

# SMALL AND MICRO ENTERPRISES IN YEMEN: CHALLENGES AND OPPORTUNITIES

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**Abstract :** The Small and Micro Enterprises (SMEs) Sector continue to be vibrant sectors of the Yemeni economy. SMEs are considered as the major sources of employment creation, growth and economic diversification. The contributions of SMEs to the national economy can be measured in terms of some inter-related issues: economic (income generation), social (poverty reduction) and political (wealth redistribution). This paper intends to understand the challenges and opportunities of Small and Micro enterprises in Yemen. Furthermore, this paper brings out different types of risks affecting SMEs in Yemen. The researcher will identify the obstacles, barriers, and difficulties faced by SMEs in Yemen and what are the solutions for these problems. Furthermore, the researcher will look at the current strengths and weaknesses of the Small and Micro enterprises in Yemen. Furthermore, the researcher will recommend certain strategies to enhance and improve the role of the SMEs in the economic growth and development in the country. This paper is divided into three parts: the first part includes introduction, research methodology. The second part discusses the current scenario of both Small and Micro Enterprises in Yemen. The third part concludes the major challenges and opportunities and recommended strategies to strengthen, enhance and improve the role of SMEs in the economic growth and development in the country.

**Keywords :** Micro Enterprises, Small Enterprises, Entrepreneurship Development, Challenges, Opportunities.

## INTRODUCTION

Yemen is a third world developing country which has a mixed economy. In the economic development process Yemen has to face some challenges namely financial, employment problems and poverty. Furthermore, Since Yemen faces many challenges such as the fact that it is the least developed country in the Middle East, with GDP per capita of US \$650 and GNI per capita of US \$ 500, its inflation rate lies at 12% with commercial interest rate that lies at 18%, services sector absorbs 53%, agriculture and fisheries 31%, construction, industry 9%, and industrial activities 7% of the total employed workforce. (SFD 2011)

Microfinance can be a significant aspect of a useful poverty reduction approach particularly for developing countries. The services supplied by microfinance institutions can enable the poor to flatten their expenses, run their menace improved, construct their capital progressively, expand their business enterprises, improve their gross income potential, and have a better quality of life. To overcome these problems most of the people are engaged in self-employment. Entrepreneurs in the Small and Micro Enterprises find it to satisfy their short term and long term capital requirements due to lack of income and saving. Because of that the banking and nonbanking sectors are not enough interest to development of Small and Micro Enterprises. In any economy, the process of industrialization is mediated by, Small and Micro

enterprises without which it should be difficult for an economy to achieve its growth and development. Both Small and Micro scale industries have been assigned a significant position in the Yemeni economy. SMEs provide immediate large-scale employment, they offer a method of ensuring a more equitable distribution of national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. In fact, SMEs play an important role in the economic growth and development. Furthermore, SMEs are the traditional source for the growth of national economy and they also provide more than 50 % of the total private use and more than 40% of the gross national product of goods and services.

## RESEARCH METHODOLOGY

This study is aiming at investigating the current situation of Small and Micro Enterprises and the challenges and opportunities that are facing them in Yemen. This study is based on various information from conduction survey, an open-ended interviews relevant books and magazines, research journals, internet and discussions with officials and administration staff and the concerned authorities as well.

The main objectives of this study are as follows:

- To study the challenges and opportunities of both Small and Micro Enterprises in Yemen.

- To have a look at the current situation of both Small and Micro Enterprises in Yemen, their strengths and weakness.
- To know different risks affecting Micro and Small scale enterprises and what are the remedies action can be taken to overcome such risks.
- To recommend future strategies for enhancing and improving the role of Small and Micro Enterprises in economic growth and development process.

### SMALL AND MICRO ENTERPRISES IN YEMEN

Micro, Small and Enterprises (MSEs) sector has been recognized as an engine of growth all over the world. The sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitution. In many developing countries, Small and Micro enterprises are considered the backbone for the development and growth of the economy. Therefore, the Government of Yemen established by law No.10 in 1997, the Social Fund for Development (SFD) is a Government institution that is financed by a number of international donors and the Government of Yemen as well. The main goal of the SFD is to help alleviate poverty and reduce unemployment in Yemen through the implementation of targeted development projects. The SFD is pursuing its goals through four main programs as follows:

§ The community and Local Development program (CLDP).

