

Social Fund for Development
Yemen

Small and Micro Enterprises
Development in Yemen
and Future Prospects

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Word of the SFD Managing Director

The following is an excerpt concerning the SME industry in Yemen taken from SFD Managing Director's - Mr. Abdul-Karim Al-Arhabi - speech at the GJ Annual Award celebration in Washington DC, April 30, 2010:

"When the Social Fund started introducing the microfinance industry into the country based on international best practices back in 1997, microfinance was flatly rejected by society, government, parliament and the poor under the religious pretext of anti-Shari'aa interest, and due to the negligible size of the loans, and the high interest rate. I recall, we were promoting micro-finance within the government, parliament and the poor as if we were promoting drugs."

"Potential clients would go to the Imam in the mosque seeking guidance. The Imam often issued them a fatwa forbidding micro-credits. Some Imams publicly denounced micro-financing in the mosque during the Friday Prayers."

"We had to develop and introduce Islamic banking financing schemes in micro-finance to respond to these growing challenges and overcome resentment. We were the first country in the Islamic world to do so. And we did it firmly according to international best practices to ensure a sustainable industry. We experimented with all known micro-finance modalities and approaches in 17 different programs nationwide."

"It was not all rosy. We also experienced failures. We made mistakes and faced dishonesty by some intermediaries implementing such programs. But, our poor borrowers were honest and committed, which strengthened our determination to develop the industry to provide the poor with access to finance. We relied on reviving the spirit of entrepreneurship, inherited by Yemenis, when Yemen was the ancient East- West trade hub during the 1st millennium."

"The unsatisfactory performance of the microfinance programs led to lowering the SFD annual evaluation by the World Bank. Because of this and the enormous difficulties faced in the implementation of the microfinance programs, some colleagues at the Bank at that time had even suggested we drop microfinance. We were persistent and went on to develop the industry despite all these difficulties. Today, we have several programs around the country with 100% repayment, and some have reached institutional sustainability. We even established a microfinance Bank (Al-Amal Bank or the Bank of Hope), the first of its kind in the Arab region. We are now supporting the establishment of two other microfinance banks. As you can see, persistence and commitment paved the way to success."

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- Weesam Qaed – SMEPS Managing Director

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List of Abbreviations

ABA	Alexandria Businessmen Association
ADRA	Adventist Relieve Agency
AGFUND	Arab Gulf Fund for United Nations Development programs
AMB	Al-Amal Microfinance Bank
ASA	ASA Foundation – A microfinance foundation in Bangladesh
BDS	Business Development Services
BE	Business Edge program
BMO	Business Management Organization
BRAC	Bangladesh Rural Advancement Committee
CAC	Cooperative and Agricultural Credit bank
CB	Credit Bureau
CBP	Capacity Building Program
CBY	Central Bank of Yemen
CGAP	Consultative Group to Assist the Poorest
CLDP	Community and Local Development Program
CSO	Central Statistics Office
DPG	The Development Project Group Co.
GIZ	German Technical Cooperation Program
HEPP	Handicraft Export Promotion Program
IFC	International Finance Corporation
IGP	Income Generating Program
ILO	International Labor Organization
KAB	Know About Business
KfW	Kreditanstalt für Wiederaufbau - German Development Bank
LIWP	Labor Intensive Works Program
MDG	Millennium Development Goals
MF	Microfinance

MFI	Micro Finance Institution
MOIT	Ministry of Industry and Trade
MOVET	Ministry of Vocational Education and Training
NGO	Non-Government Organization
NMF	National Microfinance Foundation
PAR	Portfolio At Risk
PPSC	Post and Postal Savings Corporation
RNE	Royal Netherlands Embassy
SBCP	Small Business Credit Program
SE	Small Enterprise
SEDF	Small Enterprises Development Fund
SFD	Social Fund for Development
SSFD	Sustainable Social Foundation for Development (Al-Mustadama Foundation for Sustainable Development)nable
SME	Small and Micro Enterprises
SMED	Small and Micro Enterprises Development unit
SMEPS	Small and Micro Enterprises Promotion Services agency
SWF	Social Welfare Fund
TA	Technical Assistance
TAS	Technical Advisory Stations
ToT	Training of Trainers
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
US-AID	United States Agency for International Development
USD	United States Dollar
WB	World Bank
WECP	Women's Empowerment Credit Program
YMN	Yemen Microfinance Network
YR	Yemeni Riyals

Executive Summary

Established by Law no. 10 in 1997, the Social Fund for Development (SFD) is a Government institution that is financed by a number of international donors, as well as the Government of Yemen. Its main goal is to help alleviate poverty and reduce unemployment in Yemen through the implementation of targeted development projects. SFD pursues its goal through four main programs:

- The Community and Local Development Program (CLDP)
- The Small and Micro Enterprises Development Program (SMED)
- The Capacity Building Program (CPB)
- The Labor Intensive Works Program (LIWP)

The SMED Program is implemented by the SMED unit, which works in developing local capacities to provide indirect financial and non-financial services to small and micro entrepreneurs in order to increase their share of the national economy. This is supposed to increase job creation and improve the Government's ability to alleviate poverty and reduce unemployment in the country.

Implementation of small and microfinance is carried out by supporting existing financial institutions, such as banks, foundations, and financial companies, or through the creation of new such entities. Through SMED, SFD provides technical and financial support for these partner organizations for a number of years, after which they are expected to be independent and financially and institutionally sustainable. Financial support may include operational expenses, fixed assets, and funds for on-lending operations. These institutions, in turn, provide a range of financial and non-financial services to poor and limited income small and micro entrepreneurs, with the aim of improving their situation and increasing their participation in the national economy.

In small and micro enterprises development, particular attention is given to women by providing them with a wide range of financial and non-financial services. In fact women represent the majority of clients in microfinance programs - more than 70%. This is meant to provide them with more equal opportunities, and introduce them to the mainstream economy, as they are the weakest portion of society in economical terms. As such, small and microfinance constitutes an important tool for women's economic and social empowerment.

Foreign donors continue to remain the main source of funding for SMED, representing 90% of its financial sources, with the balance (10%) constituting the Government's share of funding. It should be observed, however, that direct local funding of small and microfinance institutions,

in recent years, has shown a strong and increasing trend. This is exemplified, in particular, by the cautious but increasing involvement of the Yemeni private sector in small and micro finance through the establishment of microfinance banks, or bank subsidiaries. Furthermore, voluntary and forced savings collected by MFIs from their clients help finance an increasing share of the loan portfolio of SME financial institutions and banks.

On its part, SMED's ultimate goal is for the private sector to take a leading role and become a main source of funds for the SME industry, both at the wholesale and retail level, due to its dynamism and entrepreneurial vision. As such, SMED will continue to play a pivotal role in this regard by increasing cooperation with international funding organizations to satisfy the growing demand for lending funds by Yemeni SME financial organizations and banks.

1. SMED roles and activities

The Small and Micro Enterprises Development unit (SMED) is the unit in the Social Fund for Development responsible for contributing to the development of the small and micro finance (SME) sector in Yemen. As such, it acts as the main arm for direct economic development in the Social Fund.

SMED's operations are structured on five main areas of intervention and activities that enable it to focus on realistic goals and promising initiatives. These are:

1. Financing of micro enterprises.
2. Financing of small enterprises.
3. Facilitation of business development services (BDS).
4. Institutional capacity building.
5. Sector advocacy and creating an enabling environment.
6. Introduction of new players in the small and microfinance industry.
7. To become a house of expertise in the fields of small and microfinance.

In line with its mission, SMED operations have evolved throughout the years to keep pace with the continuous evolution of the SME financing sector in Yemen. For example, SMED used to train MFI employees directly, but with the growing size of the SME financing industry, SMED has over the years almost completely outsourced this activity to consultants and more recently, to the Yemen Microfinance Network (YMN).

1.1 Financing of micro enterprises

According to the National SME Strategy approved by the Council of Ministers in 2005, SMED has categorized enterprises as follows:

- Micro enterprises: employing between 1 and 5 employees
- Small enterprises: employing between 5 and 15 employees

Micro enterprise development continues to be the core business of the SMED unit, absorbing most of its lending funds and other supporting activities. Since its establishment in 1997, SMED has been engaged in developing micro enterprises by establishing microfinance programs or supporting existing ones and strengthening their delivery capacity to provide suitable and comprehensive financial services to micro entrepreneurs.

SMED intervenes in two main ways to sustain the microfinance sector: loans and grants. The aim is to allow MFIs to compete, expand, and diversify their services to better serve the needs

of micro entrepreneurs. As such, providing microfinance players with funds involves a number of supporting interventions, including:

- Provision of loans to MFIs on fair and reasonable terms.
- Provision of grants to cover start-up costs, such as fixed assets and operational costs.
- Capitalization of such institutions or shareholding.
- Encouraging foreign investors to invest in microfinance.

1.2 Financing of small enterprises

The provision of on-lending funds to financial institutions involved in financing and developing small enterprises constitutes an integral part of SMED's strategy to develop the small enterprise sector in Yemen.

SMED's first attempt to develop the small enterprises financial sector dates back to 1999 when efforts were made with Al-Tadhamon International Islamic Bank to establish a window in its banking operations to finance small enterprises. These efforts were not successful.

Since June 2003, however, SMED has managed to create a partnership with the Small Enterprises Development Fund (SEDF) through the provision of substantial technical assistance that has been provided by specialized TA providers, in addition to providing loan funds for its on-lending operations. Although microfinance demand in the country continues to far exceed supply, this partnership has led to a very significant expansion in SEDFs' operations.

In order to achieve greater market coverage and reach out larger numbers of small entrepreneurs, SFD actively explores a variety of ways to achieve this goal:

- a) Encourage and support qualified MFIs to upscale their lending to small enterprises.
- b) Urge the banking sector to provide suitably sized financial products through the establishment of small enterprise financial schemes as part of their banking operations.
- c) Support newly established private small enterprise sector initiatives, such as the recently established Al-Kuraimi Islamic Microfinance bank.

1.3 Business Development Services (BDS)

BDS is the provision of a variety of non-financial services for small and micro enterprises (SMEs) aimed at improving their efficiency and profitability. Such services may include technical and managerial training, marketing, quality improvement services, and other value-added services.

In 2000, the National Labor Force Study survey was conducted on a large scale to study the

problems and needs of SMEs. It revealed, among other things, a great need for business development services (BDS). Based on these findings, SMED conducted a further study (in 2004) to determine in more detail the type of BDS services needed by SMEs, potential providers, and ways and means to deliver them. The study also recommended the establishment of a specialized agency for this purpose.

In 2005, the Small and Micro Enterprises Promotion Services agency (SMEPS) was established by SFD with the purpose of facilitating the provision of non-financial services to SMEs, and to conduct specific sectoral studies. Since its establishment, SMEPS has carried out a multitude of activities targeted at SMEs through special programs aimed at raising their operational efficiency, quality of production, technical expertise, marketing outlets, and sector advocacy and promotion. The agency has grown to comprise 3 branches that cover most of the governorates in the country, and it includes a large and qualified staff of professional employees.

1.4 Institutional capacity building

Since the establishment of SMED in 1997, institutional capacity building has constituted an integral part and the cornerstone of SMED's intervention strategy to support the SME financial sector. Institutional capacity building activities aim at building strong and sustainable SME financial institutions capable of catering to the needs of small and micro entrepreneurs in a sustainable and effective way.

Direct technical assistance aimed at building internal work systems in small and micro finance institutions is provided by SMED and contributes to strengthening the delivery capacity of MFIs. This is either implemented directly by SMED, through local and regional consultants, or through strategic regional and international providers.¹

As part of its interventions in the area of institutional capacity building, SMED has been active in creating and developing computerized and manual systems. Important examples are represented by the development of the Computerized Loan Tracking System (Maeen), the Computerized Accounting System, the HR Computerized System. The loan tracking system has been developed and is in use in all MFIs, while the Computerized Accounting System and the HR System have been installed, tested, and redeveloped in several MFIs, and they are expected to be generalized to all MFIs.

SMED has also been working on the introduction of financial reporting systems based on worldwide best practice standards, as well as operational and training manuals. In addition, SMED has designed the Credit Bureau System. This database system prevents the overlapping of clients among small and micro finance institutions throughout the country, and provides the credit history of all clients from participating small and microfinance institutions.

¹ Such as consultancy companies and financial and developmental institutions.

Other contributions to the institutional capacity building of SME institutions include direct grants to cover start-up costs, purchase of fixed assets, and other grants for a variety of purposes such as training, purchase of computerized systems, and consultancies.

Training is a significant part of SMED activities, as it has a direct impact on MFIs in their financial performance and client outreach. The aim has and continues to be the creation of a large pool of qualified small and microfinance practitioners for SME financial institutions to draw on. Training has been implemented in various forms:

- a) Formal training courses that last a week or less covering a variety of fields, such as: financial analysis, HR management, and risk management.
- b) On-the-job training courses held in the premises of institutions, and practical field training carried out by small and micro finance practitioners.
- c) Workshops aimed at raising personal skills.
- d) Exchange visit programs between MFIs to learn successful experiences.
- e) The establishment of training rooms in some MFIs.

In order to further increase and improve the delivery of training, SMED established in cooperation with the UNDP the Yemen Microfinance Network, in August 2009. This independent organization is supervised by a Board of Directors made up of MFI managers, and has taken over SMED's role in the provision of training. In addition, YMN is building a base of MF practitioners for the SME financial sector to draw from, carries out market studies, as well as working in research and development, and sector promotion and advocacy.

Due to the crisis Yemen went through in 2011, training saw a significant reduction due to other priorities set by the MFIs. Lower income, and in some instances net financial losses incurred by MFIs led to curtailment in their training budgets. Consequently, YMN's activity in this area shrank considerably due to lower demand for the training courses it offered. Nonetheless, with regard to loan officers - being the backbone in all MFIs - SFD distributed in 2011 48 disks containing a training program specifically designed for their needs. The training program was purposely designed by Grameen Jameel to improve the skills of loan officers, and it was distributed to eight MFIs.

1.5 Promotion, sector advocacy, and creating an enabling environment

Advocacy for the SME sector and the creation of an enabling environment are key issues that SMED puts significant efforts into. The SMED unit has been active in bringing the attention of the public and the Government to this promising sector of the economy. Workshops, meetings, and conferences that included Government officials and representatives, businessmen, and representatives from the private sector and development organizations and donors have been organized by SMED throughout the years.

As part of its continuous effort to spread knowledge among the public on the importance of the small and micro finance industry, SMED took care of organizing particular events aimed at attracting the general public and exposing them to the SME financial industry. An example is the "The Annual Enterprises Days". This event and other similar events have been held in various cities of Yemen with the aim of promoting the Yemeni SME sector by gathering SME financial institutions, their borrowers, and some NGOs as well, resulting in increased attention by the public and a more positive attitude towards the need to develop the SME sector by the Government. SMED has organized the event since 2004 on a once or twice a year basis. Public personalities, such as the Prime Minister, inaugurate and attend this particular event.

Promotional efforts carried out by SMED have also included advertising on television and radio channels as well as in newspapers and magazines, and giving interviews to the media. Furthermore, SMED's website and the printing of brochures and booklets are part of the efforts made in promoting the SME industry among the public.

A significant event carried out by SMED was the hosting of Sanabel's Fourth Annual Conference in 2007 in Yemen. SMED helped host the event, and major international and regional organizations participated. Hosting the conference gave Yemen international recognition in the SME financial industry and an opportunity to be on the geographic map of the development of this economic sector in the Middle East. The event resulted in helping attract the attention and support of regional and international donors and organizations towards the development of the SME sector in Yemen.

Helping improve the legal environment for the small and microfinance industry has been an area of concern for SMED, producing tangible results. SMED lobbied for the issuance of the Microfinance Law, that was passed into law by Parliament in 2009. This has enabled the private sector to attract savings from the public and invest in small and microfinance development on a profitable basis.

SMED has been working in the regulation of the SME financing market as part of its goal to create a suitable legal environment for the small and microfinance industry to grow and proliferate. As a result of SMED lobbying, the Central Bank of Yemen has taken interest in sustaining the SME financial sector by playing a supervisory role vis-a-vis microfinance banks. With the technical assistance of GTZ and KFW, the Central Bank of Yemen in 2009 established a Microfinance unit to supervise microfinance banks, and provided extensive training for a number of its employees on the supervision and auditing of small and microfinance banks.

2. SMED Strategy

Throughout its history, SMED has continually evolved its strategy to better serve the SME market and respond to its ever-changing conditions. The SMED strategy has further evolved in response to the National Microfinance Strategy approved by the Council of Ministers in January 2005, which among several issues called for greater expansion and diversification of the SME financial sector. More recently, in July 2010 the SMED strategy has seen a further review and evolution in line with the ever-increasing responsibilities placed upon SMED in the SME sector.

2.1 Vision

To contribute to the MDGs through the creation of employment, improvement of livelihood, and gender equality.

2.2 Mission

To establish an enabling environment that provides affordable financial and non-financial services to low-income people and micro and small businesses in general with a special focus on women and rural areas.

2.3 Core Values

SMED will achieve its vision and mission while observing its core values. The SMED code of conduct will also be based on these values, which recognize the values of its members and is based on international best practices. SMED's core values are:

- 1- Commitment to alleviation of poverty.
- 2- Responsibility, accountability and transparency.
- 3- Fairness and equality in the treatment of all players relevant to the microfinance industry.
- 4- Observance of best practices of the industry.
- 5- Gender equity and non-discriminatory services to all.
- 6- Good governance and performance excellence.

2.4 Strategic Goals

SMED's vision and mission are translated into achieving the following strategic goals:

1. The financial institutions operating in Yemen will provide effective, affordable and

sustainable financial services to SMEs.

2. New entrants will be encouraged to enter the SME financial sector
3. Sector innovations will be sought, assessed and implemented in a way that will contribute to closing the demand gap and encouraging a competitive environment.
4. The SMED institutional initiatives will be well established and provide effective, efficient and sustainable support to the SME industry.
5. Macro and meso-level institutions will provide an enabling environment and effective business support to the SME industry.

2.5 Future roles and activities of the SMED unit

As the main backer of the SME industry in Yemen, and in conformity with its long-term vision and strategy, SMED will undertake an increasing number of roles aimed at developing the small and microenterprises industry in Yemen. These are outlined in the following sections.

2.5.1 Creating an Enabling Environment

- Further develop the legal environment for microfinance and micro banking to operate properly.
- Assist in developing laws, bylaws, and regulations to attract more players in the market.
- Continue to promote best practices in the small and microfinance development industry.

2.5.2 The National Microfinance and other SME strategies

- Ensure the implementation of the National SME Strategy, the SMED Strategy, and other related strategies.
- Modify those strategies according to the changing environment, and involve the concerned parties, such as the micro and small enterprises, the more traditional private sector, Governmental institutions, and donors, in the process.

2.5.3 Funding and financial intermediation

- Focus on financing robust institutions with loans and grants aimed at expanding and strengthening their operational capacities.
- Mobilize both local and foreign donors to finance SME institutions with loans and grants.
- Act as a guarantor/co-financer for SME institutions that obtain foreign or local finance.
- Participate with equity capital in promising SME institutions.

2.5.4 Capitalization of financial institutions

- Capitalize (strengthen the equity of) SME financial institutions to enhance their financial and institutional sustainability, and thus, improve their bargaining power in obtaining commercial loans from banks and donors.

2.5.5 Promote the SME sector at all levels

- Promote the SME sector locally and internationally, and spread knowledge through the media.
- Hold promotional events, such as conferences, seminars, and other public events, aimed at highlighting the SME sector in Yemen.

2.5.6 Microfinance auditing, rating, and evaluation

- Ensure that regular auditing of small and micro financial and non-financial institutions is carried out by appropriately qualified SME audit organizations.
- Rate SME financial institutions through rating agencies or informal rating.
- Undertake or arrange for the evaluation of small and micro financial institutions on a regular basis.

2.5.7 Continue to develop systems for lending institutions and provide support

- Develop the Loan Tracking System (Maeen).
- Develop the Computerized Accounting System.
- Develop the Human Resources Management System.
- Develop the Credit Bureau System for SMED partners.
- Introduce and develop other systems as required, train MIS operators in small and micro financial institutions, and provide technical support and maintenance.
- Update manuals, such as operations manuals, HR manuals, and the MFIs Auditing Manual, and other manuals as required.

2.5.8 Establish or encourage the establishment of greenfield programs

- Establish small and micro enterprises financial greenfield programs.
- Attract foreign donors and expertise to establish greenfield programs.
- Encourage and possible also co-finance independent greenfield initiatives.

2.5.9 Transform financial institutions

- Carry out deep and far-reaching reforms in those institutions lacking high potential growth and outreach.

- Carry out feasibility studies aimed at merging smaller financial institutions into larger ones with the goal of ensuring better financial and institutional sustainability.
- Encourage and co-finance other independent merging initiatives mergers between financial institutions.
- Work with existing banks to develop small and microfinance services.

2.5.10 Introduce new technologies/products/systems

- Raise awareness on new microfinance technologies, products, and systems, such as mobile banking, branchless banking...etc.
- Introduce to Yemen new financial technologies, products, and systems in coordination with foreign service providers, and donors.
- Finance or co-finance studies and pilot programs aimed at introducing new financial technologies and training programs.

2.5.11 Establish a Credit Bureau

- Partner with the Central Bank of Yemen (CBY) to finance the establishment of a Credit Bureau for the benefit of all small and micro financial institutions in Yemen. (accomplished).
- Support the management and development of the Credit Bureau.

2.5.12 Provide specific training and technical assistance

- In cases when MFIs face difficult times, provide them with training and technical assistance not envisioned in the plans set by the Yemen Microfinance Network, or not part of its mandate.
- Help with capacity building MFIs facing difficulties in restructuring and carry out reforms in their operations.

2.5.13 Governance issues

- Help institutions form their Board of Directors.
- Set standards and promote good governance.
- Establish governance (banking and ethics) capacity building programs for MF Boards of Directors and key senior staff.
- Encourage the private sector to participate in the Boards of Directors of MFIs.

2.5.14 Conduct sector studies

- Finance sector studies and market researches on the SME and banking sector in Yemen.
- Finance industry related surveys and studies.

- Finance impact assessment studies.

