

Mukalla:

Gateway to the Hadramout

LOCAL ECONOMIC DEVELOPMENT STRATEGY



Foreword

Since 2000, with the issuance of the Local Authorities Law No. 4, Yemen has been pursuing an ambitious decentralization agenda. This agenda aims to delegate greater fiscal and administrative authority to local governments and to give communities –public leaders, residents, and investors – more control over the economic and social development of their cities and towns.

To date, city development strategies (CDS) have been initiated in four of Yemen’s largest urban areas – Sana’a, Aden, Hodeidah, and Mukalla. With support from Cities Alliance and The World Bank, the CDS process in each of these cities has brought together public and private sector leadership to assess the strengths and weaknesses of the city, think strategically about opportunities for equitable economic growth, develop a long-term vision, and draft a prioritized action plan. In all four cases, the CDS process has been coupled with revisions to the cities’ master plans to ensure a strong link between economic development plans and infrastructure.

The benefits of the CDS process go far beyond the writing of the CDS document. To create a long-term vision for the city required the participation of a variety of public, private, and civil society leaders who do not often have the occasion to come together to discuss the challenges and opportunities facing the city. The structure for cross-sectoral communication provided under the umbrella of the CDS has had a lasting effect in terms of helping to align the city’s social, economic, and environmental interests. In addition, with the financial support under the CDS, local leaders had access to much needed technical support and expertise focused on issues of local concern.

The purpose of this publication is to summarize the main outcomes of the studies, discussions, and strategic planning accomplished during Mukalla’s CDS process. Moreover, it aims to serve as a guide for the city’s local economic development that is presented in a manner that is accessible to a broad audience.

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H.E. Mr. Abdul Kadir Hilal, Governor of Hadramout (2003-2006)

H.E. Mr. Taha Hajer, Governor of Hadramout (2007-2008)

H.E. Mr. Salem Al-Khanbashi, Governor of Hadramout (elected May 17, 2008)

Mr. Mohamed Zemam, National Coordinator of the Port Cities Development Program

Mr. Ahmed Al-Haddad, Director of the Mukalla Local Economic Development Department

Mr. Ahmed Al-Sokouty, Deputy Director of the Mukalla Local Economic Development Department

Mr. Omar Bagarsh, President of the Hadramout Chamber of Commerce and Industry

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Brizzi, Gianni. "Mukalla City Development Strategy: Tourism Sector." January 2008.

Dar Al Handasah, "Revised Master Plan for Mukalla." September 2007.

Miller, Kaia. "Strategy for Regional Productivity Growth and the Cultivation of Clusters in Mukalla, Yemen." Aslan Global, 2007.

Touqan, Khaled. "Local Economy and Competitiveness Assessment for Mukalla City." May 2005.



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INTRODUCTION

Mukalla thinks strategically about Local Economic Development.

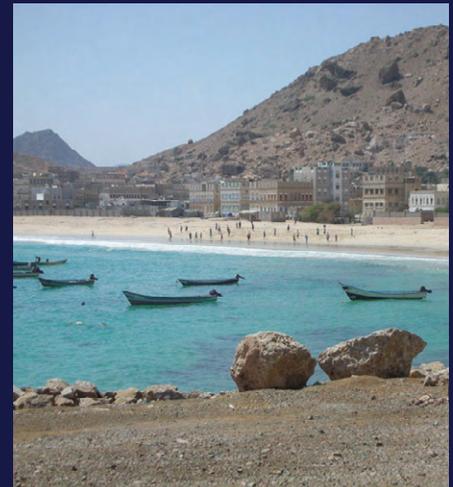


Nestled in precipitous cliffs dropping into the Arabian Sea, isolated from the rest of the country, the city of Mukalla has been for centuries a small seaport bypassed by international trade but for its role as gateway to Wadi Hadramout, a hidden paradise behind vast desert plateaus. In the last decade, the city has experienced significant demographic and economic growth as a result of strengthening its role as a regional capital and public and private investment in infrastructure, services and real estate.

Site of an ancient settlement, Mukalla owes its status of an established town to Sultan Qu'aiti who made it capital of his sultanate in 1915. However, it was only in the late 1950s that, following rumors of oil discoveries in the Hadramout Region, Mukalla emerged from isolation and grew into a regional capital. This transformation has accelerated in recent years with the progressive implementation of the administrative decentralization process. Today, in addition to being the third largest port of Yemen, Mukalla is a major center of administrative, social and economic services, the location of two regional universities and other educational establishments, the doorway to important oil and natural gas exporting terminals, the hub of an extensive fishing and fish processing industry, and the gateway to tourism and business in the Hadramout Governorate.

The modern city stretches along some 20 kilometers of coastline on both sides of the Old City and the mountainous outcrop that surrounds it and that splits the modern city into three distinct sets of neighborhoods. The Western Suburbs gently slide into a long sandy beach from underneath a mountain ridge; the Eastern Suburbs spread into an agricultural plane edging on a broad coastline. The western and eastern areas are connected with the Old City in the Central Area through two main roads, one inland and the other along the coast. Both roads find their way through and around the outcrop that divides them and shields the Old City.

In 2004, Mukalla began the formulation of a Local Economic Development Strategy. The objective of the Strategy is to support private sector productivity and improve the quality of life in the city. In the last few years, significant attention and study has been directed at the city of Mukalla – a revised and updated master plan, an assessment of the local economy, a clusters analysis, a tourism strategy, and a priority economic investment plan. Through a participatory process, and with input from industry experts, Mukalla assessed its existing economic and physical assets, and identified three strategic areas with high growth potential – hospitality and tourism, fishing and fish processing, and construction and real estate development industries.



EXECUTIVE SUMMARY

With a number of widely recognized and unique assets, the city of Mukalla is poised for economic growth.

Mukalla has a number of widely recognized unique assets, which are critical inputs to its emerging strategic positioning within Yemen and the region. Most notable is its broad portfolio of cultural heritage assets and attractive beaches. Recent improvements to Al-Khour, the canal through the heart of the city lined with attractive parks, has spurred additional private investments in adjacent properties. Mukalla is also differentiated by its strategic location, regional ports, long history of international trade, particularly with Gulf countries and the Far East, its ties to wealthy and engaged Hadrami expatriates abroad, specialty products such as frankincense and honey, and its reputation for entrepreneurship. The city of Mukalla has a strategic position as the gateway to tourist exploration in the Hadramout, Yemen's largest governorate in terms of area and home to famous historical sites including the gardens of Sayun, the mud skyscrapers of Shibam, and the libraries of Tarim.

MUKALLA TODAY

Today, leadership in Mukalla, both public and private, are motivated to create prosperity. Despite a broad portfolio of assets and existence of key infrastructure, the city must address constraints that are holding back economic growth.

Population, Employment and Poverty

The population of Mukalla is increasing rapidly, but faces the challenges of youth, unemployment, and poverty. Residents of the city are young, with some 43% of the population below the age of 15. This puts a burden on the education system and presents an impending employment challenge as this cohort comes into adulthood.

It is estimated that there are 40,000 jobs in Mukalla, over a third of which are in the construction industry. The second largest employer is the government, followed distantly by commercial activities, industry, transportation, fishing, and tourism respectively. While official sources record the unemployment rate in the Hadramout Governorate at around 12%, locals estimate that it is closer to 40%. This later figure certainly supports the fact that 36% of the Governorate's population live below the poverty line.¹

Land, Infrastructure, and Urban Development

Mukalla has much of the basic infrastructure required for businesses to compete, with a few areas

requiring major investment. The city spread along 20 kilometers of coastline, and is divided into three distinct areas by dramatic topography. While the Central Area (including the historic Old City) is densely populated, the Western and Eastern Suburbs are sparsely populated and plagued by vast tracts of vacant land. However, a strong road network ties these areas together and links them to the broader region.

Like the rest of Yemen, there are large gaps in basic infrastructure. However, Mukalla has a number of infrastructure offerings that are attractive to businesses in key clusters, such as an international airport and active seaport.

Local Economy

Exports and imports to Mukalla are decreasing, but tourism, fishing, and construction-related industries show growth potential. The city of Mukalla is differentiated from the rest of Hadramout and the country in several important ways. First, Mukalla is home to multiple cultural heritage assets with significant tourism potential. Second, half of the fishermen in Hadramout are based in Mukalla and its vicinity. Moreover, a majority of the governorate's food and fish processing companies are located in the city and nearby in the city of Al Shihr. Finally, Hadramout is well-known for the quality of its stone and marble, which supports a vibrant mining and quarrying industry. Mukalla, as the capital of the region, has a concentration of companies along the mining and quarrying value-chain, including chemicals, construction companies, real estate development, and architectural design.

Business Climate

Mukalla has an entrepreneurial spirit and a wealthy diaspora, but requires better public-private coordination and an improved legal framework. The city has a long history of international trade, and many wealthy investors of Hadrami descent have poured money into the local economy, especially in the real estate and construction sector. Business leaders and local authorities agree that the rules and regulations governing the private sector are in need of strengthening, especially in relation to property rights, land acquisition, zoning, and commercial courts. More than simply adding new laws to the books, there is a need for stricter enforcement of existing laws in order to create a level playing field for all potential

¹ Yemen Poverty Assessment Report. The World Bank, 2007.

investors.

While there is a strong and active Chamber of Commerce in Mukalla, cluster-specific organizations are weak or absent. To spur innovation and ensure a pipeline of trained labor, there is also a need for better communication and coordination among universities, the private sector, and the government.

MUKALLA TOMORROW

Mukalla is positioning itself to become the Gateway to the Hadramout, not just for tourists, but for commercial development, investors, and financial flows. To accomplish this goal, the city will build on its existing unique assets and strengths, differentiate itself from other regions, grow new economic clusters, and strengthen the existing clusters.

Clusters of Competitiveness

Cultivating economic growth clusters is a long-term endeavor involving multiple private and public sector partners. Successful local economic development strategies do not pick winning clusters, but build on the surrounding region's inherited assets (e.g. geography, climate, population, research centers, companies, governmental organizations) to create specialized economies that differ from other regions and offer advantages to local companies. In cultivating regional clusters of competitiveness, however, established and already emerging clusters offer the greatest prospects for short term. Based on Mukalla's unique assets and relative strengths, clusters that present the greatest prospects for near term productivity growth include:

- Hospitality and Tourism;
- Fishing and Fishing Products; and
- Construction and Real Estate Development.

Implementing the LED Strategy

A participatory process in which groups, including private and public sector leaders, and representatives of relevant institutions define priorities and then design solutions is the recommended path to sustained productivity growth. The Local Economic Development Strategy embodied in this document represents a shared economic vision. To build momentum off of this foundation, a strengthened Mukalla Local Economic Development Department (LEDD) could facilitate cluster-specific workshops, organize high-level policy dialogue, and commission additional studies of promising clusters. Suggested next step actions include:

- Strengthen the LEDD to serve as Mukalla's organization to coordinate economic development;
- Establish a task force for economic development with participation from a diverse group of Mukalla's leaders;

- Develop a cluster development program specifically designed for each targeted cluster; and
- Invest in specialized research institutes and cluster-specific institutions for collaboration.

Infrastructure for Growth

Strengthening the Tourism, Fishing, and Construction clusters requires a solid physical growth plan and targeted investments in infrastructure. The Mukalla Master Plan 2025 was completed in 2008, guiding the physical development of the city in line with economic and social goals. The Master Plan emphasizes the development of the Eastern and Western Suburbs by establishing stronger commercial and administrative centers there, while providing detailed guidelines for the preservation of the Old City.

A priority investment plan was created to realize the fill potential of Mukalla's Local Economic Development Strategy. Ten priority investments in the city of Mukalla were identified and focus on (i) core economic assets and clusters and (ii) strategic infrastructure investments. There are multiple synergies among the priority investments, and overall they provide ample benefit to residents, existing business, and future investors.

Strategic investments include:

1. Revitalizing the Old City: Improve Public Spaces and Public Assets;
2. Revitalizing the Old City: Historic Preservation and Enhancement;
3. Upgrade the Al Rayyan International Airport;
4. Improve the Mukalla Seaport;
5. Improve the Al Amoudi Fishing Port;
6. Establish a Workshop and Small Industries Zone;
7. Expand the Power Facilities;
8. Expand the Telecommunications Facilities;
9. Construct the Mukalla Central Area By-Pass Road; and
10. Traffic Management and Street Improvements in the Central Area.

MUKALLA TODAY

Public and private leadership in Mukalla are motivated to create prosperity.

The leaders in Mukalla feel a sense of urgency to implement a strategy to spur economic growth, and several regional indicators confirm the urgent need for change. The Hadramout Governorate's urban areas are among the poorest in Yemen, ranking fourth among the twenty-one governorates in terms of poverty levels. In 2006, an estimated 35.6% of families fell below the poverty line, versus 34.8% nationally.² Although the official unemployment rate is quoted as being much lower, informal estimates put it closer to 30%. It was estimated that 22% of households had no access to sanitary services, 23% had no electricity, and 21% did not have access to running water.³

Population, Employment and Poverty

Trend: The population of Mukalla is increasing rapidly, but faces the challenges of youth, unemployment and poverty.

Demographic Characteristics

Hadramout is Yemen's largest governorate in terms of size, but home to only 5.2% of the total national population at 1.02 million in 2004. The national census material is essentially directed at the governorate, and it is difficult to clarify and characterize the population at the urban level. That said, the following data, when possible, are taken directly from the census for 1994 or 2004.

The Population and Housing Census of 1994 shows that the total number of residents of Mukalla was then 171,723, representing 23.9% of the overall population of the Hadramout Governorate. By 2004, Mukalla had about 231,000 residents, representing 23% of the Governorate population. The city is growing rapidly due to rural-urban migration, and with an average annual increase of 3%, the city population is expected to grow to almost 530,000 by 2025.⁴ Significantly, over 80% of the urban population is concentrated in the city center at very high densities. Average household size in 2004 was 7.21, which is roughly the same in both the urban and rural areas of Hadramout.⁵

There are several demographic challenges facing Mukalla – age, illiteracy, and poverty. The popula-

tion of Mukalla is essentially youthful, and in 2004 some 43% of residents were less than 15 years old, 54.7% less than 20, and 70.2% less than 30. This census also indicates that the highest concentration of population lies in the 5-9 age groups (15.1%) for both females and males. This is a challenge for the education system. Classrooms are overcrowded, with an average of 67 pupils per classroom, and all public schools run two shifts to deal with this burden. As the youth population comes of age, the employment situation will worsen unless the economy expands significantly.

Poverty

According to the 2007 Yemen Poverty Assessment, poverty affects almost 36% of the population in Hadramout, which is about average for the country as a whole.⁶ This translates into a total of 42,300 households, making Hadramout the fifth poorest governorate in Yemen. Urban poverty in Hadramout, mostly concentrated in Mukalla, however, is among the highest in Yemen.

Despite a reduction in urban poverty in Yemen over the past decade, 21% of urban households still fall below the poverty line, and some 12% of all urban poor live in Hadramout. Mukalla suffers from extreme urban poverty, reflected by high urban poverty gap index levels. Compounding the poverty challenge is the fact that urban areas have high income inequality. In Hadramout, however, the Gini coefficient in urban areas decreased slightly between 1998 and 2006 from 33.7 to 31.7.⁷

Employment

According to the Mukalla Local Economy and Competitiveness Assessment, the labor force participation rate as a percentage of total population, as quoted by the Ministry of Planning and International Cooperation, in the Hadramout Governorate was reportedly 22.6% in 2002. The labor force participation rate in Mukalla is presumed to be higher than at the governorate level given the existence of more employment opportunities in the city than in rural areas.

