

YEMEN

A Bright Future Ahead

The New Yemen

Prior to 1962, Yemen was isolated from the rest of the world. Moreover, it was divided against itself. However, since two pivotal revolutions in '62-'63 and, more recently, the unification of the North and South on May 22, 1990, Yemen has been reborn and has made amazing strides in the process of becoming a modern democratic state. We have since held three parliamentary elections and two presidential and local elections that have been acknowledged as being free and fair by local NGOs, the National Democratic Institute, and the European Union Election Monitoring Commission.

Following unity, we set to work on addressing the many challenges facing Yemen. Expanding education and literacy, establishing stability and the rule of law in all areas of the country, and diversifying the economy – all amid the backdrop of a rapidly expanding population – are just a few of these. We have also been working to institute administrative and financial reforms and establish programs with the aim of developing the political and economic landscape, in-line with international standards. In 2006, we launched a nation-wide anti-corruption campaign designed to root out corruption in its many forms and at all levels. We established an independent anti-corruption unit whose job it is to monitor the fiscal activities of government agencies and strictly enforce standards of practice. More than 90 cases of corruption have been investigated in preparation for referral to the courts.

We have instituted a system of tendering that is fully transparent and beyond reproach. We have also separated the executive branch from the judicial branch by replacing the president as head of the judiciary. We have encouraged women, who represent half the population, to play an active role in all walks of life. Yemeni women now fill a number of important governmental and diplomatic posts, including two ministers. A major focus of the past two years has been reforming laws and policies governing financial practices with the goal of attracting more international investment to the country.



We introduced a “one-window” policy whereby all possible issues related to investment projects from start to finish can be addressed within a single government agency, the General Investment Authority.

Terrorism, both domestic and international, is one of the major challenges facing the global community today. Yemen, both individually and in close cooperation with the international community, has exerted intensive efforts to combat terror and eradicate its sources.

Yemen has achieved tangible success in this field, whether by apprehending terrorist elements, or through an innovative campaign of dialogue conducted by a number of enlightened religious scholars and intellectuals, the aim of which is to rehabilitate youths who have been misled, having been influenced by extremist ideas, but who did not carry out any violent acts. This campaign is also aimed at integrating them back into society by convincing them to abandon extremist ideas and return to the righteous path. These efforts have been highly effective. Last year witnessed the implementation of the first phase of a campaign to reduce the presence of weapons in the country. Thousands of weapons have been confiscated from the civilian population, weapons shops have been closed down, and weapons have been banned in all major cities. We have been working in close cooperation with our allies, and especially with the United States, to combat terrorism. Our commitment to this has never wavered, even given our extremely limited resources. We have also shifted budgets in order to better address our security needs.

We are firmly committed to democratic reforms and modernization. Meanwhile, we are fully aware that our first priority must be the welfare of our people by developing and diversifying the economy and thus improving the living standards of all Yemenis. In the meantime, we believe that stability and security in Yemen will maintain and reinforce stability throughout the region and the globe.

