



The Impact of **the War**

on Youth's Small and Micro Projects

— Policy Paper —

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About project:

Research Guidance Project (RGP), implemented by Resonate! Yemen with funding from Project on Middle East Democracy (POMED), aims at promoting youth role through engaging them in public policymaking and supporting Yemen's peacebuilding process to enable youth to influence public policies and solve problems related to community cohesion and local governance. This effort is within Resonate! strategic goal of promoting youth voices and bringing them to decision-making positions.

Executive Summary

The ongoing conflict in Yemen has led to a number of effects that have negatively affected the lives of individuals and society in various aspects of life (political, economic, social, and cultural). This affected people after the hope for a decent life and enjoyment of rights and freedoms had revived, especially after the events of 2011. The situation then took a path towards more conflict, war, destruction and spread of corruption, resulting in a humanitarian catastrophe that Yemeni society found itself in and a life characterized by misery and suffering.

Youth's small and micro projects have, therefore, been affected by the current conflict, which has led to the complete destruction of nearly 4% of them, while 55% of them are still closed, and only 45% have resumed their work partially.¹ The projects suffer from an environment fraught with many risks such as price fluctuations, security disturbances, armed conflict, and the spread of poverty among members of society. The small enterprise sector represents a large percentage of the local economy as a result of many members of society turning to it, due to the cessation of employment in the public sector and its decline is very high in in the organized private sector. Moreover, the fact is that the largest portion of Yemeni society turns to these projects as an economic behavior rooted in the culture of society. In addition, the Yemeni society works in the agricultural sector, and Yemen is one of the largest countries in the Middle East with small and micro projects. There are 1.8 million projects supporting 3.4 million family, owned mostly by the poor and low-income people.²

The largest share of the effects carried by the ongoing war in Yemen was for small and micro projects, especially the youth projects, which faced many

challenges after the war. These projects and their owners experience several threats that were addressed in this paper, such as the war consequences that led to the destruction of many of these projects. Also, some of these projects are no longer operating totally or partially and some were looted. This is in addition to the impact of the economic collapse and the resulting rise in prices, inflation, currency collapse, etc. Moreover, there is difficulty in obtaining permits which lack reliability in protecting small projects. As a result, the identities of some projects were stolen. There is also weak funding for these projects, poor performance of the management and orientation, limited technical support provided to achieve sustainability, and the availability of new opportunities for young people such as the war fronts, which limited the desire to start such projects or closing some of the existing ones. Finally, the security risks are among the effects faced by these projects.

On the other hand, the paper presented many recommendations to overcome the challenges facing small and micro projects. The paper focused on the effective roles of the concerned parties, the most important of which is the government and official bodies that must provide an appropriate environment for these projects and guarantee their sustainability. It also focused on the active role of civil society in supporting these projects. The recommendations hereby addressed with the importance of the role of financing institutions and their role in supporting these projects.

these projects. Finally, the paper stressed on the importance of the role of donors and international organizations in the economic recovery and nourishment phase by giving large space of attention

to these projects being one of the effective means to support the economic recovery and nourishment and poverty alleviation phase.

Keywords: small and micro enterprises, impact of the war in Yemen, challenges of the war, Yemeni economy.

Introduction

Yemen has witnessed a state of political and economic instability for 7 years³. Its repercussions extended to all aspects of life and state institutions, which in turn was reflected in small and micro youth projects that represent the largest part of the local economy and provide sources of income for the majority of individuals and families⁴. They were subject, due to the ongoing war, to bombing, looting, theft and destruction.⁵ This included roads, factories, shops, etc. It was then followed by repercussions of what could be described as catastrophic on enterprises of all sizes. As for its effects on citizens, it has caused waves of displacement from conflict areas to safe areas resulting in the spread of poverty, and the dismissal of employees from their jobs⁶. Now, the majority of citizens in Yemen depend on the humanitarian relief aids according to UN reports. There are 25 million people out of 30 million living below the poverty line.⁷

In light of this economic and political situation, youth's small and micro projects have been affected, some of which have worked to maintain the continuity of their activities. Other projects were subjected to bankruptcy and closure, and some have sunk into debt, creating several challenges that have made many of its young owners in particular turn to the battlefronts as a source of livelihood, or sought

illegal trades, such as the trade of drugs, in light of the weak role of the authorities to contain the deteriorating living situation.

