

MANUFACTURING SMALL AND MEDIUM ENTERPRISES IN YEMEN: HURDLES OF RESURGENCE

Salah Naji Taher Sanad  Mugaahed Abdu Kaid Saleh  Manjunath K. R. 

University of Kerala, Trivandrum, Kerala, India

Research Fellow, Department of Management and Business Administration, Kuvempu University, Shimoga, India

Associate professor, Department of Management and Business Administration, Kuvempu University, Shimoga, India

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Corresponding Author:
Salah Naji Taher

Email:
Salahuaddin99@gmail.com,
mugaahed@yahoo.com,
manjurajappa@gmail.com



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ABSTRACT

Purpose: The study aims to comprehensively explore the challenges confronted within the manufacturing SMEs domain in Yemen and gain a well-rounded understanding of the prevailing circumstances. **Approach/Methodology/Design:** This study employs a qualitative and descriptive research methodology to gain sufficient insight into the realm of small and medium enterprises in Yemen, characterized as a lower-income economy. The study draws upon publicly accessible secondary data concerning the manufacturing SMEs sector. **Findings:** The study found that there are two main categories of challenges faced by small and medium enterprises in Yemen: obstacles and challenges that can be solved by firms and companies and challenges and obstacles that the government can solve. **Practical Implications:** Hurdles prevent Yemeni SMEs from digitizing their business processes, and progress toward digitalization necessitates enterprises overcoming such barriers by augmenting such initiatives with the necessary resources and infrastructure. Managers, owner and policymakers can benefit from the research outcome with respect to strategy adoption for better business performance. **Originality/value:** The study adds to the body of knowledge by presenting evidence that sheds light on the actual hurdles faced by SMEs in order to have sufficient insight into any possible opportunities for developing their performance and enhancing their survival.

INTRODUCTION

Eggers & Macmillan, (2013) described government and its support to solve problems like "the giving tree" in the children book of Shel Silverstein; as the government is always asked to solve the problems that occur or are faced in the health sector, the transportation sector or any other sector. However, this is very common in developed countries where government covers many aspects of support needed by the public. However, when it comes to developing and, in particular, the least developed countries, the public sector is much different compared to developed countries. This implies that underdeveloped economies would need decades of development in their GDP to be in a position to support and provide public services.

Hence, in order to withstand the intense challenges, firms and companies in underdeveloped economies are obliged to initiate necessary efforts to solve/withstand the challenges through appropriate plans and strategies adopted by such firms and companies. This raises questions regarding the nature of challenges that the firms and companies are supposed to solve and which among them are to be considered as a duty of the government.

The challenges faced by firms and companies in the manufacturing sector in Yemen can be grouped into two categories: the first category pertains to the challenges and obstacles that the firms and companies can solve through development and operations, through specific strategies and plans; the second relating to the challenges and obstacles that firms and companies are unable to encounter them by themselves and hence demands the intervention of the government so as to ensure conducive business environment for the SMEs sector to grow, expand and contribute towards inclusive development and economic welfare is extended.

Small and medium enterprises in Yemen function in an unstable environment due to the current political and economic unrest in the country (Saleh and Manjunath, 2020e) and, more particularly, the impact accompanied by the Covid-19 pandemic (Saleh and Manjunath, 2020a); this result in them facing a plethora of challenges which are divided into historical and temporary (Saleh and Manjunath, 2020b). Yemen, one of the least developing countries in the region, has been facing a continuous crisis that has worsened business operations and led to a high rate of unemployment and, in turn, negatively affected the performance of MSEs in Yemen (AL-Maamari et al., 2023).

However, being an underdeveloped economy with the majority of participants in the business sector being SMEs (World Bank, 2013), Yemen plays a significant role in creating employment, generating income, and GDP improvement; yet, their performance is hindered by many factors such as finance, marketing, political, legal, and managerial capacity (Saleh, Manjunath and Qaied, 2021). Barriers hold SMEs in Yemen from digitalizing their business process, and moving towards digitalization (Saleh and Manjunath, 2020c; 2021c) requires businesses to overcome such barriers by supplementing such initiatives with essential resources and infrastructure.