Ali Abdullah Saleh,
President of the Republic of Yemen

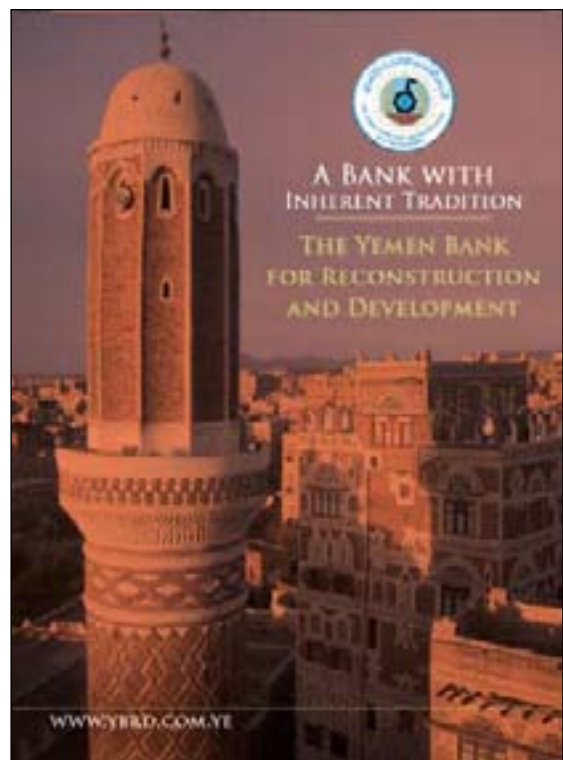
New Reforms Shape Yemen's Future

Yemen's economy is heading for a 5.4 percent growth this year, up from 2007's 3.3 percent real GDP level. The upward trend is largely the fruit of far-reaching reforms as outlined in the 2006 National Reform Agenda. It focuses on four key areas: increasing political participation, improving governance, enhancing public administration, and revitalizing the business environment. Maintaining strong growth is of utmost importance for Yemen as its population is growing at 3 percent per annum, and the government desperately needs to reduce poverty.

"One of the main objectives of this agenda is to improve government performance and give more room to the private sector and its initiatives," says Yemen's Deputy Prime Minister Abdulkarim Ismail Al-Arhabi. Both legislative and economic reforms have been adopted to streamline the country's performance, yet Al-Arhabi concurs that the ambitious agenda is not an easy one. "It is about change. It takes time for people to absorb new reforms. What is important, however, is the institutional capacity to absorb them." To this end, both the anticorruption law and the highly reformed procurement law, developed with the assistance of British and American consultancies, go a long way in establishing transparency. Joining the Extractive Industries Transparency Initiative in 2006 marked an additional milestone for these efforts. "Now we have the best legislation in the region, used as a model by the World Bank," says Al-Arhabi.

The reforms are equally aimed at energizing Yemen's international profile, through which it stands to gain increased investor interest. This is particularly the case in the financial sector. "Yemen's admission either to the WTO or the GCC would certainly enhance and develop this sector through the entry of international banks into the financial and banking services market," says Finance Minister Noman T. Alsuhaibi. "Not merely through the magnitude of capital and monetary flow, but also through international expertise that will eventually instigate, and even obligate, local banks to develop and diversify their services, either through innovating new banking activities or through a merger of their relatively small capitals and activities into a large local bank." That way, Alsuhaibi says, the sector will be able to compete on a regional level and meet international standards.

Despite its current social and economic challenges, Yemen remains a country of profound history and civilization with a unique geographical location, rich in human and natural resources, and a large market of over twenty-one million people. "In addition to oil," says Minister Alsuhaibi, "we have gas, free zones, industrial zones, transportation, communications, tourism, fish wealth, and more. This is accompanied by a huge unexploited manpower that can be trained to even meet job demands in neighboring countries." With Yemen's new reforms implemented, the future looks a whole lot brighter. ■



Banking on Consolidation

One of the primary focuses of Yemen's reform program concerns bolstering the non-oil sectors. Of these, the most promising is likely to be that of commercial banking. Already at the end of August 2007, the foreign assets of Islamic and commercial banks registered more than \$820 million. In particular, the state commercial banks are taking advantage of the reforms and building stronger links to customers and international partners. "This sector should reinstitute its priorities," says Minister of Finance Noman T. Alsuhaibi, adding that the creation of large Yemeni banking institutions would enable them to meet the requirements of progressive economic activities. "In this framework, we should not ignore the significance of micro-loans in financing economic activities of small producers and investors, a role that banks operating in Yemen should assume."

Fulfilling a major role in financing the development of key economic sectors is the national Cooperative and Agricultural Credit Bank. Having recently celebrated its twenty-fifth year in banking, CAC Bank offers not only corporate and retail services but is also a specialized lender for the agricultural and fishery sectors. It currently maintains the largest branch network in Yemen. "In 2005 we launched an aggressive plan to become a leader in retail banking in Yemen," explains Hafedh F. Mayad, chairman of CAC Bank. "The targeted markets were the individuals in the medium- and low-income fraction of the society." With this approach, CAC Bank tripled its number of clients in only two years.

The next step for the bank is to undergo a thorough restructuring and modernization to prepare it for a partial privatization in 2009. It has already joined in partnership with Doha Bank to establish a new Islamic bank and an insurance arm in Yemen. By the end of 2008, CAC Bank hopes to reach its target of increasing its capital to \$50 million.

Centralization and modernization of core banking services is also being undertaken by one of the country's first banks, the Yemen Bank for Reconstruction and Development (YBRD). Established in Sana'a in 1962, the YBRD has embarked on an aggressive and organic growth strategy to expand its forty-two branches as well as corporate and retail services. The bank's chairman, Mr. Abdulla Salem Al-Gifri, is confident that the YBRD is fully capable of meeting the needs of international clients in the years to come, having recently selected Informer Financial to install and initiate its new core banking system.

