto regulatory

framework and face limited international recognition, particularly with respect to AML/CFT compliance and correspondent banking relationships.

- *Formal banking* channels refer specifically to banks (a subset within the broader formal channels).
- *Informal* channels include *hawala* networks, family-based couriers, hand-carried cash transfers, and unregistered exchange houses. While not inherently illegal, these systems function outside the Government Central Bank's regulatory reach and are typically favoured by customers mostly for their speed, sometimes lower costs, lack of bureaucratic hurdles and, most importantly, accessibility in areas where formal financial services are limited but also raise concerns about regulatory oversight, financial security, and economic integration.
- *Hawala* system is a decentralised money transfer system that operates without direct fund movements and relies on a trust-based network of brokers to facilitate transactions. *Hawala* networks allow widespread accessibility but also raise concerns about regulatory oversight, financial security, and economic integration.

Remittance corridors refer to channels through which funds are transferred from one country to another, most often by migrant workers supporting their families and friends back in their home countries.

Remittance transaction costs are expenses and fees associated with sending money internationally. While section 4.3. in this report specifically references available data on financial costs of remittance i.e. exchange rate margin and the transaction fee, the report overall adopts a broader understanding of transaction costs, encompassing not just financial charges but also accessibility, reliability, processing speed, and user trust.

Executive Summary

As one of Yemen's most significant financial lifelines, remittances sustain millions of households and contribute to financial stability amid conflict and economic uncertainty. While foreign direct investment (FDI) and international aid flows have been particularly constrained by compliance risks and security concerns, formal remittance channels are also shaped by these pressures, alongside sanctions, de-risking, and regulatory fragmentation. Despite these constraints, remittances have remained one of Yemen's largest and most consistent external financial inflows, with formal transfers estimated at almost USD 3.8 billion in 2023 according to the World Bank (Figure 2.1). A small-scale migrant survey conducted for this report paints a more nuanced picture with approximately two-thirds of respondents reporting using formal channels while the remaining relied on informal mechanisms. Existing structural barriers, financial fragmentation, and regulatory challenges prevent remittances from being fully leveraged for economic recovery.

This report examines how remittances function within Yemen's economy, the obstacles that limit their impact, and potential policy solutions to improve their efficiency while maintaining accessibility. Based on data analysis, expert interviews, and global case studies, this report outlines key findings and actionable policy recommendations that can strengthen the remittance system and enhance Yemen's financial resilience.

It is important to note that although this report analyses remittance flows across the whole of Yemen, the policy recommendations are directed towards the International Recognised Government (IRG). Our ability to draw analysis on *Houthi*-controlled (*HC*) territories is constrained by limited data visibility and resources. Conscious effort has been made to apply internationally recognised and accepted narratives and positions in cases where multiple versions exist.

How important are remittances to Yemen's economy?

Four key takeaways:

1. Remittances are the largest external financial inflow for Yemen, exceeding foreign aid and FDI and accounting for nearly 20% of GDP in 2023 based on formally recorded remittance inflows. These inflows have helped cushion the economy amid prolonged conflict, providing critical liquidity in a country where state revenues have collapsed, and formal banking operations remain fragile.
2. Saudi Arabia is Yemen's most important remittance corridor, accounting for an estimated 61% of formally recorded remittance inflows. Additional significant flows originate from the United States, the United Arab Emirates, and other Gulf states. Yemeni migrants in KSA are largely employed in low-wage sectors, and recent labour nationalisation policies and tighter work permit requirements have increased employment precarity for non-nationals, including Yemenis. Remittances from KSA are primarily transferred through exchange houses and licensed MTOs, alongside informal mechanisms.
3. An estimated 75% of remittances are used for food, rent, and healthcare, as Yemen's ongoing humanitarian crisis and economic instability leave households with little choice but to prioritise immediate survival. With limited access to financial services, savings mechanisms, or investment opportunities, remittances remain largely outside the formal economy and are not effectively

integrated into broader development efforts. The absence of structured financial products, investment incentives, and economic stability prevents remittances from contributing to productive sectors such as education, entrepreneurship, or infrastructure, ultimately limiting their potential to drive long-term recovery.

4. The Government has taken steps to strengthen remittance systems, including regulatory reforms, engagement with regional payment platforms, and efforts to formalise exchange houses. While these initiatives reflect growing policy attention to remittances, their impact remains limited by Yemen's fragmented financial governance and broader conflict dynamics.

What are the internal challenges to remittances in Yemen?

Four key takeaways:

1. Informal networks between Yemeni migrants and their families remain prevalent in the remittance market. In some estimates, they may handle a significant share, possibly rivalling or exceeding formal remittance transfers, due to their accessibility, speed, and competitive exchange rates. These networks often offer lower fees and greater trust among users, making them a preferred channel in certain corridors and communities.
2. The fragmentation of Yemen's banking sector following the 2014 conflict, and the resulting split between the Central Bank operating under the IRG in Aden and the Sana'a-based authorities, has been a central driver of the financial crisis. Since the split, the two authorities have maintained separate monetary policies and exchange rate regimes, creating volatility in remittance values and reducing the attractiveness of formal banking channels.
3. The instability of Yemen's banking system, affecting institutions in both IRG and *Houthi*-controlled areas, has eroded public confidence through measures such as account freezes, withdrawal limits, liquidity shortages, and allegations of mismanagement.
4. Low financial literacy and limited financial inclusion constrain the effective use of remittances in Yemen. While some financial literacy initiatives and basic financial services exist, particularly in urban areas, a large share of the population remains unbanked, especially in rural regions where formal banking services and suitable financial products are scarce. As a result, many remittance recipients lack both the awareness and the practical means to save, invest, or channel remittances toward longer-term economic activities, reinforcing their primary use for immediate consumption.

What are the external barriers to remittances in Yemen?

Four key takeaways:

1. The good news is that the average total cost of sending remittances to Yemen has remained consistently below the global average for nearly a decade. This has been driven primarily by the relatively low average cost of sending remittances from KSA, a destination for the majority of Yemeni migrants. However, sending remittances through formal banking channels from the U.S. and UAE to Yemen remains costly, with transfer fees ranging between 6% and 9% per transaction, significantly exceeding the United Nations (UN) Sustainable Development Goal (SDG) target of 3%.
2. Many Yemeni expatriates, particularly in the Gulf Cooperation Council (GCC) countries, face significant challenges in opening and maintaining bank accounts due to residency requirements,

legal status restrictions, and financial regulations that can limit migrant access to formal banking services. In countries like KSA and the UAE, undocumented or temporary migrant workers often lack the necessary identification or work permits required by banks.

3. Currency volatility driven by dual exchange rates and liquidity shortages affects the real value of remittances in Yemen. Informal remittance channels are closely tied to parallel exchange markets, offering more flexible and predictable rates than formal systems that rely on official pricing. This dynamic discourages the use of formal channels despite heightened exchange-rate volatility.
4. Since the mid-2010s, sanctions and AML/ CFT enforcement have driven international banks to de-risk from Yemen, weakening correspondent banking relationships nationwide. Banks and MTOs have responded by restricting services or raising fees, while Government CBY initiatives such as the *Buna* payment system have yet to achieve the envisioned impact.

What lessons can Yemen learn from other countries?

Four key takeaways:

1. Somalia and Pakistan have successfully formalised remittance flows through targeted regulatory reforms and partnerships with MTOs, ensuring compliance while keeping costs low. Somalia additionally has adopted digital transformation for formalising remittances.
2. Kenya and India have expanded remittance access by leveraging mobile banking and fintech solutions, reducing reliance on cash-based transactions.
3. Sri Lanka has implemented nationwide financial literacy programs, helping remittance recipients make informed decisions about savings, investments, and household financial management.
4. Rwanda has introduced diaspora investment programs, creating structured ways for expatriates to contribute to national development.

Policy Recommendations

To improve the efficiency and impact of remittances in Yemen, this report outlines six key policy recommendations, each structured across short-, medium-, and long-term timeframes for implementation. While some recommendations are structural and require political will and leadership, others need financial and technical support from development partners and donor community.

#1 Strengthening the Role of Government CBY

- Enhance international partnerships to restore global banking relationships and expand remittance corridors.
- Rebuild correspondent banking relationships to improve liquidity and reduce reliance on informal networks for more formal channels.

#2 Developing Telecommunications Infrastructure

- Expand mobile banking services and improve telecommunications networks to enable digital financial inclusion.
- Partner with fintech companies to develop secure, low-cost digital remittance solutions that reach rural areas.

#3 Enabling Digital and Financial Innovation

- Reduce bureaucratic barriers for expatriates opening bank accounts and streamline Know Your Customer (KYC) requirements.

- Support the adoption of digital wallets and mobile payment platforms to improve accessibility and lower costs.

#4 Enhancing Financial Inclusion and Literacy

- Introduce financial literacy programs targeting both remittance recipients in Yemen and expatriates abroad.
- Expand formal banking services in rural areas to reduce dependence on informal money transfer networks.

#5 Establishing an Expatriate Investment Fund

- Create an Expatriate Investment Fund to channel remittances into small and medium enterprises (SMEs) and infrastructure projects.
- Provide tax incentives and concessional loans to encourage expatriates to invest in Yemen's economic recovery.

#6 Rebuilding Public Trust in the Financial System

- Mandate transparent reporting standards and solvency disclosures to restore confidence in formal banking.
- Launch public awareness campaigns and integrate trust-building into national financial strategies.

Concluding Remarks

While remittances alone cannot drive economic transformation, ensuring their safe, efficient, and affordable flow can help stabilise Yemen's financial system by sustaining household liquidity, supporting foreign exchange availability, and reducing pressure on informal and crisis-driven coping mechanisms. In a context of constrained aid flows and limited state revenues, remittances provide a relatively predictable source of external financing that helps smooth consumption, mitigate currency volatility at the household level, and maintain basic financial circulation. Given Yemen's ongoing conflict and institutional fragmentation, policy reforms must be designed with flexibility to account for uncertainties in governance and financial regulation.

The strategies outlined in this report emphasise both short-term financial resilience and long-term structural improvements. Achieving these goals also hinges on the resolution of the conflict and the establishment of lasting peace in the country. With sustained collaboration between the different Yemeni government bodies, financial institutions, and international stakeholders, Yemen can work toward a more inclusive, stable, and accessible remittance system that benefits both migrant workers and their families at home.

1. Introduction

For millions of Yemenis, remittances are not just financial transactions, they are a critical lifeline. As conflict and economic collapse have eroded domestic livelihoods, money sent by Yemeni workers based abroad has become one of the country's most reliable sources of income. Even before the war, remittances played a vital role in sustaining families, particularly those with relatives working in the Gulf states. But over the past decade, as oil revenues dwindled and international aid became increasingly volatile, remittances have become one of the most important external financial inflows to Yemen, at times surpassing FDI and even rivalling levels of foreign assistance. However, remittances are only one component of household survival strategies. Many Yemenis continue to rely primarily on public sector salaries,

humanitarian aid, or the liquidation of personal assets to meet their basic needs. In this report, we analyse remittances not as a replacement for the state or humanitarian and development actors, but as a complementary flow that helps households cope with overlapping economic pressures.

Yet, despite their scale, remittances remain underutilised as a tool for economic recovery. Most of these funds go directly toward food, rent, and healthcare, providing essential relief but rarely translating into long-term financial stability. This pattern reflects not only immediate humanitarian needs, but also the absence of secure savings instruments, viable investment opportunities, and a stable macroeconomic environment in which households can confidently allocate remittance income beyond short-term consumption. Informal channels, particularly the *hawala* system, a trust-based network operating outside the formal financial sector, have kept money moving during the conflict. However, the presence of these informal mechanisms means that much of Yemen's remittance economy remains outside regulatory oversight, reducing its potential to strengthen financial institutions, improve monetary policy, or contribute to long-term development.

At the core of this challenge is Yemen's fractured financial governance. Shortly after the war began in 2014, the country was divided between the Government CBY headquartered in Aden, HC-CB in Sana'a in 2016, each implementing conflicting monetary policies. This division has led to dual exchange rates, liquidity crises, and unpredictable transaction costs for remittance recipients. While this report references available data on remittance fees, it adopts a broader understanding of transaction costs, encompassing not just financial charges but also accessibility, reliability, processing speed, and user trust. In some corridors, formal channels may be less expensive in absolute terms but harder to access or navigate due to documentation requirements, banking restrictions, or technological barriers. These non-monetary factors often drive migrants and recipients to rely on informal alternatives, despite their higher risks. Beyond Yemen's borders, Yemeni migrant workers face mounting pressures: host country labour restrictions, rising remittance transfer fees in some corridors, and global banking de-risking. As international financial institutions sever ties with Yemeni banks due to compliance concerns, formal remittance flows are increasingly pushed into other channels.

The urgency of these challenges has only deepened in recent months. Since the beginning of the Yemen war, the U.S. has provided more than USD 6 billion in assistance, according to FA.gov. However, in January 2025, the U.S. issued a 90-day pause on most foreign assistance and temporarily suspended nearly all USAID-funded programs in Yemen, halting a major source of humanitarian aid. Other donors, including the European Union (EU), United Kingdom (UK), and Gulf states, continue to provide support (although it is anticipated that future support from Western donors may decline as they adjust their aid budgets downwards), and UN funding remains critically low. The 2025 Yemen Humanitarian Response Plan was just 10% funded as of May 2025. At the same time, the U.S. administration's Foreign Terrorist Organisation (FTO) designation of the *Houthis* (or *Ansarallah*), which took effect in March 2025, is expected to complicate international transactions and further strain an already fragile remittance system. As remittances become even more critical, the need to assess and improve remittance flows has never been more pressing.

Despite various constraints, some countries have successfully addressed similar issues. Large remittance receiving economies have implemented financial literacy programs, expanded digital banking access, and formalised informal transfer networks. Examining these cases can offer valuable insights into what is

possible, and where opportunities exist for Yemen to improve its remittance systems while maintaining accessibility.

In this report, we assess the role of remittances in Yemen's economy, the barriers limiting their impact, and what can be learned from global experiences. In chapter 2, we review the literature on where remittances come from, when they have increased or declined, and how they have shaped household survival and economic stability over time in Yemen and other fragile countries. In chapter 3, we investigate who controls remittance flows inside Yemen, how financial fragmentation and regulatory weaknesses affect transfer mechanisms, and where informal networks prevail. Chapter 4 explores when external constraints, such as banking restrictions, labour policies, and sanctions, have disrupted remittance flows and how global financial trends have shaped Yemen's access to formal channels. Chapter 5 turns to comparative lessons, identifying countries that have successfully strengthened remittance systems, where reforms have worked, and how financial literacy, digital inclusion, and regulatory changes have reshaped remittance landscapes. Finally, in chapter 6, we present policy recommendations, outlining where targeted reforms could improve remittance efficiency, who must be engaged in financial governance reforms, and how Yemen can navigate its fragmented financial environment to maximise the benefits of remittances.

The analysis in this report is informed by a combination of key informant interviews, secondary literature and diverse data sources including Western Union, Gallup World Poll data, and World Bank's Remittance Prices Worldwide, Global Findex and World Development Index databases. A migrant survey administered online received 51 responses, which, while not nationally represented, provided key insights into remittance behaviours.

2. Literature Review – The Role of Remittances

Key Insights

- Through various stages of fragility, Yemen historically developed a reliance on remittance inflows beyond the country's borders.
- In fragile settings, remittances are understandably primarily used for survival and everyday necessities. In a few scenarios, households are able to build wealth based on remittances.
- Even through challenging times with conflicts and regulatory hurdles, remittances continue to flow due to their resilience, which predominantly stems from the accessible nature of informal remittances.

This chapter engages with the ongoing debate on the role of remittances in fragile economies. While remittances provide indispensable relief for households, their long-term developmental impact remains uncertain, raising important questions about the structural conditions that shape their use and effectiveness. We begin with a broad overview of the remittance landscape in Yemen. We then examine Yemen's historical experience with remittances, tracing shifts in flows over time and analysing how external policies and geopolitical developments have shaped the country's reliance on these financial transfers. Finally, we turn to the broader academic debate on remittances in fragile economies, exploring whether they serve as a

foundation for economic development or primarily function as a coping mechanism in the absence of state capacity. Within this discussion, we consider how Yemeni households use remittances and the implications of this dependence for economic stability and long-term growth.

For this section, we rely on secondary literature and data from the World Development Indicators (WDI) to analyse remittance trends, economic implications, and broader financial dynamics in Yemen.

2.1. Yemen’s Remittance Landscape: Trends, Informal Networks, and Regional Disparities

The impact of remittances depends on how they are transferred, who receives them, and how they are used. The prevalence of informal systems like *hawala* networks ensures widespread accessibility but also raises concerns about regulatory oversight, financial security, and economic integration.

2.1.1. Yemen’s Remittance Landscape

Following the collapse of oil exports in 2015, which previously generated USD 2 to 3 billion annually, remittances filled the gap to sustain households amid economy-wide instability. Remittances became Yemen’s most reliable financial inflow, with estimated annual values ranging from almost USD 4 to 6 billion during the late 2010s and early 2020s. However, money sent through informal channels, which is difficult to track as they remain undocumented, may push the total as high as USD 10 billion (Ahmed et al., 2019; World Bank, 2024).

The majority of Yemen’s remittances originate from the KSA and other GCC countries, which collectively account for 90% of total inflows (ACAPS, 2021; Alhannom and Mushabeb, 2021). With KSA alone accounting for 61% of total remittances, according to World Bank, its labour policies play a decisive role in shaping overall remittance trends in Yemen.

2.1.2. Utilisation of Remittances by Yemeni Households and their Broader Economic Impact

Since 2015, Yemeni households have faced unemployment exceeding 17% of the total labour force (World Bank, 2024). An estimated 75% of the remittances are used by families to meet basic household needs such as food, housing, healthcare, and education (Center for Disaster Philanthropy, 2023).

Remittances as a Lifeline for Basic Needs

For most Yemeni households, remittances serve as their primary or sole source of income, covering essential expenses (World Bank, 2024; Alhannom and Mushabeb, 2021). Given the collapse of state salaries and job losses due to the war, remittances have effectively replaced wages for many families, providing an indispensable safety net. Their role is particularly crucial in a context where nearly three-quarters of Yemen’s population lives in poverty (World Bank, 2024) and over half the population – nearly 18 million people – face food insecurity, uncertain of when they will eat their next meal (WFP, 2024). The importance of remittances as a stabilising force for the Yemeni economy is hard to understate, with projections

suggesting that total remittance inflow, including both formally recorded transfers and estimated informal flows, could constitute more than a third of Yemen's GDP by 2026 (Khan and Gunwant, 2024).

In addition to cash, in-kind remittances such as clothing, electronics, and household goods sent by migrants, supplement household needs. In some cases, these items are resold in local markets, generating a small but valuable additional income stream (ACAPS, 2021).

Limited Investment in Productive Sectors

While remittances help households maintain basic living standards, their broader economic impact is constrained by structural barriers that hinder investment and savings. Most recipients lack access to formal financial services, making it difficult to deposit or reinvest funds in productive activities (Alhannom and Mushabeb, 2021). As of 2021, fewer than 12% of Yemenis held a bank account, among the lowest rates in the world (World Bank Global Findex, 2021; World Bank, 2024).¹ High inflation and currency instability further discourage long-term financial planning, as families prioritise immediate consumption over future-oriented expenditures (World Bank, 2024).

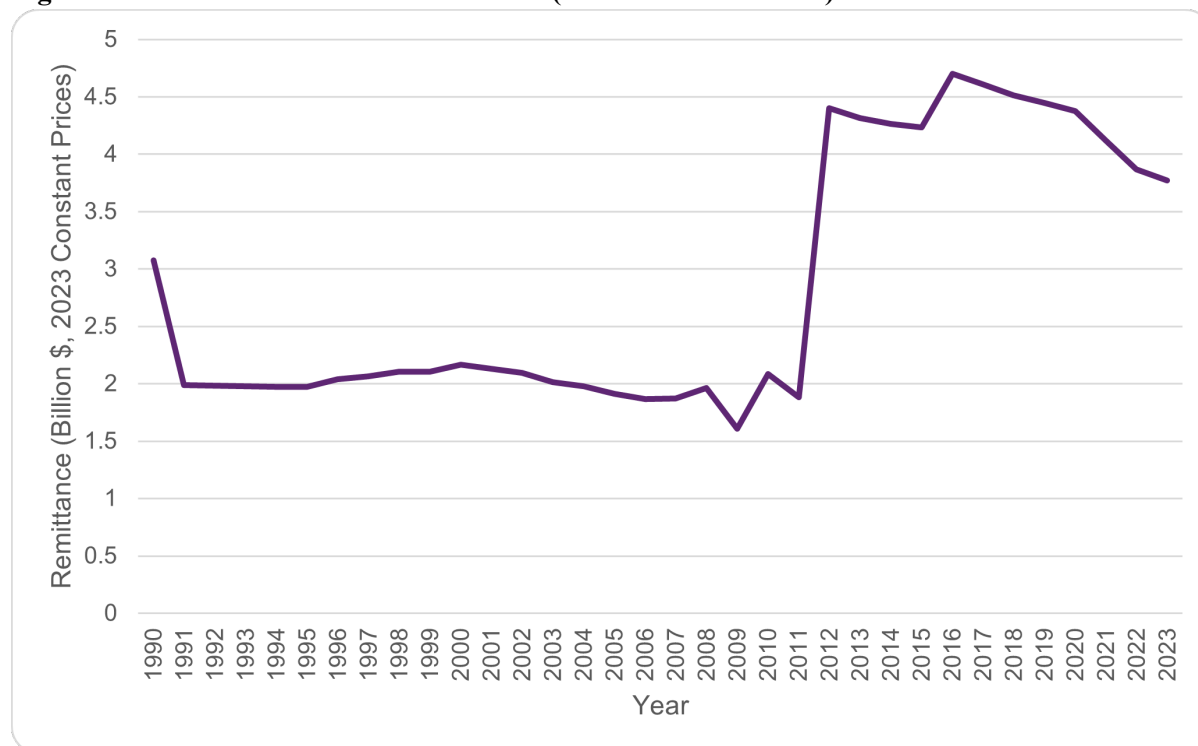
Remittances also remain largely disconnected from broader development initiatives. In less fragile contexts, remittance flows frequently contribute to business creation and infrastructure development. Yemen's fragmented financial landscape prevents these funds from being channelled into productive sectors such as agriculture, manufacturing, or small enterprises. The continued prevalence of informal financial networks further isolates remittance flows from formal investment channels (ACAPS, 2021).

2.1.3. Historical Shifts in Remittance Flows

Key events such as the 1990 Gulf War, the expansion of remittance flows in the 2010s, and the post-2014 conflict period illustrate how external shocks and policy shifts shaped remittance trends (see Figure 2.1).

¹ Indeed, of the countries with data, only South Sudan, Afghanistan, and Niger had lower rates of bank account ownership, reflecting the heavy toll conflict settings have on access to the banking system.

Figure 2.1. Personal Remittances Received (2023 Constant Prices)



Notes: Remittance inflows to Yemen are shown in 2023 constant USD. This figure illustrates overall trends in remittance flows without marking specific policy interventions. Data sources: WDI.

Following Yemen’s neutral stance during the Gulf War in 1990, remittance inflows from key regional host countries declined sharply, most notably from the KSA, which had hosted large numbers of Yemeni workers. The mass return of workers resulted in remittances falling from 30% to 5% of GDP, leading to significant hardship for households (Alhannom and Mushabeb, 2021). This episode highlighted Yemen’s economic vulnerability to labour policy shifts in host countries and underscored the importance of diversifying its external income sources, including through more resilient remittance corridors, broader migrant destination markets, and complementary sources of foreign exchange beyond oil and migrant labour.

Between 2010 and 2016, recorded remittance inflows grew from approximately USD 1.3 to 2.4 billion. While this increase may indicate a stronger reliance on migrant labour, it also coincided with improved data estimation by the CBY, making it unclear whether the rise reflects an actual surge in remittance flows or whether it is primarily the result of better reporting practices (Ahmed et al., 2019).

The outbreak of war in 2014 led to a unique challenge affecting remittances in Yemen, specifically the exchange rate divergence between the South and the North, as a result of two monetary zones operated by Government CBY and *HC-CB*. Since 2019, the *Houthis* have banned the circulation of new Yemeni riyal (YER) banknotes printed by Government CBY, restricting its regions to older notes. This policy has led to serious disparities in exchange rates, creating financial burdens for remittance recipients by reducing the real purchasing power of transfers and increasing transaction costs. At the same time, exchange houses and intermediaries operating across the monetary divide have been better positioned to capture gains from currency differentials and liquidity shortages. The bifurcation of Yemen’s monetary system is further investigated in section 3.3.2.

