Yemen Polling Center

www.yemenpoling.org

INVESTMENT OBSTACLES IN YEMEN

Field Study

September, 2006

Yemen Polling Center

المركز اليمني لقياس الرأي العام

CIPE

INVESTMENT OBSTACLES IN YEMEN

Field Study
September , 2006

Yemen Polling Center
(YPC) – Sana'a
Tel: 279771
Fax: 279772
contact@yemenpolling.org

Funded by:
Center for International Projects Enterprises (CIPE), affiliated with the American Trade Chamber in Washington.

Prepared by:
Dr. Adnan Assenwi
Assistant Professor of Economics – Sana'a University
Dr. Ali Mahyoob Alasali
Assistant Professor of Economics – Sana'a University

Staff trainers:
Experts from Center for Development Studies – Birzeit University – Palestine

Executive monitoring :
Mohammed Addahri
Following up
Ghamdan Al yosofi

Translated by:
Hakim Almasmari
Adel Al-Khawlani

Introduction:
This study discusses investment components and obstacles in the Republic of Yemen through collecting and analyzing viewpoints of concerned parties and consulting previous studies and researches of relevance. Also, it analyzed data and information from different sources including investors about the investment climate and how this climate suits the development of investment.

Significance of the study:
The study's significance stems from its correlation with one of the most importance economic processes, which countries rely on to support their economies and improve their infrastructure. The study sheds light on many aspects that explain the investment situation and horizons in Yemen, the means to develop investment and gives concerned and decision-makers an idea on how to help them take suitable steps to improve such a vital sector (investment).

Objectives of the study:
The study aims to:
- Identify the investment climate in Yemen from different areas including the general economic structure- general investments- economic stability- financial policies- monetary policies- the legal and legislative environment-features of competition-infrastructure- judiciary and tribunal procedures- capacity of the market and factors of income and expenses- education- workforce- the complementary elements-
- Obtain indicators and reliable evidence to describe the investment climate in Yemen.

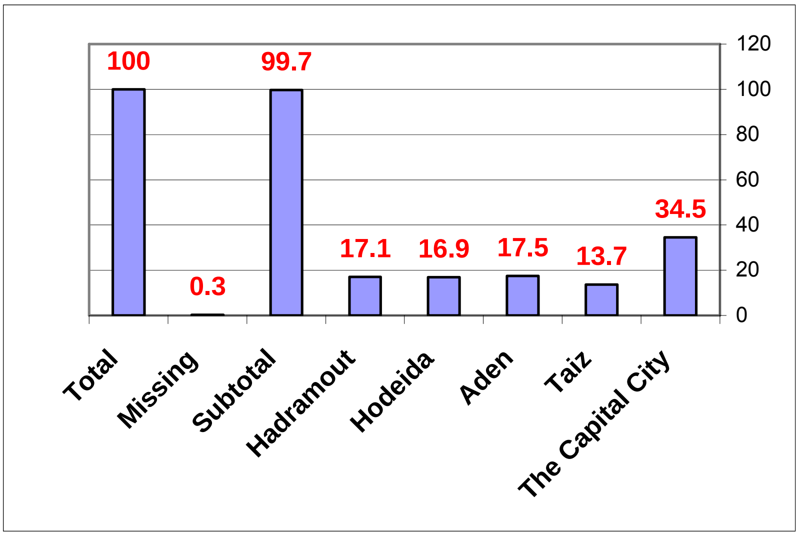
Methodology of the Study:
1- The study used a direct means that is interviewing participants to collect data on the topic. A questionnaire form was designed for discussing several issues related with investment and a group of eligible field researchers were selected to collect data. The researchers were trained at the Yemen Polling Center (YPC) by academics from Sana'a University who supervised implementation of the study, in addition to the Assistant Professor of Research Methodology at Beirzit University in Palestine and Chairman of Development Studies Center, affiliated with the university. The data entry team was specifically trained on the use of the SPSS program by Beirzit professors and specialists.
2- Selection of hypotheses: this party of the study was devoted to investigating authenticity of the study hypotheses by using the "Simple Linear Regression".

The First Statistical Hypothesis
This hypothesis indicates a cause-and-effect relationship between the financial and economic reform program, improving efficiency of financial institutions, restructuring and economic stability. Also, it referred to in vision variables on the one hand and forming good investment climate to attract local, Arab and foreign capitals, on the other.

The Second Statistical Hypothesis
This hypothesis implies a cause-and-effect relationship between the strategic stance, tackling obstacles and providing a good investment climate.

To reach the study's aims, the researchers selected a purposive sample, made up of different social groups concerned with investment. The study's geographical area is as follow: the Capital City, Taiz, Aden, Hodeida and Hadramout in light of the governorates' economy and population. Based on population, researchers specified the number of participants to be interviewed each governorate, as shown by the table below:

Governorate	No. of Participants	%	Weight
The Capital City	237	34.5	2
Taiz	94	13.7	1
Aden	120	17.5	1
Hodeida	116	16.9	1
Hadramout	117	17.1	1
Subtotal	684	99.7	
Missing	2	.3	
Total	686	100.0	



The researchers used the Descriptive Method in the theoretical analysis of investment and discussing its dimensions in light of previous studies and researches, as well as the secondary data, collected from several sources.

Background:

Yemen's Economic Structure:

During the 90s, the Yemeni economy experienced a decline of Gross Domestic Product and changes due to contribution of the main sectors, such as agriculture and industry in GDP. In the first of the last decade, Yemen's economy was subjected to many deterioration factors, and as result, the contribution of non-oil sectors declined. This forced the GDP to drop from US$ 901 million in 1990 to US$ 543 million in 1994 (the price of the US Dollar was 172 YR in 2000).

In 2000, Yemen's GDP was estimated at US$719 million (World Bank, 2001) and the GDP instability, accompanied by the deteriorating average per capita income, which declined from US$ 701 in 1990 to US$ 367 in 2000 and then to US$ 275 in 2002. With the individual annual income falling down, the unemployment rate and inflation rose and the demand of basic commodities rose too, leaving pressure on the economy.

Most of the transformational industries were concentrated on foodstuffs and oil refinery, while the non-mineral transformational industries came next in importance as they contributed 7% to the overall revenues coming from the industrial sector. Besides, the transformational industries contributed less than 1% only to the commodity exports, and 26% to the non-oil exports. However, this sector expanded remarkably, particularly during the period 1991-1993.

About investment:

No doubt that a good investment climate is an essential issue for the private sector and therefore the economic development depends mostly on the investment climate, which also helps create more job opportunities and alleviate poverty. So examining investment limitations and obstacles is very important, as it provides useful information for decision makers and the government about the policies that should be taken or corrected, and the issues that should be tackled. A study of this kind helps encourage investment and guides the private sector and civil community organizations on how to negotiate with regard to tackling any investment-related issues.

Investment is an economic process that uses capitals to pay for production equipment, reach interests, raise the productive efficiency and make up for the old capital. In light of this concept, investment falls into two types: The first type is "the Compensation Investment" that aims at maintaining survival of the capital through the use of ruin allocations to replace the old capital with a new one.

The second type is represented by the net investment. The net investment is also any money added to the original capital and increasing the productive capacity. The types of this are called the total investment, and based on the two types of investment, the world countries are divided into:

(1) The countries experiencing rapid economic development and whose productive capacity increases, and these countries can make up for the capital by building up a new capital while their total investment is larger than ruin allocations.
(2) The countries experiencing economic recession and therefore, they maintain their productive capacity at a gradually declining level for their rapid population growth. These types of countries can compensate for the old capital without any increase while their total investment equals the total ruin allocations and the net investment equals zero.
(3) The countries whose productive capacity falls down and they spend the capital while the total investment becomes less than ruin allocations.

The economic activities are affected by many overlapping and correlated elements that interact with each other to create a motive for more tendencies toward investment in any country. These elements comprise the investment climate and include political and social stability- availability of economic, natural and human resources-administrative systems- skills, knowledge and experience- availability of infrastructure and laws and legislations or the so-called legal frame, which provides two types of investment-related laws: Monitoring Laws, aimed at protecting capital owners and investors and combating the phenomenon of cheating, bribery and financial and administrative corruption. Also, there are Investment Boosting Laws, which aim to attract capitals and provide a safer environment for foreign investors. These laws are topped by banks, trade firms and privatization laws.

In light of the above-mentioned, there are a number of economic and political conditions, policies and institutions that impact the investor's trust and persuade him to shift into another country. This issue is exacerbated by many objective, psychological, legislative, political, economic, and social factors.[1]

The practical experience in most developing countries proves that providing the good investment climate necessarily ensures a successful investment. The matter is concerned with the investor's efforts and the goals set before him to achieve with the pervasive climate in any country.

Several countries and international organizations such as the World Bank and the UN Development Program are interested in conducting studies of this kind worldwide. There are many indices labeling countries in terms of convenience of investment climate or the indicators of competition, corruption and good governance. But until now, there has been no broad study on the investment climate and investment obstacles in Yemen that complies with standards required for such a kind of studies.

The current investment situation in Yemen:

The General Investment Authority (GIA) was established under Law No. 22 issued in 1991, which aims to uniform the treatment of investors. In 1995, the law was amended with the aim to reduce authorities of the GIA Board of Directors, chaired by the Prime Minister and many other ministers, as these authorities were believed to pose difficulties to investors such as the prolonged investment-related procedures.

