

**Map of Corruption in Yemen:  
Influential Parties**

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**2010**

# Contents

## Foreword

## Preface (Anecdotes on corruption in Yemen)

## Introduction

### Chapter One: Concepts and levels of corruption: Its indicators and mechanisms in Yemen

- Concepts and definitions of corruption
- Levels and forms of corruption
- Destructive impacts of corruption
- Indicators of corruption in Yemen
- The foremost mechanisms of corruption in Yemen
- The private sector adapts to corrupt relationships
- The government and the World Bank are partners in obscuring and distorting data
- The Supreme National Anti-Corruption Commission: Destructive corruption and poor performance

### Chapter Two: The political economy of corruption in Yemen

- Yemen on the verge of failed statehood
- When corruption becomes an institution
- The tribal military alliance – a pillar of the corrupt authority
- Absolute authority – a support for the institution of corruption
- Hereditary rule and the politicisation of public service
- Corruption: the great sponsor of terrorism

### Chapter Three: Corruption in the oil sector in Yemen

- The nature of the socio-economic circumstances
- The major deficiencies in the oil sector
- Mechanisms and forms of corruption in the oil sector:
  - Corruption through “additional credits” 4
  - Corruption through smuggling of oil derivatives 5
  - Other forms of corruption in the oil sector 12

### Chapter Four: Corruption in Yemen: A field study

- Numerical data from the field studies (questionnaire)
- Analysis of the results and indices of the field study

### Chapter Five: Towards a national anti-corruption strategy in the Republic of Yemen

- Strategic trends
- Strategic priorities
- Parties concerned with implementation of the strategy
- Strategic factors
  - Political reform
  - Judicial reform
  - The role of parliament: multiple duties and directions  
(In terms of the internal and domestic level, and in oversight, committees, the relationship with society, legal reforms, oversight of budgets and regional and international coordination)
  - Administrative reform
  - The role of the oversight and anti-corruption bodies  
(The Supreme National Anti-Corruption Commission, the Central Organisation for Control and Auditing, the High Tender Board and the Anti-Money Laundering Committee)
  - The role of the media

- Societal anti-corruption awareness
- Transparency and freedom of information
- The role of the private sector
- The role of the civil sector
- The regional and international role

## **Conclusion**

### **Appendices**

- Some trends in anti-corruption legislation  
(The experiences of some developed countries)
- Ten principles regarding the right to know
- Examples of the corruption of the governors and systems
- The major international non-governmental organisations concerned with issues of transparency and anti-corruption:
  - ❖ Transparency International (TI)
  - ❖ Extractive Industries Transparency Initiative (EITI)
  - ❖ Bank Information Centre (BIC)
  - ❖ Revenue Watch Institute (RWI)
  - ❖ Article 19 (international anti-censorship centre)
  - ❖ The Egmont Group

### **References**

## **Mechanisms and Forms of Corruption in the Oil Sector**

The oil sector has become fertile ground for corruption. This comprises the extreme official obfuscation of genuine data on oil reserves and includes the details of oil production and export processes, in addition to the data on oil revenues and their method of investment, expenditure and use. In its 2004 report, Transparency International confirmed that, “Yemen is among the 14 of the world’s oil states that stand accused in relation to a large portion of their oil revenues disappearing into the pockets of the managers of Western production companies, brokers and local officials.” Added to this are the statements of Abdullah Al-Ahmar, former Speaker of the House of Representatives, who confirmed that: “Neither I as speaker of the House of Representatives nor the House and its members know anything about the volume of oil extracted or sold.”<sup>1</sup> Further to this is the content of the important report by the former undersecretary of the Ministry of Finance’s Revenues Section,<sup>2</sup> which uncovered numerous violations and corrupt practices at many levels.

So how are the scarce oil resources being misused? And what are the most significant mechanisms and forms employed by this official corruption?

This chapter will review examples of detailed cases revealed in official reports and field investigations, and will uncover the major forms and mechanisms of the methods of corruption and misuse of public resources within the oil sector.

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<sup>1</sup> Abdullah Al-Ahmar, former Speaker of the House of Representatives. Press interview, Al-Wasat, 23 November 2005. Sana’a.

<sup>2</sup> Abd Al-Jabbar Sa’ad, former Undersecretary of the Ministry of Finance for the Revenues Section. Revenues Section report submitted to the Minister of Finance prior to the Minister’s resignation. Al-Wasat, edition 65. 17/8/2005. Sana’a. P. 6.

## Corruption through “additional credits”:

Additional credits constitute a form of official corruption in Yemen, and a dangerous means by which those in positions of power appropriate a large portion of the additional revenues realised by the government, most of which are oil revenues. It is the government’s custom during the last one or two months of each year – in particular since the year 2000 – to present to parliament (the House of Representatives) requests for additional credits. These are essentially an addition to the budget, the total value of which during the period 2000-2008 amounted to YER 2,404,924,000,000 (two trillion, four hundred and four billion, nine hundred and twenty-four million riyal), equal to USD \$12,513,000,000 (twelve billion, five hundred and thirteen million dollars). This is a huge number given the scarcity of available resources and the deteriorating economic circumstances. These additional credits or budgets ranged between 15% and 54% as a proportion of total public spending for the annual budgets of those years. (See Table 5 at the end of the chapter.)

These yearly requests for additional credits are a measure that contravenes Financial Law No 8 of 1990, which restricts the procedure of opening an additional credit to urgent cases within narrow limits, in order to meet pressing costs that cannot be delayed. Such requests should not be repeated as an annual habit. The credits in some years are huge; in the year 2005, for example, the proportion of such credits amounted to 54% of the total cost of the annual financial budget for that year. Article 31 of the law stipulates that: “Requests for additional credits must be within the narrowest limits, and they must be restricted to cases of utmost necessity in order to meet unavoidable excesses.”<sup>3</sup>

In fact, these additional credits – and spending them in advance – also constitutes a clear breach of the provisions of the constitution, which prevents any overspend without recourse to parliament in order to obtain its approval. For example, the government confessed before the parliamentary Financial Affairs Committee that it had spent during 2007 – before submitting requests for additional credit – a sum in excess of YER 160,242,000,000 (one hundred and sixty billion, two hundred and forty-two million riyal), representing 58% of the total value of the additional credit.<sup>4</sup> This process recurs each year, constituting a flagrant breach of Constitutional Article 89, which stipulates: “The House of Representatives must approve the transfer of any sum from one section of the public budget to another, and every expense not set out therein, or surplus in its revenues, must be determined in a law.”

