



وكالة تنمية المنشآت
الصغيرة و الأصغر
Small & Micro Enterprise
Promotion Service

التابعة للصندوق الاجتماعي للتنمية
Subsidiary of the Social Fund for Development



Foreign, Commonwealth
& Development Office

YEMEN BUSINESS CLIMATE SURVEY REPORT 2020

IMPACT OF CONFLICT &
COVID-19 ON PRIVATE
SECTOR ACTIVITY

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ABBREVIATIONS

BMOs	Business Management Organization
BRAVE	Business Resilience for Value Added Enterprises
CBY	Central Bank of Yemen
FCDO	Foreign, Commonwealth and Development Office
KSA	Kingdom of Saudi Arabia
MFIs	Micro Finance Institutions
MSMEs	Micro, Small & Medium Enterprise
ODK	Open Data Kit
PPE	Personal Protective Equipment
SFD	Social Fund for Development
SME	Small & Medium Enterprise
SMEPS	Small & Micro Enterprise Promotion Services
UAE	United Arabs Emirates
UNDP	United Nation Development Programme
UNVIM	United Nations Verification & Inspection Mechanism
We-Fi	Women Entrepreneurs Finance Initiative
YER	Yemeni Riyal
YPSC	Yemen Private Sector Cluster

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EXECUTIVE SUMMARY

This report presents the findings of a Business Climate Survey completed in the first half of 2020 which is an update to a similar study undertaken by SMEPS in 2015.¹ The report highlights challenges facing the private sector from 2017 to 2019. It also includes findings from follow up surveys conducted in April and June 2020 on the impact of COVID-19 on businesses, summarized at the end of the report. The report, after the methodology section, is divided into eight sections.

The general information, and first, section highlights key business characteristics and trends. A negative tendency is the stagnant number of new business registrations across medium enterprises and a declining number in large enterprises over the past three decades. Although six years of conflict has damaged the private sector, there are more structural impediments to business in Yemen stretching beyond the war. On a more positive note, female business owners are rebounding after the initial shock in 2015 which showed 42% had to close their businesses. Interestingly, female entrepreneurs tend to concentrate in the higher skill sectors of health and education. This section also ex-

amines employment in the private sector. Over one fifth of businesses have more than doubled recruitment and almost 62% have refrained from laying off workers. Female entrepreneurs appear to be spurring job creation with 35% of businesses creating jobs being owned by women.

In the second section, damage to infrastructure, the survey results show a significant reduction in businesses reporting infrastructure damage from 74% in 2015 to just 2% in 2019. Yet, businesses in Taiz remain under high risk of infrastructure damage due to the ongoing conflict, followed by businesses in Sana'a. Importantly, across all business sizes only 6% carried insurance coverage. No micro enterprise surveyed had coverage and just 28% of large businesses were insured.

Financial performance is presented in the third section of the report showing only 23% of businesses have been able to raise capital to sustain and expand their businesses. Firms located in Sana'a - Amanat Al-Asima and Hadramout fared best, in part due to relative stability and a bigger base of customers possessing a comparatively higher purchasing power than in oth-

er regions. On the other hand, 45% of businesses witnessed a fall in profit between 2017 and 2019. Although some point the blame at exchange rate instability, a bigger portion of the blame is directed at a decrease in the number of customers. Indeed, a decrease in consumer purchasing power mainly due to the non-payment of public salaries has negatively impacted business activities.

In the fourth section of the report the many constraints on the private sector are presented. One to highlight is the worsening import procedures and associated cost that is putting an entire population at risk. The time taken to import goods into the country is increasing. The United Nations Verification Mechanism (UNVIM) and subsequent port management services are becoming less efficient. In 2017 approvals to bring goods into the main ports took 12 days on average. Businesses complain the same approval request in 2019 has more than doubled to 28 days.

The support to business section highlights the assistance business owners seek. Over 71% of businesses pursue some form of support package and this is before making considerations

for COVID-19. Almost three quarters of those surveyed look for financial aid in the form of matching grants or loans, and a further 18% need assistance in accessing capital assets such as machinery. Showing the urgency of the situation, those that sought a loan needed it within three months. Unfortunately, business management organizations (BMOs) such as the Chambers of Commerce across all governorates fared poorly, with 70% of respondents considering them not effective or worse. The sixth and seventh sections of the report deal with outlook for the year and COVID-19 respectively. Yemen's unpredictable trajectory is represented in the business outlook, with 44% believing that the business outlook remains unchanged or replying 'I don't know'. A quarter of businesses were preparing for a worsening of the situation whilst a slighter higher proportion were more optimistic (29%). With respect to COVID-19, two separate surveys of much smaller samples were undertaken. In the earlier survey (April 2020), 84% of businesses were adopting precautionary measures including the use of personal protective equipment (PPE). By June 2020 when the second survey was undertaken, the number of businesses reporting the use

of precautionary measures increased to 98%. However, more drastic measures were being introduced including layoffs by 10% of businesses and reduction in work hours or days by 17% of enterprises in the context of weakening consumer purchasing power.

The last section of the report proposes ways forward, which provides recommendations to improve market conditions and support the continuity and operations of businesses. They set out policy level objectives around unifying monetary and fiscal policy and promoting more efficient import systems. These are followed by intermediate level technical priorities and micro level objectives including boosting demand and support for business resilience. Finally, the report makes 5 practical recommendations at the business level – 1) increasing a wide spread of access to finance including grants, subsidized loans, and promoting technological solutions for businesses such as mobile banking and E-commerce 2) strengthening the capacity of local institutions supporting the private sector, 3) improving and replicating private sector led electricity models across the country, 4) nurturing the private sector supply response to the crisis in health

and food production for bigger impact and growth and, last but not least, 5) protecting development gains made by female business owners through scaling up successful approaches on the ground in Yemen such as the World Bank's Women Entrepreneurs Finance Initiative (We-Fi).

Background on the Private Sector During Conflict

Prior to the escalation of the conflict in Yemen in March 2015, the private sector accounted for up to 69.4% of employment in Yemen and contributed 50% of the country's \$43 billion GDP in 2014.² Despite the growing list of challenges that stacked up against the private sector over the course of the conflict (as covered in more detail below), the private sector offered its employees and the country as a whole a welcome safety net, not least through employee retention, where possible, and the provision of essential goods and services.³ That said, several private sector companies made redundancies in a bid to cut down operating costs. Some private sector enterprises deployed other negative adaption strategies, such as the reduction of working hours, in a bid to mitigate the financial impact of the conflict on their respective businesses.⁴ Meanwhile, some private sector enterprises not only looked to retain staff but also increase their salaries, with a view to helping employees adjust to the depreciation of the Yemeni rial over time as well as any shocks to the market.⁵

In regard to the provision of services,

private sector enterprises filled part of the gap left by Yemen's public sector, which was politically divided, and deprived of adequate resources.⁶ The country's deepening economic crisis left the public sector effectively hamstrung, which in turn contributed to a decline in public service provision. Private sector companies, however, continued to offer vital services, such as in the agriculture, food imports, electricity, finance, health and education sectors – albeit at a comparatively higher cost than the public offerings, particularly in education and electricity.⁷

Private sector enterprises also provided important services critical to humanitarian delivery. Local private sector companies worked in close coordination with external actors to maintain food and medicine supply chains, providing assistance with transportation, storage, and customs clearances. Other goods and services provided included the provision of security, vehicles, electricity power generators, food baskets, and financial services such as physical cash transfers for hard to reach areas.⁸

As will now become clearer, despite the comparative resilience of the private

sector and the protection it has sought to provide its employees and the population at large, the pressure on it has increased with each passing year. Some of the major pressure points include: the active conflict and the physical damage to private sector enterprises; increased political interference in the economy amid rising economic competition between the Internationally Recognized Government of Yemen (IRG) and local authorities in the north; and, a series of debilitating financial constraints.

3

METHODOLOGY

Background

In 2015, SMEPS and UNDP conducted a Rapid Business Survey to assess the impact of the conflict in Yemen on businesses and the private sector. The aim of this report is to follow on from the previous iteration to provide an overview of the current situation and the ongoing challenges which businesses in Yemen face and to capture the impact of the conflict on businesses between 2017 and 2019. It should be noted however, that given the different sample, sampling methodology, and research tools used, it is not possible to draw a direct comparison between the findings in the two reports at an empirical level.

This report was funded by the Department for International Development (DFID)⁹ as part of its on-going efforts to support livelihoods and economic recovery and to understand what is needed to support private sector sustainability and the economic recovery process with a pro-business lens.¹⁰

SMEPS is a subsidiary of the Social Fund of Development. SMEPS' mandate is to support private sector development 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.

Research Questions

The objective of the research was to understand the business climate in Yemen and impact of war. Within this, sub research questions included, but were not limited to:

- What are some of the characteristics of businesses in Yemen?
- How has the conflict impacted the business environment?
- What are the constraints faced by the private sector?
- What sources of support are there currently for businesses?
- What are the needs of businesses for future support?
- What are businesses owners' perceptions of the future of the business climate in Yemen?

Following the outbreak of COVID-19, two short follow up surveys set out to answer sub-questions relating to the specific impact of the virus on businesses in Yemen.

Approach

There are two main sections to the Business Climate Survey. The first, and main component, was conducted from February to March 2020. There were then two follow up surveys, conducted in April and June respectively, following the outbreak of the COVID-19 pandemic.

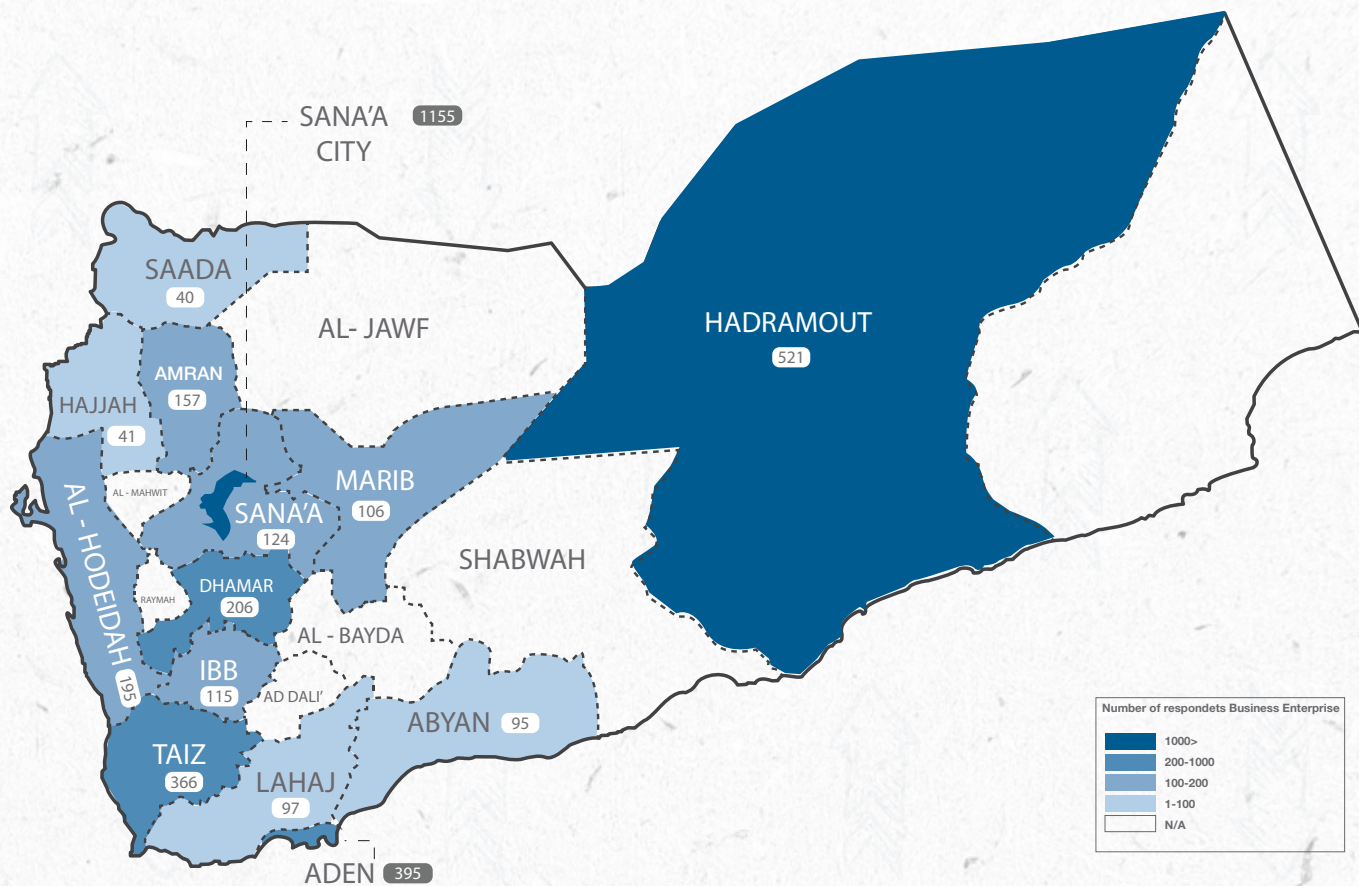
Sampling

The sampling methodology was based on a random sample methodology at district level in each governorate. SMEPS surveyed 14 governorates which were selected based on the highest level of economic activity and biggest concentration of registered MSMEs. Surveyed MSMEs were selected based on a sample size that followed a statistical approach with confidence level of 90% to 95% and a margin error

The surveys used a series of closed and open-ended questions to produce a better understanding of the business climate in Yemen and war impact. Each interview for the business survey took roughly one hour, while the COVID-19 follow-ups were much shorter, at around 15 minutes each.

of 3% to 8%.

