

## **Chapter IV**

### **Productive Sectors**

## **Agriculture**

Agriculture is the main source of sustainable livelihood in rural areas. Agriculture provides the food and work for the overwhelming majority of developing societies. In Yemen, agriculture is not only an economic sector, but also a way of life with different economic, social and environmental functions. Agriculture is the second productive sector after oil, contributing to about 17.6% of GDP. It also provides most of the job opportunities by absorbing 54% of the total work force, and ensuring the livelihood of 74% of the population. Agriculture represents a stabilizing factor against internal migrations and can contribute to alleviation of rural poverty and destitution.

Since the reunification of Yemen, the agriculture sector made substantial accomplishments. Plant and livestock production increased, water installations and facilities expanded and modern irrigation methods and technologies were introduced. Agricultural research and the production of advanced technologies in both rainfed and irrigated agriculture were enhanced in addition to strengthening agricultural extension services and expansion of marketing and rural development projects, improvement of veterinary quarantine services and combating aphids and communicative diseases through nationwide campaigns.

### **Cultivated Areas and Production**

Land suitable for agriculture is widespread across many regions of Yemen including the plains, highlands, coastal areas and terraced mountains. Such geographical distribution leads to diversification that helps in cultivation of different crops to meet the nutritional needs of the population, while exporting the surplus. Since 1990, the cultivated area increased reaching a total of 1.4 million hectares. Cultivated crops are mainly cereals, vegetables, fruits, cash crops and animal feed. While the cultivated area for cereals rose from 639,806 hectares in 1991 to 685,491 hectares in 2004, production for the same period increased from 447,470 tons to 487,944 tons. The cultivated area for fruit doubled reaching 98,100 hectares and an increase in production from 316,000 tons to 736,000 tons. The cultivated area for vegetables also increased to 71,200 hectares and production increased by 30% to 833,000 tons. Cash crops increased in terms of cultivated area and production. The cultivated area for coffee reached 33.7 million hectares and production 11,600 tons. The production of cotton increased to 29,000 tons.

Achievements in the agriculture sector are attributed to the introduction and use of modern methods and use of improved inputs such as improved seeds and seedlings. Modern irrigation schemes were also introduced and dams and water catchments were built reaching 1,069 installations and facilities. Agriculture machinery and supplies were widely introduced. There were 2,000 tractors along with accessories distributed to 400 agricultural associations, which are supervised by the Agricultural Cooperative federations nationwide. Preparations are also underway to distribute 200 tractors with the support of the Agricultural and Fisheries Production Promotion Fund.

### **Livestock**

Livestock production represents 20% of all agriculture output, increasing at 5.4% per annum over the last 15 years. It reached 15.5 million heads, mostly goats with about 7.3 million heads, followed by sheep (6.6 million heads) then cattle (1.4 million heads). Camels reached about 277 thousand heads. Such increase was accompanied by higher annual animal protein production from various sources (red meat, poultry, milk and eggs), increasing at 10.3%. Red meat production reached 60,000 tons and poultry 87,000 tons. Milk production increased to 197,000 tons, while egg production reached 615 million eggs. Leather reached 10,000 tons and honey production increased by 22.2% on an annual basis.

### Agriculture Credits and Cooperatives Activity

The Government attaches importance to financing projects for farmers through soft loans. The Credit and Agricultural Cooperatives Bank (CACB) provided 96,216 loans amounting to about YR 13 billion since 1990. The Government has also encouraged agricultural cooperatives and their participation in different agricultural projects, such as expansion of stables for cows, encouraging domestic livestock breeding and support to the expansion of date palm cultivation in the governorates. In recent years, the country witnessed a rising trend in favor of cooperatives investment in the livestock sector through breeding and fattening of livestock and production of dairy products, due to their economic feasibility and financial returns.

### Rural Development

The government is committed to improving rural agricultural development through achieving food security by means of carrying out projects that focus on land reclamation, increasing production, improving the efficiency of water use and the improvement and expansion of agricultural services and promoting stable agricultural communities. The government seeks to improve the income of farmers, taking measures to realize rural infrastructure and sustainable services. Development projects have been approved focusing on the northern areas, the southern governorates, the eastern governorates (Al-Jouf and Marib), the central highlands and the southern highlands (Ta'ez and Ibb Governorates). There are also rural development projects in Raimah governorate, the development of Wadi Hadhramaut, rural development in Al-Maharah, Al-Mahweet and Rada'a governorates. There is also a project on management of natural resources in Al-Dhali'a governorate and the Eastern Cooperatives Project, environmental protection in Tihama and other projects relating to the conservation of natural resources and the development of the rural economy.

### Marketing and Exports

Domestic and external marketing of agricultural products is vital in rural development. Some 13 markets and collection centers for agricultural products in different governorates are well established. The construction of new markets is also underway, including studying establishing 18 collection centers and markets. In addition, 6 new units are being constructed to collect and circulate agricultural marketing information, besides other essential infrastructure required for marketing and exportation of agricultural products. This includes the development of human resources and supply of vehicles and equipment, and preservation of products and

export preparation centers and services on site and in marketing centers.

The government has taken a set of measures aiming at promoting agricultural investment. It undertook a review of laws and policies, and provided facilities for setting up marketing and exporting companies compatible with foreign standards. These steps have yielded positive results for the improvement and advancement of marketing domestically and in the export of agricultural products to several neighboring states, and thus led to better conditions for farming families, improvement in national income and growth in exports. Exports increased from 36,000 tons in 2001 to about 110,000 in 2003, achieving a financial return of YR 14 billion.

### Prospects for Improvement

Plans for rejuvenating the agricultural sector rests on the fact and importance of realizing development goals and the role the sector plays in the national economy and in realizing national food security. Future government plans respond to international economic developments, market mechanisms, and the vision to maintain integrated efforts of the various agricultural authorities, agencies, cooperatives and communities. The strategy for agricultural development in Yemen is summarized as follows:

- Halting the deterioration of natural resources that agriculture depends on;
- Improving the conditions of those involved in agricultural production;
- Expansion of modern irrigation methods, rationalizing water use and preserving stored outputs;
- Pursuing a marketing policy consistent with government directions towards liberalizing trade and development of competitive exports in international markets, improving quality control and adherence to specifications, and improving legislations and laws on marketing;
- Directing cooperative agricultural investment towards marketing, exports and food production;
- Encouraging small farmers;
- Activating veterinary quarantine and extension programs;
- Creating a data base to support future planning and programming in the sector.

### **Fisheries**

Yemen enjoys a coastline spanning 2,500 kilometers along the Red Sea, the Gulf of Aden and the Arabian Sea. Such vast stretch of sea line provides Yemen with diversified fisheries resources of 350 types of fish and marine life. The water surface area (area of territorial waters) of Yemen reaches more than 700,000km<sup>2</sup> underlying the importance of fisheries as a primary resource for the national economy and job opportunities, poverty alleviation and attracting internal migration towards the coastal areas. The fisheries sector is accorded the attention and support of the Government, and hence had led to higher rates of growth reaching 20%. Yemen ranks 4<sup>th</sup> among Arab countries in the production of fisheries.