This article, therefore, explores the challenges faced by small and medium enterprises in Yemen, whether they could be solved by the government or by the enterprises themselves.

METHODOLOGY AND PROCEDURES

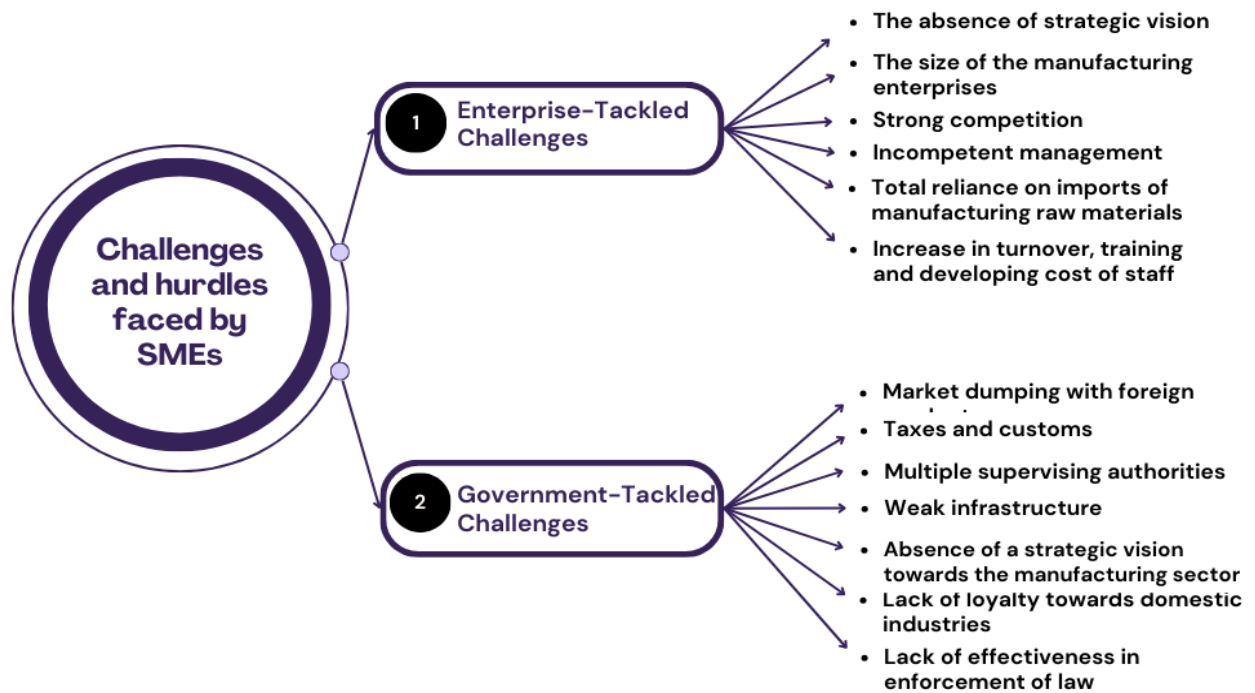
This article is a review article in nature; it aims to describe and explain the nature of challenges faced by SMEs in Yemen in general and the manufacturing SMEs in particular. It relies on secondary data publicly available from many sources, such as the World Bank. The article explores the challenges faced by manufacturing SMEs and the effect of the current political instability on the manufacturing SMEs sector in Yemen.

RESULTS AND DISCUSSION

Challenges and obstacles encountered by the manufacturing sector in Yemen

Figure 1. below illustrates the challenges and obstacles encountered by the manufacturing sector in Yemen that can be solved by firms and companies or by the government, depending on their nature.

Figure 1. Challenges and obstacles encountered by the manufacturing sector in Yemen



Source: Developed by researchers based on the literature survey

Obstacles and challenges that can be solved by firms and companies:

The manufacturing firms/enterprises can conquer these challenges and obstacles by applying directed strategies and dedicating the required resources for the same.