The content of the governmental requests for additional credits and the method of their repeated presentation constitutes an illegal procedure performed annually by the government in partnership with the majority of the ruling party at the House of Representatives. This is designed to cover their contraventions and justify both the prior (and therefore illegal) and subsequent expenditure of billions derived from the difference between the estimated price recorded in the State budgets for anticipated sales of Yemeni oil, and the actual sale price at international market prices. The government, through the so-called requests for additional credit, undertakes the formal distribution of the total amount yielded from such differences (in addition to other revenues, in particular taxation), thereby allocating them to fictitious budget sections and requirements, often with vague titles.

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<sup>3</sup> Law No. 8 of 1990 concerning the Finance Law; the Finance Law and the Implementing Regulations thereof. Ministry of Legal Affairs. Second edition. May 2006. Republic of Yemen. P. 38.

<sup>4</sup> Report of the Financial Affairs Committee regarding the draft law on the opening of an additional credit in the State’s public budget for the financial year 2007. Financial Affairs Committee, House of Representatives, Republic of Yemen. 10/11/2007. Pp. 8-9.

From the details of the governmental requests for additional credit over the past nine years, it is apparent that most of the supposed expenses for which credits have been requested in the final one or two months of each year – as confirmed by four parliamentary blocs – cannot be characterised as urgent or an emergency. It would have been possible to delay the matters for which the credits were requested until the ordinary annual financial budgets.<sup>5</sup>

This is reiterated within the former Finance Minister's criticisms of the additional credits for the year 2007. He indicated that, "the majority of the budget items presented by the government as grounds for opening the credit were not necessary and did not constitute urgent cases. They could have been included within the budget of the following year, 2008. The government was not in compliance when it submitted this request for the opening of an additional credit. Large sums were earmarked for the items set out in the credit – compensation, and requirements for broadening security cover – within the 2007 budget."<sup>6</sup>

This demonstrates the reality of how destructively eager the forces of corruption have been to lay claim to such revenues. This is to say nothing of the fact that most of the resources realised and requested in the form of additional credits have in fact been spent in advance, in contravention of the law. Additional credit requests, and their presentation to parliament, are a mere formality which is imbued with a character of legality to cover the practices of official corruption.

The allocation of additional credits within all budget sections is characterised by serious foul play, in terms of current spending's stranglehold on most of these credits. Meanwhile, the more important factor of spending on investment (ownership of non-financial assets), for example over the four years of 2004, 2005, 2006 and 2007, has only benefited from limited allocations of no more than 20%, 25%, 27% and 29% respectively.<sup>7</sup> Moreover, these allocations for investment spending cannot be considered genuine expenditure, as many of the declared projects for which these allocations were distributed are not included within development plans. Rather, they are implemented under presidential instructions in an improvised and unconsidered manner, without recourse to the official institutions. The other projects have credits allocated for them repeatedly within several annual financial budgets and numerous additional credits.

It is also clearly evident that most of the resources of these additional credits are allocated to the defence, interior and security ministries, to the presidency of the Republic and to the so-called Central Credits. (Note that it is difficult to differentiate between the latter two. The Central Credits are in effect a general account for which huge funds are earmarked without precise specification of the entities or aims on which they are spent. Moreover, in practice, large disbursements are made from this account under the instructions of the President of the Republic.) From the data contained in Table 6 at the end of this chapter regarding the major entities that laid claim to the additional credits over three years (2005-2007), it can be seen that during this period Central Credits received more than YER 728.3 billion, representing 63% – close to two thirds – of the value of the additional credits, with allocations of YER 216.6 billion for defence (19%), YER 23.5 billion for the interior and security and YER 13 billion for the presidency of the Republic. Meanwhile, the allocation from these credits for the health sector, for purposes of comparison, was no more than YER 2.9 billion (or only 0.2%), two hundred million riyal of which was for a project that was not implemented (the amount that should have been spent on recruiting female students into healthcare services). As regards education, its share was also marginal, amounting to no more than YER 8.4 billion – just 0.7% – of which YER 5.6 billion was allocated to provide remuneration for the nature of work of teachers. This means that the sum of the allocations for these two sectors, however meagre, were included within current, rather than investment, spending. As regards the additional credit for the year 2008, the government has – for the first time – concealed the information related to the details and scale of the credits allocated to the ministries of defence, interior and security and to Central Credits.

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<sup>5</sup> Statement issued by parliamentary blocs at the House of Representatives (the Independents bloc, the Nasserite Popular Unionist Organisation bloc, the Yemeni Socialist Party and the Yemeni Congregation for Reform) regarding the rejection of the additional credit request submitted by the government for the year 2007. House of Representatives. Republic of Yemen. 10/11/2007.

<sup>6</sup> Saif Al-'Asali, former Minister of Finance. Al-Nas newspaper, edition 369. 29/10/2007. Sana'a. P. 4.

<sup>7</sup> Financial Affairs Committee report on the draft Law on the Opening of an Additional Credit in the Public Budget of the State for the Financial Year 2007. Ibid. P. 9.

The government has also become accustomed to couching its requests for additional credits within general titles and vague and misleading terminology, such as:

- Imperatives of practical performance for the presidency of the Republic;
- Imperatives of practical performance for the prime ministry;
- Imperatives of practical performance for Central Credits and the ministries of defence and interior;
- Practical obligations for projects under performance; Existing obligations;
- Coverage of part of the existing deficit; Remuneration of practical overspends;
- Even the additional salary within the credits of the year 2006 was a “bonus relating to the governing General People’s Congress’ candidate in the presidential elections”. This was disbursed to State employees two days before the elections and cost a total of YER 31.9 billion. The government stated in its clarifying memorandum of the additional credit that the aim of the process of disbursement of this emolument was to activate aggregate demand and fight poverty!