Estimates of the breakdown of employment by industry indicate that Construction businesses and the Public Sector dominate the market with 67% of

2 Yemen Poverty Assessment, The World Bank 2007

3 Central Statistical Office, Statistical Yearbook 2006.

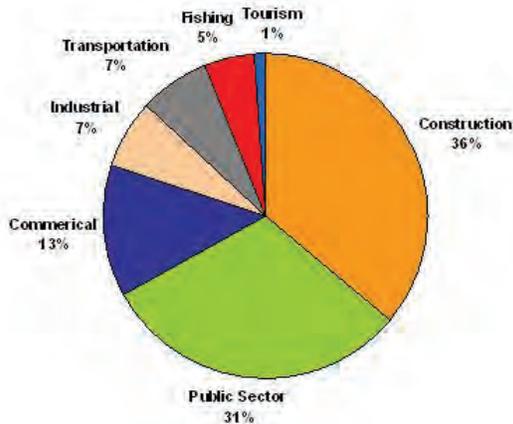
4 Estimate from Master Plan based on Decreasing Fertility with Medium Migration scenario.

5 Master Plan, 2007.

6 Yemen Poverty Assessment, The World Bank (2007)

7 Yemen Poverty Assessment, The World Bank (2007)

Estimated Composition of Employment in Mukalla



employment. The next largest employers are Commercial and Industrial activities.

Construction: In 1999, the construction sector employed a total of 238,000 people in Yemen, increasing to 280,000 in 2003. Approximately 15-20% of this total is presumed to be located in Hadramout. This suggests an estimated workforce in the construction sector of Hadramout of between 42,000 – 56,000 people. The construction workforce is predominantly informal, as this sector is in most developing countries, and workers are generally part-time laborers paid on a daily basis. A conservative estimate would be that half of these jobs are in the city of Mukalla.

Public Sector: In 2003, there were a total of 27,287 government workers in Hadramout. Given that Mukalla is the capital of the governorate, and therefore is the location of the majority of government offices and institutions, it is reasonable to assume that around 60-70% of all government workers are based there. This suggests that there are some 16,400 – 19,100 public sector employees in Mukalla.

Commercial: This sector comprises all kinds of small businesses including fish marketing, contractors, real estate offices, tourist offices, branches of banks, drug stores, trading companies, and other services. There are 61 commercial companies, 2,194 trading companies, and 678 services companies in Mukalla, for a total of 2,933. It is reasonable to assume that companies in the commercial sector employ 2-3 workers on average, implying that the commercial sector employs around 6,000 – 9,000 people.

Industrial: The industrial sector in Mukalla includes

the following activities: food processing, metal industries, chemical industries, construction materials, paper/packaging industries, and wood industries. The sector is characterized by its low prominence as well as its small contribution to employment in the city. However, a large number of establishments are unregistered which suggests the existence of a significant informal sector. No formally accurate estimates of the number of industrial establishments and employment in the sector are available. According to the Local Economy and Competitiveness Assessment, the sector employs more than 10,000 workers in Hadramout as a whole, including formal and informal establishments. Based on this figure, and the assumption that 40% of industrial establishments are located in Mukalla (General Investment Authority), the total number of workers in the industrial sector in Mukalla could be estimated around 4,000.

Transportation: Nationally, the transportation sector employed about 140,000 people in 2003. Given Hadramout's share of total national population (approximately 5%), it could be suggested that employment in the transportation sector in Hadramout is at least 7,000 workers. Hadramout's share of total unloaded cargo in Yemen is around 7%, which extrapolates into an estimated 8,500 works in transportation. Therefore, it could be assumed that the governorate's transportation sector employment is approximately 7,000 – 8,500 workers. Once again, a conservative estimate would be that about half of these jobs are in Mukalla.

Fishing: The fishing sector contributes significantly to employment in Hadramout although the majority of it is located outside Mukalla, there are more than 10,000 registered fishermen in Hadramout. Moreover, the fish processing industry employs a large number of workers, estimated at over 1,000 (based on records from the Ministry of Fish Wealth) although these are accounted for in the industrial sector as part of the food processing activity. Assuming a margin of 15-20% on top of the number of fishermen to account for fishing-related activities (excluding processing), the total number of workers is around 11,500 – 12,000. Given that 25% of fishermen are located in Mukalla (per the Ministry of Fish Wealth), the number of workers in the fishing sector in the city is estimated at 2,800 – 3,000.

Tourism: The Ministry of Tourism states that the formal tourism sector employs 570 workers in Mukalla, divided between 483 workers in hotels and 87 workers in furnished apartments. Other tourism-related activities such as travel agencies and transportation are companies are accounted for in the commercial sector.



Three Main Urban Agglomerations in Mukalla

Land, Infrastructure & Urban Development

Trend: Mukalla has much of the basic infrastructure required for businesses to compete, with a few areas requiring major investment.

Mukalla is not yet a city whose form follows a continuous expanse of urban development. Rather, it is a loose grouping of settlement distributed over a defined area nestled between a long coastline and steep topography. Its component parts are growing in respect to their own needs as well as those of the city as a whole. Mukalla is a linear city comprised of three definable urban components which include:

- The Central Area of Old Mukalla and the neighborhoods of Al-Sharj, Al-Deis and Al-Shaheed Khaled (Old Khalaf);
- The Western Suburbs extending from Embikha to Al-Sheqayn near Burum, and including the towns of Embikha, New Fowah (Al-Sadaqah and Al-Mutadarrereen), Old Fowah, Fowah Ibn Sina, Old Hella, New Hella, and Al-Sheqayn; and
- The Eastern Suburbs extending from Khalaf to Al-Rayyan and including smaller settlements of Joul Masha', Al-Harshiyat (old and new), Khalaf, Roukob, Buwaysh, Al-Eis, Al-Rouweinat (1,2,3,4), Falak, and Al-Rayyan.

Land in Mukalla has been widely allocated to private parties in a manner that is far beyond that required to satisfy rates of growth. This has resulted in large vacant areas, especially in the Eastern and Western suburbs. In contrast, the Central Area, which includes the Old City, is extremely dense with approximately 100-150 people per hectare.

Mukalla witnessed an enormous constructional boom since the unification of Yemen in 1990, in which the private sector played a vital role in the development of residential estates, commercial uses

and several craft factories. Examples of investments by the private sector in the past decade are: the industrial estate, the cement packing depot, the fish canneries in Rayyan and a number of fish freezers and cold storages. Other investment projects by international hotel chains and domestic investors include Raiboon, Holiday Inn, Al-Ahqaaf, Al-Maseela and Hadramout hotels.

The scope and size of above mentioned investments in Mukalla clearly indicate the attractiveness of the city. However, local government has struggled to supply services to the newly constructed areas as well as to rehabilitate and maintain the existing services. Investors and residents suffer from a shortage of basic services, in quantitative and qualitative terms only 74% of houses are served with electricity, 81% drinking water and only 54% served with sewerage system without sewage treatment facilities.

A strong physical and information infrastructure is a baseline requirement to establish and sustain a prosperous regional economy. This includes good quality roads, highways, airports, railroads, telecommunications, water and power. These basic investments support the efficient movement of people, goods, and services as well as the quality of life for residents. Additionally, investments in unique and specialized assets such as university campuses, research programs, and logistical infrastructure are important. Universities and research centers are the driving force behind innovation in nearly every region. Although companies and individuals create a large number of innovations, universities and research centers institutionalize entrepreneurship and ensure a steady flow of new ideas.⁸

⁸ Michael E. Porter, et al, Clusters of Innovation: Regional Foundations of US Competitiveness.

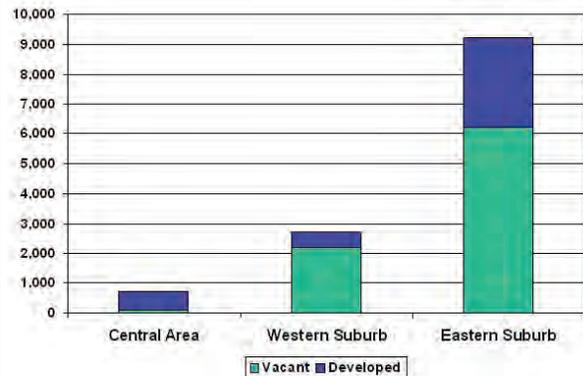
Mukalla and the surrounding region have much of the basic infrastructure required for businesses to compete, with a few areas requiring major investment. Mukalla City has a strong primary road network including roads to Oman and Saudi Arabia, increasingly improving telecommunications services from Public Telecoms Corp, three mobile phone networks, and increasing access to internet services. However, the business leaders complain of insufficient and high cost power generation services, fuel shortages, inadequate sewage management, over-exploited water wells, a water distribution network in disrepair leading to high costs, and a poor secondary road network as holes in the city's basic infrastructure platform.

While clearly there are gaps in basic infrastructure, Mukalla does have a number of advanced and specialized infrastructure offerings attractive to businesses in key clusters. Mukalla is home to both an international airport and active seaport. Although both are at overcapacity and under-equipped to sustain meaningful growth, they have helped to establish the city's reputation as a center for international multi-modal transport facilities and offer a solid basis for expansion. The Rayan International Airport, built in 1984, plays a key role in the region's export strategy. It is equipped with a specialized 100-ton Fish Processing and Freezing facility which has been certified for fish exports to the European Union. Several fishing cooperatives and fish processing businesses export via this facility. A plan for an updated and expanded facility exists which would expand capacity for passenger flights, upgrade maintenance facilities, and establish a full-service cargo village.

Similarly, Mukalla's seaport was opened in 1984 and has reached capacity. The port is the third largest port in the country measured by volume of dry cargo imports, and serves the import needs of Hadramout and neighboring governorates. It includes two berths and a shallower quay suitable for traditional fishing boats. There are no container facilities, and dry bulk and bagged cargo is unloaded manually. The port is congested and has limited storage space currently used for containers and cement storage and packaging facilities. Additional land is leased by major customers for petroleum products and vegetable oil silos. A plan for a new port to be constructed at Burum. With the likely construction of a new regional port, the current Mukalla seaport would need a new strategic positioning, potentially as a traditional fishing port and a key element of the city's Hospitality and Tourism cluster with fish restaurants, handicraft shops, and fishing and other leisure boat launches.

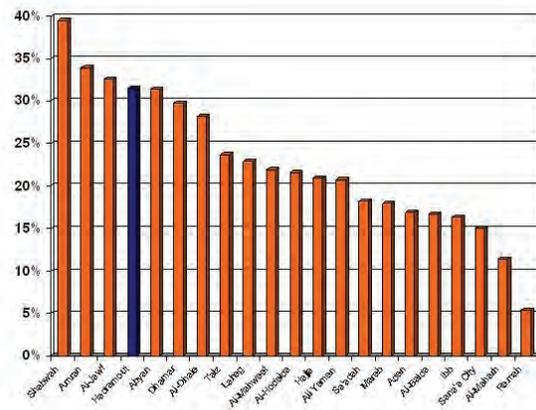
The city has access to several important natural resources including fish reserves, oil and gas reserves, minerals and stone quarries, and a long coastline including beaches and the island of Socotra. Addi-

Estimation of Developed and Vacant Land in Mukalla (hectares)



Source: Mukalla Master Plan (2007)

Incidence of Urban Poverty by Governorate



Source: Yemen Poverty Assessment (2007)



Existing Land Uses in Mukalla, 2005

tionally, the city is home to several historic sites as well as the new Khour, and offers a base for exploring the internationally renowned sites of the Hadramout Governorate including the gardens of Sayun, the mud skyscrapers of Shibam, and the libraries of Tarim.

A variety of options for higher education and skills training exist in Mukalla, but businesspeople cite several challenges including the lack of cluster-specific training facilities, weak linkages with the private sector, lack of skilled labor, and insufficient opportunities for women.⁹ There are two universities in Mukalla City (Fowah). Hadramout University is a public university and has ten faculties including Medicine, Engineering, Fish and Marine, Administration, and Social Science. There were 6,385 students in 2005, 22% of whom were women.¹⁰ Al-Ahqaf is a private university and has seven faculties including: Sharia, Commercial Sciences, Computer Engineering, and a Girls' College. There were 504 students in 2005, 14% of whom were women. There are five vocational technical schools in the city including: Management School (Mukalla), Technical School (Fowah), Technical School (Khalaf), and Health School (Fowah). In 2005 there were 1,157 students at vocational institutes, 10% of whom were women. Because Mukalla will not realize its vision of prosperity for its citizens without successful businesses, an increased focus on business training, and the creation of cluster-specific training facilities and research institutes, with strong linkages to the private sector will be critical to Mukalla's economic development strategy.

9 Interviews with businesspeople in Mukalla, November 2006.

10 Government of Yemen, Central Statistics Organization, "Number of Faculties and Enrolled students in Government and Private Universities by Sex and Nationality for the academic Year 2004/2005."

The Mukalla region has four industrial zones (two in Mukalla), with an additional three more planned, which can play a role in cultivating deeper clusters. Although currently these zones lack infrastructure, the strategy for developing them is consistent with cluster development strategies. At least some of the zones are focused on one or a few clusters: the Petrochemical zone near the pipeline from Masila (Dabab); the Mining/Quarrying/Construction zone near the stone reserves (Borum); and the Manufacturing/SMEs zone near labor (Fowah). Additionally there is a Central Laboratory for Food Testing in Mukalla City which is a key member of the Fishing and Fishing Products Clusters, as well as a member of other clusters such as Agribusiness, or sub-clusters such as Apiculture (Honey and Honey-related products).

Local Economy

Trend: Exports and imports to Mukalla are decreasing, but tourism, fishing, and construction-related industries show growth potential.

Export data for Rayan International Airport and Mukalla Seaport indicate that both the value and volume of exports from Mukalla and the surrounding region is low and decreasing. At Rayan, the total incoming and outgoing cargo movement is more balanced, although levels of both are much lower than at the port. In fact, in 2005 there was a higher volume of outgoing cargo via the airport, than incoming. However, as the charts suggest, the vast majority of the outgoing cargo represents re-exports. The value of actual exports at Rayan is dwarfed by the value of imports, although both declined dramatically from 2003-2006. Imports in 2003 came primarily from the UAE, USA, Oman, Canada, Somalia, Argentina, India, Saudi Arabia, China, and Thailand. Exports went primarily to the UAE, Saudi Arabia, Somalia,

India, and Iran.”¹¹ One of the primary exports is fish.

Exports from Mukalla Port are limited. Non-oil cargo exports through the port declined an average of 2% per year from 2000 to 2004, totaling just 17,707 tons in 2004. The value of exports at Mukalla Port declined an average of 23% annually from 2003 to 2006. These non-oil exports via the port were comprised primarily of fish, and were dwarfed by the 639,832 tons of non-oil imports into the port in 2004.

