

# Yemen

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RISK & COMPLIANCE

DATE: October 2018

## Executive Summary - Yemen

<b>Sanctions:</b>	The UN and EU have imposed arms embargo, travel ban and asset freeze restrictions and there are limited US sanctions are in force
<b>FAFT list of AML Deficient Countries</b>	Yes
<b>Higher Risk Areas:</b>	<p>Compliance with FATF 40 + 9 Recommendations</p> <p>Supporter of / Safe Haven for International Terrorism</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International &amp; W.G.I.)</p> <p>World Governance Indicators (Average score)</p> <p>Failed States Index (Political)(Average score)</p>
<b>Medium Risk Areas:</b>	<p>US Dept of State Money Laundering assessment</p> <p>Weakness in Government Legislation to combat Money Laundering</p>

### Major Investment Areas:

#### Agriculture - products:

grain, fruits, vegetables, pulses, qat, coffee, cotton; dairy products, livestock (sheep, goats, cattle, camels), poultry; fish

#### Industries:

crude oil production and petroleum refining; small-scale production of cotton textiles and leather goods; food processing; handicrafts; small aluminum products factory; cement; commercial ship repair; natural gas production

#### Exports - commodities:

crude oil, coffee, dried and salted fish, liquefied natural gas

#### Exports - partners:

China 29.5%, Thailand 13.4%, South Korea 10.6%, India 7.5%, Japan 6%, US 5.8%, UAE 4.7% (2011)

#### Imports - commodities:

food and live animals, machinery and equipment, chemicals

#### Imports - partners:

UAE 18.8%, China 11.8%, Saudi Arabia 8.9%, Kuwait 6.6%, India 6.5%, France 4.7%, US 4.2% (2011)

**Investment Restrictions:**

With the implementation of tax incentives for foreign investors, Yemen's investment climate has improved steadily in the past decade.

Foreign companies and firms may conduct business in Yemen by establishing foreign-owned and managed branches. Foreign commercial entities wishing to open branches in their own name must obtain a permit from the Ministry of Industry and Trade.

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## Section 1 - Background

North Yemen became independent of the Ottoman Empire in 1918. The British, who had set up a protectorate area around the southern port of Aden in the 19th century, withdrew in 1967 from what became South Yemen. Three years later, the southern government adopted a Marxist orientation. The massive exodus of hundreds of thousands of Yemenis from the south to the north contributed to two decades of hostility between the states. The two countries were formally unified as the Republic of Yemen in 1990. A southern secessionist movement and brief civil war in 1994 was quickly subdued. In 2000, Saudi Arabia and Yemen agreed to a delimitation of their border. Fighting in the northwest between the government and Huthi rebels, a group seeking a return to traditional Zaydi Islam, began in 2004 and has since resulted in six rounds of fighting - the last ended in early 2010 with a cease-fire that continues to hold. The southern secessionist movement was revitalized in 2008 when a popular socioeconomic protest movement initiated the prior year took on political goals including secession. Public rallies in Sana'a against then President SALIH - inspired by similar demonstrations in Tunisia and Egypt - slowly built momentum starting in late January 2011 fueled by complaints over high unemployment, poor economic conditions, and corruption. By the following month, some protests had resulted in violence, and the demonstrations had spread to other major cities. By March the opposition had hardened its demands and was unifying behind calls for SALIH's immediate ouster. The Gulf Cooperation Council (GCC) in late April 2011, in an attempt to mediate the crisis in Yemen, proposed an agreement in which the president would step down in exchange for immunity from prosecution. SALIH's refusal to sign an agreement led to heavy street fighting and his injury in an explosion in June 2011. The UN Security Council passed Resolution 2014 in October 2011 calling on both sides to end the violence and complete a power transfer deal. In late November 2011, SALIH signed the GCC-brokered agreement to step down and to transfer some of his powers to Vice President Abd Rabuh Mansur HADI. Following elections in February 2012, won by HADI, SALIH formally transferred his powers. In accordance with the GCC initiative, Yemen launched a National Dialogue to discuss key constitutional, political, and social issues in mid-March 2013.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF Status

Yemen is currently on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Latest FATF Statement - 19 October 2018

Since February 2010, when Yemen made a high-level political commitment to work with the FATF and MENAFATF to address its strategic AML/CFT deficiencies, Yemen has made progress to improve its AML/CFT regime. In June 2014, the FATF determined that Yemen had substantially addressed its action plan at a technical level, including by: (1) adequately criminalising money laundering and terrorist financing; (2) establishing procedures to identify and freeze terrorist assets; (3) improving its customer due diligence and suspicious transaction reporting requirements; (4) issuing guidance; (5) developing the monitoring and supervisory capacity of the financial sector supervisory authorities and the financial intelligence unit; and (6) establishing a fully operational and effectively functioning financial intelligence unit. While the FATF determined that Yemen has completed its agreed action plan, due to the security situation, the FATF has been unable to conduct an on-site visit to confirm whether the process of implementing the required reforms and actions has begun and is being sustained. The FATF will continue to monitor the situation, and conduct an on-site visit at the earliest possible date.

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Yemen was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Yemen was deemed Compliant for 0 and Largely Compliant for 4 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 5 of the 6 Core Recommendations.

### Key Findings from latest Mutual Evaluation Report (2008):

Among its major findings were:

The mutual evaluation report presents a summary of the Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) system in the Republic of Yemen (Yemen) at the time of the on-site visit (from July 21 till August 1, 2007) and immediately thereafter. The report includes the description and analysis of these systems and gives recommendations to support them and tackle the points of weaknesses. It also includes the evaluation of the compliance of Yemen with the FATF AML/CFT recommendations, based on the AML/CFT Methodology 2004.

The AML system in Yemen has achieved substantial progress manifested in the promulgation of the AML Law No. 35 of 2003 which has covered different important aspects with regard to the combating of money laundering. In addition, the executive regulations of the said law and the bylaw regulating the AML procedures have been issued with a view to draw a reasonable executive framework for the authorities covered by the law. Moreover, an AML Committee was formed in April 2004 and this Committee is considered the main national authority involved with the AML field. The Committee comprises members representing nine different national entities. The Financial Intelligence Unit (FIU) was also established within the Central Bank of Yemen. However, Yemen has no law that covers the TF crimes. Realizing the economic and political risks associated with this crime, Yemen is in the process of preparing a draft unified law that comprises the CFT obligations along with the AML obligations, in order to stand in line with the international requirements. Yemen works in the draft law on developing the AML provisions stipulated in the present law to match the international requirements and avoid any additional failure in the practical application of the present system.

AML remains a new concept in Yemen. Efforts made to enhance the spread of this concept will need to be supported by a comprehensive awareness-raising campaign that targets the majority of the State sectors, including relevant officials and employees who are required to be informed of the new rules and systems. The assessment team discovered during its on-site visit that the concerned authorities covered by the AML law were not adequately aware of the obligations stipulated therein. They were not familiar either with the ML/FT risks, which resulted in the narrow application of the obligations set forth in the said law and bylaws, particularly in relation to the Designated Non-Financial Businesses and Professions, which were unaware of the risks associated with the ML/FT crimes. The assessment team also noted the shortage in human and financial resources within the competent supervisory authorities in charge with the implementation of the AML system, in addition to the absence of any effective coordination between those authorities and the entities covered by the law.

#### **US Department of State Money Laundering assessment (INCSR)**

Yemen was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

#### **Perceived Risks:**

Yemen is not considered a regional financial center. The financial system in Yemen is underdeveloped, and the extent of money laundering is not well known. The government's collapse and Houthi ascendancy to control much of the country in early 2015 render Yemen vulnerable to money laundering and other financial abuses, including terrorism financing.

The profitability of the smuggling of goods and contraband has led to a large informal economy in Yemen. Criminal proceeds in Yemen tend to emanate from foreign criminal activity, including smuggling by criminal networks and terrorist groups operating locally. There have been a number of U.S. investigations of qat (a mild narcotic) smuggling from Yemen and East Africa into the United States, with profits laundered and repatriated via hawala

networks. The ongoing conflict in Yemen has greatly reduced U.S. government investigative efforts and cooperation with Yemeni authorities.

Yemen has a free trade zone (FTZ) in the port city of Aden, although the conflict significantly disrupted trade and trade controls in 2015. Identification requirements are enforced within the FTZ. Truckers must file the necessary paperwork in relevant trucking company offices and must wear identification badges. FTZ employees must undergo background checks by police, the Customs Authority, and employers. There is no evidence the FTZ is being used for trade-based money laundering or terrorism financing schemes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: YES

KYC covered entities: Banks, exchange companies, insurance companies, and fund transfer companies; General Post and Postal Savings Authority; real estate agents; gold and precious metal dealers; public notaries, lawyers, and accountants; financial and investment services companies; and designated government ministries, including the Central Organization for Control and Audit, Central Bank of Yemen (CBY), and Ministry of Industry and Trade

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks, exchange companies, insurance companies, and fund transfer companies; General Post and Postal Savings Authority; real estate agents; gold and precious metal dealers; public notaries, lawyers, and accountants; financial and investment services companies; and designated government ministries, including the Central Organization for Control and Audit, CBY, and Ministry of Industry and Trade

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0: January – October 2015

Convictions: 0: January – October 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: NO

With other governments/jurisdictions: YES

Yemen is a member of MENAFATF, a FATF-style regional body.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**



Military and political conflict and limited resources have hampered Yemen's ability to enforce AML/CFT laws and regulations. While the CBY maintains basic monetary operations, it is unclear whether it or the Ministry of Finance has been able to fully enforce AML/CFT obligations. The Financial Information Unit (FIU), Yemen's financial intelligence unit located within the CBY, has not provided any information or updates to its public website since November, 2014. It is unclear whether the FIU is functioning.

Yemen has acceded to the UN Convention against Transnational Organized Crime; however, the government stipulated that any request for mutual assistance be conducted through diplomatic channels rather than through faster and more expedient administrative channels. Yemen should follow the more efficient international practice.

#### **Current Weaknesses in Government Legislation (INCRS Comparative Tables):**

According to the US State Department, Yemen does not conform with regard to the following government legislation: -

- **Record Large Transactions** - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments
- **Arrangements for Asset Sharing** - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.
- **Ability to freeze assets without delay** - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations).

