YEMEN ECONOMIC BULLETIN:

THE LIMITED EFFICACY OF US SANCTIONS ON HOUTHI FINANCIAL NETWORKS

By:

The Sana’a Center
Economic Unit

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COVER PHOTO: AQAP militants in Yemen, 2014. Screen capture: Wikimedia Commons

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

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EXECUTIVE SUMMARY

Since 2015, conflict-related factors in Yemen and de-risking by financial institutions abroad have led to a mass migration of financial flows from the country's formal to the informal economy. Informal market actors have benefited greatly from this increased liquidity, foremost among them Swaid & Sons for Exchange Co., which became one of Yemen's largest financial service providers and the largest actor in the money exchange and transfer market. The company leveraged its position to build a domestic financial empire with broad international reach, with its pervasive networks having proved useful to ordinary Yemenis, independent commercial and financial actors, and the armed Houthi movement alike.

In the past year the sanctions regime the United States has pursued against the armed Houthi movement has expanded from a focus on the group's military and security activities to targeting its economic foundations. In mid-2021, this effort saw the US Department of the Treasury's Office of Foreign Assets Control (OFAC) sanction Swaid & Sons. Six months on from this designation, the following paper assesses what the impact of US sanctions has been on Swaid & Sons specifically and the armed Houthi movement generally. It shows that the designation has challenged the company, severing it from formal access to global financial networks and leading to a loss of liquidity in Yemen. Swaid & Sons maintains significant international reach, however, through *hawala* networks and the use of agent services, while it has also largely maintained its country-wide networks and services in Yemen. More broadly, the Houthi movement has proven generally insulated against negative impacts of US sanctions.

While the deterrent effect of sanctions has been limited, they have contributed to significant barriers for Yemeni commercial banks and businesses to undertake external financial transactions, including trading activities, money transfers and opening credit lines. Importantly, the maintenance of foreign trade is essential to mitigating Yemen's humanitarian crisis, given that as much as 90 percent of the country's food needs are met through commercial imports and roughly 20.7 million Yemenis are currently in need of some form of humanitarian assistance.

In such circumstances, any prospective international sanctions against parties in Yemen must be assessed against the risk that they may compound the dire economic and humanitarian circumstances Yemenis at large already face.

Thus, before deploying further financial sanctions, or lifting existing ones, it is important that a monitoring system is in place to assess the inter-related impacts and efficacy of ongoing sanctions, the evolving dynamics of the Yemeni market and the country's political, military and humanitarian situation, and the probable risks to legitimate businesses and ordinary people in Yemen.

BACKGROUND: THE US FINANCIAL SANCTIONS CAMPAIGN IN 2021

On January 10, 2021, the US Department of State announced its intent to designate the armed Houthi movement, *Ansar Allah*, a foreign terrorist organization (FTO), with the order to come into effect on January 19, one day before former president Donald Trump was replaced in the White House by the incoming Biden administration. Among the implications of an FTO designation are that any institutions, organizations and individuals, both American and foreign, that provided the designated group with "material support" – broadly defined to include services, resources, advice and assistance – could be subject to criminal prosecution in US courts.

The United Nations (UN), humanitarian actors and members of the US Congress immediately decried the move, saying that it would exacerbate Yemen's already dire humanitarian crisis, given the majority of the Yemeni population – and the majority of those in need of international humanitarian assistance – live in Houthi-controlled areas. Heeding these calls, on February 16 President Joe Biden ordered OFAC to revoke the terrorist designation.

