CHAPTER - VIII
SUMMARY, POLICY IMPLICATIONS AND CONCLUSION

This chapter presents a summary of the study. Relevant policy implications that emerge from the findings and conclusion are also presented in the chapter.

8.1 Summary
8.1.1 Evolution of Stock Exchanges

Yemen, like the other developing countries has the desire to establish a stock market in order to improve its ability to mobilize resources and efficiently allocate them to most productive sectors of the economy. Therefore, bringing out many good ideas on how to develop the stock market in Yemen is important by looking into the experiences of other countries as well as certain key factors that gave birth to their stock markets and development. In developed countries, there were some factors that accelerated the emergence of the stock market. For example, the supply of government securities to finance government debt particularly the financing of war costs, the appearance of companies and technological changes promoting faster industrial development favored prolific development of stock market. Other important factors that favored the development of capital market were conditions of a favorable economic environment and political stability during the period from 1880 until the First World War.

In developing countries, there are a number of factors behind the creation and development of the stock market. Among them are, reduction of external support and foreign aid policies as well as debt finance which became less available as a consequence of the debt crisis. The ongoing third world debt crisis motivates developing countries to rely on equity rather than debt. In addition, the increasing importance of stock markets in the economic reform programs, especially as one of the principal means of privatization program. The privatization program of state owned enterprises was one of the main reasons for the promotion of stock exchanges in developing countries.
Moreover, the success of some models that showed positive capital markets trends such as in India, Singapore and Brazil. Furthermore, the increase the level of the awareness, the prompting of the International Monetary Fund, (IMF), in response to the current economic fashion and increase in the number of joint stock companies have contributed to the development of stock exchanges in many developing countries.

Also there are some factors that contributed to the development of Arab Stock market. Some of Arab countries such as Egypt, Jordan, Morocco, Lebanon and Tunisia which embarked on economic reform programs since the mid-1980s, opening up their economies to foreign investments, privatizing state-owned enterprises, reducing budget deficit and inflation and liberalized their trade. Stock markets in these countries were established and revitalized to be the main vehicle for implementing the privatization program. In these countries, the experience of stock markets of the economies of advanced industrial capitalism quoted to them during the colonial era. Moreover, their stock markets have grown and evolved gradually while passing through several stages until they reached its present state. In other Arab countries like Gulf Cooperation Council (GCC), their economies are heavily dependent on producing and exporting oil. They achieved relatively greater macroeconomic stability, mainly due to continuous increase in oil prices. The legal and regulatory rules of stock market have been quoted from other countries’ experiences where they established the market at one time (Sourial, 2004).

The third category are countries who still haven’t achieved economic stability yet, either due to political instability, such as that in Palestine and in Iraq, or because they are in their early stages of reforms such as, Syria, Algeria, Sudan, Libya and Yemen. Stock markets in Lebanon, Algeria, Sudan, Iraq, and Libya are relatively small. In the early 1990s. With the increasing importance of stock markets in the economic reform programs, many Arab countries have created stock markets, achieved positive development, liberalized their stock markets, privatized their economies and encouraged foreign portfolio investment.

The experiences of Arab stock exchanges reveal that there are differences in the legal organization of the markets in the Arab countries. In some markets the
management is allowed to serve both executive and supervisory functions under the umbrella of a securities and exchange commission. Other Arab markets are divided between the two institutions, one responsible for the stock market and the other for the supervision.

The imposition of restrictions on foreign investment also plays a major part in the development of Arab stock markets. Five Arab stock markets including Amman, Algeria, Beirut, Egypt and Casablanca removed all restrictions on foreign trading in the stock markets. Some other Arab stock markets such as Tunisia and member states of the GCC still have restrictions with varying degrees. The majority of the Arab stock exchanges use electronic-quote-driven trading system with a short period of settlement ranging from T+2 to T+3 days. The markets of the Arab countries differ in their definitions of intermediaries. Some of them permit individuals to act in this area while others restrict market mediation activity to brokerage firms.

Towards establishment of the stock market in Yemen, there are also several lessons that can be drawn from smaller stock exchanges such as the Sudan Stock exchange. First, the existences of the corporate sector that issues stocks and bonds which in turn create a need for a secondary market and the stock exchange is important. In Sudan, there were no less than 285 registered public companies. Out of them there are 52 listed public companies. Second, building a good and fair level of expertise, by undertaking intensive and extensive training for the local staff in various Arab and other marks, helped Sudan in operating its own stock exchange. Third, establishing a good working relationship with various stock markets and encouraging cross listing of major firms do not only raise domestic awareness of the exchange but also facilitate harmonization of the accounting and auditing standards. Besides, it enables diffusion of technical skills and experience for the benefit of the domestic home market.

