SMALL AND MEDIUM ENTERPRISES FOR PEACE: CONFLICT RESOLUTION THROUGH SME INVESTMENT

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Since 2011, Yemen has slowly declined into one of the world's worst humanitarian crises. Today, more than 230,000 people have died, 21.2 million require urgent humanitarian assistance, and 3.2 million are internally displaced.[1] With the recent announcement of a new peace initiative by the Saudi government in Yemen, international institutions, especially the Bretton Woods institutions, have increasingly turned towards sustainable development to stabilize the Yemeni state.[2]

Born out of the second World War, the Bretton Woods institutions were primarily founded on the premise of preserving global peace and security. Following the failures of the 1980-1990 World Bank and International Monetary Fund structural adjustment programs in developing countries, research turned towards these institutions as underwriters and protectors of the market.[3]

With the failure of these institutions in fighting injustice across the Middle East and elsewhere, calls for accountability question these institutions' role in addressing conflict. Examining the World Bank's policy in Yemen is critical to understanding general policy reforms that will allow such institutions to better facilitate conflict mitigation. Yemen is a particularly interesting example of the failures in World Bank policies that prioritize immediate assistance above sustainable economic development, which has negatively impacted the conflict-ravaged nation.

The Yemeni conflict has roots in the failed political transition following the Arab Spring in 2011. In 2015, the Houthi Zaidi Shia opposition movement launched a military campaign against the Sa'dah province, which included an assault on the capital city that led to the forcible expulsion of President Hadi and a temporary suspension of the Yemeni portfolio. [4]

World Bank policy details that the organization will only work directly with the recognized government. The World Bank does not recognize the Houthis, the de facto leaders who continue to occupy Sana'a, as legitimate stakeholders. Efforts to normalize the economic role of the Houthis by attempting to

merge the Central Bank of Sana'a and the Central Bank in Aden have been unsuccessful.[5]

Once the World Bank portfolio was restarted, the civil war drastically adjusted priorities in Yemen, shifting towards immediate conflict assistance. The International Development Association (IDA) began providing large-scale emergency grants to Yemen, addressing critical issues such as food shortages, infrastructure, electricity access, safe water, and sanitation.[6] Since then, the IDA group has been unable to appropriate funds to any project with long-term sustainable development outcomes. Without the balance of short-term immediate assistance and long-term sustainable development, the World Bank is contributing to the further destabilization of a post-conflict Yemen.

Small and Medium Enterprises (SMEs) can play an essential role in accelerating sustainable development, especially in war-torn areas. SMEs are an important source of economic growth, representing 95% of registered firms, accounting for more than 50% of jobs, and contributing to over 35% of the GDP in emerging markets.[7] This largely untapped market has been the target of recent World Bank policies.[8] Director of Research at the World Bank, Asli Demirguc-Kunt, stated: "Since we are interested not only in creating more but higher-quality jobs, we are very interested in policies that promote SMEs."[9]

World Bank efforts toward building SMEs have expanded, largely due to the role of these smaller enterprises in delivering goods and services, promoting innovation, and driving the development of gender equality.[10] Despite this market's clear benefits, the credit gap for formal SMEs is approximated to be between $0.9 and $1.1 trillion.[11] The difficulties of engaging with SMEs are especially prominent in the Yemeni economy; the SME Finance Forum estimates the finance gap for SMEs to be $18 trillion in Yemen, including non-formal and unregistered SMEs.[12]

There is one Yemeni project within the World Bank portfolio that particularly focuses on affecting SME development, namely the "SME Revitalization and Employment Pilot Project." This project was led by the Small and Micro-Enterprise Promotion Agency (SMEPS), a contractor based in Sana'a. As a quasi-public sector organization, SMEPS derives its mission from creativity strategies to grow Micro and Small-Market Enterprises using a market-oriented approach.[13] The project sought to enable graduates to improve management practices, grow their capacity to use technology, and reach new markets.[14]

SMEPS is the promotional arm and a direct subsidiary of the Small and Micro Enterprises Development (SMED) Unit. The unit was created by the Yemen Social Fund for Development in 2006 to provide financial and non-financial services to small and micro-enterprises.[15] Yemen's Social Fund for Development (SFD) is a government entity that is chaired by the Yemeni Prime Minister.[16] The SFD has a problematic funding structure. An analysis of the SFD distribution report, layered with a map of Yemen's religious divisions, highlights that the most-funded governorates are in Sunni-majority areas heavily contested between the Hadi government and Houthi rebels. The remaining governorates experience a drastic decline in funding.[17] The SFD has clearly poured investment into key areas for the Hadi government, appropriating approximately $800 million in funding to predominately Sunni areas, two of which are key fronts in the Yemeni civil war. This has an important effect on the perception of the SFD as a functioning arm of the Hadi government.

The World Bank has committed $1.36 billion to Yemen, but only 2.65% of the total portfolio has gone to long-term sustainable enterprises.[18] This figure represents the imbalance between funding short-term and long-term solutions in Yemen, which has had devastating impacts on the Yemeni economy and community. The World Bank estimates economic output contraction since 2015 to be around 50%.[19] This pattern is mirrored by Yemen's slowing GDP growth, with the 2017 and 2018 reductions estimated to be 5.9% and 2.6% respectively.[20] Though immediate responses by the World Bank are warranted, long-term projects are more likely to mitigate conflict and ensure lasting stability.

Another systematic issue within the World Bank funding structure has to do with its unwavering policy to only fund recognized government entities, which can negatively affect conflict mitigation strategies. Using partisan Hadi government subsidiaries problematically affects the engagement of subnational opposition groups and various regional leaders.[21] There has been little to no engagement with these groups, who are necessary for sustainable conflict resolution. SME projects that involve subnational entities could help integrate some of these key groups into the broader mediation process.[22] This would facilitate the Yemeni community's economic growth and be conducive to peaceful conflict resolution that does not threaten national sovereignty, rights, or traditions.

To successfully mitigate conflict in Yemen, the World Bank must diversify the type of investment it undertakes, focusing more on SME markets that have greater potential to invest in regional stakeholders. Ibrahim Jalal from the Middle East Institute stated that he believes the pattern of SME development in Yemen will continue to benefit post-war reconstruction and recovery.[23] Additionally, the World Bank must shift away from government-backed contractors that are subsidiaries of the Hadi government and work with various actors across Yemen. It must also partner the critical immediate investment projects with a portfolio that focuses on long-term investment and sustainable development. A development shift in the World Bank's current operating policy for the investment and growth of conflict-ridden economies towards a system that targets more inclusive cooperation will enhance its ability to aid conflict mitigation.