



# YEMEN SOCIO-ECONOMIC 2021 UPDATE

## The Role of Entrepreneurship in Development and Means to Strengthening it The Reality of SMEs .. Efforts and Challenges .. Interventions

### The Editorial

Small and medium-sized enterprises (SMEs) play an important role for development with a potential to trigger socio-economic transformation in most countries around the world, particularly Yemen. SMEs tend to be highly labor-intensive considering the amount of capital invested and the total jobs they create compared to other businesses. Yet, their contribution to the GDP is significant, considering the amount of capital invested, which confirms their crucial role to development far beyond large firms. SMEs proved their capability of addressing major issues .

Based on that, SMEs can be champions as entrepreneurs can develop ideas and turn them into successful start-up businesses that are likely to grow steadily and sustainably. SMEs are the seeds of large firms that respond to the domestic market needs. Entrepreneurship is the dynamic process of creating incremental wealth and innovating things of value that have a bearing in the society. They help providing an enormous amount of goods and services and enhances the growth of social welfare through the creation of job opportunities, innovation, and improve the economy. The person behind the entrepreneurship is an action-oriented and highly motivated individual who is ready to achieve goals. Entrepreneurs take the economy and the society that is the key to progress and prosperity. Thus, the growth or establishment of SMEs is the specific contribution of entrepreneurship in every economy of the world.

Hence, this issue of the YSEU Bulletin explores the concept and importance of entrepreneurship for development, while it diagnoses the reality of SMEs in Yemen, as well as challenges and difficulties facing the sector, including the negative impact brought by the conflict and war on one hand, and the COVID-19 pandemic on the other. Meanwhile, the basic needs and interventions to revitalize the development role of SMEs across the economic, social, environmental and human dimensions have to be enhanced.

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### Facts and Indicators \*

General	34%	of small-size enterprises in Yemen owned by women	187	Yemen's ranking in the Doing Business Environment Index 2020 out of 190 countries listed
	6%	the portion of adults (above 15 years) who have bank accounts or accounts at mobile financial service providers in Yemen, compared with 43% in the MENA region and 69% globally		
Economic	31%	the value-added contribution of small-size enterprises to Yemen's private sector for the average period 2013 -2019, compared to 8% for medium-size and 61% for large firms during the same period	15.6%	the drop in the value-added of small-size enterprises sector in 2019 as compared to 2013
	-1.5%	the average annual growth rate of the small-size enterprises sector during 2013 -2019 vs. (- 5.4%) for medium-size enterprises during the same period	22.3%	the decline in the added value of medium-size enterprises sector in 2019 as compared to 2013
	64%	the average employment rate in the SMEs sector to total private sector workforce during 2013- 2019 vs. 36% for large firms during the same period		
Damages	5%	the portion of SMEs that have been completely damaged	40%	the portion of SMEs sustained direct human losses
	35%	of medium-size enterprises had to shut business due to the war and conflict compared to 17% for large firms and 27% for small-size enterprises	30%	of fishery and livestock projects in addition to 29% of food processing projects were negatively affected by the COVID-19 pandemic
	60%	of the total staff working of SMEs in Sana'a governorate were laid off due to the war and conflict related damages		
Financing	34,171 million YER	the balance of the loan portfolio for the existing MF programs and institutions in Yemen as of February 2021	480,454 YER	the average loan amount granted by MFIs in Yemen for a single a SMEs during 2021
	164	the total branches of MF programs and institutions in Yemen	89,733	the number of active borrowers clients of SMEs in Yemen

\* All facts and indicators are referenced to by source throughout this bulletin.

# I Concept and importance of entrepreneurship, with its role in achieving sustainable development in Yemen

## 1- Concept of entrepreneurship

Entrepreneurship is a diverse and multifaceted phenomenon (UN Report 2018). Consequently, conceptualizations of entrepreneurship differ, with definitions grouped into three categories: behavioural, occupational and synthesis. Occupational definitions conceptualize entrepreneurship as the result of an individual's choice between waged employment and self-employment. Meanwhile, synthesis definitions conceptualize entrepreneurship as entrepreneurial activity "consists of the creation, recognition, and utilization of positive opportunities within existing firms (or through creation of new firms) in such a way that involves 'innovation' - or the provision of 'new combinations'<sup>1</sup>. In this context, many studies define entrepreneurship as "new ideas or approaches that enable the establishment or development of a new business by mixing risk with innovation, creativity and progression to reach the climax."<sup>2</sup>

**The previous indicators are approximate to measure the spread of entrepreneurship in society Among the most widely used measures of entrepreneurship are the following<sup>3</sup>:**

1. The ratio of self-employment to total employment.
2. Total early-stage entrepreneurial activity, defined as the share of the adult population in the process of starting a business or that owns and/or manages a new business.
3. The density of new businesses, defined as new registrations of limited liability companies per 1,000 people of working age (15–64 years).

The previous indicators are approximate functions to measure the outreach of SMEs in society.

**Fig (1): Entrepreneurship: a human investment with economic, environmental and social benefits**



### Entrepreneurship is a social investment for the human element

Because SMEs that require limited capital and creative ideas characterized by talents and capabilities to discover opportunities and turn them into a profitable businesses with the potential to grow and raise the standard of living



### Entrepreneurial businesses is a social investment at the economic dimension

They represent key pillars for advanced and developing economies in that they:

- Represent a social investment that contributes to serving the community, promoting production and industrialization, while creating jobs
- Strengthen self-employment for individuals rather than dependence on others
- Have huge potential for growth and driving social and economic achievements



### Entrepreneurship is a social investment at the environmental dimension

Entrepreneurship primary role lies in inventing new ways that do not cause environmental depletion and pollution in order to invest human potential and natural resources



Source: UNCTAD, THE LEAST DEVELOPED COUNTRIES REPORT 2018, Entrepreneurship for structural transformation: Beyond business as usual.

-The Scientific Journal of Trade and Finance, Volume 40, Tanta University, Egypt 2021, The Role of Entrepreneurship in Achieving Sustainable Development Goals (with reference to the Egyptian Reality), Samar Al Ameer Ghazi Abdel Hamid; Farouk Fathi Al Sayed Al Jazzar [https://caf.journals.ekb.eg/article\\_154771.html](https://caf.journals.ekb.eg/article_154771.html)

- Entrepreneurship ecosystem, <http://www.techstartupschool.com/news/entrepreneurship-ecosystem-and-its-elements.html>

An important practical problem in mapping the status of entrepreneurship in developing countries, in particular in LDCs, is the lack of well-structured and regularly updated data. This is further complicated by the elusive nature of many of the most common forms of entrepreneurial activities - notably small-scale establishments, informal businesses and seasonal rural non-farming activities. The various forms of self-employment, including as employers, own-account workers and family workers, are visibly more prevalent, notably in rural areas and in the urban informal sector. The incidence of self-employment in LDCs is high, compared to total work force, at 70 per cent of total employment, compared with 50 per cent in other developing countries, with an estimated 268 million self-employed workers in 2017.

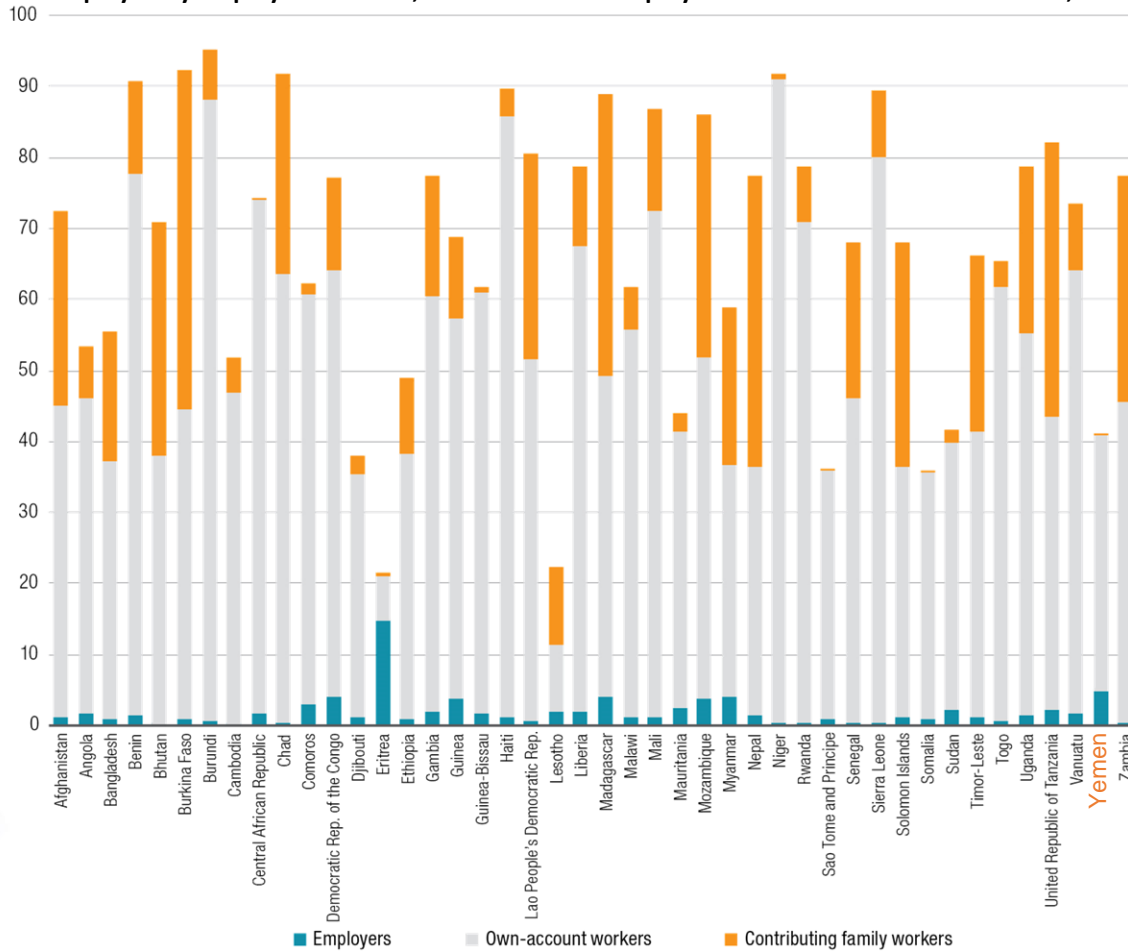
The figure (1) clearly shows that own-account workers represent the bulk of self-employed in Yemen, as is the case in most countries in comparison. While category of employers is relatively high in Yemen, Eritrea, Madagascar, Myanmar, Congo and Mozambique, compared to other countries in this category.

<sup>1</sup> UNCTAD, THE LEAST DEVELOPED COUNTRIES REPORT 2018, Entrepreneurship for structural transformation: Beyond business as usual. P 9-10

<sup>2</sup> Samar Almeer Ghazi Abdel Hamid; Farouk Fathi Al Sayed Al-Jazzar. The Scientific Journal on Trade and Finance, Volume 40 Tanta University, Egypt 2021, Entrepreneurship Role in achieving sustainable development goals (Showcasing the Egyptian Experience). [https://caf.journals.ekb.eg/article\\_154771.html](https://caf.journals.ekb.eg/article_154771.html)

<sup>3</sup> UNCTAD, THE LEAST DEVELOPED COUNTRIES REPORT 2018.