#### **EU Whitelist of Equivalent Jurisdictions**

Yemen is not currently on the EU Whitelist of Equivalent Jurisdictions

#### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

#### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

#### **Offshore Financial Centre**

Yemen is not considered to be an Offshore Financial Centre

### **Key Findings from other US State Department Reports:**

#### **Trafficking in Persons**

Yemen is classified as a Special Case for the first time in the 2016 Report. Information on human trafficking in Yemen has become increasingly difficult to obtain since March 2015 when the Republic of Yemen Government (ROYG) had to leave the country and relinquished control of substantial portions of territory. NGOs report that vulnerable populations in Yemen were at increased risk to human trafficking in 2015 due to large-scale

violence driven by ongoing armed conflict, civil unrest, and lawlessness. Migrant workers from the Horn of Africa who remained in Yemen during this period suffered from increased violence, and women and children became most vulnerable to human trafficking. The limited international organizations and NGOs remaining in Yemen have been focused on providing emergency humanitarian assistance to the local population and have not had the resources to collect reliable data on human trafficking. For the purposes of this report, Yemen has special case status, as the government currently lacks control over its territory while it remains outside of Yemen in Saudi Arabia.

## SCOPE AND MAGNITUDE

Yemen is a country of origin and, to a lesser extent, transit and destination, for men, women, and children subjected to forced labor, and women and children subjected to sex trafficking. The ongoing conflict, lack of rule of law, and deteriorating economy in 2015 disrupted some trafficking patterns and exacerbated others. Some Yemeni children, mostly boys, were subjected to forced labor in domestic service, small shops, or in begging after migrating to the cities of Aden and Sana'a or to Saudi Arabia and, to a lesser extent, Oman. Traffickers, security officials, and employers also forced some of these children into prostitution in Saudi Arabia, while others are forced to smuggle drugs into Saudi Arabia.

Prior to the conflict, Yemen was a transit point and destination for the sex-trafficking and forced labor of women and children, primarily from the Horn of Africa, and likely remains as such presently. Ethiopians and Somalis traveled voluntarily to Yemen with the hope of employment in other Gulf countries, but some women and children among this population faced potential sex trafficking or domestic servitude in Yemen. Others migrated based on fraudulent offers of employment as domestic workers in Yemen, where they were subsequently subjected to sex trafficking or forced labor. Some female refugees were previously forced into prostitution in Aden and Lahj governorates. Prior to the escalation of the conflict and the government's departure in March 2015, Yemeni migrant workers were reportedly deported from Saudi Arabia and returned to Yemen through the al-Tuwal and al-Buq border crossings. Most deportees were reportedly returned to the impoverished Tihamah region located on the west coast of Yemen, many of whom remained displaced and highly vulnerable to exploitation, including human trafficking. An estimated 12,000 Syrian refugees were in Yemen at the end of 2015. Syrian refugee women and children begging in the streets in Yemen became highly vulnerable to forced labor and sex trafficking.

Yemeni children were subjected to sex trafficking within the country and in Saudi Arabia. Girls as young as 15 years old were exploited for commercial sex in hotels and clubs in the Governorates of Sana'a, Aden, and Taiz. Prior to the conflict, most child sex tourists in Yemen were from Saudi Arabia, with a smaller number originating from other Gulf nations, including the United Arab Emirates. Some Saudi men used legally contracted "temporary marriages" for the purpose of sexually exploiting Yemeni girls—some reportedly as young as 10 years old, and some of whom were later abandoned on the streets of Saudi Arabia. Civil society organizations reported that, as a result of the dire economic situation in Yemen, particularly in the north, sex trafficking of Yemeni children increased over the past several years. In addition, some sources reported the practice of chattel slavery in which human beings are traded as property continues in Yemen. While no official statistics exist detailing this practice, a 2014 study by a human rights organization documented 190 cases of slavery in three

directorates of Hajjah governorate. Sources report there could be several hundred other men, women, and children sold or inherited as slaves in al-Hodeida and al-Mahwit governorates.

### **Terrorist Financing 2016:**

Yemen is currently identified by the US Secretary of State as a Safe Haven for International Terrorism

**Overview:** Throughout 2016, al-Qa'ida in the Arabian Peninsula (AQAP) and ISIS in Yemen (ISIS-Y) have continued to exploit the political and security vacuum created by the ongoing conflict between the Yemeni government under President Abdu Rabbu Mansour Hadi and the Houthi-Saleh rebel forces. Yemen's peaceful political transition was interrupted in the fall of 2014 when the Houthi militant groups allied with forces loyal to ex-President Ali Abdallah Saleh entered the capital, and subsequently seized control of government institutions – sending the Hadi-led government into exile in Saudi Arabia. A Saudi-led coalition of 10 member states initiated an air-campaign in March 2015. The country remained deeply divided at year's end, with pockets of violent conflict. The Houthi-Saleh rebel forces continued to control much of the north-west, including the capital. Meanwhile, the Yemeni government has re-established an intermittent presence in the southern port-city of Aden and has made strides to push back terrorist groups in southern provinces with coalition support, although it was unable to fully re-establish rule of law in the territory it holds.

Because of the instability and violence in Yemen, the internationally recognized government under Hadi cannot effectively enforce counterterrorism measures. A large security vacuum persists, which gives AQAP and ISIS-Y more room in which to operate. AQAP and ISIS-Y have also manipulated the conflict as part of a broader Sunni-Shia sectarian divide. By emphasizing this sectarian divide, AQAP and ISIS-Y have managed to increase their support bases and strengthen footholds in the country.

AQAP, in particular, has benefitted from this conflict by significantly expanding its presence in the southern and eastern governorates. It has successfully inserted itself amongst multiple factions on the ground, making the group more difficult to counter. AQAP has managed to exacerbate the effects of the conflict, fighting against the Houthi-Saleh alliance, while at the same time working to prevent Hadi's government from consolidating control over southern governorates. In April 2016, Yemeni forces, supported by the Saudi-led coalition, successfully pushed AQAP out of Yemen's fifth largest city of Mukalla. During the year-long occupation, AQAP amassed unprecedented resources by raiding the central bank and levying taxes. The loss of this safe haven deprived the group of millions of dollars of revenue. At year's end, efforts were ongoing by the Yemeni government, in coordination with its partners from the UAE, to push AQAP out of several of its other safe havens in the South.

By comparison, ISIS-Y remained limited to small cells. While its exact composition was unknown, ISIS-Y had considerably fewer members and resources than AQAP. Eight self-proclaimed ISIS-Y groups/provinces have claimed attacks on social media since 2015, although only a few provinces have sustained regular attacks into 2016 and were active at year's end. While ISIS-Y has demonstrated a violent operational pace, it has yet to occupy significant territory or challenge AQAP's status as Yemen's predominant Sunni Islamist terrorist group. ISIS-Y maintains connections to the ISIS core in Syria and Iraq, but a faction within ISIS-Y

chose to publicly disagree with the group's leadership regarding its tactics in early 2016, indicating a large rift within the group.

**Legislation, Law Enforcement, and Border Security:** Yemen does not have comprehensive counterterrorism legislation and no progress was made due to the state of unrest and the government remaining outside of Yemen for most of 2016. During this timeframe, AQAP lost some territory but continued to exercise considerable control relative to before the conflict. ISIS-Y continued to have the ability to carry out violent attacks throughout the South. The Saudi-led coalition supported the Yemeni government's efforts to build police and law enforcement capacity to conduct counterterrorism operations.

Draft counterterrorism legislation has been pending in the parliament since 2008. This legislation has remained at a standstill due to the lack of a legitimate parliament. [Note: The Houthis convened a Houthi-GPC parliament in 2016, but it is not considered legitimate or internationally recognized.] Prior to the political instability in the capital, the draft was under review by the three parliamentary subcommittees responsible for counterterrorism law issues (Legal and Constitutional Affairs; Security and Defense; and Codification of Sharia Law). This law would facilitate the detention of suspects and include mandatory sentencing for a number of terrorism-related crimes.

Prior to March 2015, the National Security Agency and President's Office drafted a National Counterterrorism Strategy. This draft was reviewed by a Ministerial Committee, but the committee was unable to finalize its task due to developments in the country. Therefore, Yemen's National Counterterrorism Strategy had not been officially adopted or implemented by the end of 2016.

Yemen employs the U.S.-provided Personal Identification Secure Comparison and Evaluation System (PISCES) in an effort to secure borders and identify fraudulent travel documents. In spite of the conflict, Yemen has been able to maintain traveler screening at a limited number of points of entry.

In past years, the Yemeni government's Coast Guard forces played a critical role in interdicting weapons and other illegal materials destined for Yemen-based terrorist groups, although Yemen's maritime borders remained extremely porous due to a lack of capacity. In 2016, Yemen's military, including the coast guard, was degraded as a result of the current conflict. Although AQAP lost control of Mukalla in April 2016, the coast remained highly vulnerable to maritime smuggling of weapons, materials, and goods used to finance AQAP and other terrorist activities. In the past, U.S. partners provided training and technical assistance in a number of counterterrorism-related areas, although the conflict in-country precluded these efforts in 2016.

**Countering the Financing of Terrorism:** Yemen is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body; however, Yemen did not participate in MENAFATF meetings in 2016. There was no information from Yemen's financial information unit (FIU), which operates out of the Houthi-controlled Central Bank of Yemen (CBY) in Sana'a. The FIU and its functions were not transferred to the Yemeni government-controlled CBY in Aden.



## International Sanctions

### UN

In February 2014, pursuant to resolution 2140 (2014), the UN imposed an arms embargo, travel ban and targeted asset freeze restrictions against Yemen

[Read Regulation](#)

### EU Sanctions

On 18 December 2014, in view of the situation in Yemen, the EU imposed Council Regulation (EU) No 1352/2014 concerning restrictive measures against natural or legal persons, entities and bodies identified by the Sanctions Committee as engaging in or providing support for acts that threaten the peace, security or stability of Yemen

[Read Regulation](#)

### U.S. Sanctions

The US has imposed sanctions against Yemen.

