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Local Production: Influencing Factors and Necessary Policies

Dr. Mansour Ali Al-Bashiri
Economic Advisor to the Federation

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Table of Contents

Introduction	3
1. Performance of Commodity Production Sectors	4
2. Performance of Small and Micro Enterprises	7
3. Evaluation of the Performance of Production Sectors.....	8
4. Factors Affecting Local Production.....	9
4.1 Natural Resources	9
4.2 Economic Factors	10
4.3 Social Factors.....	11
4.4 Technological Factors	12
5. Policies Required for Local Production Growth	13
References.....	16

Introduction

The issue of local production of various goods and services, along with strategies for its development and enhancement, holds significant importance across both developed and developing countries. Local production serves as a vital indicator of national economic health, reflecting the extent of improvement or decline within the economic structure. It clearly demonstrates the degree of economic independence and national sovereignty, as well as the ability of countries to rely on themselves. This bolsters their economic and social security, making them less susceptible to regional or international fluctuations.

Local production also contributes to economic diversification and increases income sources, thereby enhancing the resilience of the national economy against both internal and external shocks. Moreover, it provides and creates new job opportunities, which in turn reduces unemployment and poverty rates among the population. Additionally, local production improves the standard of living for citizens by increasing incomes and supplying more goods and services necessary to meet the needs of the population.

To achieve the economic and development goals aimed at increasing levels of local production of various goods and products across all production sectors, it is essential to develop a business-friendly ecosystem in these sectors. This should be based on the adoption of supportive strategies by various governments to ensure the sustainability of national capital development, attract foreign investments, enhance human resources, and utilize available natural production resources. Furthermore, it is crucial to establish necessary regulatory and institutional frameworks, as well as to implement international quality standards and improve the long-term competitiveness of producers¹.

This paper, prepared with the support of the International Labor Organization (ILO), examines the reality of local production in Yemen by analyzing the performance of commodity production sectors and small enterprises. These sectors play a pivotal role in Yemen's economy, contributing significantly to GDP, local market supply, and food security. They also contribute significantly to job creation and provide essential inputs for various productive and service sectors. This paper identifies factors influencing the volume and nature of local production and proposes policies and interventions for its future development and enhancement in line with the private sector's 2025 agenda.

The methodology adopted in this paper encompasses a comprehensive desk analysis of studies, reports, and statistical data pertinent to the topic. Additionally, a participatory approach was employed, involving beneficiaries and key stakeholders, including the

¹ World Health Organization. *Global Forum on Local Production*, First Report, June 2021
<https://www.who.int/ar/publications/i/item/9789240032422>

leadership of the General Federation of Chambers of Commerce and Industry and members of its specialized committees. The draft paper was also circulated to all chambers of commerce and industry, with their observations and feedback systematically incorporated to ensure consistency and accuracy.

1. Performance of Commodity Production Sectors

The performance of production sectors in Yemen has experienced numerous changes over the past years, driven by shifts in political, security, and economic factors. Local producers have operated under an unstable production environment characterized by political and security challenges, as well as economic constraints. This has been compounded by limited access to essential services required for production and service operations, such as electricity, water, ports, airports, and transportation infrastructure. Additionally, there have been recurring shortages in energy sources, particularly petroleum derivatives needed to operate factories and various means of transportation.

Despite these challenges, many production enterprises have adapted to the prevailing conditions by employing various strategies to maintain economic activity and provide goods and services. These strategies include relocating to safer areas, altering energy sources, and utilizing alternative methods to ensure the availability of production inputs and the distribution of goods and services across all Yemeni governorates. Moreover, numerous private institutions have adjusted their activities to align with the evolving market demands².