Fig (2) : Self-employed by employment status, as share of total employment in Yemen and LDC countries, 2017 (Percentage)



Source: UNCTAD, THE LEAST DEVELOPED COUNTRIES REPORT 2018, Entrepreneurship for structural transformation: Beyond business as usual. P 30

Overall, therefore, the entrepreneurship landscape in LDCs is mixed, as presented in this section. Between half and two thirds of the labour force in LDCs is typically engaged in a seemingly entrepreneurial activities, depending on the indicator used, suggesting considerable entrepreneurial potential. However, the contribution to structural transformation is more limited, as a disproportionate share of such activities is confined to small-scale and often informal businesses. This shortcoming is further underlined by the low level of job creation anticipated by entrepreneurs themselves.

Structural transformation in LDCs is likely to require a consolidation of the entrepreneurial landscape through job creation by more productive and innovative enterprises, to generate more jobs for workers.

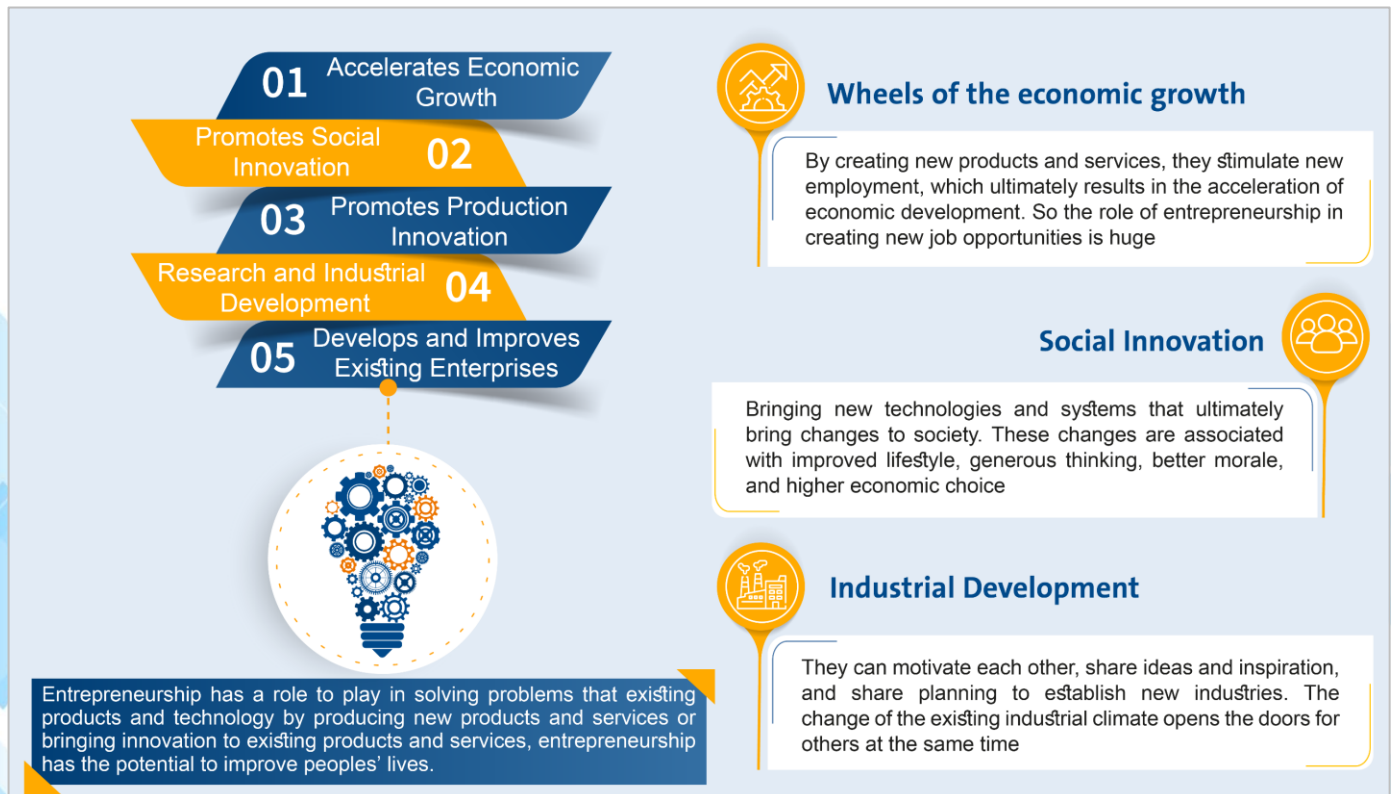
## 2- Importance of Entrepreneurship

Entrepreneurship is important in that it has the potential to improve livelihoods, and more importantly in job creation and improving the economy. In entrepreneurship, untapped resources, labor, and capital are utilized most efficiently. Entrepreneurs take on risks in the hopes of making profit, or in the case of social entrepreneurship, of solving a problem facing communities. So the significance of entrepreneurs and the role of entrepreneurship go beyond the business world. The importance of entrepreneurship is so broad and encompasses all the aspects that entrepreneurs are interested in, including:

**1. Entrepreneurship Accelerates Economic Growth:** By creating new products and services, they stimulate new employment, which ultimately results in the acceleration of economic development. So public policy that encourages and supports entrepreneurship should be considered important for economic growth. A large number of new jobs and opportunities are created by entrepreneurship. Entrepreneurship creates a huge amount of entry-level jobs that are very much important to turn unskilled jobholders into skilled ones. It also prepares and provides experienced workers to large industries. The increase in the total employment of a country largely depends on the rise of entrepreneurship-initiatives. So the role of entrepreneurship in creating new job opportunities is huge. Entrepreneurs develop new markets by introducing new and improved products, services, and technology. Thus, they help generate new wealth and add more to the national income.

**2. Entrepreneurship Promotes Social Innovation:** Innovation is particularly important in reducing the gap between scarce products and demand for them, while it contributes to creating a positive impact on the people's lives and brings about fruitful results. Entrepreneurs change or break the tradition or cultures of society and reduce the dependency on obsolete methods, systems, and technologies. Basically, entrepreneurs are the pioneers of bringing new technologies and systems that ultimately bring changes to society. These changes are associated with improved lifestyle, generous thinking, better morale, and optimal economic choice, as well as social innovation aspects. For example, accelerating social entrepreneurs to solve the most pressing challenges facing children and youth worldwide. Matching today's challenges with tomorrow's solutions<sup>4</sup> fosters innovation for every child, because today's children are tomorrow's men. This contributes to community development as the diversification of the labor base to include many small-size entrepreneurial businesses, would diminish slums and increase spending on education, entertainment and other activities, and thus a better standard of living in the society.

**Fig (3): Top 5 Takeaways on the importance of entrepreneurship**



Source: Duke Sanford, Top 5 Takeaways On The Importance of Entrepreneurship, MARCH 30, 2020.  
<https://dcid.sanford.duke.edu/importance-of-entrepreneurship/>

**3. Entrepreneurship Promotes Innovation and Productive Creativity:** Entrepreneurship fuels innovation, research, and development that delivers new projects, quality goods, and critical services, thereby increasing GDP and improving the standard of living for individuals. Through the right practices of research and development, entrepreneurs bring new innovation that opens the door of new ventures, markets, products, and technology.

Entrepreneurs have a role to play in solving problems that existing products and technology have not yet solved. So by producing new products and services or bringing innovation to existing products and services, entrepreneurship has the potential to improve peoples' lives. This, in turn, contributes to the discovery of new sources or materials with competitive edge in terms of transportation, costs and quality.

**4. Entrepreneurship Promotes Research and Industrial Development:** Along with producing new business ideas and thinking out of the box, entrepreneurs also promote research and development. They cultivate their ideas, shape them into a new form, and turn them into a successful business endeavor. Entrepreneurs do organize and select most production elements such as the land, workers and capital. Innovation and industry is accelerated through the combined action of entrepreneurs. They can motivate each other, share ideas and inspiration, and share planning to establish new industries. The change of the existing industrial climate opens the doors for others at the same time. Therefore, we see that the importance of entrepreneurship to the economy is multi-functional.

**5. Entrepreneurship Develops and Improves Existing Enterprises:** We often think of entrepreneurs as inventing totally new products and ideas, but they also impact existing business. Since entrepreneurs think differently, they can come up with innovative ways to expand and develop the existing enterprises. For example, modernizing production

<sup>4</sup> Duke-UNICEF Innovation Accelerator INNOVATING FOR EVERY CHILD, <https://dukeunicef.org/>

processes, implementing new technology in the overall distribution and marketing processes, and helping the existing enterprises to utilize existing resources in more efficient ways.

To sum up, supporting and promoting entrepreneurship can have a positive impact on the country's economy and even existing businesses, and social entrepreneurship increases the likelihood of finding innovation solutions to social challenges faced by communities around the world.

### 3- Entrepreneurship and its role in sustainable development



The focus on entrepreneurship is grounded in the vision of sustainable development through development of productive capacities and structural transformation of the economy. Innovation as an entrepreneurial activity is an essential element of structural transformation that implies shifting production factors from traditional economic activities towards those with higher value added and higher productivity. Entrepreneurship is thus indispensable for sustainable development<sup>5</sup>.

In the context of the 2030 Agenda for Sustainable Development the role of entrepreneurship in improving the quality of life for ordinary people, including disadvantaged groups is recognized, as it contributes to building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation.

In regard to the SDGs under review in 2019, entrepreneurship is linked to SDGs 9 and 8. SDG target 4 of Goal 9 aims to substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment and decent jobs and entrepreneurship. Concurrently, SDG target 8.3 sets out to promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises (MSMEs), including through access to financial services.

In most countries, MSMEs are the main drivers of employment and important facilitators of income generation, poverty eradication and inequality reduction for the majority of the population, including disadvantaged groups. MSMEs are one of the best tools to address the challenge of creating 600 million new jobs by 2030, particularly for the youth as they provide 60 to 70 percent of formal employment in developing countries and 80 percent in sub-Saharan Africa. Moreover, transformational entrepreneurs create new products and business models and offer decent job opportunities<sup>6</sup>.

**Table (1): SDGs (8 and 9) related to entrepreneurship and SMEs in Yemen**

SDG 8: Decent work and economic growth 				
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors				
Indicator	Data Year For Yemen	Yemen	Arab Average	Global Average
8.2.1 Annual growth rate of real GDP per employed person	2017	-17.7%	-0.51%	3.36%
SDG 9: Industry, innovation and infrastructure 				
9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets				
Indicator	Data Year For Yemen	Yemen	Arab Average	Global Average
9.3.1 Proportion of small-scale industries in total industry added-value <sup>7</sup>	2019	15.4%		
Indicator	Data Year For Yemen	Yemen	Arab Average	Global Average
9.3.2 Proportion of small-scale industries with a loan or line of credit	2013	3.38%	15.89%	26.16%

Source: YSEU, SDGs, Issue 54, November 2020. P 8.

Table (1) shows that the proportion of small-scale industries which obtained a loan or a credit line in the Republic of Yemen reached 3.38% in 2013, compared to 15.89% at the Arab level and 26.16% globally. This indicates a significant setback experienced by SMEs during the war, and therefore, they require adequate attention, which caused the real annual growth rate of GDP per person to plunge reaching -17.7% in Yemen in 2017. As a result, the future of entrepreneurial enterprises as well as medium and large enterprises will face big problems given that these firms are connected via backward and forward linkages and they reciprocally affect each other.