In total, 3,613 surveys were conducted for the business climate survey, of which 162 were randomly selected for phase one of the coronavirus follow up. Of these 162, only 140 were able to be contacted for the second phase of the coronavirus survey.



Map 1: Business Climate Survey sample size by location

Data Collection

100 enumerators were selected and trained by SMEPS, with support from various Chambers of Commerce covering the target governorates. They formulated 17 teams in the different governorates. The enumerators conducted in-person interviews with responses collected on paper-based surveys. The results were then transferred to Survey CTO, an Open Data Kit (ODK) data collection platform, for review and analysis. The COVID-19 follow-up surveys were conducted over the phone due to the spread of the virus and the

challenges posed by obtaining new research permits in a short turnaround time.

Following the initial data collection, the SMEPS Monitoring and Evaluation team conducted a validation exercise of the data by calling back a selection of participants to cross reference answers and seek clarification. Following validation, the data was cleaned, and where applicable from open ended questions, the data was coded into appropriate categories ready for analysis.

Limitations

In order to contextualize the findings of the survey(s), it is important to be aware of the limitations. One limitation was difficulty in obtaining permits for research in certain areas to reach the

sample size selected. These included two governorates, Sa'ada and Hajjah where the surveyed MSMEs fell short by 159 due to security reasons.

Terminology

Businesses* were classified into micro, small, medium or large based on the following categories:

- Micro – 1-4 employees.
- Small – 5-19 employees.
- Medium – 20-99 employees.
- Large – 100+ employees.

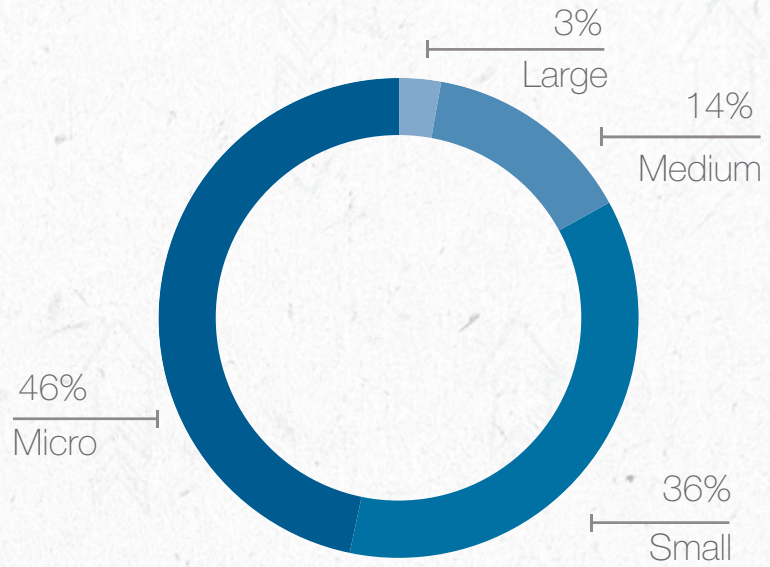


Figure 1: Sample distribution by business size

*Note that the terms business and enterprise are used interchangeably throughout the report.

4

GENERAL INFORMATION

Characteristics of the Businesses

1. Three quarters of the total businesses that participated in the survey reported being established before the conflict escalating in March 2015. **The data collected in this survey, dates back to businesses established since 1990. Analysis of this shows there is a structural impediment to investment beyond the conflict impacting large and medium enterprises more drastically.** This is due to significant barriers to entry for businesses, some of which were mentioned in the

World Bank's study on Governance and the Investment Climate in Yemen, conducted in 2002.¹¹ The survey data shows a 42% decrease in the number of large enterprises that were established in the last decade while there was no growth in medium enterprises established and significant growth in the micro and small enterprises established.

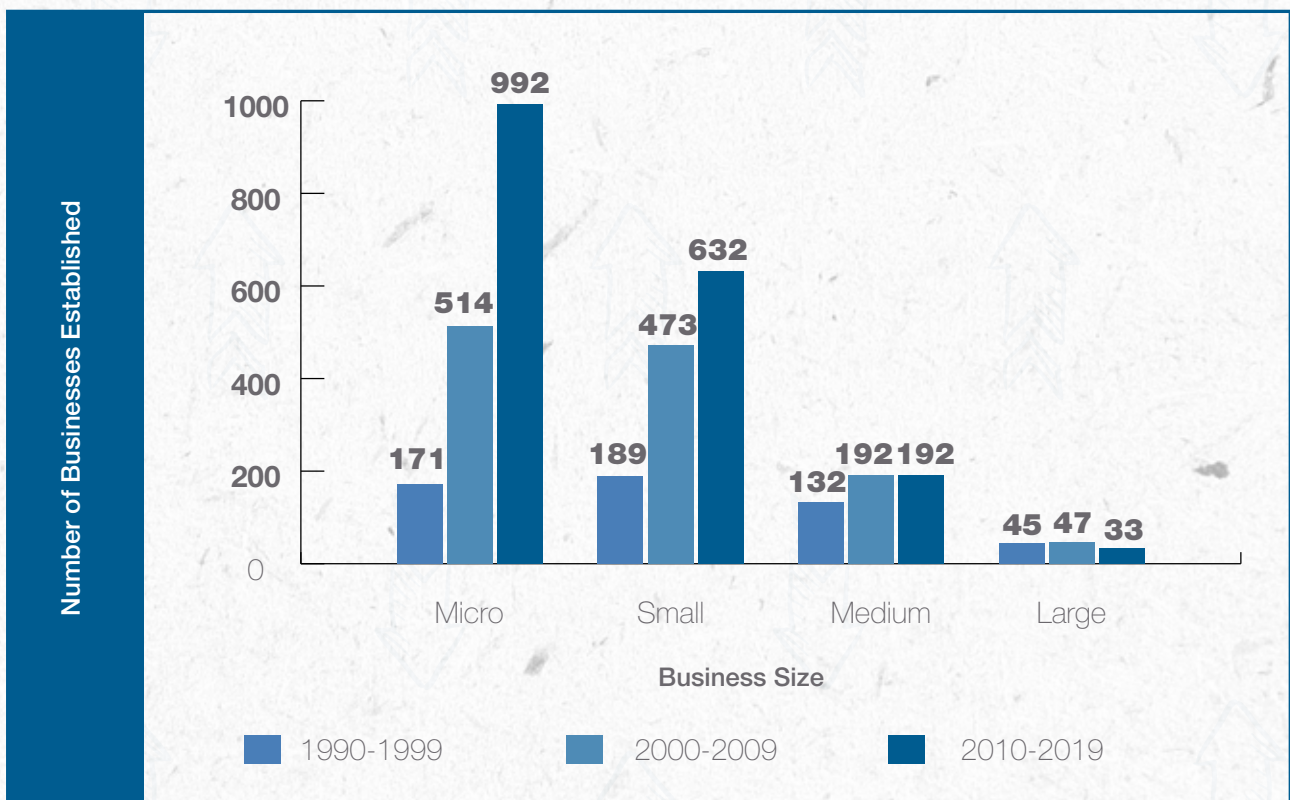


Figure 2: Surveyed businesses establishment from 1990 to 2019

2. This could be explained by several possible factors. First, micro enterprises typically are run by self-employed individuals or families, thus requiring far fewer resources such as capital or facilities in order to start up. Secondly, the non-payment, or non-regular payment of public sector salaries has become a major issue in the conflict in Yemen. The loss of income may have pushed individuals to look for other sources of employment to secure their basic daily needs. **It is worth noting that micro enterprises are much more vulnerable to external shocks – as reflected by the spikes in activity and frequency with which micro businesses both enter and exit the market.** This was also noted in the 2015 business climate report where most damage on the onset of the conflict was on micro and small enterprises – 86% of them reported closure of which 42% of them were female-owned businesses.

3. Men dominate the business landscape in Yemen, with almost 95% of all enterprises surveyed male-owned. Of the 5.2% of businesses surveyed that were owned by women, the data indicates that most female business owners are between 30-40 years old.

In contrast, almost half of male business owners are much older. In addition, the data shows the majority of female-owned businesses were either small or micro.

4. **However, it is interesting to see that over fifty percent of female entrepreneurs are in the health (29%) and education (26%) sectors. In contrast, male entrepreneurs are mainly in the retail sector (42%).** This appears to indicate that female entrepreneurs, although smaller in number, are higher skilled.

5. **The survey found that 78.3% of workspaces were rented which is not a significant change since the 2015 survey. However, in 2015 landlords were offering respite on rent so businesses were receiving rent relief. This is no longer the case; 82% businesses renting the premises are struggling to pay rent.** Without the stability associated with owning a workspace, renters could be exposed to a number of risks such as sudden increases in rent or having to frequently relocate, thereby undermining their respective client and supplier networks that are vital for success.

6. **Integrating the informal economy into the formal sector remains an important policy objective both for taxation purposes but also to better understand the changing structure of the economy.** Compared to 2015, there has been a fall in the number of businesses registered from 69% to 58% which can be explained by the fragile nature of the state. However, a more nuanced examination shows a shift in the north-south divide witnessed in 2015. There is a movement towards non-registration in southern areas where only 53% are registered in 2019 compared to 93% in 2015. At the same time there is a small decrease in the number of registered businesses in the northern governorates with 60% of the businesses registered in 2019 compared to 64% in 2015. This suggests there is more of an effort in northern areas to formalize businesses as strikingly shown in an increase of registered businesses in Hajjah from 34% in 2015 to 59% in 2019. **This may be explained by the diverging nature of state funding under the two authori-**

ties. To illustrate, KSA and UAE play a significant role in contributing to funding state operations in the IRG controlled areas. Whereas, under northern controlled areas, taxation, including formalizing business registration are a priority to fund state operations.

Employment in the Private Sector

7. Before the conflict, some 1.2 million people were on the public sector payroll. When payments faltered in August 2016, it left thousands without a regular salary.¹² Some of these individuals will have been pushed to look for income from other sources. As many as 61.6% of the private sector enterprises that participated in the survey held their employees and avoided making redundancies, and an additional 21.2% reported increasing their number of permanent employees by 103%. The study shows that 35% of businesses reporting an increase in employees are female-owned enterprises. This positive trend seems to be supported by a growth in female-owned enterprises since 2016, suggesting an opportunity to harness these positive developments for a more inclusive private sector.

8. Large and medium enterprises were the most capable of creating and sustaining jobs. Compared to the findings of the 2015 survey, there is an improvement in the operations of the enterprises where two thirds of the surveyed enterprises at the time laid off almost half of their employees. Of those who gave a reason as to why they were able to increase the number of employees, the most common answer was the expansion of business activities, followed by the need for staff and increased demand for products and services. An explanation for this could be that businesses have adjusted to the initial shock of the conflict and are continuously adapting their operations to meet an ever-changing environment.

Business Environment 2019

9. In total, 43.6% of participants felt that the business environment in 2019 was worse than in 2017. Overall, large enterprises are more positive about the business environment than smaller ones. Those who thought that the situation was worse tended to be

located in areas with on and off fighting during the last two years such as Hodeida, Mareb, Aden and Abyan, and for them this was further compounded by the lack of electricity and increase in fuel prices.

5

**DAMAGE TO
INFRASTRUCTURE**

10. Approximately 11% of businesses (397 in total) reported damage to infrastructure due to conflict during the years 2017-2019, the majority of which were large businesses.