E.O. 13611 authorizes the blocking of property and interests in property of individuals and entities determined by the Secretary of the Treasury, in consultation with the Secretary of State, to:

1. Have engaged in acts that directly or indirectly threaten the peace, security, or stability of Yemen;
2. Be a political or military leader of an entity that has engaged in such acts;
3. Have provided support for such acts or to a person whose property and interests in property are blocked by the E.O.; or
4. Be owned or controlled by, or have directly or indirectly acted for or on behalf of, such blocked persons.

It should be noted that the E.O. does not impose broad-based sanctions against the country of Yemen or its government or people.

### Arab League

In November, 2011, the Arab League (comprising 22 Arab member states), of which Yemen is a member, approved imposing sanctions on Syria. These include: -

- Cutting off transactions with the Syrian central bank
- Halting funding by Arab governments for projects in Syria
- A ban on senior Syrian officials travelling to other Arab countries

- A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

The Arab League has also boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians, however, the implementation of the boycott has varied over time among member states.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	16
World Governance Indicator – Control of Corruption	1

Corruption is rampant in Yemen. The political upheaval the country has been witnessing since 2011 has further exacerbated challenges for companies. Patronage networks and practices of nepotism severely impede the investment climate as businesses often find it difficult to navigate the inner workings of competing centers of authority without taking on a local partner. The government has put anti-corruption laws in place; however, provisions do not cover all forms of corruption. Practices such as passive bribery and extortion are excluded. Bribery and gifts are widespread practices in Yemen. **Information provided by GAN Integrity.**

### US State Department

Corruption is rampant in Yemen, and poses a significant challenge to U.S. investors. Analyses by international and local observers, including Transparency International, agreed that corruption affects every branch and level of government, and especially the security sector. Political leaders and most government agencies have taken negligible action to combat corruption.

The culture of corruption is pervasive, and petty corruption is widely reported in nearly every government office. Job candidates are often expected to purchase their positions. Tax inspectors undervalue assessments and pocket the difference. Many government officials and civil service employees receive salaries for jobs they did not perform or multiple salaries for the same job.

Government procurement is also greatly affected by corruption. The government has a long history of awarding large contracts to companies controlled by entrenched elites. Many projects are not awarded by tender, and even when they are, the process can be opaque. Prospective local partners often flaunt their connection to government decision-makers, not realizing that the nature of their relationship may run afoul of U.S. anticorruption laws and norms.

Corruption is a particularly serious problem throughout the military-security establishment and intelligence bureaucracy. Government progress on reorganization within the Ministry of Defense and Ministry of Interior explicitly addresses corruption. Some police stations reportedly maintain an internal affairs section to investigate abuses by police and security force, and citizens have the right to file complaints with the Prosecutor's Office. The Ministry of Interior has a fax line for citizens to file claims of abuse for investigation.



The law provides criminal penalties for corruption; however, enforcement of the anticorruption law is weak, and officials frequently engage in corrupt practices with impunity. According to Article 136 of the Constitution, a criminal investigation may not be conducted on a deputy minister or higher-ranking official without a one-fifth approval vote in Parliament. A two-thirds majority parliamentary vote and presidential permission are then required to bring criminal investigation results to the general prosecutor for indictment, a burdensome process that effectively shields high-ranking officials from prosecution. The government did not use the procedure to prosecute high-ranking officials during 2013 and only employed it infrequently in prior years. Yemen does not have a "whistle-blower" law extending protections to public or private employees from retaliation for making internal or public disclosure of corruption. NGOs reported many cases of individuals losing their jobs or suffering other harm after revealing instances of corruption.

The independent Supreme National Authority for Combating Corruption (SNACC) was formed in 2007 to receive complaints and develop programs to raise awareness of corruption. According to SNACC officials, 100 corruption cases were referred for prosecution during the 2013, but no corruption sentences were pronounced by year's end.

The Central Organization for Control and Audit (COCA) is the national auditing agency for public expenditures and the investigative body for corruption. The President appoints its top officials. COCA presents its reports to Parliament, but the reports are not publicly available. In cases involving high-level officials, COCA submits reports directly to the President, who has the power to refuse the reports. Only low-ranking officials have been prosecuted for corruption since COCA's inception in 1999.

Yemen Parliamentarians Against Corruption (Yemen PAC), the local branch of Arab PAC, is part of a network of parliamentarians organized in 2006 to stimulate legislative branch action against corruption. Though it does not have any legal mandate, Yemen PAC monitors the activities of SNACC and COCA, and provides limited, unofficial oversight of their activities.

The law requires disclosure of financial assets to SNACC by all ministers, deputy ministers, heads of agencies, and members of Parliament and the Shura Council. The SNACC reserves the right to request disclosures from any other government employee. Disclosures must be submitted annually, but government officials do not need to disclose the assets of their children or spouses. SNACC publishes the disclosures on its website and notes the names of officials who have failed to submit a disclosure. The law provides for penalties for filing false information. A total of 25,621 public employee financial disclosure statements have been filed with the SNACC, with 686 noncompliance cases submitted to the Public Prosecutor's Office for action. However, the Public Prosecutor's Office has not brought any cases to trial.

Ultimately, it is the responsibility of the U.S. company to ensure that it and its local partners comply with the Foreign Corrupt Practices Act. Because of the rarity of prosecution for corruption, local Yemeni companies may be more willing to engage in corruption, with or without the knowledge of their partners.

Transparency International's 2013 Corruption Perception Index ranked Yemen 167 out of 177 countries, a drop from Yemen's 2010 ranking of 146<sup>th</sup>. Yemen has signed and ratified the United Nations Convention against Corruption.

## Extract from – USAID Report - Yemen Corruption Assessment

### The Political Economy Of Corruption In Yemen

A precarious balance between tribe and state has existed in Yemen ever since the creation of a modern state after the 1962 revolution. Tribes have been and continue to be predominant political players in the country. . The state's military and security apparatuses have come to reflect tribal interests, and a tribal parasitic bourgeoisie reliant on state contracts has emerged and further captured state resources for private gain. Unification in 1990, and more important, the north's clear victory over the south in the 1994 civil war, have further consolidated the hold of Yemen's predominantly northern tribes over state resources.

A system of grand corruption has emerged over the last several decades thriving on the combination of weak state institutions and a fragmented elite structure. In the absence of strong state institutions, informal patronage networks have proliferated. Indeed, patronage networks cripple what little capacity state institutions have. Allies are rewarded and other elites pacified by grand patronage payoffs in exchange for political quiescence. Yemen's recent oil wealth is the main source of state patronage. The fact that Yemen's oil is projected to run out in about a decade's time suggests that the current structure of corruption is not sustainable. Economic growth, not compatible with grand corruption, is needed for basic needs and services to be met and for the state to be sustainable in the near term. Failing that, significant political instability may be on the horizon.

There are five main elite groups that profit from the structure of corruption in Yemen. The two most important are also the two with the most overlap: tribes and the military-security establishment. Leaders of key tribes constitute the lion's share of top military and security officers. A similar pattern is found in the security forces. Yemen's military controls an extensive array of commercial activities, some legal and some extra-legal.

A third powerful elite group is the business community. The traditional business elite are non-tribal, and they have remained important players in this new political economy. However, their relative decline and their generally pessimistic view of Yemen's future have prompted some businesses to leave the country. In addition, a parasitic bourgeoisie of tribal businesses has grown in recent years and derives virtually all of its income from state contracts, often awarded under corrupt circumstances.

"Dispensable" elites consist of the technocratic class that remains essential to run the state in a relatively modern way, and regional elites that enjoy high status within important local constituencies. The state has far more ability to promote and demote individuals within these elite groups than it does with tribal, military and business elites. Unlike the more important elite groups, these two groups have little aggregate power to act collectively and, therefore, they reflect neither a significant political threat nor significant political promise at this point.

There are four primary mechanisms by which grand patronage is distributed in Yemen. One mechanism is through the national budget. The national budget contains some discrete payoffs to favored groups, such as tribes, and allocates vast resources to the military—reportedly through a single line item in the budget. There is no meaningful oversight of the budget provided by Parliament, which, in any case, is only allowed an up or down vote on the budget. The power of the purse rests with the executive branch, and is exercised primarily through the Ministry of Finance. Because of the way the Republic of Yemen Government (RoYG) forecasts oil revenues, end of the fiscal year supplemental budgets are substantial and entirely discretionary. The other three principal mechanisms to distribute

patronage are the procurement system, the military-commercial complex, and the General People's Congress (GPC) party machine. While reform is starting to occur in the procurement process, in recent history procurements were very often done without open and competitive bidding, and with little transparency or accountability. The tendering process could easily become a means to reward favoured allies with lucrative contracts. In addition to the budget process, military elites are rewarded financially through their control of extensive commercial enterprises. Other resources allocated to military elites via the phenomenon of 'ghost soldiers' are reportedly resold on the open market for profit. The GPC distributes resources to regional and other elites in order to keep them in the political fold.

Other factors are typically not defined as corruption per se, but do create an enabling environment in which corruption may flourish. Those enabling factors in Yemen include the extensive presence of poor administrative practices or maladministration, the low quality of Yemen's educational system, an electoral system that encourages the worst forms of parochial interests and identities and the largely systematic (albeit cultural) exclusion of women from public affairs.

The expected diminution of oil wealth in Yemen in the next decade, and therefore the sharp decrease in patronage resources available for distribution, leads to two rational elite strategies to maximize interests. The first strategy would be to 'take while the takings are good' and then exit the system and perhaps the country when oil wealth runs out. . A second strategy is one of enlightened self-interest. This strategy would encourage reform, especially vis-à-vis corruption, in order to encourage investment and growth in the total amount of resources available in Yemen. In this way, a smaller slice of a much larger pie could yield bigger dividends to elites, as well as to the state, over time. Indeed, this is the logic that a growing number of elite reformers are using to advocate reform in Yemen today. Legislative reforms are proceeding apace and there is hope that, if the momentum is maintained, the transition to a truly modern state may have already begun.

