



DIVISION OF CPY :
A STRUGGLE THAT
COSTS PEOPLE'S LIVES

DECEMBER 2020

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Introduction

At the beginning of December 2020, the exchange rate exceeded 900 Yemeni riyals to 1 US dollar. The Yemeni riyal recorded its worst decline in the modern history of Yemen. This decline of the value of the national currency is accompanied by a state of economic collapse and military conflict in large parts of the country and the lack of a government vision to confront the repercussions of this state of affairs on the lives of the people and society.

The economic situation appeared on its way to further decline in light of the depreciation of the Yemeni riyal. This decline coincides with the continuing conflict between the central banks in Sana'a and Aden. A series of catastrophic measures that exacerbated the unprecedented economic deterioration and humanitarian crisis in Yemen were taken.

This conflict has reached an unprecedented level, represented by the ban of the newly -printed banknotes. This created two different values of the Yemeni currency in both regions, and the rise of money transfer charges to more than 50 percent, not to mention the series of violations that banks have been subjected to. We will review in detail these violations in this economic bulletin.

The bulletin sheds light on the multiple aspects of this raging conflict, which will have dire consequences on the lives of the Yemeni people and on the economic, humanitarian and political situation.

No matter how each party tries to employ the monetary policy as an instrument of war, the repercussions of such a move will be directly reflected on the people's interests and their source of livelihood.

After reviewing the strengths and weaknesses in this battle in which the conflicting parties turn a blind eye to the interests of the people, we underscore the fact that unifying the monetary policy is an imperative to preserve the remaining energy of the Yemeni people, and that everyone shall realize this fact.

The countries that support Yemen and international organizations working in the economic and humanitarian fields must exercise all means of pressure to save the life of the Yemeni citizens by supporting a unified monetary policy that preserves the value of the currency and creates price and commodity stability in the market.

Double Measures and Potential Risks

The double measures of the Central Bank of Yemen (CBY) in both Sana'a and Aden posed a big problem to and severely damaged the cycle of economic activity and the lives of people in both regions. The measures taken by The CBY in Sana'a, which is under the control of the Houthi group, took a series of disastrous measures in the context of conflict with the CBY in Aden. These measures, including the ban on dealing in newly printed banknotes, preventing banks from opening documentary credits in Aden, and placing a series of restrictions on banks in this regard, have dire consequences on the lives of the people and the Yemeni economy. Similarly, the internationally recognized legitimate government and the Saudi-led Arab Coalition that was formed to support it disavow their responsibilities towards the disastrous economic situation in the country. They stand hand-folded, unable to provide any solutions to maintain the stable exchange market. This is further complicated by the absence of all state institutions, including the government itself, a fact which represents another severe blow to the Yemeni citizen who witnesses the decline of his national currency on a daily basis, along with unabated rise of the prices of goods and services.

Double measures have hitherto been as follows:

- The decision to ban dealing in the newly-printed banknotes of the national currency in the areas controlled by the Houthi group was a catastrophe for Yemeni society in the north and south of Yemen alike.
- Pressurizing the general management of banks and preventing them from communicating with the CBY of Aden regarding data and imposing that by force through the intervention of security forces such as the National Security apparatus to arrest general managers and their assistants. "Some general managers of bank were tortured and transferred to hospital as a result."
- Interrupting the operation of some banks, raiding their headquarters, and suspending their financial and electronic systems, the International Tadhamon Islamic Bank is a case in point.
- Suspending companies and exchange networks for violating procedures related to the two banks.
- Unabated persistence in imposing additional illegal customs on merchants and the private sector in and around Sana'a ports.
- Imposing two rates of revaluation of foreign currencies in the budgets of banks and exchange companies. The exchange rate of Sana'a is 250 riyals and the exchange rate of revaluation in Aden is 380 riyals.
- The creation of new financial and service companies in Sana'a and Aden. The WeNet service was launched in Sana'a. A company and a unified financial network of exchange companies is currently being established in Aden for the same purpose.

WeNet Network in Sana'a

The CBY in Sana'a seeks to launch a new electronic service through WeNet which is owned by the Yemeni Company for Financial Services, in which most of the local banks based in Sana'a and some financial companies are shareholders. This company was established in 2007 under the supervision of the CBY, but it did not function then for various reasons that do not concern us here.

