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Private Sector Assessment

Yemen Arab Republic

for

U.S. Agency for International Development

Sana'a, Yemen Arab Republic

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SUMMARY RECOMMENDATIONS

The private sector in the Yemen Arab Republic is one of four economic entities given a clear role in the country's National Charter. Judging only from officially printed statistics on development activity in Yemen it has been the dominant force in investment spending for over a decade. During the first two development plans (1973-1981) it contributed 57.1 percent and 53.5 percent of total actual expenditures. It is expected to figure prominently in the final assessment of investment activity during the third planning period (1982-1986) about to end.

The private sector has stood out in the fields of trade, light manufacturing, food processing, construction and agriculture. The expansion of its activities has been impressive. This has, however, brought with it a number of problems especially as business leaders emerge from a purely mercantile orientation into light manufacturing enterprise. These problems include managerial and technical difficulties in operating increasingly complex facilities.

The private sector in Yemen is very keen on technical assistance with which it could more confidently deploy its ample cash reserves. It wants guidance in undertaking development projects as well as management and training of all levels of workers. Overall, the country has one of the best business/investment climates in the region. And, with a slight 'tuning' of existing projects, some of which are already interfacing with the private sector, AID's Yemen Mission could enhance both the Yemen government's ability to mobilize private sector resources and its own efforts at improving the standard of living in the country.

With the above in mind, we recommend a two staged approach to AID's strategy for private sector development in the YAR. The first represents steps that have already begun. The second represents a series of new initiatives which AID might consider in its future project design. These suggestions include the following:

1. Make U.S. AID Resources in Agriculture available to the Private Sector
 - a. CID/CORE should:
Consider utilizing some of its expertise in irrigation systems for private sector water projects.

b. ISAI should:
Continue its initiatory efforts at recruiting candidates from private sector companies through local Chambers of Commerce. It should promote itself as an agricultural and industrial training center.

c. PETS should:
Consider increasing pullet production directly and by contract with the big Yemeni poultry producers who have expressed their interest in being involved in such an arrangement.

Encourage private sector distribution of pullets and feed. Pullets might be sold, for example, at Bir al-Ghussain and al-Hassaba in a maximum lot of so many per pick-up plus feed, one pick-up per purchaser only.

Recruit trainees from the private sector.

Consider providing field extension and supervision as part of a regular program run in parallel with pullet production training. This activity was discouraged in earlier assessments, because it was felt that too much time was being spent by experts in consulting with private sector companies. We believe, however, that much good can come of such efforts.

d. HITS should:
Continue to develop its outreach to private sector investors interested in establishing commercial nurseries. The al Jarouba and al Irra stations make ideal demonstration models for the emergent private sector horticultural industry.

Consider, like ISAI, recruiting private sector nominees for its training classes.

2. Expand New Projects in the Pipeline

A USAID grant of \$325,000 recently made to the Federation of Yemen Chambers of Commerce and Industry is expected to become operational by January 1985. It places an Industrial Consultant in the Federation's headquarters in Sana'a to be at the disposal of that organization's membership.

a. AID Federation of Chambers of Commerce and Industry project should:

Be closely monitored to seek ways in which the project might be expanded to meet the needs of the Federation's membership. If, for example, the parties involved see tangible evidence of benefit to Yemen's development goals, AID might consider funding similar appointments in the Taiz and Hudaydah Chambers of Commerce supported by short-term experts who would come as part of a program of business training in identified areas.

- b. Development Training U80 has a private sector component worth roughly \$2,000,000 over a ten year period. Recognizing the importance of the Central Planning Organization in guiding the country's development, it is strongly recommended that this body must be brought into dialogue with the Federation of Yemen Chambers of Commerce and Industry so that the efficient utilization of the private sector component of these funds is made possible. Such a dialogue could act as starting point for identification of appropriate training needs. Provided both bodies agree that the underlying strategy of private sector training is of mutual benefit to both themselves and the country at large AID might consider increasing the \$2,000,000 mark.

3. Potential Projects

a. Technical Assistance consultancy:

USAID should consider funding a project that sets up in Yemen a private sector U.S. consulting presence, either one large company or better still, a consortium of small firms contributing multi-disciplinary skills under one lead manager. This effort would complement the effort in the Federation of Chambers of Commerce and Industry, but would carry out specific in-depth studies. The experts in the Federation would feed their clients ideas and problems to the consulting group which would concentrate on three points:

Conduct sector surveys and develop policy papers to sensitize the public and private sectors to the opportunities open in key economic areas and provide the essential intellectual and technical leadership to guide private sector resources accordingly. Areas of concentration in line with USAID's priorities would include: agriculture, food processing and nutrition, energy, construction and building materials, financial

services and capital mobilization, health, education and training.

Carrying out detailed pre-feasibility studies and enterprise profiles of those businesses the sector profiles recommend. This activity should be profitable and might be able to utilize OPIC funds.

Provide management and technical consultancy to existing enterprises experiencing problems. The semi-public Yemen Company for Investment and Finance has expressed interest in discussing such a project whose expertise it could use to better service its private consulting firms and could offer the dins of facilities necessary for successful implementation of this proposal. Alternatively, there is a legal framework in which foreign firms can be established in Yemen.

- b. Specialized Procurement Services for USAID Projects:
USAID should consider a separate project that would exclusively handle off-shore procurement for all its contractors. The Agriculture Development Support project contractor will shortly begin to utilize a centralized procurement for its activities and subject to its experience other AID projects might consider streamlining their purchasing in a similar manner. A contract procurement office run by a U.S. firm specializing in this activity would have the following advantages:
- Economies of scale in the procurement process and in bulking of shipments.
 - Elimination of repeated efforts by new contractors setting up their own departments.
 - Higher level of professionalism, since existing USAID contractors in Yemen do not list procurement as the key specialty.
 - Back-up and support to contractors coming into the country and confronted by unfamiliar methods of operation.
 - Developing long-term contacts with a greater network of U.S. manufacturers and suppliers.
 - Acting as a convenient focal point for U.S. representatives visiting Yemen, i.e. an informal U.S. trade office.

- In addition, the Commerical Office at the U.S. Embassy could bolster its efforts by working with AID to seek opportunities for U.S. business to the supply of goods for specific development projects.

c. Specialized language instruction for the private sector at the Yemen-American Language Institute:

There is a tremendous need and desire for English language instruction at all levels of Yemeni society. The present scope of work at the Yemen American Language Institute (YALI) cannot satisfy the demand. There is a particular need for counselling of individuals capable of paying for an education in the United States. Recognizing the potential benefit for the country as whole AID should:

- Continue the dialogue with the CPO on ways YALI might be used to satisfy popular demand for English language instruction on a pay-as-you-go basis.

- Explore the possibility of establishing several English language scholarships at YALI for private sector individuals identified by organizations such as the CPO and the Federation of Yemeni Chambers of Commerce and Industry and interested in studying in the U.S.

- Seek ways to provide a counselling service to students who can afford to pay for their education in the U.S., but who don't know how to go about the formal procedures of application to secondary school or college in the U.S.

I. BACKGROUND

A. The Imamate and the Tujjar

The strength of the influence of Yemen's private sector during the period of Imamate rule was in the hands of a small group of leading merchant-traders and their families. Coffee, hides, skins and clarified butter (samn) were among the major commodities they exported through the ports of Aden, Makha and al-Hudaydah. Domestically harvested grain and salt were also traded. Aden was the region's main port and the center of much of the international trade carried on between the northern regions of Yemen and the rest of the world.

The larger towns of the inland mountain regions - Sana'a, Dhamar, Bayda and Rda', amongst others - had representative agents stationed in Aden to take care of the sale and purchase of goods coming from and going to their respective markets.

These influential contacts were complemented by a set of town traders who acted as local agents for domestically produced items such as kerosene, hurricane lamps, tobacco and sugar. Strategically placed family trading houses, in turn, established their own networks of sub-agents in agriculturally productive areas who contracted with farmer-tribesmen for the purchase of exportable items like coffee.

This network of domestic and foreign traders was supported by what continues to be the most extensive system of weekly markets in the Middle East 1/ - the pinnacle of whose sophistication was reached in the northern city of Sana'a where an elaborate legal code regulated transactions in over forty separate suqs. 2/ Many of the older merchants alive in Yemen today remember these days nostalgically as ones of self-sufficiency. Famine, caused mainly by occasional drought, was not, however, unknown.

Government involvement in controlling the private sector consisted mainly in its limited authority as a tax and customs agent. The Islamic zakat tax was levied during the year and customs were collected at marine and land toll stations located throughout the country. Much of this collection was carried out during seasonal periods and on religious holidays. Roads were impassable during the rains while religious feasts brought families together for celebration and reflection over the past year's deeds. Agricultural zakat, especially in the form of grain, was redistributed as an in-kind payment for salaries of government employees.

In contact with the world through their trading activities, merchants who financed the import-export trade were carriers not only of goods, but ideas as well. The migration of Yemenis to the East African Coast and Ethiopia, India, Europe and beyond led to the creation of semi-permanent communities of expatriate workers who agitated for political reform in their homeland. Merchants played a formidable role in the anti-Ottoman resistance, the aborted 1948 revolution and the 1962 civil war-revolution, supplying financial and other kinds of material support to opposition groups; a leading merchant who died at the turn of the century, for example, bequeathed one third of his will to the Imam to be used in guerilla war against the Ottomans; merchant complicity in the assassination of Imam Yahya in 1948 led directly to the sacking of the suq in Sana'a; 3/ and expatriate merchants provided the main financial support for the Free Yemeni Party which organized the eventually successful overthrow of the Hamid-al-Din Zaydi Imamate in 1962.

4/

In addition to providing financial support to opposition groups the merchant elite generated ideas for the country's first development policies. Studies done on the condition of the Yemeni economy as early as the 1940s show that investment ideas - some still relevant today - were already being discussed. It was merchants who organized the first public service corporations including the Electricity and Water Company, the Bus Company, the national Airline and the first Fuel Company. The organizational leadership and authority these individuals provided was at the base of their ability to raise capital.

Yemen's civil war-revolution (1962-1970) changed much of the traditional patterns of trade. Old routes became insecure and new channels of passage had to be substituted. The oil boom in neighbouring Saudi Arabia led to the export of labor in large numbers. Their remittances fueled consumer demand for modern manufactured goods at home.

This change in Yemen's economic framework can be seen in the shifts in urban and rural attitudes towards the market itself. The pivotal social and economic relationship between the farmer-tribesman and the merchant-trader, in particular, was deeply affected.

B. The Market in Yemeni Society

The place of the market (suq) in Yemeni society is a multi-dimensional phenomenon that extends beyond the mere mechanics of economic transaction. Suqs then and today were, for example, not just places where exchange of agricultural goods took place, but tribally protected zones. ^{5/} Certain suqs were granted the privileged status of "hijra" which meant that its geographical space was absolutely inalienable, where all disputes were neutralized. ^{6/} Markets thus became places where the formal aspects of tribal conflict resolution were played out.

The social ecology of production has been altered by the labor migration of Yemeni citizens abroad. Yemeni migrants have, during the last fifteen years, come into contact with an astonishing array of consumer items. Cars, radios, televisions, pumps, generators and foodstuffs have poured into the Yemeni economy as remittance earnings boosted disposable cash incomes. One of the consequences of this influx has been a decline in the pronounced distinctions between tribal and urban life - so much so that it is no longer a disgrace ('ayb) for a tribesman to enter the suq. At least one interesting record of this change leaves the reader believing that tribesmen have

found a place of respect in the marketplace itself as provisioners of imported goods. 7/ This is more dramatically illustrated by the change in the sources of food. Whereas tribesmen once provided for national consumption mostly as subsistence farmers, but also as exporters of coffee, and grain, today it is large merchants purchasing on the international grain markets who are the main provisioners of the nation's basic food supplies, and it is they who rely on their knowledge of tribal weekly suqs to distribute the items.

The relationship between tribal and merchant elites was never as disdainful a one as some accounts would have them. As sources of capital accumulation with responsibilities for the welfare of the tribe, shaykhly leaders were aware of the material benefits that merchant leaders commended. Unofficial arrangements between them and the merchants were not uncommon. A Shaykh might provide financial resources to the merchant for his use in profit-making ventures expecting some return for the provision of capital. In Islamic Law this transaction is formally known as "mudarabah", which permits capital investment in speculative trading ventures. A merchant would buy goods and sell them at a profit, dividing the earnings between those who had originally contributed to the venture.

This rural-urban link has become even more pronounced, particularly as it is merchants who have had access to sources of agricultural equipment which the rural leadership did not. This can be seen nowhere more clearly than in the supply of diesel pumps.

The introduction of mechanized irrigation, however, is only one indication of the important role merchants have had in the economic development of the country. There are numerous others.

C. Recent Economic Developments

The decade 1962-1972 was one of revolution, civil war and drought, but also much infrastructure development. The peace that country has had since, plus the post-1973 economic boom in oil exporting countries, particularly in Saudi Arabia, underly all subsequent growth in Yemen. First, the remittance flows from Yemenis abroad leapt as peace brought stability. Secondly, aid flows increased and vital infrastructure works were implemented. Third, and most important, a third to a half of the men temporarily migrated to Saudi Arabia, where the oil boom created an unsatiable demand for labor. The significance of this phenomenon cannot be understated; in a remarkably short period an economy that was characterized as (a) overwhelmingly

subsistence, with (b) very high levels of unemployment and underemployment, and (c) extremely limited opportunities for cash employment, effortlessly managed to turn all these defects into cash flow. All the surplus labor went to Saudi Arabia, where it was able to earn \$15-20 per day against \$1 per day for only part of the year at home. These men were moreover able to save a large portion of their cash income, about \$2,500 per year per person on average, which they sent back home. The impact of this cash flow was dramatic, as would be expected given a situation of an average family earning barely \$500 per year on subsistence. 8/ An enormous consumer and home building boom resulted, poverty was pretty much wiped out, and the economy was quickly transformed from one of subsistence, labor-surplus and capital-deficiency to one that is labor-short, cash-rich and skill-deficient.

Yemen's swift climb in prosperity was not dependent on the development of indigenous resources. Basically, the engine of growth has been the Yemenis' unlimited access to the Saudi Arabian labor market. The benefits have been broad-based since it was the poorest and least-skilled of the Yemeni community who were the first to be hired. Unlike other Arab nationalities, Yemenis do not need a permit to go to work in Saudi Arabia. And today, as Saudi's domestic economy evolves, they are employed in a growing variety of occupations there. While many work under the patronage of a Saudi silent partner, some Yemeni have Saudi kin and have obtained Saudi passports.

For the Yemeni private sector, the period 1972-1980 was one of ever-expanding prosperity. Suddenly, an enormous market for foodstuffs, other consumer goods and construction materials emerged, and kept on growing. In twenty years, imports increased from \$50 million to \$2+ billion per year. Instead of ordering a few items at a time and selling slowly on credit, importers began ordering by the container load and selling for cash. Profit margins remained fat while costs dropped as public and private investment poured into roads, ports, power, transport, and storage, - all to the benefit of the importer, wholesaler-retailer complex as well as the consumer. Initially there were no exchange controls, import licenses or upsetting levels of smuggling from Saudi Arabia. These conditions have emerged, suddenly and painfully, in the last three years.