§ The Small and Micro Enterprise Development program (SMED).

§ The capacity Building program (CBP).

§ The Labour Intensive Works Program (LIWP). The SMED program is implemented by the SMED unit, which main concern is in developing local capacities to provide indirect financial and non-financial services to small and micro entrepreneurs in order to increase their share of the national economy. Implementation of Small and microfinance is carried out by supporting existing financial institutions such as banks, foundations, and financial companies or through the creation of new such entities.

### Definition

There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Yemen, according to the national SME strategy approved by the council of Ministers in 2005, SMED has categorized enterprises as follows: Micro enterprises are those engaging up to 5 people, in most cases family members or employing capital amounting up to RY.1 Million. The majority of Micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 6 and 15 employees with capital investment from RY.5 million to RY. 20 Million. Medium enterprises employ between 16 and 50 people with capital investment from RY.20 Million to RY.1 Billion. This is can be illustrated in the table below:

Table No (1) Category of Micro, Small Enterprises.

Category	Employees	Capital Investment
Micro Enterprise	1- 5	RY.1 Million
Small Enterprise	6 - 15	RY. 1 Million To RY.20 Million
Medium Enterprise	16 - 50	RY. 20 Million To RY.1 Billion
Large Enterprise	50+	RY.1 Billion and above

(Source: Ministry of Industry and Trade, Yemen.)

In this paper, the researcher is presenting some of the Small and Micro Enterprises in Yemen.

Table (2) Small and Micro Enterprises in Yemen.

No	Industry Name	No of Enterprises
1	Metal Production	5412
2	Clothes	5238
3	Wood Industry	2247
4	Equipment Industry	1915
5	Sewing and Stitching industry	652
6	Cigar	115
7	Skin Washing	100
8	Printing and Publications	150
	Total	15,204

Source (<http://www.althawra.net>)

#### OPPORTUNITIES

Yemen is one of the developing countries in the Arabic Peninsula, has around 22 governorates. It is now increasingly recognized that the Small and Medium Enterprises (SMEs) play a crucial role in employment creation and income generation in Yemen. SMEs all over the world and in Yemen in particular, can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is the case for large enterprises. These enterprises can also be established in rural settings and thus add value to the agro products and at the same time facilitate the dispersal of enterprises. The government through the Social fund for Development (SFD) providing both financial as well as non-financial assistance to the SMEs in order to contribute to the growth and development of the economy of the country. Indeed SMEs development is closely associated with more equitable distribution of income and thus important as regards poverty alleviation. At the same time, SMEs serve as a training ground for emerging entrepreneur. According to studies done by Mr. Mansour Al-Bashiri, General Manager of the Economic Studies at the Ministry of Planning and International Coordination in Yemen, It is mentioned that there are huge investment opportunities for Small and Micro Enterprises in Yemen in fields such as agriculture, fisheries, handicrafts, sewing, metals and etc. Also, the entrepreneurs must seize the funds offered by the Government, Social Fund for Development and other

financial institutions that are providing microfinance and technical assistance in this field. According to his study, it is also mentioned that around 43% of Yemeni Youth are involving in their own activity and business.) Mansour Al-Bashiri, 2012)

Another study is also done by Mr. Mohammed Alkibsi, an economic expert stated that there are great opportunities for investment in Small and Micro Enterprises in Yemen as the establishment of Small and Micro enterprises do not need large capital, they are demand less capital and they are less risky comparing to the medium and large enterprises. (Mohammed Alkibsi, 2012).

It is well accepted that SMEs generally are a major pillar of the market economy and supply the following:

- A source of vitality and innovation;
- A pool of skilled and semi-skilled workers;
- A driver for job creation;
- Promotion of economic stability as a complement to large corporations;
- A broadening and diversification of the basis of competition within the economy.

