



وكالة تنمية المنشآت الصغيرة و الأَصغر  
Small & Micro Enterprise Promotion Service  
التابعة للصندوق الاجتماعي للتنمية

# **MARCH 2015**

## **SMEPS Business Climate Survey**

16 March 2015



# Summary

The Small Micro Enterprise Promotion Service (SMEPS) is a subsidiary of 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 1 year and asks how does the business climate compare with today? The survey then looks forward 6 months and probes into expectations. In addition, March's 2015 survey focused on jobs, prices, and the availability of the dollar across 3 sectors (services, retail & wholesale, and manufacturing).

## Are Aden based businesses more optimistic?

Last month's survey highlighted 80% of businesses considered the business climate worse than a year earlier. A slight improvement has been recorded in March with 76% considering the business climate today worse off than a year ago. This 4% drop on the previous month is driven mainly by Aden based businesses that welcomed the decisions by Gulf States to relocate Embassies to Yemen's southern port city. All three sectors most common reply on why the business climate is worse pointed to security and political stability. The second most popular reply for manufacturing was the lack of diesel and electricity compared to loss of customers and weaker purchasing power for the service and retail sectors.

## 48% of businesses expect worsening business climate

February's survey showed diverging views looking ahead 6 months, with 40% seeing a worsening of the business climate and 42% being optimistic expecting an improvement. In March there has been a noticeable tilt towards gloom with 48% seeing the business climate worsening and a further 11% seeing no change in the current situation. Business optimism is evaporating with a 12% drop this month to a low 30% for business owners expecting an improvement. As to the reasons why businesses see gloominess ahead; smaller enterprises most popular reply was security, for medium enterprises their answers revolved around currency and a weakening in customer purchasing power, whilst larger firms noted the power struggle and failing political dialogue with no clear indicators for the future of the state making business strategizing all the more complex.



## 31% OF BUSINESSES LAYOFF WORKERS

Almost half of the business owners surveyed (46%) have thought to layoff workers and are making calculations to this effect. This has been driven by “record low sales”, “difficulty collecting payments”, “weakened purchasing power”, “increasing cost – financing (100% confirmed LCs)” “increased insurance” and “economic slowdown”.

Regarding actual layoffs, 31% of businesses across all sectors, have already dismissed workers with a further 2% reducing salaries or hours. Layoffs by enterprise size are as follows: small firms 30%, medium 37%, and 21% of larger businesses. Medium and small firms lay off over 1/3 of their staff at 34% and 38% respectively while larger firms dismiss 20% of their work force. Of those surveyed small businesses are laying off on average 4 workers, medium 14, and large enterprise have let go on average 50 employees.

## BIGGEST LAYOFFS ARE IN MANUFACTURING

Reflecting these layoffs by sector the most affected has been manufacturing with 40% releasing workers, followed by the service sector at 31%, and retail at 26%. Retailers have let go on average 18% of their staff, for services and manufactures it is much higher at 30%. Geographically, fewer Adeni businesses, 23% laid off workers compared to 33% for Sana’a, explaining this, a common survey response was a perceived relative ‘stability in Aden’ triggered by support from the Gulf States for President Hadi and the relocations of Embassies to Aden. Other areas (Hodiedah, Mukalla and Taiz) show 46% of enterprises laid off workers which is explained by the concentration of manufacturers in Taiz and Hodiedah where both cities make up the industrial belt of the country.

## SPRING SALE 48% OF BUSINESSES CUT PRICES

A painful profit squeeze is evident as 48% of enterprises sell at discounted rates. Examining price cuts by enterprise size we see; 51% of small enterprises have slashed prices by an average of 21%, with 41% of medium sized businesses cutting their prices by 18%. Almost half (47%) of larger enterprises have reduced their prices by an average cut of 16.5%. In some cases, cuts have been along the value chain (e.g. bottled water) – manufacturers, wholesalers, and retailers as businesses complain of high stock (particularly medium size enterprises & wholesalers), slack demand, weak purchasing power and competition. Products seeing largest price cuts are electronics (including PCs & peripherals) and furniture where prices have been cut by up to 50% with average price fall rates for these products hovering at the 28% range. Although 76% of manufacturers did not reduce prices, they did protest the increasing cost of production; particularly for energy (electricity and diesel), financing for raw materials/inputs and insurance, believing a price cut would create losses. The 24% of manufacturers that did reduce prices did so by an average of 20%.



