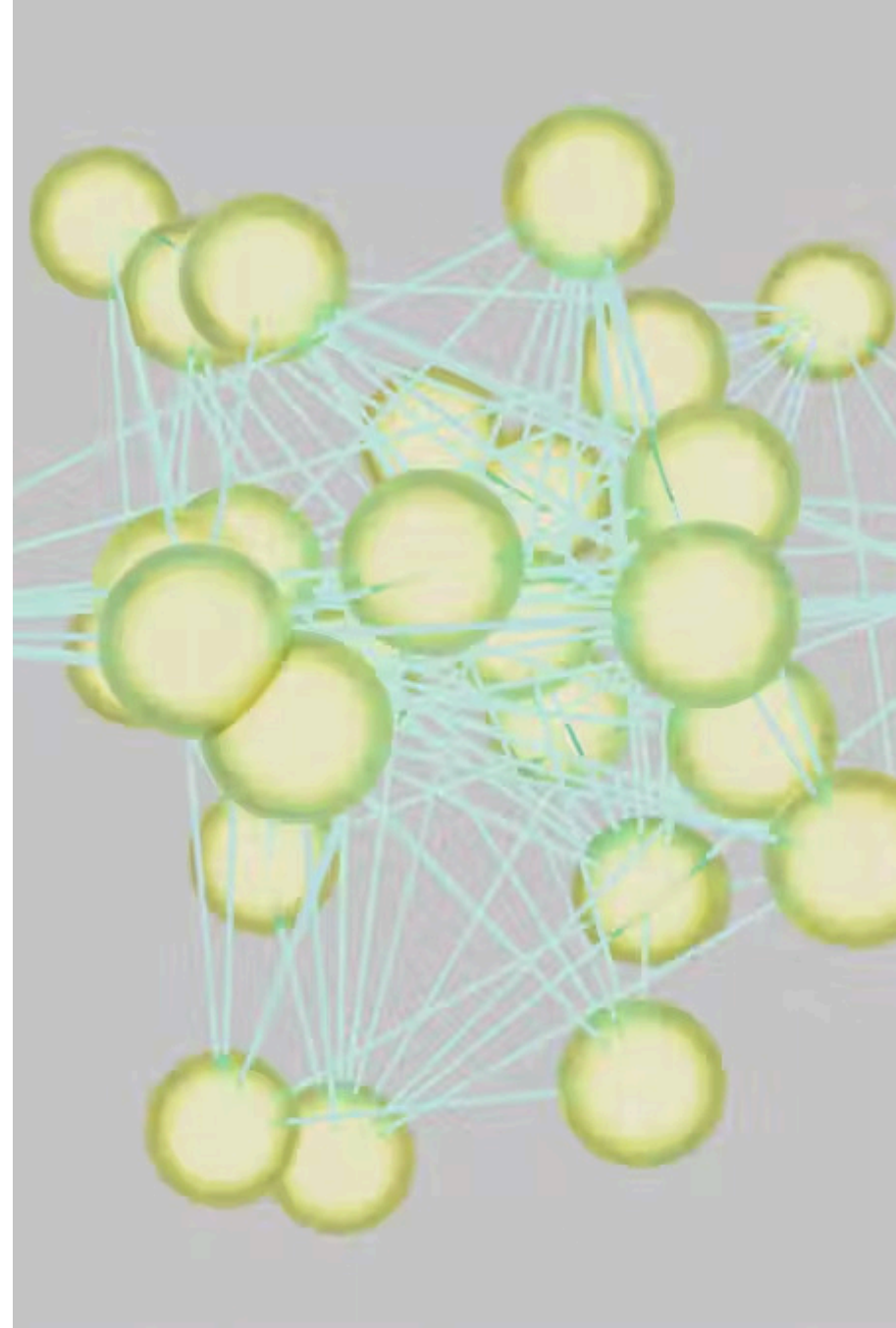


Yemen's Shadow Monetary System (2015– 2025)

**How Emergency Cash Saved Lives—and Quietly
Rewired Financial Power**

Analysis by Maher F. S. Farea



Executive Summary

From 2015 to 2025, Yemen's financial infrastructure underwent a profound transformation that occurred largely unnoticed by the international community. When the Central Bank split and formal banking channels froze, humanitarian actors faced an unprecedented challenge: how to move money at scale in a fragmented conflict zone.

The solution—routing emergency cash transfers through money exchangers (hawala) and microfinance institutions—was both pragmatic and consequential. While this approach successfully delivered life-saving assistance to millions, it simultaneously catalyzed a fundamental restructuring of Yemen's financial architecture.

