Options for an economic track of the Yemen peace process

Rafat Al-Akhali
Moussa Saab
Camilla Sacchetto

April 2021
# Table of Contents

Executive summary ........................................................................................................... 3
1 Key events in the peace process .................................................................................. 6
2 The rationale of an economic track to the peace process ........................................... 9
  2.1 The underlying risks of economic track ................................................................. 13
3 Necessary conditions of an economic track ............................................................... 15
4 What issues should the economic track focus on? ...................................................... 17
5 Structuring the economic track .................................................................................... 21
  5.1 International coordination of the economic track .................................................. 21
  5.2 Sub-tracks of the process ....................................................................................... 23
6 Conclusions and next steps ......................................................................................... 25
List of boxes, figures, and tables

Box 1 Case Study: The role of United Nation Support Mission for Libya and the Berlin Conference 12
Box 2 Strengths and risks of OSESGY’s leadership 22
Box 3 Strengths and risks of a multi-stakeholder platform 23

Figure 1 The Messy Timeline of the Yemen Peace Process 6
Figure 2 Per Capita GDP in Selected Arab Countries 9
Figure 3 Rationales for establishing an economic track of the peace process 12
Figure 4 Timeline and sequencing in addressing economic issues within the track 20
Figure 5 Possible structures of the economic track 21

Table 1 Yemen’s Economic issues 17

List of abbreviations

Ansar Allah AA
Central Bank of Yemen CBY
Foreign Commonwealth and Development Office FCDO
Government of Yemen GOY
Gulf Cooperation Council GCC
International Follow-Up Committee IFC
International Growth Centre IGC
National Dialogue Conference NDC
Office of the Special Envoy to Yemen OSESGY
United Nation Support Mission for Libya UNSMIL
United Nations UN
Executive summary

This report has been prepared by the International Growth Centre’s (IGC) State Fragility initiative following a request of Foreign Commonwealth and Development Office (FCDO) Yemen in coordination with the Office of the Special Envoy of the Secretary General to Yemen (OSESGY) to explore options for an economic track to the Yemen Peace process.

This work is based on interviews held with Yemeni and international stakeholders, from thought-leaders, local and international academics, representatives of the business and banking sectors, members of the parties to the peace process (in their personal capacity), and senior staff of donor agencies, that were conducted during March 2021. Their contributions critically substantiated this report by offering a thorough analysis of the political economy surrounding the peace process, its challenges and opportunities, and the main economic priorities for the country. They also offered insights on lessons learned from previous efforts in the peace process and from comparable experiences of other contexts. Finally, the discussions highlighted the value and urgency to establish an economic track in Yemen and identified options for its development, in terms of focus, structures, and enabling conditions.

Based on these discussions, this paper identifies the rationale and merit of establishing an economic track of the Yemen peace process, details the potential framework that would underpin such track, and highlights the risks and necessary enabling conditions to establish such track.

Many interviewees highlighted that the prospects of reaching an end of hostilities and re-establishing a unity government in Yemen currently remain bleak. The ongoing UN-brokered peace process has been paralleled by demands from Yemeni stakeholders, international experts, and some development partners for a step change in the current approach to the negotiations. Notably, many highlighted how key events in the peace process maintained a nearly exclusive focus on political, security, and humanitarian issues. Economic matters, on the other side, have been largely overlooked in the formal process and pushed back to an eventual interim transition – in line with traditional approach of aid and humanitarian agencies in conflict settings. Notwithstanding the challenges and risks of establishing an economic track, its value and urgency was an element of consensus among all interviewees.

Economic grievances, particularly related to the control of natural resources and infrastructure, are seen as part of the root causes of the Yemeni conflict. To date, these have only intensified and become increasingly blended with political and military issues, such as questions of sovereignty and legitimacy. In line with a wider, global debate, the deep interdependence between distinct dimensions of the conflict calls for more integrated approaches that address all dimensions in a coordinated and simultaneous fashion. Moreover, discussions around economic issues can be instrumental to peacebuilding as they help develop expectations of possible economic futures for societies, increase the likelihood that resources will be shared fairly, and generate peace dividends.

An economic track to the peace negotiations in Yemen does not come without risks. If the engagement of the parties results only out of external pressure rather than genuine commitment, their engagement might result in being highly marginal and short-lived. Additionally, the level of formality of economic negotiations is something to be managed carefully to avoid their manipulation into bargaining chips to advance political demands. An excess of formality also bears the risk of jeopardising informal and tacit dialogue channels and critical economic transactions between the parties that are currently ongoing discretely: if these were
to be overly exposed and included in a formal process, there is a high chance they would be interrupted.

Moreover, an economic track can only be effective once a set of underlying conditions are met. These encompass full, sustained ownership and commitment by the mediator(s) and coordinator(s) of the track; a good level of coordination among stakeholders of the international community which provide the political authorising environment for the track to proceed; political greenlight and empowerment from the political parties to their technical teams involved in the negotiations; sufficient staff capacity with technical know-how in economics and finance as part of the international mediating entity and the parties themselves, in addition to negotiation expertise; strong coordination and active feedback mechanisms between the different tracks of the process; an ability and willingness of the mediator/coordinator to have frank and direct, although politically complex, dialogue with all parties; and finally a concerted efforts to de-politicise economic issues and treat them as technical problems as much as possible.