This service allows instant transfer of funds in Yemeni riyals between banks accounts and electronic wallets in the Republic of Yemen under the supervision of WeNet and the CBY in Sana'a.

Seven Yemeni banks and some local financial companies have shares in the company's estimated capital exceeding 3 million US dollars. The company has procured most of the technical equipment. It will start working in the coming months after obtaining the necessary licenses from the CBY in Sana'a. It operates in Sana'a, where its headquarters are located.

A Consolidated Network of Exchange Companies in Aden

In return, the CBY in Aden seeks to establish a consolidated network that provides money transfer services among all exchange companies and networks in the areas controlled by the legitimate government. Exchange companies are supposed to have shares in this network under the direct supervision of the CBY in Aden.

The company will provide multiple financial services in addition to internal and external transfers and some electronic financial services through the network of shareholders and their agents throughout the Republic of Yemen.

As it will be linked to a single national exchange. The goal behind that is to link all networks and companies of remittances to a single network that processes all inbound and outbound remittances, and to regulate the sale and purchase of currencies.

The legal status of the company will be a "closed joint stock company" with a capital of 5 billion Yemeni riyals. The number of shareholders is 47 exchange companies, of which 11 companies have been selected to proceed with the completion of the incorporation procedures.

Potential Risks

Despite the positive aspect in unifying financial networks for the purpose of absorbing and controlling incoming and outgoing remittances, at home and abroad alike, and curbing currency speculation, the division will constitute a major obstacle to the success of that step.

What lies behind the establishment of consolidated financial networks?

There is a high transfer intensity by Yemeni expatriates abroad, especially in the Kingdom of Saudi Arabia, where the Yemeni community there represents (60%) of the total Yemeni expatriates abroad, according to some estimates. A network of informal agents of exchange companies is active there, to take advantage of the expatriate remittances and deposit them in fake accounts of Saudi or Yemeni merchants at some Saudi banks, to be transferred abroad to pay import bills of Yemeni importers.

These remittances are delivered to the beneficiaries in Yemen through formal and informal exchange networks that simultaneously receive corresponding outgoing money transfers from Yemeni merchants. These transfers are "processed in a fake way" and without any control over them through the names of fictitious merchants in Saudi Arabia to any country in the world.

In short, commercial transfers are delivered through a Saudi bank and a fictitious Saudi or Yemeni merchant. The transferred amount is received in Yemen from the real merchant. The goods arrive in Yemen while the transfer is made in Saudi Arabia.

This process carries high risks for the Yemeni merchant. It is classified as money laundering as it does not take place through local Yemeni banks and is not monitored by the CBY. Rather, it is processed through exchange networks and companies that misuse that source for money laundering and currency speculation.

Expatriate remittances

Brokers and some agents

Traders and mock companies

Saudi Banks

Exporting countries

Central Bank

Yemeni Banks

Here is the problem

Currency Exchange companies and networks

Goods and commodities

Outgoing money transfers

Traders and companies in Yemen

Sale and purchase of currencies

Beneficiaries in Yemen

How will the situation be after the consolidated network?

In the event that the two companies start functioning, they can coordinate with official agents abroad, through whom transfers are received from expatriates and transferred to Yemen through one of the two networks. Under the direct supervision of the CBY and in coordination with local banks, these amounts can be recorded in their accounts at Saudi banks, so that businessmen's transfers are sent abroad from those assets in an appropriate manner.

The first step will be to cut off this important resource to the informal exchange companies that deposit those funds in the accounts of fake merchants and companies in Saudi Arabia and elsewhere, in order to process fake remittances, in addition to using those funds in hard currency speculation inside Yemen.

Moreover, these transfers will be channeled through the two networks to facilitate the monitoring and regulation of transferred funds, and to benefit from that important source of foreign exchange through banks instead of using it for speculation by exchange companies.

However, the risk lies in the persistence of the division and imposing the dictates and double measures of the two networks, which may cause the dispersion of these sources, and the subsequent failure to benefit from them, so that the black market and speculators will re-exploit them again by employing the same aforementioned mechanism.

Enduring Repercussions and Impact of the Division

The repercussions and disastrous effects on the level of economic activity and society in general will continue unabated as long as the split in monetary policy endures. The greatest price will be paid by the society that suffers from the ravages of war, the deterioration of living conditions, the depreciation of the national currency and the increase of inflation rates.