External policies and financial regulations have also shaped remittance flows over time. Labour nationalisation policies in key host countries, restrictions on remittance transfers, and sanctions affecting financial intermediaries have periodically constrained migrants' ability to send money through formal channels, increasing reliance on informal mechanisms. These dynamics are examined in detail in Sections 4.2 and 4.3.

The COVID-19 pandemic caused a sharp decline in remittance flows between March and June 2020, as job losses and wage reductions hit Yemeni migrants in the Gulf. Travel restrictions further disrupted new migration opportunities. However, remittances rebounded by mid-2020, demonstrating their resilience even in times of global economic distress, as reflected in Figure 2.1 (ACAPS, 2021; Khan and Gunwant, 2024).

The ongoing conflict intensified Yemen's reliance on remittances, especially as oil exports, once a major foreign currency source, have been disrupted. Military escalations and trade disruptions, such as the *Houthi's* blockade on IRG oil exports and tensions in the Red Sea (see the 2022 decrease in remittances in Figure 2.1), have further impacted remittance flows. The cessation of oil exports has reduced government revenues, limiting public services and employment opportunities, which in turn has increased household dependence on remittances to meet basic needs. Additionally, *Houthi*-led maritime attacks in the Red Sea between late 2023 and early 2024 triggered rerouting of shipping, raised freight and insurance costs, and sparked concerns from humanitarian agencies that these pressures could delay essential goods and aid shipments, notwithstanding relatively stable import volumes in 2024.

These shifts in Yemen's remittance landscape underscore the volatility and dependency of these flows shaped by external shocks, host country labour policies, and financial regulations.

2.2. How Do Remittances Function as a Lifeline in Conflict-Affected Settings?

Conflict disrupts economies, erodes state capacity, and forces households to rely on alternative financial lifelines. This section examines three key dimensions of remittances in conflict-affected contexts, drawing on global case studies to inform the Yemeni experience: as a lifeline for essential needs, as informal safety nets, and for their adaptability in crisis conditions. These dynamics illustrate how remittances are more than just financial transfers; they are a vital pillar of economic and social stability in conflict settings, with important implications for Yemen.

2.2.1. Remittances as a Lifeline for Essential Goods and Services

In many contexts, remittances become a crucial source of stability, helping households meet immediate consumption needs and access essential services such as food, healthcare, and education. When formal employment declines and inflation erode purchasing power, remittances often remain one of the few reliable income sources sustaining families.

In Sri Lanka, where an almost three-decade-long internal conflict (1983–2009) devastated livelihoods and disrupted economic stability, Samararatunge et al. (2020) found that remittances significantly increased household spending on basic needs. Poorer families prioritised food and communication, while wealthier households allocated more toward education, highlighting how remittances adapt to different economic strata within conflict-affected societies.

In Nepal, where a decade-long civil war (1996–2006) led to widespread displacement and economic instability, Thapa and Acharya (2017) found that remittances were integral for financing healthcare and durable goods, underscoring their stabilising role during economic shocks. Similarly, Ajefu & Ogebe (2020) demonstrated that in fragile economies, remittances increase spending on food, education, and healthcare across various income groups.

Yemen fits within this broader global pattern but presents unique challenges. In Sri Lanka and Nepal, remittances supplement domestic job opportunities, providing an additional financial buffer. In contrast, Yemen's economy has gone further than either of these cases and is heavily reliant on remittances. This dependence creates vulnerabilities, particularly when economic downturns in host countries, such as during the 2016-2017 oil price shock and the COVID-19 period beginning in 2020, reduce Yemeni workers' purchasing power and ability to send money home. The way remittances are spent varies by household income level, with poorer households in Yemen allocating nearly three-fourths of remittance income to food and daily necessities, mirroring patterns seen in Sri Lanka and Pakistan (ACAPS, 2021). However, some studies warn that remittances may also fuel inflation and dependency, reducing incentives for local job-seeking, as seen in Bangladesh and the Philippines (Valero-Gil, 2009).

2.2.2. Substituting for Weak State Institutions and Social Safety Nets

In conflict-affected settings, remittances often compensate for weak or absent state institutions, acting as an informal financial safety net. As one expert on fragile state economies observed, *"In fragile states, people don't have access to insurance markets: they don't have health insurance, they don't have life insurance. They don't have any way of buffering against shocks – income shocks, consumption shocks – and that's what remittances do. Remittances from their relatives abroad come in to help them out, to augment their income in the home country – or even maybe it's their only income."* In Yemen, where 80% of the population requires humanitarian assistance (World Bank, 2024), remittances often serve as the primary financial safety net.

This trend is evident in other fragile contexts. Weeraratne (2019) found that in Sri Lanka, remittances reduce household dependence on loans and mitigate indebtedness, particularly in regions where state services remain unreliable. Similarly, Redehegn et al. (2019) observe that in Ethiopia, remittances help households offset economic deficits caused by weak governance and poor employment opportunities, leading to asset accumulation in some cases. In Burundi, Fransen & Mazzucato (2014) highlight that remittances act as an informal social protection mechanism, ensuring food security where the state fails to provide assistance.

Despite their importance, remittances cannot fully replace the role of the state. Unlike public welfare systems that are designed to target the most vulnerable, remittances are privately determined and subject to economic fluctuations in host countries. Furthermore, remittance access is highly unequal, families without migration connections receive no support, implying a tendency toward greater economic inequality. Comparatively, studies from Sri Lanka, Ethiopia, and Burundi illustrate that while remittances can mitigate economic distress, they are not a sufficient substitute for a functioning welfare system. This is especially concerning for Yemen, where the gap in social safety nets persists alongside disruptions to Official Development Assistance (ODA), leaving many households without reliable financial support.

2.2.3. Resilience of Remittance Systems

Remittance systems in fragile economies have demonstrated remarkable resilience, driven by two key factors: the adaptability of informal transfer mechanisms (such as *hawala* networks) and the ability of remittance channels to adjust to changing regulatory and economic conditions.

Informal transfer systems have long played a central role in financial flows across the Middle East and South Asia, particularly in conflict-affected areas where state institutions are weak. Ahmed et al. (2018) highlight that informal remittance systems in Pakistan enable funds to reach remote areas where banking penetration is low. Similarly, in Somalia in the early 2000s, informal remittance operators maintained financial flows despite weak state oversight at that time, demonstrating the flexibility of these systems in fragile contexts (Lindley, 2009). Even in settings of forced displacement, Akuei (2005) documents how remittances are often shared among extended networks of relatives in Sudanese refugee communities, reinforcing social resilience.

Beyond informal transfer mechanisms, the structure of remittance systems themselves provides a means of resilience in response to economic fluctuations. Kamal and Rana (2019) found that in Bangladesh, international remittances allow households to allocate resources more effectively, reducing food expenditures while increasing investments in education and property. Similar findings have been observed in Ethiopia and Nepal, where remittances enable greater financial resilience for recipient households despite economic volatility (Fransen & Mazzucato, 2014; Redehegn et al., 2019). A comparable trend exists in Pakistan, where foreign remittances contribute to asset accumulation, ensuring long-term stability beyond immediate consumption (Ahmed et al., 2018). Similarly, Sritharan & Jothishankar (2024) illustrate that in Sri Lanka, remittances contribute significantly to wealth accumulation in post-conflict settings.

Yemen exhibits many of these same trends, with informal remittance networks ensuring that funds continue to reach recipients even in regions with limited access to formal banking. (ACAPS, 2021; World Bank, 2024). Despite their resilience, informal remittance networks pose several risks. The lack of transparency and formal oversight raises concerns about misuse, fraud, and regulatory restrictions (Amuedo-Dorantes & Pozo, 2014).

The next section examines the internal obstacles that hinder the full potential of remittances, including financial fragmentation, regulatory constraints, and disparities in access.

3. Internal Challenges to Remittance Flows

Key Insights

- Informal remittance networks ensure financial access in conflict settings but limit transparency and economic integration. To leverage remittances for economic recovery, greater formalisation is needed to enhance stability and integrate these flows into the formal economy.

- The bifurcation of Yemen’s financial institutions and the dual exchange rate system create systemic inefficiencies, between the South and North and has resulted in regulatory inconsistencies, liquidity shortages, and currency depreciation.
- While public distrust in banks has declined slightly since the early war years, ongoing liquidity issues and weak oversight continue to drive reliance on informal channels and elevate remittance costs.

In this chapter, we examine the internal challenges that hinder the effectiveness of Yemen’s remittance system. We begin by analysing the prevalence of informal remittance networks, particularly *hawala* systems, and their economic implications. Next, we explore geographic disparities in remittance accessibility, highlighting how the financial divide between the South and North exacerbates inequalities. We then assess how the bifurcation of Yemen’s financial institutions, along with competing regulatory policies, creates inefficiencies that inflate remittance costs and restrict formal financial integration. Finally, we examine the broader impact of weak financial oversight and public trust in banking institutions, emphasising how these factors reinforce Yemen’s dependence on informal remittance systems while limiting prospects for financial inclusion and economic stability.

For this analysis, we draw upon four primary sources: (i) Western Union transaction data, (ii) a survey administered by the research team of migrant workers and their relationships to remittances, (iii) Gallup World Poll data, and (iv) financial inclusion data from the World Bank’s Global Findex Database. The survey was conducted online and yielded 51 total responses. Of the 51 responses, 9 were women, and 42 were men. The survey is not representative at the national level. For more details on the survey and its instruments, please see Technical Appendix A.

3.1. Reliance on Informal Remittance Networks

Informal networks operate outside formal banking structures, offering speed, accessibility, and resilience, especially in conflict-affected and rural areas where formal financial institutions are either absent or unreliable. However, their lack of transparency, regulatory oversight, and scalability limits their broader economic impact and integration into formal financial frameworks.

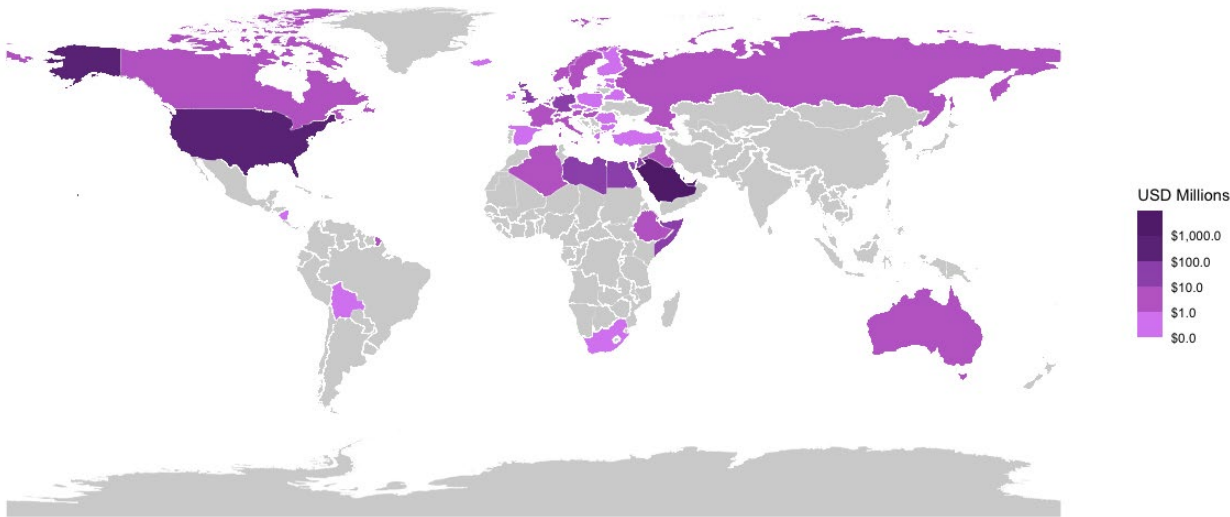
Since the start of the war, Yemen’s financial sector has undergone a structural reconfiguration rather than a straightforward decline or recovery. In 2015, there were 462 licensed exchange houses operating in Yemen. By 2022, this number had increased to approximately 1,350 licensed exchange houses, alongside an estimated 800 unlicensed operators functioning outside formal regulatory oversight (Hura, 2022).

Over the same period, traditional banking and formal money transfer channels experienced contraction and fragmentation. Licensed MTOs declined from 605 in 2014 to 462 in 2015 (CBY, 2015). In 2015, Yemen had 19 operating banks, excluding the National Bank of Commerce and Investment, which was under liquidation. More recent data from Government CBY indicate an increase in the number of registered banks to 31 and a total of 397 licensed MTOs nationwide. Comparable data from HC-CB were not publicly available.

While the rise in registered banks and licensed exchange houses suggests partial institutional adaptation, it has not translated into stronger financial intermediation or greater use of formal banking channels. Instead, the rapid expansion of exchange houses, many of which operate with lighter regulatory requirements than banks, alongside a substantial unlicensed segment, reflects persistent fragmentation within the financial system and continued barriers to accessing fully regulated banking services. This shift signals not a deterioration in institutional count, but a reorientation of financial activity away from banks toward exchange-based intermediaries, driven by liquidity constraints, uneven oversight, and eroding confidence in traditional banking institutions.

The availability of formal remittance channels varies tremendously across host countries, influencing how Yemeni migrants send money back home. As Figure 3.1. illustrates the largest sources of formal remittances to Yemen are the Gulf states, the U.S., and Europe, and each area has dramatically different remittance regulations.

Figure 3.1. Global Sources of Remittances to Yemen (USD Millions)



Notes: Estimated 2020 remittance inflows to Yemen by country of origin, measured in USD millions. Darker shades indicate higher remittance volumes. Data was sourced from the World Bank and the authors' calculations.

The Gulf states, particularly the KSA and the UAE, are among the largest sources of remittances to Yemen. According to estimates from Government CBY, about 90% of Yemen’s remittances stem from the Gulf countries. However, certain financial regulations in these countries impose stricter controls on cross-border transfers, leaving several Gulf migrant workers with limited access to traditional banking services, according to our survey. We unpack these regulations in section 4.2. On the other hand, workers in the U.S. and Europe have better access to formal banking services (Ratha et al., 2024).

These regional disparities in financial regulations influence remittance behaviours. Workers in Gulf countries often turn to exchange houses and informal networks, many of which operate without strict regulatory oversight (ACAPS, 2021; World Bank, 2024). In contrast, while migrant workers in Western countries also use exchange houses, these tend to be licensed and more integrated with formal banking

systems Given the predominance of Gulf-origin remittances, Yemen’s overall remittance ecosystem is strongly shaped by the regulatory environment and institutional characteristics of remittance channels linking Yemen to its regional neighbours, even where the relative volumes of formal and informal flows cannot be precisely quantified.

3.1.1. Why *Hawala* Networks Dominate

In a typical *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, 2024). Their ability to operate across frontlines and in remote areas makes them particularly effective in Yemen’s conflict environment. This adaptability has made them indispensable for both household remittances and internal money transfers between the South and North.

3.1.2. Challenges and Risks of *Hawala* Networks

Despite their accessibility, *hawala* networks pose some regulatory and economic challenges. The lack of transparency and documentation 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 to support large-scale investments or aid disbursements. For example, organisations seeking to channel funds for humanitarian relief or infrastructure projects cannot rely on *hawala* networks, as their informal infrastructure and limited capacity are not suited to managing such volumes or compliance requirements. As a result, the dominance of *hawala* systems constrains the extent to which remittance channels can connect to broader development and investment processes in Yemen.

Although *hawala* networks are deeply entrenched, recent trends suggest slight shifts toward formal alternatives. During the COVID-19 pandemic, mobility restrictions disrupted physical access to *hawala* agents, pushing some remitters toward formal channels. In response, Yemeni banks lowered transaction fees and promoted mobile banking services to attract users, leading to a temporary rise in formal remittance use (ACAPS, 2021; World Bank, 2023). However, low financial literacy, distrust in formal institutions, and inadequate banking infrastructure in rural areas continue to hinder the long-term transition to formal systems. See more on financial inclusion in section 3.4.2. Understanding how these networks function helps explain why they remain the financial backbone for many Yemenis.

A key reason for the urgent need to reallocate these remittances to formal channels is to support imports through banks under the supervision of Government CBY. In August 2024, the exchange rate witnessed a

notable improvement, with the Yemeni rial appreciating by approximately 44%, strengthening from YER 2,890 to around YER 1,632 per USD. In response, the Government CBY and the IRG adopted a series of measures aimed at preserving currency stability and strengthening market confidence.

Among the most prominent of these measures was the regulation of import financing through commercial banks, subject to direct oversight by Government CBY via a dedicated committee established for this purpose. This approach sought to tighten control over foreign exchange and ensure that it is directed toward genuine and organised imports, thereby limiting speculation and irregular interventions in the foreign exchange market.

In this context, channelling expatriate remittances through banks and formal financial institutions represents a critical factor in strengthening local banks' correspondent accounts abroad and ensuring the availability of sufficient foreign currency liquidity. This, in turn, enables banks to meet import financing requests in line with the Government CBY's approved mechanism. Such measures help ensure adequate foreign currency availability for imports while reducing pressures and distortions in the foreign exchange market that could undermine exchange rate stability.

Furthermore, subjecting imports financed through formal channels to banking oversight enhances the full collection of taxes and customs duties, reduces evasion, and positively contributes to strengthening public revenues. Collectively, these measures improve the efficiency of foreign trade management and support medium-term monetary and financial stability.

3.2. Geographic Distribution and Access Disparities in Yemen

The geographic distribution of remittances in Yemen is marked by stark regional inequalities between the South and North, as well as urban and rural populations. While both regions rely heavily on remittances, differences in population distribution, financial infrastructure, regulatory environments, and exchange rate policies have created unequal access to both formal and informal remittance channels.

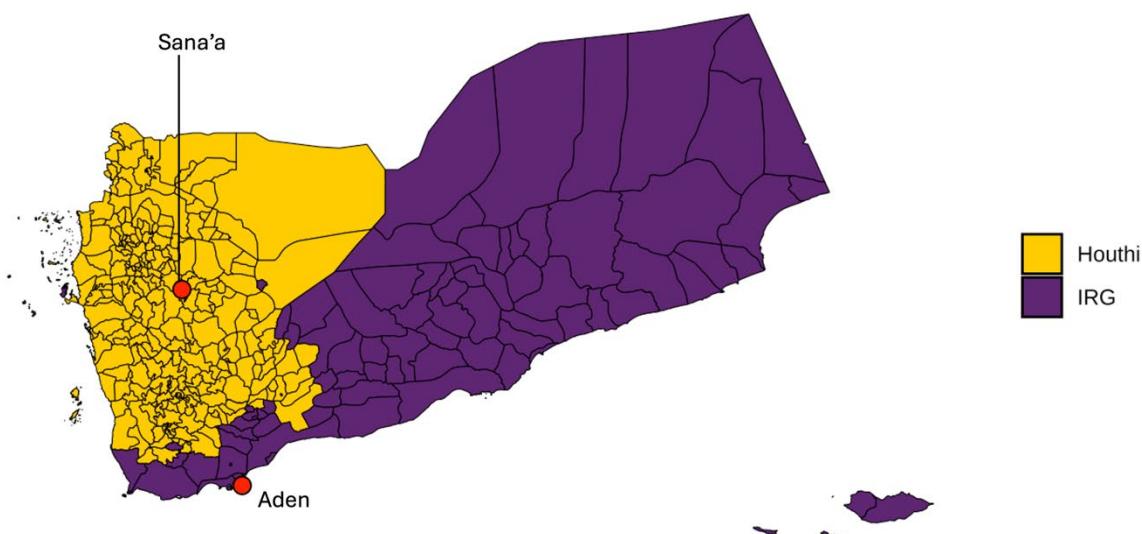
A significant challenge across Yemen is the urban-rural divide in financial access. Over 70% of Yemen's population resides in rural areas, where formal banking services remain scarce. Transaction data from Western Union for 2024 show that formal MTOs are increasingly present in rural governorates, with the top five remittance-receiving governorates² being predominantly rural, with Aden as the only exception. These developments signal a shift toward greater financial inclusion for rural communities. This pattern likely reflects a combination of factors, including the rural origin of a large share of Yemeni migrants, population distribution, and the expansion of select formal remittance services beyond major urban centres.

Importantly, the presence of Western Union transactions in rural governorates indicates that at least some formal remittance channels are reaching rural areas, even where broader financial infrastructure remains weak. However, the extent to which this translates into sustained financial inclusion varies substantially between IRG and *HC*-controlled regions. As Figure 3.2 illustrates, territorial control in Yemen remains

² The five governorates are (in ascending order): Hadhramaut, Aden, Taiz, Ibb, and Sana'a. While Sana'a is often categorised as urban due to the presence of Sana'a City, the Central Statistical Organisation (CSO) distinguishes between the "new city," which is predominantly urban, and the "old city," which retains rural characteristics (CSO 2022).

deeply fragmented, shaping both the availability and functionality of formal financial services across regions.

Figure 3.2. Territorial Control in Yemen and Its Fragmented Financial Landscape



Notes: This map illustrates district-level control in Yemen as of February 2024. Colours indicate governance by different actors, the IRG and *Houthis*. Districts were coded based on which actor controls more than 50% of their territory. Aden and Sana'a are marked with red points as key financial centres. Control classifications are based on data from the Humanitarian Data Exchange (HDX) (OCHA, 2025) and may shift due to ongoing conflict.

HC areas, including Sana'a and much of northern and western Yemen, receive the majority of remittance inflows, as they account for approximately 70% of the country's population that maintains strong and historical migration ties to KSA (ACAPS, 2021; World Bank) 2023). However, access to formal financial services remains restricted due to international banking sanctions and political isolation. The recent FTO designation may further restrict formal financial flows to areas under *Houthi* control, however, the prevalence of *hawala* networks may buffer some of the immediate impact.

In contrast, IRG areas, including Aden, Marib, and eastern Yemen, have weaker access to remittance flows due to lower population density and, therefore, lower labour migration to KSA (in absolute numbers). While remittances still play a crucial role in the South, recipients often face higher transaction costs, slower transfers, and fewer financial service options (ACAPS, 2021). Unlike the North, IRG areas have attempted to maintain and restore connections to international financial institutions. A key challenge for them lied in weak institutional capacity and regulatory hurdles, largely resulting from the relocation of the capital to Aden, which left behind much of the financial infrastructure and expertise in Sana'a. However, Government CBY has made concerted efforts to strengthen their institutional capacity over the years.

The competing exchange rate system between the South and North complicates internal remittance transfers, increasing financial burdens on recipients and reducing purchasing power for those receiving internal transfers from IRG regions (ACAPS, 2021). Exchange houses and internal transfer agents, not remittance recipients, benefit from the exchange rate disparity. Most internal transfers between IRG and *HC* areas are conducted in foreign currency (USD or Saudi riyals (SAR)) rather than Yemeni riyals. Transfers in USD bear additional costs due to the limited availability of USD banknotes in the North,

making USD-denominated transactions particularly expensive for recipients in *HC* areas. This adds another layer of financial strain for remittance-dependent households, particularly those receiving funds from relatives or businesses in IRG territories.

Further exacerbating these disparities are policy differences in licensing financial service providers. A CBY expert noted that while the CBY has restricted the licensing of exchange companies in urban areas, it has expanded them in rural regions to improve financial access. However, despite being part of the formal economy, exchange houses operate with fewer regulatory requirements than banks, reinforcing a financial system where rural communities rely on non-bank financial institutions rather than integrating into the formal banking sector.

3.3. Institutional Challenges Constraining Remittance Flows

The deterioration of Yemen's banking sector, coupled with the fragmentation of financial oversight between Government CBY and *HC-CB*, has created systemic inefficiencies that drive up remittance costs, limit accessibility, and reinforce dependence on informal channels. This section examines how these institutional weaknesses constrain remittance flows, undermining financial inclusion and limiting the developmental potential of remittances.

3.3.1. Deterioration of Yemen's Banking Sector

Even before the conflict, Yemen's financial sector was underdeveloped, characterised by limited technological capacity, weak regulatory oversight, and poor integration into global financial networks, challenges common in fragile states. The 2016 relocation of the Central Bank from Sana'a to Aden further fragmented the financial system, creating two competing regulatory authorities with conflicting financial policies and exchange rate disparities. (World Bank, 2024; Aghajan and Mele, 2023).