Washington has, however, continued to pursue other means to escalate financial pressure against individuals and entities connected to the armed Houthi movement throughout 2021. In January, OFAC issued an update to its list of specially designated nationals (SDN), adding several Houthi members who were already facing OFAC foreign asset freezes and travel bans. These individuals included Houthi leader Abdelmalek al-Houthi, senior Houthi official Abdullah Yahya al-Hakim, and Houthi military commander Abd al-Khaliq al-Houthi.[1]

Between March and May this year, other pro-Houthi security and military commanders and leaders were also added to the OFAC SDN list.[2] These people were accused of threatening the peace, security and stability of Yemen and

1) "Issuance of Counter Terrorism General Licenses and related FAQs; Counter Terrorism Designations; Venezuela-related Designations; CAATSA - Russia-related Designations; Yemen-related Designations Updates," US Department of the Treasury, January 19, 2021, https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210119

2) "Yemen-related Designation; Counter Terrorism Designation", US Department of the Treasury, May 20, 2021, https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210520_33

procuring weapons from Iran. According to OFAC, any property belonging to those blacklisted that comes under US jurisdiction must be frozen, and US citizens are no longer allowed to deal with designated individuals.[3] In November, the United Nations Security Council imposed sanctions on three senior Houthi leaders, including Saleh Mesfer Alshaer, who the US Treasury Department shortly thereafter also sanctioned.

3) "Treasury Sanctions Senior Houthi Military Official Overseeing Group's Offensive Operations," US Department of the Treasury, May 20, 2021, https://home.treasury.gov/news/press-releases/jy0191.

OFAC TARGETS SWAID & SONS AS PART OF SMUGGLING NETWORK

A second phase of sanctions was then outlined in OFAC's SDN list from June of this year.[4] This phase aimed to target the economic foundations of the Houthi movement directly by cutting its main channels to external financing – and to Iran and its Islamic Republican Guard Corps-Quds Force (IRGC-QF) in particular. Further, secondary sanctions under the SDN list were intended to coerce third-country citizens and entities into ending money transfers to the Houthi authorities in Yemen.

"Ending the suffering of millions of Yemenis is of paramount concern to the United States," OFAC director Andrea Gacki said in her office's June press release, "and we will continue to hold accountable those responsible for widespread misery and deny them access to the global financial system."

The same day, OFAC imposed targeted sanctions against 12 members of a designated smuggling network. In the June 10 press release, OFAC said that this network was being led by Sa'id Ahmad Muhammad al-Jamal, a Yemeni based in Iran who financially supports the armed Houthi movement.[5] Members of the network named by OFAC included seven businessmen and shipping professionals, as well as four companies and a Gabon-registered vessel. According to the office, these have all been collaborating with Al-Jamal to fund the IRGC-QF and the Houthi movement in Yemen.

The network members have been sanctioned for their relationship with Al-Jamal and other parts of his network, under the US counterterrorism authorization known as Executive Order (EO) 13224. In particular, those sanctioned include Hani 'Abd-al-Majid Muhammad As'ad, a Yemeni accountant based in Turkey, who was accused of managing Al-Jamal's finances and facilitating transfers to the Houthi authorities. Five non-Yemeni nationals were also sanctioned, including two Syrians.

4) "Specially Designated Nationals List Update," US Department of the Treasury, June 10, 2021, https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210610

5) "Treasury Sanctions Network Financing Houthi Aggression and Instability in Yemen," US Department of the Treasury, June 10, 2021, https://home.treasury.gov/news/press-releases/jy0221

The sanctioned companies include the UAE-based Adoon General Trading FZE and Adoon General Trading LLC, and Adoon General Trading Gida Sanayi Ve Ticaret Joint Stock Company, based in Turkey. The fourth firm sanctioned is Swaid & Sons for Exchange Company, an exchange house based in Yemen that has "facilitated transactions worth millions of dollars" for the network, according to OFAC.

According to the US Treasury Department, Al-Jamal used this illicit network to smuggle Iranian fuel, petroleum products and other commodities to customers throughout the Middle East, Africa and Asia. A significant portion of the money raised, estimated to be in the tens of millions of dollars, was then directed to Yemen through a complex international network of intermediaries and exchange houses, with Swaid & Sons the principal example of the latter. There, OFAC said,[6] the funds were used to finance Houthi and IRGC-QF operations.