"YBRD was the first institution to introduce and popularize the use of banks for deposits and savings, and for financing foreign trade transactions. Through

hard work, perseverance, a good reputation and management, and the confidence of its customers, the YBRD maintains its significant market position." Al-Gifri says that the bank, with its 97 billion rials (\$500 million) in total assets, will continue to prove itself equal to the competitive challenges posed by Yemen's banking sector today.

The drive for change in the country's banking sector is already starting to gain international recognition. Abdul Rahman Moh'd Alkuhali, general manager of the National Bank of Yemen (NBY) points out that due to the strength of the bank's assets and the relations it enjoys with correspondent banks and customers, Capital Intelligence upgraded the bank's foreign currency rating to "B-" long term, "B" short term, and the financial rating to "BB-." "This rating is close to those of some of the major banks in the Gulf States," says Alkuhali.

By implementing state-of-the-art technology in its internal network of branches that reach out as far as the Yemeni island of Socotra, NBY was able to maintain its strong position in the market and post a fourth consecutive year in profit earnings, booking a 30 percent net profit increase. "In addition to the introduction of lease financing, Islamic products and services, eCommerce, and other personal and corporate banking products, the bank will enhance its capital adequacy to consider financing numerous large and strategic projects," reveals NBY's Alkuhali. "We are committed to keep the innovation process at the top of our priorities." ■

The poster for the National Bank of Yemen (NBY) highlights its achievements in 2007. At the top, it features the bank's logo and name in Arabic and English, along with the tagline "Trust & Experience". The main section is titled "National Bank Of Yemen Achievements 2007" and lists several key performance indicators (KPIs) under the heading "Growth in Ratio":

- Assets: 26.5%
- Net Profit: 30.2%
- RoE: 27.6%
- TIER I Capital: 3.5%

Below the KPIs, the poster lists other achievements: "FINANCIAL POSITION - stronger & more consolidated", "BANKING MARKET - confirmed & highest rate BB", "SHAREHOLDERS - high returns & more value added", and "COMMITMENTS - high quality & innovative services & products". At the bottom, it states "INTERNATIONAL STANDARDS and CUSTOMER SATISFACTION". The footer provides the head office address in Sana'a, Yemen, and the website URL: www.nby.com.ye.

Connectivity Key to a Network of Progress

One of the earliest countries in the Gulf region with a cellular market was Yemen, which recently welcomed its fourth operator. “The telecom sector is really promising, as the market can sustain all these competitors,” says Minister of Telecommunication Kamal H. Al Jebry. The big push forward came in 2001 when Sabafon inaugurated its mobile service. A joint venture of six main private partners, Sabafon soon captured the spirit of progress, setting up the largest GSM cellular network, covering 68 percent of Yemen’s population. In January 2007 the company reached a new milestone in its operations by signing an agreement with HSBC to fund a \$50 million expansion plan. It enabled Sabafon to cooperate with Siemens’ networks group in upgrading its existing system. “Siemens is closely cooperating with operators to launch new services and advance the wireless communication in the regions that are not fully equipped yet,” said Dr. Jan Cron, vice president Middle East and general manager of Siemens Communications Mobile Networks, at last year’s signing ceremony. The investment includes the installation of EDGE technology for Sabafon in Yemen, one of the first countries in the region to do so.

According to Sabafon’s chairman, Sheikh Hameed Al-Ahmar, the deal underlines the fact that Yemen continues to be a dynamic and leading marketplace in the region. “We are engaged in a daily and weekly evaluation of what’s happening in our market,” says Al-Ahmar.

“We always try to introduce the latest services to our clients and subscribers.” Through its large network of franchises and agencies around Yemen, Sabafon is tapping into all segments of potential subscribers, particularly the young generation of Yemenis. “Another factor in Yemen,” continues Al-Ahmar, “is that there is just a small percentage of women who are allowed by their husbands and fathers to use a mobile. But this is changing, so the more women are allowed to enter into the service, the more subscribers you have for the competitors to attack.”

