

SINCE 2009, YEMEN HAS SEEN SEVERE DETERIORATION OF FOOD SECURITY



TODAY, YEMEN IS HOME TO THE **WORLD'S WORST HUMANITARIAN CRISIS**

2017



TODAY, 17 MILLION OF THE TOTAL POPULATION IN YEMEN ARE **FOOD INSECURE**



10 MILLION ARE IN CRISIS



7 MILLION FACE AN EMERGENCY



THE UNITED NATIONS IS PREDICTING FAMINE AS A TANGIBLE RISK IN YEMEN

FOOD SECURITY DEPENDS ALMOST ENTIRELY ON FOOD IMPORTS



Food imports cover over 90 percent of annual domestic consumption needs.

WHEAT, FLOUR, AND RICE imports constitute the main food diet in Yemen.



PRIVATE SECTOR

The private sector has in-country storage infrastructure that enables it to sustain three months' worth of reserves of those commodities.



The private sector secures 99% of the imports of those commodities

+

TOTAL STORAGE CAPACITY
890,000 MT



ADEN
PORT

340,000 MT

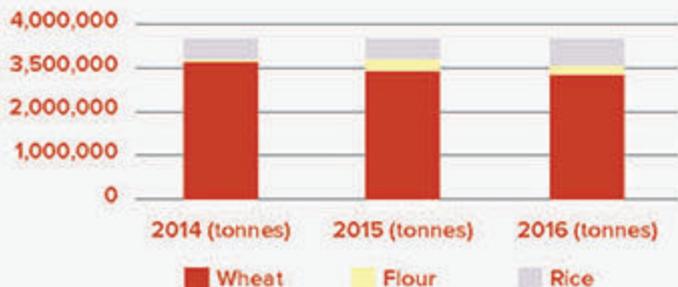


HODEIDAH &
SALEEF PORT

550,000 MT

CHALLENGES / OBSTACLES THREATENING THE CONTINUED SUPPLY OF FOOD IMPORTS

Market mechanisms (private sector) have sustained the continued supply of food commodities into the country, but are at risk of failure due to a number of **challenges and obstacles**.



COLLAPSING PURCHASING POWER:

The decline of purchasing power is a result of the deterioration of the economic environment, nonpayment of public servant salaries, and suspension of income support programs. The sharp drop in demand as a result of the decline in purchasing power emerged as the top constraint.



LIMITED ACCESS TO LIQUIDITY:

The progressive depletion of the banking sector's liquidity has effectively cut off the private sector's access to their bank deposits and aggravated the systemic liquidity crisis. The increasing scarcity of cash has forced importers to resort to checks to settle balances, but at higher costs.



COST & SCARCITY OF FOREIGN CURRENCY:

The suspension of Central Bank functions and liquidity problems facing the banking sector have effectively dried up the two primary financing sources of food importers.

The suspension of domestic foreign currency payment systems and the freezing of commercial banks' U.S. dollar balances held at the CBY have further reduced the role of formal financial institutions. Food importers and their associated Banks today are facing challenges securing FX needs and increasingly resorting to the money exchange companies to secure the FX needs for food imports but have to pay high premiums to secure the FX.

CHALLENGES / OBSTACLES



DIFFICULTIES IN MAKING CROSS-BORDER PAYMENTS:

Increasing international restrictions for transactions with Yemeni banks and businesses are making it difficult for traders to make transfers through their Yemeni banks. Corresponding banking relationships became limited, with higher costs, and the function that CBY used to play in supporting food imports completely stopped in 2016. Both of these obstacles made it difficult for food importers and their Yemeni Banks to make cross-border payments and increased costs when cross-border payments are possible.



LIMITED ACCESS TO TRADE FINANCE:

Most banks have either completely stopped providing credit, or demand higher fees and collateral – including for short term credit like overdraft facilities or letters of credit (L/Cs). Importers now have to deposit 100 percent of the L/C amount in their bank account before their bank will establish the L/C. This represents a significant increase compared to the pre-war period, where most banks only requested a fraction of the L/C value as guarantees.



DELAYS IN OBTAINING CLEARANCES TO ENTER YEMENI PORTS:

Receiving the "approval" to enter Yemeni ports is not a process with clear response times, but is rather done on a ship-by-ship basis. This could sometimes take four days, but it could also take two to three weeks, and sometimes over a month. The general sense from importers and shipping agents about the process of obtaining clearance is that the process is uncertain, time-consuming, and can be very costly due to demurrage charges they have to pay awaiting inspections and clearance.

RECOMMENDED OPTIONS FOR INTERVENTION

1



SCALE-UP INCOME SUPPORT MEASURES FOR YEMENI HOUSEHOLDS

The resumption of payments of salaries for public servants, payments and social transfers should be targeted as a top priority given their importance as a main source of income for millions of Yemeni households.



Resumption of payments of salaries for public servants

The Yemeni authorities should formulate an action plan which identifies the financing sources and lays out an implementation plan which considers the financial and operational constraints and priority needs of the most vulnerable populations.

Identify and earmark potential government revenues (customs; taxes; oil sales) and a strategy to channel them for income payments through a trusted mechanism (e.g. through a memorandum of understanding or negotiated agreement with relevant stakeholders)



Identify financing gap which may be complemented through international aid.



Identify payment agents/instruments which have the operational capacity to roll out these payments and are credible and trusted by key stakeholders.



Scaling-up emergency food assistance

The international community should scale-up existing emergency food assistance efforts given the severity of the humanitarian crisis.

2



FACILITATE ACCESS TO FX TO SECURE FOOD IMPORTS



Foreign aid - one of the few remaining sources of FX inflows to Yemen - could be used to help cover FX needs of food imports



Donors, authorities and banks could collectively agree to avail the use of aid inflows for food imports on a priority basis, building on the wide consensus on the importance of sustaining food imports



Facilitating access to FX would not only address food importers' challenges to access FX, but also help reduce high fund transfer costs through informal channels

3



Restoring liquidity in the financial system is an important measure to reduce transaction costs and risks for payments not only for the food value chain, but the entire economy



The CBY should formulate a phased & time-bound action plan to restore liquidity in the financial system. The payment of accrued interest on T-bills held by banks could be a first step to ease liquidity pressures on the banking sector

RESTORE TRUST IN FINANCIAL SYSTEM

4



ESTABLISH AN EFFICIENT AND PREDICTABLE CLEARANCE PROCESS ENABLING ACCESS OF FOOD SUPPLIES THROUGH ALL AVAILABLE PORTS



UNVIM should be empowered with further authority by the international community. This can be accomplished through delegating UNVIM to conduct the final inspections of all vessels destined to Yemen, and enable it to issue the final clearances necessary to enter Yemen waters. Delegating such activities to UNVIM is envisioned to address the significant delays and uncertainties that still impact the shipping process. This will help in stabilizing shipping times and assist in bringing down shipping rates to Hodeidah.



Limit restrictions on shipping lines, and allow for alternative transshipments ports for vessels destined to Hodeidah and Saleef.