

## Money laundering and Conflict in Yemen

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## Summary

The report concluded that the ongoing war in Yemen and its ensuing fragmentation in authorities, policies, resources, and public institutions caused a disruption in the anti-money laundering/counter financing of terrorism (AML/CFT) system including the erosion of AML/CFT's prewar officially managed and coherent legal and legislative system. In addition, the war and the multiplicity of parties involved in it contributed to the expansion in the process of recycling illegal funds and creating private outlets within an illegitimate and illegal framework, and the multiplicity of illegal sources of funds in Yemen, including the looting of public revenues collected from taxes, fees, zakat, rent; the proceeds from systematized collective and individual confiscation of money and property of political opponents, which is one of the most important illegal sources of funds being allocated to finance war operations; donations, subsidies and giveaways; the imposing of additional illegal fees, royalties and customs or being imposed under other names such as war effort and protection; communications revenues; in-kind and cash external support, weapons-related military support; proceeds collected out of currency exchange and oil derivatives black market currency; and other sources of illicit funds that are used to finance military operations and threaten peace, safety, and stability in Yemen, and as a result contribute to the prolongation of the war in the country.

Actors involved in money laundering activities in Yemen resort to many means and methods to launder illegal money: including the banking sector, which parties to the conflict, in particular authorities in Sana'a, enforcedly use the banking sector to conduct money laundering operations or confiscate the funds of their political opponents; financial transfer networks and money exchange outlets which have proliferated in an alarmingly frightening way and have become the most important safe havens for money laundering; and oil derivatives importing companies, where there is a close linkage between oil derivatives trading and the money laundering process and financing the operations and prolonging the war; telecommunications companies; front companies, especially those related to fake companies importing oil derivatives; real estate markets, which are suspiciously active in Sanaa, Ibb and other Yemeni cities; trading centers, malls and commer-




cial markets, smuggling of items abroad; and currencies exchanging and in-kind behavior for buying material things such as gold, jewelry and real estate. Parties to the conflict have also developed mechanisms and procedures, including what is being currently practiced by the de facto authorities in Sana'a for looting public funds and the collective and individual confiscation of the funds of their political opponents, which range from traditional methods to systematized operations made through wide networks including the judiciary, central bank, security, and intelligence systems.

The report showed many negative effects and ramifications on the Yemeni economy due to the proliferation of money laundering operations in the country. Money laundering negatively affects the fiscal and monetary policies, destroy the reputation of the banking sector, leads to cash leakage outside the monetary cycle, shakes confidence in the banking sector, and strengthens the money exchange sector at the expense of banks as the first become attractive for the channels of illegal funds, and this affect the money exchange market, increase the general level of prices, and make donors reluctant to support the Central Bank of Yemen (CBY) with new loans, deposits or financial grants, and disrupt the principle of fair competition in the markets and negatively affect remittances into and from Yemen due to the financial restrictions placed by international banking institutions.

The report also showed that there are many social effects and ramifications emanating from money laundering, the most important of which is the increasing severity of the poverty problem, low living standards for most of the Yemeni society, and the low level of humanitarian aid funds that Yemen could receive from the international community. In addition, from a political perspective the money laundered could be used to finance and support activities targeting official government institutions and harm these institutions economically, such as speculating in the currency and destabilizing the exchange market, as it was the case during the past year.

The report recommended the internationally recognized Yemeni government (IRYG) make more efforts for combating money laundering and terrorist financing, rebuilding the AML/CFT's system in Yemen, and developing the capacities of the CBY, the Financial Information Unit (FIU), and the Supreme National Committee for Anti- Money Laundering/Counter Financ-



ing of Terrorism (SNCAML/CFT) in Aden, work to cease all forms of violations and practices associated with looting of public funds and to hold the corrupt persons accountable in areas it controls, to resume the role of the Supreme National Authority for Combating Corruption (SNACC) and the Central Organization for Control and Auditing (COCA), and to adopt an institutional culture of commitment for combating money laundering and terrorist financing, and for monitoring money laundering activities practiced by armed groups, especially in Sana'a or practiced by officials affiliated with the IRYG through tracking their sources, and maintaining close monitoring over internal and external financial transfers they make, and coordinating with the international community to include all parties and persons obtaining illegal funds or carrying out money laundering operations in the sanctions list in accordance with the resolutions of the UN Security Council regarding Yemen, and also coordinate to direct the funds of humanitarian aid via official channels including the CBY-Aden, and speeding up the process for connecting the systems of money exchange sector to CBY-Aden's automatic network.

The report also recommended adhering to principles of international humanitarian law and international human rights law, protecting funds and properties during, and following any military operations and military seizure of any regions, stopping the target of opponents' properties in areas under the IRYG's control, and ceasing all looting and confiscation of public funds or funds of political opponents, and returning all confiscated public funds to the central bank's treasury and allocating these funds to pay public salaries while returning all confiscated funds of private companies, banks, associations and institutions to their deserved owners.

The report recommended the CBY and FIU in Sana'a activate their supposed role in AML/CFT in accordance with the relevant laws, and refrain from enforcing all forms of guardianship and pressure on Yemeni banks to pass money laundering transactions or issue orders to banks for illegal seizure and confiscation of citizens' money and properties in order to protect the banking sector from being exposed to international sanctions that negatively and significantly affect the banking sector operations.

## Foreword

There is a growing threat of money laundering and terrorist financing globally, which undermine the economic, social and political stabilities. Money laundering is linked to terrorist financing and in war torn countries it prolong armed conflicts and result in an increased human lives and material losses. Money laundering in Yemen has increased dramatically in conflict- areas in Yemen, where it is used as essential mean of financing the war. This report tries to outline the available information on money laundering process in Yemen and how criminals are making “dirty” money appear legitimate and the negative impacts of money laundering on the economic, social, and humanitarian spheres. Then, report would conclude with the findings and recommendations that will inform the country's decision-makers to combat and mitigate the risks of money laundering.

## Money Laundering Concept

Money laundering is defined as the process of concealing the sources of money obtained illegally by passing it through a complex sequence of banking transfers or commercial transactions<sup>1</sup>. Money laundering comes in the form of illegal sales of arms, smuggling, organized crime, corruption and looting of public money, embezzlement, drug trafficking, and trafficking in humans and other crimes<sup>2</sup>.

Money laundering is a crime and whoever commits, participates, assists, abets, or covers up crimes such as theft, embezzlement of public funds, seizure of public funds by fraudulent means, bribery and breach of trust, and seizure of private funds that subject to punishment according Combating Money Laundering and Terrorist Financing<sup>3</sup>.

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<sup>1</sup>What is money laundering? - Law Times Journal

<sup>2</sup> The concept of money laundering is concerned with processing the proceeds of money from illegal activities. Illicit arms sales, smuggling and organized crime activities, including for example drug trafficking and prostitution networks, can generate huge amounts of revenue. Schemes of embezzlement, bribery and computer fraud can also generate significant profits and create an incentive to "legitimize" ill-gotten gains through money laundering. Available at: <https://www.fatf-gafi.org/faq/moneylaundering/#d.en.11223>, accessed: 02/15/2022

<sup>3</sup> Yemeni Law No. (10) of 2010 on Combating Money Laundering and Terrorist Financing, available at: [https://yemen-nic.info/db/laws\\_ye/detail.php?ID=69344](https://yemen-nic.info/db/laws_ye/detail.php?ID=69344), accessed: 10/02/2022

## Money Laundering Stages

Money laundering often includes a complex series of overlapping processes that are usually difficult to separate from one another. It usually takes three stages, the first stage focuses on the disposal of cash or other assets originating from criminal activities, or depositing illegal money in the financial system. The second stage intends to deliberately incorporate multiple financial instruments and transactions to conceal the source of money. The third and final stage focuses on providing an apparent legitimacy to the illegal money by reintroducing it through the financial system to make it look like a result of normal business.