Fourth, some new and wide ranging variety of securities have been introduced to as many investors as possible. These instruments comprise Government Musharaka certificates (GMCs) and Central Bank Musharaka (participation) certificates (CMCs). In addition, Mutual funds and Shihama certificates also became new financial instruments which came into being starting from the year 2001. This helped to
enhance awareness in securities investment as manifested in the increasing number of the investment funds in the country. *Fifth*, the main factor that is negatively impacting on the development of the securities market in Sudan is the absence of automated, clearing and settlement systems. The local market also has a highly concentrated brokerage system with just one dominant broker. The Khartoum equity market is highly concentrated with only two listed firms, Sudatel and Sudanese Free Zones & Markets Companies. *Sixth*, low savings rates which are consistently under 7 percent of GDP, lack of understanding of a market culture, low level of income and the ongoing conflict and civil unrest were the major impediments to Khartoum stock exchange development in Sudan.

8.1.2 Prerequisites for Development of Stock Exchange

The stock market plays an important role in economic growth. The previous studies provided enough evidence to make a convincing case that stock market development at least creates the enabling environment for a successful economic growth. Establishing and developing equity markets requires certain prerequisites:

- A political and macroeconomic stability.
- Sufficiently high income levels
- Size, quality, and growth prospects of local business
- A certain level of savings with a relatively wide distribution among different sections of the society
- A well-developed banking system and financial intermediation
- An adequate legal framework and an effective but flexible regulatory system
- Availability of resources like finance, expertise and technology
- Education and information about the capital market.
- Sound and equitable tax system
- Adequate shareholder investors protection
- Transparent and accountable institutions
- Price system determined by market forces with minimum distortions created by government interventions.
8.1.3 **Obstacles to the Development of Securities Market**

There are certain factors that impede as well as those that facilitate the development of stock markets in less developed economies. But very few of them address the factors that hinder as well as those that facilitate the establishment of stock exchange in developing countries. The major obstacles to the development of securities market in small countries are as follows:

- Macroeconomic and political instability
- Weak financial system infrastructure
- Inadequate and ineffective legal framework
- Poor information disclosure
- Inadequate market-supporting infrastructures
- Very narrow range of investment instruments traded
- Limited number of securities available for trading
- Inadequate liquidity and restrictive regulations on banking system
- Restrictions on foreign portfolio investment
- Insufficient protection for investors
- Low living standards of the local population
- Perception of risks in the market
- Imperfect Tax policies
- Low level of public confidence in the financial sector
- General lack of awareness and information on financial system and capital markets

8.1.4 **Financial Development in Yemen**

Banking reforms in Yemen have been slow and the banking sector is still very weak in playing a major role in mobilization of savings and financial intermediation. The bulk of the economy operates with cash and majority of commercial financial assets and liabilities are of short-term nature. In addition, the increase in statutory reserve requirements reduces the capacity of the growth in supplying long-term capital. The introduction of high-yield government short-term Treasury Bills has increased the demand for Treasury bills at the expense of credit to the private sector. Banks’ reluctance to lend to smaller firms originates from the costs of gathering reliable information on the potential borrower, lack of collateral and inadequate legal protections, which adversely affect the banking system.
8.1.5 Development of Capital Market in Yemen

Family companies have dominated in the Yemeni economy. These together represent 95 percent of the total licensed companies operating in Yemen. These companies have very small volume of capital and highly concentration of ownership. Most Joint Stock companies are Closed Joint-Stock Companies and only 8 companies were recorded for public subscription up to 2008. These companies have relatively small volumes of capital base, limited number of shares and small number of shareholders. The percentage of a company's capital base to the GDP relatively very small compared to the size of its economy. Company's capital base to the GDP has decreased from 0.86 percent in 1995 to 0.29 percent in 2008. This gives some evidence that a very large part of economic activity and investment is not legally registered, but depends on individual initiatives and personnel relationships.

Shares trading activity in Yemen is limited in the scope of personal dealings between sellers and buyers or in the scope of the registration of shares in the public companies. The number of transactions is small and there are no figures on the size of trading or transfer of ownership of shares in Yemen. The reason for low transactions of the joint stock companies is that the company has a highly concentrated ownership. Often this is due in part to high concentration of the shares owned by business leaders and investors and also because of buy and hold strategies for long periods of time on the other side due to the absence of trading mechanisms and a fair price, which leads to some reluctance for sale of their shares in the open market.