<sup>5</sup> UNCTAD, THE LEAST DEVELOPED COUNTRIES REPORT 2018, Entrepreneurship for structural transformation: Beyond business as usual. P 36.

<sup>6</sup> International Council for Small Business, Role of MSMEs and Entrepreneurship in Achieving the SDGs. Monday, September 9, 2019. <https://icsb.org/msmes-entrepreneurship-sdgs/>

<sup>7</sup> Central Statistical Organization, Industry Chapter, Statistical Yearbook 2019.

Microfinance is an essential component of sustainable development and a tool for poverty alleviation, unemployment reduction, job creation, and meeting the needs of the poor for various financial services. Therefore, the Yemeni government must pay attention for the poor, needy and people with limited income and care for them, including improving their living and social conditions, providing jobs for young people and those who are capable by expanding microcredit programs for start-ups, while encouraging banks and microfinance institutions through the Social Fund for Development, and even going further, as it is no longer only big investors who need financing, but also the poor and the working people. Guarantees required by commercial, Islamic and specialized banks are the only information available to society, and they have become a limitation for the unemployed and the poor who need to launch their businesses and bring out their talents and ideas. It is difficult for them to fulfill these conditions, which put their future in great danger. Accordingly, the future of their children (the next generation) is doomed by loss. Target 3 of SGD 9 calls for providing small-scale industries with a loan or line of credit. In Yemen, small industries with credit line make up 3.4%, compared to 15.9% for the average Arab countries and 26.2% globally.

## II The reality of SMEs

The SMEs sector plays an important role in leveraging the GDP added value, diversifying the economic and production structure of the state, stimulating the process of economic and social development. It also constitutes a major driver of employment in most countries around the world, particularly developing countries, considering that it makes up about 90% of the private sector setup, and contributes about 25% to the GDP<sup>8</sup>, while employing between 75%-85% the labor force. The MSMEs sector is unique in that it employs both semi-skilled and unskilled workers and offers on-the-job training opportunities for them to foster their capacities and skills<sup>9</sup>.

### 1- Added value for small, medium and large enterprises:

SMEs are of paramount importance in the economies of world states by forming a large percentage of the number of operating and influential projects in the national economies and income for a wide range of individuals in society. The definition of SMEs in Yemen is still not specified, as each sector has its own definition, yet it may be based on quantitative criteria. Definition by the Ministry of Industry and Trade is based on the Minister’s decree No. 136 for 2009 dealing with industrial establishments in terms of labor force and capital standards, as shown in Table (2):

**Table (2): Definition of industrial enterprises as in Ministry of Industry and Trade’s Decree for 2009**

Enterprise	# of workers	Total capital
Micro enterprises	3 or less	Less than 1 million (YER)
Small enterprises	4-9 workers	1 million to less than 20 million (YER)
Medium enterprises	10-50 workers	From 20 million to less than 1 billion (YER)
Large enterprises	Over 50 workers	1 billion and over (YER)

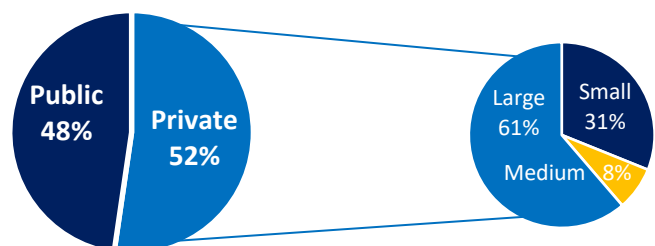
Source: Decree by the Minister of Industry and Trade No. 136 for 2009

50 workers or less, while micro enterprises are those employing between 1-4 workers. Meanwhile the National Strategy for SMEs (2011) provided no specific definition. Yet, the Small Industries and Enterprises Fund defined them as “enterprises with a total investment not exceeding US \$ 200,000, including the cost of land and buildings with 20 workers or less. It is therefore clear that there is no specific definition of SMEs in Yemen<sup>10</sup>.

Figure (4) shows the ratio of SMEs value-added to total contribution by the private sector in Yemen. Small-size enterprises contributed 31% during the average period 2013-2019, compared to 8% for medium-size enterprises during the same period. SMEs value-added made up for 39%, while large firms contributed most value-added of the private sector, i.e. about 61%. Low value-added contribution by the SME sector in Yemen can be ascribed to weak productivity, poor skills and limited production and export capacity.

Meanwhile, the National Strategy for the Development of SMEs in Yemen, which was prepared by the Social Fund for Development in 2004 and approved by the Council of Ministers under Decree No. 38 in January 2005, defines small enterprises as “any income-generating industrial, commercial or service activity employing

**Fig (4): Average value-adding contribution by SMEs to the total value added by the private sector during 2013-2019**



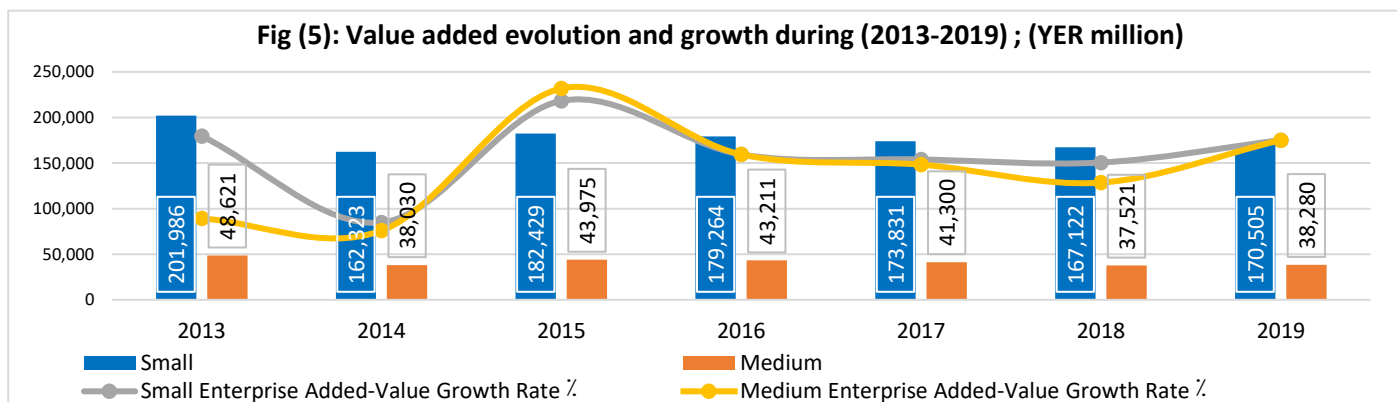
Source: Central Statistical Organization, Industry Chapter, Statistical Yearbook 2013-2019 .

<sup>8</sup> The Power of Small, Unlocking the potential of SMEs- ILO [https://www.ilo.org/beirut/countries/yemen/WCMS\\_561721/lang-ar/index.htm](https://www.ilo.org/beirut/countries/yemen/WCMS_561721/lang-ar/index.htm)

<sup>9</sup> Dr. Ekhlas Al-Amin and Dr. Mohammed Al-Azzani, Yemeni Banks Association - Sana'a. The role of small and medium enterprises in achieving economic and social development, 20/09/ 2020.

<sup>10</sup> Nawal Qassem Badihi, Business incubators and their role in the development and growth of SMEs, Al Baidha'a University Journal - Volume (2) - Issue (2), August 2020 (A special issue on the Research of the First World Scientific Conference in Al Baidha'a University).

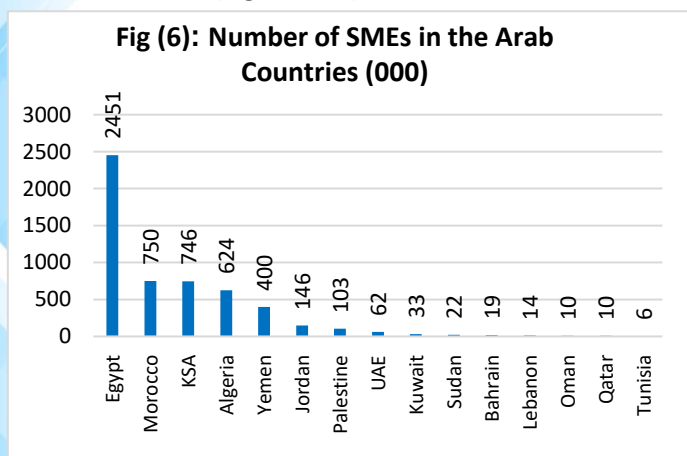
Figure (5) shows that the value-added contributed by Small-size enterprises dropped from YER 201.9 billion in 2013 to YER 170.5 billion in 2019, i.e. (-15.6%) decrease. Likewise the value-added contributed by medium-size enterprises, which fell from YER 48.6 billion in 2013 to YER 38.3 billion in 2019, i.e. (-21.2%) decrease. Meanwhile, the average annual growth of small-size declined to (-1.5%) during 2013-2019, compared to (-5.4%) for medium-size enterprises during the same period, due basically to the fact that the services sector has inflicted more damage than other productive sectors, with medium-size enterprise make up the bulk of them.



Source: The Central Statistical Organization, Industry Chapter, Statistical Yearbook 2013-2019

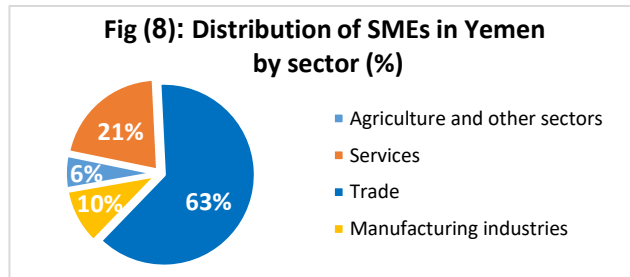
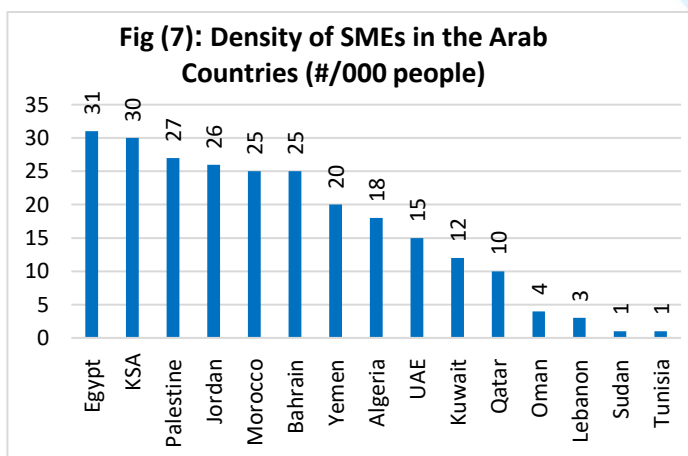
## 2- Number and density of SMEs in Yemen and the Arab region

The number and density of SMEs in Yemen and the Arab world are still modest compared to some other countries in the world such as India and China. At the Arab level, Egypt, Saudi Arabia, Palestine, Jordan and Bahrain tops the list of Arab countries in terms of SMEs density, while Egypt, Morocco, Saudi Arabia and Algeria and Yemen have the largest number of SMEs (Fig 6 and 7).



Source: MSMEs Database, International Finance Corporation, 2012.

Figure (8) shows that the distribution of SMEs in Yemen are relatively important in the trade and services sectors, where most small and medium enterprises are concentrated in wholesale and retail trade with about 63%, followed by the services sector by about 21%. As for the manufacturing and agricultural sectors, as well as other sectors, account for less than 10% for the manufacturing sectors and 6% for the agricultural and other sectors<sup>11</sup>.