## **55% OF BUSINESSES FACE DIFFICULTIES SOURCING US DOLLARS**

As much as 55 % of enterprises surveyed experience difficulty in sourcing hard currency. It has proven even more difficult for, large, medium and Aden based firms where the figure is 62 - 65%. Small & medium enterprises, as well as retailers and service firms mention 'capital flight' or 'hoarding' of the dollar as the cause for their sourcing problems. Larger firms and manufacturers point the finger to the political situation and complicated banking procedures. Retailers and medium sized firms also mention black market activity as a reason for dollar scarcity. When asked if the 215 Yemeni Rial exchange to the dollar rate was realistic, 55% responded "no", and a higher rate would be more accurate. Businesses sense of exchange value for the dollar varied widely from between 225 to 400 and larger firms gravitated towards the 279 mark. It is not looking rosy for the local currency either, the arrival in the market of newly printed Yemeni notes was a cause for concerns indicating a clot in the cash cycle.

Wesam Qaid  
Executive Manager  
SMEPS



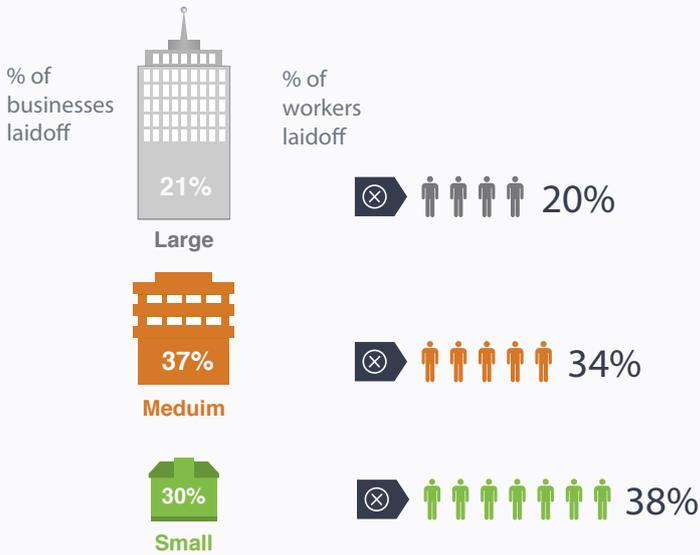
# MARCH 2015 SMEPS YEMEN BUSINESS CLIMATE SURVEY

## HEAVY LAYOFFS AND MORE IN THE PIPELINE ?



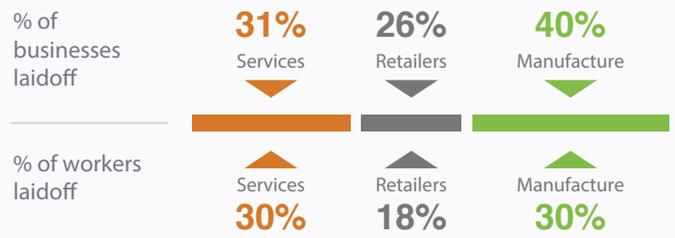
### LAYOFFS BY ENTERPRISE SIZE

(Most effected are SMES)



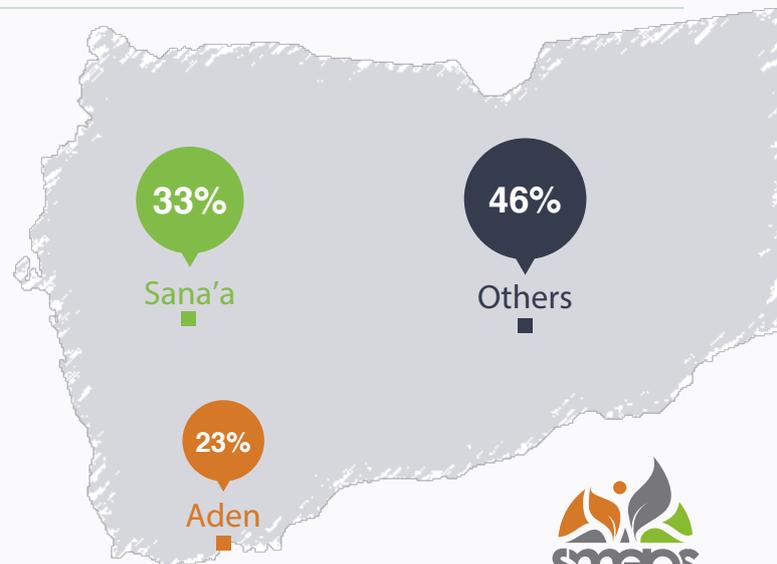
### LAYOFFS BY SECTOR

(Retailers more resilient)



### LAYOFFS BY CITY

(Adeni firms optimism triggered by GCC States Embassy relocations to the port of city)