Yemen has been on the Financial Action Task Force's (FATF) "grey list"³ since at least 2012 due to strategic deficiencies in its AML/ CFT measures. Despite efforts to address these issues, ongoing conflicts and instability have hindered significant progress, leading to Yemen's continued presence on the list (FATF, 2025). Following the institutional split in 2016, the *HC-CB* in Sana'a lost effective access to the international banking system as Government CBY in Aden became the international recognised authority. While SWIFT connectivity primarily applies to commercial banks, central banks often maintain SWIFT links for reserve management and official transactions. The *HC-CB*'s loss of international recognition and correspondent relationships rendered its SWIFT connectivity non-functional, effectively isolating it from cross-border financial operations. However, commercial banks across Yemen maintained their SWIFT connections and continued international operations.

³ The Financial Action Task Force (FATF) is an intergovernmental organisation that sets global standards for combating money laundering, terrorist financing, and other financial crimes. Countries that do not meet FATF's compliance standards may be placed on the grey list, indicating that they are under increased monitoring due to strategic deficiencies in their financial systems. While grey-listed countries are expected to implement reforms, their inclusion on the list can lead to reputational risks, reduced foreign investment, and restrictions on international financial transactions.

HC-CB lost access to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network,⁴ effectively isolating it from international financial transactions. However, commercial banks across Yemen maintained their SWIFT connections and continued international operations.

These developments, coupled with the depletion of oil and gas revenues and uncontrolled currency printing,⁵ led to significant inflation, from around 8% in 2015 to nearly 34% by 2019 (Statista, 2019). The resulting volatile financial environment has further eroded confidence in formal banking institutions, as rapid price increases, currency depreciation, and liquidity shortages reduced the real value of deposits and limited banks' ability to reliably disburse funds, hindering the effective operation of remittance service providers.

Liquidity Crisis and Cash Flow Disruptions

During and after the war, depositors, both large and small, rushed to withdraw funds, fearing bank-imposed restrictions that led to a liquidity crisis and limited cash availability. In the first five months of 2016, account holders pulled YER 160 billion in banknotes out of the banking system, followed by another YER 140 billion in June (Rageh et al, 2016). As banks struggled to meet demand, liquidity outflows accelerated, and depositors increasingly shifted to home savings or informal financial mechanisms for holding and transferring funds outside the banking system (Al-Kamali, 2022).

The movement of cash and foreign currency reserves within Yemen has also been disrupted. Before the war, banks heavily invested in treasury bills. However, after the *Houthi* took control of Sana'a in 2014, the foreign reserves and local currency in the central bank's vaults were depleted, rendering *HC-CB* unable to pay salaries of government employees and meet treasury bill obligations to banks. This triggered a liquidity crisis, prompting the decision to relocate central bank to Aden as an institutional safeguard rather than a liquidity solution. The relocation did not resolve underlying liquidity shortages; instead, it resulted in the coexistence of two central banks with conflicting monetary policies, further exacerbating liquidity constraints and deepening economic instability.

Our survey data highlights that 40% of respondents prioritise liquidity availability when selecting a remittance channel. With banks struggling to maintain reserves, recipients are at times forced to rely on exchange houses, *hawala* networks, and personal contacts to receive remittances in usable form.

Physical Damage to the Banking Sector

The prolonged conflict has also physically degraded Yemen's financial infrastructure. Bank branches in conflict zones have been damaged or destroyed, while payment networks suffer from staff shortages and security risks. The financial sector has experienced a brain drain, with many skilled professionals fleeing the country, a pattern consistently highlighted in our key informant interviews. The result is a banking industry that lacks both the technical expertise and institutional capacity to deliver stable financial services.

⁴ SWIFT is a global messaging network that enables secure and standardised financial transactions between banks and financial institutions. It does not process payments itself but provides the communication infrastructure for international money transfers.

⁵ Government CBY printed currency.

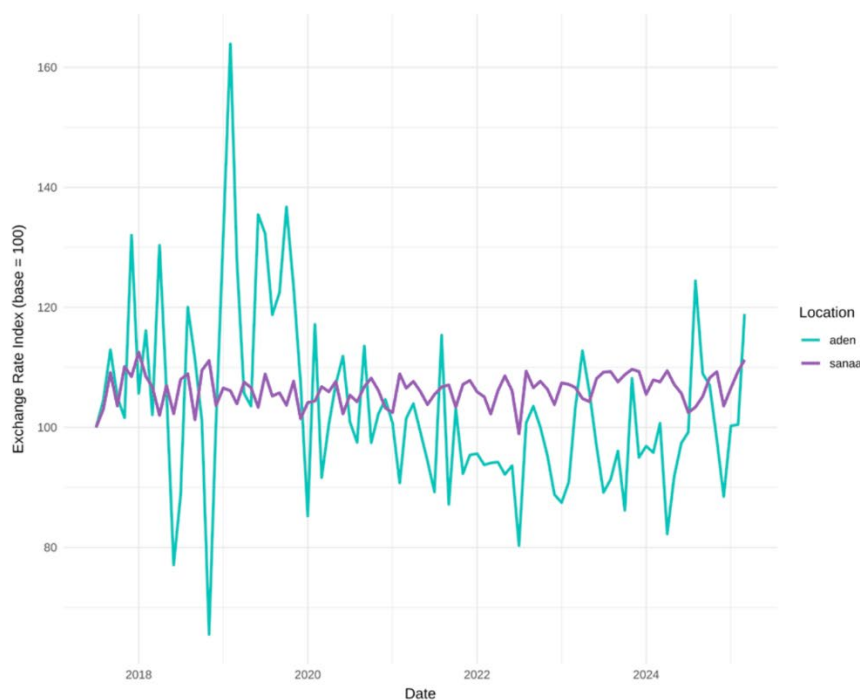
3.3.2. Fragmented Financial Oversight of Yemen and Its Impact on Remittances

Yemen's fractured financial oversight stems largely from the *Houthi's* sustained control over the banking sector in Sana'a. Since the central bank headquarters was relocated to Aden in 2016, the country has operated under a bifurcated financial system: Government CBY under the IRG in the South, and *HC-CB* in the North.

The *Houthi's* grip on the northern banking apparatus has contributed to a severe liquidity crisis, depleted foreign exchange reserves, and accelerated the collapse of public confidence in the formal banking sector. Their enforcement of rigid exchange policies and financial directives has also alienated international partners, exacerbating Yemen's financial isolation. Meanwhile, Government CBY, despite its international recognition, faces persistent challenges in asserting authority, rebuilding regulatory capacity, and restoring trust.

This fragmented system is more than an institutional quirk; it has direct and far-reaching consequences for Yemen's financial stability. The most immediate impact is the bifurcation of the exchange rate regime, which has widened economic disparities across territorial lines and introduced extreme volatility in the value of remittance transfers. Government CBY allows the riyal to fluctuate based on market conditions, especially from 2017 onward, leading to rapid depreciation and inflationary pressures in government-controlled areas. In contrast, *HC-CB* imposes strict controls on foreign exchange, stabilising the currency in *HC* regions but at the cost of trade distortions and artificial 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 3.3 illustrates this growing gap, where Government CBY's flexible exchange rate contrasts with *HC-CB* enforced stability. However, despite the lower nominal exchange rate in *HC* areas (meaning fewer riyals per dollar), commodity prices in Sana'a remain higher in dollar terms. This is due to a combination of exchange rate distortions, elevated transaction costs, and localised supply chain constraints (ACAPS 2020; ACAPS 2023). As a result, households in *HC* areas that rely on remittances from relatives abroad can afford fewer goods compared to households in IRG areas, making them more vulnerable to economic hardship.

Figure 3.3. Diverging Exchange Rates in Yemen: IRG vs. Houthis (2018-2025, monthly average)



Notes: Exchange rate indices are based on monthly averages of YER/USD rates in Government CBY (teal) and HC-CB (purple), rebased to 100 at each location's first observation. The values reflect the simple average of buy and sell rates, following Government CBY methodology. The index illustrates the growing divergence in exchange rate trajectories between Government CBY and HC-CB from 2017 to 2025. Source: YETI, ACAPS 2025.

Government CBY has undertaken several efforts to modernise financial oversight, including strengthening identity verification requirements for international transfers. However, these efforts have faced both technical and political barriers. Limited internet infrastructure in rural areas has constrained real-time verification, while institutional fragmentation has undermined uniform enforcement. In September 2023, Government CBY joined the *Buna* payment platform operated by the Arab Monetary Fund, becoming the seventh Arab central bank to do so. *Buna* offers a secure real-time cross-border payment system that could, over time, reduce international financial isolation, facilitate smoother remittance transactions, and improve liquidity management. However, its potential remains limited by political and institutional divisions, particularly the refusal of authorities in Sana'a to participate.

Additionally, different currency notes in the North and South have fragmented Yemen's financial system, making internal transfers nearly impossible. A riyal sent from Aden cannot be used at face value in Sana'a. To mitigate this, many transactions across the North-South divide now take place in foreign currencies, mainly USD or SAR, adding new layers of transaction costs due to conversion fees, exchange rate fluctuations, and the limited availability of foreign currency. These challenges intensified in early 2024. In February 2024, the Sana'a-based Yemeni Money Exchange Association mandated that remittances be disbursed in the original currency sent, such as USD, rather than being converted to YER. In March 2024, HC-CB further restricted financial flexibility by requiring all transfers to be disbursed in SAR. These measures exacerbated currency shortages and reduced options for remittance recipients, often forcing

households to absorb additional fees or accept unfavourable exchange rates. These practices have persisted amid continued currency fragmentation and foreign exchange shortages, translating into fewer resources for essential goods and deepening economic hardship in an already fragile environment (ACAPS, 2020; Sana'a Center Economic Unit, 2024).

In April 2024, Government CBY issued a notification requiring all banks to relocate their headquarters from Sana'a to Aden within 60 days or face penalisation, including the potential loss of SWIFT access. This measure was intended as a protective and compliance-driven step aimed at shielding banks from *Houthi* intervention and reducing the risk of international sanctions or de-risking. Several major financial institutions were unable to comply due to physical presence requirements, asset exposure in Sana'a, staff security concerns, and the risk of retaliation by northern authorities. In response, *HC-CB* banned dealings with 13 Aden-aligned banks and prevented banks from relocating to Aden. Some restrictions were partially reversed in July 2024 under a de-escalation agreement between the IRG and *Houthi* authorities.

These confrontations further weakened already fragile payment systems. In July 2024, Government CBY launched the Unified Network for Money Transfers (UNMONEY)⁶, aiming to centralise domestic transfers and regulate exchange houses. *HC-CB* responded by banning institutions under its control from registering with the platform, effectively severing last-mile remittance distribution to the North.

The absence of a real-time gross settlement (RTGS)⁷ system, along with the lack of a national switch⁸ connecting banks, has rendered internal banking transfers nearly impossible. However, the IRG with financial support from the World Bank, initiated the process of implementing both RTGS and Faster Payment System (FPS) last year which is expected to be completed in the next three years.

Cross-border transfers processed through commercial banks have also become more costly and time-consuming, discouraging their use relative to MTOs and exchange houses. While Government CBY retains greater international connectivity, including through platforms such as *Buna*, it continues to face domestic liquidity constraints and limited enforcement reach. By contrast, *HC-CB* has consolidated control over liquidity in the North through strict administrative controls, despite its international isolation.

The institutional divide between Government CBY and *HC-CB* has heightened compliance risks and regulatory uncertainty across Yemen's financial system. Fragmented financial oversight has weakened the enforcement of AML and CFT regulations, particularly for exchange houses operating across territorial lines. Yemen's Financial Information Unit (FIU), tasked with overseeing AML and Financial Data

⁶ UNMONEY is a financial system established to facilitate secure and efficient money transfers across Yemen's fragmented banking and exchange networks. It was introduced as an attempt to standardise transfer mechanisms and reduce the inefficiencies caused by the country's dual banking system and currency disunity.

⁷ RTGS is a financial system that enables the immediate and final settlement of interbank transactions on a continuous, real-time basis. Unlike net settlement systems, where transactions are accumulated and cleared in batches at specific intervals, RTGS processes payments individually and irrevocably as they occur. This system is primarily used for high-value transactions, reducing settlement risk and enhancing liquidity management. Central banks typically operate RTGS systems to facilitate secure and efficient payment flows within financial markets.

⁸ A national switch is a centralised electronic payment network that connects banks and financial institutions within a country, enabling seamless and real-time interbank transactions. It acts as an intermediary that facilitates the transfer of funds, allowing banks to process transactions such as electronic fund transfers, debit/credit card payments, ATM withdrawals, and online banking transactions efficiently.

Transparency (FDT) compliance, operates under politically divided authorities, limiting its ability to enforce due diligence requirements consistently.

Amid these challenges, the recent relocation of several commercial bank headquarters from Sana'a to Aden following the *Houthi* FTO designation may present a rare opportunity. If supported by adequate technical assistance and diplomatic backing, this shift could help Government CBY to consolidate regulatory oversight, strengthen payment system governance, and begin restoring coherence in formal remittance channels.

3.4. Public Trust in Financial Institutions

Public confidence in Yemen's banking sector began to erode following the *Houthi* takeover of state institutions in 2014, including the central bank in Sana'a. In the years that followed, politically motivated actions such as the arbitrary freezing of bank accounts further destabilised the financial system. These actions by the *Houthis* which occurred prior to the relocation of the central bank to Aden in 2016, catalysed a loss of trust and contributed to a sharp decline in banking activity. More recently, the 2022 enactment of the "Usurious Transactions Law" in the North, which abolished interest on customer deposits, further undermined depositor confidence and weakened the banking sector's ability to attract savings.

Since 2014, depositors in both North and South have faced repeated withdrawal freezes as banks have struggled with cash shortages and government-imposed asset restrictions. With public debt averaging around 82.2% of GDP in the decade leading up to 2024 well above the Middle East and North Africa average of 40.7%, Yemen's financial sector has been heavily burdened by government borrowing, particularly in areas under IRG where official fiscal statistics are available. Macrobond database accessed January 21st, 2026). Public debt levels have remained elevated throughout the conflict period, contributing to persistent fiscal stress. Authorities have consistently struggled to meet debt obligations, leading to an accumulation of arrears and further weakening the banking system. This ongoing fiscal strain has left financial institutions with deteriorating balance sheets, diminished liquidity, and eroded depositor confidence.

For many Yemenis, this reinforced the perception that keeping money in banks was a risk rather than a safeguard. Deposits in commercial banks declined from 24.0% of GDP in 2014 to 15.6% by the end of 2022, while money circulating outside the banking system more than doubled over the same period (World Bank, 2024). Although currency issuance increased during the conflict, this rise primarily reflects widespread withdrawals and cash hoarding in response to liquidity shortages, withdrawal restrictions, and declining trust in banks, rather than money remaining within the formal banking system.

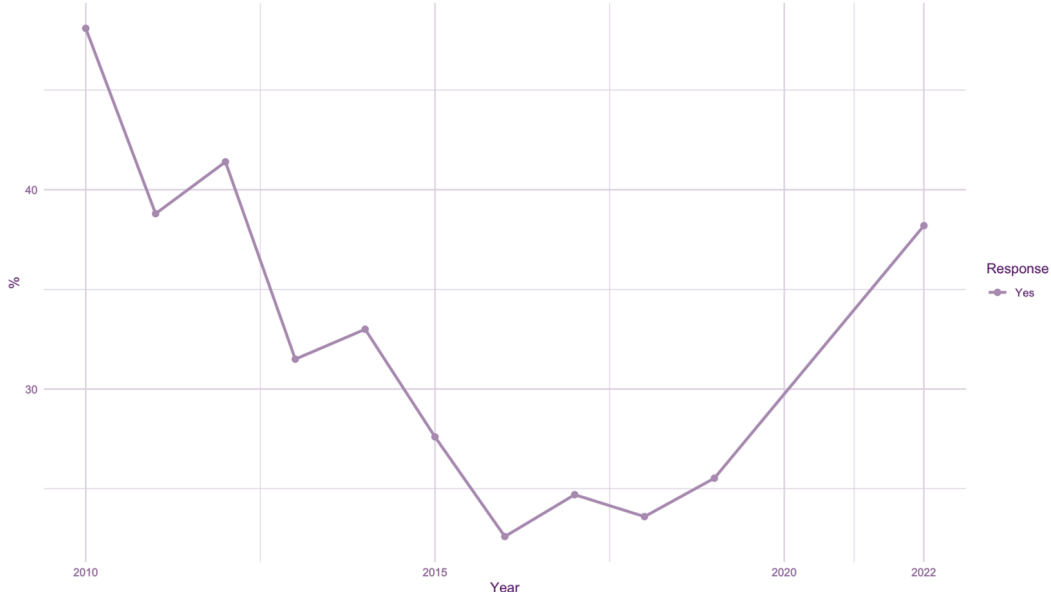
Consistent with this shift, multiple sources document a rapid expansion of non-bank financial institutions. The number of licensed exchange houses increased from 462 in 2015 to over 1,350 by 2022 (Hura, 2022). Broader estimates from the World Bank, which include exchange firms and microfinance institutions, indicate that the total number of such entities rose from 876 in 2017 to 3,244 in 2019 (World Bank, 2024). These figures are not directly comparable, as they capture different institutional categories and reporting bases, but together they point to a clear expansion of non-bank financial intermediation as confidence in the banking sector eroded.

Public trust in Yemen’s banking system has been sensitive to allegations of mismanagement and preferential treatment. A 2021 UN report wrongfully alleged that Government CBY manipulated exchange rates to generate windfalls for politically connected businesses (Sana’a Center Economic Unit, 2021). These claims were later retracted by the UN Panel of Experts, but the initial allegations dealt a blow to Government CBY’s reputation. The ill-timed controversy reinforced perceptions of weak transparency and governance, particularly as Government CBY was struggling to stabilise the currency amid dwindling foreign reserves.

By contrast, *HC-CB* has exerted tight control over banking operations in the North, reportedly leveraging regulatory mechanisms and enforcement bodies to exert pressure on institutions perceived as disloyal, while enabling more favourable treatment of politically affiliated financial actors. This dynamic, marked by restricted data sharing, retaliatory closures of non-compliant banks, and coercive revenue practices, reinforces public scepticism about the neutrality and inclusivity of the formal banking system, particularly in areas under *Houthi* control (Sana’a Center Economic Unit, 2021).

Despite these challenges, Gallup World Poll data from 2022 suggests a modest recovery in public trust in financial institutions at the national level, reflecting perceptions of relative stabilisation after the early years of the war (see Figure 3.4). Given Yemen’s fragmented financial governance, this improvement cannot be attributed to specific reforms by either Government CBY or *HC-CB* but likely reflects broader macro-level adjustments and reduced volatility in certain periods. However, while perceptions of financial governance have improved, this has not translated into increased engagement with the formal banking sector, as evidenced by continued declines in bank deposits and the persistent reliance on cash and non-bank financial channels.

Figure 3.4. Confidence in Public Financial Institutions, 2010-2022



Notes: The figure shows the percentage of respondents who answered “yes” to the question “Do you have confidence in public financial institutions?”. Source: Gallup World Poll.

Our survey of remittance senders and recipients presents a starkly different picture. Only 2 out of 50 respondents reported using traditional banks for money transfers. Instead, 13 relied on exchange houses, 10 used services like Western Union and MoneyGram, and nearly half preferred informal networks such as family and friends. This overwhelming reliance on non-bank financial services suggests that respondents in our survey continue to perceive formal banking institutions as unreliable, regardless of broader sentiment shifts captured in external polling.

This divergence between macro-level trust indicators and individual financial behaviour underscores the long-term damage that liquidity crises, mismanagement scandals, and inconsistent monetary policies have inflicted on the overall Yemen's banking sector. Even if perception surveys suggest a gradual recovery of trust, formal financial institutions continue to face severe operational constraints that reinforce public scepticism. As one interviewee explained, referring to conditions in the North, "*even if money is sent to the bank – [they] don't have enough cash to distribute the remittance,*" illustrating how liquidity shortages undermine the banking sector's ability to function as a reliable conduit for remittance flows.

Beyond institutional distrust, Yemen's underdeveloped digital infrastructure and low levels of financial literacy further restrict the adoption of formal financial services (Saleh & Manjunath, 2020). Many Yemenis remain unfamiliar with digital banking tools, mobile money platforms, and electronic payment systems. Our survey data indicates that, among those who use digital platforms, 64% trust them, 25% remain sceptical, and the remainder express neutral attitudes. While 64% might seem high, it is important to consider that the overall adoption of digital financial services remains low in Yemen. This means that even among users, a significant portion still harbours doubts, and the broader population remains largely excluded from digital banking due to infrastructural and financial literacy barriers.

Another major challenge that Yemen's remittance system faces is weak regulatory oversight arising from the presence of competing authorities operating the Government CBY and HC-CB that do not have visibility over the other side. Even for those who still engage with formal financial institutions, the absence of effective enforcement mechanisms has left exchange houses, MTOs, and banks operating with minimal accountability. This regulatory vacuum exposes the financial system to fraud, illicit transactions, and international de-risking.

3.5. Role of Financial Literacy and Digital Financial Tools

Yemen lags behind in financial inclusion, particularly in rural areas, where the majority of the population resides (CSO, 2022). One key metric for this access to formal financial systems is bank account ownership. Survey data from the Global Findex Database shows that bank account ownership in Yemen remains exceptionally low, just 18% of Yemeni men had bank accounts in 2022, compared to 54% in the broader Middle East and North Africa region (see Figure 3.5). The disparity is even more pronounced for women, with only 5% holding accounts, compared to 42% regionally. Without foundational financial inclusion, access to digital tools that magnify access to remittances is even lower. Only 9% of Yemenis engage in digital payments, compared to 40% in the region. The lack of access to formal financial services in these communities has prevented the widespread adoption of mobile banking, digital wallets, and other financial technologies that could streamline remittance transfers.

Figure 3.5. Account Ownership by Gender - Yemen Vs Middle East and North Africa Vs World



Notes: Account ownership rates in Yemen, the Middle East, North Africa, and globally, disaggregated by gender. Data are reported as percentages of adults (15+) with a financial account. Source: FinDev Gateway, Global Findex Database (2023).

Interviews with World Bank and International Monetary Fund (IMF) experts identified three primary obstacles to digital financial adoption in Yemen:

1. **Lack of financial literacy.** Many Yemenis are unfamiliar with digital banking tools and mobile money platforms, which limits adoption.
2. **Inadequate auxiliary banking infrastructure.** Poor telecommunications networks, unreliable internet access, and the limited presence of financial institutions further restrict digital payment expansion.
3. **Low trust in formal financial institutions.** The erosion of confidence in banks due to liquidity shortages and regulatory uncertainty discourages people from using formal digital services.

Many new banks have been established in IRG areas, and digital platforms and mobile banking have made modest gains. However, digital financial services have expanded more in some regions than others. In *HC*-territories, some banks have begun offering mobile money platforms, but the extent of their adoption remains unclear due to the lack of publicly available data. By contrast, access remains limited in IRG-controlled territories due to depleted telecommunications infrastructure and weak regulatory capacity, despite relatively greater formal recognition. Additionally, the inefficiency of banking platforms further exacerbates accessibility issues. Many banks lack mobile applications, financial wallets, and online account-opening services, and others have struggled to market these tools effectively, based on interview

evidence and expert consultations conducted for this study. This has reduced uptake even among those with access to formal financial services.

In response to these challenges, Government CBY has introduced several regulatory measures aimed at modernising financial services and improving remittance accessibility:

- **Resolution No. 720/CBY/2022:** Established licensing and supervisory requirements for payment service providers and financial system operators.
- **Resolution No. 547/CBY/2023:** Regulated the provision of mobile money services by non-banking financial institutions, aiming to promote financial inclusion while ensuring compliance with AML laws.
- **Resolution No. 19-289/CBY/2024:** Focused on regulating foreign remittance activities, requiring that such services be provided through qualified banks or exchange companies, ensuring compliance with Government CBY requirements for international remittance partnerships.

Financial experts and banking officials widely recognise that for digital platforms, particularly mobile money and e-wallet solutions, to be viable, they must: (i) address systemic trust deficits by ensuring financial stability and regulatory oversight, (ii) overcome accessibility barriers in rural areas through infrastructure development, and (iii) integrate user-friendly financial education initiatives to increase adoption rates.