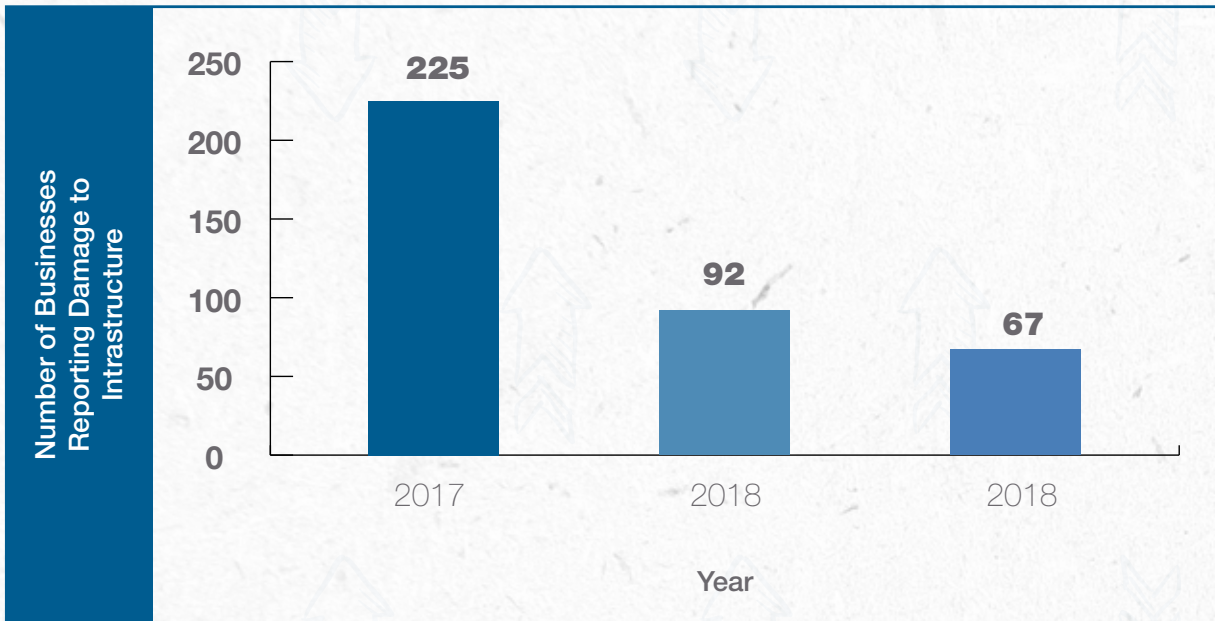


Figure 3: Number of businesses reporting damage to infrastructure during 2017-2019 per year

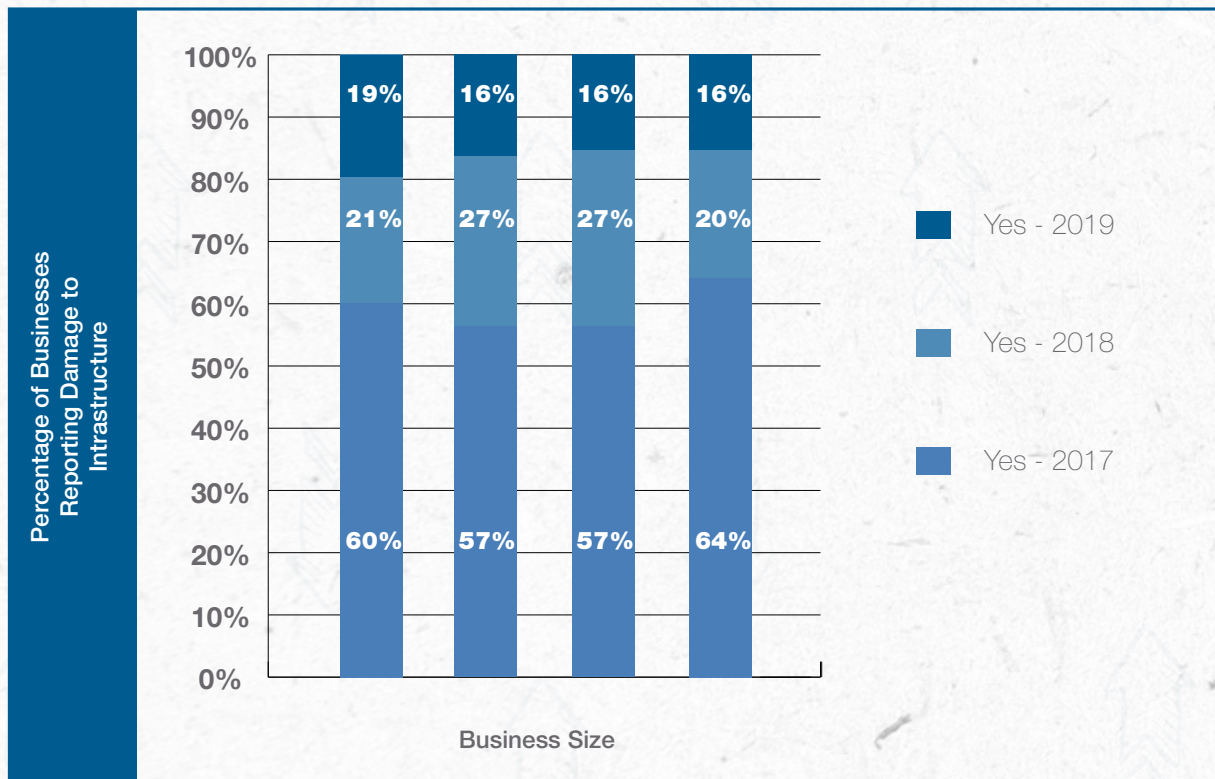


Figure 4: Percentage of businesses reporting damage to infrastructure during 2017-2019 per business size

11. Businesses based in Taiz were the most affected by damage to infrastructure, followed by businesses in Sana'a and Amanat Al-Asimah. These reflect the areas with ongoing airstrikes, although there was a marked decrease in levels of airstrikes experienced in the capital in 2019. Of the businesses that

reported damage due to the conflict, 24% were located in Taiz. According to data from the Civilian Impact Monitoring Project, Taiz experienced 14% of civilian casualties in 2018, and 16% of civilian casualties in 2019.¹³

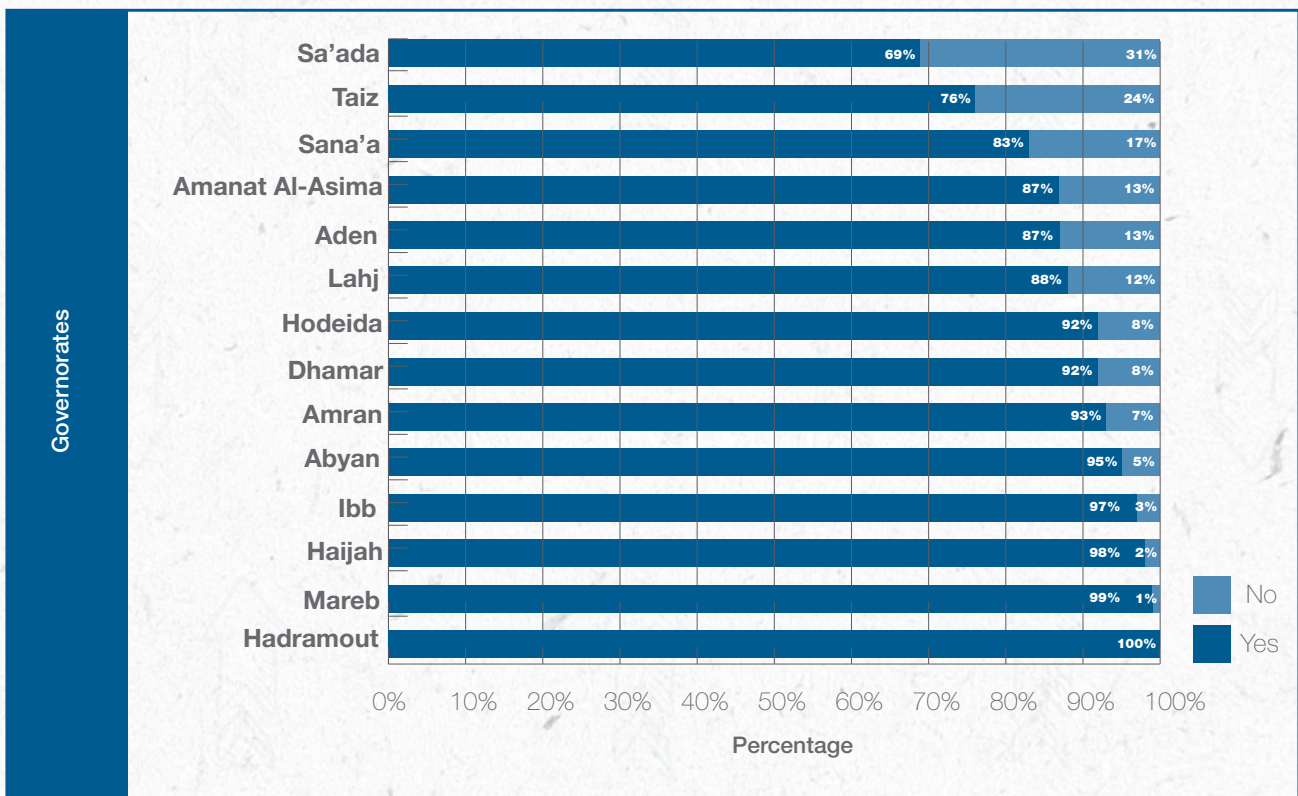


Figure 5: Percentage of businesses reporting damage to infrastructure during 2017-2019 per governorate

Note: Sa'ada was not a representative sample with just 40 enterprises surveyed

12. It is important to note the limitations of the survey, for example, conflict and casualties have continued across northern governorates such as Sa'ada. Yet of the 3,613 enterprises that took part in the survey, only 40 were based in Sa'ada, due to restrictions in obtaining permits for data collection.

13. Damage to businesses has been an ongoing concern across Yemen and was also a finding of the previous 2015 survey. The number of businesses that remain uninsured, however, is high,

with only 6% of the surveyed businesses having insurance coverage. None of the micro enterprises surveyed were insured compared to 28% of large enterprises and 15% medium enterprises. **The lack of insurance points to an underdeveloped financial service industry which continues to under-serve small and micro enterprises. In this lays an opportunity for introducing micro-insurance services.**

The Cost of Damage Caused by the Conflict

14. The damage reported across businesses in the previous section had a real term cost for the owners, with the highest costs attributed to large enterprises. Respondents were asked to indicate the scale of the damage as a percentage. **The data shows that the damage to businesses in terms of scale has gradually decreased from 74% in 2015 to 2% in 2019 which**

indicates a subduing in the level of violence as the conflict opens up new fronts, particularly the battle for the economy. The largest scale of damage to infrastructure was reported by large enterprises followed by micro. These damages were either partial or full damage.

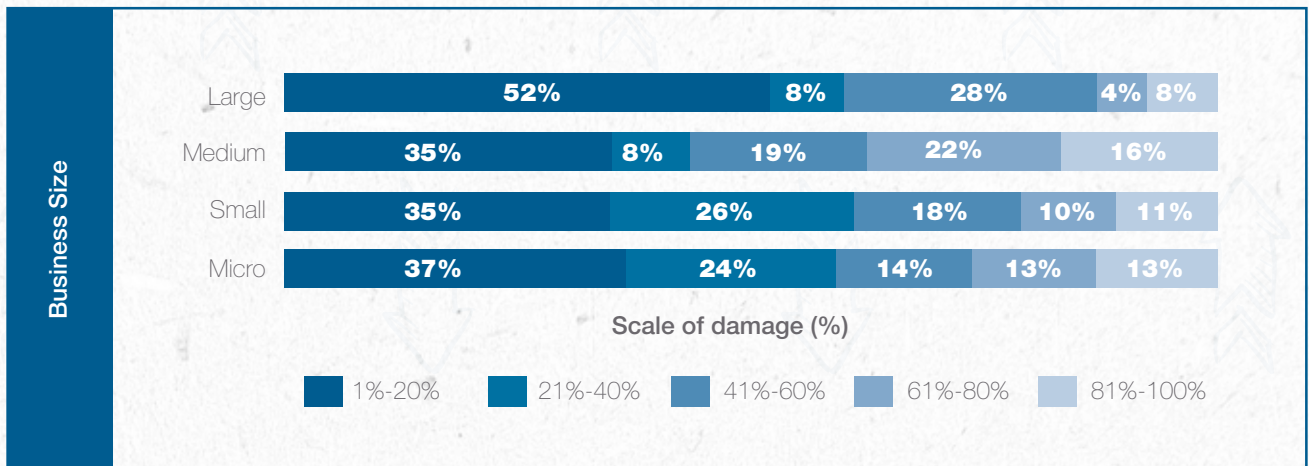


Figure 6: Scale of damage from 2017-2019 per business size

15. The average cost of damages per business across those who reported destruction to their business was \$18,213 from 2017 to 2019. **Significantly the cost of damage to small and micro enterprises is very close to the average size of startup loans for such**

enterprises. Given that most fragile states are MSME economies,¹⁴ providing the bulk of employment opportunities, urgent actions need to be taken to protect this sector of the economy.