The youngest addition to the mobile market is Y-GSM. Y’s campaign slogan “And Yemen is happy,” is a positive bridge between quality of service and quality of life. Encouraged by the country’s political stability, Y’s investors are particularly keen on contributing to Yemen’s development. Chief Executive Officer Imad Hamed attests that the team of forty-two international experts at Y is passing on its background of quality, management, and know-how to its young Yemeni teams. “We now have four hundred employees who are experienced in telecommunication. Indirectly we are creating between ten thousand and fifteen thousand job opportunities—technicians, for example.” Hamed adds that 80 percent of its products are IT-based solutions, a competitive edge for Y in addition to its customer service. “Our objective today is not to be number one, but we want to be the best at what we offer.” ■

The 1st GSM Company in Yemen

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SABAFON

There Will Be Growth

Yemen perches on the Red Sea and the Gulf of Aden, at the crossroads of vital oil transport routes from the Arabian Gulf to Europe, Asia, and Africa. But unlike its influential oil-producing neighbors elsewhere on the Arabian Peninsula, Yemen's own natural resources have been limited. According to the Central Bank of Yemen, oil revenues decreased to \$3.087 billion in 2007, compared to \$4.1 billion in 2006, due to a decline in oil production from sixty-four million barrels in 2006 to forty-two million barrels in 2007. But Deputy Prime Minister Abdulkarim Ismail Al-Arhabi claims this situation is due to change in Yemen. "We are very much focusing on oil and gas exploration," explains Al-Arhabi. "We definitely have some prospects in the future."

Minister of Oil and Minerals Khalid Mahfoudh Bahah says that because of the large amount of available exploration blocks, there are still very promising concessions to be gained. "We have around one hundred blocks that consist of the whole geological map of Yemen. Currently, twelve blocks are producing around 324,000 barrels a day. Then we have twenty-six blocks under exploration and fourteen awaiting final parliamentary approval. We are announcing new bid rounds every year now."

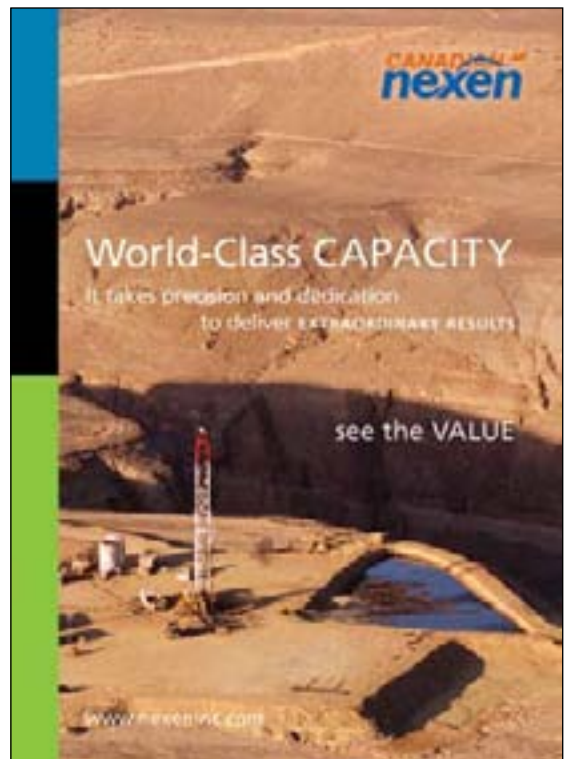
Two government-owned refineries, at Aden and Marib, add value to Yemen's oil production, and both are being upgraded to capacities of 150,000 and 25,000 barrels per day, respectively. In the same category, Yemen, together with international companies, is building a \$7.3 billion Liquefied Natural Gas Project to treat its approximately seventeen trillion cubic feet of gas reserves. Total revenues of the LNG Company would amount to \$17 billion, the biggest financial source for Yemen for the coming twenty years.

Nevertheless, high oil export prices have sustained a positive current account balance and international extractive companies active in Yemen still regard the country as a significant asset. Canadian-based global energy company Nexen Inc. expects to generate approximately 15 percent of its projected 2008 cash flow from its Yemen operations. "In 2007, we invested \$139 million and added three million barrels of oil equivalent of proved

reserves," the company's February 2008 financial statement said. "In 2008, we expect to produce between 50,000 and 55,000 barrels of oil equivalent before royalties here."

