Yemen's Fragmented Financial Landscape – Comprehensive Overview

Since the outbreak of war in 2015, Yemen's financial system has endured a decade of fragmentation. The country operates with dual institutions and parallel economies. This comprehensive document maps every angle of Yemen's financial landscape—from central banks to informal money exchangers, from major business conglomerates to microfinance institutions—providing the detailed intelligence needed to understand one of the world's most complex economic crises.

Introduction: Conflict-Driven Economic Fragmentation

Since the outbreak of war in 2015, Yemen's financial system has endured a decade of fragmentation. The country operates with dual institutions and parallel economies. The Central Bank of Yemen (CBY) split in 2016, creating two rival central banks – one in Aden under the internationally recognized government (IRG) and another in Sana'a under Houthi de-facto authorities.

Critical Split: The 2016 division of Yemen's Central Bank created two parallel monetary systems that continue to operate independently, each with different policies, currencies, and exchange rates.

This schism has led to divergent monetary policies, separate currencies, and bifurcated exchange rates: Houthi-controlled areas banned new Aden-printed rials and maintained a rate around YR 600 per USD, while government areas flooded with newly printed cash saw the rial plunge to ~YR 1,300 per USD by late 2021.

The Currency War: Two Monetary Zones

Houthi-Controlled Areas

- Banned new Aden-printed rials
- Maintained rate around **YR 600 per USD**
- Controlled currency circulation
- Separate monetary policy

Government-Controlled Areas

- Flooded with newly printed cash
- Rial plunged to **~YR 1,300 per USD** by late 2021
- Different banknote circulation
- Parallel exchange rates

The result is effectively two monetary zones, with distinct banknote circulations and parallel exchange rates, complicating commerce and fueling inflation. For example, at one point the Aden-based exchange rate collapsed to an unprecedented YR 2,905/USD before partial recovery to ~YR 1,676/USD after emergency measures.

> The "currency war" – including competing money issuance and ban of rival's currency – has severely eroded purchasing power and driven hyperinflation in basic goods.

Institutional Division and Regulatory Chaos

Institutional division has undermined monetary governance and oversight. The relocation of major bank headquarters from Sana'a to Aden (often to comply with sanctions and align with the recognized government) created regulatory chaos. Banks must navigate conflicting directives from the two central banks, resulting in operational paralysis and a decline in financial intermediation.

6%

Bank Account Holders

Only around 6% of Yemeni adults hold a formal bank account

95%

Unbanked Businesses

An estimated 95% of businesses remain unbanked

2

Central Banks

Two rival central banks operating with conflicting policies

Trust in formal banking has been devastated. Such financial exclusion has forced most transactions into cash and informal channels, hindering credit access and economic resilience.

The Marginalized Banking Sector

Yemen's banking sector, once modestly developing, has been largely marginalized by the war. Today it serves primarily a limited role: facilitating international transfers (e.g. via SWIFT) and holding deposits for a shrinking base of clients, while the majority of domestic payments, remittances, and even aid disbursements flow outside the formal banking network.

Limited Banking Functions

International transfers and deposit holding only

Cash Dominance

Most transactions occur outside formal banking

Informal Networks

Hawalas and exchangers handle majority of flows

The Rise of the Shadow Ledger

Informal Finance Dominates

Amid this upheaval, a "shadow ledger" of informal finance now dominates. Money exchange houses (hawalas), microfinance networks, and informal traders have effectively taken over the functions of transferring funds and providing liquidity.

Humanitarian aid from the UN and donors, which pours hundreds of millions into Yemen, often bypasses the central banks and commercial banks – instead routing through this parallel system of exchangers and agents to reach households. Remittances from the Yemeni diaspora (historically the largest foreign exchange source) also increasingly flow via informal money transfer companies, given restrictions and the mistrust of banks.

Critical Infrastructure: While these informal mechanisms have kept the economy afloat, they operate with minimal oversight, raising concerns about money laundering, terror finance, and the difficulty of reconstituting a unified financial system in the future.