Recent events, including a world oil glut and the slowdown in infra-structure development in Saudi Arabia, have contributed to a decline in Yemeni trading activity. In addition, Yemeni wage-earners in Saudi Arabia have begun to buy goods locally and send them, instead of hard currency, across the border to

their families at home. Those factors have, in return forced a dwindling of foreign reserves in Yemen's formal banking system.

Most recently, this problem has provoked the government into increasing its control over the flow of cash in and out of the country. Following their arrest late last year, for example, money changers have been bound to the Central Bank's buying rate of 5.85 Yemeni riyals to the dollar. This came after money-changers were offering over 7 riyals to the dollar against the Central Bank rate of 5.75 riyals for the same unit. In part this is a problem of institutional history. Money changers emerged from a traditional system of remittance agents who facilitated international cash transfers well before the modern banking system came into existence. Both systems have developed independently of one another without integration. Banks are still distrusted for a number of reasons including a belief that they perform transactions forbidden by Islamic teachings. The charging of interest on loans is one outstanding issue (riba'). The remittance agents, on the other hand, were not only able to provide a personal trust, but distribution of remitted monies to village areas far out of the scope of the banking system. The money changes and the banking system became, in the process, rivals for ex-patriate Yemeni cash.

The drying up of foreign currency, the imposition of currency controls and the establishment of an import-licensing system are very new facts of Yemeni business life. They are made more controversial issues in the face of heavy public spending.

According to the World Bank's PIP 9/ Review of December 1983, since 1981 government expenditures have raced ahead of revenue, creating massive deficits equal to 36 percent of GNP in 1982. These deficits are covered by borrowing from the Central Bank, which results in an increase in money supply; in 1982, the government's total domestic indebtedness doubled to YR 8,454 million, accounting for no less than two-thirds of the money supply. In an economy as open as the YAR's where the flow of foreign exchange in the form of remittances and aid has remained at a stable level for the past three to four years, such an increase in the supply of Yemeni Riyals is bound to lead to the depreciation in the exchange rate, and this happened; in the bazaar, the rate for U.S.\$ dropped from YR 4.55 in June 1983 to YR 5.95 in mid-October 1984, against the official rate of YR 5.75.

Given the turmoil in today's money markets this 31 percent appreciation of the dollar is not traumatic; however, it was

sufficiently worrisome a phenomenon that Yemen's financial authorities disallowed commercial banks from trading in foreign currency in early 1984. Customers were still able to purchase dollars from money changers at the latter's rates, but could not use these monies to open letters of credit. ^{10/} Instead, a Bankers' Committee, formed of the commercial banks dispersed dollars periodically made available to it by the Central Bank.

Despite the appearance of a black market in foreign currency, some members of the private sector believe the situation is now stabilizing. While these financial restrictions are real constraints they are viewed as temporary measures designed to discipline financial behavior. The government's former plans to involve itself in greater productive activities have been scaled down, and in some cases it has asked the private sector to take over projects that were formerly slated for the public sector. Real hope in the future is placed on the commercial exploitation of oil.

Even with the present exchange rate difficulties Yemen still has one of the best private sector climates in the region, and it's the sector's dynamism that drives the economy. Given the country's social structure, it is likely to remain the most effective agent of development for a long time to come. The U.S., with its commitment for free enterprise, should do what it can to nurture and strengthen the private sector, and mobilize its capabilities to supplement its and YARG's efforts in enhancing the country's development. It must be emphasized here that such a strategy is not the coddling of a cabal of a fat-cat merchants. The private sector here encompasses all the elements of Yemeni society other than the YARG ministries and parastatal organizations, which means most of the country; proportionately much more than in other countries in the Near East.

II. PRIVATE SECTOR INSTITUTIONS

A. The Structure of the Private Sector

The macro-economic data on the shape of Yemen's business community is still not readily available. However, mandatory registration at the seven local Chambers of Commerce in the Federation does potentially provide a rough indication of the structure of business activity in the country. At this point only data from Sana'a and Hudaydah are available. They break down as follows:

	<u>Companies Corporation</u>	<u>Importers Exporters</u>	<u>Wholesale Merchants</u>	<u>Retail Merchants</u>	<u>Professional Artisans</u>
Sana'a <u>11/</u>	369	2,560	1,460	2,133	334
Hudaydah <u>12/</u>	94	192	421	4,843	1,550

While these numbers in themselves are not extremely elucidating the predominance of importers, wholesalers and retailers is one indication of the trade orientation of the economy. It is worth reinforcing these figures by recalling that the YAR is heavily dependent on imported goods for the provision of even its most basic needs. The dependence extends from wheat, sugar, flour, rice and cement to drugs and heavy machinery.

Exports are still limited to primarily cotton, whose production has been declining in recent years, hides and skins, confectionary and biscuits, and coffee.

<u>Exports</u> <u>13/</u>	In millions of Riyals	
	<u>1981</u>	<u>1982</u>
Cotton	12.1	8.9
Hides and Skins	7.2	2.4
Confectionary & Biscuits		2.4
Coffee	0.1	
Others	<u>28.0</u>	<u>10.3</u>
Total	<u>47.4</u>	<u>21.6</u>
	====	====

<u>Imports</u> by the private sector <u>14/</u>	In millions of Riyals	
	<u>1981</u>	<u>1982</u>
Foodstuffs	1,743.2	1,871.6
Fuel and Lubrication Oil	1,146.3	1,221.8
Machinery & Transport Equipment	865.2	941.0
Manufactures Classified by Materials	804.4	854.2
Miscellaneous Manufactures	629.5	609.8
Chemicals	305.7	289.6
Raw Materials	164.9	170.9
Beverages & Tobacco	121.6	94.5
Vegetable & Animal Oils	22.2	41.3
Total	<u>5,803.0</u>	<u>6,094.7</u>
	=====	=====

B. The Federation of Yemen Chambers of Commerce and Industry

The private sector's main representative body is the Yemen Federation of Chambers of Commerce and Industry. It coordinates the work of seven local Chambers of Commerce in each of Sana'a, Taiz, Hudaydah, Ibb, Dhamar, Hajjah, and Saadah. It is this organization which lobbies on behalf of companies and merchants with governmental ministries in charge of overall economic policy - in particular with the Ministry of Supply and Trade and the Ministry of Economy and Industry.

The main local Chambers of Commerce and Industry grew out of the particular economic circumstances of the three largest towns of Yemen - Sana'a, Taiz and Hudaydah, during the nineteen sixties. The importance of these organizations has increased steadily and in 1977 registration became mandatory for all business enterpriser (including public corporations). In 1982 by Law No. 27 the Federation of Yemen Chambers of Commerce and Industry was legislated into existence and elections for its first Board of Directors took place in October 1983. By Law No. 27, Paragraph 2, Article 1 the Minister of Economy is invested with the power to establish local Chambers as is deemed necessary. Aside from assisting members in their dealings with the government, the Federation issues a magazine and a monthly newsletter. At present its staff is almost exclusively Egyptian.

Local Chambers of Commerce establish several committees of influence - namely an Arbitration Committee appointed to resolve commercial disagreements and a tax committee which, together with its government members, reviews complaints of merchants against the government tax and customs authorities or vice versa. There is an Appeal Committee for the Tax Committee.

C. The Commercial Court

The Arbitration Committee is a feature of the Chambers of Commerce which competes directly with the recently established Commercial Court. The latter, set up in 1976, however, is increasing its authority as a legal body particularly as the need for company by-laws and new forms of incorporation are introduced into the traditional system. Both religious and civil law judges sit on the bench as presiding officials where they negotiate a mixture of Islamic, modern and traditional 'urf' law.

The relationship between these Arbitration Committees within the Chambers of Commerce and Commercial Court is slightly complicated. Disputants who decide to go through the Arbitration Committee in the Chambers of Commerce must sign a document obligating them to the Committee's judgement. The document is said to annul the option of appeal to the Commercial Court. This prevents the rekindling of legal debates when one party disagrees with the final outcome.

The Commercial Court says, however, that all disputants in any form of commercial disagreement must first register at its offices. The disputants may still choose the Arbitration Committees for adjudication, but if the decision of that body goes against written legal precedent then it may be officially rejected by the Commercial Court in a later case.

The Commercial Court system in Yemen today is made up of three lower courts in each of the main cities - Sana'a, Taiz and al Hudaydah - and appeal court in Taiz and two in Sana'a and Commercial Division of the Supreme Court in Sana'a. Common law, procedural law, and the law of evidence are the general forms of legal debate. Fundamental legislation such as that embodied in the Investment Law No. 18 (presently being rewritten), company Law No. 106 and the Law No. 6 of 1976 on the Organization of Foreign Agencies Companies and Houses Act as basic legal texts. The Legal Office has published one set of commercial cases from which lawyers may also work to set precedent in their arguments.

The major complaint from businessmen about the Commercial Court is that it is slow, expensive and indecisive. Some businessmen have had cases go up to the Supreme Court and then, having assumed its judgement final, found themselves back down in the lower court arguing the case all over again. Foreign companies complain that the court favors local parties to their disadvantage. Undoubtedly, some of these complaints are based on the newness of the system itself. While there is some tension between those who emphasize Koranic interpretations of commercial law and those who argue for a more modern system this is a problem being resolved throughout the Arab world today. In Yemen, the requirements for legal incorporation, company by-laws, and the like as part of applications for factory licenses have placed demands on legal specialists whose market is bound to grow. The present rewriting of the Investment Law No. 18 will in part deal with strengthening the legal hand of foreign investors by clarifying the responsibilities of partners in joint ventures. The Court is not perfect, but it is evolving.

D. Specific Companies

There is not one company of size, including public corporations in Yemen, which has not had some relationship to trade. At the center of the largest companies in Yemen is an import division which often has supplied heavy machinery, pumps, cars, and generators to the YAR. The largest and most successful companies have established agencies for product lines like Pirelli, Nardi, Yanmar, Volvo, Fiat, Mitsubishi, Peugeot, Mercedes. This trading foundation itself has been the source for a large amount of technology transfer as companies have set up workshops, put technicians in place and assisted in a variety of marketing and maintenance activities for their products.

It is also through agency representation that the beginnings of factory enterprise has begun. In the model of import substitution, former agents of soft drinks, of pumps, of aerosol deoderant and insecticide, diapers, clothing and paint are erecting local processing plants. Yemeni businessmen generally do not like to produce under license, preferring, instead, to purchase machinery and manufacture local brands. They argue that licensed production binds them not only to the technical expertise of the mother company, but to suppliers of raw materials.

Companies have fed into the agricultural base of the economy through this mechanism. Processing of juices, milk and soft drinks is in the hands of the private sector as is the production of the widely touted export item biscuits, oil and ghee. In the commodities area long-standing ties to rural areas have been used to establish distribution networks for variety of items. In the process, regional trading house with local family control has given way to branch operations whose offices are centralized in the capital city.

The management of the largest companies and those who are the groups primarily interested in manufacturing enterprise, is largely in family hands. However, this is also true of medium and small size enterprise down to the shopkeeper on the corner.

As the company grown larger, differentiation of functions extends such that in model cases indiviudal brothers head separate companies in that group. There are several reasons for the use of family management, including trust, a clear authority structure and a ready availability of talent. Salary scales are often defined by age. The older one is the more responsibility one has, and so it goes, the more access to

money and ultimately the power to make significant investment decisions. One leading family company, in an adaptation to a corporate type of management, employs sons on salary for a period of three years during which time he is trained and acquainted with different aspects of the overall operation. If he proves able he is then brought in on a percentage basis....sharing in the profits of the company. If his ability is not sufficient he may continue on salary until he demonstrates some talent. While every effort is made to find the right niche for a son or realative, the inevitability of his ascension through the corporate ladder is not assured.

It is rare that a junior family member earns more than his senior but, according to one leading business group, this is entirely possible if a younger member shows exceptional ability and promise. There are however, situations where patriarchal authority does stand in the way of change. In some instance, families can legally disown members, whose behavior is not acceptable. Each case has particular characteristics so it is difficult to generalize about the overall positive or debilitating role of family management in economic decision making. Nevertheless, it is an important aspect of Yemen's present business community its leading management circles.

The family managed groups of companies are not monopolistic. It is considered prudent to encourage limited partner shareholding in large projects. Absolute control of any individual enterprise leaves one open to isolated defense. It is not always easy, however, for management to mobilize additional interest in projects. Factory enterprise in Yemen is based on as much effort and persuasion of the financial merit of a project as it is on the actual financial resources finally put in place. Those groups of companies who have a successful track record are able to make their cases more strongly. And then the most experienced demand total management control of the project. Initial attempts at cooperation are prone to disagreement without such pre-conditions. Unless a clearly defined set of management principles and control is laid out in an already management-starved economy, the results are bound to be unfavorable.

It is probably this aspect of private sector development which is the most problematic. As companies expand responsibilities become more diffuse. At some point a delegation of responsibility becomes imperative. The reliance on foreign managers for particular engineering skills is a feature of the nascent manufacturing economy. The biggest group of companies

in Yemen is now employing upwards of 2,000-3,000 persons. There is a larger set of companies in the 150-400 employee range. Many of the factory licenses issued by the Ministry of Economy and Industry have gone to even smaller enterprises employing under 50 persons. These companies all need on-line managers and the main concern is that without them the push to modernize will fail.

Throughout the business community there are ample instances of individual merchants purchasing a factory wholesale and expecting it to produce marketable products without much other input. The move from a simple trading firm to a small manufacturer is a large conceptual jump. Some merchants have been badly hurt both financially and reputationally by such attitudes and failures. Some have retreated back into trading activities wiser but reluctant to take such risks again. Increasingly though, there is a recognition of the need for feasibility studies, for comparative purchasing strategies, and cost benefit analysis. While limited to some circles, the ideas are bound to spread.

Foreign banks and credit facilities such as those offered by France's COFACE, Italy's Mediobanca provide subsidized loans tied to the purchase of goods. The International Finance Corporation, the private sector institution of the World Bank, is also active in providing loans to Yemen's large business groups.

The larger companies as well as smaller individual investors in Yemen are looking for investment opportunities (one respondent in this study said he estimated that in the Taiz area there were at least 100 people who had between two and three million riyals of capital looking for an investment). Some have specific investment plans. These ideas include a galvanized iron plant, a maternal hospital with 30 to 50 beds, an insurance company, greenhouse operations, animal fattening projects for beef and sheep, an oral rehydration plant, training institutes and garbage collector facilities. The ideas and money are there. It is only the know-how that is lacking. Increasingly, as a result of government import restrictions and favorable price structures large businesses are going into commercial agriculture. Land is being purchased piece by piece and plantations of bananas, fruit trees and wheat being put into place. One idea being discussed is a commercial farm capable of supplying produce for a weaning food factory. There are needs for training, in the job and long term, in management and technical skills.

