Review of Historical and Temporary Challenges Facing Small and Medium Enterprises in Yemen

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ABSTRACT

This paper aims at shedding the light on the obstacles and challenges that hamper the performance and contribution of small and medium enterprises in Yemen and their contribution to the economic development. It is based on an in-depth review of international organizations reports about Yemen and the development of the business sector, reports on the performance of small enterprises and business environment during the current condition. The challenges that face small businesses in Yemen are serious and they need years if not decades to be contained from hampering the business performance and the contribution to GDP. These challenges are grouped into two sets, the first set is concerned about the historical challenges that had been facing SMEs for long time, and the other set is concerned about the emerging challenges that came to affect the small business sector in recent year with the emergence of the violent conflict and political instability.

KEYWORDS: Yemen, SMEs, challenges, business, development

INTRODUCTION

The sustainable economic growth of nations significantly accounts for small and medium enterprises as a driving force for development (Drucker, 1984). They play a key role in restructuring economies and economic revival (United Nations, 1999). They form a crucial base of economies especially in least developing countries where alleviating poverty raises the need to increase the level of income among individuals (Smallbone, Welter, Isakova, & Slominski, 2017). Their activities vary among all sectors in developing countries (UNIDO, 2016), their qualitative characteristics reflect their difficult operating conditions (Smallbone, et al., 2001). Therefore, studying the performance and challenges of SMEs interest academics, policy makers, practitioners and authors (OECD, 2004), to support SMEs thrive and reach Sustainable Development Goals (SDGs), which highly depends on a healthy competition (OECD, 2017). Challenges and constraints in respect of accessing finance (Ardic, Mylenko, & Saltane, 2011), managerial skills, inadequate infrastructure (Agwu, & Emeti, 2014), or the competition from the informal sector, they all affect SMEs activities and performance (ILO, 2015; OECD, 2019; Cusmano, Koreen & Piissareva, 2018; Teima, et. al., 2010). However, research indicates that despite the challenges and difficulties that the sector of SMEs faces, it still plays a remarkable role towards the economic development through job creation and contribution to national GDP (Das, 2017; Saleh, & Ndubisi, 2006; Smallbone, & Welter, 2001; Kongolo, 2010; Abor, & Quartey, 2010).

Understanding the issues and difficulties of small businesses is the starting point towards supporting and promoting their structural transformation (UNCTAD, 2018; OECD, 2017), their need for approaches to address such issues is well recognized but still insufficient among least developing countries (Riba, 2001). Transitioning an economy requires microeconomic and macroeconomic processes, among other factors, for strengthening the role of small and medium enterprises innovation (WIPO, 2008).

Yemen is the poorest country in the Middle East reeling from poverty, illiteracy, unemployment with a fragmented economy and a geographically skewed infrastructure. MSMEs in Yemen play a vital role because they account for around 97% of the business sector, 290,000 enterprises that employ less than 25 employees, with workforce of around 600,000 workers, lacking the opportunities that large enterprises have to grow and expand in the market because the business environment is unfavorable to their development (Assaf, 2013).

The conflict in Yemen continues to drastically deteriorate the business climate, infrastructure and disrupt the service delivery in all major sectors, leading to higher inflation, economic uncertainty and instability, negative GDP, and weakness of the Yemeni Rial (YER), and that harmed the sector of SMEs that around 20% of enterprises had to close since the beginning of the violent conflict in 2015 (World...
Bank, 2019; UNOCHA, 2015; ILO, 2018). Enterprises in Yemen engage in many activities mainly agriculture, manufacturing, fisheries, services, oil and gas as well as tourism (World Bank, 2014), yet the their challenges are many as Yemen was ranked 187 out of 190 countries in the ease of doing business (World Bank, 2018c).

Economic development in Yemeni SMEs sector is now needed more than ever to observe transitioning in the economy because entrepreneurship in Yemen is considered a helping hand to the economy that had been reeling from political instability, and poverty for which requires a herculean conviction to survive such conditions, which means entrepreneurship in Yemen is directed to fulfill the crucial needs more than being the choice of business owners, as well as the best bet for overcoming the current social challenges in Yemen (Harirhan, 2016).