At present there are no investment banks in Yemen and therefore normal merchant banking services such as underwriting of equities and bonds, asset management and corporate advisory services are not developed. Joint Stock companies use a commercial bank to sell and distribute the new stock issues.

In the Yemeni capital market, the range of instruments available to investors appears limited. It is restricted to the ordinary shares, short-term Treasury Bills, and simplified forms of bank deposits. Besides, there are Islamic instruments such as Mudaraba, Musharaka, Ijara etc. Lack of financial instruments contributes to discourage the demand for and supply of equity.
Yemen is the only country in the Asian Arab region which has no stock exchange so far. In March 2002, a draft of the securities market law was prepared by a specialized Canadian company and it was reviewed by experts from the Arab Monetary Fund and the Amman Stock Exchange. The draft law was revised by the Technical Committee to ensure that it was consistent with other relevant laws. Between 2002-2009 there were no significant developments towards the approval of this law and amending and harmonization of other relevant laws. A specific legal framework would need to be implemented in order to establish a stock exchange. In November 2009, Yemen and Jordan signed a Memorandum of Understanding (MOU) to establish a stock exchange in Yemen.

The government took a number of initiatives in the financial sector. These policies and procedures adopted by CBY have facilitated to some extent some of the requirements needed in developing the stock market in Yemen. However, the commercial banks in Yemen still suffer from low capitalization, poor disclosure, lack of adherence to CBY guidelines and limited operational scope. Institutional investors such as pension funds and insurance companies are a driving force behind market development in many countries. But in Yemen, the institutional investor base is still small and focused only on money market investments such as treasury bills and deposits in banks.

The privatization program in Yemen was not a catalyst in the development of the stock market because most enterprises that have been targeted were privatized through direct sales. Moreover, the relative increase in savings rate did not readily flow into the equity market as investments. Other investment outlets such as real estate development, Treasury Bills, etc., are more attractive than investments in equity. Institutional investors such as insurance companies, pension funds have been biased in favor of the Treasury's Government Securities. This has constrained the development of the equity segment of the stock market.

The absence of tax incentives is another key factor that deters family businesses in Yemen from going public. Tax laws do not discriminate between a family company and a public company and that is based on the narrow base of shareholders and those based on widespread shareholders. A number of developing countries have used tax incentives as the preferred way to encourage more companies to list and to stimulate the development of the capital market.
8.1.6 Major Findings of the Study

Yemen began the economic reforms program in 1995. The major economic reform policies implemented were monetary policy, reduction of the fiscal deficit, currency stabilization, reduction of inflation, surplus in balance of payments and gradual increase of domestic savings and investment during the period 1995-2007. Nevertheless, many of these reforms were not quite sustainable in view of the fact that the money and capital markets of the country were not deep and resilient, especially in the absence of a stock market.

The decline in financial deepening implies that the growth of the financial sector lags behind the tempo of economic activities, suggesting that the financial sector may not have been the source of real GDP growth during the period 1992-2007. The percentage of domestic credit provided by banking sector to the GDP of Yemen was very low. This gives some evidence that the banking sector in Yemen has failed to provide long-term finance for investment projects undertaken by private corporations during the period under reference.

A field survey was conducted focusing on the large corporate sector in Yemen as well as concerned government bodies to ascertain their opinions on the need for and feasibility of a stock market in Yemen. The data were analyzed and interpreted in the light of the main objectives of the study-identifying the mandatory requirements for setting up a stock exchange, the prevalence of these requirements, the major obstacles in setting up stock exchange as well as the attitude of the financial institutions and the private sector towards investment in the stock exchange in Yemen. The study explored the appropriate trading, operation system and the possible alternatives of financial intermediation to ensure a sound and stable development of the securities market in the future. Following are the main findings

i) Awareness about the Importance of Stock Market in Yemen

The majority of the sample respondents indicated that they were aware of the importance of setting up of the stock market. The result also revealed that partnership and limited liabilities companies have lesser level of awareness about the importance of setting up the stock market than corporation companies and government institutions.
ii) **Attitude towards Listing in Stock Exchange**

Only 32 percent of sample companies are willing to list in the stock exchange at the beginning of stock exchange transaction. The result also revealed that partnership and limited liabilities companies have less desire to list in the stock exchange at the beginning of stock exchange transaction than corporation companies.