International Intervention Attempts

Saudi Deposit (2018)

$2 billion intended to stabilize currency and finance letters of credit for essential imports

- Provided importers with preferential FX rates
- Temporarily stabilized rial and food prices
- Became source of controversy

IMF SDR Allocation (2022)

$665 million boost to Aden's reserves

- Limited by institutional weaknesses
- Corruption allegations hindered use
- Factional divisions reduced effectiveness

In the face of fragmentation, both Yemeni authorities and international partners have attempted interventions. The CBY-Aden used the Saudi funds to provide importers (food companies) with foreign currency at preferential rates to temper prices. While this temporarily stabilized the rial and food prices in 2018-2019, it also became a source of controversy (addressed further below).

The lack of a coherent national monetary policy, compounded by the dual authorities, means piecemeal measures struggle to reverse the rial's volatility and the banking sector's collapse.

Resilience Through Informality

A System Kept Alive

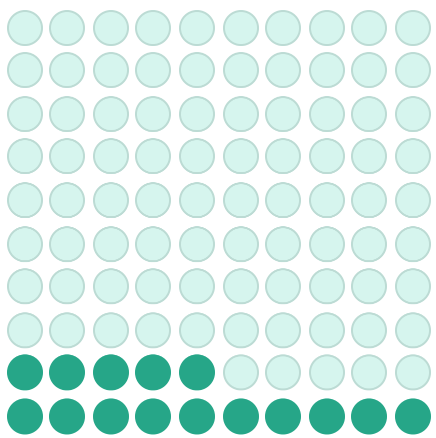
Overall, Yemen's financial architecture in 2025 is a tale of resilience through informality – a system kept alive by ad-hoc mechanisms and non-state networks, even as formal institutions are split and diminished.

> The informal economy has become the backbone of Yemen's survival, demonstrating remarkable adaptability in the face of institutional collapse.

Commercial Banking Sector: Collapse and Adaptation

Pre-War vs. Wartime Reality

Prior to the conflict, Yemen's banking sector was small but functional – comprising a mix of state-owned banks and private banks (some conventional, some Islamic). The war's effects, however, have left it in disarray.



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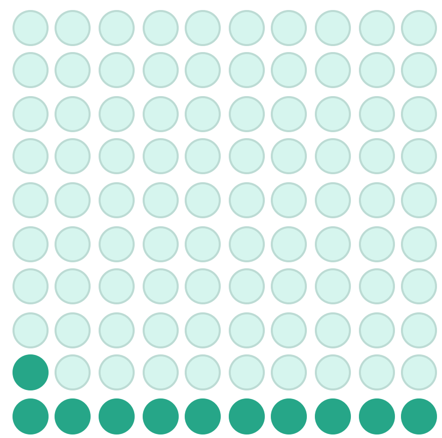
Operating Banks

Shrunk from larger pre-war network



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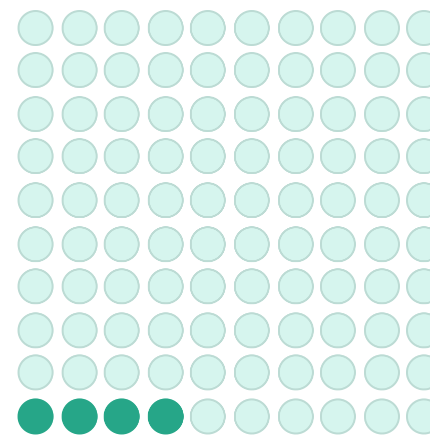
Conventional Banks

Majority of remaining institutions



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Islamic Banks

Plus a few microfinance banks

Operational commercial banks have shrunk to just 15–17 institutions nationwide, including about 11 conventional banks and 4 Islamic banks (plus a few microfinance banks).

The Great Bank Migration to Aden

Many bank headquarters relocated to Aden after 2016, as Houthi-controlled Sana'a became subject to international isolation; by 2020, the Aden CBY reported that a majority of banks formerly based in Sana'a had officially moved their legal domicile to Aden. This shift was partly driven by U.S. sanctions and terrorism designations that made operating under Houthi jurisdiction risky.

2016: Central Bank Split

CBY divides into Aden and Sana'a branches

Sanctions Pressure

U.S. designations make Houthi areas risky

Mass Relocation

Banks move headquarters to Aden

Operational Split

Branches in north vs. management in south

However, the relocation created an east-west split: branches in Houthi areas versus management in Aden, leading to duplication of compliance requirements and confusion in regulation.

Navigating Dual Regulatory Systems

Commercial banks must juggle two sets of instructions (e.g. regarding liquidity, reporting, or foreign exchange) from the rival central banks, undermining their ability to lend or function normally. Unsurprisingly, banks have grown extremely conservative – most stopped issuing letters of credit or loans, and instead simply safeguard deposits (where not frozen) and facilitate limited transfers.