Source: The Central Statistical Organization, Industry Chapter, Statistical Yearbook 2013-2019

## 3- Contribution of SMEs to employment and labor force

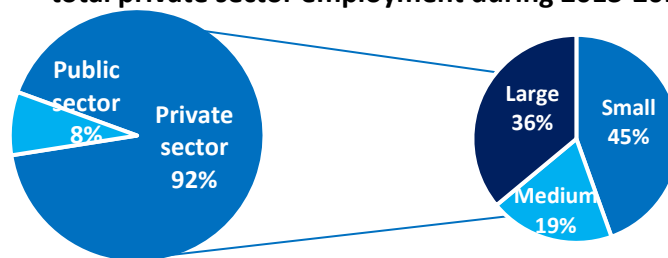
The private sector in Yemen employed an average of 92% of the total employment during the period from 2013-2019, compared to 8% for the public sector during the same period. Small enterprises in Yemen come first in terms of job creation and reduction of unemployment, making up for about 45% of total employment in the private sector during the average period 2013-2019, followed by large firms with 36% during the same period. Low contribution rate

<sup>11</sup> MSMEs Database, International Finance Corporation, 2012.

by large firms is because they are limited in geographical presence and often employ trained skilled labor unlike small-size ones which also employ people with no skills. The share of medium-size enterprises stands at nearly 19%. Hence, SMEs contribute about two-thirds of the total employment in the private sector, i.e. about 64% for the average of 2013-2019, as shown in Figure (9).

SMEs promotes the entrepreneurs' self-independence, with the majority of them work for their own-account (86%), while those working for other employers or with family businesses do not exceed 14% of the total SMEs workforce<sup>12</sup>. To the contrary, most workers in the medium-size enterprises work either for employers or as contributing family workers.

**Fig (9): Average Contribution by the MSMEs to total private sector employment during 2013-2019**



Source: The Central Statistical Organization, Industry Chapter, ibid.

### III The impact of the war/conflict and COVID19- on SMEs sector

#### 1- The impact of the war/conflict on the SMEs sector

Like other vital sectors in Yemen, SMEs have been hit hard by the war and conflict. About 35 per cent of SMEs had to close compared to 17% of large firms (Table 3).

A study conducted by SMEPS and UNDP in 2015 shows that most private businesses closed are located in Sa'dah governorate (43%) followed by Aden and Hajja with (38%). Key reasons and constraints that forced SMEs to suspend operations include the state of insecurity, growing capital losses due to the war and soaring price coupled with decreasing income, and thereby losing their customers. Service sector SMEs borne the brunt of the crisis with 35%<sup>13</sup> enterprises had to shut businesses. Meanwhile, a lot of SMEs in conflict zones were in default<sup>14</sup>, while owners of many others had to displace to other areas, resulting in their loss of their livelihoods, let alone the inability to meet their financial commitments. However, the proportion of enterprises, which remained closed did not exceeded 10%, while 41% have resumed their operations partially.

Findings of the survey conducted by the International Labor Organization in Yemen on the damage caused to SMEs in Sana'a due to the war and conflict (Fig. 10) showed the following<sup>15</sup>:

1. 5% of small and medium enterprises have been completely destroyed.
2. 58% of SMEs suffered partial damage.
3. 40% of small and medium enterprises incurred direct human losses.
4. Declining employment opportunities in SMEs, where 60% of workers and employees were laid off due to the damage caused to those facilities.
5. 35% of SMEs suffered direct material damage and losses in buildings, infrastructure, appliances, equipment, furniture, raw materials, the final product, etc.
6. Infrastructural damages reported by about 30% of those SMEs half of them sustained major damages, including equipment, raw materials and company transport vehicles, while at least 30% of these SMEs lost about 50% of their fixed assets.

**Table (3): % of private sector businesses closed since the war began in 2015 by size**

Type of SME	Closed SMEs
Micro	24%
Small	27%
Medium	35%
Large	17%

Source: smepps, rapid business survey: impact of the yemen crisis on private sector activity

**Table (4): % of business closures since the war began in 2015 in six governorates**

Gov.	%	Main constraints
Sa'dah	43%	Infrastructural damage, loss of capital, lack of equipment
Hajja	38%	Soaring prices, loss of capital, loss of customers
Aden	38%	insecurity, loss of capital, mounting debt
Sana'a	21%	Insecurity, loss of capital, higher prices
Abyan	16%	Insecurity, loss of capital, mounting debt
Taiz	15%	Insecurity, higher prices, loss of capital

Source: SMEPS, Rapid Business Survey: IMPACT OF THE YEMEN CRISIS ON PRIVATE SECTOR ACTIVITY

<sup>12</sup> UNCTAD, THE LEAST DEVELOPED COUNTRIES REPORT 2018,

<sup>13</sup> SMEPS, Rapid Business Survey: IMPACT OF THE YEMEN CRISIS ON PRIVATE SECTOR ACTIVITY

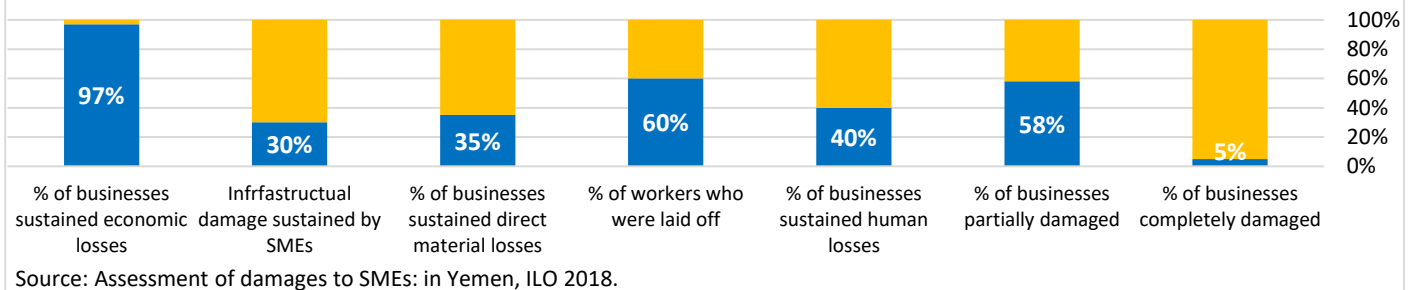
<sup>14</sup> SFD, The COVID-19 Pandemic and the Potential Impacts on the Microfinance Sector in Yemen, 2020.

<sup>15</sup> Assessment of damages to SMEs: in Yemen, ILO 2018.



7. Almost all SMEs incurred economic losses equivalent to (97%), such as losses resulting from suspension of business and staff salaries and wages during the suspension of activity, in addition to expected revenue losses and decreasing clients.
8. The gross cost of economic damage to these SMEs was estimated at \$37,000 for small-size enterprises and over \$99,000 for medium-size ones. This cost estimation was based on calculation for a period not exceeding six months. These figures are almost double for those enterprises that incurred significant property damage (about 10%).

**Fig (10): Assessment of damages to SMEs: in Yemen, ILO 2018**

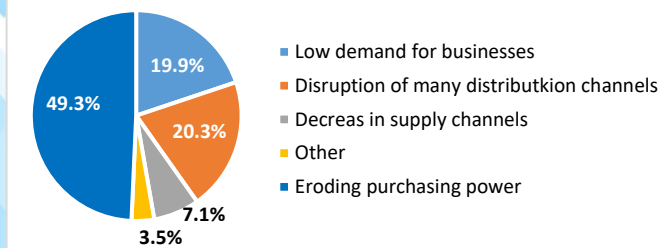


To the contrary, microfinance banks, institutions and programs were greatly affected by these changes, as they lost a significant proportion of their customers and employees coupled with other multiple problems, mainly severe liquidity shortage, operational and capital losses, and the inability to meet the growing funding applications<sup>16</sup>.

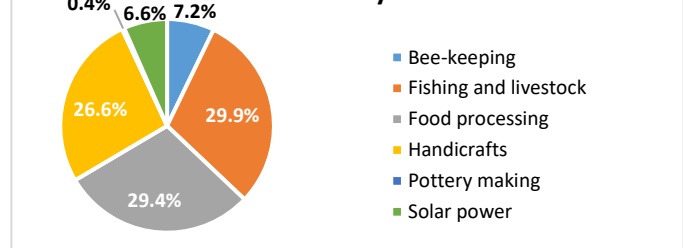
## 2- The impact of COVID-19 pandemic on SMEs

Although the Covid-19 outbreak poses an exceptional and high-risk threat to Yemen given the wide-scale destruction to the country’s infrastructure over seven years into the war. This situation has debilitated the ability of Yemen to confront the virus, as only 50% of health centers are fully functional. With the continuation of war and the nature of Yemen’s economy which is characterized by limited sources of income. i.e. expat remittances, in addition to grants and foreign aid, as oil and gas exports came to a total freeze, lack of foreign investments and stop of tourism revenues. On the other hand, the country relies heavily on imports (80% - 90%) to cover its basic needs. The COVID-19 pandemic has also had a negative impact on the performance of SMEs throughout Yemen. The demand for business fell by 20%, together with 20% disruption in distribution channels and 49% drop in the purchasing power (Figure 11)

**Fig (11): The Negative impacts of COVID-19 on SMEs**



**Fig (12): SMEs affected by COVID-19 by sector**



Source: <https://www.ve.undp.org/content/yemen/en/home/coronavirus.html>

COVID-19 pandemic has had multiple effects on the performance of micro businesses in Yemen, as shown in Figure (12).

A study by the Social Fund for Development (SFD) showed that the COVID-19 outbreak triggered severe impacts on SMEs amid strict countermeasures to confront the spread of the pandemic, including closure of markets and commercial centers, freeze of businesses, mainly SMEs, whose nature entails enga ging with institutes, schools, Internet cafes, parks, sports and cultural clubs, wedding halls, hairdressing shops and commercial establishments. Meanwhile, many workers in the sector have lost the opportunity to grow, develop and acquire new skills and experiences pertaining to the industry as training programs have been suspended. Moreover, microfinance institutions suspended financing to large and vital sectors<sup>17</sup>.

SMEs have been affected most by the unprecedented countermeasures imposed in the context of the pandemic, reduced working hours. In addition, employment opportunities for daily wage laborers have fallen sharply, given that they represent an important source of income for many of the unemployed, IDPs and the poor who have no agricultural holdings. The majority of households endured record drop in income levels in March 2020. This caused an increase in

<sup>16</sup> SFD, The COVID-19 Pandemic and the Potential Impacts on the Microfinance Sector in Yemen, 2020.

<sup>17</sup> SFD, The COVID-19 Pandemic and the Potential Impacts on the Microfinance Sector in Yemen, 2020.

the number of food insecure families and chronic poverty levels, an early warning for the humanitarian community amid burdened aid, which entails robust measures to mitigate the crisis.

Other factors include repercussions brought by the COVID-19 pandemic such as closure of schools, universities, restaurants, markets and facilities, with its impact on the daily income and purchasing power of a large segment of the population and the enormous challenges to producers<sup>18</sup>.



Source: The Social Fund for Development, the COVID-19 pandemic and its potential implications for the microfinance sector in Yemen, 2020.

