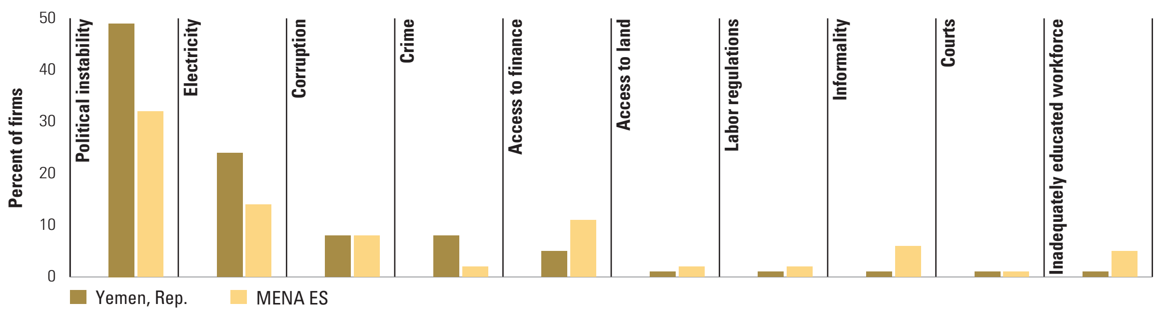
REPUBLIC OF YEMEN

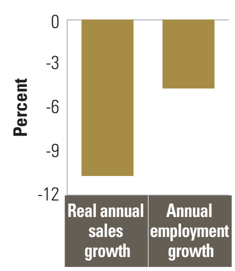
FIGURE 1: Ranking of top business environment obstacles for firms in the Republic of Yemen



Political instability is the top obstacle reported by firms in the Republic of Yemen

The ES fieldwork took place between March 2013 and July 2014, during a period of instability in the Republic of Yemen, which deteriorated into civil war in early 2015. Unsurprisingly, nearly half of all firms identify political instability as their top obstacle in the business environment (figure 1). Nearly a quarter of firms indicate electricity as their top obstacle. Although not ranked as the top obstacle, corruption is considered a major or very severe obstacle by 97 percent of firms; among all economies with ES data, this is the highest percentage. In addition, over 60 percent of all firms consider crime as a major/very severe obstacle to their current operations; and 17 percent of firms experience losses due to theft and vandalism, the highest percentage among MENA ES economies. Not surprisingly, following this deterioration of the business environment, private sector activity over the period contracted. A typical firm, between 2009 and 2012, saw sales revenues strongly decline by nearly 11 percent per year and an employment contraction of 5 percent per year (figure 2).

FIGURE 2: Sales and employment growth



Electricity remains a key issue for firms in the Republic of Yemen

After political instability, electricity is the second most-often cited top obstacle to firms in the Republic of Yemen. Private sector firms experience nearly 40 power outages in a typical month and lose over 16 percent of their annual sales as a result of these power outages (figure 3). Closely linked to this, the private sector reports heavy reliance on private generators: eight in 10 firms in the Republic of Yemen own or share a generator (figure 4), and overall, 39 percent of the private sector's power provision comes from these generators.

FIGURE 3: Electrical outages and losses

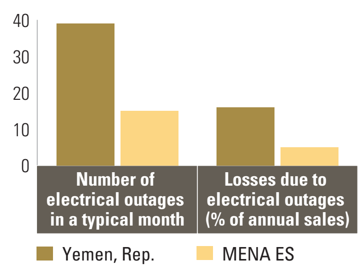
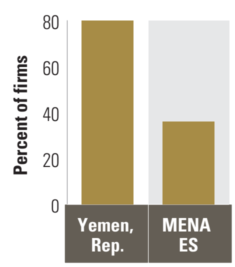


FIGURE 4: Firms owning or sharing a generator



Firms in the Republic of Yemen remain largely disconnected from the financial sector

The Republic of Yemen has the highest share of credit-constrained firms—those that were rejected (or partially approved) on loan applications and/or were discouraged from applying due to unfavorable terms and conditions—among MENA ES economies (figure 5). This is driven by a high share of firms that are discouraged from applying for loans. Moreover, only 1 percent of financing is sourced from banks, the lowest proportion among all MENA ES economies. The fact that over 50 percent of formal private sector firms do not have a checking or savings account (figure 6) and therefore do not use the financial system even for payment services suggests that the disconnect is structural.