In 1997, the law was amended once again and this gave the GIA Executive Board more

[1] Dhafer (1998)- Yemeni Economic Conference

authority to serve investors and foster investment projects without consulting the Board of Directors whose authorities were confined at that time to designing the GIA policy and approving its plans. The time period required for completing any project procedures was set at 30 days and many exceptions were dropped. This was short-lived and the Investment Law was amended for the third time in 2002. 80% of the law articles were amended, in addition to the amendments to work of the GIA the task of which was limited to the registry of projects and concentrating on investment promotion. According to parties concerned, these amendments constituted the real move for dealing with investors, particularly after completing the Law's Executive Bylaw. Investors were then allowed absolute freedom to run their businesses and import any need equipment for his projects, as well as to claim its rights without any intervention by the GIA or other parties in his work. The time period required for completed the procedures of any investment project was reduced to 15 days. These procedures include providing investors with the special lists of exemptions, trade register and other facilitations, which motivated investors to initiate new projects and expand their business. [2]

Investment projects registered and licensed by the GIA since its inception in 1992 until 2006, numbered up to 5,679 in all Yemeni governorates. They covered the economic, service, tourist, agricultural and fishery sectors with a total cost exceeding 1.3 trillion Yemeni Riyals and creating over 174 thousand job opportunities.

GIA official scores reveal that the GIA registered projects during the first quarter of 2006 exceeded 95 at a total cost of over 135 billion Yemeni Riyals. These projects provided more than 3,382 job opportunities. The industrial sector got the lion's share of these projects (55 projects at a cost of 117, 6 billion Yemeni Riyals, making around 2,266 job opportunities available. The tourist sector's projects reached 14, at a total cost of 13.6 billion Yemeni Riyals and helped create more 355 job opportunities while projects of the service sector totaled 13 for a cost of 1.7 billion Yemeni Riyals.

The agricultural sector got seven projects worth 755 million Riyals and provided 145 job opportunities. The fishery projects cost 1.9 billion Riyals and provided 197 job opportunities.

Comparing the number of licenses for GIA registered projects with the investment growth between 1992-2005; it has been made clear that investment projects for the period reached 5,128 worth 1.25 trillion Yemeni Riyals, making an annual growth rate estimated at 7.9%. These projects helped provide around 174,000 job opportunities and implied an improvement in Yemen's investment climate and environment, particularly after drafting the New Investment Law that boosted investment projects in different sectors with an average cost of 500 million Yemeni Riyals for each project. Fundamental amendments [3]

[2] Dhu Yazan Mukhshaf "Investment in Yemen: Scores revealing reality of the present and future", an interview with GIA Chairman, which was published in the Economic Supplement of Al-Jumhouria Newspaper- Sunday, May 28, 2006.

[3] Central Bank of Yemen "Annual Report, 2005", p.24.

Investment features in Yemen:

Yemen is rich with many primary components that help attract investment such as its strategic location, it being a linking point between Europe and Asia and the main entrance to the Horn of Africa. Another important component is the availability of human resources characterized by low offers but high competitive capacities and skills. According to 2003 stats, the overall workforce aged 15 and over constitutes around 45 percent of the population of the country. In addition, Yemen has a 2,600 km-long coastline and its water is rich with fisheries.

Yemen's regional waters include 183 islands in the Red Sea, Aden Gulf and the Indian Ocean. All these islands are qualified for tourist investment at the Arab level and internationally. These islands were clustered into sectors to attract investment in light of the new international economic system with its three components: the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and World Trade Organization (WOT).

The study attempts to survey viewpoints of people concerned with local and foreign investments via a questionnaire form aimed at diagnosing investment obstacles according to their priorities to improve performance of investment activities as follows:

- Indicators of economic policies and effects
- Gross Domestic Product
- Workforce
- Education and health services
- Economic resources
- Laws and Legislations
- Investment Promotion Authority.

Data resources

There is an important question as for the classification of Yemen among countries whose economy is not a secure one. In a statement given by an investor to Economy Supplement of Al-Jumhouriah Newspaper called markets (Aswaq), an investor pointed out that foreign banks do not accept letters of credit issued by Yemeni banks.

He further indicated that an investor devotes a great deal of his capital in the project and then looks for loans to finance the rest, but he finds that foreign banks will not give loans for investment projects in Yemen.

This matter should be put before the concerned authorities and banking industry leaders in Yemen as it shapes a great obstacle before any investments in Yemen. Failing to resolve this matter together with the other investment obstacles will make any investment legislations or any tendencies to draw investments a mere chatter.

It is important here to hint at other obstacles relating to the feeble administrative performance, passive bureaucracy, multiple government parties involved in money collecting, different sources for licensing, the poor infrastructure as for roads, telecommunications, specialized markets, high fees paid for electricity, water and telephone services and rarity of a qualified Cadre.

Additionally, there exist other problems like the poor level of the judiciary system, and the involvement of many parties as for commercial judiciary to which investors resort when some one comes up claiming the ownership of the lands they bought to establish their investment projects.
Attracting investment is not an easy matter as it is not confined to issuing laws, legislations, statements, etc., but also demands the existence of other factors involving material, human, judicial and administrative elements, as well as the natural factors.

Yemeni government has adopted a chain of laws relating to the creation of a suitable land for investment. It established apparatuses like the General Authority of Investment, Free Zones Authority as well as issuing a range of new financial laws and tax legislations. Further, it paid more attention to the institutional activities of the Central Bank of Yemen and reformed the monetary policies; but still there are other awaiting tasks before the state relating to monetary, financial and tax authorities as well as correcting the structural dysfunctions.

Here, we are to review the most obstacles that hamper the attraction of local and foreign investment:

Legal Obstacles:

The legal obstacles lie in the inability to prove land and real estate ownership, the dominance of influential people and then arises the problem of the joint responsibility between different government institutions which delay the implementation of many projects and further make investors hesitant about even thinking of buying land, real estates or investing them.

In such cases, investment is considered risky for both life and money. The high costs of infra-structure services for electricity, telephone, roads and over taxation, customs, Zakat and other fees will overburden the shoulders of merchants as well as foreign investors, thus causing them to abandon the idea of investing in Yemen.

Administrative obstacles:

The corrupt bureaucratic system will waste the investor's energy and time spent wandering around government offices prior to the establishment of his project.

There exist no principles for assuming the posts and further you find corrupt officers, instead of being referred to judiciary for illegal enrichment and public money exploitation, are assigned high posts, thus affecting the performance and shaping a pushing factor for local and foreign investments.

Incompetence of human resources:

Another investment obstacle is the lack of competent people who are able to deal with foreign investing companies which have a long history in investment. Further, most Yemeni human power does not have the ability to use new technology and English language which is the base when dealing with such companies.

Structural obstacles:
Infra-structure as for telecommunication webs and existing roads are not to the level to

suit the size of the anticipated activities. High prices for energy and the constant cuts of electricity are also other factors for hindering investment. Additionally, there exist no industrial zones as it is the case with some neighboring countries where an investor can make his projects over a land with all required services.

Financial obstacles:

These obstacles lie in the existence of many tax authorities and customs as well as the lack of protection for industry and trade sectors from the destroying effects of smuggling, e.g. the size of smuggled cigarette into the Yemeni market is estimated at YR 7 billion.

Another obstacle relates to Wagib'aat (duties paid to the government), which is part of the Islamic pillars. The problem is not with Wagib'aat, but there are other duties added to the real sums under different names.

The absence of just customs and taxes over the local products and the imported ones will make local products carry extra burden and fail to compete with the imported goods.

Technical problems:

The failure of technical education to supply the market with a trained technical and vocational cadre is considered another obstacle before investment. Further, aviation and navigation network linking Yemen to the world is poor.

The coming tourists and investors heading to Aden have to stop in Sana'a to resume their journey later to Aden or to take a car, while the matter should be different and there should be direct flights to Aden as it is the case with cities like Sharm Al-Sheikh and Al-Ghardaqa in Egypt.

Recently, Ahmed Al-Kuhlani, Aden's Governor, took a right decision as he made Aden an open sky for aviation and direct flights.

Judicial obstacles:

The local, Arab or Foreign investor will be shocked at the judicial system in Yemen in general and commercial judiciary in particular, as soon as they get involved in an issue.

The commercial judiciary, though a specialized in resolving investment issues, suffers a lot of shortcomings: judges do not know English, they also do not know about the principles of the international law.

The judges also do not know the special systems of the international unions involving commercial activities, e.g. Chamber of International Commerce, Navigation laws, the conditions of sea transport contracts.

Other problems are the lack of courses aiming to make judges know the latest developments involving investments and the delay of trail procedures. There is also no execution for the issued judgments, particularly when a government institution is involved in the case, thus causing investor's rights to be lost.

The instability of Yemeni law and the overlapping involving different judicial systems will create a lot of problems and the investment issues will be circulating between them. The commercial judiciary further suffers from the continuous movement of judges, thus confusing its activities. All these reasons combined will prevent the flow of foreign investments into our market in spite of all benefits and temptations provided.

The study surveyed 947 Yemeni firms about the business system and the investment climate and found out that there are many restrictions that hinder investment development in the private sector in Yemen.

Review and discussion of the study outcome

Introduction:
This part of the study reviews and discusses the most important outcome reached by the field study and includes the following subheadings:

1- Field of the study and statistical processing means
2- Review and discussion of the study findings
3- Selection the statistical hypothesis

Field of the study and statistical processing means:

This part reviews viewpoints of administrative leaders in business organizations, thought of as the components of GDP including transformational industries, agriculture and services. In addition, it covers viewpoints of those concerned in official parties with the aim to reach viewpoints on the nature of strategic moves, vision, message and aim. In other words, it discloses the nature of participants' strategic attitude toward providing a convenient investment climate, due to stem from features of the economic policy in Yemen, which moves toward the financial and economic reform and encourages local, Arab and foreign investments.

Also, more emphasis was laid on business organizations to help make available good investment climate that complies with moves of structural reform and economic stabilization. This is discussed according to themes and variables mentioned in the questionnaire form, which was handed out to participants, who are mainly concerned on how to make a good investment climate.