Accordingly, promoting and developing SMEs and responding to the COVID-19 pandemic in Yemen requires the following:

1. Provide financing to SMEs affected by the COVID-19 pandemic to reinstate their economic activities that enhance sources of income, improve job opportunities for certain groups, and contribute to the flow of goods and food to local markets in order to improve the food security.
2. Optimize investment of available resources in order to rehabilitate and protect damaged community infrastructure and livelihood services, thereby stabilizing domestic economic and food production, improving job opportunities, income-generating projects, food production and access, and self-reliance of Yemenis.
3. Support strategies on access to and development of SMEs which employs a broad segment of people to earn daily income and eventually meet their daily expenses and needs for a decent living.

## IV Prerequisites to leverage entrepreneurship in Yemen

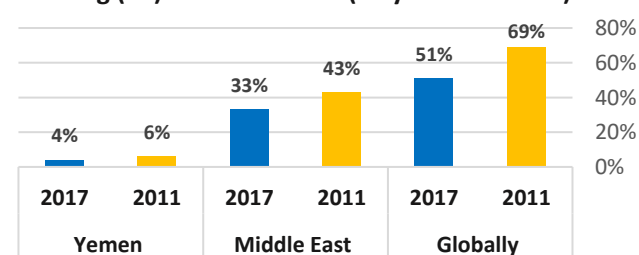
To promote the SMEs operating environment in Yemen, dire and urgent actions have to be introduced to make a qualitative leap in the national economy and eradicate poverty through entrepreneurship, mainly the following:

### Financial Inclusion

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. Being able to have access to a transaction account is a first step toward broader financial inclusion since a transaction account allows people to store money, and send and receive payments. A transaction account serves as a gateway to other financial services, which is why ensuring that people world wide can have access to a transaction account is the focus of the World Bank Group's Universal Financial Access 2020 initiative<sup>19</sup>.

The Global Findex shows that only 6% of adults (15 years and over) who have bank accounts or accounts at mobile financial service providers in Yemen, compared to 43% in the MENA region and 69% globally as shown in Figure (13), indicating the importance to increase access to financial services in Yemen by expanding the coverage of financial institutions, while allowing service providers to introduce digital financial services tailored for the need of those unbanked. This would increase the chances for SMEs in Yemen to access available financing.

Fig (13): Banked adults (15 years and over)



Source: World Bank, The Global Findex database 2017.  
[https://globalfindex.worldbank.org/#data\\_sec\\_focus](https://globalfindex.worldbank.org/#data_sec_focus)

<sup>18</sup> FAO, Market Monitoring Bulletin. June 2020, Issue 59. P 5.

<sup>19</sup> World Bank, Financial Inclusion, Financial inclusion is a key enabler to reducing poverty and boosting prosperity.

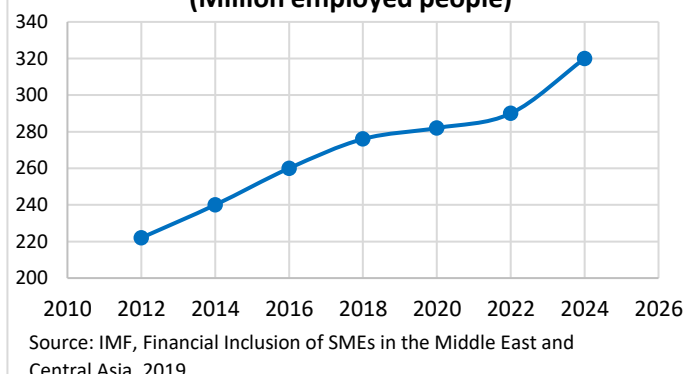
<https://www.worldbank.org/en/topic/financialinclusion/overview#1>

Entrepreneurs should have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. IMF Report 2019 for MENA countries shows that financial inclusion have been useful for a lot of SMEs in areas like growth and employment, as shown in Figure (14).

Leveraging financial inclusion in Yemen requires the following actions:

- ✓ Ensure financial services are expanded and delivered to the difficult-to - access population, including women and the rural poor.
- ✓ Increase financial literacy among citizens and their financial capabilities so that they can understand various financial services and products.
- ✓ Ensure that each person has the right identification documents, and the means of verification are low and easy.
- ✓ Invent useful and relevant financial products tailored for the needs of consumers.
- ✓ Develop strong work frameworks for consumer financial protection, including through the use of technology to improve supervision.
- ✓ Draft a national financial inclusion strategy in Yemen to achieve greater progress towards financial inclusion, including expanding access by difficult-to-access people and small businesses to financial services at lower cost and risk.

**Fig (14): Employment Benefits, 2010-2025  
(Million employed people)**



## Business Incubators

The idea of incubators is not a spur-of-the-moment, but an idea that has existed for long. SMEs date back to the 1970s, although earlier in the United States of America in 1959. The first business incubator is thought to have been established in Batavia, New York in 1959, when a family converted their closed company into a business center rented to individuals wishing to start-up their small and medium-sized enterprises, including advice and consultancy services. This idea has gained a great success and later developed into the nowadays business incubators, with thousands of SMEs being graduated<sup>20</sup>. It wasn't until 1984, when the Small Enterprises Authority (SBA) set up a development program and set up a number of incubators to become organized. There were only 20 incubators in the United States ever since, however, they continue to rise to reach nearly 550 incubators by end of 1990<sup>21</sup>, up to 7,500 incubators end of 2013 (33% annual growth rate). About 2,500 of these incubators are linked to universities<sup>22</sup>.

The concept of "Business Incubators" was derived from the incubator in which preterm born children are placed to be given the necessary support and care so they can adapt to the difficulties arising from the circumstances surrounding them. The incubator provides administrative, financial and technical support to SMEs to assist them in overcoming problems that can fail them, while providing them with an opportunity for rapid growth and better performance, thereby raising their chances for success as they graduate from these incubators.

**Table (5): Loan portfolio indicators for microfinance programs and institutions, Feb. 2021**

MF Category	Program	Establishment	Branches	The active number of clients					Area of Operation
				Borrowers				Savers	
				# of Active Borrowers	Outstanding loan portfolio (Million YER)	Average loan portfolio (YER)	Women (%)	# of Active Savers	
Banks	Alamal Microfinance Bank	2009	16	34,838	3,637	104,397	35%	199,523	Sana'a City, Taiz, Ibb, Dhamar, Hodeidah, Aden, Hadramawt, Hajjah, Abs
	Alkuraimi Islamic Microfinance Bank	2010	65	8,879	15,618	1,758,982	11%	1,426,891	Sana'a City, Aden, Taiz, Hodeidah, Dhamar, Ibb, Hadramawt (Makala, Seyun)
Foundation	National MF Foundation	2003	20	12,305	4,102	333,360	24%	22,511	Sana'a City, Taiz, Ibb, Al-Qa'edah, Yarim, Hajjah, Lahej, Dhamar, and Al-Hudaidah, Aldali, Bajil, Damat, Al-Torba, Shabam Kokaban

<sup>20</sup> El Massajidi et al., 2020: 135.

<sup>21</sup> (El Hajeri, Abdullah, 2015: 4).

<sup>22</sup> Edarous & Ahmad, 2013: 229).

MF Category	Program	Establishment	Branches	The active number of clients					Area of Operation
				Borrowers				Savers	
				# of Active Borrowers	Outstanding loan portfolio (Million YER)	Average loan portfolio (YER)	Women (%)	# of Active Savers	
	Aden MF Foundation	2005	5	7,684	520	67,673	61%	4,956	Dar Sa'ad, Al-Buraikah, Al-Tawwahi, Crater, Khormaksar, Al-Mansoura, Lahej, Al-Dala
Programs	Nama' MF Development Program	2000	12	7,308	2,424	331,691	22%	130	Sana'a City, Taiz, Hodeidah, Ibb
	Al-Etihad MF Program	2003	8	2,998	890	296,865	73%		Abyan (Zingibar, Ahwar, Kanfar), Al-Mukalla, Al-Shihr, Aden
	Al-Tadhamon Program for MF	2006	22	5,197	3,537	680,585	22%		Sana'a City, Taiz, Hodeidah, Aden, Ibb, Al-Mukalla, Seyun
	Sana'a MF – Azal	2001	8	3,795	2,079	547,826	30%	2,761	Sana'a City, Al-Mahweet, Amran, Dhamar
	Wadi Hadhramaut	2000	8	6,729	1,364	202,705	30%	5,903	Hadramawt (Seyun, Tarim, Al-Suom, Sah, Alkton, Shebam, Almokala, Al-Shar, Al-Hamai), Shabwah, Al-Mahra
<b>Total</b>			<b>164</b>	<b>89,733</b>	<b>34,171</b>	<b>480,454</b>	<b>34%</b>	<b>1,662,675</b>	

Source: SFD, February 2021.

<https://smed.sfd.yemen.org/index.php/en/blog-4/financaiil-indicator-2>

Despite the setbacks suffered by the microfinance industry in Yemen in the late nineties of last century, yet the industry witnessed rapid growth over the past twenty years thanks to government support provided through the Social Fund for Development, international organizations and donors. Currently, there are two microfinance banks and seven microfinance institutions present in almost all major cities, in addition to some rural areas of Yemen serving over 89,733 active borrowers, about 34% of whom are women, as well as 1,662,675 savers. The total loan portfolio reached YER 34 billion end of February 2021, with average YER 480,454 Yemeni per loan as shown in Table (5).

Business incubators are looking forward to achieve a set of goals, including:

- 1) Sharing the establishment of production or service projects that serve the community, help create the appropriate climate and provide all the resources required to facilitate the establishment of these businesses.
- 2) Linking new enterprises to markets and create a network for the new SMEs and those already exist. Incubated SMEs within the same incubator can also be linked together for experience-sharing.
- 3) Achieving a set of social objectives in order to develop human resources and solve the issue of unemployment.
- 4) Domesticating innovations and technological know-how in order to support the ideas of entrepreneurs and turn them into products.
- 5) Assisting small-sized enterprises overcome administrative, financial and technical problems and barriers that they may encounter, especially in the establishment phase.
- 6) Training SME owners on sound management skills and how to develop their managerial capacities.

Overall, incubators assume a very important role across several economic and social development spheres. They represent the nucleus for translating human creativity into thoughtful and productive businesses, and also reliable mechanism for job creation.

## Economic Empowerment

Economic empowerment of entrepreneurs is a process that allows entrepreneurs transform from lower to higher economic position, by increasing their influence and control over the basic economic and financial resources, including wages, capital and in-kind assets. This ensures their direct financial independence. It is also a process of integrating the non-working poor groups who have lost their family breadwinner into SMEs so they can earn regular monthly income, taking into account their cultural backgrounds and professional capabilities prevalent in their community<sup>23</sup>.

There exist many agencies that support the economic empowerment for SMEs, such as: the Industries and Small Enterprises Finance Fund, the Social Fund for Development, and other institutions that provide financing under certain guarantees, such as: Al-Amal Microfinance Bank, Azal Foundation for Small and Microfinance, the National

<sup>23</sup> <http://elsada.net/105889/>

Microfinance Foundation and others. Table (6) shows that the number of loans issued jumped from 3,068 in October to 3,451 in November 2021, i.e. (12.5%) increase, while the value of issued loans decreased from YR 5.4 billion to YR 4.6 billion, that is (-15.4%) decrease, due to drop in average loans from YR 1.8 billion in October to YR 1.3 billion in November 2021<sup>24</sup>.