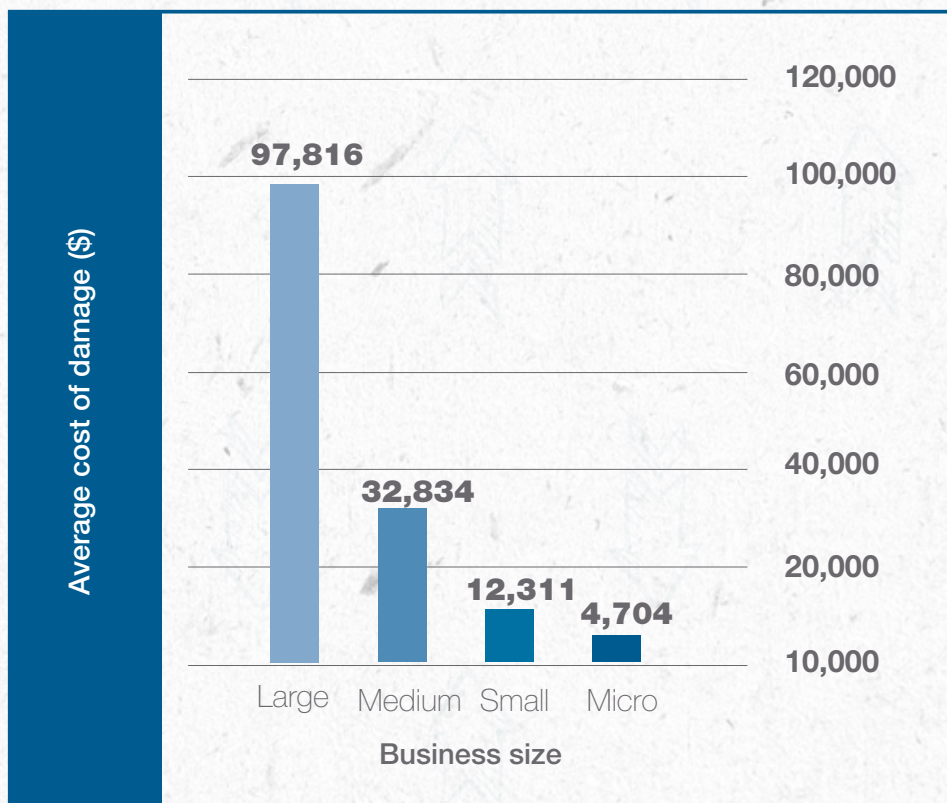


Figure 7: Average cost (\$) of damage from 2017-2019 per business size

6

**FINANCIAL
PERFORMANCE
OF BUSINESSES**

Capital

16. 42.2% of survey respondents noted their capital had declined between 2017 and 2019. Micro businesses were the most affected by declining capital (67%) while large businesses were least affected (35%). Notably, **most businesses affected were in the food and health sectors which indicates there is a need to support these sectors to sustain vital products and services in the country.** In comparison, 28% noted positive changes in their capital, and 27.2% reported no change. The most common answer for a decrease in business capital was the crisis, with 30.2% marking this response. A further 16.5% felt it was due to the deterioration of the national currency. Of those who felt they had experienced an increase in business capital, 23.3% attributed

this to an increase in business activities. The majority of these businesses are located in Amanat Al-Asimah and Hadramout, which are hosts to many of Yemen's traditional business elites.

17. It is interesting to see how businesses of different sizes have fared against changes in capital. For example, 23.7% of micro businesses reported a positive change in capital, which rose to 27.9% for small business, 33.9% for medium sized businesses and 42.1% for large enterprises. **This indicates that the larger the business, the better they are able to weather the storms which the business environment has thrown at them and leverage their networks to grow.**

Profitability

18. Almost 45% of participants reported decreased profits in 2019 compared to 2017; with 30.3% and 25.3% reporting positive and no changes respectively. **The main causes of the decreased profits were high production costs and low sales. Micro businesses appear to be less well equipped to cope.** For example, comparing responses from within the

same size business category, 47% of micro businesses reported a decrease in profits, but that falls to 44.2% of small businesses, 39.1% of medium businesses and 33.3% of large businesses. The decrease in profits is also linked to decreased number of customers, low purchasing power and exchange rate instability.

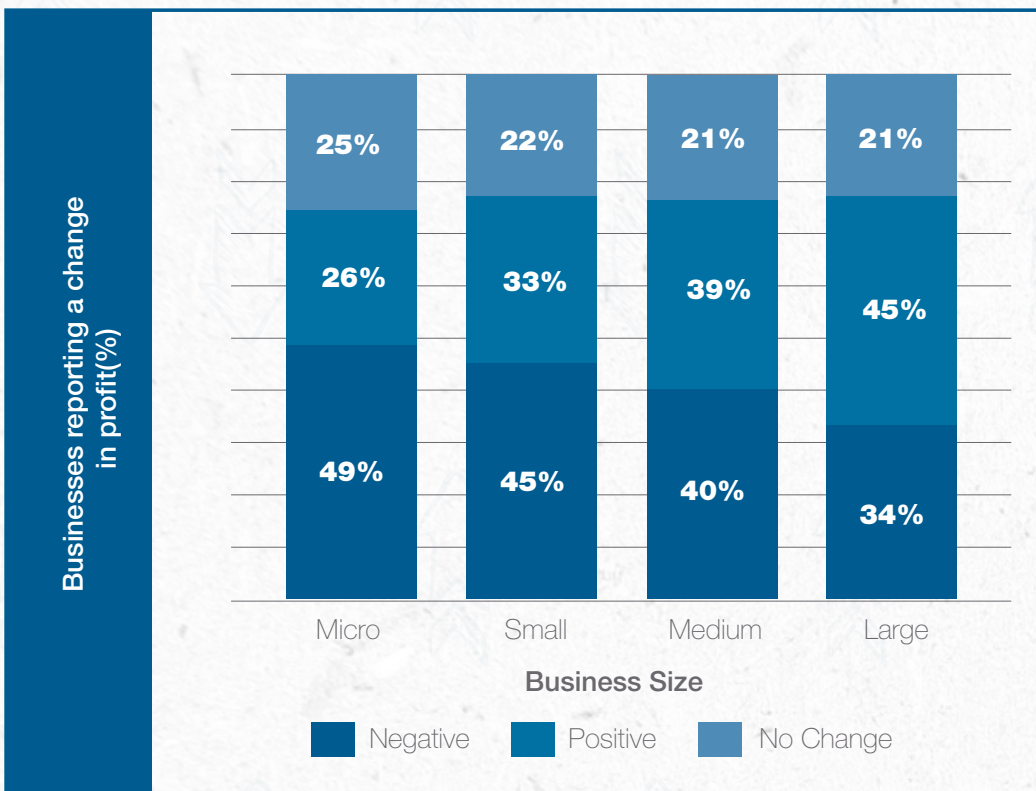


Figure 8: Businesses reporting a change in profit from 2017-2019 per business size

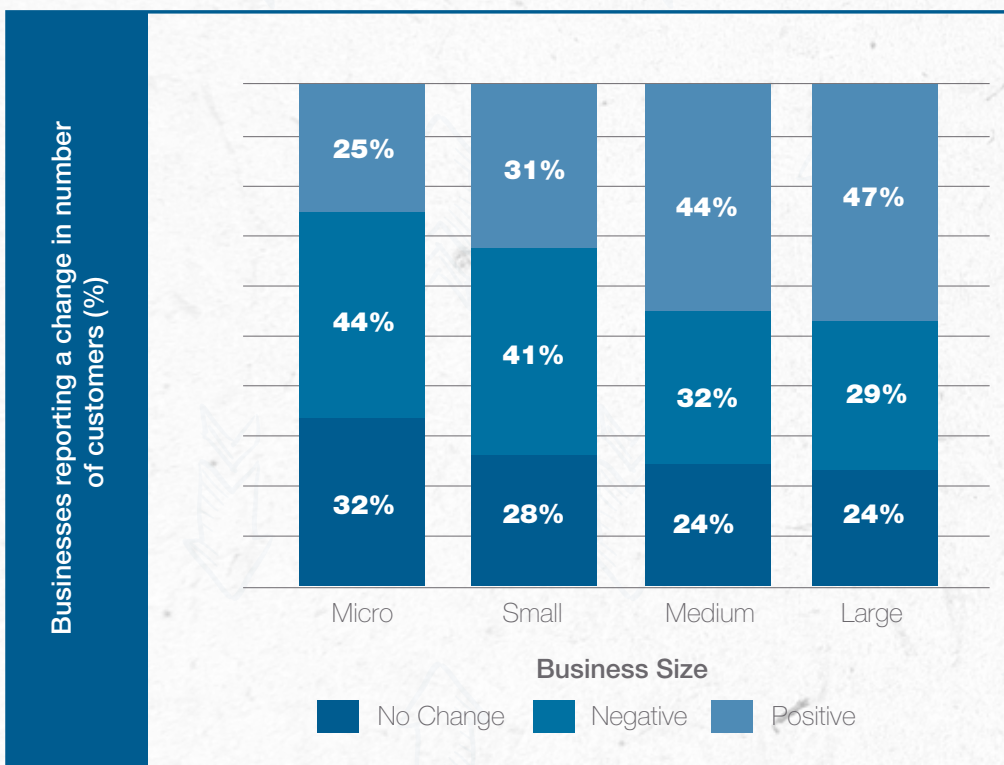


Figure 9: Businesses reporting a change number of customers from 2017-2019 per business size

Unemployment

19. **It is not just the business owners themselves who have been affected by the changes in the business environment but their employees as well – 18.3% of business owners had to let permanent staff go from 2017 to 2019, with the most common reason being the lack of demand or need to support their continued employment.** There is not a significant variance between the size of business and those who have had to let staff go. Most of the businesses reported decreasing the number of permanent staff. Small businesses reported a decrease by 21% while medium, micro and large businesses reported a decrease by 17%. The 2015 survey found much higher levels of layoffs among the businesses surveyed, with small and medium enterprises reporting around 70% of staff being laid off. That said, 36.9% of all businesses had to decrease salaries for their staff during

the reporting period. Just over one fifth of respondents who had to decrease salaries attributed it to high prices and expensive living conditions, although other frequently listed reasons included high price of goods, high labor cost, and local currency inflation. Although number of staff and salaries might have been reduced, other aspects of the working day remained largely the same with 88.8% of respondents saying working hours stayed the same, and 94.5% saying number of working days remained the same. Of those who increased the daily working hours of their businesses, they attributed this change to increased demand, and number of clients for their foods and services.

7

CONSTRAINTS ON THE PRIVATE SECTOR

Classification of Constraints

20. There are various ways in which constraints on the private sector can be grouped. For the purpose of this survey, constraints were grouped under the following categories: economic warfare, demand, state fragmentation, conflict, supply distortion, access to finance, blockade, and other.

21. Economic warfare was listed as a major constraint to the private sector by 38.3% of respondents.

Within this, challenges they faced included the instability of the exchange rate, the issuance of new notes in the south and the prohibition of the use of new notes in the north, difficulty in accessing foreign currency, and local business concerns of the neutrality of the Central Bank of Yemen (CBY).

22. Following the escalation of the conflict in March 2015, Yemeni banks faced limited access to formal regional and international financial networks.¹⁵ Additional de-risking measures saw Yemeni banks and their respective clients cut off from correspondents abroad.¹⁶ Yemeni banks' reduced access to formal and regional financial networks was soon followed by reduced access to

both local and foreign currency, which in turn presented a clear conundrum for private sector importers who could no longer rely on the banks to facilitate their respective imports.¹⁷

23. The local currency liquidity crisis that began in 2016 was quickly exacerbated by decreased confidence in banks in Yemen.¹⁸ Private sector enterprises looked to withdraw cash from their bank accounts and use more informal financial networks to facilitate their business operations.¹⁹ The more informal financial networks in which money exchange companies and ha-wala agents²⁰ operate in, also helped private sector importers access foreign currency and make external money transfers.²¹ Such activity, however, came with added costs, as well as placing the Yemeni rial under increased pressure. The negative impact of these changes on local businesses is abundantly clear when looking at how survey respondents responded when asked about the constraints and challenges they faced daily.

24. Change in demand was listed by 50.2% of respondents as a con-

strait on the private sector. Under this grouping, the most commonly rated answer was weak consumer purchasing power. It should be noted that during the conflict, failure to pay public sector salaries has been an ongoing issue since August 2016. This has resulted in a loss of income for hundreds of thousands of households. It is no surprise that consumer purchasing power has been negatively impacted, given the vulnerable economic positions many households are in – both in the north of the country where the majority of the population resides, but also in the southern and eastern governorates where, in 2020, the value of the newly printed banknotes is lower than the old banknotes traded primarily in the north.²² Respondents noted the loss of clients – both in response to their own business, as per the preceding section on The Financial Performance of Businesses but also as a constraint affecting businesses more widely when asked about challenges to the overall business environment in Yemen. This decline in demand is linked to other issues such as laying off staff, or the inability to pay rent on workspaces.

25. State fragmentation was identified as a key constraint by

30.6% of survey participants. In reality, the division and duplication of state-run institutions are often split between the north and the south. This fragmentation exhibits itself in a lack of accountability and poor service provision for businesses, including essential services such as the internet, electricity and communications. State fragmentation is a major issue for taxation, which includes the levying of higher fees and double customs.