Study Community
The study community covers many business organizations workings in the sectors that comprise the national economy. So, the community was selected according to the following:

- As part of the development strategy, Yemen worked hard to reach income source expansion goals by directing investments toward the main sectors comprising the national economy: transformational industries, agriculture and services. Also, Yemen exerted efforts to involve the private sector in achieving economic and social change, paving the way for sustainable development with its three components: economic an social development, fair distribution of national income (eradicating poverty and tackling unemployment and environment protection.
- As part of the development strategy, Yemen worked on boosting the Open Market Economy to attract local, Arab and foreign capitals.

Participants:

After specifying the field study, the researchers selected participants and people, who are directly concerned with strategic decision making and interested in providing a good investment climate to overcome any difficulties or barriers posed to investment. The sampling covered chairpersons and managers of business establishments and their aides. A stratified random sample of 686 participants who helped the field researchers with high transparency was selected to achieve objectives of the study. The study supervisors then collected the questionnaire forms after being filled in and used the SPSS Program for data entry.

Describing participants:

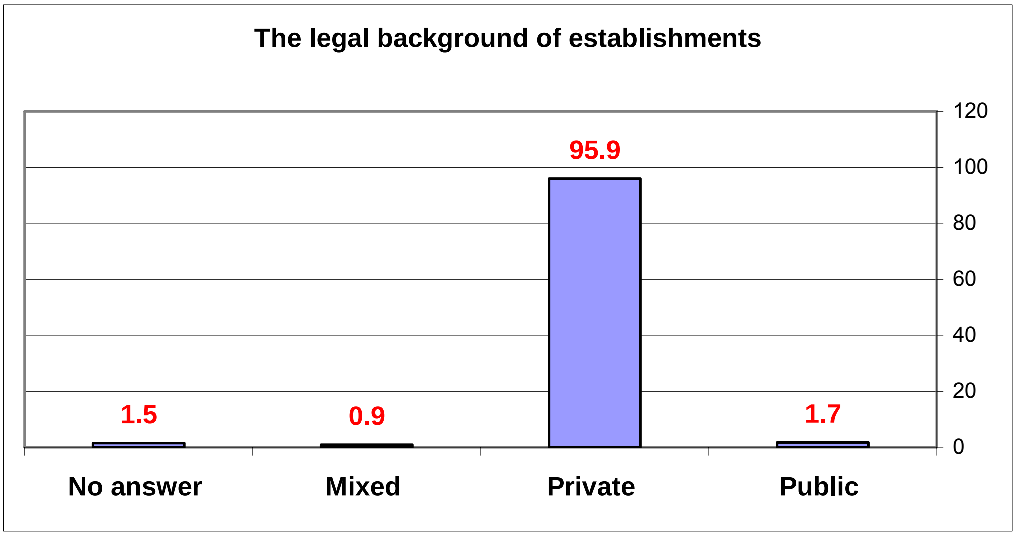
The study community covers several establishments working in sectors comprising the national economy, and the nature of these establishments was discussed as follows:

First: Distributing establishments according to the legal context

Table (1) reveals that in terms of the legal context, the sampled establishments fall into public sector establishments and private sector establishments. The latter constitutes 95.9 percent of the overall sampled establishments and the former 1.7%, and the fact is attributed to the economic reform program, represented by privatizing the public sector. The mixed sector accounts for 0.9 percent of the overall surveyed establishments.

Table (1): The legal background of establishments

Sector	Frequency	%
Public	12	1.7
Private	658	95.9
Mixed	6	.9
No answer	10	1.5
Total	686	100.0

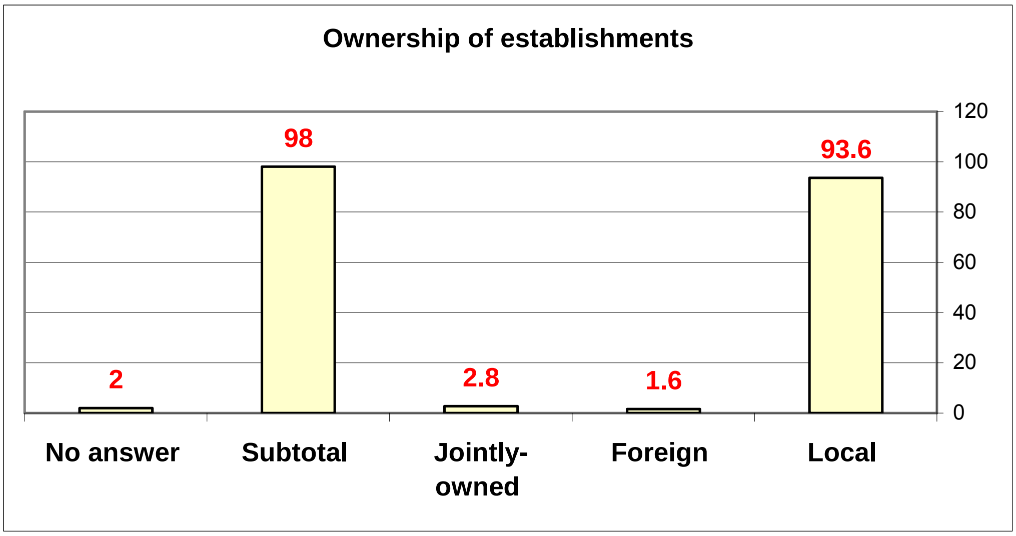


Second: Labeling establishments according to ownership

A cursory glance at table (2) makes it clear that in terms of ownership there are local, foreign and jointly-owned establishments constituting 93.6%, 1.6% and 2.8% of the overall sample, respectively. This indicates the very rare contribution of foreign and jointly-owned establishments to economy and this requires hard work to attract foreign firms via providing good investment climate.

Table (2): Ownership of establishments

	Frequency	%
Local	**642**	**93.6**
Foreign	**11**	**1.6**
Jointly-owned	**19**	**2.8**
Subtotal	**672**	**98.0**
No answer	**14**	**2.0**
Total	**686**	**100.0**

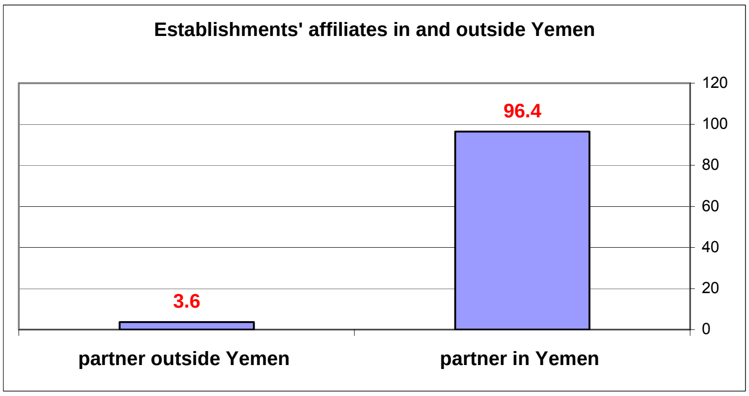


Third: Establishments' partners

In terms of the partners of establishments in and outside Yemen, the partners exercising business in Yemen number 519, compared to 24 Yemen-owned affiliates working outside the country and they constitute only 4.62% of the surveyed affiliates. This requires expanding the scope of establishments' affiliates working outside the country, in addition to joint work with effective establishments in the region.

Table (3): Establishments' affiliates in and outside Yemen

Establishments' affiliates	Frequency	%
partner in Yemen	519	**96.4**
partner outside Yemen	24	**3.6**
Total	543	**100.0**



Fourth: Distributing establishments according to capital

Table (4) shows that the distribution of surveyed establishments in terms of the capital, ranging from one million Yemeni Riyals (minimum capital) and one billion Yemeni Riyals (maximum capital. According to the table, most the companies stand within the first frequency range (1-50 million Riyals, with 45% of the overall sampled companies. The fact implies that companies working in Yemen have very limited capitals. The other frequency ranges of companies' capital accounts for 2- 27 percent of the sample.

Companies according to capital

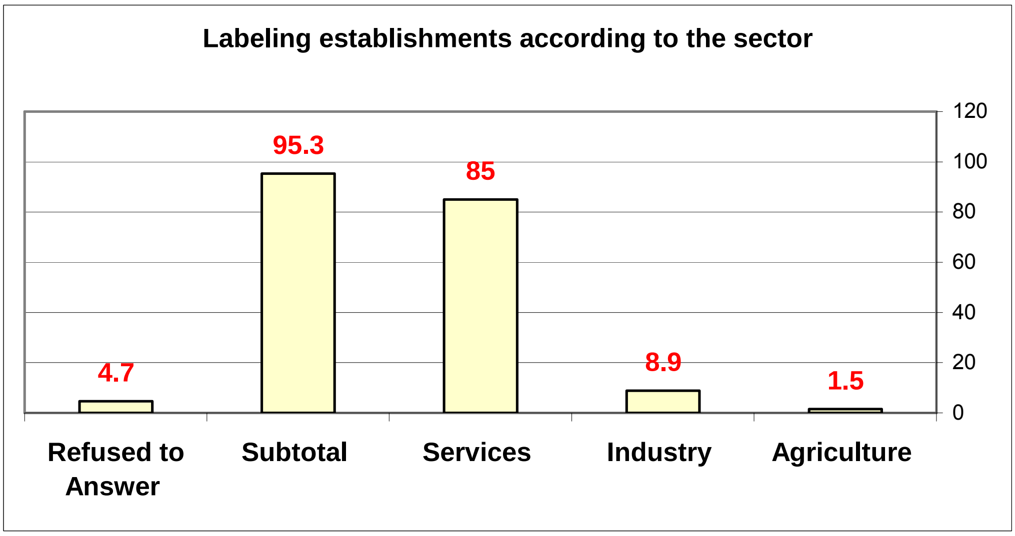
Range in million YR	No. of companies	%
1 – 50	312	**45.5**
51 – 160	182	26.5
161 – 250	101	14.7
251 – 500	42	6.1
501 – 999	33	4.8
Billion and over	16	2.3
Total	686	100

Fifth: Labeling establishments according to sector

Table (5) explains how the surveyed establishments are distributed in light of the sector they belong to: Agriculture – Transformational Industries – Services. Establishments belonging to the first sector account for 1.5% of the sample and those belonging to the second constitute 8.9% while the third sector-affiliated establishments came at 85%. As most of the companies are found to exercise business in the service sector, closer attention should be paid to the other sectors to demonstrate a relatively equivalent contribution to GDP, tackle the issue of unemployment and alleviate poverty.