Because of the number and complexity of economic priorities in Yemen, it is critical that the peace process maintains its focus on a clear subset of them. Through the consultations, we were able to identify two broad categories of issues that should be addressed by an economic track of the peace process. On one hand, economic de-escalation issues, or urgent priorities with day-to-day negative implications for livelihoods, closely related to questions of sovereignty and authority, and needing to be addressed in the immediate term regardless of when/whether a political settlement is reached. Examples include the restrictions on key trade and commercial routes, the payment of civil servants’ salaries, and a minimum level of coordination of monetary and fiscal policy across the country. On the other, peace agreement economic issues, or economic priorities that would need to be reflected in the provisions of the comprehensive peace agreement but whose dialogue efforts should not be postponed any longer, such as the management of revenue from natural resources or the unification of key institutions post settlement.

Consultations also highlighted a third category of economic priorities, namely those related to structural and inclusive growth and development. Because current interventions to address these issues happen more at the local level (under the control of one party or another), and because parties hold somewhat similar positions with regards to them, efforts to address these challenges under this category should proceed in parallel and coordination to the proposed economic track of the peace process, rather than falling under its agenda. Better coordination of international efforts in Yemen to address economic priorities under this category is much-needed, but OSESGY should not be expected to coordinate these efforts but rather be aware of it.

A critical question regarding the structure of the economic track revolves around where responsibilities for its coordination should lie. Consultations converged around two main options: one which sees OSESGY as the natural candidate to establish and coordinate the track with the support of an international economic working group made of representatives from key international community actors, donor governments and relevant international institutions; and a second that is structured as a multi-stakeholder platform of national governments and development partners with full endorsement and support from OSESGY led by either a neutral agency or through rotating chairmanship among its members.

In either case, efforts to address the economic issues relevant to the track should be developed across two sub-tracks: a formal one (Track 1), mainly consisting in negotiations between the Government of Yemen (GOY) and Ansar Allah (AA) and focusing on the principles, institutions, and official arrangements of
the peace process, and a Track 2 which would be significantly more inclusive of Yemeni constituencies (political parties, civil society, private sector, marginalised groups) with greater focus on technical discussions and an aim to feed into the official process.

Currently, some of the pre-conditions for an economic track to be effective are missing. Above all, securing declared buy-in and commitment from OSESGY is essential. Going forward, relevant stakeholders to the process should consider holding dialogues to evaluate the trade-offs of establishing such a track and take a collective decision on the way forward which would need to be clearly communicated to national and international constituencies.
1 Key events in the peace process

Following the 2011 political crisis that brought to an end Saleh’s regime and the ensuing outbreak of the current conflict, there have been concerted efforts from national and international stakeholders to advance a peace process that would lead to lasting peace. However, peace negotiations have not progressed linearly and have been marked by significant setbacks (Figure 1). To this day, Yemen remains trapped in heightened conflict, violence, and internal divisions.

Figure 1 The Messy Timeline of the Yemen Peace Process

Notably, key events in Yemen excluded or focused only marginally on the economic dimension of the conflict, and can be summarised as follows:

- **The Gulf Cooperation Council (GCC) initiative and its implementation mechanism (2011)** – The UN-backed agreement largely focused on “removing the sources of tensions in political and security terms” ², without recognising the economic dimension of the grievances. The implementation mechanism on the other hand, was structured around two political phases and focused on issues such as the formation of national unity government and the powers of the president, vice-president, and the government. The mechanism also introduced a committee on military affairs, tasked with achieving security and stability.³ The only mention of issues related to the economy in this process (e.g., priorities for sustainable economic development), were delegated to a National Dialogue Conference (NDC).

---

¹ Peace Agreements Database (2021).
² https://osesgy.unmissions.org/gulf-cooperation-council-gcc
³ https://osesgy.unmissions.org/sites/default/files/5-yemen_mechanism_english_official_v2.pdf
• **National Dialogue Conference (2013-2014)** – Through the support of the UN and under the leadership of President Hadi, 565 delegates representing all Yemeni constituencies, including groups of Southern Hirak, Houthis, women, youth and civil society, commenced the NDC on 18 March 2013. The conference established nine working groups to address issues related to the Southern question, Saada, national issues, reconciliation, transitional justice, state building, good governance, foundations for building military and security, independent entities, rights and freedoms, and sustainable development.

The national dialogue was followed by a speedy process of dividing the federal regions in just two weeks, in an attempt to impose a specific federal structure before the constitution was drafted and put to referendum. This six-region federal structure would have confined areas where the Houthis are based to a poor, mountainous territory with no access to the sea or natural resources, which was not acceptable to the Houthis. Separately, the South would have been split into two regions against the wishes of many southerners and socialists.

The NDC and the ensuing constitutional drafting process, were criticised for being sideshow of elite-level negotiations among the main political figures, rather than a highly participatory process. Arguably, fundamental demands of the population for jobs, economic opportunities, and availability of public goods in the immediate term were overshadowed by the conference – this was, at least in part, a factor to the relapse of conflict.

• **Resolution 2216 (2015) and talks in Kuwait and Switzerland** – On April 2015, the UN Security Council adopted resolution 2216 (2015) which emphasized the need for the return to the implementation of the GCC Initiative and the outcomes of the comprehensive National Dialogue Conference. The resolution demanded the immediate and unconditional withdrawal of AA forces from Sana’a, relinquishment of all additional arms, and to cease all actions that are exclusively within the authority of the legitimate Government of Yemen.

Since then, the UN brokered rounds of consultations aimed at negotiating a conflict ending settlement in Switzerland in June and December 2015, and in Kuwait from April to August 2016. Despite these efforts by the United Nations, fighting continued between various parties throughout the country, including along the Saudi Arabia-Yemen border.