OFAC further states that under Al-Jamal's close direction, two Syrian nationals in particular were involved in this process. They are Talib 'Ali Husayn al-Ahmad al-Rawi, based in Turkey, and Abdul Jalil Mallah, based in Greece. They are alleged to have sent millions of dollars to Swaid & Sons in Yemen from purchases of Iranian petroleum by the Syrian Qatirji Group, which "maintains strong ties to the Syrian regime", according to OFAC.

In its press release, OFAC said that since the conflict erupted in Yemen, the Houthi authorities have relied on support from the IRGC-QF to conduct their campaign against the Saudi-led coalition and the internationally recognized Yemeni government. Revenue smuggled via the Al-Jamal-led network has helped fund this campaign, which has had "dire consequences for Yemeni civilians and Yemen's neighbors," according to the OFAC statement.[7]

6) "Counter Terrorism Designations; Iran-Related Designations and Designations Removals; Syria Designations Updates and Designations Removals," US Department of the Treasury, June 10, 2021, https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210610

7) Ibid.

SWAID & SONS: FROM HUMBLE ROOTS TO A MONEY MARKET EMPIRE

Mohammed Lotf Swaid began his business career as a textile merchant in the commercial market of the Old City of Sana'a. In 1998, he opened his first money exchange shop, buying and selling currencies for local traders and tourists alike. The endeavor proved lucrative, the business expanded, and in 2008 the Swaid & Sons for Exchange Company was legally registered to operate as a money exchange and transfer company, with a multiple-partner ownership structure.

The company continued to grow rapidly, with its achievements including establishing the Floosak electronic money service, provided by Yemen and Kuwait Bank and QualityConnect, and the Mal Money Transfer network, connecting Swaid & Sons with money exchangers around the country. The company also became an agent for some of the largest international money transfer companies, such as MoneyGram, Express Money and Shift Money, as well as various smaller ones. More recently, Swaid & Sons declared that it plans to branch out into Islamic banking and microfinance, as well as investment vehicles for precious metals, technology and international trade.

Under both the previous and current ownership structures, the business had obtained the legally required licenses to operate in the Yemeni money exchange market and to make international transfers over both global wire services and informal hawala networks. Prior to the ongoing war, when the industry was efficiently regulated by the Central Bank of Yemen (CBY), all money exchange outlets and hawala networks in Yemen required licenses to operate.

This paper uses the term 'informal' for money exchangers and hawala networks operating in Yemen to distinguish them from the formal banking system – namely commercial and Islamic banks – which are more regulated and must comply with international standards for financial service provision. The term is also meant to indicate that the market in which these financial service providers operate has become increasingly opaque with the intensification of the conflict since 2014-2015. The war has rapidly eroded CBY capacity to monitor and regulate the country's money markets. Particularly damaging in this regard was the 2016 fragmentation of central bank operations between competing head offices in Aden and Sana'a, affiliated with the internationally recognized Yemeni government and the Houthi authorities, respectively. This, in concert with Yemen having a heavily cash-based economy, has created a fertile environment for unlicensed money exchangers and hawala networks to rapidly proliferate and for them to assert themselves as powerful players in the financial market along with licensed networks.

Swaid & Sons has, since the war began, become one of the largest service providers in the Yemeni financial sector and the largest actor in the money exchange and transfer market. This ascendency began in mid-2016, with the outbreak of a liquidity crisis that ravaged the banking sector and shrank its customer base. Among the factors at play was that Western banks began aggressive de-risking measures and ceased their interactions and correspondent banking activity with Yemeni banks. This was tantamount to an international blockade against Yemeni banks accessing global financial networks, as it left them unable to facilitate international transactions and trade. The banks' inability to provide these services created a vacuum and a parallel market for the country's money exchangers, who operate over networks that face far less scrutiny than, for instance, the banks' letters-of-credit system. Beginning in the first half of 2016, businesses and wealthy Yemenis thus began pulling their holdings out of the banking system in what became a massive migration of liquidity from the formal to informal financial sector. Losing ground to informal financial service providers, Yemeni bank managers sought out a well-connected, strong market leader among these informal players to help them access the currency exchange market and restore part of their departing monetary base. By this time, Swaid & Sons was one of the largest and best connected informal money market players in Yemen, able to leverage years of experience and knowledge of local market dynamics to win business from commercial and Islamic banks.