Table (5) Labeling establishments according to the sector

The sector	Frequency	%
Agriculture	**10**	**1.5**
Industry	**61**	**8.9**
Services	**583**	**85.0**
Subtotal	**654**	**95.3**
Refused to Answer	**32**	**4.7**
Total	**686**	**100.0**



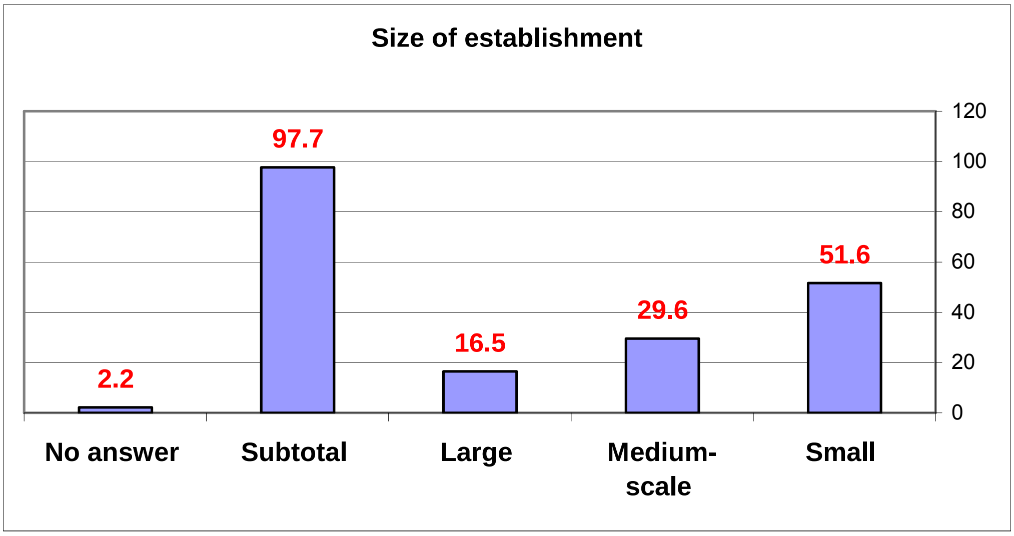
Sixth: Size of establishment

Table (6) labels the surveyed establishments into small, medium-size and large with 52%, 29.3% and 16.2% respectively. In other words, more than 50% of the surveyed establishments are small scale firms lacking large production facilities. As a result, the competitive capacity, upon which concepts of quality and cost in the targeted markets are based, declines.

The situation requires expanding the production base in these firms via the provision of convenient funding resources or the integration and partnership with effective companies in the local market or internationally. Also extensive efforts are required to directly or indirectly attract internationally reputable firms to invest in the country.

Table (6): Size of establishment

Size of establishment	Frequency	%
Small	354	51.6
Medium-scale	203	29.6
Large	113	16.5
Subtotal	670	97.7
No answer	15	2.2
Total	685	100.0



Participants information:

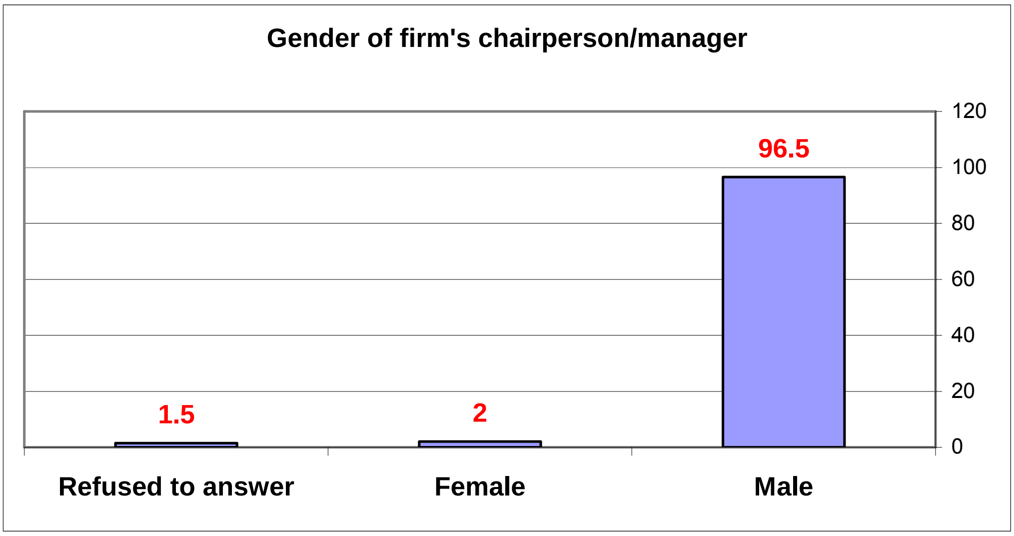
Participants' personal information, as filled out in the questionnaire form was discussed as follows:

1- Gender

Table (7) reveals that male participants in the surveyed establishments constituted an overwhelming majority with 96.5% of the 686-participant sample. Females accounted only 2% of the sample and the fact is attributed to the nature of work in the surveyed firms that are men-dominated and almost all the high posts (chairpersons and general managers) are occupied by men.

Table (7) Gender of firm's chairperson/manager

Gender	Frequency	%
Male	**662**	**96.5**
Female	**14**	**2.0**
Refused to answer	**10**	**1.5**
Total	**686**	**100.0**



2 – Age

Table (8) shows participants' age groups where 39.2% and 36.2% of the participants are aged under 30 and 31-40 years respectively. These age groups represent creative youths, required by some strategic attitudes. 17.9% of the sampled are aged between 41-50 years. This age group is characterized by full maturity that helps tackle issues, confront crises and take good strategic decisions.

Table (8) Participants' age groups

Age group	Frequency	%
Less than 30 yrs	**269**	**39.2**
31 – 40 yrs	**248**	**36.2**
41 – 50 yrs	**123**	**17.9**
51 – 60 yrs	**34**	**5.0**
More then 60 yrs	**6**	**.9**
No answer	**6**	**.9**
Total	**686**	**100.0**

3 – Qualification

A cursory look at table (9) makes it clear that people in charge of the surveyed establishments are highly educated, as 42% of them have bachelor's degrees and 4% are M.A. and Ph.D. holders. This reflects the good business administration in these establishments, which are run by a qualified staff, capable enough to formulate strategic visions to drive establishments toward a better future.

Participants' education level

Education level	Frequency	%
High school uncompleted	**105**	**15.3**
High school completed	**255**	**37.2**
University completed/equivalent	**288**	**42.0**
M.A.	**17**	**2.5**
Ph.D.	**10**	**1.5**
No answer	**11**	**1.6**
Total	**686**	**100.0**

Statistical manipulation of the data

The data were manipulated in light of variables specified in the questionnaire form, passed out to participants, who are mainly concerned with forming a good investment climate, in addition to the components of this climate and challenges posed to local, Arab and foreign capital attraction mechanism.

The variables were referred to by symbols after they were removed from the questionnaire form, based on Likert Scale. They were then entered into a computer and manipulated statistically by using the SPSS Program to achieve the aims of the study and verify the hypotheses. The following statistical manipulation means were used:

- Frequencies and percentages to review and analyze participants' responses
- The Mean to show the average participants' response according to the following formula

$$\bar{x} = \frac{\sum xjFR(xj)}{N}$$

- The Standard Deviation to know incompatibility of participants' responses from the Mean. Given below is the Standard Deviation Formula:

$$S = \frac{\sqrt{\sum_{j=1}^{n} (xj - \bar{x})^2} FR(xj)}{n-1}$$

- Coefficient Variation to measure the range of compatibility between participants' responses.
- The Simple Regression
- The Stepwise Regression to test the statistical hypotheses.

