

Will the International Efforts Succeed in Saving Yemen's Economy?



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Over recent years, the ongoing conflict has deeply harmed the Yemeni economy as the country has witnessed unprecedented economic, social, humanitarian, political and security turmoil since the outbreak of the conflict till now. All of these factors have led to a decline in the gross domestic product as well as halting a large part of the economic activities and the governmental investment programs. Moreover, a substantial portion of the private investments has receded, and the local capital fled the country seeking for a safe environment. The activities of oil and natural gas exports have also stopped in addition to the suspension of several grants and foreign loans programs. The government's non-oil revenues from customs and taxes decreased amid the recurrence of sharp crises related to cash liquidity, fuel and electricity. This is the basis behind the unprecedented turbulent conditions in Yemen regarding the deterioration of the development indications, the decline of institutional performance, the exacerbation of the humanitarian crisis as well as the devastation which inflicted much of infrastructure and the public and private facilities along with the huge negative repercussions caused by the covid-19 pandemic that has constituted a new additional threat against Yemen.

Accordingly, there are questions about the pillars of the economic collapse inside Yemen, its measurement indicators, and how possible to insert the files of economic treatments into the international efforts' agenda for the Yemeni issue.

First- The pillars of the economic collapse:

The conflict in Yemen has contributed-directly and indirectly- to the current crisis because of the harms it has caused in the infrastructure, and the sharp shortage in the basic production inputs in addition to the restrictions against the economic activities. The existing conflict has resulted in accumulative economic losses, top of which is its impact on aggravating the scale of negative ramifications of Covid-19 Pandemic as many economic activities have been harmed including for example the decline of expatriates' remittances which constitute the biggest source of hard currencies income. Moreover, the size of international aid to Yemen has witnessed a large decrease including humanitarian aid and supply chains as a result of the disparity between full and partial lockdown across the world due to the pandemic. This has been added to

the basic internal activities which directly led to the deterioration of the whole commercial, economic and investment interactions, top of which can be illustrated as follow:

1- Monetary division/banking policies:

This has a direct impact on a number of scenes, mainly:

- Both the internationally-recognized government and the Houthis” broke an agreement to neutralise the economy, split institutional capabilities and economic decisions and impose monetary and banking division. Those policies supported the establishment of the so-called “forced separation” between the economies of the areas under their control. For example, the Houthis refused the decision of moving the Central Bank in 2016. In December 2019, they decided to prohibit trading the new currency issued by the Hadi Government. The Houthis justified this by claiming they want to preserve the Riyal value and reduce inflation rate.
- The Houthis established custom centers on the outskirts of the areas out of their control, and forced the banks in their areas not to deal with the Central Bank in Aden when it began to issue letters of credit for importing the basic commodities.
- The split in the monetary and banking policies confused the general financial policies and scattered their revenues as well as the emergence of many complexities in the face of economic activities, and tightening the grip on the commercial and banking sectors by the restrictions imposed on the local financial transactions and on the trade exchanges between both parties’ areas of control. This created two different environments of the overall economy and caused economic distortion.

It is worth mentioning that the policies of the internationally-recognized policies led to undermining the stability of the macroeconomy within areas under their control, especially after it filled the budget deficit with free/overdraft withdrawals through the Central Bank and printing new banknotes without sufficient foreign exchange cover. On the other hand, the areas controlled by the Houthis have witnessed a relative stability in the value of Riyal and the

inflation rate. This is not just attributed to the measures adopted which contradict the policies of Aden's Central Bank. Along with their focus on increasing revenues, they reduced public spending to the maximum limits. They behave as if they are "authority without obligations"; For example, they only pay state employees half a salary every two month, and the operational state institutions spending has been at its lowest level. Moreover, the scale of market circulating cash has been reduced. Subsequently, this contributed to relative stability of the currency value within the areas under their control.

