

Consulting Services for the Promotion of the MSME related  
Finance Sector - Yemen

**Task a1) Conduct a microfinance market research to explore  
the needs of the clients especially after the 2011 crisis.**

# Demand for Microfinance in Yemen Market Survey



**Final Report**

**V 2.0 October 2014**



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## Abbreviations

LO	Loan Officer
FGD	Focus Group Discussions
MFI	Microfinance Institution
MSE	Micro and small enterprise
NGO	Non-governmental Organization
SME	Small and medium-sized enterprise
ToR	Terms of Reference
ROSCA	Rotating Savings and Credit Association
FI	Financial Institution

## Exchange Rate

As of Monday, January 20, 2014:

1 Euro (EUR) = 290.769 Yemeni Rial (YER)

1 Yemeni Rial (YER) = 0.00344 Euro (EUR)

1 US Dollar (USD) = 214.750 Yemeni Rial (YER)

1 Yemeni Rial (YER) = 0.00465 US Dollar (USD)

1 Euro (EUR) = 1.35399 US Dollar (USD)

1 US Dollar (USD) = 0.73840 Euro (EUR)

## 1. EXECUTIVE SUMMARY

The Terms of Reference (ToR) define the general objective of the present market research report as to help existing microfinance institutions (MFIs) to identify and to explore actual client needs in order to ensure maximum outreach to the poor and people in need for microfinance services in Yemen. In addition, the study should also provide information about existing and new products and services on demand by current and potential clients.

Key research questions focused accordingly on the following areas: (i) Estimated potential market for micro and small finance services, (ii) general characteristics of Micro and Small Entrepreneurs, (iii) current use of financial products and services, (iv) general perception of financial institutions, and (v) the demand for specific financial products and services.

The following provides a summary of the main findings of the survey.

Details on approach and methodology of the survey are included in Annex B.

### Estimated potential market for MSE Finance

The most recent numbers from the Central Statistical Organization (CSO) in 2012 estimate the number of households in Yemen at 3,434,000 households. In 2013 the Social Fund for Development conducted a labour force survey in cooperation with the International Labor Organization (ILO) and the Central Statistical Organization (CSO). The survey is based on a sample of 13,376 households and included all urban and rural areas, provinces and districts, cities, villages and neighbourhoods covered by the 2004 census with the exception of nomads and facilities offering collective housing. A stratified cluster sampling method was applied conducted in two phases.

The ILO study found that 55%<sup>1</sup> of the sample respondents ran a business. Given that at least one of the interviewed household members ran an enterprise this would result in a minimum number of 1,888,700 enterprises.

Based on the number of employees<sup>2</sup>, 94.4% of the enterprises were categorized as micro, 4.5% as small and 0.8% as medium and large (and 0.24% unclassified). Considering the census results of registered enterprises in 2004 and that the majority, at least 60% of MSEs, was unregistered, the number of registered and unregistered enterprises may be much higher.

Accordingly we can conclude that the **potential market for MSE finance** in Yemen has a size of around **1.78 million microenterprises and 85,000 small enterprises**.

### General and financial characteristics of Micro and Small Business Entrepreneurs

The LFS primary MSE demand survey was conducted by LFS in cooperation with the Yemeni market research agency *Apex Consulting* in the fourth quarter of 2013 in the cities of San'a, Aden and Taiz. The survey applied a mix of quantitative and qualitative research instruments which allowed us to obtain a solid up-to-date knowledge of the targeted MSE market. Both elements were used to validate and inform each other. The qualitative part provided depth and context, while the quantitative part provided outreach.

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<sup>1</sup> Q101: Do you have an enterprise?

<sup>2</sup> Q102: How many employees in the enterprise?

673 Respondents were **sampled to reflect the geographic and economic diversity of the country**. At the same time, care was taken to choose businesses that have the potential to become clients of a microfinance institution. In this context, the most important sampling criteria were: (i) Geographic focus on urban centres in three locations in Yemen (Aden, Sanaa and Taiz), (ii) Sector of activity reproducing approximately the structure of the informal economy (trade (55%), Services (31%) and Manufacturing (14%)), (iii) Focus on micro and small-enterprises that have been operating for at least one year and (iv) inclusion of a certain percentage of female respondents (20.7%) to provide solid information about all entrepreneurs regardless of their gender.

