

A Study on Supply Chain Finance (SCF) in Yemen



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Objectives:

This study on Supply Chain Finance provides an overview of the SCF current state in Yemen. The specific objectives are :

- **To provide an overview of the financial situation in Yemen;**
- **To provide an overview of the Supply Chain Finance situation in Yemen;**
- **To map existing barriers and market nature that hinder growth and the cross-border expansion.**



Approach:

The three objectives are translated into the following tasks and activities:

- Task 1, provides an overview of Yemen financial situation based on research and previous reports.
- Task 2, provides an overview of the Yemeni supply chain finance market based on desk research and interviews.
- Task 3, the analysis of the market barriers based on research.

The current imports financing situation in Yemen

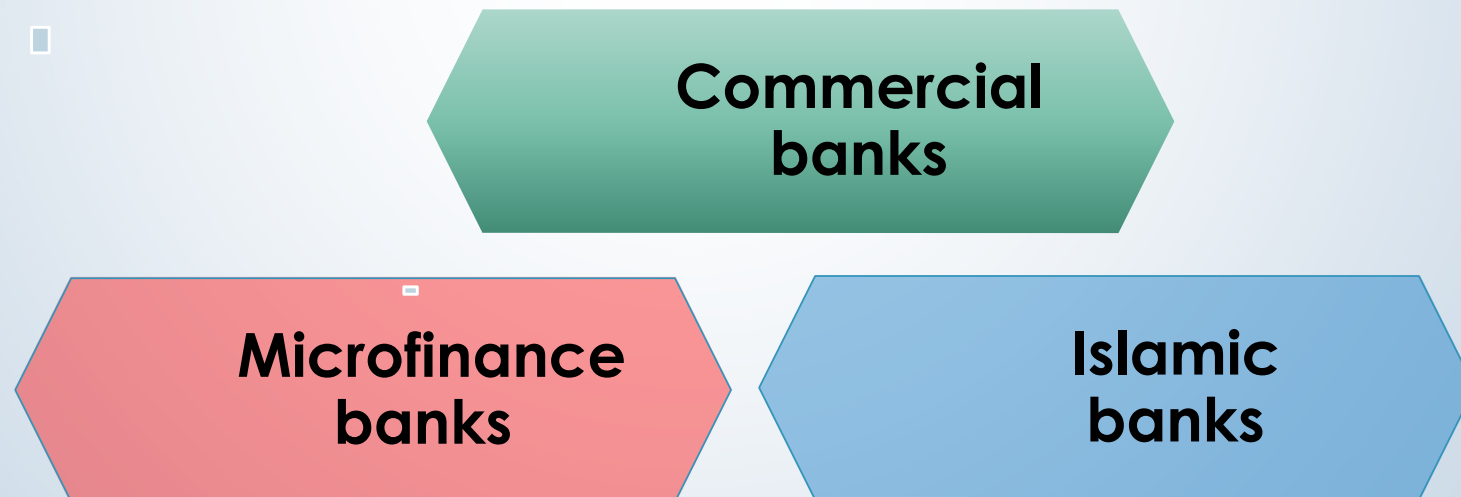
Since 2015, Yemeni importers have faced a growing number of financial and institutional constraints imposed by the war's physical and economic dimensions.

- Reduced access to foreign currency and letters of credit from the Central Bank of Yemen CBY, owing to decreased foreign currency supplies ;
- Reduced access to correspondent accounts as a result of classification of Yemeni banks as 'high-risk' ;
- Reduced access to credit – a problem that permeates the food supply chain.
- hydrocarbon exports from Yemen were gradually suspended (the country's biggest source of revenue)a 36% of foreign currency inflows.
- The transfer of the CBY headquarters led to the division of the CBY and left Yemen with two competing central banks
- import financing mechanism have been put on hold due to insufficient government revenue
- Reduced purchasing power is a result of a variety of factors: local currency depreciation, reduced income, and less employment as well as a lack of salary, pension, and social welfare payments.