(<http://www.qfinance.com>)

#### CHALLENGES

Both Small and Micro Enterprises in Yemen face different challenges and difficulties to continue their growth. In Yemen the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints

hampering the development of the sector. They include: unfavorable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework etc. It is for this reason that this SME Development Policy was formulated so as to address the constraints and to tap the full potential of the sector. Some of the challenges faced by SMEs are as follows:

#### **Lack of Sufficient Capital**

SMEs require different types of financial supports, such as 'start up capital' to cover preliminary expenses, 'working capital' to cover running expenses, 'reserve capital' to meet the expenses not only for unexpected contingencies, but also for personal and family maintenance. In most cases, these enterprises receive 'working capital' from the FIs, but 'start up capital', which is crucial is often not supported by FIs.

#### **Poor Physical Infrastructure**

Poor physical infrastructure increases the cost of production and reduces the Competitiveness of ME products. Major problems related to infrastructure include frequent power failures and poor transport facilities, which seriously hamper the smooth production and delivery of products.

#### **Lack of Skilled Manpower**

In order to enhance productivity and manufacture high end products, entrepreneurs often demand an adequate supply of skilled workers. An upgrade of technologies, important for manufacturing better products, always requires skilled workers. Huge public investment is necessary to develop human resources. A number of public and private initiatives were undertaken in order to upgrade worker's skill.

#### **Absence of a Favourable Enterprise Culture**

The concept of enterprise culture and entrepreneurship is not native to every culture or society. Starting a business requires courage: the courage to assume the risks of putting money into ideas and the courage to take a leap into an unknown future. Throughout the world millions of entrepreneurs, display such courage. However, the fear of failure produced by the highly volatile socio-politico-economic conditions of Yemen has deepened into the minds of potential entrepreneurs. Consequently, new and energetic entrepreneurs are not emerging in the market. (Renati Reddy, 2012).

#### **Lack of Entrepreneurship and Management Skills**

Many owner-managers and entrepreneurs often lack wider managerial skills, which hinder their long-term success. Strategic planning, medium to long-term vision, marketing, commitment to quality, knowledge of quality systems, communicating in foreign languages, cash-flow management, and information technology are a few critical elements of management required to meet the challenges of the market economy, especially in the global market environment.

#### **Inefficient Marketing Practices**

SMEs in Yemen, especially the very small enterprises, do not have enough marketing capabilities or networks. Majority of SMEs do not have resources to invest in marketing. Moreover, export-oriented SMEs have also very little marketing activities and most of them try to survive by linking up with multinational buyers or setting up subcontracting relationships with them. In the domestic market, SMEs are confronted with cheap imports and are hard pressed to hold on to their market share. Lack of resources and skills make it difficult for SMEs to take advantage of market promotional activities.

#### **Poor Institutional Support**

Specific institutional support for SMED, particularly training and research & development is absent in Yemen. Government as well as other private organizations have different types of training programmes, but these are found unable to meet the current needs of the SME sector. Moreover, these organizations follow traditional method of training and dated curriculum that seriously hamper SMED in Yemen.

#### **Absence of Innovation and Technology Development Policy**

Another major challenge facing SMEs in Yemen is that of absence of innovation and technology. The institutional structure for innovation and the development of technology also requires reform, which can focus on dynamism and cope with the latest technological development.

#### **RISKS AFFECTING SMES**

Although not exhaustive, Table describes numerous textbook types of risk that can hamper or destroy a SME business. Among the risks highlighted are: personnel risks, business risks, property risks, IT and information risks, operational and liability risks.

<i>Risk type</i>	<i>Examples</i>	<i>Possible consequences</i>
Personnel risks	An accident A key person leaves An entrepreneur is overburdened	Loss of work input The company loses important expertise Ability to work is reduced
Business risks	Demand for a product decreases Disruption in a customer's payments Production capacity does not correspond to a customer's needs	The company finances cannot take it Anticipated income does not arrive The customer changes supplier
Property risks	A fire in a production facility or shop Water leakage spoils the company's stocks A machine breaks down	Substantial damage, business operations are interrupted for several months Production and deliveries are disturbed Production is interrupted
Information risks	A computer hard disk breaks down The customer register is sold without permission.	Order data are lost The company's reputation suffers. A competitor steals the customers The company's competitiveness suffers