Indeed, many of the areas of expenditure set out in the clarifications of the additional credit for 2006 had originally been awarded allocations within the annual public budgets. In fact, some of them had achieved a significant saving. For example, in the five areas set out in the report of the Financial Affairs Committee of the House of Representatives<sup>8</sup> (namely the allocations for the domestic debt, maintenance, capital and investment expenditure, government participation in the capital of local institutions, and capital transfers), the government requested YER 43 billion as additional credits to cover “urgent costs” in the aforementioned areas. Yet the total saving realised in the public budget for the same five areas amounted to YER 40 billion during the first ten months (January – October) alone, to which is added the amount allocated for the two remaining months.

There is also the matter of compensation and remuneration of fees and expenses with respect to international judicial litigation arising from corruption in the procedures of government contracts with foreign companies, including oil companies. After the House of Representatives uncovered suspected corrupt processes it forced the government to cancel the agreements it had formed with these companies, which in turn sued the Yemeni government in the international courts. Instead of the officials responsible for this corruption – who are at the highest levels of the authority – being held accountable and punished, tens of millions of dollars were earmarked within the requests for additional credit either as compensation for the companies or to cover the fees and costs of the international judicial litigation. Examples include:

- YER 3.82 billion against the so-called ‘final amicable settlement’ for cancellation of the illegal agreement relating to the sale of 60% of shares in the Yemeni company under incorporation in Sector 53 (Hadramaut) to the companies Pacific and Alta, despite the State treasury incurring – as a result of the corruption in this deal – large losses amounting in value to USD \$27.3 million. Nonetheless, the government disbursed the value of the compensation to these two companies from additional credits for the year 2005.<sup>9</sup>
- YER 1.9 billion as part of the cost of litigation in the international arbitration case with the company Hunt. The sum was disbursed from the additional credits for the year 2007.<sup>10</sup>
- YER 1.23 billion for the ‘amicable settlement’ in the case between the Tihamah Development Authority and the Canadian company Qualafino (equivalent to USD \$6.2 million). This sum was disbursed from the additional credits for the year 2007.<sup>11</sup>

**The corrupt parties in the supreme authority receive commissions of millions of dollars from foreign companies, then the populace is forced to pay compensation from its public resources – by means of additional credits – in addition to the government’s so-called ‘amicable settlements’. This is to say nothing of the impact of the stalled operation of the projects subject to these contracts.**

**So what does this all mean?**

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<sup>8</sup> Financial Affairs Committee report on the draft Law on the Opening of an Additional Credit in the Public Budget of the State for the Financial Year 2006. Financial Affairs Committee. House of Representatives. Republic of Yemen. Pp. 14-15.

<sup>9</sup> Governmental request for additional credit. Memorandum of the Deputy Chairman of the Council of Ministers and Minister of Finance No. 526 M.W., dated 31/8/2005, and the report of the Council of Ministers No 274 of 2005 regarding the approval of the opening of an additional credit in the State’s public budget for the financial year 2005. Republic of Yemen. P. 2. Also confer Al-Nas newspaper, edition 372. 19/11/2007.

<sup>10</sup> Financial Affairs Committee report on the draft Law on the Opening of an Additional Credit in the Public Budget of the State for the Financial Year 2007. Ibid.. P. 6.

<sup>11</sup> Ibid.. P. 6.



## Conclusions:

- The oil sector remains the primary fertile ground for the corruption of the authority and those in positions of power at the highest levels. This is accompanied by practices of extreme obfuscation of most of the fundamental data related to the oil sector. According to the report of the former undersecretary of the ministry of finance's revenues section, the section has no knowledge, nor does it receive any data regarding the actual volume of oil exports or the extent of receipts (with the exception of that data which is permitted to be published, which arrives weeks later). Entry or approach to the oil export ports and centres is prohibited even for the official oversight agencies, including the Central Organisation for Control and Auditing. Similarly, the finance ministry's revenues section does not know anything about the export pricing policy and the mechanisms for price calculation. The situation is similar with respect to the method by which oil derivatives flow or are distributed to the regions and governorates of the country. This was also confirmed by former speaker of the House of Representatives Abdullah Al-Ahmar, who stated that neither the legislative and oversight authority nor the speakership of parliament are aware of the true data regarding oil, and that merely discussing or demanding details and information regarding the oil sector provokes negative and angry reactions rather than responses. This means that the true data on oil is known only to a small group, and it only passes through a narrow channel comprising the oil companies and export ports, and the end of which reaches the top of the pyramid of power.
- All of the reports of the international anti-corruption organisations, foremost among them Transparency International, place Yemen at the bottom of their lists among the most corrupt countries. Transparency International's 2004 report – as mentioned previously – states plainly and directly that Yemen is among 14 oil countries in the world accused of worsening corruption within its oil sector and the disappearance of a large portion of its oil revenues into the pockets of the managers of Western production companies, brokers and local officials.
- The additional credit requests arise after the realisation of surpluses in oil revenues. These result from the differences in the oil prices: the difference between the prices estimated within the state budgets and the actual sale prices on international markets. So the amounts allocated in the additional credit requests are all the yield of the sums realised from these oil price differences, plus in some instances large portions of tax receipts which exceed those estimated in the annual financial budgets.
- The financial accumulations resulting from the differences in oil prices arise when the estimated price of a barrel of oil is specified in the state budget. In its estimates, the government intentionally states low prices with a large differential from the prevailing and anticipated price on the international oil exchanges. This does not meet with objections or arouse suspicion; in fact, some oil exporting states adopt low estimated prices for oil sales in their budgets as a precaution to avoid any shocks or sudden price declines. However, the situation in Yemen is different in view of corruption's powerful control at every juncture of the oil sector, including production processes, marketing and even the methods of calculation of the cost of oil, the collection of taxes and the tax exemptions which are granted under instructions from the leadership. This is to say nothing of the comprehensive obfuscation of all data regarding this field. The yield of most, or perhaps all, of these oil price differentials – contrary to the practice in other oil countries – enters into the torrent of the channels of corruption and advance spending without the approval of – or reference to – parliament, as required by the laws in force.
- At a time when the Yemeni government is pursuing several million dollars in the form of aid and loans to lift the country from its suffocating crisis, we meanwhile find that official corruption is growing increasingly destructive in its misuse of public money and the limited resources of the country, claiming during the period 2000-2008 additional credits totalling in excess of YER 2.405 trillion – equal to USD \$12.513 billion dollars.