## Anti-money Laundering Basic Legislative Environment in Yemen

The basic environment for AML/CFT<sup>4</sup> in Yemen is divided into two parts. The first constitutes the international standards, while the second includes the local legislative and supervisory environment. Prior to the eruption of conflict in 2015, the Yemeni government, CBY, and the remaining institutions concerned with AML/CFT made good efforts and relied on several international initiatives in the field of AML/CFT. Among the references were the 40 recommendations issued by the Financial Action Task Force (FATF), documents issued by Basel Committee<sup>5</sup> such as Customer Due Diligence for Banks published in October 2001, and UN Security Council Resolution No. 1313/4221. In addition to that, Yemeni government, CBY also benefited from The Financial Action Task Force (FATF), as well as the United States' legislative and supervisory initiatives applied to transactions worldwide. Accordingly, many laws and legislations were issued, including the Law No. (1) of 2010 on AML/CFT, which was amended by law No. (17) for the year 2013 and its executive bylaw. The CBY and FIU have also issued many instructions, guidelines, and periodic circulars to combat money laundering and terrorist financing<sup>6</sup>.

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4 Anti-Money Laundering and Counter- Financing of Terrorism.

5 The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions.

6 Al-Fawdaei Waheed, Anti-Money Laundering and Terrorist Financing Measures in Banks, January 2017.



## Anti-money Laundering Authorities in Yemen

There are many institutions tasked with anti- money laundering and countering financing of terrorism in Yemen. Prior to the conflict and before being fractured, AML/CFT institutions made great efforts in the field of anti- AML/CFT, including the formation of SNCAML/CFT, which is a committee formed by a Prime Minister Decree in accordance with the provisions of the law on AML/CFT and the FIU, which is an independent unit established by a Prime Minister Decree within the CBY and is considered as a major player in the AML/CFT efforts. CBY's mandate is to monitor the banking sector compliance with AML/CFT and to issue regulations and instructions related to AML/CFT. To conclude, work in the field of AML/CFT involves an integrated administrative, legal, judicial, legislative, and executive system. AML/CFT is the responsibility of financial institutions, non-financial institutions, certain professions such as real estate agents, precious metals or gem dealers, custodians, private accounting and auditing offices, and service companies. It also includes the judiciary, public prosecutions, control agencies such as the National Security Agency, which prior to the conflict played a vital role in the field of AML/CFT, communications networks, justice, and legal entities.

## Disrupted Anti-money Laundering System

Prior to the conflict, the authorities tasked with AML/CFT, including Yemeni banks, adhered to AML/CFT regulations, and complied with AML/CFT's international controls and standards. They maintained good measures to address AML/CFT operations to be able to sustain the relationship with the international banking system and external banks and financial institutions.

The confidence in the Yemeni financial and banking system was largely based on the performance made by the AML/CFT's institutions. They were active in raising awareness among financial and banking institutions on AML/CFT related risks, activation of internal control frameworks, ensuring





all administrative and legal procedures are in place to identify suspicious operations and report them to the CBY and judicial authorities<sup>7</sup> .

The prolonged war resulted in a state divide of public institutions and resources , especially after the IRYG's decision in September 2016 to transfer the CBY's headquarter to Aden. Since then, the AML/CFT's institutions' performance were extremely disrupted and led to overlapping challenges and risks for local banks. The existence of two CBYs operating independently and often competing with one another has created a conflict in the country's financial and monetary policies. The absence of a unified authority to implement coherent monetary policy and regulate the financial sector at the national level has become the greatest challenge to the banking system in Yemen. Accordingly, the banking system become exposed to money laundering activities which affected negatively Yemeni banks' relationship with clients, foreign banks, and international financial institutions and bodies. In addition, the divide led to the evaporation of prewar legal and legislative system concerned with AML/CFT, being previously run by CBY, FIU, and the SNCAML/CFT. However, the work in the AML/CFT involves an integrated administrative, legal, judicial, legislative, and executive system<sup>8</sup> .

Ultimately, the FIU and SNCAML/CFT entities in Sana'a lost their international recognition, and the Yemeni government issued a decree to reconstitute these entities, and mandate their employees to carry out their work from Aden<sup>9</sup> .

## Relationship between War and Money Laundering

The war in Yemen contributed to the accumulation of illegitimate wealth resulted from suspicious activities and one of the most noticed one is illegal money used for the illicit arms trade. Illegal money is used to finance military operations and threaten peace, safety, and stability in Yemen and contributes to prolonging the war<sup>10</sup> .

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7 Al-Araby Al-Jadeed, Disruption of the Anti-Money Laundering System in Yemen, Press Report, July 25, 2021, available at: (<https://www.alaraby.co.uk/economy/>), accessed date: 02/25/2022

8 Al-Fawdaei Waheed, the monetary division and its impact on the banking sector, July 2021.

9 The interim Capital for the IRC.

10 Ahmad Himmish, Dakshini Rwanthika Gunaratne, Gregory Djohnsen and Adrian Wilkinson, Final Report of the Panel of Experts on Yemen, United Nations Security Council, January 27, 2017, p. 44, available at: <https://undocs.org/ar/S/2017/81>, accessed date: 02/12/2022.

## Illicit Money Sources and Safe Havens

In Yemen, there are many sources of illegal funds, including public revenues from taxes, fees, zakat and rents. Other sources of illegal funds are coming from the confiscation of the money and property of political opponents, donations, subsidies and gifts, illegal fees and royalties imposed on private sector companies (i.e trade and communication) , money collected under the name of war support (Majhood Harbi<sup>11</sup> ), foreign funding, and fund generated from black market activities including money exchange and oil and gas businesses. According to that Security Council Resolution 140-2014 has sanctioned individuals and entities engaged in control and use of illegal funds to finance their activities<sup>12</sup> .

Money laundering in Yemen comes through different sectors such as the financial transfer networks, oil and gas business.

Money laundering processes are carried out in the country in different forms, ranging from simplicity to complexity, and according to the circumstances and nature of the process. These form includes money smuggling and foreign currency exchange, which is the main money laundering tool used in Yemen. Illegal money is converted from Yemeni Rial to hard currencies either to reduce its size and facilitate the process of carrying it, or to start illegal activities of purchasing foreign assets and buying material things such as gold, jewelry and real estate.

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<sup>11</sup> Arabi term used by the Houthis to collect money to fund their war.