3.6. Regulatory Challenges in Financial Oversight

Yemen's weak regulatory oversight has exposed remittance transfers to additional risks and pressures from unscrupulous or opportunistic brokers both inside and outside the country. In the absence of effective enforcement, differences in exchange rates between formal and informal channels can reduce the real value received by recipients, effectively inflating transaction costs (ACAPS, 2021). Limited centralised monitoring has also left the system vulnerable to financial crimes and international de-risking. While Government CBY's entry into the *Buna* payment platform in 2023 marks a step toward regional financial reintegration, broader confidence among international financial institutions remains low, and Yemen's financial system, particularly in *HC* territories, continues to face significant barriers to global connectivity.

The fragmentation of monetary authority between Government CBY and *HC*-CB has led to inconsistent enforcement and a widening regulatory vacuum. In this environment, banks and money exchangers routinely exploit regulatory loopholes, manipulating exchange rates and imposing excessive or arbitrary fees on remittance recipients, who often face unpredictable deductions and delays in accessing their funds (Sana'a Center for Strategic Studies, 2024). These exploitative practices are further enabled by the dual currency system and the divergence in YER values between regions, with traders and financial service providers, in some cases, charging 30% or more to process cross-line transfers (Sana'a Center for Strategic Studies, 2020). Despite recent attempts by Government CBY to reassert control through measures such as blacklisting banks and tightening remittance regulations, its enforcement capacity in the North remains limited, allowing speculative practices and fee inflation to persist.

A sender in a GCC country may be quoted three different rates for the same transfer depending on which exchange house they use, with no way to verify if the rates are fair. Once these funds enter Yemen, this issue is particularly pronounced in cross-line transactions, where the absence of a harmonised payment system enables financial operators to impose additional fees when transferring funds between IRG and *HC* areas. The result is a costly and unpredictable remittance process that disproportionately impacts recipients who rely on these funds for daily survival.

Furthermore, the inability to collect and analyse financial data on remittance inflows limits effective policymaking. Government CBY has limited access to financial reporting from exchange houses and banks operating in *HC* areas, preventing it from accurately assessing the volume of inbound remittances or their impact on the broader economy. This data gap means that official monetary policy decisions are based on incomplete or outdated information, weakening efforts to stabilise exchange rates or ensure liquidity in the banking sector. Without a comprehensive picture of remittance flows, authorities lack the tools needed to prevent financial shocks or safeguard consumer interests.

With limited regulatory enforcement, Yemen's remittance networks have become vulnerable to money laundering, fraud, and illicit financial flows. This has prompted international de-risking, with several non-GCC global banks severing correspondent relationships with Yemeni financial institutions, particularly those operating in *HC* areas, due to heightened compliance risks. By contrast, some GCC-based banks have maintained limited engagement Yemen, primarily through institutions under the IRG. Government CBY, in particular, has taken steps to align with AML/ CFT standards and integrate into regional platforms such as *Buna*. Even so, these links remain narrow, and Yemen's banking sector as a whole continues to be fragmented and only partially connected to the global financial system.

The dual pressures of a banking sector with limited regulatory enforcement and restricted access to global financial networks have made informal channels a widely used conduit for remittances. However, operating largely outside government oversight, informal providers may not consistently document transactions, and fee structures can vary widely. The same regulatory gaps that affect the formal sector can be magnified in informal systems, where consumer protections are minimal and practices less standardised. In this environment, remittance transfers can become costly and unpredictable, with implications for the financial security of the many Yemenis who rely on them.

Despite these systemic gaps, it is important to underscore that remittances continue to flow through both formal and informal channels. What is at stake is not whether funds arrive, but the cost, reliability, and equity of these transfers. These factors are shaped not only by domestic regulation, but also by external constraints.

4. External Challenges to Remittance Flows

Key Insights

- International sanctions, compliance requirements, and financial de-risking have reduced access to formal banking channels, forcing transactions into informal networks.

- Migrant workers face structural barriers that limit their ability to send money home. Restrictive labour policies, high transfer fees, and banking limitations in host countries, make formal remittances costly and difficult.
- Yemen's remittance transaction costs vary widely by corridor, with costs from KSA being relatively low but those from the UAE and the U.S. remaining high. While on average Yemen is one of the least expensive remittance destinations, high costs across some corridors still burden migrants and reduce the financial lifeline available to households.

In this chapter, we analyse the external challenges shaping Yemen's remittance flows. We begin by examining structural obstacles in cross-border transactions, focusing on how financial regulations, sanctions, and banking restrictions complicate formal remittance transfers. Next, we assess the barriers Yemeni migrant workers face in host countries. We then examine the trends in remittance transaction costs across different corridors, highlighting disparities in costs based on the country of origin and assessing Yemen's standing relative to other high-remittance receiving countries. Finally, we explore the role of financial de-risking and international compliance measures in limiting Yemen's integration into global financial networks, despite recent partial efforts such as Government CBY's participation in *Buna*.

For this analysis, we draw upon three primary data sources: (i) our administered migrant survey, which provides first-hand insights into remittance-sending behaviours and financial decision-making (see Appendix A for details about the survey); (ii) the World Bank's Remittance Prices Worldwide (RPW) database, which tracks the cost and accessibility of remittance services across different corridors; and (iii) the WDI, which offer macroeconomic data to contextualise remittance flows within Yemen's broader economic landscape.

4.1. Structural Challenges in Cross-Border Transactions

Over the past decade, international measures aimed at curbing money laundering and terrorism financing have reshaped Yemen's financial landscape, creating both direct and indirect barriers to cross-border transactions.

Even before the imposition of formal sanctions in 2012, Yemen had begun to experience financial isolation. In the wake of the USS Cole bombing and the 9/11 attacks, global banks grew increasingly cautious about engaging with Yemeni institutions due to reputational and compliance risks. These early de-risking trends, driven by concerns over terrorism financing, laid the groundwork for the formal sanctions that would follow.

According to Global Sanctions,⁹ the U.S. was the first to introduce financial sanctions related to Yemen in May 2012, when the U.S. President signed Executive Order 13611, blocking the property and interests of individuals deemed to be obstructing Yemen's political transition. The order, which fell under the authority

⁹ Global Sanctions is an independent legal resource platform that tracks and analyses international sanctions regimes implemented by the U.S., UN, EU, UK, and other jurisdictions. See: <https://www.global-sanctions.com>.

of the Office of Foreign Assets Control (OFAC), targeted those who were considered a threat to the country's stability.

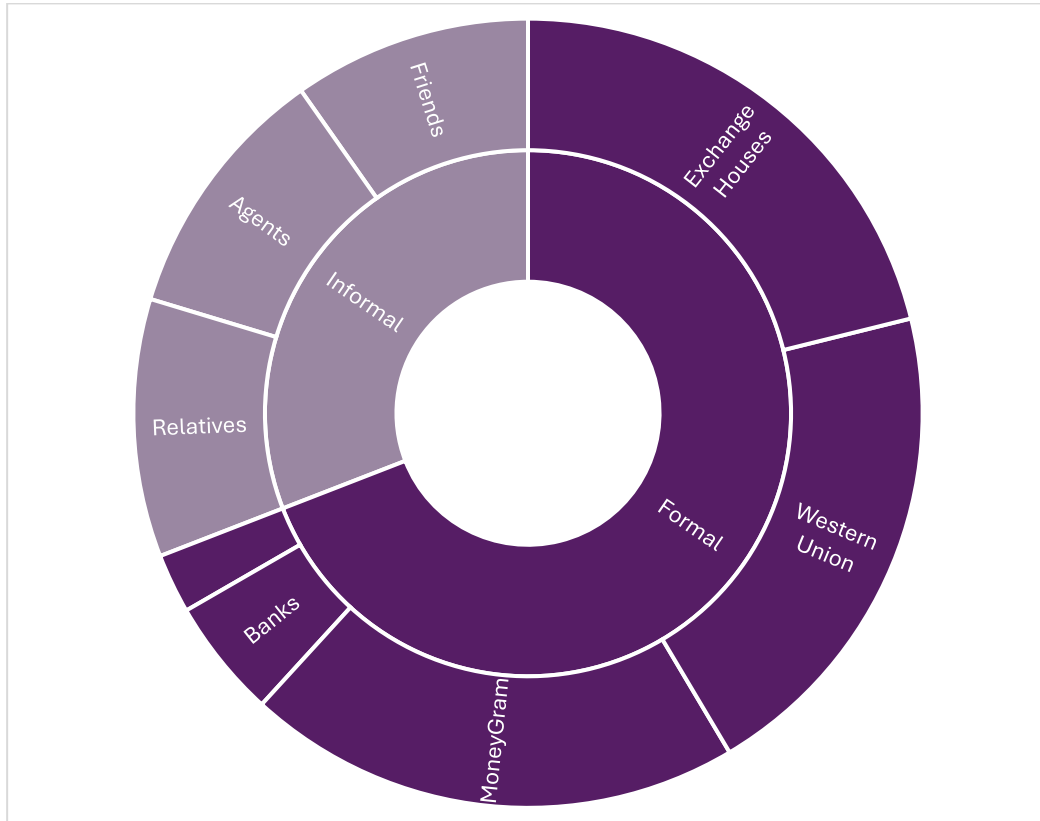
In February 2014, the UN Security Council (UNSC) adopted Resolution 2140, introducing financial sanctions and a travel ban on individuals and entities involved in activities that undermined Yemen's security and peace. A year later, in April 2015, the UNSC passed Resolution 2216, which expanded sanctions by imposing a targeted arms embargo on designated individuals and groups. In parallel, the EU implemented its own measures in December 2014, enacting Council Regulation (EU) No. 1352/2014, which aligned closely with the UN's sanctions framework. The UK, after exiting the EU, maintained these restrictions under the Yemen (Sanctions) (EU Exit) Regulations 2020, to continue compliance with international sanctions obligations.

Each of these sanctions regimes was justified on the basis of CFT and the prevention of illicit financial flows. The U.S. Treasury Department, through OFAC, described its restrictions as a way to "block financial networks supporting groups that threaten peace and security in Yemen", while the UN framed its measures as a necessary response to actors disrupting Yemen's transition. Similarly, the EU and UK positioned their policies as efforts to uphold international commitments to financial integrity and prevent funds from reaching designated individuals or entities. However, while these measures were intended to limit the financial resources of armed groups, they have also had far-reaching consequences for the remittance sector.

One of the most significant effects of these restrictions has been the erosion of Yemen's connections to the global banking system. In response to increased compliance risks, many international banks, particularly in the U.S. and Europe, have withdrawn from or severely restricted correspondent banking relationships with Yemeni financial institutions. The resulting constraints persist today, with uneven effects across the country. Without these partnerships, Yemeni banks and MTOs have struggled to process remittances through formal channels. Compliance burdens on MTOs have also increased, with many financial institutions imposing stricter due diligence requirements or ceasing Yemen-related transactions altogether to avoid regulatory penalties.

As a result, to informal transfer systems such as *hawala* networks persist. While secondary literature suggests that informal channels may dominate, our small-scale survey paints a more nuanced picture. As shown in Figure 4.1, approximately two-thirds of respondents reported using formal channels to send remittances, but more than one-third still relied on informal mechanisms. This reflects not only regulatory and institutional barriers but also practical considerations – for e.g. *hawala* transfers are often faster and more accessible, particularly in areas underserved by banks. Yet, the continued use of unregulated networks poses risks, including limited consumer protections, exposure to fraud, and reduced visibility for oversight bodies.

Figure 4.1. Reliance on Formal vs. Informal Remittance Channels Among Yemeni Migrants



Notes: Distribution of remittance transfers through formal (banks, MTOs, digital services) and informal (relatives, friends, *Hawala* agents) channels, based on self-reported data from Yemeni migrants. The percentage of each category reflects survey responses indicating migrants' preferred remittance method. Source: Migrant survey data collected by the authors.

Although most sanctions regimes include exemptions for humanitarian transactions, banks, and financial service providers often over-comply with restrictions, fearing inadvertent violations that could lead to fines or reputational damage. This has led to a chilling effect on formal remittance flows, making it increasingly difficult for Yemeni families to access funds from relatives abroad. In practice, these regulatory constraints have done more than limit illicit financial activities, they have exacerbated Yemen's economic hardships, forcing many households to navigate complex, costly, and sometimes unreliable financial networks just to receive basic support.

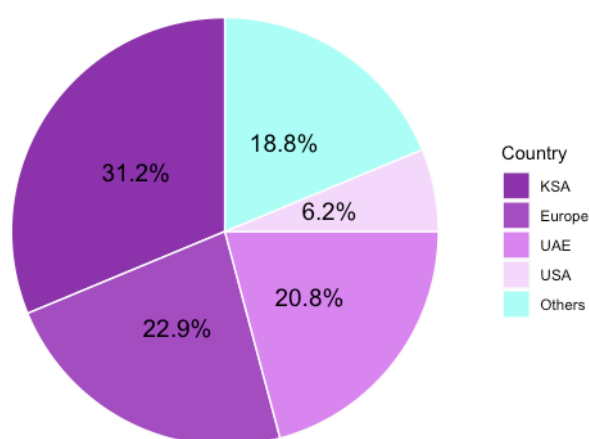
4.2. What Challenges Do Migrant Workers Face in Sending Remittances?

Yemeni migrant workers encounter a distinct set of challenges in sending remittances, shaped by both financial barriers and host-country regulations. While some policies introduced by host governments aim to improve financial inclusion and banking sector efficiency, these measures are often perceived by Yemeni expatriates as obstacles. In several major destination countries, particularly those with large populations of low-wage migrant workers (such as KSA, the UAE, and Qatar), restrictions such as remittance ceilings, stringent documentation requirements, and limited access to banking services make it difficult for migrants to send money through formal channels.

4.2.1. Restrictive Labour Policies and Limited Money Transfer Options

Yemeni migrant workers often face restrictive labour policies in host countries, including stringent visa requirements and limited access to formal banking services. The impact of these constraints varies by host country, influencing both the volume and method of remittance transfers. Our survey data reveals that the majority of remittances originate from KSA (31.2%), followed by Europe (22.9%) and the UAE (20.8%) (see Figure 4.2).

Figure 4.2. Remittances by Country of Origin, Migrant Survey Data



Notes: Distribution of remittance transfers by origin country, based on self-reported data from Yemeni migrants. Percentages represent the share of total remittances received from each region through formal (banks, MTOs, digital services) and informal (relatives, friends, *Hawala* agents) channels. "Others" includes remittances from Oman, Bahrain, Canada, China, Egypt, Jordan, Kenya, and Turkey. Source: Migrant survey data collected by the authors.

Workers in Gulf countries, such as KSA, the UAE, and Oman, frequently rely on licensed exchange houses, as well as informal transfer mechanisms due to strict banking and employment regulations that limit financial access for migrants (Ratha et al., 2024).

One of the most important structural factors shaping remittance access in the GCC is the *Kafala* sponsorship system. Prevalent across many sectors, this system links migrant workers' residency status to their employer, limiting their ability to switch jobs freely or exit employment independently. As a result, many Yemeni migrant workers struggle to meet eligibility criteria for opening bank accounts or accessing formal financial services. Nationalisation policies like Saudization (*Nitaqat* system) prioritise the employment of nationals over foreign workers, consequently increasing job insecurity for migrants and making banks even more reluctant to provide financial services to those with unstable job prospects (ACAPS, 2021).

Additionally, a substantial number of Yemeni workers in the Gulf are either undocumented or hold temporary visas, rendering them ineligible to open bank accounts. In Egypt, Yemenis on temporary residence permits, typically renewed every six months, face similar banking restrictions due to their short-

term visa status. Lacking access to regulated financial institutions, these migrants are left with no choice but to rely on informal *hawala* networks, which Gulf authorities scrutinise due to concerns over money laundering and terrorism financing (Al-Abbasi, 2024). As a result, host-country financial policies can inadvertently push remittance flows further into informal channels, complicating regulatory oversight and geopolitical relations.

4.2.2. Costs and Complicated Procedures Affecting Formal Channels

Yemeni migrants face multiple obstacles when using formal remittance channels, with three primary factors shaping their choices: procedural barriers, transaction costs, and broader structural constraints such as rising living costs in host countries. Understanding how these factors interact is paramount to assessing why formal channels remain underutilised and how financial policies in host countries continue to challenge remittance inflows to Yemen.

Procedural barriers discourage many Yemeni migrants from using formal remittance systems. Migrants often prefer straightforward transactions and avoid banking processes that require extensive documentation, account registration, and verification. Survey data collected by the authors indicate that 90% of respondents prioritise ease of procedure when selecting a remittance channel, even if they occasionally use official banking services. Many banks and international MTOs require multiple layers of verification, including official identification, proof of income, and legal residency documents, which some migrants may lack. The process of opening and maintaining a bank account is often seen as overly complex, particularly for those with precarious legal statuses, further limiting their access to formal financial services.

Even when migrants manage to navigate these bureaucratic hurdles, delays in transaction processing remain a significant concern. Some respondents noted that bank transfers take longer than informal methods, which offer immediate access to cash. The liquidity crisis in Yemen further compounds these challenges, as the ability to withdraw physical cash upon receipt is a crucial factor in remittance decisions. 40% of respondents stated that their selection of transfer method depends on whether the recipient will have immediate access to cash, particularly in rural areas. Given these constraints, informal networks remain attractive, not necessarily because they are cheaper, but because they allow for faster and more flexible transfers with minimal paperwork.

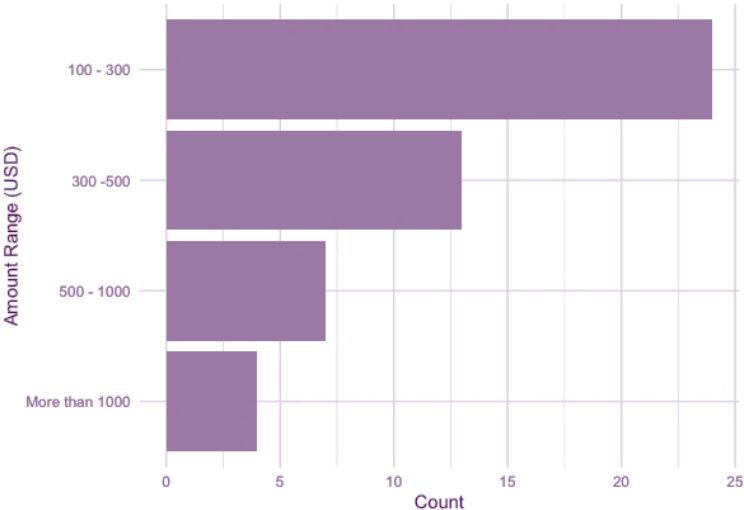
Our migrant survey data indicates that transaction fees are not uniform across channels. Our survey found that 29 respondents reported paying transfer fees of USD 1-5, while 13 respondents faced fees of USD 6-10. This variation appears to be at least in part due to the channel used by the remittance sender. For the lowest fees, survey respondents typically reported using exchange houses, while respondents who reported costs between USD 6-10 primarily used international MTOs like Western Union and MoneyGram.

Notably, six respondents incurred fees exceeding USD 10 per transaction when using informal channels, including transfers facilitated by friends or family members, particularly when these involved multiple intermediaries or cross-border handoffs. This finding complicates the assumption that informal channels are always the most cost-effective. Instead, it suggests that while some informal transactions may have lower costs, others, particularly those requiring multiple intermediaries, can be more expensive. This supports the idea that informal channels are often preferred not solely for cost savings, but for their flexibility, lack of bureaucratic hurdles, and accessibility in areas where formal financial services are

limited. Given Yemen’s low per capita income of USD 477 in 2023 (compared to USD 7,2922 in the Arab World and USD 13,170 globally), even moderate transfer fees can represent a significant financial burden on both senders and recipients (WDI, 2023).

Our survey data also reveals variations in the amounts respondents typically send in any single transfer. The majority of respondents send between USD 100 and 300 per transaction, followed by USD 300 and USD 500 (see Figure 4.3). Only a small fraction of transfers exceeds USD 1,000, while some report minimal or no remittances. These patterns align with global trends, where migrants facing economic constraints and high remittance fees tend to transfer lower amounts more frequently. This is somewhat counter-intuitive, as the high transaction costs multiply faster with more frequent transfers. However, it reflects the limited liquidity faced by many international migrants when paying fees and transferring funds. Furthermore, the global landscape of remittance channels has a trend of imposing greater costs on the lowest-earning workers, as they are often more restricted in their choices and even movements, and cannot as easily opt for a cheaper option. The high cost of remittances is also partially driven by the limited availability of transfer channels in certain countries, particularly in the U.S. and Europe, where fewer service providers operate, leading to higher fees (see section 4.5). Expanding remittance channels could help reduce costs, allowing workers to send more of their earnings more frequently without losing it to transaction fees.

Figure 4.3. Average Transfer Amount



Notes: Self-reported remittance transfer amounts by Yemeni migrants, categorised by ranges in USD. The count represents the number of respondents indicating a given transfer range as their typical remittance amount. Source: Migrant survey data collected by the authors.

Beyond procedural and financial barriers, broader economic conditions in host countries further restrict remittance flows. Rising living costs, particularly in the U.S. and Europe, directly affect migrants’ ability to send money. The Ukraine war has significantly increased living costs across Europe, with particular pressures felt by expatriate workers, among them Yemenis. In January 2023, nearly half (47.1%) of the average household budget in the EU was spent on housing, transport, and food, the three categories experiencing the steepest price increases (EU Parliament, 2024). With wages and government support

failing to keep pace with these rising costs, a cost-of-living crisis emerged, making it more difficult for expatriates to sustain remittance flows. By early 2023, 93% of Europeans identified rising living costs as their greatest concern, reinforcing the broader economic pressures limiting remittance flows (EU Parliament, 2024). Survey data reflect this economic strain: 18 out of 42 respondents reported having to reduce the amount they send due to high living costs. Among them, three out of four reside in Europe and are employed, demonstrating the financial strain even on those with stable jobs.

4.3. Remittance Transaction Costs

The UN Sustainable Development Goal (SDG) 10 aims to reduce inequality within and among countries. One measurable target under this goal is to lower remittance transaction costs to less than 3% and eliminate corridors with costs exceeding 5% by 2030 (UN, 2024). Governments, businesses, and relevant stakeholders share the responsibility of creating pathways to achieve this target. In fragile and conflict-affected countries with large migrant diasporas, high transaction costs place a heavy burden on remitters, reducing the vital financial lifeline that recipients rely on to smooth consumption, pay for necessities (e.g., health and education), and save to buffer against shocks.

The World Bank's RPW database provides quarterly updates on remittance transaction costs sent through official channels across bilateral corridors globally (World Bank, n.d.-a). These costs include both the exchange rate margin and the transaction fee paid by the remitter and is the focus of this section. As of Q2 2024, the global average cost of sending USD 200 was 6.65%, well above the SDG target but still an improvement from 9.67% in 2009, when data collection began (Remittance Prices Worldwide, 2024).

4.3.1. Macro-level Trends for Average Total Cost of Remittances

Notably, the average total cost of sending remittances to Yemen has remained consistently below the global average for nearly a decade (see Figure 4.4). According to FXC Intelligence, a provider of cross-border payments data, Yemen ranked the ninth least expensive remittance destination in 2024, with Croatia being the lowest-cost destination and Haiti as the only other fragile and conflict-affected country among the 15 least-cost destinations (Baker, 2025).

2014-2018: Moving Counter to Global Trends

Between 2014 and 2018, remittance costs to Yemen showed a steady upward trajectory, in contrast to the global trend of declining remittance costs (Figure 4.4). In 2014, the average total cost of sending remittances to Yemen was 3.9%, rising to a peak of 5.9% in early 2018. This increase was likely driven by the financial instability that followed the onset of war in 2014, combined with banking sector disruptions and heightened risk assessments by remittance service providers. During this same period, global remittance costs declined from 8.4% in early 2014 to 7.1% in 2018, highlighting Yemen's divergence from broader global trends.