This entire amount is the yield of the price differences of the oil exported during that period, sums which could have contributed significantly to the eradication of poverty had they been directed and utilised properly and transparently.

- These astronomical figures resulting from the oil price differences are used in a manner far removed from their proper utilisation within economic and social areas. They are consumed by the corruption of the elite in the ruling regime and the influential people within the authority. This can be contrasted with the existing situation in the Gulf states and other oil producing countries, the governments of which work to utilise such differences in genuine, additional investment programmes, comprising the development of infrastructure and manufacturing, agricultural and human development projects, and in contributing to clearing accumulated debts, or indeed as occurred in Algeria in exploiting such additional resources in building hundreds of thousands of residential units to solve a housing crisis. This provides a return for societies in the form of advancement and improvement in their socioeconomic level.
- The supreme authority and those in positions of influence rush to spend in advance the entirety of these financial surpluses that result from the oil price differences, without the permission or agreement of parliament and in explicit contravention of the constitution and the law.
- Most of the resources in the additional credits are laid claim to by Central Credits, the presidency of the Republic and the prime ministry, the ministries of defence and interior and the ministry of security (in both the political and national sense), in addition to the Yemen Economic Corporation and so forth. The inspectors of the Central Organisation for Control and Auditing cannot even approach any of these entities and so they are not mentioned in the organisation's reports, despite the fact that such reports constitute an official process. These areas are, in effect, off limits and it is forbidden to approach them. This gives an indication as to the rationale for the distribution of billions in additional credits to such entities.
- The government has rejected, over the course of recent years, the repeated recommendations from the House of Representatives that it be forced to open a fund or special account at the Central Bank into which the sums resulting from the oil price differences can be deposited, from which it may not make disbursements until the approval of parliament has been obtained in accordance with the law. The government has promised and prepared to commit to this every year, but without following through.
- The supreme judicial and executive authorities do not pay any attention to the facts and scandals of corruption uncovered in the reports issued by the oversight authorities (such as the Central Organisation for Control and Auditing or the House of Representatives, which also constitutes an oversight authority). They typically do not hold anyone accountable, nor does this result in investigations or appearances before the courts, or indeed the application of penalties. The significance of these reports is confined to the revelation of various facts about corruption; they contain nothing more than non-binding recommendations, as the Central Organisation for Control and Auditing is structurally directly subordinate to the presidency of the Republic and it lacks the necessary independence. Furthermore, the constitutional amendments made by the regime in the year 2001 have deprived the legislative authority (the House of Representatives) of its remaining powers of taking binding decisions and exercising effective oversight. The role of parliament is therefore also restricted to issuing mere recommendations without binding force.
- Requests for additional credit have become a serious means of official corruption at the highest levels. This explains the pressure on the part of the donor authorities and the World Bank for the government to adopt a new system of designing draft budgets in a transparent manner and to specify a more realistic estimated price for oil sales, closer to the prevailing price on the international market. Added to this is the pressure exercised by Daniela Gressani, Vice President of the World Bank for the Middle East and North Africa, and Gareth Thomas, the British Under Secretary of State for International

**Development, in addition to the donor bodies, who placed a condition on the Yemeni President during the London donors conference (15-16 November, 2006) regarding the importance of Yemen joining the Extractive Industries Transparency Initiative (EITI). The World Bank and the donor bodies are conscious of the broadening sphere of corruption and the increasing wastage of scarce oil resources, and of the importance of restricting the spread of corruption within the oil sector.**

## **Corruption through smuggling of oil derivatives:**

In an important field investigation conducted by the Yemeni newspaper Al Sharea, in which it uncovered the nature, mechanisms and outlets of the smuggling of oil derivatives – including the subsidised substances of diesel and gas<sup>12</sup> – the following became apparent:

- The major individuals accused of diesel smuggling own companies as a cover and can be counted on the fingers of one hand. They monopolise the smuggling activity in its entirety, and personalities at the very top of the pyramid of power stand behind them.
- The smuggling regions extend from the port of Aden to Al-Mukalla and Al-Mahrah, in addition to the port of Al-Hudaydah, and in particular the port of Mocha, plus the sea outlets adjacent to these ports.

## **Mechanisms of smuggling from the port of Aden:**

- In these smuggling operations the smugglers use fishing companies which have their own small boats and medium sized ships. The situation is the same as regards traditional fishing boats.
- Influential people bring or hire numerous fishing boats, or even register fictitious numbers of boats on the basis of which they receive the allocated quantities of diesel from the refineries. These boats do not necessarily operate; it has been proven that most of them are suspended from work or operate in a very limited capacity. The Aden refineries allocate between 10 and 15 tonnes of diesel a month to each modern fishing boat and five tonnes to every traditional fishing boat.
- According to the same source, the Aden Refinery Company is also involved in operations of corruption and diesel smuggling. From time to time they produce large quantities of diesel – between 20,000 and 40,000 tonnes – as allocations for the governorates, but then move them into the smuggling channels.
- The president of the Republic sometimes gives instructions to disburse quantities of diesel ranging between 3,000 to 5,000 tonnes to a number of influential people, who then deliver it to the smugglers to be smuggled out and sold at sea.
- Another of the methods of depletion and smuggling of the substance of diesel takes the form of the marine companies and agencies receiving orders for supply from ships at sea. These companies buy the diesel or fuel oil in quantities of hundreds of tonnes from the Yemeni Company for Shipping Fuel Supplies (ABD) at the local subsidised price (USD \$210 a tonne), then they sell it to these ships at the international price (USD \$890 a tonne), with a discount ranging between \$5 and \$10 a tonne.
- Sometimes the ships and boats of the commercial companies and agencies that order from ABD contain large quantities of diesel bought at the local price, plus small quantities bought at the international price. They then go to sea to supply ships with the entire quantity at the international price.
- Both the oversight of the work of the commercial agencies and companies, and the communications between the branches of the Oil Company in Aden, Al-Mukalla, Al-Mahrah, Al-Hudaydah and Mocha, are extremely weak – a situation brought about deliberately. The smugglers sometimes exploit this reality and the complicity of officials in order to obtain the quantities of diesel prescribed as monthly provisioning from more than one branch, and usually for non-existent boats.
- In fact, the smuggling operations have gone even further with the smuggling of subsidised crude oil. The Central Organisation for Control and Auditing's 2006 report<sup>13</sup> showed that the

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<sup>12</sup> Naif Hassan & Mohammed Ayesh. 'Where the footsteps of diesel smugglers merge with those of government officials'. Journalistic field investigation. Al-Sharea newspaper, edition 31. 19/1/2008. Sana'a. Pp. 6-9. Note that this field investigation by Al-Sharea newspaper is the source of much of the information set out here regarding the smuggling of the substance of diesel from the sea ports.