2.5.15 Business Development Services

- Serve sectors in the small and micro enterprises industry with non-financial services not covered by SMEPS.
- Procure fresh funds from donors and development agencies to finance activities carried out by SMPES.
- Encourage the linkage and cooperation between small and microfinance institutions and SMEPS for the provision of BDS services to SME clients.

3. Phases of development of the SME financial sector in Yemen

Since its inception in 1997, the development of the SME financial sector has undergone a number of changes based on SMED's experience, response to needs, and developments in its strategic priorities. Whereas in its early stages of operations SMED focused its efforts primarily in rural areas, experiences have re-oriented SMED more towards urban areas. Similarly, whereas efforts were mainly directed towards strengthening the NGO sector, these efforts are at present shifting more towards building partnerships with the private sector. The belief is that the private sector, in the long-run, will be more focused in establishing viable microfinance organizations that can generate profits and are more likely to be sustainable. The overriding principle is the rapid development and up-scaling of MFIs to become larger and stronger formal institutions having a robust base in urban areas, which is considered the platform for microfinance development. From this strong urban base it is expected that targeting of rural areas will have better prospects for success, and may result in the sustainable provision of microfinance services and products.

The SME financial sector in Yemen has gone through 4 stages. These are:

Phase 1 – Piloting with IGP's and MFIs.

Phase 2 – Piloting with MF programs (Aden, Abyan, Hadhramout, Sana'a, Alif).

Phase 3 – Institutionalization of MFIs.

Phase 4 – Large-scale outreach.

3.1 Phase 1 – Piloting with IGP's and MFIs

The year 1997 witnessed the birth of the microfinance industry in Yemen, after the necessary pre-eliminary studies were carried out. In July 1997, a field study funded by the Dutch Government was initiated in the city of Hodeida with the intent to establish an urban and diversified microfinance program under the organizational umbrella of the local branch of the Yemen Women's Union. After hiring and training the staff, the program started its lending operations in January 1998, and by the end of the year it was already the largest financial scheme serving micro entrepreneurs in Yemen, covering large areas of the city of Hodeida. For a time it remained the only MFIserving urban micro entrepreneurs in Yemen.

In November 1997 the SMED unit was finally born and officially established, making SFD the main microfinance apex institution in Yemen. Early experiments with rural microfinance started in early 1998, when an agreement was signed with the Adventist and Development Relief Agency (ADRA) for the establishment of a rural microfinance program targeted exclusively at poor women in the area of Heis, about 120 Km south of Hodeida. Following this agreement, another one was signed in early 1998 with the Wadi Siham Agricultural Cooperative to

establish a cattle raising Income Generating Program (IGP) for poor rural farmers living in Al-Maraweah, a town 30 km away from Hodeida.

By the end of 1998, five IGPs worth an overall investment of \$772 thousand USD were already established. Four further microfinance programs (three in the Governorate of Dhamar and one in Aden) were in the design process, and two were operational. One of them was in Heis, a small rural town in the Tehama coast, and another in Hodeida, Yemen's most important seaport on the Red Sea.

IGPs were established mostly in partnership with agricultural cooperatives working in rural areas, where most of the poor were, and are still concentrated. The aim of their establishment was two-fold: initiate the process of targeting the poor through financial services, and serve as a pilot platform for SMED to test the market and learn lessons. By targeting rural areas it was thought that SMED would be more effective in its intervention strategy, as 70% of Yemeni continue to live in rural areas.

However, because of their nature and location, IGPs were centered mostly on financing poor farmers with limited activities, such as cattle raising (sheep, goats, and calves) and beekeeping, as rural areas offered very little options for more diversification, while MF programs in urban areas offered a potentially richer choice of economic activities to be financed.

During 1998 and 1999 more IGP programs were established in various Governorates, namely Abyan, Taiz, Al-Odein, and Dhamar. However, such programs were still centered on a single activity, such as cattle raising, agricultural inputs for crops, or beekeeping, and eventually, the combination of a number of causes led to their collapse. This was further accelerated by a breakout of the Rift Valley fever in 2000, which affected cattle-based IGPs. Gradually, such programs were closed down or absorbed by larger MFIs.

The causes which affected the sustainability of IGPs, and ultimately led to their collapse could be summarized as follows:

1. Weak partner organizations (cooperatives, mostly family, clan, and tribal based).
2. Weak auditing by the NGOs and internal controls within the programs.
3. Lack of sufficiently qualified cadres working on a stable basis.
4. Limited diversification of economic activities.
5. The outbreak of animal diseases.
6. Frequent lack of appropriate infrastructures and services in the areas of operations.
7. Dispersion of population, making client servicing problematic, especially in remote areas.

3.2 Phase 2 – Piloting with MF programs (Aden, Abyan, Hadhramout, Sana’a, Alif)

As rural programs began to show their limitations, a new phase began in 2000, as experience showed that working in sparsely populated rural areas in partnership with agricultural cooperatives was proving troublesome.

Generally speaking, rural microfinance turned out to be costly in terms of high monitoring and logistics costs, and results were very modest, at best. At this stage, however, the SMED intervention strategy began to witness a radical departure from the past by shifting focus on establishing strong urban programs, with the idea that at a later stage they could branch-out into rural areas. The cornerstone of this new phase consisted in partnering with urban based umbrella organizations, mostly NGOs, to establish urban microfinance programs. Such programs seemed to offer the following advantages:

1. Location in densely populated areas.
2. Availability of qualified staff.
3. Good infrastructures and services.
4. Social development oriented mindsets in NGOs.
5. Great possibilities for expansion on a large scale.
6. Easier communication, logistics, and general support.
7. Lower logistics and monitoring costs.
8. Better training and qualification opportunities for the staff.

During this phase, the introduction of new and innovative ideas, as well as the use of foreign expertise in the field of microfinance was strongly emphasized to give a fresh boost to the industry. After an exploratory visit conducted by SMED in Bangladesh in 2001, work started in the following year for the establishment of Alif Program through the technical assistance of ASA, a major player in the microfinance industry in Bangladesh, and a well known organization at the international level. The program started with three branches in the cities of Taiz, Ibb, and Dhamar, and was modeled after ASA's group lending and savings methodology.

The establishment of Alif Program in June 2002 provided the basis for SMED to encourage the widespread use of the group lending methodology by other MFIs as a suitable mean to reach poor and economically active women on a larger scale than ever before. Almost all MFIs used this successful loan and savings methodology, and were able to achieve a remarkable increase in the number of active female clients, both borrowers and savers.

Also, as part of the new strategy, several agreements in partnership with NGOs were signed for the establishment of new microfinance programs. An agreement was signed in May 2000 with an NGO in Seyun, in the eastern Governorate of Hadhramout to establish a local MFI –

Hadhramout Loan and Savings Program. Three programs were established in Aden in early 2001, as well as a new program in Sana'a (Sana'a Credit Program - Azal) in October of the same year. Another microfinance program was established in April 2003 in agreement with the Yemen Women's Union branch in the southern Governorate of Abyan.

This phase also witnessed a substantial increase in the cooperation with donors and other stakeholders in the small and microfinance industry, especially foreign ones. In late 2003, a partnership agreement was signed with the United Nations Capital Development Fund (UNCDF) to co-finance three microfinance programs, as part of Microstart II, two of which were already established under Microstart I. The beneficiaries of these agreements were Taiz and Sana'a Microstart, in addition to Hodeida Microfinance. Furthermore, separate agreements with their umbrella organizations were also signed later on in early 2004 to provide those MFIs with additional loan funds.

During Phase-2, the emergence of larger financial institutions operating on more solid foundations compared to the defunct IGPs established during the previous phase provided SMED with a solid base and ample opportunities to attract more foreign donors and stakeholders. The local private sector and foreign donors, in particular, began to show an increasing interest in the Yemeni microfinance sector. In addition to UNDP, working partnerships were established with other financing organizations to support the sector with funds for loans, training, and technical assistance, and various other forms of assistance. These organizations included AGFUND, Grameen Foundation, KfW, and IFC, the Dutch Government, and the World Bank.

3.3 Phase 3 – Institutionalization of MFIs

The expansion and increasing sophistication of the microfinance sector necessitated a review of the institutional arrangement of MFIs. The increasing visibility of MFIs to the eyes of the public, the continuing expansion of their operations, and the increase of their business volume necessitated an evolution of their legal and institutional status as well.

The first transformation came in October 2002, when a Board of Trustees was formed for the National Microfinance Foundation (NMF), with SFD holding 24.8% of its shares, and the rest being held by banks, public figures, and private businessmen. In this way, NMF was transformed from a mere program into an independent and officially registered NGO supervised by a Board of Trustees.

The second transformation took place in March 2004, with the evolution of the legal status of Taiz Microstart Project, which was registered at the Ministry of Industry and Trade (MOIT) in March 2004 as Al-Awael Microfinance Company. This transformation took place as part of Microstart II, and as part of the process a Board of Directors was formed, and SFD became one of its members with a share of 26% of the paid-in capital. As such, Al-Awael became a non-profit company.

The third major transformation took place in June 2005 with the merger of the three MFIs established in Aden back in 2001. The three programs were merged into Aden Microfinance Foundation, in June 2005. SFD, the three respective NGOs, and the National Bank of Yemen became shareholders and members of the Board, in what became the second largest MFI in Yemen after NMF. It was expected that this new MFI would be in a better position to expand into other Governorates and diversify its services.

Phase-3 also witnessed the engagement of SMED with the financing of small enterprises. An evaluation of the Small Enterprises Development Fund (SEDF) carried out in April 2003 resulted in the decision of SMED to extend a helping hand to this very important institution in Yemen. Two agreements were signed during that year: one for a loan in July, and a second for technical assistance in December. Since then, a strong and positive partnership has been maintained between SFD and SEDF.

Cooperation with NGOs continued from the previous phase through Phase 3 and the subsequent phases. As part of its targeting strategy of the capital, SMED entered into an agreement in August 2006 with Nama'a MF Program (an MFI under the umbrella of Al-Islah Charitable Society - the largest NGO in Yemen) to finance part of its expansion plan in Sana'a – the first of a string of agreements lasting until today.

3.4 Phase 4 – Large-scale outreach

This phase marked a crucial evolution of the microfinance sector in Yemen. It witnessed the emergence of even larger MFIs, established with the intent of offering more inclusive financial services than the traditional loans and limited savings services being offered by small MFIs. These new services began to include time deposits, cash transfers, and money exchange, to name a few.

In 2006, Al-Tadhamon International Islamic Bank, the largest private bank in Yemen, established a program to serve SMEs with loans. This initiative represented the first involvement of the Yemeni private banking sector in the SME financial industry. The program is well established, and it currently operates through five branches. As of June 30, 2010 its loan portfolio stood at almost 500 million YR – the largest of all MFIs and MF banks in Yemen - and had as of October 2010 it served more than 4,000 active clients, indicating relatively large loans amounts and sizes, amounting to an average of about YR 125,000 per outstanding loan.

During this phase, Al-Amal Microfinance Bank started its operations in August 2007 by making some initial loans to test the market and its internal systems. It started lending operations in October of 2008. The establishment of Al-Amal bank represented a new turn of events in the microfinance industry in Yemen, as it constituted the first bank specialized in small and micro financial services. As opposed to the small and micro lending program in Al-Tadahmon International Islamic Bank, Al-Amal was a wholly dedicated bank specifically conceived and established to serve SMEs. Since it started operations, the bank has expanded into 12 branches

(at the end of 2010) operating in several cities in Yemen, and has grown to more than 23,000 active clients, with about 12,000 of them being active borrowers (at end of 2010). It is planned for the bank to reach 100,000 active borrowers by 2013 through 40 branches spread across Yemen.

The latest newcomer in the small and microfinance industry is Al-Kuraimi Exchange Company. Established in 1995 as a company for foreign exchange, Al-Kuraimi underwent a transformation in 2010 when it registered in the Central Bank of Yemen on June 2nd, 2010 as Al-Kuraimi Islamic Microfinance Bank. It is the first microfinance bank licensed under the new Microfinance Law No. 15 issued in 2009. As of now, Al-Kuraimi has opened a window facility in some of its branches in Sana'a, through which a number of savings and loan products are offered to small and micro entrepreneurs. The staff for the new operations has been hired and trained, and operations are running. It is planned for this new bank to reach 25,000 active clients within the next 5 years. SMED was instrumental in influencing Al-Kuraimi Exchange in venturing into this new business line, when it encouraged Mr. Yusef Al-Kuraimi - the bank manager - to visit Procredit Bank of Kosovo. SMED also participated in developing the Bank's strategic plan, and facilitated the provision of regional technical advisors to help the bank in the initial stages of operations.

4. Microfinance in the field

Microfinance aims at providing a variety of suitable and sustainable financial services for poor but economically active micro entrepreneurs, with the aim of raising their economical status in society. In microfinance. It is a bottom up process, that among other things it involves the participation of There are a number of ways of assisting – at both the institutional and methodological levels, as illustrated in the following sections.

4.1 Types of microfinance entities

At the institutional level, a number of variants of MF entities can be found in Yemen:

a- Programs:

These consist of small entities supervised directly by an NGO. Their legal status falls under the umbrella of the Ministry of Social Affairs, and usually, they consist of no more than 2 or 3 branches. Abyan MF program is an example of such institutional setting.

b- Foundations:

They are larger entities that typically consist of several branches across several cities and towns in Yemen, and offer similar financial services as do the individual programs. Although under the legal umbrella of the Ministry of Labor and Social Affairs, foundations as opposed to individual programs, are supervised by a Board of Members or Trustees. Examples are the National Microfinance Foundation, and Aden MF Foundation.

c- SME Banks:

They are specialized banks that offer a wide variety of small and microfinance services compared to the limited services offered by programs and foundations. Among the financial services offered by SME banks are: voluntary savings, money transfers, and currency exchange. Such banks are supervised by the Central Bank of Yemen within a special law (No. 22) issued in 2002 in the case of Al-Amal MF Bank, and within the Microfinance Banks Law (No. 15) issued in 2009 for all other microfinance banks, such as Al-Kuraimi Islamic MF Bank.

d- Companies:

They offer financial services similar to those offered by programs and foundations, similar in size to programs, but are not allowed to provide some of those distinctive services offered by banks such as voluntary savings. Such companies are licensed under the Ministry of Industry and Trade. An example is Al-Awael Microfinance Company, based in Taiz, which was originally established in May 2000 as part of the microfinance called Microstart - funded by the United Nations Capital Development Fund (UNCDF).

4.2 Islamic finance

Yemeni society is very conservative, and consequently, Islamic finance has found its way to become the predominant financial philosophy in the small and micro financial sector in the country. However, experience also has proven that the provision of both types of financial services (Islamic and non-Islamic) each including savings and loans, is needed to serve the largest possible number of clients.

Lending in Islamic finance comprises three methodologies: Murabahah, Musharakah, and Mudarabah. In Murabahah, the lender purchases the needs of the borrower and resells them after adding a margin. In essence, the loan is in kind as no direct cash transactions must occur between the borrower and the lender when taking the loan, and the interest is actually the added margin. In Musharakah, the lender and borrower enter into some sort of partnership; profits (and losses) are shared later on according to a pre-determined ratio and arrangement. Mudarabah is a particular type of partnership, where one partner gives money to another for investing it in a commercial enterprise. The investment comes from the first partner who provides the capital, while the management and work is an exclusive responsibility of the other partner. Profits are distributed between them according to a pre-agreed proportion.

Savings, in Islamic finance, is dealt with in a partnership fashion. Should the MFI lose money on savings, the depositor loses accordingly and in proportion to the amount saved. And vice-versa, the same principle applies in the case of profits. All MFIs offer Islamic finance, whether as the main service offered or as an option, and Murabahah remains the prevalent way of lending. Currently, nearly all SME financial institutions offer the option of Islamic finance as follows:

a- Islamic finance only (6 MFIs):

Nama MFI, Social Foundation for Sustainable Development (SFSD), Al-Kuraimi Bank, Tadamon Program, Sana'a MF Program, Wadi Hadhramout MF Program, and Al-Amal Bank. In the case of Al-Amal Bank, the organization is open to add non-Islamic services to its operations should the need arise.

b- Both Islamic and regular finance (5 MFIs):

Al-Awael MF Company, Aden MFI, National MF Foundation, and Abyan MF Program. These programs started their operations with commercial lending, but as time went on, market studies revealed the existence of demand for Islamic loans. As such, these MFIs have opened a window for such services.

c- Regular finance only (1 MFI):

Small Enterprises Development Fund (SEDF).

4.3 General types of SME financial products in Yemen

A variety of financial products are offered by MFIs in Yemen, depending on whether they focus on male or female clients, urban or rural areas, small or micro businesses, and middle income or poor clients.

4.3.1 Individual lending

The borrower obtains a loan for his or her purpose and is solely responsible for repayment (or the guarantor on behalf of the borrower). This type of lending works best for in the case of small loans for relatively well-off borrowers who own a more stable business. SEDF works exclusively on this type of lending methodology, and most MFIs offer it as part of their range of financial products. For this type of loan product, the size of the loan usually starts at 50,000 YR and can reach 4 million YR, as in the case of SEDF.

4.3.2 Group lending

Borrowers (especially women) are organized into groups, and members borrow from the MFI on an individual basis. The group may guarantee the loan, or each member guarantees for himself, depending on the MFI's policy, while the rest of the group may exert peer pressure to compel the borrowers to repay the loan. This lending methodology was introduced in a systematic manner in 2002 when ASA Microfinance Foundation of Bangladesh began working on the establishment of NMF. Since then, and with some variations, it has been successfully replicated in nearly all other MFIs in Yemen. Currently, it is the most common type of lending found in Yemen, and loans are usually less than 50,000 YR.

4.3.3 Village banking

It is a particular type of group lending methodology, in which a relatively large group takes the loan from the MFI, and manages it internally among its members. The loan can be augmented with savings raised and managed internally by the group members. In its early phases of operations, Abyan MF used this type of lending methodology. As with group lending, village banking works best with poor female clients.

4.3.4 Savings

It is mostly required when working with group lending and village banking methodologies. Setting aside a fixed amount on a regular basis (weekly, once every two weeks, or monthly) is required to obtain a loan. The loan is then given only after a certain amount (or proportion) has been set aside and paid to the MFI. As opposed to forced savings, voluntary savings are available only through microfinance banks, such as Al-Amal and Al-Kuraimi banks, as they are the only entities allowed by CBY to conduct such operations. These MF banks also offer more diversified savings products, such as current accounts and time deposits. On the other hand, MFIs offer only short to medium-term limited savings services tied to obtaining a loan, and usually, proportional to the loan amount.

4.3.5 Youth loan product

It is a new initiative in Yemen, in which loans are granted for both ongoing and start-up businesses to men and women aged between 18 and 30. In addition, these loans are relatively bigger in size than micro loans. Currently, Al-Amal Bank has started providing such loans using a fund from Silatech, a Qatari philanthropic organization, with Aden MFI are expected to venture in this new product line soon with the help of a fund from USAID.

4.3.6 Micro insurance

This is another product offered on limited basis by several microfinance providers (MFIs and banks). Usually, it is a 1% or 2% fee on the loan, and it covers the full risk associated with the death of the borrower. Some MFIs also cover losses incurred by the business because of natural disasters.

4.3.7 Money transfers and foreign currency exchange

In addition to commercial banks, such services are provided exclusively by microfinance banks, such as Al-Kuraimi Islamic MF Bank and Al-Amal MF Bank.

4.3.8 Microleasing

This new financial product was introduced in late 2010 in Yemen through Aden MFI. The borrower is given a loan in kind, repays it in regular installments, and with the last installment paid the item becomes fully owned by the borrower. It is used for purchasing fixed assets, such as workshop equipment, or means of transportation, such as a motorbike working as a taxi.

5. Small Enterprises Development

Direct attempts by SFD at downscaling through commercial banks, as mentioned, have been unsuccessful because its status barred it from engaging with the private and public sectors in investments-for-profit ventures. However, this has not prevented the private and public sectors from taking their own initiatives. In fact, there are a number of small enterprise downscaling initiatives undertaken by the commercial banking sectors, both private and public aimed at reaching out to small entrepreneurs. Al-Tadhamon Islamic Bank is an example of private banking downscaling. Not only it reaches out to small entrepreneurs, but also to micro entrepreneurs.

SEDF (Small Enterprises Development Fund) is the main institution in Yemen working in lending to small businesses (those employing between 5 and 50 employees). Established in 2002 by a presidential decree, SEDF is the restructured and reformed successor of the Small Enterprises Development Unit that was established by the Government in 1990.

SFD's first effective involvement with the small enterprise sector (SE) began in July 2003 with SEDF, when a loan agreement of 70 million YR was signed to support its lending operations. A total of eight grant and six loan agreements have been signed between SFD and SEDF throughout their years of engagement. By the end of 2010, grants for technical assistance and capacity building have totaled more than 550 million YR, while loans to finance on-lending operations have amounted to more than 775 million YR.

When assessing SFD's assistance, results have shown that it has had a significant impact on SEDF's expansion. With the financial help of SFD, SEDF contracted in 2004 Bank Akademie (a German consultancy firm specialized in SME development), and began an intensive restructuring process that lasted for two years and covered its operational structure and financial operations. Results proved tangible, as the number of active borrowers rose from 349 at the end of 2003 to 2,091 at the end of 2009, while the outstanding loan portfolio increased from 279 million YR at the end of 2003 to nearly 1,370 million YR at the end of 2010. The increase in available resources in recent years has also allowed SEDF to open two more branches, thus increasing the number of operating branches from five to seven.

6. The Business Development Services (BDS) Sector

BDS is recognized as an integral and complementary part in the development of SMEs, consisting of the provision of non-financial services for small and micro entrepreneurs, such as marketing support, quality improvement, packaging, transportation of goods, management training, etc. Experience in many countries had proven that the provision of financial services alone to SMEs was not enough to foster their growth, and that supporting services were also essential.

6.1 Piloting with BDS

In October and November 2003, the SMED unit carried out a field study in various cities of Yemen to assess the need for business development services (BDS) by small and micro enterprises. The study included the assessment of a sample of small and micro enterprises, trade unions, NGOs, as well as technical and vocational training institutes. In addition, meetings were also held with a number of donors represented in Yemen to assess potential interventions in the BDS sector.

