

**Peace negotiations:**

# Scenarios of Economic Solution

# Ongoing Peace Negotiations, Scenarios of Potential Economic Solution

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## Where do the peace negotiations stand?

During the past months, Omani-brokered closed-doors negotiations have taken place between Saudi Arabia and the Houthi group (Ansar Allah) to find a solution to the Yemeni crisis. These negotiations have recently gone public, as the Saudi Ministry of Foreign Affairs announced the visit of a Houthi delegation to Riyadh to meet with Saudi officials in mid-September 2023 to reach a road map supporting the peace process in Yemen.

An Omani airplane took (10) Houthi negotiators and five Omanis to Riyadh for five days of pre-preliminary discussions. This came five months after a Saudi delegation visited Sana 'a to discuss the peace process in Yemen<sup>1</sup>.

The economic and humanitarian dossiers are the main points of the talks over the past months between the parties, in the absence of the IRG of Yemen engaging directly in these negotiations, as it is likely to be invited to sign the agreement following the completion of the Omani-mediated road map developed by the Saudis and Houthis.

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<https://www.france24.com/ar/اليابان-وتونس-ضايير-لاي-فملاست-اضوا-املن-بيبو-حان-م-ادفو-و-عدت-تيدو-هسلا-20230914/طسوا-لا-قور-شلا>

The economic and humanitarian dossiers have been intensively discussed over the past months, with several proposals circulated to address the economic challenges, with limited use of experts by both Parties in this regard. The issue of salaries of Yemeni public sector employees in the Houthi areas, and the opening of seaports, airports, and roads was one of the most prominent points of discussion between the parties, together with several major obstacles associated with the economic dossier, such as:

- ▶ Lack of liquidity in the Houthis-held areas and difficulty paying salaries in local currency.
- ▶ The division of tax, customs, and other revenues between the parties.
- ▶ Double taxation and customs in border areas between the Houthis-held areas, and the areas of the internationally recognized Yemeni Government.
- ▶ Re-export of oil and gas and distribution mechanism of its revenues, and sources to be relied upon to pay salaries.

However, many of those issues will be carried over to later phases within the framework of Yemen's agreed road map for a peaceful solution. And despite the UN envoy's extensive meetings and diplomatic moves over the past few weeks, the announcement of the forthcoming agreement and the commencing of the road map for a peaceful solution in Yemen remain unsettled.

Negotiations on the main tracks of the political solution are still underway and are divided into two tracks:

## **The First Track:**

The announcement of a political agreement in Yemen between the Yemeni Government and the Houthis, which includes direct actions on several issues, such as the opening of airports and seaports, paying of salaries to the public sector employees, and establishing joint committees of the two parties under the auspices of the UN, to discuss, approve and proceed with details of subsequent steps, namely Political Committee, Economic Committee, and Prisoners' Exchange Committee.

## **The Second Track:**

A timely roadmap, consisting of several phases that can begin with de-escalation, confidence-building factors such as opening seaports, airports, salary payment, and prisoner exchanges, and then embarking on a roadmap of multiple stages.

Regardless of the track of the ongoing negotiations of Yemen's political solution, paying salaries is settled between the various parties.

## Salaries:

### Obstacles and Scenarios!

Besides discussing the salaries payment issue in current negotiations, between conflicting parties, it also constitutes an important point in the potential political agreement given the challenges reflected in the requirements of this issue in the light of the monetary division between areas of the Yemeni government and the Houthi group ones. Also the different prices of the Yemeni Rail Currency Value between held- areas of both parties, and the liquidity scarcity of the local currency in the Houthi-held areas.

Salary payments are one of the key priorities at the Saudi-Houthi negotiating table during the current phase, and therefore the issue of salary payments has become one of the settled points of any future agreement, whether Saudi Arabia will pay salaries for a fixed period, as it is likely to date, or will be paid through Yemen's local revenues.

However, before discussing possible scenarios of salary payment mechanisms after the potential Political Agreement declaration, several basic principles serve as a basis for any potential solution:

- ☑ The payment of salaries shall be according to Yemen's 2014 payroll list, and the new employees, in various positions, by all parties, shall be paid by the parties who appointed them.
- ☑ This is because the State's institutions, such as the Ministry of Finance, the Ministry of Civil Status, and other civil and military institutions, are still fragmented.

- ☑ The payment of salaries, to the Yemeni public sector employees, shall be paid in the Yemeni currency, Riyal, and the salaries amounts, in Saudi currency, Riyal, shall be deposited to the Yemeni Central Bank to enhance its foreign reserves to finance the importing of basic goods as well as to keep the value of Yemen's currency.