<sup>13</sup> Annual oversight statement on the final accounts of outcomes from the implementation of the State's public budget (in its central and local aspects), in addition to the independent and associated budgets and the special funds and budgets of the economic units for the public and mixed sectors for the financial year 2006. Submitted

Aden Refinery Company – which obtains a special discount on its purchases of crude oil, obtaining excellent prices below the international price – resells this crude oil and exports it abroad to foreign companies (here of course we are referring to this influential mafia) at the same excellent prices it obtained from the state. According to the report, this led to these companies benefiting from the excellent prices and the state treasury and the refineries being deprived of this difference between the two prices, estimated to be worth USD \$33 million at that time.

Within the same context, it is not hard to explain the corruption mechanism applied. The report states that these quantities that are sold abroad are bought at the same excellent, subsidised prices recorded officially or on paper in the registers of Aden Refinery Company. As for the price this mafia receives from the foreign companies, there is no doubt that this is the international price, or perhaps less by a small differential. The foreign companies benefit only partially from the sums the state treasury loses (USD \$33 million in 2006, plus additional amounts in the previous and subsequent years). Meanwhile, most of these sums go into the pockets of the corrupt at Aden Refinery Company, the smuggling gangs and whoever provides them with the cover of protection, or to the prime beneficiary in the authority.

### **Mechanisms of smuggling from the port of Mocha and the neighbouring sea outlets:**

- The importance of Mocha as a sea port meeting the needs of import and export has diminished, in accordance with an organised policy. While it handled more than 160 commercial containers a day during the eighties, at the beginning of the twenty-first century it received no more than 10 containers a day and the traffic of such containers eventually stopped completely. This is to say nothing of the sharp decline in fishing activity. The port of Mocha has therefore become one of the most important marine outlets for operations of smuggling oil derivatives, and increasing numbers of fishermen have moved into the activity of smuggling, in addition to the numbers of officers and soldiers who have smuggling experience.
- Smuggling in this region is conducted primarily through the port of Mocha and the scattered sea outlets there, specifically those of Dhubab, Ras Al-'Ara, Al-Ma'qar, Ras 'Amran, Moshij and even the port of Al-Hudaydah.
- Dozens of oil tankers are used in this diesel smuggling. One of the heads of this mafia has around 100 large transportation tankers that transport diesel and gas from the refineries to the port of Mocha, for unloading of these quantities onto the boats and launches, then onto the small and medium sized transportation vessels that in turn transport the smuggled oil derivatives onto ships waiting for them at sea, or to the shores of Somalia, Djibouti and Eritrea.
- The smuggled quantities of diesel and gas are a portion of the allocations for the governorates of Ta'izz, Ibb, Al-Hudaydah and Mocha. The smuggler traders transport the diesel and gas requirements of these governorates; however, they do so after deducting large quantities allocated for smuggling, which are transported to the sea outlets. This occurs without any oversight or accountability, and results in crises and a deficit in supplies and provisions for the local markets as regards their requirements for such derivatives.
- The official report issued by the ministry of finance's revenues section undersecretary also confirms that the ministry is unaware of how oil derivatives flow to the regions, nor does it know how they are distributed or how the receipts from these derivatives arrive and to whom they are delivered. It also documents facts indicating that a large proportion of these derivatives are sold at sea and do not reach their destination. Meanwhile, each month the revenues section presents statements of the sums of subsidy that the government has to pay; these sums are multiplying annually. Not one of the competent officials has taken the care to analyse the terrifying subsidy figures that are futilely eroding the country's resources.<sup>14</sup> Smuggling diesel through Yemen's ports and sea outlets is very enticing and is not restrained by any risks worth noting, given the collusion of the authorities and the intentional weakening or marginalisation of the oversight agencies. Added to this is the involvement of the supreme authority in corruption of this kind. The smugglers rake in enormous profits through these smuggling operations. They pay YER 35 a litre (equal to USD \$0.17) to obtain the subsidised diesel, and then make four times this amount by selling it at the international sale price (YER 140 a litre, equivalent to USD \$0.70).

According to the statements of the Chief Executive of Yemen Petroleum Company, official estimates of the quantities of diesel smuggled each month amount to 100 thousand tonnes. The state's losses from diesel smuggling operations therefore total close to USD \$816 million a year (or USD \$68 million a month).<sup>15</sup>

From another perspective, as previously stated, **there is no oversight or accountability in these corruption operations. None of those responsible for such operations has been convicted, because the main smuggling bosses who monopolise the transportation of oil derivatives from the refineries to the sea ports and islands, and to consumer stations in the towns and governorates, are backed by influential civil and military personalities at the top of the pyramid of power. The one exception to this was a single attempt made by**

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<sup>14</sup> Abd Al-Jabbar Sa'ad, former Undersecretary of the Ministry of Finance for the Revenues Section. Revenues Section report submitted to the Minister of Finance. Ibid.. P. 6.

<sup>15</sup> Omar Al-Arhabi, Chief Executive of the Yemen Petroleum Company. Statement to September Net. Also see Al-Sharea newspaper, edition 31. 19/1/2008. Sana'a.

