



CASH INFLOWS IN FOREIGN CURRENCIES AND ECONOMIC GROWTH FOR REPUBLIC OF YEMEN

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Abstract

Yemen economy receiving over U.S Dollar \$4 Billion in the form of cash inflows, the majority of this amount came from the Kingdom of Saudi Arabia. Individuals and households in the country rely on cash flows, along with a variety of other sources of income, to help cover daily expenses such as food, housing, health care, farming and education. That cash flows enable them to cover these important areas is no doubt positive. However, it is also important to consider how cash flows can build prosperity, rather than simply sustain survival, in households and communities throughout the economy of the country.

The answer lies in access to reliable, usable, and affordable financial services, this paper argues Economic access can magnify and deepen the positive impacts of cash flows at each stage in the process, from access to reliable and affordable farmers, workers and migrants are the senders of these cash flows to the economy of Yemen. Banks are using some strategies and banking services for the recipients to increase these amounts as much as possible.

Key Findings of this Paper Include

- Cash flows to the Republic of Yemen expected to reach US \$6 Billion for 2023, with the highest levels of growth of non-systematic cash flows, making the local economy stable.
- Enhancing the development impact of cash flows of foreign currencies goes beyond reducing transaction costs to promoting systematic inflows via banks and savings.
- Reducing transaction costs to an average of 5% for the Republic of Yemen would generate an estimated US \$25 Million a year in savings.
- Increasing bank account ownership by five percentage points per bank would result in an estimated US \$25 Million in cash flows entering the formal banking system of Yemen each year through account deposits.

1. Cash Flows and Financial System.

Cash flows to the Republic of Yemen have grown at least 80% in 2021, marking the first significant growth since 2015. Yemen banking sector have had especially high growth in cash flows in foreign currencies from 2011-2021. Political, economic, as well as social issues may be affecting these flows. Saudi Arabia as a very positive vision 2030 is a direction to Yemeni workers. Saudi Arabia considered being a very important source of cash flows to Yemen. It probably benefiting from increasing migration, improvement in labor, and economic growth in Yemen as well.

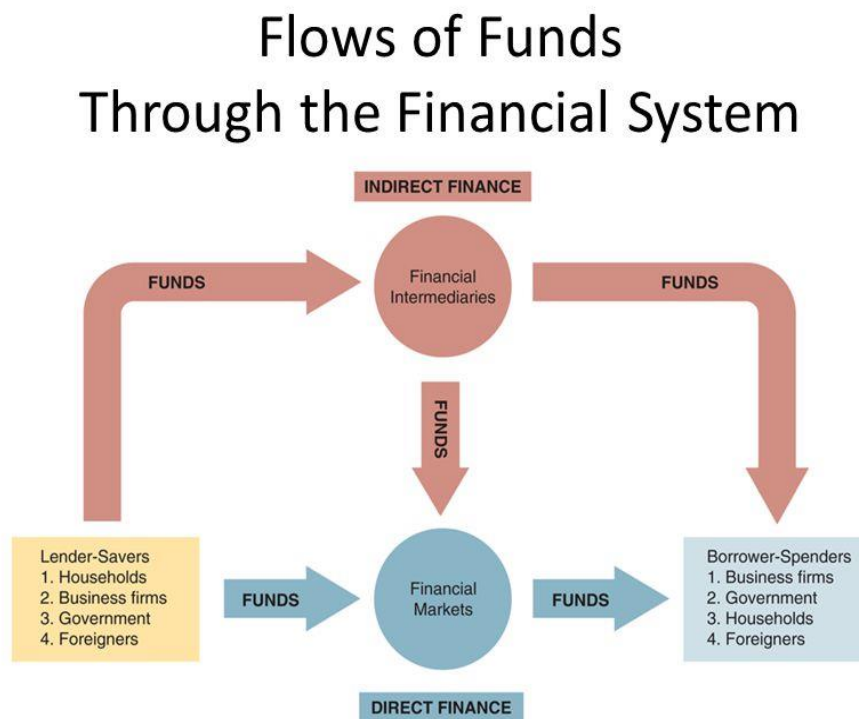
The economic development of any nation reflected by the progress of the various economic units, broadly classified into corporate sector, household and government sector. There are areas or people with deficit and there are those with surplus funds. A financial system or financial sector functions as a bridge or as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of



deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities.