Following the initial study phase, the SMED unit experimented with a number of pilot projects aimed at testing the market and to gain valuable experience. Pilot projects were carried out in cooperation with local partners in various cities, such as trade unions, chambers of commerce, NGOs, technical and vocational institutes. Such projects included activities in developing local products, such as incense and henna, or developing skills, such as hairdressing and making pickles.

The implementation of BDS projects on a small scale provided valuable lessons for the SMED unit to draw upon and develop innovative strategies for targeting SMEs, and responding to their needs. In particular, such projects gave further insights on the economic activities carried out by women and the degree of their involvement in the local economies, their difficulties, and ways to help them develop their activities and increase their income. A key gain made in piloting with BDS was the identification of suitable implementing partners with whom long-term plans could be made in implementing larger projects in the future.

6.2 Establishment of SMEPS

As a result of the BDS assessment study carried out towards the end of 2003, and following the recommendations set in the National Small and Microfinance Strategy approved by the council of Ministers on January 17, 2005, the Small and Micro Enterprises Promotion Services agency (SMEPS) was officially launched in the summer of 2006, and started operations in the same year. It was conceived from the beginning to act as the implementing arm of the SMED unit with regard to the provision of BDS for SMEs.

During its establishment phase, SFD took charge of all SMEPS start-up requirements, such as fixed assets, consultancies, training, and working systems to enable it to start operations. With time, SMEPS was able to build a network of donors and partners, in addition to SFD, though the latter remains its largest financier. Partner donors and organizations have included: the International Finance Corporation (IFC), the German International Aid Agency GIZ, US-AID, and others.

6.3 SMEPS achievements

Since its establishment, SMEPS has made a number of long-lasting achievements, including business training, market studies, training, and marketing Yemeni products abroad. The following are the most prominent of these:

6.3.1 Business Edge program (BE)

SMEPS has been managing the Royal Netherlands Embassy (RNE) sponsored IFC's Business Edge training program since its introduction in Yemen in 2004. The aim of the program is to provide SME owners with high quality training on how manage their businesses effectively. So far, in excess of 7,000 trainees from a wide array of SMEs have benefited from the program, and more importantly, they have seen greater efficiency and improved marketing strategies in their businesses.

6.3.2 Handicraft Export Promotion Program (HEPP)

The program aims at targeting Yemen's poorest communities by working through producer associations to assist poor entrepreneurs in developing traditional Yemeni handicrafts of the highest quality. Through a mix of interventions, SMEPS has also been working on linking these associations to higher value and higher volume markets. Trial quantities of Yemeni handicrafts have been exported to the US and Europe. Such handicrafts include leather goods, pottery, and traditional Yemeni straw-made goods.

6.3.3 Value chain development

In early 2008, SMEPS conducted a Value Chain Analysis study of the coffee sector in Yemen to locate the weak points along the value chain, from cultivation up to export markets of Yemeni coffee. Farmers, traders, and businessmen, foreign coffee experts and importers were included in the study. Recently, trial quantities of Yemeni coffee have been exported to foreign countries, and in December 2010, the 2nd International Conference on Natural Coffee was held in Sana'a to further highlight and promote Yemeni coffee.

Similarly, value chain studies on Yemeni incense and marine products have been conducted, with the help of the German International Aid Agency - GIZ.

6.3.4 Consultancy

Consultants and providers of business development services, such as technical skills, are dealt with by SMEPS as key strategic partners in the business and technical development of SMEs. In this regard, SMEPS has built a database of Yemeni consultants based in the cities of Sana'a, Aden, Taiz and Mukalla. The database has been uploaded into a strongly promoted directory based website. Promoting the database may encourage SMEs (with partial financing through SMEP programs) to avail themselves of professional consultancy services to improve their businesses. The website will also produce regularly business reports and business consultancy papers.

6.3.5 KAB Project

In cooperation with the International Labour Organisation (ILO), and the Ministry of Technical Education and Vocational Training, SMEPS started the implementation of the Know About Business – KAB entrepreneurship program. Developed by the International Labor Organization ILO, the program was launched in the summer of 2008, and started its first academic year from September 2008.

6.3.6 Upgrading training courses

SMEPS contracts consultants, training institutions, and skilled people to conduct short technical upgrading courses aimed at improving skills in SMEs, diversification, and growth. Training programs have included, for instance, AC and refrigeration (including maintaining cold storage warehouses), carpentry, and hairdressing. Women actively participated in this program, especially in activities such as manicure and hairdressing.

6.3.7 New business lines

This intervention seeks to build on the Yemeni entrepreneurs' creativity so as to increase their diversity by facilitating the introduction of new business lines. SMEPS has assisted in the development of various new business lines such as incense sticks primarily made of Yemeni fresh incense (incense, Dragon Blood, and Myrrh), smoked fish, plastic water channeling pipes, packed raisins, and grape leaves, to name a few.

6.3.8 Technical Advisory Stations (TAS)

This is a project aimed at setting up a network of centers throughout the country connected together and managed by trained researchers and qualified specialists, who will provide advice and information to the SMEs community in various sectors. The information includes raw material sources, new designs for products, access to information on markets, assistance in international correspondence, and so on. The first of its kind was inaugurated in February 2011 in the Governorate of Al-Dhale' offering a variety of skill training courses and consultancies, especially in agriculture.

6.3.9 Exhibitions – Establishing models

Participation in international exhibitions can give SMEs the opportunity to enter new markets. In this regard, due to the lack of linkages between SMEs and service providers (events managers), SMEPS has introduced this initiative to promote the benefits of participating in trade fairs and building linkages in order to build a sustainable market between the two. In partnership with the Chambers of Commerce and other BMOs, SMEPS has been active in building awareness on regional exhibitions by sector, and provide information on how to participate.

6.3.10 Exposure visits

Poor diversification of products and services provided by the SME sector is a major factor affecting their growth. To partially address this problem SMEPS facilitates in partnership with BMOs exposure visits as ‘eye-openers’ for local SMEs. The program aims at building business linkages, and introducing new production techniques, technologies and marketing methods through practical access to real time information.

6.4 SMEPS future plans and outlook

SMEPS is in the process of preparing for the 2011–2015 vision plan, which aims at consolidating on the strengths and successes made in its first 5 years of operations. The future, therefore, will see more market development initiatives across value chain lines in new sectors, and an increased push for entrepreneurship education in partnership with universities, as well as technical and vocational training institutes. Moreover, SMEPS will continue to support the introduction of international training curricula to support the upgrading of the training sector.

In addition, SMEPS is keen to pursue rural based interventions more actively, cooperate with the SFD’s Agricultural Rural Development unit on rural commercial alliances, and assist rural producer groups in developing their own marketing skills.

SMEPS will also introduce a series of BDS products specifically targeted at women for both livelihoods and business growth. In the SMEPS livelihood product portfolio key partners will include NGOs, MFIs, and private sector training centers who will work together to deliver better BDS to MFI clients. As for gender based economic growth products, SMEPS will work with women units of various BMOs to support business women in networking.

7. New strategic and long-term partnerships

The SME financing industry in Yemen is showing new signs of vitality and potential growth, as demonstrated by a variety of new types of outreach methodologies and types of partner organizations. While in the past partners were mostly NGOs and non-profit organizations, SME finance is now witnessing the entrance of new types of profit-oriented partners eager to exploit the business opportunities it can offer.

Realizing that the success of the SME financing industry in Yemen will depend in part on the enlistment of new added-value entities (such as microfinance banks and other innovative providers of financial services) having high potentials for large-scale growth and expansion, SMED has established partnerships and cooperation arrangements with a number of key local players: the Social Welfare Fund (SWF) in 2007, and Al-Kuraimi MF Islamic Bank the Post and Postal Savings Corporation (PPSC) in 2010. These large organizations, in turn, have shown great interest in venturing into SME financing as a new opportunity to diversify and expand their businesses.

7.1 Partnering with the Social Welfare Fund (SWF)

With a population numbering over 22 millions², 40% of which living under the poverty line, SWF constitutes the last line of defence for the ultra poor in Yemen, as its social assistance program typically provides a period of relief through its cash transfer program for the disadvantaged segment of population. SWF focus is on immediate needs rather than graduation from poverty, and currently, nearly 1,050,000 people directly benefit from its funds – i.e. nearly 5% of Yemen’s population.

In 2005, SFD opened a dialogue with SWF to explore the possibility of establishing a pilot project aimed at graduating some of its very poor aid recipients and upgrade them from their current status of dire need to that of self-reliant and eligible microfinance clients.

SMED had never been actively engaged with the ultra poor in its strategy, as experience and common wisdom hold that they are too poor to manage income generating activities successfully. However, SMED was encouraged by facts provided by SWF management indicating that 70% of its recipients were eligible to carry out some sort of an economic activity, provided that they were properly trained and guided for some time in managing their activity. SMED realized that a great opportunity was presenting itself, as it would allow massive-scale outreach and a sharp increase of the number of micro borrowers.

SMED accepted the challenge and responded to SWF’s request for assistance, and a cooperation agreement was signed in July 2007 stipulating the establishment of a pilot program to

² According to Central Statistics Office (CSO) 2004 survey.

graduate the poor from poverty through training and awareness programs, a saving scheme, and by funding income generating activities through small grants. Technical assistance has been provided by the Consultative Group to Assist the Poor (CGAP) and implemented by BRAC of Bangladesh. In January 2009, a project manager was appointed, and the staffing, establishment, and staff training process began, and the project was called “The Ultrapoor Graduation Program”

Following the establishment phase, a quantitative and qualitative research baseline survey was carried out in the project areas to study the target group. As a result, a strategy and action plan was formulated for the implementation phase.

The project consists of a Government cash transfer of 4,000 YER (US\$ 17) per month, and funding of small income generating activities, such as livestock rearing, small trade, honey production, food production, and handicrafts. In addition, a handholding program consisting of social and economic services such as savings, health awareness, and enterprise management training, is included in the project.

As of the end of 2011, the project managed to reach 500 poor families spread out in the Governorates of Aden, Lahj and Taiz, who receive a monthly subsidy provided by the Social Welfare Fund. During the same year the project was funded with 42 million Riyals (more than USD 190,000) to cover the purchase of the required assets and fund the various activities in the project. Training of the beneficiaries and the delivery of assets to them to start managing their economic activities were completed, while policies, procedures, and manuals for the project were developed, in addition to organizing a number of training courses for the project staff.

Following the pilot program, a final survey and study will be carried out on the baseline sample of beneficiaries to evaluate the project’s economic and social impact on them, and to set recommendations for further continuation and expansion of the project. Furthermore, the project is the first of its kind in the Middle East, and it could serve as an example for others to learn from.

7.2 Introducing Mobile Banking through the Post and Postal Savings Corporation

Following Yemen’s reunification in 1990, PPSC was established in 1991 through a new law issued by the Parliament of Yemen that expanded the scope of the postal system in Yemen, giving PPSC ample authority to provide a variety of financial services. Currently, PPSC operates more than 320 electronically linked offices throughout the country, and it owns the largest network of outlets compared to any other entity throughout Yemen. As of now, PPSC offers 27 services through its offices, including savings, payment of utility bills, money transfers, in addition to operating ATMs and providing payment services through the internet.

In its quest to improve outreach for small and microfinance clients, SFD has always been keen in acquiring Yemen Post as a strategic partner, realizing that its vast infrastructure could offer distinctive advantages to the SME financing industry. In doing so, SFD has encouraged MFIs to enter into agreements with PPSC to allow their clients to make payments and withdrawals through postal outlets. In 2009, several agreements were signed between PPSC and MFIs: with Al-Amal Bank, with the National Microfinance Foundation (NMF), and with Hadhramout MF Program. With these three agreements roughly 60% of the clients of all SFD-funded MFIs are now able to take advantage of the services provided by PPSC and can make their payments regardless of their whereabouts.

In March 2010, a team of experts was sent by the Consultative Group to Assist the Poor (CGAP) to conduct a feasibility study aimed at introducing mobile and branchless banking in Yemen. The team recommended PPSC as the most suitable recipient for financial and technical aid for this venture, and as a result, a technical assistance (TA) agreement was signed in February 2011, in which CGAP and SFD will jointly provide technical and financial assistance to PPSC. The agreement will help PPSC introduce mobile banking as a new service that will allow users to make quick financial transactions using a cellular phone or through authorized agents. Furthermore, it is expected that for small and microfinance clients to take advantage of this new service and make quick loan repayments and other financial transactions, amounting to a revolution in the SME financial industry.

The project is of strategic nature, as it is expected for this new service to play a major role in overcoming the difficulties caused by the geography of Yemen, which is characterized by difficult terrain, poor communication means, and a significant dispersion of population. These factors have impeded the easy movement of liquidity and the provision of the various financial services needed by all segments of society in most regions of the country.

7.3 Partnering with the private banking sector

Commercial banks (both private and state-owned) are increasingly becoming active in the small and microfinance industry in Yemen. Direct examples of their involvement with the SME sector include: Al-Amal Microfinance Bank, the Al-Kuraimi Islamic Microfinance Bank, Al-Tadhamon Bank Small and Microfinance Program, the Cooperative Agricultural and Credit Bank (CAC), and the Yemen Bank for Reconstruct and Development.

Some banks continue to play an indirect role in the SME industry by providing loans to a number of MFIs. Saba Islamic Bank and Shamil Bank of Yemen and Bahrain can be considered as such examples. Shamil bank provides loans to Nama Microfinance Program, while Al-Awael Microfinance Company has been obtaining a credit line from Yemen Commercial Bank since 2000. These MFIs, in turn, have used such bank loans for lending to small and micro entrepreneurs, and thus, increasing their own loan portfolio and business volume.

SMED efforts to promote the financing of SMEs through state owned banks led the Cooperative

and Agricultural Credit Bank (CAC) to establish in early 2010 a microfinance unit within its operations. Two members of its staff were trained at Aden MF Institution in October 2010 on the basic techniques of micro loan appraisal, lending, reporting and interpretation of financial results and indicators. As the MF unit in the bank is still in the formation process, it is expected that effective work will start sometime in 2011.

These developments that have occurred in the private banking sector are either the result of direct SMED involvement and lobbying, or the indirect result of efforts made by SMED in raising awareness among the development and business community. SMED's role-model playing and active engagement, in the end, have highlighted the potentials SME financing can offer to the business and banking community, and stressed constant and collective need to encourage and support this vital sector of the national economy.

8. Challenges faced by the SME sector in Yemen

As any new industry in the market, the SME sector faces many challenges. Such challenges have to do with internal factors such as management in MFIs, as well as external factors linked to market forces, society, government, etc.

8.1 Challenges faced by the SME financial industry

1. Negative and unconstructive perceptions towards lending to the poor:

The general perception by many NGOs, large segments of micro entrepreneurs, Government officials, and the public at large is that microfinance (as opposed to small finance, which is targeted at relatively richer entrepreneurs) should be a charity, or at least, it should bear a very low interest or no interest at all. Pressuring a delinquent borrower to repay the loan may become problematic, in some cases, as people or local authorities may tend to side against the financial institution in question, claiming that because the borrower is a poor person, he or she is being unjustly persecuted and should be exempted from repaying the loan or part of it.

2. Weak institutional capacities in some partner agencies.

Since SME lending does not constitute the core business of NGOs, the result is a lack of focus on delivering financial services to SMEs, compounded by weak supervision of their financial operations. The weakness of partner NGOs has demonstrated to be a key factor in the closure of some MFIs, especially during phases 1 and 2.

3. Management deficiencies in SME institutions:

Management deficiencies, such as inconsistent planning or proper strategizing, affect the financial performance of SME institutions. The experiences accumulated in SME institutions, so far, are still insufficient, and need further development, particularly as the sector has witnessed rapid growth during the past two years. This factor is further compounded by high employee turnovers that some SME institutions experience, thus draining them of valuable practitioners.

4. Lack of qualified staff:

Lack of or difficulty in finding qualified personnel to work in SME institutions has been a significant hindrance for the development of SME finance, particularly in rural areas. University graduates often tend to seek government jobs in urban areas and the relative comfort they can provide. This is particularly true for personnel with the highest qualifications, such as those who are educated abroad.

5. Insufficient infrastructures and services:

The problem is particularly severe in rural areas, as the near total lack of suitable rural infrastructures and services (such as electricity and telecommunications), and their poor state of upkeep, create logistical problems and constitute another factor in making rural finance

unattractive for existing SME institutions and for organizations wanting to establish new ones. The problem is particularly acute in the mountainous areas of Yemen.

6. Low population density:

Low population density in rural areas of the country is another factor affecting the large-scale expansion of rural finance. With almost 130,000 helmets scattered throughout Yemen, such population dispersion constitutes a hindrance to development, in general, and SME finance in particular. Distances between populated areas, and their relative low density, increase the cost of servicing rural SMEs, making a hypothetical large-scale rural finance program difficult to become financially sustainable.

7. Insufficient supervision and auditing:

SME financial institutions are not sufficiently audited and supervised by their NGO organizations. Auditing is still viewed as an expense more than an investment, especially with regard to field auditing, which can teach lessons in customer satisfaction, competition, etc. As a result, performance of some SME financial institutions (particularly small MFIs) can be severely affected, and an “auditing vacuum” is created (especially with clients in the field), which SFD has to constantly fill to ensure proper management.

8. General lack of finance culture among Yemenis:

Particularly among the poor, most Yemeni small and micro entrepreneurs borrow from informal sources of finance, such as relatives, friends, neighbors, and wholesalers. This further reduces the pool of potential clients for SME institutions to service. Furthermore, Yemenis tend to keep their savings mostly in assets, such as land, houses, gold, or animals, leading to fewer sources of cash for SME financial institutions to draw from, and consequently, fewer financial transactions go through the formal financial sector. Not surprisingly, Yemen ranks among the lowest countries in the world in terms of involvement of the population with banks and the financial sector.

9. Few entrepreneur women:

Insufficient entrepreneurial skills is a problem affecting Yemeni women in particular, and it frustrates the efforts made by SME institution in targeting larger numbers of female borrowers. Having fewer entrepreneur women means for SME institutions also a smaller market for their financial products, especially small enterprise loans.

10. Religious attitudes:

In Islamic Shari’a, charging interest against a loan amounts to usury. This has affected the operations of many SME institutions, especially in the northern and central provinces of Yemen, where society is more conservative. Furthermore, even Islamic financial practices, such as Murabaha, are held in contempt by some ultra-conservative communities, who still look at such type of lending with suspicion.

11. Training and professional formation:

Insufficient training and professional formation within SME institutions has limited their development. Systematic internal training programs can be afforded by the larger institutions (such as MF banks), but not by small MF programs, which lack the necessary human and financial resources for such undertakings.

12. Inflation:

The high level of inflation in the country has led to high interest rates among SME institutions, particularly those working in microfinance. For the past 15 years, the official level of inflation has never gone below 12% annually, and recently it has even increased to no less than 18% annually. As such, when adding all administrative expenses, the interest rate becomes relatively quite high by local and international standards, and some potential borrowers may become reluctant in applying for a loan.

13. Exchange rate instability:

The instability of the exchange rate of the Yemeni Riyal greatly affects the ability of SME institutions to borrow directly from foreign donors, access international financial markets for funds, or bring in direct foreign investments. Consequently, most SME institutions are unable to diversify their sources of funding, and are still highly dependent on SFD and the donors that it for brings due to the fact that such funds are disbursed in Yemeni Riyals.

14. Market and economic data:

Lack of detailed and reliable market and economic data, data on SMEs and the banking sector, and surveys, create difficulties for MFIs in their business and strategic planning. Long-term planning and allocation of resources by geographical area, activities carried out, market needs and ways of targeting become difficult and subjective.

8.2 Challenges faced by SMEs

1. Skills and Skill Acquisition:

Yemeni SMEs rely almost exclusively on personal sources – their relatives, and/or work in other (often also small) enterprises for their technical and business skills. The formal technical/vocational training system barely touches them.

2. Marketing limitations of SMEs:

Marketing is often limited to locating premises on a busy road, in markets, or where many other similar SMEs operate. Small and micro entrepreneurs are generally passive marketers waiting for business to come to them instead of actively promoting their products or services. The SME Baseline Survey carried out in 2000 found that 90% of SMEs sell their output mainly to final consumers which is a sign of underdeveloped marketing systems, and very few enterprise sell to export markets.

3. Associations:

The principle and practice of association among SMEs is extremely weak in Yemen. Very few SMEs belong to Chambers of Commerce or sectoral business associations. As such, the organizational ability of SMEs to penetrate markets, obtain TA and training, and defend their interests is very weak.

4. Women owning and operating SMEs:

Only 3% of SMEs are found to be owned by women (Baseline survey 2000), versus 92% by men with 5% having mixed ownership. Women entrepreneurial activity is also even more narrowly limited than the overall SME sector, concentrating in sewing, food processing from their homes, hair salons, and wedding organizing firms. As such, due to social attitudes towards working women, a significant part of society does not contribute to economic development in a visible and direct way.

5. Youth attitudes to entrepreneurship:

As part of a preliminary study conducted prior to the launching of the SMEPS Know About Business project (KAB) a sample of 1600 students attending vocational training institutes were surveyed. The results showed that 80% had negative attitudes towards working in SMEs or establishing their own, and preferred locating a government job to working in an SME or self-employment. The result represented a real challenge in dealing with their perceptions, and of those in their situation, and called for clarifying routes to employment and self employment. Upon receiving 9 months of KAB instructions the same 1600 students developed more positive attitudes towards SMEs and self-employment.

Although such hindrances have constituted an obstacle to the expansion of the small and microfinance sector in Yemen, SMED has dealt and continues to deal with such issues so as to minimize their negative effects on the growth of the industry. The following are some of the corrective measures undertaken by SMES, either directly or indirectly through SMEPS:

- Establishment and funding of SMEPS as a specialized organization fully dedicated to the advancement of the SME sector.
- Promotion of the SME sector through the media, public events.
- Lobbying with Government bodies to favor the SME sector by creating a more suitable and growth-oriented environment.
- Introduce and fund new training programs in cooperation with donors.
- Highlight the potentials some Yemeni made products may have locally and abroad.
- Finance studies in a number of SME activities, such as value chain studies.