• **Stockholm Agreement (2018)** – As economic deterioration due to the conflict and fragmentation of key institutions (such as the Central Bank of Yemen [CBY]) accelerated, with significant impacts on the humanitarian crisis and the livelihoods of Yemenis, it became increasingly clear that economic issues needed to be addressed in the UN-led peace process.

---

5 Ibid.
7 Benomar, Jamal (2021). *Power-sharing is the only way to end the war in Yemen – if the US supports it*. Opinion. The Guardian.
10 [https://osesgy.unmissions.org/background](https://osesgy.unmissions.org/background)
This was reflected in the Stockholm consultations in December 2018 where certain economic procedures were a subset of the confidence-building measures discussed by the parties. While a separate agreement was not reached on the economic file as a whole, the Hodeida agreement announced in Stockholm included a key clause related to collection of revenues from the Hodeida port which would be allocated to contribute towards payment of salaries of civil servants in Hodeida and across the country. However, failure to address wider economic issues related to the payment of salaries like the monetary policy as well as the broader misassignment of the technical mechanism, resulted in collapse of the process.

- **The Riyadh Agreement (2019)** – The agreement was signed between the internationally recognised GOY and the Southern Transitional Council in Riyadh in November 2019. The agreement set out plans for the formation of a unity government and focused mainly on military arrangements in Aden. The agreement featured an appendix on the political and economic arrangements. It mainly focused on the timelines for the appointment government officials, with high-level references to the required personal characteristics – honesty, integrity, independence, experience, and so forth. It also highlighted the responsibility of the central government to pay public sector salaries, and the need to ensure transparency around budget execution. However, it provided no clear mechanisms on how key institutions will be activated, salaries for civil and military personnel would be paid, revenues would be collected and spent, and budget execution audited.

As the conflict intensifies on the outskirts of Ma’rib, the OSESGY continues to mediate the dialogue between the two main sides of the conflict, AA and GOY mainly through shuttle diplomacy. Its fundamental priority remains reaching a national ceasefire agreement, implementing confidence-building measures, and quickly moving to a transitional political settlement, all within a two-party framework involving AA and GOY. This strategy is in line with previous approaches, whereby the UN-led peace efforts focus primarily on military and security issues, with economic priorities being postponed to the interim transitions.

---

12 [https://osesgy.unmissions.org/hudaydah-agreement](https://osesgy.unmissions.org/hudaydah-agreement)
The rationale of an economic track to the peace process

Issues of economic distribution are important in conflict-affected states due to a well-established link between wealth inequalities at the onset and durability of violent conflict. Therefore, issues such as economic power-sharing and more inclusive management of natural resources often need to be addressed as part of peace processes and can have conflict resolution functions.

The conflict in Yemen, like in many other countries, has roots in the fight for the control of key economic resources and is linked to historical wealth inequalities and economic underdevelopment in the region’s poorest country, even before the ongoing war (Figure 2). The war has been largely fought over the commanding heights of the Yemeni economy which include key public institutions and natural resources.

Figure 2 Per Capita GDP in Selected Arab Countries

However, consultations with interviewees revealed a general consensus that financial and economic issues have not been adequately integrated, whether formally or informally, within the political negotiations and agreements by OSESGY. The Special Envoy has so far indicated that economic issues fall outside of his mandate, and it appears his office has been concerned that expanding the scope of the peace process would make it less likely to reach a political settlement. This contrasts with the demands of Yemeni constituencies, particularly in the business and banking communities, for a greater focus on economic and

---

15 Ibid.  
17 *Word Development Indicators* (2021).  
18 [https://osesgy.unmissions.org/mandate](https://osesgy.unmissions.org/mandate)
financial dimensions of the conflict. As previously noted, the exclusion of economic matters in the peace process is not new to Yemen. In the aftermath of the 2011 political crisis, the 2012-2014 transitional period was dominated by discussions focused on political, institutional, and security issues. This, coupled with a deterioration in economic conditions on the ground, sparked conflicts, eroded the sense of national unity, calcified localised identities and divisions, and may have been a contributing factor to the relapse of conflict that continues until today.

The inaction towards economic issues is not unique to Yemen but falls within the traditional approach according to which economic development matters in conflict and post-conflict settings are de-prioritised to humanitarian and security issues, and political arrangements. Generally, when this dimension is addressed in the early stages of the process, it is done to leverage economic factors as bargaining chips within political negotiations.

There is a growing debate on the virtues of more integrated approaches to peace processes which refuses to see security, political, and economic priorities as siloed dimensions to be tackled sequentially – with economic affairs coming last – but as belonging to an interdependent continuum. Indeed, the relationship between politics, security, and economics in post-conflict contexts can be conceptualised as interdependent in its nature, whereby achieving success in one dimension requires advancing the other two in parallel: for instance, a minimum threshold of security is needed to enable economic activities and to bring parties to the negotiation table; a political arrangement, job creation and service delivery are instrumental in reducing hostilities; or finally economic development can generate dividends that reduce the incentives to fight and supports political reconciliation. Proponents of this view favour multi-track peace processes with simultaneous and coordinated action. We have recently seen this play out in Libya with the development of a financial track between international and national stakeholders which proved instrumental in reaching a peace agreement and establishing a unity government (see Box 1 for a case study on Libya).

There was essentially a consensus among interviewees about the importance and urgency to establish an economic track to the Yemen peace process and a recognition that its exclusion to date has had negative repercussions on the conflict and the peace-building efforts. Indeed, the interconnection between politics, security, and economics is highly relevant to Yemen, as the three areas are becoming increasingly blended into one another and are not treated as distinct by opposing constituencies and parties to the conflict.