This paper presents a background about the challenges and obstacles that are faced by small businesses in Yemen, which are grouped into two, the first group are the historical challenges that accompany small business in all stages, and the other group are the emerging challenges that got active and severe during the recent conflict.

Methodology
The paper is a review paper in nature. It adopts the descriptive research method to investigate the challenges that have been undermining the performance and growth of SMEs in Yemen in order to obtain a better understanding of the nature of business environment and its challenges in respect of small and medium enterprises and entrepreneurial activities.

Research Problem and question
Regardless of the importance of the SMEs sectors to the development of economies in developed and developing countries, the business environment in which they function plays a key role in facilitating or undermining the operations of small and medium enterprises. The business environment differs from country to another in respect of enterprising and entrepreneurial activities. Yemen is one of the least developed countries with an unstable economic environment, this raise the question “What are the challenges that face SMEs in Yemen?”.

Objectives
The challenges that face enterprises differs due to factors such as the business and economic environment, policies and regulations. Therefore the objective of this paper is to explore the challenges and obstacles that face small and medium enterprises in Yemen. More particularly, the business environment in Yemen has witnessed too many changes during the last ten years due to the political instability that began in Yemen in 2011, therefore, the aim is to identify the historical and temporary challenges that hinder the performance of small and medium enterprises in Yemen.

Data source and scope
The research relied on secondary data and resources in order to present a sufficient overview about the obstacles and challenges that hamper the performance of small and medium enterprises in Yemen. The scope of the focus of this study encompasses the secondary data available during the last ten years 2000-2019.

Background
Yemen is the least developed country among countries in the Middle East. A large portion of its economic activities are under the category of small business, majority of them are in the informal sector. There are around 350,000 enterprises in Yemen employing around half a million workers (SFD, 2000). Until now, there is no comprehensive database about small and medium enterprises and Yemen along with their activities, except a Baseline Survey conducted in 2000 by Social Fund for Development.

The universal definition of SMEs in Yemen is still missing due to the lack of attention paid by the government towards this sector. The national strategy for SMEs development defined small enterprises “any activity earning income in industry, trade or service”. The SMEs survey conducted in 2000 defined the “small and smaller” enterprises as enterprises having 50 workers and less, as well as market 50% of their products (Alnedhari, 2009). The World Bank and United Nations Development Program considered defining SMEs in Yemen in their report that up to four workers form a micro enterprise, up to fifty workers form a small sized enterprises, while a medium enterprises is formed by more than fifty workers and less than 100(Alirani, 2013). This definition was adopted for research purposes and not officially by the government.

Yemen has not yet defined a specific ministry for small and medium enterprises in the country which makes the sector lagging behind in respect of control and supervision. However an administration called General Administration of small Industries under the control of Ministry of Industry and Trade (MOIT) to supervise industrial enterprises (Al-Attas, 2017).

Due to the current instability of the economy in Yemen, some complex challenges faced by the business sector need to be understood within the social and economic context of the country. Despite these challenges and others too, the business sector still strives to sustain and grow to make a remarkable survival and growth under the current circumstances (World Bank, 2012). The business sector showed resilience during the economic instability to somehow replace the absent government services, proving basic commodities and livelihood (SCSS, 2019). This implies the need for the business sector recovery and of course the recovery of the whole economy. Paying attention to small business sector is need now more than ever as the small business sector plays a key role in the economic development in Yemen.

Historical / Structural challenges facing SMEs

Access to finance
Obtaining the required funds is challenging for small enterprises in Yemen as in any other developing country, it hampers the enterprises developments (Almotamar, 2007). The beginning of microfinance in Yemen us traced back to a program established in 1999 by United Nations Development Program (UNDP) called “MicroStart” towards building the capacity of local organizations to initiate the activities of micro finance (UNCDF, 1997).

However, The banking sector in Yemen is young, but its role in financing small enterprises is still traditional and did not expand in serving all segment of society. Urban activities receive more attention from microfinance institutions in
Yemen than rural activities. MFIs are not able to diversify their products to small enterprises borrowers due to the reliance on limited resources, economic imbalances as well as the current economic instability and the fragile situation caused by the current conflict (Kazam, 2017; Al-Lai, 2014; Cetin, Hoster, & Kathmann, 2007).