26. Although there is a fall in the numbers of businesses experiencing physical damages as a result of conflict, damages were noted by 31.4% of respondents as a constraint for the entire private business sector and its infrastructure. An explanation for what appears to be a contradictory finding is that businesses damaged in 2015 are yet to fully recover. **The impact of the loss of business documents and lack of electricity are explored in more detail below, as they ranked among two of the top five constraints listed by survey participants.** In addition, fighting has created many challenges for the transport of goods, with some roads becoming unpassable when infrastructure such as bridges are dam-

aged or the roads themselves become too insecure. Moreover, the conflict has given rise to an expansion of internal checkpoints as different armed actors want control and oversight over who and what is passing through their territory, this in turn increases the risk of exploitation of businesses transporting goods. It leads to decreased mobility as internal borders face frequent closures.

27. Over 36.3 % of the private sector participants felt that it became difficult to conduct business due to supplier distortion. Since the escalation of the conflict in March 2015, there has been notable disruption to both local and international business supply chains and increased disconnection from formal international

financial networks.²³

28. Access to finance was considered to be a constraint by 28.7% of respondents. This includes an inability to obtain loans, issues of liquidity for banks and lack of access to funding. Some of these issues, especially lack of access to funding will be explored in relation to specific survey questions on business service provision later in the report.

29. Import restrictions were also considered a hinderance by 36% of survey participants. This includes land and seaport closures, increased transport costs, and increased production costs. Constraints on ports specifically are covered separately, later in this report.

Top Five Constraints on the Private Sector

30. Respondents listed more than thirty restrictions businesses face. The top five highest ranked constraints were 1) weak consumers purchasing power, 2) exchange rate instability, 3) reduced demand, 4) custom procedures and 5) loss of business documents. These are explored in more detail in the subsequent section.

31. Even between business sizes, there was not a huge amount of variance in the top five constraints. For example, the instability of the exchange rate, and the weak purchasing power of consumers and loss of clients ranked consistently across the top five constraints no matter the size of business. Lack of electricity was also a concern amongst the businesses, ranking sixth

in the constraints. Note that some constraints received equal numbers of positive responses in the survey so hold some ranking positions jointly. The below sections provide additional details on the constraints with purchasing power and exchange rate instability being inextricably linked.

32. Since the conflict started, the value of the local currency depreciated from YER 215 per US dollar in January 2015, to YER 750 per US dollar in October 2018 before rebounding the following month to YER 540 per US dollar in November 2018.²⁴ Financial injection to support imports from Saudi Arabia helped arrest the rapid depreciation of

the local currency that occurred from July to October 2018.²⁵ Fast forward to July 2020 and the situation became increasingly precarious due to decreased foreign currency inflows from crude oil exports, remittances, and humanitarian aid. This was especially worrying given that the \$2 billion deposit that Saudi Arabia provided to the CBY – Aden to underwrite critical food imports to Yemen - was almost depleted.²⁶



Figure 10: YER Exchange Rate During the Conflict

33. The competing monetary and fiscal policies from the IRG and local authorities in the north have brought added pressure. For its part, IRG and CBY Aden have reverted to printing Yemeni rial banknotes in an attempt to address the initial local currency liquidity crisis that began in 2016. However, local authorities in the north did not recognize the new notes and later issued a ban.

As such, new banknotes are only circulated and accepted in the IRG controlled areas. Following this, a divergent in exchange rate between Sana'a and Aden has begun and widened with each passing month in 2020.²⁷ There are now effectively two exchange rates for one currency – old notes vs. new notes - in operation and two different markets.

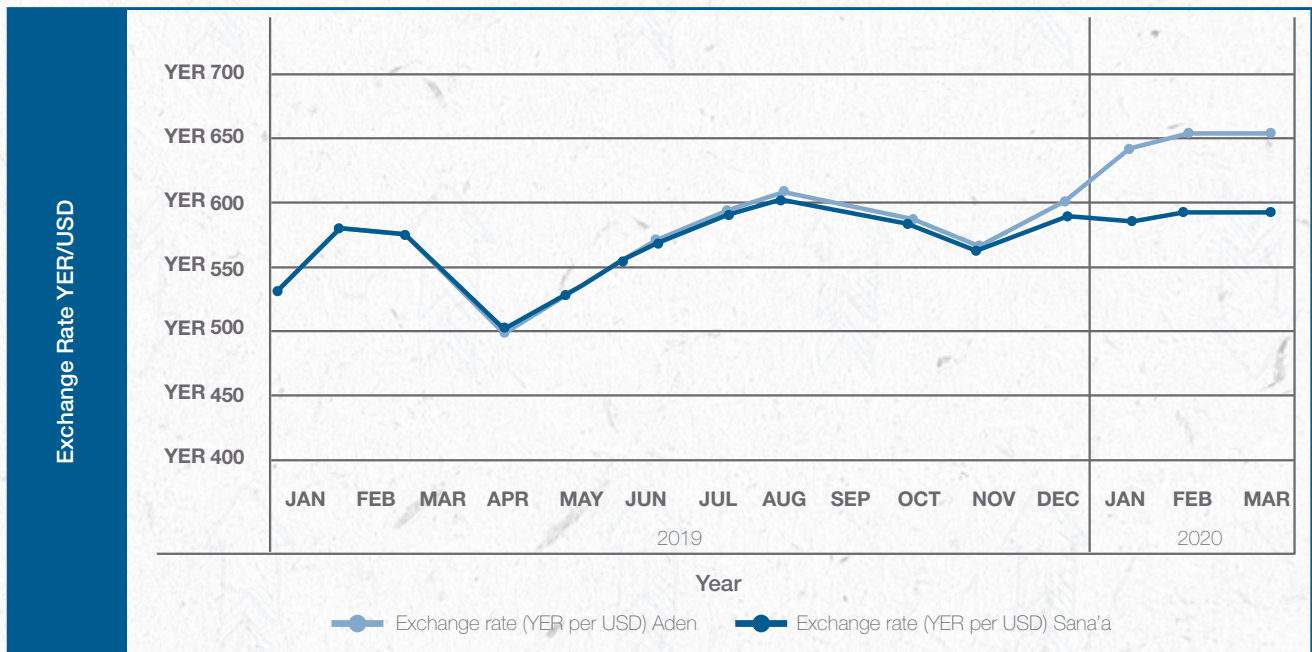


Figure 11: Divergent Exchange Rates between Sana'a and Aden

34. **In addition, the loss of revenue from reduced purchasing power has led to a decrease in the demand for goods and services.** This has led to private sector employee layoffs, further contributing to the retraction of private sector enterprises and respective client bases. The reduction of consumer purchasing power is directly linked to the depreciation of the Yemeni rial and individuals' loss of income and/or financial support (e.g. public sector employees that have not received their salaries since September 2016).

35. **Loss of clients was selected as a challenge by 47% of respondents,** although it is important to note that this challenge was in reference to the private sector as a whole, and not just their business – accounting for the fact that only 40% of businesses reported a decrease in customers to their specific business.

36. **Increase cost of customs was listed as an issue by 45% of survey participants.** The failure of officials in the north and south of the country to create a unified fiscal authority and policy has caused the private sector to face duplicated tariffs, customs fees and taxes.

37. **Lack of electricity was also a major concern for respondents ranking sixth in the selection.** Electricity is a vital resource for many businesses, yet the supply is sporadic and vulnerable to interruptions. It is interesting to note that in the north, namely Sana'a and Dhamar businesses are less impacted by a lack of electricity because of the availability and increase of private power providers. This is in contrast to Abyan and Aden where state provision of electricity is faltering.

Port Constraints – A Worsening Situation

38. Only 9% of the private sector enterprises that participated in the survey deal with the two main seaports of Aden and Hodeida. Around 33.3% of large business respondents in the survey deal with seaports, however that number decreases to 20.2% of medium

businesses, 10% of small businesses, and just 2.9% of micro businesses.

39. Due to the conflict, the import of goods via the ports of Hodeida and Salif in Hodeida must adhere to obligatory inspection and security clearance mea-

sures overseen by the United Nations Verification and Inspection Mechanism for Yemen (UNVIM).²⁸ These necessary inspection and security protocols have increased the amount of time and cost for private sector importers.²⁹ **The cost of importing goods to Yemen has also risen as a result of the added insurance premiums given the heightened risk of operating in a conflict zone.**³⁰

40. **Challenges with imports and related restrictions and bureaucracy was a cause for concern for**

many businesses in the 2015 survey, and the problem is worsening.

The average time that it takes to import products to Yemen (including inspection and security clearance) and the point that the commodities reach the importers' stores has increased from 83 days on average in 2017-2018 to 98 days on average in 2019, an increase of 18%. This increased timeline has had a knock-on effect on other costs such as transport and storage of goods, making it increasingly difficult for businesses to operate effectively. The following timeline depicts the process sequence:

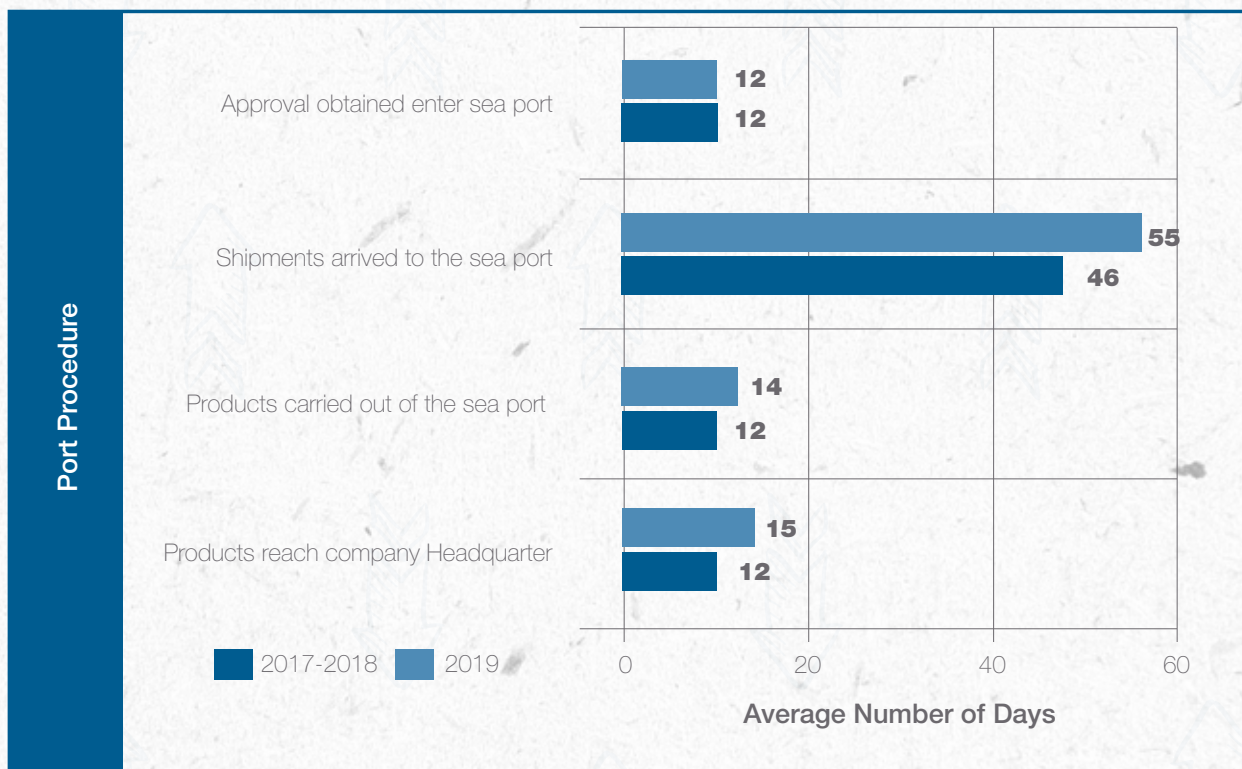


Figure 12: Average number of days taken to complete port procedures

8

**BUSINESS
ADAPTATION
STRATEGIES**

41. Given the many constraints noted by the survey participants, it is important to examine the different ways in which business owners have tried to cope with the challenging circumstances they face. Of those interviewed, 40.1% reported adapting operations to respond to the changing context while

56.9% did not adapt. From the table below, it is clear that the larger the business, the more likely they were to adapt. **This presents a policy case to supporting micro and small businesses to be more resilient through business continuity and risk planning.**

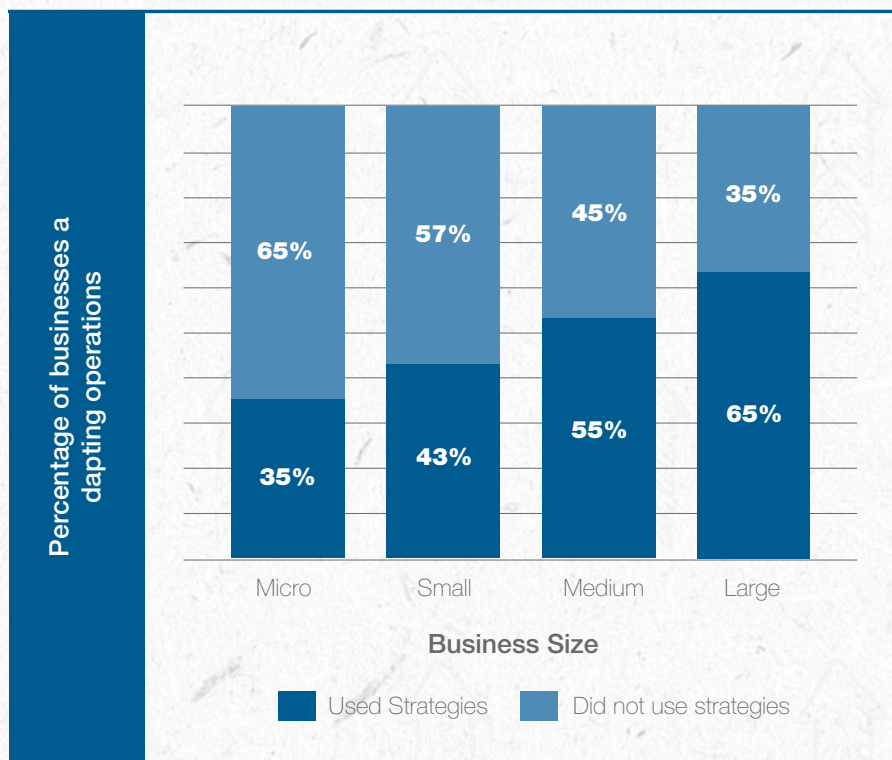


Figure 13: Percentage of businesses adapting to the context to sustain their business per business size

42. The most common coping strategy used was to add products or services; presumably the increased choice was aimed at both maintaining and expanding their customer base. Other strategies used included opening new branches/lines and buying equipment whilst some suspended business temporarily or reduced business activities.