Financial system comprises of set of subsystems of financial institutions, financial markets, financial instruments and services, which helps in the formation of capital. It provides a mechanism by which savings transformed to investment. The word "system", in the term "financial system", implies a set of closely and complex interlinked or connected institutions, agents, practices, markets, claims, transactions, and liabilities in the economy. The financial system is concerned about money, credit and finance -the three terms are intimately related yet are somewhat different from each other. Yemeni financial system consists of financial market (under-establishment) as shown in the down below figure.

Figure number: 1 cash flows and the financial system



The above figure shows the role of banking sector in receiving cash flows. The majority of these flows were send non-systematically.

Many countries made limits for migrants to make remittances. Migrants cannot exceed the limits that put to them by the banking authorities. This process made upon the wages rolls and statements to avoid anti-money laundering. That is why such cash flows appear in an increase annually.

As it is very clear that, the majority of Yemeni workers are in Saudi Arabia. There are nearly 3.5 Million Yemeni migrants in The Kingdom of Saudi Arabia. This number means more than 88% of Yemeni workers are working there. The geographic location, religion, and habits of Yemen and Saudi



Arabia shared by the two countries. The big boundaries between the two countries are one of the reasons that encourage Yemeni workers leave to Saudi Arabia. The majority of the Yemeni workers are from the north of the country. If we assume that Yemeni workers are sending 25% of their earnings to their families in Yemen, and if the average amount of their earning is 7800 US Dollar that will equal 6,584,000,000 US Dollar can be received from Saudi Arabia only. Secondly, Yemen received also cash inflows from migrants from the USA. There are many Yemeni there especially from the middle governorates of Yemen like Ibb, Dhalie, Taiz and Radda'a. The number of Yemenis there does not exceed 400,000 Yemeni migrant. The majority of them are not Yemenis any more. They became American Citizens accompanied with their families and the do send remittances rarely to their relatives.

They have the American Citizenship and many of them got the American passports along with their families. The relationship between the migrants in the USA and his family in Yemen became so weak. Because the near family to the migrant joined the migrant and got the passports too. What is remaining from the family in Yemen is not the responsibility of the migrants to spend his money for. Therefore, economically the Yemeni migrants in USA will vanish from the count within 20 years approximately.

2. Functions of Financial System

The financial system of Yemen or any country performs certain valuable functions for the economic growth of that country. We can define monetary assets as those assets, which can converted into cash or money easily without loss of value. All activities in a financial system related to liquidity-either provision of liquidity or trading in liquidity. The main functions of a financial system can briefly discussed as below:

1. Saving function: Is the first functions of the financial system and it considered an important function of a financial system by which they mobilize savings and direct them into productive activities. It is through financial system the savings transformed into investments.
2. Liquidity function: The most important function of a financial system is to provide money and monetary assets for the production of goods and services.
3. Payment function: Another important function is the payment function by which the financial system offers a very convenient mode of payment for goods and services. The Cheque system and credit card system are the easiest methods of payment in the economy. The cost and time of transactions considerably reduced.
4. Risk function: The financial markets provide protection against health, life and income risks. These guarantees accomplished through the sale of health, life insurance and property insurance policies.
5. Information function: A financial system makes available price-related information. This is a valuable help to analysis, and those who need to take financial and economic decisions. Financial markets disseminate information for enabling participants to develop an informed opinion about disinvestment, investment, reinvestment or holding a particular asset.
6. Transfer function: A financial system provides a good mechanism for the transfer of the resources across geographic boundaries. In this study, we are going to highlight on the ways and function of transfers in general and in the banking sector in particular.
7. Reformatory functions: A financial system undertaking the functions of Introducing, developing innovative financial assets/instruments, practices and services and restructuring the existing assets, services, to cater the emerging needs of borrowers and investors (financial engineering and re-engineering).



8. Other functions: It assists in the selection of projects to finance and reviews performance of such projects periodically. It also promotes the process of capital formation by bringing together the supply of savings and the demand for investible funds. The researcher finds that economic activities, government policies, social conflicts and services directly linked with politics. Thus, political instability in the Republic of Yemen is the main reason for cash inflows to the Republic of Yemen.