---


22 Barakat, Sultan and John Skelton (2014). The reconstruction of post-war Kuwait: a missed opportunity?


25 Barakat, Sultan and John Skelton (2014). The reconstruction of post-war Kuwait: a missed opportunity?


Strengthening the rationale for a dedicated economic track in Yemen is the fact that economic issues and grievances, such as control over key economic assets (ports, oil, gas and infrastructure), the distribution of wealth among key constituencies, and the marginalisation of certain groups from benefitting from it, concurred to the very outbreak of the conflict. Seven year since its start, economic grievances have only intensified and become critically politicised, and the failure to address them effectively may only have strengthened the power of a few actors with vested interest in the continuation of the conflict.28 In particular, the lack of a monopoly over military power by a central state authority or a stable coalition of elite groups (with access to violent means and economic assets, and thus an incentive to maintain peace) determined continued instability and fighting for control of resources and economic rents, undermining stability and economic recovery.29 Postponing the discussion of economic matters for the interim stage in the peace process increases its chances of failure and resumption of hostilities if no agreement among the parties is reached by then. A structural challenge of interim agreements is that these may be unable to address outstanding economic issues thoroughly. Yet, including provisions, frameworks, or principles for how priorities will be handled at a later stage can strengthen the entire process. Moreover, the general consensus is that it is especially timely to begin planning for the post-conflict economic reconstruction phase while the conflict is ongoing.30 Yemen has already faced similar issues in the aftermath of the GCC Initiative, which provides valuable lessons about the need to handle current and future economic matters in coordination with other negotiation tracks.

The literature also points out that the inclusion of economic provisions in peace processes helps build possible economic futures for a society, increasing the predictability about resource sharing and roles among the parties. This will also reduce the risks of creating a vacuum in positions of power and control over strategic resources that could be filled by spoilers with vested interests in the conflict who are especially influential in Yemen.31,32 Finally, agreements on economic issues can generate considerable peace dividends, such as employment or wider disarmament, demobilisation and reintegration programmes for ex-combatants and marginalised groups.33 Figure 3 summarises the key reasons for establishing the economic track across distinct temporal dimensions of the conflict.

In the context of this paper, an economic track can be defined as a set of concerted efforts aimed to address economic priorities that are closely interlinked with the outbreak and the continuation of the conflict. Addressing these economic issues can be critical to mitigate some of the most adverse impacts on the population; reach a ceasefire between the parties; and ultimately build sustainable peace.

Box 1  Case Study: The role of United Nation Support Mission for Libya and the Berlin Conference

The Libyan case was highlighted by several interviewees as a good example of integrating an economic track into the peace process while also ensuring a strong and credible international buy-in. The consultations indicated that the United Nation Support Mission for Libya (UNSMIL) ensured to mobilise enough human and financial resources to start a multi-track peace process. They also indicated the UNSMIL had a strong mandate that encompassed resolving political, security, and economic arrangements of the Government of National Accord and subsequent phases of the Libyan transition process.34

The Berlin Summit held by UNSMIL was part of a three-step initiative announced in September 2019. The process itself was chaired by the UN alongside the government of Germany. On 19 January 2020, the Berlin International Conference on Libya gathered the governments of 12 countries alongside representatives from the UN and other regional and international organisations, including the African and European Unions and the Arab League.

At the heart of this process and conference is the unification of the international community in their support for a peaceful solution to the Libyan crisis35, since without the commitment of key external actors engaged in Libya, the conflict will continue.36

In preparation for the Berlin Summit, UNSMIL developed three adjacent tracks:37

- A **Political Track** to unify of the country’s executive, sovereign, economic, financial, security, and military institution and the formation of a new government;

---

34 https://unsmil.unmissions.org/mandate
36 https://unsmil.unmissions.org/remarks-srsg-ghassan-salam%C3%A9-united-nations-security-council-situation-libya-4-september-2019
• **Economic and Financial Track** to unify and enhance the integrity of Libyan financial and economic institutions (e.g., the Central Bank and the National Oil Corporation) and the establishment of two new economic initiatives (the creation of a Libyan Experts Economic Commission and a Libyan Reconstruction and Development Fund);

• **Security and Military Track** which comprised efforts to consolidate the acceptance by the Libyan parties of calls for a truce, leading to a comprehensive and sustainable cessation of hostilities.

As part of the follow-up mechanism and under the aegis of the UN, the conference created an International Follow-Up Committee (IFC) consisting of all countries and international organisations that participated in the conference in order to maintain coordination. The IFC was structured on two levels: 38

- One **plenary** at senior official level, to meet on a monthly basis with an UNSMIL chair and, additionally, a rotating co-chair and locations. This group would be responsible for tracking progress against the implementation of the conclusions from the conference.

- Four **technical working groups** (related to the tracks above as well as other issues) where each was led by a UN representative. Participants in the groups were mandated to address obstacles to implementation, share relevant information, and coordinate operational requirements and assistance without prejudice to the mandate of the UN Security Council.

### 2.1 The underlying risks of an economic track

Establishing an economic track could be valuable in advancing the peace process. Yet, alone, it does not represent a magic solution towards sustainable peacebuilding, and it does raise a number of risks.

First, if the inclusion of an economic dimension in the peace process is only the result of **pressure and demands from foreign stakeholders** without significant buy-in from AA and GoY, the parties could end up paying lip-service without concrete efforts to address the issues or implement solutions. An excess of external pressure could itself backfire, pushing the parties away from the negotiation table with chances of jeopardising previous progress. 39

In the context of Yemen, the discussions on many economic issues relevant to the conflict can quickly become politicised and touch on the critical issue of sovereignty, legitimacy, and authority. **Formalising the economic track** by integrating it into political, Track 1 negotiations may result in the two sides exploiting economic issues as **bargaining chips to advance political demands**. Similarly, those brokering the peace process may see economic discussions as a way to advance the political track agenda when Track 1 talks stall. The UN has been criticised for adopting this approach before and for lacking a genuine interest for an economic track per se.