2018-2021: Stabilising Costs Amid Financial Turbulence

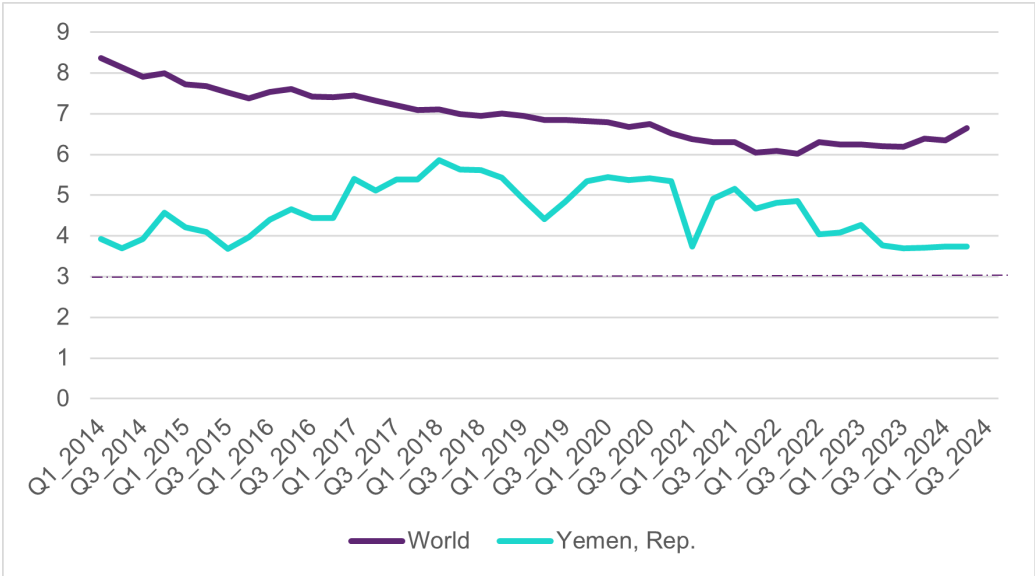
From late 2018 through 2021, remittance costs to Yemen began stabilising, fluctuating between 5.4% and 5.6%. This period coincided with liquidity shortages in Yemeni banks, which made it more expensive for

service providers to facilitate cross-border transactions. A closer examination of cost trends across Yemen’s main remittance corridors (see Figure 4.5) suggests that rising transaction costs for Yemeni remitters in KSA may also have played a role in maintaining the remittance costs high during this period. Between 2016 and 2018, transaction costs for sending remittances from KSA to Yemen increased, peaking at 5.5% in late 2018. This suggests that while financial constraints and banking sector instability contributed to overall remittance costs, country-specific regulatory and labour policies in key host states such as KSA may have been a significant factor in shaping these trends.

2021-2024: Declining Costs Driven by Policy Shifts in KSA

A notable decline in remittance costs occurred after 2021, dropping from 5.2% in Q3 2021 to around 3.7% by 2024. This shift appears to be influenced by policy changes in KSA, where the majority of Yemeni migrants reside. Saudi labour policies have increasingly formalised worker remittance processes, which appears to have lowered average recorded costs in formal corridors, particularly for migrants who are able to access regulated financial channels. At the same time, as discussed earlier, these same policies have pushed some migrant workers with unstable or irregular status toward informal channels, where costs and risks are not captured in official pricing data. Additionally, as Yemen’s financial sector adjusted to prolonged instability, competition among remittance service providers may have driven prices down.

Figure 4.4. Average Total Cost of Remittances: World and Yemen (%)



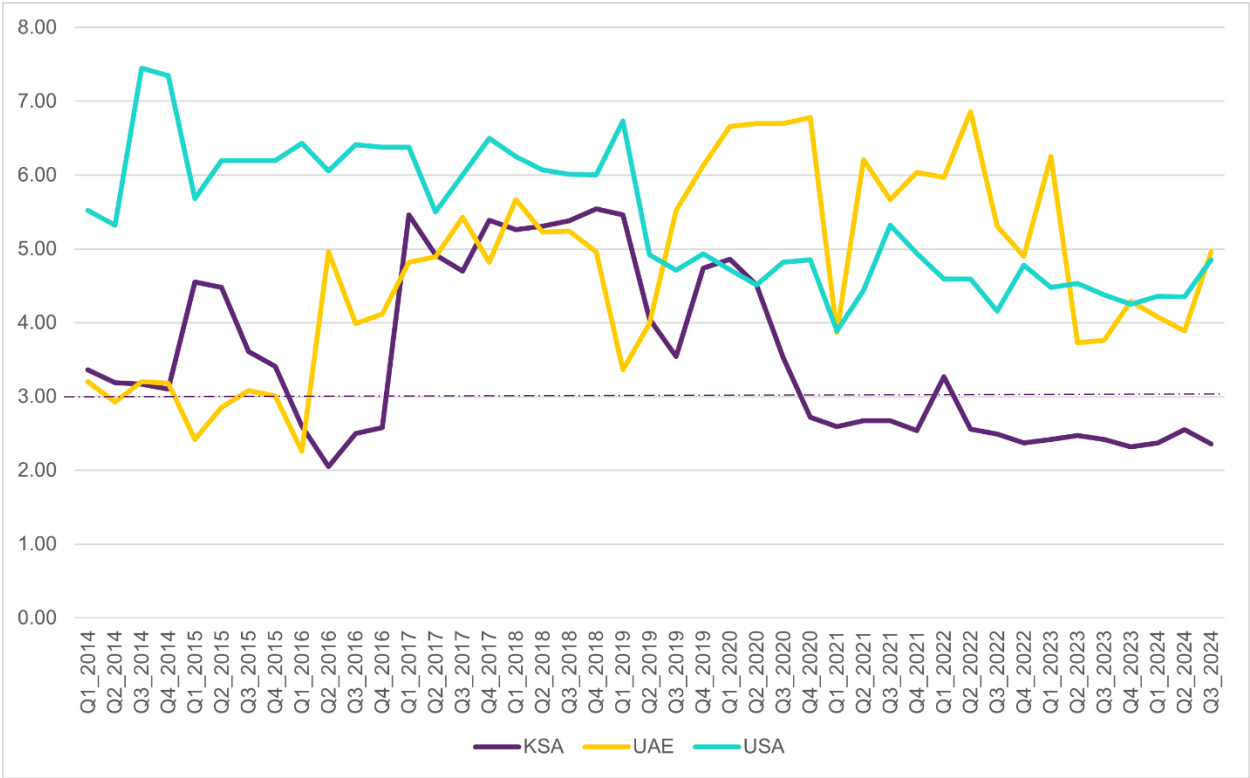
Notes: The average total cost (percentage of USD 200) of remittances to Yemen is compared to the global average from Q1 2014 to Q2 2024. The SDG target is 3% (dotted line). The world average cost (%) of sending USD 200 was gathered from the data published in RPW quarterly reports. Source: World Bank RPW.

By 2021, some exchange houses collaborated to establish new banks, which subsequently offered lower-cost remittance services. In recent years, additional banks have entered the market, particularly in Gulf countries, introducing new remittance channels and intensifying competition among traditional banks, new financial institutions, and exchange houses. This competition has driven transaction costs down, with some

providers even offering fee-free transfers to attract customers and fund their correspondent accounts, according to Yemeni financial stakeholders. Transaction costs originating from KSA have since followed a steady downward trend, recently falling below the SDG target, making the KSA-Yemen corridor the least costly remittance route. By contrast, remittance costs from the UAE have risen tremendously and have yet to return to 2016 levels, while costs from the U.S. generally declined after 2018 (Figure 4.5).

Overall, the relatively low average cost of sending remittances to Yemen appears to be driven by KSA, which hosts over 60% of Yemeni migrants and remains the primary source of remittance flows, where from 2020 onward, costs declined steadily, reaching 2.4% by mid-2024. Additionally, increased market competition has led to banks offering more competitive rates and enhanced digital remittance services. The expansion of digital infrastructure, particularly following the launch of Starlink¹⁰ last year, was a positive development. However, concerns around affordability and equity of access remain.

Figure 4.5. Least costly corridors to Yemen



Notes: Average total cost (percentage of USD 200) of remittances from KSA, the UAE, and the U.S. to Yemen from Q3 2014 to Q3 2024. The SDG target is 3% (dotted line). Source: World Bank RPW.

¹⁰ Starlink is a satellite internet service operated by SpaceX, designed to provide high-speed, low-latency broadband internet to underserved and remote areas worldwide. It consists of a constellation of low Earth orbit (LEO) satellites that communicate with ground-based user terminals, enabling internet access in regions with limited or no traditional infrastructure. For remittances, Starlink’s connectivity can facilitate digital financial services, including mobile banking and digital payment platforms, by expanding internet access to areas where traditional banking infrastructure is weak or non-existent. This can help reduce reliance on costly informal remittance channels and improve financial inclusion, especially in fragile and conflict-affected regions like Yemen.

Another reason for the low cost of remittances is largely due to MTO’s need to use the funds deposited abroad to cover the value of traders’ imports. While these companies earn profits from the currency conversion fees charged to traders, they also apply a separate fee for transferring funds for import purposes. At the same time, to encourage the maintenance of sufficient balances abroad – typically in KSA, which are then used for transfers to China – these companies reduce remittance fees for the end recipients.

It is also useful to compare Yemen’s remittance cost trends with countries that receive high remittance inflows globally, as well as those affected by fragility and conflict, as shown in Table 4.1. Notably, remittance corridors into Yemen are among the least costly, ranking just behind Pakistan and Palestine. In Pakistan’s case, KSA is the largest remitting country, accounting for nearly a quarter of total remittance inflows in recent years. It is also the most popular destination for Pakistani emigrants, hosting approximately 50% of those formally registered (UN IOM, 2024). One possible explanation for the low average transaction costs for both Yemeni and Pakistani migrants is the cooperation on labour migration policies between these countries and KSA, along with the facilitative remittance infrastructure established by Saudi authorities.¹¹

At the same time, Yemen remains heavily reliant on remittances, which are estimated to contribute over 20% of its GDP, one of the highest shares globally, though still below Lebanon, where remittances account for over 30% of GDP (World Bank, 2024). When comparing Yemen’s annual remittance inflows with Nigeria, another country with over 2 million emigrants, the latter receives five times the volume of remittances despite Yemen’s similarly sized emigrant population. This raises important questions about the relatively low volume of remittance inflows into Yemen, which may point to underlying structural issues. Possible explanations include lower skill levels of Yemeni migrants, limited employment opportunities abroad, and a higher likelihood of being forced into low-paying jobs. Additionally, international financial de-risking measures have made it more difficult for Yemeni financial institutions to maintain correspondent banking relationships, restricting formal remittance channels. Low levels of financial literacy among remitters and recipients may also hinder the efficient use of remittance services.

Table 4.1. Remittance Inflows, Costs, and Emigrant Populations: A Comparison of Major Recipient Countries and Fragile and Conflict-affected States, 2023-2024

Country	Annual remittance inflows (USD billion) 2023	Remittance inflows (% of GDP) 2023	Average total cost of sending USD 200 (%) Q2 2024	International emigrants (million) 2024	
<i>Highest remittance-receiving countries</i>					
1	India	119.5	3.3	5.02	18.5
2	Mexico	66.2	3.7	4.89	11.6
3	China	49.5	0.3	6.86	11.7

¹¹ Comparable data for Palestine is unavailable, making it difficult to determine the factors behind its similarly low remittance costs.

4	Philippines	39.1	9.0	4.06	7.0
5	Pakistan	26.6	7.9	2.77	6.9
Highest remittance-receiving countries affected by fragility and conflict					
1	Nigeria	19.5	5.2	7.87	2.1
2	Ukraine	15.1	8.5	4.98	9.8
3	Lebanon	6.7	30.7	9.96	0.7
4	Yemen, Rep.	3.8	20.5	3.74	2.5
5	Somalia	1.7	14.9	6.75	1.9
6	Congo, Dem. Rep.	1.3	2.0	6.36	2.1
7	Myanmar	1.1	1.7	15.83	4.3
8	South Sudan	1.1	15.6	8.96	3.2
9	Sudan	1.0	3.9	18.20	3.8
10	Ethiopia	0.6	0.4	5.58	1.2
11	Afghanistan	0.3	2.2	9.22	7.5
12	Palestine	<i>Data not available</i>	<i>Data not available</i>	3.28	<i>Data not available</i>

Notes: This table compares remittance inflows, remittances as a share of GDP, average transaction costs, and the number of international emigrants for the highest remittance-receiving countries and selected fragile and conflict-affected states. Data on remittance inflows and emigrant populations are from 2023 and 2024, respectively, while transaction cost data reflects Q2 2024. Figures for Palestine are unavailable. Source: World Bank RPW; UN IOM Migration Data Portal.

4.3.2. MTO-level Trends for Average Total Cost of Remittances

Government CBY estimates that 397 MTOs are licensed to operate under its authority. Based on data from the World Bank's RPW, in Q2 2024, Fawri stands out as the most cost-efficient remittance provider, with the lowest average total cost percentage (2.07%). Other MTOs with relatively low costs include Dahabshiil (2.97%) and Lari (2.97%), making them strong options for cost-conscious remitters.

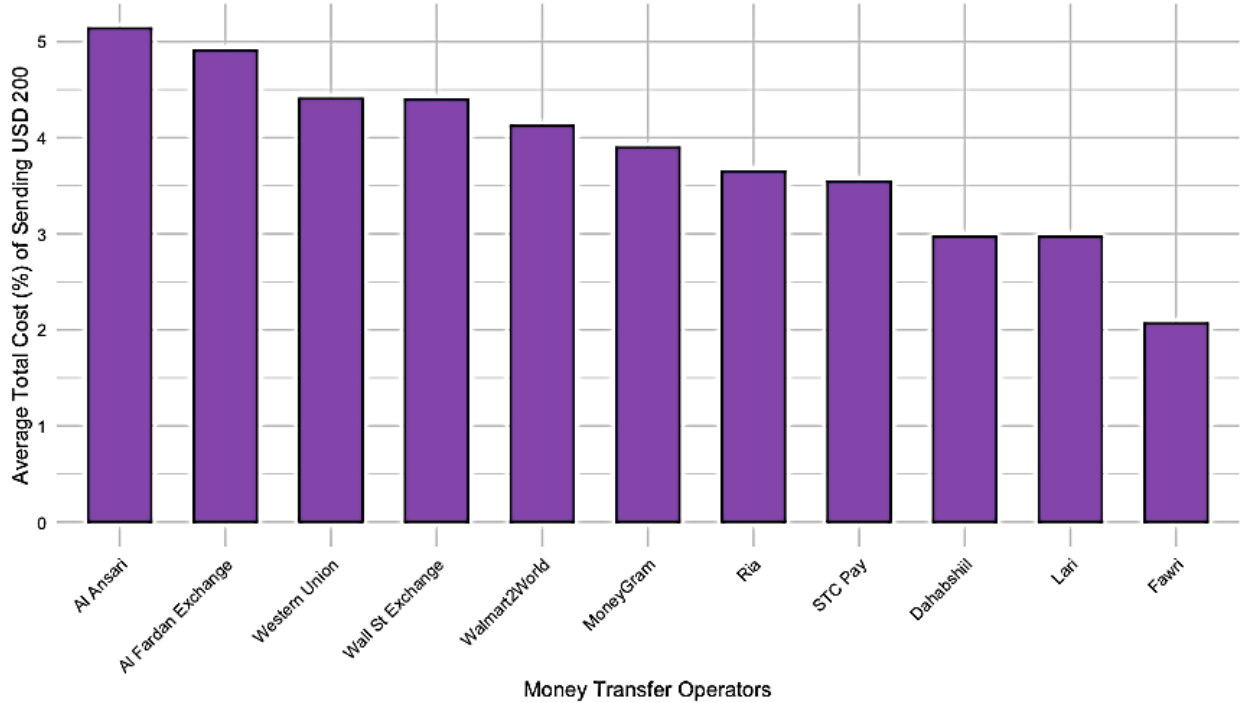
Ria (3.65%), STC Pay (3.54%), and MoneyGram (3.90%) also offer competitive rates, though they are slightly higher than Fawri, Dahabshiil, and Lari. STC Pay has a relatively higher margin (1.25%), which may contribute to its slightly increased cost.

At the higher end of the cost spectrum, Al Ansari Exchange (5.14%) and Wall St Exchange (4.4%) have the highest average total costs. These higher costs may reflect additional features, specialised services, or exclusivity, but could deter price-sensitive customers.

MoneyGram and Western Union, which dominate the remittance market in terms of transaction counts, most likely due to their global reach and established infrastructure, have moderate to high costs at 3.90% and 4.41%, respectively. Their strong global presence likely offsets the higher costs compared to low-cost competitors.

Walmart2World (4.12%) offers mid-range costs, making it a viable option for users who seek a balance between accessibility and affordability.

Figure 4.6. Average Total Cost (%) of Remittances by MTOs, Q2 2024



Notes: Purple bars represent the average total cost, including fees and exchange rate margins in 2024. Source: World Bank RPW.

A key consideration when interpreting the average total cost of remittances from the RPW database is that these figures are calculated as a simple average, without weighting for actual remittance volumes. As a result, they may not fully reflect the cost structures experienced by the majority of remittance senders. Additionally, RPW only captures formal remittance channels, excluding informal mechanisms. As reliable

data for informal channels is unavailable, our understanding of the true costs faced by remittance senders and receivers remains limited.

4.3.3. Fintech Innovations in Remittance Transfers

To increase remittance inflows and channel them toward economic recovery, Yemen must focus on two key areas: (i) formalising informal remittance inflows through a combination of regulatory measures, digitisation, necessitating expanded access to enabling infrastructure, and capacity-building initiatives to build trust in formal financial institutions; and (ii) further reducing transaction costs to below the SDG target of 3% across all corridors.

Fintech¹² has played a transformative role in bypassing traditional banking structures, leveraging technology to enhance financial services and support the digitalisation of remittances. According to RPW, the global average cost for digital remittances was 5.29% in Q2 2024, compared to 7.23% for cash remittances. Since 2016, digital remittances have consistently remained below both the global and cash remittance cost averages. Digital remittances accounted for 30% of all services recorded by RPW during the same period (Remittance Prices Worldwide, 2024).

Blockchain and Cryptocurrencies

Blockchain is a decentralised ledger that records transactions across a network of computers, ensuring transparency, security, and immutability. It enables the use of cryptocurrencies (such as Bitcoin) and facilitates cross-border fund transfers through peer-to-peer transactions in near real-time. By eliminating traditional financial intermediaries, blockchain reduces transaction costs. Accessible to anyone with a mobile phone and internet, it also promotes financial inclusion by providing financial services to the unbanked (Johnpulle, 2025). This is particularly beneficial for migrants and recipients who are often excluded from formal banking systems due to lengthy paperwork and strict KYC requirements (Camp, 2024).

Although blockchain is a relatively recent innovation in remittance transfers, real-world applications are already emerging. For example: (i) Bitso, a cryptocurrency exchange, facilitated USD 3.3 billion in remittances from the U.S. to Mexico at transaction costs below 1%; (ii) cryptocurrencies accounted for 10% of the USD 5 billion remittances sent by Venezuelan migrants; and (iii) the United Nations High Commissioner for Refugees (UNHCR) used USD Coin (USDC), a stablecoin pegged to the U.S. dollar, as a payment solution for internally displaced persons in Ukraine (Johnpulle, 2025).

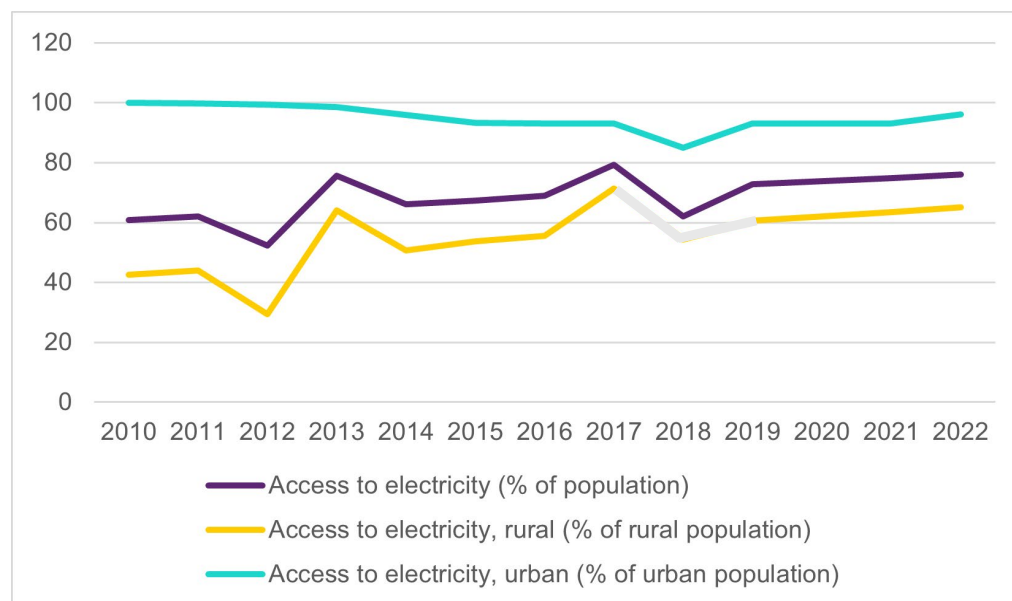
Blockchain technology holds promise, particularly in regions with high financial exclusion. However, concerns around regulatory frameworks, cryptocurrency volatility, and limited awareness of this technology must be addressed before it can scale effectively.

¹² Fintech, or financial technology, refers to the use of digital innovations, such as mobile banking, digital wallets, and blockchain, to improve the efficiency, accessibility, and security of financial services. These technologies play a key role in reducing transaction costs and expanding financial inclusion, particularly in underserved communities.

Challenges to Adopting Remittance Digitalisation in Yemen

Yemen would need to enhance its digital readiness and establish the necessary infrastructure to support any plans for digital transition. However, available data suggest that a rapid evolution will remain challenging primarily due to infrastructure constraints. Approximately 60% of Yemen’s population lives in rural areas (World Bank, n.d.-b), with only two-thirds having access to electricity (Figure 4.7).

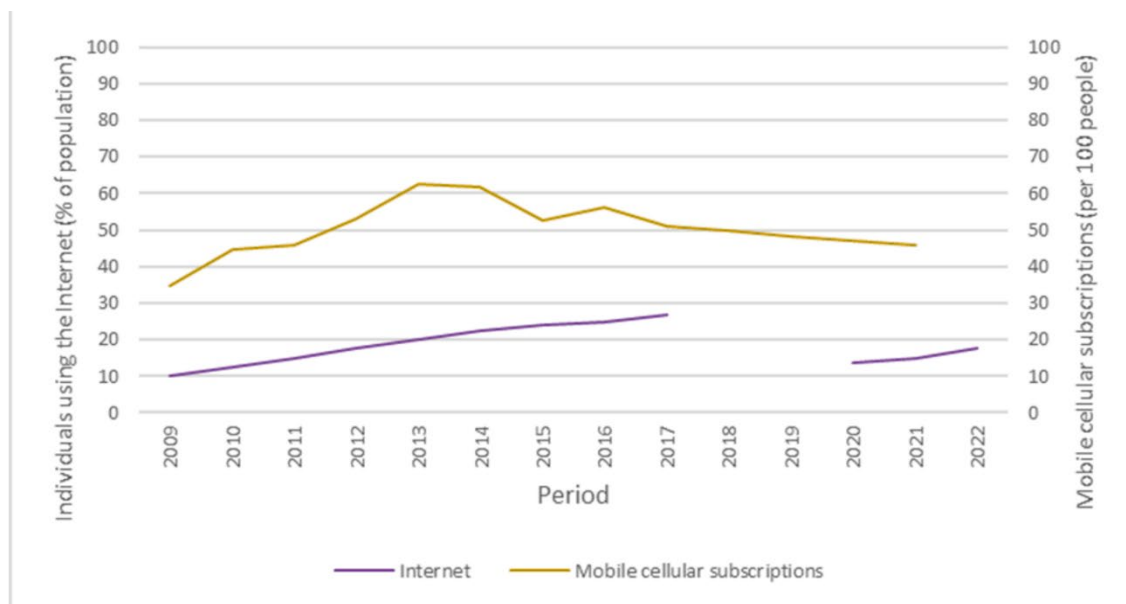
Figure 4.7. Access to Electricity in Yemen (% of population)



Notes: Trends in electricity access in Yemen from 2009 to 2022 Data for the rural population in 2018 was not available. Source: WDI.

Mobile connectivity also remains limited, with only 46 mobile subscriptions per 100 people in 2021 (Figure 4.8). Internet penetration was even lower, below 20% in 2022. These figures are lower than the peak levels reached over the past 15 years, indicating slow progress in economic recovery and infrastructure development, which raises challenges to adopting digital solutions.

Figure 4.8. Internet and Mobile Cellular Coverage in Yemen



Notes: Trends in internet usage and mobile cellular subscriptions in Yemen from 2009 to 2022. Data for internet usage in 2018 and 2019 was not available. Source: WDI.