Interestingly, only 4.5% of all businesses who took part in the survey relocated their businesses to other governorates, despite the country fragmenting and Aden being named the interim capital of the country. Just 1.3% of all businesses in the survey relocated their enterprise to outside of Yemen to cope with the constraints they faced in country.

9

**SUPPORT TO
BUSINESSES**

Support Received

43. There appears to be a lack of institutions in Yemen to support and create a conducive business environment. Perceptions of government and local authorities, and of Chambers of Commerce were poor. It was noted that 76.6% of all surveyed respondents felt that government institutions and local authorities were either ineffective, or very ineffective. Similarly, over 70% of respondents classed the Chambers of Commerce in different cities in Yemen (e.g. Sana'a, Aden, and Mukalla) as either ineffective or very ineffective. **This highlights a space where increased capacity building to these and other institutions could foster longer term gains for the business environment**

in Yemen, but also demonstrates that in the short term, other sources of support will have to be bolstered to fill the gap left by weak institutions.

44. **Even prior to the escalation of fighting in 2015, access to credit was a challenge facing many businesses³¹ ; it appears to have only been aggravated during the ensuing period.** Data shows that only 8.4% of private enterprises managed to obtain credit loans between 2017-2019. Credit is just one of many sources of support which could help bolster the private sector and was noted as a challenge in the previous 2015 survey.

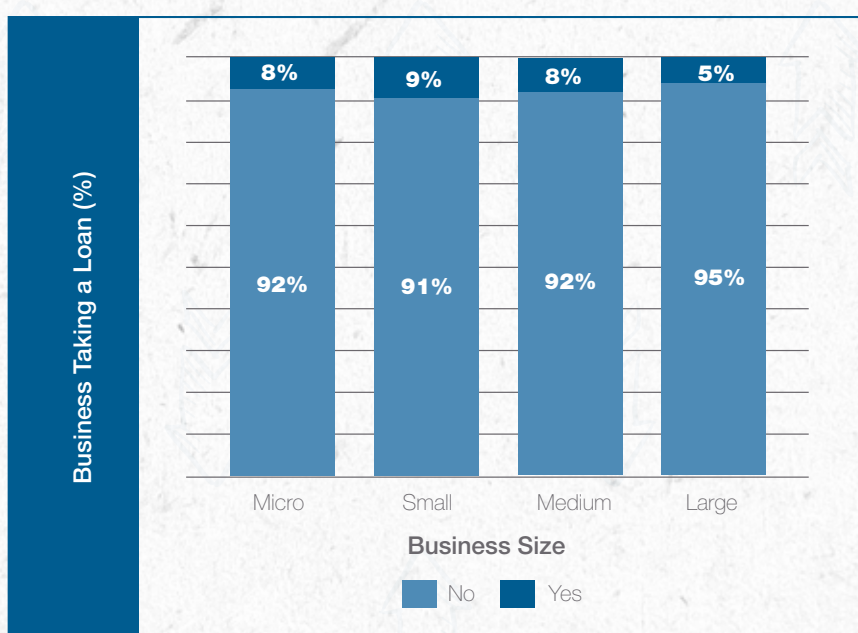


Figure 14: Percentage of businesses taking a loan from 2017 to 2019 to sustain their business per business size

45. There are other kinds of support available such as financial, materials/assets and technical aside from trade credit and loans, and 3.2% of respondents noted that they had received some kind of support or assistance during the 2017-2019 period. Of this support, 94% of it came from private sources. Medium sized businesses were most successful at obtaining government support; however, it should

be noted that in absolute terms this means just 4 medium sized businesses surveyed received support from governmental sources.³² Looking back to the 2015 survey, just 2% of businesses had received some kind of support, and large businesses reported more support than smaller sizes enterprises. It appears that access to support has only marginally improved in the intervening years since the previous survey.

Support Needed

46. Respondents were asked questions about what support would be most useful to them. Of the 73% who indicated that they did indeed need

support, **it appears that the smaller the size of the businesses, the more likely they were to seek support.**

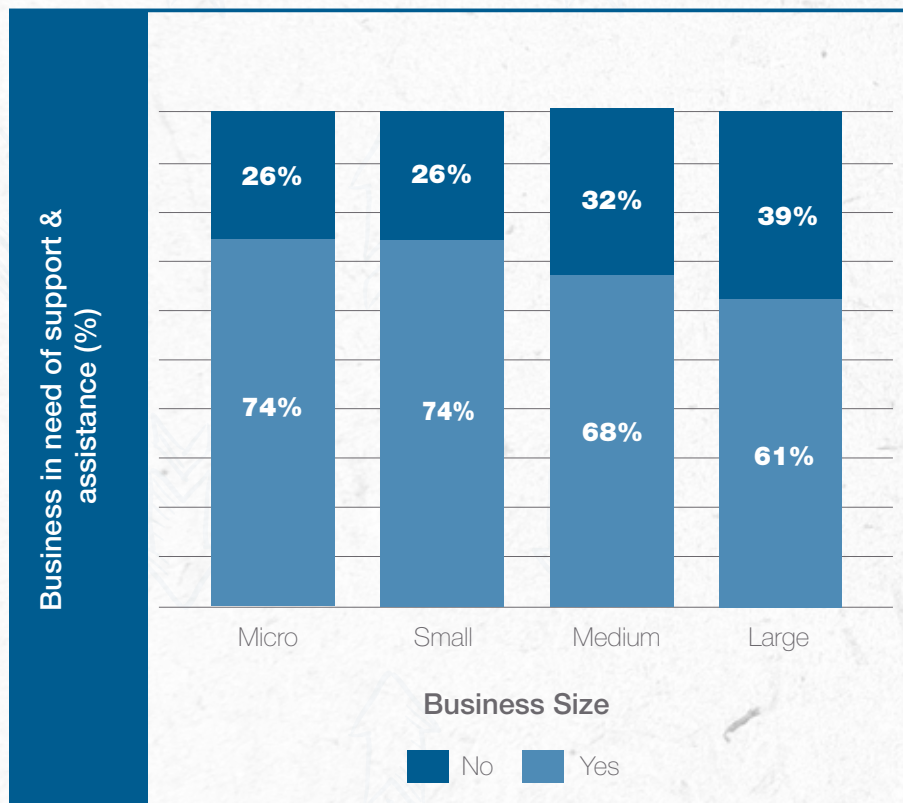


Figure 15: Percentage of businesses in need of support and assistance in 2020 per business size

47. Looking at the responses of all 2,573 businesses who felt they needed support, 72.1% wanted some kind of financial assistance such as grants and 42% wanted access to finance through loans. A further 19% wanted support with assets and materials and 8.9% sought technical support in business promotion and marketing. **Support is not just a nebulous desire, but a vi-**

tal lifeline for many enterprises in Yemen. 42.1% of survey respondents said that they needed a loan (or trade credit) for business sustainability. Without support coming soon, the already frail business sector could face further deterioration. Of those who needed a loan or credit, 40.3% expected they needed it in the next quarter.

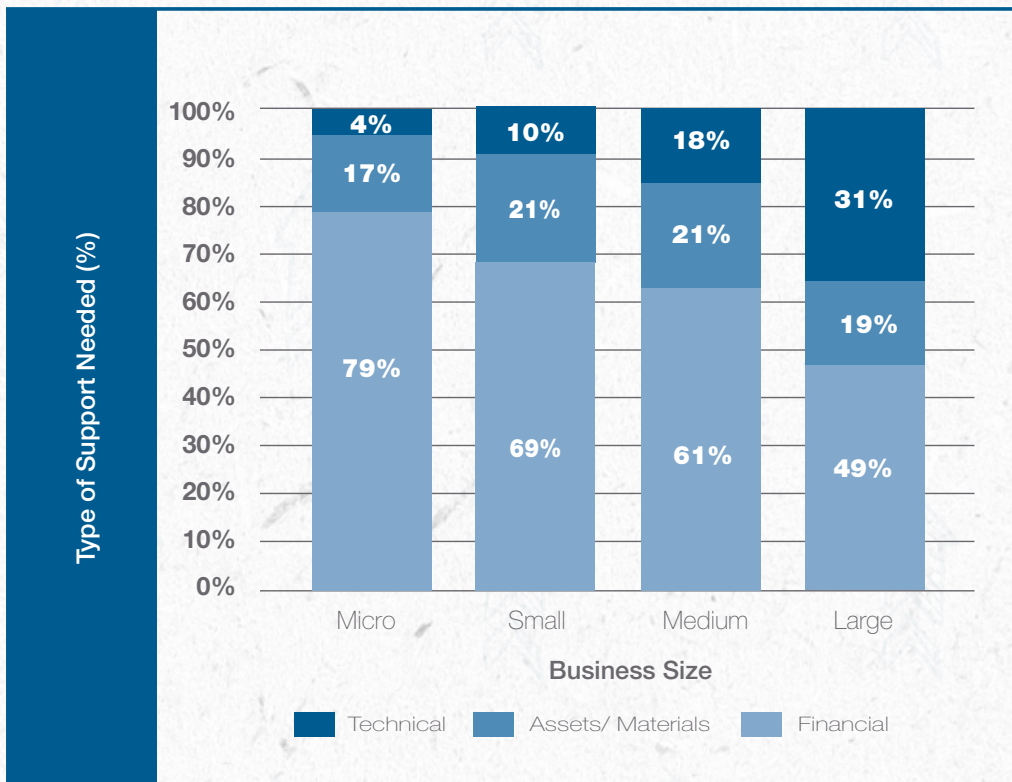


Figure 16: Type of support needed per business size

48. **Similar findings were noted in the 2015 business climate survey where businesses reported the needing some sort of financial and technical support to sustain their operations.** As a result, the Islamic Development Bank and SMEPS designed the Business Resilience for Value Added Enterprises Project (BRAVE) that has so far supported more than 1,600 MS-

MEs and lead firms in vital sectors continue operations through the matching grants scheme and technical support. The BRAVE project was funded in three phases with support from the Douville Transitional Fund and the We-Fi initiative supporting female-owned enterprises and it is important to note that these businesses are growing and generating jobs.