Over time, several Yemeni banks built significant mutual financial interests with Yemeni money exchangers, and primarily Swaid & Sons. The banks then became dependent on the financial gains generated from their relationship with Swaid & Sons and other financial players in the money exchange market to stay present in the market themselves and weather the severe financial stresses of the escalating conflict. Swaid & Sons thus grew into a crucial financial clearing house for many banks and businesses, facilitating their access to Yemeni rial liquidity and hard currency in exchange for high premiums. Swaid & Sons also became an important hub and clearing house within the money exchange industry itself, with other exchange outlets regularly selling Swaid & Sons their foreign currency stocks. Indeed, the Sana'a Center's Economic Unit estimates that between 2016 and 2020 Swaid & Sons played a role in at least 20 percent of total foreign currency trading in Yemen.

Due to the liquidity crisis, most commercial traders and businessmen have left the formal banking system. They maintain liquidity and carry out financial transactions through money exchanges, largely through Swaid & Sons' financial interface prior to the company being sanctioned. In Yemen, by law banks alone are permitted to act as deposit takers. In practice, during the conflict this has freed money exchange companies from having to pay interest on the funds they hold on behalf of customers which are otherwise, for all intents and purposes, deposits. Money exchangers have benefited greatly from this increased liquidity, perhaps none more so than Swaid & Sons, which has leveraged its position to build a domestic financial empire with broad international reach.

Swaid & Sons' powerful pan-Yemen financial networks have also been an attractive means of leverage for the Houthi authorities in their struggle for economic dominance with the internationally recognized Yemeni government. The currency war between the two sides escalated dramatically in late 2019 when the Houthi authorities announced a ban on new banknotes, issued by the CBY-Aden since early 2017, from circulating in areas under their control.[8] The foreign exchange rate for new and old bills then began to rapidly diverge, with the former losing value and the latter remaining relatively stable.

Many money exchange businesses – Swaid & Sons being the largest among them – then took measures to transfer their inventory stocks of old rial banknotes in Yemeni government-controlled areas to Houthi-controlled areas. This was done for several reasons. Firstly, exchange businesses were suffering a critical shortage of usable local currency liquidity in the Houthi-controlled market, where the largest financial and population centers are located. Secondly, the Houthi authorities adopted punitive measures against money exchangers and hawala networks to coerce them into transferring old rial banknotes to Houthi-controlled areas and prevent new bills from circulating. Thus, old Yemeni rials flowed into Houthi-controlled areas and new ones flowed out, allowing the CBY-Sana'a to secure a strategic stock of the limited remaining old banknotes, and helping to inflate the monetary base of newly printed rial banknotes in Yemeni government-held areas.

At the global level, Swaid & Sons has worked directly and indirectly as a formal agent for a number of international financial services companies and networks. These include MoneyGram, Western Union, Xpress Money, Dubairemit, iCash

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

Djibouti service, Al-Taif, Shift Money and CAC Bank International Djibouti.[9] A significant portion of these money transfers have been conducted through the UAE via Dubai.[10] This emirate has been the main financial hub for Swaid & Sons' provision of international financial services, including remittances, which have mainly been facilitated through the Al Fardan Exchange, a member of Al Fardan Group and a major actor in the UAE money exchange industry that also operates from Qatar.

Remittances to Yemen are currently the country's largest source of foreign currency and amount to billions of dollars annually, with the World Bank placing the figure for 2019 at roughly US$3.8 billion, though the actual number is likely much higher given that most remittances are sent through informal networks.[11] There are also no definitive statistics available showing the average annual proportion of remittances transferred between Yemen's formal banking system and the less regulated Yemeni hawala networks. However, the Sana'a Center Economic Unit estimates that hawala networks and similar money transfer routes facilitate at least 70 percent of remittances coming into Yemen, with Swaid the largest actor among these networks.