The port’s relative strategic position is shifting as infrastructure and services are expanded and improved in other ports. The Mukalla Seaport represents the primary entry point for imports into the eastern governorates, although imports are becoming less concentrated among Yemen’s ports. The port has distinguished itself in the area of imports of livestock, second only to the Mocha port. In 2006 the Mocha port accounted for 82% of Yemen’s livestock imports, while Mukalla port represented 14%.¹² The Mukalla Seaport is located in the congested city center, and is itself small and congested. It represents a steadily decreasing percentage of Yemen’s imports. The port has reached capacity and its current location does not allow for significant expansion. Mukalla city leaders have been actively discussing the building of a new port for years, and the potential conversion of Mukalla port into primarily a port for small fishing and leisure boats, and tourism site with restaurants and shops to attract visitors.

The city of Mukalla is known for its port and as an entry point to the rich tourism offerings in the Hadramout. However, the composition of its economy suggests a much more diverse set of existing and emerging “clusters” beyond port activities and tourism. Governorate-level data on the distribution of employment in private establishments by economic activity is depicted below. The largest employer among private establishments is Wholesale and Retail Trade activities (41.6%), followed by Manufacturing (17.6%) and Personal and Social Services (10.4%). Hotels and Restaurants in the governorate account for over 8.4% of private establishment jobs, and Mining and Stone Quarrying 7.6%. There are several other small but noteworthy sources of employment including Health, Education, Construction and Real Estate. The data does not include several major sources of employment including public sector employees, traditional fishermen (over 17,000 in Hadramout Governorate), or small farmers.

An analysis of the governorate of Hadramout’s share of national employment in its key economic activities suggests several areas in which the governorate is

outperforming the country overall in the creation of jobs. Total employment in private establishments in Hadramout accounts for 8.0% of national employment in private establishments. However, in five economic activities, Hadramout’s share of national employment is higher than 8.0%: Mining and Stone Quarrying, Construction, Education, Real Estate, and Manufacturing. These higher than average shares of employment suggest that the Governorate of Hadramout has relative advantages, and relatively higher ability to support employment, in these areas, than other Governorates do.

The city of Mukalla is differentiated from the rest of Hadramout in several important ways and can play a critical role in cultivating the governorate’s key clusters. There are about 40,000 people employed in the city. One of the most important distinctions between the city and the rest of the governorate is in the Fishing and Fish Products cluster. More than half of the 27,000 fishermen in the entire governorate are in the city and its surrounding areas, making the city of Mukalla a critical player in a regional strategy for cultivating the Fishing and Fish Products cluster. Additionally, sixteen of the Governorate’s twenty-four food-processing companies are in Mukalla City, several of which are fish processing companies. Fish marketing activities, boat manufacturers, boat repair shops, and fishing supply companies are concentrated in and around Mukalla City.

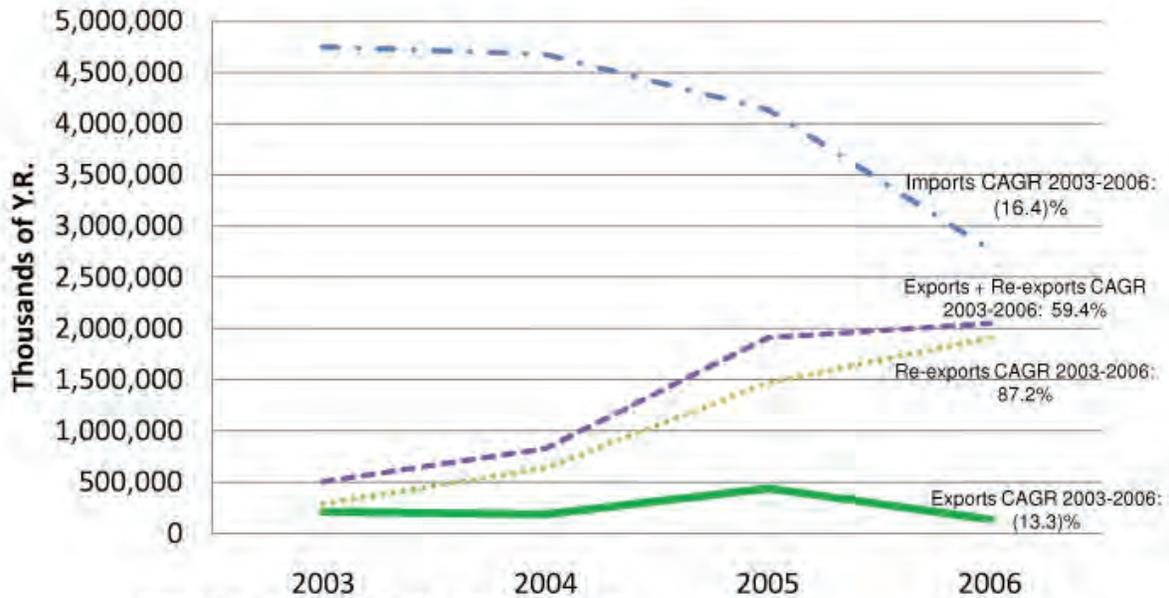
A second distinction is in the Hospitality and Tourism cluster. While most of the major sites tourists come to the region to visit are located in the interior of the Hadramout, Mukalla City plays a critical role as the gateway to these sites. Tourists coming to the region could spend more time in Mukalla and the local economy has the region’s highest concentration of hotels, restaurants, laundry services, transportation companies, tourist offices, money exchange offices,



¹¹ Touqan, p. 20.

¹² Government of Yemen, Central Statistics Organization.

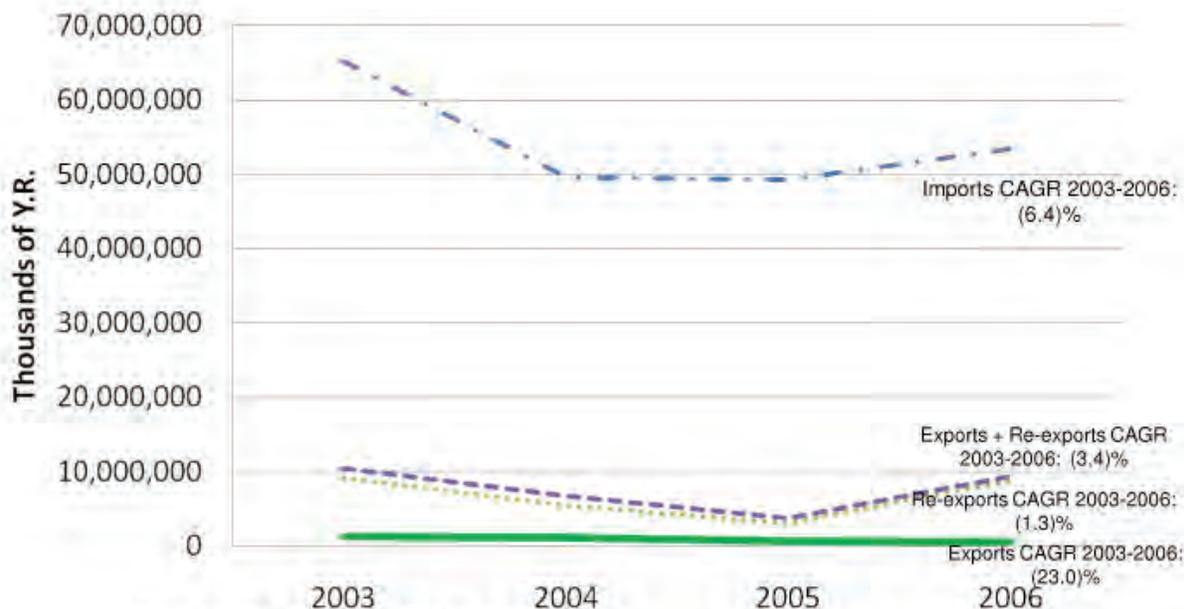
Mukalla Imports and Exports: Value of Imports and Exports at Al Rayan Airport



Source: Central Statistics Organization, Government of Yemen.
 Note: "CAGR" is Compound Annual Growth Rate

Kaia Miller, Aslan Global

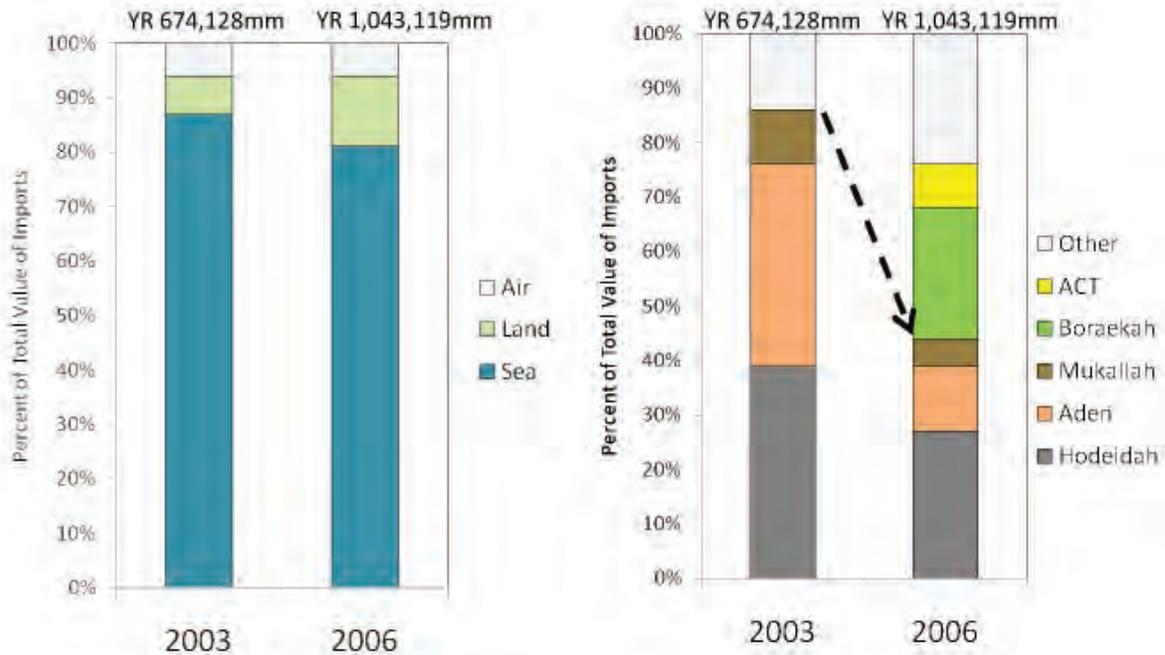
Mukalla Imports and Exports: Value of Imports and Exports at Mukalla Seaport



Source: Central Statistics Organization, Government of Yemen.
 Note: "CAGR" is Compound Annual Growth Rate

Kaia Miller, Aslan Global

Declining Concentration of Yemen's Imports into Hodeidah, Aden, and Mukalla Ports



Source: Government of Yemen, Central Statistics Organization (CSO)

Kaia Miller, Aslan Global

tour agents, and handicraft shops, in addition to a few signature tourist sites.

A third distinction is in the Mining and Stone Quarrying industry, which overlaps the Building and Building Materials cluster. Hadramout is known for Mining and Quarrying, while Mukalla represents 8 of the governorate's 13 chemical companies, as well as the headquarters for related activities including Building, Construction, Real Estate, and other support activities such as Architectural and Contracting Services. The success of Mukalla's activities in these activities is linked to the success of the Hadramout Mining and Quarrying cluster, and local development strategies must be coordinated with those in the broader region to maximize productivity throughout the cluster.

Business Climate

Trend: Mukalla has an entrepreneurial spirit and a wealthy diaspora, but requires better public-private coordination and an improved legal framework to realize its full potential.

The rules, incentives, and pressures governing the competition in a region have a fundamental influence on productivity. Policies that encourage investment,

protect intellectual property, and open the local market for trade, for example, foster productivity growth. Strong rivalry and the intensity of local competition also contribute.

Mukalla City has an entrepreneurial image, with a large number of committed, wealthy Yemeni expatriates abroad contributing to the city's business development. The City also has a deep history of international trade and coastal relations, particularly with the Gulf and the Far East, which form an important part of the City's unique strategic positioning. However, the rules and regulations governing the operation of businesses require significant strengthening. Local business leaders cite the following challenges: a weak property rights regime; a difficult and unclear land acquisition process, high interest rates on loans, weak transportation rules and regulations, a weak commercial legal regime and court system and inactive commercial courts, the lack of clear business / residential zones in the city, and interestingly, a "lack of trust."¹³ There is clear acknowledgement that both the government and the private sector have significant responsibility to improve the

¹³ Businessperson at the March 2007 Workshop with business and government leaders.

context for firm strategy and rivalry. This self-awareness and recognition of the shared responsibility in realizing the future vision for Mukalla, between government and the private sector, is an important step in achieving success. Businesspeople in Mukalla, while acknowledging the critical steps the government must take, also recognize their own shortcomings and are eager to address them.

The quality of demand in a region has a strong influence on the process of creating and improving products and services. Sophisticated customers in a region pressure firms to improve and offer insights into existing and future customer needs. Some business and government leaders describe customer demand in Mukalla as weak and unsophisticated. However, they note that the frequent tourists and Yemeni expatriates visiting from abroad represented groups with generally more sophisticated demand which local businesspeople could learn from to improve their products and services. For example, tour companies, hotels, handicraft shops and restaurants could institute regular surveys with visitors to improve their offerings, and fish exporters could do the same with their international customers to increase value and volume of fresh and frozen fish exports. Additionally, the local government could work with the central government on stronger consumer protection laws and enforcement of the laws.

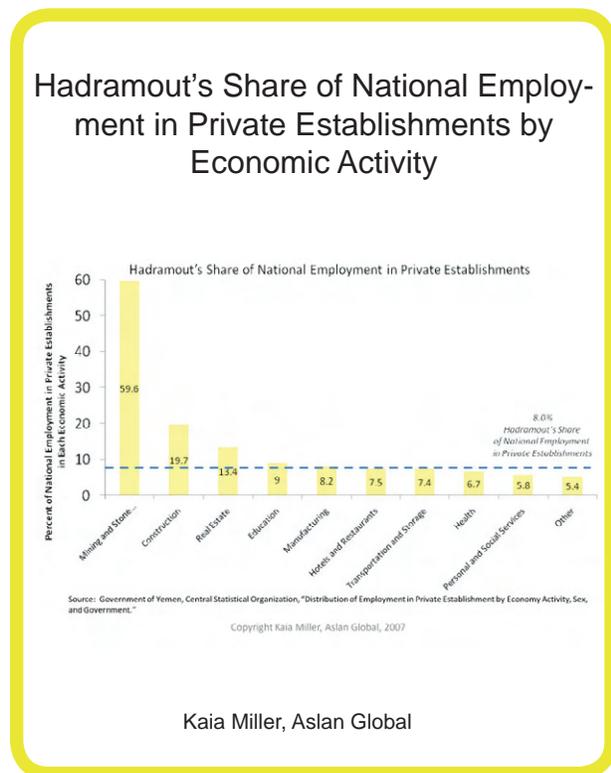
There is an active Chamber of Commerce in Mukalla which engages in a number of activities to support its over 5000 members, including: interfacing with government on behalf of its members, hosting training

workshops, sponsoring visiting experts, organizing trade missions, organizing the annual international trade exhibition in Mukalla, and publishing a quarterly magazine focused on business in Mukalla.

Cluster-specific organizations in Mukalla are either weak or nonexistent.¹⁴ Similarly there are few practical linkages between the universities and the private sector. There are nineteen fishing cooperatives¹⁵, a Small Enterprise Development Fund run by donors to support small businesses, and a small number of women-owned companies in Mukalla (less than 10¹⁶) whose owners meet periodically on an informal basis to share and discuss their experiences. Forming and institutionalizing informal groups such as the women's group, university alumni groups, and cluster-specific groups with broad representation from all related and supporting industries as well as training institutes can contribute greatly to the improvement of strategies, the development of new businesses, and cooperative efforts to strengthen key clusters.

