



وكالة تنمية المنشآت الصغيرة و الأَصغر  
Small&MicroEnterprisePromotionService  
التابعة للصندوق الاجتماعي للتنمية

# APRIL 2015

## Business Climate Survey

27 April 2015



# Summary

The Small Micro Enterprise Promotion Service (SMEPS) is a subsidiary for the Social Fund for Development (SFD) in Yemen. SMEPS mandate is to support private sector development and does this through facilitating business development services, value chain development, and entrepreneurship projects. As such, SMEPS is in touch with thousands of business owners across the country.

The SMEPS Business Climate Survey is a monthly assessment that offers a ‘snapshot’ of business owners’ sentiments towards the business climate and focuses on small, medium to large enterprises. The survey looks back one year and asks how does the business climate compare with today? The survey then looks forward six months and probes into expectations. In addition, April’s 2015 survey given the country crisis focused on food and medicine supplies interviewing businesses along these value chains. In addition, the survey continued its March enquiring into the currency exchange rate identifying market valuations for the US dollar. Lastly, the survey reached out to solar distributors identifying a possible silver lining in grim times.

## CONFLICT HAMMERS BUSINESS CONFIDENCE

Not surprising given the situation, almost all businesses (93%) agree that the business climate has deteriorated to levels not seen before; this is a 17% increase on March. Regionally, Sana’a and Aden enterprises converge on weak business confidence at 94% and 95% respectively; other regions congregate at 86%. By sector, 96% of traders were unhappy, compared to 90% for services and 73% for manufactures. Looking at the business climate by company size, 95% of small business owners registered their dissatisfaction, compared to 90% of medium size enterprises and 86% of large business owners. The main reason given for weakening climate is the spread of fighting to Aden, Taiz, and Mareb with medium size enterprises noting that businesses have closed and that some business owners have fled the country affecting their ‘business2business’ commerce. In Aden enterprise owners, were specifically concerned of the threat of ‘looting’ explaining why many businesses have remained shut – documented by the survey is one case of looting of a grocery warehouse in Aden. Manufacturers and importers site fuel availability as hugely undermining to operations describing an inability to distribute their products. Taiz and Hodiedah business owners were equally concerned of security when distributing out of the governorate with cases of ‘high-way robbery’ registered. Small enterprises in Sana’a stress over the evaporation of customer base as many thousands flee the capital.



## **LOOKING AHEAD 6 MONTHS LARGE AND MEDIUM ENTERPRISES ARE MORE SKEPTICAL THAN SMALL BUSINESSES**

Looking ahead six months firms in all regions, across all sectors and all sizes are less optimistic. April's survey shows a continued trend from March of firms expecting a worsening of business climate. Large and medium size enterprises were the most extreme with almost 70% being pessimistic compared to 60% of smaller enterprises. There was also variance by regions with 69% of Adeni firms expecting a poorer business climate compared to 57% for other governorates and 60% for Sana'a based companies. Health care businesses and grocery traders were least optimistic looking ahead with 64% of these firms expecting further deterioration of the business climate. The survey picked up a wide divergence by sector with less than half of manufacturers (45%) seeing a worsening of the climate contrasting with retailers/traders and service firms at 63% and 65% respectively. It is interesting to note that an equal number of manufacturers (45%) answered 'Don't know' to this question, almost double those in other sectors with just 9% answering positively, lower than in the other two sectors. The two most common reasons as to why were; (1) Security/war, and (2) unclear future, which may help explain why so many manufactures answered 'Don't know' to this question. Large enterprises also converged over worries of access to raw materials including fuel and free passage of people and goods<sup>1</sup>. Moreover, Aden business owners worry that many employees (public and private) have not had access to salaries with Banks and Post Offices closed and ask how customers will buy our goods and services without access to wages and finance.

## **BUSINESSES FRUSTRATED OVER DOLLAR POLICY**

Last month's survey showed an average 55% of business owners faced difficulties sourcing the US dollar; this figure has now climbed to 79%. Central Bank policies in place since the end of March have aggravated the situation as more enterprises struggle to find US dollars; the situation is more acute with large enterprises and manufacturers where the figures stand at 90% and 100% respectively. In March, businesses pointed the finger of blame to 'speculation', 'capital flight' and 'black market' activity for dollar scarcity. In April's survey, business owners point the blame to policies emanating from the Central Bank and Ministry of Finance. We also note the correspondence bank, Al Mashreq Bank; popular with local businesses has stopped dollar transfers to and from Yemen.