9) Swaid & Sons for Exchange Co., "Our Partners," n.d., http://104.218.51.20/en

10) An interview with two senior Yemeni bankers, July 2021.

11) Wadhah Ahmed, Saleh Zaid and Yousef Mohsen, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittances in Mitigating Economic Collapse," Sana'a Center For Strategic Studies, May 31, 2019, https://sanaacenter.org/publications/main-publicatiohttps://sanaacenter.org/publications/main-publications/7471

THE IMPACT OF US SANCTIONS AGAINST SWAID

In response to the US sanctions, Swaid & Sons issued a statement on June 16 strongly denying the US Treasury Department's accusations, declaring the company to be in compliance with anti-money laundering statutes and asserting a legal right to use all legitimate means to get the sanctions repealed.[12]

The following day, the Aden-based Public Prosecution Office (PPO), operating under the administration of the Yemeni government, issued Decree No. (15) to put the parties designated by the US, including Swaid & Sons, on its terrorism black list. Four days later, the CBY-Aden issued a circular to direct the banking sector, exchange companies and other outlets to implement the decree.[13] If fully implemented, this would result in Swaid & Son's bank accounts being frozen, its operational licenses being revoked, and there would be a general prohibition in Yemen against entering into commercial and financial dealings with the company.

On June 18, the Sana'a-based Yemeni Exchanges Association then came out in support of Swaid & Sons, calling for the cancellation of the US Treasury Department's SDN listing.[14] The association also demanded foreign states and external agencies refrain from politicizing financial activities and reconsider OFAC's decision, arguing that its sanctions would have an adverse effect on the whole financial sector.

A state of anxiety swept over market players with exposure to Swaid & Sons, and the sanctions quickly had adverse implications for the company's money exchange activities with Yemen's private sector. Following the designation, many large trading houses, mostly family firms, that had been using Swaid & Sons to carry out functions legally reserved for banks – such as deposits, withdrawals and maintaining current accounts for their operations – made large asset withdrawals from Swaid & Sons' treasury.[15] Commercial traders, whose businesses depend on being able to carry out financial transactions internationally to secure imports,

12) Yemeni Popular Media, Twitter post, "Press statement, Swaid and Sons for Exchange Co. [AR]," June 15, 2021, https://twitter.com/PopularMedia8/status/1405221384066830340

13) "The Government Freezes the Accounts of People and Entities Linked to the Houthis Who Are Subject to US Sanctions [AR]," Al-Sharaeanews.com, June 22, 2021, https://alsharaeanews.com/2021/06/22/64003/

14) "The Yemeni Money Exchange Association Expresses its Regret for the US Treasury's Decision Against the Swaid & Sons Exchange Company," Yemen Banks Association, June 18, 2021, https://bit.ly/3mtacC7

15) Interview with two senior Yemeni bankers, June 2021.

appeared particularly concerned and took precautionary measures to avoid being targeted by sanctions themselves.

The loss of significant amounts of domestic and foreign currency liquidity undoubtedly undermined Swaid & Sons' leverage over the foreign currency market and curtailed the company's ability to provide commercial credit – facets of its business that had helped it flourish since 2016. The prospects for the company's future expansion plans have similarly dimmed.

However, as of this writing, six months following the US announcement, Swaid & Sons is still very much in business. Based on Sana'a Center site visits to outlets of Swaid & Sons and its subsidiaries in major urban centers across Yemen, the company's ability to operate nationwide – including in government-held areas – appears unaffected. For instance, while the Swaid & Sons branch in Marib was closed following the PPO decree, the company's nationwide money transfer network MAL is still open and operating. Similarly, MAL continues to give Swaid & Sons a portal in Aden and Shabwa. In general, the PPO decree and the CBY-Aden circular appear to have been widely ignored and no asset freezes have taken place. Notably, most Yemeni banks and major commercial and financial actors are headquartered in Sana'a and have faced Houthi pressure to refrain from applying any measures against Swaid & Sons.