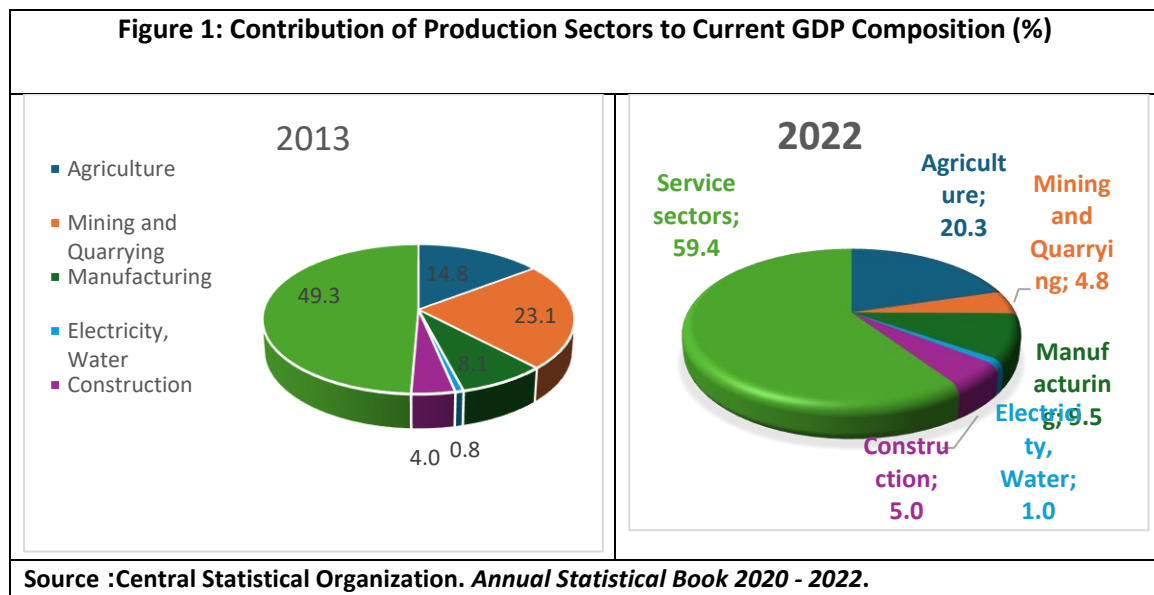
The contribution of production sectors to the current Gross Domestic Product (GDP) composition (see Figure 1) has experienced a limited decline over the past decade. This contribution decreased from 52.7% in 2013 to approximately 40.6% in 2022, primarily due to a significant reduction in the output of the extractive industries sector (oil and gas) during this period.

In contrast, other production sectors have shown notable improvement in their share of the current GDP composition. For instance, the value of output from the agriculture and fishing sector increased from 1.1 trillion Yemeni rials in 2013 to 1.8 trillion rials in 2022, resulting in the sector's contribution rising from 14.8% to 20.3% over the same period.

² Dr. Mansour Al-Bashiri. *The Role of the Private Sector in Enhancing Economic Resilience in Yemen*, Federation of Yemen Chambers of Commerce and Industry, December 2023 <https://fycci-ye.org/?category=%D8%AF%D8%B1%D8%A7%D8%B3%D8%A7%D8%AA-%D9%88%D8%A3%D8%A8%D8%AD%D8%A7%D8%AB>

Similarly, the output of the manufacturing sector grew from 602 billion rials in 2013 to 823 billion rials in 2022, leading to an increase in its contribution to GDP from 8.1% to 9.5%.

The construction sector also saw a rise in its contribution, moving from 4% to 5% of the GDP during this timeframe. Furthermore, the contribution of the water and electricity sector reached 1% in 2022.



It is noteworthy that, despite the improvement in the value of the current output of production sectors (excluding oil and gas) over the past period, their actual performance has been different and has experienced a significant contraction. This mirrors the situation across all sectors of the national economy, where the Gross Domestic Product (GDP) has shrunk by more than 50% during this time due to the conditions of conflict and war, as well as the new challenges and obstacles that have emerged, alongside the structural challenges the economy faced prior to the war.