Violations of the banking sector due to the split

- More than 100 blatant violations of banks, exchange companies and some private sector companies were monitored in all governorates during the past months this year. Sana'a, Hodeidah, and Ibb were scene to more than 50% of these violations, followed by Aden, Dhali' and Taiz. Most of those violations were in the form of closing companies and banks, plundering money, raiding and arrests. The most prominent of those violations were as follows:
- Nearly 90 companies and financial networks have been suspended during the past months in the areas controlled by the two conflict parties, albeit at a higher rate in Houthi-controlled areas for unclear purposes. Most of those violations were undertaken for reasons related to violating the double measures.
- Closing and suspending dozens of bank branches, specifically in the areas controlled by the Houthi group, and forcing their general managements to sign unfair and illegal pledges and obligations.
- Storming the head offices of banks and companies. The most recent of such incidents are the storming of the Tadamon Bank head office, and stopping its central servers of the financial system, and closing the branches of Al-Kuraimi Bank in Sana'a and Hodeidah. Both incidents took place during the past three months.
- The monopolization of the security apparatus and national security personnel to detain bank managers, their assistants, and owners of money exchange companies, without any legal basis or judicial orders.

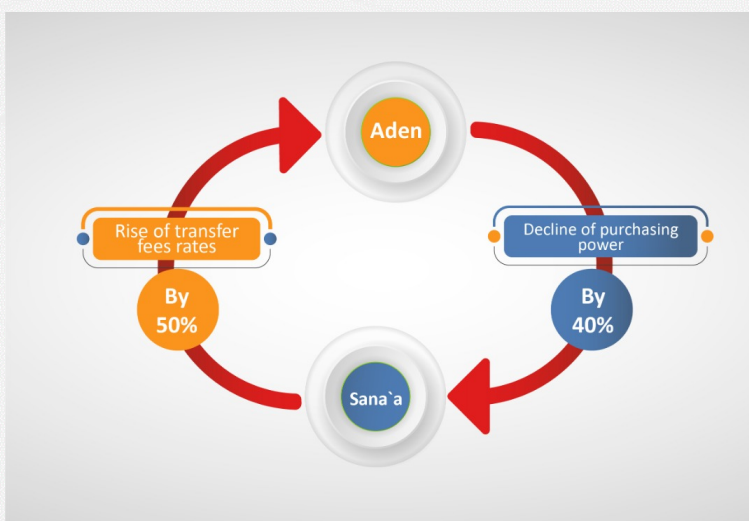
The unremitting depreciation of the national currency

A number of exchange companies were surveyed to find out the size of the decline or rise in remittances to and from the areas controlled by the legitimate government. The survey showed a decline in transfers in the Yemeni riyal to the Houthi-controlled areas by 80%, while remittances in other currencies increased by 20-40%. In addition, transfers received from Houthi-controlled areas in Yemeni riyals decreased by more than 80%, whereas transfers in other currencies increased by 40%.

These figures show the great impact that the decision to ban dealing in the newly-printed banknotes played in the decline of national currency due to the increase in the number of transfer requests in foreign currencies between the two regions. This constitutes pressure on the exchange rate of foreign currencies against the Yemeni riyal and fuels the black market and speculators, whereas the general public in the two regions do not benefit from that. Decline of transfers in Yemeni riyals is attributed to the increase of processing charges which are as high as almost 50% of the transferred amount. This constitutes a great burden on the people and has affected the exchange of goods between the areas controlled by the legitimate government and Houthi- controlled areas.

Repercussions at the level of exchange of goods

Dozens of wholesale and retail shops that rely on purchasing goods from merchants and commercial companies located in Sana'a were surveyed. Results of the survey showed a significant decrease in the volume of commodity exchange, after the circulation of the newly-printed money was banned, and purchases decreased by 40%. Similarly, sales at stores in Sana'a also declined in the same percentage. In case the exchange rate margins persist at the same level or even widen, many commodities may disappear from the market, and this will lead to a change in the map of commercial activity.