The absence of strategic vision:

There is more emphasis on the role of the mission and vision of firms/organizations in developing and maintaining sustainable business performance (Duygulu, et al, 2016). The ACCA report (ACCA, 2018) opined that for an organization to be well built, the internal key components have to be taken care of, such as vision, strategy, and people, and external key components, such as – being alert towards the environment and search for cues, maintaining the relationship with stakeholders, and accepting/adapting to the changes promptly. The business environment is getting more competitive day by day, which makes it a must for organizations to adapt to the business environment changes by establishing great strategies (Sanad and Anitha, 2021). Strategic vision, mission, goals, and objectives are to be established for business success and competitiveness. Lacking such vital components is a significant reason why stellar ideas are found challenging to transform into star companies.

Wang, et al. (2007) stated that many enterprises are not considered "entrepreneurial enterprises," as their managers/owners are satisfied with where they are and what they have with respect to enterprising, and hence they do not aim to grow and hunt growth opportunities, this inference leads to the strategic planning which has been neglected in their enterprises. However, ownership motivations act as critical drivers to encourage seeking growth opportunities and hence employ strategic planning.

The size of the manufacturing enterprises:

The size of enterprises cannot be considered as an obstacle to the development of SMEs sector. However, considering the fact that more than 95% of the business sectors fall in SMEs category, and among them, the majority of the manufacturing SMEs in Yemen are found to be

small manufacturing enterprises (World Bank, 2013). Regardless of the role played by micro and small enterprises in the economy, the expansion of the sector is still limited as the number of large enterprises is relatively – minimal. However, when the small size of enterprises dominates the SMEs sector in its count, informal sectoral practices become more common, especially where the micro-enterprises are more common than the medium or large enterprises.

One of the solutions to such an obstacle can be considered as an appropriate strategic choice where it contributes to the growth of SMEs sector. Merge and acquisition among manufacturing SMEs, especially the ones with potential for growth and expansion. Merging manufacturing entities would transform them into more substantial and more capable manufacturing enterprises.

Strong competition:

Two possible types of competition that manufacturing SMEs in Yemen would encounter

- First is the competition from other manufacturers operating in traditional business environments.
- The other is the competition that the manufacturers themselves are not able to encounter, which is market dumping with low-priced products.

Imports are a primary source of meeting the local market needs for products and commodities, which is dominated by the private sector (World Bank, 2018). Due to importing raw materials, product prices are relatively higher when compared to foreign products (Algomhariah, 2008). This has infused competition from foreign imported products into the local market.

Weak enforcement of standards (Aljazeera, 2010), lack of upgradation to the local products, absence of an official policy dedicated towards protecting the manufacturing sector, the weakness of the local products to compete with foreign products, market dumping with less priced imported products, and the limited efforts towards attracting customers (Algomhariah, 2008) have all contributed to the tendency of customers to prefer the low-priced foreign products. To address these obstacles, strategies need to be planned and designed mainly to boost the output in the environment where a business operates. This can be achieved by identifying and analyzing strengths, weaknesses, threats, and opportunities.

Incompetent management:

When considering management discipline, Yemen as a country has been ruled divided by many, such as the Ottomans, Kingdom of Mutawakkilite, royal families, and other dynasties. Two republics were established during the 1960s in North and South Yemen. Uniting these two republics in 1990 involved merging two different administrative systems into one, which created administrative gaps and exposed the new administrative system to many weaknesses. Let alone the nature of the Yemeni society is tribal and traditional or described as a primitive society (Caton, 2013).

Further, the nature of political and economic instability that Yemen continues to witness (Aboueldahab, 2019), along with the lack of development achieved from social and economic perspectives, managerial aspects have not been up to the mark, considering running a business and making remarkable decisions.