Banking Paralysis: Private sector credit has dried up, and banks largely ceased new lending due to uncertainty and risk.

Liquidity Crises

Government deposits fragmented between north and south, loan defaults amid economic collapse

Withdrawal Limits

Banks imposed limits as depositors couldn't access savings

Public Flight

Confidence eroded, pushing Yemenis toward cash, gold, or foreign currency hoards

According to one analysis, by 2020 only 6% of Yemen's money supply was held as deposits in banks, reflecting the public's flight from the banking system.

International Banking Isolation

In such an environment, foreign correspondent banking ties also suffered – global banks became hesitant to deal with Yemeni banks due to sanctions compliance and Yemen's high-risk profile. This made it hard for Yemeni banks to execute international payments, except through a few remaining channels (often via Jordanian banks or Arab Bank).

Despite these headwinds, a core group of banks continues to operate, trying to maintain basic services.

Major Commercial Banks: The Backbone

Key Institutions Still Operating

Notable commercial banks include: the **International Bank of Yemen (IBY)** and the **Yemen Bank for Reconstruction & Development (YBRD)** – both long-standing institutions that form part of the system's backbone. YBRD, for example, is one of the oldest banks (founded in the 1960s) and historically government-owned, with a mandate for development projects; it has strived to keep branches open and pay salaries.

The **Cooperative and Agricultural Credit Bank (CAC Bank)** – a large state-owned bank founded in 1982 – remains one of the few banks with a broad network (reportedly 58 branches nationwide). CAC Bank was Yemen's largest bank by assets pre-war and continues to serve government payrolls and handle international aid funds in Aden. (Its capital is about YR 10 billion according to recent data.)

National Bank of Yemen (NBY), another state-owned bank (based in Aden), serves the south and had to rebuild operations after 2015.

Private and Islamic Banking Sector

Leading Private Banks

Tadhamon International Islamic Bank stands out as one of the biggest: established in 1995 and part of the Hayel Saeed Anam business group, Tadhamon is a leading Islamic bank. It reportedly held around $900 million in assets and 42 branches as of the mid-2010s.

Saba Islamic Bank (founded 1997) is another major Islamic bank, and **Yemen Kuwait Bank** (est. 1979) is one of the oldest private banks.

Smaller Institutions

There are also smaller banks like **Shamil Bank of Yemen & Bahrain** (an Islamic bank co-owned with Bahraini investors), **Yemen Commercial Bank**, **United Bank Ltd.** (a branch of a Pakistani bank), **Arab Bank** (Jordanian-owned, operating in Yemen), **Yemeni Credit Bank**, **Wadi Hadramout Bank**, **Finance & Development Bank**, etc., which round out the sector.

Complete Banking Sector Overview

Bank	Year Est.	Type / Ownership	Notes (pre-2020)
CAC Bank (Coop. & Agr. Credit)	1982	State-owned commercial	Largest branch network (≈58 branches); HQ relocated to Aden (2016)
National Bank of Yemen	1969	State-owned commercial	Based in Aden; served government in south
YBRD (Yemen Bank for Reconstr. & Dev.)	1960s	State-owned (development focus)	Oldest bank; HQ Sana'a, now split ops due to conflict
Tadhamon Islamic Bank	1995	Private Islamic (HSA Group)	Largest private bank (≈$900 M assets); major food import financer
International Bank of Yemen	1979	Private commercial	Major private bank, core to formal sector
Yemen Kuwait Bank	1979	Private commercial	One of the oldest private banks in Yemen
Saba Islamic Bank	1997	Private Islamic	Noted Islamic lender, part of Islamic banking growth
Yemen Islamic Bank (for Finance & Inv.)	1996	Private Islamic	First Islamic bank in Yemen; established by regional investors
Shamil Bank of Yemen & Bahrain	2002	Private Islamic (foreign JV)	Joint venture with Bahraini bank (Islamic banking)
Arab Bank – Yemen	1970s	Foreign branch (Jordan)	Foreign-owned; handles intl. transactions (limited in war)
United Bank Ltd. (Yemen)	1970s	Foreign branch (Pakistan)	Presence of Pakistani bank (operations scaled down)
Yemen Commercial Bank	1993	Private commercial	Medium-sized private bank (Aden-based)
Wadi Hadramout Bank	2018	Private commercial (new)	New bank launched amid war (IRG licensing)
Finance & Development Bank	2019	Private commercial (new)	New bank (possibly microfinance upscaled)
Al Kuraimi Islamic Bank	see MFIs	See Microfinance section	Leading microfinance bank, now quasi-commercial

Table: Major Banks in Yemen's Banking Sector. (Note: Al-Kuraimi Islamic Microfinance Bank, while legally a microfinance institution, functions at scale similar to commercial banks and is detailed in the microfinance section.)