E. Problems

The private sector in Yemen faces a number of problems. They include management, technical and policy concerns.

Management problems will continue to grow as Yemen's economy modernizes and larger organizational forms are required. At present, on multiple-levels, there is a visible use of foreign labor - Egyptian and Sudanese accountants, Pakistani and Indian telex operators and office managers, European technicians. There is an ambivalent attitude toward this imported labor. On one hand, it provides distance and is controllable. On the other hand, it provokes a sense of dependence with its attendant problems. A large number of companies rely on foreign staff for managerial skills. These employees are not poorly paid and some are paid quite well.

Part of this management issue is family control. While it is a convenient form of administrative organization with clearly defined authority lines - often more efficient and obvious than complicated formal bureaucracies - obligatory reference to older family members for an O.K. can be time-consuming. Careful and sensitive explanation in a training situation coupled with investigations on how these structures are working now and how they will change in the future is needed for effective intervention.

Management issues also extend into the area of planning. On one level business leaders complain of the lack of available price data that would provide them with figures on which they could predict project costs. This complaint has come from large contractors. Price changes as a discrete problem are always difficult in an international competition for markets, but for them it is a particularly volatile issue. On another level, the whole concept of planning in the long term is simply absent (multi-year loans are only a recent phenomena in Yemen).

Labor force problems are several. A major complaint is the high costs associated with hiring Yemenis. This is primarily a product of a regional wage structure which pits Saudi prices against Yemen's ability to pay. In certain occupations this results in the hiring of lower paid but highly skilled expatriates. One contractor said that the major problem he faced was, in fact, the restrictions placed on the hiring of foreign workers. He suggested that liberalized labor laws would ease the problem. According to preliminary discussions with individuals involved in rewriting the country's Investment Law, this appears to be on the mend. Apparently, labor laws requiring 50 percent of Yemeni workers in projects and firms may be relaxed.

Labor costs are exacerbated by a general lack of familiarity with the demands of production facilities and the emigration of the more highly motivated Yemenis to Saudi Arabia completing their courses. Companies then become reluctant to invest in this area for fear that higher skills will lead to higher turnovers. This is not the case everywhere. Some companies manage to hold their staff; and two large concerns have established their own training institutes.

Finally, the private sector must engage the government on a wide variety of matters. It is inevitable that on some of them there are disagreements. Mentioned above in more detail have been problems with obtaining import licenses and opening LC's. This is, it was stated, related in part to foreign currency problems. However, there are other policy issues at stake.

The administration of the Investment Law and in particular the efficiency of the Exemption Committee created by it, is one of the contemporary problems. Even manufacturing companies with needs for raw materials have avoided referring their requests for customs relief to this Committee and paid duty on exempted goods because the Committee's decisions were slow in coming. According to those responsible for the rewrite of the Investment Law a new Department of Exemption, independent from other functions, will be created within the Ministry of Economy and Industry to deal solely with this matter.

Merchants also complain of arbitrary policy which they claim is not financially sound. The Ministry of Health, for example, sets its own riyal-dollar rate at 4.75 over a riyal below the Central Bank's official figure.

III. PRIVATE-PUBLIC SECTOR DYNAMICS

A. The Private Sector and National Development Plans

The Yemen Arab Republic has gone through three major economic planning periods. In each of them the private sector has been a highly visible partner to public sector investment. Although the figures are themselves subject to criticism they are a useful indicative guide to the patterns of thinking in planning circles. In the First Three Year Development Program (FTYDP) (1973-1976) actual private sector investments reached YR 1,263 million at constant prices. Actual public sector expenditures reached YR 848 million. In percentage terms the private sector contributed 57.1 percent to the public sector's 42.9 percent.

During the First Five Year Plan (FFYP) actual private sector investment reached YR 6,183.5 million or 53.5 percent of total investment expenditures, while the newly compounded category of public and cooperative mixed sector investment was YR 5,374.5 million or 46.5 percent of the total. 16/ The figure for the private sector would be higher if the private sector's contribution to the new mixed sector could be calculated. The available statistics do not, however, break the mixed sector down into sources of capital financing in this manner.

The Second Five Year Plan (SFYP) (1982-1986) has projected that 65.6 percent of total investment spending will come from the public sector and only 34.4 percent from the private sector during its time frame. 17/ While this looks like a turnabout in the major locus of national investment funding, it should be noted that planned estimates for both the FTYDP and the FFYP predicted a much higher public sector investment than was actually recorded. In the FFYP the estimate for private sector spending was only 27.3 percent, slightly over half of what was actually expended. 18/ Again, neither new mixed sector investments nor existing mixed sector were disaggregated to show the magnitude of public and private contributions to those investments. The point is that during the first two development plans projected private sector investment in the national economy was underestimated while the public sector's contribution was contrarily overestimated. If precedent is any indication, the figures for the SFYP may similarly underestimate the private sector contribution to the national economy. This is more probable given the decline in foreign aid caused by the Iraqi war which has reduced the revenues of wealthy Arab donor states.

1. Private Sector Strengths

During the FTYDP the private sector dominated three investment areas: agriculture, building and construction and housing ownership. Other areas of heavy private sector investment included transportation and communications and industry, mining and energy. 19/ The private sector's role in industrial development will be mentioned again, later on, but it is important to emphasize it here.

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	1972/73		1973/74		1974/75		1975/76	
	Public	Private	Public	Private	Public	Private	Public	Private
Agriculture	10.7%	89.3%	25.4%	74.6%	4.4%	95.6%	9.0%	91
Building and Construction	37.9%	62.1%	43.2%	57.8%	-22.7%	-122.7%	30.0%	70
Housing Ownership		100.0%		100.0%		100.0%		100
Transportation Communication	68.1%	31.9%			53.6%	46.4%	54.2%	45
Industry, Mining, Energy	82.4%	17.6%	73.2%	26.8%	60.1%	39.9%	55.8%	44
Other*	87.6%	12.4%	83.4%	16.6%	74.5%	25.5%	63.7%	36

*Commerce, Finance, Government, Services

Figures for actual sectoral investments during the 1976/77-1981/82 FFYP are not as detailed as those available for the FTYDP so it is impossible to disaggregate that data in a manner similar to the figures above. However, if "investments estimated to be actually executed" are any indication, during that period private sector investment maintained its dominance only in commerce and ownership/house. 20/ It should be restated, nevertheless, that these were expected figures only. In macro terms the private actually invested more than the public sector by the margin of 53.5 percent to 46.5 percent of the total.

In addition, while overall public sector expenditures in agriculture were expected to exceed those in the private sector during the First Five Year Plan estimates for investments in the chicken and egg business revealed a radical turnabout. Since A.I.D. is involved in these areas the figures are relevant to this study. 21/

	<u>76/77</u>	<u>77/78</u>	<u>78/79</u>	<u>79/80</u>	<u>81/82</u>
<u>Poultry</u> (tons)					
Private	1,400	1,428	1,546	1,678	1,810
Public			610	970	1,330
<u>Eggs</u> (millions)					
Private	210	212	214	216	219
Public			6.5	11.0	16.0

The Second Five Year Plan's (SFYP) figures for expected investment show the continued dominance of the private sector in housing (housing and real estate services) in increased international tourism as a source of hard currency. In percentage terms planned fixed capital formation works out as follows for the most recent period in Yemen's economic history:

	<u>Public</u>	<u>Mixed</u>	<u>Private</u>
Agriculture	64.1%	1.5%	35.4%
Mining	74.8%		215.2%
Manufacturing	66.4%	12.8%	33.6%
Electricity, Water	98.0%		2.0%
Trade, Restaurants, Hotels	30.0%		70.0%
Construction	53.0%		47.0%
Transport, Communication	85.1%		14.9%
Finance	60.0%		40.0%
Housing, Real Estate Services	7.0%		93.0%
Government	100.0%		

The trend in increasing government state involvement in overall investment strategies is obvious if one follows the growth of expected public expenditures. Unfortunately, detailed actual expenditures are not yet readily available for the last two planning periods, so the researcher is denied a more precise look at expenditure broken down by public, private and mixed sector contributions.

Overall, one has to be cautious in drawing hard and fast conclusions about the real magnitude of private sector involvement in national investment given the present unreliability of statistical collection in the country.

2. The Private Sector and Labor Statistics

The FFYPO and the SFYP both provide estimates for the needs of public and private sector labor forces. In both cases one is impressed by the projected demand of the public sector for the best educated members of Yemeni's workers. It far outstrips the projections made for the private sector. There are some exceptions. However, the overwhelming fact is that the large bulk of the most poorly educated labor force is considered private sector material.

In the FFYPO private sector labor demands are detailed in only the manufacturing and building and construction sectors. This is not surprising since the private sector was an extremely dynamic component of these investment areas. There are no

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figures for private sector labor force demands in the agricultural investment areas, however, where the private sector was a strong component of productive enterprise. Demand for agricultural engineers is recorded under the manufacturing sector.

First Five Year Plan Labor Manpower 24/
Demands (Manufacturing Sector)

	<u>Public</u>	<u>Mixed</u>	<u>Private</u>
Engineers	53	33	16
Other University Graduates*	96	97	44
Middle E Echelons**	141	98	40
Secondary Schools***	146	329	200
Base Echelons****	281	1,063	2,099

* Including those in agriculture, pure sciences (physics, chemistry, biology, geology) medical fields, commerce, economics, law, and foreign languages).

** Including assistant engineers, technicians in industry, agriculture, textile.

*** Including carpenters, skilled workmen.

**** Including mechanics, labourers, factory labourers.

The other sector in which figures were available for private sector manpower demand during the FFYP was the building and construction sector. 25/ Again, the base echelons of the private sector are slated to absorb the largest number of any single category.

	<u>Ministry of Public Works & Municipalities</u>	<u>Highway Authority</u>	<u>CYDA</u>	<u>Private Sector</u>
Higher Echelon Engineers	77	25	7	159
Other University Graduates	38	45	10	117
Middle Echelon	141	23	8	37
Secondary Schools	33	89	8	1,115
Base Echelons	433	999	135	16,926

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The pattern established during the FFYP is largely repeated during the SFYP. The public sector is expected to absorb many more of the highly educated than the private sector and the private sector is expected to have to employ for the vast majority of the more poorly educated and skilled. The chart shown below illustrates this clearly. ^{26/} The figures broken down into detailed occupational categories are not available in the SFYP.

Changes in Labor Force between 1975 and 1986
by Profession and Sector

Prof- fes- sional Cate- gory	1975*			1981*			1986*		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
A-1	515	226	741	1,230	540	1,770	3,069	1,329	4,098
A-2	4,986	268	5,254	6,932	373	7,305	14,058	569	14,627
B-1	1,314	753	2,067	2,667	1,520	4,187	5,220	2,401	7,621
B-2	70	1,258	1,328	2,267	2,516	4,783	4,714	4,180	8,894
C-1	10,072	24,116	35,088	23,863	52,377	76,240	52,326	90,657	143,483
C-2	12,934	6,169	19,103	2,091	8,972	11,063	6,269	19,741	26,010
D	2,180	49,965	52,145	3,511	80,084	83,595	5,933	113,273	119,206
E	4,500	939,748	944,248	11,238	1,001,419	1,012,657	18,208	1,013,353	1,032,061
Total	27,471	1,022,503	1,059,974	53,799	1,147,801	1,201,600	110,297	1,245,703	1,356,000
%	3.5	96.5	100	4.5	95.5	100	8	92	100

*The labor force in 1975 includes workers in the Ministry of Interior, while the survey of the labor force in 1981 excluded this category.

3. Preliminary Conclusions

Despite a significant underestimate of its total contribution to the national economy there has been a heavy but decreasing reliance on the private sector for investment funds and activity during the last eleven years of development planning in the Yemen Arab Republic. During the First Three Year Development Program and the First Five Year Plan (1973/1982) actual private sector investment in the national economy exceeds public investments. The actual expenditures for the Second Five Year Plan are not yet available so no conclusive evidence exists to gauge the magnitudes of these separate contributions to economic growth. Nevertheless, neither does the evidence suggest that the past pattern will not re-emerge.

Public officials state that the planning figures are only indicative and with a decline in foreign aid from neighbouring oil rich countries private sector prominence in macro-investment figures appears likely even during this latest planning period.

The private sector has stood out during these plans in the fields of agriculture, building and construction, housing ownership and commerce. It has played, and continues to play, an important role in the development of a manufacturing industry, especially in innovative small and medium size enterprise. While the state has invested public resources in several large industrial projects (the Bajel and Amran cement factories and the National Spinning and Weaving Factory) it is the private sector which has built the backbone of a small, fledgling industry that faces significant developmental problems.

It is difficult to calculate actual expenditures of the private sector as recorded during the last two planning periods (1976-1986) for a lack of detailed data. The emergence of a mixed sector, in particular, makes it hard to accurately judge the real magnitude of private sector investment in the economy. Private and public contributions are not broken down in this way. In the FFYP there are figures which do show, however that a large part of total planned investment in the mixed sector was to come from private sources. (YR 1,390 of YR 2,343 million was to come from the private sector while only YR 381 million of that was to come from the government sources.) 27/ Mixed sector projects during the FFYP appear in all investment areas while in the 1982-1986 plan mixed sector spending shows up only in the agricultural (1.29 percent) 28/ and the manufacturing area (12.8 percent). 29/

Finally, further research into manpower projections broken down by occupational category across public, mixed and private sector investments is needed before a more detailed analysis of manpower needs can be made. In general, however, the overall pattern of private sector labor demands according to the national development plans is heaviest in the manual and least-skilled work force. The public sector is claiming a larger proportion of the best educated Yemenis in its own projections. While these figures may overstate the reality it is true that the YARG has considerable control over the disbursement of vital educational resources. By creating an apparent monopoly on this talent - through its official status as bi-lateral and multi-lateral A.I.D. recipient - the government is not actually promoting broad-based skills

up-grading. Instead, it is creating a privileged governmental elite. A.I.D.'s ability to dialogue with the YARG could be and extremely useful exercise in the democratization of U.S. foreign assistance vis-a-vis the private sector which is just as badly in need of these skills as the government.

B. Government Ministries and the Private Sector

The import orientation of the private sector has consequences for its relationship to the public sector and its institutions. The most salient public loci of this relationship are in the Ministry of Economy and Industry and the Ministry of Supply and Trade. Both of these government institutions are involved in the day to day economic policy decision making which directly affects the private sector.

These governmental institutions are complemented by more than 20 public and mixed sector corporations whose ostensible raison d'etre is, on the one hand, to control the pricing of commodities by challenging the supremacy of private merchants in specific product lines and, on the other, to encourage local self-sufficiency. 31/ Most notable among these is the Military Economic Corporation (MECO) and the General Corporation for Foreign Trade (GCFT).

