

SAM: Economic Crises and Deteriorating Humanitarian Conditions are the First Challenges for the New Yemeni Government

Introduction

SAM organization followed up on the Yemeni presidency announcement of the new cabinet formation that included representatives of the "Southern Transitional Council" as part of an agreement to end a conflict between the army of the internationally recognized government and forces affiliated with the Transitional Council. SAM pointed out to the statement issued by the office of President Hadi which revealed that the president Hadi has re-assigned Moein Abdel-Malek to head the cabinet, which includes 24 ministers, noting that President Hadi has kept his closest allies in the main portfolios, including defense, interiors, foreign affairs and finance.

In this report, SAM sheds light on the interconnected factors that deteriorated the economic situation, including Houthi practices, in addition to the role of the Arab coalition, which had an impact on several axes, first of which is the violations that the coalition forces commit against civilians, on livelihood, humanitarian and economic issues, including controlling of ports and airports and depriving Yemenis and the economy of financial revenues. In addition to highlighting the negative role of the Yemeni government, and failure to benefit from the potentials of the Yemeni economy, where the former Yemeni government stood idly and even colluded with the influential and politicians who stole Yemen's resources and funds instead of holding them accountable and taking real measures to advance the Yemeni economy and protect the national currency.

SAM asserts that the stifling economic crisis that Yemen is currently going through and the suffering of the people are the first challenges and priorities in the government agenda, noting that Yemen is on the verge of a comprehensive economic collapse that will affect all walks of life, unless urgent remedies took place. Urging the new government to take all measures that would protect the Yemeni economy from collapse and to develop well thought out plans to start the process of economic and political reform.

SAM stressed that the current situation requires rapid and efficient action, amidst international warnings of looming famine, expansion of poverty, and the inability of families to provide for the minimum requirements of decent life, with the increase in commodities price. Which render the government unable to provide basic economic rights as provided by the international and regional treaties and agreements, such as the right to education, the right to housing, the right to an adequate standard of living, the right to health care, and the right to science and culture

SAM concluded its report with a set of recommended measures for the new Yemeni government to follow, which will restore economic stability to Yemen by strengthening Yemen's financial resources and controlling its expenditures, and will have a significant impact on a comprehensive renaissance that benefits all citizens at all levels.

Causes of the crisis "the Houthi militia first"

SAM organization attributed the deterioration of the economic situation to several factors, mainly: looting of Houthis militia to the cash reserves, of five billion dollars, in addition to seizing the revenues of state institutions, disrupting the work of banks and heading to the black market and conducting money laundering operations and transfer without restrictions. In addition to the Houthi's continuing - throughout the years of the war - the collection of state revenues including taxes, customs and fees, which amount to more than 34% of the total revenues, according to the state budget for the year 2014¹. In addition to the "Houthi militia" abandoning its responsibilities as a de facto authority, to paying the salaries of the employees in its areas of control, nor providing any services.

SAM added that the difference in the value of the old version of the currency and the new one, which exceeded 50%², had the greatest impact in deepening the economic crisis in the country, as the Houthi group was invoking that difference to plunder the money of the Yemenis under the pretext of the two different

¹ <https://bit.ly/3ndMJmP>

² <https://bit.ly/3qP9ZKd>

currencies, despite the fact that exchange rate that applies in Houthis controlled areas, is not applied on money transferred to legitimate government areas, bearing in mind that the prices of goods and commodities in Houthi areas continue to increase. This makes the stability of the riyal's rate against hard currencies nothing more than a formal and fictitious stability that the Houthis use only to seize the exchange rate differences from the sums in hard currency that expatriates transfer to their families in Houthi areas.

Second: The negative role of the Yemeni government

SAM pointed out that the negative role of the legitimate government, which remains inactive or colluding with the Houthi militia, has deepened the current crisis, as that government could cancel the old version of the currency and force the Houthis to surrender the old version either by exchanging it in the central bank or by forcing them to pay for the cooking gas that is shipped to Houthis areas daily from Marib, or by paying in the old currency in exchange for the letters of credit that Houthi merchants receive for importing oil products.