9. Impact of microfinance services on micro entrepreneurs

Microfinance is considered as one of the most important and effective mechanism for poverty alleviation. According to the SFD's impact evaluation reports of 2003, 2006, and 2009, its microfinance program is considered to be the only component of Yemen's social safety net that actively aims at generating income and create permanent jobs for poor people.

Three impact evaluation missions have been conducted on SFD's microfinance clients: in 2003, 2006, and 2009. Each mission proved in a consistent way the effectiveness of microfinance had in been helping the poor in increasing their source of income, as will be explained. When examining the social impact of the microfinance, it is possible to divide the impact on three main levels: personal, community, and environmental impact.

At the personal level, a large majority of surveyed households thought they were better off than before obtaining a micro loan. In particular, it helped women engage in income generating activities, increase their living standards and support their families. Reports have shown that households surveyed had acquired a more diversified microfinance loan portfolio, which including loans for trade, cattle, agriculture activities, manufacturing, purchasing of households assets, and housing repair.

Microfinance gives to the poor access to a higher and more diversified income level. Although there are no solid numbers on the economic impact of the microfinance projects, it was possible to infer from the social impact evaluation forms that microfinance had a positive impact in increasing the household income, improving housing, increasing expenditure on food, coping with economic and social shocks, and increasing the number of children who received education.

At the community level, microfinance was found to have a positive impact as it supported chances for job creations for communities, which led, in general, to a higher and more stable income for the communities as a whole, making them more resilient to external shocks and natural disasters. In the context of forming credits and saving groups to receive microfinance services, group members usually shared experiences from their enterprises and members helped each other in marketing the produce. They also supported one another in transferring the knowledge about the different loan options and other services provided by the programs. This in effect strengthened the cohesiveness of the community, and at the same time, access to financial services triggered entrepreneurship and a healthy competition among community members.

In addition to the positive economic and social impact mentioned, microfinance projects have had a special positive impact on poor women. Microfinance has helped improve women's security, autonomy, self-confidence, and status within the households. A microfinance gender study conducted in June 2008 showed that given the restrictions on women's mobility and employment outside the home, microfinance offered them an entry point to develop home-

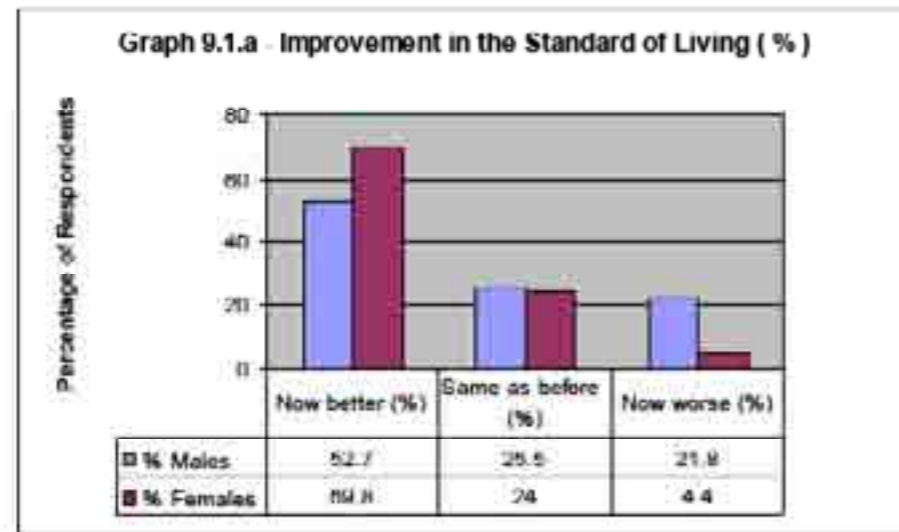
based businesses. In a conservative and traditional society like Yemen, women are subject to the permission of their husband or most direct male relative when seeking to work out of home. However, it seems that microfinance gave women a flexible opportunity to work while staying at home. Also, the opportunity to access a lump sum and to repay it gradually was particularly valued by the women interviewed.

Many women have established on-going businesses either for themselves, or for their family members, leading to increased income security. Women were emphatic about the personal benefits attained from participating in the program. The results included: greater independence, enhanced self-confidence, improved respect and decision-making in the household, improved economic situation, and the ability to have a home based job that allowed them to contribute to the well-being of the family.

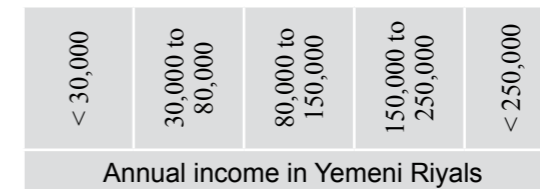
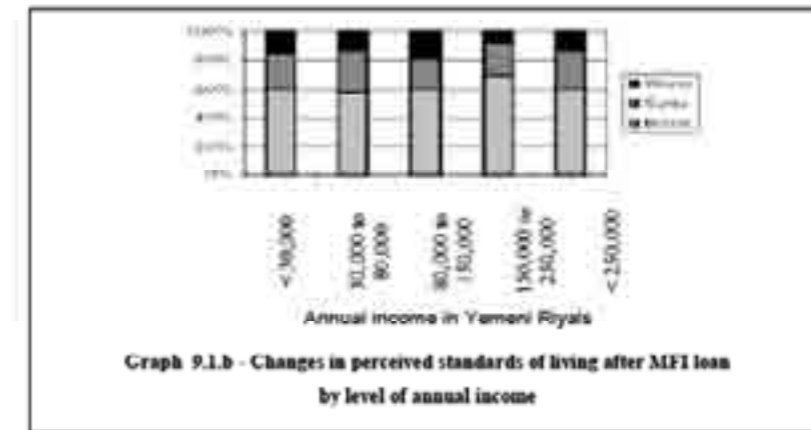
The facts mentioned were the result of three impact assessment missions conducted at intervals of three years between them (2003, 2006, 2009), and they further elaborated in the following sections.

9.1 Impact assessment of 2003

In the 2003 impact assessment mission, households were surveyed to assess whether the standards of living of beneficiaries had changed as a result of the loan, and the results shown in Graph 9.1.a were generally positive. Sixty two percent of the responding borrowers said their standards of living were now better than before. This was particularly true for women (70%) compared to men (53%).



It is interesting to notice that only a few women (5%) experienced a decrease in their standard of living after receiving the loan. Interestingly, the effect of the SFD loan on the perception of changes in standard of living does not seem to be affected by the level of income of the person who received the loan. This is shown in Graph-9.1.b.



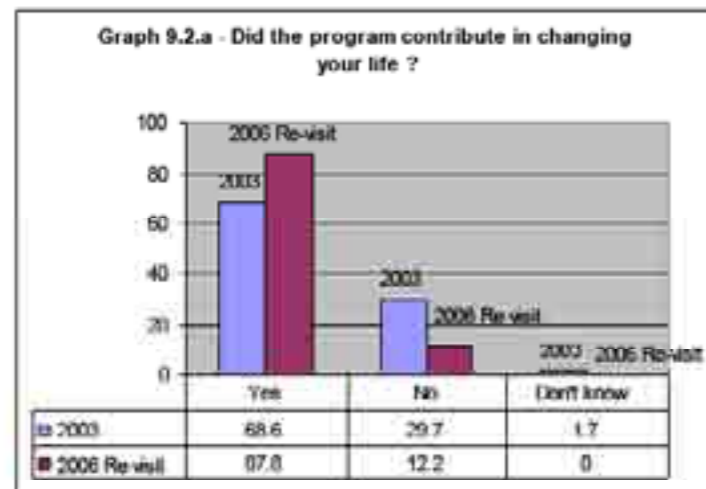
From the survey, it was recognized that very poor people, who unable to repay the loans in time or buy fodder for the animals they would raise, or people without previous skills or job, were usually unable to benefit from the program. In the case of extremely poor people, the basic needs for survival were more important than managing a micro activity requiring constant effort and dedication, while those without technical or entrepreneurial skills were unable to take full advantage of the loan and use it in a profitable way.

With regard to the community as a whole, beneficiaries also recognized that while microfinance programs did not formally develop their organizational capacity, such programs still contributed to developing team spirit and group work, and getting people to learn how to use resources.

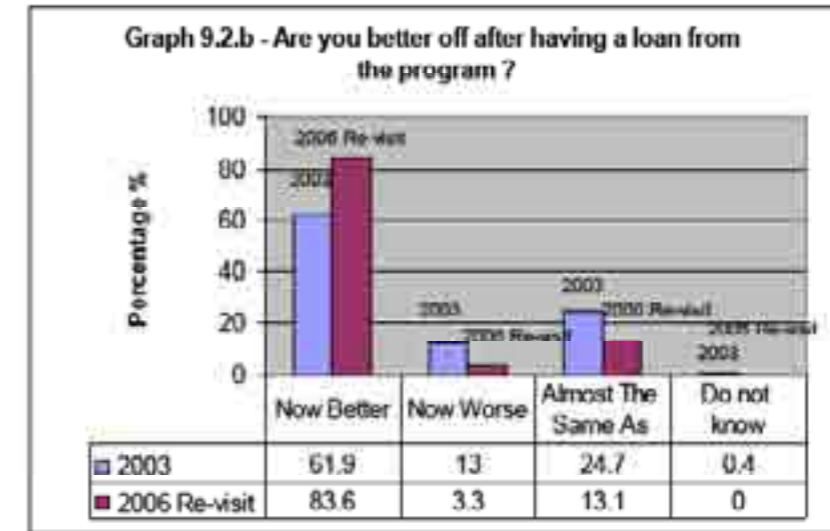
9.2 Impact assessment of 2006

In 2006, a sample of slightly more than 300 households was surveyed. Results showed a positive perception by borrowers vis-à-vis the financial services delivered by MFIs. Almost all households (96%) had a good experience with the MFIs serving them, compared to 82% in 2003. The results reflected an increased effectiveness by MFIs in delivering a variety of financial services that satisfied most of the needs of beneficiaries, regardless of whether the loan was intended for economic or consumption purposes. Beneficiaries not expressing a positive opinion were either not benefiting in a satisfactory way from the MFIs, or complaining about the high cost of loans, or did not use the loan properly, or were affected by external factors beyond the control of the MFI or their's (such as natural disasters or competition).

When borrowers were asked if they would be interested in obtaining a loan from the program under the same terms and conditions stated in previous loans, 75% answered positively. This percentage is higher than in the 2003 household survey, where 68% answered positively, thus reflecting more benefits and improved delivery by MFIs. For 88% of the households surveyed in 2006, the MFIs contributed positively in changing their lives, which was higher than the 69% that thought so back in 2003, as shown in Graph 9.2a.



Similarly, 84% of the households surveyed in 2006 thought that they were better off after having a loan from the MFIs, and only a minority thought that they were either worse off or the same as before. As such, these responses appeared more optimistic than those reported in the 2003 survey, as shown in Graph 9.2.b.



For those who felt they were better off, the main reasons reported was improved job chances and a better standard of living (64%), and having accomplished the intended purpose of the loan (30%). Those feeling worse off appeared to be either not benefiting from the MFIs or experiencing problems paying back the loan. The reasons were mismanagement of their activities, misuse of the loan, competition, etc.

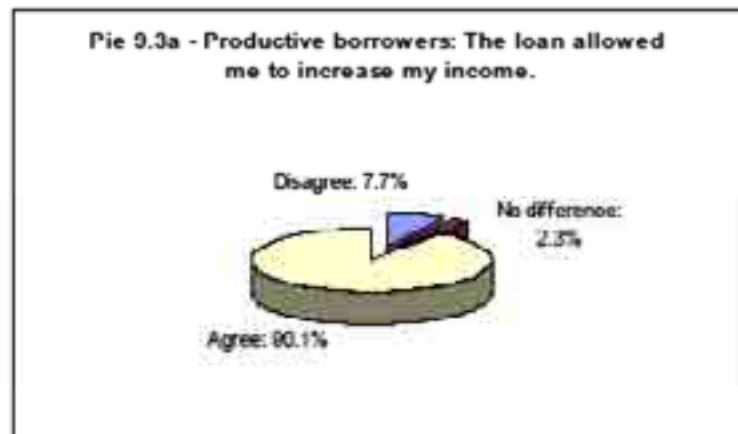
As part of the impact assessment study, a qualitative survey was also carried out with several focus groups more closely to study the issues microfinance clients were principally concerned with. A few key results emerged from these meetings:

- In addition to the benefits associated with income generating activities, some women identified other positive results, such as enhancing their business and social network and acquiring new experiences, such as savings and cash management, marketing their products, and running and expanding their economic activities.
- Even though most of the beneficiaries recognize the positive impact of women's participation in economic and income-bearing activities, there is still controversy on the matter, especially among men. On the one hand, some agreed that women should gain a higher status when having an income. On the other hand, some thought that the existence of female borrowers might reflect marital problems, such as the perceived inability of men to support their women, and the embarrassing situation that can derive. Women, on their side, generally confirmed that they were more respected and acquired a higher position in the family when running an activity and earning money, as they become an increasingly significant productive component of the family. This is particularly significant when looking at the difficult economic problems that Yemeni society faces, particularly poverty and high unemployment.

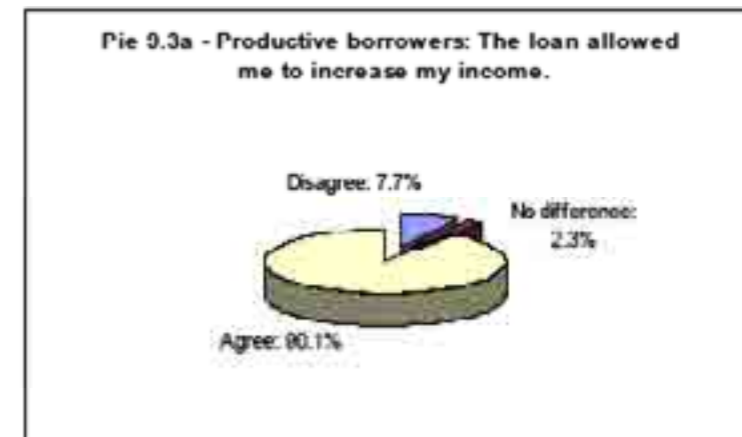
- When asked about things they would like to change or problems they faced when dealing with their MFI, issues like higher interest rates, longer repayment period and individual loans arise. Borrowers complained of issues, such as: charges imposed on them by MFIs for being a few days late in repaying an installment, short loan periods, and the absence of a grace period in the loan term. In their view, such conditions were affecting their ability to run and expand their businesses (or establishing new ones) smoothly.
- In the case of some MFIs, respondents also cited the lack of for individual loans outside the group context after a successful loan within the group. The need for individually tailored bigger loans as a necessity to further expand their business was made felt during the interviews.
- Women expressed the difficulty to obtain the required identification card, leading to the impossibility of obtaining loan.
- In many instances, beneficiaries of SFD supported MFIs did not find many alternatives at the time of getting a loan, especially in the case of women, as they are at a relative economic and social disadvantage compared to men. The only options for obtaining a loan were wholesale traders (in kind), neighbors, relatives, or banks. Traditional commercial credit provided by traders (merchandise on credit) was seen as less convenient, as repayment time is a matter of days or weeks, at best. Therefore, many borrowers found it more comfortable working with SFD supported programs, where loans were repaid in installments extending up to a year, or slightly more.

9.3 Impact assessment of 2009

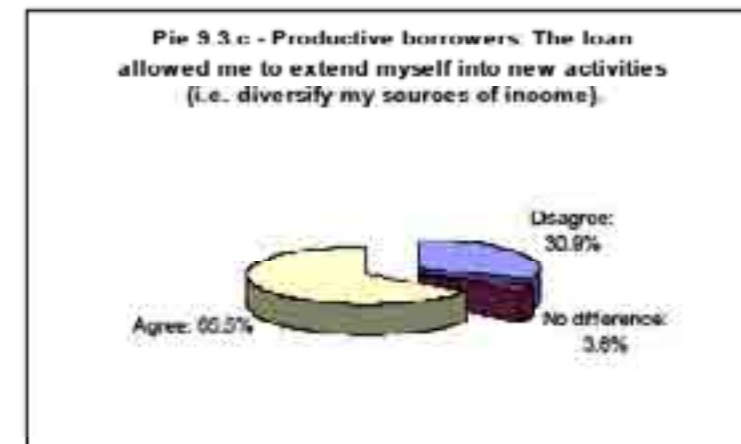
Several positive findings were derived from the analysis conducted by the assessment team. Ninety percent of beneficiaries who took loans for productive purposes believed that the loan procured through an MFI allowed them to increase their income, as shown below in Figure 9.3.a. The result indicates that microfinance has been successful in making a difference in people's life.



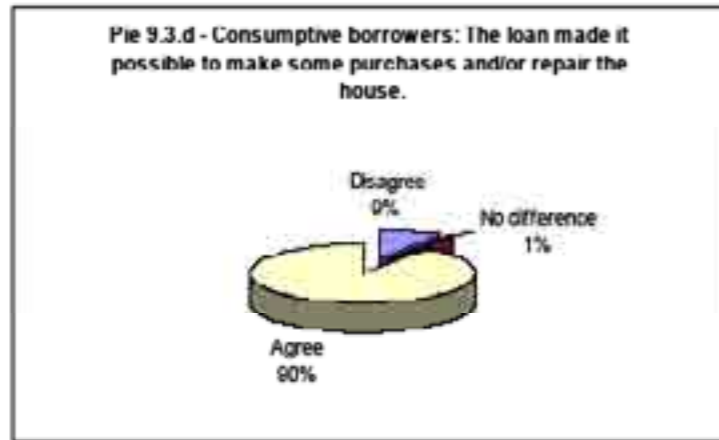
Similarly, more than 85% of the productive beneficiaries responded that the loan had allowed them to increase their economic activity. This meant increasing sales, adding more fixed assets and equipment, and employing more labor. Consequently, borrowers were able to improve the stability of their businesses and face competition. See Figure 9.3b.



Although in many cases, it was not always the priority of a micro borrower to take a loan to diversify but rather to expand his or her business, a reported 65% of the beneficiaries questioned answered that the loan had enabled them to diversify their businesses, such as adding new product lines or other supporting activities. Diversification allowed borrowers to spread out some of the risks associated with their businesses, such as seasonality of income. See Figure 9.3.c.



Finally, 90% of beneficiaries who took consumption loans responded that the loan had enabled them to make some purchases, and/or make repairs to the house, allowing them to improve the living standard of their household, irrespective of income, children's education, or loan burdens. A majority of such type of loans were used for house repair, expansion or completion, and for children's education. See Figure 9.3.d.



10. Financial analysis of SME institutions in Yemen

Financial analysis is an integral part of the monitoring process SMED has been performing ever since its inception. Applying a uniform and reliable reporting system across all financial institutions gives SMED, and the financial institutions themselves, the ability to perform proper planning and decision-making.

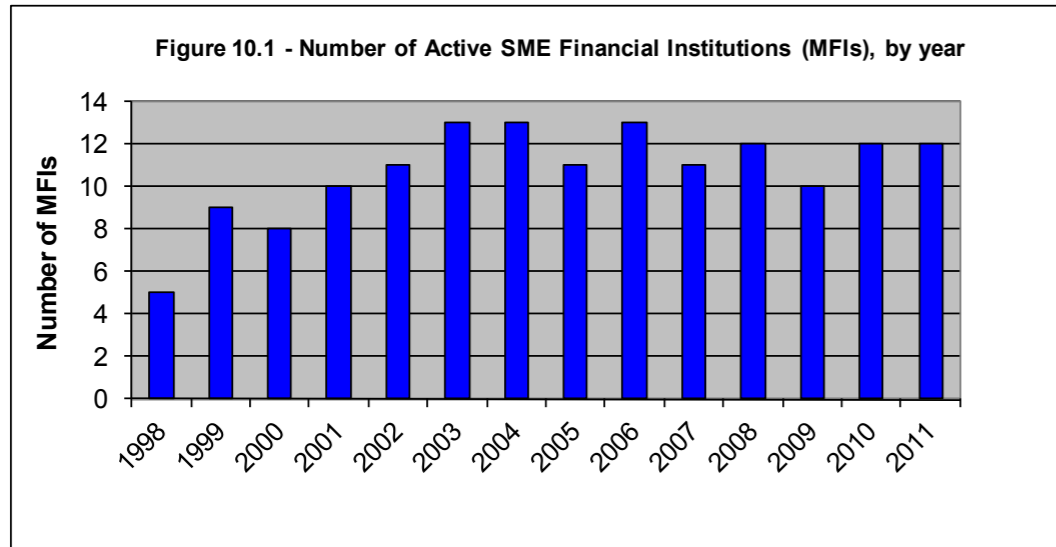
SMED has always been keen in introducing capable and innovative financial systems (such as Maeen Loan Tracking System and SEEP financial reporting standard for MFIs) to promote transparency, strengthen financial discipline in institutions, and keep pace with international standards and developments in the SME financial industry.

The process of financial analysis in SMED begins, first, by collecting electronic copies of the monthly financial reports produced by all SME financial institutions. The financial statements of such reports are entered electronically into SMED's internal computerized financial system, validated for possible errors, and then processed. Finally, several key financial indicators are produced, allowing the evaluation of the performance of individual SME financial institution and the sector as a whole.

In order to monitor the health integrity of the SME financial industry, SMED focuses on essential trends, such as growth of loan portfolio, growth of active borrowers and savers, as well as certain data, such as: portfolio at risk (PAR), percentage of female borrowers and savers, in addition to cumulative number, such as number of borrowers and loan amounts disbursed.

10.1 Active SME financial institutions

Figure 10.1 gives the reader a quick look at the number of SME financial institutions operating in Yemen over the period 1998-2010. It can be noted that, at first, the number of active SME financial institutions witnessed an almost constant growth during the period 1998-2003, as several pilot projects were quickly established (mostly by SMED) to satisfy demand, test the market, promote the SME sector, and gain practical experience. Starting from 2004, the number of existing SME financial institutions has witnessed several variations until it stabilized at 12 institutions as of 2010. Such occurrence was due to several reasons, such as mergers or foreclosures of uncompetitive MFIs. Furthermore, the lack of a microfinance law did not stimulate the private sector to establish SME financial institutions.