The paper aimed to study the impact of the war on youth's small and micro projects by highlighting the most prominent obstacles and challenges faced by these projects in light of the war. Then, it provides some proposed recommendations to overcome those challenges, and highlights the role of the relevant parties within its framework.

The paper relied on the available literature in addition to on field data collection, which included conducting 15 in-depth interviews with entrepreneurs aged between 22 and 28 years (8 males and 7 females), via Zoom from four governorates, namely Aden, Taiz, Hadhramout, and Sana'a. Also, 4 remote interviews were conducted with financial institutions (Al-Amal Bank, National Micro Finance Bank, Al-Kuraimi Micro Finance, and Yemen Kuwait Bank. In addition, interviews were conducted with national and international organizations, i.e. Social Fund for Development, Small and Micro Enterprise Promotion Services (SMEPS), and United Nations Development Program (UNDP). One more interview was conducted with a specialist in psychological counseling for entrepreneurs.

General context of the problem

Yemen has been suffering for seven years from political instability, which is reflected on many aspects, especially economic ones⁸, where the war contributed to the deterioration of the living conditions, the expansion of poverty and the huge increase in population. In addition, displacement

from armed conflict areas to safe location contributed to adding burdens on the host regions on the available resources and services that they actually lack⁹. The United Nations Development Fund has published that the war contributed to increase of the poverty rate from 47% to 75% at the end of 2019. The Fund warned of the continuation of the war, which led to a rise in poverty to 79%. These people are under the poverty line, and 65% of them are the poorest.¹⁰

On the other hand, Yemen is the largest country in the Middle East with small and micro enterprises.¹¹ There are 1.8 million projects that support 3.4 million families. Most of these projects belong to the poor with limited income, according to the International Labor Organization.¹²

A large number of these projects have been closed, looted, suspended and destroyed in the areas of armed conflict. The percentage of small and micro projects, according to 2010 statistics, is estimated at 97.58% of the total projects in the country¹³. Thus, reflecting the importance of this sector. Moreover, according to a study by the International Labor Organization in 2018 covering the capital Sana'a and its suburbs, 4% of small enterprises were destroyed completely, 55% of the small and medium enterprises included in the sample are still closed according the survey conducted by ILO, and 45% of them have resumed their work partially under the war¹⁴.

The war has hindered a large number of small and micro projects. From a financial perspective, many young people and financing banks have lost mutual trust as a result of the debtor's inability to pay loan installments. On the other hand, local financing

institutions have raised the ceiling of requirements as precautionary measures to avoid damages that would cause fatal losses¹⁵.

This action has limited the ability of small and micro youth projects to develop and even continue. Dr. Mohammed Saeed Kambash, a lecturer at the Faculty of Economics and Political Science, pointed out, "They must keep their money from erosion, at least the funds of establishing the projects, when the worst-case scenario occurs."¹⁶

Economic collapse

The variables of the ongoing conflict in Yemen have affected the economy, which in turn has directly reflected negatively on small and micro youth projects, starting from fluctuations in foreign exchange rates (the dollar) due to the duplication of the work of economic institutions and the division. The Central Bank lacks reserves of currency and there is weak supervisory role in as well as the problem of Liquidity¹⁷ in addition to the suspension of oil exports, which represent 90% of the country's foreign currency¹⁸. Another variable is the depletion of themonetary reserves¹⁹, that decreased the purchase power of citizens due to the rise in prices of food and the cost of living in light of the devaluation of the Yemeni riyal.²⁰ The local currency is instable due to the contradictory policies adopted by the two

“The collapse of work, the rise in prices, economic instability, the decline in economic activities and the decline of the purchase power of the citizen in general had an impact on the complete or partial collapse and cessation of the activity of many small and micro enterprises. Half of those projects have stopped their activities.”