Government affects all parts of the business environment. The role of the government in creating the conditions for productivity growth is easy to describe but difficult to achieve. The government needs to do everything it can to help the private sector – except show favoritism and impede competition – by investing in the business environment, reducing administrative bureaucracy, engaging in a dialogue with not just the few large firms, but the smaller and medium-sized firms which often tend to be the most dynamic, and, finally, investing in the image and promotion of Mukalla internationally.

According to both private sector and public sector leaders, the local government in Mukalla has contributed positively in many ways to Mukalla's business environment. There is an active Local Council which has implemented a high percentage of planned projects, maintains a strong relationship with the Chamber of Commerce, and works to improve the city's image through projects such as the Khour Al Mukalla. Both private and public sector leaders acknowledge several areas of improvement needed for the local government to positively influence the regional business environment including: reducing bureaucracy, continuing to decentralize decision-making with Sana'a to reduce delays and inaction on the part of the local government, focus on increasing tangible actions and results, supporting investors consistently, and clarifying investment laws and ensuring consistent application of those laws.

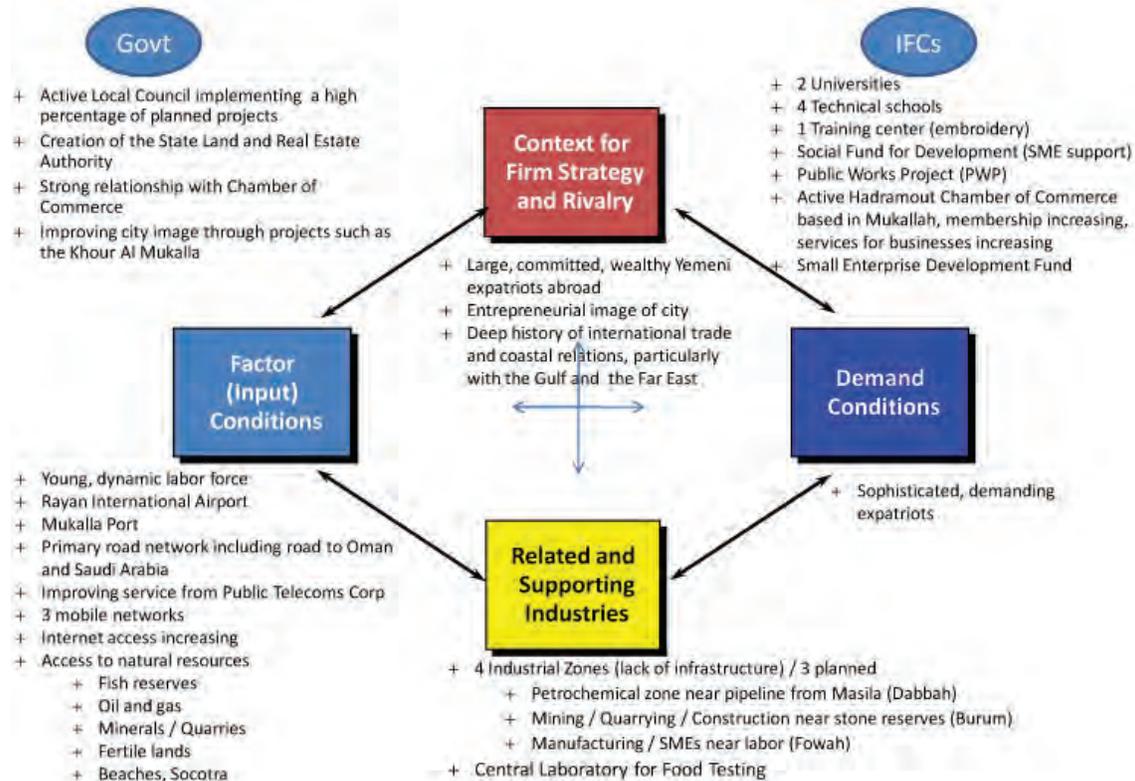


14 Interview with business leader in Mukalla, November 2006.

15 Government of Yemen, Central Statistics Organization, "No. of fishing Cooperatives Societies, No. of Fishermen and Boats in Governorates (2003-2005).

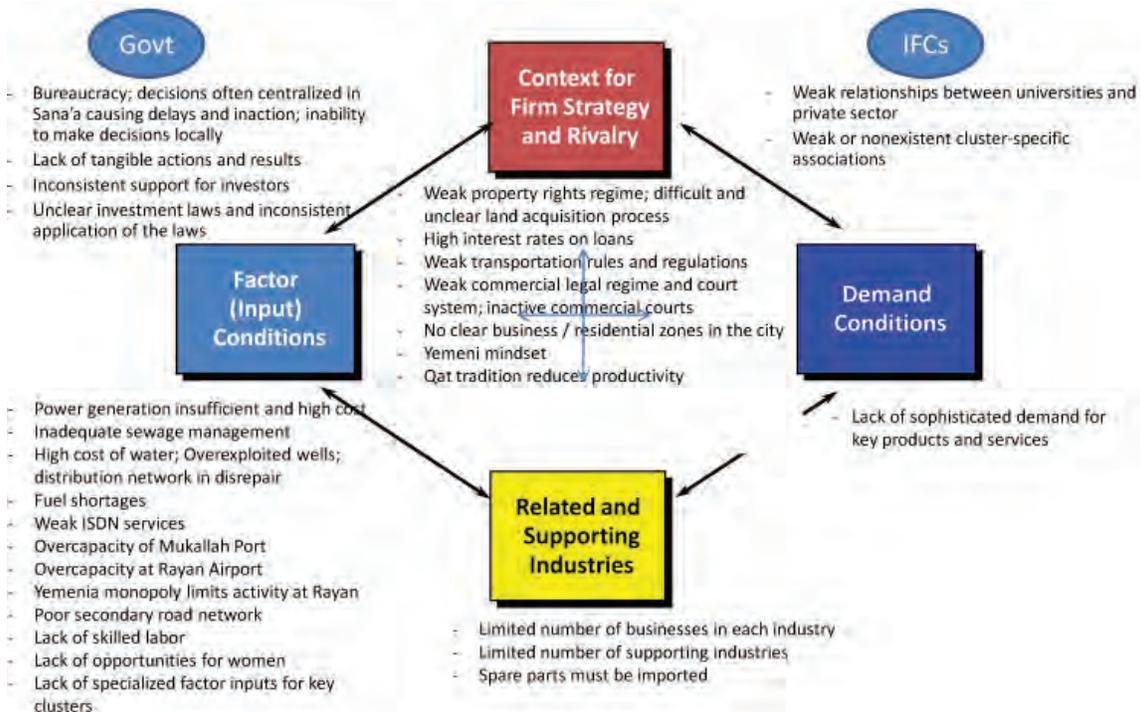
16 Interview with women leaders in Mukalla, March 2007.

Mukalla's Business Environment: Relative Strengths



Kaia Miller, Aslan Global

Mukalla's Business Environment: Areas to Improve



Kaia Miller, Aslan Global

MUKALLA TOMORROW

Mukalla: Gateway to the Hadramout

The vision and strategy for Mukalla's future must be based on its unique assets and history, and the strategy for achieving the vision must be consistent with the elements of an effective regional economic development strategy. An effective regional strategy will build on the region's existing strengths and unique assets, will be differentiated from other regions, will encompass a wide range of clusters, and will strengthen established, traditional clusters. Leaders in Mukalla have recognized these critical elements of their future strategy. They view Mukalla as a "gateway" to the region, not just for tourists, but for businesses operating in clusters with strategic linkages with the broader region.

In addition to focusing on cluster development, a successful regional strategy also must align with national objectives and differ from other regions in Yemen based on the unique assets and relative strengths present in the city and its surrounding region.¹⁷ In the expanded version of Mukalla's future vision, the alignment with Yemen's national vision and objectives becomes much more apparent in areas such as exploiting the potential in tourism, exploiting fisheries, promoting extraction industries, increasing exports, strengthening links between higher education and society, strengthening institutes of innovation, and strengthening government-private sector relations.

Clusters of Competitiveness

Cultivating economic growth clusters is a long-term endeavor involving multiple private and public sector partners.

To realize its long-term vision of high and rising prosperity for its residents, Mukalla will not only have to invest in upgrading its business environment, but it will need to cultivate regional "clusters of competitiveness." In fact, to maximize results in the shorter term, the clusters Mukalla elects to focus on first should determine the prioritization of improvements in the business environment and urban infrastructure.

The development of clusters is a long process occurring over decades. Clusters often originate as a result of strengths in the business environment. In Mukalla's case, the city's location on the Arabian

Sea, strategically situated between the Gulf of Aden and the Indian Ocean, on major international shipping lines, gave rise to the shipping and maritime cluster. The region's many prosperous emigrants passed through the city each time they came and went. Their wealth and regular visits gave rise to the Construction and Real Estate clusters in recent years, and contributed to the emergence of the city as a recognized tourist destination. The city's proximity to natural resources including vast fish reserves and oil and gas reserves gave rise to industries related to these clusters. Clusters can also arise from unusual, sophisticated, or stringent local demand, or from the formation of a few innovative companies that stimulates the formation of more. The picture below roughly depicts the evolution of Mukalla's clusters. One of the questions central to Mukalla's economic development strategy is how to speed up the process of cluster development.

A sound regional economic development strategy will build on the region's unique assets and relative strengths to develop specialized clusters. Successful city strategies do not pick winning clusters, but build on the surrounding region's inherited assets (e.g. geography, climate, population, research centers, companies, governmental organizations), to create specialized economies that differ from other regions and offer advantages to local companies.

Mukalla's strategy must include the cultivation of a broad array of clusters. Although all regions tend to specialize in a few clusters, some are especially overdependent. They have a disproportionate share of employment in one cluster, and even in a handful of companies, which makes them unnecessarily vulnerable. For example, in Mukalla, where tourism is one of the region's key clusters, incidents such as the bombing of the USS Cole in 2000, the attack on the French oil tanker Limburg in 2002, and the July 2007 suicide bomber attack at Mareb's Queen of Sheba temple, can decimate the cluster temporarily. An overdependence on tourism means the people of Mukalla suffer disproportionately. A wide array of specialized clusters can help protect a region against such economic shocks.

That said, in cultivating regional clusters of competitiveness, established and already emerging clusters offer the greatest prospects for short term results with an explicit cluster development process. Short

¹⁷ Michael E. Porter, et al, Clusters of Innovation: Regional Foundations of US Competitiveness.

term positive results can encourage other clusters to engage in an explicit cluster development process. Based on Mukalla's unique assets and relative strengths, as well as its existing industries, clusters that present the greatest prospects for near term productivity growth include Hospitality and Tourism and Fishing and Fishing Products. Other clusters that should be considered based on recent dynamic growth, existing assets, potential sources of advantage and excitement and commitment of local leaders include Construction and Building Materials, Financial Services, and Chemical Products.

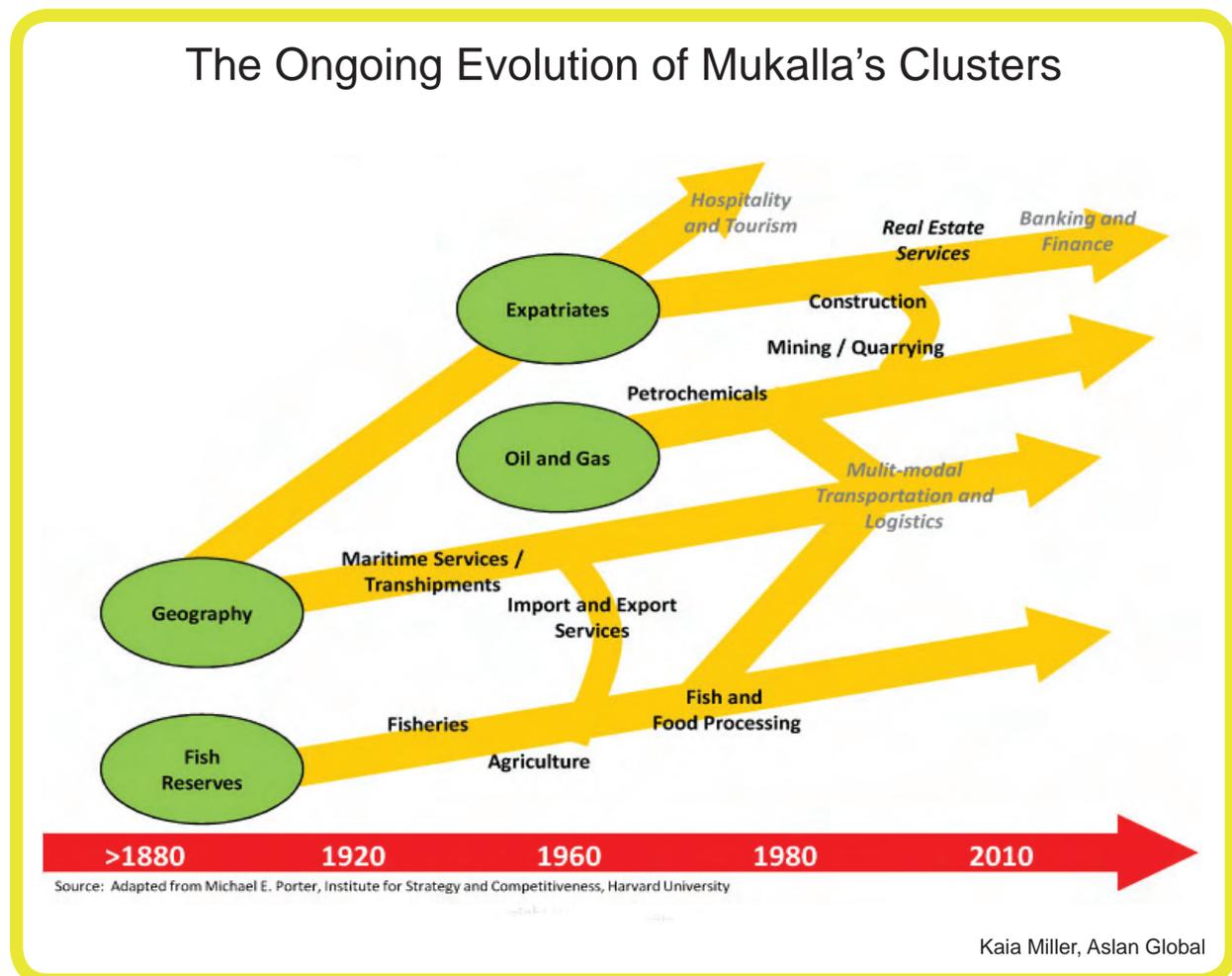
Overlapping clusters offer potential synergies in skill, technology and partnership. Exciting opportunities can often be found at the intersection of clusters and Mukalla should pay particular attention to these areas of overlap.

Mukalla's greatest prospects for near term growth already show above average growth in both production and exports at the national level. Agricultural/Forestry/Fishing increased at the slightly below average rate of 2.9% annually vs. 4% annual growth in overall GDP. Within that sector, however, the Fishing subsector increased 23% annually. Transport/Storage increased 7% annually from 2000-2004.