1. Trade, Imports and the Ministry of Trade and Supply

In recent years it is the Ministry of Trade and Supply which has emerged as a central regulatory institution in the YAR. All food importers must go through its doors in order to secure import licenses required to bring in foodstuffs and all importers of any other goods not directly associated with endeavours in the manufacturing sector must do the same. 32/

Amongst the major responsibilities of the Ministry of Supply and Trade is the issuance of tenders for five basic commodities: rice, wheat, sugar, flour, and cement. These responsibilities were assumed following consumer complaints over high food prices in 1973. 33/ The Ministry sets prices on the goods for which it issues licenses and all grocery stores are to post these price lists. 34/

For private sector merchants and industrialists these import restrictions are extremely problematic. Additional measures stating the only "registered" agents of particular product lines be allowed to sell in the market compounds the problem by entrenching certain firms in protected trading positions. For merchants and manufacturers this means new challenges in the

market place. The competition, however, does not always bring down prices. Instead, sometimes pricing behavior acts in the opposite way. Realizing that he now has a smaller share in the market a merchant may raise prices to recoup what he has lost in purchasing demand.

2. Manufacturing: The Ministry of Economy and Industry, and the Private Sector

The role the private sector importer has as an actor in the balance of payments problem, is part of common lore on the causes of present economic problems in the YAR. It has also led to greater discussion on the need to develop local productive capacity. More specifically the "crisis" has stimulated debate on the need for local agro and manufacturing industries. The role of the private sector in both of these areas is important as individual investors now believe there is profit to be made. Risks are being further evaluated in the light of the discovery of oil in Marib. The erection of import barriers to certain foods is an even greater enticement.

There are five public and mixed sector institutions of major importance in the manufacturing (agro as well as industrial) field. They include the Ministry of Economy and Industry, the Industrial Bank, the Cooperative and Agricultural Credit Bank, the Yemen Company for Investment and Finance and the Industrial Estate. Licensing for agro industries comes under the jurisdiction of the Ministry of Economy and Industry, not under the Ministry of Agriculture. The function of four of these is described below.

The Ministry of Economy and Industry is primarily a policy enforcement agency with control over the issuance of factory licenses. This is done in accordance with priorities spelled out in the national development plans. It also has a role in the granting of import licenses to factories in need of raw materials and machinery for production. In a related function the Minister of Economy sits on the Exemption Committee set up by Investment Law No. 18 to relieve producers of customs and tax costs. As an initiator of economic plans it has overseen the establishment of the Bajel Tomato Paste and Foul Factory now managed by the Military Economic Corporation.

The output of major industrial products in Yemen, aside from public sector efforts in cement production, salt and some poultry and egg production, is dominated by the private sector in both manufacturing construction and agro-industrial efforts. The fledgling export market is almost exclusively in

the private sector area. The range of goods produced is detailed in chart on the following page.

In 1982 the Ministry of Economy and Industry issued a total of 30 factory licenses. 35/ Five were in the food industries, five in the construction industries, five in the chemical industries (plastic, soap, oxygen), nine were workshops (spare parts, wire and aluminum, teflon, leather, molding) and six were others included hotels, chickens and eggs. Total capital investment was YR 555 million.

In 1983 the Ministry of Economy and Industry issued a total of 47 factory licenses; twenty-three in the construction industries, seven in the food industries, six in the chemical industries, five in textiles and six others. Total capital investments were YR 230 million. 36/

This two-year period roughly 77 factory licenses were issued totalling YR 785 million of capital investment. Of those 77 licenses, over 90 percent are private sector projects. These licenses were spread geographically as follows: Sanaa - 35, Taiz - 18, Hudaydah - 6, Dhamar - 6, and Amran - 4. 37/

Two financial institutions which back up these enterprises with loan and appraisal assistance are the Industrial Bank and the Yemen Company for Investment and Finance. The Yemen Company for Investment and Finance is 99.5 percent owned by the Yemen Bank for Reconstruction and Development (IBRD) and .5 percent owned by the Industrial Bank of Yemen (IBY). Its Board of Directors includes private sector business leaders and retired government officials. The YCIF has a joint venture with the British consulting firm Atkins. This joint venture is a profit-making consultancy firm serving public and private sector clients. The Industrial Bank of Yemen is a mixed sector institution. Seventy percent of its shares are held by the Central Bank as common stock. Thirty percent of its shares are held by a variety of private individuals and organizations including the German Development Bank (GED), the Yemen Bank for Reconstruction and Development (YBRD) and Yemeni businessmen.

Y.A.R.: Output of Major Industrial Products,
1978-1983

	1978	1979	1980	1981	1982	1983
Extractive industries						
Salt (thousand tons)	58	73	154	64	70	151
Quarried stone (thousand cubic meters)	19	78	76	567	529	540
Gypsum (tons)	--	--	--	1,839	4,509	23,133
Food, beverage, and tobacco industries						
Bread	--	--	--	1,506	2,144	2,123
Biscuits and confectionaries (thousand tons)	15	19	20	22	26	32
Ghee and edible oils (thousand tons)	4.6	6.3	13.2	14.4	16.6	21
Soft drinks (million litres)	29	63	74	74	83	97
Mineral water (thousand cubic meters)	--	14	27	34	60	81
Visto drink (thousand litres)	--	--	207	562	745	863
Ice (thousand tons)	...	11	11	13	20	35
Milk and iced products (thousand litres)	--	...	2,131	4,562	6,718	27,138
Ice cream (tons)	--	314	368	379	448	622
Cigarettes (thousand cartons)	10	12	17	24	21	39
Spinning, weaving and leather industries						
Clinning (tons)	--	--	--	--	2,712	1,824
Spinning (tons)	--	--	--	--	27	24
Underwear (thousand pieces)	--	--	--	298	1,782	2,000
Woolen pullover (thousand pieces)	--	--	--	--	42	98
Tanning (thousand skins)	306	393	299	--	--	--
Wood industries						
Industrial limbs (pieces)	95	64	277	600	765	2,295
Metallic industries						
Household utensils (tons)	585	703	708	1,910	1,668	1,407
Barrels (thousands)	17	42	115	102	107	110
Tins (thousands)	...	431	459	207	143	102
Doors and windows (sq. meters)	--	6,000	6,000	4,958	4,578	18,855
Metallic scrubbers (tons)	36	30	29	72	91	110
Stationery (thousands)	--	--	--	65	1	--
Metal bags (thousands)	--	--	--	6	34	34
Beds (thousands)	--	--	--	--	19	0
Nonmetallic industries						
Cement (thousand tons)	66	68	81	85	243	623
Red bricks (thousands)	...	...	4,800	1,500	1,420	6,104
Cement bricks (thousands)	--	--	1,290	1,916	3,599	2,863
Tiles (thousands)	...	...	...	4,479	6,749	6,174
Cement blocks and tiles (thousand and cubic meters)	...	12	22	31	32	81
Arches (thousands)	--	--	--	--	14	5
Pottery industry (thousand pieces)	--	--	--	--	20	30
Chemical industries						
Medicine (thousand rials)	--	--	--	--	--	1,309
Plastic footwear (million pairs)	--	0.2	4.1	3.6	4.1	4.1
Sponges (tons)	1,500	1,908	1,667	1,750	1,931	2,006
Household utensils (tons)	...	...	141	488	508	543
Buckets (tons)	...	...	112	318	1,169	1,041
Water tubes (tons)	...	...	378	443	332	1,196
Rubber rings for aluminium (tons)	--	--	--	--	--	180
Plastic sheets (tons)	300	316	364	529	1,044	1,630
Beverage boxes (thousands)	300	316	277	20	428	188
Plastic tubes (tons)	1,300	2,400	3,687	3,574	3,324	3,508
Polyethylene bags (tons)	--	171	213	224	...	...
Cardboard (thousand tons)	0.9	1.0	1.0	...	2.0	...
Paint (thousand litres)	1,400	1,800	2,222	2,679	3,095	5,071
Soap and detergents (tons)	--	--	900	1,999	3,706	4,163
Perfumes (thousand ounces)	360	438	563	314	448	341
Oxygen gas (thousand cylinders)	--	1.0	4.4	4.7	9.6	11.0
Carbon dioxide (tons)	180	735	755	491	368	...
Fountain pens (thousands)	4,000	2,400	1,000	--	--	--
Strings (tons)	...	...	72	52	15	28
Hair oil bottling (thousand cartons)	...	...	--	14	19	47
Heat insulator (tons)	...	...	9	52	11	7
Decoration (square meters)	...	...	6,163	4,852	4,927	3,557
Fuel gas (thousand cylinders)	...	....	--	--	990	1,302
Water extracting						
Main cities water (thousand cubic meters)	...	...	5,653	7,200	9,020	10,933
Paper and printing						
Paper tissues (tons)	--	74	72	...	47	155
School books (thousands)	--	--	--	533	974	1,500
Other printings (thousand sheets)	--	--	--	204	1,226	2,236
Cartons (tons)	--	--	1,000	...	1,769	4,778

Source: Central Planning Organization.

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Between 1976 and 1983 the Industrial Bank made a total of 82 separate loans over YR 250,000 totalling YR 152,108,000 and 56 separate loans under YR 250,000 totalling YR 6,625,200. The Bank has made twenty-two repeat loans over 250,000 riyals and two repeat loans over 250,000 riyals for a total repeat loaning operation of YR 40,862 million. This is close to YR 200 million (approx. \$40 million) for roughly 138 projects (an average loan of \$290,000). The vast bulk of these loans were made to the private sector. Building materials led the portfolio followed by metals, food and beverages and chemicals over the seven year period. 38/ Again, these figures demonstrate the strength of the private sector in building and construction, agro and manufacturing industries. Not all industrial projects need financing and, according to bank officials, the largest groups of companies do not need to rely on their services. The bank itself aims at medium scale business enterprise in need of capital resources.

The Yemen Company for Investment and Finance also acts as a loan facility. In its second year of operation 1982 it provided guarantees for foreign loans to two agricultural and one industrial project. It made direct loans to three industrial and one agricultural project. 94.6 percent of the loans or YR 36,525,504 of loans went to agricultural projects and YR 2,028,205 or 5.4 percent of 1982's total went to industrial projects. Equity shareholding by the YCIF in two projects and plans for other investments completed their investment portfolio. These equity share holdings were in tourism, glass manufacturing, construction and services area. 39/

The YCIF coordinates with the Yemen-British consultants, Inc., formed in a joint venture with the U.K.'s Atkins company to provide feasibility studies for identified projects. The Yemen-British Consultants have done thirty feasibility studies of which only one has been in the public sector.

Finally, aside from the licensing policy function of the Ministry of Industry, and the financial input provided by the IBY and the YCIF, the Industrial Estate Authority assists the development of local enterprise (not agricultural to date) through its investment in industrial zone management. In Sana'a, the Industrial Estate has developed eight hectares of land of which three hectares are not utilized with twenty-two projects. (Four factories are closed, four are waiting for machines at al Hudaydah, three are working at less than 50 percent capacity, one running poorly, eight are running and one is stagnant.) Five hectares of ready land with available

electrical, telephone and water systems is still unutilized. The Authority senses that this land will be put into operation in the near future if applications continue to come in at the rate they have in the last six months. Rental charges for use of the land are extraordinarily cheap and the place is an extremely good buy. A square meter runs YR 1.25 a month. A figure of roughly 25 times that much would be required under normal market conditions.

In Taiz a plot of land has been purchased but has yet to be developed. It does have, however, 23 applicants who have petitioned the electrical authority in that city to being wiring up the zone. Unfortunately the Estate Authority, established with but now cut off from World Bank money, is running low on cash resources. Tenants in Sana'a are slow in paying or even refusing to pay rent. In al Hudaydah the government made a gift of land to the Authority but it remains undeveloped and unsubscribed. There have been legal problems as well. The four tenants now using its premises refuse to pay rent and are able to argue their cases with documents purporting to show their ownership of the ground.

3. The Private Sector and Public/Mixed Corporations

In addition to governmental institutions and specific public sector organizations whose goal is to backstop nascent enterprise in Yemen, there are a set of over 20 public and mixed sector corporations whose relationship to the private sector forms a nuance in public/private sector dynamics which is an extremely important feature of economic change today. 40/ Mentioned above were the General Corporation for Foreign Trade and the Military Economic Corporation. However, these are only two of the several dozen.

An analysis of public and mixed sector corporations is not possible within the confines of this study. Nevertheless, several overall remarks can be made which may help to put the role of these corporations into perspective.

First, it is clear that in Yemen the private sector itself is in close contact with the government. While this is most obvious at the highest circles of the country's elite, it is also true on a more basic level. One aspect of this is the fact that the country's private sector leadership itself has revolutionary credentials which command respect. And at this point in Yemen's history governmental institutions, public corporations and private companies are still young enough so that there are many ideological and personal ties between

them. Relatives and friends of private sector leaders serve as administrators in public corporations and ministries, while vice versa, former officials have retired to work in private sector companies. It is worth recalling here, too, that the first public corporations were primarily private sector initiatives. Other evidence of this interlacing is the fact that the General Corporation for Foreign Trade, a wholly public corporation, distribute products purchased from private sector agents. 41/

The difference between some of these entities and private sector companies is very slight. The General Corporation for Foreign Trade (GCFT) and the Yemen Oil and Mineral Resources Corporation (YOMINCO), for example, pay customs and taxes required by law just as any private sector company does. This is true of the mixed sector Tobacco and Matches Company and the Yemen Drugs Company as well. As productive enterprises these latter two corporations are treated equally under the terms of Investment Law No. 18. This means that while they may enjoy certain tax and customs relief during the first five years of their operation, thereafter they are no longer exempt. If they cannot stand on their own feet, they face the same kinds of scrutiny private sector corporations might. There has been some criticism of the above of these exemptions by individuals who take advantage of the tax breaks for the five year period and then dissolve the company when it comes time to face reality. The authors of this report, however, have come across no evidence to suggest this is a widespread phenomenon. In fact, Investment Law No. 18, under which these exemptions are granted allows for 3 year exemption extensions and its rewrite will create even longer exemption periods.