main parties of the conflict. The currency in the southern regions has witnessed an unprecedented rise in exchange rates for printing large quantities of Yemeni Rial (1 trillion) by the internationally recognized government in 2019²¹, despite the shortage of foreign currency (the dollar)²². This has forced many investors to move their businesses abroad as a result of the deterioration of the work environment and the cessation of attracting foreign investments that are vital sources of foreign currency for the country²³. This in turn was reflected in the youth projects by reducing their productivity and declining revenues and accompanied by fixed obligations to pay operating expenses (rent, electricity, water, etc.) while the purchase power was declining. As a result, many of these projects were closed due to their inability to pay their high operating obligations under the current situation or to buy raw materials due to the increase of prices²⁴.

Although the exchange rate in the areas under the control of Ansarullah is relatively stable after banning the new currency there, the situation is no different from the southern regions. One of the entrepreneurs "perfume project owner" stated that "the increase in the cost of raw materials have limited the work due to society's lack of acceptance of the products' high prices."²⁵

Moreover, despite increasing the prices of products by some entrepreneurs, they believe that this increase does not protect them from losses imposed by exchange rate fluctuations²⁶. Others preferred to keep prices as before to keep their customers. So, they resort to take advantage of the periods when prices are down to buy sufficient quantities in order to reduce

reduce the losses that may incur²⁷. A female project owner who sells mini-Gateau from home has tended to buy the raw materials needed for the project when the prices are down. She stores them for upcoming periods to avoid price increase, thus avoiding some losses²⁸. A perfume project owner also added " the increase in the cost of raw materials have limited the work due to society's lack of acceptance of the products' high prices." ²⁹

Nevertheless, many young people who own projects such as cafés, restaurants, etc. were subjected to policies to prevent gatherings. This led to a decline in the revenues and most of their projects adapted to those policies based on gender segregation. However, their projects were not prevented from closure by the competent authorities, causing tension in the work environment³⁰.

In addition, some project owners have laid off workers to reduce operational costs, which caused them to double their effort and time. They spend most of their time working alone, creating a lot of physical and psychological health problems. Ms. Suad, a psychological consultant for entrepreneurs, denotes that "many young people to whom I provide consultations suffer from depression, anxiety and loss of hope due to unstable political and economic conditions, which have led them to travel abroad or isolate themselves"³¹. This is one of the reasons for the increase in societal violence in general, and at the family level in particular as well as the increase of the phenomena of suicide. ³²

Poor performance of financing institutions

Banks and financial institutions are one of the assistants and supporters to reduce unemployment and poverty. They contribute to the access of young people to financial support to start their own projects. There are 16 financing bodies in Yemen, the majority of them³³ are being supervised by the Social Fund. But the effects of the war were extended to this sector, thus reducing the financing processes³⁴. This has affected many projects, whether in their failure or in limiting their ability to pay financial dues, resulting in the expansion of the circle of debts to financial institutions and banks, despite the fact that most of beneficiaries of the loans are the poorest groups in Yemen.³⁵

The deteriorating economic situation and the risks of war have prompted financial institutions to take a set of precautionary measures, to reduce their exposure to risks in the current situation. Such measures include collaterals that young people believe to be unconvincing and unfair. They require provision of real estate, gold, or a commercial guarantee as collateral. Some respondents from the owners of youth projects indicated that if they had these collaterals, they would not have taken loans to finance their projects, they would rather sell them.

Furthermore, financing policies at the present time are characterized by complexity and lack of facilities. Some owners of financial institutions who were interviewed indicated that the financing institutions have tended to raise the risk ratio. Now, young people have to secure 50% of the project cost and the bank provides the other half³⁶

Moreover, financial institutions have now abandoned supporting zero projects³⁷, which currently represent the largest part of funding grants. According to one of the employees of the National Micro Finance Foundation, the risk ratio is very high, meaning that banks and institutions may suffer from the loss of their funds because there are no guarantees for the success of this type of projects, leading them to set conditions such as: the project should have been running for no less than two years, provision of half of and the other half will be provided by the financing institution, and the provision of collaterals such as gold or real estate ownership documents for the bank to make sure that the loans will be paid³⁸.