The initial slow growth was in part because of the following reasons:

1. The initial focus on rural areas, where conditions for rapid expansion were less than optimal, due to the dispersion of population, difficult terrain in some areas, limited SME activities, etc.
2. Limited experience accumulated by those working in the small and micro finance sector, generally speaking.
3. Dysfunctional and incomplete working systems (especially computerized ones) in SME financial institutions created risk problems when faced with large-scale expansion.
4. A generally weak credit culture among the target group.

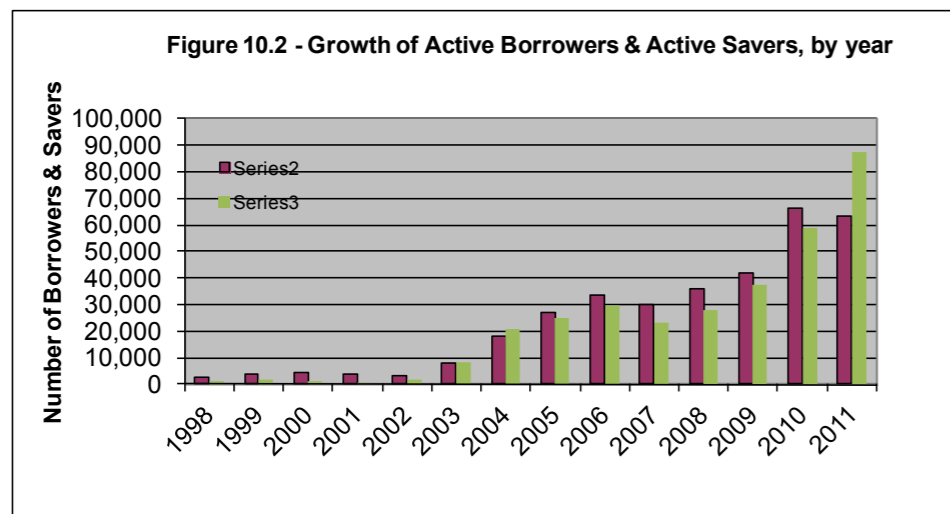
Starting from 2003, SMED became more active in cooperating with stronger and more promising institutions, and focused its attention on urban areas, where conditions were significantly more ideal for sustained growth. In addition, more experience was gained both by SMED's staff and those working in the SME financial sector, and improved operational systems were developed and tested, especially in the area of internal control and auditing.

During and after 2003, the introduction of new microfinance methodologies (such as the case of ASA Foundation) was extremely beneficial to the growth of the industry, as it contributed to the achievement of large-scale expansion, especially with regard to NMF. MFIs increasingly began to emulate NMF and apply ASA's group savings and lending methodology, allowing them to expand more rapidly than in the past, when individual lending (with no savings) was the most widely applied microfinance methodology.

Finally, a trend of stronger growth can be noticed during 2010, in particular, where all SME financial institutions witnessed growth - with Al-Amal MF Bank leading them all. Finally, growth in 2011 experienced a reversal due to a sudden political and economical crisis that affected the whole country.

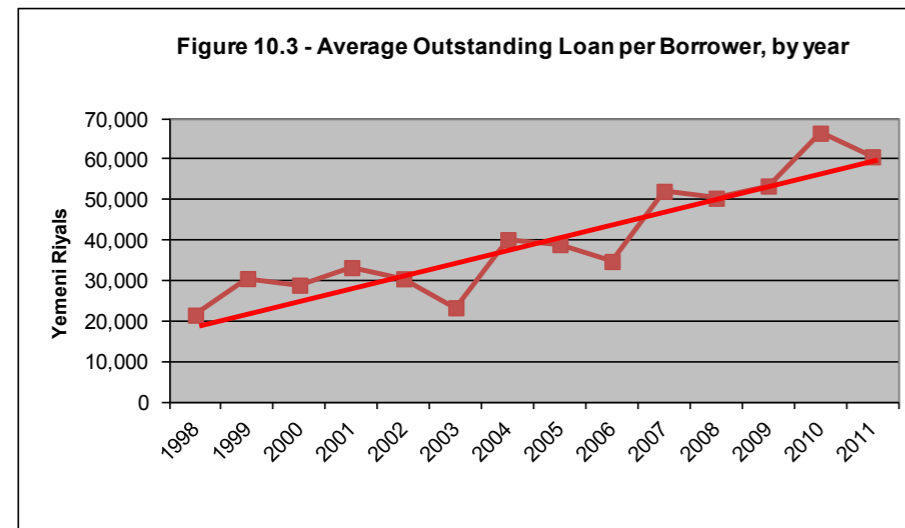
10.2 Active borrowers and savers

Figure 10.2 shows the growth of active borrowers and savers over the period 1998-2010. A clear trend in the growth of borrowers and savers (both males and females) is seen during the period 1998-2002, and then from 2003 till 2010. At first, the trend is of very slow growth, and then, starting in 2003, a trend of relatively sustained growth takes place.



10.3 Average outstanding loan size per borrower

A key indicator reflecting the situation closely monitored by SMED is the average loan amount per borrower, as shown below in Figure 10.3.



The graph shows a growing trend in the average amount of outstanding loan per borrower (in YR), and it is due to three main reasons:

1. SME financial institutions increased the average loan amount disbursed over the years to capture additional client segments, especially repetitive clients. This was meant to increase or maintain their market share, and reduce the costs associated with adding new borrowers.
2. SME financial institutions adjusted disbursements to compensate for the increasing rate of inflation, and to keep up with increasing demand for larger loans.
3. The entrance of new players, such as SEDF, that target small enterprises, contributed in pushing figures upward, as their average loan is much higher than a typical micro loan.

In 2004, 2007, and 2010 SEDF received substantial funds from SFD, leading to an increase in its outstanding loan portfolio, and thus indirectly, to an increase in the combined average outstanding loan of SME players in Yemen. The trend in 2010 was further reinforced when Al-Tadhamon Small and Microfinance Program, and to a lesser degree Al-Kuraimi Islamic MF Bank, entered SMED's financial reporting system. The trend shows, in general, that while in the past the SME industry was almost entirely focused on the microfinance side, it became in

recent time more expanded and diversified by increasingly targeting small enterprises.

When faced with internal difficulties, MFIs tended to reduce the average loan amount disbursed to lessen risks. This explains the downward trend witnessed in 2003 and 2006, when microfinance programs in Aden, in particular, faced financial difficulties and had to undergo a major restructuring process. On the other hand, as some MFIs mature and achieve greater client retention rates, it is natural that such clients will receive increasing amounts of loans, thus driving the average upwards.

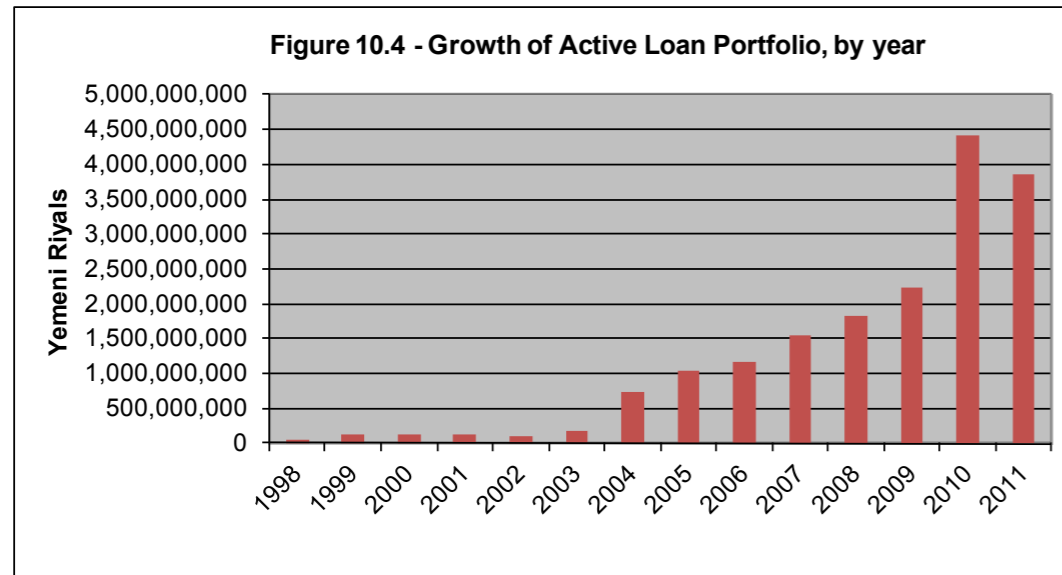
Table 10.3 shows the average outstanding loan per borrower in all existing SME financial institutions, as of December 2011. NMF and Al-Awael MF Company had the lowest figures, since the majority of their clients are among the poorest. On the other hand, SEDF and Al-Kuraimi Islamic MF banks had the highest average outstanding loan because they target exclusively small entrepreneurs.

Table 10.3 - Average Outstanding Loan per Borrower (as of December 2011)

No.	Small or MF Organization	ActiveNo. of Borrowers	Outstanding Loan Portfolio (YR)	Avg. Outstanding Loan (YR)
1	Aden MF Foundation	5,180	245,000,000	47,297
2	Al-Awa'el MF Company	4,442	122,000,000	27,465
3	National MF Foundation	12,896	350,000,000	27,140
4	Abyan MF Program	5,595	256,000,000	45,755
5	Al-Amal Microfinance Bank	12,688	534,000,000	42,087
6	Nama Microfinance Program	6,833	226,000,000	33,075
7	Sana'a MF Program – Azal	3,456	109,000,000	31,539
8	Wadi Hadhramaut MF Program	1,316	78,000,000	59,271
9	Social Institution for Sustainable Development (SFSD)	2,357	72,000,000	30,547
10	Al-Tadhamon MF Program	4,799	570,000,000	118,775
11	Al-Kuraimi Islamic Microfinance Bank	175	73,000,000	417,143
12	Small Enterprise Development Fund (SEDF)	2,770	1,218,000,000	439,711
	TOTAL	62,507	3,853,000,000	61,641

10.4 Active loan portfolio

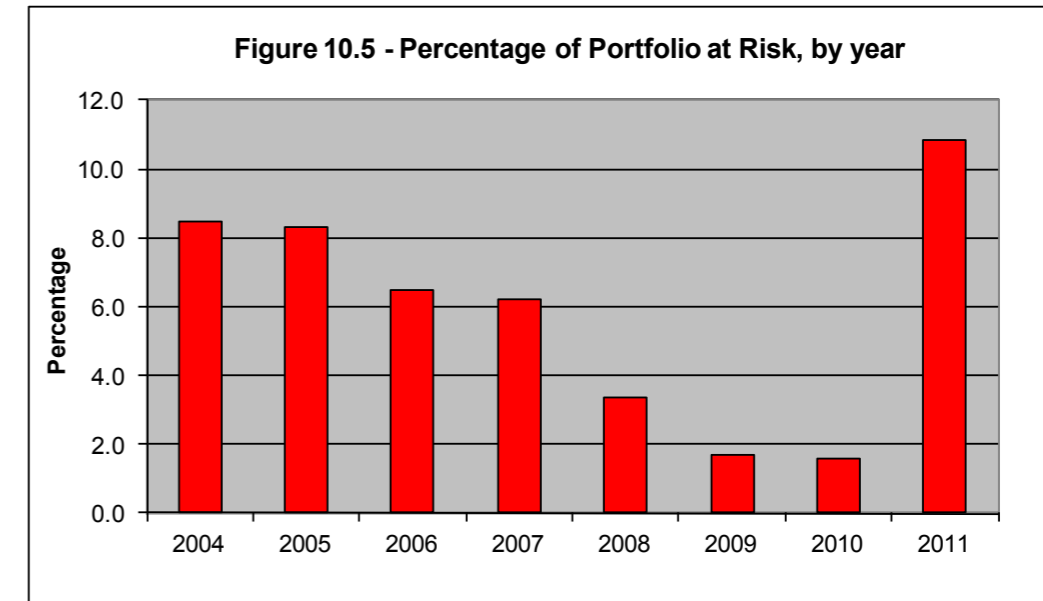
In Graph 10.4, the combined loan portfolio of most best practice SME financial institutions operating in Yemen shows, at first, a trend of slow growth from 1998 up to 2003, then afterwards a clear and strong upward trend afterwards, especially in 2010. This was in large part due to the strong growth witnessed by Al-Amal MF Bank, currently the leader in the microfinance services industry. Again, due to the crisis, the total loan portfolio of MFIs went down in 2011 considerable due to lower demand, unwillingness of MFIs to expose themselves to further risks, and security concerns.



10.5 Portfolio at risk

The most important indicator used in Yemen since 2004 to measure the quality of the loan portfolio of SME financial institutions is portfolio at risk (PAR). When an installment is overdue more than 30 days, the entire balance of the outstanding loans is considered at risk. PAR is the sum of all such loan balances as a percentage of the entire loan portfolio. Payments in advance are excluded for the calculation.

In the past (before 2004), figures for PAR were calculated by SME financial institutions in a different way using different formulas. As such, PAR has become the standard measure for portfolio quality. Although reliable figures for the period preceding 2004 are not available, it can be noted in Figure 10.5 that PAR has been under control and declining ever since. As of November 2010, ten out of twelve SME financial institutions had much less than 2% portfolio at risk, five of which had no portfolio at risk at all.



There are number of explanations for this trend:

- A tighter regime of controls on the loan portfolio applied by SME financial institutions, translated into stricter credit policies, improved client selection, more intensive auditing, etc.
- Improved planning and expansion.
- Increased training and technical assistance provided by SMED and other donors, such as KfW, GTZ, IFC, and Grameen-Jameel.
- Improved working systems, such as manuals and procedures, computerized systems, and staff hiring.
- Accumulated experiences by staff working in SME financial institutions over the years.

In 2011, however, portfolio at risk increased considerably due to the economical, political, and security crisis affecting the whole country, which led, for instance, to the near total foreclosure of Abyan MF Program.

10.6 Targeting by gender in small and microfinance

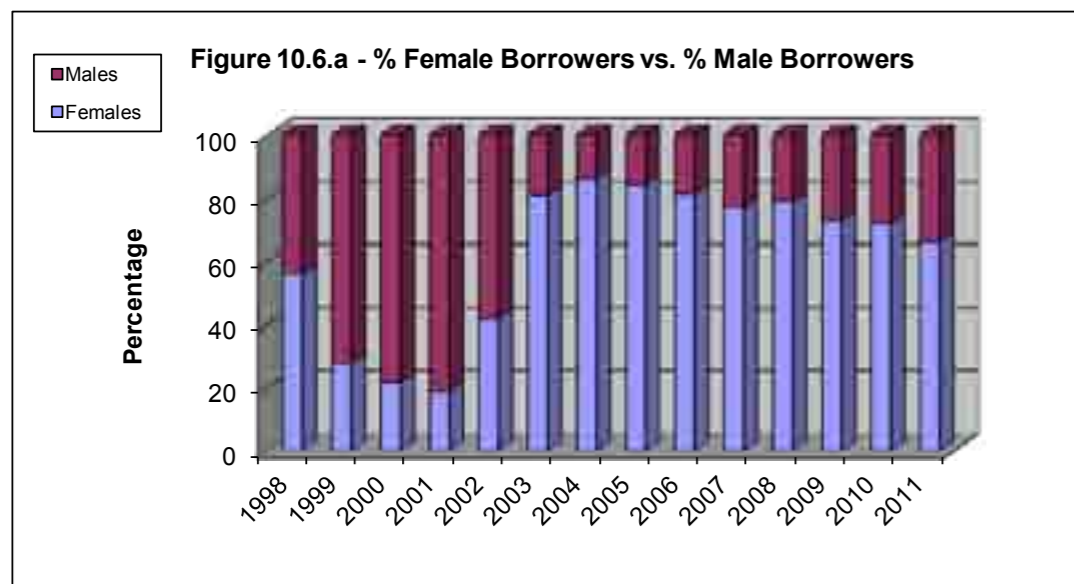
The economic advancement and empowerment of women continues to be of primary concern

for SMED and the SME financial industry. SMED strongly supports initiatives targeted mainly at women as the weakest and economically most disadvantaged segment of society in Yemen. Microfinance, in particular, has been used as a tool for women empowerment by giving them an opportunity to advance economically and become more self-reliant through loans and savings services.

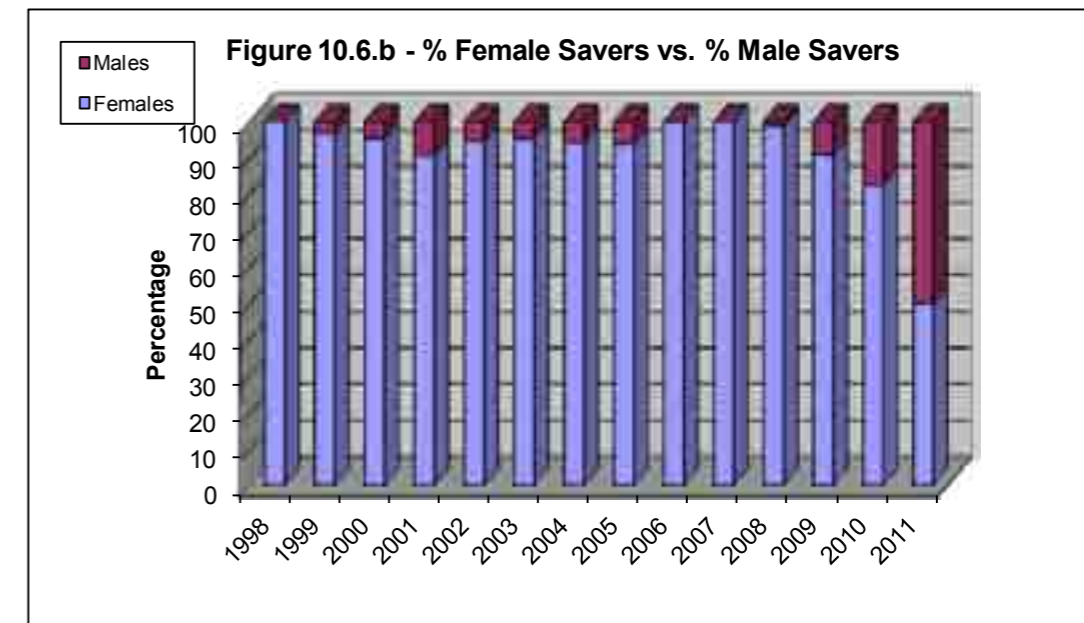
Although during the period 1998-2003 most SME financial services were targeted at rural males through male-dominated rural cooperatives, starting from 2004 more focus has been placed on female clients in urban areas through female-based NGOs. As such, SMED over the years supported the establishment of several microfinance programs targeted at women, in particular, through female-based NGOs: three programs in Aden, and one each in Sana'a, Taiz, and Abyan. This was in parallel with SMED's shift to urban areas that took place during the second phase of microfinance development in Yemen, when microfinance was shifted from rural to urban areas.

In recent years, however, with the growth of the SME financing industry, the increasing competition among SME financial institutions, and the resulting accumulated experience, has led SME financial institutions to rethink their market strategy and target an increasing number of male entrepreneurs, especially since 2005.

Figure 10.6.a shows the percentages of female borrowers vs. male borrowers over the period Dec. 1998 – Dec. 2010.

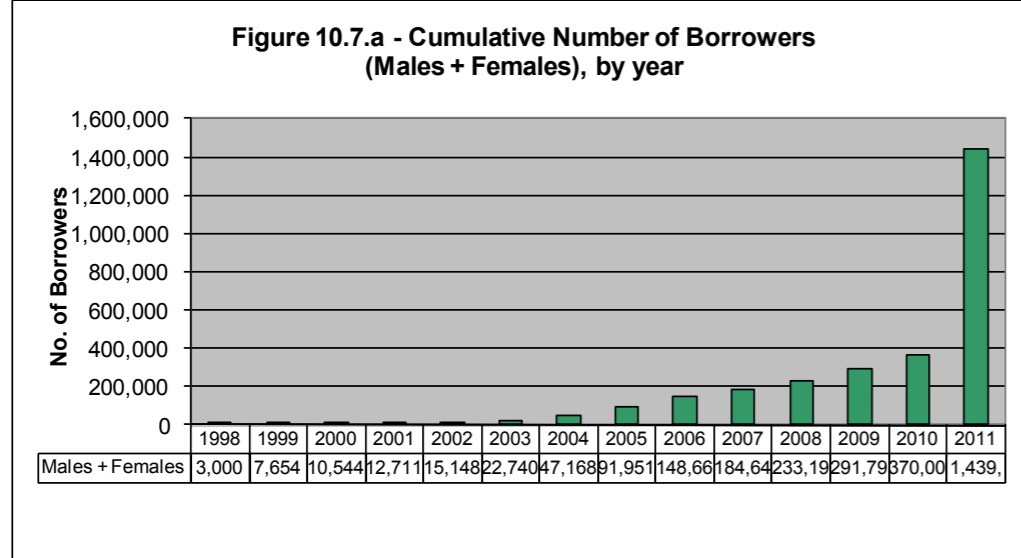


As with savings, it has been a nearly female dominated activity (as seen in Figure 10.6.b), mostly carried out through the group lending and savings methodology. Experience in microfinance institutions, in particular, has shown that savings works best with women, as there is a greater sense of solidarity and common purpose among them within client groups in comparison with men.