## Fish Production

Fish production registered annual growth exceeding the planned growth rates for the sector in both the First and Second Five Year Plans. Fish production increased from 77,000 tons in 1990 to 250,000 tons in 2004. Development plans for the fisheries sector target increasing production to 400,000 tons at an annual growth rate of 10% during the next 10 years. Efforts have been exerted to develop the fisheries sector away from traditional fishing and to improve fishing mechanism to secure fish supplies for the domestic market and meet growing demand for Yemeni fish in world markets. The sector has been also an important source for job creation and improvement in the livelihood of fishermen.

The number of fishing boats increased form 5,000 boats in 1990 to more than 16,000 in 2004. Fishermen more than doubled from 25,000 to reach 60,000. Post-fishing job opportunities starting from landing the fish on dry land down to marketing and selling helped create 2.85 job opportunities for each ton of fish production. Employees in the sector and supporting occupations are estimated to be half a million. The introduction of small traditional fishing boats provides 3-4 job opportunities for each boat, compared to at least 10 job opportunities for the coastal or industrial boats.

### Growth of Traditional and Commercial Fishing (000 Tons)

DEscription	Annual for the Period		Annual Production for the Years			
	1990- 1995	1996- 2000	2001	2002	2003	2004
Total Fish Production	85.8	117.5	142.1	179.5	228.1	256
Production of Traditional Fishing	80.1	100.8	122.4	155.4	209.3	252.5
Production of Commercial Fishing	5.7	16.7	19.7	24.1	18.8	3.5

## Exports

Plans for maximizing fisheries production over recent years contributed to raising the value of fish exports from \$ 33 million in 1996 to about \$213 million in 2004. Plans target increasing fish exports in the medium term to realize financial returns exceeding \$ 500 million by end of 2010. Fish exports represent an alternative to reduce dependency on oil exports. Government efforts have been directed towards proper exploitation of available reserves, catching only the types of fish and marine

life that have yet to be exploited, enhancing export prospects and opening up overseas markets. Means for achieving maximum results of the fisheries resources include:

- Taking advantage of local financing to provide improved traditional fishing boats;
- Supporting and encouraging young fishermen to own fishing boats, with a view towards establishing a national fishing fleet;
- Providing credit facilities for the cooperative and private sectors;
- Establishing a company specialized in manufacturing modern fishing boats and producing fishing land transport vehicles;
- Simplifying bank credit conditions for investment in installations for fish processing and setting up fish packaging and canning factories, milling and processing units for processing fisheries and waste remains and ice production factories and building model fish markets for wholesale and retail;
- Providing incentives for investment in the breeding of marine life and fish culturing and preparing technical and economic feasibility studies for setting up fish farms and promoting their establishment.

## Development and Investment

The fisheries sector scored good achievements in terms of development and investment. The government and other sectors of society helped advance development and expansion of fishing ports, fishing boat docks, jetties and fish catchments landings in addition to setting up fishing boatyards, packaging factories, ice production plants and setting up quality control laboratories, fish processing plants, milling and freezing units. Service projects for the fishing communities were implemented in portable water, electricity, road networks, training centers for coastal women and other infrastructure requirements. Fisheries IV Development Project is one of the biggest government investment projects in the sector with a total investment of YR 6 billion. Another project on Marine Control and Inspection is ongoing with an investment of YR 550 million, aiming at the development of marine quality control and inspection, updating legislation and by-laws, providing modern equipment and furnishing, and training of staff in the fisheries sector. The government is currently preparing Fisheries V Project, which is expected to start in 2006. The Agriculture and Fisheries Production and Promotion Fund has provided investment through funding schemes for providing fishing boats and other equipment and setting up yards for marketing and selling fish in addition to ice production plants and boat decks, etc. The cooperatives and private sectors have also supported the government efforts by investing YR 1 billion in the establishment of service enterprises and in development of production and export of fish.

## Fisheries Cooperatives

Fisheries cooperatives received full support of the government, which resulted in an increase in the number of fisheries cooperatives to 125 cooperative associations with a membership of 40,000. These associations played an effective role in serving fishermen and enhancing fish production and marketing. They played a vital role in the organization of efforts and represented the appropriate channels for the flow of government support, including building capacities in implementing infrastructure

projects in the coastal areas and fishing communities along the Arabian Sea, Gulf of Aden, the Red Sea and the coasts of Yemeni islands. The establishment of a General Federation of Fisheries Cooperatives helped regulating and coordinating within fisheries cooperatives and enhancing their role and contribution to the development of society.

## Future Prospects

Fisheries is a promising economic sector and a renewable resource that contributes to realizing the objectives of economic and social development in Yemen. Future plans underline the importance of the sector in supporting the national economy. Government's future directions focus on the implementation of strategic projects and introducing modern ways for expansion and improvement in the sector. Future plans focus on the following:

- Increasing and improving the quality of fish production; continuation of government support to the traditional fishing sector, regulating commercial fishing and stimulating local and foreign investments;
- Monitoring quality control, improving fish products, developing and regulating domestic and export marketing, and raising the level and facilities for quality control including laboratory testing of fisheries products for domestic and international markets and regulating domestic fish marketing technically and legislatively;
- Encouraging and regulating marine life breeding and fish culturing, and exploiting natural locations along the coastal strip and islands in addition to promoting relevant local and foreign capital investment;
- Maintaining government efforts in providing and completing coastal infrastructure, especially full-fledged fishing ports and decks, promoting investment prospects in coastal fisheries services, food manufacturing and preparing the relevant master plan for the completion of sound coastal infrastructure;
- Establishment of an integrated statistical and information system to assess the fishing catches and development of fisheries extension, in terms of instilling the functioning of prudent management of the fish wealth sector;
- Restructuring the Ministry of Fish Wealth and the overall management of the sector, and preparing sector policies.

## The Industrial Sector

The Government considers the industrial sector as a promising sector that can stimulate economic development and job creation and eventually realize the integration of the various economic sectors to ensure an enabled environment for attracting domestic and foreign investment. The sector provides opportunities and prospects, given the availability of the natural resources that are major inputs for manufacturing industries. The government adopted policies and programs that aim to maximize prospects and capacities in the sector and to realize a free and market economy. Among the actions taken were amendments to legislations, issuance of decrees related to remedying faltering industrial enterprises to enable them produce competitively, increasing training, giving incentives and improving the infrastructure.

The government has also sought to improve the role and efficiency of the Yemeni Authority for Specifications, Measurement and Quality Control in a bid to ensure improved quality of manufactured products and enhanced competitiveness against foreign products.

### Evolution of Industrial Production

The manufacturing sector registered a growth of 4.6% on average during the period 1991-2004, and is projected to reach 4.5% in 2005. Sector contribution to GDP increased from 7.8% in 1990 to 10.4% in 2004. Employment in the manufacturing sector increased from 60,000 to 130,000 during the same period. Food and beverages, oil derivative products, construction materials and tobacco dominated the manufacturing sector breakdown with a total 71%. The remaining percentage is distributed among paper manufacturing, printing, equipment and tools, fabrics and apparel which are considered important export industries.