The ultimate success of corruption reform in Yemen depends on a classic struggle between the compelling logic of reformers and the material interests and power of those who benefit from corruption. The structure of political power in Yemen is fundamentally based on patronage flows to fragmented elites who would otherwise have little interest in maintaining the status quo. Thus, grand corruption is not a tangential phenomenon. Reformers face a fundamental challenge from those with vested interests in the current system. Until recently, reformers have focused their attention at the level of administrative corruption (petty bribes, ghost workers, etc.). More recently, however, reform efforts have started going after the bigger picture, with efforts to establish a new High Tender Board (HTB) for major procurements. If implemented appropriately, such a reform could deny income to major beneficiaries of corruption while creating new sources of revenue for the state by inspiring confidence in new potential investors.

Even with the backing of the donor community, elite reformers face a great challenge in fundamentally changing the system of corruption in Yemen. The process of reform is likely long and arduous and can only succeed in gradually shrinking the arenas of corruption with strong political will from the highest levels of power.

## **Government Sectors And Institutions**

**Judiciary and Law Enforcement.** Fundamental judicial reform is important if Yemen hopes to reduce corruption and improve the country's investment climate. Increased transparency,

integrity and accountability in the judiciary will increase local and international investment in the private sector and thus contribute to the economic growth Yemen so desperately needs. Police are widely viewed by Yemenis as among the most corrupt state agencies in Yemen. Historically, the lack of judicial independence from the executive branch is the key factor limiting the judiciary's ability to rein in major corruption. The anticorruption assessment team found that the sentiment toward reform is now more widely shared beyond a certain strata of high-ranking judges who were relatively isolated and lacked the power to push for change. The Supreme Judicial Council (SJC), as recently reconfigured under new leadership and no longer presided over by President Saleh, appears supportive of more far-reaching change. The current Minister of Justice as well as the Attorney General also support judicial reform. Specific recommendations are made concerning enhanced judicial independence and administrative reforms in the Ministry of Justice (MoJ), the Judicial Inspection Board (JIB), the High Judicial Council and the Public Funds Courts (PFCs).

**Parliament.** Parliament has considerable potential but a long way to go in exercising its general transparency and accountability roles as the legislative branch of government. Embedded in these larger roles are Parliament's more specific contributions to anticorruption in Yemen. In particular, given the efforts of some committees, oversight is perhaps the most promising function related to anticorruption. There is a tendency in much donor parliamentary-strengthening work to focus on a Parliament's budget review capacity and infrastructure. This is inspired both by the (correct) assumption that the ultimate source of corruption and approach for anticorruption is financial and by the US Congressional model, where the legislature is the source of the budget. In Yemen, however, the legislature has limited constitutional budget authority and limited political influence. Recommendations are made concerning means to reform the budgeting process, to build parliamentary capacity both as an institution and in terms of individual members of Parliament (MPs) and to undertake specified administrative reforms.

**Civil Service.** As the ministry that manages employee affairs for most government agencies, the Civil Service Ministry, was particularly prone to administrative corruption based on employment. A recent finding by this ministry found that up to 30,000 of its employees (out of 473,000) were 'ghost workers' who never showed up for work, or 'double dippers' who were on more than one payroll. With the assistance of the World Bank, the civil service has undertaken the Civil Service Modernization Program. Included in this project are a new management information system (MIS), biometric identifications to prevent ghost workers and double dippers, payroll reform and a program of early retirement as a cost savings measure. Recommendations are made regarding capacity building, implementation of performance-based reviews and rationalization of the evaluation and promotion systems in the civil service.

**Supreme Audit Institution (COCA).** The Central Organization for Control and Audit (COCA) is an anomaly in an otherwise weak set of state institutions. By comparison to other ministries and agencies, COCA appears to have a sufficient number of competent and professional staff. As the lead government auditing institution, this relative advantage in institutional capacity is important. Still, COCA does not appear to be fully independent of the executive branch, and the cases it has chosen to prosecute, and those that it has not, have caused some concern about overly political prioritization. COCA's relationship with Parliament and the PFCs is not yet systematic and rationalized, and constitutes fertile ground for reform measures and assistance for such measures by the donor community. Recommendations include assistance to enhance anticorruption measures through the institutionalization of

relations between COCA and both Parliament and the PFCs; enhanced auditing capacity of those ministries with a reputation for corruption, or those that have especially large budgets or are involved in economic development activities; and capacity building in monitoring and enforcement and enhancement of COCA's activities within the Ministry of Oil, as that ministry oversees Yemen's primary producer of government revenues.

**Anticorruption Agencies.** Legislation was recently passed to establish an independent National Authority for Fighting Corruption (NAFC) that will be charged with overseeing all government activity pertaining to corruption. While most parties welcome this development, there is concern over the extent of NAFC's independence from the executive branch. A previous draft proposal calls for the president to select its nine members from names forwarded from Parliament and the Shura Council. Thus, the GPC, as it controls both houses, will effectively choose the members of the NAFC, diminishing at least the appearance of independence. The assessment team is concerned that this entity could potentially cause bureaucratic confusion and disappointment if it does not perform its expected roles. In addition, Yemen has engaged in a media and awareness campaign on corruption. The Ministry of Planning's efforts, with USG assistance, should be expanded to rely more on civil society NGOs and to better reach rural as well as urban areas. Recommendations include harmonizing the NAFC law with laws governing related institutions such as Parliament, COCA and the PFCs; monitoring the development of the NAFC, especially the extent of its independence, and supporting its work if it appears to be fruitful; and support for the anticorruption awareness campaign by developing metrics to gauge its effectiveness.

**Regional and Local Government.** While corruption exists at sub-national levels, the amount of public funds susceptible to corruption in local administration is much less in the aggregate when compared with sectors such as health, education and agriculture. Local councils in particular, but also administrators, have a long way to go to build their capacities to play the active planning, budgeting and monitoring roles envisioned for them. At the expense of their district counterparts, governors and governorate officials seem to have unduly increased their access to resources and influence at the intermediary level of government in Yemen. If more resources and authorities are transferred quickly to governorates and districts, there is a risk of proliferating corruption if local actors do not assume more active and collaborative roles, and if transparency and accountability mechanisms are not built into Yemen's emerging decentralization architecture. Recommendations include enhancing training and appropriate empowerment of local officials; providing greater coordination between and among districts, governorates and line ministries; encouraging greater civil society input; and enhancing transparency and accountability in revenue collection at the local level.

**Elections.** Since the early 1990s, Yemen has held a series of popular elections at the local, parliamentary and presidential levels. While the elections have constituted a step forward, they have also been plagued by problems and questions. Those problems include the overly partisan system of administering the elections,<sup>1</sup> questions over the integrity of voter rolls, greater difficulties for opposition members to register as candidates, irregular polling places and rules in presidential elections, concerns over the printing and safekeeping of ballots and ballot boxes, the abuse of government facilities to privilege the GPC and its candidates and unsatisfactory election dispute mechanisms. The September 2006 presidential elections represented significant movement forward in that a credible opposition candidate was allowed to compete and reaped a significant portion of the popular vote.

Recommendations include supporting the creation of a Supreme Council for Elections and Referendum (SCER) investigatory unit to receive, investigate and make recommendations on

complaints and reports of violations of the Election Law; providing training to public prosecutors and judges at all court levels on the Election Law and related legal issues; supporting Election Law amendments and related legal and regulatory changes that facilitate its enforcement—with particular respect to investigation and adjudication authorities and procedures; and assisting the institutionalization of the SCER's leadership role over the security forces with respect to elections administration. A recommendation generated by the discussion in Section 1 is for the donor community to support a closed-list proportional representation system of elections in Yemen, which are the least prone to corruption.

**Political Parties.** The GPC's predominance does not provide incentives for it to become more transparent or to diminish those heavy-handed, manipulative practices that go beyond the natural advantages of incumbency. Because they are at such a relative disadvantage, the opposition does not have any incentive to model best practices. The principles related to uses of public office and money are admirable, but compliance and enforceability are likely insurmountable obstacles. The general consensus over the SCER's monitoring role in this regard may hold some concrete promise as a future mechanism, but the SCER's rocky recent history with the Joint Meeting of Parties (JMP) clouds the prospect for it to play this role. For reasons discussed at length, the assessment team does not believe political party reform is a fertile area for donor investment in anticorruption activities.

**Taxation System.** The Tax Authority is currently undergoing reform. The International Monetary Fund (IMF) is working with it to improve tax laws and modernize tax collection. Price Waterhouse Coopers is also providing technical assistance, which aims to improve efficiencies including through select computerization. Many problems remain. There are still widespread reports of bribery and intimidation; there is no internal mechanism to investigate alleged impropriety; a burdensome reporting requirements system encourages tax evasion among businesses; the Tax Authority has not earned popular trust; and the agency's low salaries provide fertile ground for bribery. The endemic lack of clarity on tax liability creates a system of tax farming, where tax liability is often arbitrarily assigned and then negotiated in the absence of a rational basis for determining actual liability. Recommendations focus on creating effective complaint mechanisms, enhancing internal investigative functions, increasing training, initiating public outreach programs and reforming specified human resource problems.

**Customs.** In the past two years, the Yemeni Customs Administration has gone through a "quantum leap" in terms of reform. Yemen is a member of the World Customs Organization (WCO) but has not yet fully accepted the Revised Kyoto Convention, which outlines the standard policies and processes of a modern customs administration. Yemen currently operates on the United Nations Conference on Trade and Development (UNCTAD)-computerized Automated System for Customs Data (ASYCUDA++); however, this system is not fully deployed at all ports. Implementation of ASYCUDA++ began in 2003 and has now reached an estimated 90% of ports of entry. Despite major reforms and growing integration with the system of global trade, the Yemeni Customs Administration remains one of the most corrupt government agencies according to our contacts from the private sector. Major issues include the lack of a clear system of valuation, incomplete implementation of the ASYCUDA system, lack of complaint and investigation mechanisms, underdeveloped dispute mechanisms and constraints in the area of human resources. Recommendations include support for the Arusha Declaration, implementation of the ASYCUDA++ information

technology (IT) clearance system in 100% of customs points and capacity building in a number of specified areas.

**Healthcare.** The major area where corruption occurs in the health sector is in the procurement and distribution of medical facilities and supplies. The lack of transparency and accountability in the procurement process encourages corrupt practices. Reform of the High Tender Board may mitigate corruption of major procurements, but will likely do little for rampant petty corruption. Corruption in the healthcare sector not only creates the usual distortions and inefficiencies, but also takes a toll in human lives and well-being. Recommendations include support for the creation of community boards for pilot health facilities, suggestions for creating greater transparency in the system, procurement reform and creation of a viable public complaint mechanism.