10

Years of Transformation

Decade-long evolution of payment systems

\$2.8B

Annual Cash Flows

Through non-bank channels by 2025

Today, liquidity, payments, and retail finance are dominated by non-bank intermediaries. Formal banks remain relevant for SWIFT transactions and compliance, but have largely been displaced from everyday settlement activities. This report examines how we arrived at this juncture and what it means for Yemen's financial future.



The Four Phases of Financial Transformation

2015–2016: System Fracture

Conflict triggers Central Bank split. Branch networks segment along frontlines. Interbank settlement collapses. Retail transactions shift to cash and hawala networks capable of bridging territorial divides.

2017–2019: Humanitarian Monetization

Cash-based aid scales dramatically. Agencies route payments via exchanger networks and microfinance institutions. Exchangers gain operational capacity, public legitimacy, and fee income at national scale.

2020–2022: Visible Disintermediation

Banks show stress signals: declining fee income, increased reliance on balance-sheet activities, difficulty moving cash between territories. Humanitarian transfers and remittances increasingly clear outside banking channels.

2023–2025: Formalizing the Informal

Major exchanger houses convert to microfinance banks. Licensing proliferates under fragmented regulatory regimes. E-money and agent models expand, creating a functional "shadow ledger" outside central bank oversight.

The Human Impact Ledger

Benefits That Saved Lives



Reach at Scale

Exchangers' footprint, extended hours, and risk appetite exceeded banks in conflict settings, enabling higher financial inclusion where traditional institutions couldn't operate.



Speed & Continuity

Cash arrived even as frontlines shifted, stabilizing household consumption for food, rent, and medicines while smoothing displacement and wage-arrear shocks.



Local Multipliers

Liquidity injections through markets kept shops operational, preserved supply chains, and reduced aid leakage compared to in-kind distribution.



Dignity & Choice

Beneficiaries prioritized spending on school fees, food, or debt service, improving welfare outcomes relative to predetermined rations.



Systemic Vulnerabilities

- **Disintermediation:** Payments and remittances moved off-bank, collapsing fee engines for already-thin institutions
- **Regulatory gaps:** Parallel settlement layer consolidated outside unified oversight, weakening AML/CFT traction
- **Monetary policy:** Transmission mechanisms degraded as transactions bypassed central bank visibility
- **License bubble:** Rapid exchanger-to-MFB conversions without robust prudential supervision
- **Geographic inequity:** Urban exchanger density leaves rural areas and vulnerable populations underserved
- **Path dependency:** Aid program integration with exchanger platforms creates switching costs back to banks

Causal Analysis: Did Emergency Cash Create This System?



Pre-Existing Conditions

Risk-averse banking sector, treasury asset concentration, weak intermediation, and strong informal networks already in place before 2015.



Market Forces

Remittances, trader finance, and public-salary arrears were flowing through hawala channels regardless of humanitarian interventions.



ECT's Distinctive Effect

Scale and legitimacy: routing nationwide social protection through exchangers accelerated capacity-building and normalized these rails for all transactions.



Key Finding: Emergency cash transfers didn't create hawala dominance—they institutionalized and accelerated it. The intervention was necessary for humanitarian outcomes but had lasting structural consequences that require deliberate policy responses.

Counterfactual Scenarios: Testing Alternative Paths

If ECT Had Been Paused Mid-Stream

Short-term: Sharp consumption shock affecting food security, rent payments, and medicine access. Negative coping mechanisms including distress asset sales and increased child labor risk.

Medium-term: No structural re-banking occurs. Retail flows remain on exchanger rails through remittances and trader credit. Aid-driven path dependency slows but shadow infrastructure persists.