As indicated by the entrepreneurs in the interviews, they did not apply for financing loans due to the imposed large interest rate, and the period scheduled to start payment. They must make the payment while the project is still in the process of regenerating the capital, in other words, the project has not made any profits yet. There are also the complex financing policies that may take months to get the loan.

Additionally, financing institutions have limited branches in all governorates. They dismissed some employees and closed some branches in some governorates of the Republic that suffer from armed conflicts and aerial bombardment, for fear of being subjected to looting and theft³⁹, due to the weak protection by the security authorities⁴⁰. This made it difficult for young people to access financing services. One of the project owners added “the unstable situation that may explode at any time prevents young people from seeking financing from financial institutions and banks”⁴¹.

Difficulty in obtaining permits

The war has created a set of difficulties in registering projects in the official authorities. It appeared that the registration and renewal require large amounts of money for small and micro projects ranging between 100 to 200 thousand riyals⁴², which was extracted previously at no more than 30,000 riyals. As a result, many young people prefer not to register or renew the permits of their projects⁴³. Thus, their brand identities are exposed to theft and their business activity gets limited. There reason is that it is difficult to deal with financing institutions and support organizations that require documentation of proof which may help stalled projects recover. According to an official at the Social Fund for Development, in an interview “not registering projects by youth exposes them to the theft of their commercial identities. They cannot deal officially with other bodies such as donor organizations and in commercial bidding because they do not have official documents registering their projects⁴⁴”.

Besides, many of the entrepreneurs included in the interviews confirmed that they do not have sufficient awareness of the procedures related to the registration of their projects, which exposes them to blackmail by people exploiting their power for personal interests. The entrepreneurs explained that nepotism and mediation played a major role in facilitating the procedures. Acquaintance of people working in those bodies helps in extracting commercial declarations and registrations easily⁴⁵.

However, these were not the only difficulties therein, but the political situation and the division of state

institutions have led to the failure of many small and micro youth-owned projects. They are required to have permits to operate in the areas under the control of Ansarullah and another permit in the areas of internationally recognized government⁴⁶. Not to mention the different policies and requirements, each party has different policies, which makes the success of these youth projects more complicated.

The complications are represented in the procedures for obtaining transit permits for trade that requires its movement between governorates, and exposure to harassment during movement, is another obstacle to these projects⁴⁷. One of the project owners spoke in this regard by saying "I provide the high quality Dawani honey from Hadhramaut, but the security and political difficulties presents problems in delivering honey to Sana'a, consequently, delays customers' access to honey, which created problems in the supply process."⁴⁸

In addition, despite the attempts of the responsible government bodies to reduce the burdens on the youth projects, they did not achieve a positive impact. The Chamber of Commerce issued free temporary commercial records, but this was shocking to many young people. They cannot conduct any commercial deals, participate in tenders, or open a bank account. An entrepreneur stated that it was a reservation of the commercial name.⁴⁹

“The contrasting policies between the North and the South have created challenges for small and micro enterprises to obtain work permits.”

Deficiencies in the role of civil society

Despite the efforts made by civil society organizations in providing projects that support the continuation of small and micro youth projects through international donors in general, such as non-refundable financial support provided by SMEPS, in addition to publishing public policy papers to be delivered to the decision-maker, providing economic empowerment projects and implementing a set of trainings in project management and feasibility study, they have not had a significant tangible impact. They often depend on traditional methods rather than the available more advanced methods⁵⁰. In addition, some civil society organizations provide financial support without having mechanisms to monitor, follow-up and provide consultations to youth through which commitments are made to implement their ideas on the ground, and to continue existing projects. Such weak mechanism made young people consider the financial support provided by these organizations a source of income that was spent on daily needs, hindering other youth who deserve the support from accessing it⁵¹.