**the Supreme National Anti-Corruption Commission, which had no sooner proven an incident of corruption than a summary judicial ruling was issued – within a matter of hours – against the commission and in favour of prominent smugglers, whereby the commission was turned into the guilty party because of the measures it had taken. From these facts the extent of the penetration of corruption into this most important economic sector is apparent, as is the extent of the control exercised by mafia relationships. Added to this is the governmental collusion and the weakening of oversight processes, and the links between many civilian and military ruling men at the summit of the pyramid of power with gang members and so-called “businessmen” who specialise in shady activities that deplete the scarce resources of the people and speed the pace of their impoverishment.**

**Other forms of corruption in the oil sector  
(Revealed in official reports)**

It is demonstrated in the reports of the official oversight bodies, in accordance with the available margin for oversight, that oil revenues are suffering from a situation of genuine wastage. The report issued by the former ministry of finance's revenues section undersecretary<sup>16</sup> reveals and confirms the following grave points:

- Oil revenues are suffering from a situation of wastage, and the revenues section at the ministry of finance does not, and has not at any stage of its existence, undertaken its role in oversight of tax, customs and oil revenues.
- The section does not receive information about revenues at the appropriate time. Information is essentially scarce, and the revenue authorities generally refrain from providing the section with data regarding resources.
- The section has no knowledge of the scale of exemptions, nor does it monitor them or have a comprehensive record of them. In this it is in the same situation as the Customs Authority. Note that over only four years (2001-2004), exemptions amounted to in excess of half a trillion riyal.
- Oil revenues, like other forms of revenue, are not subject to any oversight and are left alone by all of the official authorities other than the Central Organisation for Control and Auditing, whose oversight is restricted to documentary aspects and is therefore of limited benefit. Meanwhile, 'cost oil' wastes more than 40% of petroleum revenues without the official authorities paying this matter any attention.

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<sup>16</sup> Abd Al-Jabbar Sa'ad, former Undersecretary of the Ministry of Finance for the Revenues Section. Revenues Section report submitted to the Minister of Finance. Ibid.. P. 6.



- The oil companies' industrial inputs, estimated to be worth hundreds of billions, are exempted and deducted from the 'cost oil'. However, they are supposed to be handed over after expiration of the contracts. Yet in the absence of oversight this does not occur, other than in the form of leftover scrap.
- The revenues section does not find out about the country's oil exports until weeks later. The same is true as regards the revenues received from these exports. Similarly, the section has no knowledge of the prices of exports or the mechanisms through which the prices for the quantities of oil exported are calculated.

**The most significant contraventions (forms of corruption) at Aden Refinery Company, uncovered by both the Central Organisation for Control and Auditing and the House of Representatives merely through an examination and review of the final accounts for the budget of the financial year 2005,<sup>17</sup> include:**

1. The company's perpetration of numerous contraventions and transgressions of the laws, rules and regulations, foremost among them:
  - Purchasing fixed assets in contravention of the Tenders Law.
  - Purchasing cars by ordering directly without recourse to the official legal channels.
  - Spending over the limits of the credits prescribed in the budget – specifically within the allocated expenses clause – by a sum of YER 1.4 billion, or a proportion of 341%.
  - Implementing a number of projects outside of the framework of the budget and in contravention of the Tenders and Auctions Law (predominantly under presidential instructions).
  - The company financed from its budget – in accordance with supreme orders – external projects in other sectors to which the company bears no relation. This led to the stalling of the implementation of the company's own projects.
2. More or less the same circumstances and legal contraventions can be applied to both the Petroleum Products Distribution Company and the Yemen Gas Company. Most of these contraventions are conducted with the motive of corruption and through its mechanisms, within an administrative climate lacking in the transparency and accountability necessary to stop the wastage and misuse of public money.

From another perspective, with regard to the foreign oil companies operating in Yemen, the House of Representatives' report reveals numerous worsening practices and sites of corruption, foremost among them:<sup>18</sup>

1. The revelations in the report by the Central Organisation for Control and Auditing that the final account of the public budget for the year 2005 showed taxes on the income of foreign oil companies of a mere USD \$355 million (equal to YER 68.6 billion), which relates to the income tax on the company Hunt alone. Meanwhile, the final account of the public budget contained no record of tax on the income of the other oil companies (which, according to the declarations they submitted to the tax authority through the oil ministry amounted to USD 628 million (equal to YER 190 billion)), nor was there a relevant listing under the allocated item and type. What is notable here is that, according to the report, neither the oil ministry nor the finance ministry presented any explanation for this.
2. The finance ministry and the tax authority are unable to deal with the oil companies directly. They are required to go through the oil ministry, whether in relation to the quantities of production, the 'cost oil' or even the taxes due from these oil companies. Moreover, the customs authority and its employees, the Central Organisation for Control and Auditing and other such entities are prohibited from entering or approaching the oil export ports, whether for purposes of supervision or oversight or even to discover the volume of oil exports and specify its value – a matter for which they are authorised in law.

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<sup>17</sup> Report of the House of Representatives. Special committee commissioned with studying the final accounts of the public budgets for the financial year 2005; Part Three. House of Representatives. Republic of Yemen. Sana'a. 17/7/2007. Pp. 36-42.

<sup>18</sup> Report of the House of Representatives. Special committee commissioned with studying the final accounts of the public budgets for the financial year 2005; Part One. House of Representatives. Republic of Yemen. Sana'a. 17/7/2007. P. 33.

3. The Central Organisation for Control and Auditing's report contains severe criticisms of the increased granting of customs exemptions under supreme orders for items imported by the oil companies and their subcontractors (amounting to billions of riyal).<sup>19</sup>
4. Meanwhile, the oil companies import their requirements of machinery, equipment and production supplies themselves using their own means, without notifying the Customs Authority or finance ministry in advance of the list of their requirements.