Enterprise can have access to loans with 20% interest rate in commercial banks, or with Islamic banks through providing the necessary assurances which becomes a burden on the enterprises (Alghomhoriah, 2011). However, microfinance institutions are currently reluctant to provide financial services to small enterprises borrowers in some cases and requesting extra collateral in other cases (World Bank, 2018a).

Skilled Workforce

Human resource development in small businesses in Yemen is challenging since training and development is lower in small businesses than in large businesses (OECD, 2010). Yemen’s labour market is considered unorganized due to its reliance on agriculture, more than 70% of labours work in the unorganized labour market (World Bank, 2010a), which belongs to the informal sector. More than half of workforce in Yemen (55.6 %) is in the service sector, agriculture has less than a third of Yemen workforce (29.2%), around 22.7% in the trade sector, while 14.5% in industry and 12.7% in public administration (ILO, 2015).

Since the 70s of the last century, small and medium enterprises had been growing to employ 60% of workforce worldwide (Aljazeera, 2010d), 47.5% of workforce in the USA (SBA, 2016), 66.8% in The European Union (Kraemer-Eis, Gvetadze, Lang, Torfs, 2017), 40% in India (Goyal, 2013), but Yemen was late to pay the due attention to small businesses in order to contribute to the economic development which makes the small business sector informal due to the unavailability of real numbers and evidence of contribution to the real GDP of Yemen (Alhaddad, 2010). 68.6% of workforce in Yemen have primary education, while 23.0% have secondary education, and only 7.9% have tertiary education (ILO, 2015).

The rising generation in Yemen lack the necessary cognitive skills to indulge in the cognitive society (UNDP, 2011). Low skills is a major issue for staffing according to 42% of the enterprises in Yemen as well as the high turnover of staff (Al-Maqaleh, 2012). Yemen was ranked 160 in human development index in 2013 (UNDP, 2013), and 178 in 2018 (UNDP, 2018) which put Yemen in the category of “Low human development” countries due to the political instability that started in 2011 (UNDP, 2013). The chart below illustrates the smooth growth of the human development index since the 1990s until the beginning of the political instability in 2014 when it began to decline.

Obtaining information

The proper use the information is essential and significantly related to communication and decision making in SMEs (Bunyasri, Bwisu, Namusonge, 2014) but enterprises get affected by the lack of access to information and its security and misinterpretations (Mutula, 2009; Alzeyod, 2010). The success of small businesses depends on their ability to acquire, maintain, interpret, evaluate and properly use information (Mutula, 2009; Kassim, et. al. 2016).

Information affects the innovation capabilities of enterprises (Imran, et. al., 2019), also lacking the information hampers their contribution in the economic development (Arab Monetary Fund, 2017; Mutula, 2009). Research is needed to support SMEs performance in the economy (Pachouri, & Sharma, 2016), and providing information about SMEs and risk allocation creates balance in the market among lenders and borrowers and increases the competition (Arab Monetary Fund, 2013).

Yemen lacks the development of finance, microfinance and banking legislations which requires obtaining more information about small and medium enterprises as well as establishing mechanisms to encourage and ensure the growth of these enterprises, and the removal of legislative obstacles to develop financial and knowledge resources for SMEs (Arab Monetary Fund, 2013), because the small business sector in Yemen is still a young growing sector (Cetin, et. al. 2007; Al-Iriani, 2002) where the main internal weakness of microfinance activities is the absence of proper control and oversight, along with the insufficient technology, skilled workforce and funds and information and its proper use would be of help in SMEs prosperity (Cetin, et. al. 2007).

Innovation in enterprises would not occur through isolating the enterprise from the external environment, but through interaction with external parties domestically and internationally, which requires strengthening the knowledge aspect in these (Arab Monetary Fund, 2013).