Small and medium enterprises are characterized by unstructured managerial cycles, which implies that the managerial challenges would easily hamper the business performance of these enterprises. Moreover, overcoming managerial issues that undoubtedly affect performance

requires a specific focus more than other factors, such as infrastructure factors or lack of access to information systems. Overcoming the managerial challenges can help enterprises better cope with other challenges, especially by developing enterprising skills and entrepreneurial perception among the youth (Saleh and Manjunath, 2020d; 2021a) and establishing supervising authority for SMEs so as to provide them with training, directions, support and consultancy (Saleh and Manjunath, 2021b).

Total reliance on imports of manufacturing raw materials

Yemen is one of the least developed countries; the manufacturing orientation is lagging due to lack of essential resources, necessitating the need to increase foreign products and raw materials used in processing and manufacturing activities.

The total reliance on imported raw materials contributes towards a negative trade balance, as coupled with reduced exports. During the last two decades, exports in Yemen have witnessed a tremendous decline, while imports have witnessed the opposite conditions. During 2003, exports were greater than imports, exports being 31.45% of GDP, as against imports, which were 30.96% of GDP. However, exports declined during 2010 to 21.48% of GDP as against the imports of 30.87% of GDP. Further, during the current political and economic instability, exports have worsened during 2017, which has been 0.53% of GDP as against imports, accounting for 19% of GDP (Table 1) (CSO, 2010; 2003; 2017).

Table 1: Export and imports 2003 - 2017 (percentage of GDP)

Year	Imports	Exports
2003	30.96	31.45
2010	30.87	21.48
2017	19.00	0.53

Source: CSO, (2010; 2003; 2017)

The reliance on imports by manufacturing and processing has led to increased production costs affecting the pricing of products, which ignites and intensifies the competition between local products against foreign products; contrarily, the favourability of customers towards foreign products due to their low and affordable cost/price has been a phenomena that impacts the manufacturing sector in developing economies; hence demanding extra efforts from the government to protect the local manufacturing sector, so it can grow, expand and contribute towards the economic development in the country.

Increase in turnover, training, and developing cost of staff

Information/knowledge infrastructure is crucial for upgrading the business process among SMEs (Robertson, 2003). It is very challenging for SMEs to train and develop their human resources; hence, the cost is way lower than that of large enterprises (OECD, 2010).

Around 70% of the Yemeni workforce work for unorganized labour markets in the informal sector (World Bank. 2010), where the service sector is found employing around 55.6%, while the agriculture sector employs around 29.2%, the trade sector and industry employ around 22.7% and 14.5% respectively; and the public administration employ 12.7% of manpower (ILO, 2015).

The inexperience, lack of skills, and training programs impede the tendency to expand small businesses in the Arab World, SMEs employ the majority (60%) of the workforce according to reports from the World Bank and the United Nations (Aljazeera, 2010). Small enterprises employ 47.5% of the workforce in the USA (U.S. Small Business Administration, 2018),

66.8% in The European Union (Kraemer-Eis, et al., 2017), 40% of India's workforce (Malini, 2013); however, it differs in the context of Yemen, as lacking evidence with respect to the contribution of SMEs to economic development, make the Yemeni SMEs sector appear as an informal sector (Alhaddad, 2010). Only a small section of the Yemeni workforce (7.9%) are undergraduates; and the majority (68.6%) possess primary education, and 23% are found to possess secondary education (ILO, 2015).

According to the United Nations, the young Yemeni workforce lacks the necessary skills that enable them to succeed in achieving entrepreneurial undertakings (UNDP, 2011). SMEs report an inadequately educated workforce as one of the major obstacles that hinder their performance, in addition to a high turnover rate among employees and staff, which makes the enterprises reluctant to invest in employee training programs (Al-Maqaleh, 2012). Yemen lags behind in developing human resources according to the Human Development Index and is categorized as "very low human development" (UNDP, 2013; 2018), which has further worsened after the violent conflict in the country (UNDP, 2013). This has hindered the development progress and threatened human security, and it would take a few years, if not decades, to redeem the pre-conflict conditions (UNDP, 2018).