Strengths and Weaknesses of Both Parties

Strengths	
CBY in Sana'a	CBY in ADEN
<ul style="list-style-type: none"> - The banking and economic sector is concentrated in Sana'a due to the previous centralization that prevailed prior to the division and the fact that head offices of banks and most of the large exchange companies and the private sector are located in Sana'a. - The telecommunications and Internet service companies and their infrastructure located in Sana'a constitute a financial, economic, information and technical weight for all financial services. - The former headquarters, which contains all material, human, technical and information capabilities - It controls most of the incoming money transfers in foreign currencies by imposing control by force on the banking sector and tight control over daily operations. - The CBY in Sana'a is linked to exchange networks and companies through networking and can control all daily operations. - It obtains cash liquidity through the movement of the accounts of public and private institutions. On the other hand, it does not have any significant monetary obligations due to the suspension of wages and salaries of state employees in Houthi-controlled areas. Such wages and salaries would constitute a great pressure on the cash liquidity if they were paid. - The banking sector in Sana'a carries out most of the transfers of grants and aid amounts provided by international and local organizations within the framework of the humanitarian and relief support provided to Yemen. - Most of the Yemeni expatriate remittances abroad go to the Houthi- 	<ul style="list-style-type: none"> - It has the advantage of international recognition of its legitimacy based on the recognition of the Yemeni authority and government by international parties and UN institutions. It has the authority to manage government financial and cash assets abroad. - It can communicate with all international institutions since it is a sovereign institution affiliated to an internationally recognized government, and it exchanges swift codes with banks. - It is possible that it receives support from international parties, especially the Saudi-led coalition, if they have a real intent to stabilize Yemen, away from narrow interests and hidden agendas. - It draws its strength from the capabilities of the legitimate government. If the government takes serious and tangible steps and acts responsibly on the financial policy, it will contribute significantly to strengthening the monetary policies of the bank. - The possibility that the Yemeni government will resume exporting oil and gas from all fields and benefit from their revenues to supplement CBY - Aden foreign exchange reserves.

controlled areas, due to the population density in those areas.

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Weaknesses

CBY in Sana'a	CBY in ADEN
<ul style="list-style-type: none"> - The CBY in Sana'a does not have any international or regional recognition. It is isolated by virtue of the coup d'état orchestrated by the Houthis group against the legitimate government in September 2014. - The CBY in Sana'a does not have the right to communicate with foreign banks and financial institutions by virtue of suspending the authority of the SWIFT by the legitimate government. - It is run by a closed system and a group that controls and manages the financial and banking sector. This creates a negative impression on foreign financial institutions due to the high risk of money laundering. - The cash stock of the old national currency is worn-out and is depleted daily. Failure to pump liquidity will negatively affect the performance of economic activity. 	<ul style="list-style-type: none"> - Conflict of interests of the legitimate government and the parties supporting it lost its capabilities and negatively affected its performance. - It lacks efficient and experienced administrative leadership, and its current management is not available in the country, and if it returns home, it is only for days. - Many government institutions opened private accounts in private banks and deposit revenues to those accounts, away from the CBY in Aden. - It is geographically isolated from the head offices of banks and the banking sector, by virtue of the presence of most of them in Sana'a. - It lacks the executive and judicial authorities that support its policies and orientations on the ground and make its decisions valid and effective. - It does not have a network connection with exchange companies. Currently it is still supervising the establishment of a consolidated financial company of all exchange companies. - The fragile security in Aden and the repercussions of the military and security events between the government and the Southern Transitional Council (STC) negatively affected the performance of the CBY in Aden, its effectiveness and its ability to enforce its decisions on all institutions and bodies.

Conclusion

As we noted through this review, the Yemeni people pay a heavy price due to the persistent division in the management of the CBY and the lack of a unified monetary policy. Any continuation of this division in decision-making towards the banking sector leads to further economic collapse, the victim of which is the Yemeni citizen in the first place.

Any escalatory steps by the two parties and plunging the banking sector and currency into this conflict do not make either part a loser or a victor. Rather, they only create more suffering. The most prominent example of this is the price paid by Yemeni citizens in terms of internal transfer fees that exceeded 50% of the total transfer amount.

Through this bulletin, we sound the alarm and call on all rational people to work towards a unified monetary policy and an independent CBY management that preserves the value of the currency and supervises the banking sector from a professional standpoint in accordance with international financial standards.

The Studies and Economic Media Center (SEMC) is one of the most prominent Yemeni NGOs that works on , and spreads awareness of economic issues, in addition to buttressing good governance and public engagement in decision making, and working towards the creation of professional media.

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