The study found that 70% of respondents had *business experience* of more than three years which is a positive signal for a **relatively stable business environment**. While only 9% of the respondents took a loan for business purposes and about 3% for private purposes over the past 24 months, **MSE entrepreneurs largely rely on supplier credit to finance stock** which lends support to the assumption of a significant market potential in Yemen for MSE finance. It is interesting to note that while 70% of men said that their suppliers would allow them to pay in instalments for stock this is true for only 21% of women.

About 44% of the respondents derive additional income from activities besides their main business – mainly salary. Nevertheless, when asked for the *most important source of income*, **about 76% declared the business as the most important income source**. However, for only about 45% of the women, the business is the main source of income.

An average business has *monthly sales* of YER 250,000<sup>3</sup> (EUR 860<sup>4</sup>) but the difference between gender is significant: While median monthly sales figures for microbusiness of men lie around YER 400,000, women led micro-business have a median turnover of only YER 30,000. Looking at net profit per month, the male micro-business respondents ordinarily earn YER 50,000 (EUR 172) per month, while women have a *monthly net profit* of only YER 12,000 (EUR 41). Profit margins for all businesses oscillate around 20%. It is interesting to note however that while the size of male businesses is almost 6 times that of women, the *profit margins of female micro-entrepreneurs* (40%) are significantly higher than those of their male counterparts (25%). The *stock* of an average microbusiness is YER 1mio (EUR 3,439) while SMEs ordinary own stock is worth YER 9 Million (EUR 30,952).

#### **Main challenges confronted by MSE and by female entrepreneurs**

Respondents perceive the **lack of availability of electricity and security issues as their most important challenges**. While specific loans for solar power devices and generators may mitigate the latter, almost 84% of the respondents ranked security issues as high. This was confirmed also from the qualitative survey – especially from case studies – one could observe that many customers suffer from low sales due to the unstable security situation.

As outlined above, business led by female entrepreneurs are many times smaller than those of their male counterparts and they rely on a much smaller extent on supplier credit than men. Furthermore 22% of female respondents have not used any financial service while this is true only for 7.5% of men.

This gap shows a **significant potential for financial inclusion of female entrepreneurs** both in terms of credit and non-credit products. From focus group discussions (FGD) we understand a preference of women with

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<sup>3</sup> The median (also called middle value) is a numerical value separating the higher half of the data from the lower half. In order to be conservative with our statements, we use the median value instead of the average (also called mean) in this analysis as it shows that the average is very often much higher than the median, as some few respondents gave very high numbers as answers and hence distort the results.

<sup>4</sup> Exchange Rate OANDA as of Jan 20, 2014

home based businesses for being visited by female loan officers. This means that MFIs may increase outreach to women based on increased employment of female loan officers.

### Current use of financial products and services

As mentioned above, the primary objectives of the demand survey were (i) to enable a more detailed analysis of the current utilization of financial products and services and (ii) to define the market potential for micro and small enterprise (MSE) financial services in terms of loan and other financial products.

It is remarkable that about 25% of the Micro Entrepreneurs stated that they do not have any surplus cash to save. About 17% of the MSEs are using or have used a current account in the past 24 months - for savings accounts only 12% of MSEs. For accounts, the MSEs mostly rely on financial institutions, while local money transfer within Yemen is with over 70% fully in the hands of MFIs. Almost 75% of the MSEs are using or have used this service. Even foreign exchange is a service, which is used by 60% of respondents predominantly by men. 25% of respondents have participated in ROSCAs with the majority being female. From all our 673 respondents, only 16 respondents (2.4% of MSEs) use an insurance service or did so at least once in the past 24 months. Many of the mentioned restraints of not using financial services can be addressed by defining special products for MSEs (sharia conform, easy and transparent) and by **investing in education and marketing campaigns to raise awareness about benefits and conditions**.

Quite remarkably, only 9% of respondents have taken a business loan in the past 2 years and only 3% have taken a private loan. The obtained median loan amounts range at around YER 100,000 (EUR 3,400) and 9.4% of respondents who are currently having a loan or did so in the past 24 months stated that they used it for business. The most important types of collateral include the group, salary, a commercial guarantee, real estate and guarantors.