It would be inaccurate to say, on the other hand, that no public sector corporation is subsidized. Some are. The National Spinning and Weaving Factory, 75 percent of whose production is in cloth for uniforms for the military and schools, is considered a 'strategic' industry. If it incurs losses, they are required to buy 30 percent of their total external orders from the plant which overproduced during the late seventies and still has warehouses of cloth unsold. 42/ The General Grain Corporation is running its two new bakeries at substantial loss and it subsidized wheat purchases by offering farmers above-market prices for their produce and in turn selling them at competitive prices on the local market. 43/

The shared characteristic of these public corporations is both in form and substance. They are to a large extent really large public sector trading companies which import and sell

commodities like private companies: the GCFT, the Military Economic Corporation (MECO) and the State Employees Cooperative Society sell clothes, furniture, food and building materials; YOMINCO sells petroleum products; the General Grain Corporation sells grain. The Ministry of Public Works is the agent for Komatsu Heavy Machinery. These similarities do not mean that there is no tension between the two sectors. The underlying philosophy of these organizations is one that stresses the right of the citizen to certain products at the best possible price. And public corporations accuse private sector companies with high prices, hoarding and dishonest business practices. Private sector companies, in turn, resent what they see as favoritism in official policy. 44/

Among mixed sector corporations like the Tobacco and Matches Company and the Yemen Drugs Company, the intersection between public and private sectors is more obvious and less controversial. The Tobacco and Matches Company, for example, is 25 percent owned by Rothman's International which provides in addition management expertise to the running of the operation on contract. In the space of four years this arrangement has led to an increase in products of from 3 to between 30 and 40 million riyals annually and a capturing of 40 percent of the local market. 45/ The Yemen Drugs Company produces a penicillin under license from Beecham International - a private American company. Even public sector corporations, however, have significant interest in foreign private sector expertise. Private sector companies are bidding on the contract for the erection of a third cement plant owned exclusively by the state. The General Grain Corporation rents space in its silos to private grain merchants. And The Fisheries Corporation is considering private sector alternatives too in the area of fish production and harvesting.

In brief conclusion, the public and mixed sectors do not represent a monolithic set of institutions forming a barrier to private sector enterprise. Each organization has a specific institutional history which must be considered individually. Some of them are so closely bound to the revolution that it is highly unlikely that they will be privatized in the near future. In recent years, on the other hand, reduced government expenditures have made the private sector a more attractive source of capital and expertise. This is one reason that there is ample room for a program of assistance to the private sector on the part of A.I.D. If approached carefully and thoughtfully, much can be accomplished for the benefit of the country as a whole. In the following pages an outline of present and future strategy which might be taken is outlined to this end.

IV. CONCLUSION: THE INVESTMENT CLIMATE

During the concluding paragraphs of the last three Foreign Economic Trends Reports annually issued by the U.S. Department of Commerce for Yemen, the authors have stated that the investment climate in Yemen is favorable for U.S. business. 46/ The country's evolving constitution known as the National Charter (Mithaq al-Watani) clearly guarantees private ownership. The re-patriation of profits is also guaranteed, although there is an emergency measures clause that sets priorities if the national welfare is considered at stake.

The largest business groups in Yemen are international companies with extensive contacts in the Middle East, Europe and the United States. Communications in Yemen are advanced. Telephone and telex services are easily obtainable. The country is connected by a domestic airline which has regular flights to the three major cities and other more remote locations. The national airline is expanding and has recently added a weekly flight to Amman. A variety of other airlines now include Yemen in their itinerary. The country's deepest port is at al Salif (65 feet), but the best equipped and most heavily is at al Hudaydah (35 feet).

Yemen is no longer a quick profit market of the nineteen seventies. Increasingly, the country is looking for serious long-term investment. Foreign investment is encouraged through Investment Law No. 18 which is currently being rewritten in an attempt to provide even greater incentives to interested parties. At present this law includes provisions for complete exemption of tariffs on machinery, equipment, spare parts and building materials for tourism projects needed during the first five year period of operation and a five-year 25 percent reduction in tariffs for needed raw materials. In addition all foreign-owned projects are exempted from commercial, industrial and business taxes for a period of five years beginning from the date of commercial production as determined by the Ministry of Economy. 47/

Industrial enterprise is a priority item at the Ministry of Trade and Supply which gives further incentives through import license privileges. While there are complaints about the time it takes to process applications for import licenses and letters of credit, optimistic accounts foresee a streamlining of procedures in the coming year.

The country's labor laws allow for up to fifty percent of an enterprise labor force to be comprised of foreign staff. In

some cases the percentage is larger. Contract Chinese, Ethiopian and Philippino workers are a common sight in factories and on construction projects.

With the discovery of oil in Yemen a tremendous amount of speculation has occurred on the future of Yemen's economy. Certainly the presence of commercially exploitable quantities of petroleum is good news for the country as whole. While journalistic accounts have stated that the field being drilled by the U.S. Yemen-Hunt Oil Company is of the magnitude of 200,000 barrels a day, to date there is no confirmation of this size. However, if this is an accurate figure, Yemen's first oil find is a significant one. Although oil prices may continue to fall in the coming years, it is really not a relevant problem for Yemen because the country has never had an important raw material available for sale on the world market. 200,000 barrels a day at current world prices represents well over a billion dollars of potential foreign currency earnings. The President of the Republic, Colonel Ali Abdullah Saleh, has recently been quoted as saying that export of oil from Yemen could begin within two years. ^{48/} This would first require the laying of an 800 kilometer pipeline across some of the most difficult terrain in the world, most likely to the port of Salif on the Red Sea. U.S. companies are expected to be contracted for the project.

In a recent interview the President of the Republic has also stated unequivocally that relations between Yemen and the United States are excellent. ^{49/} This expression of friendship has certainly been stimulated by the role the U.S. private sector has had in finding oil in the country.

Light manufacturing along import-substitution models represents the newest phase in the private sector's investment pattern. The most complex manufacturing operation to date is a battery factory expected to come on line sometime in late 1985. Every company in Yemen has at least several projects it is seriously considering. These plans include potatoe chip, diaper, and PVC factories, and specialized private hospitals. Investment in commercial agriculture - in fruits and vegetables - is high on the government's list of priority developments and is encouraged through the help of import bans on a variety of produce. There are no price control on locally grown produce. Prices are set, on the other hand, for imported foodstuffs.

While investors will have to be concerned about the erosion of these market as a result of smuggling, this problem has not prevented local businessmen from going ahead with their projects. It is safe to conclude that Yemen in ten years will be a much different economy than it is today.

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V. CURRENT USAID/SANA'A PROGRAM ACTIVITY

According to the Annual Budget Submission for FY 1986, published by the mission in May 1984, the project expenditures are estimated as follows:

Project Budget Data (\$000)

<u>Project No. & Title</u>	<u>Final Year</u>	<u>Planned Total Cost</u>	<u>%</u>	<u>Expenditures</u>			
				<u>FY 1984</u>	<u>%</u>	<u>FY 1985</u>	<u>%</u>
<u>Agriculture</u>							
045 Local Resources for Development	84	7,898	2.1	1,514	5.8	-	
052 Agric. Support	93	195,000	51.5	10,500	40.2	15,036	46.6
Sector Total		202,989	53.6	12,014	46.0	15,036	46.6
<u>Pop./Family Planning</u>							
075 FP/MC Health	86	4,000	1.1	200	0.8	1,000	3.1
<u>Health</u>							
028 Wtr. Supp. Sys. Mgmt.	82	6,100	1.6	824	3.2	723	2.8
039 Taiz Wtr./Sewage (G)	81	11,200	3.0	161	0.6	-	
039 Taiz Wtr./Sewage (L)	81	5,000	1.3	1,105	4.2	-	
044 S/R Wtr. Sys.	87	21,000	5.5	3,000	11.5	3,000	9.1
065 Tihama HIH Care	87	14,000	3.7	2,000	7.7	2,500	7.8
076 Man Plng. & Mgmt.	87	2,000	0.5	-	-	-	
Sector Total		59,300	15.7	7,090	27.2	6,223	19.8
<u>EHRD</u>							
040 Dev. Training II	83	20,174	5.3	3,900	14.9	2,300	7.1
053 Basic Ed. Dev. Spt.	85	14,000	3.7	1,915	7.3	2,200	6.1
074 Ed. Dev. Spt.	91	38,000	10.0	-	-	500	1.6
080 Dev. Training III	88	40,000	10.6	1,000	3.8	5,000	15.5
Sector Total		112,174	29.6	6,815	26.7	10,000	31.0
PL 480 ^{1/}		N/A		N/A		N/A	
PC AID		N/A		N/A		N/A	
Program Total		378,463	100.0	26,119	100.0	32,259	100.0

1/ The U.S. will contribute \$8 million in FY 84-86 in local currency, generated by sales of PL 480 Title I commodities, to the office of Earthquake Reconstruction to rehabilitate up to 2,900 damaged homes. This is in addition to \$3 million in emergency relief granted immediately after the Dhamar earthquake of December 1982.

Of the Total Planned Cost, \$378,463,000, agriculture accounts for 54.8 percent followed by Education and Human Resource Development 30.3 percent, health 16.0 percent and Family Planning 1.6 percent. Future commitments are to 052, which goes on to FY 93; 044, 065, and 076, which terminate in FY 87; 080 up to FY 88; 074 to FY 91. These forward commitments further concentrate USAID's activity on agriculture support, followed by the two education projects, and finally the small rural water and the Tihama primary health projects.

The projects reflect USAID's commitment to 'basic needs' development, which came in to vogue over a decade ago. USAID/Sana'a strategy was laid down in the 1980 CDSS, which delineated four basic goals:

1. Expand equitable access to economic and social opportunities.
2. Increase the availability of and equitable access to services at the local level.
3. Restore and increase the productivity of natural resources.
4. Expand YARG capabilities to direct the flow of foreign and domestic resources to development progress and projects.

The overwhelming bulk, 90 percent, of planned total costs have gone to support YARG institutional building, particularly the Ministries of Education and Agriculture. In turn, most of these resources have ended up in salaries and overheads of the Title XII contractors, Eastern Michigan University education and the constituent CID universities in agriculture. This factor, plus the YARG's preference for capital assistance and its ability to use these advisors, contribute to the general impression that much of the contractors' efforts have been of little permanent benefit. USAID is currently carrying out an educational assessment exercise, which is expected to come up with recommendations aimed at solving some of the problems encountered by EMU during its first five years of operation in Yemen.

The mission's proposed program ranking is as follows:

Proposed Program Ranking

<u>Rank</u>	<u>Project No. and Title</u>	<u>Cumulative Funding</u> (U.S. \$000)
1	279-0080 Development Training	7,000
2	279-0075 Family Plng, Maternal & Child Health	9,000
3	279-0052 Ibb School	12,000
4	279-0052 Horticulture	16,000
5	279-0052 Core Sub-Project	19,000
6	279-0044 Small Rural Water Systems	22,000
7	279-0074 Educational Development Support	24,000
8	279-0052 Faculty of Agriculture	26,500
9	279-0076 Municipal Planning and Mgmt.	30,000
10	279-0052 Irrigated Farm Practices	31,000
11	279-0052 Core Sub-Project	34,000

From this ranking, it would seem that the mission will be continuing its basic 1980 CDSS with even greater resource concentration on CID, followed by the education/training sector, Municipal Planning (a new thrust into urbanization), rural water supplies and finally population, although the YARG failed to sign Project 279-0075.

Except for \$1.5-2 million set aside for the private sector in 080 Development Training, it would seem that the mission's priority remains exclusively with public sector, and in particular agriculture. However, the by general consensus USAID's most successful projects have been in planning and management of water supply, such as the Taiz Water/Sewerage project (now terminated) and the on-going Small Rural Water System project.

VI. USAID/PRIVATE SECTOR INTERFACE

For a variety of reasons and policy imperatives, USAID's efforts in Yemen have had to concentrate on providing 'soft' aid to the public sector, using the Title XII contractors as channels for the bulk of the expenditures. The initial reasons for this mode of operation were quite obvious; the YARG ministries are only 10-20 years old, their institutional capabilities had to be developed as sine qua non condition for the country's future development, and the collaborative approach had to be used. Consequently, the interface with the private sector has been quite limited, as described below:

A. Impact on Local Private Sector of USAID Mission and Project Expenditures

By the Controller's estimates, the mission's average annual expenditure into the local economy is currently about \$4 million. Of this, nearly \$3 million is in local salaries, rents, utilities, travel and fuel. The rest is in off-shore procurement and freight (\$632,100 in FY 84), locally purchased expendables and construction materials and services. Given U.S. government regulations and the fact that very little of the commodities required are locally made, the mission is doing as much as it can to purchase locally. If more American-made commodities were available locally, in sufficiently reliable quantities, the mission would increase local purchasing, given the convenience and timeliness.

The same applies to contractors of USAID projects. Because of greater maintenance and time pressures, impermanence of their local existence and lack of GSA services, they tend to patronize local suppliers more than the mission, and this is acceptable, as the number of waivers for purchase of non-U.S. commodities indicates.

The solution to greater support of local suppliers, and increased purchase of U.S. goods, lies in greater efforts by U.S. exporters to sell in Yemen. To date U.S. companies have overlooked the YAR despite the attention they give to neighbouring Saudi Arabia where Yemeni workers have become very familiar with U.S. products.

One solution is for the Embassy and the U.S. Dept. of Commerce to foster U.S. trade shows using the Jidda connection. A beginning is underway with the proposed water equipment exhibition scheduled in May 1985. This effort should be sustained by constant interchange with the U.S. Embassy in Jidda, where there is a continuous round of U.S. salesmen coming to serve the biggest market for U.S. goods in the Middle East. Saudi Arabia is also the base of the largest U.S. presence in the region, and the two embassies should make an effort to encourage U.S. business visitors to that country to include a short visit to Sana'a. Of course the consular here will have to gear up to serve these potential visitors; the real prospect of oil development now should be reason enough for the Embassy to give its business promotion responsibilities more attention. The expected move of the commercial section to a more accessible location off Embassy grounds is a positive step in this direction.

B. Project Impacts on Local Private Sector

Of the existing CID projects, only the HITS and PETS projects have a direct bearing on the local private sector.

The Horticultural Sub-project has set up two fruit nurseries for the MOAF, based on imported high quality horticultural plants from California. The original goals were to up-grade all the eleven YARG fruit nurseries and train the extension workers, but the former goal has been ignored by the MOAF, which wants the nurseries to produce planting materials for sale to the public. In 1983/84 35,000 plants were sold, and training involved seven MOAF buddies for short-term courses and 5-6 students studying horticulture at U.S. universities. This operation cost nearly \$2 million, excluding participant training and non-expandables. In 1984/85 the number of plants for sale to the public will increase substantially, as the second nursery, at al Irra, comes into full operation.

AID/CID's initial contact with the private sector in the field of horticulture have produced tangible results. CID, for example, was instrumental in providing export advice to a major investor on where to establish a fruit orchard. One by-product of this has been the client's ordering 20,000 seedlings from a California nursery. The MOAF has also recently ordered 20,000 seedlings from the U.S. as a direct result of CID's activities.

The Poultry subproject in 1983/84 produced some 6,000 pullets which were distributed to 200 women in two villages. About 19 MOAF extension agents and workers were trained locally, and six Yemenis were studying at universities for poultry science degrees. The total cost, excluding non-expendables was nearly \$1 million, nearly \$500 per beneficiary. 1984/85 plans call for the recruitment of a fourth expert, to work with the private sector, and pullet production of 25,000 for sale to women setting up village flocks.

The only other project that affects the private sector is the Small Rural Water Systems. This project is designed to improve the capacity of the Rural Water Supply Division in the Ministry of Public Works to plan, supervise and manage for financing for village water systems. Communities contribute one-third to two-thirds of the total cost, excluding imported commodities which are supplied free, and the contractor trains the workmen in proper installation, and the villagers in basic maintenance. The end result is a permanent water supply and trained private sector people who know how to build and run these systems on their own.