9. Importance of Financial System in the Economic Development

1. It links and joins the investors and savers. It helps in allocating and mobilizing the savings effectively and efficiently. It plays a crucial and important role in economic development through saving-investment process. This savings – investment process called capital formation.
2. It helps to monitor and control corporate performance in the economy.
3. It provides a mechanism for managing uncertainty and controlling risk.
4. It provides a mechanism for the transfer of resources across geographical boundaries.
5. It offers portfolio adjustment facilities, which provided by financial intermediaries and financial markets.
6. It helps in lowering the transaction costs and increase returns. This will motivate people to save more and increase their investments.
7. It promotes the process of capital formation.
8. It helps in promoting the process of financial deepening and broadening.

Financial deepening means increasing financial assets as a percentage of GDP and financial broadening means building an increasing number and variety of instruments and participants.

In short, a financial system contributes to the acceleration of economic development. It contributes to growth through technical progress. The researcher focused on the impact of cash flows in the economy of Yemen. In addition, during this paper the researcher highlighted on the economic stabilization. The strategic location of the Republic of Yemen is the most important factor of such cash inflows.

9. Banking in Yemen

The banking sector is the lifeblood of any modern economy in any country in the world. It is one of the most important pillars of the financial system, which plays a vital and crucial role in the success or failure of the economy. The banking system reflects the economic strength of the country. Strength of a country's economy depends primarily on the strength and efficiency of the financial system, which in turn depends on a sound banking system and good services as well.

The traditional role of banks has been to acceptance of deposits from the surplus and lending of funds to the investors or the people who need this money. For centuries, banks have lent and borrowed money to business, trade and people, charging interest on loans and paying interest on deposits [1]. Banks in this concept act as brokers between supply and demand of securities, and they transform short-term deposits into medium- and long-term credits. One of the main difficulties faced by the banks is the lack of ability to repay the obligations in the appropriate times. Therefore, banks faced several risks of lending the money and the repay the obligation. Specialized information on financial products gathered by banks to improve investment decisions and to manage the risk [2].



The studies regarding the cash flows in this way creates the demand for various Stakeholders, especially the financial institutions, researchers, Diaspora and policy makers to be engaged in finding the better ways increasing such cash flows to the economy. It is argued in that cash flows that are transferred through informal means are less effectively used because they do not contribute to the receiving country's foreign reserves and also are not included in the development initiatives and priorities which could benefits the individual receivers and the nation at large. In the developing countries where small cash flows reach households possess bank accounts, formalization of cash flows would not only reduce the risks and costs of banking services, it would also could help them to save and in this way raise the national savings rate.

Another critical issue regarding the informal cash inflows channels is that, they provide a convenient way for money laundering and funding criminal and terrorist activities. Understanding the operations of informal and underground cash movement channels could help countries to put in place well-coordinated measures for monitoring and information sharing to prevent money laundering and financing of terrorist activities.

Improving cash flows would require studies on money cash behavior on how people respond to social, political and economic changes of receiving and sending countries. That information could help policy makers in these countries to design policies aimed at improving the banking and financial services. However, the biggest challenge is how these financial institutions would prevent illegal transactions, ensure safety and efficiency of transfers and at the same time be able to reduce illegal money reaching the wrong ones.

10. Accessing Banking Services

Another approach of promoting cash flows consists of improving access to banking services. This entails connecting workers and recipients of such cash to formal financial services that they can use to plan, manage their income, build assets, and reduce risk. Such services must be usable, open to all members of society, secure and regulated and meet the needs of the households.

11. Promoting Savings

Recipients of Cash flows by nature have the ability to save money at home. It is the duty of the financial authorities to promote saving program for the working banks in Yemen. This program will have a greater capacity for them to save even if they are in low income. What is important from such savings, however, is that on a fraction of these savings kept formally. There must be guarantees to the people that whenever they need their money, they cash withdraw it without any delay.

On a household level, formal savings in banks ensures that a household's stock of savings remains safe and secure. The natural disasters, crimes, or any other unexpected events. Formal savings will bring and include earning interest and gaining access to many other banking and financial services. Such services like credit card, build a credit history that will eventually enable households to receive banking loans. By saving in banks, the financial market will enhance because savings promotion is one of the most effective means of increasing cash inflows that must directed to the development of the country.