### Industrial Investment

The government has sought to promote investment in the industrial sector through the improvement of infrastructure services and the establishment of industrial zones. The government is working to reinforce the competitiveness of local industries and revise laws promoting industrial investment and activities. Many facilities and customs and tax exemptions were provided including waiving production inputs from 50% of custom duties and taxes, which contributed to reducing production costs and strengthening the ability of local products to compete. Manufacturing enterprises that were licensed by the General Investment Authority numbered 193 projects of a total investment cost of YR 75.5 billion in 2004. The total number of licensed manufacturing enterprises for the period reached 2,531 at a total investment of YR 469.5 billion. Their fixed assets are estimated at YR 352 billion. Such enterprises have provided 74,500 job opportunities.

### Investment Prospects

There are several investment opportunities in the manufacturing sector in areas like food manufacturing and processing of fruits such as mangos, grapes, peaches, in addition to fish packaging and canning and apparel manufacturing due to the availability of high quality Yemeni cotton. Some opportunities are available for petrochemical industries, such as vehicle and engine lubricants, leather, and other products that depend on local raw materials. Construction industries is another prospect mainly in production of cement, marble and granite which are available in commercial quantities in Yemen.

### Industrial Zones

The government has recognized that development of the manufacturing sector is dependent on the existence of a suitable infrastructure. Three locations have been identified in the triangular area of Aden/Lahj/Abyan, Hadhramaut Governorate and Hodeida Governorate. Economic and environmental studies have been undertaken, and designs for these zones have been prepared. To further advance this strategic industrial zone, the Ministry of Industry has undertaken the following:

- Preparation of a draft Republican Decree relating to the establishment, regulation and supervision of industrial zones;
- Follow up on the completion of updated studies;
- Initiation of industrial and environmental studies;
- Preparation of a draft plan for the promotion of the industrial zones;
- Setting up a department for following up industrial zone projects and units for implementation within the Ministry of Industry and Trade offices in the governorates where industrial zones will be established.

### Cement Production

The production of cement in Yemen made significant growth during recent years in view of the implementation of development and service projects in the various governorates and the boom in the construction sector. Demand for cement subsequently increased. The output of the 3 public sector cement plants (Amran, Bajil and Al-Barh) increased from 835,000 tons in 1990 to 1,572,000 tons in 2004 (an increase of 84.5%). However, the rapid growth in cement production does not match the far greater domestic demand for cement which led to a rise in cement imports from 343,000 tons in 1995 to 1,400,000 tons in 2003.

The Ministry of Industry has been exerting efforts to meet the increased domestic demand for cement through expanding the three cement plants. Production of the plants is expected to increase to 3.4 million tons by 2007. Efforts to promote investment in cement production encouraged local and Arab private sector investors to start the implementation of three cement plants in the Governorates of Hadhramaut, Abyan and Lahj. Their output is expected to reach 3.3 million tons, increasing Yemen's cement production to 6.7 million tons by 2007. Investment directed towards expansion projects and new plants amount to \$ 700 million, in addition to creating 2,500 direct jobs and 10,000 indirect jobs.

### Small-scale Industries

The Yemeni government recognized the importance of small-scale industries in providing job opportunities, alleviating poverty and broadening the base of comprehensive development. Small-scale industries represent about 95% of manufacturing enterprises, achieving 34% of the value added in the sector and employing 53% of the total labor in manufacturing. Small-scale enterprises are a potential area for utilization of material and human resources and effective participation in the achievement of the economic and social development targets. The government has taken the following steps to improve and develop small-scale and industrial enterprises:

- Establishing a small-scale enterprise promotion Fund;
- Inclusion of programs to develop small scale industries within development plans;
- Promotion of small enterprises among donor countries and agencies;
- Attempt to set up business incubators to improve production and marketing;
- Propose legislation to stimulate the sector and attract small investors.

## Traditional Handicrafts

The handicraft industry is an important part of Yemen's economic heritage despite external competition, limited resources and changes in consumption patterns. Skilled and traditional handicrafts still have a favorable consumer demand, economically, socially and environmentally leading to the undertaking of a comprehensive study for a project to develop and invigorate the traditional small-scale and handicraft industries nationwide. It could also create job opportunities and alleviate poverty. The most important of these industries are traditional steel/iron products, fabrics, sewing, embroidery, ceramics, handicrafts, building materials, gold, jewelry and silver works, food preservation, food products (cheeses, sweets, etc.), honey production, incense and perfume manufacturing. The project also seeks to develop and expand the eminence of small and handicraft industries through setting up marketing and training centers for handicraft and traditional industries.

## Specifications and Measurement

The government has directed its attention towards specifications, measurement and quality control due to its importance on people's health and public safety. Quality control plays a role in improving production efficiency, enhancing quality and facilitating trade, and protecting producers and consumers from cheating, fraud and trade forgery. The government has set up the Yemeni General Authority for Specifications, Measurement and Quality Control. The Authority helps national industries and local producers through setting appropriate standards, specifications and ensuring products compliance. The Authority undertakes quality control and inspection of imported commodities through examinations offices at major ports and land border entries and airports. The Authority covers seven major inlets i.e., Aden, Hodeida, Taiz, Hadhramaut Governorate, Ibb, Haradh and Amran. The Authority calibrates electrical scales and confiscates any scales that do not comply with standards and specifications. The Authority has approved 830 Yemeni standard specifications for various food and non-food commodities and products. It has also approved Gulf, regional and international specifications. The government has approved specifications adopted in the Gulf region in 2002 in order to prepare national industries to compete, keep pace with latest developments and facilitate inter-trade between Yemen and the Gulf States in particular and the rest of the world in general.

The Authority seeks to apply the certification system for country of origin and uses the Yemeni quality seal. The efforts bring about qualitative transformation in the national industrial sector. The Authority is setting up new branches and offices equipped with quality control laboratories and maintaining familiarization courses and

awareness seminars on specifications, measurement and quality control for both producers and consumers alike. There is also investment in human resource development in terms of training of staff locally and overseas, keeping up with modern technological improvements and developments in the field. The Authority is completing the establishment of a data-base center for storing information mostly those related to TBT and SPS agreements that are compliant to the requirements of the World Trade Organization.

## Consumer Protection

The Creation of the Yemeni Association for Consumer Protection in 1997 complements the duty of the Yemeni Authority for Specification, Measurements and Quality Control. The Association plays an important role in protecting consumers and countering monopolies and fraud through disseminating information and awareness among consumers. The Association provides guidance to consumers on health and safety requirements in commodities and specifications, quality and labeling. It also informs consumers of any fraudulent, expired or pirated commodities. The Association has been able to expose commodities and products that are not compliant with specifications and standards or those that are hazardous to public health, in close coordination and cooperation with concerned entities in the government.

The Association has succeeded in pressuring for the issuance of the Consumer Protection Law. In recent years, the Association organized several seminars and workshops on issues like smuggling and commercial fraud. It also publishes consumer education pamphlets.