Excess in the level of formality bears a second set of risks. Despite costs and hardships imposed by the conflict – especially those resulting from the fragmentation of the central bank and the circulation of two currencies – informal, under-the-radar dialogue between bureaucrats in AA-controlled areas and GoY-controlled areas, as well as day-to-day economic transactions continue to take place and are critical enablers of trade and

---


remittance flows across the territory. If these mechanisms are brought forward and exposed in official negotiations, they could be hard to be justified politically and may be critically jeopardised and suspended. This is why formal talks must proceed with full awareness of these tacit links and ensure they are duly “protected”.

Therefore, once a decision has been made to establish an economic track, a minimum level of necessary conditions must be fulfilled for the process to achieve substantial progress and deliver on the expected results.

3 Necessary conditions of an economic track

While an economic track can be structured in different ways, there exists a set of underlying conditions that are necessary (although not sufficient) for its effectiveness. These include:

- **Full ownership and commitment** – Full ownership of and commitment by the mediator(s)/coordinator(s) of the economic track are crucial to the effectiveness of the track. Undertaking these efforts half-heartedly or interrupting them halfway once challenges arise could prove especially damaging. The negotiations around economic issues will create clear expectations in Yemeni stakeholders. If these are not met, it will become increasingly hard, if not impossible, to gain the trust, commitment, and buy-in from the parties to re-engage in economic discussions at a later stage.

- **International community leadership** – Regardless of the entity that would lead the coordination efforts of the economic track, a prerequisite for success is to establish a clear mechanism for international community coordination. Such a mechanism existed before the war and was represented by the Economic Working Group of the Friends of Yemen. The group would provide an authorising political environment, signal the importance of such track, and address many coordination gaps in the international community efforts to address economic priorities in Yemen. The involvement of an international working group, however, presents challenges in being accepted by the parties because it might be perceived as lacking neutrality, especially if regional and international parties actively involved in the conflict are part of it. Additionally, frictions between potential members could also arise around who can become a member and who would chair the group.

- **Political greenlight and empowerment of technical teams** – Yemeni political parties need to empower the technical teams involved in the economic track with enough freedom to lead on these discussions, put forward propositions, and secure agreements without fear of personal negative repercussions. Even if all issues are technical in nature, technical teams of the parties will not be able to reach agreements or decisions without having a green light from the parties from the start.

- **Leveraging technical know-how and enhancing OSESGY’s role** – Negotiations on economic issues should involve in-house human resources with deep know-how in economics and finance that is needed to understand the complexities of main challenges and to identify viable solutions. Both parties and the entity tasked with leading the mediation/coordination efforts need to leverage staff with this skillset. For the latter, technical expertise is crucial in allowing them to lead on and coordinate the negotiations.

Irrespective of the level of involvement of OSESGY in leading the coordination of the economic track, it is evident from the consultations that the Office needs to enhance its in-house capacity to deal with economic issues, which would complement existent mediation skills. Notably, respondents to our interviews often cited that the lack of sufficient technical capacity from the UN as a contributing factor to the collapse of the Hodeida fuel mechanism.

- **Integration of tracks in the peace process** – The economic track should be well connected to the entire comprehensive peace process from the onset. If OSESGY is not the lead coordinator, whichever entity oversees of the track will need to have strong coordination with OSESGY to ensure alignment with the overall peace process. Even when economic issues feature within partial agreements, before a comprehensive deal is reached, there should be an understanding that these will eventually feed into a future peace plan. In fact, the consultations indicated that it would be advisable that the body
mandated with convening parties to negotiate an economic track the same as one leading the comprehensive peace process.

- **Speaking truth to power** – Building a frank communication channel between the mediator and the parties can be politically complex to navigate but crucial to build credibility to the process. The mediators should be willing and capable to be forthwith in the conversation even when it involves politically inconvenient matters.

- **De-politicisation** – An effort – and full commitment – by the parties and mediators to prioritise citizens interests and to address economic priorities as technical ones as much as possible, even when fundamentally they are highly political, *protecting/shielding*, them from over politicisation and from becoming objects of political bargaining.
4 What issues should the economic track focus on?

While Yemen faces multiple, complex, and interlocking economic challenges, a useful exercise could be to rationalise them into separate categories depending on their underlying characteristics. This may help stakeholders in both untangling and sequencing the complex web of priorities, and to devise distinct strategies to approach them. Sequencing should consider the close interdependence among economic challenges. While the parties may lack the pre-conditions to tackle a given issue immediately, the stepping stones to do so could be created by tackling a different, smaller, but closely related and enabling issue, progressing the economic agenda in a step-by-step, incremental fashion. The consultations underlying this report allowed us to identify the following three categories of economic issues (Table 1):