2- The troubled economic management:

The aspects of the management turmoil of the economic file have their own impact regarding the "lack of transparency" dilemma due to ignoring oversight, review and audit of the formal financial operations. Furthermore, no budgets for running the Yemeni state institutions have been prepared or announced except for the 2019-Budget, as much of official revenues is not transferred to the Central Bank in Aden, mainly oil and gas revenues based upon a number of pretexts top of which are:

- The unstable security conditions in Aden.
- The concerns of the internationally-recognized government that other parties involved in the conflict, such as the Houthis could seize the money.
- Restructuring the economic map by besieging the private sector and building a special economy in which the financial and business sectors are being controlled by their supporters and symbols.

3- The spread of corruption aspects:

The ongoing conflict in Yemen has largely led to the spread of economic and financial corruption features in the state. For example, the Houthis imposed "unlawful levies on the commercial activities", along with the lack of transparency in all decisions regarding the monetary policies such as "Issuance of new currency" in addition to other steps that resulted in Yemen's bad position in the "Global Corruption Perceptions Index". The different parties involved in

the "Yemeni issue" contributed to the weakness and fragility of the current economic conditions through the following points:

- The weakness of the internationally-recognized government, and the ensuing flaws in Collecting state revenues, and opening the door for currency speculators.
- The Houthi role in the cash liquidity and foreign exchange crises by seizing the Central Bank's money after storming Sana'a. They then hoarded the cash and exploited it outside the banking sector including money related to insurance authorities and institutions as well as the foreign reserves.

Secondly- The collapse indicators

There are a number of indicators that led to the economic collapse along with the deterioration of the monetary and banking institutions. This is clear through the following points:

1- The forced separation of the Yemeni economy:

Yemen has witnessed worrying economic transformations, mainly the establishment of a state of "forced separation" between the economies of areas controlled by the Houthis and those under the control of the internationally-recognized government, and the decision of the Houthi-controlled Central Bank in Sana'a, not to deal with the new banknotes of the local currency. This created a qualitative turning point in the path to establish two distinctive and conflicting economies inside Yemen. The step paved the way to insert the banking system in the ongoing conflict, produced a state of decision duplicity, along with measures that increased the challenges against the Yemeni economy and aggravated the humanitarian and livelihood crisis which is considered the worst in the world.

2- The continuous and growing deficit in the public budget:

This is considered a direct impact of the limited government's revenues against its high spending along with a number of qualitative factors, top of which is the decline of oil exports revenues due to its average price decrease compared with

the last year, as well as the increase of its production costs locally because of the spread of financial and administrative corruption in this sector.

3- The increase in printing "local currencies":

Therefore, the overall circulating cash climbed amid growing shortage in the public budget, concurrently with the decline of the Central Bank's hard currencies reserves. Additionally, the internationally-recognized government to pay its obligations and employees' salaries in the public sector.

4- Running out of the "Saudi deposit" in the Central Bank:

The Saudi deposit, estimated at \$2.2 billion, has enabled the Central Bank of Yemen to cover basic imports since mid-2018. However, it seems that the deposit is about to run out. Although the KSA may ultimately have to give it a new deposit, it is likely to be smaller than the previous one, and accordingly won't cover the imports and other economic rescue requirements, especially at a time when the sources of hard currency (remittances, aid and export revenues) are witnessing a significant decline.

5- Scarcity of job opportunities:

After the outbreak of the conflict in Yemen, employment and occupancy rates in various development and economic sectors have declined. For Year, many employees, especially those who belong to the public sector, have received their salaries in a partial and irregular way. Moreover, the restrictions imposed against the imports led to unprecedented rise in fuel prices, especially in the Northern areas.

6- The decline in the volume of remittances from Yemeni workers abroad:

This is directly attributed to the negative ramifications of Covid-19 Pandemic which in turn led directly to reducing the "dependency ratio" for a large section of Yemenis, as well as the decrease in the cash flow within the local market. This has extended the impact in light of the new wave of the pandemic amid variant speculations about the return of the partial lockdown.

7- The negative repercussions of Covid-19 pandemic:

This is represented in the pandemic's direct and indirect impact on the conditions of the economic and financial activities in Yemen. For example, the precautionary measures have delayed much of the economic activities, in addition to a remarkable reduction of the labor market because of the adherence to social distancing policies and the partial closure. Moreover, the "preventive measures adopted to combat the pandemic" necessitated huge financial resources which were cut off from aid and development projects.