**All of the foregoing confirms and clearly indicates the multiple channels and tools of the mechanisms of corruption. This means that the oil companies have a green light and a broad and flexible margin in which to move, act and take decisions outside of the laws that should be observed, and to some extent outside of the stipulations of the agreements they have signed with the Yemeni government. The question that presents itself here is: What is received in return for all of these facilities?**

- In its 2004 report, the Central Organisation for Control and Auditing also revealed that the General Department for Oil Marketing at the oil ministry undertook – without any legal basis – the export of quantities of the government's share of oil at less than the prices approved in the pricing mechanisms for exports of the state's share, which are assessed by the ministerial committee.
- Over a number of years the marketing department at the oil ministry has colluded, in return for commissions, in restricting the selling of large quantities of exports of the government's oil share to a group of local influential people, rejecting the bids of other competing marketing companies. This is despite the fact that these people are lacking in the necessary experience or the capacity required to market such large allocations, leading in many instances to the fuel tanks at the export ports being full without the possibility of the stored materials being sold ahead of the daily flow of production. This has forced the ministry on numerous and repeated occasions to sell the government's share of oil at less than the prevailing international prices, as a result of which the State and the treasury have incurred serious losses.
- The oil ministry has collected the various fees and grants, amounting to tens of millions of dollars, as fees for the use of the pipeline by oil producing and exporting companies (USD \$31.4 million). Added to this is the sum it obtained from the Yemen Gas Company as the grant for entry to the second stage of the natural gas project (USD \$5 million) and the state's share of gas revenues.<sup>20</sup> This is in addition to other such sums obtained by the ministry that it does not transfer to the state treasury. In fact, it intentionally acts to divert such sums into a special account at the ministry and disburses them directly, in contravention of the law. Meanwhile, the government and the supreme authority disregard blatant breaches of this kind, the logical explanation for which is that some of the decision makers are receiving a slice of the cake.

Corruption has penetrated deeply into the extractive oil and minerals sector and diversified into numerous other forms, such as influential people imposing themselves on the investment companies as 'protection' or 'prestige', or as a link to the powerful decision maker within the supreme authority, in return for a not insignificant proportion of the profits. This amount differs from one project to another, but may amount in some cases to 50% of the profits.<sup>21</sup>

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<sup>19</sup> Annual oversight statement on the final accounts of outcomes from the implementation of the State's public budget (in its central and local aspects), in addition to the independent and associated budgets and the special funds and budgets of the economic units for the public and mixed sectors for the financial year 2005. Submitted to the House of Representatives at the session dedicated to this purpose on 11/2/2007. Central Organisation for Control & Auditing. Republic of Yemen. Sana'a. P. 16.

<sup>20</sup> Report of the House of Representatives. Special committee commissioned with studying the final accounts of the public budgets for the financial year 2005; Part One. Ibid.. Pp. 38-39.

<sup>21</sup> Reform of Mining Policies in Yemen. Roundtable discussions to diagnose the crisis in exploitation of mineral resources in Yemen, convened in Sana'a under the supervision of the World Bank and the International Finance Corporation in early December, 2005. Al-Thawri, edition 1892. 15/12/2005. Sana'a.

The same is true of the oil services companies which are predominantly owned by influential Yemeni officials, either in their personal names or the names of their sons and relatives. According to member of parliament Ali ‘Ashal,<sup>22</sup> they control a large portion of the oil sector. More than 90% of the companies operating in oil services are either wholly owned by government officials or such individuals are major shareholders in the companies. It is undisputed that they provide oil services, but these services – generally speaking – are very often exaggerated in calculating their costs. It is very rare for the examining oversight bodies or the government financial authorities to object to, or even merely discuss, the disbursement of such sums, as they are included within the so-called ‘cost oil’ which (according to the report of the undersecretary of the ministry of finance and the reports of the Central Organisation for Control and Auditing) the finance ministry, and specifically the tax authority, cannot examine or deal with directly, other than by means of the oil ministry and as a mere formality. If objections are in fact raised by the oversight entities they are no more than non-binding recommendations, given the power of the influential people and the cover of protection and immunity provided by the supreme authorities.

Recently, in August 2009, the foreign oil companies operating in Yemen reiterated their refusal and reluctance to disclose the accounts of what they pay to the government, or to subject them to tallying and auditing in certain areas as per the decisions of the Yemeni Council for Transparency in the Extractive Industries and the rules of the Extractive Industries Transparency Initiative (EITI), which Yemen joined in 2007. The parties of the government and the oil companies have therefore agreed to perpetuate the obfuscation of the volumes of production and export of Yemeni oil and the related revenues, and so the circumstances of corruption continue unabated.

All of the international reports indicate that the process of reform and development in Yemen is going from bad to worse. According to a report by the American institutions the Heritage Foundation and the Wall Street Journal – which publish an annual guide evaluating the extent of countries’ advancement in the area of economic freedom – the political system in Yemen has created self-interested, tribal, economic political alliances that have worked to bolster the existing trilateral system of rule (military, commercial and tribal) in order to support it in remaining in power for as long as possible. The report describes the decline of the indices in Yemen as, “... far removed from the US administration’s commendations of the democratic nature of the Sana’a government. There must be a serious focus on the bitter truth that the dominion of the tribal military regime is the main factor obstructing Yemen’s transformation into a state of institutions, law and civil society. This is also the cause of the distortion of the freedom of the economy and the consolidation of corruption, and the inability to tackle the problems of development and proper exploitation and utilisation of resources.”<sup>23</sup>

**It has become apparent that the fundamental cause of the spread of corruption is the regulating official policy that provides protective cover for the worsening and consolidation of corruption and the breakdown in the duties and functions of the oversight and judicial bodies. This reflects the lack of official will to counter and fight corruption, as the governing authority intentionally continues to spread its totalitarian influence and to reinforce the elements that guarantee the preservation of its interests and its survival. It reproduces the same retrograde circumstances and relationships through the pillars of its parasitic and contingent dominion, represented by the military tribal alliance and their distorted raid on the world of commerce and investment. Using the tools of power and corruption they have transformed this into a monstrosity, decisively blocking – and continuing to block – any advancement for the country towards building a state of order, law and institutions, and towards a modern civil society.**

**The logic and facts of the situation prove beyond doubt that this stock explanation regarding “the absence of a supreme will to fight corruption” should in fact be reversed and reformulated in a contrary and more precise manner: “The political will of the supreme authority protects and consolidates corruption as one of the major components of its continuation and the**

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<sup>22</sup> Interview with Member of Parliament Ali Hussein ‘Ashal, member of the Development and Oil Committee at the House of Representatives. Al-Nas, edition 372. 19/11/2007. Sana’a. P. 4.

<sup>23</sup> Report by the American Heritage Foundation and Wall Street Journal. Al-Masdar, edition 10. 29/1/2008. Sana’a. P. 5.