Review and discussion of the field study:

To achieve objectives of the study, this part analyzes domains of the study as viewed by participants, people occupying high posts in production and service organizations applying statistical descriptive formulas: frequencies, percentages, standard deviation and coefficient variation by using the SPSS program. In other words, the variables of the questionnaire from were manipulated as follows:

First: Indicators of the participants' strategic move: vision and mission toward the investment climate

Vision and mission

a. Components of Investment in Yemen

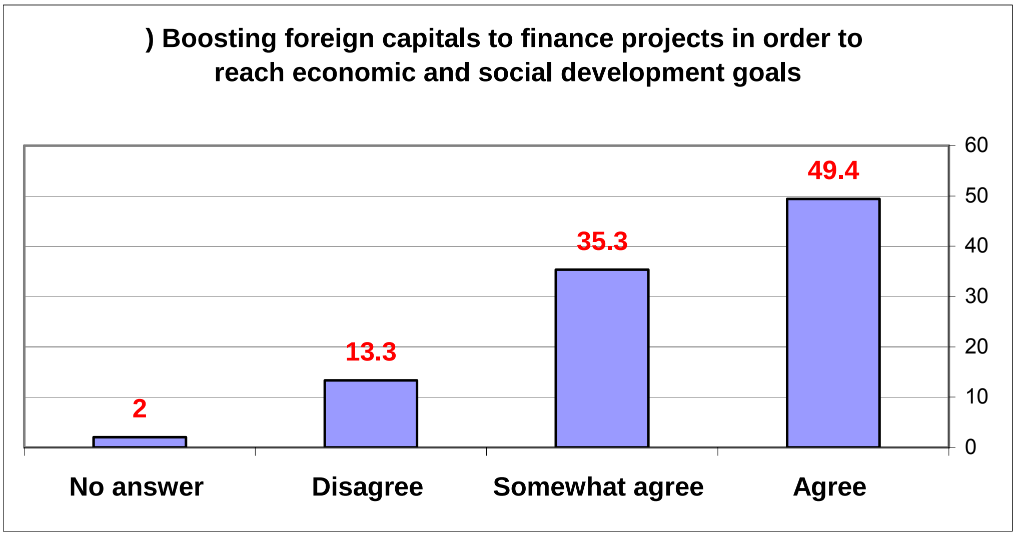
The study used Frequency Distribution, Mean, Standard Deviation, which measures incompatibility between participants' responses and Coefficient Variation that measures compatibility of participants' responses to generalize the findings on the study community and participants' vision toward understanding the convenient investment climate as follows:

1 – Boosting local, Arab and foreign investment achieves goals of the sustainable development (XI)

Table (11) reveals that 57.4% of the sample agrees that Boosting local, Arab and foreign investment achieves goals of the sustainable development. 25.2% somewhat agree while 16.3 disagree. Therefore the Mean, Standard Deviation and Coefficient Variation were calculated at (2.27), (0.86) and (36%) respectively.

Table (10) Boosting foreign capitals to finance projects in order to reach economic and social development goals

Answer	Frequency	%
Agree	**339**	**49.4**
Somewhat agree	**242**	**35.3**
Disagree	**91**	**13.3**
No answer	**14**	**2.0**
Total	**686**	**100.0**
Mean	2.27	
Standard Deviation	0.86	
Coefficient Variation	36%	

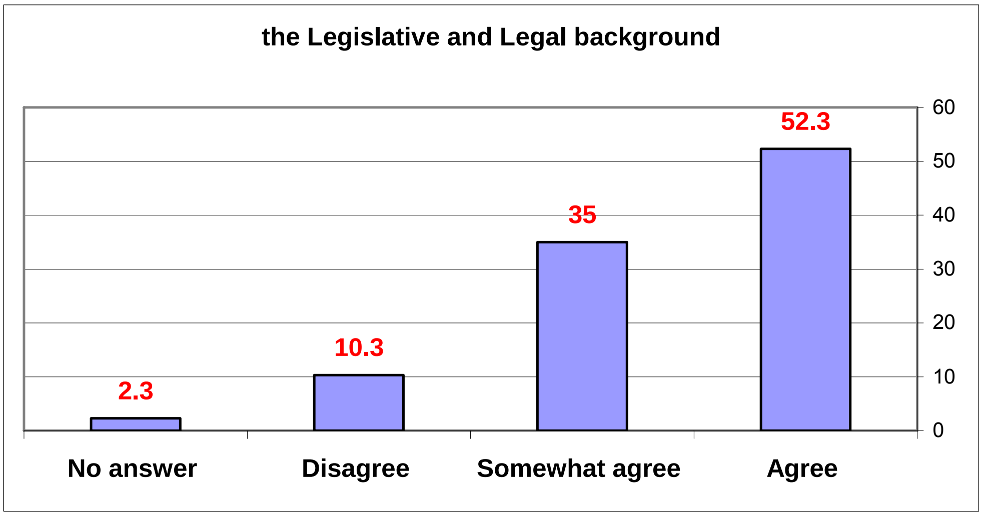


2 – The Legislative and Legal background

ompanies Law, Taxation Law, Investment Law. All these laws are updated to cope with new world economic system whereas the legislative and legal context is pondered upon as one of the main components in forming the investment climate. Table (11) indicates that 52.3% of the sample agree with this notion, 35% somewhat agree while 12.6 of the total participants have different viewpoints (disagree). The Mean, Standard Deviation and Coefficient Variation were calculated at (1.76), (0.6) and (31%) respectively.

Table (11) the Legislative and Legal background

Answer	Frequency	%
Agree	359	52.3
Somewhat agree	240	35.0
Disagree	71	10.3
No answer	16	2.3
Total	686	100.0
Mean	1.76	
Standard Deviation	0. 6	
Coefficient Variation	31%	



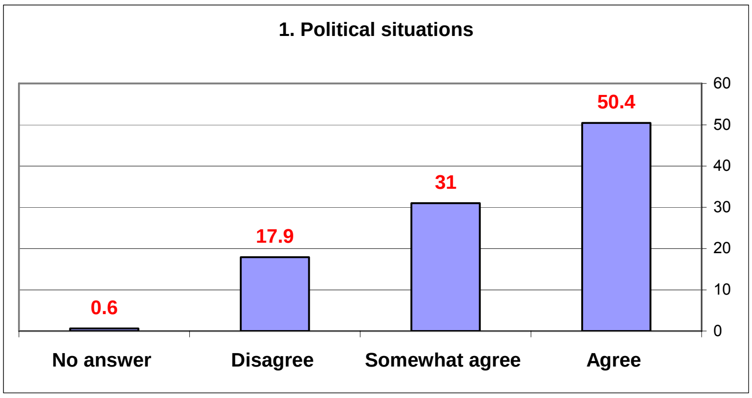
3 – Political and Social Stability:

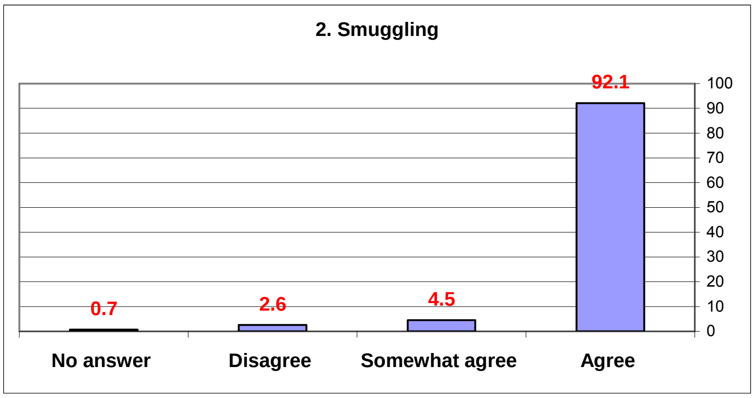
This means the political situations, the phenomenon of smuggling, security situation and the phenomenon of kidnapping, in addition to the financial corruption, which is considered an important element for attracting foreign capitals.

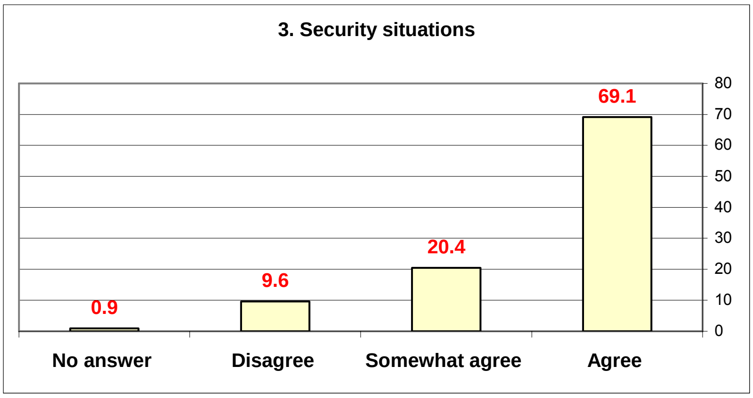
A cursory look at table (12) reveals that 78% of the sample agree with the significance of these variables to attracting capitals and 14.2% of them somewhat agree with the notion. The Mean, Standard Deviation and Coefficient Variation of the variable were calculated at (1.12), (0.34) and (3%) respectively. Therefore, the low value of Coefficient Variation implies compatibility between the participants' answers.

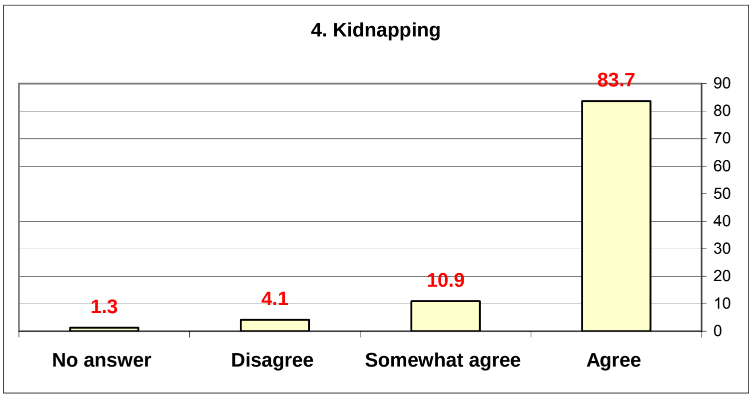
Table (12) Political Obstacles

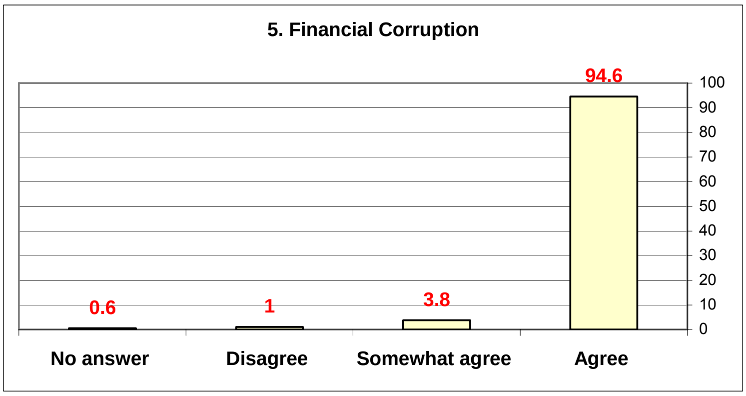
Nature of obstacles		Agree	Somewhat agree	Disagree	No answer	Total
1. Political situations	Freq	346	213	123	4	686
	%	50.4	31.0	17.9	.6	100.0
2. Smuggling	Freq	632	31	18	5	686
	%	92.1	4.5	2.6	.7	100.0
3. Security situations	Freq	474	140	66	6	686
	%	69.1	20.4	9.6	.9	100.0
4. Kidnapping	Freq	574	75	28	9	686
	%	83.7	10.9	4.1	1.3	100.0
5. Financial Corruption	Freq	649	26	7	4	686
	%	94.6	3.8	1.0	.6	100.0
Mean	1.12					
Standard Deviation	0.54					
Coefficient Variation	3%					