Fish exports, driven in large part by tuna, lobster and cuttlefish, increased 50% annually from 1999-2003. Additionally, Yemen's total tourism revenues grew dramatically from 2001 to 2006 increasing at 52.1% annually to \$309mm by 2006. However, the quality of tourist coming to Yemen, measured in terms of spending per day, declined over that same period by 6.1%. The average tourist in Yemen in 2003 spent US \$150 per day and stayed 6 days versus US \$170 per day/6 days in 2001.

Mukalla's Hospitality and Tourism Cluster

Tourism is Mukalla's most promising economic growth cluster. A successful Hospitality and Tourism cluster is correlated with above average economic growth rates, accelerated local and foreign investment, high quality job creation, and improved public education, and with the right strategies, can incubate regional prosperity and economic growth. Upgrades required for a successful Hospitality and Tourism cluster benefit ordinary citizens and increase the competitiveness of a region's business environment. These upgrades include: a stable and risk-free political and regulatory environment, a high degree of safety and security, good health, hygiene and environmental standards, respect and protection of foreign and private ownership, secure property rights,



technological innovation, integrated air, ground and tourism networks, high quality hotels and banks, broadband access, cellular phone coverage, electronic payment systems.¹⁸

Mukalla is a city of great beauty that maintains almost intact the architectural flavor of the old city ports that dotted the trade routes along the Arabian and the Red Sea. The coastal area around Mukalla is equally beautiful. To the west, it boasts a succession of charming bays and natural sites with unspoiled beaches and an uncontaminated environment; to the east, in addition to rare natural sites, it has a number of historical towns and fishing villages set on a sandy coastline. Though physically separate and somewhat distant, Wadi Hadramout and its network of tributary canyons is a unique and well-known tourism destination. This area maintains the charm of a distinct and rare place with villages of great architectural beauty, traditional farming activities, lush tropical vegetation and a largely unspoiled physical environment.

Comparable cities and sites in other countries of North Africa and the Middle East as well as on the Indian Ocean would have experienced major tourism development. Yet, Mukalla and the Hadramout Region received only 269,000 tourists in 2006 of which only 47,670 were international visitors including 15,000 from other Gulf countries. The striking modesty of the latter figures emerges when compared, for example, with tourism arrivals to Hammamet in Tunisia, Agadir in Morocco and Sharm-el Sheik in Egypt which, in the same year, received 635,000, 578,700 and 1.2 million international visitors, respectively.

Because Mukalla is seen as the tourist's "Gateway" to the Hadramout, the development of the Hospitality and Tourism Cluster is particularly important for the city and the surrounding region. First, the region will benefit from dramatic national and regional growth in this cluster. In 2003 the Middle East outperformed all other regions of the world with tourist arrivals increasing 3% and receipts increasing 16%. The World Tourism Organization projects continued record growth of 7.1% per year through 2020, making the region the fastest growing tourism destination in the world. In the first four months of 2007, arrivals to the Middle East increased 8% versus 6% globally. During this sustained regional boom, Yemen's tourism cluster outperformed, with arrivals increasing 38.5% on average annually from 2001-2006, reaching 382,332 in 2006. The growth was driven primarily by Middle Eastern tourists (52% average annual growth) and Asians (46.1% average annual growth). The vast majority of tourists (74%) came from the Middle East, with Asians at 10% representing the

second source, surpassing Europe (9%) whose relative numbers dropped significantly over the 5 year period. Recognizing the importance of this sector, a specific tourism sector strategy was developed in 2007-08.¹⁹

As the "Gateway to Hadramout," Mukalla benefitted from Yemen's increase in tourism. Passenger arrivals into Rayan International Airport increased 4.4% from 2000-2005.²⁰ Tourists often enter Hadramout via land or sea, as indicated by the higher number of passenger departures over arrivals. Passenger departures increased 4.6% from 2000-2005.²¹ The vast majority of visitors were Yemenis, Yemenis living abroad, and other Arabs.²² Visitors to the region staying in hotels grew at an average annual rate of 2.4%, from 5,617 in 2000, to 6,165 in 2004.²³ Given the significant increase from 2004 to 2005 in passenger arrivals and departures, the number of visitors staying in hotels in 2005 was likely much higher than in 2004. Furthermore, the more recent completion of the Khour Al Mukalla project anecdotally has already increased the number of visitors to the city and the region. Ongoing and better tracking of tourist data for Mukalla and the region will be critical. Spending by hotel guests grew at 26% annually on average from a low base of US\$9 / day in 2000 to a still low level of US\$23/day in 2004.²⁴ Data on tourists' daily spending levels is critical to understanding the true productivity of Mukalla's tourism cluster.

Overall, tourism growth in the Hadramout Region is currently led by domestic traffic. International tourism is also growing but at a much lower pace. In Mukalla, international tourism is characterized by a robust share of Arab nationals, particularly from the Gulf countries. Among the latter, Saudis, likely including many visitors of Yemeni ancestry, dominate the scene. In Wadi Hadramout, European and other western tourists represent the large majority. Independent of their nationality and destination, visitors to the Hadramout Region have very short stays averaging 3 days in 2006. The average length of stay of international visitors is approximately 30% shorter than that of domestic visitors.

The Hospitality and Tourism Cluster is comprised of several related subclusters including providers of "Accommodations and Related Services" (e.g. hotels, restaurants), providers of "Tourism Related Services" (e.g. tourism agencies, promotional companies), "Tourism Attractions" companies and organizations (museums, historic sites, beach-related companies,

18 See "Travel and Tourism Competitiveness Report 2007," Booz Allen Hamilton and the World Economic Forum.

19 Brizzi, Gianni. Mukalla City Development Strategy: Tourism Sector. The World Bank, 2008.

20 Yemen, Central Statistics Organization.

21 Yemen, Central Statistics Organization.

22 Touqan, p. 15.

23 Ministry of Culture and Tourism in Mukalla, in Touqan, p. 13.

24 Calculations based on data from Ministry of Culture, Mukalla Office, in Touqan, p. 13.

souvenir shops, handicraft workshops, etc.), Ground Transportation companies (taxis, buses, car rental companies), Water Passenger Transportation (e.g. cruise ships, ferries, water taxis), and Boat Related Services (boat tour companies, fishing expedition companies, diving and snorkeling services, marina services).

There were 118 companies in the “tourism” sector registered at the Mukalla Chamber of Commerce in 2004 but the actual number of companies and organizations comprising the Hospitality and Tourism Cluster in Mukalla is likely much greater due to the number of informal businesses in the city. In 2006, the hotel accommodation capacity of the Hadramout Region totaled some 5,495 beds, including 176 beds in Socotra. This represents approximately 11 % of the total bed capacity of the country. In addition, the Region has some 659 beds in rental apartments and chalets, though this number may be underestimated because many rental activities go undeclared. About 60% of the accommodation capacity is located in

Mukalla and its vicinities.

The hotel capacity by category is characterized by a high concentration of beds in small one star and unclassified establishments that, combined, represent over 60% of all available beds. In the entire region there is 1 five-star hotel in Mukalla, 4 four-star hotels, of which 3 are in Mukalla and 1 is in Wadi Hadramout (Shibam), and 13 three-star hotels, of which 5 are in Mukalla and 8 are in Wadi Hadramout (Seyoun). Only three-star hotels and above are suitable for international tourism. It should be also noted that the rating system of Yemen is generous and does not adhere to international standards.

Accommodation capacity in Mukalla has increased steadily since the year 2000. From 2000 to 2005, hotels and hotel rooms have almost doubled in number from 27 to 49 units and from 764 to 1,480 rooms, respectively. Moreover, there are a number of hotels under construction or already completed that could be operational by mid 2008. The Hadramout Hotel, a

Accommodation Capacity in 2006 in Hadramout Region

	Hotels		Rental Apartments	
	Rooms	Beds	Rooms	Beds
Hadramout Coastal Area	1,750	3,711	117	544
- Mukalla City	1,502	3,086	117	544
- Other locations	296	625	-	-
Wadi Hadramout	-	1,608	-	115
- Seyoun	-	1,067	-	79
- Shibam	-	157	-	-
- Other locations	-	384	-	36
Socotra	88	176	-	-
TOTAL	1,838	5,495	117	659

Source: Ministry of Tourism - Mukalla and Seyoun Delegations

Hotel Bed by Category in the Hadrmout Region in 2006

	Category						Total
	5*	4*	3*	2*	1*	NC	
Hadramout Coastal Area	196	334	519	-	2,004	658	3,711
- Mukalla City	196	334	443	-	1,455	658	3,086
- Other locations	-	-	76	-	549	-	625
Wadi Hadramout	-	108	659	258	330	253	1,608
- Seyoun	-	-	659	216	94	98	1,067
- Shibam	-	108	-	-	49	-	157
- Other locations	-	-	-	42	187	155	384

Source: Ministry of Tourism - Mukalla and Seyoun Delegations

major four stars establishment in Mukalla, is poised for renovation works. There were 8 hotel projects totaling US\$5.4mm in Hadramout licensed by GIA in 2004, all of them in Mukalla City.

Notwithstanding its sustained growth, the expansion rate of hotel accommodation capacity has lagged behind the expansion rate of tourism arrivals and bed-nights. This has resulted in a marked improvement of hotel occupancy rates that average over 70% annually and produce profitable results for most of the industry. However, occupancy rates vary greatly according to hotel categories and their clientele. Indeed, the top segment of the hotel industry is still operating at rather low occupancy rates (35-40%).

There are several recently renovated historic sites and buildings in Mukalla City including the Sultan's Palace Museum, Al-Goweyzi fortress, the mountain-top of Old Mukalla and several mosques. There are also several cultural centers including the Children's Library, Bal Fakih Cultural Center, Hadramout University Exhibition Center, and the Lime Wash Kilns in Hella. Additionally, the Khour Al-Mukalla, the local beaches, shopping areas, the Corniche in Old Mukalla, the Al-Mehdar Corniche in Hay Al-Shaheed, and the Ben Halabi Leisure Park offer additional recreational opportunities. The potential conversion of Mukalla Port into a tourist site with restaurants and shops, as well as a departure point for leisure boats presents an exciting addition to the city's offerings. There is currently little communication and cooperation among the cluster's diverse participants. An explicit process to bring these diverse members of Mukalla's Hospitality and Tourism Cluster together to improve coordination and ensure a positive experience throughout a visitor's entire trip can have a positive long-term impact on the cluster's development in terms of repeat visitors and tourist referrals. Ongoing market research, currently lacking in Mukalla, can help to shape and improve tourism offerings over time.

As the "gateway to the Hadramout," Mukalla offers visitors a base to explore the governorate's sites including the libraries of Tarim, gardens of Sayun, and mud skyscrapers in Shibam, as well as the ecological sites and activities on the island of Socotra. Mukalla is also an integral stop along international World Heritage tours linking Oman and Yemen, including the UNESCO World Heritage sites of Bahla Fort (Oman), the Frankincense Trail (Oman), the Old Walled City of Shibam (Hadramout, Yemen), and the Old City of Sana'a (Yemen). Closer coordination with members of the tourism cluster in Oman could have a positive impact on the quality and number of tourists passing through Mukalla City.

Regional tourism falls into three primary categories:

1. Mukalla City and its vicinities. Business traffic to Mukalla City is mainly domestic, though with some international visitors drawn by its oil and gas, fishing and service activities. As a result of Mukalla's small economic base and lack of city life, specialized business tourism is almost inexistent. The growth of business traffic is likely to reflect the growth of Mukalla's economy; that of corporate tourism is bound to be limited, at least in the near future. Vacation tourism rests on domestic and international visitors. International visitors are mainly from Saudi Arabia and other GCC countries. Many of them are of Hadrami origin. If appropriately tended, this tourism presents high growth potential. Indeed, Mukalla is an ideal destination because of its vicinity to the originating countries, its social environment with traditional cultural values, its beautiful physical setting and its sandy beaches. Moreover, the city has a substantial amount of prime land ready to be developed with accommodation and other tourism facilities. Tapping on the above potential remains a challenging objective because it will require major improvements in Mukalla's transportation facilities, urban services and urban environment, particularly in the medina and city center. Also, it will require easing the access to land that, by location, acreage and price, is suitable for tourism development. Presently, such access is constrained by fragmentation of land ownership on the seashore, unclear land titling, and land speculation. Cultural tourism is mainly international and linked to circuit tourism in Wadi Hadramout. As the latter expands, Mukalla should aim to, firstly, increase the number of travelers who will add a visit to the city as part of their trip to Wadi Hadramout and, secondly, extend their length of stay in the city by offering appropriate recreational, shopping and sightseeing opportunities. With the exception of thermal tourism which mainly concerns the domestic market, specialized tourism for scuba divers, adventure travelers, bird watchers and cruise-ship visitors could cater to a mixed international, regional and domestic clientele. In spite of its growth potential, the traffic generated by this type of tourism will remain a niche market. More significant in size could be the traffic generated by East Asian pilgrims of Hadrami origin traveling to Mecca and Medina. These pilgrims can be lured into paying a visit to their ancestral land through improved air travel connectivity and targeted tourism promotion.

2. Hadramaout Coastal Area. At present, beach-based tourism is inexistent but for a small vacation village being developed in proximity of the Al Rayan International airport and targeted to domestic clientele. The coastal area has a number of locations suitable for the development of beach resorts that could attract domestic, regional and international visitors. In the near future, because of Hadramout's socio-economic environment and the investment needs required to establish it as a marketable in-

ternational destination, it is unlikely that any investors would venture in the development of large-scale projects directly targeted to the European market. Conversely, there is room for the development of projects aimed at the domestic and regional market, including western expatriates living in the Gulf countries. Initially, these projects can best be combined with those for the development of vacation tourism in Mukalla. This leads to the development of resorts within or close to the city that would allow vacationers to enjoy simultaneously the city's recreational facilities and life opportunities and its beautiful beaches. Such resorts could offer hospitality to international cultural tourists who want to combine their visit to Wadi Hadramout with a beach vacation as well as tourists interested in scuba diving, adventure travel and the coastal ecosystems. Importantly, most of the land along the western and eastern beaches remains untouched by construction activities though it belongs to private owners. Properly assembled, this land offers the opportunity of being developed for the establishment of integrated resorts combining hotels, secondary residences and recreational facilities. The most suitable development sites are located along the beaches of Fowah, for high-density resorts with mainly secondary residences, Hella and Al Rouweinat, for high-density resorts with a balanced mixture of hotels and secondary residences, and Al Rayan for low-density beach resorts.

3. Wadi Hadramout. Business traffic is linked to the administrative and economic activities engendered by the population of the Wadi. It is mainly concentrated in Seyoun, the main administrative and economic center and the location of the international airport. Similarly to Mukalla, this traffic is likely to expand in accordance with the Wadi's economic growth. At present, vacation tourism mainly consists of Yemeni families or GCC citizens of Hadrami origin spending time in their native homes or visiting local relatives. Given the beautiful landscape of the Wadi and its recreational opportunities, there is considerable potential for fostering the above tourism as well as expanding it to international visitors who, in addition to satisfying their cultural interests in the visit to the Wadi's traditional villages and architectural wonders, may want to spend a few days of relaxation in its unique physical environment. Achieving this objective requires the development of appropriate accommodation facilities. Possibly, the facilities for international tourists should be clustered in specialized areas that will act as resorts and have sufficient clientele to sustain diversified leisure activities and tourism services. The offer of accommodation facilities would have to include hotel rooms as well as rental apartments and villas to satisfy the demand of long stay vacationers. Cultural tourism is generally part of circuit tourism encompassing multiple Yemeni destinations. Visitors to Wadi Hadramout generally start from Sana'a, the main entry point to the coun-

try, travel in the northern regions and then fly in and out of Seyoun for their visit to Wadi Hadramout. A variant to this circuit consists in flying tourists to Mukalla for a one-day visit of the city and then bringing them to Wadi Hadramout by land, or vice versa.