Two new initiatives in 1985 will have direct impacts on the private sector: an allocation of about \$1.5 - 2 million in O80 or short-term training for the private sector and a small project that budgets for an expert for two years with the Federation of Yemeni Chamber of Commerce and Industry. Both are expected to commence in January 1985. The O80 component will lead to the contracting of a consulting firm which will assess, through the Federation, a) the priority training needs of the private sector and b) arrange appropriate training programs. The USAID expert in the Federation will assist this training exercise, and help prospective investors with market and feasibility studies.

VII. PRIVATE SECTOR REQUIREMENTS

In interviews and mafraj gatherings with Yemeni businessmen over the course of the last two months, two issues really stood out:

A. Yemeni Business has ample Assets in Cash and Investment Capital

Unique among developing countries, Yemeni businessmen do not list lack of capital as a leading constraint. Like all businessmen, they want cheap and easy credit, but their main problem really is abundant liquid and other assets, here and in Saudi Arabia, looking for profitable investment opportunities in Yemen.

B. A High, even Effusive, Appreciation for American Technology

Unlike the majority of car buyers in the U.S. for example, 'American' here is synonymous with quality. We were told that because of this association, Yemenis are prepared to pay a premium for American goods, if only they get them locally, and send their children to U.S. universities, despite their high cost, about \$20,000 per year, which the families have to bear. The American education preference still holds these days, although college education is much cheaper in Western Europe, to say nothing of Arab or East Bloc institutions. The business families in Yemen seem to want the total American experience, not just the degree. They want and need some preliminary counselling on the range of options and application procedures they must consider in deciding how to go about obtaining a U.S. degree.

To questions as to what sort of assistance they would most like from the U.S. invariably the reply was and is "technical

assistance". "What for?" elicited "feasibility studies and management/technical training". This desire for technical assistance is understandable, since up to two-three years ago, the private sector lived handsomely off importing and distributing: there was an ever-growing cash market that had to be serviced, and this required simply opening up letters of credit, clearing customs, has the clients pick-up the goods and start over again - no stocks, no complicated records, no staff, no marketing. The situation now is different, especially in those enterprises that involve more than importing and selling for cash.

The fact that Yemeni business is cash-rich but technologically poor would seem to perfectly fit A.I.D.'s method of operation, which is to offer technical rather capital assistance to the YARG, which wants it the other way around, since it can use the latter but not the former, at this period of its institution evolution. Given such a strong desire for U.S. technical assistance from the private sector, a strategy of supplying it through provision of consulting and related services is worth considering. This strategy, and the consequent course of action, are explained more fully in the following chapter.

VIII. RECOMMENDATIONS

USAID's current strategy in Yemen is to help build up YARG's institutional capacity in three areas which in order of priority and resource allocation are: agriculture (54%), education (30%) and health (including water resource development (16%). In order to augment the quantity and quality of resources flowing into these areas and in the future energy and urbanization, USAID should seriously consider ways it might cooperate with the private sector.

A policy that aims at greater and more efficient mobilization of that sector's resources will enhance regional integration and equitable distribution of income which are fundamental to meeting USAID's mandate in basic human needs.

The following are recommendations for USAID's consideration in the context explained above:

A. Adapting Existing Projects to Incorporate the Private Sector

1. ISAI: Throughout the country, and especially in agriculture, commerce and industry, there is an acute need for technicians, floor-level workers and foremen with basic scientific and technical training. Two of the largest

companies in Yemen have set up their own institutes to provide the skills their own operations need, but the facilities do not yet meet the demand.

Presently, the Ibb Secondary Agricultural Institute has a capacity for 150 students. The student body is, however, only at 90 persons this year with enrollment down from last year. This is an excellent facility with highly competent staff whose talent would do justice to a provincial College of Agriculture in any developing country.

One of the bottlenecks faced by ISAI has been the limited range of candidates from which it can recruit for openings in the school. Until now, students have been recruited through the Ministry of Education from applicants planning to become extension agents as part of USAID's thrust in institutional building at the Ministry of Agriculture and Fisheries (MOAF).

When private sector business leaders were made aware of the existence of the school, one of their first questions was what the curriculum intended. In explaining that a graduate of ISAI was theoretically capable of stripping down a tractor, a number of individuals expressed their interest in learning more about the facility. Generally, a negative response was recorded when the sole defining characteristic of the education available there was described as extension agent creation.

It is therefore proposed that ISAI consider changing its name to 'The Ibb School for Agriculture and Industry' to project its image as the area's top technical high school.

The ISAI should also actively recruit amongst all levels of society locally: from both the public and private sectors. A convenient locus of private sector interest would be the Chambers of Commerce in the major cities. Ibb has a Chamber of Commerce and Industry and the word could be easily spread to the other Chambers mentioned above (see section on Private Sector Institutions). The Vocational Education Office at the Ministry of Education has expressed interest in this idea. Private sector leaders have seconded it. As of the writing of this report, ISAI officials have themselves expressed their interest in moving in this direction.

ISAI officials might also consider developing links with the country's leading private school in Taiz, the Ali Abdo Othman School. It is conceivable that students at the latter institution might be interested in spending a semester or more at ISAI to supplement their own science curriculum. Contacts with other high schools in the area should also be encouraged.

2. PETS: The Poultry Extension project is part of CID's institutional development portfolio with the Ministry of Agriculture and Fisheries. It is designed to assist the MOAF in strengthening its ability to serve private sector poultry needs particularly as they related to small village flocks in remoter regions of the country.

At the time of the project's conception it was not clear that large-scale broiler production was well on its way to a healthy and self-sustaining growth. Since then Yemen has experienced an explosive expansion in commercial poultry farming. In two years' time, according to members of the PETS team, it will be the turn of egg production to take-off.

If USAID wants to encourage egg and poultry meat production by rural women, as envisioned in the original project, the best way to get as many pullets out into the rural areas as fast as possible with available resources would be to consider the following:

- a. Increase pullet production, directly and by contract with the big Yemeni poultry producers who have expressed their interest in being involved in such an arrangement.
- b. Encourage private sector distribution of pullets and feed in place of the present subsidized practice of the PETS experts directly distributing the pullets in villages, at USAID's expense. Pullets should be sold at Bir al Ghussain and at Hassabah, in a maximum lot of so many per pick-up plus feed, one pick-up per purchaser only.
- c. Extension and distribution to be kept separate. Trainees from the MOAF and the private sector be trained together, and the PETS experts provide field extension and supervision as part of a regular extension program run in parallel with the pullet production training.

These above activities should release the PETS experts from spending inordinate amounts of time in these activities. The resources released should be directed to giving greater technical support to the village flocks and the small-scale commercial poultry sector, which is experiencing a high level of waste and inefficiency because of its poor technical and management capabilities.

3. HITS: The Horticulture project at CID is also basically an institutional development project. It aimed at supporting the Fruit Subsection at the Ministry of Agriculture by training

university level workers in tree experimental nursery farms at al Irra near Sana'a and al Jarouba in nurseries throughout the country with seedlings and budwood. Plant protection was also a component of the project. Since project inception MOAF has added the production of 100,000 seedlings for sale to farmers, individual citizens and small plantations.

Yemenis are now about to enter commercial fruit and nursery production in a big way and HITS has made its expertise to work in advising private sector investors in this field. This should be continued. The Jarouba and al Irra stations would make ideal demonstration models for the emergent horticultural industry.

These above suggestions for the three CID projects should, expand USAID assistance to the Yemen economy without any additional resource commitment. Deep irrigation expertise already in Yemen could also support this thrust towards the private sector. Some consideration could be given to helping the burgeoning demand in the private sector for sound advice on irrigation projects, particularly in the Tihama.

Given these prospective scenarios, there is no need to expand CID personnel already in Yemen, although CID has requested additional funds for two private sector posts, with PETS and Core. It is recommended instead, that such funds be allocated to more specific private sector actions proposed in the following section.

B. New Projects in the Pipeline

1. Technical Assistance to the Federation of Yemeni Chambers of Commerce and Industry:

A USAID grant of \$325,000 to this organization is expected to become operational by January 1985. The grant will cover the services of an expert, for two years, who will boost the federation's capability in assisting its members in training and business promotion. The expert, who has already been in Yemen for three years as an industrial consultant under a World Bank project, will be based in Sana'a.

Building up the Federation as an institution is a logical channel to the private sector. At present the contractor has begun to organize a systematic approach to fielding requests from the Chamber's membership so that his services can be made available on an equitable basis to all individuals interested in industrial projects. It is clear that the private sector is

very enthusiastic about this embryonic relationship with USAID. If this project proves its expected merit the mission should consider funding similar appointments in Taiz and Hudaydah. These resident experts could then be supported by short-term advisors, who would come as part of a program of training and business development defired by those experts in the field. Sponsorship, under Department of Commerce and USAID/PRE funds, of Yemeni trade delegations to the U.S. is an example of another kind of assistance that could be considered as a component of such a project.

These resident advisors should be individual direct contract fixed term appointees. Their annual cost could be kept at \$400,000, and perhaps another \$200,000 can be allocated to short-term consultants.

2. 080 Development Training

This is a \$40 million project for ten years, with a component, worth about \$2 million, set aside for private sector training. The exact program and scope of this training will be detailed in early 1985, by a consulting company hired specifically to implement this activity. It is strongly recommended that this entire activity be coordinated right from the beginning with the Federation of Chambers of Commerce and Industry, and that the \$2 million limit be increased, by how much to be determined after the consulting team has done its research. For a start, funds already programmed for two full-time private sector posts in PETS and HITS can be allocated to this project.

It will be important to establish a policy dialogue with the Central Planning Organization on the use of this particular allocation. A nexus of discussion could be in the Federation of Yemen Chambers of Commerce and Industry. The country's National Charter sees a place for the private contributes to the economy as a whole. It is in that spirit the assistance is conceptually justified. However, this aspect of developmental economics must be clearly articulated with a stress on the fundamental principles of equal opportunity which underly it. Working through the Federation's leadership is one of the most effective avenues for making this intent clear.

C. Potential Projects: A Technical Assistance Consultancy

As has been mentioned before, the one overwhelming need of the Yemeni business community is technical assistance in the broadest sense. For despite its wealth, it has little experience in planning and running enterprises that are other

than import-distribution. Furthermore, the country has lost most of its smartest people to Saudi Arabia, where opportunities are much greater, the pay better and living cheaper. As opportunities in Yemen expand, more of these people will return, with skills and cash for investment, or opt not to go to Saudi Arabia.

In order to step up the pace of investment, the private sector has to be guided and mobilized, and the best way is to show it where to deploy its ample cash and other assets efficiently. Nearly all countries, rich and poor, have government agencies of high calibre, e.g. MITI in Japan, DATA in France, whose sole function is to channel skills and resources efficiently into priority areas and activities, creating employment and production to benefit the national economy. With similar ends, USAID should consider funding a project that sets up in Yemen a private sector U.S. consulting presence, either one large company, or better still, a consortium of firms contributing multi-disciplinary skills under one lead manager. This expertise would complement the effort in the Federation of Chambers of Commerce and Industry, but would carry out specific in-depth studies. The experts in the Federation would be at the service of the entire membership of their organization; they would feed the proper tasks to the consulting group.

This consulting group would concentrate on three fronts:

1. Conduct sector surveys and develop policy papers that would sensitize the public and private sectors to the opportunities open in key economic areas, and provide the essential intellectual and technical leadership to guide private sector resources accordingly. To do this task, the U.S. consultants would work closely with local consultants, mainly through study contracts that would serve as key channels to the CPO and the Ministry of Economy and Industry. Areas of concentration in line with USAID's priorities would be:

- a. Agriculture. There is a great potential in the Tihama, and to a much lesser extent, in Wadi Jawf, for commercial agriculture based on groundwater exploitation. A nucleus is developing around Surdud, and will spread rapidly. All sorts of expensive schemes are being considered, by Yemenis who want to imitate Saudi Arabia but have no understanding of farming, and are at the mercy of foreign promoters more interested in quick profits rather than real development. A sober assessment of the commercial irrigation sector is needed, with detailed analysis of its promises and constraints, and recommendations as to what crops to grow, how, and what are the market and cost implication.

- b. Food Processing and Nutrition. Much of the little modern industry that exists in Yemen consists of poultry and simple milk and drink packaging, entirely dependent on imported raw materials and even labor. Investment to date has been quite inefficient, as is the management, with one or two exceptions. Nevertheless, the industry potential is quite large, and a perspective development and investment plan needs to be drawn up. An initial action plan in nutrition has already been developed by USAID.
- c. Energy. Yemen has oil, about to be exploited, but also one of the highest energy costs in the world. There is an urgent need to economically exploit the oil and gas reserves, and to reduce fuel and electricity costs. A sector development paper, concentrating on private sector opportunities and needs would set the framework of development.
- d. Construction and Building Materials. The contracting industry here is very large, but made up of small enterprises. Only one or two firms are capable of undertaking say a large building, so nearly all the big projects go to foreign firms, and local firms need to be built up. In building materials, there has been much inefficient investment badly run, and as with food processing and nutrition, a sector plan is needed. Housing is a basic need, and the study should look into opportunities in exploiting low-cost housing techniques.
- e. Financial Services and Capital Mobilization. As already mentioned, there is a lot of liquidity in the economy, but the financial services sector barely exists. Part of the problem is the lack of investment opportunities, and the other part is the reluctance of savers to entrust their liquid savings to others; even bank deposits are suspect to many. Consequently, savings go into land and gold. An analysis is urgently required on the potential of savings mobilization, since inflation is expected to pick up sharply in the coming two-three years, and some solution has to be developed to direct excess liquidity into production.
- f. Health. Up to now, Government has been the sole operator of hospitals and nursing homes. Consequently, many Yemenis not having faith in local government hospitals, go abroad for hospital treatment, and this is expensive. 50/ Government is relenting its opposition to private hospitals (mostly coming from Yemeni doctors trained in the East Bloc

who want to maintain their monopoly on health services) and various schemes are being considered. 51/ A sector plan that looks at the whole health field, i.e. hospitals, health insurance and health maintenance organizations, would be critical first step. Essentially, government realizes it cannot be the sole provider of the nation's health care, so ways have to be developed to bring in the private sector to serve a market which is able and willing to pay.

- g. Education and Training. As with health, there is a large and growing market for private schools, since government cannot provide the necessary schooling in the quantity and quality demanded. The private sector wants to build schools, for and not-for profit, stretching from elementary schooling to specialized post-secondary language and technical institutes. A sector plan, detailing relevant figures and policy requirements, is needed. One area that is already open to USAID's 080 project is management and technical training for large entities in both the public and private sectors.

2. Carrying out detailed pre-feasibility studies and enterprise profiles of those businesses that the sector studies recommend. The consultant would act as an initial promoter, finding the necessary investors, managers, foreign collaborators, etc., for a fee. However, its involvement would end once it has sold the concept.