12. Developing the Labor Force

The more skilled workers were more likely to send cash flows than the low skilled workers. The more educated migrants were more likely to remit than those who are less educated. Older migrants are less likely to send their cash than those younger workers. Yemeni workers face a decline in sending cash behavior with longer periods of residence in the host country. Regarding Orozco study, migrants with close relatives in the country of origin were more likely to remit to their relatives. We need skillful, trained migrants to receive good amounts. The ministry of Labor and Migrants' affair must recommend expanding the number of trades offered by technical schools. There must be local increasing knowledge on global market and bringing vocational schools into the local villages. The Ministry of planning must identify the gaps in the demand for high skill labor between the local and global economy to avoid brain drain. The Ministry of Education must start teaching of English Language from the basic levels and computer skills to target the foreign markets.

All these facilities will encourage cash inflows to build our economy by mobilizing savings into depository institutions. By focusing on rural areas, that the recipients are low income people living there and start banking microfinance. We will notice reduce of crime and migration.

13. Facilitating Investment and Entrepreneurship

Yemeni workers abroad have a very strong interest in investing back home, and important resources savings for them is the recipients informal savings. Many workers invest randomly by trusting the recipient that he can credit to small businesses. Accessing to these communities will increase substantially: the lack of access to credit in communities where violence and migration occurs is strong. Recycling those funds in local communities will be an integral part of bank's partnerships. Banks must remove barriers and enter amount migrants. Sure, there is one in ten is willing to invest in a small business or open his own investment in those communities. There will be some risk but some of the investment can go into entrepreneurial activities that for sure will add value in the productive base of the Yemen economy.

14. Concluding and RESULTS.

Despite the rising volume of cash inflows to the Republic of Yemen, their impact on the Yemeni Economy as a recipient country has been largely unexplored yet. The researcher examine this topic using county data for the Central bank of Yemen on the fraction of households that receive cash inflows and measures of both banking breadth (e.g., accounts or branches per capita) and depth (e.g., credit or deposits to GDP). The researcher finds that cash inflows are strongly associated with greater financial breadth and depth. The effects are significant both economically and statistically.

Throughout this paper, cash inflows to the Republic of Yemen are crucial policy concern since they are large, relatively stable and provide direct benefit to banking sector. For the development of the economy cash flows do not automatically contribute to national development because the effects of such inflows comes in an illegal methods, this is because of the way that cash flows transferred and used. The majority of cash flows to the Republic of Yemen analyzed never enters the formal financial sector and largely not used to increase permanent income. According to the permanent income hypothesis, income, which does not influence permanent income, will have smaller effects on consumption. The methods of receiving the incoming cash have implications for the households actually receiving the funds. Majority of the Yemeni workers are temporary and the temporary workers abroad generally bring back money with them when they come back in cash status to Yemen. This



form of money transfer is included in the informal source but they cannot bring all the money at the time when they return to their origin country Yemen.

The researcher found many methods in dealing with cash inflows to the Republic of Yemen. It varies from country to another. In countries that face financial difficulties, weak or mistrust informal channels tend to be used more. The researcher also noted that, foreign exchange controls generally lead to a higher use of non-systematic or informal channels in sending cash, while a strong economy with a strong financial sector leads to the use of systematic or formal channels in sending cash. In the case of Yemeni workers and other developing countries, the common method of sending money cash is hand delivery (hand to hand) by the workers themselves or by courier (in cash status) to their families and relatives. There is also a problem with the Commercial banks, their branches are not well positioned geographically to offer other financial services to individuals that visit banks to collect their money, and that is an important reason that many Yemeni households are using the non-systematic channels to receive their remittances.

The findings confirm previous research findings with some additional observations, which contradict previous results, that those workers who have a bank account in the country of origin are likely to transfer their money more than those who do not have one. The researcher finds that having a bank account in the country of destination—regardless of their migration status—has allowed workers abroad to better administer their income, and earnings. It has increased their likelihood of sending money to their countries of origin.

A different perspective from other researchers concerning the effects of such cash inflows on overall banking performance seems to be positive. The researcher found that cash inflows promote financial development, which could enhance economic growth and banking performance. It is due to liquidity constraints, cash inflows could affect investments (thus making the investment/GDP ratio endogenous) and human capital formation. Also, that the human capital being completely absent has an overall positive effect on origin countries' long-run economic performance.

15. References

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