**Education.** The Ministry of Education (MoE) is reported to be one of the top ministries in the employment of 'ghost workers.' Often, teachers and administrators who are on the MoE payroll simply do not ever report to work while collecting salaries. Other forms of corruption include prevalent rent-seeking behavior in the supply and distribution of school commodities and partisan politics in the education sector. Recommendations include enhanced training in specified areas, empowerment of parent councils, propagation of training modules from successful pilot programs and broad use of USAID's Educational Quality Improvement Program (EQUIP-1) procurement practices.

**Private Sector.** The private sector faces multiple sources of government corruption and must adjust business practices to deal with widespread corruption or leave the market. The implementation of commercial laws, and particularly enforcement of the law, is insufficient. It appears that commercial laws were passed hastily in the 1990-1991 unification period, drawing from the "harshes and most complex" laws from other countries in order to ensure a strong legislative foundation. However, the result has been a poor understanding of, and arbitrary application of, the laws, often at the discretion of government officials. When businesspeople bring cases against the government, the private sector perceives a strong judicial bias in favour of the government. The tax and customs systems generate both corruption and ill will in the private sector toward the government. In addition, land administration lacks clarity and property rights are not always honoured. Recommendations include involving the business community in the tax and customs reform process; supporting reform of commercial laws; advocating for a judicial reform program focused on commercial law; and advocating for a pilot program designed to detect, investigate and if guilty, imprison mid- to high-level government officials guilty of corruption. This would send a strongly positive signal to the private sector.

### **Cross-cutting Issues And Functions**

**Budget and Financial Management.** The RoYG has recently adopted a strategy of public finance management (PFM) reform that includes general budget reform, enhancement of control and financial accountability, reform of the system of bids and procurement and improvement of competence and skills. In order to assist the RoYG with implementation of this sweeping reform strategy, a multi-donor group has developed a Public Financial Management Reform Action Plan. However, the RoYG has implemented these reforms slower than expected. Current deficiencies and mechanisms of financial corruption and political patronage: the budget setting process is little more than ad hoc bargaining ministry by ministry; there is only limited parliamentary oversight; the approved budget and the executed budget are only loosely related; the deliberate underestimation of oil revenues

leads to the centrality of large discretionary supplemental budgets, which are more prone to attracting corruption; and the military budget is reportedly a single line item in the national budget, thus eliminating oversight or accountability. Recommendations include advocating for PFM reforms in the budgeting process, enhancing parliamentary oversight, building parliamentary capacity to undertake effective oversight and building capacity at the local level for budget execution.

**Public Procurement.** The RoYG has recently embarked upon a public procurement reform program designed to increase the transparency, efficiency and effectiveness of public procurement. The government's National Agenda, adopted in January 2006, includes key reforms on procurement. In addition, the government approved a 10-year Public Financial Management Strategy in August 2005 that contains provisions for procurement reform. The government also recently passed a new procurement law. The private sector notes the persistence of corruption in the procurement process. Major problems which promote corruption include ministries that rush procurement decisions and use 'time constraints' to justify limiting competition or sole sourcing contracts, a lengthy process that invites corruption at critical junctures, an underdeveloped complaint mechanism, uncertain commitment to procurement reform by the government and an overly personalized system. Renegotiating contracts with winning bidders has also been common, leading to long delays and suspicions of corruption before, during and after the bidding process.

Recommendations include conducting a feasibility assessment for the implementation of a Procurement Management Information System (PMIS), and assisting implementation if feasible; conducting a feasibility study for an e-procurement function; supporting the dissemination of the National Procurement Manual (NPM) and Standard Bidding Documents (SBDs); and strengthening training capacity of the HTB. At the local level recommendations include strengthening local procurement, including revision of the legal framework; developing guidelines and capacity development support; providing capacity-building support to a restructured and autonomous HTB; providing capacity-building support to new independent oversight board, including strengthening of complaint and investigation functions; and promoting requirement of public disclosure of procurement decisions and financial disclosure by procurement officials.

**Privatization.** Privatization of state-owned enterprises has moved slowly in Yemen, with only a few smaller state-owned companies privatized. Many of the largest state-owned companies have remained intact. The slow pace of reform in this area suggests that deeply entrenched interests are opposing reform because they benefit from state-granted monopolies and other rents extracted from the economy that result from widespread state involvement in large industry. It also appears that some state-owned companies were simply transferred to private individuals at the discretion of senior government officials. Recommendations found in this assessment include building capacity of the Technical Privatization Agency to act as an informed advocate for large enterprise privatization; reviewing privatization legislation and proposing revisions to laws and rules governing privatization; developing privatization policies and procedures manuals; supporting the privatization of a select number of large state-owned enterprises; and providing training to the Technical Privatization Agency and General Investment Authority on integrity, transparency and accountability.

### **Corruption, Anti-corruption, and Non-State Actors**



**Media.** Since 2004, explicit media coverage of corruption has become increasingly common in nongovernmental Yemeni newspapers. Reporting has ranged from the revelation of leaks of secret reports from COCA, the national audit bureau, to the detailing of how, in one instance, education scholarships from the Ministry of Oil reportedly only went to the children of very high-ranking officials. The lack of quality in corruption reporting is a result of low capacity; a low ceiling of media freedom; and the fact that many nongovernmental newspapers are partisan, ideologically tinged or representative of particular interests. The general GPC-opposition dynamic of political accusation and counter-accusation, especially in the run up to the last local and presidential elections, would seem to further foster the incentive for the partisan press to criticize the government. Pro-government newspapers tend to deal with corruption issues from the typical “red carpet” perspective of official or semi-official media in authoritarian and semi-authoritarian political systems. Articles frequently highlight the president's anticorruption discourse or the actions of specific ministers who appear to be taking steps to combat corruption. Because of their broader public reach, state television and radio devote much less attention to corruption. Recommendations in the media sector include using diplomatic leverage to create more a permissive environment for journalists reporting on corruption-related issues; supporting legal reforms that would raise the ceiling for anticorruption reporting; training reporters and editors in investigative journalism techniques—with an emphasis on how to obtain and verify information, document or corroborate claims and conduct interviews; and increasing government transparency on media issues.

**Civil Society.** Contemporary civil society in Yemen emerged as a legacy of local development associations in North Yemen from the 1980s and as a by-product of unified Yemen's political liberalization starting in the early 1990s. Not surprisingly, most nongovernmental organizations (NGOs) are oriented toward social service delivery and economic productivity (principally in the form of cooperatives). By comparison, the number of democracy and rights NGOs is relatively small but noteworthy—numbering in the dozens. Yemeni NGOs are generally quite weak in terms of financial resources, organization, management and basic skills. The government and GPC do not yet have a clear strategy with respect to civil society organizations (CSOs) in Yemen. CSO anticorruption activities appear to be small-scale, ad hoc and one-off. One of the key challenges for CSOs interested in anticorruption issues is the significant dearth of information. Compounded by a general lack of government transparency, reliable data in Yemen is quite lacking, incomplete, and usually inconsistent and contradictory. This obviously makes credible and constructive research and policy-related advocacy quite difficult.

Recommendations include requiring civil society participation as part of all donor bilateral and multilateral development initiatives within Yemen; using diplomatic leverage to promote a more permissive enabling environment for CSOs engaged in anticorruption activities; advocating for civil society participation in specific government-sponsored anticorruption initiatives; increasing civil society access to, and uses of, government information for anticorruption advocacy purposes; building an anticorruption coalition among relevant CSOs; supporting civil society participation in government strategy development, planning, implementation, monitoring and evaluation efforts in a pilot issue area or sector—e.g., health, education, agriculture; assisting CSOs to develop their own “public diplomacy” strategies as a way to counter government and/or ruling party discourses; encouraging CSOs to institute and publicize transparency measures similar to those they would expect from government institutions; and drawing on local lessons learned and best practices in future programming.

## Prioritizing Recommendations and Programming Options

In the final section of the report, the assessment team makes two overarching recommendations in terms of prioritizing and implementing the report's recommendations. First, we recommend that the Mission give priority to implementing recommendations in those sectors in which there are extant USAID programs. Such anticorruption recommendations could be relatively easily integrated into existing programs in the judicial, parliamentary, local government/decentralization and health sectors. Second, we recommend that the Mission create a standalone program designed to strengthen public financial management and accountability. A standalone project of this magnitude and complexity is more difficult to implement, but its need is the most significant. As a consequence, most of this section focuses on how such a program may be constructed.

### Section 3 - Economy

Yemen is a low-income country that faces difficult long-term challenges to stabilizing and growing its economy, and the current conflict has only exacerbated those issues. The ongoing war has halted Yemen's exports, pressured the currency's exchange rate, accelerated inflation, severely limited food and fuel imports, and caused widespread damage to infrastructure. At least 82% of the population is in need of humanitarian assistance.

Prior to the start of the conflict in 2014, Yemen was highly dependent on declining oil resources for revenue. Oil and gas earnings accounted for roughly 25% of GDP and 65% of government revenue. The Yemeni Government regularly faced annual budget shortfalls and has tried to diversify the Yemeni economy through a reform program designed to bolster non-oil sectors of the economy and foreign investment. As part of these reform efforts, Yemen exported its first liquefied natural gas in October 2009. The international community supported Yemen's efforts toward economic and political reform in part by establishing the Friends of Yemen group. In 2012, the Friends of Yemen pledged nearly \$7 billion in assistance to Yemen. In July 2014, the government continued reform efforts by eliminating some fuel subsidies and in August 2014, the IMF approved a three-year, \$570 million Extended Credit Facility for Yemen.

However, the conflict that began in 2014 stalled these reform efforts. Rebel Huthi groups have interfered with Ministry of Finance and Central Bank operations and diverted funds for their own use. Yemen's Central Bank reserves, which stood at \$5.2 billion prior to the conflict, currently stand at \$1.5 billion. The Central Bank is exposed to approximately \$7 billion in overdraft, more than three times the legal limit, directly linked to the Huthis withdrawing \$116 million on a monthly basis. The private sector is hemorrhaging, with almost all businesses making substantial layoffs. The Port of Hudaydah, which handles 60% of Yemen's commercial traffic, was damaged in August 2015 as a result of the conflict and is only operating at 50% capacity. Access to food and other critical commodities such as medical equipment is limited across the country due to security issues on the ground. The Social Welfare Fund, a cash transfer program for Yemen's neediest, is no longer operational and has not made any disbursements since late 2014.