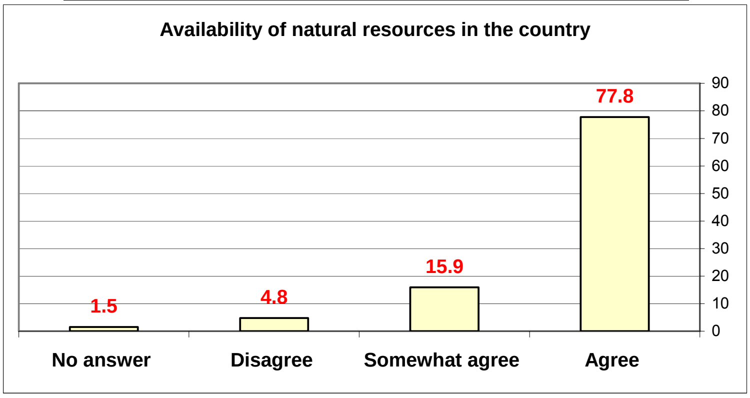


4 – Availability of natural resources in the country

According to table (13), 77.8% of the sample participants agree that this variable is very important, 15.9% somewhat agree while only 4.8% of the participants disagree. The Mean, Standard Deviation and Coefficient Variation for the participants' responses were calculated at (2.5), (0.66) and (25.6%) respectively.

Table (13) Availability of natural resources in the country

Answer	Frequency	%
Agree	534	77.8
Somewhat agree	109	15.9
Disagree	33	4.8
No answer	10	1.5
Total	686	100.0
Mean	2.5	
Standard Deviation	0.66	
Coefficient Variation	25.6%	

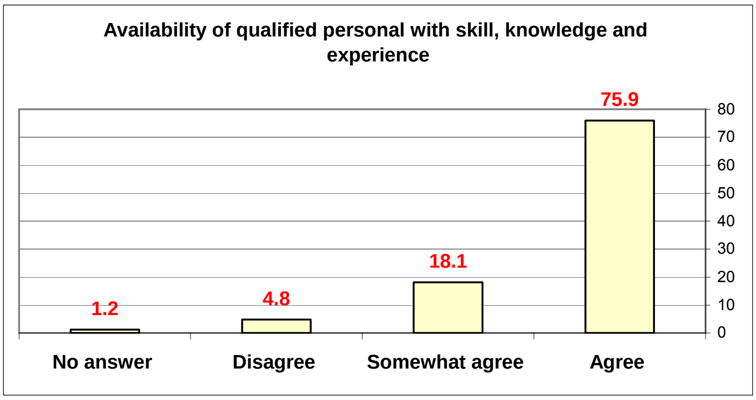


5 – Availability qualified personal with skill, knowledge and experience

A quick glance at table (14) reveals that 75.9% of the overall interviewed participants agree that this variable is very important to running business of foreign organizations and is economical in the cost. 18.1% of the participants somewhat agree with the notion while 4.8% of them disagree. The Mean, Standard Deviation and Coefficient Variation for the participants' responses were worked at (2.84), (0.37) and (13%) respectively.

Table (14) Availability of qualified personal with skill, knowledge and experience

Answer	Frequency	%
Agree	**521**	**75.9**
Somewhat agree	**124**	**18.1**
Disagree	**33**	**4.8**
No answer	**8**	**1.2**
Total	**686**	**100.0**
Mean	2.84	
Standard Deviation	0.37	
Coefficient Variation	13%	

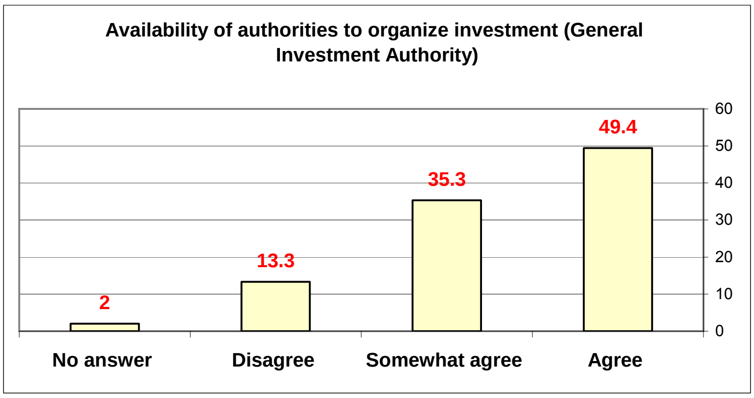


6- Availability of authorities to organize investment (General Investment Authority)

According to table (15), 49.4% of the sample agrees that an authority to organize investment is vital, as it helps overcome obstacles and duality in giving directives. Also, this authority facilitates procedures to get licenses. The tabulated data clarifies that 35.3% of the participants somewhat agree with the notion while 13.3 disagree. The Mean, Standard Deviation and Coefficient Variation for the participants' responses were worked at (2.7), (0.46) and (17%) respectively.

Table (15) Availability of authorities to organize investment (General Investment Authority)

Answer	Frequency	%
Agree	**339**	**49.4**
Somewhat agree	**242**	**35.3**
Disagree	**91**	**13.3**
No answer	**14**	**2.0**
Total	**686**	**100.0**
Mean	2.7	
Standard Deviation	0.46	
Coefficient Variation	17%	



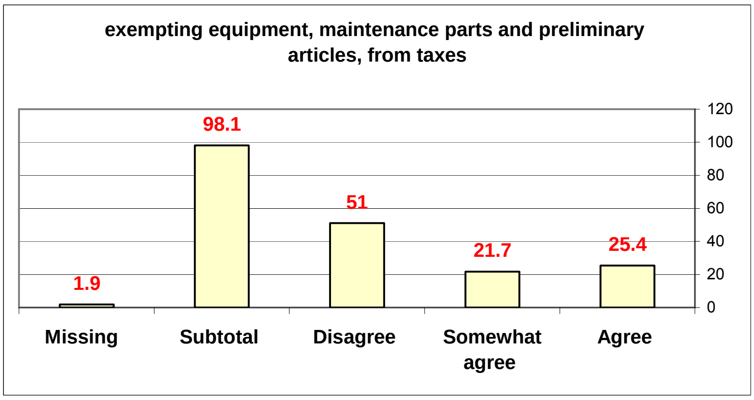
7 – Benefits of investment projects

As a result of reform programs, parties concerned with investment activities should pay closer attention to the significance of investment to reach the sought goals. However, exempting equipment, maintenance parts and preliminary articles, necessary for project implementation, from taxes is a very important subject.

Having a cursory look at the table below, one finds that the majority of participants have no interest in exempting the above-said imported objects from taxes, as this may help improve the investment climate. Only 25.4 of the sample agree with this variable, 22% of them somewhat agree, compared to 51% of the overall participants who disagree. The Mean, Standard Deviation and Coefficient Variation of the participants' responses were worked at (2.84), (0.37) and (13%) respectively.

Table (16) exempting equipment, maintenance parts and preliminary articles, from taxes

Answer	Frequency	%
Agree	174	25.4
Somewhat agree	149	21.7
Disagree	350	51.0
Subtotal	673	98.1
Missing	13	1.9
Total	686	100.0
Mean	2.84	
Standard Deviation	0.37	
Coefficient Variation	13%	



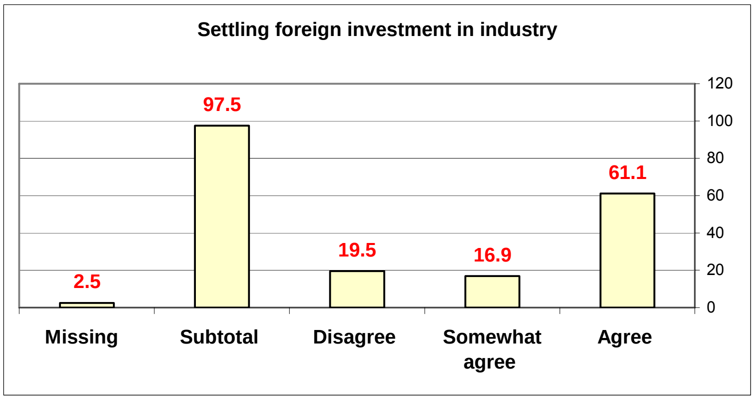
8 – Settling for foreign investments

- The sectors of transformational industries, agriculture and services

The tabulated data indicates that 61.1% of participants agree with the notion of settling foreign investment in the sectors of transformational industries, 17% of them somewhat agree while 19.5% disagree. The Mean, Standard Deviation and Coefficient Variation of the participants' responses were worked at (1.12), (0.32) and (29%) respectively.