Wartime Banking Challenges

Asset Quality Deterioration and Capital Erosion

Wartime challenges: Banks have faced asset quality deterioration (most loans turned non-performing as businesses collapsed or borrowers fled), and capital erosion (some banks fell below required capital adequacy). The banking law and CBY regulations, based on the Central Bank Law No. 14 of 2000 and Banking Law, became difficult to enforce uniformly after the split.

1

Conflicting Directives

Both CBYs issued sometimes conflicting circulars about freezing accounts and currency exchange instructions

2

Houthi Pressure

Authorities detained bank staff or pressured banks to comply with Sana'a directives

3

Aden Struggles

CBY-Aden struggled to assert supervisory authority beyond limited territory

The Corruption Allegations Controversy

UN Panel Claims and Retraction

In Aden, CBY-Aden struggled to assert its supervisory authority beyond its limited territory and faced its own governance issues. A UN Panel of Experts in 2021 even accused CBY-Aden and government officials of colluding with traders to embezzle funds from the 2018 Saudi deposit via preferential exchange rates.

> The panel claimed that the Yemeni government diverted $423 million of the Saudi funds (48% of it allegedly to one business conglomerate, HSA Group), amounting to "money laundering and corruption" that hurt food prices.

Important Update: These explosive allegations – implicating virtually all major food-importing companies and the central bank – were contested and later retracted. In March 2021 the Panel acknowledged that a preliminary review found no evidence of corruption in the use of the Saudi deposit and noted that food prices had in fact stabilized in 2019 when the funds were used. All references to the corruption claims were withdrawn pending further assessment.

This episode highlights the opacity and mistrust surrounding Yemen's financial system during the war. It also underscored the importance of transparent auditing and internationally-backed oversight when large aid or deposit programs are implemented. (CBY-Aden's credibility was badly hurt by the incident even though the accusations were "disregarded" later, and it has since been working with IMF and donors on improving transparency and reporting.)

Learn more: UN experts pull back on corruption claims against Yemen | AP News

Sanctions and International Compliance

Sanctions and international compliance have also shaped the banking sector. The U.S. Treasury and UN have sanctioned various entities and persons tied to the conflict. Notably, Hashem Ismail (al-Madani) – the Houthi-appointed governor of the Sana'a central bank – was sanctioned by the U.S. in December 2024 as a "primary overseer" of Iranian funds to the Houthis.

Yemeni banks with any connections to Houthi authorities have to avoid dealings with such sanctioned figures to not risk secondary sanctions. Moreover, the entire Houthi-controlled banking apparatus is largely cut off internationally due to U.S. sanctions on the Houthi movement (designated as Specially Designated Global Terrorists by late 2024).

In early 2021, the U.S. had also sanctioned Al-Omgy and Brothers, a prominent Yemeni money exchange business, for aiding terrorism (Al Qaeda) – signaling that even informal financial players face scrutiny.

Read more: **US imposes more sanctions on Yemen's Houthis | Al Jazeera**

Additional context: US Slaps Sanctions on Yemeni Money Exchange for Helping al-Qaida

AML/CFT Standards and Enforcement Challenges

Regulatory Expectations

Yemen's banks are expected to follow AML/CFT (anti-money laundering and counter-terror finance) standards, and the Aden central bank has been receiving technical assistance to strengthen compliance units. However, enforcement is extremely challenging in the current environment.

Yemen was already on FATF's radar pre-war for AML deficiencies; the split has only made regulation harder.

Divergent Practices

Banks in Aden areas try to follow international norms (e.g. implementing customer due diligence, UN sanctions list screening), whereas banks in Houthi areas may quietly facilitate Houthi transactions or debt financing that would be problematic internationally.

This divergence further undermines a unified banking system.