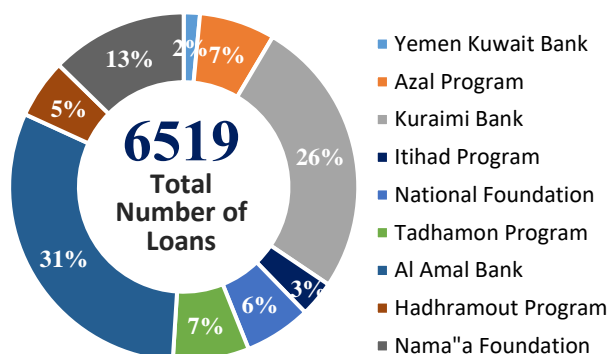
**Table (6): # and value of loans by MF programs during October - November 2021**

Program	# of loans granted		Value of loans granted (million YER)	
	October	November	October	November
Yemen Kuwait Bank	51	47	1279	394
Azal Program	211	247	311	332
Kuraimi Bank	855	834	2255	2173
Etihad Program	116	100	99	92
National Foundation	170	233	145	157
Tadhamon Program	211	250	446	446
Al Amal Bank	796	1214	239	394
Hadhramout Program	194	163	148	181
Nama'a Foundation	464	363	493	411
<b>Total</b>	<b>3,068</b>	<b>3,451</b>	<b>5,415</b>	<b>4,580</b>

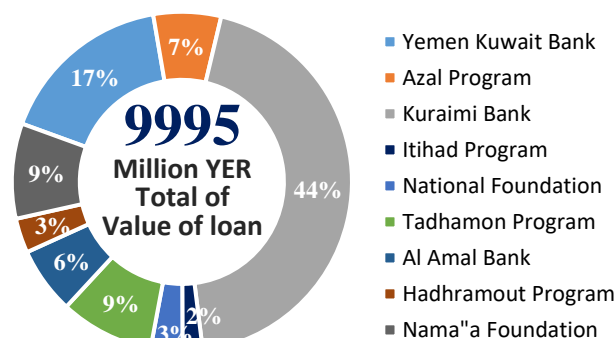
Source: <https://smed.sfd-yemen.org/index.php/ar/pointers/2019-02-06-12-11-39>

Figures 15 and 16 above shows the competition among microfinance programs and institutions in funding for SME enterprises, and the positive impact on economic empowerment of individuals. The total loans granted during October-November 2021 about 6,519 loans with total value of YER 9.995 million.

**Fig (15): Total # of Issued Loans Proportioned from MF Programs (October-November 2021)**



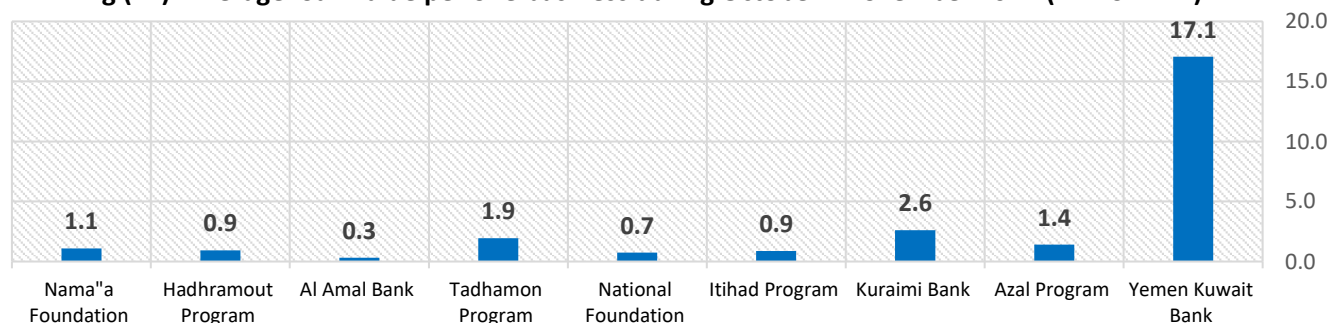
**Fig (16) : Gross Value of Issued Loans Proportioned from MF Programs (October-November 2021)**



Source: <https://smed.sfd-yemen.org/index.php/ar/pointers/2019-02-06-12-11-39>

Figure 17 also shows that Yemen Kuwait Bank came first in terms of the average share of loans granted with YER 17.1 million, yet the lowest in terms of the number of loans (about 2% of all loans issued). The lion share, meanwhile, was recorded by Kuraimi Bank with 26% and 44% in terms of the number and value of loans, respectively, with average value per loan at about YER 2.6 million. For Al Amal Bank, it covers a broad segment of SMEs (36%), although with less loan values, as its share to gross value of all granted loads not exceeding 6%, with average per loan value of about YER 300,000.

**Fig (17): Average loan value per one business during October - November 2021 (Million YER)**



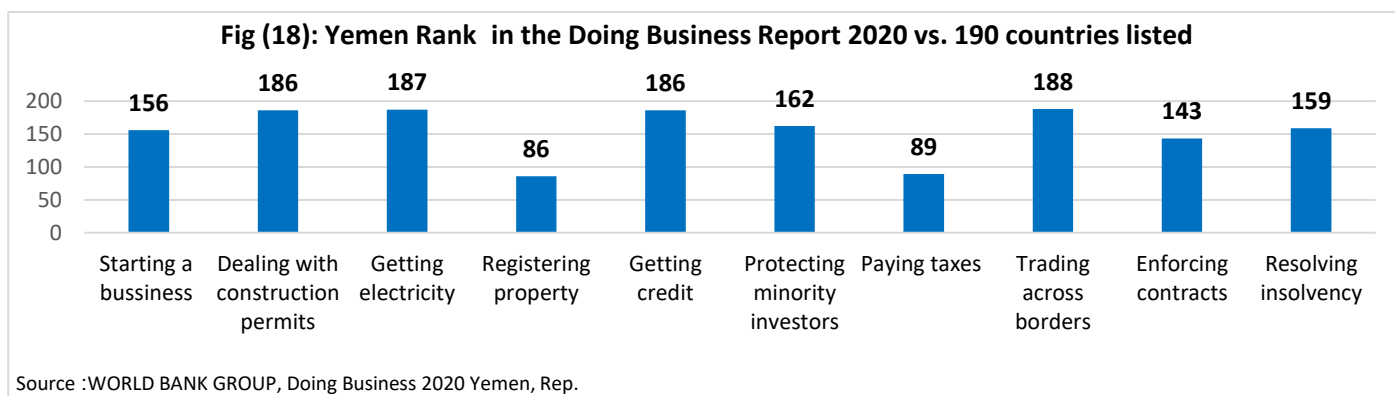
Source: <https://smed.sfd-yemen.org/index.php/ar/pointers/2019-02-06-12-11-39>

<sup>24</sup> Average loan = Amount of loan issued for the month/Number of loans issued for the same month

## Business Environment

Business environment is the sum total of all external factors that influence a business directly or indirectly. The environment refers to external factors that create opportunities and threats to businesses, including social and economic conditions, technology and surrounding circumstances. It is very clear that the business environment is a combination of multiple complex and dynamic factors beyond your control that need to be worked on. Findings of the Doing Business Performance Environment Index 2020 as shown in Figure (18) ranks Yemen 187 out of 190 countries listed with 31.8 scores.

some sub-indicators that call for urgent actions to improve Yemen's rank across many indicators, mainly: access to credit and obtaining licenses, which can contribute to promoting entrepreneurship, small and micro enterprises in Yemen.



## V

### Efforts to develop the micro and small enterprises

The SMEs and entrepreneurship sector is crucial for Yemen's economy in terms of the provision of services and basic goods, as well as job creation. Further development of this sector would clearly contribute to providing livelihoods for a significant portion of the population, including young men and women, especially at times of war. There are numerous challenges that have been facing the sector; yet some efforts were made to this end including reforms to business registration, the elimination of minimum capital requirements to start a business brought down; corporate taxes were reduced significantly; a marked decrease in property disputes; the market for Islamic banking services was opened; the government established a credit registry<sup>25</sup>. In addition, a host of other efforts at the legislative and institutional spheres were made, including:-

#### 1. At the legislative level

Although there is no specific legal provision regulating the business of micro and small enterprises and related legal aspects, including communicating benefits and exemptions for these businesses, yet trade related codes such as the Corporate Law (22) for 1997 and Investment Law (22) for 2002; both specify the business scope of the private sector establishments, as well as exemptions and benefits provided to businesses in general, including small and micro enterprises. The Industrial Code No. (20) of 2010 is the only document to explicitly refer to small industries in Chapter Six, whose Article (13) provides for "It is important to prepare studies, plans and programs aimed at developing small industries in coordination with the relevant authorities, encourage the establishment of industrial cooperatives and provide them with incentives and benefits. Article (14), meanwhile, calls for the establishment of a joint committee involving all government agencies, institutions and specialized NGOs to undertake the development of small-scale industrial projects. Article (15) calls on the Ministry of Trade and Industry to allocate 20% of the area of industrial zones and complexes to small industries in accordance with Article on Industrial Zones under Chapter 5 of this law. This is in addition to Decree (163) for 2009 issued by the Ministry of Trade and Industry on the classification of industrial establishments, where a small establishments have been identified as those employing between 4-9 workers with a capital between one million to twenty million Yemeni riyals. While the micro establishment is any one employing less than three workers with a capital less than one million Yemen riyals.

With regard to financing, Law (15) for 2009 on Microfinance Banks was passed in order to provide banking services to families, small-scale farmers and small and micro-enterprises in urban and rural areas, provide equal opportunities for all target groups, improve living standards for members of society, and provide appropriate financing for target groups by providing facilities for the poor to access financing, and eventually contribute to reducing unemployment and poverty rates.

<sup>25</sup> Rethinking Yemen's Economy, PRIVATE SECTOR ENGAGEMENT IN POST-CONFLICT YEMEN 2018.

Within the framework of financing efforts for small and micro-enterprises, Microfinance industry started in Yemen in 1997 by the Social Fund for Development, which piloted 5 microfinance programs in rural areas. A new phase began in 2000 by establishing strong urban programs. The first transformation came in October 2002, when a Board of Trustees was formed for the National Microfinance Foundation (NMF). In 2006, Al-Tadhamon International Islamic Bank, the largest private bank in Yemen, established a program to serve SMEs with loans. In 2008, Al-Amal Microfinance Bank started its operations which formed a new turn of events in microfinance industry in Yemen, as it constituted the first bank specialized in small and micro financial services. YMN was established in 2010 by the SFD and UNDP as an NGO to be the first Local Network that serves the Microfinance Sector, including technical assistance to all Microfinance institutions, information sharing and promoting the sector to raise its efficiency<sup>26</sup>.

## 2. At the institutional side

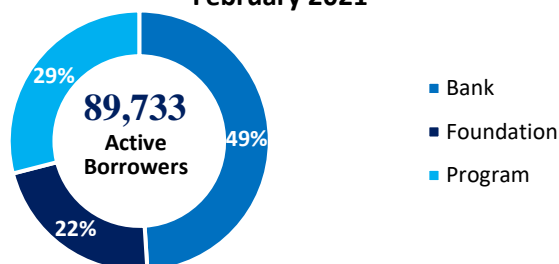
Institutionally, the Ministry of Industry and Trade and its Small Business Development Fund seeks to promote the competitiveness and the development of SMEs, together with the Social Fund for Development, and the Small and Medium Enterprises Promotion Service affiliated to the Fund. Several institutional entities have been setup to provide support to this sector. SMEPS plays a pivotal role in supporting SMEs access to business development services, including consultancy, technical expertise and training.