<sup>12</sup> Dakshini Rwanthika Gunaratne, Debbie Prasad Dash, Marie-Louise Togas and Wolf Christian Pace, Final Report of the Panel of Experts on Yemen, United Nations Security Council, 25 January 2022, p. 40, available at: <https://undocs.org/ar/S/2022/50>, accessed: 02/12/2022


## Money Laundering - A Growing Phenomenon in Yemen

There are many factors that contributed to the expansion of money laundering phenomenon, including:

1. The ongoing war since 2015 which resulted in the divide of authorities and in the control of state's resources by different groups, and the military spending on weapons and salaries' payment as one of the most important reasons for money laundering.
2. The fragmentation of the monetary institution (CBY) and bodies concerned with AML/CFT and the disruption of AML/CFT control system, such as the CBY and FIU.
3. The practice of money laundering and war financing in an organized manner and with the support of state agencies controlled by armed groups.
4. Weakness of control procedures and tracking of looted funds, the weakness of the IRYG-controlled state institutions which are fragile and unable to overcome challenges.
5. Corruption, bribery, and exchange of interests, where money launderers may resort to bartering officials, disregarding the money laundering operations they carry out, either bartering for another interest or corrupting them with bribery.

## Illicit Money Laundering is an Organized Crime

During the conflict, the mechanisms and procedures that parties to the conflict, especially the de-facto authority in Sana'a, use to loot public funds and practice collective and individual confiscation of political opponents money,



developed from traditional methods based on coercive force, to systematized operations through extensive networks that involve the judiciary, the central bank, security, intelligence and other parties that have become under the control of the “judicial guard”, as is the case in Sana’a, where there is a tight coordination between the competent public institutions and agencies such as the CBY-Sanaa, the Public Prosecution Office, the Specialized Criminal Court, the Public Prosecution Court, and the Security and Intelligence bureau (SIB), for the looting and confiscation of funds until they eventually reach the hands of influential people to be used either to finance military operations, or to establish commercial companies and create a parallel economy, or to smuggle looted and confiscated funds out of the country<sup>13</sup>.

In Sana’a, the competent criminal court exploits its powers and authority to add legitimacy and legal status for the looting of assets and properties of Houthi group opponents being seized to finance war operations<sup>14</sup>.

## Some Manifestations and Means of Money Laundering in Yemen

Several international reports, including the United Nations Security Council Panel of Experts report on Yemen, reveal an obscene and illegal enrichment of all parties in Yemen, from multiple sources, in a hideous exploitation of the war, which has triggered the world’s largest humanitarian crisis. These reports shed light on the illegal revenues and sources of illegal enrichment of all parties and the ways these parties use for converting laundered funds into legitimate money. The reports also showed that national wealth and foreign aid are increasingly being diverted or lost, due to the corrupt practices of the Yemeni government and Houthi group officials. The Houthis come at the top of those being accused of establishing black markets for fuel trading, electricity and public services, and control of lands, and the formation of commercial classes that benefited from the war to accumulate huge fortunes.

Below are some of the manifestations and means of money laundering in Yemen:

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<sup>13</sup> Sam Organization for Rights and Freedoms, Feudal Guard and Deception Machine, p. 6, available at: (samrl.org), accessed: 02/15/2022.

<sup>14</sup> Dakshini Rwanthika Gunaratne, Mourad Sami, Henry Thompson, Marie-Louise Tougas and Wolf Christian Paes, Final Report of the Panel of Experts on Yemen, United Nations Security Council, January 25, 2021, p. 40, available at: <https://undocs.org/ar/S/2021/79>, accessed: February 20, 2022., Murad Sami, Henry Thompson, Marie-Louise Togas and Wolf Christian Pace, Final Report of the Panel of Experts on Yemen, United Nations Security Council, January 25, 2021, p. 40, available at: <https://undocs.org/ar/S/2021/79>, accessed: February 20, 2022.

## 1. Looting of Public Funds

The Houthi group and their affiliates' dominance of state economic resources has taken a larger space in the headline of international expert group reports of the International Sanctions Committee on Yemen, which accuse the Houthi group of directly dominating most of the national economy in regions under Houthi control through their affiliate ministers and managers, or through the Houthi-established Revolutionary Committees or Houthi representatives acting as supervisors within the state institutions.


The Houthi group, through controlling income-generating public institutions and collecting taxes and fees imposed on individuals and companies, has managed to collect, and mobilize billions of Yemeni rials on annual basis to finance their war efforts. In 2019 alone, the funds mobilized by the Houthi group through their many established channels and mechanisms are estimated at approximately 1,039 billion Yemeni rials, equivalent to \$1.8 million. These funds were originally intended to fill the coffers of the IRYG and contributes to the payment of public salaries and provision of basic services to citizens. However, the Houthi group diverted these illegal funds to finance their war operations. The Houthi group dominated the telecommunication companies, which constitute the main source of non-tax revenues, and collected an estimated \$265 million of telecommunication proceeds between December 2016 and August 2017<sup>15</sup>.

To increase customs proceeds, the Houthi group collect additional customs duties on imported goods coming from areas controlled by the IRYG for the benefit of entities and individuals working on behalf of Abdul-Malik al-Houthi.

The Houthi authorities laundered a significant portion of the huge funds they controlled through coercion or enticement, and established many projects in all economic sectors, the most important of which is the money exchange sector, and in which companies with huge capitals were established with the aim of integrating and laundering Houthi leaders money and dominating the money exchange market as major players to fundamentally influence the exchange rate and use that as a bargaining chip for Houthi political opponents at the expense of millions of the Yemeni people<sup>16</sup>.

<sup>15</sup> Dakshini Rwanthika Gunaratne et al., Final Report of the Panel of Experts on Yemen, January 2021, op.cit. p. 38

<sup>16</sup> Al-Fawda'i Waheed, Al-Houthi Economic War, Extortion, Illicit Wealth, opinion article published in Al-Umana newspaper, June 30, 2021, available at: <https://al-omana.net/m/details.php?id=150819>, accessed: 02/18/2022.



In addition, in mid-November the Yemeni government announced that the competent authorities were investigating some officials on charges, including corruption, and looting of public funds. At time, the Prime Minister, Maeen Abdul-Malik, chaired a meeting in the presence of anti-corruption agencies devoted to examining the referral of several files containing grave violations by authorities and officials affiliated with the IRYG. The meeting also discussed the progress of investigation procedures of financial and administrative violations committed with facts and evidence by one governor of the Yemeni governorates.

## **2. External Financing**


The parties to the conflict, especially armed groups, receive support and funding from many countries in the region, in violation to the Security Council resolutions that obligate member states, their citizens or any individuals or entities within their territories not to give funds, financial assets or economic resources to the entities, individuals included in the embargo lists. However, there is lack of commitment by some countries to these resolutions, as reports indicate that there are fuel shipments being exported from Iran to Yemen in form of financial assistance to individuals included in the sanction list of the UN Security Council, and that proceeds from these fuel shipments are allocated to benefit individuals on the list after being sold on the black market in the areas controlled by the Houthi group. In addition, reports indicate that other factions, some of which not affiliated with the IRYG, such as the military and security forces of the Southern Transitional Council (STC), and the Republican Guard Forces on the western coast receive external financial support to finance their war activities in Yemen<sup>17</sup>.