### Perception of Financial Institutions

Respondents have in general **very limited knowledge about financial institutions** (FI) and only 9.2% of the respondents got to know their financial service provider via direct marketing. The major reason for the narrow knowledge may be the limited geographic coverage of the branch networks and low levels of direct promotion. 92% stated that **Sharia conformity** of a FI is an essential and important factor for respondents as well as a good reputation of the FI. For 82% **easy collateral, adequate maturity and quick loan processes** are important factors for choosing a certain loan. Instead 45.5% of the respondents clearly stated that they do not want a loan, with women being even more hesitant than men. From FGD and individual interviews with entrepreneurs we understand that a significant share of respondents remains hesitant to borrow as they fear lengthy lending procedures especially related to Islamic lending methodologies and difficult collateral requirements. Many micro entrepreneurs expressed moral and religious concerns about financial products in general.

### Demand for financial products and services

In general the survey results show with a qualified majority a **significant interest in a wide range of financial products and services**. Respondents are largely interested in current accounts (75% of respondents who have not used a current account would like to use it), saving accounts and plans (67%), foreign exchange service (62%), local money transfer (55%) and insurance (66% would be interested in health insurance). From these significant percentages one may trace that Micro and Small entrepreneurs in fact **require rather a "house" bank** which provides all major products customarily demanded than a niche provider. A new greenfield microfinance bank hence should accordingly deliver its services first and foremost through a conventional branch infrastructure and distinguish itself more through its product range and operating technologies than through its distribution channels.

In terms of credit, the 43.4% who have not received a loan before and stated that they want to take out a loan in the future at first sight may not be interpreted as an overwhelming demand. However this percentage needs to be taken with caution as it **may just show that clients are conscious of the significant implications of being indebted**. Experience furthermore shows that initially hesitant entrepreneurs often change their minds once they gained increased awareness about the conditions and benefits of a loan and once they observed the impact of loans on the businesses of their neighbours and friends.

For those who showed demand of credit, the median desired **loan amount** for micro-enterprises is YER 500,000 (EUR 1,719) while there is a significant difference between male (YER 700,000) and female micro entrepreneurs (YER 200,000). The median desired loan amount for small enterprises is YER 1,000,000 (EUR 3,439).

Guarantors, real estate and stock are the most favoured types of **collateral**. Also mentioned were commercial guarantees and salary guarantees as well as business equipment. The provision of home equipment as collateral seems uncommon in Yemen, which is in many other countries a frequently used type of collateral for micro loans.

In terms of lending methodology, 97% of respondents prefer **Sharia conformity** and 90% of respondents prefer **individual over group lending methodology**.

### Conclusions and Recommendations

While the results of the quantitative and qualitative survey display a significant demand for non-credit products, they also show a certain hesitance of respondents to credit. This hesitance may be basically traced to three constraints: (i) the prevailing security situation and the lack of regular access to electricity and fuel which negatively impact productivity and accordingly repayment capacity rendering investments into businesses more risky, (ii) the current perception of financial institutions in terms of lending procedures and borrowing requirements and finally (iii) moral and religious concerns regarding to financial products and services.

While the lack of access to electricity may be eased with a solar power device or generator loan, the two other constraints may be mitigated with a **responsible lending approach** centered on cash-flow based lending products and a tailored **marketing campaign** to address moral and religious concerns and raise awareness about lending procedures and requirements. To address the specific hesitance of women for taking out a loan MFIs may launch **gender specific direct promotion campaigns** to reach out to women through female loan officers addressing the specific constraints faced by female entrepreneurs.

While marketing and direct promotion will be important instruments for raising awareness about the benefits and conditions of financial services, financial institutions at the same time will **need to simplify their loan procedures and requirements** as the current perceptions call for simplicity of procedures, easy collateral and tight loan application process monitoring to reduce administrative burdens on the clients and speed up the loan disbursement processes.

It can be concluded that in view of the **significant market potential of at least 1.9 million enterprises** in Yemen and the current very limited supply<sup>5</sup> the demand for financial and non-financial products in Yemen is quite substantial which confirms the potential for additional MSE greenfield institutions.