Challenges and obstacles that can be effectively solved by the government

Solving these challenges is considered a duty of the government, as one of the primary duties of any government is to provide a conducive business environment for the commercial/manufacturing sector to develop and thereby boost economic growth and GDP, thereby contributing to the economic welfare.

Market dumping with foreign products

The lack of a government role, coupled with the national products being of high cost and low quality, has contributed to the increase of market dumping activities in Yemen, especially in recent years, and has impacted the local industry in meeting all the local demands compared with imported products (Aljazeera, 2010; Alhimyari, 2014; Althawrah, 2013). The weakness of marketing policies and absence of appropriate regulation with regards to having national markets open for foreign products has hampered the capabilities of national products to survive the competition with imported and low-priced products (Algomhariah, 2008; Alaraby, 2017; Aljazeera, 2010), and having fewer funds - as most of the banking sector credit goes to financing the state budget deficit through treasury bills (Alaraby, 2014).

Taxes and customs

The tax system in Yemen provides incentives for large investors and for small and medium enterprises, as it is reeling from an ineffective structure and management that is considered to be of less efficiency; this has resulted in reduced government revenues, expansion of informal activities, and increased rate of tax evasion/corruption.

The tax system in Yemen differs among sectors and organizations, and further, it is also true that the tax system is unjust, as the reform attempt has been a prolonged process with a focus only on the general sales tax policies.

In this regard, the SMEs, who lack the strength to grow, are bearing a lot of unbearable taxes compared to their counterparts, i.e., the large organizations that can receive incentives or tax exemptions from the government.

The Rwandan economy can be taken as an example, which provides tax incentives to small and medium enterprises. Rwanda, the country that was hit by a 'genocide in 1994' (which killed

around a million people), has followed specific strategies in development; such strategies include granting tax incentives to SMEs. Such incentives include granting tax holidays - extending up to five and seven years, zero preferential corporate income tax rate, and accelerated depreciation of 50% - relating to assets (whether new or used) (Twesige, et al., 2020).

Multiple supervising authorities

The regulating policies and programs of SMEs should be under the responsibility of a specific Ministry dedicated to supervising and supporting the SME sector as a critical contributor to economic development (UNCTAD, 2001). In the case where the policies are distributed, it becomes difficult to reach a consensual agreement among the government departments like finance authority, local authorities, and other authorities concerning the plans or concessions proposed by the small business representatives, which hampers the implementation of SME policies and programs comprehensively (UNCTAD, 2001).

Yemen lacks such supervising authority for the SME sector, which has led to a lack of effective support towards the development of SMEs sector. However, one administrative wing in the 'Ministry of Industry and Trade' is dedicated to supervising manufacturing small and medium enterprises. This administrative system classifies the enterprises based on the number of employees through a Regulation in 2009 (Al-Attas, 2017).

Social Fund for Development (SFD), an internationally supported institution, is dedicated to supporting Small and medium Enterprises and initiating development efforts in the country, with an objective to alleviate poverty - especially in the rural areas of the country (Al-Iryani, et al. 2013; 2015), thereby reducing the vulnerable status of the poor in rural areas as well as the individuals seeking opportunities to utilize and generate income. These initiatives empower them to achieve economic growth (SFD, 2017).

Another supervisory department was established by SFD in 2005, which is the Small and Micro Enterprise Promotion Service (SMEPS), which aims to support the processes and activities of generating income and creating jobs in society, which can minimize the effect of political instability in the country (World Bank. 2012; SMEPS, 2016; Ghanem, 2018).

Weak infrastructure

The lack of proper and encouraging infrastructure in Yemen is severely hampering the performance of SMEs. A few key features are crucial for infrastructure, yet they are not sufficiently available - they include broadband, transportation roads, electricity, and a regulatory environment. Hence, a lack of such infrastructure discourages business performance and hampers growth and development (Kelly, 2016; Obokoh & Goldman, 2016). Research indicates that the Yemeni infrastructure with respect to small and medium enterprises is poor and underdeveloped (World Bank, 2000; Igmen. 2009; General Investment Authority, 2006).