iii) **Attitudes towards Demand of Shares at the Beginning of Stock Exchange Activity**

Majority of respondents are willing to buy and sell shares as part of their investment portfolio. The result also revealed that family companies have little desire to buy shares at the beginning of stock exchange activity than corporation companies.

iv) **Respondent’s Perception about the Expected Performance of Stock Market in Yemen**

Majority of respondents have negative perception about the expected performance of stock market in Yemen. The limited liability companies, partnership companies and public joint stock companies have a negative attitude about the expected performance of stock market in Yemen while, on the other side, Government institutions and closed joint stock companies have a positive perception about it.

v) **Essential Requirements for Establishing Stock Exchange in Yemen**

The results of the study revealed that all 14 requirements of establishing stock exchange in Yemen as perceived by respondents had very high mean score which range from (4.27 - 4.93). These high mean scores indicated that all of these requirements should be considered as most important requirements for establishing a stock exchange in Yemen. According to Friedman Mean Rank, the highest mean rank is for an efficient judicial system( 9.54 ), a legislative framework for securities markets( 8.98 ), awareness among investors about stock exchange( 8.15 ), modern infrastructure systems and equipment (8.14 ), a statutory body independent regulator for the stock market (7.92) availability of high-level skilled employees (7.88),…..(see table 7.17).
vi) Degree of Prevalence of Main Requirements for Establishment of Stock Market

The results revealed that all 14 variables used to test the degree of prevalence of the main requirements for the establishment of the stock market in Yemen as perceived by respondents had mean score varying from 1.58 to 3.24. The study revealed that the legislative framework for securities markets, an independent statutory regulator for the stock market and modern infrastructure systems and equipment are not prevalent. The survey results also revealed that an efficient judicial system, high-level skilled employees, adequate number of the securities and financial intermediary are less prevalent. Others requirements such as adequate demand for securities, awareness among investors about stock exchange, commitment of government, political stability, heavy capital investment for setting up the stock market, standards of transparency and disclosure and macroeconomic stability are relatively prevalent. This gives some evidence that the majority of the essential requirements need to be created as a prerequisite for launching of the Yemen's stock exchange.

vii) Major Obstacles in Setting up Stock Exchange in Yemen

The survey results also revealed that there are many challenges and obstacles that remain to be addressed in order to promote a functioning stock market in Yemen. Respondents highlighted a number of obstacles that had hindered the establishment of stock exchange in Yemen. Based on the respondents’ answers, the results were divided into three groups– very high challenges, high challenges and moderate challenges.

The first set comprising very high obstacles in setting up stock exchange in Yemen includes low level of investor protection, weak capital market infrastructure, low level of household income, lack of awareness among the public about shares, poor legal and regulatory framework. The second set, includes high challenges that hinder the growth of the stock market, includes apparent reluctance of companies to go public, followed by delay in enacting the laws, deterrent tax policy, low return on investment, lack of financial expertise and lack of financial intermediaries. The third set, consists of, low household savings rate, macroeconomic instability, failure to
implement privatization program, political instability and lack of accounting and disclosure. All these factors are identified as moderately challenges in setting up stock exchange in Yemen.

viii) The Appropriate Institutional Structure, Trading System and Best Alternatives of Financial Intermediation for Development of Equity Market in Yemen

- There was a consensus among respondents with the proposition to separate executive and supervisory functions of securities market.
- The majority of respondents expressed their disagreement with the proposition to establish a stock exchange as an autonomous public body.
- The majority of respondents were of the proposition to establish a central depositary within the framework of the exchange in the early stage of stock exchange formation.
- The majority of respondents expressed their disagreement about the proposition that electronic trading is not necessary in the early stage of stock exchange.
- As opined by majority of respondents, they were of unanimous opinion that banks should offer investment brokerage services through subsidiary and financially independent companies. They also favored idea of the creation of an investment bank specializing in investment brokerage services.
8.2 Implications for Policy

The findings of the study have several implications for policy and recommendations toward the development of stock markets in Yemen. Additionally, the policy lessons from this study may be applicable to other smaller countries that share similar features and problems with Yemen. Furthermore, this study, it is hoped, would provide a significant contribution on this area which would pave the way for further research and studies.

- In view of the lack of awareness on the part of majority of the population, extensive and persistent publicity is required to promote investor awareness about the stock exchange in Yemen. Education about stock markets must be imparted at the firm and individual level.