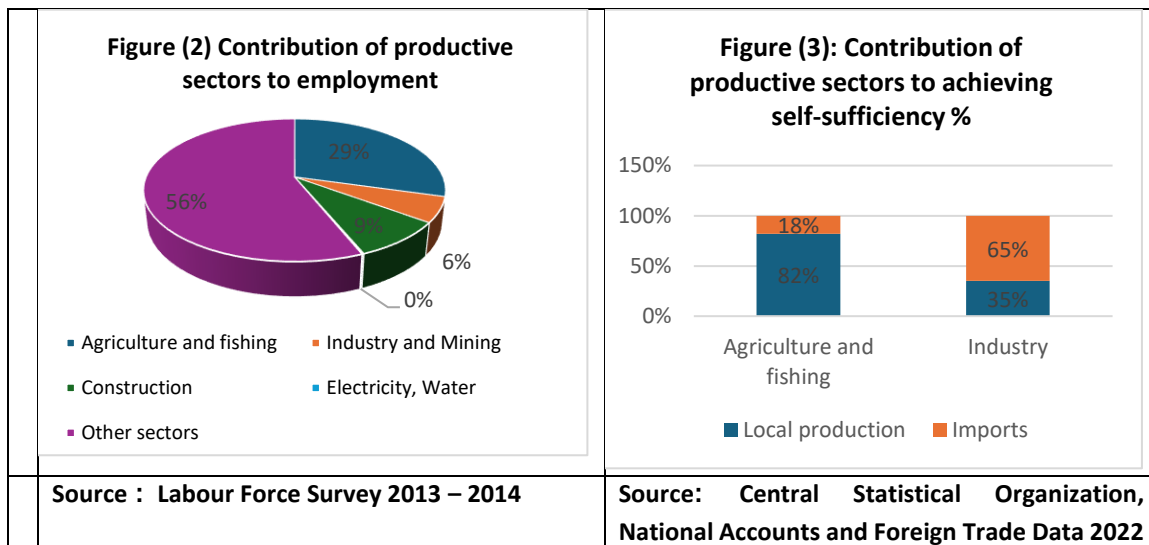
On another note, the importance of production sectors in employing the workforce is highlighted. Data³ (see Figure 2) indicates that production sectors account for approximately 44% of total employment in the economy (excluding self-employed workers). The agricultural sector employs about 29% of the workforce, and when including self-employed individuals, the agricultural sector's contribution to employment rises to approximately 40%. Meanwhile, the construction sector absorbs about 9% of total

³ Central Statistical Organization and International Labour Organization (ILO). *Labour Force Survey 2013 – 2014*. <https://cso-ye.org/%D8%AA%D9%82%D8%A7%D8%B1%D9%8A%D8%B1-%D8%A7%D9%84%D9%85%D8%B3%D9%88%D8%AD/>

employment, and the industrial and mining sector contributes to employing 6% of the total workforce.

As for the adequacy of local production in meeting the population's demand for goods and products, available data indicate⁴ that the primary production sectors (agriculture, fishing, and manufacturing) supply only approximately 49% of the population's needs. This highlights a significant challenge within the Yemeni economy concerning self-sufficiency and food security at both macroeconomic and sectoral levels.

The agricultural sector supplies approximately 82% of the population's needs for various agricultural goods and achieves self-sufficiency in many of them, such as **sorghum** and **millet** at a rate of 99%, and **barley** at 103%. For vegetables, the self-sufficiency rate reached about 100%, with specific rates of 95.3% for potatoes and 66%



for legumes, the self-sufficiency rate is 94% for fruits. Regarding animal products, the self-sufficiency rate for meat reached 107%, while it stands at 99% for eggs. However, wheat, rice, vegetable oils, and sugar are supplied through the foreign trade sector.

As for the manufacturing and mining sectors, their capacity remains very limited in achieving acceptable levels of self-sufficiency in manufactured products. In 2022, the value of locally manufactured products accounted for only 35% of the total value of industrial products consumed in the Yemeni economy. Additionally, there is a significant concentration in a small range of industrial products.