8- The conflict about the public revenue of the natural resources:

The impact of the existing conflict among the parties involved in the Yemeni issue had negative ramifications on the "Yemeni economy". For example, the escalation of the dispute between the internationally-recognized government and the Houthis about collecting the fees on Imported petroleum products created a direct crisis within the areas under the group's control. Furthermore, this led to a state of qualitative turmoil between the Hadi Government and the STC after the latter's declaration of autonomous Administration of South. Later, the internationally-recognized Government backed away and pushed for settling the matter with the STC in light of the agreement about a mechanism for accelerating the implementation of the Riyadh Agreement.

Thirdly- The recovery priorities:

The issue of "economic recovery", "reconstruction" and "building sustainable peace" is considered one of the most important major affairs which should attract lots of attention and early preparation as part of the international agenda when re-pushing the move towards fulfilling the requirements of a political settlement. The international moves should include the requirements of preparing the Yemeni environment with all its economic, social security and political dimensions, in addition to creating safe incentives to develop economy, finding job opportunities, improving the livelihood standard restoring and building infrastructure and community components that were destroyed by years of conflict and war, creating safe incentives for economic development, creating job opportunities, improving living standards, developing human resources, in addition to resolving challenges and difficulties aimed at containing

the “recovery of the Yemeni economy. This could be achieved through the following points:

1- Priority fields:

- Pushing for prioritising the economic file in the agenda of the Fourth UN Envoy related to the incoming political negotiations through customizing a session about “saving the economic conditions” and adopting “measures to build the economic confidence”.
- Remobilizing the state's public resources, mainly the production and export of oil and gas, to cover the salary bill, and restore the monetary cycle in the Yemeni economy.
- Resuming work in the Marib Gas Station and pushing for running different electricity stations along with searching\finding out a proper formulation to hire power stations to the private sector, as well as operating the Aden Refinery and providing it with light crude oil from Marib through Raas Issa using its world price. This will ensure collecting revenues in a transparent way to pay the state employees' salaries, boost the economy and relieve various pressures on the national currency.
- Neutralisation of economic and financial institutions, mainly the Central Bank, in order to implement its full functions with complete impartiality and independence in all regions of the country, and away from the ongoing conflicts.
- Facilitating the transfer of bank foreign currencies to and from Yemen, and removing restrictions on cash transfers between the areas controlled by the disputing parties.
- Removing the restrictions imposed by the international financial system on Yemeni banks in the field of documentary credits and dollar transfers in addition to opening closed bank accounts by making the necessary arrangements to comply with international regulations related to combating money laundering and financing terrorism.

- Mobilising for securing support from donors in the face of the humanitarian conditions and the development projects in the areas which enjoy security stability. Engaging in talks with the World Bank should be made for resuming the support of the monetary aid for the poor people registered in the Social Welfare Fund.
- Opening land, air and sea ports for the movement of people and foreign trade, especially for exporting food, medicine and fuel, to alleviate the impact of the varying effects of the humanitarian crisis, which is classified as the worst in the world.

2- Recovery requirements:

- Neutralising the agreed-upon sources of revenues top of which are the oil and gas revenues.
- Neutralisation of the inevitable items that will be financed, especially the salaries of state employees, pensions of retirees and the cash aid for the cases registered in the Social Welfare Fund in case of revenue surplus.
- Ensuring the distribution of revenue to those who deserve it according to objective standards in all regions without discrimination.
- Funding imports of basic commodities at the official exchange rate for all areas without exception.
- Ensuring oversight and accountability in collecting and spending revenues and depositing them in the Central Bank.
- The transparency of the resources inventory and determining the spending aspects as well as publishing periodical reports on the website.
- Alienating political conflicts and turmoil away from the management of the financial and economic institutions agreed upon.