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## PAINFUL PROFIT SQUEEZE

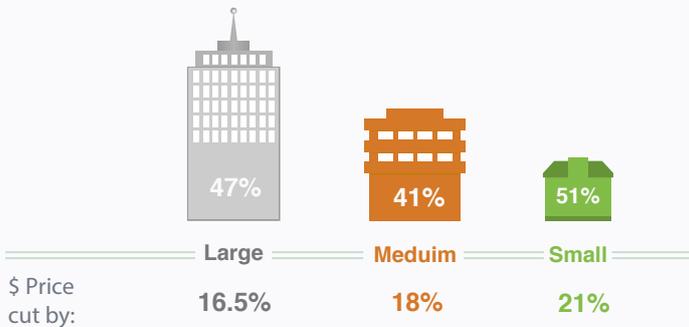


48%

Businesses cutting prices complaining of "record low sales" & "weakened purchasing power"

### PRICE CUT BY ENTERPRISE SIZE

( All types of enterprises slashing prices)



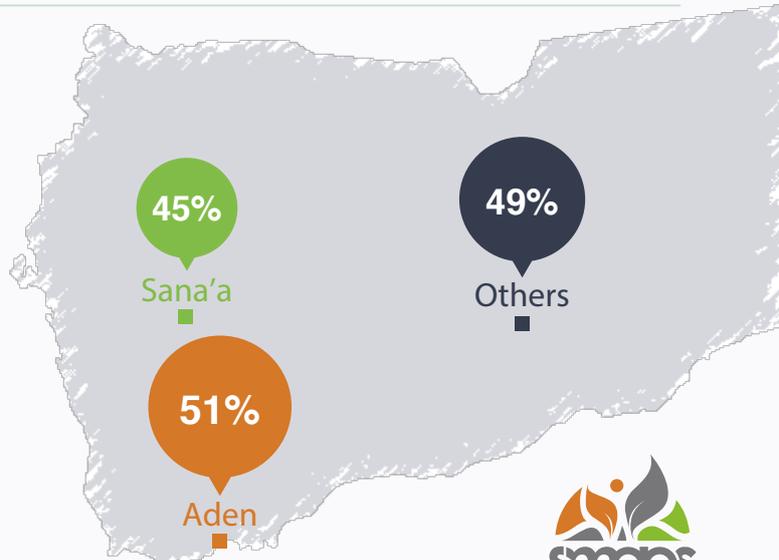
### PRICE CUT BY SECTOR

( Retailers of luxury items are biggest price cutters )



### PRICE CUT BY CITY

( More Adeni based firms cut prices)



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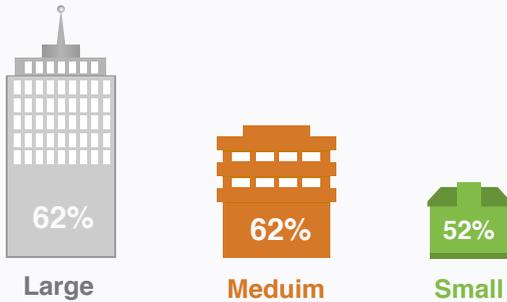
# MARCH 2015 SMEPS YEMEN BUSINESS CLIMATE SURVEY

*STABLE \$ EXCHANGE BUT DIFFICULT TO SOURCE!*



## DIFFICULTIES SOURCING U.S. DOLLARS BY ENTERPRISE SIZE

( A big concern for all enterprises )



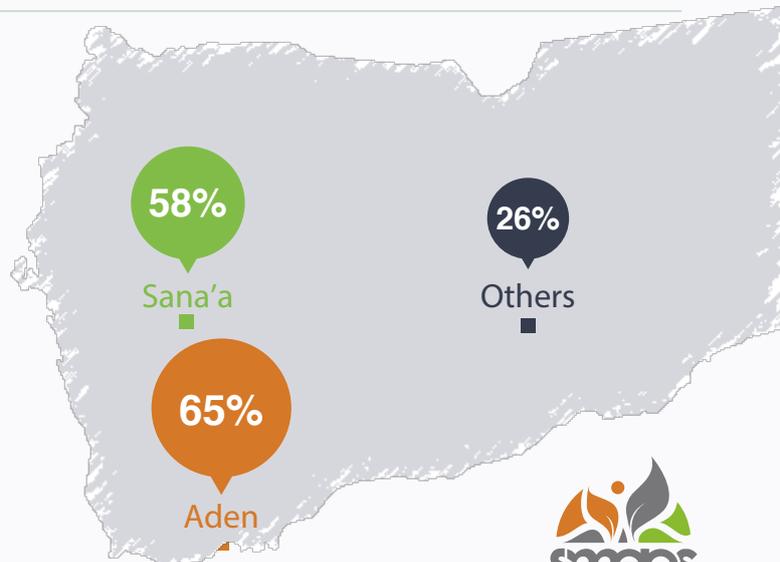
## DIFFICULTIES SOURCING U.S. DOLLARS BY SECTOR

( Medium sized retailers have the hardest time sourcing \$ )



## DIFFICULTIES SOURCING U.S. DOLLARS BY CITY

Are Aden based firms hoarding more than in Sanaa?  
Or are we seeing localised policies being developed?



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