Weakness of laws

After the unification of Yemen in 1990, political and sectarian conflicts raised, the government governance was extremely limited, rule of law institutions were ineffective and moreover were untrusted, therefore, traditions and tribal governance has been associated with government effort to restore stability and regulate conflicts (Al-Dawsari, 2012).

Regardless of the fact that the economy of Yemen consists mainly of small and medium enterprises, yet there is no specific law issued and dedicated to small and medium enterprises (Alnedhari, 2009). Although there was a microfinance institutions Law issued in 2009 to regulate their establishments and activities to fund small enterprises, but the law to regulate the activities of small and medium enterprises is still absent in the Yemeni business environment.

The weakness of government policies to regulate the sector of small businesses has been a major challenge to the growth of small businesses (Musid, 2013). Providing guarantees and assurance by small business is another challenge that hinders their ability to access to the required funds, due to the absence of guarantee fund for private loans for the youth (Althawrah, 2013b). Such hindrance in implementing the regulatory reform in Yemen can be evident in the ranks of Yemen in the Doing Business indicators (World Bank, 2015).
Table 1: Doing Business indicators in Yemen among Arab countries.  
Resource: World Bank: Doing Business, 2019

<table>
<thead>
<tr>
<th>indicators</th>
<th>Yemen</th>
<th>lowest rank among Arab countries</th>
<th>Highest rank among Arab countries</th>
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<tbody>
<tr>
<td></td>
<td>rank</td>
<td>country</td>
<td>rank</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>187</td>
<td>190 Somalia</td>
<td>11</td>
</tr>
<tr>
<td>Starting a business</td>
<td>175</td>
<td>188 Somalia</td>
<td>25</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>186</td>
<td>Yemen, Somalia, Libya and Syria</td>
<td>5</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>187</td>
<td>Yemen, Somalia, South Sudan</td>
<td>1</td>
</tr>
<tr>
<td>Registering property</td>
<td>81</td>
<td>Libya</td>
<td>7</td>
</tr>
<tr>
<td>Getting credit</td>
<td>186</td>
<td>Yemen, Somalia, Libya and Iraq</td>
<td>44</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>132</td>
<td>190 Somalia</td>
<td>7</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>83</td>
<td>190 Somalia</td>
<td>2</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>189</td>
<td>189 Yemen</td>
<td>62</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>139</td>
<td>161 Syria</td>
<td>9</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>157</td>
<td>168 Somalia</td>
<td>48</td>
</tr>
</tbody>
</table>

It is believed that tribes and tribal governance and system are an impediment to the development of state (Al-Dawsari, 2012), the main weakness that the country experiences is not in laws and regulations, but it lies in the governance and regulatory enforcement. This weakness is a result of the lack of judiciary’s independence (World Bank, 2015). Tribal law has its roots for centuries among Yemenis, it succeeds in solving conflicts in old and modern history of Yemen (Al-Dawsari, 2012). According to Friends of Yemen, 1 corruption and vulnerabilities such as poor infrastructure, low salaries, strong executive control, institutional opacity as well as weak procedure due to the lack of knowledge or incentives are all a result of the weaknesses in the justice, security sectors (Friends of Yemen, 2010).

Competition

Despite the fact that monopoly is prohibited in Islam due to its effects on the Islamic society and the economy (Aljunaidy, 2010), it had existed in Yemen since the old era, like the monopoly of coffee trade during the Ottoman Empire (Al-rajwi, 2005). Even though the government of Yemen issued law No. (19) in 1999 to promote competition and prevent monopoly and commercial fraud, the economic activities are not performed according to the law accurately due to the interference of the tribals and connections that impact the decision making positions (Aljazeera, 2008).

Yemen applied for joining World Trade Organization (WTO) April 2000, and continued negotiations until 2013 when it was approved as the 160th member of WTO (WTO, 2014). As negotiation procedures, the markets were open towards foreign trade, lacking the strategic vision to develop the industrial sector and providing the required protection (Aljazeera, 2013).