Yemen will require significant international assistance during and after the protracted conflict to stabilize its economy. Long-term challenges include a high population growth rate, high unemployment, declining water resources, and severe food scarcity.

**Agriculture - products:**

grain, fruits, vegetables, pulses, qat, coffee, cotton; dairy products, livestock (sheep, goats, cattle, camels), poultry; fish

**Industries:**

crude oil production and petroleum refining; small-scale production of cotton textiles, leather goods; food processing; handicrafts; aluminium products; cement; commercial ship repair; natural gas production

**Exports - commodities:**

crude oil, coffee, dried and salted fish, liquefied natural gas

**Exports - partners:**

China 24.5%, UAE 16.5%, South Korea 10%, Saudi Arabia 10%, Kuwait 9.1%, India 8.5% (2015)

**Imports - commodities:**

food and live animals, machinery and equipment, chemicals

**Imports - partners:**

UAE 20.9%, China 14.3%, Saudi Arabia 9.9%, Kuwait 7.4%, India 4.6% (2015)

**Banking**

The financial sector in Yemen consists of the banking sector, the money exchange activities and the insurance activities. Yemen does not have a stock exchange market; however, the Central Bank of Yemen (CBY) manages the treasury bills via the General Department of Public Debt and Lending. The department organizes t-bills auctions in which banks, pension funds, private and public institutions and the public participate.

The banking sector is supervised by the Central Bank of Yemen. There are 16 banks and 200 branches nationwide, including 4 Islamic banks, 2 specialized banks, one of which has recently began to expand its services as a universal bank, and 10 conventional (commercial) banks: 6 of which are local and 4 are branches of foreign banks.

**Stock Exchange**

There is currently no stock exchange in Yemen but it has recently been announced that it intends to launch one.

## **Executive Summary:**

Yemen's investment climate has improved steadily in the past three years, with the economy expected to grow by 5.0 percent in 2014. In April 2014, Yemen's Parliament agreed to join the World Trade Organization (WTO), with the hope that Yemen's eventual accession will lead to a freer and more open market for international and domestic investors. International donors pledged \$7.8 billion in assistance to Yemen in 2012, with segments of that funding intended for large infrastructure projects. Both government officials and the private sector admire the professionalism and high-quality products of U.S. companies and seek to attract American companies to enter the Yemeni market.

However, the overall business-enabling climate presents a number of challenges. Corruption and bribery are common, and some Yemeni officials view foreign investment as an opportunity to seek out personal profit. Navigating the inner workings of competing centers of authority within the government may require a competent local partner. U.S. investors must pay special attention to ensure that they and their local partners remain compliant with the U.S. Foreign Corrupt Practices Act.

Security is a serious threat, as terrorist organizations have a history of targeting Westerners in Yemen. Al-Qaeda in the Arabian Peninsula (AQAP) continues to target infrastructure and government facilities, and terrorists have demonstrated the ability and desire to carry out large-scale attacks. Kidnapping of Westerners is a critical and growing threat, with several victims still being held for ransom by al-Qaeda or local tribes. The January 29, 2014 U.S. Department of State travel warning for Yemen urges U.S. citizens to defer travel to Yemen, and those U.S. citizens currently living in Yemen, to depart.

Other challenges include weak intellectual property rights enforcement, opaque dispute settlement mechanisms, as well as unclear and inconsistent lines of decision-making authority within the government. Official letters and memoranda to investors, as well as instructions within Yemeni ministries, are routinely ignored by government officials.

### **1. Openness to, and restrictions upon, foreign investment:**

Yemen is eager to attract foreign direct investment, and government officials frequently express their openness to investment by U.S. firms. The Investment Law does not distinguish between domestic and foreign investors, and there is no requirement for foreign investors to partner with local companies. The General Investment Authority (GIA), Yemen's primary agency tasked with promoting investment, publicizes investment opportunities and coordinates government support on behalf of investors. GIA is currently implementing a "one-stop shop" process to simplify and streamline the process to register investments. Interested investors can obtain information packets from GIA, including a copy of the investment law, an investment guide summarizing GIA activities, and an application form with instructions, from: Promotion Section, General Investment Authority, P.O. Box 19022,

Sanaa, Republic of Yemen [Telephone: (+967) 1 434-312/13; Fax: (+967) 1 434-314;  
Website: <http://investinyemen.org/>]

Some investment sectors are not covered by GIA or the Investment Law. Investment in the oil and gas sector is governed by the Ministry of Oil and Minerals, and the Central Bank of

Yemen oversees investment in the banking sector. The government of Yemen has sought to attract more international oil companies to invest in the hydrocarbon sector, which generates 60 percent of the government's budget.

Yemen continues to implement the Arab League's anti-Israel boycott. U.S. companies have been accused of having ties to Israel in order to damage their position in the market.

**TABLE 1:** The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2013	(166 of 177)	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2013	(123 of 177)	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing Business Report "Ease of Doing Business"	2014	(133 of 189)	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>
Global Innovation Index	2013	(142 of 142)	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	\$1,270	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less, including Yemen. Yemen's MCC scorecard is available here: <http://www.mcc.gov/documents/scorecards/score-fy14-english-ye-yemen-rep.pdf>.

Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>

## 2. Conversion and Transfer Policies

Most major currencies, especially U.S. dollars, are readily available and trade freely at market rates. Central Bank interventions have resulted in a steady exchange rate with the U.S. dollar since August 2010. As of April 2014, the Yemeni Riyal was trading at YR 214.89 YR/USD 1.

Profits from investment of foreign funds may be transferred freely outside of Yemen. Investors may bring in funds from abroad for investment, and may re-export invested capital, as cash or in-kind, upon liquidation or project disposal. Cash transfers above \$10,000 must be approved by the Central Bank of Yemen.

Yemen is one of 11 countries listed on the Financial Action Task Force (FATF) public statement for having strategic deficiencies in addressing money laundering and combating the

financing of terrorism. The FATF is currently evaluating new amendments designed to strengthen the anti-money launder/combating the financing of terrorism law.

### **3. Expropriation and Compensation**

Since Yemen's unification in 1990, there have been no known cases of expropriation of property owned by foreign investors. Yemen's investment law stipulates that private property will not be nationalized or seized, and that funds will not be blocked, confiscated, frozen, withheld, or sequestered by any government entity but a court of law. Real estate may be expropriated in the national interest, subject to a court judgment and fair compensation based on the current market value of the seized property.

### **4. Dispute Settlement**

Commercial law enforcement in Yemen remains problematic. The commercial court system is inefficient and subject to bribes and influence by personal connections, and is generally considered unreliable for settling commercial disputes. Court cases can take years to resolve, and the government does not always enforce court rulings.

Many business entities prefer to handle disputes through private arbitration. In 1998, a group of lawyers, bankers, and businessmen established the Yemeni Center of Conciliation and Arbitration, a private arbitration center, as an alternative to the court system. The Arbitration Center has settled 52 disputes, and is slowly gaining recognition as a viable alternative to official courts in Yemen. The Arbitration Center suspended its operations in 2011 as a result of the political crisis in the country, but reopened in 2012. Most Yemeni business owners, however, continue to eschew both government and formal arbitration in favor of informal settlements, resulting in a serious deficiency in the equal application of the law. Foreign investors are best served by including an international arbitration clause in their contracts, establishing an escrow account, and, where appropriate, requesting payment up front.

Several U.S. companies have been involved in investment disputes with the government of Yemen over the past decade after the government reneged on signed agreements. Only one of the companies has received compensation for the abrogated contracts. In 2005, U.S.-based Hunt Oil Company sued Yemen in the International Court of Arbitration. The court's decision has been kept confidential, as agreed upon by both sides. Hunt Oil sold its remaining oil business in Yemen to a Kuwaiti company in 2013, but continues to hold a stake in a large liquefied natural gas facility.

Yemen is a signatory to the 1965 Convention on the Settlement of Investment Disputes, but not to the 1958 New York Convention on Arbitration. There are no specialized intellectual property rights courts. Yemen does not have a bankruptcy law or an insolvency law. The World Bank's Ease of Doing Business Report 2014 ranks Yemen 126 out of 189 in resolving insolvency.

### **5. Performance Requirements and Investment Incentives**

Investment incentives apply equally to foreign and domestic investors. The 2010 Investment Law offers customs duty exemptions for fixed assets of investment projects, and a 50 percent reduction in customs duties for production inputs. The corporate income tax rate for

investments worth at least \$3 million and employing at least 100 Yemenis, or in the telecommunications or tobacco industry, is 15 percent; corporate income tax for all other investments is 20 percent. Yemen does not specify performance requirements as a condition for investment.

## **6. Right to Private Ownership and Establishment**

Foreign commercial entities have full rights to private ownership in Yemen, with or without a Yemeni partner, except in the field of arms and munitions. All companies must register with the Ministry of Industry and Trade prior to establishing operations in Yemen.

## **7. Protection of Property Rights**

Yemen has a long history of land ownership disputes due to incomplete or inaccurate land records. The General Land Survey and Planning Authority oversees land ownership and registration, as well as modest government urban planning efforts. In 2011, armed clashes damaged the General Land Survey and Planning Authority headquarters and led to the looting of documents and equipment in the building, thus further complicating land ownership disputes. The World Bank's Ease of Doing Business Report 2014 ranks Yemen 61 out of 189 in registering property. Because banks are wary to accept land as a form of collateral, mortgage lending in Yemen is rare.

Intellectual property rights protection in Yemen is very weak. Yemen became a member of the World Intellectual Property Organization (WIPO) in 1999 and has revised laws protecting patents, trademarks, and industrial designs in 2010 and 2011. In 1999, a large U.S.-based multinational firm won a trademark infringement case in a Yemeni court, but the violator continued to infringe on the trademark despite the court ruling. In a separate case in 2003, the Yemeni Supreme Court ruled in favor of a U.S. company in a trademark dispute, ordering the infringing company to cease production and destroy the products in violation with the ruling, but the court never enforced its decision.