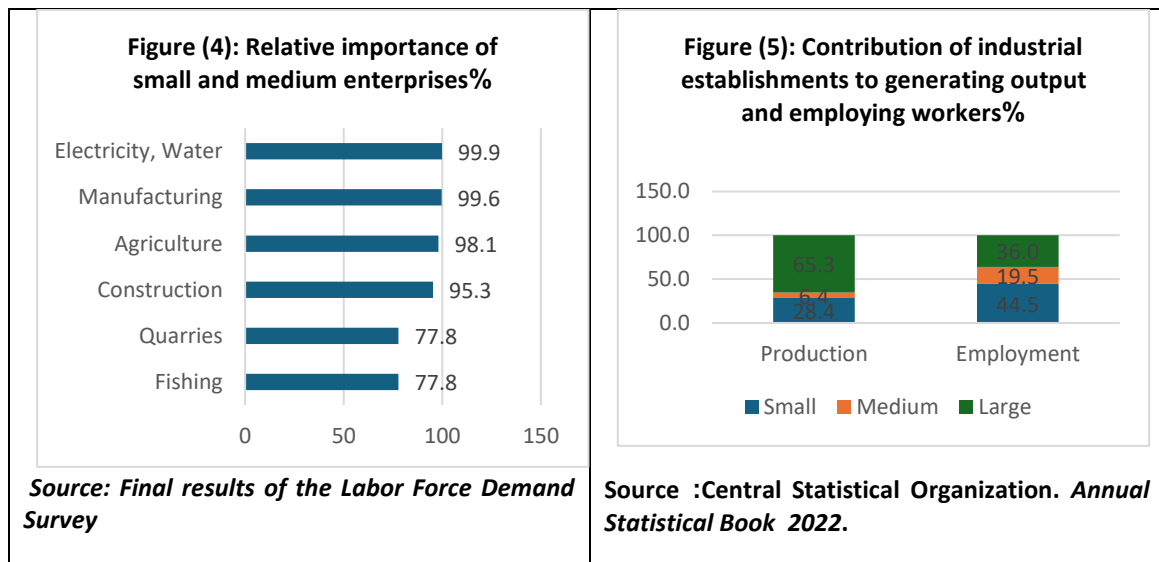
⁴ Central Statistical Organization. *Annual Statistical Book 2022*.

Alongside the extractive industries, which include oil and gas extraction and related activities that account for about 33% of industrial output value, the food and beverage industry ranks second, contributing 27.3% to the sector's output value. This is followed by fabricated metal products at 7%, tobacco products at approximately 6.6%, and construction materials at 6.1%, with the remainder consisting of other industries and products.

2. Performance of Small and Micro Enterprises

Small and micro enterprises are a crucial component of Yemen's economy, significantly contributing to economic and development goals by employing a large portion of the workforce and providing various goods and products that enhance food and economic security. The significance of small and micro enterprises in Yemen lies in their widespread geographic and sectoral distribution, as they are present across all regions and constitute a substantial share of the production structure.

Figure 4 highlights the dominance of small and medium enterprises (SMEs) across production sectors, representing approximately 99.9% of establishments in the electricity and water sector, 99.6% in manufacturing, 98.1% in agriculture, and similarly in other sectors.



Geographically⁵, 27.3% of small enterprises are located in Sana'a, followed by Taiz and Hodeidah with 12.6% each. Hadramawt accounts for 8.5%, Ibb for 7.9%, and the remaining governorates hold the rest of the small enterprises.

As for economic and employment contribution, data presented in Figure 5 indicate that in the industrial sector, SMEs contributed approximately 35% to the total private industrial production value in 2022, while large enterprises accounted for 65%. Additionally, SMEs employed about 64% of the industrial sector's workforce, compared to 36% employed by large enterprises.

Over the past years, the war and conflict have had severe negative impacts on small enterprises. Approximately 30% downsized to micro-enterprises, 20% were forced to relocate within or outside Yemen, 39% experienced intermittent operations, and 44.7% reduced working hours and laid off part of their workforce⁶.

3. Evaluation of the Performance of Production Sectors

Analysis of the performance of Yemen's commodity production sectors—including large, medium, and small-scale enterprises—reveals a fragile and underdeveloped local production system in agriculture, industry, and construction. This fragility leaves the economy highly vulnerable to internal and external shocks, adversely affecting food security, crisis resilience, and the ability to foster economic growth and build a robust national economy that leverages existing investment opportunities and achieves decent standards of living for the population.

Key factors undermining sector performance:

1. Lack of a clear comprehensive strategy for economic growth and production sectors development, with defined goals and indicators. This is evident in the absence of actionable economic policies and deficient investment programs to drive economic progress.
2. Political, economic, and security instability undermines the production and investment environment.