Yemen relies almost totally on imports, which is run and managed completely by the private sector (World Bank, 2018b). Therefore, monopoly is dominated by players in the business sector to make profit using the economic fragile situation in Yemen (Althawrah, 2014; Alsharabi, 2013). The weakness of the local market is majorly caused by the absence of an official policy to support and protect national production, consumption awareness and the weak enforcement of standards and metrology (YPAgency, 2018; Alghomhoriah, 2008). The consumers interest in foreign imported products over the local products is due to “the better quality in imported products” (Alghomhoriah, 2008). Monopoly is encourages by the dropout in the public administrative system, weak infrastructure, and the difficulty to access funds resources (Aljazeera, 2010a).

Market dumping

Dumping markets affected the economic sectors, and it continued until today as the industrial sector is lagging behind in competing with the imported products due to the lack of incentives (Althawrah, 2013c; Alaraby, 2016a) which makes consumers reluctant to be interested in local products and tend to prefer imported products (Aljazeera, 2010).

The weakness in law enforcement, poor management procedures, low awareness of consumers, lack of strict policies as well as poverty among the public, all contribute to the increase of interest in the low priced imported products which impact the national industrial sector (Alaraby, 2015). The weakness of marketing policies, the cost and quality of national products as well as the unregulated way of opening markets towards foreign trade minimize the ability of local products to compete and book their share in the national market, let alone the international market, especially during the political unrest and fragile situation of the economy (Alghomhoriah, 2008; Alaraby, 2017; Aljazeera, 2010b; Aljazeera, 2010c; Alhimiya, 2014; Althawrah, 2013a).

Marketing policies

A manifested inadequacy by industrial enterprises to adopt marketing practices hindered their consistency in the market which weakened their competitiveness (Alqadasi, 2008). Lacking marketing skills contributes to the failure of businesses which implies a significant association between the need for marketing skills and the success of business (Cant, 2012; Van Scheers, 2011). In today’s world, innovative marketing exists in small and medium enterprises as a tool to operate in a competitive

market circumstances (O’Dwyer, Gilmore, Carson, 2009). Marketing decision and competencies are carried by SMEs through building on the existing competencies and developing the existing related knowledge (Carson, & Gilmore, 2000).

Small businesses account for around 95% of businesses in Yemen, despite the fact that SMEs dominate the industrial sector in Yemen, their contribution to the economic growth is not as expected, due to its backwardness in many factors mainly marketing factors (Alqadasi, 2008). SMEs are not included in the almost all marketing forums held in the country, despite the importance of marketing to SMEs products (Algombhoria, 2017b).

Marketing in small businesses is improvised and lacking the strategic vision, which makes the business sectors move forward less than expected (Algombhoria, 2017a). The lack of awareness makes SMEs mix between sales and marketing regardless of the difference between the two. The existence of the great idea and transferring it into small enterprises has no value without the marketing activity for this enterprise. The enterprices ability to market their products will promote their ability to grow in the market (Alqadasi, 2008). SMEs in Yemen are in need for marketing forum to build their capacity in respect of marketing as well as learning the trends in marketing on how to meet the needs of customers and grow their share in the market (Yemen Economist, 2009).

Infrastructure
Poor infrastructure is one of the major challenges to small businesses whether it is a poor quality broadband or poor local roads and transport, which means deteriorating infrastructure can affect the business performance and profitability of small and medium enterprises (Kelly, 2016; Obokoh, & Goldman, 2016).

The condition of infrastructure of Yemen is relatively underdeveloped, which implies: Poor transportation means, lack of power resources as electricity reaches only 30 percent of the population, lack of information, low purchasing power, low demands, water shortage (World Bank, 2000a; Igmena, 2009; General Investment Authority, 2006).

Telecommunications services are unreliable, and often interrupted for security reasons, costly and unreliable internet from one provider. Transportation is a major obstacle to SMEs in Yemen as Yemen has around 71,300 km of roads, only 7,700km of them are paved roads, there is no railway system in Yemen which makes the obstacle crucial towards enterprises that depends on transportation such as agriculture enterprises (Nicaragua, 2019; Encyclopedia of the Nations, 2007).