In regards to Swaid & Sons' international operations, the company's reputation among established financial institutions has been severely damaged. The legal requirements of the OFAC sanctions have meant international financial companies, such as MoneyGram, Western Union and Xpress Money, have frozen their correspondence relations with Swaid. It is thus clear that Swaid & Sons has lost the ability to directly operate as a portal to the global financial system, and consequently must have suffered some losses to its business. Yet while definitive evidence remains elusive, anecdotal reports from the financial markets in Yemen suggest that the company has retained a substantial ability to operate internationally. One means to do this is its extensive hawala network. Another common practice in the Yemeni market is the use of agent offices, where those entities unable to obtain licenses to directly provide financial transfers over international networks such as MoneyGram and Western Union do so as agents of a bank or other license-holding institution, with only the name of the license-holding institution appearing in the documentation. Other factors aiding Swaid & Sons in its ability to operate internationally include the support it receives from the Houthi authorities, which helps protect the company from monitoring, as well as the fact that the CBY-Aden currently has limited access to banking sector data.

According to a high-ranking official in the Yemeni banking sector, who spoke to the Sana'a Center Economic Unit on condition of anonymity, the exact size of Swaid & Sons' assets outside Yemen that have been frozen in the aftermath of OFAC designation is unclear.[16] The amount could be relatively small, as Swaid did not maintain significant funds in overseas financial accounts. The official said Swaid had not deposited money with accounts in Dubai-based banks, but instead kept its foreign exchange funds available via global financial transfers with correspondent financial networks, operating from the UAE and Saudi Arabia. These funds must, however, have been settled through an immediate financial clearance. The source said that Swaid held only one foreign bank account, in Oman, but that this, worth roughly US$20 million, had been frozen well before the June sanctions.

16) Interview with a high-ranking official in the Yemeni banking sector, June 2021.

SANCTIONS AND THE HOUTHI MOVEMENT

The impact of the OFAC sanctions on the Houthi movement and the external financial networks working with them depends on many factors. These include: the parameters of the sanctions; the economic significance of pro-Houthi movement parties that are also designated; the degree to which such parties have formally established business entities or have invested in assets and bank accounts abroad; the degree to which sanctioned entities regularly engage in significant financial and trading activities with foreign institutions, particularly US or Western ones; and the level of support and compliance with sanctions by foreign countries and institutions based in Houthi-controlled areas.

In their current form as policy-level programs,[17] the sanctions are intended to negatively impact the pro-Houthi business entities and individuals placed on the OFAC SDN list. It is not generally known, however, if Al-Jamal's network in particular has experienced any asset freeze since the OFAC sanctions came in. Given that this network, similar to others established to operate on behalf of internationally proscribed regimes, would likely manage a significant portion of its assets beyond the reach of unfriendly countries and their subordinate systems, the network's losses from global freezing of assets may not be substantial.

According to two senior Yemeni bankers interviewed in June 2021, Al-Jamal's network had managed to maintain a significant portion of its assets and investments outside the US financial system. If so, this would limit his network's direct vulnerability to sanctions, although sanctions also impact non-US financial institutions found dealing with the listed parties by cutting off their access to the US market.

Indeed, what is clear is that groups designated for sanctions become almost completely disconnected from the formal global financial system. This gives them little ability to conduct legitimate international trade or financial transactions with US entities and citizens in particular, or with external business actors under US jurisdiction. From a broader perspective, however, it is unlikely that the existing sanctions, which are relatively limited in scale, can confront and dismantle the Houthi movement's financing networks, or pressure the Houthi authorities into signing a political deal.