Table 1 Yemen’s Economic issues

<table>
<thead>
<tr>
<th>Economic de-escalation issues</th>
<th>Peace agreement economic issues</th>
<th>Structural &amp; inclusive growth and development issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urgent economic issues with short-term negative impacts on citizens</td>
<td>To be reflected in provisions of the comprehensive peace agreement.</td>
<td>Localised, long-standing economic challenges</td>
</tr>
<tr>
<td>Linked to issues of sovereignty, authority, legitimacy.</td>
<td>Likely to arise at later stages BUT valuable in the parties agreeing how to address them early</td>
<td>Requires both immediate solutions, and</td>
</tr>
<tr>
<td>Can be addressed immediately</td>
<td></td>
<td>Sustained long-term commitment and resources from international community</td>
</tr>
<tr>
<td>Untied from progress towards political settlement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. **Economic de-escalation issues**, or urgent economic issues that inflict short-term negative impacts on citizens and the economy and are closely linked to issues of sovereignty, authority, and legitimacy between the parties. Because of their nature and urgency, they can be addressed immediately and not necessarily tied to progress towards a political settlement. These include but are not limited to:

a. **Restrictions on key trade and commercial routes** – Addressing this would ensure a better flow of goods and humanitarian assistance. These include restrictions on Hodeida port, the re-opening of Sana’a airport, and enhancing internal mobility by opening roads into cities like Taiz. This is a key priority to stabilise prices of goods and support livelihoods.

b. **Civil servants’ salaries** – In the absence of a full-fledged solution to integrate the civil service under the umbrella of one authority, there is a need for an agreement on the administration of salaries and the wage bill. Interviews maintained that both parties should first agree on a bill that is supposed to be paid for civil servants across Yemen.

c. **Public Revenues** – Establishing a framework to collect joint revenues would be key to administer payment of salaries and possibly cover some critical operational costs. This has been done before through the Stockholm agreement in the case of Hodeida,
however and due to reasons mentioned in this report (and previous ones\textsuperscript{41,42}), such mechanisms must be approached as part of an ongoing economic track rather than as standalone confidence building measures. Also, agreements will likely need to be extended beyond Hodeida to include revenues from other sources and sectors (such as telecommunications sector which risk becoming be the next target for escalations).

d. Joint regulatory frameworks and coordination of monetary and fiscal policies – While the full integration and unification of public institutions can be difficult at this stage, a minimum level of coordination must be in place as part of the economic track. This is particularly relevant for the issue of monetary policy and the CBY. The formal unification of key institutions can be left closer to when a peace agreement is reached, however at this stage maintaining coordination of policies, especially on monetary policy, will help in addressing the humanitarian crisis. Initial efforts could focus on regular dialogue, data sharing. Once a minimum level of coordination and trust is achieved, parties can then work on the coordination on issues related to printing money and regulating banking activities, such as actions to ease the liquidity crisis and facilitate and currency movements between banks. Over time, the variation in exchange rates would also be the first order priority to stabilise prices, reduce transaction costs, and indeed ensure a smooth payment of salaries.

e. Double Taxation – Several interviewees agreed that one of the biggest challenges faced by the private sector is the disparity and duplication of customs and tax controls. While this topic has not been addressed in negotiations, it remains a key determinant of price levels as payments levied are passed through to consumers, with negative implications for livelihoods. Because of the urgent nature of this issue, undertaking efforts to reduce instance of double taxation is worthwhile. However, the lack of a comprehensive framework on revenue sharing might result in limited engagement from the parties and partial and/or slow progress, with more substantial changed being achieved within a comprehensive peace agreement or in its aftermath.

Issues that fall under this category will require interim/temporary solutions and willingness to coordinate between both parties until a comprehensive peace agreement is reached. However, this report argues that working with de-escalation issues should be part of an overarching economic track that meets the conditions mentioned above and should feed into the efforts to address the second category of economic issues presented below. For example, coordination between key fragmented institution in the immediate term would need to evolve into clear mechanisms and provisions in the peace agreement on how these institutions would be unified in the transitional period (post-agreement).

2. Peace agreement economic issues are issues that would need to be reflected in provisions of the comprehensive peace agreement. In contrast to economic de-escalation issues, since these provisions would be part of a peace settlement, agreement on them could potentially be less contentious as issues of sovereignty would presumably be addressed by signing the peace agreement itself. However, as mentioned in previous sections, while these matters are likely to arise at later stages in the peace process, there is value in the parties agreeing how to address them early on. Postponing any agreements on these issues to an interim transition phase creates the risk that at that stage complexities on how to overcome them and differences among the parties will be so significant and time-demanding that they could jeopardise


achievements in the peace process and cause hostilities to resume, as it was the case in the aftermath of the GCC Initiative. Issues falling under this category include but are not limited to:

a. **The management of natural resources revenue.** In 2016-2017, the GOY and oil-producing governorates established an informal arrangement according to which 20% of revenue from the sales of oil would be retained by local authorities and reinvested locally. There is a potential risk of a future unity government terminating the arrangement, which would likely result in harsh disputes and conflict.

b. **Unification of key institutions and national budget.** Another key issue would be establishing formal procedures on the unification of institutions and of fiscal and monetary policies. While de-escalation measures offer second best and temporary solutions, once a peace agreement is in sight, a formal agreement on how to manage public institutions and funds must be in place. At the heart of this is the unification of CBY and the appointment of its board of directors. Another first order priority is to establish and agree on a national and unified budget which would consider national revenues raised and planned public expenditures.

c. **Integrating the civil service.** While de-escalation measures address the payment of civil servants on both sides of the conflict, a peace agreement must address how to integrate and unify the civil service based on merit and the necessary size of the public sector.

d. **Post-conflict reconstruction.** The agreement must include provisions that guide the post-conflict phase of the conflict, including aid and grants under CBY oversight, institutions, and development priorities, requiring all donors to funnel all aid and financial grants through official channels, without the intervention of any political party and with clear oversight from CBY.