10.7 Cumulative targeting figures

Below, figures 10.7.a and 10.7.b show the cumulative number of borrowers and amounts of loans disbursed since 1998, respectively. It can be noticed that the pace of growth has been steadily achieved, especially since 2004. This trend was due to the establishment of larger and more capable MFIs, such as NMF in 2004, and in 2008, Al-Amal MF Bank, which is currently

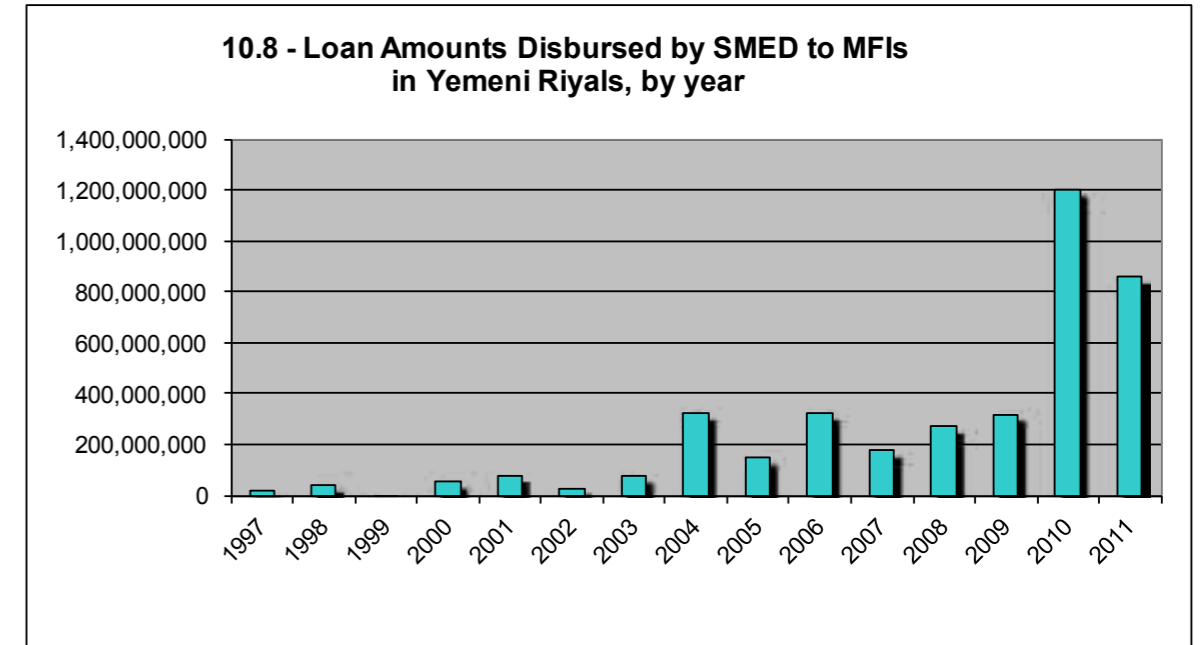
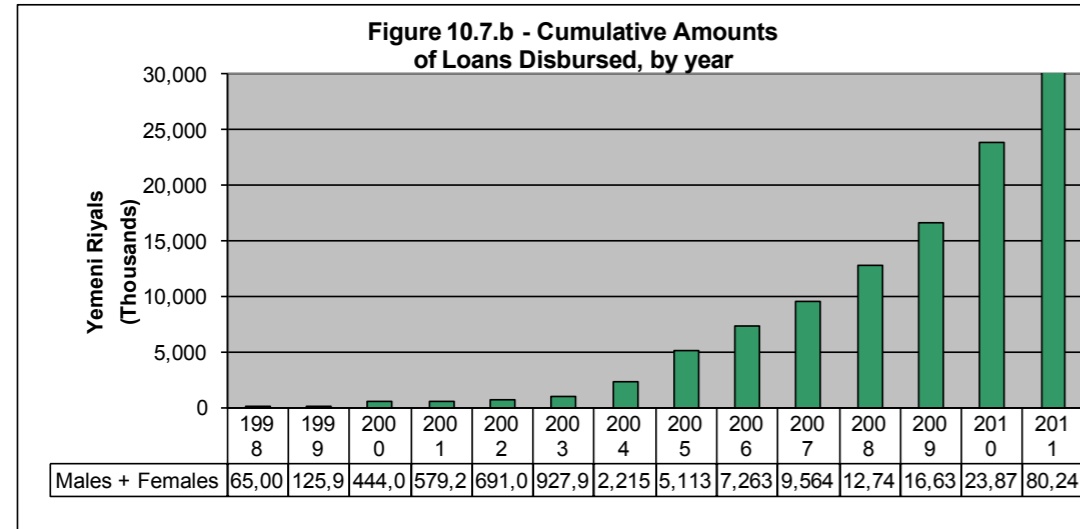


Over the longer term, it is expected that Yemen Post will make an even greater contribution to these figures by introducing mobile and branchless banking throughout the country. It is also expected for Al-Kuraimi Bank to contribute substantially in pushing figures further up in the near future.

10.8 Loans disbursed by SMED to MFIs

SMED's core activity has been providing loans to at an interest. While the total amount disbursed up until 2003 has been relatively small due to the small size of the SME financial industry, lending has accelerated since 2004 due to the increased expansion in sector. During 2010 alone (up to August), the loans disbursed to SME financial institutions have totaled nearly the amount SMED has disbursed during the previous three years combined. Furthermore, SMED has disbursed in the last three years more than what it has disbursed in all the previous years combined. This activity shows the strong growth the sector has been witnessing recently, which is likely to continue in the mid-term future.

In 2011, however, loan disbursed to MFIs dropped from about YR 1.2 Billions to a little more than YR 860 millions, again, due to the 2011 crisis that engulfed the country.



11. Future steps for SMED

In the last two years, the SME financial sector in Yemen has witnessed significant changes, such as rapid growth, diversification of financial services, emergence of new and large institutions, and increased involvement of foreign donors. The recent growth (as analyzed in section 10 of this book) demonstrates that there will still be plenty of room for growth in the foreseeable future. In fact, according to the SME Baseline Survey of 2000, there is demand for financial services in Yemen by over 300,000 small and micro entrepreneurs. As such, only a fraction of demand for SME financial services is currently being met, and in order to improve the current situation and sustain rapid growth, new measures and changes must be implemented by SMED.

11.1 Institutional capacity building

It is the process of building the management structure, internal controls, systems, and human resources of SME financial institutions that guarantees their operational continuity. Realizing the fact that strengthening institutional capacity is one of key issues for a sustainable small and micro financing sector in the country, the strategy for the coming phase will focus on building stronger and larger institutions with more effective governance able to achieve large-scale outreach and geographical expansion, and to ensure management continuity and stability. To achieve the objective, SMED will work on a number of issues, including the following:

- a) Consolidate a number of small financial institutions into larger institutions more capable to with more resources and more capable to withstand competition.
- b) Transform some institutions (such as NMF) into a microfinance banks able to raise capitals independently from the public and financial institutions.
- c) Continue the upgrading of working systems, such Maeen loan tracking system, and intensify training through YMN and other means.
- d) Strengthen governance in financial institutions by helping them form Boards of Directors and General Assemblies with effective oversight.

11.2 Capitalization of MFIs

One of the weak points most financial institutions in Yemen suffer from lays in their inability to raise funds through international donors and banks. In addition to reasons related to their institutional capacity and the fact that NGO-based MFIs cannot collect voluntary savings, a main reason for this shortcoming is the lack of capital of their own in these institutions. Currently, and whenever possible and applicable, SFD intermediates between existing MFIs and foreign donors to channel new funds. However, most donors, and banks in particular, shy away from lending to an institution that has very little capital or no capital at all. As a consequence, such financial institutions find themselves continuously dependent on SFD for

the funds needed to sustain their on-lending operations. SMED would like to see a shift in the current picture from that of over-reliance on SFD for funds into more that of more diversified sources of funds from which Yemeni MFIs can borrow. To achieve this goal, SMED will set certain due diligence benchmarks for MFIs, and will help them achieve such benchmarks through technical assistance and gradual restructuring programs. Upon an evaluation, a given MFI will be forgiven from repaying a certain amount of loans it owes to SFD, and thus will be capitalized and be in a stronger position to access capital markets.

11.3 Increased and more diversified technical assistance

A cornerstone of SMED's efforts will be the provision of intensive training and technical assistance to the existing small and microfinance institutions. For training, the Yemen Microfinance Network (YMN), which was launched in August 2009, will be increasingly more active in the coming phase, in organizing technical training courses targeted at all management levels in MFIs, in addition to courses tailored for field staff. Furthermore, SMED will continue to encourage and contact foreign donors and providers of technical assistance to provide training and technical assistance (TA) to MFIs. MFIs, from their part, will also continue to be assisted in obtaining direct TA from a variety of other sources. In addition, SMED will actively seek to establish strategic partnerships between foreign MFIs and providers of technical assistance. This is already demonstrated recently by SFD efforts in introducing several international organizations in this field, such as Silatech, IFC, KfW, GTZ, and others.

11.4 Mergers and transformations

With the increasing competition MFIs are beginning to face, mergers, transformations, and consolidation will become an obvious necessity for MFIs in the near future to survive in the market. This is particularly true as the effect of new entrants in the market with greater human and financial resources, such as Al-Amal Bank and Al-Kuraimi Bank, is beginning to be felt by other MFIs. In a strategic move, the SMED unit will work towards transforming the National Microfinance Foundation into a bank, and study the possibility to consolidate Aden, Abyan, and Taiz MFIs into a larger financial institution. Such strategy would allow smaller MFIs with much limited outreach to face the increasing competition posed by abovementioned two banks. For instance, in recent times Aden MFI has been facing increased competition in its areas by the newly opened branches of Al-Amal Bank.

11.5 Diversification of financial services

With the exception of Al-Amal Bank and Al-Kuraimi Bank, the current reality is that of financial institutions offering a very limited range of financial services, focusing almost exclusively on loans. In the future, such institutions will have to move away from their current heavy reliance on giving loans into that of providers of inclusive financial services, providing deposit facilities, long-term savings, payments services, money transfer, and currency exchange, to name a

few. This way, such institutions will become truly inclusive financial service providers capable of serving the financial needs of small and micro entrepreneurs, and the public in general. In addition, such diversification will be beneficial to their operations in terms of increased business volume and lower financial risks. The SMED unit will work towards supporting and encouraging the introduction and development of such services through technical assistance and training. A step in this direction is already being made. SMED is currently working with CGAP to introduce branchless and mobile banking through the Yemen Post and Postal Savings Corporation and a local mobile phone operator that is yet to be determined. This new initiative will significantly improve the outreach of financial services in Yemen, especially in rural and remote areas, where MFIs cannot exist or function.

11.6 Increased focus on rural finance

Currently, rural small and micro entrepreneurs are the ones least served by financial institutions in Yemen – not only by MFIs but also by banks. Given that the majority of poor people live in rural areas (where 70% of Yemen's population lives), SMED would like to change the current picture and see a comeback by small and microfinance institutions to rural areas through large-scale rural programs. SMED will seek to implement its rural expansion plan in partnership with institutions with a proven track record in rural small and microfinance. In this regard, SMED has assisted BRAC to obtain the required permits to work in Yemen as a technical advisor for rural microfinance schemes in cooperation with qualified existing MFIs. Such schemes could serve as examples for other domestic and international providers of small and micro finance services interested in serving rural areas in Yemen.

11.7 Downscaling and up-scaling

Downscaling is known as the process in which commercial banks try to reach out with their financial services small and micro entrepreneurs by providing smaller loans than they currently do. Up-scaling, on the other hand, is the reverse process in which MFIs reach out to small entrepreneurs with financial services more consonant with their needs compared with those of micro entrepreneurs. In these two areas, SMED unit will intensify its efforts in trying to arouse the interest of selected commercial banks to enter the market of small and microfinance, and in building the capacity of existing MFIs through technical assistance and funds to enable them to target small entrepreneurs.

11.8 Increased targeting of the ultra-poor

Working with the ultra-poor will be intensified, and in this regard SMED will increase its cooperation with SWF aimed at getting the ultra-poor into mainstream microfinance. SMED will work on possible schemes aimed at encouraging existing MFIs to work with SWF recipients and to become MF borrowers. Under the auspices of SMED, contacts between SWF and a number MFIs are already ongoing to study the potentials for implementing such schemes. As

an initial step, SWF would open savings accounts in MFIs for large numbers of its beneficiaries. In this way, such beneficiaries could initially become active microfinance savers, and as a next step, active micro-borrowers. With more than a million beneficiaries, SWF is expected to become a huge reservoir of potential micro-borrowers for MFIs to draw from. Consequently, MFIs will have a chance to boost their client outreach immensely, achieve their plans for large-scale expansion, and thus become financially stronger while more people will have an opportunity to exit from poverty.

11.9 SMED's new institutional setting

For its long-term strategic institutional situation, SMED will work on carrying out a feasibility study aimed at exploring the pros-and cons of spinning off from the Social Fund for Development. This change in institutional setting could allow SMED to become a more independent funding organization working on purely financial basis better able to respond to market changes and requirements. However, SMED will continue to lead the sector by playing a facilitating role, helping disseminate lessons and experiences learned, coordinate among the various stakeholders, and facilitate the provision of non-financial services in partnership with SMEPS (Small & Micro Enterprises Promoting Services). Lastly, SMED will continue serving as the Technical Secretariat for the National Microfinance Steering Committee, which will create synergies and provide linkages between all implementing partners and concerned players.

12. Lessons learned

Over the past 13 years, the SMED has accumulated a considerable amount of experience in the field of small and microfinance. Through trial and error, and piloting with different methodologies and institutional setups, many lessons have been learned by SMED. These lessons have shaped SMED and will continue to do so in the future. The following sections summarize the most important lessons learned by SMED over the years.

12.1 The need to develop large-scale rural finance through strong rural programs

The reliance on weak and localized rural cooperatives managing IGPs that offered very limited financial services did not produce appreciable results in terms of outreach, sustainability, and long-term socio-economic impact. Such entities proved too weak and limited to have any chance to survive over the long term. As such, SMED is working on establishing greenfield microfinance programs built on the basis of strong technical assistance and managed by experienced staff. Such initiatives could cover large rural areas, offer more financial services, and have the potential to become financially and operationally sustainable.

12.2 Insufficient Business Development Services (BDS)

The provision of BDS or non-financial services such as marketing services, training, and quality improvement is still insufficient compared to actual needs, especially in rural areas. Although SMEPS activities since its establishment in 2005 have so far been focused on urban areas, the needs are still greater than its capacity to deliver. The systematic provision of BDS services to small and micro clients have the potential to add value to the financial services they obtain. As such, SMED will support SMEPS with funds to provide BDS services on a more systematic and wider scale than current levels, especially in rural areas.

12.3 Weak credit culture

Credit culture in Yemen is still lacking among its people, especially in rural areas. This has reflected itself on the relative success of urban finance compared to finance in rural areas in reaching out to an ever growing number of clients. Negative views towards the banking sector, in general, still persist among the large majority of the population, especially when cash lending in Yemen is still viewed as usury. Substantial efforts have been made in changing such perceptions, such as promotion and awareness campaigns, but more is still needed to change such perceptions among people, and this increase the client base for SME financial institutions. Potential small and micro entrepreneurs should be made aware on the advantages of opening savings accounts, and obtaining loans to expand their activities. They should be included in the mainstream economy and made aware of the existence of MFIs and the advantages they can benefit from by availing themselves of the financial services they provide.

12.4 Weak institutional capacities

NGOs and cooperatives have proven to be unviable partner agencies, due to a number of issues, primarily poor management, and scarce internal human and financial resources. With extremely few exceptions, NGOs and cooperatives have failed to deliver on their promises and become role model in the SME sector in Yemen due to their localized and limited scope, tribalism, general institutional weaknesses, and the continuous conflicts of interests that permeate such entities. On the opposite side, institutions such as Al-Amal Bank and the National Microfinance Foundation have proven to be stable and reliable partners, capable of achieving SMED's vision of a widespread small and microfinance industry offering comprehensive financial services.

12.5 Lack of qualified staff

The lack of qualified cadres (especially in rural areas) was and continues to be a real hindrance to the development of rural finance, in particular. The lack of properly qualified staff willing to sacrifice the comfortable life of urban areas for the sake of working in rural finance has always put rural finance programs at a considerable disadvantage, delayed its development, and discouraged MFIs to extend their operations into rural areas on a greater scale. However, with the expected entrance in the near future of major players in rural areas (such as large-scale rural finance initiatives), the HR issue will become more pressing, requiring suitable solutions, innovations, and financial resources. For this reason, SMED will work more intensively with YMN in order to form a large pool of qualified staff which MFIs can draw from and secure their HR needs.

12.6 Human resource (HR) management issues

Human resources management in the past was very limited. The whole HR chain including staff selection, training, professional formation of staff, and promotion, staff retention, and compensation was unsystematic and led to weak performance in SME financial institutions. This can be noticed in the slow growth the small and microfinance industry suffered from till 2007, when SMED began to offer training courses more intensively. However, those MFIs (especially recent ones such as Al-Amal Bank) that have tackled the HR issue more systematically with strict selection and hiring criteria, intensive training, and proper career-path development programs, have achieved surprisingly fast growth rates compared to older and more mature MFIs. HR has now been recognized by all MFIs as a crucial factor in determining their success and future growth.

12.7 Auditing issues

Auditing is the process of monitoring all financial transactions and ensuring the proper use of loans disbursed to small and microfinance clients. In particular, the practice of carrying out field auditing had been very weak till 2006, when SMED began the process of providing

intensive training to field auditors who would then audit clients in the field. In the early stages of microfinance in Yemen, the lack of proper auditing (especially in the field) created control loopholes in small and microfinance institutions and led to significant financial losses. This, in turn, was one of the main factors that caused the gradual phasing out of such institutions, especially those working in rural areas, where the scarcity of qualified cadres compounded the issue of auditing further.

12.8 Development of systems

MFIs, in particular, need to develop their systems - perhaps most of all computerized systems. In the past, the almost total lack of computerized systems in MFIs led to major disruptions in their operations, becoming a major factor behind their slow levels of growth. As MFIs increased in size and business volume, so did the need to be operationally more efficient by computerizing operations and transactions. However, slow or incomplete computerization of systems (especially in the areas of finance and accounting) coupled with fast growth led to significant auditing problems and financial instability, ultimately leading to losses followed by slow or no growth. Computerized systems are now commonly used in virtually all MFIs, and continue to be developed by SMED in coordination with them.

12.9 Lack of a suitable legal framework

The lack of a suitable legal framework for SME financial institutions in Yemen until only recently, is one of the weak points that affected the SME finance industry in Yemen for many years. Small and micro finance institutions had till then lacked the opportunity to tap local market for funds by accepting voluntary savings from the public, or attracting capitals from investors seeking a profit unless they transformed into banks having a capital of no less than 20 million YR. This was until August 2010 when the Microfinance Law was finally approved by the Parliament allowing the establishment of small and microfinance banks, provided they fulfilled a number of requirements, most important of which is having a paid-in capital of only 500 million YR. With such turn of events, an ever increasing role is expected to be played by the private sector in the small and microfinance sectors, and some existing MFIs will finally have a chance of becoming formal banks specialized in SME financial services under the supervision of the central bank of Yemen (CBY).

12.10 The need for more players

The entrance of new international players, donors in particular, has created a momentum for the SME financial industry. This momentum has intensified in recent times, the process the sector has undergone in terms of greater sophistication, institutional and operational reorganization, and the emergence out of isolation. Greater cooperation and intensified contacts with international and regional players (both donors and practitioners, organizations and individuals) has been beneficial for the Yemeni SME financial sector, in terms of improved

technical assistance, skill transfer, new financial resources, and improved application of international best practices in the sector.

12.11 The scale of SME financial institutions

The future will reveal that SME financial institutions below a certain threshold in terms of size, resources, and financial strength are doomed to either closing down or merging with similar institutions to form larger and stronger entities capable of facing competition and responding to changing and growing market needs. Experience in Phase 1 and 2 with IGPs and small MFIs has proven that remaining small and limited ultimately leads to gradual or even sudden foreclosure. As a result of the lessons learned, and knowing that survival in the financial industry is for the fittest and most resourceful players, SMED is focusing in this phase on the gradual merger of small MFIs into more diversified and resourceful financial institutions better able of facing the growing competition in the sector.

12.12 Lack of strategic outlook

Experience have shown that financial institutions with stronger planning achieve higher growth rates and are more capable of responding to changing conditions and situations. In the past, lack of a strategic vision in financial institutions made expansion difficult and slow. However, in time, MFIs and partner organizations began to appreciate the importance of proper strategic planning and progress has been made in this direction through improved training, direct technical assistance in drawing strategic plans, and by hiring more qualified planning staff by financial institutions.

12.13 The need to separate duties

Time and experience have shown that SMED cannot play all types of roles (i.e. donor, provider of technical assistance, financial intermediary, etc) and still produce satisfactory results in all cases. Realizing the need to cope with changing times, SMED has developed its operations by establishing YMN to take over training, and SMEPS to take over BDS. This has freed SMED from many burdens it bore in the past and has made its operations more streamlined and focused. Nonetheless, it will still be required from the SMED unit to fill the gap in training and BDS until those two entities can bear the entire task on their shoulders.

13. SMED and the crisis of 2011

Touched by the “Arab Spring”, Yemen witnessed throughout most of 2011 a severe political, security, and economic crisis. The crisis caused significant security risks in several areas of Yemen, particularly in the Capital City of Sana’a, Taiz, and the Governorate of Abyan. Electricity output suffered considerably due to frequent acts of sabotage, and prices of commodities, fuels, and foreign currencies increased considerably. All these factors and others combined resulted in significant difficulties for the Yemeni small and microfinance sector. These difficulties reflected themselves on MFIs that resulted in lower productivity (due to the increased level of risk, lower demand, and higher monitoring costs), postponement of all expansion, diversification, and consolidation plans, as well as the near foreclosure of the Abyan Self-Help Group MF Program. Nonetheless, SMED organized a workshop in March 2011 that worked out a general emergency plan for all MFIs to follow as a guideline. The plan helped minimize the risks MFIs were facing. The plan included measure such as backing up all computerized information systems, removing unneeded office equipment, files, registers, etc. Furthermore, the plan called for more stringent lending procedures, among the many of its other provisions.

Despite increasing levels of portfolios at risk (PARs) MFIs were subjected to, and the lower demand for financial services, and despite the difficulties SMED experienced in carrying out field monitoring missions, SMED continued to follow-up its activities during the crisis, which included funding the loan portfolio of a number of MFIs, as well as providing grants for technical assistance and training activities carried out mainly by SMEPS and YMN.

13.1 Outreach

During the year 2011, MFIs saw a decrease in their combined number of active borrowers by 4.3%, while the outstanding loan portfolio by also decreased by nearly 13%. Furthermore, the portfolio at risk (PAR) increased sharply from 1.6% at the end of 2010 to 10.9% at the end of 2011. These figures reflect the lower performance of made by MFIs in 2011 due to repayment problems caused by the economic and security situation in the country. However, as a result of the crisis the total number of savers increased by 48%, from about 59,000 to more than 87,600, while savings amounts have nearly trebled during 2011 from more than YR 310 millions to more than YR 1.180 billions, reflecting a general trend among the public to secure themselves in times of crisis. These last numbers were attained despite the halt of operations by Abyan MF Program caused by the ongoing armed clashes in the Governorate of Abyan.