## **MARKET VALUATION FOR US DOLLAR 6 – 10 POINTS OVER CENTRAL BANK'S PRICE**

Although only a 2% difference exist between the percentage of firms in Sana'a (80%) and Aden (82%), struggling to find US dollars there is a considerable variation on market valuation. In Sana'a, currency markets edge towards 224 in Aden much lower at 219. Other regions were closer to Sana'a at 223. Given that, many businesses remain shut in Aden this we predict to be a temporary glitch likely corrected over the next few days as business activity comes back to life in Mualla and Crater districts of Aden. The survey also shows variations on dollar price by company size. Small and medium sized enterprises are paying 221 – 222 respectively, whereas large businesses pay 223+ and manufactures even more at 225 for the dollar.

## **A WORRYING 17% OF HEALTH PROVIDERS CUT WORKING HOURS BY HALF**

Ninety percent of all enterprises have adjusted working hours to cope with the conflict as security worries keep customers away and a lack of energy keeps the lights off. Almost 1/5 of all enterprises have cut working hours by half harshly effecting output, while a further 45% register irregular working hours siting security, electricity, and fewer customers after sunset as being the three main reasons for change of work hours.

Access to health services have been seriously impaired as 17% of health providers cut working hours by half. The situation for food distributors is graver still with 22% halving their working hours. Almost 50% of enterprises in these two sectors register irregular working hours.

## **PRICES OF FOOD & MEDICINES INCREASE**

The survey shows increases in prices throughout the food supply chain, as 50% of all food traders (including importers, wholesalers, and retailers) have increased prices. Manufactures increase prices by 6%, whilst importers and wholesalers increase prices by an average 7% and retailers by 16%. Products being most difficult to source include flour, sugar, rice, oils and milk. Fewer health providers (18%) have increased prices and increases have been smaller at 11%. Health products that are running scarce include anesthetics, and those for chronic diseases (diabetes & heart). Pharmacist point out, as the conflict ignited towards the end of March they observed a rush by regular customers stocking up for several months.

When asked about stock levels 75% of businesses had less inventory in stores than this time last year. By sector, food enterprises were worse off with 83% registering lower stocks compared with 65% for health providers. Medicine wholesalers' stock levels are better off than retailers are which indicates a clot in channel distribution, most likely contributed to by the fuel crisis hampering delivery and trade sales. Retailer pharmacists on the other hand also explain that new cash payment terms demanded by wholesalers are responsible for their lower stock levels.

## **How long will stock levels last?**

The situation for grocery distributors is severest as wholesalers and retailers disclose that they have 66 days of stocks whereas medical suppliers record 91 days. Other sectors including electronics register 126 days of inventory. All businesses are worried about supply chain cutoffs and an average 85% of businesses face difficulties in getting hold of their supplies. A closer look by sector reveals grocery traders (91%) and health care providers (86%) to be above the average mark for firms experiencing supply difficulties. The four primary reasons explaining supply difficulty offered by firms were the naval blockade; security, cash/finance, and speculation, smaller firms would also mention that their regular supplier is low on stock. Wheat, flour and rice importers reveal that they have shipments under inspection by blockade operatives and we can expect relief before the end of the month. In addition, a large Yemeni business group successfully re-channeled a ship carrying wheat from Hodeidah to Aden port providing greatly needed food relief at a time when almost all bakers had closed in Aden. Moreover, Aden Port Authority have informed SMEPS that six ships carrying food cargo are undergoing security checks by Operation Decisive Storm inspectors.

## **Black market activity on the rise?**

Food stuffs traders, as well as money exchangers were the biggest protesters of black market activity. By sector, 45% of manufacturers noted black market activity. At the sub-sector level, 48% of players in the food value chain (importers, manufacturers, wholesalers and retailers) had noted a raise in replica brands, original brands imported through a non-agent source or unregistered products. In the health sector 33% of firms registered similar concerns.