Any future development of tourism in Mukalla and the Hadramout Region could be best achieved through a multi-pronged opportunistic approach. This calls for operating simultaneously on all the above tourism products and related markets to exploit their synergies while focusing on the products and markets that have greater development potential. A careful sequencing of the development of products and markets will be critical to guarantee success and sustainability to the promotional and investment activities of the public and private sector. For example, the development of beach-based tourism within Mukalla for the domestic and regional market could lead to the subsequent successful development of international beach-based tourism. Trying the opposite approach could result in failure. By the same token, the development of cultural tourism in Wadi Hadramout could have spill over effects on the development of vacation tourism in the Wadi itself as well as on the development of beach-based tourism in Mukalla and the coastal area. The promotion of one-time visitors from CCG countries could result in repeat visitors for summer vacations, who may invest in the purchase of private accommodation facilities.

Specific actions that need to be taken to catalyze the development of the Hospitality and Tourism cluster in Mukalla include:

- **Restructuring and revitalizing Mukalla's old city.** With its historical buildings, medina and cornice, the Old City is critical to Mukalla's tourism development. Government should develop plans and projects to restructure and revitalize the Old City. The implementation of these plans and projects requires the designation of the Old City into a special cultural heritage area. Such designation should be associated with the preparation of detailed land use plans and building regulations. Moreover, it should constitute the basis for the implementation of specific development projects by the public sector either directly or in partnership with private entrepreneurs. These projects include: (i) the creation of an Agency for the Protection and Development of Old Mukalla and Mukalla's sea-front; (ii) the protection and rehabilitation of the medina; (iii) the protection and valorization of the cornice and its urban fabric; (iv) the recovery of the old port quay; (v) the restoration and adaptive reuse of the Sultan Al Qu'aiti Palace; (vi) the restoration and the adaptive reuse of the present governorate administrative complex; and (vii) the restoration and adaptive reuse of the Sekat the Yaacoup building.

- **Protecting and developing Mukalla's sea-front.**

Mukalla's tourism appeal and, therefore, tourism development potential, greatly depends on the urban quality of its seafront and its effective use for tourism related activities. The unchecked construction of unqualified housing and other structures in Fowah and Hella would compromise the image of the city as a tourism destination and result in the permanent loss of valuable land. The same applies to the land reclamation areas adjacent to the mouth of Khour Al Mukalla, whose uncontrolled development could have a devastating visual and functional impact on the corniche. Finally, the present port of Mukalla is insufficient to meet the needs of the city and the Hadramout Region. Plans are under way to transfer it to a more suitable location. Transforming the existing port into a marina while reserving part of it for fishing boats would greatly enhance the tourism appeal of the city. Protecting and developing Mukalla's seafront calls for the following priority projects: (i) creation of the above mentioned Agency for the Protection and Development of Old Mukalla and Mukalla's sea-front; (ii) restructuring of the Khour Al Mukalla banks; (iii) conversion of the present commercial port into a marina and fishing port; and (iv) controlled development of the land reclamation projects at the mouth of Khour Al Mukalla.

- **Developing integrated resorts for regional and international tourism.** To-date the development of accommodation and other tourism facilities in Mukalla and the Hadramout Region has taken place through the activities of investors who have operated in isolation and built relatively small indi-

vidual tourism establishments. This type of development suits well the needs of business tourism but is of limited appeal to vacation tourists. The establishment of integrated tourism resorts combining on a designated sea front site several types of accommodation facilities and tourism services would enhance the image of Mukalla as a tourism destination and increase its appeal to vacationers. Within Mukalla City and its vicinities there are several locations suitable for the development of similar resorts. Because of their urban environment, sites along the beach in Fowah are particularly suited for prevailing city-based combined with beach-based vacation tourism. Because of their vicinity to the city and yet natural environment, sites along the beach of Hella and Al Rouweinat are suited for prevailing beach-based combined with city-based vacation tourism. Finally, because of their relative isolation, sites along the beach in Al Rayan are mainly suited for beach-based vacation tourism. To promote the implementation of an initial integrated resort in Mukalla, the Governorate, in association with the Ministry of Tourism and the General Investment Authority, should take an active stance to ensure the availability of the required land, the strengthening and/or the development of the required trunk infrastructure, and the search of an appropriate developer.

- **Enhancing public and private partnership in the tourism sector.**

In Yemen, partnership and coordination between government officials and private entrepreneurs in the tourism sector has yet to reach satisfactory levels of efficiency and effectiveness. This is particularly noticeable in Mukalla and the Hadramout Region. It is true for tourism promotion, the organization of cultural events, the protection, conservation and exploitation of cultural assets, the facilitation of tourism investments, and the development of human resources for the tourism industry. No one is in charge of assessing the challenges faced by the local tourism industry and offering adequate solutions that can be shared among all the parties concerned. With the development of tourism, appropriate institutions should be established to promote partnership and to facilitate coordination. Two initiatives could be particularly helpful: (i) the Governorate should establish a High Commission for Tourism Development and Operations to support the development of the tourism sector, assess its operational needs, facilitate the activities of hotels and other tourism establishments, and assist the tourism industry to deal with local social and economic realities; and (ii) the Chamber of Commerce should establish a formal tourism industry chapter and sponsor the creation of local branches of the Yemen Hotel Union and the Yemen Travel and Tourism Association.



- **Promoting tourism investments.** The potential for vacation tourism in Mukalla by GCC citizens, in particular of Hadrami origins, combined with the availability of ample investment capital in the GCC countries could benefit Mukalla. Central and local government authorities should carry out specific efforts to attract GCC capital to the creation of tourism accommodation facilities and other establishments in Mukalla and the Hadramout Region. These efforts should include: contacting friendly GCC governments and through them inviting institutional investors to consider funding tourism projects; promoting joint ventures between Yemeni entrepreneurs and these institutional investors; and enticing GCC investors of Hadrami origins to invest in their ancestral land. To carry out the above efforts and facilitate the activities of investors, the Hadramout Governorate should devise appropriate institutional measures and undertake appropriate operational activities. Consideration should be given to the following two actions: (i) creation of a Tourism Investment Commission for Mukalla and Mukalla's beaches; and (ii) launching of a GCC Tourism Investment Campaign.



Hadramout Region's coastal environment.

- **Promoting and marketing the tourism destination Mukalla.** Tourism promotion is a joint responsibility of government and the tourism industry. At present, the promotional effort is limited both in scope and participation. Addressing the above shortcoming calls for increased cooperation between the Ministry of Tourism, its representatives at the local level and the local tourism industry. Such cooperation should focus on the following projects: (i) preparing comprehensive tourism guides for Mukalla and the Hadrami coast; (ii) fostering the branding of Mukalla and its Region through a clear identification of its main tourism products; (iii) targeting promotional efforts to specific promising markets, such as East Asian pilgrims of Hadrami origin; and (iv) carrying out surveys to monitor the performance of the tourism sector and the result of the related branding and promotional activities.

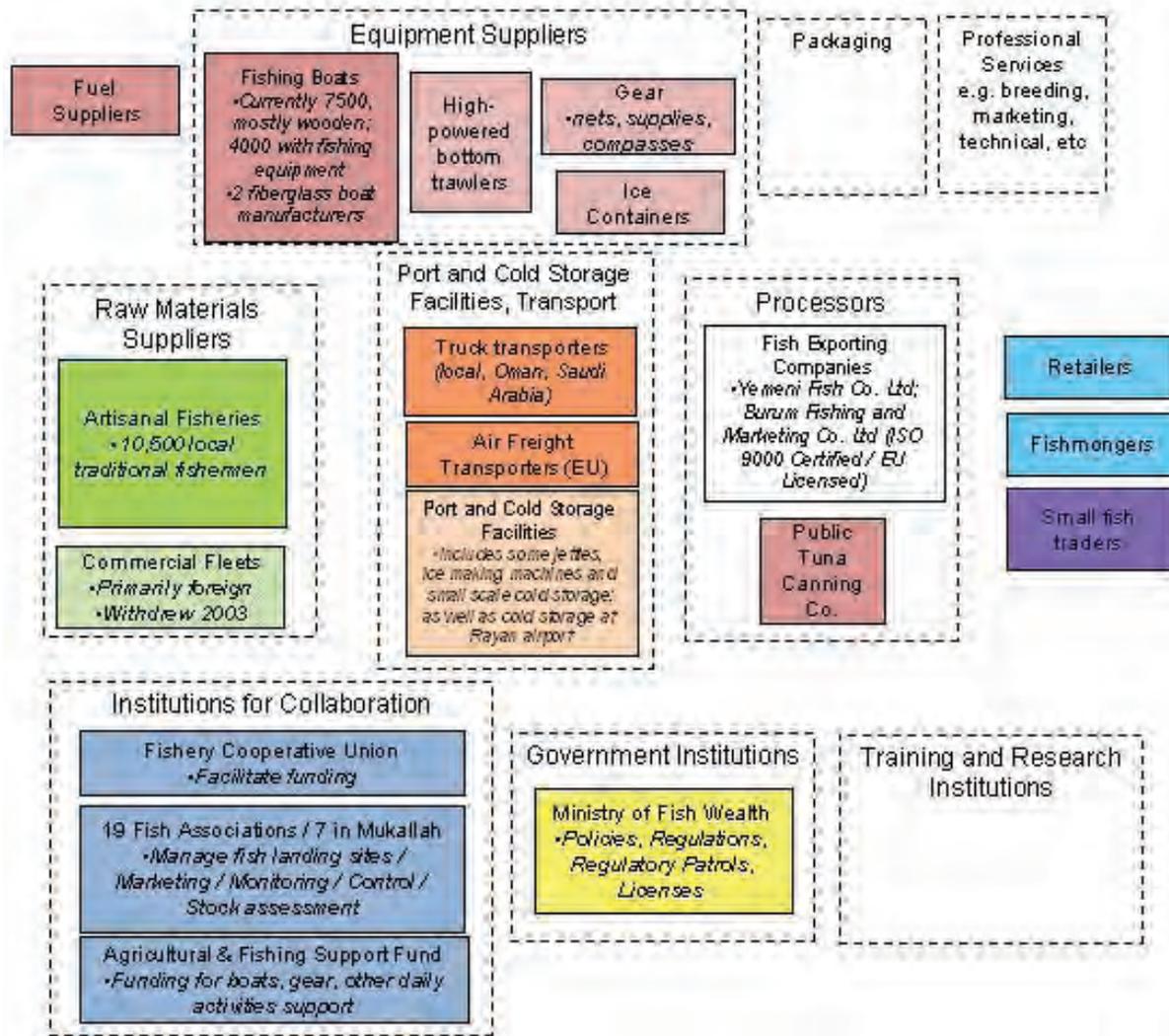
- **Exploiting tourism synergies between Mukalla and the Hadramout Region.** Given its central administrative, economic and geographic position within the Hadramout Region, Mukalla could greatly benefit from the development of tourism in Wadi Hadramout and Socotra. Moreover, it can benefit from the vicinity of Oman and the city of Salalah, which is progressively growing into an international tourism destination. The following projects could contribute to a more effective exploitation of the synergies among tourism development in Mukalla and the above destinations: (i) preparation of a comprehensive Tourism Guide of Wadi Hadramout; (ii) promotion of tourism packages combining the Hadramout Region with Oman and Salalah, in particular; and (iii) protection and control of the

Mukalla's Fishing and Fish Products Cluster

"Balanced Exploitation of Fisheries" figures prominently in Yemen's national strategy for increasing prosperity, and Mukalla will play a key role in this important national cluster. Yemen's national fish production increased 12% annually 1996-2001, 18% 2001-2005, reaching 228,000 tons / \$101mm in 2005. Exports grew an incredible 52% annually from 1999-2003 reaching 60,400 tons / \$89mm in 2003 driven primarily by fresh and frozen tuna, lobster, and cuttlefish. Exports are comprised primarily of high value fresh and frozen tuna, lobster and cuttlefish to Europe. The Fisheries sector's contribution to Yemen's total food exports was 64% in 2003. National goals include increasing both the tonnage and prices of exports, and focusing on better quality management.

Hadramout ranks second among Yemen's governorates in terms of both value and quantity of fish produced. The governorate accounted for 26% of Yemen's overall value of fish produced in 2005, a 44% increase over 2003. It accounted for 26% of Yemen's total tons in 2005, which actually represented a slight decrease over 2003. This is actually good news for the regional Fishing and Fish Products cluster because it means that unit values are going up, a key indicator of productivity. The Fishing and Fish Products cluster is one of the region's oldest, most important and established clusters. Mukalla City is an integral player in the cluster. At over

Hadramout's Fishing and Fishing Products Cluster Map



Kaia Miller, Aslan Global

10,000 employees, it is estimated that more people are employed in this cluster than in any other cluster in Mukalla. It is a critical cluster in Mukalla's regional development strategy, and one which has deep historical and cultural roots.

The Fishing and Fish Products Clusters is dominated by artisanal fishing and marketing of fresh fish, but there are several processors and suppliers which form a strong foundation for future cluster development and growth. There were 17,014 fishermen in Hadramout in 2005 and 5,314 boats, including over 1,100 in Mukalla. The vast majority (95%) of the fishing fleet in Hadramout are small fiberglass boats. In Mukalla the fleet is also dominated by small fiberglass boats (85%) but unlike other parts of the governorate, Mukalla's fleet also includes approximately

125 large fiberglass boats. In 2005 there were 19 fishing cooperatives in Hadramout including five in Mukalla. Over 2,500 fishermen were registered in Mukalla's five cooperatives.²⁵

There are an estimated seventeen coastal unloading zones in Hadramout of which three are in Mukalla City: Mukalla Port, Al-Amoudi Port (where there is also the Al-Sharj fish market), and Al-Shihr at almost 30-40 kilometers (where over 20 fish processing facilities are located). Al-Amoudi and Al-Shihr fishing ports are increasing in activity while Mukalla Port is flat and has reached capacity.

²⁵ Central Statistics Organization, Government of Yemen, "No. of Fishing Cooperatives Societies, Number of Fishermen and Boats in Governorates (2003-2005).

Foreign demand for the region's fish has increased in recent years. Main fish species off the coast of Mukalla include Yellow Fin, Long Tail Tuna, King Fish, Grouper, Cuttlefish, and Lobster. Al-Shihr is the main fishing area. The fishing sector is heavily regulated in Yemen. Large commercial fishing is prohibited, industrial concessions are limited, and seasonal limits are imposed. Traditional fishermen are generally favored in government regulations.

As a result of a public-private partnership, Rayan Airport is now equipped with a 100-ton Fish Processing and Freezing facility. Rayan retains 49% ownership. The facility has been certified for fish exports to the European Union. Several fishing cooperatives and fish processing businesses export via this facility. An Open Skies policy was introduced in 2005 for cargo in all airports and in 2006 on a pilot basis at Rayyan and Aden Airports for passenger traffic. The policy permits other airlines to operate in Yemen. Once other airlines enter the market, it is anticipated that both cargo and passenger traffic at Rayyan Airport will increase. It is also hoped that new competition will spur improvements in the quality of services.