SAM noticed that the government did not increase the crude oil production, which constitutes the largest part of Yemen's revenues³. As that government was unable, after - five years - of liberating of oil production and export areas, to recover more than one third of what Yemen produced in 2014, which was estimated at about 140-150 thousand barrels per day⁴. While the current production does not exceed 50-60 thousand barrels of crude oil according to the latest estimates, and oil export revenues do not reach the Central Bank of Yemen, but rather to a special account in the Saudi National Bank that is controlled by President Hadi to cover his personal expenses and pay salaries in dollars to hundreds of officials present residing outside the country without real assignments. This resulted in insufficient liquidity of foreign currency to be sent to the Yemeni market to meet the increasing demand. In addition to the failure of the Yemeni government to take any serious decision to resume export of natural liquefied gas, which is expected to generate at least one

³ <https://bit.ly/3ndMJmP>

⁴ <https://bit.ly/37XbkpB>

billion dollars annually for Yemen, that could have had a great impact in protecting the Yemeni rial from devaluation⁵.

The Yemeni government was also could not control the liquidity it obtained in the form of the Saudi deposit estimated at two billion dollars, which was approved in March 2018⁶, and the deposit was spent on importing oil products for the benefit of Houthi merchants and to cover some of the government's expenditures in addition manipulating of exchange rates and profiting from them, for the benefit of officials in the Central Bank of Yemen. The result is consuming of the Saudi deposit and remaining as an obligation on Yemen, with its benefits, and failure to save the Yemeni rial from devaluation.

In addition to the government's inability to control the import of oil derivatives and to resume work in Aden refineries and to operate the gas station in Marib to provide oil derivatives to citizens and standing passively and even complicit with the interests of influential people who benefit from the importation of oil derivatives, which caused a continuous drain of scarce hard currency in the country and ultimately, affected the Yemeni rial.

Third: the international role

At a time when the United Nations is still calling and warns of starvation in Yemen due to lack of funds, and transferring of more than 15 billion dollars, however, these funds have not curbed the spread of famine and the deterioration of the humanitarian situation in Yemen. The matter is due to the United Nations agencies sharing the amounts of aid with the Houthi militia, instead of sending them to the Central Bank of Yemen to spend through it on vital projects and activities, which could have pumped enough liquidity into the local market to cover the demand of hard currency and it could have also preserved the value of the Yemeni rial. But the UN policy - mentioned above - in distributing and sending money was a helping reason led to deteriorate the economic situation and the devaluation of the local currency.

Fourth: The Arab Alliance

⁵ <https://bit.ly/2KmqufO>

⁶ <https://bit.ly/3noJoRS>

The Arab coalition led by Saudi Arabia and the UAE remains the biggest cause of the deterioration and collapse of the Yemeni economy, which for five years has controlled Yemen by land, sea and air, and impedes the resumption of full energy production and export of crude oil and the return of foreign companies to work in Yemen in addition to the Emirati forces occupying the Belhaf terminal and preventing any efforts to resume gas exports.

In this regard, "SAM" refers to the coalition forces obstructing the operation of Yemeni ports in addition to setting untenable conditions for berthing ships and unloading containers, as the coalition requires ships to go to Jeddah for inspection first, and then head to the port of Aden for unloading, which causes an increase in shipping costs and an increase in the time it takes, to travel to Jeddah and back. Other than the insurance fees for the containers, which was reflected in the cost of shipping the container, which exceeded 5400 dollars for a 40-foot container shipped from East Asia, for example, while the same container does not cost more than 1800 dollars if it is shipped to the Omani port of Salalah. This disrupts work in the port of Aden and the rest of the ports against the interests of Yemen and limits its revenues, which are supposed to exceed billions of dollars if work in the port of Aden and the rest of the ports reaches normal operating levels.

SAM added that the coalition forces are adopting the same policy of siege and restrictions with occupied airports such as Al-Rayyan airport and Al-Ghaydah, and to prevent commercial flights from operating there. This is in addition to the fact that Yemeni flights cannot pass through Yemeni airspace without permission from the coalition. Yemeni aircraft cannot stay overnight in Yemen and have to bear heavy financial burdens for staying and maintenance outside Yemen, which impedes the possibility of providing good services or even preserving the existing assets.⁷

SAM stated that the Arab coalition has pumped billions of dollars in the form of aid through United Nations organizations that have reached more than 15 billion dollars in the so-called response plan⁸, but these aids were shared by the UN organizations as operating expenses and fictional salaries for their employees with the Houthi militia and provided them with support and providing the war fronts,

⁷ https://akhbaralyom-ye.net/news_details.php?sid=127238

⁸ <https://fts.unocha.org/>

with food baskets and military patrol vehicles that the United Nations delivered to the Houthis in front of the world.