### Social Fund for Development

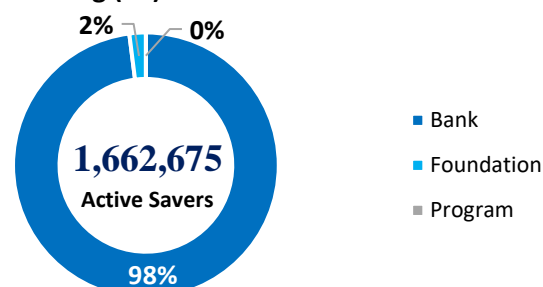
#### Small and Micro Enterprises Development Unit

The Small and Micro Enterprise Development Unit was established by SFD to ensure access to diverse and sustainable financial services in most urban and rural areas, providing diverse and sustainable non-financial services to owners and workers of small and micro enterprises, and contributing effectively to the development of an infrastructure that supports the growth and development of the finance industry in Yemen<sup>27</sup>. In addition to providing in-kind compensation to borrowers affected by the war through financing institutions and the Yemen Microfinance Network, provided that the suspended activity continues for at least a year and a half, and providing financial grants to cover part of the operating expenses as partial compensation for financial losses incurred by the financial institutions. Besides, continuing to provide loans to financial institutions and rescheduling of previous loans and by extending repayment period. Interests were also abolished by SFD turning them into white loans since 2015<sup>28</sup>. By 2021, the number of SMED's active savers reached (1,662,675), while active borrowers reached (89,733).

**Fig (19): # of Active Borrowers as of February 2021**



**Fig (20): Active Number of Savers**



Source: SFD, February 2021 <https://smed.sfd-yemen.org/index.php/en/blog-4/financial-indicators-2>

#### Small and Micro Enterprise Promotion Service (SMEPS)

A unit affiliated to the Social Fund for Development –Yemen and was established in 2005 as a financially and administratively independent entity. Its mandate is to create jobs and target the largest number of beneficiaries, with a primary focus on development projects and linking them to humanitarian action. It also seeks to achieve its goals using “innovative MSME strategies and market-driven approaches”, including interventions to ensure access to economic and technical resources to market-driven private sector components, including SMEs<sup>29</sup>. It works to sensitize the sector's supporting agencies (chambers of commerce, private institutions and associations) to organize experimental trips and assist service providers develop their administrative skills. Chambers of Commerce are also supported to provide advisory and technical services to small enterprises<sup>30</sup>.

<sup>26</sup> Yemen Microfinance Network, History of Microfinance Industry.

<sup>27</sup> Microfinance Institutions and Programs Directory 2014, NIC, Yemen.

<sup>28</sup> YSEU Bulletin, Issue 36, The Microfinance Industry in Yemen, 2018.

<sup>29</sup> Small and Micro Enterprise Promotion Service.

<sup>30</sup> Microfinance Institutions and Programs Directory 2014, NIC, Yemen.

## Al-Amal Microfinance Bank

It is the first Microfinance Bank in Yemen and MENA region. It was established under Law (23) for 2002, and had officially started operations in January 2009 under the supervision and control of the Central Bank of Yemen. Al-Amal Bank is a non-profit financial institution (no dividends are distributed to shareholders). Its core business is to provide sustainable financial services to the poor groups in Yemen, and those with limited and low incomes - especially SME owners - by providing comprehensive financial services commensurate with their needs such as financing, savings, insurance, internal and external remittances, forex and cash payments. The bank's total active borrowers reached 34,749 (23,635 males and 11,114 females). The young borrowers ratio makes up 35% of all borrowers, while total members of the beneficiary families reached (274,285)<sup>31</sup>.

## Yemen Microfinance Network

The Yemen Microfinance Network is a non-profit NGO registered under the Ministry of Social Affairs & Labour as a member based association on August 31, 2009. It has 21 members including microfinance banks, foundations, companies, programs. YMN serves its members and the industry through training & capacity building of its member MFIs, facilitation of sector transparency & information sharing and research for the promotion of the microfinance sector. All of which make YMN a platform for MFIs to operate, grow, increase scale, quality and outreach to serve the low-income households, micro entrepreneurs and small business owners from both genders, including young people aged 18-30 years, as well as women<sup>32</sup>.

## National Finance Corporation

The National Finance Corporation has been engaged in economic empowerment and support for small and micro-entrepreneurs since 2003. It seeks to be a source of financing and a tool for economic growth and development of the society through a range of financial services such as savings, financing and insurance, as well as non-financial services such as feasibility studies, training and monitoring. NMF manages an investment and agricultural portfolio that supports small projects, whether crafts, services or commercial businesses. Financing of individual businesses amounts to (YER 5,000,000), with soft guarantees that are commensurate with the loan size and its uses. This loan meets the needs of customers with economic activities commensurate with their basic capabilities. The loan repayment cycle is monthly<sup>33</sup>.

## Business Incubators

They are viewed as viable solutions to support the stabilization of SMEs because they empower so they can achieve a high degree of economic stability. However, their number remains few in Yemen. A number of such business incubator initiatives were established during the war, including: Kayan and Car Care as well as Ruwad Business Corporation. There have been also some efforts and initiatives to promote financing to small and micro enterprises, as follows:

1. Tadhamon Program for Small and Microfinance.
2. Kuraimi Islamic Microfinance Bank.
3. Azal Program for Islamic Small and Microfinance.
4. Nama'a Foundation for Small and Microfinance.
5. Al-Awael Finance Company.
6. Itihad Microfinance Program - Yemen Women's Union, Abyan.
7. Hadhramout Microfinance Program.

## 3. At the regional and international levels

1. The Business Resilience Assistance for Value-Adding Enterprises (Brave) project of the Islamic Bank for Development is considered one of the most important emergency and urgent interventions and projects that provide technical assistance and financial support by up to \$15,000 to SMEs owners and entrepreneurs in a number of vital sectors: health, agricultural, and fisheries, food, and the clothing sector, in order to prevent their collapse and support their resilience during the ongoing war, especially amid a growing business deterioration.

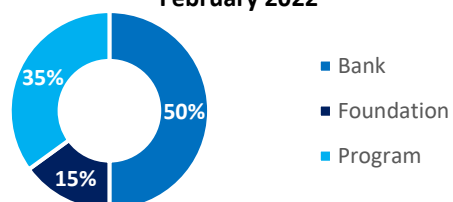
The Brave project launched in 2016 a financing for SMEs at a total of nearly nine million dollars via local banks and in coordination with small and smaller enterprises (SMEPs); Local Executive Agent for the IsBD. As of August 2020, technical support was provided to 620 enterprises, and hundreds others received funding. Overall, Brave's investment for SMEs has reached \$ 21.6 million in total.

<sup>31</sup> Al Amal Microfinance Bank. <https://alamalbank.com/about-us>

<sup>32</sup> Yemen Microfinance Network. <http://yemennetwork.org/>

<sup>33</sup> National Microfinance. <https://nmfy.org/ar/loans-products/nmf-small-business-loan>

**Fig (21) : Branch Ratio of MFIs Sector till February 2022**



Source: SFD, February 2021.

<https://smed.sfd-yemen.org/index.php/en/blog-4/financial-indicators-2>



During the year 2021, Brave project was restricted to supporting women business leaders (BRAVE WOMEN). The Project is implemented in three phases, starting with training female beneficiaries on the business continuity plan, followed by a financial grant ranging between \$5,000 and \$15,000 for each beneficiary, i.e. 50% of the development plan, and ending with technical support and growth monitoring. Findings showed that, 88% of all SMEs have reported very positive results, including 79% of women-run businesses<sup>34</sup>.

2. Supporting the development of the National Strategy for MSMEs 2011-2021 by the Private Sector Development Project funded by GIZ. The objective was to improve the competitiveness of MSMEs sector by transforming the industrial sector in Yemen from a resource-based industry dominated by family businesses and market-driven to a competitive industry with high value-added and an export-oriented led by modernized enterprises<sup>35</sup>.
3. Donors active in financial and private sector development are in various stages of re-examining their strategies and planned projects. Several donors currently provide assistance for financial and private sector development, with a number of donors funding SFD activities, including SFD's micro and small finance, services, training activities. In 2012, the World Bank has conducted a series of consultations with donors active in private sector development to coordinate efforts and better identify the Bank's value added in this sector. Key initiatives with synergies and complementarities with this project include the Economic Opportunities Fund (EOF), the European Union's pending small finance project, the GIZ private sector development program, the UNDP youth employment project, IFC's technical assistance work with microfinance banks, among others<sup>36</sup>.
4. The World Bank has undertaken significant analytical and technical assistance work in the financial and private sector in Yemen, including the World Bank's investment climate assessments, the World Bank's 2012 Rapid Assessment of the impacts of the 2011 crisis on private enterprises, the Doing Business reports and studies of the micro and small finance market, and technical assistance on the financial sector and business climate. These efforts have helped diagnosing the limitations of the business environment and the factors contributing to the low competitiveness of the Yemeni private sector<sup>37</sup>.
5. The support by WBG to the private sector during the war, a critical means of targeting resilience and sustainable development that is often unaddressed under a traditional humanitarian response. The ECRP has supported nine targeted microfinance institutions, which have to date indirectly benefited 11,775 small and medium enterprises (SMEs) and directly provided grants to 2,655 SMEs, relieving them from outstanding loans, supporting the rehabilitation of their enterprises, and ultimately contributing to increased purchasing power. The WBG has also provided substantial assistance to Yemen's SFD with the development of a partial credit guarantee program (LGP). WBG support has enabled the LGP to sign partnership agreements with six microfinance institutions and banks (NMF and AZAL) and allowed for the extension of loans to over 153 SMEs to date. IFC is also supporting several microfinance institutions, including local ones as they transition into licensed banks. IFC is also developing a risk-sharing facility to enhance lending to SMEs that use solar energy. Just-in-time TA and ASAs implemented by IDA have informed the design of WBG operations and enabled further support to SMEs and the private sector in the country. IFC has supported these efforts by launching a Corporate Governance SME program, which provides corporate governance training to family businesses through the Yemen Institute of Directors. Since 2017, IFC has been working with other development partners to develop a Trade Finance Facility to support Yemeni imports of basic food commodities through local banks. The process has been challenging due to limited involvement from international banks and the way current mechanism food imports are handled. Due to renewed interest, however, IFC will continue to identify ways to support the proposed facility with assistance from bilateral donors and the GoY. Increased private sector engagement will be key to livelihood support and basic economic recovery in Yemen<sup>38</sup>.

## VI Challenges and constraints

### 1. Entrepreneurship

- Shortfall in entrepreneurial centers (incubators) across Yemen and limited outreach.
- Lack of community support to entrepreneurship centers (incubators).
- No legislative and legal provisions that promote innovation and invention.
- Lack of cooperation between the government, universities, research centers and the private sector to jointly establish and support diversified business incubators, providing them with appropriate savings, so they can deliver services they provide for various enterprises.

<sup>34</sup> Business Resilience Assistance for Value-adding Enterprises (BRAVE) January 2021

<sup>35</sup> National Strategy on SMEs, Ministry of Trade and Industry, 2012.

<sup>36</sup> World Bank, SME Revitalization and Employment Pilot Project, Yemen, PID.

<sup>37</sup> Ibid.