Five of the top ten companies in terms of employees in Mukalla are in the Fish and Fish Products Cluster. There are three tuna canning factories in Mukalla, two private and one public, employing 940 people. Additionally, there are two fiber glass boat manufacturers employing approximately 200 people. There are over 20 fish processing facilities in Hadramout, the majority in Al-Shihr, home to the region's largest fishing port. These facilities produce primarily fresh frozen fish packaged and exported abroad. Europe is the primary export market. Additionally there are several local quality control, processing, transport, and marketing operations.

There were 38 investment projects in the fishing sector in Hadramout licensed by GIA between 1998 and 2002, but only 16 of these were completed. In 2004, there were 10 projects licensed by GIA in Hadramout including: 3 Food and Fish Meal projects totaling US\$2.4mm in Hadramout, one in Mukalla City; and 7 Fish Preparation projects totaling US\$29mm, three in Mukalla City.²⁶

Business leaders in Mukalla identified the following hypotheses for increasing the competitiveness of the Fishing and Fishing Products Cluster in Mukalla: "to diversify fish marketing; to diversify fish product, to raise the productivity and performance of fishermen and their associations, and to raise the productivity and performance of fish processing plants."

Improvements in these, and other critical areas, will necessitate investments in strengthening other parts of the cluster including boat manufacturers, equip-

²⁶ GIA, Hadramout Branch.

ment providers, ice suppliers, packaging manufacturers, representatives from universities and other relevant training institutes, government, and others. Current strategies need to be articulated and discussed, future goals articulated, strategic challenges identified and a process for addressing the challenges in various parts of the cluster needs to be developed by the cluster participants. An analysis of Mukalla's cluster-specific business environment, a regional cluster map, international market research, competitor benchmarking, and relative cost position analyses are important components of the strategic cluster development process recommended for Mukalla's Fishing and Fishing Products Cluster in order to define and develop the vision and strategy for increasing the productivity of this critical regional cluster.

Mukalla's Construction, Building Materials and Real Estate Cluster

Mukalla City experienced a construction boom following unification in 1994, financed in large part by wealthy Yemenis of Hadrami origin living abroad and eager to develop a region that was previously closed. This construction boom helped to stimulate the development of a regional Construction and Building Materials Cluster. Hadramout has critical specialized factor inputs serving the cluster. There are significant mineral reserves including limestone, granite, marble, dolomite and sandstone which are inputs into building materials including cement, concrete, tiles, glass, and ceramic. Mining and Stone Quarrying is the leading employer in the governorate among private establishments, and the sector was among Yemen's fastest growing sectors from 2003-2005.

Mukalla is a critical player in the regional Construction and Building Materials cluster through its processing facilities, import and export support, and architectural and construction services. Demand for building materials continues to be high in Hadramout and Construction and Building Materials companies are a significant contributor to Mukalla's regional economy. There were 11 registered firms in Hadramout in the "Construction Materials" category in 2004, four of them in Mukalla. Of Mukalla's top ten companies in terms of employment, two are in the Construction Materials Cluster. A factory manufacturing red bricks employs approximately 200 people, and a cement tile manufacturer employs approximately 100 people. Service providers in construction and architectural design abound.

From 1998-2002 GIA licensed 25 projects in Hadramout in the Building Materials Cluster including stone quarries (8), stone cutting (6), granite and marble extraction (3), limestone production (1), tile manufacturing (6), and concrete production (1). Of the 25 licensed projects, only 6 were completed: 2 stone

quarries, 3 stone cutting operations, and 1 tile manufacturing facility. There were 12 Extraction/Building Materials projects totaling US\$9.4mm in Hadramout licensed by GIA in 2004, 7 of them in Mukalla. Most recently, a major cement production plant was established in Hadramout.

There is an undeveloped 270 hectare industrial zone west of Mukalla at Burum within close proximity to the area's stone quarries and the primary road network which represents significant potential to collocate companies in the regional cluster. Co-location increases the flow and exchange of information and knowledge to stimulate cluster development. There are no utilities or infrastructure currently provided in the zone. This emerging Construction Materials Cluster would also benefit from an explicit cluster development process led by key members of the regional cluster. Like other cluster development processes, it would include a detailed analysis of Mukalla's cluster-specific business environment, a regional cluster map, market research, competitor benchmarking, and relative cost position analyses.

Mukalla's Financial Services Cluster

In addition to Tourism, Fishing, and Construction, Mukalla's business and government leaders have made the development of Mukalla into a center for Financial Services a central part of their vision. Desire and commitment to developing a cluster are critical components of any cluster development process and this desire can be cultivated for the nascent Financial Services Cluster in Mukalla. Sub-clusters of any Financial Services Cluster include depository

institutions, security brokers/dealers/exchanges, insurance products, health plans, risk capital providers, investment funds, real estate investment trusts, and passenger car leasing. A strategy for cluster development in Mukalla would likely emphasize a couple of these sub-clusters.

Mukalla's Financial Services cluster is a small but important cross-cutting cluster benefitting all clusters simultaneously including Hospitality and Tourism (e.g. money exchange services, access to cash), Fishing (e.g. export financing, cash flow management), Construction Materials (e.g. real estate financing, construction financing) and others. Some experts argue that a strong financial services cluster is indispensable to increasing business productivity.

There are twelve banks with branches currently operating in Mukalla, which are registered in other governorates. Additionally, several real estate offices are registered in Mukalla, an important sub-cluster of the region's financial services cluster. There is also a significant flow of funds from abroad into the region. An explicit cluster development process would have to analyze the specific business environment for Financial Services and bring together the few current players to identify vision, challenges, required research and strategic hypotheses for developing this cluster. Potential strategic directions to consider include real estate development and financing services, and risk capital provision.





IMPLEMENTATION

Institutions and Infrastructure for Growth

The best way for recommendations to be developed for creating the conditions in Mukalla for sustained regional productivity growth and for cultivating Mukalla's regional clusters of competitiveness is through a participatory process in which groups, including private and public sector leaders, and representatives of relevant institutions for collaboration, come together to first analyze the current situation, define priorities and then design solutions with clear allocations of responsibility. The leaders in Mukalla will ultimately be responsible for periodically updating, implementing and monitoring their strategy for economic development. The following guidelines can be used to guide those efforts and the chart on the opposite page provides a summary of priority actions to be taken over the next 20 years:²⁷

- Establish an over arching organization for economic development that helps coordinate and routinize the process. A formal organizational structure and process for working on economic issues helps maintain a consensus behind an economic strategy through periods of economic and political change. Mukalla needs to make its organizational architecture explicit, with clearly defined areas of responsibility. Currently the Local Economic Development Department is understaffed and under-resourced and will need to be strengthened if it is to play a key role in cultivating regional clusters.
- Ensure strong leadership from a diverse group of Mukalla's leaders: government, private sector, academia, and other institutions for collaboration. Strong leadership committed to regional economic development is needed to ensure that companies, knowledge centers, governments, and collaborative institutions contribute to their full potential. Leaders are found in the public sector, private sector and civil society. Both government and business leaders need to invest in a more effective and ongoing dialogue with each other and design a strategic process for change that combines ongoing, data-based analysis of Mukalla's current competitive position with broad-based leadership, short-term wins, and clear performance metrics. This ongoing dialogue must be the centerpiece of Mukalla's economic development strategy, as these city leaders identify, prioritize and solve the

economic and related issues confronting the region.

- Develop an explicit cluster development program in Mukalla and aggressively activate key regional clusters. Although chance events play a role in the formation and development of clusters, conscious efforts to raise cluster competitiveness and innovative capacity can meaningfully influence the trajectory of cluster development. Although the ultimate responsibility for improving company-level strategies lies with the private sector, the government can play a critical role in convening cluster representatives to work together on strategies for improving collaboration within the cluster and working on issues in the business environment that can improve their productivity. An explicit program should be initiated for forming Cluster Working Groups to devise and implement strategies for increasing productivity in the cluster on an ongoing basis.
- Invest in specialized research institutes and cluster-specific institutions for collaboration for each focus cluster in Mukalla. These institutions for collaboration facilitate the flow of information and resources throughout the cluster. Diverse groups (e.g. rival firms, related and supporting industries, universities and research centers, training institutions, government) contribute to cluster strength, but their contribution is not automatic. Each cluster activated should have a world-class research program and training institute either within an existing organization or within a new institution, where cluster innovations can be researched and implemented.
- Maintain a long-term perspective. Meaningful changes in regional development require investments that generally take decades before significant dividends are reaped. The institutional structure for a city development strategy must go beyond government and actively involve the private sector and non-governmental institutions for collaboration. Mukalla's private sector leaders will play a key role in ensuring the continuity of cluster development efforts regardless of any changes in the political landscape. Government's efforts should be institutionalized for the long-term and not subject to change simply because of changes in political leadership.

²⁷ Adapted from a study directed by the US Council on Competitiveness and Harvard professor Michael E. Porter on what drives prosperity in regional economies.

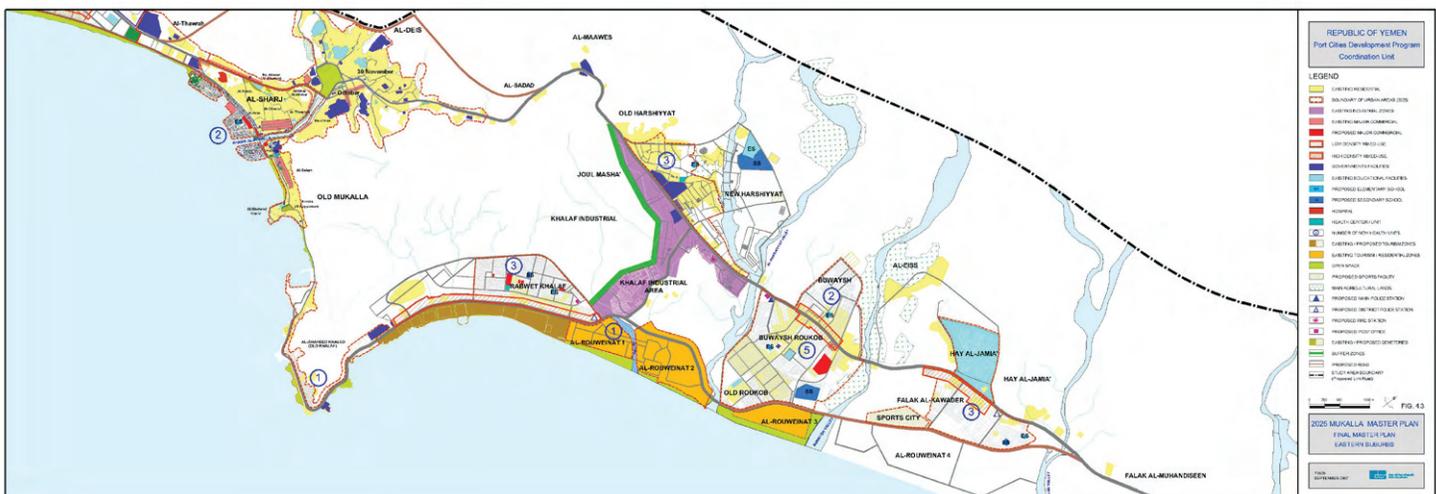
Strategy Overview: Short, Medium, and Long-Term Priorities

	Phase I 2007 - 2013 Focus on the Basics	Phase II 2013 - 2020 Rapid Clusterization	Phase III 2020 - 2027 International Expansion
Business Environment	<ul style="list-style-type: none"> • Upgrade power generation strategy and system • Water supply/sewage upgrade • Port expansion • Airport upgrade including service center • Initiate plan to manage traffic congestion • Streamline and improve customs procedures • Initiate new port • Secondary road upgrade 	<ul style="list-style-type: none"> • Complete new port: Burum • Upgrade telecom: data/wireless • Address cluster specific needs • Address fuel shortage: complete oil refinery • Complete plan to manage traffic 	<ul style="list-style-type: none"> • Address environmental issues • Address new cross-cluster priorities
Clusters	<ul style="list-style-type: none"> • Industrial estates: small manufactures Fowah; petrochem Dhabba; mining/quarrying/construction Burum • Activate 3 clusters: Hospitality and Tourism, Fishing and Fish Processing, and Construction/ Real Estate Development • Beautify the Old City and port for tourism • Establish a city information center for visitors • Review and upgrade tourism laws • SME support 	<ul style="list-style-type: none"> • Activate 6 additional clusters: Banking and Finance • Establish cluster-specific research and training institutes at local universities • Expand trade to region • Business management and strategy training programs 	<ul style="list-style-type: none"> • Cluster proliferation • Host global trade shows and industry conferences • Aggressive export promotion - expand trade to Africa, Far East and Europe
Legal	<ul style="list-style-type: none"> • Secure property rights regime • Strengthen commercial legal regime and court system • Establish clear investment laws and consistent investor treatment • Set product quality standards and consumer protection laws 		<ul style="list-style-type: none"> • Streamline local government: reduce bureaucracy; e-government
Social	<ul style="list-style-type: none"> • Establish private sector training programs with heavy focus on business management • New vocational training institute • Women's wellness and business training facility 	<ul style="list-style-type: none"> • Upgrade K-12 system/ increase literacy rates 	<ul style="list-style-type: none"> • Upgrade healthcare delivery system
Political	<ul style="list-style-type: none"> • Open Skies policy (critical) • Continue decentralization of decision making to local authorities • Local public administration training (public works, tourism, immigration) 		<ul style="list-style-type: none"> • Increased strategy coordination with other governorates

Source: Adapted from Kaia Miller, Aslan Gobal



Mukalla Master Plan 2025: Western Suburb



Mukalla Master Plan 2025: Eastern Suburb

The leaders of Mukalla have already taken an initial pass at summarizing and prioritizing some high level strategic actions and investments that they are considering over the short, medium and long term. The chart offers a useful summary of the issues that business leaders identified as critical, and includes some potential short term wins to build enthusiasm for city's longer-term economic development process.

Infrastructure for Growth
Strengthening the Tourism, Fishing, and Construction clusters requires a solid physical growth plan and targeted investments in infrastructure.

In May 2005, Mukalla embarked on the development of the Mukalla Master Plan 2025 to establish a framework through which to address the physical challenges facing the city. Three master plan scenarios were devised in order to provide differing emphasis for the future development of Mukalla, taking into consideration the existing residential and economic assets and the anticipated growth in each by 2025.

After deliberation and debate, it was decided that the preferred vision for physical growth was one of metropolitan consolidation – giving greater emphasis to the development of the Eastern and Western Suburbs by establishing stronger commercial and administrative centers there.

The revised and updated Mukalla Master Plan 2025 carries with it many advantages. Strengthening the Eastern and Western Suburbs, each with its own commercial business district and individual identity, where facilities and services will be appropriately distributed in accordance with need and opportunity, will release pressure off the Old City in the Central Area. Consequently, it will encourage the development of vacant land within the centers of Fowah and Buwaysh and help make them modern commercial and administrative centers generating sufficient employment to encourage occupation of the presently empty residential units.