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<sup>5</sup> In 2013 the numbers of outstanding loans accounted for roughly 100,000 and saving accounts for 250,000

## 2. MARKET SIZE

### 2.1 Secondary sources: IFC 2007 and census 2004

The Central Bureau of Statistics conducted its most recent *Yemen Establishment Census* in 2004. While the CBS planned for a general census of population, housing and establishments in 2014, the figures from 2004 currently represent the latest figures estimating the number of registered enterprises and other government and non-governmental institutions in Yemen at 407,477. Of this total around 100,531 were government services institutions, local non-government organizations, international organizations, and endowment foundations bringing the total number of private enterprises to around 307,000.

Table 1 below, from Yemen Establishment Census of 2004, categorizes the registered enterprises and government and non-governmental facilities and foundations in Yemen by Number of Employees (1-4, 5-9, 10 or more and non-specified). Based on the SFD definition, 89% would have fallen in the category for micro businesses and 8% in the category of small enterprises.

**Table 1 Numbers of registered enterprises in 2004**

Category	# employees/ Enterprise	% of Total	Number of Enterprises
Micro	1-4	88.0%	358,654
Small	5-9	4.6%	18,935
Medium & Large	10 or more	3.5%	14,386
Not specified	n/a	3.8%	15,502
<b>Total</b>			<b>407,477</b>

Source: Establishment Census 2004 Report Table No 7

“The Assessment of MSE Financial Needs in Yemen”, the most recent survey of MSEs in Yemen conducted by the IFC in the year 2007, stated that a large proportion of economic activity in Yemen appears to be unregistered operating on a micro scale, employing only family members and based in rural villages. High registration costs, cumbersome procedures, and tax requirements seem to prevent a significant amount of enterprises from formalization which makes it difficult to provide a realistic estimate on the number of MSE operating in Yemen.

Of the total 450 enterprises surveyed by IFC, around 91% were categorized as micro and 9.3% as small enterprise. The same report estimated the **number of MSEs in Yemen at around 400,000** but the report also highlighted that the estimate was conservative as it excluded the countries’ 1.4 million farmers and it did not differ from an estimate made in 1998, when the population of the country was only 16 million while the population is currently (July 2014) estimated at 26 million<sup>6</sup>.

### 2.2 Primary sources: SFD/ILO/CSO Survey 2014

In 2013 the Social Fund for Development conducted a labour force survey in cooperation with the International Labour Organization (ILO) and the Central Statistical Organization (CSO). The survey is based on a sample of 13,376 households and included all urban and rural areas, provinces and districts, cities, villages and neighbourhoods covered by the 2004 census with the exception of nomads and facilities offering collective housing. A stratified cluster sampling method was applied conducted in two phases. The data had been

<sup>6</sup> <https://www.cia.gov>

collected in four quarters to make sure that the data will not be affected by the time of collection. The survey targeted males and females, aged 15 and above residing in a household and working or looking for work.

The most recent numbers from the Central Statistical Organisation (CSO) in 2012 estimate the number of households in Yemen at 3,434,000 households.

The ILO study found that 55%<sup>7</sup> of the sample respondents ran a business. Given that at least one of the interviewed household members ran an enterprise this would result in a minimum number of **1,888,700 businesses**. Based on the number of employees<sup>8</sup>, 94.4% of the enterprises were categorized as micro, 4.5% as small and 0.8 % as medium and large as displayed in the table below. Considering the census results of registered enterprises in 2004 and that the majority, at least 60% of MSEs, were unregistered, the number of registered and unregistered enterprises may be much higher.

**Table 2 Categorization by enterprise size**

Category	# Employees	% of enterprise by category	# of enterprises per category
Micro	1-4 staff	94.44%	1,783,751
Small	5-9 staff	4.51%	85,176
Medium & large	10-50 staff	0.81%	15,210
<i>Unclassified</i>		0.24%	4,533
<b>Total</b>		<b>100%</b>	<b>1,888,700</b>

Accordingly we can conclude that the **potential market for MSE finance** in Yemen has a size of around **1.78 million microenterprises and 85,000 small enterprises**.

<sup>7</sup> Q101: Do you have an enterprise?

<sup>8</sup> Q102: How many employees in the enterprise?

### 3. SOCIO-ECONOMIC PROFILE OF SURVEY LOCATIONS

The survey was conducted in the three cities of San'a, Taiz and Aden and the following chapters shortly describe these cities highlighting some central business hubs which may be of interest for the analysis of potential areas for future bank branches of a green field microfinance bank.