Corruption
Usually, the informal payments (Bribery) is the most common way of corruption practices that affect SMEs (Gbetkom, 2012). Administrative dropout or corruption has been a characteristic of business environment in least developing countries where facilitation payments or bribery is used to solve or foster bureaucratic and administrative activities, which becomes a major investment barrier (Rune, 2011). Mediating the association between private wealth and the public power is a duty of governments, and corruption is the result of any failure in that duty leading to payments for getting routine services (Rose-Ackerman, 2005), causing 1 trillion dollars to be paid in bribes every year in the world (World Bank Institute, 2004).

The literature focuses more on the effect of administrative dropout on large enterprises than its effect on micro and small enterprises (UNIDO, & UNODC, 2007), while SMEs suffer more from such effect due to their liability to the size and their limited resources which makes them accept the dropout as a national factor in doing business, especially in a lease developing country like Yemen (Rune, 2011).

Yemen has always been among the tale countries in the Corruption Perceptions Index (CPI) by Transparency International Organization (Transparency International, 2018), as illustrated in the table below.

<table>
<thead>
<tr>
<th>Country</th>
<th>2018 Index Rank</th>
<th>2018 Index</th>
<th>2017 Index Rank</th>
<th>2017 Index</th>
<th>2016 Index Rank</th>
<th>2016 Index</th>
<th>2015 Index Rank</th>
<th>2015 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yemen</td>
<td>176</td>
<td>14</td>
<td>175</td>
<td>16</td>
<td>170</td>
<td>14</td>
<td>154</td>
<td>18</td>
</tr>
<tr>
<td>Syria</td>
<td>178</td>
<td>13</td>
<td>178</td>
<td>14</td>
<td>173</td>
<td>13</td>
<td>154</td>
<td>18</td>
</tr>
<tr>
<td>U. A. E.</td>
<td>23</td>
<td>70</td>
<td>21</td>
<td>71</td>
<td>24</td>
<td>66</td>
<td>23</td>
<td>70</td>
</tr>
<tr>
<td>Oman</td>
<td>53</td>
<td>52</td>
<td>68</td>
<td>44</td>
<td>64</td>
<td>45</td>
<td>60</td>
<td>48</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>58</td>
<td>49</td>
<td>57</td>
<td>49</td>
<td>62</td>
<td>46</td>
<td>48</td>
<td>52</td>
</tr>
</tbody>
</table>

Table [2]: Corruption Perceptions Index of Yemen and neighboring countries


The literature also identified that corruption affects the ability of small enterprises to set up and expand business more than other challenges (UNIDO, & UNODC, 2007). They sometimes do not have the capacity to identify the legal practices from the corrupt ones, due to the grey areas and the difference in customs and practices in regions and countries, they deal with corrupt practices to survive competitions, establishing their share in the market, as well as maximizing the profit (UNIDO, & UNODC, 2012).
Temporary challenges facing SMEs
Political instability and war events
Political instability has been reported as the most common problem for medium and large enterprises in Yemen (World Bank, 2013a). Yemen as an impoverished Arab country has always been unstable politically (The week, 2015), it experienced political unrest since its unification in 1990, due to its strong tribal social structure, sparsely settled population, and geographic isolation it has been difficult to govern centrally (Sharp, 2010). Political change in Yemen since 1990 does not mainly reflect democratic transition, due to weakness of governments and fragmented political opposition (Phillips, 2007). The unstable form of government got worse in Yemen after the Arab Spring Revolutions that started in 2011 leading to the current lawlessness and fragile situation (BBC, 2015; Aljazeera Studies Center, 2011) it escalated to a multipolar conflict, having regional and local components (Chatham House, 2015).

The violent conflict in Yemen started in 2014 and resulted in devising the country into two splits with two governing authorities while only one has a legitimate recognition (World Bank, 2019b). The financial sector was affected due to the split of the monetary authority which affected the ability of small enterprises to access to funds (Kedem, 2017).

Access to Electricity
Yemen had always been characterized with a wide spread of energy poverty by having severely undersupplied electricity or no access to it (El-Katiri, & Fattouh, 2011). The frequent supply cuts happen sometimes due to attacks on power lines or the absence of fuel at stations which caused a big effect on the life of individuals and small businesses (Al-Muslimi, 2014). Currently, large parts of Yemen have no access to electricity due to the active conflict and the non-availability of electric power services in those areas (Guerini, 2016; Rawea, & Urooj, 2018).