Supply Chain Finance in Yemen

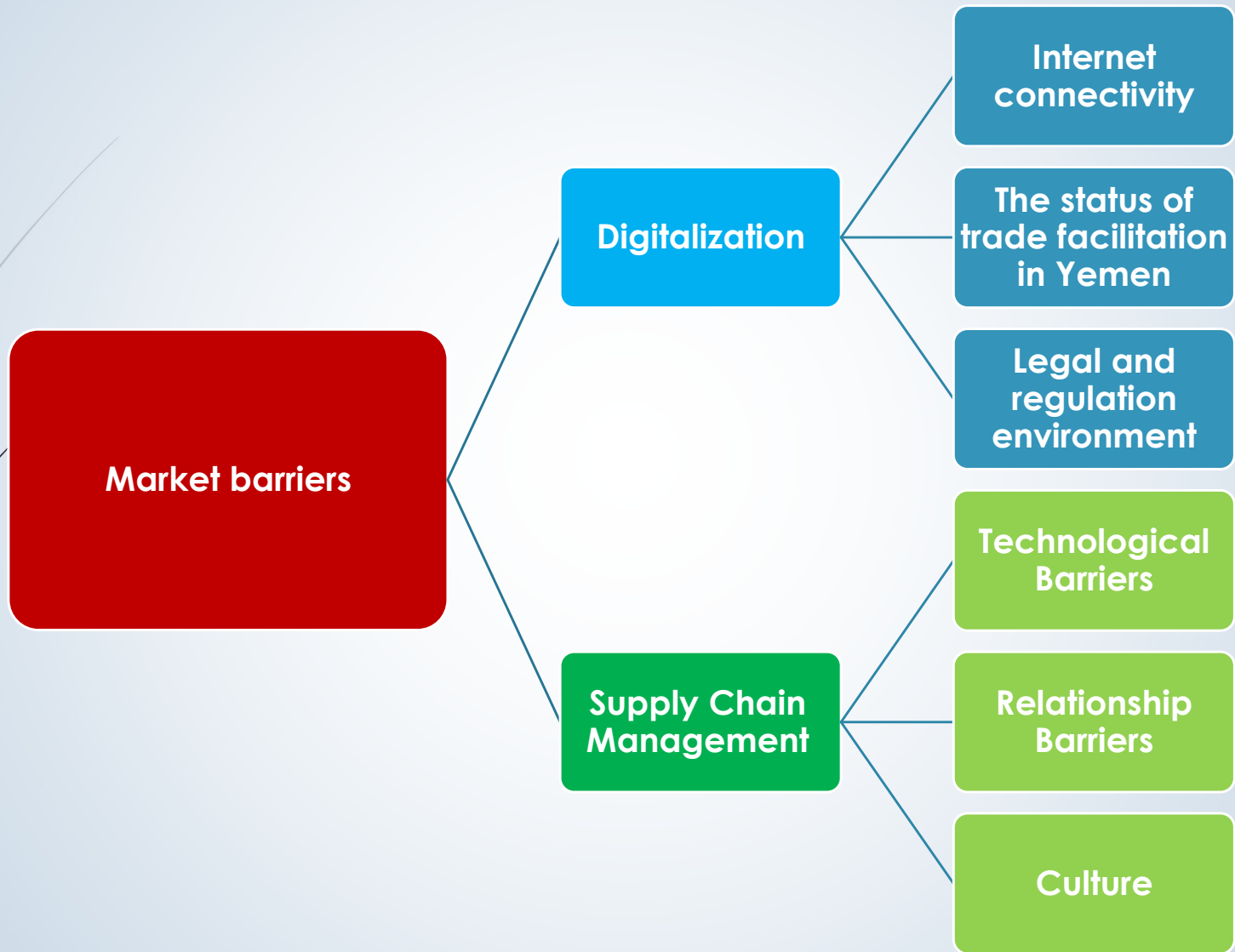
Banks in Yemen play a vital role in trade, domestically and internationally, by providing traditional trade finance instruments.



- According to Haqlan the General Manager of Correspondent Banks Account at the Central Bank of Yemen, when asked about the role of the Central Bank in financing trade

" what is normally offered are; loans, exchange rates , and credit facilities. As far as I know there are no banks or financial institutions that offers debt buy-back in Yemen . Accordingly SCF in Yemen are separate operations and not a chain ."(6)

- Amer Alsaqaf from Yemen Bank for Rec., and Dev. Indicated that only traditional ways of financing trade are applied in his bank
- Eram Essam from Altadhamon Bank indicated that the bank finance trade through murabaha
- Ashjan Alqadasi from Alamal Microfinance Bank indicated that the bank she works in only provides microfinancing for local trade only while the bank deals with such financing as in Islamic banks
- Dalham Alfadhly from Al-Ahli Bank indicated that his bank only offers loans to finance foregin trade besides letters of credits and other traditional trade financing ways
- In other interviews with other bankers from several banks in the republic, they indicated the same information as to say; Islamic banks in Yemen provides financing through murabaha while commercial banks provide loans and the traditional instruments of financing trade.



Suggestions and recommendations:

- Stabilizing the political situation
- Motivating suppliers and customers to participate in the supply chain and adapting SCF techniques
- Increasing the awareness of open trade and SCF techniques
- Providing sophisticated information system for information sharing among supply chain members
- The Ministry of Communication and IT must upgrade the current infrastructure in order to facilitate trade finance instruments and establishing digital standards
- Updating the commercial law articles
- Promoting digitalization solutions among importers and exporters
- Enhancing the cooperation among supply chain members
- CBY should encourage banks to provide SCF services
- Providing supply chain finance techniques training and courses in order to apply them in real life
- Allowing non-banking sector to provide global trade financing and legitimating their job.