⁵ Maher Othman And Abdel Basset Mohamed, Small and Micro Enterprises: The Optimal Path to Addressing Poverty in Times of War, Rowad Foundation and GIZ, February 2021
<https://rowad.org/en/publications/3>

⁶ Previous reference

3. Inadequate infrastructure services and high costs increase production and investment expenses across various sectors, which in turn reduces profitability, thereby diminishing the incentive for investment and production⁷.
4. Weak role of the banking system in facilitating the financial intermediation necessary for investment and production across all economic sectors, resulting in only 4% of private enterprises in Yemen accessed financing from local banks in 2020, compared to approximately 23% regionally, about 39% in Jordan, and 20% in Lebanon and Palestine⁸.
5. Unfair market competition from low-priced imported goods undermines local products, with some industrial goods reaching the level of market dumping in Yemen. Additionally, smuggling of counterfeit and adulterated goods further harms the economy, resulting in substantial financial losses.

4. Factors Affecting Local Production

Local production represents a measure of the total value of final goods and services produced within the borders of a specific country over a defined period. It is influenced by a wide range of natural and human factors, in addition to the implemented economic and social policies. These factors, variables, and policies interact with one another, creating what can be termed the business environment, which plays a significant role in the development or decline of local production rates. Excluding political variables, the key factors affecting local production can be summarized as follows:

4.1 Natural Resources

In addition to Yemen's unique and distinctive geographical location, which represents an important economic resource that has yet to be properly exploited, it can be said that the country's diverse topography and climate have contributed to a variety of natural resources. These resources can serve as foundational pillars for the advancement of various production sectors. The most prominent among these include:

- **Oil and Gas Resources:** Yemen possesses several sedimentary basins rich in oil and gas that remain economically unexploited, with potential reserves estimated at 20

⁷ Dr. Mansour Al-Bashiri. *Infrastructure and Its Role in Encouraging Investment*, Yemeni Academy for Graduate Studies, March 2022.

⁸ International Labor Organization. *Productivity Growth, Diversification, and Structural Change in Arab Countries*, 1st Edition, 2022. https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_840651.pdf

billion barrels of oil and 60 trillion cubic feet of gas⁹. This indicates the possibility of establishing numerous industries reliant on oil and gas, particularly chemical industries and nitrogen fertilizer production.

- **Construction and Mineral Resources:** Geological studies indicate the presence of diverse mineral and natural ore deposits in Yemen, many of which remain untapped. These include gypsum, scoria, limestone, silica sand, marble, black sand, and rock salt, as well as metallic minerals such as gold, nickel, copper, and iron¹⁰.
- **Agricultural Resources:** Yemen's diverse climate and topography allow for the cultivation of many crops throughout the year, particularly high-quality goods such as coffee, vegetables, fruits, and cotton. These products can meet local needs and be exported to regional and international markets due to their superior quality.
- **Fishery Resources:** Yemen has a coastline exceeding 2,500 kilometers, rich in marine resources and offering many viable investment opportunities. Approximately 300 species of fish are found in Yemen's coastal and territorial waters, with only about 40-50 species being commercially exploited. These species include high-quality seafood such as squid and deep-sea rockfish.
- **Tourism Resources:** Yemen is home to a rich array of historical remnants from ancient civilizations, providing opportunities for historical and scientific tourism. This includes ancient cities, traditional crafts, natural hot springs, and mineral springs. Additionally, there are opportunities for cultural, sports, summer, environmental, marine tourism, and diving tourism.

In general, it can be said that Yemen is a country rich in latent natural resources, which, if exploited through sound economic practices, could significantly enhance local production levels and achieve the desired developmental goals.

4.2 Economic Factors

Economic variables and factors play an active role in influencing local production of various goods and products. Economic factors consist of a set of policies and variables that affect the supply and demand aspects of different goods, as follows:

⁹ Dr. Fahd Rawah. *Oil in Yemen: Facts and Indicators*, Al-Mokha Center for Strategic Studies, 2022.