The value of the Yemeni Riyal against foreign currencies shall be agreed upon, and on which the employee salary will be calculated. For example, an employee who receives a salary of 100,000 Yemeni Riyals per month, if we calculate it by the current lowest price of the Saudi Riyal, one (1) Saudi Riyal= 140 Yemeni Riyals, he/she will be entitled to receive an amount of 714 Saudi Riyals, and its equivalent in Yemen Riyals.

Choosing the lowest Saudi Riyal exchange rate against the Yemeni Riyal as a criterion for calculating the salary amount to be paid makes sense. Because it is unreasonable to pay salaries at the Saudi Riyal rate in government-controlled areas as this would constitute an injustice to employees. For example, an employee with a salary of 100 thousand Yemeni Riyals per month will receive the equivalent of 250 Saudi Riyals, and if he/she receives it in the old banknotes, in Sana'a, he /she will receive only 35 thousand Yemeni Riyals.



## Economic Solution Scenarios:

Here are several proposed scenarios to address the salary dilemma and other related economic and humanitarian issues, constituting a starting point for the success of Omani-brokered efforts in reconciling differing views to achieve lasting peace in Yemen.



## First Scenario (1):

Payment of total salary amounts in foreign currency to both negotiating parties, the IRG of Yemen, and the Houthi group (Ansar Allah). Each party will pay salaries, in Yemen Riyals, for employees within its held areas, especially if there is no agreement to resolve the ongoing monetary fragmentation at the initial phase of the potential Peace Agreement declaration. According to this scenario, the Houthi group would receive designated salary amounts in foreign currency (US dollars or Saudi Riyals) and pay employees in local currency. Similarly, the IRG of Yemen would do so.

## Payment Mechanisms and Technical Procedures:

Each party will receive the cash amounts provided by Saudi Arabia and pay salaries in the circulating currency under its controlled areas.

## Challenges in Implementing this Scenario:

Difficulty depositing salary amounts in the Yemeni Central Bank in Sana'a. Saudi Arabia will have to either transfer the cash amount to Sana'a, or allow the Central Bank in Sana'a to open external accounts, and this means activating the international SWIFT Code for it, which is unlikely at the current phase as long as the Central Bank in Aden is Internationally-recognized and has the SWIFT Code.

Scarcity of local liquidity in Yemeni Riyals (old banknotes) in Houthi-controlled areas. And the Houthis will face a problem in providing banknotes for salary delivery unless they are allowed to print new ones, which is possible if the agreement's procedures are gone as planned.

Challenges in preparing a unified payroll based on the 2014 payroll list divided between Sana'a and Aden.

## Negative Implications:

Continued cash division in both old and new printed banknotes, exacerbating economic and humanitarian challenges for Yemeni citizens. Thus, any salary payment shall be preceded by a solution to solve the monetary division and unify the Central Bank of Yemen.

Duplication of monetary policy policies and procedures and cash imbalances in the Yemeni market.

This scenario poses risks to the peace process, lacking clear commitments to implementing all stages outlined in the agreed peace roadmap.

This scenario may weaken the parties' commitment to transparency and accountability, as there is no guarantee that the parties will abide by the payroll list as of 2014 and that salary amounts will go to employees.

## Second Scenario (2):

In this scenario, the Salary amounts will be paid, by Saudi Arabia, to the IRG of Yemen, and then the Yemeni Government will deliver salary amounts of old banknotes, the only officially approved currency in the Houthis' areas, to the Houthi-held areas. It is worth saying that the Houthi group has banned the circulation of the new-printed banknotes in its held areas.

## Payment Mechanisms and Technical Procedures:

In this mechanism, Saudi Arabia will deposit agreed amounts of salary delivery to the accounts of the Central Bank of Yemen in Aden to feed its accounts abroad and to support the importing of basic goods by using online auctions to sell some of those amounts, and to pay the salaries of the both parties' areas.

## Challenges in Implementing this Scenario:

Difficulty supplying the old banknotes to Houthi-controlled areas.

The Ministries of Finance and Civil Service in Aden will have difficulty reviewing Yemeni employees' payroll lists as of 2014.

It is likely that the Houthis will not accept that the Yemeni Government transfer any sums, Yemen Riyal, to its areas of control.

## Negative Implications:

Continued cash division between Sana'a and Aden's central banks, and thus the continuation of the non-unified monetary policy.