When considering digital solutions for remittances, targeting areas with existing infrastructure, such as electricity, internet access, and mobile network coverage, may seem like the most immediate way to achieve impact. However, policymakers must also recognise that regions lacking this infrastructure are often already marginalised and neglecting them could deepen existing inequalities and social tensions.

4.4. What Role does External Factors Play in Limiting Remittance Efficiency?

While Yemen’s internal financial fragmentation has hindered remittance flows, external factors have further constrained access to formal financial channels. Compliance challenges with global AML/ CFT regulations have led to financial de-risking, where international banks and remittance providers withdraw from Yemen due to compliance risks. At the same time, international sanctions targeting individuals and financial institutions have had broader unintended consequences, disrupting legitimate remittance flows and further isolating Yemen’s banking sector. Financial de-risking has compounded these restrictions, limiting correspondent banking relationships and available capital. This section examines these external pressures.

4.4.1. The Impact of AML and CFT on Formal Remittances

One of the primary challenges for Yemen’s AML compliance is the lack of a unified and enforceable AML framework. This lack of an overall set of guidelines is further complicated by the country’s monetary and institutional fragmentation. The FIU under Government CBY faces oversight limitations as it has no jurisdiction over financial institutions operating in *HC* areas, where a significant share of remittances flows through unregulated exchange houses and informal networks, as a large proportion of the Yemeni

population resides there.¹³ This fragmentation prevents a centralised enforcement mechanism, leading to inconsistent regulatory implementation, unmonitored transactions, and financial loopholes resulting in illicit financial flows to thrive. Furthermore, the absence of financial reporting from *HC* banks and money exchangers means that Government CBY lacks access to transaction data for a large portion of the economy, making it nearly impossible to track suspicious transfers or enforce compliance across Yemen's divided financial sector. This undermines the country's ability to meet global AML/ CFT standards.

Government CBY made initial efforts to modernise AML compliance through digital verification, though these measures have faced logistical barriers. While proposals for biometric verification and enhanced transaction monitoring were introduced, infrastructure limitations, particularly the lack of electricity and mobile access in rural areas, have rendered real-time oversight challenging to implement.

Yemen's reduced AML/ CFT compliance has triggered widespread de-risking, as global banks sever ties with Yemeni financial institutions to avoid compliance risks. Without these partnerships, formal bank-based remittance transactions must pass through multiple intermediaries, increasing fees and processing times, even as some MTO-led corridors remain relatively efficient. In June 2024, Government CBY revoked the licenses of six major banks headquartered in Sana'a, citing non-compliance with AML regulations. Although no formal notification was submitted to SWIFT, the move was widely interpreted by international banks as a signal of heightened compliance risk, raising concerns about continued access to correspondent banking relationships and international payment networks (Whalley, 2024; Nichols, 2024). The United Nations warned that such actions could have severe consequences for Yemen's economy, particularly for remittance-dependent households that rely on formal banking channels. While some measures were partially reversed in July 2024 under a de-escalation agreement, uncertainty surrounding SWIFT access and correspondent relationships persists, reinforcing Yemen's classification as a high-risk jurisdiction (AlTaher and Rahman, 2024).

The inability to enforce AML/ CFT measures has left formal remittance channels highly vulnerable to financial crime making it easier for illicit actors to exploit weak regulatory structures for money laundering or terrorism financing.

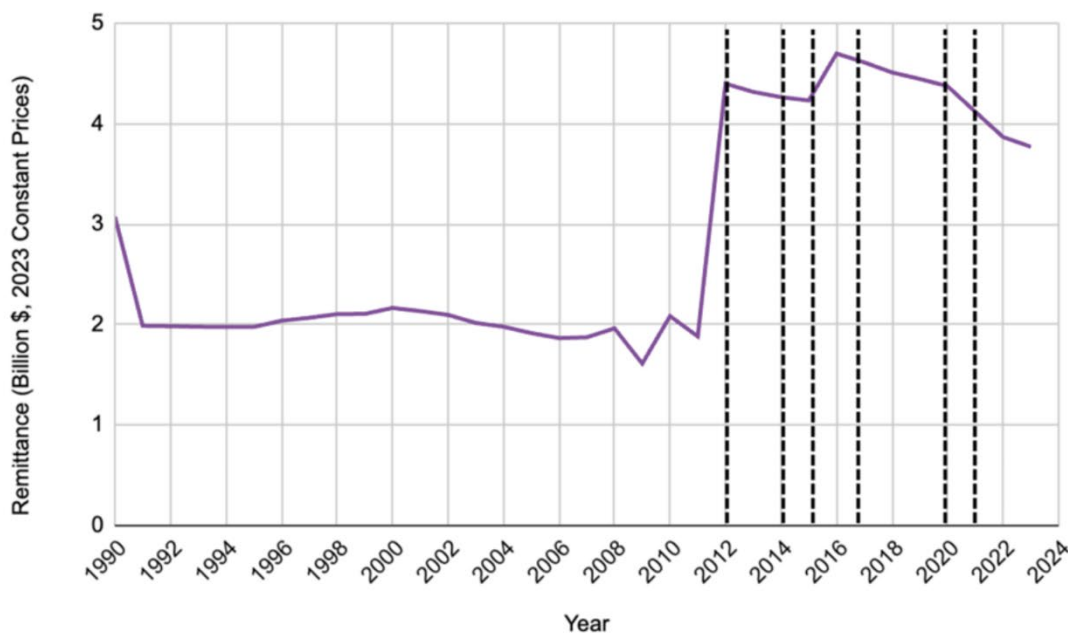
4.4.2. Impact of Sanctions on Formal Remittances

Over the past decade, the U.S., EU, and UN have imposed various financial restrictions targeting Yemeni individuals, financial institutions, and businesses accused of funding the *Houthis*. While these measures are intended to curb illicit financial activity, they have also restricted access to international financial systems, creating barriers to legitimate remittance flows and undermining formal banking institutions.

Yemeni banks depend on correspondent banking relationships to facilitate cross-border transactions, but as global banks face mounting compliance risks, many have severed ties. The impact of these restrictions on remittance flows is evident in Figure 4.9 below. The graph shows the trend of remittance inflows to Yemen, adjusted for inflation to reflect constant 2023 prices. Notably, several sharp declines in remittances coincide with major sanction years, highlighting the disruptive effect of financial restrictions.

¹³ There is no publicly available data to confirm this. The statement is based on sentiments from interviewed experts and stakeholders.

Figure 4.9. Impact of Sanctions on Yemen’s Remittance Inflows (2023 Constant Prices)



Notes: Remittance inflows to Yemen in constant 2023 USD. Black dashed lines indicate years in which major international sanctions were imposed on Yemeni financial institutions or MTOs. Source: WDI.

A clear example of sanctions disrupting financial flows is the U.S. Treasury’s designation of Yemen Kuwait Bank, a notable financial institution in the country, in January 2025 for providing financial support to the *Houthis*, who had been re-designated as a terrorist organisation by the U.S. government (The White House, 2025). This designation impacted the bank’s operations, limiting its ability to process. Similarly, Al-Omgy and Brothers Money Exchange (sanctioned in 2016) and Swaid & Sons (sanctioned in 2021) saw their operations curtailed due to links to Al-Qaeda in the Arabian Peninsula (AQAP) and the *Houthis*. While these measures were designed to combat illicit financing, they further weakened Yemen’s formal banking sector, reducing access to legal remittance channels and pushing more transactions into informal networks (U.S. Department of the Treasury, 2016; 2021). Even non-sanctioned banks struggle under these restrictions, as the entire Yemeni financial sector is treated as high-risk.

Sanctions have not only weakened Yemen’s formal banking sector but have also contributed to a broader trend of financial disengagement. With low financial inclusion, only 12% of Yemeni adults held a bank account as of 2022 (World Bank, 2024), the country’s banking sector struggles enhancing public trust (as discussed above in section 3.4.1) or maintain international financial partnerships. However, this environment also presents a strategic opening for Government CBY to assert itself as the legitimate and credible conduit for formal remittance flows. By strengthening its institutional capacity and reinforcing compliance with international standards, Government CBY could attract greater engagement from global financial actors and channel more remittances through formal pathways, offering a long-term alternative to informal networks and enhancing overall financial inclusion.

4.4.3. Impact of De-Risking and Limited Financial Partnerships

Even Yemeni banks and money exchangers that comply with AML/ CFT regulations face widespread financial disengagement due to de-risking as global banks and remittance providers withdrew to avoid compliance exposure. Rather than assessing individual financial institutions case-by-case, international banks have more or less opted for blanket disengagement from Yemen's financial sector, making it increasingly complicated for businesses, humanitarian organisations, and remittance recipients to access formal financial services.

For global banks, the risks associated with maintaining relationships with Yemeni institutions often outweigh potential financial gains due to the following reasons: (i) heightened compliance requirements mean that banks must conduct extensive due diligence on Yemeni financial institutions, a costly process with minimal financial returns; (ii) the risk of regulatory penalties or secondary sanctions discourages banks from engaging, as even unintentional violations could result in heavy fines; and (iii) a lack of regulatory transparency and coordination between the North and South complicates compliance, raising concerns about exposure to illicit financial activity.

This financial isolation has also complicated humanitarian financial access. While international regulators have attempted to introduce exemptions for humanitarian transactions, such as UN Resolution 2664 in December 2022, which aimed to facilitate humanitarian financial flows, these measures have been unable to offset the chilling effect of de-risking (Crystal, 2023). Consequently, even humanitarian aid transfers, intended to bypass broader financial restrictions, face barriers, further limiting economic relief for vulnerable populations. Although the U.S. Treasury and other regulatory bodies have issued general licenses to facilitate aid-related financial transactions, compliance hurdles and over-cautious de-risking by global banks continue to restrict access to formal financial channels, perpetuating the cycle of financial exclusion.

5. Lessons from Large Remittance-Receiving Fragile and Developing Economies

Key Insights

- Countries like Somalia and Pakistan successfully integrated informal remittance systems into formal financial channels through regulatory reforms, improving transparency and access.
- Kenya, India, and Bangladesh leveraged mobile money and digital banking to expand remittance accessibility, lower transaction costs, and encourage financial security.
- Rwanda and Sri Lanka provide examples of policies that link remittances to long-term economic growth, from financial literacy programs to incentives for investment in housing, education, and small enterprises.

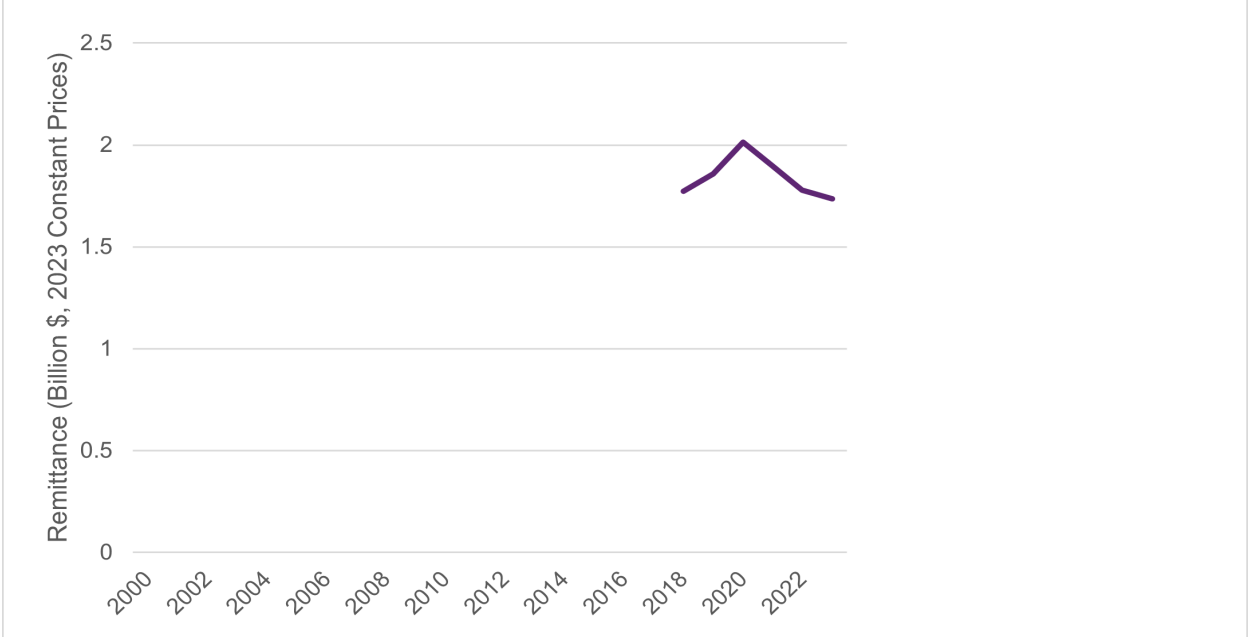
In this chapter, we present mini-case studies on how different fragile and developing countries have leveraged remittances to strengthen their economies. While Yemen's situation is unique, marked by dual

monetary authorities, protracted conflict, and institutional fragmentation, other countries offer valuable points of comparison. We selected these cases because they reflect a range of relevant challenges: Somalia’s transition from an entirely informal remittance system to a more regulated framework; Rwanda’s policies linking remittances to economic growth; Sri Lanka’s use of financial literacy programs; Kenya’s experience with mobile money; India’s integration of remittances into digital banking; and Pakistan’s strategy to formalise remittance flows. Some of these countries have experienced conflict or post-conflict transitions, while others have confronted similar constraints around financial access, low trust, and limited infrastructure. While we do not suggest that their reforms can be transplanted wholesale into the Yemeni context, these case studies offer concrete examples of how countries have navigated comparable barriers. The goal is to identify adaptable lessons that could inform policy efforts aimed at enhancing financial inclusion and remittance effectiveness in Yemen.

For this analysis, we draw upon two key data sources: (i) Somali expert interviews, which provide primary insights into remittance flows, financial regulations, and informal banking practices in Somalia, and (ii) secondary literature from academic and policy research on the six other countries.

5.1. Somalia: From Informal Remittance Networks to Formal Financial Institutions

Figure 5.1. Remittances received in Somalia, 2000-2024 (constant 2023 USD)



Notes: Remittances to Somalia are shown in billions of USD (constant 2023 prices) from 2000 to 2024. The World Bank is missing data for Somalia until 2018. Source: WDI.

Somalia provides a compelling case study of how a country with a fragile financial sector transitioned from an informal remittance system to a more regulated framework. Following the collapse of the Somali government in 1991, formal banking institutions ceased to function, leaving remittance flows entirely dependent on informal money transfer networks known as *xawilaad* (Ahmed, 2000). These networks became the backbone of Somalia’s financial system, allowing the diaspora to send money home even in the

absence of regulatory oversight or formal banking infrastructure (Lindley, 2009). Over time, Somalia implemented financial reforms that brought informal remittance channels under regulatory supervision while maintaining accessibility.

Phase 1: Dependence on Informal Remittance Networks

During the 1990s, Somalia's remittance companies operated entirely informally due to the lack of a regulatory framework in both Somalia and host countries. The diaspora established private money transfer companies, which relied on personal trust networks rather than banking institutions. While efficient, these informal systems lacked transparency and oversight, raising concerns about their vulnerability to illicit activities.

Even in the absence of regulation, remittances sustained Somalia's economy. Studies indicate that funds from the diaspora supported basic household needs, helped families rebuild livelihoods, and even financed small businesses, particularly in urban areas such as Hargeisa and Mogadishu (Lindley, 2009). By 2006, remittances exceeded USD 1 billion annually, covering 40% of urban household income (Maimbo, 2006).

Phase 2: External Pressure and the Shift Toward Regulation

By the early 2010s, international concerns about money laundering and terrorist financing led to de-risking, as major Western banks cut ties with Somali remittance companies. In 2014, large banks in the U.S. and the UK closed accounts belonging to Somali money transfer businesses, citing high compliance risks.

These restrictions forced remittance companies to seek regulatory legitimacy. The Somali Money Transfer Business Act (2016) marked a turning point, introducing licensing requirements, compliance standards, and financial reporting obligations (Expert interview). The Central Bank of Somalia (CBS) reestablished regulatory oversight and licensed 15 remittance firms, requiring them to submit monthly transaction reports and comply with AML/ CFT regulations (Expert interview).

Phase 3: Digital Innovation and Financial Sector Integration

The formalisation of Somalia's remittance sector was not achieved through regulation alone. While licensing and compliance measures provided the necessary oversight, they were only effective because the industry simultaneously embraced technological advancements that improved efficiency, security, and accessibility.

As shown in Figure 5.1, formal remittance flows surged after 2018, not due to a sudden increase in transfers but because financial reforms and digital integration brought previously untracked informal flows into the regulated system. The adoption of licensing requirements, combined with the rapid expansion of mobile money platforms, enabled remittance firms to shift from cash-based transactions to digital financial ecosystems. Latest available data for 2023 show that remittances account for approximately 15% of Somalia's GDP, underscoring their continued centrality to the economy and their reliance on digitally mediated channels (see Table 4.1).

One of the most transformative developments was the integration of mobile money into remittance transfers. As mobile network operators expanded their services across Somalia, remittance companies began partnering with them to offer instant digital transfers. No longer did recipients have to rely on cash-based transactions or visit a physical agent to collect funds. Instead, remittances could be deposited directly into mobile wallets, which could then be used for everyday purchases, bill payments, and even savings. According to CBS, by 2024, an estimated 80% of Somalia's adult population had access to mobile money, making digital transactions the preferred mode of financial exchange.

These advancements were accompanied by improvements in financial security and compliance. In response to concerns about illicit finance, Somali remittance firms adopted biometric KYC¹⁴ verification systems, ensuring that senders and recipients could be properly identified. Mobile applications integrated facial recognition technology, allowing users to register and verify their identities seamlessly. In parallel, remittance companies established secure digital payment networks, linking their operations to global financial monitoring systems to comply with AML/ CFT regulations.

The result was a modernised and highly efficient remittance ecosystem that extended beyond household transfers. Major Somali remittance firms, such as Dahabshiil, Amal Express, and Taaj, not only facilitated money transfers but also expanded into banking, business financing, and investment services. These companies played an important role in supporting small enterprises, providing access to credit in a country where formal lending was almost non-existent.

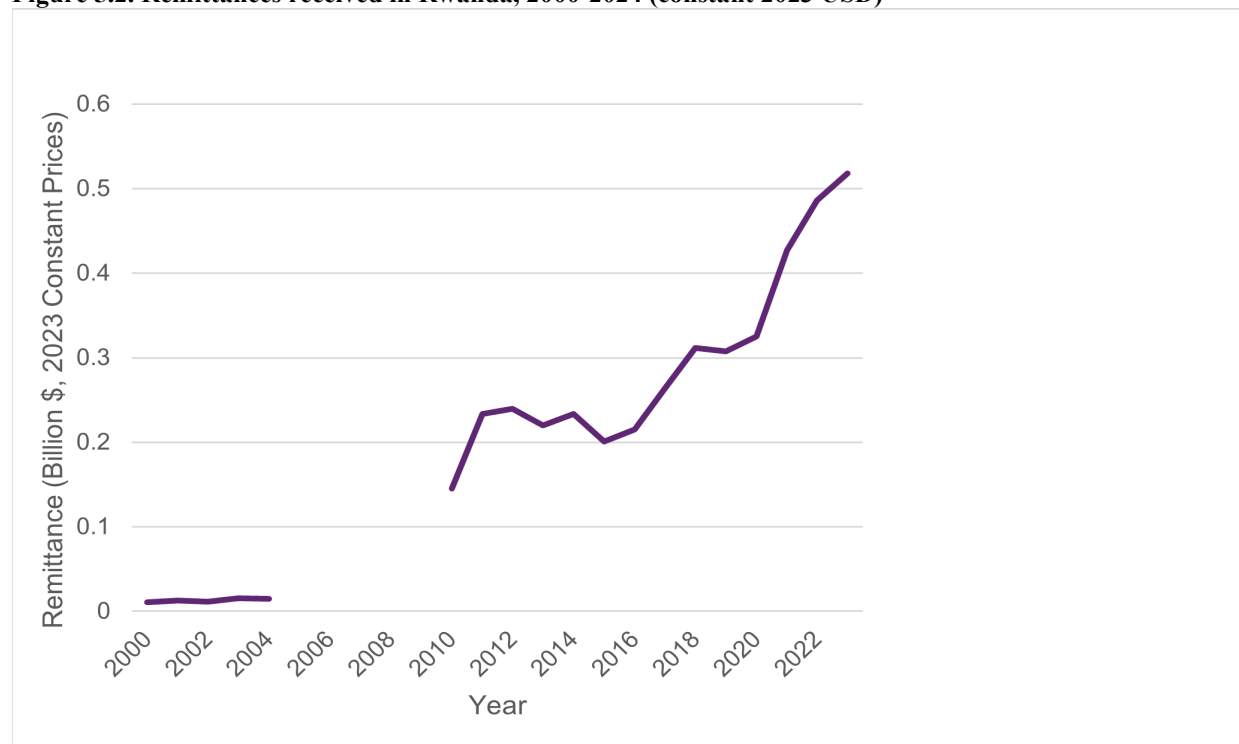
With remittance flows now embedded in Somalia's broader financial sector, the government was able to restore some stability to the banking system. The CBS strengthened its oversight capacity, requiring remittance companies to submit monthly transaction reports detailing the origin, volume, and destination of financial flows. This data-driven approach allowed regulators to track financial movements more accurately, reinforcing Somalia's credibility in the international financial system.

Ultimately, the success of Somalia's remittance sector was not simply a product of regulatory enforcement, it was the synergy between oversight, financial innovation, and industry cooperation that enabled its transformation. By leveraging mobile technology, strengthening compliance, and integrating remittances into the formal banking system, Somalia managed to preserve a financial lifeline for many while reducing reliance on informal networks.

¹⁴ KYC systems are regulatory processes used by financial institutions to verify the identity of their customers. These systems typically require customers to provide personal information, such as government-issued identification, proof of address, and, in some cases, biometric data. KYC ensures compliance with anti-money laundering and counter-terrorism financing regulations, reducing the risk of fraud and illicit financial activities.

5.2. Rwanda: Linking Remittances to Economic Growth

Figure 5.2. Remittances received in Rwanda, 2000-2024 (constant 2023 USD)



Notes: Remittances to Rwanda are shown in billions of USD (constant 2023 prices) from 2000 to 2024. The World Bank has missing data for Rwanda between 2006 and 2009. Source: WDI.

Rwanda's experience underscores how remittance inflows can be strategically managed to support national development goals. Over the past two decades, inbound remittances to Rwanda have grown from less than USD 50 million per year, to over USD 500 million (Figure 5.2). While the World Bank does not have data from 2006 to 2009, other scholars, such as Rubyutsa (2012), find that during this period, remittances significantly contributed to economic growth, poverty reduction, and the financing of education and healthcare. These funds helped households cover essential expenses while also supporting business creation and investment in productive sectors, such as agriculture and small enterprises.

Remittances not only boosted household consumption but also helped finance business activities and local infrastructure, stimulating economic activity beyond individual recipients. The multiplier effects of remittances strengthened Rwanda's post-conflict economic recovery by supporting entrepreneurship, increasing access to financial services, and promoting investments in housing and education.

However, remittances also introduced inflationary pressures. Nikuze et al. (2024) found that a 1% increase in remittances corresponded to a 7.4% rise in inflation. This trend was particularly evident in consumer markets, where increased purchasing power drove price hikes. To mitigate these effects, the Rwandan government encouraged policies that directed remittances into investment-driven sectors, such as entrepreneurship, housing, and infrastructure.