<sup>38</sup> INTERNATIONAL DEVELOPMENT ASSOCIATION, INTERNATIONAL FINANCE CORPORATION, MULTILATERAL INVESTMENT GUARANTEE AGENCY. COUNTRY ENGAGEMENT NOTE FOR THE REPUBLIC OF YEMEN FOR THE PERIOD FY20-FY21.

- Meagre local studies in Yemen that address the role of entrepreneurship in promoting SMEs.
- Lack of interest and support by the government as to developing business incubators.
- Limited outreach of entrepreneurial activity in Yemen.
- Low share of the population aged 18-64 years who have or run own-businesses.
- Poor education attainment among entrepreneurs compared to international standards.
- Lack of effective capacity-building policies in the area of entrepreneurship and productive capacities.
- Entrepreneurship activity is confined to micro-enterprises rather SMEs.

## 2. Small and Medium Enterprises: they include

### a- Internal environment constraints:

- The security constraints brought by the conflict and war, thwart entrepreneurs start up their businesses, in particular, delay imports and incur extra costs and risks.
- Constraints related to human resources (incompetent management: since SMEs are run by their owners who make all important decisions).
- Constraints related to raw materials (SMEs do not avail themselves of privileges and discounts when purchasing raw materials to meet their limited needs).
- Constraints related to access to raw materials due to lack of funding.
- Lack of specialized entities to manage imports for this type of enterprises.

### b- Financing related constraints:

- Constraints pertaining to scaling-up financing investment during the business rapid growth phase.
- Constraints pertaining to massive guarantees requested by MFIs or credit donors, as well as the burden of interest, as banks ask SMEs borrowers to provide guarantees exceeding 150% of the loan value.

### c- Administrative constraints:

- Lack of organizational and administrative structures and internal regulations governing all functional aspects of the business while role and responsibilities are not defined. This is may be due to lacking knowledge among owners of these businesses about organizational foundations in general.
- Lack of detailed database on SMEs in Yemen, and if such data is found, it is inaccurate.
- Lack of umbrella comprehensive, official, community and private sector strategic direction to develop SMEs, despite their importance to job creation, reducing unemployment and poverty, and accelerating economic growth.
- SMEs in Yemen are mostly unorganized sectors (unregistered at competent government authorities); in addition to being registered with the private sector (chambers of commerce and industry).
- Most of SMEs fall within the (trade - health services - processing industries) sectors, leading to high concentration, which increases competition, decrease returns amid no comprehensive credit strategy for the development of these enterprises.
- No government policies in place to address feeble confidence in the investment environment.
- Poor skills of workers employed by SMEs.
- Poor in financial and banking awareness.
- Poor links with large industrial firms.
- Low competitiveness coupled with limited qualification and training programs and local support programs.
- **Financing challenges:** Difficult access to financing, problems in obtaining investment cost that fits the businesses, problems related to additional financing during the project's rapid growth phase, problems related to guarantees required by credit donors as well as the interest burden; which are very high if available.
- **Challenges related to regulatory and legal procedures:** they include procedural and administrative complexities related to the business establishment and registration, licensing, operation, taxes, export and import licenses and other instructions.
- **Technical challenges:** difficult access to physical capital, as well as human capital, due to limited resources.
- **Marketing challenges:** they include poor physical capabilities, which enfeebles marketing efficiency due to lack of information about the markets and consumer tastes, in addition to the inability to use appropriate means of transportation to distribute products, inability to make use of commercial advertising services, tendency by local consumers that prefers similar imported foreign goods due to low costs, especially goods produced in the southeastern countries that have already dumped local markets worldwide, lack of sufficient financial and administrative incentives to raise competitiveness of local products, poor quality of products made by SMEs, making their marketing even more difficult.

**All these factors combined have triggered the following impacts:**

- Borrowers default, putting the loan portfolio at risk.
- Poor financial performance by MFIs, complicated loan guarantees, and curtailment of lending.
- increased unemployment and poverty rates.
- Dwindling cash flows to MFIs due to irregularity in the repayment of loan installments by clients, declining deposits, and difficulty for MFIs to withdraw money from their accounts with commercial banks.
- Exchange rate fluctuations have had a negative impact on MF clients in terms of: decreasing real value of the loans, infeasibility of loans to start-up businesses – rising operational costs – eroding purchasing power and low demand for their SMEs' products vis-à-vis low returns, and thereby default in repaying loans.
- Exposure to concomitant multi-faceted crises, such as the energy crisis (fuel and electricity), volatile exchange rate, suspension of salaries, cash liquidity crisis, and soaring inflation. Division of the monetary authority is also another factor, as it pushed operating expenses up amid decreasing revenues, and thus low profitability and productivity of MFIs.
- Dwindling role of MFIs as to woman economic empowerment during the war and conflict, has negatively affected vital issues for women-headed HHs such as: food security, malnutrition, child labor, as well as access to education and health.
- Microfinance institutions in Yemen still have a limited role in providing loans to the poor due to limited support by donors as part of humanitarian response programs, although it is crucial for enabling the poorest and most affected groups secure sustainable livelihoods.
- Modest seed capital for most SMEs to start their operation. This means that assets they have are considered not sufficient to meet the guarantees required by the lending banks.

## VII Priority policies and interventions

**Creating a shared future for entrepreneurs and Micro, Small and Medium-sized enterprises within the framework of the United Nations Sustainable Development Goals (SDGs) is important and requires the following actions to be taken:**

- Pass a special law on entrepreneurship and SMEs.
- Introduce a comprehensive and integrated strategy to support entrepreneurship and small and medium-sized businesses.
- Have a robust entrepreneurship development system.
- Adopt program model on entrepreneurship promotion.

**This calls for certain interventions during entrepreneurship development stages, mainly:**

**Early transformation through:**

- Develop entrepreneurship culture among children.
- Instill the values of entrepreneurship among young people (summer camps).
- Introduce entrepreneurship curricula as part of the educational system.

**The initiation stage:**

- A database of investment opportunities.
- Entrepreneur development programs.
- Business Incubators.

**Sustainability phase:**

- Programs on specific topics.
- Performance improvement programs.
- Advise programmes.

**Growth programs:**

- Business development consultants.
- Business development managers.
- Business consulting centers.
- Partnership and exchange programmes promotion.

**Leveraging MSMEs growth development and role in achieving SDGs, the below key interventions and policies shall be ensured:**

- National governments need to take a leadership role in creating coherent and transparent regulatory environments, including harmonized policies to support MSMEs in adopting innovations, creating decent employment opportunities and gaining a stronger foothold in global value chains.
- Mechanisms to support the important contributions of MSMEs to the SDGs need to be mainstreamed into national development policies and plans.
- Integrate MSMEs into the digital economy, which will require growth of open and safe business platforms that merge physical and virtual opportunities.
- The voices and demands of MSMEs entrepreneurs need to be reflected in policy making processes at all levels.
- MSME entrepreneurs need to be fully informed on ongoing policies and strategies targeted at incentivizing growth.
- Collaboration and trade agreements across countries are encouraged to expand the access of MSMEs to market at the regional and global level.
- Piloting and up-scaling of innovative financing solutions. Targeted capacity building and awareness campaigns should be undertaken to transform the mindsets and attitudes of commercial banks towards MSMEs.
- Creating business ecosystems conducive to allowing MSMEs to access markets and financial resources.
- Public-private partnerships are also key, particularly in maximizing the role of trade facilitation to improve the capacity of MSMEs in the global value chain.
- Coherent efforts are needed to create incentives for MSME entrepreneurship, enabling their knowledge and skills to appreciate and adopt innovations and improving their access to knowledge and networks, such as business associations and chambers of commerce.
- The capacities of MSME entrepreneurs need to be strengthened through demand- driven and tailor made training programs.

**In this context, it might be also appropriate to review UNIDO holistic approach in supporting MSMEs to enter global economy that offers<sup>39</sup>:**

- Provision of tailored made training, which remains critical in least developed countries (LDCs). MSME managers and staff trained on entrepreneurship; food safety; social and environmental standards; p-marketing; and access-to-market strategies.
- Technical expertise in Industrial Upgrading and Modernization Programme (IUMP) based on UNIDO's recognized international experience in industrial upgrading and enterprise competitiveness in the priority manufacturing sectors/value chains. Projects nested under the IUMP deliver technical assistance in a variety of countries and industries, providing a package of services to beneficiaries. Feasibility studies examine the development potential of beneficiary enterprises, institutions, and intermediaries from which action plans relevant for the implementation phase can be deducted. Standards are promoted throughout the implementation of the project. Project beneficiaries are supported in their participation in fairs, conferences, and in sharing their knowledge.
- Services aiming at enhancing MSMEs competitiveness through clustering and networking (including export and origin consortia) cover: Analyzing and establishing the most effective industry cluster opportunities and policies; facilitating business linkages through cluster development including consortia, networks and supply chains; building institutional and enterprise-level capacity around stakeholder management, production technologies, marketing practices, human resources and financial management; modernizing MSME business operations to reduce operating and marketing costs and access new markets through collective actions with cluster members.
- The promotion of science, technology, and innovation through the UNIDO projects on national and regional system building to foster industrial diversification creates new jobs and enhances the competitiveness of SMEs.
- Programs on turning informal economy into formal economy. For instance, contributing to building the formal economy in Vietnam, UNIDO projects set up the national business registration system that benefited over 1.2 million commercial entities and resulted in the registration of more than 100,000 enterprises. They also enabled business registration offices in 63 provinces to provide accurate, legally-binding information on commercial entities to the business community, government agencies, and the public.
- Tools and methodologies for project appraisal and feasibility analysis—including UNIDO's Computer Model for Feasibility Analysis and Reporting (COMFAR) and training courses. COMFAR lite for small business was a useful tool of several UNIDO projects, in particular for women entrepreneurship in the MENA Region. The new

<sup>39</sup> ICSB Annual Report, June 28, 2018.

COMFAR 4 is about to be finalized in 2018 and, together with COMFAR lite, will propose improved financial training solutions for project development.

- Programs promoting organizations operating in the social economy, the so-called “fourth sector” of the economy. For these organizations, social aims are more important than profit maximization. Many of these organizations foster the inclusion of vulnerable population groups in the real economy and provide products and services to the underserved. UNIDO programs aim to create a conducive business environment especially for this. This includes the mapping of social enterprises and providing recommendations and adaptations of targeted regulations and policies, impact assessment and measuring social performance, as well as awareness-raising activities. It further includes entrepreneurship training and mentoring activities and improving access to finance with a focus on impact investment.
- Programs helping entrepreneurs navigate bureaucratic complexity and access to important business information that helps them interact with the market more effectively. UNIDO assists governments and MSME support institutions by developing online portals that offer integrated access to information, as well as online business advice, which may encourage aspiring entrepreneurs to seek more specialized training and consulting services in the future.
- A focused approach to improving and sustaining manufacturing capabilities, proving conformity with market requirements, and connecting to markets, all of which are necessary for MSMEs to keep up with the rapidly evolving global manufacturing landscape. UNIDO programs assist countries in analyzing the trade performance of specific value chains for the exporting economy, offer advisory services to manage risks identified in the trade performance analysis, and assists conformity assessment entities to mitigate identified risks. To strengthen exports of developing countries, UNIDO supports mutual recognition of conformity assessment procedures between main trading countries. In addition, UNIDO’s programs directly support quality institutions through developing guidelines on Good Governance and Professional Practices and through building a capacity of personnel working in the field of National Quality Infrastructure.

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