Moreover, civil society organizations are subject to the policies of international donors who impose a set of programs that do not suit the needs of youth projects. In an interview with one of the workers of funding international organizations, support is mostly aimed for countryside by 70% compared to 30% for cities. This is also happening at the level of banks and informal financial institutions, creating a big gap between the support for rural versus urban areas.⁵²

Weak technical support tools and expertise

Trade in Yemen has been an inherited profession for generations since ancient times, which reflected its role on small and micro commercial and industrial projects. Young people suffer from a lack of technical and practical skills related to projects such as studying the market and competitors, preparing a feasibility study in addition to financial accounts and crisis management, which made them exposed either to the decline of their business or the closure of their projects⁵³. Most of the interviewed project owners confirmed that they do not have the plans to manage their projects and they do not know the involved potential risks. They also do not have the skills of preparing budgets, creating difficulties to continue their projects, in addition to their weakness in promoting the projects at a time when marketing has become one of the fatal tools for the success of projects at large-scales. In fact, Yemen still lacks experts in marketing, especially in digital marketing⁵⁴.

The rise of other methods of income

One of the most prominent results of the project-based war is that many young people were forced to go to the battlefronts after bankruptcy, the closure of their projects, or dismissal from their jobs in the small and micro enterprise sector which absorbs a large segment of the workforce. A respondents confirmed that "many young people went to the battlefronts for the salaries provided by parties of the conflict at 2000 Saudi riyals in the areas of the legitimate government"⁵⁵. Or they join the fronts to get access to weapons, including Kalashnikovs and

sell them⁵⁶. The latter led to growth of weapons trade among youth, thus expanding the circle of violence. This type of trade is not entitled of official permits by the competent authorities. Another prevailing business is the drugs trade, which has become popular among young people under the weak performance of the security authorities in monitoring and preventing this type of illegal trade⁵⁷. Mukhtar Abdulraheem, a weapon merchant stated in a news website "it is easy for us as arms dealers to work in war conditions. There are no legal impediments or control over the trade and possession of weapons after the collapse of the state". He adds, "the number of those wishing to buy weapons increased significantly during the war, despite the ten-folds increase in the prices of weapons⁵⁸".

Bassam Ahmed, in an interview with the New Arab website, stated: "about half a year ago (so far) I have sold thousands of pieces and made a lot of profits despite the intense competition between arms dealers, and hundreds of new traders have entered this market.⁵⁹

Security threats

The unstable security situation has made young people turn to the trade in weapons and drugs to create sources of income under the fact that they have lost interest in their previous projects or that they have been closed. They think that this type of trade has a large market in time of war which throws its impact on the psychological, economic and social aspects.

The deteriorating security situation has been reflected on Yemeni society in general, and the owners of small and micro projects in particular. The recent years have witnessed cases of assault on young people by being hit

or killed. Many young people lost their lives as a result of verbal altercations with armed groups⁶⁰.

In 2019, social media sites were viral with condemnation by activists and media professionals after posting a video clip of a shop owner in Al-Hassaba neighborhood (in the capital) being beaten because of his inability to pay imposing taxes⁶¹.

These practices were not limited to the areas controlled by Ansarullah but extended to the areas under the control of the internationally recognized government. An owner of a small project in Aden told us that one of the shop owners was killed by an armed group claiming to be from Tax Authority. The shop owner presented a payment slip to confirm that he has already paid taxes. But incident ended with the murder of the shop owner.⁶² Another project owner says that he must pay 60,000 riyals per month to one of the market thugs. He cannot complain because these thugs are backed by bodies with positions in the government⁶³.