It is difficult to apply this scenario technically, given the lack of coordination between the Central Banks in Aden and Sanaa.

## Third Scenario (3):

In this Scenario, salary funds will be delivered to several local commercial banks to feed their balances abroad to finance the import of goods and foodstuffs. Those banks will pay salaries to employees in the areas of control of the Houthi group, and IRG of Yemen.

## Payment Mechanisms and Technical Procedures:

According to this scenario, local banks will deliver salaries to Yemeni employees according to the 2014 payroll list in Yemeni local currency (Rial) and all governorates of Yemen. This scenario provides a neutral mechanism for handing over salaries, not to mention reducing the problem of cash scarcity in the Houthi group's control areas, where banks will use e-cash wallets as a tool during salary deliveries.

## Challenges of this Scenario:

Local banks handling salary payments will have difficulty addressing problems associated with employees' names, as a party may hand them names that were not in the 2014 payroll list or other names may be omitted for various reasons, which will put banks in serious problems with employees.

Local banks are likely to face significant problems with the de facto authorities in the absence of a clear and precise working mechanism by the Technical Committee of Monetary Policy Consolidation.

This scenario requires determining the criteria on which the eligible banks will be selected to play this role, a process that may take a long time.

Banks' inability to meet commitments to deliver money to employees on time due to lack of cash liquidity in Houthi-controlled areas.

## Negative Implications:

This scenario could be an approach to addressing the problem as domestic banks are independent and could be an appropriate tool to play this role, but this requires a high level of transparency and keenness to help banks fulfill this role by providing payroll in a regular and orderly manner.

## A proposed approach to pay salaries and address urgent economic challenges:

Based on the three abovementioned scenarios, we, at SECM, propose another approach that could be one of the appropriate alternatives to avoid many negative repercussions of previous scenarios. Based on the concern to reach the most positive result possible and to take advantage of the agreement on the delivery of salaries as an input to address the problem of the monetary fragmentation and the devaluation of the Yemeni currency as a cornerstone to reduce the humanitarian and economic impact of Yemeni citizens.

This approach is represented by the formation of a unified technical committee to unify monetary policy by the Central Banks in Aden and Sana'a following the announcement and signing of the Agreement on a peaceful solution in Yemen. The technical committee will operate immediately and under the supervision of the Economic Committee outlined in the Agreement. The Technical Committee will carry out the following main tasks:

Unifying Yemeni currency, Riyal, and determining its exchange value against foreign currency at a certain rate level, as to be agreed within the framework of the Committee, according to realistic economic data and indicators to ensure sustainability and stability of exchange price rates at safe levels.

Determining the monetary stock to be provided to the Yemeni market after an accurate diagnosis and adequate knowledge of the monetary stock circulating at the Yemeni market and held by the Central Banks of Aden and Sana'a and their branches and by commercial and Islamic banks in Yemen.

Paying salaries to the public sector employees in both parties' controlled areas, in Yemeni Riyal, and by transferring salaries to employees' accounts in Yemeni banks directly, and relying on the use of e-wallets in paying salaries to employees in city

centers due to the availability of appropriate infrastructure for dealing with electronic cash.

→ Unifying monetary policy fragmentation and paying salaries at the same time so that economic solutions will be ensured as an integrated package within a comprehensive view of economic recovery and sustainable development.

→ Depositing the amounts allocated as salaries for both parties in foreign currency (Saudi Riyal or US dollars) to local banks so that they will be used for importing basic commodities to Yemen by the auction process in selling foreign currency and in a way that ensures the transparency of procedures in distributing those amounts to the banks. And so that the Saudi authorities (the mediator in the Agreement) shall play a coordination role between Saudi and Yemeni banks to enable them to receive amounts abroad so that they can disburse salaries.

→ Consolidating monetary policy and pursuing professional monetary policy rules that ensure the currency's rate and inflation remain at reasonable and safe levels.

→ Terminating duplication of procedures and regulations in all their forms and allowing technical experts to present all points of contention for discussion and developing proposals to resolve them.



**The Economic Reform Team (ERT) represents a pioneering voluntary initiative, assembling an elite cadre of Yemeni businessmen, businesswomen, and economic experts. The ERT is dedicated to empowering the private sector's unified and impactful participation in decision-making processes, as well as the formulation of visions, strategies, and policies aimed at advancing economic reforms and growth across Yemen.**

**ALDAHI - TAIZ - YEMEN**



**00967-4- 249306**



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