Table (17) Settling foreign investment in industry

Answer	Frequency	%
Agree	**419**	**61.1**
Somewhat agree	**116**	**16.9**
Disagree	**134**	**19.5**
Subtotal	**669**	**97.5**
Missing	**17**	**2.5**
Total	**686**	**100.0**
Mean	1.12	
Standard Deviation	0.32	
Coefficient Variation	29%	

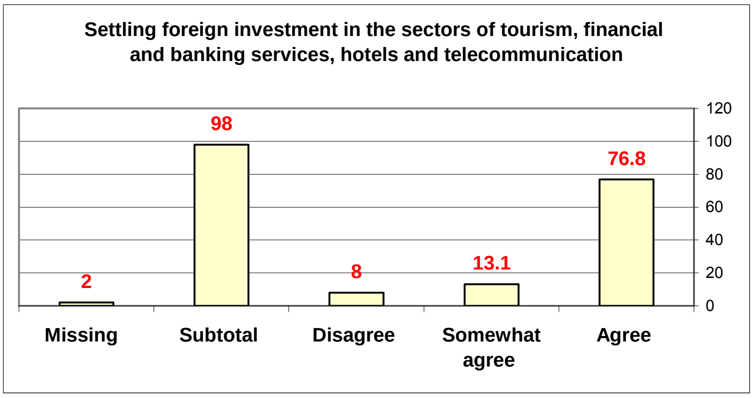


Settling foreign investment in the sectors of tourism, financial and banking services, hotels and telecommunication:

76.8% of the sample agrees with settling foreign investment in the sectors of services, financial and banking activities, hotels, tourism, telecommunication, education and health. 13.1% of the participants somewhat agree with the notion while 7.7% disagree. The Mean, Standard Deviation and Coefficient Variation of the participants' answer were calculated at (1.1), (0.36) and (33%) respectively.

Table (18) Settling foreign investment in the sectors of tourism, financial and banking services, hotels and telecommunication

Answer	Frequency	%
Agree	527	76.8
Somewhat agree	90	13.1
Disagree	55	8.0
Subtotal	672	98.0
Missing	14	2.0
Total	686	100.0
Mean	1.1	
Standard Deviation	0.36	
Coefficient Variation	33%	



Participants' strategic attitude toward obstacles posed to investment climate

Through the Frequency Distribution, Mean, Standard Deviation, which measures incompatibility of the participants' responses and the Coefficient Variation that measures compatibility between participants' responses to generalize the findings on the study community and the strategic attitudes toward barriers facing the investment climate. Given below are participants' attitudes toward these barriers:

Indicators of economic and development policy:
Table (19) illustrates indicators of economic stability, economic development, controlling inflation, tackling unemployment issues, fair distribution of income, and the slow financial and economic reform, weak programs to tackle inflation and unemployment and structural infringement.

Table (19) Economic Obstacles

Nature of obstacles		Agree	Somewhat agree	Disagree	No answer	Total
1. Economic Stability	Freq	76	515	90	5	686
	%	11.1	75.1	13.1	.7	100.0
2. Economic Development	Freq	153	331	196	6	686
	%	22.3	48.3	28.6	.9	100.0
3. Controlling inflation and tackling unemployment	Freq	450	109	120	7	686
	%	65.6	15.9	17.5	1.0	100.0
4. Fair distribution of income and slow economic reform	Freq	582	9	91	4	686
	%	84.8	1.3	13.3	.6	100.0
5. Financial Corruption	Freq	464	22	186	14	686
	%	67.6	3.2	27.1	2.0	100.0
6. Reform programs	Freq	408	45	225	8	686
	%	59.5	6.6	32.8	1.2	100.0
Mean	1.12					
Standard Deviation	0.32					
Coefficient Variation	29%					

The Legislative and Legal background

Work Tax Law, Income Tax Law, Sales Tax Law, Government Tenders Law and Labor Law.

- Weak legal system and executive apparatuses and courts and their being incapable enough to settle investment and trade disputes.
- Ignoring laws on the part of the investor.

According to table (20), 57% of the sample agree with the necessity of updating the legal system to cope with the world economic system, 30.5% somewhat agree with the notion while 12% of them disagree. The Mean, Standard Deviation and Coefficient Variation of the participants' responses were worked at (1.32), (0.51) and (38.8) respectively.

Table (20) Legislative and legal obstacles

Nature of obstacles		Agree	Somewhat agree	Disagree	No answer	Total
1. Sales Tax Law	Freq	446	186	46	8	686
	%	65.0	27.1	6.7	1.2	100.0
2. Income Tax Law	Freq	459	161	61	5	686
	%	66.9	23.5	8.9	.7	100.0
3. Work Tax Law	Freq	423	176	76	11	686
	%	61.7	25.7	11.1	1.6	100.0
4. Government Tenders Law	Freq	320	274	79	13	686
	%	46.6	39.9	11.5	1.9	100.0
5. Customs Law	Freq	369	240	62	15	686
	%	53.8	35.0	9.0	2.2	100.0
6. Labor Laws	Freq	313	244	119	10	686
	%	45.6	35.6	17.3	1.5	100.0
7. Ignoring laws on the part of the investor	Freq	378	185	113	9	686
	%	55.1	27.0	16.5	1.3	100.0
Mean	1.32					
Standard Deviation	0.51					
Coefficient Variation	38.8%					

Administrative obstacles facing investors

- Financial and administrative corruption
- The phenomenon of bribery
- Tenders
- Complicating procedures

Another poll reveals that 77% of the sample agrees that there are many administrative obstacles that force investors to stop their investment, 15.6% of them somewhat agree with the notion while 7% disagree. The Mean, Standard Deviation and Coefficient Variation of the participants' responses were worked at (1.68), (0.51) and (13%) respectively.

Table (21) Administrative obstacles facing investors

Nature of obstacles		Agree	Somewhat agree	Disagree	No answer	Total
Complicating procedures	Freq	346	213	123	4	686
	%	50.4	31.0	17.9	6	100.0
Tenders	Freq	632	31	18	5	686
	%	92.1	4.5	2.6	7	100.0
Bribery	Freq	474	140	66	6	686
	%	69.1	20.4	9.6	9	100.0
Mean	1.68					
Standard Deviation	0.51					
Coefficient Variation	13%					

Infrastructure

- Poor transportation means and bad roads
- Water shortage
- Lack of power resources
- Low demand and small market
- Poor marketing services
- Lack of information
- Low purchasing power

Based on the data contained in table (22), in general 67% of the participants, agree that infrastructure is not suffice for investment, and therefore constitutes one of the primary obstacles to investment, 31% of them somewhat agree with the notion while 2% disagree. The Mean, Standard Deviation and Coefficient Variation of the participants' responses were worked at (2.65), (0.65) and (24%) respectively.

Table (22) Infrastructure-related obstacles

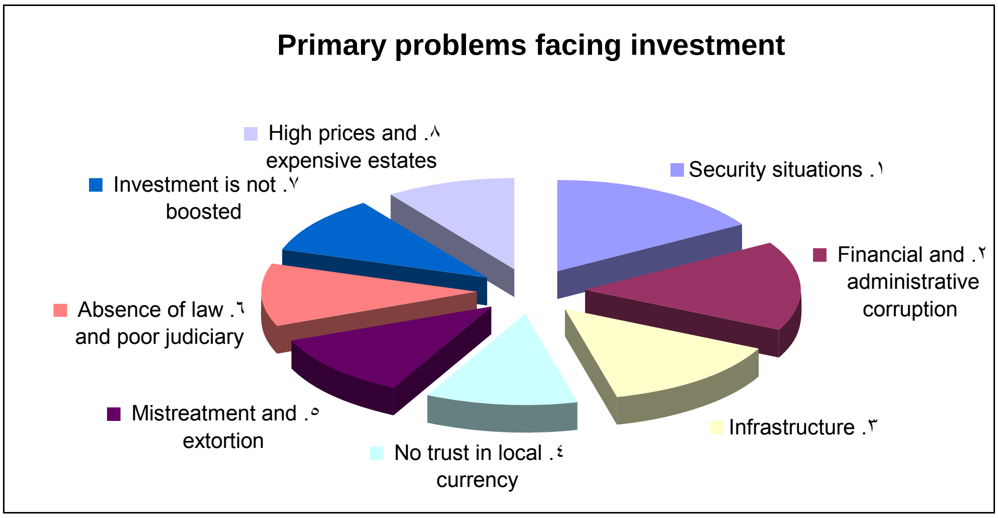
Nature of obstacles		Agree	Somewhat agree	Disagree	No answer	Total
1. Poor transportation means and bad roads.	Freq	251	209	221	5	686
	%	36.6	30.5	32.2	7	100.0
2. Water shortage	Freq	376	147	159	4	686
	%	54.8	21.4	23.2	6	100.0
3. Law payment rate	Freq	437	120	121	8	686
	%	63.7	17.5	17.6	12	100.0
4. Energy and power resources not enough	Freq	506	148	24	8	686
	%	73.8	21.6	3.5	12	100.0
5. Poor marketing services	Freq	385	253	40	8	686
	%	56.1	36.9	5.8	12	100.0
6. lack of information	Freq	427	212	40	7	686
	%	62.2	30.9	5.8	10	100.0
7. Low purchasing power	Freq	444	199	34	9	686
	%	64.7	29.0	5.0	13	100.0
8. Low demand and small markets	Freq	395	212	73	6	686
	%	57.6	30.9	10.6	9	100.0
Mean	2.65					
Standard Deviation	0.65					
Coefficient Variation	24%					

The most important problems facing investors:

The sample participants mentioned many problems, which investors experience while exercising business. Table (22) illustrates the problems, which are prioritized according to their importance and they are topped by the security situation, according to 88.92% of the sample. Problems caused by financial and administrative corruption came second with %86 of votes, then problems associating with poor infrastructure, the low value of the local currency, mistreatment by concerned parties, laws are no obeyed and judiciary is weak, investment is not promoted and the expensive prices and estates, according to 74.3%, 62%, 61%, 60%, 55% and 52% of the sample, respectively. Such indicators are risky and necessitate preventive measures to attract foreign investment into the country.