Roads: Mukalla is fortunate to have a primary road network of considerable quality and capacity. Road

transportation is particularly important in a city which is linear in character and extends over 70kms from end to end. Generally, the roads in Mukalla have a capacity far exceeding the number of vehicles using them. As a result, traffic congestion is limited to the central, more densely developed areas of the city. Two solutions have been considered – either extensive road upgrading and traffic management in the Central Area or construction of a by-pass of minimal length to divert traffic around the Central Area.

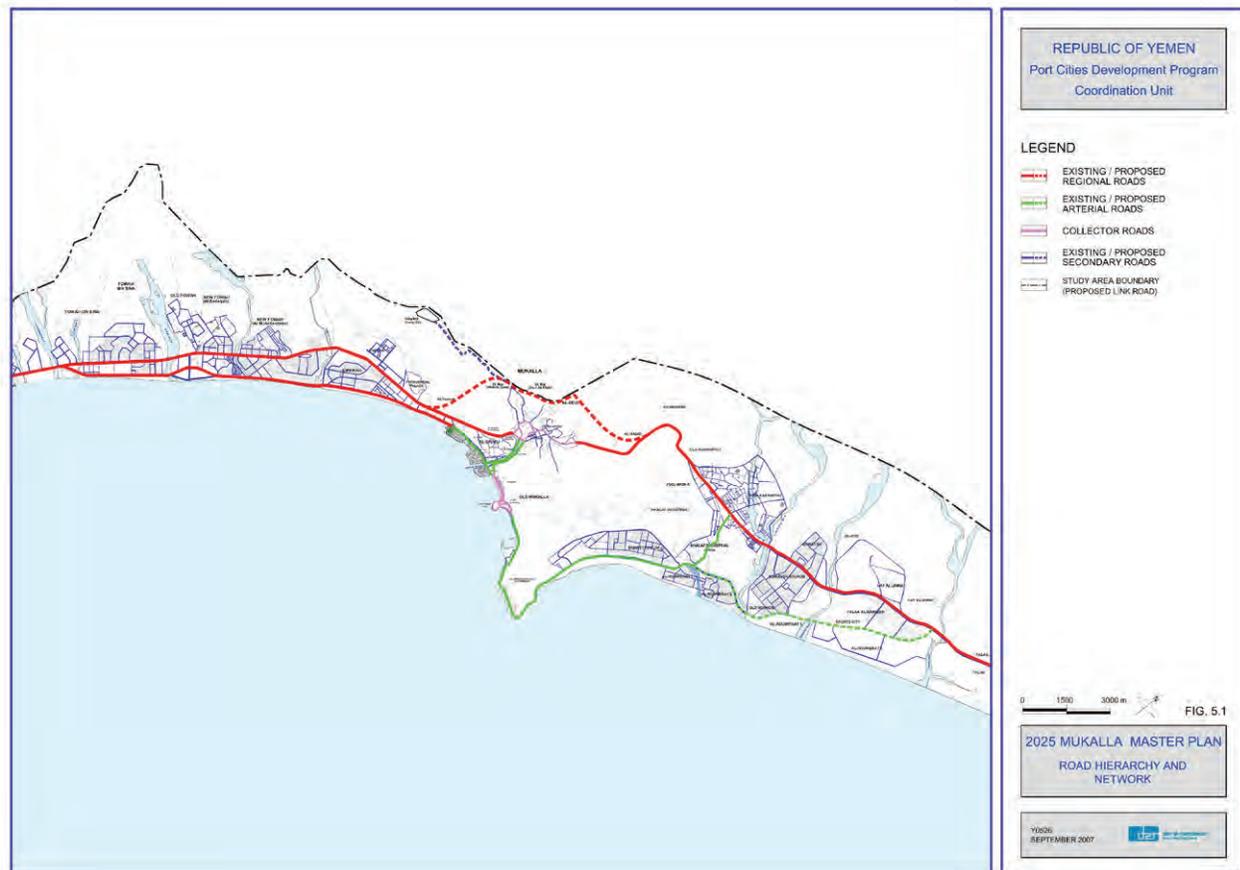
Addressing the traffic congestion in the Central Area will also support the restoration of the Old City as a cultural heritage tourism asset by relieving the existing traffic congestion and facilitating pedestrian access to tourist sites.

Airport: Located to the east of Mukalla, Rayyan International Airport has provided domestic services for national and international passengers visiting the Hadramout area since 1979. Developments have been ongoing since then, and the role of the airport has increased in importance over time. Rayyan is a regional airport whose present market includes passenger and freight services. Levels of activity have fluctuated since 2000. The airport currently handles some 116,000 passengers annually, slightly lower than 2000 levels. Similarly, cargos have declined over the same period from 989,000 tons in 2000 to

733,000 tons in 2004. Major congestion is expected with the increase in passenger numbers, especially since the facilities needed to handle the expected increase in international flights/passengers are not available (for instance, there are no separate immigration and customs facilities and the arrival/departure terminal halls are small).

Air traffic within Yemen is currently dominated by Yemenia through its domestic monopoly of both passengers and cargo. The Open Skies policy was introduced at the end of 2005 for cargo in all airports and in mid-2006 on a pilot basis in Rayyan and Aden Airports for passenger traffic. This allows other carriers to operate in Yemen, which will likely spur increased use of the Rayyan Airport. As a consequence of the Open Skies policy, it was reported that two international airline companies, Qatar and Emirates, expressed interest in landing in Mukalla.

Currently, the airport has a site of 2,000 hectares. There is a plan to construct a wall around the entire site to prevent land encroachment. The airport is not connected to the national electricity network, and relies on diesel generators for electric power. The airport has a single runway which presently lacks a parallel taxiway, requiring the aircraft to return along the runway. This has the effect of reducing capacity. A second apron has been added and provision



Existing and Proposed Roads in Mukalla

now exists for parking around 20 aircraft at the same time. There are few buildings for either passenger or cargo handling.

The capital investment program prepared for Rayyan airport reflects structural requirements up to 2010 including investments to: upgrade utilities, improve fire and safety measures, introduce traveler amenities (hotel, restaurant), improve the runway (through resurfacing and enhanced lighting), establish new storage hangers and cargo terminal, and extend the existing passenger terminal (providing about 7,000 m² of additional space to accommodate 4 additional halls). This assignment will examine the proposed investments in light of the forecasted increase in traffic/travel demand and will prioritize investments focusing on key and cost-effective improvements.

Seaport: Although small in size, the Mukalla Seaport is considered the third largest seaport in Yemen after Aden and Hodeidah in terms of tonnage. The seaport serves the import needs of Hadramout and neighboring governorates. The existing limitations facing the port in terms of space (the port has only about 50,000 m² of bounded area and two berths of 174m and 184 long and it is bounded by the city) and current draft (8.5 m only that cannot be deepened as the seabed consists of rocks) mean that the port in its current location cannot be expected to be a competitive commercial port that could expand or attract more traffic. Some improvements, however, could improve its organization and functioning in the short and medium term while the formulation while a new commercial seaport for Mukalla and the Hadramout region is constructed in Burum. Should the new port prove feasible, the plan would be to enable the current port of Mukalla to serve both the commercial and artisanal/tourism functions in the short-term, and when the new seaport is brought into operation, evolve into a full-fledged tourism port with a marina accommodating cruise ships and yachts as well as artisanal fishing vessels and dhows.

Industrial Areas: Up-to-date information on the rate and proportion of industrial development are not available, and it is therefore difficult to relay on trends to determine the need for industrial land in Mukalla.

Data released by the General Investment Authority suggest that only about 50% of projects licensed between 1998 and 2002 were actually implemented. In other words, half of the assigned industrial plots in the two designated industrial areas in Mukalla are unused and vacant. Satellite imagery suggests that over 60% of industrial sites remain vacant. The reasons for this high level of vacancy, provided by business leaders and local authorities, include: an absence of good transport links, an absence of reliable utility services, lack of commitment to industrial development, an absence of land repossession policies, and land speculation.

It is estimated that some 1,185 hectares of land is currently assigned for industrial purposes, and that only 125 hectares will be needed for industrial development by 2025. The Master Plan 2025 provides for the reassignment of land based on the following principles: (i) unwanted sites are reassigned; (ii) more suitable sites are identified if required; (iii) essential sites are prioritized for infrastructure provision; and (iv) a reserve land bank is identified without priority for infrastructure.

Much of the Al Kalaf Industrial Area is unlikely to be suitable for industry as a result of its steep slopes and aggressive topography, and the Al Salb Industrial Area has considerable areas that are isolated and ill-defined. The Al Kalaf Industrial Area is divided into many blocks where parcels in each block are planned in a grid pattern but without any harmony between them or any clear vehicular connections. Parcels vary in size. The area is mostly undeveloped, except for some developments taking place along the main access road (Ahmad Ismael Road) including a few mixed residential and commercial buildings, workshops, and a quarry at the bottom.

While workshops are a traditional element of the urban fabric in Mukalla, they often lead to conditions which damage the mixed use areas in which they are located. A number of small workshop areas should be provided to enable “nuisance uses” such as auto repairs to be taken in isolation from other sensitive activities. A defined and management workshop area could also improve the productivity and employment

Reorganization of Industrial Land Uses

Site	Existing Industrial Area (ha)	Reassigned Area (ha)	Area in Master Plan 2025
Al Kalaf Industrial Area	400	- 380	20
Al Salb Industrial Area	785	- 485	300
Rayyan Airport	0	+ 25	25
Fowah	0	+ 5	5
Total	1,185		350

Source: Mukalla Master Plan 2025



Existing Industrial and Workshop Areas in Mukalla

generation capacities of small and micro manufacturing enterprises in Mukalla, as well as serving to expand the industrial base in the city.

Utilities: Priority investments in utilities related to the economic expansion of Mukalla include power and telecommunications.

The Public Electricity Corporation (PEC) operates the electricity network in Mukalla through its Hadramout Coastal Area. The governorate relies entirely on local power generation, as it is not connected to the National Grid. The current generation of power is barely adequate to meet the demand growth for the residential sector, not to mention the anticipated commercial sector growth envisioned by 2025. Indeed, the total existing installed capacity in all Hadramout is currently only 137 MW. Also, the high cost of power connections and expensive tariff have induced most of the large scale consumers (factories, hospitals, hotels, etc.) to provide for their own captive power generation. A sea-side site at Rawdat al Shagar Valley near Rayyan has been identified and secured for the installation of a new power plant with 150 MW capacity and capability for further capacity additions. The proposed project will relieve strains on the system and will supply sufficient power for the proposed iron and steel factory at the nearby Solb Industrial area as well as the nearby Rayyan International Airport.

The Hadramout branch of the Public Telecommunications Corporation (PTC) is in charge of providing and operating telephone, fax, and internet services in Mukalla. Internet services are offered using dial-up connection through analogue 56k speed and ISDN Basic Rate access modes. More than 90% of the broadband subscribers are using the dial-up alternative, while the DSL service started to be offered as of a 3,000 unit contract with Alcatel in 2005. To improve quality and coverage, the PTC estimates that an addition of 5000 lines in the Fowah Ibn Sina exchange, 3500 lines in the Mukalla Central exchange, 2400 DSL lines to the two exchanges, OSP lines in distribution networks, and upgrading of transmission elements and switching gear and improved building environment in both centrals are needed in the short-term to modernize the area's telecommunications platform for businesses and inhabitants.

Investment Priorities

The LED Strategy and Mukalla Master Plan 2025 resulted in the identification of ten priority investments in the city of Mukalla focused on (i) core economic assets and clusters and (ii) strategic infrastructure investments.

CORE ECONOMIC ASSETS AND CLUSTERS
(Costs in 2008 US dollars)

Project	Estimated Public Investment	Description/Comments	Time Frame
Old Mukalla Preservation and Revitalization: Improvement of Public Spaces and Public Assets	TBD	Improvement of five public spaces (Old Mukalla Corniche promenade, Sultan Palace site, the adjacent governorate compound, Al Omar Mosque site, and smaller public spaces within Old Mukalla) as well as public assets including the Sultan Palace building and historic buildings within the governorate compound. Feasibility studies and detailed design under PCDP during 2008.	2009 to 2011
Old Town Preservation and Revitalization: Historic Preservation and Enhancement	TBD	Urban design and street landscape guidelines to valorize the Old Mukalla core, including walking itineraries and tourist circuits, and an effective strategy to preserve and valorize historic private buildings through incentives to property owners. Feasibility studies and detailed design under PCDP during 2008.	2009 to 2011
Improvements to the Al Amoudi Fishing Port (central Mukalla)	\$1 million	Landside improvements to port such as cold storage, auction space and fish market organization, handling facilities, hygiene, and port administration. Concessions for boat repair workshops would be included. Project identified and scoped as part of Mukalla Master Plan (2007).	2009 to 2010
Establish a Workshop and Small Industries Zone	TBD	Establish a workshop and small industries zone at site secured in Fowah, west of central Mukalla with small serviced lots and built workshop premises, aiming at existing small enterprises relocating from central Mukalla and to encourage new enterprises. Possible private operator concession. Requires feasibility study & detailed design.	2009 to 2012

Source: Mukalla Priority Economic Development Investment Plan

STRATEGIC INFRASTRUCTURE INVESTMENTS
(Costs in 2008 US dollars)

Project	Estimated Public Investment	Description/Comments	Time Frame
Al Rayyan International Airport Development	TBD	Upgrade utilities, improve fire and safety measures, introduce traveler amenities (small hotel, restaurant), improve the runway, establish new storage hangers and cargo terminal, and extend the existing passenger terminal. Project identified and scoped as part of the Mukalla Master Plan (2007). Feasibility studies and detailed design under PCDDP during 2008.	2009 to 2012
Mukalla Seaport Improvements	TBD	Improvements in parking and heavy goods transport movement, building separate piers for dhows, organizing the fishing boats' traffic and improving access and facilities for accommodating yachts and cruise ship to serve the dual purpose of improving in the organization of Mukalla port as a commercial port as well as its ability to accommodate tourist and recreational boats. At the same time, this will enable the port to evolve in the long-term into a full-fledged leisure port with a marina upon the operation of a new commercial port in Burum. Project identified and scoped as part of the Mukalla Master Plan (2007). Feasibility studies and detailed design under PCDDP during 2008.	2009 to 2012
Expansion of Power Facilities	\$90 million	New 150 MW power station (with future capacity increases possible) to provide additional power to Mukalla network and meet increased demand. Site east of Mukalla (in Rayan) identified. Part of strategy to improve local supply and distribution for Mukalla area. Identified and scoped in the Mukalla Master Plan (2007). Feasibility and detailed design needed.	2008 to 2014
Expansion of Telecommunications Facilities	\$5 million	Upgrade and increase telephone and DSL capacities to Fowah Ibn Sina Exchange and Mukalla Central Exchange, including outside networks in exchange areas. Project scoped in the Mukalla Master Plan (2007) and priority of Telecom Authority. Needs detailed design.	2009 to 2011
Mukalla Central Area By-pass Road	\$25 million	By-pass road from Al Thowrah to Al Sadad (for east-west traffic, especially heavy goods transport, avoiding El Diss and central area). Total length 10 kilometer dual carriage way. Needs engineering study. Would also serve partly as access road to approved new sanitary landfill.	2010 to 2013
Traffic Management and Street Improvements	TBD	Redesign of traffic circulation and traffic control and improving roads and intersections in Old Mukalla, the seaside Corniche, and Khor Mukalla / Diss, totaling about 6 km² of area. Feasibility studies and detailed design under PCDDP during 2008.	2010 to 2012

Source: Mukalla Priority Economic Development Investment Plan