#### Sana'a

Sana'a is the capital city of Yemen, with a population of around 1.9 million. As the capital city of Yemen, 40% of jobs in Sana'a are in the public sector. Other primary sources of formal employment in the city are trade, services and manufacturing. Sana'a governorate hosts around 60,203 of the MSEs operating in the trade, services and manufacturing sectors, representing around 15% of the total MSEs in Yemen (Yemen Establishment Census 2004). An appreciable percentage of the enterprises are operating in the informal sector. However, while there are a greater variety of jobs in Sana'a as compared to other cities in Yemen, there is also greater poverty and unemployment. It is estimated that 25% of the labour force in Sana'a is unemployed.

Figure 1 Map of Sana'a Business Centres



The majority of Sana'a streets are occupied by businesses of different sizes in the trade and service sectors. The famous business centres in Sana'a are Tahrir, Hadda Street, Zubairi Street, Azal, Sabeen. The busiest areas are Tahrir center, the old town (Sana'a Algadima), Hadda Street, and Zubairi Street. Tahrir district hosts the largest shopping center hosting different sizes of trading and service businesses selling clothes, different types of foods items, footwear, jewelry, cosmetics, medicines etc. The area also hosts several banks, foreign exchange bureaus, restaurants, street vendors selling different types of goods.

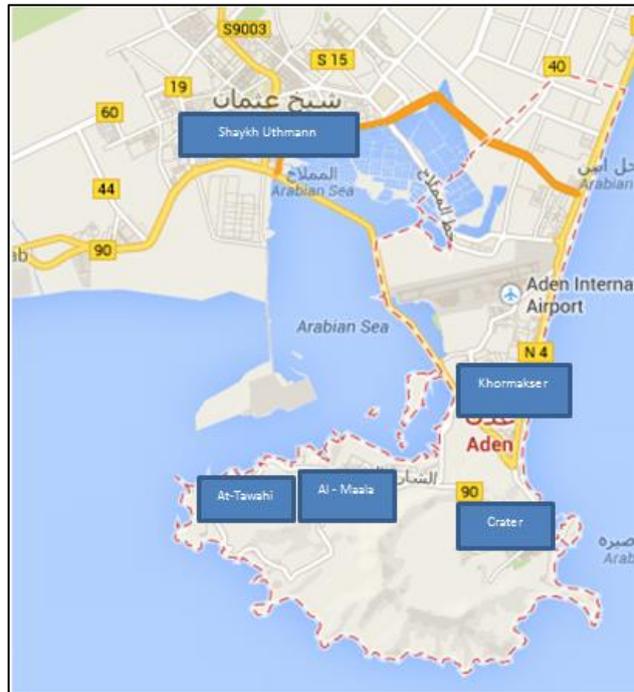
#### Aden

Aden is the major port city and is said to be the second largest city in Yemen after Sana'a in terms of population, business and trade. Its population is estimated approximately one million people. Aden governorate hosts around 15,278 MSEs representing around 4% of the MSEs in Yemen (Establishment Census 2004).

Aden consists of a number of distinct sub-centers, these are: Crater, the original port city; Ma'alla, the modern port; Tawahi; and Khormaksar, which is located on the isthmus that connects Aden proper with the mainland. On the mainland the main centers are Sheikh Othman and Al-Mansura. Sheik Othman, Crater, and Tawahi are the biggest centers in Aden. Sheik Othman is the biggest market place and the busiest in Aden and could be one of the biggest market place in Yemen.

Sheik Othman hosts micro, small, and medium enterprises operating in the trade, manufacturing, and services sectors. A wide variety of goods are sold in the market including, clothes, fabrics, foot wear, all food items, spices, and construction materials. The market also hosts small industries like wood and metal furniture workshops, black smiths, and foundries. Both wholesale and retail enterprises operate in the market the majority of which are small and microenterprises. Several commercial banks and foreign exchange bureaus operate branches in the market. The market hosts a considerable number of road transport companies that operate bus trips to all Yemen and to Saudi Arabia and Oman Sultanate. Crater is the second to sheik Othman in terms of geographic area and number of businesses but mainly dominated by retail shops, restaurants, street vendors, and vegetable fruits and fish dealers.