## Industrial Exports

Industrial exports have increased in recent years from YR 3.2 billion in 1998 to YR 11.5 in 2003 due to policies and measures undertaken by the government conducive for private sector activities and investment in export oriented industries and providing credits for export activities. The government has also waived customs and taxes on some production inputs. The government is also seeking to develop some of the promising export sectors like finished and semi-finished leather products and apparel industries.

## Trade Sector

The trade sector is very important, given its role in the development of local commodity and service sectors. The sector's contribution to GDP increased to 13.7%. It also engages other various sectors bringing up total employment in the sector to 504,000 people in 2003, with annual growth of about 3.5% and a share of 12.4% in total workforce.

The merger of the Ministry of Supply and Trade and the Ministry of Industry into one ministry in 2001 contributed to sector integration. The merger helped overcome some constraints relating to overlapping. The sector has seen extensive and concrete changes within the framework of economic reforms. Foreign trade was liberalized and quantitative obstacles on foreign trade were removed. A new customs tariff replaced quantitative restrictions through removal of import and export licensing. Customs tariff was reduced from 15 categories ranging from 5% to 200% to four categories ranging from 5% to 25% to comply with international categorization and in accordance with the 1998 tariff classification. Prices of commodities and products were also freed to allow for market mechanisms to take course. Government subsidies for basic commodities are gradually being lifted, national exports have been encouraged and commercial banks authorized to open letters of credit for imports and exports and the Yemeni Riyal exchange rate was set free.

## **Legislative and Institutional Reforms**

The government issued a number of legislation and laws regulating trade that are compatible with current economic developments, such as the Foreign Trade Law, the Commercial Registration Law, the Trading Companies Law and the Law for Commercial Agencies. The government also issued other related laws, such as the Law for Competition and Banning Monopolies and the Law on Intellectual Rights that aim to encourage the private sector to take on a greater role in the management of the economy and trade. The trade sector should effectively contribute to advancing economic and social development.

Government plans include policies and measures that target developing and diversifying non-oil exports, achieving regional and international integration and consolidation through accession to the Greater Arab Free Trade Area and WTO, in addition to integrating with other Arab and regional blocs. The government has been working on a Strategy for Foreign Trade in a bid to enhance free trade and strengthen the institutional capacities and promotion of private sector investment in the development of infrastructure and services. The government also seeks to strengthen the role of institutions that oversee the trade sector and to activate the Higher Council for the Development of Exports.

### **Foreign Trade**

The volume of foreign trade increased from YR 32.2 billion or 21.3% of GDP in 1991 to YR 1,359 billion in 2003, equivalent of 65% of GDP in 2003. The top trading partners with Yemen in terms of commodity imports were Arab countries. Non-Arab Asian states came in second place and the European economic bloc was in third place.

In contrast, non-Arab Asian countries ranked as Yemen's first trading partner in commodity exports due to Yemen's oil exports to these countries. Arab countries, especially the Gulf States, came in second place mainly with on non-oil exports to these countries, and the European Economic Bloc came third place.

Yemeni exports include oil, fish, coffee, bananas, mango, grapes, honey, leather and vegetables. Yemen's imports are mostly wheat, sugar, oils, medicines and drugs, meat, automobiles, equipment, machines, etc. China, Thailand, India and South Korea are the most significant trading partners for Yemeni exports. In the meantime, the United Arab Emirates, Saudi Arabia, Kuwait, the United States, and India are the largest exporters to Yemen.

### Establishing Trade Companies and Agencies

Setting up companies of different legal nature, form and activities increased significantly. The number of issued permits for new companies reached 1,783 during 1990-2003, with a total capital of \$ 218 million, an estimated increase of 200%. Registered trading agencies numbered 4,860 agencies of different nationalities by the end of 2003. Registered foreign companies and trading houses in Yemen numbered 312 branches by end of 2004. Trade marks that have been registered during 1996-2003 reached 4,393.

### Future Vision for the Trade Sector

The future vision for the trade sector focuses on a set of policies and measures that target non-oil exports, narrow the gap in non-oil trade balance, improve trade activities and increase trade's contribution to GDP. The preparation of a Strategy for Trade and Yemen's accession to WTO are among other policies being adopted by the government. Accession to the Greater Arab Free Trade Area and other trade and economic blocs in the region are also among the forward thinking to develop trade. The government has also sought to promote private sector investment in infrastructure and essential services and facilities that serve trade, especially export promotion and financing services and insurance, transport, freight, airport transit stations, seaports and overland inlets. Agricultural and fisheries marketing services, packaging, cold storage and transport are also being promoted.

The government is working to activate the role of the Yemeni international trade focal point at the Ministry of Industry and Trade in order to provide information on export opportunities and human resource development, and to enable competence in international economics and trade. The government is preparing legislative and regulatory structure for the establishment of duty free zones, especially inland zones along the borders with neighboring states and in major airports and seaports. The government is also poised to move away from conventional trade to electronic trade through amendment and development of proper legislation and bylaws and the institutional set up required for strengthening and enhancing free trade, promoting competition, curbing monopolies, fraud, copyright violation, consumer and producer protection, adherence to intellectual property rights and curbing smuggling.

### Aden Free Zone

Free Trade Zones including the Aden Free Zone are significant ingredients for economic development in Yemen due to the strategic geographic location of the

country. As a priority, the government works to maximize utilization of the economic, geographical and human resources enjoyed by the city of Aden and developing it as an international trade center and a source of economic growth and investment. Decree no. 209 was issued in 1991 declaring Aden as a free trade area. A subsequent decree no. 49 for 1991 was issued establishing the General Authority for Free Trade Zone. A law on free trade areas no. 4 for 1993 was later issued, of which article (2) states that: "Under the provisions of this law, free trade area shall be established that includes the city of Aden. The free trade system shall be applied there in stages. Cabinet shall by decree published in the Official Gazette, set out the geographical borders of free trade areas, locations and dates where application shall be consummated". The law set out a vision for economic growth and economic development prospects.

Prime Minister's decree no. 65 for 1993 highlighted locations and geographical boundaries within which the application of free trade zones will be initiated in Aden. The decree identified 15 sites for potential free trade with proposals that were presented in the Master Plan for the development of free trade area. The area is 32,348 hectares. During 1992-1995, the General Authority for Free Trade Zones undertook the preparation for Free Trade Zone in Aden. The First Stage was developed during 1996-1999, with the operations phase beginning in the second half of 1999. During the Second Five Year Plan, the government initially spent about YR 75 billion to meet expenditures for developing the infrastructure in the Aden Free Trade Zone, in order to promote private sector investment in the industrial, storage, tourism, cargo and unloading areas. The government undertook a comprehensive review of prices of land and services to ensure they were 50% less than that in neighboring free trade areas. The government also provided exemptions that extend for up to 25 years for projects that export 50% of their output. Studies estimate that expected economic returns from the Free Trade Zone will reach an annual \$ 500 million once projects of phase one are completed. They also estimate that between 20,000 and 30,000 job opportunities will be created once 100 hectares of the Industrial Zone are developed.