Item	2010	2011	% increase or decrease
Active borrowers	66,440	63,568	-4.29%
Outstanding portfolio YR (thousands)	4,413,000	3,853,000	-12.69%
Portfolio at Risk	1.6%	10.9%	-----
Active savers	59,033	87,615	48.28%
Saving amount YR (thousands)	310,529	1,180,520	280.16%

Schedule 15.1 – Comparison of main figures between 2010 and 2011

13.2 Funding of small and microfinance programs and institutions

In 2011 SMED continued to finance the loan portfolio of most MFIs, managing to disburse slightly more than YR 861 million (about USD 4 millions) in loans- a figure significantly lower than the previous year, reflecting a lower business volume by MFIs. MFIs that benefitted from these loans were SEDF, NMF, Sana’a, Aden, Al-Awael, Hadhramout, and Abyan program. On the other hand, grants for technical assistance, training, and the acquisition of important assets, such as computerized systems, totaled slightly more than USD 1.6 millions, nearly all of which for projects and activities managed by SMEPS and YMN.

13.3 Training, capacity building, auditing, events

Because of the increasing need for an assessment tool that would make it easier for the administration staffs of MFIs operating in Yemen to perform their duties, SMED devised a unique MFI Evaluation Tool. The tool is the first of its kind in the Middle East, and was designed by all staff working the SMED unit working as a team. All the necessary criteria required were taken into account when designing the tool, taking also in to account international best practices in the field of microfinance.

With regard to training, SFD distributed in 2011 about forty-eight disks containing a training program specifically designed for the needs of loan officers, as they are considered the backbone in all MFIs. The training program was purposely designed by Grameen Jameel to improve the skills of loan officers, and it was distributed to eight MFIs.

SFD organized a workshop in March, 2011 targeting all its microfinance partners. Performance during the previous and current year, and the action plans for 2011 were reviewed. A brain

storming session was also held on the various techniques and methodologies that could be used to mitigate the effects of the current circumstances in the country, as well as the preparation of contingency plans to meet all possible eventualities.

Another workshop was held during the same month on the procedures and methods of internal audit of MFIs. The participants exchanged experiences, and learned more on the audit methods and control procedures that would detect and rule out any operational or financial imbalances to which in MFIs in Yemen might be exposed. The workshop was especially significant due to the critical events Yemen went through during 2011.

Due to the crisis and its negative effects on MFIs, field audits were carried out by SMED during the year, even though in some areas (like Abyan) these audits posed significant risks to the field auditors due to the existing security situation. Nonetheless, a number of field teams were formed and trained in field auditing of microfinance clients, and the clients belonging to several branches of various MFIs were audited, resulting in no major discrepancies between the findings and book records.

13.4 SMEPS

The Small and Micro Enterprise Promotion Agency (SMEPS) continued during the year to receive funds for its projects from SMED. These projects included training for the agency's staff, as well as several activities and events. Activities carried out by the Agency included the continuation of the Business Edge and Know about Business Programs, training in business administration, youth development programs, linking coffee farmers with foreign companies, training in the fields of agriculture and fishing, and numerous other technical training workshops for a variety of skills.

13.5 YMN

Due to the crisis, the Yemen Microfinance Network held a limited number of training courses for staff working in MFIs, however, a comprehensive technical training needs assessment study of its member MFIs was carried out, and based on the study YMN prepared a training program for the year 2012. Also, a workshop on how the situation in Yemen was affecting microfinance was held.

During the period December 7th-17th, 2011, YMN also launched an awareness campaign on microfinance. The campaign included such as advertising in the media, the distribution of advertisement materials, and organizing workshops and seminars.

14. The main players in the SME industry in Yemen

In this section, a brief description is given on the main players in the SME industry in Yemen, including service-oriented institutions, such as SMEPS and YMN. A brief description will be given on when, how, and why they were established, the types of activities they conduct and services they offer, vision, mission, and strategic goals.

14.1 The Small and Micro Enterprise Promotion Services (SMEPS)

Establishment

On January 17, 2005 the Yemen National SME Strategy was approved by the Council of Ministers. Among its provisions, it included the establishment of a national agency to promote SMEs through non-financial services, hence the establishment of SMEPS. SMEPS is responsible for directing and coordinating activities to provide improved non-financial services for SMEs by planning, directing, coordinating and monitoring several programs, implemented through partner organizations. Through its role of a facilitator, the programs aim at stimulating growth and diversity within the SME sector, and thus, contribute to the overall economic growth of the country.

Background

The relevance of SMEPS to SMEs in Yemen is built upon two key realities: lack of diversification and growth, and poor quality of services and production. The great bulk of SMEs are crowded into a few similar sub-sectors such as retail, taxis, telecoms bureaus, restaurants etc. and competition amongst them is intense. Yemeni entrepreneurs generally seem reluctant to diversify into new sub-sectors even if they have the capital to do so. The reason seems to be the lack of marketing and technical confidence and skills. Secondly, the quality of SME outputs (particularly production) is poor compared to imported goods, due to the lack of suitable training and quality control procedures. As such, SMEPS sees a great opportunity to work in the Yemeni market in order to improve the current situation of SMEs and bring them to a competitive level.

SMEPS Services

SMEPS policy is to build markets in the area of BDS to SMEs, thus the emphasis is on private and public sector service providers (including individuals) delivering consultancy, training, information, marketing services at a minimum cost, over time growing into profitable business services. Through a wide array of interventions, SMEPS aims at providing SMEs with adequate tools to facilitate their growth and diversification. Some of the main interventions and activities include:

- New Business Lines.
- Sub-sector studies (value chain analysis).

- Technical Advisory Stations (TAS).
- Specialized training courses.
- Know About Business (KAB).
- Upgrading consultancy services and links to SMEs.
- Local and international BDS exhibitions.
- Exposure visits.

Vision

Developing and increasing the diversity of the SME sector and creating jobs opportunities in a sustainable manner.

Mission

To be a leader in facilitating BDS to the SME sector through providing practical and creative strategies for SME diversity and growth.

Goals

- Introduction of new business lines
- Greater SME diversification into new products and new markets
- Greater SME competitiveness
- Greater profitability
- Achieve sustainable growth, measured through the increased number of jobs offered by the SME sector.
- Market development service for BDS

Branches

Three branches: SMEPS operates a branch each in Sana'a, Aden, and Mukalla.

14.2 Yemen Microfinance Network - YMN

Establishment

The Board of Directors was established in August 2009, and a year later (in August 2010) the network was officially launched, and began its operations.

Background

The Social Fund for Development (SFD) and the United Nations Development Program (UNDP) jointly initiated a project to establish the first member-based Yemen Microfinance

Network (YMN) in the country. The idea came as a result of the growing small and micro financial sector in Yemen and the growing needs for training and other forms of support. It was recognized that SMED should spin-off training, in particular, in order to be more focused in its activities. Furthermore, it was recognized that MFIs collectively needed an independent voice to speak for their concerns, needs, and aspirations. Through its office in Sana'a YMN acts as a secretariat for the microfinance institutions, programs, and MF banks in Yemen, creating a platform for member institutions to strengthen themselves as viable institutions capable of reaching the poor in the most effective and efficient manner.

Vision

The provision of diversified and sustainable financial and non-financial services for all poor Yemenis by MFIs.

Mission

To sustain the microfinance sector and enhance its growth towards expansion, sustainability, quality, and transparency through the provision of training, capacity building, and information exchange between MF institutions to facilitate the delivery of financial services to all the poor and needy in society.

Goals

1. Become a dynamic, interactive, participative, and sustainable institution.
2. Build the capacity of microfinance entities working in the country to increase their outreach and help them become sustainable.
3. Instill best internationally accepted practices to increase transparency in the sector and achieve good governance to guarantee sector viability.
4. Diversify products and improve quality of services through the facilitation of technical assistance for the members.
5. Work as a representative for the sector in the country in order to exchange experiences, ideas, techniques, and encourage local and international players to engage with the microfinance sector, and promote general awareness among the public.

Activities

YMN covers four main areas, which combined achieve the purpose of its existence, and they are:

- Training and capacity building

The training unit focuses on the delivery of customized training to the staff of member microfinance institutions. To add value to training, YMN has conducted a very detailed and comprehensive assessment study to identify the full training and technical assistance needs of its members. Based on the assessment's outcomes new/ and updated training modules will

be developed, and customized training will be delivered for each tier of staff from the credit officer up to the board. In addition, new innovative training methods based on the request will also be introduced.

To develop high quality local trainers capable of delivering customized trainings in Arabic, YMN will be organizing training of trainers (TOTs) courses. Other than trainings, which fill human capacity gaps within the member MFIs, based on the assessment study, YMN will facilitate for technical assistance of its members to ensure their institutional strengthening, as both human and institutional development are mirrored together.

- Transparency and information exchange

YMN has adopted the Small Enterprise Education Promotion (SEEP) framework for all its members, which is the global industry reporting standard most commonly and used by the microfinance industry. Members will report on a monthly basis to the network, and for transparency, these reports will be published and uploaded on the website on a regular basis, sent to the members and other organizations and donors.

In the quest for greater transparency, YMN is in the process of establishing an exclusive website and information exchange centre for this purpose. Members will be able to outline and determine key issues and areas for information exchange in the form of on-line discussions, forums, peer learning and exchange. In addition, YMN allows for its members to be exposed to outside experiences and learning via sharing of materials, case studies, new developments, bringing experts and speakers, etc.

- Governance

Sound governance is always a key factor in the success of MFIs, and in this area YMN will be working with its members to strengthen and activate its boards by promoting and creating mass awareness on good governance practices via a number of mediums. This will include producing guidelines and handbooks on good governance, importance of code of conducts for boards, trainings for board members and managing directors, workshops and conferences, marketing materials in the form of brochures and columns in the networks website and quarterly newsletters.

- Promotion of the sector

The network serves as a gateway to Yemeni microfinance sector, and it represents the sector locally, regionally, and internationally. YMN promotes the sector and advances its cause through the web, quarterly newsletters, the press and media, and represents the Yemeni MF industry at regional and global conferences, circulate industry information, produce annual reports, brochures, booklets, workshops, conferences, educate government officials and create awareness to donors and service providers.

Headquarters

The network operates through its office in Sana'a.

For further information on the network, please visit the site: www.yemennetwork.org

14.3 Small Enterprises Development Fund (SEDF)

Background

SEDF is a financial institution specialized in lending to small enterprises established by a Presidential Decree issued in 2002, in which it replaced what was known as the Small Enterprises Financing Unit, which was established in 1990. Headquartered in Sana'a, SEDF supports and encourages SMEs through the following objectives:

- Financing and development of SMEs in all areas of production, services and trade.
- Creating new job opportunities.
- Encouraging projects that work on the basis of interrelationship between industries.
- Increasing the use and development of manpower and local skills.
- Replacing imported products with local ones.
- Providing assistance in the export of local products abroad.
- Assisting in the development of technical and management skills for small investors.
- Assisting in the establishment of industries and small projects outside cities.

Financial products

To achieve its objectives SEDF established two credit programs within its operational structure:

- Small Business Credit Program (SBCP)

It provides loans to both men and women, and the loan size ranges from 150,000 to 4 million YR for those projects that are within 6 months of launching.

- The Women's Empowerment Credit Program (WECP)

The program, established mid 2002, is aimed only at women, and it provides small loans starting at 50,000 YR (nearly \$200). The introduction of this program constitutes an important contribution to the participatory integration of women in economic activities.

SEDF carries out an economic feasibility study for each small enterprise requesting a loan, allowing such enterprises to carry out their activities on a sound basis. The goal is also to minimize risks on SEDF's loan portfolio. Over the past few years, SEDF has witnessed a surge in the number of active borrowers, which reached 2,838 active borrowers as of December

2010. Also, the cumulative number of borrowers reached 12,144, and the cumulative amount of loans disbursed stood at more than 9.415 billion YR as of December 2010.

• Loan types

Loan size may differ according to purpose and target group. In general, five classifications are present:

- Small enterprise loans YR 200,000 - 4,000,000.
- Small loans for women activities: YR 100,000 - 4,000,000.
- Medium size projects: YR 4 - 8 million.
- Youth, university, and college graduate loans: YR 150,000 - 800,000.
- Murabaha loans: It is a new financial product launched in 2010, in which loans of any size are disbursed according to Islamic Shari'a.

Branches

Seven branches - SEDF operates a branch in each of these seven cities in Yemen: Sana'a, Dhamar, Ibb, Taiz, Aden, Hodeidah, and Mukalla.

14.4 Microfinance institutions, programs, and banks

14.4.1 Al-Amal Micro Finance Bank

Establishment

In accordance with the priority given by the Government to tackle poverty and reduce unemployment, a special Law was issued in 2002 (Law no. 22) to establish Al-Amal Bank as the first bank of its kind in Yemen. Its goal is to provide a variety of sustainable financial services to small and micro entrepreneurs who are unable to obtain such services from the mainstream banking sector.

Shareholders of the bank

- 45% - The Yemeni government represented by the Social Fund for Development.
- 35% - Arab Gulf Fund for United Nations Development Program (AGFUND).
- 20% - Private sector.

Vision

Inclusive financial services for all Yemenis.

Mission

The bank's purpose is to improve the economic and social conditions of low and limited income Yemeni families, especially those who own small and micro enterprises, by providing

outstanding financial services, and to become the pioneering and sustainable financial institution in Yemen.

Goals

1. Provide diversified financial services that can satisfy the target groups' needs and expectations.
2. Expand to all Yemeni regions (rural and urban) through new branches and possible partnerships with other local institutions.
3. Become a sustainable financial institution, with qualified and efficient staff, equipped with modern systems and capable of attracting funds.

Target group

Low and limited income households who have no access to banking services.

Financial products and services

All financial services provided by the Bank are implemented according to Islamic Shari'a.

• Credit products include:

- Collective Solidarity Credit.
- Individual Credit.
- Project Credit.
- Partnership Credit.
- Investment Credit.

• Savings services include:

- Amal Saving.
- Amal Child Saving.
- Fixed Deposit.

• Insurance: Applicable in the cases of death, loss of the activity, and disability.

The purpose of Al-Amal Bank's existence:

Al-Amal Bank's role is becoming necessary given the economic and social circumstances of Yemen. It seeks to:

- Provide financial services and assistance to the active poor, make them productive, and ensure individual and collective self-reliance.

- Minimize the exploitation of SMEs by lenders, such as commercial banks.
- Create work opportunities to a number of totally or partially unemployed people especially women.
- Bring the needy together in an organizational framework and enhance the sense of solidarity among them.

Special features of Al-Amal Bank:

The bank is strongly committed to the development of the MF sector in Yemen, by:

- Adding new experienced staff to the industry.
- Increasing outreach by expanding our network, increasing the number of active clients, and establish cooperation with other institutions.
- Aiming at being the TA provider for MFIs in Yemen.
- Introducing a research and development unit in its operations.
- Being the first provider of innovative MF services in Yemen (Youth Loans, and voluntary savings, currency exchange, and money transfers).
- Relying as much as possible on local sources to supply the Bank needs.

Branches

Twelvebranches - The bank currently operates 6 branches in the Capital City, two branches each in Taiz and Aden, and a branch each in Ibb, Dhamar, and Hodeida.

Future aspirations

Over the next 3 years, the Bank will work intensively to reach a leading position in the market of advanced microfinance in Yemen. This will be achieved through the provision of diversified financial services, widespread outreach, and building a pioneering and sustainable financial institution.

Further information may be found on the bank's website at www.alamalbank.com.

14.4.2 The National Micro Finance Foundation (NMF)

Partner agency

The Partner Agency is the Board of Members itself, which is composed of a number of social figures and businessmen, in addition to representatives from the SFD.

Establishment date

October 2003

Establishment mechanism and the founders

The program started operations as an experimental project in June 2002, through the establishment of three small pilot lending programs in three different cities. In October the Foundation was declared, and in March of 2004 the three programs were consolidated into the Foundation, and work started officially. A Board of Trustees was formed consisting of a number of social figures and local institutions who felt that the provision of financial services would contribute to poverty alleviation and improvement the standard of living of the target groups.

Vision

To increase the income of poor and low-income families, as well as micro entrepreneurs, and make them become self-reliant.

Mission

Improving the income of micro entrepreneurs, especially women, in the rural and urban areas of Yemen through effective and sustainable financial services that meet the needs of customers.

Goals

1. Provide diversified and effective financial services (loans, savings and insurance)
2. Expand and proliferate in the urban and rural areas of Yemen.
3. Become a sustainable and independent financial institution with access to diversified sources of funding.

Financial products

Group loans, individual loans, compulsory savings, voluntary savings, Murabaha loans and loan insurance.

Funding parties

- The Social Fund for Development.
- AGFUND
- Rockdale Foundation

Target group

The economically active poor especially women.

Target areas

The Foundation targets urban and rural areas in Yemen in which a market for its products is found.

Branches

Ten branches - Headquartered in Sana'a, the Foundation operates branches in Sana'a, Dhamar, Yarim, Ibb (urban), Ibb (rural), Al-Qaeda, Taiz, Lahj, Aden, Hodeidah, and Hajja..

Future aspirations

The Foundation seeks to develop and expand its financial services, and obtain the necessary resources to provide quality and efficient financial services by opening new branches that can serve the largest possible number of targeted groups.

14.4.3 Aden Micro Finance Foundation

Partner agency

- The Social Fund for Development
- The Yemen National Bank

Establishment date

June 2005

Establishment mechanism and the founders

The foundation was established by merging three programs that were previously established by SFD:

- The Savings and Loan Program - Dar Sa'ad and Al-Bureika.
- The Savings and Loan Program - Sheikh Othman, Al-Mansoura, and Lahej.
- The Savings and Loan Program - Al-Ma'alla.

Employing 33 staff (mostly females), Aden MFF is almost wholly owned by the Social Fund for Development, while the Yemen National Bank holds a minority share in it. In 2007 the foundation underwent a restructuring of its portfolio, and since then has managed to maintain a repayment rate of 100% among its clients, who are 99% females. Aden MFF is the only microfinance institution in Yemen that passed the Social Performance Auditing Program run by Sanabel (the Microfinance Network in the Arab Countries). For its high performance, Aden MFF received a silver certificate award from the MIX Market in 2010.

Mission

Improve the living standard of the poor who run small enterprises, especially women, through the provision of sustainable financial services in the urban and rural areas of Aden, Lahej, Al-Dhale' and other governorates.

Goals

1. Provide suitable financial services for the target group who are able to manage small enterprises, especially women.
2. Expand and proliferate in a studied manner in the targeted areas in order to reach the largest number of people who are in need of the services provided by the institution.
3. Become a sustainable MFI able to attract funds from different financial sources.

4. Continue developing the culture of on-time payment by both clients and employees in order to minimize risks on the Foundation, and guarantee provision of financial product and services in a sustainable way.

Financial products

- Individual loans.
- Group loans.
- House improvement loans.
- Both commercial and Islamic types of loans.
- Compulsory savings.

Funding parties

- The Social Fund for Development
- US-AID
- Jamil Abdullatif Foundation
- The Yemen National Bank

Target group

Poor and low-income families living in low-income target areas, especially those having activities and expertise in managing small economic activities.

4 branches - The foundation operates through its branches the areas of Dar Sa'ad, Sheikh Othman, Crater, Ma'alla, and Khor Maksar in the Governorate of Aden, as well as the city of Toor Al-Baha in the Governorate of Lahj.

Future aspirations

- Achieve financial sustainability.
- Expand to reach the largest number of the targeted group.
- Provide and develop product and services in addition to developing procedures and policies.

14.4.4 Sana'a MF Program (Azal)

Partner agency

Women and Child Development Association (SOUL)

Establishment date

October 2001

Founding mechanism and members

In response to a request by the Women and Child Development Association (SOUL) to establish a program to provide credit services to micro entrepreneurs in different areas of the capital, the Social Fund for Development carried out an appraisal study to assess the Association's technical and administrative ability. The results were positive and, consequently, SFD embarked on the establishment of the program.

Vision

Towards pioneering the development of a financially sustainable microfinance institution.

Mission

The Program seeks to raise the standard of living of small and micro entrepreneurs with limited income in the Capital City through the provision of financial services that are responsive to their needs, provide technical consultancy and training to financial institutions and programs, and achieve financial and institutional sustainability.

Values

1. Truthfulness and honesty.
2. Efficiency and speed in providing services.
3. Transparency.
4. Creativity at work.
5. Teamwork.
6. Adhering to religious teachings.
7. Working in conjunction with Yemeni tradition and culture.

Goals

1. Provide financial services for SME owners.
2. Improve the living standard of low income individuals and reduce unemployment.
3. Expand and proliferate in providing financial services within the Capital City.
4. Reach operational and institutional sustainability.
5. Increase the capacity of similar institutions by providing consultancy services.
6. Exchange expertise with similar institutions, locally and internationally.

Financial products

- Group loans (Murabaha).
- Individual loans (Murabaha).

- Compulsory savings (Islamic).

Funding parties

- The Social Fund for Development.
- Women and Child Development Association (SOUL).

Target group

Owners of small and micro enterprises.

Target areas

The program targets the areas of Noqom, Al-Safia, and the area of Shumaila in the Capital District of Sana'a, with each area served through a branch.

Branches

Three branches – The Program operates in the Capital City, a branch each in the areas of: Noqom, Al-Safia, and Shumaila.

Future aspirations

The Program looks forward to becoming a leading MF institution in the country by increasing the volume of production, developing systems and regulations, increasing the staff efficiency, entering new areas of the Capital City, and becoming a financially sustainable MFI.

14.4.5 Al-Awael MF Company

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Partner agency

The Board of Directors of Al-Awael MF Company, with SFD holding a minority of shares.

Establishment date

May 2000 (initially as Taiz Microstart Project).

Founding mechanism and members

Based on a study made by the United Nations Development Program (UNDP) the program was first established in May 2000 as part of Microstart I, and called Taiz Microstart Project. The project was funded by the United Nations Capital Development Fund (UNCDF), and continued its operations until it was transformed into a MF company in March 2004. This took place within the framework of a new phase funded by UNCDF called Microstart II, in which it called for developing the institutional setting of the project in Taiz into that of a more permanent, formal and sustainable entity. The project was transformed into a non-profit

microfinance 11.5

Male and female micro entrepreneurs who are in need of financing to continue developing and investing in their activities.