## **On the bright side solar businesses shine**

Solar retailers are reporting a colossal 2150% increase in sales. It is understood that this is triggered by power outages and customer expectations of a worsening of the situation as fighting spreads to Mareb governorate, home of Yemen's gas fired power station. Unlike previous outages, a new trend appears to be set in place for solar as the technology moves into horizontal distribution channels. Once coveted by specialist solar outlets on one or two high streets in the capital, we are now witnessing solar panels appear in general building supplies stores all over the capital and other cities supporting a wider outreach and greater geographic coverage of solar technology.



## **Who are BUYING SOLAR SYSTEMS?**

Traders report the bulk of customer in March and April were households followed by retailers, offices, wholesalers, and other businesses at a ratio of households to businesses of 5:1. There is a sense that solar traders are bracing themselves for a further surge in demand as businesses turn off their diesel powered generators due to a lack of fuel. Business clients for solar are much bigger buyers than households as their demand for electricity is greater usually encompassing a full working day of at least eight hours. As such, the price swell is relentless with many retailers unwilling to write a quotation as prices over the past 7 days have increased on a daily basis at a rate of 4-5%. As new shipments of solar panels arrive in early May, traders expect prices to stabilize.

Wesam Qaid  
**Executive Manager**  
**SMEPS**



# APRIL 2015 SMEPS YEMEN BUSINESS CLIMATE SURVEY

## Part (1)

### CONFLICT HAMMERS BUSINESS CONFIDENCE 93% OF COMPANIES SAY BUSINESS CLIMATE HAS DETERIORATED TO LEVELS NOT SEEN BEFORE

#### Regions



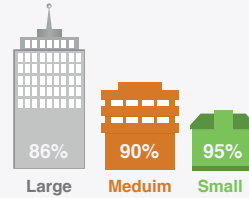
Business climate approaches rock bottom for most firms

#### Sector



Manufactures sentiments are more positive, is this because as blockade kicks in they face less competition?

#### Company size



Small businesses in Sana'a stress over the evaporation of customer base as thousands of consumers flee the capital

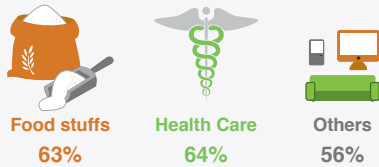
### LOOKING AHEAD 6 MONTHS LARGE AND MEDIUM ENTERPRISES ARE MORE SKEPTICAL THAN SMALL BUSINESSES

#### Sector



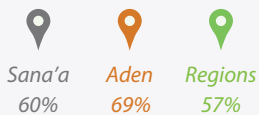
An equal number of manufacturers (45%) answered 'Don't know' to this question, almost double those in other sectors with just 9% answering positively, lower than in the other two sectors.

#### Sub-Sector

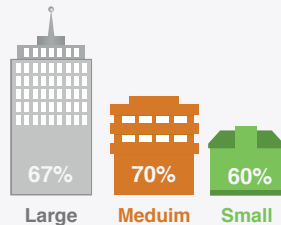


Two most popular reasons for high levels of business skepticism were 1) war and 2) unclear future. Any new government needs to communicate to business owners, placing business high on the agenda and quickly.

#### Regions

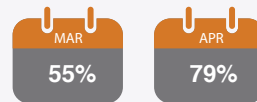


#### Company size



### BUSINESSES FRUSTRATED OVER DOLLAR POLICY

Businesses facing difficulties buying US\$

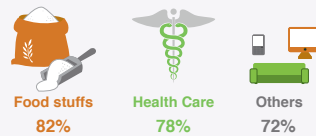


In March, business owners blamed currency speculators and capital flight in April entrepreneurs point the finger to the Central Bank, Al Mashreq Bank, a popular corresponding bank has stopped transfers to and from Yemen.

#### Sector

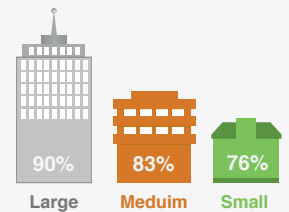


#### Sub-Sector



As a mainly food importing country the currency situation requires urgent attention.

#### Company size



# APRIL 2015 SMEPS YEMEN BUSINESS CLIMATE SURVEY

## Part (2)

### OUTPUT TAKES A HIT AS BUSINESSES FIND IT DIFFICULT TO MAINTAIN REGULAR HOURS



**90%**  
of businesses adjust work hours



Irregular hours

**47%**



Normal hours

**22%**



Cut working hours by half

**18%**



Business stopped functioning

**12%**

Output falls as businesses cut working hours.