If No ECT Had Been Implemented

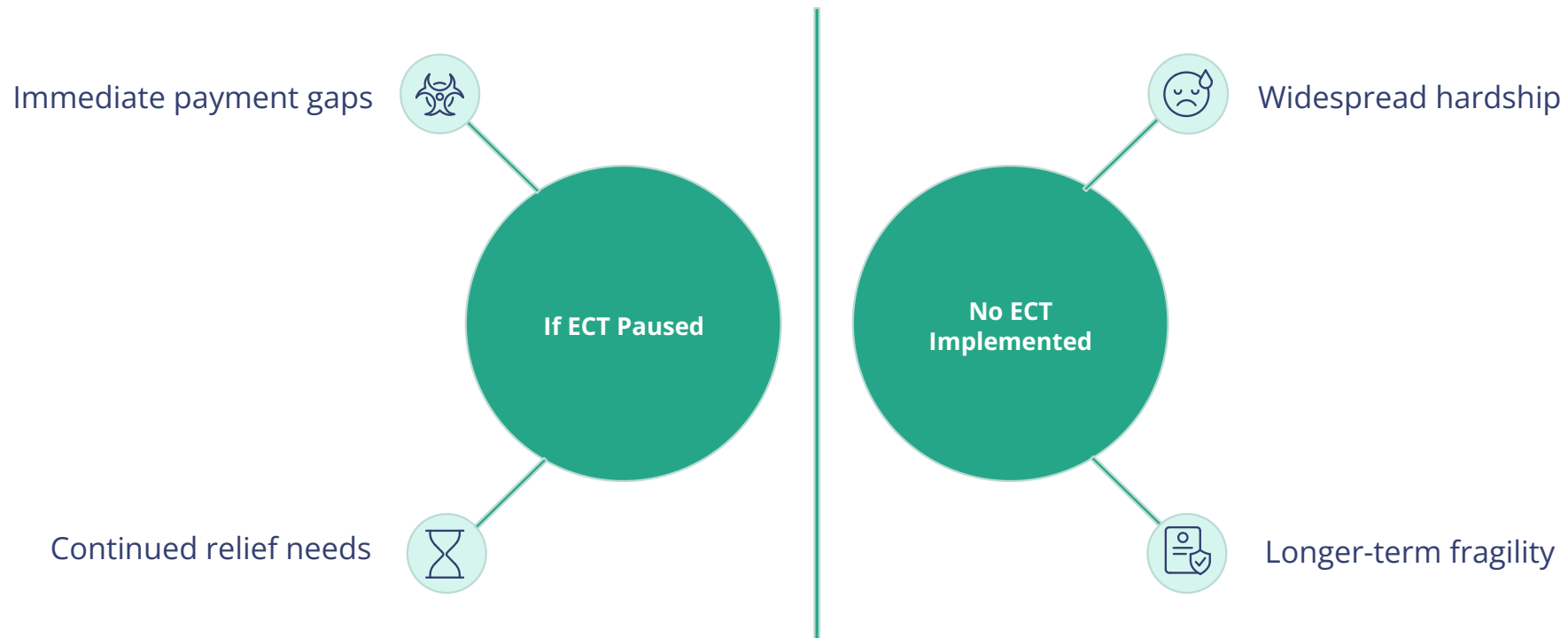
Human cost: Significantly worse poverty, malnutrition, and displacement outcomes. Higher aid delivery costs through in-kind or ad-hoc modalities with greater leakage.

Financial structure: Hawala still dominant due to banking sector weaknesses. Exchanger consolidation occurs anyway, just slower and less professionalized without humanitarian capital injection.

The evidence suggests emergency cash transfers saved lives and reduced harm while simultaneously hardening a pre-existing structural shift. The appropriate lesson is not to avoid cash-based assistance, but rather to couple it with deliberate re-banking strategies.