Nexen's President and General Manager Gregor S. Mawhinney says that although their Yemen production is currently on decline, operations are stabilizing and new opportunities may arise in the company's second block, acquired in 2005. "There is an exploration program currently taking place in Block 51. We will be drilling two to three exploration wells there this year." For Mawhinney, the act of giving back to Yemen is just as important as the company's explorative success. "There will be a time down the road when Nexen leaves Yemen and we would like to think that what we leave behind is a very strong workforce and technology that can be used in the future."

Norwegian company DNO also believes a richer future for Yemen is in plain view. "We have an extensive program in Yemen with great potential," DNO's Chief Executive Helge Eide said recently. Eide also praised the company's drilling efforts in new Yemeni onshore wells, and said that the annual production from that region was in line with DNO's target for the fiscal year. General Manager Colin Kramer says DNO currently produces 15,000 barrels of oil per day from two blocks, and has accounted for 70 percent of the Yemeni sales. "Yemen has been a very important country for the development of DNO," says Colin Kramer. "That's for sure." ■



Yemen Confides in Entrepreneurship

During Yemen's pursuit of economic growth came the realization that the government needed to diversify away from oil-related businesses and, more importantly, increase the private sector's activity. To this end, the General Investment Authority of Yemen (GIA) streamlined the cost and time of registration processes by establishing essential ministry and relevant agency offices within its own premises. As a result, in the first half of 2007 alone, GIA launched 145 projects valued at over 133 billion rial (\$670 million).

"I believe that we live in a historical moment," says Mr. Salah Al-Attar, president of GIA, adding that the country has been benefiting for many years from high oil prices. "This is still a virgin market and so we have some advantages, such as relatively low operating costs. We would like to be a first-class destination on the Southern Arabian Peninsula, a window to Africa and the world." GIA believes Yemen's appeal for investors lies in the establishment of a stock market, the creation of small enterprises and accelerated privatizations, a huge potential in mineral extraction, and the possibility to attract mass tourism.

To a certain extent this vision has already been achieved by one of Yemen's largest and most revered commercial entities, the Hayel Saeed Anam Group (HSA). Its trading, industry, agriculture, and marine resources divisions have sprung the deserts and seas to reach many regional and international countries.

"We are exporting to thirty-eight countries, mainly in Africa, the GCC, Malaysia, and Indonesia," explains Shawki Ahmed Hayel Saeed. "Most of our expansion has been mainly to improve our capabilities for export." For this year it has planned the construction of a \$200 million cement plant, its largest project in Yemen to date, as well as a new hospital.

The group started trading seventy years ago in Aden and has built up a solid base through five trading companies. Major partners include Unilever, Ford, and Honda. In the 1970s and 1980s it greatly expanded its industrial activities with a strategy to improve the quality of life in Yemen through increased labor opportunities. "We have learned a lot from exporting, especially in terms of market needs and demands. The HSA Group strategy is to venture into big projects. The hotel sector and hospitals are good examples, but we are also starting in retail and will be expanding with a supermarket chain across the country."

The HSA Group's strong global relations have made it an ambassador of sorts for Yemen's private business sector. It is also one of the major and strategic sponsors of the World Economic Forum in Davos, and a member of the board of the Arab Business Council. Mr. Shawki Ahmed Hayel Saeed agrees that the perception of Yemen abroad is not optimal. This is why tourism should take center stage in the country's diversification efforts, as it has the capability to both render a better understanding of the country's rich culture and create more business and employment opportunities.

"Tourism is a big field of investment for Yemen. It is improving, and if we concentrate, a lot of people will benefit and improve the economic situation in Yemen," Saeed points out. Since the 1950s, one of HSA Group's main objectives has been social support. It was the first company in Yemen to employ women. Currently, one thousand women are on HSA's payroll



in positions ranging from manufacturing to management and department heads, and many are university graduates. “In Arabic we have a saying and a way of life that says you have to spend money to help the poor and society. People are a main source. It is a sector in itself. For investors you need two things: good people and good partners. Unless you have good support it will be very hard making money without these.”

Another long-standing member of the Yemeni trading community, the Shihab Insurance and Trading Agencies, also emulates this trust in people. With over 570 employees, Shihab is one of the largest distribution and consumer goods companies in the republic. According to Operation Directors Mohammed Akil Shihab and Naji Younes, trade has been at the heart of the Yemeni people for hundreds of years, and is probably the most significant factor in bringing nations together. “When people know that you are in a partnership with big names, they believe in you. We have translated that trust into reality by making their products a success in the market, making them market leaders.”