SAM stressed that the coalition is working within a clear plan to weaken Yemen economically and keep it torn and weak to occupy the Yemenis with the livelihood so that the coalition can pass its colonial plans related to military control over the geographical location of Yemen as well as to preserve the economic interests of Saudi Arabia, which aspires to gain access to the Arabian sea, to build a pipeline to transport crude oil to escape Iranian threats in the Arab Gulf. Referring to the UAE's keenness to keep Yemeni ports out of service, especially the port of Aden, to maintain the continuity of the Emirati ports, which will be directly affected once any Yemeni port is operational, and Dubai Port, in particular, will suffer heavy losses in its GDP, which exceeds \$ 100 billion annually⁹.

- **recommended solutions**

In light of the formation of the new government, SAM Organization believes that there is a set of urgent measures that must be followed by the government to revive the Yemeni economy, stop the deterioration of the humanitarian situation and protect people from the risk of starvation, through two axes, namely

1. The first axis: revenues

The new Yemeni government is called upon to resume the work in the port of "Belhaf", and resume the export of liquefied natural gas produced in Marib, and to solve the problems in the oil sector, which caused a decrease in the exported production of oil as a result of corruption and recklessness that affected oilfields due to lack of maintenance. It is also required to work on operating the stalled sectors such as the Jannah sector (5), which is supposed to produce about 30,000 barrels per day, which will make a difference in the level of revenues. In addition to securing all foreign companies that were operating in Yemen before 2015 to return to production, like Austrian OMV company, which the UAE owns 25% of its shares. The most important thing is to ensure that the oil revenues are supplied to the Central Bank of Yemen.

⁹ <https://bit.ly/2WpKEst>

The new Yemeni government is also required to impose its control over Yemeni ports and airports, and to end the coalition's control over them so that ships can come to unload their cargo without the need to go to Jeddah to reduce shipping costs to Yemeni ports, which will lead to an increase in its revenues, that could reach billions of dollars annually. Noting that the previous procedure should be applied to Yemeni airports occupied by the coalition, liberating and operating them to serve the citizens and supplying their revenues to the state treasury instead of using them as prisons and headquarters for the coalition forces.

It is the responsibility of the government to work hard in order to fully supply the amounts of humanitarian aid to the Central Bank of Yemen, so that it is spent through the bank and then spent on projects and activities in Yemeni riyals. As this measure will enable the Central Bank to take advantage of liquidity in hard currency to support the Yemeni rial and meet the demand to purchase food and other materials from abroad. In addition to coordination with international organizations to purchase foodstuffs from the local market to stimulate commercial activity and the economy in general, which will result in creating jobs and activate businesses.

2. The second axis: expenditures

The importance of controlling expenditures is no less important than raising revenues to solve the problem of the Yemeni economy and the devaluation of the rial. Therefore, the most important measure that the government should start is to resume operation of the Aden refineries that have deliberately disrupted in favor of influential people who benefit from continuing to import oil derivatives. This will reduce the state expenditures of hard currency to import oil derivatives. These measures will also cover the needs of the local market, of derivatives from diesel to jet fuel. And will save Yemeni airlines the cost of fueling their aircraft outside Yemen and bearing the extra weight of fuel. Noting that the payment for aircraft fuel will be in local currency, and national companies will avoid spending hard currency outside Yemen to buy fuel.

It is also the responsibility of the new government to stop paying the salaries of officials abroad in hard currency and to implement the salary scale of the Yemeni government's staff so that they get their salaries in local currency, in addition to reducing diplomatic missions and closing all embassies in countries where there are

no Yemeni nationals or even relations with those countries. In order to save wasted amounts on places that are worth it.

The government is also required to cancel the old currency version and give people a time opportunity to exchange it in banks, which will end the monetary division that the Houthis benefit from and reduce the amount of liquidity in the market of the Yemeni rial. The government can also withdraw the Houthis' old currency by forcing them to pay in the old currency to buy cooking gas from Marib.

It is also the responsibility of the government to ensure the completion of all financial operations, whether related to revenues or expenditures, according to an austerity budget commensurate with the conditions of war that Yemen is going through, and the obligation to apply it in accordance with the financial rules and regulations of the Yemeni government and to ensure the activation of bank circulation in the payment of salaries or dues and transfer directly to employees accounts or soldiers in banks in order to preserve the monetary value of the currency and ensure its stability.