<https://mohacenter.org/%d8%a7%d9%84%d8%a7%d8%b5%d8%af%d8%a7%d8%b1-%d8%a7%d9%84%d8%ab%d8%a7%d9%84%d8%ab/>

¹⁰Ministry of Planning and International Cooperation, Fourth Five-Year Plan for Economic and Social Development and Poverty Alleviation 2010.

- **Size of the Consumer Market:** The size of the consumer market plays a crucial role in determining local demand for various goods and products, thereby driving production forward. This consumption should be supported by increases in income levels. Looking at the Yemeni market size, estimates suggest that the population will reach approximately 34 million by 2024¹¹, indicating an expanding market in terms of the number of consumers. However, the per capita income is very low, estimated at around \$650 in 2022¹², which is among the lowest in the region and the world. This limits the purchasing power of consumers.
- **Government Economic Policies (Fiscal, Monetary, Trade, and Investment):** Government economic policies are a powerful tool for steering the economy toward achieving desired development goals, with one of the key objectives being the increase of local production. Economic policies play a critical role in creating a sound and attractive production environment that encourages innovation, thereby increasing capital investment and productivity efficiency, leading to sustainable economic growth. However, an assessment of various governmental policies, particularly in recent years, reveals that they are restrictive to local production. These policies focus primarily on increasing public revenues with limited or nonexistent investment spending on the necessary infrastructure to boost production and achieve growth. Additionally, there has been a cancellation or halt of investment and production incentives, alongside the economic challenges such as inflation, unemployment, and liquidity shortages in the local currency, which have created bottlenecks in the economic cycle and encouraged imports at the expense of local products.

4.3 Social Factors

Social factors encompass a range of variables related to individuals and society that play an important role in influencing levels of local production and consumption of various goods. The most prominent of these factors include:

- **Education and Training:** There is a direct relationship between education levels and productivity. Higher levels of education and training among the population lead to the development of a skilled workforce capable of production and innovation, thereby increasing local production levels. However, an assessment of the labor market in Yemen reveals that the workforce's preparation does not align with the

¹¹ National Population Council. *Population Projections for the Period 2005 – 2025*.

¹² The World Bank. *Yemen Poverty and Equity Assessment (Living in Harsh Conditions)*, 2024.
<https://documents.worldbank.org/pt/publication/documents-reports/documentdetail/099101324050023279>

needs of the national economy and does not support an increase in local production. The labor market in Yemen¹³ is characterized by low skill levels among workers, with approximately 69% of the workforce lacking a basic education and around 23% having only completed secondary education. The percentage of individuals holding university or higher degrees does not exceed 8%. Additionally, about 74% of workers are in the informal sector, and women's participation in economic activities and the labor market is limited, accounting for only 6% of the total working-age women.

- **Health:** The health of the workforce significantly impacts productivity and efficiency. Within this context, healthcare services in Yemen are characterized by high levels of dissatisfaction, linked to poor quality and insufficient availability of healthcare services, as well as limited public spending on the health sector. There is also a poor distribution of healthcare facilities across different regions.
- **Culture and Society:** Societal culture and prevailing values influence work habits and productivity levels. Yemenis are known for their seriousness, dedication to work, and high adaptability to various conditions and changes. This is reflected in the significant successes achieved by Yemeni communities abroad, where they excel in business, attain high educational qualifications, and hold prominent positions in their host countries.

4.4 Technological Factors

Technology plays a significant role in the growth and increase of local production of various goods and products, as well as in improving efficiency across different economic sectors, ultimately leading to an increase in Gross Domestic Product (GDP). This can be achieved through:

- **Investment in Research and Development:** This leads to the innovation of new products and more efficient production processes, alongside the automation of operations, which enhances production speed and accuracy.
- **Facilitating Supply Chain Management:** Improved technology helps optimize resource use, conserve energy, and create new job opportunities.

¹³ For further information you can visit the Federation of Yemen Chambers of Commerce and Industry. *Employment and Skills Development in Private Institutions in Yemen*, July 2022. <https://fycci-ye.org/?category=%D8%AF%D8%B1%D8%A7%D8%B3%D8%A7%D8%AA-%D9%88%D8%A3%D8%A8%D8%AD%D8%A7%D8%AB>

5. Policies Required for Local Production Growth

Economic policies are instrumental in steering the national economy toward achieving key goals, such as increasing local production and achieving self-sufficiency. These goals can be realized by fostering an investment-friendly and attractive business environment, encouraging innovation and development, improving production efficiency, and promoting sustainable economic growth.