Access to basic services that are supposed to prepare a conducive business environment in Yemen is very challenging; such essential services include electricity and water supply, transportation, and security (Nicaragua, 2019). Yemeni businesses struggle to function, communicate with consumers, and perform digital transactions. Poor telecommunications infrastructure has hampered overseas finance, exacerbating the country's budgetary challenges (Sanad et al., 2023). In an empirical study, SMEs in Yemen have expressed that infrastructure factors significantly influence and impact their business performance (Saleh, et al, 2021).

Absence of a strategic vision towards the manufacturing sector

When Yemen is compared with its neighbouring economies, it can be clearly observed that these economies have adopted specific strategies to protect, encourage and support the manufacturing sectors.

Some of the strategic activities that have been initiated to support and protect the manufacturing sector include the prevention of smuggling, provision to protect enterprises in many aspects, prevention of imports from countries other than the country of origin of essential products, prevention of dealing with commodities where their source is anonymous, adopting the "Made in" motto – "Made in Yemen," and other activities that can lead to strengthening and supporting the manufacturing sector.

When Yemen is compared with its neighbouring countries with respect to the activities mentioned above, it is observed that Yemen is lagging behind in implementing such practices that mainly aim to support and strengthen the manufacturing sector.

Lack of loyalty towards domestic industries

HSAG (2002) stated that the taxes imposed on small and medium manufacturing enterprises worsen their ability to compete with foreign products that penetrate local markets. The variation of taxes on many activities acts as another obstacle, as these taxes levied are unbearable, according to the small business capabilities. The local processing enterprises get their products from the local market, raw material tax is paid up to 15%, 35% tax is imposed on the revenues, 16% tax is imposed on salaries, 15% tax is imposed on insurance, 10% tax is imposed on miscellaneous incomes, and 2.5% is imposed as Zakah – which is an Islamic expenditure on the income of individuals and mortgage tax.

When compared with the status of the foreign products and how they are encouraged and supported by their respective governments, the difference in the capability of the product to compete is answered both in the local market as well as where they compete in the international market.

Lack of effectiveness in the enforcement of law

When considering law enforcement in Yemen, it is observed that traditional and tribal governance is commonly adopted due to the weak and limited interventions of the government during 1990, after the unification of Yemen and the merging of two administrative systems (Al-Dawsari, 2012).

The Yemeni government issued a specific law for microfinance in 2009 to regulate the activities and undertakings of microfinance institutions. However, no Act is dedicated to small and medium enterprises, though the majority of the business sector in Yemen falls into this category (Alnedhari, 2009).

Small and medium enterprises consider government policies as one of the key challenges impacting their growth (Musid, 2013); further, providing collateral to ensure the repayment of their loans is another major hindrance to accessing financial resources (Musid, 2013; Althawrah, 2013).

The weakness in the rule of law has been a major hindrance to implementing the regulatory reforms in Yemen; this is very much evident as Yemen is in the tail of countries worldwide with respect to the ranks with a low score of doing business indicators such as – ease of getting credit, protecting investors, and paying taxes; all of them due to weakness of the law

enforcement (World Bank, 2015).

There is a huge impact of tribes and tribal governance in law enforcement in Yemen, which is considered an impediment to the opportunities for development in Yemen since the weakness cannot be attributed to the absence of the laws but to their effective and regulatory enforcement (Al-Dawsari, 2012; World Bank, 2015).

The weakness in enforcing laws and regulations is due to the lack of independence of the judiciary system in the country and the impact of centralism on its independence, as government interventions keep hampering the judicial system (World Bank, 2015). Friends of Yemen, which is a coalition of international organizations in 39 countries co-chaired by the United Kingdom, the Kingdom of Saudi Arabia, and the Republic of Yemen, in their report in 2010 stated that structural weaknesses in the justice, security sectors as well as the rule of law contribute to the corruption vulnerabilities, such vulnerabilities include infrastructure that is poor and unreliable, insufficient salaries, weak procedures and enforcement due to lack of sufficient incentives and knowledge, extreme centralism and institutional opacity (Friends of Yemen, 2010).