Political and Security Risks

Political and security risks continue to loom over banks. In the south, infighting among anti-Houthi factions affected financial governance – e.g. the Southern Transitional Council (STC) at times clashed with the Hadi/Rashad administration over control of economic institutions, even briefly besieging the Aden central bank in 2020. Such events undermine confidence in the banking regulator.

In the north, Houthi authorities have periodically raided banks and money exchangers (especially during currency volatility) to arrest "speculators" or enforce their decrees. This creates a climate of fear rather than a stable banking environment.

Climate of Uncertainty: Banks operate under constant threat of raids, asset seizures, and conflicting political pressures from multiple armed factions.

The Path to Banking Recovery

Lessons from Libya and Beyond

Despite everything, commercial banks remain a critical piece for eventual recovery. They hold institutional knowledge, trained staff, and systems that informal networks lack. Rebuilding Yemen's economy will require recapitalizing and reunifying these banks under a single regulatory framework.

Comparatively, other conflict states offer lessons: for example, Libya's central bank was split for years during its civil war, but by 2023 the branches initiated reunification, enabling improved monetary policy coordination and banking supervision. Yemen could follow a similar path – an eventual political settlement might allow the CBY offices in Aden and Sana'a to reconcile ledgers and jointly back the banking sector.

Learn from Libya's experience: **Libya's central bank reunifies after almost a decade | Reuters**

IMF assessment: Libya: Staff Concluding Statement of the 2024 Article IV Mission

Stopgap Measures and Future Prospects

In the meantime, stopgap measures are being pursued: CBY-Aden (with IMF and World Bank help) has been conducting audits of banks, introducing credit reporting systems, and even exploring a deposit insurance mechanism to rebuild trust.

Bank Audits

CBY-Aden conducting comprehensive audits with international support

Credit Reporting

Introducing systems to track lending and borrower history

Deposit Insurance

Exploring mechanisms to rebuild public trust

FX Auctions

Weekly auctions to stabilize exchange rates

Both central banks also began currency auctions in recent years (Aden's CBY started weekly FX auctions in 2021 with World Bank support) to stabilize the rial exchange rate and inject liquidity to banks for import financing – with some success in the south. However, without a political solution, the commercial banking sector will likely remain fragmented and frail, ceding most day-to-day financial intermediation to the informal sector.

Microfinance Institutions: Expansion amid Crisis

A Radical Transformation

Yemen's microfinance sector has undergone a radical transformation during the conflict. Before 2015, microfinance in Yemen was modest but growing, spearheaded by the Social Fund for Development (SFD) and donors. The Microfinance Banking Law No. 15 of 2009 created a framework for Microfinance Banks (MFBs) – specialized banks allowed to collect deposits and offer loans to small borrowers.

> Yemen was actually ahead of many Arab countries in this regard: unlike Jordan or Tunisia (which restrict microfinance to credit-only NGOs), Yemen (and Sudan) enabled MFIs to become licensed banks that mobilize savings.

This enabling regulatory environment led to early successes: Al-Amal Microfinance Bank (established 2008 as the region's first microfinance bank) and Al-Kuraimi Islamic Microfinance Bank (formerly a money exchange company that became a bank in 2010) gained hundreds of thousands of clients.

Pre-War Microfinance Growth

121K

Active Borrowers (2014)

Nearly double the number from 2010

$57M

Total Portfolio

YR 12.2 billion loan portfolio by 2014

2008

First MFB

Al-Amal established as region's pioneer

By 2014, Yemeni microfinance institutions had about 121,000 active borrowers, nearly double the number in 2010. The total micro-loan portfolio reached YR 12.2 billion (~$57 million) by 2014. Importantly, microfinance was making strides in financial inclusion – serving low-income entrepreneurs, many of them women in rural areas, who were outside the formal banking sector.

War's Impact and Paradoxical Growth

Initial Collapse

The war in 2015 delivered a severe blow. In the first year of conflict, active microfinance borrowers dropped by 23%, from ~121,000 to ~93,000. Branches in conflict zones closed, many clients defaulted or fled, and some microfinance programs lost donor funding.

By 2023, the number of active borrowers had further declined to about 78,686, a 15.5% drop since 2015.

Depositor Surge

However, paradoxically, microfinance banks started to attract a new kind of customer: depositors seeking a safe haven. As trust in traditional commercial banks evaporated post-2016, Yemenis increasingly put their money into microfinance banks like Al-Kuraimi, which were seen as more accessible and perhaps less entangled in the political feuds.