Building on the short-, medium-, and long-term priorities outlined in the Private Sector Action Agenda 2025, which underpins Yemen’s recovery and reconstruction efforts and strengthens the development partnership between the government and private sector, a set of policies and measures can be proposed to foster growth and enhance local production, aiming to achieve the following:

- Boost domestic production of goods and reduce reliance on imports, thereby fostering economic recovery and growth in Yemen.
- Revitalize and enhance employment opportunities to mitigate unemployment and poverty.
- Develop sustainable solutions to address local and external crises and enhance food security for Yemeni citizens.
- Ensure effective investment and optimized resource utilization of Yemen's economic and social resources to drive growth and improve living standards for the population.

Based on the above, a set of policies and measures can be proposed to encourage and develop local production, as follows:

Policy	Required Actions
Monetary and Fiscal Policy	<ul style="list-style-type: none">• Increase liquidity in the economy to boost aggregate demand, stimulate economic activity, and enhance production.• Expedite the establishment of the securities and monetary market and complete the necessary procedures for its establishment.• Facilitate access to sustainable and affordable financing by merging government banks into a single development bank to provide necessary funding for production enterprises.• Support national banks and expand their financing options to ensure they benefit from foreign funding flows; enhance and develop microfinance institutions and promote financial inclusion in Yemen.• Enhance mobile banking services to expand access for beneficiaries.

	<ul style="list-style-type: none"> • Increase government spending on infrastructure and public services to boost aggregate demand in the economy. • Reduce taxes on companies and individuals to encourage investment and labor, thereby increasing production. • Work on disbursing salaries for employees and retirees that have been delayed for several years, as this represents purchasing power that contributes to increasing demand for local products. • Reassess service fees imposed by some investment-related entities (Investment Authority, Standards and Metrology, other ministries).
<ul style="list-style-type: none"> • Trade Policy 	<ul style="list-style-type: none"> • Review customs duties imposed on imports to protect local products and enhance their competitiveness. • Impose quotas on imported goods, especially during agricultural production seasons and for industrial products related to national security. • Establish free trade agreements with other countries to increase access for local products to external markets, thereby boosting productivity and economic growth.
<ul style="list-style-type: none"> • Investment Policy 	<ul style="list-style-type: none"> • Ensure the investment law enforcement for investors to receive designated benefits and incentives, including exemptions from customs duties and taxes on imported production inputs. • Improve infrastructure services by hastening the provision of essential services for investment projects. • Enact legislation to regulate private sector participation in establishing and managing infrastructure facilities under partnership models such as BOT or BOOT.
<ul style="list-style-type: none"> • Sectoral Policies (Agricultural, Industrial) 	<ul style="list-style-type: none"> • Support the transformation of individual enterprises into joint-stock companies capable of competing and sustaining under various conditions and changes. • Promote research and development to innovate new products and services and increase productivity efficiency. • Simplify bureaucratic procedures and provide facilities for investors to encourage investment in the agricultural and industrial sectors. • Enhance the quality of local products and improve their competitiveness to enable them to compete with imported goods and access external markets, thus increasing exports.

<ul style="list-style-type: none">• Private Sector Support Policies	<ul style="list-style-type: none">• Enhance the participation of the private sector in shaping economic policies and government plans related to local production development.• Provide a conducive production and regulatory environment to encourage local producers to increase their output of various goods through consistent public policies across relevant government institutions, offering a package of benefits and exemptions, trained labor, and necessary market access information.• Support specialized business organizations to provide technical and logistical support to producers and enhance their production and marketing capabilities.• Raise awareness of the importance of sustainable local production of various goods (agricultural, industrial, technological) that are of good quality and reasonably priced to improve availability. This can be done through initiatives by business organizations, local consumer associations, and government institutions, as well as organizing national events and exhibitions for local products.
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