### The Development Plan for Aden Free Zone

The development and investment plan of the Aden Free Trade Zone includes scores of vital and strategic projects like the industrial complex project in Bureiga district over an area of 34 hectares. The complex will include mining and manufacturing establishments, petrochemical projects, service and tourism installations and facilities. Total estimated investment for infrastructure is estimated at \$ 3.7 million. The development plan also includes setting up a zone for heavy and petrochemical plants in an area of 235 hectares. Such zone will include setting up an industrial base and will employ the largest number of local labor. The significance of setting up a raw materials port on 121 hectares of land near the heavy and petrochemical industries zone becomes apparent. The construction of a road network will handle cargo and promote domestic and international trade. The project consists of a deck of 2,340 meters in length and 47.2 hectares of area for loading and offloading ships with 16 meters in depth capable to accommodate different sizes of vessels. The plan also

includes the construction of a warehousing zone for the raw materials port on 21.8 hectares of land for storing cargo and hardware and equipment.

The plan proposes construction of an international trade exhibition center over 7 hectares of land comprising a five-star hotel, an administrative and commercial center, a conference hall, restaurants, coffee shops and shopping stores and other services. The center would organize regular exhibits (i.e. 2-3 exhibits a month) of domestic and international products in the free zone. The development plan also comprises the development of a media city over 35 hectares of land housing media companies and setting up a technology park over an area of 62 hectares. Such development will help attract technology transfer through attracting international companies to open up branches for either production or research in addition to linking up technology enterprises with universities, research and technology development centers. The project will generate job opportunities for graduates of technical colleges and institutes. The project consists of a technical education institute, a “smart village” for development and production of computer software and for the development and production of communications equipment, technology for clothing, medicines, construction, water, environment and electricity.

The government has announced a project for the construction of a power station near Al-Hiswa Power Station in order to safeguard supply of electricity needs for the industrial enterprises, the raw materials port and the tourism area. Power capacity of the plant will be 200 megawatts in the first phase. The government intends to complete the remaining phases of the development of the container terminal which started six years ago. The three stages of the project consists of a pier of 1,650 meters in length and 16-18 meters in depth, six docking inlets, a storage area of 60 hectares, a capacity for handling 1.5 million 20 foot containers a year. The first phase commenced operations in 1999, which consists of two 700 meters docking inlets of 16 meters in depth allowing for the largest container vessels to dock and an annual capacity of 500,000 containers. The industrial and warehousing zone is under construction in an area of 75 hectares. This area will target warehousing and small-scale industries. The air freight village is also under implementation in an area of 30 hectares in the first phase south west of Aden International Airport and 4 kilometers from the container terminal, extending over an area of 30 hectares in the first phase and linking up sea traffic with air freight traffic.

The tourist area, which extends from Foqim to Ras Amran is planned to consist of tourist villages, hotels, chalets, restaurants, parks and docks for boats. There will also be an 11 kilometer green belt surrounding resorts. Government also plans to broaden free trade zones to cover the Island of Socotra, Hodeida and Al-Mukalla based on feasibilities and potentials. Yemen through free trade zones will become a regional and international hub for trade and investment, transshipment, storage and freight.

## **Oil and Gas**

Yemen has endeavored to become an oil producing country during the 1980s given the strategic importance of oil as a vital regional and international commodity. Yemen is also in a region that contains more than 25% of the world's oil reserves. In the past, extensive excavation efforts took place in many parts of Yemen yielding no

results. The first oil production sharing agreement in Yemen was signed in 1981 with Hunt Oil Company of the United States in Marib/Al-Jouf concession Area. The exploration, geological and geophysical surveys and drilling of wells went on for a number of years. It took a few years until the first production well was launched from bloc 18 in July 1984 at a production rate of 7,800 barrels per day. Exploration prospects improved and a Central Production Unit in Safir and Marib Refinery were established in 1986, with a production capacity of 10,000 bpd. Similarly, a 440-kilometers oil export pipeline was constructed extending from Safir to Ras Issa on the Red Sea. The first shipment of oil was exported in December 1987. Further efforts followed and oil was discovered in commercial quantities in West Iyad bloc in Hadhramaut in 1987. Production started in the same year at 30,000 bpd.

After the reunification of Yemen, the government further promoted the development and exploration of oil and gas in the country inviting international oil companies and creating a more efficient mechanism to market concession areas. The government aimed to accelerate the exploration activities and the entry into oil production stage. The petroleum sector received international attention. Oil companies raced to obtain concessions for oil exploration. Giant international companies, such as Exxon, Shell and Chevron entered Yemen with extensive exploration programs. The country was divided into concession blocs and production sharing agreements were developed accordingly. The General Authority for Petroleum Exploration and Production was created as a technical organ. The GAPEP oversees exploration and production activities in the country. During the first year of unification, oil was discovered in commercial quantities in Al Massila basin in Hadhramaut. Production started in September 1993 at a rate of 120,000 bpd. The West Iyad field was restored to production at a rate of 8,500 bpd in 1992. Yemen's total crude oil production reached 79 million barrels in 1993.

Revenues from oil exports became a primary source of foreign currency and financing for development plans and programs. Oil contributes about 30% of GDP, about 76% of total government revenues and more than 90% of export revenues. Oil companies maintain exploration and production areas in different areas of Yemen. The current petroleum map shows 84 concession blocs and 26 exploration blocs, in which 14 companies operate. The number of open blocs is 49. There are nine production blocs where eight companies are working.

### **Oil Production Blocs in Yemen**

Company	Block	Nationality of Company
Hunt Oil	Marib/Al-Jouf (18)	USA
Canadian Nexen	Museilah (14)	Canadian
Total	East Shabwa (10)	French
Jennah-Hunt	Jennah	Multinational
Yemen Company for Petroleum Investments	Iyad (4)	Yemeni
DNO	Hawarim (32)	Norwegian
Dove	East Sar (53)	UK
Vantage	Damis (S1)	USA
Canadian Nexen	East Al-Hijr (51)	Canadian

### Promotion and Investment

The promotional strategy for oil and gas aims to attract and promote Arab and foreign investment in open oil blocs through participation in international promotional conferences, exhibits and publishing and dissemination of promotional pamphlets that highlight investment opportunities, benefits and facilities provided to investors. The World Wide Web is another outlet for promoting investment in oil and gas in Yemen. The government has meanwhile improved the terms and conditions of Production Sharing Agreements. Promotional activities have achieved good progress resulting in an increase in the number of oil companies in exploration and drilling. Several agreements and MoUs have been signed with a number of international companies applying for concessions to explore for oil and gas.

Concession areas for oil exploration span through a vast area of Yemen, extending from the central to the eastern parts of the country, in addition to off-shore drilling in the Gulf of Aden, the Red Sea and Socotra Island. The number of concession exploration blocs adds up to 26 where 14 international operators are engaged in.