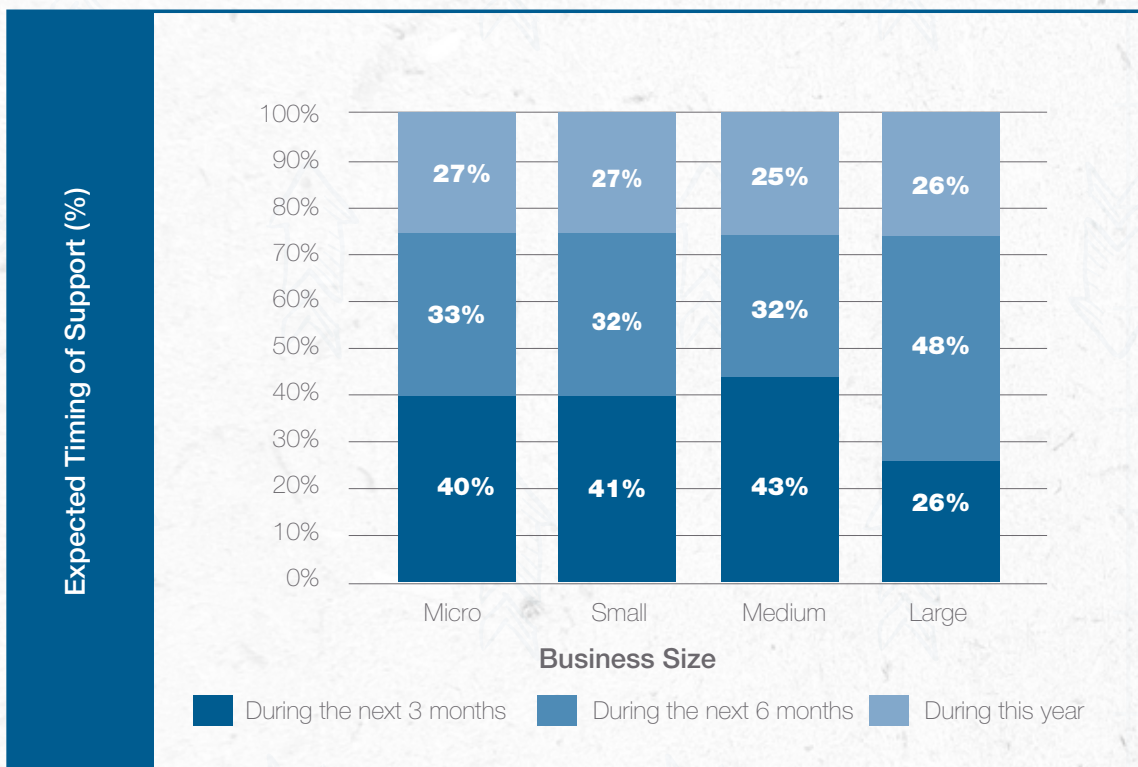


Figure 17: Expected timing for support per business size

10

**OUTLOOK FOR
BUSINESSES**

49. The initial survey was conducted prior to the outbreak of the global COVID-19 pandemic, and survey participants were asked about their perceptions on the outlook for business in 2020. Before delving into two further follow up surveys to ascertain the impact of the pandemic on businesses in Yemen, it is important to see how enterprises felt about the coming year, as any challenges they felt they might have faced may have become more difficult in the wake of the public health threat.

50. Perceptions on the business environment were mixed with 25.2% of re-

spondents thinking it would be worse, 28.5% saying that it would remain the same, 28.8% having an optimistic outlook and 15.2% saying they didn't know. **Interestingly, for those who thought the business environment would improve, many attributed it to the reduction in conflict and crisis, and for those who felt the business environment would worsen, it was attributed to an escalation of conflict and crisis.** This highlights the difficulties in predicting how the conflict in Yemen will develop. This uncertainty and instability create a complex environment which business owners have to navigate.

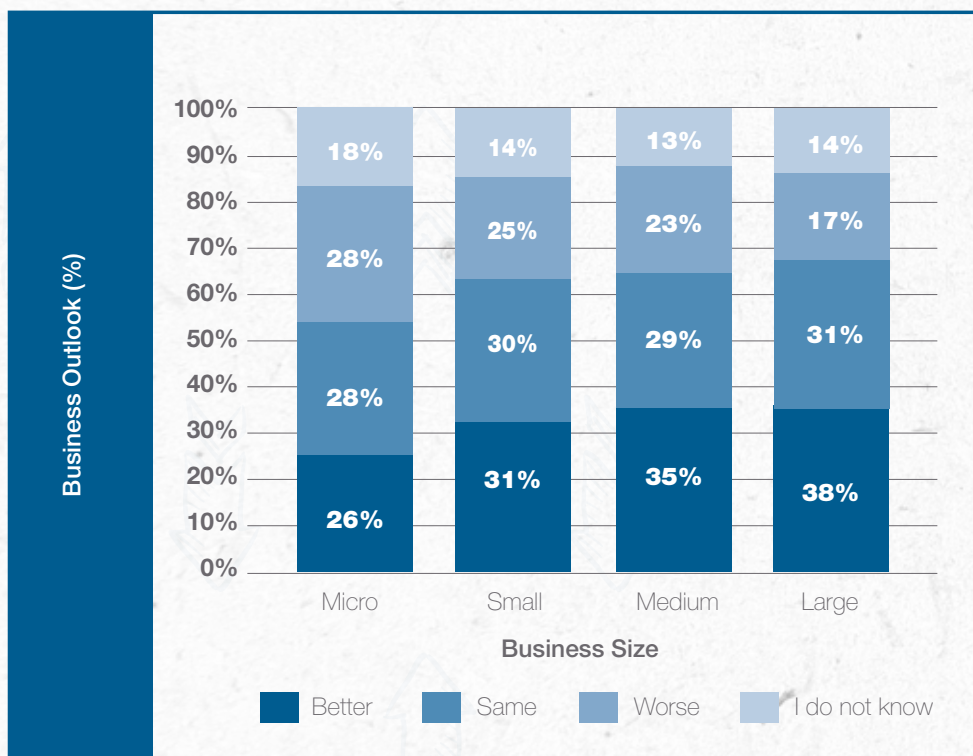


Figure 18: Business outlook

Priorities for the Private Sector

51. Survey respondents were asked to identify their top priority to improve the business environment in Yemen. The highest ranked priority was stabilizing the security situation, with 43.7% of respondents selecting this answer. The second highest answer with 10.2% respondents was the need to stabilize the currency and exchange rate. **These answers correspond to**

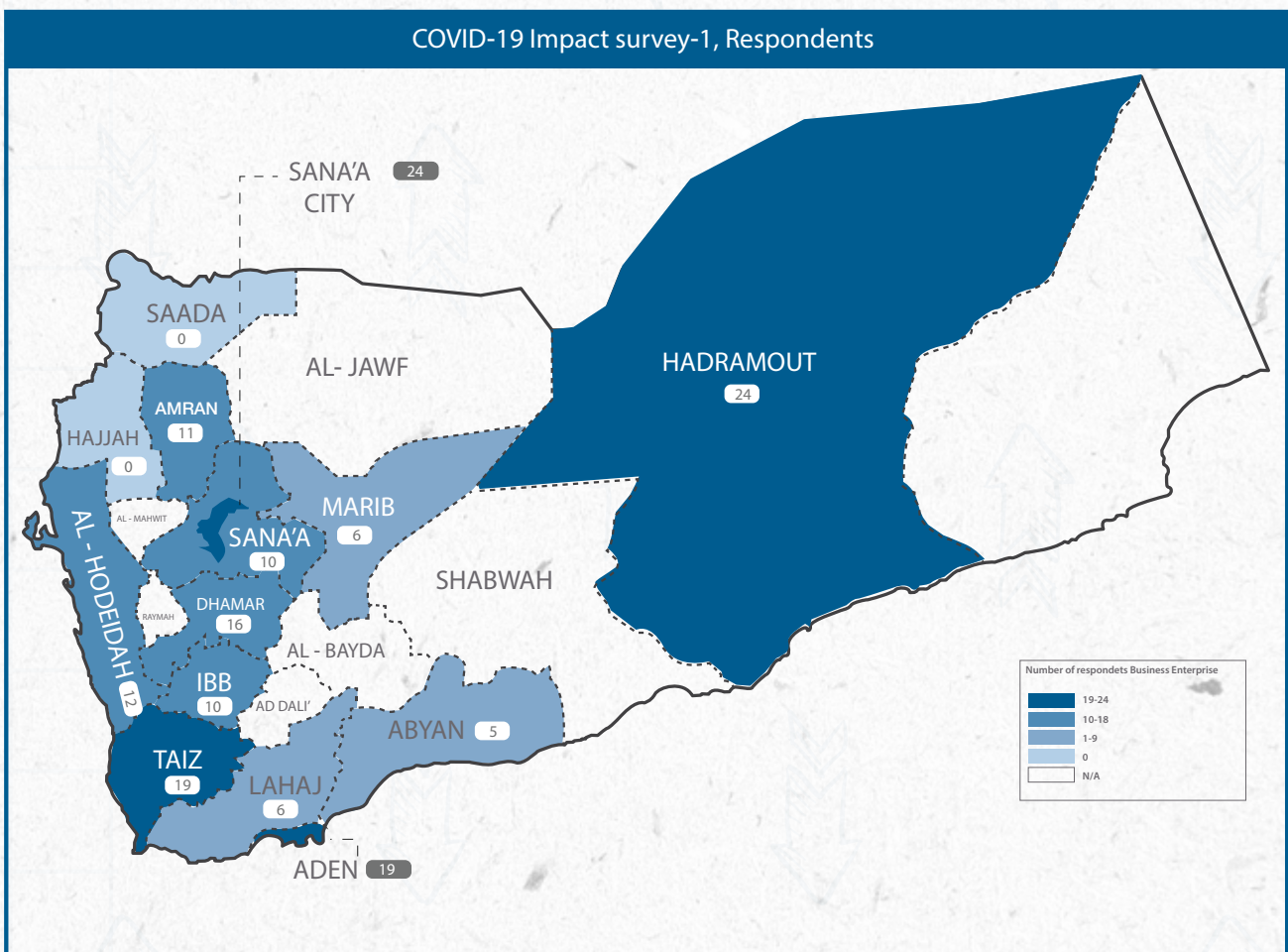
the Yemeni Private Sector Cluster (YPSC)³³ policy memo in which the cluster advocates for the need to address macroeconomic issues affecting the business environment. These include unification of the central bank, solutions to opening and securing ports, facilitation in internal transportation and solving customs and tax problems.

11

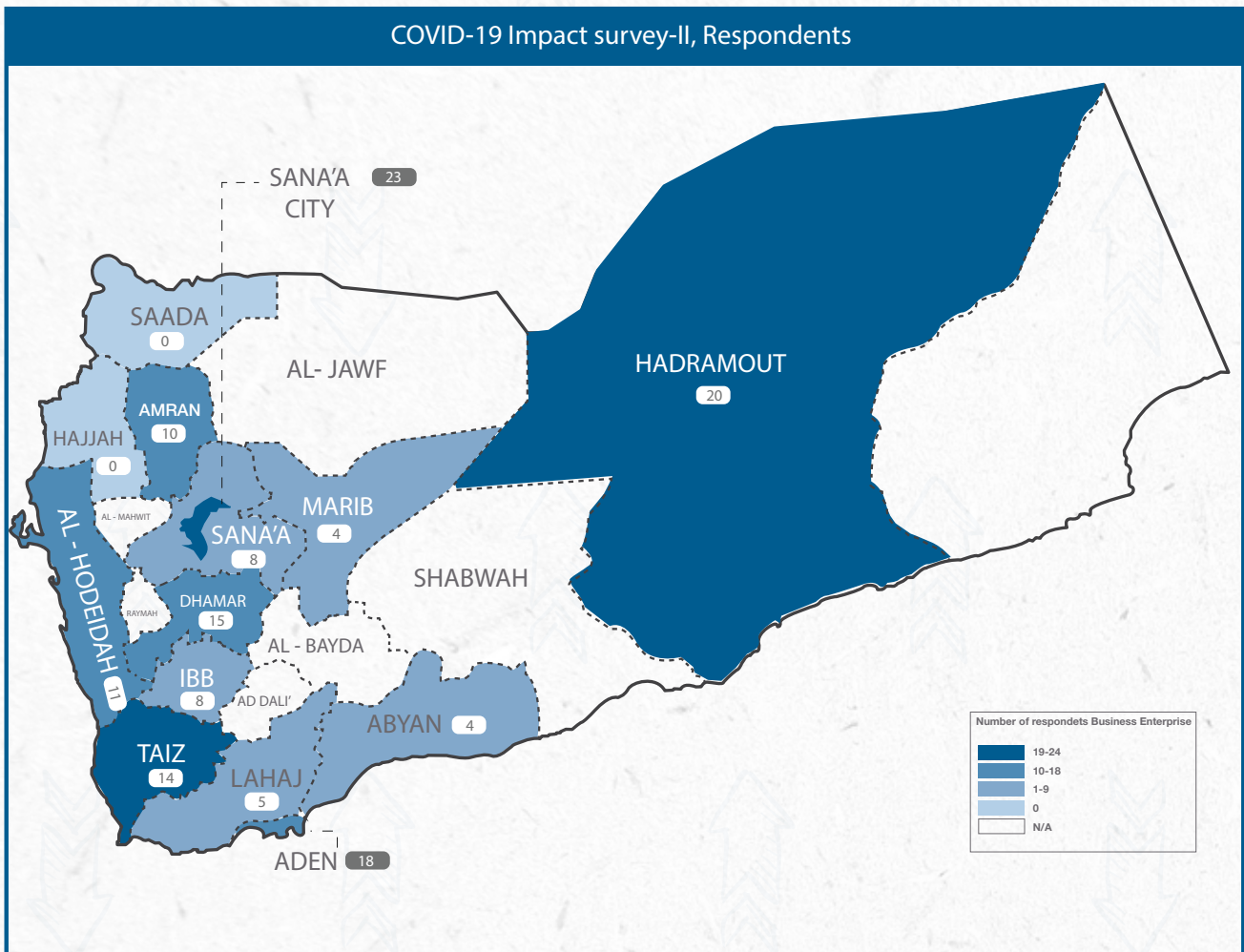
**IMPACT OF
COVID-19 ON THE
BUSINESSES**

52. The conflict in Yemen had already wrought devastation on the economy when the global COVID-19 pandemic was officially declared in March, several months after cases began rising across the globe. The uncertainty and insecurity which came with the pandemic was certainly a concern for many business owners. The follow up surveys conducted looked specifically at the impact of COVID-19. As

outlined in the methodology, 162 business owners were contacted for phase I, of which it was possible to recontact 140 for phase II. The first phase of the survey was conducted in April and the second phase was conducted in June 2020. For the purpose of comparison, only the 140 individuals who took part in both phases are included in the analysis.