- A specific legal framework would need to be implemented in order to establish a stock exchange. Securities laws have to be more effective and courts more impartial. Furthermore, study and proposed amendments of other relevant laws should take place prior to the establishment of stock exchange because the exchange will not be efficient unless the required legislation is in place operative.

- Government’s investment in capital market structures such as stock exchange equipment, electronic trading information technology, employee training, and communications would enhance the prospects of stock market development in Yemen.

- Financial intermediaries, financial advisory services and investment banks should be established and nurtured as a prerequisite for launching of the Yemen's Stock Exchange.

- The government of Yemen should make a firm commitment to reduce intervention in credit allocation and strengthen institutional quality, particularly the judicial system.

- There must be a co-ordination among government and private sector firms such as banks, companies and other institutional investors to accelerate the formation of the stock exchange. It is certain that the private sector parties and government concerned are capable, if they joined hands, overcoming the impediments to the establishment of the stock exchange.

- It is very essential for better protection of property rights and promotion of investor confidence that would lead to high demand for securities.
Efficient and effective judicial system, particularly in respect of property rights and settlement of trade disputes has positive effects on the concepts of contribution and participation in society.

There is urgent need to control financial corruption and promote internal political stability. Yemen is seen abroad as being endemically corrupt and war-torn. Widespread corruption and frequent internal conflicts cause a lot of harm to the market.

It is important to establish a number of relationships with emerging markets in the Arab and other markets. The government needs to look at the legislation applying in all the Arab countries that have stock markets and chose those which best fit Yemen conditions.

It is also necessary to harmonize stock market rules and regulations of domestic capital markets with international standards. The adoption of international accounting standards and transparency of information disclosures are essential to ensure regional co-operation among neighboring countries.

The government needs to implement privatization of viable large state-owned enterprises through the IPO rather than privatization through strategic investor channels.

The establishment of an over- the-counter (OTC) stock exchange for small-scale and medium-size entrepreneurs will enhance the attractiveness of listing small-scale and medium-size entrepreneurs in the stock exchange for expansion, modernization and raising long-term capital.

The main institutional investors in Yemen are insurance companies and pension funds. The insurance market in Yemen remains underdeveloped. The sector needs to be better regulated to boost consumer confidence in it. Also, education is required to create awareness among the public about the importance of insurance as a security and risk mitigation measure. Pension systems should be allowed greater latitude to invest in securities provided the prudential guidelines are followed.

Introduction of new and varied financial instruments would boost the range supply of securities in the market and provide a number of investment options to existing and prospective investors. The government can also introduce Islamic products such as the concept of a participation bond whose yield determined not in accordance with interest rates but in terms of rates of profits realized by the company, which is suitable for a large segment of society.
Many countries work to restrict the legal form of companies in a number of activities and economic sectors in the form of joint stock companies. The companies must put a certain percentage of their shares for public subscription. Strengthening the supply side of securities and the expansion of industrial ownership in Yemen would pave the way for a broad-based capital market.

Appropriate policies such as competitive interest rates, provision of tax incentives to quoted companies. Uniform taxes on interest income from government securities and dividends from equity securities, simplified listing requirements, etc., will enable more companies to raise funds from the stock market.

Improving corporate governance through increased transparency and access to information is very essential in the efforts to establish stock market.

The government needs to help the private sector develop its regulatory framework and encouraging the transformation of individual or family-owned firms to joint-stock companies and corporations.

In order to give an effective start to the stock exchange in Yemen, it is necessary to create two important institutions, one responsible for the management of stock exchange and the other, for regulation of stock exchange. The managing body should be in the form of private sector (Joint Stock Company or Limited Liability Company). While the regulation of stock market transaction involving wide ranges of stakeholders as to be invariably an autonomous legal body but accountable to the parliament.

Automation is an expensive venture and has huge budgetary implications for government. But it is not advisable to operate manually particularly in this era of automatic revolution in information and communication technology.

In Yemen, it is favorable to establish a central depositary within the framework of the exchange in the early stage of stock exchange formation. However, in future and when trading activity reaches a greater volume, then a separate entity could be formed to undertake this activity.