As part of Yemen's WTO accession requirements, Yemen must take concrete steps to adequately protect intellectual property rights. Yemen has acceded to the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Agreement on Protecting Intellectual Property Rights. Yemen is not yet compliant with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), but the government has an action plan to become compliant by the end of 2016. For additional information about treaty obligations and points of contact at local intellectual property offices, please see WIPO's Yemen country profile: [http://www.wipo.int/directory/en/details.jsp?country\\_code=YE](http://www.wipo.int/directory/en/details.jsp?country_code=YE).

Embassy point of contact: Danny Devries [SanaaCommercial@state.gov](mailto:SanaaCommercial@state.gov)

Local lawyers list: [http://yemen.usembassy.gov/yemen/layers\\_info.html](http://yemen.usembassy.gov/yemen/layers_info.html)

## **8. Transparency of the Regulatory System**

Implementation and enforcement of environmental protection regulations and labor laws are inadequate and non-transparent. Health and safety standards are rudimentary and not

enforced. Customs tariff regulations and tax laws remain inconsistent and smuggling is common, but the government has taken steps in recent years to standardize the process with Automated System for Customs Data (ASYCUDA) systems and WTO-compliant customs valuation methods. The Yemen Standardization, Metrology and Quality Control Organization is the regulator responsible for setting standards for the import, export, and distribution of goods. Proposed laws and regulations are typically not available in draft form for public comment before they are finalized.

## **9. Efficient Capital Markets and Portfolio Investment**

Commercial banks are typically owned and operated by large trading families, and most of their lending goes to associated businesses or well-known partners. Banks are reluctant to issue credit, because many judges reject claims for interest payments as being non-compliant with *Shari'a* (Islamic) law, and because seizure of collateral is difficult to enforce. Because commercial banks can purchase government bonds with a 15 percent interest rate, banks typically charge customers an even higher rate for credit. There is no national credit registry in Yemen.

The banking sector in Yemen is relatively stable; the last bank failure (Watani Bank) occurred in 2006. Since then, the Central Bank of Yemen has made an effort to increase monitoring of the banking sector and improve accounting procedures and loan recovery rates. Because commercial banks are so reluctant to lend to creditors, Yemeni banks are generally highly liquid. Most commercial banks maintain the required eight percent capital adequacy ratio and classification standards for loan portfolios. As of January 2014, the consolidated balance sheet of commercial and Islamic banks amounted to 2759.1 billion YR (\$12.8 billion), a 427.7 billion YR (\$2.0 billion) increase over the previous 12 months. Only four percent of Yemenis have bank accounts, and most financial transactions occur outside of the commercial banking system. Credit card use is rare, but ATMs are located in urban areas.

In 2011, the last remaining U.S. bank operating in the Yemeni market, Bank of New York, closed its correspondence accounts with local banks. Consequently, most Yemeni banks have switched to European or Gulf country correspondent banks for most money transfers and letters of credit denominated in U.S. dollars. Yemen's weak anti-money laundering and combating the financing of terrorism regime, as noted in the Financial Action Task Force public statement, creates potential hazards for international banks looking to facilitate transactions in Yemen.

Inter-bank activities are limited, and there are no equity or bond markets. The government of Yemen plans to establish a stock market in Yemen to promote a private sector-led growth strategy. Most domestic and international observers, however, believe that the country lacks the expertise to establish a stock market, and that there are insufficient Yemeni investors to sustain an active stock market.

## **10. Competition from State-Owned Enterprises**

State-owned enterprises (SOEs) are active in various sectors, including electricity, oil and gas, manufacturing, banking, and telecommunications. Yemen Economic Corporation, Public Electricity Corporation, Yemen Petroleum Company, and Yemen Telecommunication Corporation are some of the most prominent examples of SOEs in Yemen. Government



ministries supervise the operations of each SOE. There are also enterprises with mixed public/private ownership, including the Yemen Bank for Reconstruction and Development, Yemen Mobile, and the Yemen Drug Company. The government budget appropriates funds to SOEs, but most SOEs are not subject to hard budget constraints and have a degree of independence. The President of Yemen appoints the Executive Directors of each SOE, after receiving nominations provided by the relevant ministers. The Executive Director coordinates with the relevant ministries in vital decision-making. Each SOE is required by law to publish an annual report under the supervision of the related ministry and submit their books to an independent auditing company, but critics allege that the official annual reports do not fully capture the activities of each SOE. Reportedly, very few of the Yemen's SOEs are profitable.

Some SOEs have an exclusive monopoly to operate in their sector, such as the Yemen Petroleum Company's monopoly over fuel imports. Other SOEs, including national oil companies PetroMasila and SAFER, Yemeni Authority for Cement, and the Cooperative and Agricultural Credit Bank, compete with the private sector.

## **11. Corporate Social Responsibility**

Corporate social responsibility (CSR) is not mandated by law, but establishing positive community relations can be crucial to sustaining operations, particularly in tribal areas. Foreign and domestic firms often promote CSR through educational scholarships or charities run by family firms. Companies with operations outside of Sana'a, particularly oil companies working in tribal regions, have faced sabotage of their infrastructure and blockades of supplies by locals who were excluded from jobs, and felt that they did not have a stake in the success of the companies in their regions. Tribes in oil-producing regions claim they are not benefitting fairly from the economic activity in their areas, and investors should be very sensitive to the need to build strong and lasting community relations. The provision of community-based services, such as healthcare and education, can contribute to protecting investments in isolated areas, where the tribal structure is more influential than the formal legal system.

## **12. Political Violence**

In 2011, protests and armed clashes between pro- and anti-regime forces erupted in opposition to 33 years of rule by President Ali Abdullah Salih. Over one thousand Yemenis were killed, and thousands more injured, as tribal and security factions splintered and clashed in the streets of Sana'a. On March 18, 2011, at least 45 anti-government protesters died and over 200 were injured as unidentified gunmen opened fire on peaceful demonstrators in Sana'a in what became known as the "Friday of Dignity" massacre. Following the shootings, several high-ranking officials and military commanders defected from the Saleh regime, including Major General Ali Muhsin, then Commander of the First Armored Division and one of the most powerful figures in Yemen.

On June 3, 2011, President Salih and other officials were injured in an attack on the Presidential Mosque, forcing Salih to seek medical treatment in Saudi Arabia for several weeks. On November 23, President Salih signed the GCC Initiative agreement in Riyadh, agreeing to step down in favor of then-Vice President Abdo Rabbu Mansour Hadi in exchange for immunity, and leading to the inclusion of the opposition in a National

Consensus Government. Hadi was formally elected President in a national election in February 2012.

On March 18, 2013, President Hadi launched the National Dialogue Conference (NDC) with the participation of a broad spectrum of political parties and interest groups. Following ten months of meetings and deliberations, the members of the NDC agreed on a final document to serve as a guideline in the constitutional drafting process. Unknown gunmen assassinated two delegates before the conclusion of the NDC, while several other assassination attempts against delegates and political figures failed.

Terrorist organizations, including Al-Qaida in the Arabian Peninsula (AQAP), continue to be active throughout Yemen. The U.S. government remains highly concerned about possible attacks on U.S. and Western citizens, facilities, businesses, and other interests. In a significant blow to counter-terrorism efforts, 23 convicted terrorists, including those behind the 2000 U.S.S. Cole bombing, escaped from a prison in Sana'a in February 2006. On July 2, 2007, eight Spanish tourists and two Yemenis were killed in a suicide car bomb attack on their convoy in Marib governorate. On January 18, 2008, two Belgian tourists and their Yemeni driver were killed in Hadramawt Governorate. In 2008, mortars fired at the U.S. Embassy hit a neighboring girls' school, injuring several Yemeni girls. A September 2008 suicide attack on the U.S. Embassy in Sana'a killed 18 people. A U.S. citizen was killed in Taiz on March 18, 2012 and AQAP claimed responsibility. Protestors stormed the walls of the U.S. Embassy in Sana'a on September 13, 2012, damaging vehicles and facilities, but there were no casualties. Later that year, a member of U.S. Embassy local staff was assassinated outside his home by unknown gunmen.

The resolution of the political crisis has done little to slow down periodic assassinations and terrorist attacks against Yemeni security forces and facilities. On May 22, 2012, nearly 100 soldiers were killed and more than 200 were injured in a terrorist attack during a rehearsal for a military parade on 70 Meter Road in Sana'a. On September 11, 2012, Minister of Defense Mohamed Nasser Ahmed narrowly escaped an assassination attempt when a car bomb targeted his motorcade, killing seven and injuring 12. On December 5, 2013, al-Qaeda militants carried out a complex attack against the Ministry of Defense compound in Sana'a, killing at least 52 people. Video footage captured attackers killing patients and civilian employees at a hospital inside the compound. The backlash against the brutality of the attack was so severe that al-Qaeda issued a formal apology. On February 13, 2014, more than two dozen prisoners believed to be connected to AQAP broke out of the Sana'a Central Prison. Assassins on motorbikes have killed dozens of military, security, and intelligence officials since 2012.

Terrorists have also targeted economic interests in Yemen, especially in the important oil sector, which accounts for 60 percent of government revenue. Since 2006, attacks against oil and gas infrastructure have resulted in the interruption of operations and occasional deaths, though most attacks are against lightly protected oil pipelines and do not result in casualties.

Kidnappings of expatriates, and occasionally Yemenis, have long been a frequent occurrence in Yemen as a means for tribes to pressure the government to accede to their demands for resources or improved services, or to settle business disputes. Recently, however, tribes have begun to sell kidnapping victims to AQAP, who demands ransoms in

the millions of dollars to finance operations. Tribes have also hijacked vehicles belonging to foreign companies and set up roadblocks around their facilities in order to pressure the central government to provide additional social services in the area.

Violent crime is also a growing problem; local media reported the murder of two U.S. citizens in Taiz and Aden in 2013. In addition, piracy in the Red Sea, Gulf of Aden, and Indian Ocean is a security threat to maritime activities in the region.

Houthi rebels have expanded their influence through parts of northern Yemen by forming new tribal alliances.