## **3. The Saudi Deposit**

According to international reports, there have been accusations against Yemen's government of money laundering and corruption. The UN Panel of Experts report, which issued in 2021 and covering the events of 2020, was controversial and in which the Yemeni government, its central bank, and a group of selected traders were accused of corruption and money laundering from the Saudi deposit. According to the report, in some

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<sup>17</sup> Ahmed Himmish, Fernando Rosenfeld Carvagel Wolf Christian Pace, Henry Thompson and Marie-Louise Togas, Final Report of the Panel of Experts on Yemen, United Nations Security Council, January 25, 2019, p. 46, available at: <https://undocs.org/ar/S/2019/83>, accessed: February 22, 2022.



cases the Yemeni government engages in money laundering and corruption practices that negatively affect Yemeni citizens' access to adequate food supplies, and in a violation of the right to food. According to the same report, the Yemeni government's implementation plan to transfer funds from the Saudi deposit had resulted in the diversion of \$423 million from public funds illegally to benefit businesses traders, of which the Hayel Saeed Anam group alone which received 48 percent of this diverted amount. However, the Panel of Experts in their last report, issued in last January, withdrew accusations against the Yemeni government, its central bank, and a group of traders being accused of money laundering and corruption practices for lack of evidence.<sup>18</sup>

#### **4. Humanitarian Aid**

In-kind and cash humanitarian aid is probably one of the most important sources of illegally laundered funds, especially with the presence of some evidences that raise suspicion of diverting humanitarian aid funds to cover war efforts, such as the Houthi group's proposals calling for replacing in-kind humanitarian aid with cash. As a result, the humanitarian actors raise the risks of non-compliance with the sanctions measures as funds are transferred for the benefit of designated individuals on the sanctions list. Although, humanitarian actors provide cash transfers through the channels of Yemeni banks and their correspondents, this transfer happens outside the supervision of the CBY. For escaping oversight and accountability, the Houthi authorities established an independent body outside the state budget, the Supreme Council for the Management and Coordination of Humanitarian Affairs (SCMCHA), to directly manage foreign grants independently and with a little accountability and transparency.<sup>19</sup>


#### **5. Exchange Market and Money Exchangers**

Before the Houthi group took power in September 2014, investment in the money exchange market was futile, rarely would an investor think of opening a money exchange shop or exchange company as the transfers fee was tiny and the exchange differential between the buying and selling of US dollar against Yemeni rial wouldn't be more than half a Yemeni rial. Currency speculation was almost non-existent, especially with the presence

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<sup>18</sup> Dakshini Rwanthika Gunaratne et al., Final Report of the Panel of Experts on Yemen, January 2021, op.cit. p. 3

<sup>19</sup> Ahmed Hamish et al., Final Report of the Panel of Experts on Yemen, January 2019, op. cit. p. 42.



of strict supervisory controls and in-office and field-based inspections by the CBY in Sana'a on money exchange shops and companies, and the integrity of state agencies in supervising the exchange market, in particular the National Security Bureau.

As the war progressed and conflicting individuals and groups competed for control of various state resources and funds of their political opponents, financial transfer networks, money exchange companies and shops- which proliferated rapidly and alarmingly with official and unofficial permits - have become the most important safe havens for laundering illegally obtained money. They have been allowed to bypass laws and regulations through opening accounts for and collecting cash deposits from customers. This has made the money exchange market an attractive business environment for investment, whether as a real investment for legitimate funds or for money laundering and war financing. This was accompanied by a lack of confidence in the Yemeni rial due to the shocks and fluctuations it experienced which increased demand for hard currencies for multiple purposes, the most important of which exchanging illegal funds. This enticed currency speculation, and in parallel increased the number of financial transfer networks to become one of the most important fertile havens and tools for money laundering and currency speculation<sup>20</sup>.

The disruption of the banking system and poor governance over the money exchange sector is the biggest challenge facing Yemen, and the banking sector, as the money exchange sector has expanded and become transformed into a parallel economic sector that perform the functions of Yemeni banks.

The alarming expansion of the financial remittance networks in Yemen and the difficulty associated with monitoring their activities have greatly disrupted the Yemen and the national monetary institutions relationship with the international banking system and international monetary institutions such as the WB and IMF <sup>21</sup>.

The Saudi-led military coalition has contributed to the proliferation of financial transfer companies, by providing direct support to the parties involved in the war either in cash or through money exchange companies, instead of providing support through official channels.

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20 Al-Fawdaei Waheed, The Roots of the Money Exchange Problem in Yemen, published on his Facebook page, available at: [https://m.facebook.com/story.php?story\\_fbid=4716639781701353&id=100000661325831](https://m.facebook.com/story.php?story_fbid=4716639781701353&id=100000661325831), accessed: 02/25/2022

21 Al-Araby Al-Jadeed, Suspicious Money War in Yemen, Money Laundering Quagmire, Press Report, available at ([alaraby.co.uk](http://alaraby.co.uk)), Accessed: 02/25/2022



## 6. Fuel Market

After the Houthi group adopted a decision in 2015 to liberalize the fuel derivatives market and float its prices, dozens of companies operating in the oil services field as well as money exchange outlets emerged to carry out the necessary banking and financial operations for the import of fuel derivatives. Many of these companies were established and granted licenses under camouflaged names not reflecting their actual owners, and such transformation provided a great opportunity for money laundering and financing of military operations.

A report prepared by the Regain Yemen Initiative concluded that the Houthi group have used the commercial banks under their areas of control for money laundering operations and the conduction of suspicious transactions, and that the Houthi decree to liberalize oil derivatives has led to the establishment of more than 30 companies working in the field of oil services, and money exchange companies being used to facilitate financial transactions, as well as the establishment of prominent companies that work on money laundering and war financing. The report revealed that the Houthis' dominance of the fuel market has increased the burdens on citizens and exacerbated the humanitarian situation, and that the Houthis' continued control over imports and distribution of oil derivatives provides the group with huge resources that contribute to sustaining and prolonging the war, and that Houthi control of the fuel market facilitates the group's access to Iranian fuel support. The report concluded that there is a close link between fuel trading and the money laundering operations of Houthi leaders, and that the fuel derivatives trade provides the Houthi authority with over 30 billion Yemeni rials of revenues monthly plus other unofficial amounts being collected and shared by traders of oil derivatives with Houthi leaders.

The importing and distributing of fuel derivatives have become one of the main sources of revenue for Houthi group after they ended the monopolization of Yemen Petroleum Company (YPC) in the fuel market. The liberalization decree allowed Houthi group to dominate the fuel market by using black market distributors of fuel derivatives operating under their control. Reports indicate that Houthis' revenues collected from the sale of oil products in the black market amounted to more than \$1.27 billion during the period May 2016 to July 2017 <sup>22</sup>.

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22 Ahmed Hamish et al., Final Report of the Panel of Experts on Yemen, January 2018, op. cit. p. 46.

## 7. Front Companies

We previously talked about the establishment of many companies that have become active following the war, in particular those companies that operate in the oil derivatives importing market. Mostly, money launderers in Yemen create fake companies called front companies. These companies do not function for the purposes stipulated in their founding contracts, but rather engage in illegal money laundering operations with the assistance from financial institutions to conduct financial transfers, exchange currencies, and import oil derivatives, or with the help of local or foreign exchange companies or brokers. Also, accountants or lawyers assist and support these companies to meet legal requirements for establishing their business.

## 8. Real Estate Market

Real estate is the most important traditional safe havens for concealment and laundering of illegally obtained money and this makes it an essential destination for money launderers and financiers of war and terrorism.

Many Yemeni cities have witnessed large growth in the real estate and construction sector, especially Sana'a, which is witnessing a large expansion in the construction of new houses all over the city in parallel with the destruction of old buildings, in addition to the construction of large buildings designed for trading centers amid a significant increase in the prices of buildings and lands.