3. Providing management and technical consultancy to existing enterprises experiencing problems. Here, it would work closely with existing entities, such as the commercial banks and public sector lenders like the Industrial Bank, who have problem clients. This service would be charged for.

At this stage, one can envisage a consultancy group coming into Yemen at the beginning of FY 86. The U.S. contractor would set up a wholly owned branch in Sana'a, under Law No. 6 of 1976. The operation would consist of four (48 man-months per year) full-time resident experts, backed by up to 52 man-months per year of short-term consultants and U.S. head office back-stopping, i.e. 100 man-months per year. Assuming a gross cost of \$15,000 per man-month, and an initial period of five years, the total cost would be \$7.5 million, averaging \$1.5 million per year. This is a very modest and cost-effective proposal.

The proposed assistance to the Federation of Yemeni Chambers of Commerce and Industry, is estimated at \$600,000 per year, so the total annual cost of supporting the private sector would come to \$2.1 million, beginning FY 86. The program cost for five years would then come to \$11 million.

D. Specialized Procurement Services for USAID Projects

USAID should consider a separate project that would exclusively handle off-shore procurement for all its contractors. The present system whereby every contractor sets up his own procurement and expediting department is extremely wasteful, leading to duplication of effort, staff, offices and overheads. Each time a new contractor comes on the scene, he goes through the same process of setting up the procurement department, learning the local ropes and making the necessary contacts, spending a high proportion of valuable management time on such mundance operations, which finally have to be discarded when the contractor leaves.

A contract procurement office, run by a U.S. firm specializing in this activity, would have the following advantages:

1. Economies of scale in the procurement process and in bulking of shipments.
2. Elimination of repeated efforts by new contractors setting up their own departments.
3. Higher level of professionalism, since existing USAID contractors in Yemen do not list procurement as the key specialty.
4. Back-up and support to contractors coming into the country and confronted by unfamiliar methods of operation.
5. Developing long-term contacts with a greater network of U.S. manufacturers and suppliers.
6. Acting as a convenient focal point for U.S. representatives visiting Yemen, i.e. an informal U.S. trade office.

A focal point for this activity is Agriculture Development Support project which has begun to initiate a centralized purchasing plan. Should this experience prove efficient it could be considered as a model for expansion into other AID projects.

E. Conclusion

The above recommendations set out a modest program of actions that would enhance USAID's role in Yemen's economic development by adapting current USAID projects to private sector needs and by mobilizing idle private sector resources in a new set of initiatives aimed at strengthening YARG efforts to achieve its own developmental goals.

Already USAID has begun direct involvement with the private sector through its project in the Federation of Yemen Chambers of Commerce and Industry (FYCCI). This project should be seen as the trial ground for future endeavours. The experience gained from working with the FYCCI will be invaluable in setting future agendas.

Two significant activities proposed here - a consulting firm and a procurement service - will need further exploration. The procurement service can take its cue from the on-going experience in this field. The consulting firm will require more original investigations. The Yemen Company for Investment and Finance, which has experience in dealing with foreign consulting firms, is one institution whose expertise should be considered if this idea is of interest to USAID officials. The YCIF has both public and private sector links that would facilitate an exploration of this type.

The Yemen is a country where a private sector interface is both desirable and possible. Its long history of trading activity as well as the new Republic's stated respect of private property provide a strong foundation for future action. It is worth restating here, in conclusion, that the private sector in Yemen covers a wide cross-section of the population at various levels of need. Any program, no matter how slight, would help in creating greater economic opportunity for the citizens of the country as a whole.

Given the country's commitment to economic growth, its legal framework for investment and the evolving institutional framework described above, there are ample opportunities for a creative private sector program whose goals and implementation could be made acceptable to all parties. While it will take time to initiate, the potential for concrete benefit is great.

FOOTNOTES

1. Schweizer, Gunther. 'Social and Economic Change of the Rural Distribution System: Weekly Markets in the Yemen Arab Republic' (Abstract) Symposium of Contemporary Yemen, University of Exeter ENGLAND, 15-18 July 1983. 'There are about 400 to 500 weekly markets in the YAR', p. 1
2. See 'The Statute of San'ā', pp.179-240 Chapter 13 in San'ā': An Arabian Islamic City edited by R.B. Serjeant and Ronald Lewcock (The World of Islam Festival Trust: London, 1983)
3. The Central Warehouse Ibn al-Hassan was destroyed and is still today not completely repaired. Merchants who lost their holdings in this warehouse during the 1948 sack, converted their wealth into land holdings in 1962 at the beginning of the Republic Civil war-revolution. They generally feared a tribal overrun of the city once again.
4. Douglas, John Leigh 'The Free Yemeni Movement' 1935-62 (PhD Thesis, School of Oriental and African Studies, University of London, May 1983 p. 19
5. Gochenour, Thomas 'Dimensions of Yemeni Toponymy Through History' in Dirasat Yamaniyyah No. 11 March 1983 p. 28
6. Ibid.
7. Stevenson, Thomas Kinship, Stratification and Mobility: Social Change in a Yemeni Highland Town (PhD Wayne State University, 1981) p. 144. Stevenson reports a number of accounts of tribesmen returning from Saudi Arabia and opening shops in the suq.
8. National income figures are extremely vague in Yemen. USAID and the World Bank estimate the current per capita national income at 500 \$US, the IMF at 750 \$us, same as in Egypt. Knowledgeable economists estimate the actual figure at 1200-1500 \$US. These latter figures are more in line with the reality of 10 \$US per day minimum rural wage rate, 10-15 \$US per day in towns. They are also in line with the reality that over a third of the adult males earn at least 20 \$US per day in Saudi Arabia where the living is much cheaper than in Yemen.
9. PIP = Public Investment Program Review
10. Official reserves fell from a peak of 1.6 billion dollars in 1978 to 366 million dollars by the end of 1983. However, there is no shortage of foreign exchange in private or unofficial hands at the market rate in Jeddah.

11. Courtesy of the Sanaa Chamber of Commerce and Industry
12. Tax Department, al-Hudaydah
13. Central Bank of Yemen 1987 Report p. 54
14. Ibid. p. 52
15. CPO, Summary of the First Five Year Plan of the YAR p. 5 (Beirut, 1977)
16. CPO, The Second Five Year Plan (1982-1986) p. 16
17. CPO, The Second Five Year Plan p. 55
18. CPO, The First Five Year Plan p. 211
19. CPO, First Five Year Plan pp. 45-53
20. Ibid. p. 213
21. Ibid. p. 267
22. CPO, The Second Five Year Plan pp. 75-109
23. CPO, The First Five Year Plan pp. 725-726
24. Ibid.
25. Ibid. 750-753
26. CPO, Second Five Year Plan p. 66
27. CPO, First Five Year Plan p. 220
28. CPO Second Five Year Plan p. 154
29. Ibid p. 160
30. CPO, Ibid. p. 61
31. Public Corporations include the Military Economic Corporation, the General Corporation for Foreign Trade, the YOMINCO, the General Corporation for Grain, the General Television and Broadcasting Corporation, General Corporation for Tourism, Revolution Hospital, the State Employees Cooperative Society, the Communications Corporation, National Water and Sewerage Authority, the Electricity Corporation, National Spinning and Weaving Factory, the Industrial Estate Authority, the General Corporation for Cement.
Mixed sector companies include the National Tobacco and Matches Company, Yemen Marib Insurance Company, Yemeniya Airlines, the Yemen Bank for Reconstruction and Development, Yemen Investment and Finance Company, Marib Poultry, the Salt Packaging and Refining Company, the Agricultural Marketing Company, Yemen Tourism Company, Yemen Drugs Company, The Housing Credit Bank, the Industrial Bank, the Transportation Company, the Cotton Corporation.
32. The Ministry of Economy and Industry oversees import licenses for materials needed for the manufacturing industry.
33. Stookey, Robert 'Social Structure and Politics in the YAR, Part I' (Middle East Journal, vol. 28, no. 5 1974) p. 26
34. Very few of them do actually post these price lists.
35. This is according to lists provided to me by the Ministry of Economy and Industry.

36. Ibid
37. One project as well in each of Rda^C, Zabid, Beni Hushayah, Jihran, Saadah, Hajjah, Thaban and another illegible name place.
38. This according to figures extrapolated from the Industrial Bank's six annual reports.
39. Second Annual Report, Yemen Company for Investment and Finance. 1982 p. 15-16
40. See footnote 31 for a partial listing.
41. The GCFT, for example, distributes NIDO milk powder imported by a local agent.
42. Once this surplus is used up, apparently the 30% purchase requirement will be dropped.
43. According to officials, this is to encourage local farmers to stop selling their wheat to Saudi Arabia which has set up a similar system of heavy subsidies for grain production.
44. The General Corporation for Foreign Trade, for example, has been able to contract with the PLO to import oranges despite a ban on fruit importation.
45. According to officials at the Tobacco and Matches Factory.
46. U.S. Department of Commerce, Prepared by the U.S. Embassy, Sanaa. "Foreign Economic Trends and Their implications for the United States," 1982, 1983, 1984.
47. U.S. Embassy, Sanaa, "Investment Climate Statement" November, 1984, pp. 8-9.
48. s6 September, No. 119, 3 January 1985, p. 1.
49. Ibid.
50. About 12,000 Yemenis go to West Germany alone each year for health related purposes. The FGR embassy estimates the per capita expenditures by Yemenis on German health services at around \$3,000.
51. The Sanaa Chamber of Commerce and Industry has submitted a suggestion to the President for a YR 100 million project that would combine fee-paying services with a free clinic for indigent patients.

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US Dept. of State Role of the Private Sector in Developing Countries (Bureau of Public Affairs: 19 October 1981)

ANNEX

Private Sector
Sanaa

Husayn Adhban	Managing Director	Adhban Group of Companies
Mubarak Loqman	Advisor	Adhban Group of Companies
Ahmed Abdullah al-Aghil	Chairman	Al-Aghil Group of Companies
AbuBakr Mohamed	Project Manager	Al-Aghil Group of Companies
Mohamed Abjo Saeed	Office Manager	Hayel Saeed Anam & Co.
Abdullah al-Gose	General Manager	Al-Gose Establishment for General Trade
Mohamed Jumaan	Chairman	Jumaan Trading & Industrial Corporation
Amin Abdullah	Office Manager	Jumaan Trading & Industrial Corporation
Awad Mulla	Director	Mugahed Trading Company
Angelo Dick	Plant Manager	Yemen Company for Trade & Industry
Abdulwahed Mutahar	Director	AlMutahar Motor & Engineering Company
Aziz Kodsí Tolba	General Manager	YCON
Abdul Rahman Noman	Chairman	Yemen Development & Trading Establishment
Ali Omeri	Asst. Managing Director	Omeri and Barakah Poultry Farms Co., Ltd.
Akil Omar Shihab	Managing Director	Shihab Insurance & Trading Agencies (Yemen) Ltd.
Hassan Sonidar	Asst. Managing Director Vice Chairman	Abdullah H. Sonidar & Sons Yemen Federation of Chambers of Commerce & Industry
Mohamed Amin Sultan	Sales Manager	Amin Kassem Sultan Co. Ltd.
Ahmed Amin Sultan	Asst. Vice Chairman	Amin Kassem Sultan Co. Ltd.
Muhammad al-Thor	Chairman	al-Thor Industrial & Trading Co.
Jazem al-Thor	General Manager	al-Thor Industrial & Trading Co.
Amin Dirhem Mohamed	Chairman	Tihama Tractors & Engineering Co., Ltd.
Haj Husayn al-Wataary	Chairman	al-Wataary General Trading & Agricultural Development Co.
	President	Yemen Federation of Chambers of Commerce & Industry
	President	Sanaa Chamber of Commerce & Industry
	Member of Parliament	
Muhammed Lutf Zubeiry	Chairman	

Private Sector (cont.)

Taiz

Fuad Anam	Manager	A.A. Anam Est.
Abdul Rahman Noman	General Manager	Bilquis Sweets Factory
Mohammed Basher	Director	Abdul Hamid Basher & Bros. Houses
Abdul Gabaar Hayel Saeed	Director	Hayel Saeed Anam Co. Ltd.
Mohamed Salem	General Manager	Hayel Saeed Anam & Co. Ltd.
Ahemd Sheibani	Chairman	National Soft Drink & Bottlings Company
Dr. Selim Yusuf	Vice Chairman former UN planning expert, author First Five Year Plan, Accountant	Taiz Chamber of Commerce
Mohamed Saif Hydar	Independent Contractor	The National Paint and Chemicals Factory

Hudaydah

J.J. Ranbhise	Representative	Abdul Karim A.R. Fara & Co.
Salem Omer Baobed	Chairman	Salem Oker Baobed & Co.
Abdulla Agil Musallam	Managing Director	Salem Omer Baobed & Co.
Taher Omer Fakira	Director	Derhim Industrial Co., Ltd.
Manfred Schwarplies	Consultant	Derhim Industrial Co., Ltd.
A. Gabar Thabet	Director	Thabet Group
Abdulghani AbdulWdood	General Manager	Salaha din Aluminum & Plastics Factory
Yousuf AbdulWdood	Chairman	Salahadin Aluminum & Plastics Factory

Public/Mixed Sector Corporations

Ali Mohamed Hashem	Chairman	General Corporation for Foreign Trade
Saeed Fattah Mohamed	Commercial Director	General Grain Corporation
Ali Ahmed Ali	Asst. Commercial Director	General Grain Corporation
Mohamed Samawi	Director	Bajel Cement Factory
Mohamed al-Khatary	Director	Amran Cement Factory
All al-Mursi	Financial Controller	Tobacco & Matches Company
Abdul Rahman Ghaleb	Commercial Manager	Yemen Drug Company for Industry

Public/Mixed Sector Corporations (cont.)

Abdul Quwa al-Thula ^C i	Technical Manager	National Spinning & Weaving Factory
Mohamed Sharib	Director of Public Relations	Yemen Oil and Mineral Resources Corporation

Chambers of Commerce

Sanaa	General Manager Federation of Yemen Chambers of Commerce & Industry	Abdul Rahman al-Zabarah
	Vice Chairman Sanaa Chamber of Commerce & Industry	Mohamed Lutf Zubeiry
al-Hudaydah	Director Chamber of Commerce & Industry	AbdulKawi al-Kumikany
Taiz	Manager, Industrial Section Taiz Chamber of Commerce & Industry	Ali Hyder Mohamed

Government Officials

Abbas Kirshy	Chairman	Industrial Bank of Yemen
Abdul Karim al-Arhabi	Vice-Chairman	Industrial Bank of Yemen
Vivian Williams	Advisor	Industrial Bank of Yemen
Madan Ahlawalia	Advisor Finance	Industrial Bank of Yemen
Mohamed Ghaleb	Research & Planning Dept.	Industrial Bank of Yemen
Mohamed Abu Luhum	Director, Technical Services	Central Planning Organization
Fatehy Salem	Deputy Chairman	Central Planning Organization
Yahya Ishaq		Yemen Company for Investment and Finance, Yemen-British Consultants

Government Officials (cont.)