**preservation of its interests, and as one of the pillars and sources of its influence and the spread of its dominion.’**

**TABLE NO 3**  
**Crude oil exports as a percentage of the total value of exports from the Republic of Yemen, and the government's share of oil exports during the period from 2000-2006<sup>(1)</sup> (million dollars)**

<b>Year</b>	<b>Total exports</b>	<b>Crude oil exports (government share + companies' share)</b>	<b>%</b>	<b>Government share of oil exports</b>	<b>Percentage of government share of oil exports</b>	<b>Total imports</b>
<b>2000</b>	<b>3797.2</b>	<b>3398.8</b>	<b>90%</b>	<b>1969.0</b>	<b>52%</b>	<b>2484.4</b>
<b>2001</b>	<b>3366.9</b>	<b>2905.1</b>	<b>86%</b>	<b>1585.4</b>	<b>47%</b>	<b>2600.4</b>
<b>2002</b>	<b>3684.4</b>	<b>3146.6</b>	<b>85%</b>	<b>1600.0</b>	<b>43%</b>	<b>3082.6</b>
<b>2003</b>	<b>3924.4</b>	<b>3452.7</b>	<b>88%</b>	<b>1828.4</b>	<b>47%</b>	<b>3557.4</b>
<b>2004</b>	<b>4675.7</b>	<b>4303.2</b>	<b>92%</b>	<b>2259.2</b>	<b>48%</b>	<b>3858.6</b>
<b>2005</b>	<b>6413.2</b>	<b>5952.0</b>	<b>93%</b>	<b>3114.9</b>	<b>49%</b>	<b>4712.9</b>
<b>2006</b>	<b>7316.4</b>	<b>6733.4</b>	<b>92%</b>	<b>4013.5</b>	<b>55%</b>	<b>5926.1</b>
<b>2007*</b>				<b>3087.9</b>		

Source: Central Bank of Yemen publication regarding monetary and banking developments (August 2007). General Department of Research and Statistics. Republic of Yemen. P. 22.

(\*) Central Bank of Yemen publication regarding monetary and banking developments (December 2007). General Department of Research and Statistics. Republic of Yemen. P. 31.

<sup>(1)</sup> Note: Many analysts believe that the figures in this table represent the data which is officially permitted to be released and published, and that they do not necessarily reflect the genuine details of actual oil exports. This is because the supreme authority prohibits the oversight entities – despite the fact that they are official bodies – from entering or approaching the export ports.

**TABLE NO 4**  
**Changes in the Yemeni government's share of oil production and exports<sup>(1)</sup>**  
**during the period 2000-2007**

Year	Government share (million barrels)		Value of exports (million US dollars)
	Domestic consumption	Volume of exports	
2000	31.10	71.89	1969.00
2001	30.04	68.86	1585.37
2002	26.19	65.10	1600.02
2003	26.88	65.42	1828.39
2004	24.76	61.74	2259.62
2005	26.14	60.46	3114.87
2006	22.53	63.71	4013.46
2007	27.02	42.37	3087.93

Source: Central Bank of Yemen publication regarding monetary and banking developments (December 2007). General Department of Research and Statistics. Republic of Yemen. P. 31.

(1) Note: Many analysts believe that the figures in this table represent the data which is officially permitted to be released and published, and that they do not necessarily reflect the genuine details of actual oil exports. This is because the supreme authority prohibits the oversight entities – despite the fact that they are official bodies – from entering or approaching the export ports.

**TABLE NO 5**  
**The main manifestations of official corruption in Yemen**  
**(Additional budgets)**  
**Or**

**Governmental requests for additional credits during the period 2000-2008, financed from the differences between the estimated oil prices within the State budgets and the actual sale prices on the international market. These are spent in advance under fictitious budget items and unspecified categories, in contravention of the law and before parliamentary approval has been obtained.**

Year	Spending estimates in the public budget (million riyal)	Value of additional credit (million riyal)	Average exchange rate of dollar against riyal	Value of additional credit (million US dollars)	Additional credit as a percentage of total spending %
2000	422.249	119.000	165.53	718.903	28.2%
2001	501.882	75.351	173.25	434.926	15%
2002	531.829	100.915	178.85	564.244	19%
2003	668.401	108.846	183.60	592.843	15.8%
2004	744.602	188.500	185.78	1015.000	25.3%
2005	836.379	451.164	191.00	2362.000	54%
2006	1179.953	422.369	198.5	2127.804	36%
2007	1622.491	278.331	199.2	1397.242	17.2%
2008	1829.585	660.448	Ca. 200	3300.00	36.1%
Total	-	2404.924	-	12512.96	-

Source:

- Draft public budgets from 2000-2008.
- Governmental requests for additional credits for the years 2000-2008.
- Exchange rates of the riyal against the dollar in the publications of the Central Bank of Yemen from 2000-2008.

**TABLE NO 6: The main marginalised authorities and the entities laying claim to additional credits during the period 2005-2007 (million riyal)**

Year	Additional credit value	Ministry of Defence allocations	% Percentage of the credit value	Ministry of Interior allocations	% Percentage of the credit value
2005	451.164	76.055	17%	1.089	0.2%
2006	422.369	48.105	11.4%	14.626	3.5%
2007	278.331	92.405	33.2%	7.796	2.8%
<b>Total</b>	<b>1151.864</b>	<b>216.565</b>	<b>19%</b>	<b>23.511</b>	<b>2%</b>

**TABLE NO 6 (cont.)**

Year	Central Credits allocations	% Percentage of the credit value	Healthcare sector allocations	% Percentage of the credit value	Ministry of Education allocations	% Percentage of the credit value
2005	289.312	64.1%	0.754	0.17%	-	0%
2006	277.644	66%	1.921	0.5%	2.758	0.7%
2007	161.389	58%	0.2 Recruitment of female students into healthcare services	0.07%	5.600 Remuneration for the nature of work of teachers	2%
<b>Total</b>	<b>728.345</b>	<b>63%</b>	<b>2.875</b>	<b>0.2%</b>	<b>8.358</b>	<b>0.7%</b>

Source: Data compiled from:

1. Governmental requests for additional credits for the years 2005-2007.
2. The reports of the Financial Affairs Committee at the House of Representatives regarding the draft laws on the opening of additional credits in the public budgets of the State for the years 2005-2007.

- Note: In the requests for additional credits for the year 2008 the government, for the first time, concealed the data related to the details and volume of credits allocated to the Ministries of Defence, Interior and Security and the Central Credits.