The construction expansion did not stop at Sanaa suburbs, which is witnessing a latitudinal expansion towards the southeast side of the city, but rather spread to the city main center. There is a noticeably extensive real estate movement in the purchase, demolition, and reconstruction of old houses, with a focus on constructing large buildings as commercial centers amid a significant rise in prices of buildings and lands. The price of one "Labana" (equivalent to 44.44 meters of land) in the Sana'a regions amounted to about 20 million Yemeni rials, while in the suburbs could reach about 10 million rials for one Labana of land.<sup>23</sup>

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<sup>23</sup> Al-Araby Al-Jadeed, War Money Laundering in Yemen, Real Estate Building Expansion Despite the Recession, Press Report, Available at: ([alaraby.co.uk](http://alaraby.co.uk)), Accessed: February 22, 2022

## 9. Looting Funds and Properties of Political Opponents

The confiscation of political opponents' money is one of the most important sources of money laundering in Yemen. During the war, parties to the conflict have practiced looting and robbery of properties, especially during and /or following the military advance to take over a specific geographical area. In addition, they used coercive tools for the confiscation of belligerent parties and political opponents' money to control companies, banks, institutions, associations, buildings, real estate, assets, and cash funds.

Means and effects of looting and forcible stealing of property match up with the war economy and money laundering, with its fraud, robbery and extortion, and deliberate violence to seize assets, and invest the looted funds in various activities.

Numerous reports revealed that mechanisms and procedures that the Sana'a-based authorities use to confiscate and seize the funds of their opponents have developed from traditional methods that rely on coercive force, to organized and extensive confiscation operations that are facilitated through extensive networks which include the judiciary, the central bank, SIB, and FIU that is supposed to be one of the most important local bodies working to combat money laundering activities. The Houthi group has also created the so-called judicial guard, whose main task is to confine the funds of the political opponents, and its authority has expanded and has become superior to all other judicial and executive authorities.<sup>24</sup>

According to the UN Panel of Experts report Yemen, the assets and property of political opponents are considered the most important sources for financing the Houthi military operations, which are illegal operations to confiscate assets from Yemeni opponents who were arrested or forced to seek refuge outside Yemen. The CBY branch and the FIU in Sana'a had issued orders to seize all bank accounts owned by 1,123 individuals of Houthi opponents. In addition, on September 14, 2019, the Specialized Court in Sana'a announced seizing the funds of 5 Yemeni parliament members who are also opponents to Houthis; this collective and individual confiscation of opponents' funds comes in a violation of international human rights law and international humanitarian law.<sup>25</sup>

24 Sam Organization for Rights and Freedoms, *The Guardians' Feudalism and the Deception Machine*, op. cit, p. 5.

25 Dakshini Rwanthika Cunaratne, Ahmed Himmish, Henry Thompson, Marie-Louise Togas and Wolf Christian Pace, *Final Report of the Panel of Experts on Yemen*, United Nations Security Council, January 27, 2020, p. 37, available at: <https://undocs.org/ar/S/2020/326>, accessed: February 24, 2022.

The judicial guard is headed by Salih Misfit al-Shaer (on the US sanctions lists), a key figure within the Houthi effort to confiscate assets from opponents and businessmen, and a very close ally of the group's leader, Abdul-Malik al-Houthi, whose name is also on the UN sanctions list. Al-Shaer leads a network consisting of his family members and the court, the Specialized Criminal Court, the National Security Bureau, CBY branch in Sana'a, the registration departments in the Houthi-based Ministry of Industry and Trade, and some private banks. The network operates in a way that is based on the illegal arrest of companies and banks managers, threatening them of being accused of cooperation and spying in favor of the enemy unless they comply with the orders of the judicial guard. This network is involved in transferring funds resulting from the illegal seizure of Privately owned assets, including funds frozen under the Security Council resolution 2140 (2014), of whom is the former President Ali Abdullah Saleh and his sons and nephews. In addition, the Specialized Criminal Court issued orders to confiscate all assets inside and outside the country that belong to 75 military leaders and 35 parliamentarians and at least 100 political leaders, including the President Hadi and members of his government <sup>26</sup>.

During the past seven years, the "judicial guard" has seized more than 38 of major companies, institutions, universities and hospitals in the capital, Sana'a alone, and more than \$1.7 billion worth of money receipts, companies, institutions and associations, while the total value of funds and revenues seized by the Houthi group for assets, real estate and movables is over \$2 billion.<sup>27</sup>

## 10. Other manifestations


There are other manifestations of money laundering and war financing in Yemen, which we list as follows: <sup>28</sup>

1. Unfair use of the food voucher system in which public servants received food items instead of paying their salaries in cash.
2. According to international reports, there has been an attempt to counterfeit promissory notes worth 5,000 Yemeni rials printed outside Yemen after a truck was seized on May 75, 5011 carrying a value of 75 billion Yemeni rials.

<sup>26</sup> Dakshini Rwanthika Gunaratne et al., Final Report of the Panel of Experts on Yemen, January 2021, op.cit. p. 40.

<sup>27</sup> Sam Organization for Rights and Freedoms, The Guardians' Feudalism and the Deception Machine, op. cit, p. 7

<sup>28</sup> Compiled from various reports of the Panel of Experts on Yemen

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3. Smuggling cash and gold across the border.
  4. Looting of artifacts and trafficking in cultural property.
  5. Illegally obtaining donations, gifts, customs, war effort, protection and other revenues obtained illegally, especially in Houthi-controlled areas.
  6. The looting of military personnel ghosts' salaries registered in fictitious statements of the Yemeni Ministry Defense affiliated to the Yemeni government and being seized by leaders in the army.


## The Banking Sector between Commitment and Response to Pressures

Despite the fact that the Yemeni banks have been committed to abide by the laws and international controls and standards of AML/CFT during the conflict, due to their strong awareness of what it could mean to maintain strong relationship with the international banking system, external banks and financial institutions And the level of measures that Yemeni banks implement to combat money laundering and terrorist financing operations, but Yemeni banks are sometimes coercively pressured to pass money laundering operations. The parties to the conflict and in particular the Houthi authorities in Sana'a, practice pressure on the banking sector being completely under its control to pass cash and remittances generated from illegal funds, as well as takings measure to freeze and confiscate the assets of political opponents, where banks are forced to respond through coercion and illegal arrest of bank managers and by using threat to charge them with cooperation and spying in favor of the enemy, and arresting owners, managers and employees in Yemeni banks, and using confiscated funds to finance the war effort.<sup>29</sup>

The Houthi group has maintained pressure on the commercial banks located to operate in areas under their control to pass money laundering opera-

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<sup>29</sup> Dakshini Rwanthika Gunaratne et al., Final Report of the Panel of Experts on Yemen, January 2020, op.cit., p. 38.



tions and by various means aimed at concealing the main sources of illegal funds. As an example, on June 28, 2021, the CBY-Sanaa issued two circulars signed by the head of the FIU to all banks and money exchange companies ordering them to freeze all funds and balances deposited in the Tadhamon International Islamic Bank (TIIB) and immediately transferring these funds and balances to the CBY- Sanaa. This came after the TIIB refused to transfer the balances belonging to the President Abdrabbuh Mansur Hadi by order of the head of the Specialized Criminal Court in Sana'a in clear violation of human rights and international humanitarian law, which negatively affects the functioning of banking and the economy and stability of Yemen <sup>30</sup>.