17) For detailed information on the full list of current sanctions programs that are administered by the OFAC, in conjunction with other American government-based agencies, see Thomas McVey, "Understanding the OFAC Sanctions Laws: Requirements for U.S. Companies," Williams Mullen, December 18, 2020, https://www.jdsupra.com/legalnews/understanding-the-ofac-sanctions-laws-66379/

Supporting this argument is the fact that the comprehensive sanctions programs and long lists of sanctions imposed by the US, UN, European Union (EU) member states and other countries against the Syrian regime and Lebanese Hezbollah have proven ineffective in changing their behavior. This is despite the fact that these sanctions have inflicted significant economic damage by targeting the complex web of actors and relationships, sectors, entities and elites behind them.[18] In this context, it is too soon to assume that the US Treasury Department sanctions will dampen the broader base of global financing channels positioned to serve the Houthi authorities.

As an ideologically institutionalized sectarian group, the Houthi movement can also both learn from and cooperate with its allies in Lebanon, Iran and elsewhere, as well as with other external actors, to overcome the sanctions. This may be done despite the cost to ordinary citizens and independent businesses operating in areas under the control of the Houthi authorities. Lebanese Hezbollah has undergone more than two decades of intensive sanctions, after first being classified by the US as a terrorist organization back in 1997.[19] Despite stronger sanctions criminalizing the group's various funding mechanisms, Hezbollah has developed coping strategies and money laundering schemes to hide and move money around the globe.

In Yemen, since 2015 the war economy has flourished and the black market has greatly expanded. Many dubious transfer networks and financial service providers have established themselves on the ground in order to benefit from speculative currency trading on the volatile black market and other opportunities the conflict has presented. They operate locally and internationally, using global finance and trading systems that have limited compliance and high exposure to counterterrorism financing risks. These enable the Houthi authorities to evade sanctions and receive funds indirectly from shadowy sources. While Swaid & Sons was the Houthis most powerful asset in this regard, the company is far from unique and its services are replaceable.

18) Zaki Mehchy and Rim Turkmani, "Understanding the Impact of Sanctions on the Political Dynamics in Syria," London School of Economics and Political Science, January, 2021, http://eprints.lse.ac.uk/108412/1/CRP_understanding_impact_of_sanctions_on_political_dynamics_syria.pdf.

19) The Hezbollah International Financing Prevention Act (HIFPA), signed by President Barack Obama in December 2015, strengthened the intensity of US sanctions against Hezbollah's domestic and international financing channels. It directed the Lebanese central bank to close hundreds of Lebanese bank accounts linked to the group, and, as of September 19, 2017, had designated up to 60 organizations and 74 individuals affiliated with Hezbollah under OFAC measures. See Yaya J. Fanusie and Alex Entz, "Hezbollah Financial Assessment," Center on Sanctions and Illicit Finance, September 2017, https://s3.us-east-2.amazonaws.com/defenddemocracy/uploads/documents/CSIF_TFBB_Hezbollah.pdf

The Biden administration's revocation of the Houthi movement's FTO designation[20] helped businesses linked to the group to maintain access to the global financial system and relieve entities partnering with these businesses from undergoing costly and time-consuming compliance measures. The FTO revocation also allowed the continuation of transactions between entities connected to the internationally recognized Yemeni government and private sector institutions operating in areas under the control of the Houthi authorities. In terms of impact on the Houthi movement's ability to move money and generate financing, the broad spectrum of the FTO designation would have represented a challenging environment for the group; however, it would also have been tantamount to "the nuclear option" by destroying the ability of businesses and humanitarian organizations generally to carry out normal commerce and activities in Houthi-held areas, with the humanitarian fallout certain to be swift and severe.

The Houthi movement has also developed self-reliant sources of financing. It has been able to do this as a de facto administration, controlling state institutions and their resources. In addition to this effective control of state hierarchy, the movement has also been able to operate informally in the shadow economy. It has done this by using proxies to fund its activities, while keeping a large proportion of its assets and investments locally, or registered externally under the names of pro-Houthi Yemenis living and working around the region.