### **Oil Exploration Blocs**

Block Number	Company
9	Calvalley Petroleum
13/R2	Gallo Oil
35/15	Oil Search Yemen
22	Mayfair
41	Oil Gas and Mining Co.
43	DNO Yemen
48/49	Yemen Mall Oil and Gas
59/11/12/36/54	Canadian Nexen Ltd.
20/44	Occidental Petroleum
52	Petronas Caligieri
60/47	Ankana Yemen Ltd.
57/58	The Oil and Gas Exploration Consortium
33/45	International Union of Gas and Oil Contractors
S2	Prosage Energy

## Gas

The discovery of gas coincided with the discovery of oil in Bloc 18 in Marib/Al-Jouf in 1984. Proven gas reserves are estimated at 17 trillion cubic feet, against 31 million metric tons of liquefied petroleum gas reserves. Gas is produced along with oil from the fields, and then it is separated in the Marib facilities. The total daily production is about 2.75 billion cubic feet per day. Some 2.5 billion cubic feet is re-injected daily in order to preserve the latent pressure and keep up steady oil production. The government has adopted a pragmatic policy for the exploitation of this natural resource to make it available for development. Over recent years, a number of gas related projects were completed including building two additional units to extract light oil compounds and liquefied petroleum gas in the petroleum operations plant at Safir. The storage and loading station was expanded and developed. A gas pipeline was constructed of 26 kilometers in length extending from Asa'ad Al-Kamil to the Loading Station in Safir, in addition to the implementation of the first stage of the Gas Replacement Fuel Project. The attention accorded to natural gas was reflected in the creation of the Yemeni Liquefied Natural Gas Company in 1996. The company is responsible for building and operating the facilities for liquefying natural gas, production lines, storage facilities, loading and ship docks and exports. Recently, three agreements for the sale and export of liquefied natural gas to international markets were signed with international companies, i.e. Tractel of Belgium for the export of 2.5 million tons per annum, Total of France for export of about 2 million tons per annum and KOGAS of Korea for the export of 1.3 to 2.0 million tons per annum for twenty years beginning 2008.

The Yemeni Liquefied Natural Gas Company intends to undertake huge development projects that include the construction of a 320 km gas export line from the production

site in Marib to Belhaf on the Arabian Sea. The line will have a capacity of 6.7 million tons per annum. Another branching line will be laid to supply the capital, Sana'a and its vicinity with gas. Some quantities of gas will also be directed towards electricity generation. Preparations are underway for the commencement of constructing gas power stations in Marib and other governorates.

## **Mining**

The mineral wealth sector has increasingly received attention. Several activities have been undertaken over the last 15 years to promote investments in minerals in Yemen. Recent efforts included the undertaking of studies, research and excavation for mineral resources and construction materials. Underwater aquifers were also investigated and geological maps were drawn up along with seismic surveillance. Research studies focused on areas where signs show the presence of mineral deposits in a number of governorates. Several sites with non metallic raw materials were found like limestone, marble, granite, glass sand, gypsum, etc. Yemeni and Arab investors have been granted permits to explore some mineral raw materials, especially those used in cement production.

Hydrological and geophysical studies and geological and radiation surveys during 1990-2004 have resulted in attracting the interest of foreign companies towards investing in Yemen. Concession areas were drawn up for investors. Exploration works have shown proven minerals across many areas of Yemen. Companies working in mineral exploration and investment are:

- Clav Abella Co. of the UK, which is working on lead and zinc deposits in the Tabaq area, Mayfa'a District in Shabwa Governorate and is also exploring prospects for gold and other minerals in the Sa'ada area;
- Meridian Corp. of Ireland, which has worked in searching for gold mineral ore deposits in the Wadi Madnn area of Hadhramaut Governorate;
- Odessa Resources Co., which worked in gold exploration in the Warafa area of Dhamar Governorate during 1996-1998;
- Felix Mining Co. of Australia, which is studying and excavating for nickel, and copper mineral ore deposits in the Al-Hamoura area of Ta'ez Governorate;
- Yemeni-Spanish Mining Company, which is searching and excavating for Aluminum and Magnesium Silicate in Mukalla that can be used for industrial purposes;
- Minarco Anglo American Mining Company, which is preparing an economic feasibility study on Zinc, Lead and Silver mineral ore deposits in the Al-Jabali area in Nihm, in the Tabaq area of Shabwa Governorate and the Um Surra area of Abyan Governorate. The preliminary study has resulted in Zinc Ox Company of the United Kingdom entering into further work in detailed phases. The agreement for the exploitation of raw materials in Al-Jabaly will be signed in 2005. This would be the first agreement for mineral exploration in Yemen under the Law for Mines and Quarries No. 24 for 2002;
- Minora Co. of Canada, which prepared an economic feasibility for a gold mine in Wadi Madnn in Hadhramaut Governorate. Al Al-Thani Group of the United Arab Emirates was also given a license to develop the mine and to carry out exploratory work in adjacent areas;

- Canadian Mountain (Montane) – Kantax, which is working in mineral exploration and excavation mainly for gold, nickel, cobalt, copper and the platinum group mineral ore deposits in Hajjah, Sa'ada and Al-Jouf Governorates. Preliminary studies have resulted in positive discoveries for these ores in Siwar Area of Hajjah Governorate and at Al-Hariqah area;
- Lorvan Project Company of India, which has worked in al-Rahah Area of Lahj Governorate exploring limestone. The company has carried out some exploratory studies already;
- Valley High Venture of Canada, which is working in searching and excavating for gold and basic mineral elements in Al-Fadha Area of Al-Beidha Governorate. The company is currently working on a feldspar study in Yamas area of Abyan Governorate;
- Iron and Steel Co. Ltd. (Yemen) is working on studying iron ore deposits in the Al-Shayyit area of Marib Governorate.

## The Investment Climate in Yemen

A new and promising market opened up for local, Arab and foreign investors as a result of reunification of Yemen. The underlying characteristics for a climate conducive for investment in Yemen include:

- Strategic geographical location of Yemen, which makes the country an important contact point between the East, the West and the main entrance to East Africa. Bab Al-Mandab Strait is also in the territorial waters of Yemen, which is one of the most important international sea passages;
- Vast coastline that spans over more than 2,500 km with 123 islands having tourism potentials;
- Varied land rich in natural and mineral resources;
- Diverse and attractive areas suitable for setting up tourist villages and resorts;
- Expanded local and neighboring consumer markets.

## A Better Investment Climate

Investment Law No. 22 for 1991 was issued and the General Investment Authority (GIA) was established in March 1992. GIA is the responsible government agency for issuing investment licensing, registration and promotion of investment projects. According to provisions under the decree for the establishment of GIA, licenses should be issued for investment projects. In the early 1990s, Arab and foreign investments flowed into the country benefiting from the privileges granted under the law. Opening up the economy and promoting sound economic policies underlined the increasing need to increase investment prospects that were difficult to implement prior to unification because of the past policies.

After unification and specifically after 1994, the government adopted an open economic policy based on promoting market driven economy and mechanisms, liberalizing the Yemeni economy from all constraints. The government had to keep up

with regional and international developments and increase competition for investment. The government issued Law No. 22 of 2002 on amending some articles of the investment law in a bid to further improve investment and create a more conducive environment for increased investment prospects in Yemen.

### Incentives for Investors

The government offers all the guarantees to local and foreign investors who obtain investment licenses in accordance with the Law. Among the incentives granted to investors are:

- No discrimination between local and foreign investors;
- Right of local or foreign investor to purchase or rent land for projects or investment companies;
- The right to open commercial shops to market the products of investment projects;
- The right to manage projects by investors;
- Exemption from compulsory pricing or setting of profits for products of investment projects;
- The right to export products of investment projects;
- Freedom to transfer funds.