## The Size of Funds Laundered in Yemen

Some figures were reviewed when discussing some aspects of money laundering in the country to determine the amount of money illegally laundered from different sources and integrated into the Yemeni economy. However, there are no accurate figures or official data on the volume of money laundered during the war period due to the distortion of the anti-money laundering system. Money laundering and terrorist financing. However, press reports say that during the conflict, money laundering operations flourished, most of which came from the black market for fuel, markets for currency and other public services. As a result, there has been a booming real estate movement and a parallel economy that began to appear during the recent period through the circulation of illegal funds being estimated at about \$30 billion dollars, according to unofficial reports <sup>31</sup>.

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<sup>30</sup> Dakshini Rwanthika Gunaratne et al., Final Report of the Panel of Experts on Yemen, January 2022, p. 42.

<sup>31</sup> Al-Araby Al-Jadeed, War Money Laundering in Yemen, Real Estate Building Expansion Despite the Recession,



## International pressure on the Yemeni government

The issue of anti-money laundering could highlight a major obstacle in Yemen's relationship with international financial institutions and funds. It has been the focus of discussions between the Yemeni government represented by the Central Bank of Yemen and the Ministry of Finance, the Ministry of Planning and International Cooperation with relevant international bodies such as the IMF and the WB, who seek to develop financial cooperation to suggest mechanisms on how to bridge the gaps and outlets caused by the war and division in the financial and banking system in Yemen instead of providing grants and loans.

The international financial and monetary institutions raised their pressures and demands for the Yemeni government to put an end to the lawlessness that is sweeping the financial and banking sector in Yemen. At the beginning of last year, the European Commission renewed its position in maintaining Yemen on an updated blacklist among a group of countries that pose financial risks to the European Union as Yemen has been suffering from disruption and shortcomings in combating money laundering and terrorist financing.

# Money Laundering Risks in Yemen

## 1. Economic risk

### 1.1. Impact on monetary policy

There are many negative implications resulting from money laundering in the Yemen, the foremost of which is the negative impact on financial and monetary policies, as those in charge of managing and planning the financial and banking system depend on the volume of liquidity available to banks in formulating financial and credit policies. Therefore, the movement of money, which subject to money laundering inside the country, in suddenly large amounts could lead to disruption of monetary policy stability in the country.


### 1.2. Impact on the banking sector and exchange rates

Money laundering operations could negatively affect the banking system as money launderers tend to control the banking sector for the purposes of serving their interests through taking actions to launder money instead of sustainable economic development. In addition, it may damage the banking sector reputation and trigger sudden withdrawal of funds, and lead to the leakage of cash outside the monetary cycle, as it has been the case in Yemen. Money launderers can corrupt the banking system because of bribery and extortion. The banking sector could be also affected by the penalties imposed on the state or on any of the financial institutions in which it operates for being used as a party in money laundering operations.

Also, transferring banking operations from the regulated sector represented in commercial banks to the less regulated and unorganized sector makes it difficult to monitor the later or take any data or information it.

In addition, the Confidence in the banking sector could be shaken following the accumulation of laundered money with money exchange companies and financial transfer networks that own the largest cash





block in the market and feed the black market and support money smuggling and circulation in informal channels. The money exchange sector, which is unmonitored properly, has grown in expansion and transformed into a parallel economic sector that perform the functions of Yemeni banks. It has been attractive for illegal savings and investments, and its expansion away from the government oversight has allowed it to act as tools for currency speculation and control of foreign exchange liquidity and to have greater influence on the exchange market and trigger local currency fluctuations. The alarming expansion of financial transfer networks and the difficulty to monitor their activities greatly disrupted the relationship of Yemen and the national monetary institutions with external banking sector and international monetary institutions such as the IMF and WB.


### **1.3. Disruption of anti-money laundering system**

The disruption of the legal and legislative system AML/CFT, which is run by coherent official institutions such as the CBY, FIU, the Committee, and the SNCAML/CFT, after they became divided between Sana'a and Aden, which led to the flourishing of money laundering operations.

The weakness of anti-money laundering mechanisms, tracking the monetary movement, and the division of CBY and the institutions concerned with combating money laundering and terrorist financing is a critical problem that is almost parallel to the war in the country. It is a greatest challenge facing the CBY as it contributed to the expansion of the parallel economy run by the parties to conflict and that has been a key driver of war prolongation for the past seven years.

### **1.4. Impact on Yemen's relationship with international donor institutions**

As previously mentioned, the money laundering issue appears as a major obstacle in Yemen's relationship with international financial institutions and funds and this came as the confidence in Yemen ability to combat money laundering and terrorist financing was shaken. As a result, many complications worsened at the financial and monetary levels, such as the donors' reluctance to channel financial grants, make de-



posits or grant loans to the CBY to address the liquidity crisis in foreign exchange, cover the country essential imports through opening letters of credits, and to transfer funds and restore the monetary cycle to its official channels.

## **1.5. The national currency devaluation**

Hard currencies are usually used in money laundering operations because they are easier to move from one country to another and this leads to increasing demand for foreign currencies that are taken out of the country for purposes other than international trade. This also threatens the state's reserves with the CBY in form of foreign currencies and puts the Central Bank in face of many challenges.

Foreign currencies are also bought at the highest price by those benefiting from the ongoing conflict and are transferred and smuggled out of Yemen. This has been accompanied by a lack of confidence in the Yemeni rial that was exposed to shocks and fluctuations. Demand for foreign exchange for many purposes, including as store of value by citizens and for exchange of illegal funds, has increased, and this encouraged more currency speculation and negatively affected the value of the national currency.

## **1.6. Increasing inflationary pressures**

Money laundering operations are usually accompanied by the purchase and sale of assets and materials at prices higher than their actual values. Money laundering operations also involve the exaggerated exchange and spending transactions that have no real production in the community, so prices rise above normal levels, leading to the deterioration in the purchasing power of local currency and triggering inflationary pressures, and this is what happened in Yemen. The stealing of public funds led to a fiscal deficit in the public budget and when it was covered through drawing on inflationary financing instruments such as the issuance of new banknotes, the value of the Yemeni rial was negatively affected and it lost its purchasing power, and consequently inflation rates raised to high records.

## **1.7. Increasing the state budget deficit**

To compensate for the fiscal gap between the available resources and the needs of national investment after smuggling funds abroad, which means increasing the burdens on those with legitimate incomes in community. In addition, the organized looting of public revenues make them fall below the fiscal needs to cover the state's public expenditures.

## **1.8. Depriving Yemeni society of their money**


A significant portion of money being laundered comes from organized looting of the people's funds. In addition, the laundered money is not used to contribute to the production process and instead is exploited for narrow purposes that serve the interests of its owners by making quick gains. Furthermore, a portion of laundered money could be used to fund the war efforts of informal groups and the other portion could be spent on local or international financial markets to buy securities not for the purpose of investment, but to complete a certain stage of money laundering, and then suddenly sell those securities, which leads to a sharp drop in the prices of securities in the financial markets.