The Houthi movement also benefits from Iranian support in areas such as the provision of subsidized fuel which the Houthis resell in the local markets. Its main dependence on Tehran, though, has been in the realm of weapons, with the 2021 UN Panel of Experts report on Yemen documenting three routes used to smuggle arms and equipment. The first route, which runs via the Omani and Yemeni coast, is used to smuggle high-value military supplies; the second, via the coast of Somalia, is for the trans-shipment of small arms and light weapons; and the third route runs from the Bab al-Mandab Strait directly to Houthi-controlled areas.[21]

These extensive regions are difficult to monitor, with efforts to prevent smuggling through them — of fuel as well as arms — proving largely ineffectual. Meanwhile, the Houthi movement continues to capitalize on informal financial networks selling Iranian fuel overseas, with the proceeds from this then sent indirectly to the Houthi authorities in Yemen.

20) Antony Blinken, "Revocation of the Terrorist Designations of Ansarallah," US Department of State, February 12, 2021, https://www.state.gov/revocation-of-the-terrorist-designations-of-ansarallah/

21) Dakshinie Ruwanthika et al., "Final report of the Panel of Experts on Yemen", United Nations Security Council, January 22, 2021, https://reliefweb.int/sites/reliefweb.int/files/resources/S_2021_79_E.pdf

LOOKING AHEAD

The maintenance of foreign trade is essential to mitigating Yemen's humanitarian crisis, given that as much as 90 percent of the country's food needs are met through commercial imports and roughly 20.7 million Yemenis — more than two-thirds of the population — are currently in need of some form of humanitarian assistance. In such circumstances, any prospective international sanctions against parties in Yemen must be assessed against the risk that they could compound the dire economic and humanitarian circumstances Yemenis at large already face. What must also be taken into consideration is the ability and propensity of the Houthi authorities to compensate for any financial losses by coercively extracting money from those living under their rule, allowing the group to preserve its own commercial interests by transferring the pain of international sanctions to local businesses and citizenry.

The implementation of the sanctions regime thus far has seemingly lacked a comprehensive strategy, one that is responsive to local market dynamics when attempting to target and dismantle the economic foundations of the armed Houthi movement. There have been counterproductive outcomes in terms of the de-risking measures and increased compliance safeguards that international businesses and financial institutions have put in place during the conflict. External financial networks tend to act based on their assessment of potential risks, meaning they often implement overcompliance and de-risking measures that are far stricter than the existing sanctions require.

This has made it much more difficult for Yemeni commercial banks and businesses to undertake external financial transactions, including trading activities, money transfers and opening credit lines. These tough measures increase the financial costs of conducting transactions, eventually translating into higher commodity prices and greater hardship for ordinary Yemenis. The increased difficulty of conducting business between Yemen and the outside world through formal financial networks has also accentuated the deterioration of Yemen's formal economy and helped entrench informal market economic activities.

Further sanctions also have the potential to intensify the fragmentation and polarization among parties to the conflict who are competing fiercely for economic dominance. For instance, while the Yemeni government and the CBY-Aden could potentially leverage prospective sanctions to exert economic pressure on the Houthi authorities to end the ongoing currency war, this is also likely to cause widespread suffering and economic difficulties for the general population.

The war has left Yemen politically and economically fragmented, while the Houthi authorities have demonstrated a blatant disregard for international counterterrorism financing measures. In these conditions, with highly informal financial markets, it is difficult for international financial actors to justify lifting or easing financial restrictions, or not implementing new ones. However, increased sanctions could significantly set back ongoing efforts to contain the already devastating implications of financial de-risking. Thus, before deploying further financial sanctions, or lifting previous ones, it is important that a monitoring system is in place to assess the inter-related impacts and efficacy of ongoing sanctions, the evolving dynamics of the Yemeni economy and the country's political, military and humanitarian situation, and the probable risks to legitimate businesses and ordinary people in Yemen.

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