Furthermore, projects are still subject to assault and robbery if they do not respond to groups operating under the name of official authorities. They practice violence and terrorism on small and micro project owners. A female project owner said, "the deteriorating security situation in Taiz, as a result of the war, made her, and many young women working in the field of photography, return early because of the fear of exposing equipment to

Some young people lost their lives as a result of exposure to armed groups impersonating the official identity. Some of them work with the knowledge of the security authorities under the so-called levies, taxes and war efforts in the northern and southern regions.

theft". She mentioned that there are women who have been attacked during their work under the weak work of the security bodies and the absence of justice.⁶⁴ⁿ

Moreover, the Chamber of Commerce in Sana'a indicated that it receives many reports of assault against small and micro enterprises, including (stands, door to door sellers, shops) to force them to pay sums of money for religious celebrations, where they pay from 200k to 500k riyals without official payment receipt.⁶⁵

Recommendations

The paper presents a set of proposals to mitigate the impact of the obstacles created by the war to small and micro youth projects and contribute to enhancing the stability of individual activities, which in turn is reflected in peace in Yemen. It focuses on the roles of the concerned parties that can alleviate these obstacles.

For the Government Bodies

1. It is important to circulate a mechanism by the official bodies to facilitate the procedures of registering and renewing permits for small and micro projects in a transparent manner that supports accountability. The purpose is to ensure the protection of the owners of these projects from extortion and nepotism. In this context, they should accelerate the activation of a single window system (Manual/Electronic) to complete all legal and administrative procedures for small and micro projects, saving time and money and ensuring quick permit acquisition.
2. Adopting a permanent and effective official communication mechanism that ensures the

delivery of the messages of project owners to the official authorities to deal with their main and urgent problems, foremost of which is the Ministry of Commerce and Industry and financial institutions.

3. Activating the role of official authorities in monitoring and holding accountable those impersonate official and unofficial personnel to overcome extortion and attacks on project owners.
4. Activating the complaints box at the Ministry of Commerce and Industry and the Chambers of Commerce to make it easier for project owners to raise complaints that they face during their official transactions or during their dealings with the abuses of employees in the concerned institutions.
5. Encouraging private sector institutions to support the small and micro enterprises sector and making their outputs one of the sources of input in private sector institutions.

For Civil Society Organizations

1. Supporting and establishing incubators and accelerators of works to support small and micro projects by training and qualifying them, and providing consultations on an ongoing basis, to ensure the continuation of these projects and overcome the difficulties they face.
2. Adopting advocacy campaigns to provide the necessary protection for themselves as financiers, and for small and micro enterprises from extortion and abuse, as well as advocacy campaigns against the unfortunate measures practiced against small and micro youth projects.

For relevant international organizations

1. Conducting a broad study to analyze the needs of youth projects that will help to direct support and funding to mitigate the damage they have suffered as a result of the war, and ensure that they continue with mechanisms compatible with the current reality.
2. Effective cooperation with financial institutions by mobilizing sufficient financial resources to assist stalled projects from bankruptcy or closure.
3. Adopting rehabilitation programs and technical support for financial institutions in the field of microfinance, including modern financing mechanisms and methods that are based on spreading a positive culture, and developing and reviving small and micro projects for young men and women within the framework of an integrated program directed towards economic recovery and boom instead of focusing on food relief projects.
4. To practice pressure on the parties of the conflict in order to neutralize the economic sector, and not to harm small and micro enterprises.
4. Greater coordination with the private sector and large companies in order to provide support to small and micro enterprises of young people.
5. Adopting financing funds that donors, the private sector and social development institutions such as Zakat and Endowments can support to provide unconditional financing and support the small and micro industries sector.

For Financial Institutions

1. Designing training programs to develop and qualify youth capabilities in managing related projects and programs before funding them.
 2. Reducing the procedures associated with obtaining funds so that young people can be able and willing to obtain support from these
 3. institutions and funding bodies.
Adopting wide-ranging policies, to ensure that technical and practical support reach small and micro enterprises and ensure their sustainability.
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About Resonate! Yemen

Resonate! Yemen is a non-profit NGO that has commenced working as a youth initiative in January 2010 and was officially registered at the Ministry of Social Affairs in August 2011, The Foundation is working to create a new environment conducive for developing more sustainable policies, where young people as are engaged as key partners in the development and evaluation of public policies. Resonate! Yemen aims to make the voices of Yemeni youth part of the policy discourse in Yemen, and to support youth work at national and international levels.



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