Solar energy technologies are usually adopted for environment benefits, due to providing safe, renewable and clean energy sources (Gunerhan, Hepbasli, & Giirasunli, 2008), but in Yemen it was the only good solution to adopt during the complete absence of electric power sources (Rawea, & Urooj, 2018), which led to the growth of the solar power business in Yemen during the current conflict (Halmi, 2018).

Crime, theft and disorder
The authority and power were shattered with the new chapter of violence and spread the lawlessness and chaos in the country affecting the rule of law (Alaraby, 2016b), which put the country in crisis, the economy is now shattered, business are damaged, affected, or in loss (SEMC, 2016).

The weak governance in Yemen prior the conflict was caused by the ineffective enforcement of the rule of law (United Nations, 2011), the law was not applied systematically or equally (UNDP, 2005). In conjunction with the conflict events that began in 2014, individuals and businesses are found victims to theft, crimes and disorder (Alaraby, 2019) due to the lawlessness status resulted from the fragile political situation. In some part of Yemen, the crime rate increased to 60% during the conflict time 2014-2019 (Alarabayah, 2017).

The spread of lawlessness decreased the feeling of being protected by the legal system, crimes went unpunished (Oxfam, 2016), business and property looting and theft increased as well, even health care units were exposed to crime instances (Moodley, 2016). Yemen had been reeling from poverty, lack of educational and health services and deprivation of basic needs, governance efforts have been in disarray due to the conflict, economic decline and the political uncertainty (UNDP, 2019).

Loss and damage
The violent conflict in Yemen is causing damage to the infrastructure and economy affecting all portions of the society as well as small businesses such as buildings, equipment and other assets. Around 5% of small business were completely destroyed during the war events and conflicts strikes, and around 22% experienced major physical and economic assets damage, minor damages affected half of small businesses in Yemen. While 97% of businesses experience economic loss such as revenue loss, workforce lay off, and customer decline up to 60% of customers, the service sector suffered more effect of customer base loss (ILo, 2016; 2018), leading to the closure of some businesses (SMEPS, 2015).

Relocating business
The drastic drop in sales among small businesses, the expectations of continuous risk along with the conflict, as well as the continuous interruption of crucial services such as electricity and customer base loss, high tax and regulatory fees became a heavy burden on small businesses and the private sector in general. Around 20% of businesses had to relocate their business due to the previous factors during the current conflict in Yemen (World Bank, 2019a). Cities with less conflict attracts the business and commercial activities which encouraged business owners to relocate their businesses to the better stable cities, to find better infrastructure and key services (Baron, 2018). Such moving and relocating business puts enterprises into a large one-shot cost, as well as performance effect due to the distance relocation and the customer base loss (Knoben, & Oerlemans, 2005).

The lack of security and the spread of lawlessness during the conflict along with losing the customer base as well as the decline in general purchasing power lead to revenue loss in small business and then the consideration of business relocating to other cities as a solution (Azaki, 2018).

The absence of a specific SMEs authority
Usually, in least developing countries (LDCs), the regulating policies and programs of Small and medium enterprises fall under the responsibility of their ministries, and in other cases they overlap between two or more government ministries (UNCTAD, 2001). There is no specific ministry for small and medium enterprises in Yemen, which contributed to the lack of support towards small businesses. However, there an administration in the Ministry of Industry and Trade (MOIT) called The General Administration of small Industries dedicated to supervising the small industrial enterprises, according to which, the enterprises have been defined in 2009 through a regulation based on the number of employees and the capital as well (Al-Attas, 2017).
Social Fund for Development (SFD) in Yemen is an organization delivers support to small businesses, it was established in 1997, supported by the international community, particularly the World Bank. SFD has been an effective development institution in Yemen performing many main development programs (SFD, 2017) aiming to combat poverty in rural and urban communities in Yemen (Al-Iryani, De Janvry, & Sadoulet, 2013; 2015) which leads to reducing the poor’s vulnerability and enhancing their access to basic services (SFD, 2017), through playing a unique role to help alleviate the major social issues in Yemen (Struben, 2004). SFD established the Small and Micro Enterprise Service (SMEPS) in 2005 as a subsidiary focusing on developmental projects aiming to create more jobs through pursuing creative strategies for small businesses development, to better respond to the conflict affecting small business, through providing interventions for facilitating and building technical and economic capacities to revive the sector of small business in Yemen (World Bank, 2012; SMEPS, 2016; Ghanem, 2018).