The January 29, 2014 U.S. Department of State travel warning for Yemen urges U.S. citizens to defer travel to Yemen and those U.S. citizens currently living in Yemen to depart. The latest travel warnings for U.S. citizens is available here:

[http://yemen.usembassy.gov/yemen/citizen\\_services.html](http://yemen.usembassy.gov/yemen/citizen_services.html)

### **13. Corruption**

Corruption is rampant in Yemen, and poses a significant challenge to U.S. investors. Analyses by international and local observers, including Transparency International, agreed that corruption affects every branch and level of government, and especially the security sector. Political leaders and most government agencies have taken negligible action to combat corruption.

The culture of corruption is pervasive, and petty corruption is widely reported in nearly every government office. Job candidates are often expected to purchase their positions. Tax inspectors undervalue assessments and pocket the difference. Many government officials and civil service employees receive salaries for jobs they did not perform or multiple salaries for the same job.

Government procurement is also greatly affected by corruption. The government has a long history of awarding large contracts to companies controlled by entrenched elites. Many projects are not awarded by tender, and even when they are, the process can be opaque. Prospective local partners often flaunt their connection to government decision-makers, not realizing that the nature of their relationship may run afoul of U.S. anticorruption laws and norms.

Corruption is a particularly serious problem throughout the military-security establishment and intelligence bureaucracy. Government progress on reorganization within the Ministry of Defense and Ministry of Interior explicitly addresses corruption. Some police stations reportedly maintain an internal affairs section to investigate abuses by police and security force, and citizens have the right to file complaints with the Prosecutor's Office. The Ministry of Interior has a fax line for citizens to file claims of abuse for investigation.

The law provides criminal penalties for corruption; however, enforcement of the anticorruption law is weak, and officials frequently engage in corrupt practices with impunity. According to Article 136 of the Constitution, a criminal investigation may not be conducted on a deputy minister or higher-ranking official without a one-fifth approval vote in Parliament. A two-thirds majority parliamentary vote and presidential permission are then required to

bring criminal investigation results to the general prosecutor for indictment, a burdensome process that effectively shields high-ranking officials from prosecution. The government did not use the procedure to prosecute high-ranking officials during 2013 and only employed it infrequently in prior years. Yemen does not have a “whistle-blower” law extending protections to public or private employees from retaliation for making internal or public disclosure of corruption. NGOs reported many cases of individuals losing their jobs or suffering other harm after revealing instances of corruption.

The independent Supreme National Authority for Combating Corruption (SNACC) was formed in 2007 to receive complaints and develop programs to raise awareness of corruption. According to SNACC officials, 100 corruption cases were referred for prosecution during the 2013, but no corruption sentences were pronounced by year’s end.

The Central Organization for Control and Audit (COCA) is the national auditing agency for public expenditures and the investigative body for corruption. The President appoints its top officials. COCA presents its reports to Parliament, but the reports are not publicly available. In cases involving high-level officials, COCA submits reports directly to the President, who has the power to refuse the reports. Only low-ranking officials have been prosecuted for corruption since COCA’s inception in 1999.

Yemen Parliamentarians Against Corruption (Yemen PAC), the local branch of Arab PAC, is part of a network of parliamentarians organized in 2006 to stimulate legislative branch action against corruption. Though it does not have any legal mandate, Yemen PAC monitors the activities of SNACC and COCA, and provides limited, unofficial oversight of their activities.

The law requires disclosure of financial assets to SNACC by all ministers, deputy ministers, heads of agencies, and members of Parliament and the Shura Council. The SNACC reserves the right to request disclosures from any other government employee. Disclosures must be submitted annually, but government officials do not need to disclose the assets of their children or spouses. SNACC publishes the disclosures on its website and notes the names of officials who have failed to submit a disclosure. The law provides for penalties for filing false information. A total of 25,621 public employee financial disclosure statements have been filed with the SNACC, with 686 noncompliance cases submitted to the Public Prosecutor’s Office for action. However, the Public Prosecutor’s Office has not brought any cases to trial.

Ultimately, it is the responsibility of the U.S. company to ensure that it and its local partners comply with the Foreign Corrupt Practices Act. Because of the rarity of prosecution for corruption, local Yemeni companies may be more willing to engage in corruption, with or without the knowledge of their partners.

Transparency International’s 2013 Corruption Perception Index ranked Yemen 167 out of 177 countries, a drop from Yemen’s 2010 ranking of 146<sup>th</sup>. Yemen has signed and ratified the United Nations Convention against Corruption.

#### **14. Bilateral Investment Agreements**

The United States and Yemen signed a Trade Investment Framework Agreement (TIFA) in 2004. The United States and Yemen do not have a bilateral taxation treaty. According to the General Investment Authority, Yemen has more than 60 bilateral trade and investment

agreements, including with Algeria, Austria, Bahrain, Belarus, Belgium, Bulgaria, China, Czech Republic, Egypt, Ethiopia, France, Germany, Hungary, India, Indonesia, Iran, Italy, Jordan, Kuwait, Lebanon, Luxembourg, Malaysia, Morocco, Netherlands, Oman, Pakistan, Qatar, Russian Federation, South Africa, Spain, Sudan, Sweden, Syria, Tunisia, Turkey, Ukraine, the United Arab Emirates, and the United Kingdom. For more information on Yemen's bilateral investment agreements, please see: <http://investinyemen.org/>.

## **15. OPIC and Other Investment Insurance Programs**

The Overseas Private Investment Corporation (OPIC) can provide support to finance and insure both private and public sector projects in Yemen under the terms of a 1972 investment guarantee agreement, but OPIC has not supported any project in Yemen since at least 2006. Potential investors should consult early on with representatives from OPIC regarding the financing profile of a given project. The Export-Import Bank (Ex-Im Bank) is currently barred from operating in Yemen. Yemen is a member of the Multilateral Investment Guarantee Agency.

## **16. Labor**

Unemployment in Yemen is high, with some estimates at 50 percent. Most Yemenis work in the agricultural sector or the informal economy. According to the World Bank, 45 percent of the population lived below the international poverty line of \$1.25 per day. The workforce of Yemen is largely unskilled, and wages are low. Though many workers have earned a college degree, few Yemeni universities approach the level of education at U.S. universities. Some Yemenis have degrees from Western or other Arab universities, but these workers represent a small subset of the Yemeni labor force. The Investment Law does not require foreign firms to hire Yemeni workers.

The labor code provides for the right of salaried private sector employees to organize and bargain collectively without government interference. The labor code also protects employees from antiunion discrimination, including dismissal for union activities. Unions may negotiate wage settlements for their members and may conduct strikes or other actions to achieve their demands.

Although not required by law, all unions are federated within the General Federation of the Yemeni Workers' Trade Unions (GFYWTU). Unions are most active in the public sector, but exist in the private sector, as well. A 2014 strike by employees of French oil company Total in Hadramawt Governorate created a temporary interruption of work. The government has at times sought to influence unions by inserting its own personnel into groups and organizations. In some instances, political parties attempted to control professional associations by influencing internal elections or placing their own personnel in positions of influence.

There is no minimum wage for private sector employees, but there are requirements for overtime pay, paid holidays, and leave. The law specifies a maximum 48-hour workweek and a maximum eight-hour workday, but many employees regularly work longer hours without compensation. The law prohibits compulsory and child labor, but a 2013 ILO child labor survey found that 11 percent of children between the ages of five and 11 were involved in child labor. The Ministry of Social and Labor Affairs is responsible for regulating workplace health and safety conditions, though enforcement is weak.

## 17. Foreign Trade Zones/Free Ports

The Aden Container Terminal and the Aden Free Zone are promising areas for investment, especially in the fields of light industry, repackaging, storage, and distribution. The government plans to further develop the Aden Free Zone to increase heavy industry and tourism infrastructure. Free zone incentives include the possibility of 100 percent foreign ownership, no personal income taxes for foreigners, a corporate tax holiday for 15 years (renewable for 10 additional years), full repatriation of capital and profits, no currency restrictions, and no restrictions on the employment of foreign staff. Aden's main selling point is its strategic location – nine days steaming from Europe and seven from Singapore – directly off the main Far East-to-Europe sea route. For further information, contact: Free Zones Public Authority (AFZPA), (Main Center) P.O. Box 5842 Khormaksar, Aden, Republic of Yemen,

Telephones: 967-2-234484/5/6, Fax: 967-2-235-637, e-mail: adenfz@y.net.ye; Website: <http://www.adenfreezone.com/Index.php>

The annual capacity of the Aden Container Terminal is 650,000 twenty-foot equivalent units (TEUs). The 35 hectare container yard can store up to 10,000 boxes. The Yemen Ports Authority recently constructed a new 270-meter long and 12 meter deep dock assigned for unpacking wheat-loaded vessels in order to alleviate the burdens on the other seven docks in the port. In November 2013, the government of Yemen pledged \$507 million to rehabilitate the Port of Aden, including dredging the port to grant access to heavier ships. For more information about the ACT, please visit <http://www.portofaden.net/Default.aspx>.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

The General Investment Authority has not released foreign direct investment statistics for 2013. According to the World Bank's Foreign Direct Investment Report, FDI into Yemen (\$349 million in 2012) once again exceeded outflow. Most U.S. investment in Yemen is in the oil and gas exploration and production sectors.

### Section 5 - Government

#### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

#### International organization participation:

AFESD, AMF, CAEU, CD, EITI (compliant country), FAO, G-77, IAEA, IBRD, ICAO, ICRM, IDA, IDB, IFAD, IFC, IFRC, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAS, MIGA, MINURSO, MONUSCO, NAM, OAS (observer), OIC, OPCW, UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNISFA, UNMIL, UNMIS, UNOCI, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

#### Legal system:

Mixed legal system of Islamic law, Napoleonic law, English common law, and customary law.

## Section 6 - Tax

### Exchange control

Yemen is one of the 70 member countries of the International Monetary Fund (IMF) that has exchange controls governing exchange rate arrangements applying to Conventional Pegged Arrangement.

### Treaty and non-treaty withholding tax rates

No information available

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International)</a> <a href="#">Control of corruption (WGI)</a> <a href="#">Global Advice Network</a>	>69%	35 – 69%	<35%

<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))



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