The impact of the recent political and economic instability on the performance and activities of the SME sector

The economic and political instability has been significantly influencing the enterprising activities in Yemen's business environment. In 2019, Yemen was ranked 116th among 117 countries on the Global Hunger Index with a score of 45.9 (Grebmer, et. al., 2019), 187th with respect to the ease of doing business (World Bank, 2019a), and was ranked 177th country among 189 countries worldwide with respect to Human Development Index with a score of 0.528 putting it in the category of "Low Human Development" (UNDP, 2019).

Business Closure

Many businesses have shut down their operations during the recent political chaotic changes and unrest in Yemen (since 2011). It is estimated that around 26% of SMEs were closed due to the currently active war in the country (World Bank, 2019; UNDP & SMEPS, 2015). Around 19% of businesses run by male entrepreneurs were closed, and 42% run by women entrepreneurs have been closed (UNDP & SMEPS, 2015). During the violent conflict and the recent political and economic instability in Yemen, Small and medium enterprises have experienced physical loss and damage. The loss includes loss of productive assets being physically damaged, injuries to the workforce, and loss of life. Damages to infrastructure have left the business units with many challenges to function (ILO, 2018).

These factors raise the obvious question "who was affected to close business?"; normally, those entrepreneurs who lack the resources, skills, and ability/capacity to handle business processes during instability will end up closing their businesses. During the conflict in Yemen, the United Nations reported that older entrepreneurs were more resilient toward closing businesses; on the other hand, younger entrepreneurs were more likely to close their businesses (UNDP & SMEPS, 2015).

Some questions remain unanswered regarding the potential training, consultation, and support on the percentage of young entrepreneurs and the experienced/capable older entrepreneurs who could have to function in an unstable business environment.

When comparing business units that closed down among sectors during the current conflict/political unrest in Yemen, the service sector is found to be the most affected, being a predominant employer with a workforce of 55.6% (ILO, 2016). Around 35% of entrepreneurs

have closed their service operations; the manufacturing sector is affected, with 29% of enterprises closed down due to political unrest, and the trading sector is the least affected, with a closure of 20% (UNDP & SMEPS, 2015).

The size of the enterprises plays a key factor in enterprising activities and business processes being affected during political instability. The large enterprises have been successful in showing more resilience during the recent political conflict and economic instability in Yemen (UNDP & SMEPS, 2015; ILO, 2018); this could be true due to broader access to resources or better experience of entrepreneurs to handle such scenarios. Business closing was more common among medium enterprises, with 35%, while it was the least, with large enterprises accounting for 17% (UNDP & SMEPS, 2015).

Loss of customer base

During the conflict, enterprises lost their customer base, which in – return has affected their survival (ILO, 2018). The service sector is reported to be the most affected and has lost its customer base, accounting for 75%. The trading sector was almost similarly affected, losing 73% of its customers. During this period, the manufacturing sector has lost 69% of its customers (UNDP & SMEPS, 2015). This could be one of the major factors behind escalated costs leading to the closure of business, reduced customer base, and lack of access to essential electricity, which were reported as major constraints by surviving enterprises during the political instability (World Bank, 2019). Considering the enterprises' size, larger enterprises have shown better resilience towards the loss in customer base, while MSMEs were largely affected by the loss of customer base almost to a similar extent (UNDP & SMEPS, 2015).

Workers lay off

The workforce has not been in isolation from the effect of the political and economic instability in Yemen. A large group of workers got laid off due to the decline in revenues affected by the political instability and closure of business unites employing them.