	The company's information is accidentally leaked	
Operational liability risks	An employee makes a mistake with a product or service An agreed delivery is delayed	Liability for damages to a third party The company has to pay a contract penalty
Product liability risks	A product causes damage A faulty product has to be withdrawn from the market	The company has to pay compensation Financial loss, the company's reputation suffers
Interruption risks	A power cut interrupts production A delivery from a subcontractor is delayed A load of raw material is stopped at a neighboring country's customs	The company's operations are interrupted Production is interrupted Capital is tied up, production is interrupted
Transport risks	A product is broken during transport A transport vehicle is stolen	Financial loss Deliveries are disrupted
Environmental risks	An oil container breaks Packaging proves to be unsuitable for recycling	The company's reputation suffers and it becomes liable for damages Sales to an important export country are interrupted

Examples of SME risks. (Source: European Agency for Safety and Health at Work, 2010)

In December 2009, more than 75 organizations in the GCC region and Jordan were surveyed<sup>4</sup> to see how many had a strategy to deal with disasters. 70% admitted to not having done any contingency planning. Risks and business survival were simply ignored. The perceived risks threatening continuation of business are set out in Table 4

The table (4) below shows the ranking of risks of business disruption. Table 4

Failure of computers and data loss	74%
Communications and network failure	59%
Power breakdown	47%
Fire	44%
Computer hacking	21%
Natural disasters	21%
Internal security breaches/ theft	18%
Terrorist attacks	12%
Pandemic diseases/flu	3%
Strikes and riots	3%

Figure 1

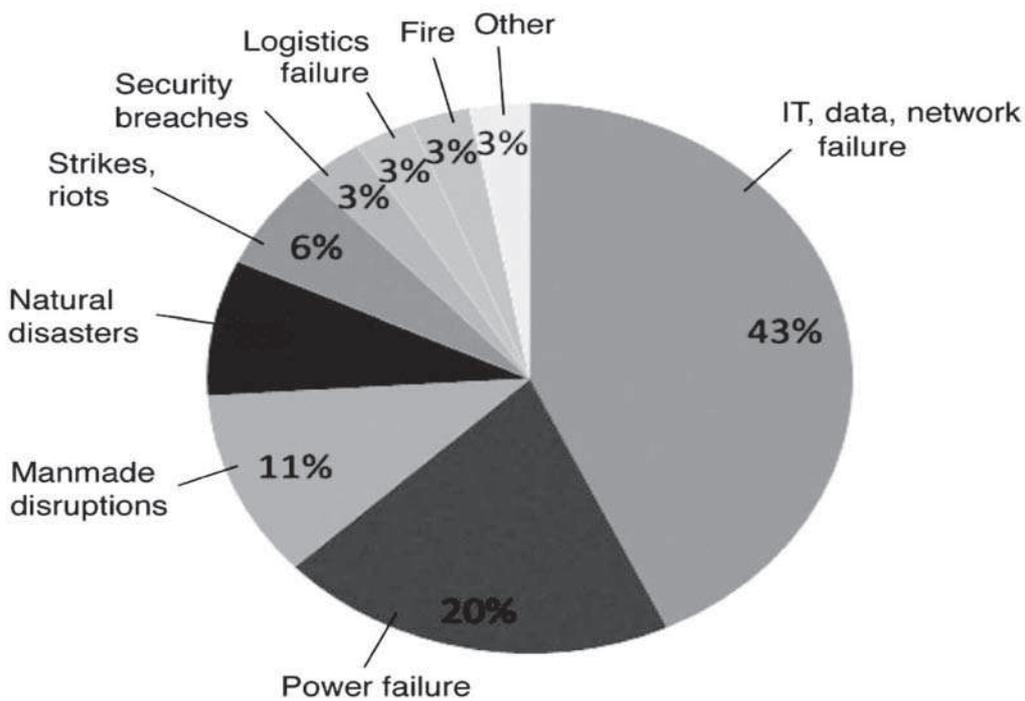


Figure 1. Shows significant business disruptions in GCC countries and Jordan, 2009. (Source: Khan, 2009)