Table (23) Primary problems facing investment

Problem	Frequency	%
1. Security situations	610	**88.9**
2. Financial and administrative corruption	590	**86.0**
3. Infrastructure	510	**74.3**
4. No trust in local currency	430	**62.6**
5. Mistreatment and extortion	420	**61.2**
6. Absence of law and poor judiciary	414	**60.3**
7. Investment is not boosted	380	**55.3**
8. High prices and expensive estates	360	**52.4**



Selection of hypotheses

This part of the research was devoted to verifying authenticity of the study hypotheses by using0 the Simple Linear Regression.

The First Statistical Hypothesis

This hypothesis indicates a cause-and-effect relationship between the financial and economic reform program, improving efficiency of financial institutions, restructuring and economic stability, as was referred to in vision variables on the one hand and forming good investment climate to attract local, Arab and foreign capitals, on the other.

The Simple Linear Regression indicated the strong correlation between financial and economic reform and forming good investment climate. Based on analysis of the value (F) that totaled (58, 9), compared to its opposite value (3.86) at the level P<=0.05 and Degree of Freedom (49.1), according to table (24).

Table (24) Variation Analysis

Source	SS	DF	MS	F
Regression	20.2	1	44.2	58.9
Residual	29.8	49	0.82	
Total	50	50		

The value of the Varied Coefficient Correlation (R) came at (49.2) while the value of (R2) is 56.6, which reflects the interpretation capability of independent variables. The value of the Independent Variable (B) was worked at 0.426, at the level P<=0.05, as explained by table (25).

Table (25) Simple Linear Regression

Independent variable	Financial and Economic Reform			
Fellow variable	R	R	B	T
Strategic move Vision and mission	56.6	49.2	0.426	6.96

Through the previous findings, one can reach a move toward financial and economic reform, which is bound to help provide good investment climate. In the light of the above-mentioned, the research hypothesis is accepted and the null hypothesis is rejected.

The Second Statistical Hypothesis

This hypothesis implies a cause-and-effect relationship between the strategic stance, tackling obstacles and providing and good investment climate.
The results reached by the Simple Linear Regression confirm the presence of a cause-and-effect relationship between the strategic attitude and formulation of the strategy, on the one hand, and forming investment climate on the other, (fellow variable). Table (26) indicates incompatibility between (F) value (102.24), compared to P<=0.05 and DF (49.1).

Table (26) Variation Analysis

Source	SS	DF	MS	F
Regression	2.8	1	62.5	108.25
Residual	47.2	49	0.615	
Total	50	50		

According to the interpretation capability of the model in conformity with the value of (R2) which is (72%) while the value of (R) = (41) and (B) = (0.829), as illustrated by table (27). The last value implies the strategic attitude's strong effect on formulating the strategy (forming good investment climate).

Table (27) Simple Linear Regression

The independent variable	Strategic attitude: Diagnosing obstacles			
The fellow variable	R2	R	B	T
Strategic Formula: Forming the investment climate	17.2	41.5	0.829	5.860

Based on the above-said, the Null Hypothesis is rejected while the Alternative Hypothesis, the research hypothesis that implies a cause-and-effect relationship between diagnosing obstacles and forming good investment climate.

Study findings and recommendations

The important developments within the economic and financial environment at both regional and international levels were accomplished via adopting market mechanism, international trade liberalization, emergence of regional blocs and integration of world markets.

Though Yemen, reacting to these developments, achieved a group of modest achievements at development and investment levels, the activation of its direct investment still faces a lot of challenges and hurdles.

Administrative hurdle:

The administrative hurdles lie in the inability of the administration to enforce the law and the rampage of corruption, with paying no attention to fairness and honesty as well as self-control.

Here lies the importance of selecting competent and professional cadre, without being built on nepotism or any other bases in order they can work effectively within investment environment. It is also necessary to face all aspects of administrative corruption as no investor will risk investing in such an environment.

The instability of legal system:

The capital usually tends to those markets where complete and clear laws exist, as well as one party responsible for applying the law. Unifying the laws and procedures governing investment processes and modernizing the laws are important for making a suitable environment for investment. The absence of a complete and codified law of investment will make it difficult for investors to understand. Further, the existence of many parties in charge of enacting these laws and the lack of coordination between them will create different interpretations for the law and its application.

Still, issuing a codified and united law for investment and creating a central administration responsible of applying and interpreting this law will not resolve the problem, as it is important to activate the law, facilitate all measures and create apparatuses able to settle disputes within no time.

This as well requires the existence of just and effective judiciary and impartial executive authority able to carry out these judgments. The effectiveness of judiciary does not mean just justness, speed and the ability of carrying out the law, but also to be made at reasonable costs.

The lack of infra-structure:

The lack of infra-structure projects as for transportation, ports, airports, telecommunication and energy sources are the most important hurdles before investment. The absence of these services will burden the projects with further costs and passively affects the returns.

In spite of the fact that government opened primary service structure before the private sector, these services are not at the required level. The projects that can pull private investments include electricity, telecommunications, ports and railways and high ways.

The dysfunction of monetary policy:

Among the dysfunctions of monetary policies in Yemen come the devaluation of the Yemeni local currency, varied exchange rate and the restrictions imposed upon investors' financial transferences.

The devaluation of Yemeni currency caused a real devaluation of the value of companies' investments, leading these companies to keep some of operational profits to face any potential risks. Further, the discrepancy of exchange rate, ranging from official, tourist, promotional to free exchange and the complex restrictions imposed upon the financial transferences of investors in foreign currency will make them tend to more pushing markets.

The dysfunction of projects financing structure:

The lack of Yemeni financial institutions that provide long-term loans and the inability to meet the financial requirements for investment projects make investors resort to short-term loans at high rate of interest in order to finance moderate and long-term requirements.

Such behavior overburdens some companies as they have to pay for debt service; causing financial problems and leading to stop their work when unable too meet their financial obligations toward debtors.

In order to avoid such a situation, the project should balance between the project's capital and the loans it receives in order not to make them exceed the accepted financial and commercial norms.

Marketing problems:

Some companies, though producing high quality goods, were unable achieve its goals as they were unable to market their produced goods. This will cause the stock to increase and force the company to decrease production to the extent at which the project may lose its importance.

The most important reason for this is the existence of restrictions which hamper the transportation of goods and services between Arab countries in an uncomplicated way. Additionally, the concern paid for the technical matters in production is not accompanied by a parallel concern as for production marketing process, with paying no attention to consumer's needs and wishes.

There is also no cooperation between regional and national insurance institutions in order to provide the insurance cover for all marketing activities and the intervention of government as for imposing a fixed price for goods might inflict losses upon the project.

It is natural in these cases to stop marketing such goods in order to avoid more losses, thus leading to a chain of operational problems which lead to project's failure unless these problems are dealt with quickly and wisely.

The leniency when applying standards:

Some countries, including Yemen, fail to apply standards imposed upon goods sold in its local markets, thus the market will be dumped by cheap and low quality goods. Marketing high standard goods of these projects will be stumbled by these poor quality commodities.

Such a situation, if continued over a long period of time, will lead to the deterioration of these projects and the waste of financial resources invested in them.

There should exist, to resolve the existing problem, qualified institutions to observe the standards and set strict limitations that hinder the introduction of poor quality goods into the market.

Money markets lack mechanisms for financing the new projects:

The money markets capitals in Arab countries in general and Yemen in particular was unable to play a role in financing investments, as there does not exist a mechanism for having new projects in the market.

Here, it is necessary to set mechanisms suitable for new projects' financing. It is also required to have a cell for coordination and cooperation between the Arab Bourses, with an aim of helping investment and investors in the Arab world.

References:

(1) Muniam, Jaffer Hussain (2004), "Direct Foreign Investment Outside Oil and Gas Sector", Economic Studies Journal Issue 11, p119.
(2) Shater, Ali Mohammed (2005), "Future Vision for Yemeni Economy", Economic Studies Journal Issue 14, p68.
(3) Al-Hazmi, Ali, "Future Vision for Investment Obstacles", 26 September Newspaper, Issue 1275 (Aug. 10, 2006).
(4) Al-Qubati, Ali Abdulhamid, "Investment Obstacles in Yemen", Al-Jumhouriah Newspaper (June 18, 2006)
(5) Central Bank of Yemen, "The Annual Report 2005", P24.
(6) Mukhashef, Thou Yazen, "Investment in Yemen: Figures that show the reality": a meeting with the chairman of the General Authority for Investment, AlJumhouriah Newspaper (May 28, 2006).
(7) Dhafer (1998), Yemeni Economic Conference.
(8) Othman, Abdu, "Economic Reform Program", a new study.
(9) World Bank, Middle East and North Africa**," Governance and Investment Climate in Yemen",** by Arup Banerji and Caralee Mclish, Working Paper Series 28, September, 2002.
(10) Yemen country report, The Millennium Development Goals needs assessment, June 2005.
(11) Draft: Long Term Plan for Sustainable Agriculture Development, Food Security and Poverty Reduction Based on the MDGs, (2006-2015).
(12) Republic of Yemen, Ministry of Planning, 3ed Development and Poverty Alleviation Plan (draft), 2006-2010