Mohamed Ghanem	Director	National Public Administration Institute
S.T. Rajan Mohammed Thafer	Industrial Advisor Director, Economic Administration	Industrial Estate Authority President's Office
<u>Banks</u>		
F.J.L. Harcourt A. Quddus Siddiqi	Manager (Taiz) Manager	British Bank of the Middle East Bank of Credit & Commerce International
Taher Rajab	Vice Chairman	Yemen Bank for Reconstruction and Development
Fida Mohammed		International Bank of Yemen
<u>Legal Expertise</u>		
Dr. Abdulla Maktari Isma Basha	Independent lawyer Legal Advisor	Central Planning Organization
<u>Others</u>		
Dr. Naser Aulaqi	Dean Faculty of Economics Consultant	University of Sana'a
Mutahar al-Qibsi	Assistant Director Consultant	Yemen Center for Research & Consultancy National Institute of Public Administration Yemen Center for Research & Consultancies
Mohamed Zhubairy	Former Minister of Economy Project Director General Manager (Dubai)	YAR
Glen Benjamin Ahmed Hamdi Abdullatif		NRECA International, Ltd. Beecham Pharmaceuticals

US Embassy/AID

John Holt	Economics/Commercial Officer	US Embassy, Sanaa
James Soriano	Economics Officer	US Embassy, Sanaa
Charles Weden	Chief of Mission	US AID/Sanaa
David Fredrick	Program Officer	US AID/Sanaa
Gerri Donnelly	Asst. Program Officer	US AID/Sanaa
Beverly Morton	Executive Officer	US AID/Sanaa
Tracy Atwood	Agricultural Officer	US AID/Sanaa
Karl Schwartz	Educational Officer	US AID/Sanaa
Julie Winn	Contracts Assistant	US AID/Sanaa
Hashem Awnallah	Procurement	US AID/Sanaa

US AID Contractors

Consortium for International Development

Dr. Colin Sorhus	Administrative Officer
Dr. Richard Phillips	Horticulture Advisor
Dr. Ken Holloman	Poultry Expert

Transcentury

David Hunter	Engineer
Mike Cullen	Engineer

Eastern Michigan University

Dr. Cuirico Samonte	Project Director
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INDUSTRIAL BANK OF YEMENINDUSTRIAL PROJECTSSTATUS OF LISTED PROJECTS AT 25 SEPT 1984

VCW/IBY/5:1/3

This follows the long list of potential projects drafted 30/1/83. The index is that used for filing all pre-pipeline projects under study in IBY's research and planning department.

KEY to CURRENT PROGRESS STATUS

UPS	Under preliminary study
UAS	Under advanced study, and ready for client sponsorship
UFS	Under feasibility study
OP	Outline of the project has been prepared
PP	An Advanced Profile of the project is prepared
FS	A Feasibility Study of the project is with IBY
IIP	The project has entered IBY's pipeline
UI	The Project is under implementation by IBY client or other
IO	now in operation, ie is commissioned & is producing

1. AGRO-INDUSTRIES

1.1	ANIMAL FEED MIXES : UI
1.2	SEEDS AND FIAKT STOCK, packaging, replication : UPS
1.3	FERTILISERS, chemical industry production : UPS
1.4	FERTILISERS, mixing and bagging: UAS
1.5	VEGETABLE OIL, farm and factory, large scale: UPS small scale: PP
1.6	MEAT PRODUCTS, dried, canned, processed: UPS
1.7	BANANA CHIPS: UPS
1.8	POTATO CHIPS: UAS, PP, UI
1.9	CONFECTIONARY: UPS, OP
1.9.1	BAKERY PRODUCTS: Biscuits, cakes UPS
1.9.2	YEAST: UPS, OP
1.10	SUGARS: plantation and refinery: UPS small scale: UPS
1.10.1	HONEY: commercial, production & packing : UPS, OP
1.11	GLUCOSE AND STARCH : UPS
1.12	
1.13	CONFECTIONARY DATES: UPS
1.14	MOCCA SYRUP, Yemenic Speciality cordial : UPS
1.15	ESSENTIAL OILS: UPS
1.16	FRUIT & VEGETABLE, cold storage, packing: UPS
1.17	CHEESE, goats, smoked, processed: UPS, UI, IO
1.17.1	cow's milk cheese, DAIRY PRODUCTS : UAS, IO.
1.18	HIDES and SKINS, recovery & tanning : IIP
1.18.1	WOOL recovery & processing, WEAVING : UPS
1.19	LEATHER PRODUCTS, footwear: IIP, UI
1.20	clothing, furniture, etc: UPS
1.21	UNITISATION of imported foodstuffs, packaging: UPS
1.21.1	SPICES, IO
1.22	DRIED FRUIT AND VEGETABLE: UPS
1.23	FRUIT AND VEG, canning: UPS, IO
1.24	FISH, smaller fishing and canning
1.25	FISHERIES : nets UPS glassfibre reinforced plastics boats UPS
1.25.1	FISH FARMING, inshore ponds: UPS

cont

1. AGRO INDUSTRIES (cont)

- 1.26 PESTICIDES IO
- 1.26.1 INSECTICIDES IO
- 1.26.2 HERBICIDES UPS
- 1.27 VETERINARY PRODUCTS, animal vaccines : UPS
- 1.27.1
- 1.27.2 EGGS, production (see 4.7 Egg Trays) : UPS IO
- 1.27.3 POULTRY BY-PRODUCTS Bone & Blood meal: PS
- 1.28 SOFT FRUIT CRATES, plastic:OP, IIP
- 1.28.1 CHICKEN CRATES, plastic, IIP
- 1.29 GRAINS, storage, milling, packaging : UPS, UI, IO
- 1.29.1
- 1.30 CORNFLAKES : UPS
- 1.30.1
- 1.30.2
- 1.30.3

2. METALS SECTOR

- 2.1 FARM TOOLS, assembly, fabrication: UPS
- 2.1.1 HAND TOOLS, auto forged. : PP
- 2.2 FENCING WIRE, drawing :UPS
- 2.2.1 meshing, barbing : PS, IO ?
- 2.3 FOUNDRY PRODUCTS, jobbing : OP
- 2.4 FORGE PRODUCTS, nuts & bolts etc : UPS
- 2.4.1 Car springs : UPS
- 2.4.2
- 2.5 CROWN CORKS: UPS
- 2.6 METAL lamination, printing : UPS
- 2.7
- 2.8 PUMP assembly, parts fabrication : IO?
- 2.9 WELDING ELECTRODES: UPS
- 2.10 REINFORCEMENT ROD : studied, not feasible.
- 2.11 ALUMINIUM EXTRUSIONS : UI
- 2.12 PIPES, welded steel, water : PP
- 2.13 FARM TOOL REPAIR WORKSHOPS : UPS
- 2.14 WATER TANKS : IO
- 2.15 NON-FERROUS METALS : UPS
- 2.16 ALUMINIUM HOLLOWWARE : IO
- 2.17
- 2.18 METAL FURNITURE : UPS, IO
- 2.19 ELECTROPLATING : UPS
- 2.20 WHITEWARE, household appliances, UPS
- 2.21 STAINLESS STEEL PRODUCTS : IIP
- 2.22
- 2.23
- 2.24
- 2.25
- 2.26

cont

3. ELECTRICALS

- 3.1 ELECTRIC CABLE, insulation PVC : OP
- 3.1.1 drawing, steel, copper : UPS
- 3.1.2 PVC insulation tape : UPS
- 3.2 ELECTRICAL APPLIANCES : assembly : UPS
- 3.2.1 fans
- 3.2.2 cookers
- 3.2.3 refrigerators
- 3.2.4 irons, pressing
- 3.2.5 TV sets
- 3.2.6 radio sets
- 3.3 ELECTRICAL FITTINGS, switches, plugs, sockets: UPS
- 3.4
- 3.5 DRY CELL BATTERIES: UI
- 3.6 CAR BATTERIES : UPS
- 3.7 ELECTRIC MOTOR, assembly, repair & rewinding: UPS
- 3.8 AIR CONDITIONING PLANT assembly : UPS
- 3.9 REFRIGERATION assembly : UPS
- 3.9.1 ICE MAKING PLANT : IO
- 3.10 ELECTRICAL REPAIR SHOPS, upgrade : UPS
- 3.11 ELECTRICAL SERVICE CENTRES
- 3.12 LAMPS, GS. FLUORESCENT TUBES : OP
- 3.13 FUSE WIRE, utilization :
- 3.14
- 3.15

4. WOOD, PAPER, TEXTILES

- 4.1 SAWMILL ; imported lumber : OP
- 4.2 SCHOOL FURNITURE; assembly: IO
- 4.3 OFFICE FURNITURE, IO
- 4.4 TOYS, wooden, soft, card: UPS
- 4.5 PAPER, PULPING TO KRAFT: OP
- 4.5.1 PAPER CONVERSION to stationary : IO
- 4.5.2 to BAGS : UPS
- 4.5.3 to exercise books : IO
- 4.5.4 PRINTING
- 4.6 WASTE PAPER RECYCLING to EGG TRAYS : OP
- 4.6.1 Egg TRAYS, plastic : UPS
- 4.7
- 4.9 PENCIL MAKING: UPS
- 4.10 PAPER NAPKINS, handkerchieves: IO
- 4.10.1 TERRY TOWELLING : UPS
- 4.11 BANDAGES, medical : UPS
- 4.12 SANITARY TOWELS : UPS
- 4.13 JIMBEY WEAVES: IO
- 4.15 SUNHATS, straw : IO & UPS
- 4.16 BUSHES : IO & UPS
- 4.17 DUSTERS : UPS
- 4.18 KNITTED GARMENTS : IO & UPS
- 4.19 WDF; WASTE DERIVED FUEL : OP & UPS
- 4.20 BLANKETS, wool & synthetic fibre : IO , UPS
- 4.21 SUITCASES, fibre, also metal : UPS
- 4.22
- 4.23
- 4.24

cont.

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5. EXTRACTIVE INDUSTRIES

- 5.1 Marble, GRANITE, quarrying, cutting polishing: IO, UAS
- 5.2 GYPSUM, plaster of paris : UAS
- 5.3 KAOLIN : UPS
- 5.4 CERAMIC GLAZES : UPS
- 5.5 CLAY PRODUCTS, SANITARY WARE : OP
- 5.5.1 FLOOR AND WALL TILES : OP
- 5.5.2 TABLEWARE : OP
- 5.5.3 BRICKS: IO, UAS
- 5.5.4 HIGH TENSION CABLE INSULATORS: UPS
- 5.5.5 VITRIFIED CLAY PIPES, drains : OP
- 5.6 ROUGE MARTIN
- 5.7 PRECIOUS, SEMI PRECIOUS STONES, cutting , polishing : UPS
- 5.8 STONE CUTTING, masonry, sculpture : UPS
- 5.9 STONE CRUSHING : IO
- 5.10 SAND : IO, UAS
- 5.11
- 5.12 PETROLEUM PRODUCTS : fuel oil: UPS
- 5.12.1 LNG : UPS
- 5.12.2 ammonia : UPS
- 5.12.3 bitumen : UPS
- 5.13 METALS processing : UPS
- 5.14 OXIDES : UPS
- 5.15 SODIUM CHLORIDE : UI
- 5.16 SODA ASH : UPS, not feasible.
- 5.17 GLASS PRODUCTS, HOLLOW GLASS : UPS
- 5.17.1 PRESSED GLASS TABLEWARE : UPS
- 5.17.2 PLAT GLASS : UPS
- 5.17.3 LAMP GLASS : UPS
- 5.17.4 OPTICAL GLASS : UPS
- 5.17.5 CUT-GLASS : UPS
- 5.17.8 HARD BLOWN GLASS : UPS
- 5.17.9
- 5.18 CONCRETE PRODUCTS, BLOCKS : IO, UAS
- 5.18.1 POLES, PIPES, PILES, PANELS ; UPS
- 5.18.2
- 5.19 SCHOOL CHALK : UPS, not feasible.
- 5.20 TALC, BP, cosmetic
- 5.21 CEMENT, FILLERS, speciality : UPS
- 5.22 GYPSUM BUILDING BOARDS: UPS
- 5.23 ASBESTOS PRODUCTS, tiles, panels : UPS
- 5.24
- 5.25
- 5.26 MINERAL WATER : IO, UAS
- 5.27 LIME AND SAND LIME BRICKS : UPS
- 5.28 BARTH, CEMENT, cold cured BRICKS : UPS
- 5.29
- 5.30

cont.

6. OTHER PROCESS INDUSTRIES

- 6.1 PLASTICS, blow moulded : IO, UAS
- 6.1.1 Extruded section sheet : IO, UAS
- 6.1.2 general
- 6.2 POLYETHYLENE SHEET : UPS
- 6.3 PVC, section and sheet products : IO, UAS
- 6.4 PVC, pipes, containers, profiles : IO, UAS
- 6.5.1 PLASTICS FLOORING : UPS
- 6.6 PAINTS : IO, UAS
- 6.7 GLUES AND ADHESIVES : UPS
- 6.8
- 6.8.1 PLASTICS COMPOUNDING : UPS
- 6.9 SOAPS : IO, UPS
- 6.9.1 SHAMPOOS, PERFUMES, TOILETRIES; OP, IIP.
- 6.10 CANDLES : UPS
- 6.11
- 6.12 PRINTING INKS, mixing : UPS
- 6.13 DEGREASING FLANKT : UPS
- 6.14 LUBROL, ENGINE OIL RECYCLING : UAS
- 6.15 NON ALCOHOLIC BEER
- 6.16 MALT
- 6.17 INSECTICIDES, compounding : UPS
- 6.18 CAUSTIC SODA : UPS
- 6.19 FOAM PLASTIC : IO, UAS
- 6.19.1 EXPANDED POLYETHYLENE PRODUCTS; IO, UAS
- 6.20
- 6.21
- 6.22
- 6.23 RUBBER, RECOVERED : UPS
- 6.23.1 TIRE RETREADING : UAS
- 6.24
- 6.25
- 6.26 VINEGAR
- 6.27
- 6.28 ALCOHOL DISTILLERS : UPS
- 6.29 SOLAR HEATING PANELS, Sunshades, louvers : UPS, IO
- 6.30
- 6.31 SYRINGES, DISPOSABLE; UAS
- 6.32

7. SERVICE INDUSTRIES

- 7.1 HOTELS, tourism : UAS
- 7.2 RESTAURANTS
- 7.3 TOUR OPERATIONS :
- 7.4 TOURISM, SOUVENIR SUPPLY: UAS. IO.
- 7.5 ENTERTAINMENT, cinema, musical groups :
- 7.6 INDUSTRIAL CLEANING : UPS
- 7.7 WAREHOUSING, STORAGE : UPS
- 7.8
- 7.9 VEHICLE WORKSHOPS: IO, UAS

end .