## 7. MAIN PLAYERS IN THE SME INDUSTRY IN YEMEN:

In this paper, a brief description will be given on the main players in the SME industry in Yemen, including service oriented institutions such as SMEPS and YMN. The table below shows the main players and Microfinance institutions in Yemen:

No	Small/ Microfinance Organization
1	Aden Microfinance Foundation
2	Al-Awa'el MF Company
3	National MF Foundation
4	Abyan MF Program
5	Al-Amal MF Bank
6	Nama MF Program
7	

	Sana'a MF Program ( Azal)
8	Wadi Hadhramaut MF Program
9	Social Institution for Sustainable Development
10	Al-Tadhamon MF Program
11	Al-Kuraimi Islamic MF Bank
12	Small Enterprise Development Fund

## SMED ROLES AND ACTIVITIES

The Small and Micro Enterprise Development Unit (SMED) is the unit in the Social Fund for Development (SFD) responsible for contributing to the development of the Small and Micro finance (SME) sector in Yemen. SME's operations are structured on five main areas as follows:

- Financing of Micro Enterprises.
- Financing of Small Enterprises.
- Facilitation of Business Development Services.
- Institutional Capacity Building.
- Sector advocacy and creating enabling environment.

## RECOMMENDED STRATEGIES FOR STRENGTHENING SMALL AND MICRO ENTERPRISES IN YEMEN

In the last ten years, both Small and Micro Enterprises in Yemen witnessed significant growth, emergence of new enterprises, and diversification of financial services, increased involvement and participation of lending services as well. To enhance and improve the Small and Micro Enterprises in Yemen hence here are some recommended strategies as follows

### Legal and Regulatory Framework

- Simplify business registration and licensing procedures.
- Simplify tax system and introduce tax incentives to nurse SMEs.
- Review Government Procurement procedures to facilitate SMEs' participation.
- Establish a window within the commercial court for handling SME business disputes.
- Train and sensitise SMEs on intellectual property rights.

### Physical Infrastructure

The poor infrastructure in Yemen including working premises, roads, cold rooms, warehouses, power, water and communication adversely the development of the SMEs. Even where these services are available, the supply is unreliable and costly.

### Entrepreneurship Education

§ Inculcate through education, training and other programmes values and attitudes that are conducive to development of entrepreneurship.

§ Review school curricula to accommodate entrepreneurship development.

§ Introduce entrepreneurial programmes in vocational and technical training.

§ Facilitate entrepreneurship development programmes for selected target groups/sectors e.g. school leavers.

§ Facilitate capacity building in entrepreneurship development

4. The Government must promote entrepreneurship development through facilitating improved access of SMEs to financial and non-financial services.

5. Strengthening financial and non-financial services to increase and encourage SMES.

6. Establishing and strengthening financial institutions supportive to SME development.

7. Increased diversified technical assistance.

8. Improve institutional capacity building.

9. Capitalization of Microfinance institutions.

10. Diversifications of financial services.

## CONCLUSION

An assessment of the SME sector has shown that it is facing constraints which need to be addressed adequately through certain strategies to overcome these constraints. SMEs in Yemen today confront huge business and non-business challenges: limited access to financing, higher borrowing costs, limited collateral resources, and poor bookkeeping and accounting practices, to name a few. Risk management can be a business enabler, not just another cost item to be controlled. Owners and managers of SMEs are advised to adapt their attitude to risk to shift toward business value creation and to focus on how risk management can deliver more stable earnings, much-needed resources to cover emergencies, and a tighter grip on value drivers. In addition, the implementation of risk management practices by SMEs will impress their bankers, demonstrate that their business presents a reduced risk profile, and can result in the easier access to capital and/or lower cost of funds that is so crucial to acceleration of the growth of the core business of SMEs. Given the importance of the sector and the need to transform it to a vibrant and dynamic one, it is crucial to put in place strategies that will facilitate the removal of those constraints so that it can attain the desired vision and identified objectives. The major areas of focus include: creation of the enabling business environment, developing the infrastructure, strengthening financial and non-financial services and establishing and strengthening institutions supportive to SME development. In this paper, problems are identified, opportunities are also identified, Government statements are articulated and appropriate strategies are specified.

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