- Exchanging databases and information, and facilitating the movement of employees between regions according to need.
- Agreeing upon the proper mechanism to save the Yemeni economy and setting out clear and specific items for it, in addition to looking for figures who are famous for Impartiality, competency and integrity.

Fourthly- International efforts:

There are a number of frameworks that push for the international efforts towards achieving the requirements of saving the Yemeni economy, especially with the re-advancement of the paths of political settlement, as a number of points must be taken into account, top of which are:

- Finding a unified monetary authority that carries out the monetary and banking policy across the country's regions, boosts confidence within the banking sector and makes expansion in the communication channels with the world financial system.
- Studying the possibility of mobilizing the real oil and tax revenues for funding the inevitable public costs, especially those related to aid activities, state employees' salaries and pensions.
- Resuming the monetary cycle in the Yemeni economy, which was interrupted by the suspension of oil and gas exports, and reducing printing more banknotes to avoid the risks of inflationary financing in the medium and long term.
- Increasing the foreign exchange supply by increasing exports. Consequently, this would lead to supporting external reserves, slowing the deterioration in the value of the national currency, improving opportunities for sustainable financing of imports of basic food commodities at the official exchange rate, and calming inflation waves.
- Helping the continuation of the state institutions and the basic service social facilities even at their minimum level.

- Activating the oversight over public money, and improving the confidence of the private sector in the aspects of the Yemeni economy.
- Creating common spaces among different active parties of the Yemeni issue which engage in an internal conflict, and the direct impact of this on the interests of people across all Yemeni districts without discrimination.
- Reaching a "consensus commitment" among all parties involved in the Yemeni issue, "locally, regionally and internationally" to end the internal humanitarian crisis which is classified as the worst in the world.

It is worth mentioning that saving the economies of the disputing parties requires many years of qualitative coordination between the government, the parties involved in the conflict, the international partners, the UN representatives, the private and the civil sectors. This requires enlisting it as part of the "peace agreements" structures. The international efforts should not be limited to the political framework only but include creating solutions for the pivotal economic issues which constitute one of the most important success pillars for the transitional period after the "peace agreement". Applying this on the Yemeni issue, the most prominent issues that require international preparations include the following points:

- 1- Agreeing on the economic priorities of the transitional government. The international efforts have to agree upon the broad lines of the priorities related to the new government's program, such as public expenditures that promote economic recovery and stimulate growth, in addition to prioritising important sectors such as the electricity. This will prevent the repetition of the "Consensus Government" scenario that was formed from the various political parties in accordance with the Gulf Initiative. This government did not receive real political support for its priorities at that time. Therefore, in case a reform government is formed, the reforms that it will undertake must be specified. Similarly, in the event of a caretaker government, or any other form, its program has been clearly determined in a way that ensures there will be no ambiguity about what

should or should not be done, especially when considering the priorities of saving the Yemeni economy after ending the conflict and approving the "political settlement" agreements.

- 2- Ending the institutional split through the international consensus with the local parties, and those involved in the internal conflict, on clear mechanisms. Likewise, a time frame has to be set to address the division of state institutions, especially those that play an essential role in the economy of Yemen along with a commitment to work within the scope of these institutions, especially that the tendency towards establishing parallel governmental structures not only weaken the role of the existing institutions, but also delete their "institutional memory". This would obstruct the new government from resuming the work of its predecessor, or being aware about the scale of its achievements, and building on it.
- 3- Establishment of a socio-economic council through the international political efforts which would seek to create local consensus that supports forming a council to bring together the government, the private sector and civil society and will be in charge of drafting economic policies. The "2014 Council" experience should be taken into consideration provided that consensus is reached about the commitment of all local parties in Yemen to abide by the council's mandatory policies.
- 4- Redefining the economic philosophy of the state through drafting a new vision for development, aimed at structuring comprehensive, specific and time-scheduled economic reform programs, provided that being an insightful one that avoids repeating the failures including excessive dependence on oil revenues, marginalization and impoverishment of rural areas and the severe growing deficit in the trade balance of food commodities.
- 5- Central Bank Management: through consensus on enabling the Central Bank of Yemen to do its role in accordance with the law, along with making changes in the Central Bank's Board of Directors in light of the

standards mentioned in its statute, and in accordance with the terms of efficiency and integrity.