Custom and tax exemptions include the following:

- Fixed Assets are exempt from custom duties and taxes;
- Production inputs for livestock, agricultural and fisheries are custom and tax exempt;
- Other types of projects are exempt from 50% of all custom charges for production inputs;
- Investment Projects are exempt from income tax for 7 years in major cities and for 9 years in other areas of Yemen;
- Investment projects are exempt from real-estate tax, and from fees for the establishment of investment projects and on all contracts related to the project;
- Exports are exempt from custom and taxes.

During 1990-2004, important projects have been implemented in industry, agriculture, fisheries, and tourism services due to market demand and needs for various commodities and services and prospects for exporting to neighboring markets. Licensed investment projects numbered 5,038 projects during 1992-2004, with total investment of more than YR 1 trillion providing more than 162,000 job opportunities.

### Licensed Investment Projects (1992-2004)

Sector	Number of Investment Projects	Cost (YR billion)
<b>Industry</b>	<b>2,535</b>	<b>470</b>
<b>Services</b>	<b>1,186</b>	<b>331</b>
<b>Tourism</b>	<b>679</b>	<b>150</b>
<b>Agriculture</b>	<b>503</b>	<b>51</b>
<b>Fisheries</b>	<b>138</b>	<b>26</b>

The years 1996-2004 witnessed positive inflow of foreign investment increasing from 5% in 1996 to 41% in 2003, and reflecting growing confidence of the international community in the stability of the economy and improved investment climate. In recent years, a qualitative transformation was realized in local and foreign investments and in the implementation of projects enabling Yemen to attract small and medium-size investment, due to sound economic policies based on a free market economy, availability of various resources and great potential in demand and exports.

## **Tourism**

### **History and Culture Tourism**

Yemeni civilization, which prospered more than three thousand years ago, produces a tourism product that is unique and diverse. Archeological discoveries have unearthed hundreds of historic sites. These sites confirm that this civilization came as a result of the important economic role played by Yemen as an international commercial crossing between East and West. The Frankincense Trail used to pass through important historical areas in Yemen. It started from Al-Mahara, passing through Hadhramaut, Shabwa and Marib, then up to Najd (Eastern Saudi Arabia), Al-Hijaz (Western Saudi Arabia) and the Levant until the caravans carrying incense, spices and other products of the East reach to Europe. The Trail is proof of the development of trade between East and West through Yemen. When the manufacturing of swords, daggers, gold, silver and iron prospered along with other handicraft products, Yemen was turned into a major source of these products to states in the region and the outside world. The ancient economic development of Yemen led to contacts and links between Yemeni Civilization and other civilizations of mankind, which appeared in the Nile, the Fertile Crescent and Greece. It also led to the erection and construction of a historic and civilized cultural heritage that is distinctive, as can be seen from the distinctive and unique type of Yemeni architecture.

### **B. Mountain Tourism**

The mountain ranges of Yemen are among the largest in the Arabian Peninsula. They are characterized by several features that encourage tourism, especially mountain climbing. Other mountain ranges and locations are also suitable for establishing protected sanctuaries and for glider aircrafts, in addition to landscape and natural formations that are of exceptional beauty. These include rugged landscape with terraced mountains, caves, steep slopes. In mountainous regions, historic towns, villages and fortresses are spread throughout the country. This leads to the integration of mountain tourism with historic sites. The most important locations for mountain tourism are found in the Governorates of Sana'a, Hajjah, Al-Mahweet, Sa'ada, Ibb and Ta'ez. Studies and testimonials of tourism agencies highlight areas in Yemen that are deemed to be among the most beautiful sites for mountain tourism. These locations include Al-Nasirah in Hajjah, Maswar Hajjah, Shiharah, Munabbih or Manbah and Al-Nadhir in Sa'ada, Bukur and Al-Riadi in Al-Mahweet, the mountains

of Iryan and Al-'Udain, Mount Sabir, and the Utumah Mountains and those of Raimah.

### C. Marine Tourism

The Yemeni coastline, overlooking the Red Sea, the Gulf of Aden and the Arabian Sea, is an important location for all kinds of marine tourism. More than 100 islands present promising tourist attractions and are suitable for the construction of tourist resorts. Most of the Yemeni islands enjoy varied environment and a biodiversity that entice environmental tourism. Some islands also feature coral reefs, which are considered among the beautiful locations for scuba diving in the world. The most significant islands for attracting tourists are the archipelago near Meidi, another archipelago off Al-Luhayyah, Kamaran Island, Jabal Al-Tair Island, Abu Ali Island, Al-Turfa Island, the Huneish Archipelago, the Zoqar Archipelago, Meyoun Island and Socotra Island.

All along the Yemeni coastline, there are some of the most beautiful beaches with warm waters and golden sands suitable for sunbathing, swimming and practicing marine sports. The abundance of types of fish in the Red Sea and the Arabian Sea encourages fishing for hobbyists.

### D. Desert Tourism

Ramlat Al-Sab'atain, which is situated between Marib, Shabwa and Hadhramaut governorates, is one of the beautiful deserts in the world. The sand dunes turn into golden color at sunrise. They appear like an enchanting desert landscape painting. Sand is steady in most locations. The Ramlat Al-Sab'atain desert extends thorough historic sites like Marib, Old Shabwa and Hadhramaut. These sites still reflect the ancient nomadic life of Yemen. There are desert sites in Hodeida Governorate that extend from Al-Duraimi to Al-Jah, from Beit Al-Faqih to Al-Jah, from Zabid to Al-Fazah and from Al-Suwaiq to Al-Khoukha. These sites are suitable for desert tourism activities such as setting up tourist camps, car caravans and camel caravan programs, hunting, target practice, horse racing, mule racing etc.

### E. Therapeutic Tourism

In many of the regions of Yemen, hot mineral water springs can be found. Studies of samples taken from these locations have confirmed that such mineral water if drunk is suitable for treatment of digestive system problems. Other water is suitable for treating illnesses such as those affecting urinary tract, respiratory, rheumatism, arthritis and skin ailments. There are eighty hot mineral baths in Yemen presenting a wide scope for the development of therapeutic tourism. The most outstanding of these baths are Bilad Al-Rous Bath in Bilad Al-Rous District, the Mount Lissy Bath, the Baths in Damt, Al-Sukhnah Bath, Al-Huweimy Bath in Lahj, Rusoum Bath in Shabwa, Tabala Bath, Al-Hammami Bath, Al-Dais Al-Sharqiyah Bath and Souwaibir Bath in Hadhramaut Governorate.

## F. Environmental Tourism

Many of the studies, which are based on the reports and observations of environmental tourists, confirm that Yemen has abundant areas maintaining their natural enchanting beauty intact. The natural characteristics of these areas have not been subject to any deterioration. Areas with varied natural landscape suitable for environmental tourism are found in many areas throughout Yemen. The most significant of these is Socotra Island, Belhaf in Shabwa Governorate, Jabal Bura'a Sanctuary, Jabal Utumah Sanctuary, Katfah Sanctuary in Sa'ada Governorate and Irf Sanctuary. There are also many historic cities and towns rich in archeological sites and beautiful landscape like Al-Mahweet, Hajjah, Sa'ada, Ibb, Ta'ez and Raimah Governorates, which present prospects for environmental tourism.