Map 2: COVID-19 survey respondents per governorate – Phase I



Map 3: COVID-19 survey respondents per governorate – Phase II

53. Even during phase I, 84.3% of enterprises reported using precautionary measures, and this increased to 98.6% in the second phase. During the first phase, the majority of businesses (83.6%) reporting taking precautionary measures in the workplace, including

using gloves, masks and maintaining distance. However, during phase II, more measures were taken, some of which were likely to have had a more negative impact on the stability of the businesses (and employees) such as reduced work hours.

Precautionary Measures	Phase I		Phase II	
	Number	Percentage of total sample(n=140)	Number	Percentage of total sample(n=140)
Give vacation for the staff	1	0.7%		0.0%
Take all precautionary measures inside the work, such as wearing masks, gloves, and keeping space - social distance	117	83.6%	91	65.0%
Layoffs		0.0%	15	10.7%
Reduce working days		0.0%	7	5.0%
Reduce working hours		0.0%	17	12.1%
Stopped business activities		0.0%	6	3.6%
Working at Home		0.0%	3	2.1%
(blank)/who did not use precautionary measures	22	15.7%	2	1.4%
Grand Total	140	100.0%	140	100.0%

Figure 19: Precautionary measures business took to overcome COVID-19

54. During the second phase of the follow up survey, 47.1% reported that they anticipated having to make changes to the size of their workforce over the next six months. However, it should be noted that most respondents said it would depend on how the situation evolved.

55. Very few businesses imported goods and materials, with 9% and 11% businesses reporting to have done so in the first and second phase respectively. However, imports and exports, and the supply chain of goods into the country are vital for the Yemeni economy as a whole, as well as for businesses directly. **A minor rise in difficulties faced with imports was reported, with 7.9% in the first phase, and 15.7% in the second. While few responded to what the specific difficulty was, 6.4% of respondents in the second phase said that imports had stopped. This minor rise can also be attributed to the conflict situation where importing goods is a worsening problem for many businesses, despite the COVID-19 pandemic.**

56. Businesses adapted the modalities of their everyday operations to

deal with the pandemic. In a situation where there is an emphasis on the risk of transmission via touch, it is unsurprising that the way people paid for products and services also changed. **Prior to the pandemic, electronic money, or e-money, was stumbling to take off in part due to differences between the two CBYs. During the first round of the survey, only 2.9% of businesses allowed customers to use e-money, with this figure rising to 31.4% during the second phase, indicating a growing acceptance and an opportunity to harness these gains in spreading the use of e-transfers and payments amongst businesses.**

57. Other adjustments were also made by some businesses to adapt during the pandemic. It should be noted that many respondents did not provide details of adjustments during phase I other than the use of PPE.

58. Similar to businesses, customers also changed their spending habits. During phase I, 17.1% of respondents noted a decrease in the number of customers, 14.3% noted that customers had reduced their spending, and 10.7% noted customers stockpiling food. By

the second phase, just over one third of business owners felt that demand had decreased.

59. Survey respondents were asked if there was anything else, they wanted to share about their businesses and the pandemic in an open-ended question, allowing them a platform to express their views and concerns. Whilst during the first phase only 12 businesses responded in the affirmative, and all

raised the need to spread awareness on the virus, by the second phase 50 businesses answered in the affirmative. **Most responses indicated a strong desire for more awareness raising and precautionary measures including for PPE. The need to spread clear, practical, and accurate information was not just for the business owners themselves, but for the benefit of the entire population.**

12

WAY FORWARD

The following section builds on the findings of the survey, addressing the challenges faced by the private sector to formulate priorities and recommendations for supporting the private sector. It also builds on the recommendations drawn from the 2015 survey which led to the design and implementation of private sector development programmes that have so far supported the resilience and growth of more than 1,600 large, medium, small and micro enterprises, in vital sectors such as food and health. In addition, the 2015 recommendations also led to the formulation and launch of the Yemeni Private Sector Cluster (YPSC) which functions as a representative body of thousands of private sector enterprises in the country. These initiatives and programmes have been funded by the Islamic Development Bank through the Douville Transition Fund, the World

Bank through the We-Fi initiative and the DFID (FDCO).

At the macro level, there are sector wide challenges which must be addressed to improve the overall business climate. Many of these wide-reaching aims are outlined in the improving market conditions section. These are drawn from the survey findings and from the policy framework of the YPSC. However, some of the priorities require large scale policy change at the national and international levels and are thus beyond the scope or reach of many programmes and interventions. The second section highlights more attainable recommendations that are applicable at the business level to support the resilience, continuity and growth of MSMEs and large enterprises in the country.

Improve Market Conditions

Boost demand – improve purchasing power

As has been outlined throughout this report, the private sector has faced a substantial capital and profit cost as a result of the decline in consumer demand. The survey participants highlighted the need for improved market

demand as one of their key business priorities. This would be best attained via improved purchasing capacity of their existing customers, as well as through acquiring new clients. However, for such an aim to be realized,

monetary and financial stability is a vital pre-condition. This will have to be based on various technical arrangements including exchange rate stability and the payment of public sector employee salaries. It is the role of the national and local authorities and relevant international part-

ners to push for aligning monetary policies across Yemen and the neutrality of CBY. The CBY should have sufficient and accessible foreign exchange reserves to stabilize the national currency and maintain the foreign exchange facility for ensuring imports.

Support business resilience – reduce operation and transport costs

Over the last five years of conflict, the private sector has shown impressive resilience despite numerous internal and external challenges. The survey respondents emphasized the need to ensure the continued survival of the sector. To attain this, **it is important to sustain imports to maintain the availability of goods and services at reasonable and stable prices, especially given the existing high operation and transportation costs.** At the pol-

icy level, local decision makers and the international community should work to unify fiscal institutions to coordinate and facilitate tax and customs procedures, eliminate business licensing complications and establish suitable business services fees. Likewise, more efficient mechanisms for import permits coupled with a faster monitoring and inspection framework will help create smoother access to, and through, Yemen's air, sea and land ports.

Reduce war impact and prepare for reconstruction and recovery

The private sector participants in this survey emphasized the importance of safeguarding civilian infrastructure, such as property, but also the need for safe, accessible and usable roads and transport routes. **All parties to the conflict must protect civilians and civilian and commercial assets,**

including documentation such as legal papers and registrations. It is essential the private sector has the opportunities to contribute to and shape the economic provisions in the peace process. In addition, the private sector must have crucial role to play in reconstruction and recovery efforts.

Support Business Continuity and Operations

As outlined through the findings of this survey, there are many external constraints on businesses in Yemen caused by, and linked to, the ongoing conflict. Given the economic situation in the country, the private sector is under great strain which puts many businesses at risk of going under. Whilst many of these challenges will only be ameliorated through a sustained period of peace, there is still space and opportunities to provide support to the private sector to enable it to survive and serve the community, and potentially even thrive, even under incredibly difficult circumstances. The private sector is a source of jobs, providing income for many families, as well as delivering the goods and services ordinary people need. It is vital that businesses can access short, medium, and long-term support so that they can continue to operate.

A number of recommendations have been formulated SMEPS to focus more specifically on what is achievable at the direct level of businesses to help their resilience, continuity and growth. Based on the above survey and analysis, the following are some practical

interventions which could bolster the private sector and its ability to operate during such challenging times:

- **Increase access to financial support – this can include grants, loans and credit**
 - o Many businesses indicated they needed financial support. However, there are clearly still few opportunities and too many barriers to access the opportunities when they do occur. Evidence from matching grants schemes in Yemen during the conflict shows a strong propensity to leverage funds from the private sector itself to invest in the diversification of products and services. For example, the BRAVE project phase 1 & 2 was able to leverage \$11 million dollars of investments from local businesses, which is more than twice the size of the investment from the project.
 - o This type of support was most acutely needed by smaller businesses and opportunities should be tailored to their needs
 - o Rural financing should be prioritized in supporting MSME development in the country. Policies should

support rural financing including mobile banking to encourage outreach of financial services to prominent MSMEs in vital sectors of the economy.

- o Mobile banking and e-commerce should be strengthened and encouraged to support the continuity and operations of businesses which are threatened with the rising concerns of COVID-19.
- o Insurance services should be strengthened and widened to support businesses access such financial services. This is mainly important for micro and small businesses who are the most vulnerable to shocks.
- **Strengthen the capacity of institutions to provide support and advice to businesses**
 - o Aside from building on what structures already exist in the country, such as Chambers of Commerce and the Ministry of Industry and Trade and its offices, given they already have established networks and reach, there should also be effort to support other outlets, including the Private Sector Cluster, other sector specific business management organizations and SME development agencies.
- o Market players around the business environment such as business advisory and consultancy services, MFIs, banks and others should be built or strengthened to provide better services for businesses, specifically women-owned businesses, being a vulnerable category. This could encourage crowd in and spill over for business growth and resilience.
- o Information on the bureaucratic procedures associated with registering, paying taxes, and navigating the customs and import procedures are vital to businesses and should therefore be made available through different platforms
- **Support the provision of alternative sources of electricity and internet**
 - o At a practical level, without stable and reliable electricity, many businesses face significant obstacles to conduct their daily work. As the survey found, areas with private sector providers of electricity are better positioned to meet the demands of local businesses. It is worth exploring a) how to make this more efficient and b) how to replicate this success across Yemen.

- Access to fuel is also an issue for the transport of goods across the country pushing up operational costs and making goods more expensive for potential consumers. This can be tackled through pressing for policy level coordination on all sides of the conflict to secure access to fuel and given how vital a lifeline it is, the international community should drive efforts to this end.
- **Support businesses in mapping gaps and opportunities in the market and particularly in contributing to food and health security**
 - o Both the food and health sectors have experienced growth and are contributing significantly to the humanitarian efforts in the country. Food producers such as poultry businesses supported by BRAVE have gone from producing 2,000 poultry products per day to 15,000. In the health sector, 20 hospitals supported by the BRAVE project have expanded operations from treating 2,000 patients per day to 8,700. Consolidating limited funds to support local businesses in health and food security can go a long way to provide relief for tens of thousands
- of people in a manner that generates sustainable and long-term solutions for Yemen in these vital sectors.
- **Provide direct and indirect support to aspiring and current female business owners**
 - o The study shows interesting growth in the number of women business owners over the years from 1.7% female-owned businesses established between 1975-1999 to a 11.7% from 2016 which presents an opportunity to support female businesses grow. Female entrepreneurs could be supported through the scale up of programmes, such as We-Fi (Women Entrepreneurs Finance Initiative), which specializes in supporting female entrepreneurs by providing them with access to finance through grants, loans, bridge financing and technical expertise through training, mentorship and coaching programmes.

13

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²⁸A Qasem, B Scott. (2017). Navigating Yemen's Wartime Food Pipeline. Available: https://ca2353e8-14af-4876-8b7a-930d0caab122.filesusr.com/ugd/df2b40_b3b6cf1090a1441094a35f-9cd8b0d0cc.pdf. Last accessed 11/8/2020; World Bank. (2017). Securing Imports of Essential Food Commodities to Yemen. Available: <http://documents1.worldbank.org/curated/en/376891524812213584/pdf/125815-WP-PUBLIC-YemenReportFinalAprilcompressed.pdf>. Last accessed 11/8/2020

²⁹Ibid.

³⁰Ibid.

³¹ World Bank. (2015). Unlocking the Potential for Economic Growth. Available: <https://openknowledge.worldbank.org/bitstream/handle/10986/23660/Yemen00Republi00for0economic0growth.pdf?sequence=1>. Last accessed 25/7/2020.

³²Note: businesses were asked whether the source of support was governmental or not, leaving it to the discretion of the respondents to answer, and therefore it is unclear if this includes or excludes the authorities in Sana'a.

³³The Yemeni Private Sector Cluster is a neutral body of major representative bodies of the Yemeni Private Sector including the Chambers of Commerce from all regions of the country and key business management associations, formulated to advocate for & find solutions for policy level macroeconomic issues affecting the private sector the country.