## **1.9. Disruption of equal competition among investors**

To achieve his goal, a money launderer seeks to mix his money with those legitimate funds, and in that he invests and controls commercial and service institutions. And to rapidly turn his funds, he attempts to sell his goods or services at price that is lower than the prevailing market price and this makes it difficult for other institutions to compete and finally get out of the market. In return, the money launderers in Yemen get great facilities from the authorities. This led to the exit of many commercial and service companies in many sectors, including the fuel market.

## **1.10. Impact on state and central bank reputation**

The money laundering issue has a negative impact on the country's reputation and its ability to obtain loans and grants from international bodies. This may prompt the donor to change its policy and not supporting Yemen on the pretext that grants provided might not go




to its beneficiaries, due to the rampant administrative corruption and the accompanying smuggling of money for laundering purposes. This would make donors reluctant to support the Central Bank with financial grants, deposits, or loans to enable it to meet the foreign exchange liquidity crisis amid the depletion of its foreign exchange reserves. In addition, money laundering causes import crises, hinders opening letters of credits, restricts the process of transferring and recycling funds in official channels. Furthermore, it increases risks of Yemen classification as a high-risk country or on the lists of the Financial Action Committee.

### **1.11. Impact on remittances**

Money laundering operations affect the inflow of remittances from and into Yemen due to the international banking restrictions placed by banking institutions on the inflow of remittances to and from Yemen.

### **1.12. Other economic effects:**


1. The flight of money abroad, and thus increasing the imbalance between saving and consumption.
2. Money laundering contributes to instability the monetary and financial markets, which weakens the local currency value, and increase the tendency to purchase foreign currencies and save them in banks outside the country.
3. Tax evasion means a decrease in the state's financial resources, and this results in increasing the fiscal imbalance between revenues and expenditures.
4. The high costs that governments must pay because of rampant crime and insecurity in society emanating from money laundering activities. The government must cover these high financial burdens to maintain security as one of the main pillars of prosperity and development.
5. When money is laundered through the purchasing of gold, jewelry, luxury cars, yachts, and other durable goods, for example, this leads to an increase in demand and supply shortage for abovementioned goods, finally leading to inflation and accompanied deterioration in the purchasing power of the national currency.

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6. Money laundering through bank transfers or smuggling money abroad leads to a lack of local savings and to an increase in the country's external debt as the country may seek to borrow from abroad to compensate for the shortfall in savings or to cover the financing gap. There is no doubt that the funds borrowed will increase aggregate demand and finally lead to inflationary pressures.

## 2. Social and human consequences

Money laundering operations lead to the wealth concentration in the hands of organized crime members, thus increasing the gap between the rich and the poor, and leading to the disintegration of social structure, destroying of social values such as work values, production, patriotism and creating tendencies that harmed the economic structure such as the desire for immediate wealth from illegal sources. Money launderers also resort to buying or establishing major sports clubs and national institutions to achieve goals different from what they were established for as well as engage in actions that are compatible with the nature of criminal group activities controlling those clubs and institutions. Money laundering could lead to:

1. The spread of corruption and social crimes such as the spread of gangs.
2. Prolonging the war as war costs is covered from the laundered money and the proceeds it generates.
3. Increase the burdens on citizens and exacerbate the humanitarian situation and contributes to sustaining and prolonging the war.
4. Increase kidnapping or detention for forcing people to pay money or warning them against interference with the policies of money laundering organizations.
5. Poor provision of services to the public and the emergence of environmental pollution.

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6. Corruption of the administrative system through purchasing officials and administrators with bribery.
  7. The individual interest is superior to the public interest.
  8. Increasing the severity of the poverty problem and the low standards of living in the society
  9. The sabotage of society through satellite channels and the media controlled by the elements of the money laundering phenomenon.
  10. The negative impact on the humanitarian aid that Yemen could receive from the international community.

### **3. Political consequences**


The laundered money is used to finance and support activities that target the IRYG and lead to economic disruption, such as currency speculation and destabilization of the exchange market, as was the case during the past year.

### **4. Consequences associated with judiciary and law enforcement agencies**


Individuals committing economic crimes such as money laundering seek to stay away from the law, and resort to various means to penetrate the effective state institutions and influence their decisions with the money and power they possess. As a result, these agencies might be weakened and their capacity to combat money laundering operations get restricted, thus enabling money launderers to escape the legal punishments for practiced crimes while allowing them to commit new ones.

## Summary of findings

1. Disruption of the AML/CFT system in Yemen for many reasons, the most important of which is the war and the ensuing division in the authorities, policies, resources, and public institutions. The CBY division also led to the disruption of the banking and the AML/CFT systems including the erosion of AML/CFT's prewar official legal and legislative system run by coherent official institutions such as the CBY, the FIU, the SNCAML/CFT, the judiciary, public prosecutors, and various control agencies.
2. The war and the multiplicity of parties involved in it contributed to the expansion in the process of recycling illegal funds, creating private outlets within an illegitimate and illegal framework, and opening internal and external financial, banking, and commercial lines that end with the arms trade mafia that is active in the environment of wars, and which is a fertile ground for the growth of its trade.
3. The financial proceeds generated from money laundering and transfer of wealth and other similar actions are used to finance military operations to threaten peace, security, and stability in Yemen, and as a result contribute to the prolongation of the war in the country.
4. There are multiple sources of illegal funds in Yemen, including the looting of public revenues collected from taxes, fees, zakat, rent, the proceeds from organized collective and individual confiscation of money and property of political opponents, donations, subsidies and giveaways, the imposing of additional illegal fees and royalties or being imposed under other names such as war effort and protection, communications revenues, in-kind and cash external support, and proceeds collected out of currency exchange and oil derivatives.
5. Money launderers in Yemen resort to many means and methods to launder illicit money, including the banking sector, financial transfer networks, money exchange companies and outlets, oil derivatives import companies, telecommunications companies, prestige companies, real estate markets, malls, and commercial markets, and external smuggling, exchanging currencies, in-kind behaviors by purchasing material things such as gold, jewelry, and real estate.


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6. There are many factors that have contributed to the rise of the money laundering phenomenon in Yemen, including the war that has been going on in the country since 2015 and the ensuing division and multiplicity of authorities and groups that control the state's resources and revenue channels, and the spending and military support related to weapons and the division in the monetary authority and in the parties tasked with combating money laundering and terrorist financing.
  7. The mechanisms and procedures that the parties to the conflict use, especially the de-facto authority in Sana'a, to loot public funds and collective and individual confiscation of the funds of political opponents, have evolved from traditional methods based on coercive force, to organized operations through extensive networks that include the judiciary, the central bank, and SIB to add legitimacy and legal character on the looting of public and private assets and property.
  8. The illegal enrichment for all parties in Yemen, from multiple sources, in a hideous exploitation of the war in the country, which has caused the world's largest humanitarian crisis. The Houthi group and its affiliates are on the list of those accused of looting public funds.
  9. The parties to the conflict, especially the armed militias, receive support and funding from many countries in the region, which is used to finance military operations, in violation of the relevant Security Council resolutions.
  10. Money transfer networks and money exchange companies and shops are the most important safe havens for laundering illegal money. The money exchange sector which is nearly non-monitored and has proliferated in an alarmingly frightening way as a parallel economic sector to perform the role of banks, is the biggest challenge facing Yemen and the banking sector. The alarming expansion of the financial transfer networks in Yemen and the difficulty associated with monitoring their activities have greatly disrupted the relationship of Yemen and the national monetary institutions with the international banking system and international monetary institutions such as the WB and IMF.
  11. The Arab military coalition has contributed to the proliferation of financial transfer companies, by providing direct support to the parties involved in






the war either in cash or through money exchange companies, instead of providing support through official channels.