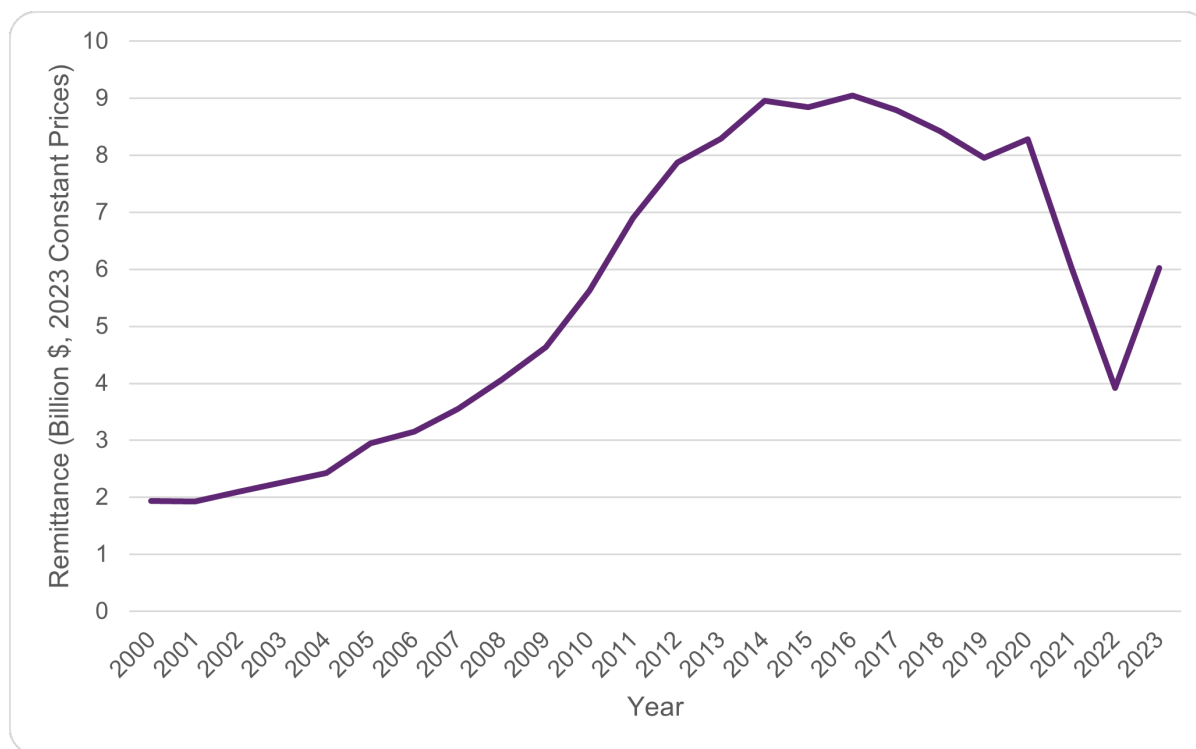
A key challenge was the high cost of formal remittance transfers. Rubyutsa (2012) notes that formal remittance channels, such as banks and licensed MTOs, offered security and reliability but charged transaction fees between 8-10%. These costs discouraged low-income households from using formal systems, pushing many toward informal methods like unregistered couriers and personal delivery. While informal remittance methods were cheaper and widely used, they carried security risks such as fraud, theft, and lack of legal recourse.

To improve financial inclusion and remittance integration, Rwanda expanded financial services for remittance recipients, linking remittance flows to savings and credit programs. By 2015, Rwanda had introduced mobile banking and agent-based financial services, improving access for rural populations. These efforts helped formalise remittance use, reducing dependency on informal cash transactions. This could be the reason why we see an uptick in remittances after 2015 in Figure 5.2.

Another critical aspect of remittances in Rwanda was their role in fostering reconciliation and social cohesion. Caarls (2012) highlights that remittances helped rebuild trust among communities affected by conflict, serving as a financial bridge between displaced individuals and their home regions. While remittances improved living standards by funding food, healthcare, and education, they also presented challenges related to dependency. Some communities became reliant on remittances rather than engaging in local economic recovery efforts, raising concerns about long-term self-sufficiency. To mitigate these risks, the Rwandan government introduced policies aimed at channelling remittances into productive investments. The Rwanda Diaspora Mutual Fund and the Agaciro Development Fund were created to mobilise remittances for collective investments in key sectors, reducing the emphasis on remittances as a source of household consumption. Additionally, the government launched Ejoheza, a voluntary retirement savings scheme, which encouraged long-term financial planning among remittance-receiving households. These initiatives, alongside broader diaspora engagement strategies, helped shift remittances toward investment in housing, agriculture, and small businesses, strengthening Rwanda's economic resilience.

5.3. Sri Lanka: Using Financial Literacy to Optimise Remittance Utilisation

Figure 5.3. Remittances received in Sri Lanka, 2000-2024 (constant 2023 USD)



Notes: Remittances to Sri Lanka are shown in billions of USD (constant 2023 prices) from 2000 to 2024. Source: WDI.

Sri Lanka's experience highlights how financial literacy programs can improve the way remittances are used, shifting funds from short-term consumption to long-term economic benefits. Samaratunge et al. (2020) found that targeted financial literacy initiatives encouraged remittance-receiving households to allocate funds toward education, small businesses, and savings rather than immediate consumption.

One of the key challenges in remittance-dependent households is that funds are often spent on daily necessities rather than being invested in wealth-generating activities. In Sri Lanka, this pattern was especially evident in rural areas, where access to financial institutions was limited, and households lacked the knowledge or resources to make long-term financial plans.

To address this, Sri Lanka introduced financial literacy training programs aimed at remittance recipients. These programs taught budgeting skills, encouraged saving habits, and provided guidance on small business investments. As a result, families that participated in financial literacy initiatives were more likely to invest in education, health, and business development, enhancing their long-term economic stability.

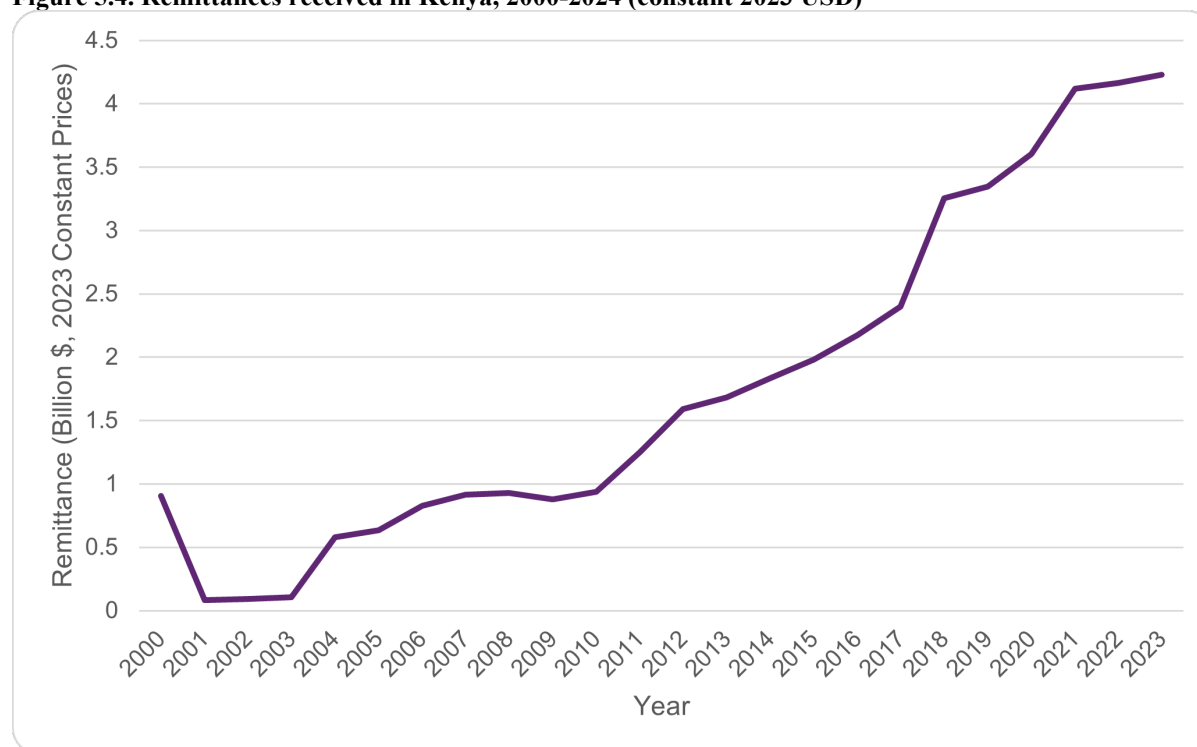
The impact of financial literacy extends beyond individual households. By improving financial decision-making, these programs contributed to broader economic resilience, helping communities break cycles of

financial insecurity. The Sri Lankan case demonstrates that remittances alone are not enough to ensure economic growth, financial education is key to maximising their developmental impact.

The sharp decline in Sri Lanka's remittances after 2014, observed in Figure 5.3, followed by a modest rebound in 2023, underscores the importance of financial literacy in building economic resilience. As migration outflows slowed due to government restrictions on female domestic worker migration and declining labour demand in Gulf countries, remittance inflows also shrank. This decline was further exacerbated by the 2019 Easter bombings, the 2022 economic crisis, and increased reliance on informal money transfer systems. Households that participated in financial literacy programs were better equipped to adapt, prioritising long-term investments over short-term spending. The small recovery in 2023 may reflect both an improvement in migration flows and the lasting benefits of financial education in fostering more sustainable financial decision-making.

5.4. Kenya: Dual Legacy of M-PESA in Remittance Formalisation

Figure 5.4. Remittances received in Kenya, 2000-2024 (constant 2023 USD)



Notes: Remittances to Kenya are shown in billions of USD (constant 2023 prices) from 2000 to 2024. Source: WDI.

Kenya's *M-PESA* (which means “mobile money” in Swahili) system revolutionised financial accessibility, making remittance transfers more efficient, affordable, and transparent by providing a mobile-based money transfer and microfinance service that enabled users to deposit, withdraw, and send money using mobile phones. 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 where traditional banking infrastructure was weak (Jack & Suri, 2011). By 2009, approximately 65% of Kenyan households were using *M-PESA*, and its expansive agent network ensured that even individuals in remote areas could access financial services without the need to travel long distances to urban centres. This is clearly reflected in Figure 5.4, where we see an upward trend following 2009.

M-PESA's success extended beyond remittances, facilitating savings, credit access, and business investments. By integrating digital financial services into daily transactions, the platform contributed to economic resilience and allowed low-income households to smooth consumption, invest in education, and expand small enterprises. Its security features further minimised the risks of fraud, offering a more reliable alternative to informal financial networks (Laji & Shalini, 2023).

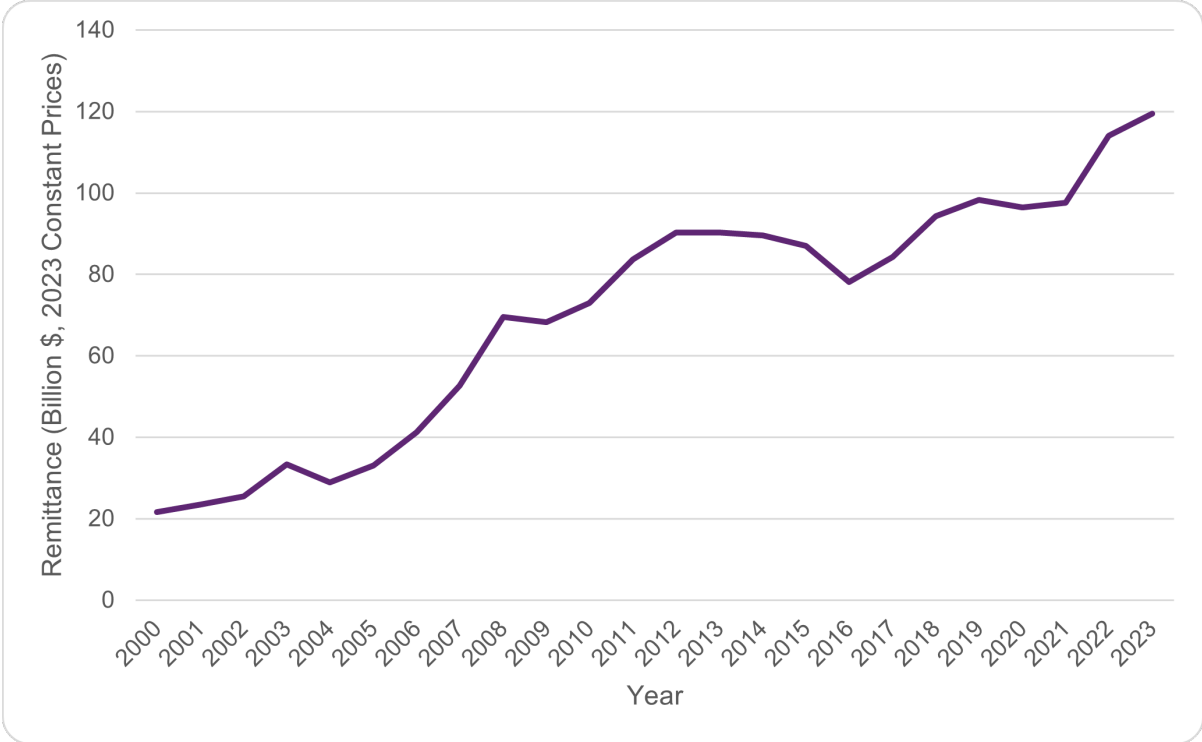
However, the rapid expansion of mobile money and digital financial services in Kenya has also raised concerns about financial exploitation and rising debt burdens. Critics argue that while fintech innovations initially increased access to financial services, they have increasingly evolved into predatory systems that extract value from the poor. Economist Milford Bateman highlights how microfinance and fintech, once

seen as solutions for poverty alleviation, have instead led to debt traps for vulnerable populations (De Masi, 2023). *M-PESA*, which was originally positioned as a tool for financial inclusion, has been accused of shifting towards profit-driven motives, with high transaction fees disproportionately impacting low-income users. As the platform became deeply embedded in Kenya’s financial ecosystem, its parent company, Safaricom, faced growing scrutiny over monopolistic practices and the financial burden imposed on users through escalating service charges.

In recent years, the Kenyan government has attempted to introduce regulatory measures to curb these excesses, increasing oversight and taxation on digital financial services. However, the impact of these interventions remains limited as fintech firms continue to wield economic and political influence. While *M-PESA* remains a model for mobile money innovation, its trajectory underscores a broader debate on the commercialisation of financial services for the poor. Initially hailed as a breakthrough for financial inclusion, it has increasingly come under criticism for extracting profits from the very populations it was designed to serve. Kenya’s experience with *M-PESA* highlights both the transformative potential and inherent risks of fintech-led remittance formalisation, which raises critical questions about financial sustainability, regulation, and equity in the digital economy.

5.5. India: Leveraging Digital Infrastructure for Remittance Integration

Figure 5.5. Remittances received in India, 2000-2024 (constant 2023 USD)



Notes: Remittances to India are shown in billions of USD (constant 2023 prices) from 2000 to 2024. Source: WDI.

India has successfully integrated remittances into formal financial systems through its Jan Dhan-Aadhaar-Mobile (JAM) strategy, which connects biometric identification, financial inclusion programs, and mobile

banking. This approach has enabled secure, low-cost, and efficient remittance transfers, ensuring that funds are directly deposited into recipients' bank accounts (Morgan, 2022).

The Pradhan Mantri Jan Dhan Yojana (PMJDY) initiative, launched in 2014, was central to India's financial inclusion efforts. This could be the reason why we see an increase in remittances in the years following the implementation of the initiative (see Figure 5.5). It provided millions of previously unbanked individuals with access to zero-balance bank accounts, enabling them to receive remittances securely and without excessive transaction costs. The integration of Aadhaar biometric identification¹⁵ ensured that remittance transfers were accurately linked to recipients, minimising fraud and leakage.

For example, remittances can now be deposited directly into Jan Dhan accounts, minimising intermediaries and ensuring secure and efficient transfers (Morgan, 2022). This direct deposit system has eliminated unnecessary financial intermediaries, reducing both transfer costs and risks associated with informal cash transactions.

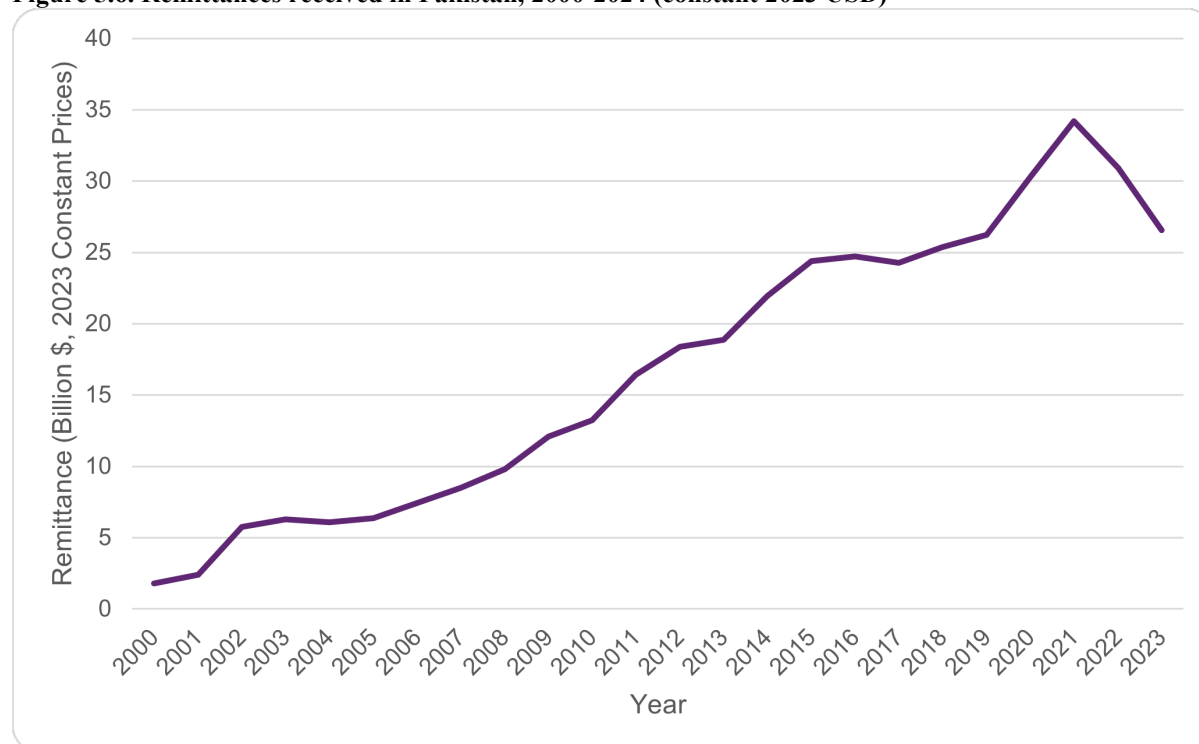
Mobile banking and fintech partnerships further expanded access to remittance services. By leveraging widespread mobile connectivity, India's financial ecosystem allowed even low-income and rural households to engage in formal banking. This reduced dependence on cash-based transactions and informal remittance channels, increasing financial security and transparency.

India's approach also highlights the role of government and private sector collaboration in modernising remittance systems. Public-private partnerships (PPPs) facilitated the expansion of digital banking infrastructure, improving financial accessibility for remittance recipients while reducing transaction costs.

¹⁵Aadhaar is India's biometric identification system, launched in 2009, that provides each resident with a unique 12-digit identification number linked to their demographic and biometric data, including fingerprints and iris scans. Managed by the Unique Identification Authority of India (UIDAI), Aadhaar is a cornerstone of India's digital infrastructure, enabling secure access to government services, subsidies, and financial systems.

5.6. Pakistan: Strengthening Formal Remittance Channels Through Financial Innovation

Figure 5.6. Remittances received in Pakistan, 2000-2024 (constant 2023 USD)



Notes: Remittances to Pakistan are shown in billions of USD (constant 2023 prices) from 2000 to 2024. Source: WDI.

Over the past two decades, Pakistan has systematically worked to enhance the efficiency and accessibility of remittance inflows, gradually shifting transactions away from informal channels. These efforts have focused on incentivising the use of formal banking systems, expanding digital financial services, and improving accessibility for overseas Pakistanis.

In 2001, the Ministry of Finance launched the Foreign Exchange Remittance Card (FERC) to encourage migrants to send money through formal banking channels. The card provided overseas Pakistanis remitting between USD 2,500 to 50,000 annually with a range of privileges, including expedited passport issuance and renewal, special counter services at domestic airports, and duty credit allowances that could be used toward the duty payable on durable household items such as refrigerators and televisions (Embassy of Pakistan, n.d.). The reliance on personal benefits rather than structural improvements in remittance channels meant that informal networks remained widely used, highlighting the need for more comprehensive financial infrastructure reforms.¹⁶

¹⁶ In 2021, Pakistan replaced the FERC with the Sohni Dharti Remittance Program (SDRP), a smartphone-based application that rewards remitters with redeemable points for multiple public services, including discounts on educational fees at Overseas Pakistan Foundation institutions. The app, available in both English and Urdu, reflects Pakistan's shift toward digital financial incentives rather than physical benefits.

A more institutional approach came in 2009 with the launch of the Pakistan Remittance Initiative (PRI), a collaborative effort between the State Bank of Pakistan, the Ministry of Overseas Pakistanis, and the Ministry of Finance. This initiative sought to facilitate cheaper, faster, and more convenient remittance inflows while also expanding financial services for migrants and their families (Embassy of Pakistan, Abu Dhabi, n.d.). Under PRI, domestic banks strengthened their partnerships with international financial institutions, signing over 600 bilateral agreements to enhance remittance transfer networks (Fliss, 2024). These agreements improved transaction speed and cost-effectiveness, making formal remittance channels more competitive with informal alternatives. By improving financial infrastructure and expanding cross-border banking linkages, the initiative marked a turning point in Pakistan's efforts to transition remittances into formal financial systems. These initiatives are reflected in the overall trends of remittances received in Pakistan (see Figure 5.6).

Building on these reforms, Pakistan introduced one of its most groundbreaking financial innovations in 2020 with the launch of the Roshan Digital Account (RDA). Developed by the State Bank of Pakistan in collaboration with commercial banks, the RDA provided non-resident Pakistanis with the ability to remotely open and operate digital bank accounts in Pakistan within 48 hours, eliminating bureaucratic barriers to financial access. Unlike previous initiatives that focused primarily on transactional efficiency, the RDA expanded the scope of financial inclusion by integrating remittances with a broader range of banking and investment services. Account holders could not only transfer funds and pay bills but also access financing for car purchases, donate to charitable causes, and invest in Pakistan's stock market, mutual funds, real estate, and foreign-denominated sovereign instruments (State Bank of Pakistan, n.d.-b). By January 2025, almost 1 million digital accounts had been opened (State Bank of Pakistan, n.d.-a), reflecting widespread adoption and demonstrating the growing trust in digital financial services among Pakistan's diaspora.

Pakistan's approach to remittance formalisation has evolved from early incentive-based programs to institutional strengthening and digital banking integration. While initial efforts, such as FERC, sought to encourage formal transfers through individual incentives, more recent strategies have focused on building a financial ecosystem that enhances accessibility and efficiency. The combination of regulatory improvements, banking sector modernisation, and the adoption of digital finance has helped reduce reliance on informal networks while strengthening the resilience of Pakistan's remittance sector. By leveraging financial technology and expanding global banking partnerships, Pakistan has not only improved the transparency of remittance flows but also ensured that migrant earnings contribute more effectively to the domestic economy.

It is worth noting that even with all of these initiatives, Pakistan still saw a drop in remittances following 2021. The sharp decline is driven by a combination of economic and policy factors. Post-pandemic, job losses and wage reductions in key host countries like the GCC and the UK, coupled with Pakistan's economic crisis, reduced formal remittance flows. The sharp depreciation of the Pakistani rupee incentivised migrants to use informal channels, bypassing official banking systems. Political instability in 2022 further weakened confidence, while IMF loan conditions and stricter banking regulations made formal transfers less attractive. Additionally, COVID-19 disruptions slowed new labour migration, reducing remittance inflows.

5.7. Key Lessons

Effective policy reforms can enhance remittance accessibility, lower costs, and maximise their contribution to economic development. By reducing transaction fees, fostering PPPs, and integrating informal remittance networks into formal financial systems, governments can ensure that remittances drive long-term growth rather than short-term consumption. Additionally, balancing financial innovation with regulatory compliance is crucial. Many emerging markets have adopted tiered KYC frameworks and regulatory sandboxes, allowing fintech solutions to develop while ensuring financial system integrity and security (Laji & Shalini, 2023; Morgan, 2022). These approaches have proven effective in expanding the reach of digital payment solutions and improving remittance efficiency.

Experiences from various high remittance receiving and fragile and conflict affected settings covered throughout this report highlight four key strategies to optimise remittance utilisation for economic recovery.