- 6- Managing international aid: by agreeing on the importance of ensuring commitment of Yemen's donors and supporters to inject all aid and financial grants through official channels without the intervention of any political party. This is directly related to the supervisory role of the Central Bank on international aid flows to secure their contribution to foreign exchange reserves and other matters. There should be assessment on obligating the "consensus government" to behave in the highest degree of transparency regarding the file of aids provided by donor countries, and stipulating the relevant monitoring provisions.
- 7- Managing the state's public revenues: by agreeing upon how to run "public revenues collected from natural resources," especially oil and gas-producing governorates, supporting the presence of an international observer "audit" for those revenues, and the government's commitment to the highest standards of transparency in managing this important sector.
- 8- Transferring legal proceeds: by reaching an agreement that obliges various authorities in the governorates to transfer all legal proceeds from taxes and customs fees to government accounts affiliated with the Central Bank in light of procedures of transparency and accountability.
- 9- Reconstruction and economic recovery: by defining the principles governing and organising the process of reconstruction and economic recovery, as well as the institutional structures for that process, in order to ensure efficiency, transparency and compatibility with the interests of citizens. Additionally, the role entrusted to donors in supporting the transitional government should be defined beside negotiating about a joint accountability framework to implement and facilitate the reconstruction and economic recovery phase as desired, according to clear indicators of achievement and performance, in accordance with

what is generally accepted and applied in the best monitoring and evaluation practices.

10- Opening seaports, airports and land crossings: by removing all restrictions that were put in place to enable the government to open them, and erasing all restrictions placed on the movement of goods and travelers, in addition to abolishing the programs that were developed to inspect ships outside Yemeni ports. This move may be one of the measures required to rebuild confidence with the regional and international communities.

11- Restoring the confidence of the international shipping community: This in turn requires a number of moves, the first of which is related to restoring the confidence of international shipping carriers in the Yemeni ports, especially Aden and Hodeidah, through direct provisions that are included as one of the most important priorities on the international agenda for a political settlement. Secondly: With regard to restoring compliance with the International Code of Security for International Ships and Maritime Facilities (ISPS) in the main stations of Yemen, and its impact on restoring the confidence of the international shipping community.

Accordingly, there are a number of moves that should be among the priorities of the "Fourth UN Envoy" agenda, stressing that settling the conflict in the Yemeni issue is not only related to the political framework, but also requires examining the nature, frameworks and pillars of the "international community's rescue of the economic file, which necessitates the following points:

1- The United Nations has to clarify the nature and aspects of the full mandate of its envoy to Yemen, and enables him to address the aspects of economic conflict. A statement or a resolution from the United Nations Security Council is not a must to do that- although this would be a heavy-weight step that would facilitate his management of the file. However, a high-level position, such as a Deputy Envoy, can be created to directly address the economic file. Moreover, the UN Envoy should appoint a sufficient number of assistants with technical skills and knowledge in

economics, finance, and political economy to overcome complex challenges, mediate between the parties, and identify feasible technical and political solutions.

- 2- Establishing a mechanism for international coordination on the economic path of the peaceful political settlement operation of the Yemeni issue, in light of the previous "Friends of Yemen Working Group" experience This mechanism will provide an internationally accredited environment and enjoy local/internal and regional consensus, provided that its agendas aim at coordinating between the various international recruitments and regional efforts to address the priorities of the economic track in Yemen.
- 3- Rearranging priorities, in a way that makes issues of economic de-escalation at the top of the international community's agenda, which requires serious negotiations and creating common consensus among the disputing parties given that these issues are closely linked to issues of sovereignty, authority and legitimacy. These issues also include coordination of monetary and fiscal policies, restrictions on trade, infrastructure, major trade routes, public revenue management to ensure paying public sector salaries, avoiding taxation duplicity, reunifying main institutions, integrating civil service, and managing the post-conflict reconstruction process.

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