But Yemen does not solely rely on the private sector to support and materialize the government’s vision of development. This is a key motivation for one of the country’s most diversified government owned companies, the Yemen Economic Corporation (YECO). Its activities span a spectrum from the construction of a food industries complex in Bajil to investments in textile industries and an industrial gas factory. Most recently, YECO built and equipped an integrated tourist city in the capital, Sana’a, containing fifty residential units with two hundred apartments and four towers of sixty-four apartments each. YECO General Manager Ali Mohammed Al-Kuhlani says it is the commercial sector’s responsibility to look after the necessities of Yemen’s people and to be a linking chain between all sectors. Working with the government’s strategy, Al-Kuhlani’s objective for YECO is to “push our economy to a good place in the future. We have good relations with all private sectors in Yemen. With their collaboration we want to grow our collective economic future.” ■

Applying Ideological Tactics in Fighting Terrorism

Since the events of September 11, 2001, nations across the globe have been pulling together to find the most effective way of stopping the advances of terrorism and Islamic extremism in their tracks. Yemen, a peaceful, friendly Islamic republic, is no exception. Even without the vast U.S. counterterrorism budget at its disposal, Yemen’s government and clergy have been gaining ground on their own terms.

In 2002, President Ali Abdullah Saleh approached the issue on a basis of intellectual dialogue. Working on the premise that ideology can only be fought with ideology, detained terrorists—al Qaeda operatives among them—were engaged in a two-way conversation with an influential cleric and judge. Verses of the Koran served as the counterargument to the extremists’ support for a holy war. The strategy turned out to be effective, in that at long last prisoners were engaged in identifying and pacifying jihadists still at large in Yemen, in return for their own freedom. This tactic initially raised concerns within the Arab and Western worlds, but soon neighboring countries such as Saudi Arabia and Egypt realized the results were having a positive effect, adopting the method in their own antiterrorism programs. Serving as informants, released prisoners have exposed sleeper cells and foiled a number of attacks.

Currently, ex-jihadists in Yemen are trying to mediate with a younger, more violent generation of militants,

widely believed to have been behind a July 2007 suicide bombing in Marib in which eight Spanish tourists lost their lives. Direct attacks on these groups are therefore necessary, but the consensus is that the best way to save Yemen’s young from falling into the clutches of extremists is by altering the educational curricula, especially in Islamic schools, to promote science, languages, and geography in order to spread more awareness and understanding of the world. Hence development, investment, and structural aid to Yemen, particularly from the United States, are crucial in eradicating the sources of terrorism: poverty, unemployment, and ignorance.

“The United States is very important for us,” says Deputy Prime Minister Abdulkarim Ismail Al-Arhabi. “We are allies together in the war against terrorism. So far Yemen has done quite well and the United States recognizes the importance of Yemen in creating stability for the whole region.” Even if the two countries don’t always see eye to eye on tactics, all involved agree that nobody benefits from terrorism. ■

Strategic Media

Directors: Maja Lapcevic, Elodie Piat, Stephen de Vasconcellos-Sharpe

Editorial Director: André Carbonieri

Commercial Director – Global: David Seale

Project Coordinator: Amelie Bavetta

Project Assistant: Kristina Simrova

Chief Editor: Mark Riley

Project Assistant: Jamie Black

Graphic Designer: Branko Bobic

For more information contact: info@smlstrategicmedia.com

70
YEARS

study of opportunities
social solidarity
trust and transparency
sound planning
modernization
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continuous learning

A GIANT WITH STRONG ROOTS

The HSA Group is a giant with strong, infallible roots.

With nearly 70 years of experience and a strong presence in Gulf countries, the UK, Malaysia, Indonesia and Egypt, we are Yemen's first commercial group in terms of our investment volume and our competitive position in the market.

The Group includes industry, trade, services, and agricultural and marine resources companies, all of which have the International Quality Certificates.

Our commitment to sustainable development has earned us the trust of the people and an excellent reputation on both local and international levels.



Hayel Saeed Anam Group of Companies

HAYEL SAEED ANAM GROUP OF COMPANIES
Head Office P.O. Box 5302, Taiz, Republic of Yemen
www.hsagroup.com