#### Sub-Sector



**Food stuffs**  
**22%**



**Health Care**  
**17%**

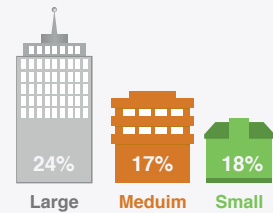
A worrying 17% of health providers & 22% foodstuffs sellers cut working hours by half making access more difficult.

#### Sector



By sector over 20% of retailers/traders cut work hours by half.

#### Company size



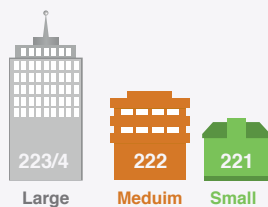
Almost 1/5 of all businesses cut work hours by half the most effected being large enterprises

### MARKET VALUATION FOR US DOLLAR 6 – 10 POINTS OVER CENTRAL BANK'S 215 PRICE

#### Regions



#### Company size



Many Adeni importers and traders in the commercial hubs of Crater and Mu'alla remain shut explaining the lower 219 exchange rate in Aden. The Governor of the Central Bank has proven highly competent, but will he remain in his job as the conflict deepens?





# APRIL 2015 SMEPS YEMEN BUSINESS CLIMATE SURVEY

## Part (3)

### PRICES OF FOOD & MEDICINES INCREASE



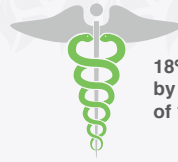
**50%**

of food stuffs enterprises increase prices



Most difficult products to source are Flour, Rice, Oil, Sugar and Milk

83% of Foodstuffs traders have less stock than this time last year



18% increase prices and by an average increase of 11%

Most difficult products to source are anesthetics, and those for chronic diseases (diabetes & heart).

65% of Health providers have less stock than this time last year

### HOW LONG WILL STOCK LEVELS LAST?



Businesses reporting supply difficulties

Sub-Sector



Food stuffs  
91%



Health Providers  
86%

Blockade, fuel and transportation difficulties, speculation, security, and cash payment terms were given as the main causes of lower stock levels

### BLACK MARKET ACTIVITY ON THE RISE!!

Who noted black market activity?



Replica brands, brands imported through non-agent source & unregistered products

Sector



Sub-Sector



Food stuffs  
48%



Health Providers  
33%

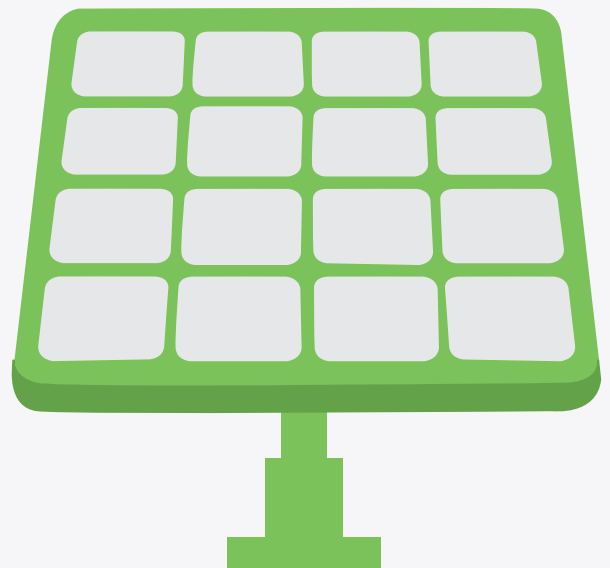
### ON THE BRIGHT SIDE SOLAR BUSINESSES SHINE

Power outages trigger for sales and uncertainty as fighting spreads to Mareb Governorate home of gas fired power station. New development in distribution as solar systems enter new market channels including mainstream building supplies offering wider outreach.

### WHO ARE BUYING SOLAR SYSTEMS?

Ratio of 5:1 households to businesses

Expect sales to grow as more businesses take up solar as and when their diesel runs out turning off the generators



**SOLAR POWER RETAILERS SALES INCREASE BY 2150%**