Target areas

Through three branches, currently the company is operating in most parts of the city of Taiz, which comprises three districts. For operational purposes, however, the city has been divided into a number of working areas, according to the needs of their inhabitants and the product's convenience.

Branches

Four branches – The company is headquartered in Taiz, and it operates 3 branches in the city. They are: Al-Camp, Sina, and Jamal Styreet. A fourth branch, a semi-rural one, is operated in the town of Al-Raheda, some 50 km away from Taiz.

Future aspirations

The company greatest goal is to become a larger and more inclusive financial institution capable of serving more diversified segments of society. Potentially, this goal can be achieved through the merger and consolidation with similar SME financial institutions working in Yemen. In addition, standing at almost 3,500 active clients as of June 30, 2010, the company plans to reach 5,000 active clients by the end of 2010.

14.4.6 Nama' MF Program

Partner agency

Al-Islah Social Charitable Association

Establishment date

May 2000.

Establishment mechanism and members

Headquartered in Sana'a, the program was established concurrently with Taiz Microstart and Sana'a Microstart as part of the same project, in partnership with UNCDF. Technical assistance was provided too by the Alexandria Businessmen Association (ABA). Although the program did not qualify for the second phase of Microstart, Nama has become the third largest MFI in Yemen, after Al-Amal Bank and NMF.

Vision

To become a leader in SME financing for the poor and unemployed, of both sexes, and become an institution capable of achieving development and sustainability.

Mission

To contribute in limiting unemployment and alleviate poverty through the provision of a continuous chain of Islamic soft loans for SME owners in cooperation with those organizations and entities that support local development.

Goals

- Improve the living conditions of the targeted group.
- Contribute in mitigating the problem of unemployment and poverty.
- Provide of loan and technical services to entrepreneurs in order to improve and promote their production.
- Provide financial and technical services on a sustainable basis.

Products

- Financial products according to Islamic Shari'a, including:
 - Group loans.
 - Individual loans.
 - Compulsory savings.
- Business development services, including:
 - Free training and formation.
 - Marketing of the products made by some clients.

Funding parties

- The Social Fund for Development
- The United Nations Capital Development Fund (UNCDF)
- The Arab Gulf Fund (AGFUND).
- Global Foundation (Kuwait)
- The Development Project Group Company (DPG)
- Tadhamon Islamic International Bank.

Target group

Owners of small and micro businesses.

Target areas

The program operates two branches in the Capital City, and a branch each in Taiz, and Aden.

Branches

Four branches - The program currently operates a branch in each of the cities of Sana'a, Taiz, Aden, and Hajjah.

Future aspirations

The program seeks to transform into an advanced financial institution over the next five years and to expand into other governorates by opening new branches.

14.4.7 Savings and Credit Program - Abyan

Partner agency

Yemen Women's Union - Abyan Branch

Established

October 2003.

Establishment mechanism and members

The program can find its roots in the Self-Help Group Project founded in 22 April 2003. The project started with 48 groups of 360 members. The purpose of the project was to provide an opportunity for poor rural female members in Abyan to improve their standard of living and assist them in saving for their future.

Mission

The program aims at improving the living conditions of poor families in Abyan Governorate, particularly women, by providing high quality and low cost financial services for income generating entrepreneurial projects or those who maintain experience in this field, through savings and loans.

Goals

Expand and proliferate in the Governorates of Abyan and Hadhramout, as well as maintaining customers.

Products

The program provides Islamic (Murabaha) loans through its branches in Abyan, and Islamic loans for its branch in Mukalla (Hadhramout). Financial products are:

- Group loans.
- Compulsory savings.
- Solidarity insurance.

Funding parties

- Social Fund for Development.

- Jameel Abdullatif Foundation.

Target group

Poor and low income women inhabiting the targeted areas of Abyan and the city of Mukalla in Hadhramout, especially those with expertise in the management of income generating activities.

Branches

Threebranches - The program currently operates a branch in each of the cities of Zanjibar and Ja'ar in the Governorate of Abyan, in addition to a branch in Mukalla in the Governorate of Hadhramout.

Future aspirations of the program

The program seeks to expand further, open branches in new areas and, become a sustainable financial institution.

14.4.8 Wadi Hadhramout Credit and Savings Program

Partner agency

Al-Nahdha Social, Cultural and Charitable Association

Established

30/5/2000

Establishment mechanism and founding members

The program was established in response to funding requests coming at the end of 1998 from several NGOs in Wadi Hadhramout (east of Yemen) calling for the establishment of a lending scheme to provide loans to micro entrepreneurs. A study was conducted, and found that it was possible to establish a lending program in the region, as demand was deemed sufficient. The founding members of the program - Al-Nahdha Social, Cultural, and Charitable Association and the Social Fund for Development entered into an agreement on May 30th, 2000 to establish a credit program based on Islamic individual lending. As the program developed, more types of financial services were added, such as group lending and savings were added.

Vision, Mission and goals of the program

- Provide financial services to micro entrepreneurs in Seyoun District and neighboring districts using Islamic finance methodologies.
- Build the institutional capacity of the program and enable to continue providing financial services to SMEs in a sustainable way.
- Increase the income and standard of living of the targeted groups by the program and increase saving opportunities.

- Combat poverty by creating new work opportunities and transferring poor people from the status of begging to self-reliant individuals.
- Motivate micro activities to develop, and contribute to the economic growth of the country.
- Involve women in the production process and enter them into the mainstream economy.

Financial products

- Individual loans using Murabaha methodology.
- Group loans using Murabaha (for women only).
- Compulsory savings (for group lending only).

Funding parties

The Social Fund for Development.

Target group

Small and micro entrepreneurs of both sexes living in Wadi (valley) Hadhramout, especially those in Seyun and a number of nearby towns.

The areas targeted by the program

Seiyun, Tarim, Shibam, Al-Qatn, Saah, Al-Sawm, Wadi Al-Ein, Ramah, and Al-Abr.

Branches

Two branches - The program, which is headquartered in the city of Seryun, operates a branch in Seyun itself, and another one 30 km away in the city of Tarim, both in the Governorate of Hadhramout.

Future aspirations of the program

- Become a sustainable lending institution that serves a large segment of small and micro entrepreneurs in the area of Wadi Hadhramout.
- Open more branches and offer more types of financial services.

14.4.9 Al-Mustadama Social Foundation for Development

Partner agency

The Board of Directors, which is composed of representatives from Saba Islamic Bank and a number of private businessmen.

Established

12/2/2006

Establishment mechanism and founding members

The program was established by the Islamic Bank of Yemen and a number of businessmen, and started operations on August 6th, 2006. Initially, it obtained loans from Saba Islamic Bank for almost 500,000 USD. In the following 4 years, the Foundation obtained loans totaling almost 130 mil YR (about 3/4 mil. USD) from Saba Islamic Bank, Shamil Bank of Yemen & Bahrain, and Al-Tadhamon Islamic International Bank.

Vision

To become one of the most sophisticated institutions working in microfinance, locally and internationally.

Mission

Contribute in the elimination of poverty and unemployment through the provision of financing and technical support to the owners of small and medium activities in the Republic of Yemen, and to become the first and most advanced financial institution, that makes use of the most modern methodologies and the best experiences that suit the needs of society.

Strategic goals

- Provide financial services and training to the targeted groups.
- Deal with individuals, small, artisan, and service activities.
- Open new branches in the Capital City and the governorates.
- Maintain an increasing number of clients.

Products

- Individual loans using Murabaha methodology.
- Group loans using Murabaha (for women only).
- Compulsory savings (for group lending only).

Funding parties

- Saba Islamic Bank
- Shamil Bank of Yemen & Bahrain
- Al-Tadhamon Islamic International Bank
- Independent Yemeni businessmen

Target group

Male and female medium, small, and micro entrepreneurs who live in Sana'a. At a later stage, entrepreneurs living in other main cities in Yemen will be targeted.

The areas targeted by the program

Capital District of Sana'a.

Branches

Currently, the program operates from its headquarters in the Capital City.

Future aspirations of the program

- Become a leading and sustainable lending institution that serves medium, small, and micro enterprises.
- Expand operations through more branches and types of financial services.

14.4.10 Al-Tadhamon Small and Microfinance Program

Partner agency

The Al-Tadhamon International Islamic Bank is the supervisory body and full owner of the Program.

Established

April 2006.

Establishment mechanism and founding members

The program was established by Al-Tadhamon International Islamic Bank, in April 2006, as the first privately owned SME financial institution in Yemen. A Board of Directors formed by the chairman, a supervisor, a member, and an executive member supervises the program and makes major decisions. With an initial capital of YR 250 Mil., the program started its lending operations in August 2006 through a window in the Bank's branch of Taiz. The Program's capital was further raised in November 2007 to YR 1 billion.

Vision

To become the leading small and micro finance institution, and to contribute to development, both locally and regionally.

Mission

Al-Tadhamon Small and Microfinance Program aims at achieving social and economic development in urban areas through financial investments targeted at individuals and small and micro enterprises efficiently, and to achieve economic viability and sustainability.

Goals

- Encourage investment activities related to small enterprises.
- Contribute in raising the capacities and capabilities of limited income people, and establish investment channels that serve various social strata.
- Realize and raised the values of social solidarity among people and in a way that

deepens the meaning and content of positive cooperation

Financial products

The program operates according to the principles and methodologies of Islamic finance, and it serves small and micro enterprises with loans only. Specifically, the main types of loans provided are the following:

- Individual loans for both men and women to finance working and fixed capital using Al-Murabaha Islamic lending methodology. Loans are granted according to the following break-down:
- Group loans for women only. Loan size varies from YR to 40,000 YR 350,000, and repayment time varies from 4 to 18 months.

	Type of Individual Loan	Loan Amount (YR)	Period (months)	When the loan is disbursed
1	New loan	40,000 – 1,000,000	4 – 24	First time
2	Renewed loan	40,000 – 1,000,000	4 – 24	After repayment of previous loan
3	Additional loan	50% of previous amount	4 – 24	After repayment of 50% of previous loan
4	Seasonal loan	40,000 – 300,000	4	Seasons when business is more active
5	Personal loan	40,000 – 1,000,000	4 – 24	When applying for essential durable goods

Branches

The program operates a total of 8 branches: two branches each in Sana'a and Aden, and a branch each in Hodeida, Taiz, Ibb, and Mukalla.

Future plans and aspirations of the program

- Transform into a specialized microfinance bank.
- Provide small and micro insurance.
- Provide micro housing.
- Provide micro leasing.

- Provide new types of financial services.

14.4.11 Al-Kuraimi Islamic Microfinance Bank

Partner agency

The Board of Members is the supervisory body of the bank, and it is composed of members of Al-Kuraimi family, only.

Established

June 2nd, 2010

Establishment mechanism and founding members

The company was established by Al-Kuraimi family in 1995 as Al-Kuraimi Exchange Company. Mr. Abdullah Al-Kuraimi – a well known Yemeni businessman with investments in many other activities - is the largest shareholder. In June 2010, the company was transformed into a microfinance bank nearly a year following the issuance of the Microfinance Law in 2009.

Vision

Al-Kuraimi bank has the ambition of delivering all types of financial services to all individuals in Yemen.

Mission

To contribute to the economic and social development of the country, and improve the standard of living of Yemeni society through the provision of diversified and unique financial services, including savings and financing of micro and small productive activities according to Islamic Shari'a, and continue the path towards reaching a leading position in the banking business by striving to combine efficient professional mechanisms, a good return for the shareholders and depositors, and exemplary customer service.

Values

- Remain in conformity with the regulations of Islamic Shari'a.
- Professionalism
- Trust and credibility
- Transparency
- Responsibility and accountability
- A distinctive customer service

Financial products

All services comply with Islamic finance principles.

- Local and foreign money transfers (Al-Kuraimi Express).
- Foreign currency exchange.
- Electronic services.
- Savings services- several types of such services are offered, including time deposit).
- Small and micro loans using the Murabaha methodology, varying from YR 50,000 to YR 1,000,000.

Target group

SMEs located in the main cities, especially the Capital District of Sana'a during the initial stages of the bank. In future stages, entrepreneurs living in other main cities in Yemen will also be targeted.

Branches

Currently, the bank operates through more than 80 branches throughout Yemen. The main cities and several small towns are targeted. However, savings and loan services, are, for the time being, limited to less than half a dozen branches in the Capital. This is until more experience is build up.

Future aspirations

- Become a leading and sustainable lending institution that serves medium, small, and micro enterprises.
- Become a model institution offering comprehensive Islamic financial services.

15. Success stories

The followings are success stories reported during a field visit carried to several MFIs. They highlight the dramatic impact microfinance has had in their lives and businesses.

Dhiqra

Dhiqra Muhsen Ahmad Ali Kudaf started saving with Abyan S&C Program in 2004, and then began taking micro loans. First, she opened a small grocery, which grew quickly became equipped with two refrigerators and fans, and offered many consumer products. As her loans grew—Dhiqra became full of hope, ambitions, and will. She started a “happiness project.” She rented out a wooden stage for wedding ceremonies, along with fans, and sound equipment, and started moving the stage between wedding sites using a small and used pick-up truck that she had bought through a loan. “I try to help poor families who want to celebrate the marriages of their sons and daughters, but cannot afford the expenses required by hotels and other costly halls. I charge the families of brides or grooms 12,000–14,000 Riyals (\$60–70) a night,” she said.

Fatima

Fatima Miqdam, a woman from Hajjah, had led a miserable life since her youth, but never surrendered to despair. Rather, she dreamed of owning some type of shop or small grocery store. Once Fatima heard that the National Microfinance Foundation had opened a branch in Hajjah, she realized that she had a chance to achieve her dream. In August 2006, she got her first loan of about 30,000 Riyals, which she used to open a very small grocery store.

With time, she took bigger and bigger loans, until her capital reached almost half a million Riyals, monthly profit grew to more than 40,000 Riyals, and her life and her children’s living conditions improved markedly.

Sameerah

An illiterate and poor woman providing for a family of eight children in Aden, Sameerah Ahmed Saleh dreamed of owning her own small business. She had already decided on the nature of the business - weaving ma’awez (traditional gowns for men) - because the area lacks such handicrafts. A neighbor told her of an institution that lends money to poor people, and so, in June 2007, Sameerah visited the SFD-supported Aden Microfinance Foundation, where she got her first loan. After buying a weaving machine and working hard at her house, she managed to fulfill her family’s basic requirements. She then bought another machine, and later another. Her business grew quickly when she used subsequent loans to lease a shop, where she hired five employees to help her meet the growing demand for such clothing.

With dedication, honesty, management talent, and commitment this new businesswoman opened a shop for serving brides and wedding celebrations, like renting wedding dresses, hairdressing, and doing makeup.

Dawla and Sa’ad - a successful life partnership

Dawla Muhammad and Sa’ad Ghaleb, are a young married couple from a family that weaves ma’awaz (traditional gowns worn by Yemeni men in some areas) in the city of Taiz. After getting married, they hired three workers for their workshop, which was equipped with two weaving machines. Dawla obtained in 2008 a 20,000 riyal (\$100) loan from Al-Awa’el Microfinance Company and bought some weaving cotton. Every time she repaid a loan she took an additional one, taking a total of eight loans to develop her business. She now owns a workshop equipped with 15 weaving machines and 15 workers. Dawla also makes ma’awaz in her home, in addition to those made in the workshop. She and her husband’s business makes 30 ma’awaz a day, costing 1,400–3,800 Riyals apiece. They invested 198,000 Riyals in the business, and gross monthly income during that year reached 312,000 Riyals—with net profits of about 114,000 riyals.

Warda-seeking to obtain a trademark and develop exports

Warda Muhammad Kasim, 51, started her story with her dream “to own a small plant to make oshar (pickles) and sweets and sell the products in a shop. After that I will trademark my products, and then export them abroad.” To support her three children, she began selling homemade food in 2000. One day, in October 2008, a credit officer from the Al-Awa’el Microfinance Company visited her home, and throughout the years, Warda ended up taking nine loans afterwards.

Warda began creating and selling products based on seasonal ingredients, enabling continuous diversification. She became the owner of all the equipment needed to make her products, including a freezer, furnace, slicing machine and cookie-cutters. Warda said that, “My sons help me make and sell my products during the sanbusa season, which is Rajab, Sha’aban and Ramadan (the seventh, eighth and ninth months of the Islamic calendar). I’ve encouraged one of my sons to take a loan to trade with women’s accessories and taught him

Appendix 1 - Data Summary of Main Microfinance Programs Working in Yemen (Dec. 2011)

Program	Active Number of Clients			Outstanding Loan Portfolio Million YR	PAR (%)	Cumulative Numbers		Areas of Operation
	Total	Women (%)	Savers			Number of Loans	Loan Amounts Million YR	
1	15,939	49	33,058	534	2.5	35,923	1,817	Capital District, Taiz, Ibb, Dhamar, Al-Hudaidah, Al-Mu'alla, Aden
2	11,683	91	17,606	350	9.13	87,661	3,473	Capital District, Taiz, Ibb, Al-Qaedah, Yarim, Abs, Hajjah, Lahej, Dhamar, Al-Hudaidah
3	5,119	33	928	226	14	45,656	2,422	Capital Dist., Taiz, Aden, Hajjah, Al-Hudaidah
4	7,238	100	8,958	256	N.A	34,661	1,177	Zingibar, Ahwar (Abyan), Al-Mukalla, Al-Shhr
5	7,595	98	10,513	245	0	39,055	1,478	Dar Sa'ad, Al-Buraikah, Al-Mu'alla, Al-Tawwahi, Crater, Khormaksar, Sheikh Othman, Aden, Lahej
6	4,901	84	0	122	28.6	48,706	1,190	Taiz (Al-Camb, Hawdh Al-Ashraf, Al-Rahedah, Sainah), Al-Qada'edah
7	3,381	43	0	570	2.92	16,298	3,106	Capital District, Taiz, Al-Hudaidah, Aden, Ibb, Al-Mukalla
8	2,691	63	1,693	109	7.51	30,869	583	Capital District
9	2,484	26	0	1,218	3	13,525	10,813	Capital District, Taiz, Aden, Al-Mukalla, Al-Hudaidah, bb, Dhamar
10	783	60	0	72	11	15,002	1,025	Capital District
11	1,424	14	2,473	78	23.89	10,194	660	Hadhramaut (Seyun - Tarim, Al-Suom)
12	330	1	12,386	73	1.4	798	309	Capital District, Aden, Taiz, Al-Hudaidah, Ibb Dhamar, Ibb
13	0	0	0	0		67,495	1,690	Several Areas
Total	63,568		87,615	3,853		445,843	29,743	

N.A= Not available/Not applicable, MC = Micro Credit, S&C = saving and Credit, MF= Micro-finance, IGPs =Income generating projects.

Appendix 2 - Contacts of SMED Partner Institutions in Yemen

Institution/Program/ Bank	Partner Org. & e-mail	MD & Mobile	Areas of Operations	Phone	Fax
1	The National MF Foundation info@nmfy.org	Mona Al-Labani 771200219	Capital District, Taiz, Ibb, Al-Qaedah, Yarim, Hajjah, Lahej, Dhamar, and Al-Hudaidah	01-820699	01-570053
2	Aden Microfinance Foundation nagwafadi@gmail.com	Najwa Fadel 777107306	Dar Sa'ad, Al-Buraikah, Al-Mu'alla, Al-Tawwahi, Crater, Khormaksar, Sheikh Othman, Aden, Lahej	02- 357479	02- 353630
3	Al-Awael MF Company microstartproject.taiz@yahoo.com	Mohammed Atiyah 770796396	Taiz (Al-Camb, Hawdh Al-Ashraf, Al-Rahedah, Seenah), Al-Qada'edah	04- 221170	04- 221171
4	Nama Microfinance Program soufian200-20@hotmail.com	Haseeb Al-Qutami	Capital District, Taiz, Aden, Hajjah, Al-Hudaidah	01-208611	01-405663
5	Sana'a Microfinance (Azal) bortqalalahshatebi@yahoo.com	Bortqalah Al-Shatebi 734901113	Capital District	01-602254	01-601286
6	Wadi Hadramout C&S fouzibinzeela59@hotmail.com	Fouzi bin Zeela 734159551	Hadhramaut (Seyun - Tarim - Al-Sowm)	05- 401403	05 -405575
7	Small Enterprises Development Fund (SEDF) sedf@y.net.ye	Taher Al-Masani 777260952	Capital District, Taiz, Aden, Al-Mukalla, Dhamar	01- 260642/3/4	01-500474
8	Abyan C&S progabyan@yahoo.com	Jawaher Ali 770435468	Zingibar, Ahwar (Abyan), Al-Mukalla, Al-Shhr	02- 399938	02- 399938
9	Social Foundation for Sustainable Development (SFSD) moathac@hotmail.com	Saleh Al-Mureisi 711201633	Capital District	01-472157	01-472157
10	Al-Amal Microfinance Bank mohallai@yahoo.com	Mohammed A-Lai 711653551	Capital District, Taiz, Ibb, Dhamar, Al-Hudaidah, Aden, Al-Mukalla	01-449731 01-450814	01-449721
11	Al-Kuraimi Islamic Microfinance Bank yousuf@alkuraimi.com	Yousuf Al-Kuraimi 733215100	Capital District, Aden, Taiz, Al-Hudaidah, Dhamar, Ibb	01-8008800	01-503895
12	Al-Tadhamon Microfinance Bank waleed-isa@hotmail.com	Ali Saleh 712004257	Capital District, Taiz, Al-Hudaidah, Aden, Ibb, Al-Mukalla	01-537107	01-537107
13	Yemen Microfinance Network najah.almughahed@yemennetwork.org	Najah Al-Mughahed 713490679	Capital District	01-265870	01-265868
14	Small & Micro Enterprises Promotion Services Agency (SMEPS) info@mepps.org	Wisam Qaid 734789631	Capital District, Taiz, Aden, Al-Mukalla	01-450910	01-450912

* Note: An MFI might have more than a branch in a given city or governorate.

Geographical Distribution of SME Financial Institutions in Yemen