12. The emergence of dozens of companies operating in the oil services field. Many of these companies were established and granted licenses under camouflaged names not reflecting their actual owners, especially in Sana'a. This transformation provided a great opportunity for money laundering and financing of military operations, and this indicates the close link between trading of oil derivatives, the money laundering process and financing of war operations, and prolonging the war.
13. The confiscation of political opponents' money is one of the most important sources of money laundering in Yemen. During the war, parties to the conflict have practiced the looting and robbery of property and used coercive tools for the confiscation of belligerent parties and political opponents' money to control companies, banks, institutions, associations, buildings, real estate, assets, and cash funds. According to several reports, including the UN Panel of Experts report Yemen, the political opponents have been the most important sources for financing Houthi military operations through the judicial guard, which comes in violation of the international human rights law and international humanitarian law.
14. Panel of experts reports also documented other manifestations of money laundering such as the cross-border smuggling of cash and gold, looting of artifacts and trafficking in cultural property, donations and gifts, the impose of additional customs, war effort, protection and other illegal obtained revenues, especially in Houthi-controlled areas, and looting of military personnel ghosts' salaries registered in fictitious statements of the Yemeni Ministry Defense affiliated with the Yemeni government and being seized by leaders in the army, and the growth of the real estate market, which is the most important traditional safe havens for concealing and laundering money obtained through illegal means.
15. Even though the Yemeni banks have been committed to abide by the laws of AML/CFT during the conflict, they are sometimes coercively pressured to pass money laundering operations. The parties to the conflict and in particular the Houthi authorities in Sana'a, practice pressure on the banking sector to pass cash and remittances generated from illegal funds, as well as takings measure to freeze and confiscate the assets of political opponents,

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16. The money laundering has many negative effects and consequences on the Yemen economy, foremost of which is on fiscal and monetary policies, damage of the banking sector reputation and shaking the confidence in banking services, cash leakage outside the monetary cycle, the excessive expansion of the non-monitored money exchange sector as a parallel economic sector that plays the role of banks, and attract channels of illegal funds to negatively affect the exchange market, increase the demand for hard currencies, cause fluctuations in the exchange rate of the Yemeni rial, and increase inflation pressures. This greatly disrupted the relationship of Yemen and the national monetary institutions with the external banking sector and international monetary institutions such as the WB and the IMF. The international monetary and donors have been reluctant to support the CBY with financial grants, deposits, or loans to enable it to address the cash liquidity crisis originating from the lack of foreign exchange and to cover the balance of payments deficit. The money laundering phenomenon has contributed to the expansion of the parallel economy run by the belligerent parties and prolonged the conflict. It also violated the fair competition principle in the markets, which led to the exit of many legal commercial and service companies in many economic sectors in the country. Money laundering operations also affect the inflow of remittances into and from Yemen due to the international banking restrictions placed by banking institutions, and the flight of funds abroad which increases the imbalance between saving and consumption.
17. The money laundering has also many social effects and consequences, including the spread of corruption and social crimes such as the growth of gangs. Money laundering increases the burdens on citizens, exacerbates the humanitarian situation and contributes to the prolongation of war being supported by the money laundering and the proceeds generated from it. It also weakens the level of services provision to citizens, and increase the severity of the poverty problem, and triggers low standards of living in the society, and negatively impact inflow of the humanitarian aid to Yemen receives from the international community.
18. Politically, the laundered money can be used to finance and support activities that target the IRYG and harm it economically, such as the triggering of currency speculation and destabilization of the exchange market, as was the case during the past year.


## Recommendations

1. The Yemeni government should exert more efforts for combating money laundering and terrorist financing, rebuilding the AML/CFT system, developing the capacities of the CBY, FIU, and the SNCAML/CFT, and the judiciary, public prosecutions and the relevant control agencies, the Ministry of Trade and Industry in combating money laundering and terrorist financing.
2. The Yemeni government should stress that the ministries and the competent authorities only grant licenses to new companies after verifying their actual owners, checking the names of shareholders investing in companies to be licensed either as persons or entities, and report any cases suspected of money laundering and terrorist financing to the competent authorities. The Yemeni government should also activate the role of competent authorities such as the customs authority and offices at border ports to combat the smuggling of currencies, precious metals, gold, jewelry, and artifacts.
3. The Yemeni government should work to stop all forms of violations and practices related to looting public funds, hold the corrupt accountable in areas under its control, activate the role of the SNACC, the CBY, COCA, and adopt an institutional culture of commitment for AML/CFT, and spreading banking culture, training, and raising awareness of the economic, social, and political risks of money laundering across the country.
4. The CBY and FIU in Aden should activate their mandate in monitoring banks, money exchange shops and companies to ensure their commitment to AML/CFT and not being used as channels for money laundering activities.
5. It is recommended the Central Bank speedup the process for connecting the systems of money exchange sector to CBY-Aden's automatic network for monitoring the money exchange operations and tracking any suspicious funds to prevent money laundering and smuggling operations practiced by armed groups, especially in Sana'a, or by influential figures residing in the Yemeni government-controlled areas.
6. The Yemeni government should monitor the money laundering activities practiced by armed groups, especially in Sana'a and officials affiliated with



the Yemeni government, track their sources, monitor internal and external financial transfers they engage in, and coordinate with the international community to include all parties and personalities obtaining illegal funds and carrying out money laundering operations in the sanctions list in accordance with the UN Security Council resolutions on Yemen.

7. The Yemeni government should establish a special committee to track down public and private funds and properties that were confiscated or looted by armed groups, especially in Sana'a, and list all persons engaging in looting of public funds, seizure, confiscation of political opponents' money, to ensure that they are held accountable or included within the list of persons responsible of obstructing the process of political transition in Yemen.
8. The Yemeni government should coordinate with the World Bank to transfer humanitarian aid funds through official channels like the CBY-Aden and put in place mechanisms to deliver aid funds to its targeted beneficiaries and strengthen the international community confidence in CBY-Aden capacity by adopting the principle of transparency and accountability.
9. The Houthi group must abide by the principles of international humanitarian law and human rights law, preserve funds and property during and following military operations, refrain from targeting opponents' properties in areas under its control, stop all looting and confiscation of public funds and money of political opponents, and return all public funds to the CBY treasury to use it for the payment of public salaries as well as return all private funds, companies, banks, homes, associations and institutions confiscated to their owners, and cancel decisions issued by the judicial guard and courts located under the Houthi control in Sana'a regarding the seizure and confiscation of funds.
10. The CBY branch and FIU in Sana'a must activate their role in combating money laundering and terrorist financing in accordance with the relevant laws, and cease all forms of guardianship and pressure on banks to pass money laundering transactions or issue orders to seize and confiscate seizure illegally funds and properties of citizens to protect the banking sector from being exposed to the international sanctions that could negatively affect its relationship with the external banking sector, international financial and monetary institutions and the FATF, and to the risks associated



with classifying Yemen among the countries not committed to combating money laundering and terrorist financing.

11. The Saudi-led Arab coalition should use official channels when transferring or disbursing money in Yemen rather than delivering money in cash or through money exchange companies, which contributes to the disruption of the exchange market.



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