FIGURE 5: Degree of credit constraint

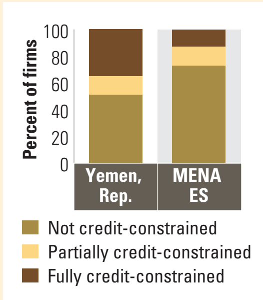
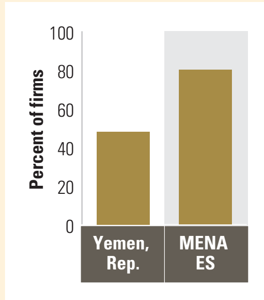


FIGURE 6: Firms with a checking or savings account



Republic of Yemen manufacturers are the least integrated into global markets

Well behind the MENA ES average, only 37 percent of the Republic of Yemen manufacturers import at least a tenth of their material inputs or supplies from abroad (figure 7). In contrast, this rate is on average over 60 percent in the MENA ES region. Manufacturers are even less integrated on the exporting side. Only 5 percent of the economy's manufacturers export at least 10 percent of their sales abroad, a fifth of the MENA ES average. Not surprisingly, the Republic of Yemen has the lowest proportion of two-way trading manufacturing firms (those that import and export), indicating that this sector is quite removed from GVCs. In addition, Republic of Yemen firms face longer waiting times to clear customs when directly exporting, compared with firms across the MENA ES region (figure 8).

FIGURE 7: Degree of foreign engagement in manufacturing

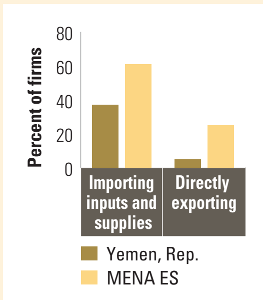
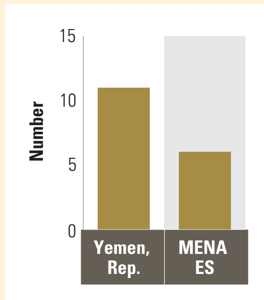


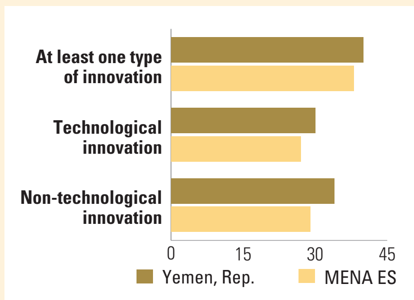
FIGURE 8: Days to clear direct exports through customs



Innovation rates in the Republic of Yemen are comparable with MENA ES averages

More than 40 percent of firms in the Republic of Yemen engage in at least one type of innovation (figure 9). These are introductions of new or significantly improved products or processes (technological innovations) or new or significantly improved organizational or marketing methods (non-technological innovations). Most of the innovations are new to the firm rather than new to the Republic of Yemen or to international markets. In the Republic of Yemen, firms primarily introduce new marketing and organizational methods rather than new products and processes; but firms also report technical innovation at rates slightly above the MENA ES average.

FIGURE 9: Firms engaged in innovation



The Economy Fiches summarize the economy-specific findings of the report "What's Holding Back the Private Sector in MENA?" Note that annualized sales and employment growth statistics are calculated using the reference years 2009 and 2012; these reference years are used due to when the Enterprise Survey was administered. The findings, interpretations, and conclusions expressed in this fiche are entirely those of the authors. They do not necessarily represent the views of the European Bank for Reconstruction and Development/European Investment Bank/World Bank and its affiliated organizations, or those of their Executive Directors or the governments they represent.