Negotiations addressing economic de-escalation and peace agreement issues should take into account the existence of individuals across the national territory with control over key resources and transactions within the local economy and enough power and influence to actively spoil the process towards peacebuilding and economic recovery. These are actors with vested interests in the continuation conflict who have been adopting rent-seeking behaviour, exploiting economic blockades and internal fracturing to their benefit, and even absorbing international support, with negative impacts on the day-to-day lives of citizens and businesses. In sectoral terms, these interests concentrate in fuel and gas imports and exports, money exchange, and commodity imports. Such vested interests are not stand-alone issues but overlap and impact on several economic priorities listed above. Therefore, we recommend that within the economic track of the peace process, the presence and influence of these players is considered and that efforts are undertaken to both to mitigate their economic power but also to avoid it from entrenching further.

3. **Structural and inclusive growth and development issues** that are unlikely to involve disputes around sovereignty and around which the parties are less likely to hold

---


46 Ibid.
fundamentally distanced position have been identified as the third subset of economic issue. This category involves localised, long-standing economic challenges for Yemen that require both immediate solutions, as well as sustained long-term commitment and resources from the international community. Examples include provision of water and sanitation, job creation, and reconstruction of key infrastructure etc. Because current interventions to address these issues happen more at the local level (under the control of one party or another), and since the positions of parties with respect to these challenges are expected to be similar and not require concessions, efforts to address these issues should proceed in parallel to the proposed economic track of the peace process. While such topics should not be put on the agenda of the economic track of the peace process, a level of coordination will be needed to ensure synergies and comprehensiveness.

Figure 4    Timeline and sequencing in addressing economic issues within the track
5 Structuring the economic track

5.1 International coordination of the economic track

Consultations converged around two overarching options for the coordination of the economic track, one primarily led by OSESGY versus one led by one or more international actors, endorsed by and coordinated with OSESGY (Figure 5).

Option 1 – According to several interviewees, OSESGY was recognised as the natural candidate to establish, coordinate, and advance the economic track. Because of the importance of the political authorising environment detailed above, we recommend that OSESGY’s leadership in coordinating this track should be under the umbrella of an international economic working group made of representatives from key international community actors donor governments and relevant international institutions.

The key strengths and risks of OSESGY leadership of the economic track are presented below.
Box 2  
Strengths and risks of OSESGY’s leadership

<table>
<thead>
<tr>
<th>Key strengths of OSESGY’s leadership</th>
<th>Key risks of OSESGY’s leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>The UN are the entity responsible for the political and security negotiations of the peace process. Therefore, its leadership on economic track would result in stronger coordination and coherence among the different strands of the peace process. Both GOY and AA recognise and engage with OSESGY as the authorised entity leading the peace process, making it the natural lead for an economic track of the peace process.</td>
<td>OSESGY’s engagement in economic issues has often resulted from pressure of escalating crises with humanitarian implications rather than out of genuine commitment to the track per se. Placing the leadership of the economic track in OSESGY’s hands without clear buy-in from the envoy and his leadership team jeopardises any meaningful progress on this track. Leadership by OSESGY is likely to make the process highly formalised, opening to risks of politicisation and increased use of the economy as a bargaining chip. OSESGY has been operating primarily within a two-party framework – AA vs GOY. The possible exclusion of political groups and other constituencies from the track could generate grievances and might not serve its purposes.</td>
</tr>
</tbody>
</table>

A number of prerequisites were highlighted by interviewees for OSESGY to lead such a track:

- To make sure that OSESGY would embrace the economic dimensions of the conflict, ensure OSESGY’s mandate, which has been flagged as outdated, is clearly amended to reflect its willingness to address the economic track of the process. In addition to a clear mandate from the UN Security Council, other options to signal such a mandate include establishing a role for a senior member of the team to primarily deal with the economic profile – a deputy-envoy for example – and to feed directly into the special envoy.
- The Office notably lacks sufficient staff with technical skills and know-how in economics and finance needed to navigate the complex challenges, to mediate in the discussions, and to identify technically and politically feasible solutions. In addition to the senior leadership role identified in the previous paragraph, OSESGY will need to establish a technical team with sufficient resources to lead this. Team members can be seconded from different member states of the proposed Economic Working Group to strengthen the technical know-how, in addition to providing financial support.

Option 2 – A valuable alternative is creating a platform coordinated by one or more international stakeholders which enjoys the endorsement and support of OSESGY rather than its formal leadership. The platform will succeed only if it is regarded as neutral and independent by the parties and operates in a way that does not favour or is more closely aligned to one of the two sides. This could be achieved either through a rotating chairmanship structure, whereby bilateral and regional bodies alternate one another in the coordination of the planform or through permanent chairing by a multilateral or neutral body, such as a UN agency, fully endorsed by all participants.

While international financial institutions such as the World Bank or the International Monetary Fund could in theory be considered for the role, it was noted how in the past these institutions have been reluctant to take a leadership role in economic peace processes in
countries with active conflicts. Additionally, while they may possess the required technical expertise in finance and economics that OSESGY lacks, their negotiation and mediation skills – which remain essential to the process – are notably weaker.

The key strengths and risks of an approach that relies on a multi-stakeholder coordination platform are included in the table below.