The population of Yemen is very young, with more than 40% aged 14 years or less, and 3/4th of the population lives in rural areas. Educational level among adults and women is very low; hence, they do not have many opportunities for employment in the formal labour market (ILO, 2015). The effect of workforce layoffs is very severe on individuals, and the substantial layoffs among SMEs in the country have also led to the haemorrhaging of the private sector (Cordesman, 2017).

As the service sector was the most affected by the closure, it was also the sector that laid off most of their workers/employees, accounting for 62% (UNDP & SMEPS, 2015); the workforce in sectors like agriculture, industry, and construction was also affected (ILO, 2016). Followed by the trading sector with a layoff of 43%, the least being the manufacturing sector, accounting at 41% (UNDP & SMEPS, 2015).

Taking the size of enterprises into consideration, small and medium enterprises were the most to lay off their workforce, accounting for 70% and 71%, where small enterprises laid off 50% and medium enterprises laid off 42.5% of their workforce (UNDP & SMEPS, 2015). The total reduction of human capital is 60% among medium-sized enterprises and around 56% among small enterprises (ILO, 2018). Where 67% of large enterprises laid off 32% of their workforce, only 38% of micro-enterprises laid off 47% of their workforce (UNDP & SMEPS, 2015).

The workforce gap witnessed among large enterprises is the availability of skilled labour, which has been a major issue faced by enterprises in Yemen. During the political instability, 17%, 23%, and 33% of micro, small, and medium enterprises expressed their need for skilled

labour, while 58% of large enterprises expressed, they lacked access to skilled labour (UNDP & SMEPS, 2015).

The employment rate in Yemen has always been low, especially in major cities, which has further worsened due to the political and economic instability through displacement, especially among workers working for their own account and women as well (ILO, 2016).

Worsening business constraints for SMEs:

The political instability has maximized the effect on the other challenges that are faced by small and medium enterprises across the world as well, such as accessing credit or financing options. As the Yemeni economy is largely a cash-based economy, this makes the banking system a key player in the survival and development of the private sector. Therefore, during the political unrest, enterprises had to either lay off workers or suspend their operations (Nasser, 2018).

Due to such political conditions, financing options were more restricted, and the cost to obtain credit had increased. Accessing credit/foreign exchange has been described as a "significant constraint" by almost half of the SMEs in Yemen (World Bank, 2019). Managing resources to maintain working capital is challenging for SMEs even though materials still exist in the market (World Bank, 2017). Around half of the enterprises in Yemen do not depend on bank loans. Instead, rather enterprises rely on advance payments (15%) from their customers or take loans from their suppliers (World Bank, 2019). The risks have multiplied for the banking sector to function during the political instability; therefore, financial services have become costlier or simply unavailable (World Bank, 2017).

Other constraints that have worsened during the current political unrest in Yemen include cumbersome taxes and fees, lack of investment, decreased sales, the lack of a conducive business environment that encourages entrepreneurial undertakings, regulations that are discouraging and restrictive, relying too much on cash payments and exchange companies in business transactions (World Bank, 2017; 2019).

The continuance of such constraints will not only hinder the business functions of small and medium enterprises but also will affect the health of the economy as a whole. Therefore, one might wonder what prospects the economy of Yemen has to recover in reeling from the political instability that will enable small and medium enterprises to function in such an environment.

CONCLUSION AND SUGGESTION

Small and medium enterprises in Yemen function in an unstable environment due to the current political and economic unrest in the country and, more particularly, the impact accompanied by the COVID-19 pandemic; this resulted in them facing a plethora of challenges, which are divided into historical and temporary. However, being an underdeveloped economy with the majority of participants in the business sector being SMEs in Yemen play a significant role to creating employment, generating income, and GDP improvement; yet, their performance is hindered by many factors such as finance, marketing, political, legal, and managerial capacity. Barriers hold SMEs in Yemen from digitalizing their business process, and moving towards digitalization requires businesses to overcome such barriers by supplementing such initiatives with essential resources and infrastructure.

Conflict of Interest

The authors of the article declare no conflict of interest.

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