It is not advisable for a commercial bank to provide brokerage services as part of its activities. Banks tend to indirectly discourage stock exchange as a means of raising capital because they play the dual role of being investment advisers as well as lenders. As opined by majority of respondents, they were of unanimous opinion that banks should offer investment brokerage services through subsidiary and financially independent companies. They also favored idea of the creation of an investment bank specializing in investment brokerage services.
8.3 Conclusion

Like many other developing countries, Yemen is experiencing poor economic growth. It ranks last among the 13 Middle East and North African countries surveyed in the World Bank’s World Development Report in terms of per capita income, life expectancy, completion of primary education, and access to improved water system (IMF, 2009). The population growth rate of Yemen is more than 3 percent and an estimated 35 percent of the population lives below the poverty line. Yemen is a small player in the world oil market with small proven reserves and production levels. Nevertheless the country’s economy is highly dependent on oil production, with its oil exports accounting for around 85 percent of the total export revenues and 30 percent of the gross domestic product. The Services sector was the largest contributor to GDP constituting 44.8 percent of GDP during 1995-2007, followed by industry with 41.6 percent and agriculture with 13.1 percent. The services sector grew at an average rate of 8 percent per annum during 1995-2007, followed by agriculture sector with 2.9 percent and industry with 1.6 percent.

During the period 1998-2007, there was a gradual improvement in the ratio of domestic savings to GDP which increased from a negative .04 percent to 17 percent. This increase in domestic savings rate would obviously call for greater financial intermediation which can be accomplished by the establishment of a stock exchange so that the people would be encouraged to invest in shares and other capital market instruments that would provide them better returns for their savings than what they are now getting from treasury bills and bank deposits.

The financial system in Yemen is primarily bank-based and thus it suffers from the usual bias of banks towards financing short-term credit requirements. The non-bank sources of medium and long-term financing are generally underdeveloped. Securities markets are seen as an ideal alternative to bank finance as a means of addressing the shortage of long-term finance. Institutional investors tend to switch a greater proportion of their portfolio investment into Treasury Bills. This portfolio switching tends to crowd-out the private sector and productive activities from the capital market.
The depth of the financial sector in Yemen was rather shallow and the availability of loanable funds was poor during the period 1992-2007. The ratio of $M_2$ to GDP declined from an average 42 percent in 1992 to 32 percent in 2007. Inability of the banking sector to provide long-term credit to the private sector would create the need for the establishment of the stock exchange in Yemen to fulfill the role of mobilizing and allocating long-term capital to the private sector for growth and poverty alleviation.

Remittances from Yemeni expatriate workers into the country amounted to $1233 million in 2002 and have increased to reach $1362 in 2008. The establishment of stock exchange will help to utilize a major portion of these remittances for investment in shares and other capital market instruments, and thereby will enhance long term investment. Furthermore, the Yemeni capital investments abroad averaged more than 33 billion dollars. In fact, Yemen needs to do more to attract capital inflows especially portfolio inflows. The majority of the companies (95 percent) in Yemen are considered family-owned and tend to be small to middle size trading concerns. Joint stock companies are rarely given the opportunity to assist in economic development. The success of stock exchange in any economy depends largely on the size and performance of the industrial sector and particularly the corporate segment of this sector. It is the corporate industrial sector which raises its capital mainly through issue of shares and debentures and which therefore require a stock exchange.

Privatization program in Yemen was initiated in the early 1990s and most enterprises that have been targeted were privatized through direct sales. The slow progress was ascribed to the lengthy time and high investments needed for the rehabilitation of remaining state owned enterprises and the absence of an equity market.

Further, all the countries in the Arab region have stock exchanges of their own and therefore, it would be in the long term interest of the Yemeni economy to establish a stock exchange of its own. Stock exchange in the country not only helps bring about diffusion the ownership of financial instruments such as shares and bonds but also links the domestic financial market to the oversees financial markets.
thereby paving the way for foreign direct/portfolio investment in Yemen which is badly needed at this juncture of the Yemeni economy.

The present study reveals that there are strong arguments in favor of as well as against establishing stock market in Yemen. However, a close examination of all these pros and cons shows that the benefits of a full-fledged stock market are overwhelmingly large. Stock market helps both the business firms and the savers-investors. The companies will be benefited by way of raising capital in the market relatively easily and at much lower transaction costs. The saver-investors including financial institutions also benefit by way of having an option of securing capital gains and higher returns than what they would get by way of interest obtains from the bank deposits.

Finally, the results of the study reveal that all 14 requirements of establishing stock exchange in Yemen as perceived by respondents should be considered as most important requirements for establishing a stock exchange in Yemen. The results also show that majority of the essential requirements need to be created as a prerequisite for launching of the Yemen's stock exchange. The survey results also reveal that there are many challenges and obstacles that remain to be addressed in order to promote a functioning stock market in Yemen.