Remarkable Shift: Microfinance banks, while a small segment (only ~8% of banking assets in 2020), saw a surge in deposit accounts. The number of "active savers" in microfinance banks grew 28% annually, reaching 3.3 million depositors by 2023, capturing a 96% market share of deposits among all microfinance institutions.

Al-Kuraimi: The People's Bank

3.3 Million Depositors

This is an astonishing figure that reflects Al-Kuraimi's role – Al-Kuraimi Islamic Bank alone accounts for 91% of that growth. Essentially, Al-Kuraimi became the de facto bank for millions of Yemenis during the war, thanks to its reputation and wide agent network.

Technology Leadership

Mobile money app and widespread agent network reaching rural areas

Public Trust

Became trusted intermediary when big banks were failing

Nationwide Reach

Extensive agent network across all territories

Dual Microfinance Structure

Formal vs. Informal MFIs

Dual structure: Yemen's microfinance sector now operates on two levels – formal MFBs regulated by the CBY, and informal MFIs (NGO programs and lending foundations) overseen by the SFD under the Law on Associations. The formal MFBs can take deposits and are subject to the Microfinance Bank Law and CBY supervision. The informal MFIs (about a dozen programs) cannot take deposits and rely on donor funds, governed as non-profits.

The distinction is important: MFBs have more capacity and have grown much larger due to deposit mobilization. For example, Al-Kuraimi and Al-Amal (both MFBs) have far more clients and financial clout than a small NGO-run microcredit scheme. The SFD's Microenterprise Unit (SMEPS) helped many NGO MFIs before the war and continues to support the sector with training and concessional loans.

Explosion of New Microfinance Banks

Regulatory Arbitrage and Rapid Licensing

But since the war, the big story has been the proliferation of new MFBs – many of them converted from money exchange companies. Taking advantage of the regulatory arbitrage, money exchange companies have sought MFB licenses to broaden their services. The split central banks actually competed in granting licenses.

2021-2022

CBY-Aden issues 10+ new MFB licenses with international support

March 2022

CBY-Aden mandates separation of microfinance from exchange business

2022-2023

CBY-Sana'a approves 2 new MFBs, dozen applications pending

Since 2021, over a dozen new MFBs have emerged across Yemen. The CBY-Aden (government side), with encouragement from international partners (IMF, World Bank, USAID), launched initiatives to strengthen financial inclusion – issuing 10+ new MFB licenses by 2022-2023. Meanwhile, the CBY-Sana'a (Houthi side) also approved at least 2 new MFBs and had about a dozen applications in process.

In fact, a March 2022 CBY-Aden resolution (No. 2/11/2022) explicitly mandated separation of microfinance from pure exchange business, nudging exchangers to become MFBs if they want to take deposits or make loans.

Benefits of MFB Licensing for Exchangers

> For the exchange houses, an MFB license "unlocks a treasure trove of benefits": they can accept public deposits, offer micro-loans, provide international transfers (SWIFT), etc., which were forbidden under the Money Exchange Law that limited them to remittances and currency trades.

The result is an "exponential growth" of licensed micro-banks, potentially exceeding the number of pre-war traditional banks.

Accept Deposits

Public deposit-taking now permitted

Offer Loans

Micro-lending capabilities unlocked

SWIFT Access

International transfer services enabled

Notable New MFB Entrants

Some notable new entrants among MFBs include: **Al-Busairi Bank for Microfinance** and **Bin Dowal Islamic Microfinance Bank** – both established in Hadramawt governorate, arising from local exchange businesses.

Al-Qasimi Islamic Microfinance Bank, linked to Al-Qasimi Exchange Company in Sana'a, even managed to secure dual licenses from both CBY-Aden and CBY-Sana'a to cover operations in both territories. This highlights the complexities of the divided system: some entrepreneurs are hedging by getting recognition from both regulators.

Current Landscape: As of late 2023, Yemen likely has around 15 licensed microfinance banks (including the pre-war ones and the new batch). The Yemen Microfinance Network (a national association) provides support and lobbies for these institutions, though it has to coordinate with two central bank authorities now.

Comprehensive analysis: Enhancing the Role of Microfinance Banks for Sustainable Impact in Yemen - Sana'a Center