## Developments in Tourism

Tourism has improved after the achievement of unification, when Aden embraced Ta'ez, Ibb was wrapped up with Al-Dhali'a, Al-Beidha with Abyan, and Marib was welded with Shabwa and Hadhramaut. Although tourism is relatively modern to Yemen, indicators have shown significant improvement during the last 15 years. The number of tourists increased from merely 52,000 tourists in 1990 to about 200,000 tourists in 2004 (an increase of 285%). European tourists, especially those coming from Germany, Italy and France represented 50-65% of all incoming tourists during 1990-2000, compared to 18% of tourists coming from the Middle East. In recent years, the situation has changed. The percentage of tourists coming from the Middle East rose to 68%, the majority of these come from Arab Gulf states. Tourism returns have risen from \$ 40 million in 1990 to \$ 180 million in 2004.

Most of the Yemeni cities witnessed significant tourism development in the form of tourist hotel construction. The number of hotels increased from 111 in 1990 to 457 hotels in 2004, an increase of 412%. Most of the hotels, prior to unification, were confined to the main cities, such as Sana'a, Ta'ez, Hodeida, Aden and Al-Mukalla. Hotel accommodation capacity increased from 7,816 beds to 35,316 beds during the same period, an increase of 452%. There has also been expansion in the number of tourism restaurants reaching 1,247 restaurants in 2004, compared to 75 restaurants in 1990. Travel and tourism agencies also developed, as their number reached more than 328 agencies in 2004, compared to only 70 in 1990. The changes in basic tourism indicators reflect the economic importance of tourism as a promising sector. The number of workers engaged in tourism increased from 8,000 in 1990 to more than 50,000 in 2004.

## Tourism Development Prospects

Tourism development is regarded as a development priority. Tourism is seen as a promising sector, given its impact on supporting the national economy with new and renewable resources. Tourism is a sector that receives attention in administrative and institutional capacity building, infrastructure, and development of human resources. The declaration of 2005 as the year for tourism promotion is evidence of the

beginning of a new phase towards improvement and optimization of investment prospects in the sector.

## **The Banking System**

Following the unification of Yemen, the Central Bank of Yemen and the Bank of Yemen were merged into one bank called the Central Bank of Yemen. CBY is fully autonomous and free to carry out its duties in implementing monetary policy. CBY is managed by a Board of Directors headed by a Governor. CBY has branches in all governorates. There are 17 commercial and Islamic banks as well as two specialized banks. There are 175 branches for these banks nationwide. CBY manages and invests assets and reserves in line with requirements of the national economy. It also maintains accounts for commercial banks and provides check clearing room services for commercial banking transactions. Commercial banks maintain legal reserves as a percentage of deposits with the CBY, which vary in accordance with economic developments. The CBY also manages the issuance and payments of Treasury Bills on behalf of the government. CBY also exercises control over the banking system to reduce risks that could expose banks and safeguard interest of depositors and shareholders. CBY also undertakes other functions i.e., managing foreign public debt and advising government on the formulation and implementation of the financial and economic policies, in addition to the Bank's role as a final creditor. The CBY also issues financial and economic data periodically reflecting the general state of affairs and health of the national economy. The CBY follows transparency in its work and publishes a monthly specialized bulletin dealing with monetary and banking indicators.

## **Monetary Policy**

The CBY uses monetary policy instruments to control inflation, achieve stability of the national currency, and create the appropriate environment for investment and growth. The monetary policy focuses on achieving stabilization through developing existing and new instruments. These instruments have helped to manage the monetary policy effectively and to finance the deficit in the public budget by using non-inflationary instruments. CBY coordinates with the Ministry of Finance to ensure stability in the foreign exchange market, given the adoption of a floating exchange rate. Monetary policy also entailed allowing some flexibility for movement of the interest rate for the Yemeni Riyal, to reflect the real picture with respect to liquidity and inflation. CBY worked towards developing its own resources of foreign currency by means of improving the management of the reserves through an investment mentality, without prejudice to the standards and controls of liquidity and security. CBY's endeavor to reinforce the capacities of the banking sector stems from the importance of mobilizing local savings and allocating financial revenues for productive uses, especially in the private sector. CBY has decided to raise the capital requirements of banks operating in Yemen to YR 6 billion, in a bid to enhance their conditions to meet international standards and to keep pace with international banking requirements.

## Banking Legislation

CBY worked towards the development of banking legislation and the issuance of new legislation that keeps pace with developments in regional and international banking systems, globalization and trend towards free markets and international consolidation. The most significant of these legislations is Law No. 38 for 1998 on Commercial Banks, and Law No. 14 for 2000 on the CBY. The CBY also issued decrees and directives that include all amendments and regulations on credit, internal control and other precautionary controls. The Cabinet has recently approved a draft Law for Electronic Payments and Financial and Banking Transactions. The Cabinet also approved a draft Law for Financial Leasing. Finally, the CBY issued an Anti-Money Laundering Bill.

## Improvements in the Banking Sector

Banking in Yemen has made significant progress with the introduction of consolidated balance sheets of Commercial and Islamic Banks. The balance rose to YR 660.2 billion by end 2004, with an annual growth rate of 22.4%. National banks increased the volume of their banking activities to YR 449.8 billion; i.e., by an increase of YR 91 billion over 2003. The contributions of local banks rose to 68.1% of all banking activities, with a rate of growth of 25.4%. In the meantime, Arab and foreign banks contributed about 31.9%, with an annual growth of 16.4%. The balances of deposits with the Yemeni banking sector amounted to YR 576 billion and Yemeni Riyal deposits increased to YR 309.4 billion, with an annual growth rate of 31.1%. The foreign currency deposits increased to YR 266.9 billion or the equivalent of \$ 1.4 billion by the end of 2004. Balances for loans, credits and transfers by commercial banks operating in Yemen to the various economic sectors reached YR 183.6 billion. Yemeni riyal loans and transfers however amounted to YR 101.5 billion and foreign currency loans, credits and financing rose to YR 82.1 billion. Investment in securities and certificates of deposits rose to YR 187.8 billion at a growth rate of 26.1% per annum. Local securities increased to YR 156.4 billion, an increase of 41.9%.

By the end of 2004, international monetary agencies improved Yemen's credit rating from (C-) to (B+), due to improved efficiency in monetary policies and credit conditions safeguarding banking transactions. The government also took several precautionary measures and safeguards in the banking system. A special ministerial committee was formed to combat money laundering activities in accordance with a relevant law that was issued in April 2003. CBY is also implementing strict regulatory measures on all operations that entail illegitimate fund earnings. The government is also considering the prospect of joining a Uniform Banking Network of regional Gulf states as part of regional integration. The move would facilitate inter-banking cooperation within the region. The government is also considering the prospect of establishing a stock exchange in Yemen as the government contemplates the implementation of the privatization program.