Reducing Transaction Costs

Lowering remittance fees increases disposable income for recipient households, reinforcing poverty reduction. Pakistan's RDA initiative demonstrates how digital banking can reduce costs by allowing non-resident Pakistanis to open accounts remotely and transfer funds directly into the formal banking system. India's JAM initiative provides another example of how eliminating transaction intermediaries and facilitating direct digital deposits can significantly lower remittance costs and improve efficiency.

Fostering Public-Private Partnerships

PPPs have been essential in modernising remittance systems by driving digital payment solutions, expanding financial inclusion, and reducing operational inefficiencies. In India, PPPs played a pivotal role in the development of national fintech infrastructure, ensuring that remittance recipients could access secure and low-cost financial services. These collaborations scaled mobile banking solutions and enabled regulatory flexibility to accommodate innovations like Aadhaar-linked remittance transfers (Morgan, 2022; Laji & Shalini, 2023). Similarly, Kenya's *M-PESA* model highlights how mobile money services can be expanded through private sector engagement, improving remittance accessibility in rural areas. However, Kenya's experience also underscores the risks associated with financial monopolisation and high user fees, raising concerns about affordability and sustainability in fintech-driven remittance ecosystems.

Formalising Informal Networks Without Over-Regulation

While informal remittance channels provide widespread accessibility, they also pose challenges related to tax evasion, security risks, and integration into the formal financial system (Yadeta and Hunegnaw, 2022). Somalia's Money Transfer Association (SOMTA) has enabled industry-led self-regulation, ensuring remittance firms comply with international financial standards without excessive government interference (Bulut & Mohamed, 2018). Pakistan's PRI provides another example of how financial reforms can incentivise the use of formal remittance channels through improved banking partnerships and transaction

efficiency, gradually shifting remittance flows away from informal networks while maintaining accessibility.

Ensuring Remittances Support Development

High remittance inflows can have inflationary effects and encourage consumption-based dependency. We saw an example of this in Rwanda. To mitigate these risks, the Rwandan government developed policies that directed remittances toward productive sectors, such as business development, housing, and infrastructure investment (Rubyutsa, 2012; Kadozi, 2019). Sri Lanka's financial literacy programs offer another approach to maximising remittance benefits by encouraging recipients to allocate funds toward education, small businesses, and long-term savings rather than short-term consumption. Likewise, Kenya's expansion of *M-PESA* beyond simple cash transfers has facilitated remittance-driven investments in business and property.

6. Policy Recommendations

Remittances serve as a cornerstone of Yemen's economy, sustaining household livelihoods and playing a vital role in financial stability. In the context of protracted conflict, remittances act as a financial lifeline, helping families meet essential needs amid economic collapse and limited state support. However, leveraging remittances for broader economic recovery presents significant challenges in active conflict settings, particularly in a country that faces compliance risks that hinder the smooth flow of FDI and international aid.

In fragile and conflict-affected states, it is neither inefficient nor unrealistic for remittances to be primarily used for survival. While long-term economic development remains a goal, any strategy for maximising the impact of remittances must be considered in tandem with ongoing efforts to address Yemen's conflict and institutional instability. The following recommendations attempt to provide a structured approach that can support financial stability, economic resilience, and post-conflict recovery once conditions allow for broader financial sector reforms.

Based on research findings, surveys, and expert interviews, this chapter presents a series of policy recommendations targeting key stakeholders: Government CBY, the Yemeni government, commercial banks, exchange companies, host countries, and international organisations. Each recommendation is structured across short-, medium-, and long-term timeframes to ensure actionable implementation.

This section uses a matrix approach to outline stakeholder responsibilities and priority areas for intervention.

Box 6.1. Informing Policy Through Stakeholder Engagement

Insights from the Roundtable on Remittances in Yemen's Economy

On February 26, 2025, the Executive Bureau (EB) for the Acceleration of Aid Absorption and Support

for Policy Reforms, in partnership with the International Growth Centre (IGC) and the Government CBY, convened a roundtable discussion in Aden titled “The Role of Remittances in the Yemen Economy: Challenges and Opportunities for Economic Recovery.” The event brought together 20 to 30 participants, including representatives from the CBY, major commercial banks, MTOs, donor agencies (e.g., FCDO, World Bank, BMZ, EU), and other financial stakeholders, in a hybrid in-person and virtual format.

The roundtable explored structural and institutional bottlenecks impeding the efficiency of remittance flows and proposed solutions to enhance formal financial channels. Discussions highlighted issues such as weak trust in the banking sector, a lack of correspondent banking relationships, infrastructure limitations, and policy barriers in host countries. Participants emphasised the need for regulatory reforms, digital innovation, diaspora investment incentives, and stronger partnerships between public and private actors.

Key insights and proposed solutions from the roundtable were instrumental in shaping the recommendations presented in this chapter. Stakeholders collectively called for improved coordination across government ministries, greater inclusion of informal networks, and strategic investments in digital and financial infrastructure. Their contributions emphasised that while remittances are currently a lifeline for Yemeni households, they also hold untapped potential to contribute to long-term economic recovery, if supported by an enabling environment. Further details on the roundtable, including guiding questions, participant insights, and key takeaways, are available in Appendix B.

6.1. Strengthening the Role of the Central Bank of Yemen

Government CBY has made notable efforts in recent years to regulate the banking sector, facilitate remittances, and integrate financial services with international systems. Key initiatives include combating currency speculation, issuing digital banking regulations, activating International Bank Account Numbers (IBAN), and joining the *Buna* platform. To build on this progress, we propose the recommendations outlined in 6.1.1 and 6.1.2.

6.1.1. Enhance International Partnerships

Yemen’s remittance flows rely on strong financial networks with major host countries and international banks. However, due to banking isolation, financial de-risking, and regulatory restrictions, formal remittance corridors remain limited and costly. To address these challenges, Government CBY could expand its international partnerships to strengthen correspondent banking relationships, facilitate cross-border remittances, and enhance regulatory alignment. The following actions outline a phased approach to achieving these goals:

Timeframe	Government CBY & Regulators	Commercial Banks & Exchange Houses	Host Countries	International Organisations
Short-Term	Initiate discussions with key remittance-sending countries to expand financial corridors.	Identify key expatriate markets where formal remittance channels are lacking.	Ease restrictions on Yemeni remittances.	Facilitate banking dialogues and cross-border regulatory cooperation.
Medium-Term	Establish formal agreements with international banking partners.	Develop remittance-friendly financial products.	Strengthen compliance standards for cross-border transactions.	Support infrastructure development for secure international transactions.

Long-Term	Secure long-term correspondent and intermediate banks relationships.	Fully integrate with global financial networks.	Maintain diplomatic engagement in financial governance.	Ensure sustainability of reforms through capacity-building.
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6.1.2. Restore Correspondent Banking Relationships

One of the largest challenges to expanding formal remittance flows in Yemen is the limited access to correspondent banking relationships, which has been restricted since the Arab Spring. The loss of international banking ties has forced some remittance transactions into informal channels and reduced financial transparency. Reestablishing these relationships is essential for expanding formal remittance corridors, improving liquidity, and ensuring compliance with global financial standards. The following actions outline a phased approach to restoring correspondent banking relationships:

Timeframe	Government CBY & Regulators	Commercial Banks & Exchange Houses	Host Countries	International Organisations
Short-Term	Identify key correspondent banks that previously served Yemen and engage in negotiations.	Improve compliance mechanisms to meet global banking standards.	Support easing of restrictions on Yemeni financial institutions.	Provide technical assistance for international banking compliance.
Medium-Term	Strengthen AML and financial crime frameworks.	Improve internal risk management processes.	Establish bilateral banking agreements.	Fund regulatory capacity-building initiatives.
Long-Term	Fully reintegrate Yemen into the global financial system.	Sustain compliance with evolving global standards.	Maintain diplomatic efforts to preserve financial stability.	Provide ongoing technical support for banking integration.

6.2. Develop Digital Banking Infrastructure

Limited digital connectivity is a major barrier to expanding financial services in Yemen, particularly in rural and underserved areas. Without reliable telecommunications infrastructure, the adoption of mobile banking, electronic payments, and fintech solutions remains restricted, forcing many remittance recipients to rely on cash-based informal channels. Strengthening telecommunication infrastructure will not only improve access to digital financial services but also enhance the efficiency, security, and affordability of remittance transfers. The following steps outline a phased approach to integrating telecommunications into Yemen’s financial ecosystem:

Timeframe	Government CBY & Regulators	Banks & Exchange Companies	Government	International Organisations
Short-Term	Support mobile banking expansion.	Launch pilot digital banking initiatives.	Invest in telecommunications infrastructure.	Provide funding and technical expertise for telecom expansion.

Medium-Term	Improve regulatory framework for mobile banking services.	Partner with fintech providers.	Strengthen policy frameworks for digital transactions.	Support infrastructure development and capacity-building.
Long-Term	Ensure full mobile banking integration into Yemen's financial system.	Scale up mobile financial solutions for expatriates.	Implement policies ensuring universal access to financial services.	Continue investment in Yemen's financial technology ecosystem.

6.3. Enable Cross-Border Financial Innovation

Financial innovation is key to modernising Yemen's banking sector and expanding access to formal remittance channels. However, bureaucratic hurdles, outdated regulatory frameworks, and limited digital infrastructure have slowed progress in adopting fintech solutions. Simplifying account access, leveraging digital banking, and integrating fintech will create a more inclusive financial ecosystem, particularly for expatriates and remittance recipients. The following phased actions aim to accelerate digital and financial innovation:

Timeframe	Government CBY & Regulators	Banks & Exchange Companies	Government	Host Countries
Short-Term	Reduce bureaucratic barriers for expatriates opening accounts.	Streamline KYC requirements while ensuring compliance.	Facilitate coordination between embassies and banks.	Encourage financial access for Yemeni migrants.
Medium-Term	Establish online banking solutions for expatriates.	Expand financial services for remittance recipients.	Develop regulatory frameworks to support financial accessibility.	Support the formalisation of cross-border transactions.
Long-Term	Fully integrate expatriate-focused banking products.	Maintain compliance with international financial norms.	Institutionalise regulatory measures for long-term impact.	Provide continued financial integration support.

6.4. Enhance Financial Inclusion and Literacy

Financial inclusion and literacy are critical to ensuring that remittances translate into long-term economic stability rather than short-term consumption. Many Yemenis, both within the country and abroad, lack access to formal banking services, financial education, and digital financial tools, which limits their ability to maximise remittances for savings, investment, and economic growth. For expatriates, financial literacy is equally important, as many face challenges in navigating banking systems in host countries, understanding investment opportunities, and managing cross-border transactions. Expanding financial services and improving literacy programs will empower individuals to better manage their finances, reduce reliance on informal channels, and contribute to economic resilience. The following phased actions outline a strategy for enhancing financial inclusion and literacy:

Timeframe	Government CBY & Regulators	Banks & Exchange Companies	Government	International Organisations
Short-Term	Launch public awareness campaigns.	Simplify access to banking services.	Introduce financial education in schools.	Provide funding for financial literacy initiatives.
Medium-Term	Establish financial training programs for remittance recipients.	Develop tailored financial products.	Implement formal financial literacy policies.	Support research on financial behaviours in Yemen.
Long-Term	Institutionalise financial literacy as part of national education.	Integrate digital tools for continued education.	Develop long-term financial inclusion policies.	Maintain funding and support for financial education.

6.5. Establish an Expatriate Investment Fund

To transition from remittance dependency to sustainable economic growth, Yemen must leverage expatriate investment in productive sectors. While remittances play a crucial role in supporting household incomes, they are largely used for consumption rather than investment. Many Yemeni expatriates are willing to invest in their home country but face significant barriers, including a lack of financial instruments tailored for diaspora investors, regulatory uncertainties, and weak investment infrastructure. Creating a structured Expatriate Investment Fund will provide a formal mechanism for channelling remittances into SMEs, infrastructure projects, and long-term economic development initiatives. The following steps outline a phased approach to establishing this fund:

Timeframe	Government CBY & Regulators	Banks & Exchange Companies	Government	Private Sector & Investors
Short-Term	Develop a framework for expatriate investment.	Offer specialised financial products for investors. Introduce a loyalty-based system where expatriates earn points for using formal remittance channels, redeemable for fee reductions, savings bonuses, or investment credits.	Provide incentives for diaspora investment. Support remittance-linked rewards programs, ensuring points can be used for financial benefits or essential purchases.	Identify investment opportunities for expatriates.
Medium-Term	Facilitate access to concessional loans.	Develop remittance-linked savings and credit programs.	Implement tax benefits for diaspora investment.	Establish partnerships between private investors and Yemeni institutions.
Long-Term	Sustain long-term investment in SMEs.	Strengthen financial stability for expatriate investments.	Develop permanent legal frameworks for diaspora investment.	Maintain public-private collaboration for economic growth.

6.6. Rebuilding Public Trust in the Financial System

While many of the recommendations in this chapter indirectly support confidence in Yemen’s financial institutions, rebuilding public trust must be treated as a priority area in its own right. Years of conflict, banking fragmentation, and inconsistent service delivery have severely weakened public confidence in formal financial actors, pushing many Yemeni households toward informal channels.

To regain trust, financial institutions must demonstrate transparency, consistent governance, and responsiveness to customer needs. This involves not only restoring formal regulatory coherence across Government CBY and financial institutions, but also delivering tangible improvements in service delivery, reporting, and communication.

Timeframe	Government CBY & Regulators	Banks & Exchange Companies	Government	International Organisations
Short-Term	Mandate unified, understandable reporting standards across institutions; require basic solvency and liquidity disclosures.	Publish solvency, liquidity, and profitability reports in user-friendly formats; improve customer feedback channels.	Launch public communications campaigns to reinforce trust in formal banking.	Provide templates and technical support for standardised reporting.
Medium-Term	Enforce governance and anti-corruption measures across financial institutions.	Align reporting with international best practices; publish third-party audits.	Integrate trust-building into national financial inclusion strategy.	Support institutional transparency and audit training.
Long-Term	Institutionalise public trust metrics as part of financial sector oversight.	Maintain regular and accessible reporting across platforms and regions.	Incorporate customer satisfaction and access equity goals into national recovery plans.	Support transparency tools and capacity-building programs.

6.7. Concluding Remarks

A comprehensive remittance and financial reform strategy requires coordinated action from Government CBY, the government, financial institutions, and international stakeholders. The recommendations outlined in this chapter offer a roadmap for enhancing remittance flows, improving financial inclusion, and fostering economic resilience in Yemen. However, it is important to recognise the constraints posed by Yemen’s ongoing conflict and the structural limitations that hinder formal financial sector reforms.

In an active conflict setting, remittances remain a key mechanism for household survival rather than a primary tool for economic development. While financial inclusion, digital innovation, and diaspora investment strategies hold long-term potential, these initiatives must be contextualised within Yemen’s fragile environment. Addressing regulatory barriers, strengthening correspondent banking relationships, and improving digital financial services can provide incremental progress in stabilising financial flows even amid uncertainty.

At the same time, the success of these recommendations depends on broader efforts to resolve the conflict and restore institutional capacity. A functioning and transparent financial sector requires political stability, regulatory coherence, and international confidence, all of which remain challenging under current conditions. Therefore, these recommendations should be seen as part of a larger, phased approach that balances short-term financial resilience with long-term economic recovery.

Ultimately, remittances alone cannot drive economic transformation, but ensuring their safe, efficient, and affordable flow can mitigate financial vulnerabilities and lay the groundwork for future reconstruction and development once conditions allow. Sustained collaboration between local and international actors will be essential in adapting these strategies to Yemen's evolving financial and political landscape.

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Technical Appendix

Appendix A

Migrant Worker Survey Methodology and Instrument

To gather complementary insights into the behaviours, challenges, and motivations of Yemeni migrant workers who send remittances, an online survey was conducted from December 15, 2024, to January 15, 2025. The survey focused on remittance practices, access to financial services, and perceptions of remittance-related challenges.

Sampling Methodology

The survey utilised a modified snowball sampling approach. Participants were invited to complete the survey online and were encouraged to share the survey link with other eligible Yemeni migrant workers in their networks. There were no limits placed on the number of referrals a participant could make. This flexible peer-recruitment method allowed the survey to reach a diverse set of respondents across several countries, particularly in the Gulf and North America.

While this approach does not yield a representative sample, it enables access to a population that is often difficult to capture through conventional sampling methods due to mobility, documentation status, and employment in informal sectors.

Sample

A total of 51 complete responses were collected from Yemeni migrant workers residing abroad. The sample was predominantly male, with 42 male and 9 female respondents. In terms of age, the largest group of respondents (25) were between 31 and 40 years old, followed by 13 respondents aged 41 to 50, 12 aged 20 to 30, and 1 aged 50 and above. Respondents were generally well-educated: 34 had completed undergraduate studies, 11 had pursued graduate studies, 5 had a high school education, and 1 reported no formal education. Most participants were working in Gulf countries, particularly Saudi Arabia and the UAE, while others were based in Europe, North America, and East Africa. While the sample is not representative, it offers valuable directional insights into how remittances are sent, the barriers migrants face, and how remittances are used by recipients in Yemen.

Survey Instrument

The questionnaire was administered in Arabic and English via an online form. It included 23 structured questions organised across the following thematic sections:

1. Personal Information

- Age
- Gender
- Education level

2. Employment Details

- Current occupation
- Country of employment
- Duration of employment abroad
- Motivation for seeking employment overseas

3. Remittance Frequency and Amount

- Frequency of remittance transfers
- Average remittance amount
- Use of in-kind remittances
- Channel used for transfers

4. Channels Used

- Methods used (e.g., bank transfers, MTOs, informal channels)
- Factors influencing choice of remittance channel

5. Costs and Challenges

- Fees associated with remittance transfers
- Challenges or delays experienced when sending remittances

6. Recipient Information

- Primary recipients in Yemen
- Typical use of remitted funds (e.g., food, rent, education, healthcare, investments)

7. Economic Impact

- Perceptions of contribution to economic development in the home community
- Observed financial changes in the recipient household

8. Access to Financial Services

- Migrant's access to banking in the host country
- Family's access to banking services in Yemen

9. Digital Platforms

- Awareness and/or use of digital remittance platforms
- Perceptions of their reliability and security

Ethical Considerations

Participation was entirely voluntary, and no personally identifying information was collected. Respondents were informed that their answers would be used exclusively for research purposes and kept confidential. The study was reviewed internally to ensure it met ethical standards for research involving human subjects.

Appendix B

Roundtable Summary

Date & Location:

26 February 2025 | Lotus Hotel, Aden

Organised by:

The Executive Bureau for the Acceleration of Aid Absorption and Support for Policy Reforms (EB), the International Growth Centre (IGC), and the Central Bank of Yemen (CBY), Aden.

Format:

The roundtable was structured into three thematic discussion sections, each guided by a set of open-ended questions. Participants were divided into breakout groups, and each group reported back on their findings and insights. The event was held in a hybrid format, with 40 participants, including representatives from the banking sector, money transfer companies, Government CBY officials, donors (FCDO, WB, BMZ, EU), and development practitioners.

Discussion Section 1: Challenges in Yemen's Remittance System

Theme: Identifying the barriers that hinder remittance efficiency and accessibility

1. **What are the biggest challenges preventing remittances from effectively reaching recipients in Yemen?**
 - Consider structural issues such as financial infrastructure limitations, reliance on informal networks, and high transaction costs.
2. **How do institutional barriers (financial system fragmentation, governance failures) complicate remittance flows?**
 - How does the fragmentation of the financial system between Aden and Sana'a affect transactions?
 - What role does public distrust in financial institutions play? And how does it affect remittance flow?
3. **What external factors (sanctions, financial regulations, labour policies in host countries) affect remittance flows to Yemen?**
 - How are new labour restrictions affecting Yemeni workers in host countries, particularly in terms of employment stability and remittance flows? What specific challenges do Yemeni workers face compared to other migrant labourers under these policies?
 - How are the new FTO sanctions impacting the financial sector and the flow of remittances? What challenges do these sanctions pose, particularly regarding trust in the financial sector and the cost of transactions?

Discussion Section 2: Opportunities for Strengthening Yemen's Remittance System

Theme: Exploring potential solutions, innovations, and alternative approaches

1. **How can formal remittance systems be made more accessible and attractive to Yemeni migrants?**
 - Could incentives such as competitive exchange rates or lower fees encourage more use of formal channels?
 - In your assessment, what is the ratio of formal to informal remittances?
 2. **What role can technology (mobile banking, digital payment systems, blockchain) play in improving remittance efficiency?**
 - What role do financial providers (banks, remittance companies) play in promoting and integrating these technologies?
 - What infrastructure challenges hinder technology adoption in financial transactions, and how can they be addressed?
 - Are there successful case studies from other countries that Yemen could learn from?
 - What support does the Yemeni government need to effectively integrate technology into remittance flows?
 3. **How can informal remittance networks (hawala systems) be better integrated into the formal financial system?**
 - Could partnerships between financial institutions and informal networks improve trust and compliance?
 - What policies can be introduced to encourage formalising remittances?
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Discussion Section 3: Policy Recommendations to Leverage Remittances for Economic Recovery

Theme: Identifying actionable reforms and long-term strategies

1. **How can remittances be leveraged beyond household consumption to support economic recovery and financial stability?**
 - What strategies could encourage remittance investments in small businesses, education, or infrastructure?
 - Are there successful cases or strengths within Yemen's remittance sector that could be scaled or adapted to improve efficiency and impact?
2. **What policy reforms would improve remittance efficiency and reduce costs for senders and recipients?**
 - What role can money transfer operators (MTOs) play in reducing transaction costs and improving accessibility for remittance senders and recipients?
 - Should financial institutions provide targeted incentives for migrant workers to use formal remittance channels?
3. **How can international and domestic actors strengthen Yemen's remittance system?**
 - What role can international actors (donors, financial institutions, diaspora communities) play in improving the resilience and effectiveness of remittance flows?

- How can international financial policies and regulations be adjusted to better support remittance flows?

Summary of Roundtable Outputs – Key Challenges, Opportunities, and Recommendations

Theme	Key Insights from Roundtable Participants
Challenges in Yemen’s Remittance Ecosystem	
Informal Channels	Heavy reliance on informal networks due to high transaction fees, regulatory caps (e.g., 35,000 SAR transfer ceiling), exchange rate instability, and lack of trust in formal systems.
Trust Deficit	Deep distrust in the Central Bank and commercial banks following unmet obligations, lack of reform, and deposit access issues.
Financial System Fragmentation	Division between Aden and Sana’a financial institutions hinders standardisation and reduces efficiency.
International Sanctions & Restrictions	Sanctions on banks (e.g., Yemen & Kuwait Bank), FTO designations, and U.S. Federal Reserve disengagement restrict USD transactions and correspondent banking.
Liquidity & Currency Volatility	Liquidity shortages across financial institutions push senders to avoid banks; exchange rate gaps between north and south create remittance loss.
Technological Constraints	Weak internet, outdated financial systems, and limited use of fintech tools restrict the expansion of formal remittance options.
Labour Market Challenges Abroad	Policies like Saudization and salary repatriation restrictions disproportionately affect Yemeni migrants' ability to remit.
Data Gaps	Absence of accurate data on remittance volumes and channels, particularly informal flows, complicates evidence-based policymaking.

Opportunities to Strengthen the System

Financial Technology Adoption	Expansion of mobile banking, digital payments, and integration with platforms like <i>Buna</i> can increase reach, lower costs, and reduce informality.
Diaspora Investment	Calls for expatriate-targeted investment funds, special economic zones, and formal diaspora engagement via dedicated institutions.
Integrating Informal Networks	Potential to formalise <i>hawala</i> and informal actors via incentives, partnerships, and trust-building mechanisms.
Lessons from Peer Countries	Somalia’s fintech journey and Egypt’s success with digital platforms (e.g., <i>Buna</i>) offer instructive models.

Policy Recommendations

Central Bank Reform	Rehabilitate CBY to strengthen reserves, rebuild credibility, and reintegrate with international financial systems.
Unified National Platforms	Develop integrated remittance platforms linking CBY, banks, MTOs, and mobile payment systems.
Public–Private Partnerships	Build bridges between government, banks, and remittance firms to co-create diaspora investment products.
Regulatory Reforms	Simplify banking procedures, reduce remittance costs, and ease restrictions on expatriate capital inflows.
Financial Literacy & Communication	Raise awareness among senders and recipients; run outreach campaigns to increase uptake of formal channels.
Reduce Political Interference	Minimise political influence over banking sector operations to restore neutrality, credibility, and regional cohesion.
Balance Exchange Rate Management	Monitor and limit speculative behaviours while maintaining manageable spreads to encourage formal usage.

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