**Box 3  Strengths and risks of a multi-stakeholder platform**

<table>
<thead>
<tr>
<th>Key strengths of a multi-stakeholder platform</th>
<th>Key risks of a multi-stakeholder platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some international stakeholders have voiced in the past support for and interest to lead the coordination of an economic track of the peace process as they have the necessary bandwidth to focus on that.</td>
<td>There are concerns about a potential lack of alignment among international stakeholders about coordination of roles in leading the economic track working group.</td>
</tr>
<tr>
<td>International stakeholders are typically more equipped with in-house technical expertise on economic and financial matters than OSESGY. Moreover, such platform may allow the pooling of a diverse set of critical skills in economics and finance as well as mediation, negotiation, and political analysis.</td>
<td>There are also concerns about a potential lack of alignment with the other tracks in the peace process that are led by OSESGY if close coordination is not established. Unless a formal channel with the other tracks in the peace process is established, through OSESGY, these efforts are unlikely to feed in and be coordinated with the political and security tracks.</td>
</tr>
</tbody>
</table>

5.2 **Sub-tracks of the process**

Regardless of which option is agreed to coordinate the economic track of the peace process, efforts should address both economic de-escalation and economic issues relevant to the peace agreement and should be developed across two sub-tracks: the official one among the parties and a wider and more participatory one. Indeed, while efforts in the political process should not abandon top-down approaches focused on national issues and negotiations among elites, equal emphasis should be given to grassroot initiatives which involve diverse constituencies and adopt a localised lens.

The two tracks can be summarised as:

**Track 1** would consist of official negotiations track involving GOY and AA formally and focusing on the principles, institutions, and official arrangements of the peace process. Technical specialists from both parties should be the main participants in this track, but other independent Yemeni technical experts or representatives of key stakeholder groups – such as private sector representatives – can be included in discussions as needed. Because of personal risks, technical representatives of the parties may find it especially challenging to strike deals with the other side if these imply losses for their own party. To overcome this, mediators should frame negotiations with win-win solutions, potentially backed by resources/incentives from donors that both parties will benefit from.

**Track 2** would involve a wider array of constituencies, including political parties, private sector representatives, representatives of the parties to the peace process in their unofficial capacity, civil society, and marginalised groups. Unlike Track 1, efforts under this Track would have a greater focus on technical discussions and aim to inform the official process. Several interviewees noted how working through a small, less visible, problem-focused and

solutions-oriented group that aims to address economic issues as technical rather than political matters could be more effective in identifying compromises and solutions quickly.

It was noted that an effective practice adopted in the Libyan peace process was to engage some of the more effective participants involved in Track 2 discussions to be part of Track 1 negotiations.

It was stressed that participants of these tracks – especially civil servants and businesspeople – may be exposed to considerable personal risks and threats as they reveal their views and positions. Since this might discourage them to engage constructively in the negotiation’s efforts, mechanisms capable of protecting them should be developed. For instance, some individuals could be engaged on an individual, anonymous basis rather than as part of a wider convening.
6 Conclusions and next steps

The importance and urgency of establishing an economic track to the Yemen peace process has been a point of agreement among all interviewees consulted for the drafting of this report. The reasons are clear: in the context of Yemen, politics, security, and economics have become increasingly entangled and self-reinforcing. To progress effectively towards peace, it would be unrealistic – and arguably damaging – to keep postponing the dialogue around economic challenges to an interim phase. It is equally unwarranted to continue leveraging economic issues as tools of political bargaining. The economic dimension of the war in Yemen should be recognised in its own right, as a fundamental part of the conflict and as a key determinant to peace. As such it deserves a full, ad-hoc integration within the wider peace process.

However, the conditions needed to ensure that the economic track is effective are currently missing. Above all, the UN OSESGY, a crucial stakeholder in the peace process, is yet to declare its intention to lead and coordinate or endorse such a track. OSESGY plays a pivotal role in peace efforts as it leads on the political track, benefits from a status of neutrality and impartiality, and has direct dialogue channels to both GOY and AA. In addition, there is an absence of an international coordination mechanism that can provide an umbrella and an authorising political environment for such a track.

A first, logical step forward would therefore entail a multi-stakeholder dialogue, involving both OSESGY and key international partners, to analyse the trade-offs of developing an economic track. If this were to result in a joint-decision and full endorsement by participants (critically by OSESGY), follow-up discussions should focus on the more technical and operational aspects of the track, including what mechanism would coordinate it, on a sub-track framework for official and unofficial and more participatory levels of negotiations, on what issues the track would focus on and their sequencing, and so forth. Most importantly, the decision to form an economic track must be clearly announced to all Yemeni and international stakeholders to signal it as a main pillar in the wider peace process.

It should be noted that this report took a holistic look at the topic and did not customise the issues or approach to the current ongoing efforts, led by the UN Special Envoy with support from the US Special Envoy and other international community actors, to reach a ceasefire agreement and revive the peace process. Indeed, these efforts continue to evolve and it is not clear yet whether they will succeed.

The current efforts to reach an agreement between the parties – referred to informally as the four points – only include two elements relevant to the economic track discussed in this paper: access to Hodeidah port and access to Sana’a airport. If these efforts succeed and the stakeholders are able to swiftly kickstart the political process, then the scope and structure of the economic track can be revisited based on the nature of the ceasefire agreement and the nature of the envisioned peace agreement that the political process will focus on (for example framework agreement vs. comprehensive agreement). However, if an agreement on the four points is not reached, then it is assumed that the relevant stakeholders will need to redesign the whole approach to peace in Yemen, in which case the contents of this report can inform such redesign.
The International Growth Centre (IGC) aims to promote sustainable growth in developing countries by providing demand-led policy advice based on frontier research.

Find out more about our work on our website www.theigc.org

For media or communications enquiries, please contact mail@theigc.org

Subscribe to our newsletter and topic updates www.theigc.org/newsletter -signup

Follow us on Twitter @the_igc

Contact us
International Growth Centre, London School of Economic and Political Science, Houghton Street, London WC2A 2AE