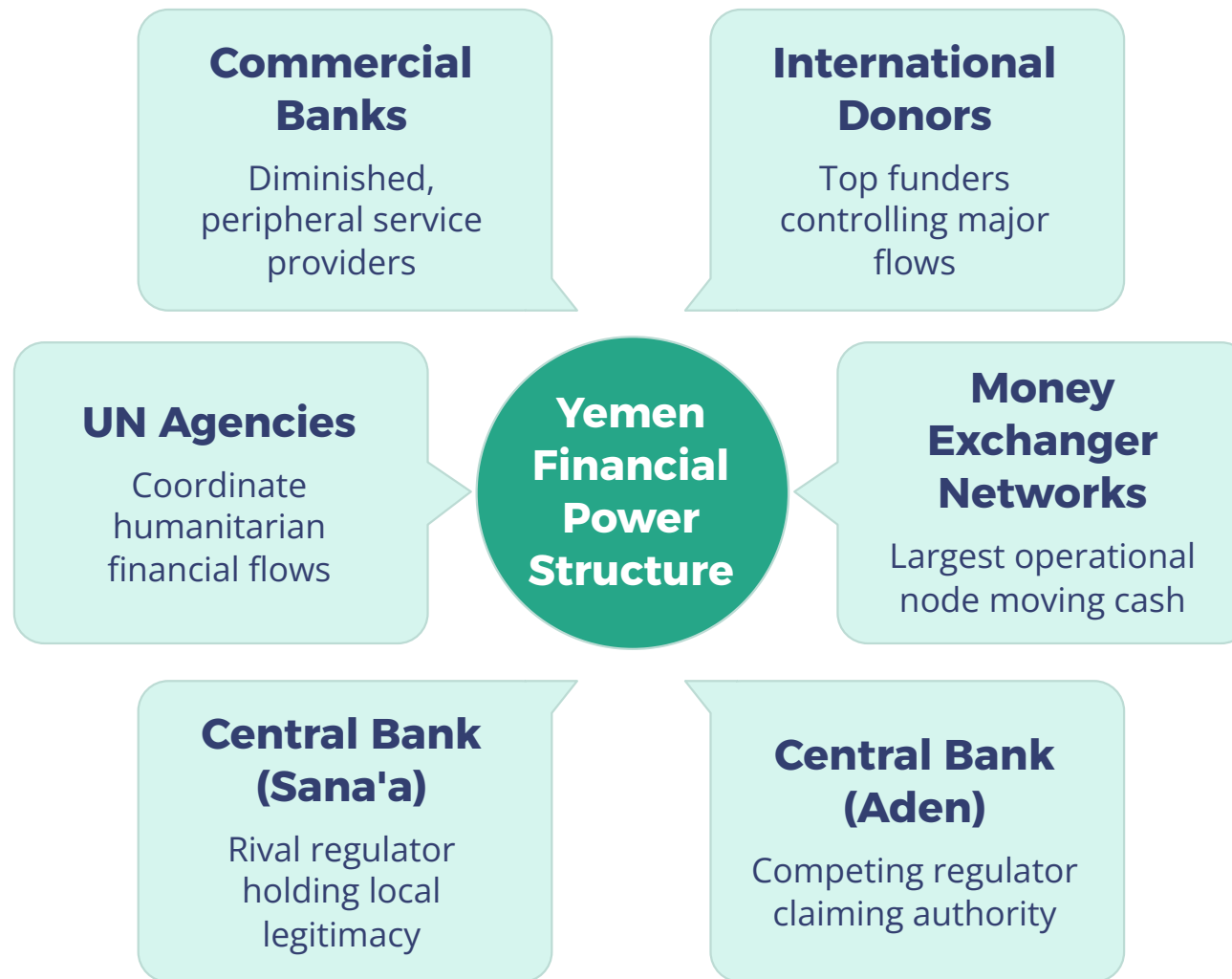
Counterfactual Scenarios: Testing Alternative Paths

Understanding the potential outcomes of alternative decisions provides crucial insights into the complex dynamics at play in Yemen's financial landscape.



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Current Financial Power Architecture



Dominant Players

- Money exchanger networks
- Microfinance institutions
- International donor agencies

Weakened Actors

- Commercial banks
- Fragmented central banks
- State financial institutions

Power Sources

- Operational reach
- Liquidity access
- Public trust

Policy Recommendations: A Pragmatic Path Forward

01

Hybrid Rail Strategy

Certify major exchangers as banking agents under tiered KYC requirements. Push settlements through bank master accounts with daily or weekly reconciliation. Establish donor-backed risk-sharing windows to enable bank re-entry into last-mile payments.

03

National Clearing Infrastructure

Develop a neutral, low-cost clearing utility for domestic retail payments that includes banks, microfinance institutions, and payment service providers—even while central banks remain fragmented.

02

Regulatory Discipline

Implement temporary pause on new microfinance bank licenses. Establish minimum prudential and client-protection thresholds. Create shared credit registry to prevent over-indebtedness. Require urban-rural service obligations similar to telecom universal service mandates.

04

Transparency & Consumer Protection

Publish payment-agent rosters, fee schedules, and grievance redress statistics. Establish gender-safe access protocols with discrete queues and female agent quotas. Create cross-rail consumer protection hotline with emergency fee cap guidance.

Conclusion: Reconciling Humanitarian Necessity with Financial Stability

Yemen's experience offers a critical lesson for humanitarian finance in fragile states: emergency interventions that save lives can simultaneously reshape institutional power structures in ways that persist long after the crisis.

The emergency cash transfer program was unquestionably the right choice for reaching vulnerable populations at scale. However, the absence of a parallel re-banking strategy has left Yemen with a financial system that is operationally effective but structurally fragile—highly dependent on a small number of non-bank intermediaries operating outside comprehensive regulatory oversight.

The path forward requires a both/and approach: preserve the inclusive reach of exchanger networks while deliberately rebuilding banking sector capacity in settlement, clearing, and consumer protection. This is not about reversing the clock, but about creating a more resilient, diversified financial architecture.

Key Takeaway

Cash assistance via exchangers was necessary and effective for human outcomes—and it accelerated a lasting power shift from banks to non-bank intermediaries that requires deliberate policy intervention.

This analysis was prepared by the Benfour Institute for Financial Policy Research. For inquiries: research@benfour.org

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