Small businesses in Yemen show low and limited productivity and innovation among other neighboring countries (World Bank, 2016; 2013b). According to the World Bank, only 3% of enterprises possess ISO, 9% of enterprises provided training to their employees, 13% of the sampled enterprises got license registration, 22% had new product line, 33% of the enterprises updated their current production lines (World Bank, 2011).

**The growth of informal sector**

Normally, the informal business sector aims at survival different from the formal small businesses that aims for growth and expand (Ligthelm, 2013). Research indicated that large businesses survive and grow while small business have to face many challenges and obstacles in order to survive (Sasidharan, & Rajesh Raj, 2014), the growth of businesses in the informal sector is faster than the business in the formal sector (Abdallah, 2017), while other research confirm the positive growth of businesses in the formal sector (Schoonjans, Van Cauwenberge, & Vander Bauwhede, 2013). Informal enterprises are known for their inability to adopt the basic techniques to grow and expand through formal education and training that grant them the ability to become modern to grow and expand (Aftab, & Rahim, 1989).

The informal sector in Yemen grew due to unnecessary regulations and licensing, enforceable contracts, predictable taxation or tariff protection and the lack of dependable jurisprudence (World Bank, 2000b). It is considered big and it contributes around 27% of GDP in Yemen, which is a result of the insufficient infrastructure (World Bank, 2010b). Yemen workforce is more present in the informal sector 73.2%, around 30% of the workforce work in the agriculture sector, and 23% work in the trade sector (ILO, 2015), this spread is due to the lack of education and female participation (World Bank, 2015), as well as neglecting economic sectors for the favor of oil sector (Salisbury, 2011).

**Conclusion**

The lack of information and comprehensive database about small business sector, as well as the lack of effort towards it form a challenge towards their performance, their guidance or supervision, as well as performing a study in their regard, which in the end affects the economic growth and development of the sector and the country as well (Alasraj, 2014; Abdulhaleem, 2016).

Small businesses sector is split into enterprises that are modern, resource based, and import dependent, and the others that are informal and adopt simple technology serving limited portion of the domestic markets (UNCTAD, 2001). Entrepreneurship in Yemen came as a helping hand to the economy that had been reeling from political instability. Numerous obstacles are faced by pet projects in Yemen which require them a herculean conviction to survive such conditions, which means that entrepreneurship in Yemen is directed to fulfill the crucial needs more than being the choice of business owners which also makes it the best bet for overcoming the current social challenges in Yemen (Harirhan, 2016).

Small and medium enterprises in Yemen function in a tough business environment as one of the least developing countries, and a tougher environment in light with the current polio-economic unrest and instability. The challenges became severe affecting the performance of SMEs after the political instability that started in 2011 and got violent in 2015. The effect of such temporary challenges rendered the growth of enterprises in Yemen into a survival strive.

Going through experiences such as double customs or double tariffs upon imports, double taxation during the current conflict between belligerent authorities (Nasser, & Osberg, 2018), and the repentance of sever electricity shortages, security threats, economic uncertainty, and corruption have been reported to affect small businesses more than medium and large businesses (Stone, Badawy, & Assaf, 2012). Which implies that the need for political and legal stability in Yemen now is more than ever before, to provide appropriate environment for businesses to function at first and to grow and expand after that. The role of small and medium enterprises in the development of economies is unquestionably crucial. Their role is more crucial when it comes to least developing countries. Therefore, urgent solutions towards political and economic instability are a must to minimize and contain the effect and deterioration of the small business sector in Yemen in light with the current condition and the performance of the economy.

**References**


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