Figure 2 Map of Aden Business Centres



**Taiz**

Taiz lies in the highland of Yemen at an elevation of about 1,400 meters above sea level. It is the capital of Taiz Governorate. With a population of over 700,000 in 2012<sup>9</sup>, it is supposed to be third largest city in Yemen. According to the establishment census 2004, the number of MSEs operating in the city was nearly 20,000. Taiz is said to be the largest industrial base in Yemen. Crossing the streets the main industries are food and beverages, plastic, soap, chemicals, and leather tanning. Traditionally the city has been famous in cotton weaving, leather and antique works.

Figure 3 Map of Taiz Business Centres



The city was built on a circle of mountains and the roads run up and down the mountains' sides. The business centers occupy the central bottom of the mountains circle. These centers though have different names but geographically are not separated from each other as in Aden. The center of the city looks like a huge business

<sup>9</sup> <http://en.wikipedia.org/wiki/taiz> (There was no official up to date statistical data found and estimations of populations vary hugely between the different sources)

center hosting enterprises selling goods and services at wholesale and retail, banks, foreign exchange bureaus, restaurants. Taiz is also famous for small scale feta cheese manufacturing sold all over Yemen.

## 4. GENERAL PROFILE OF ENTERPRISES

### 4.1 Profile of sample

According to the sampling plan, the majority of interviews was done with traders (55.1%), followed by service businesses (30.6%) and production businesses (14.26%). 576 Micro entrepreneurs (85.6%) and 97 SMEs (14.4%) were interviewed, while 79.4% of them were male and 20.7% women. The interviews were undertaken in Aden (18.3%), Sanaa (62.9%) and Taiz (18.87%).

**Table 3** Number of Respondents in 3 cities differentiated by Micro/Small Enterprises and Sectors

	Aden	Sana'a	Taiz
Micro (0-4 employees)			
Industrial	7	56	3
Trade	66	198	70
Services	30	111	35
Total	103	365	108
SME (5-10 employees)			
Industrial	9	14	7
Trade	8	25	4
Services	3	19	8
Total	20	58	19

### 4.2 Business activity and experience

#### Key findings:

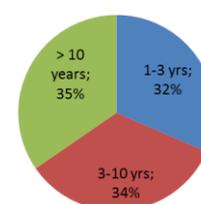
- ✓ Business owners have experience with lending money and hence have some certain credit culture already
- ✓ Almost half of the respondents obtain an additional income
- ✓ For 70% of the respondents, the declared business is the main source of income
- ✓ For only about 45% of the women, the business is the main source of income

The large majority of business premises are rent: 93.6% of men are renting their business premise, while only 59% of women are renting the business – the reason behind this difference between men and women is that women are often operating their businesses from home. This can also be seen when analysing the type of business premise: The majority of men are either working from a business premise of permanent nature within a group of other businesses (mall or market-like set-up) (71.5%) or from a market table/premise of a permanent nature (25.5%).

The numbers regarding the type of business premises for women are definitely distorted as women were actively searched for. Hence the numbers are definitely not representative. Anyway, it is important to mention that not all women's businesses are found at home: About 57.5% of women that were found for the survey had a business premise of permanent nature within a group of other businesses and 20.8% had a market table/premise of a permanent nature.

Business experience is an important indicator for the sector's stability and creditworthiness, and an even distribution of business experience between our interview partners is a positive signal for a relatively stable environment:

Q4: Time period of running this business



About 1/3 of the respondents have run their business between one to three years, as well as 1/3 between three to ten years. One third of the respondents have even run the business for more than ten years. In this regard there is almost no difference between men and women.

Looking at micro businesses and SMEs one can see that SMEs usually have run their business for a longer time than micro businesses:

**Table 4 Business Experience differentiated by Micro and Small Enterprises**

	1-3 years	3-10 years	> 10 years
Micro (0-4 employees)	33.3%	32.9%	33.6%
SME (5-10 employees)	20.6%	39.2%	40.2%

Most of the respondents (67.9%) were between 24 and 40 years old: In the group of SMEs only 9.3% were up to 23 years old, while in the group of Micro businesses 18.4% were up to 23 years old. Hence it is also logic that about 23.7% of the SMEs are 41 years and older<sup>10</sup>

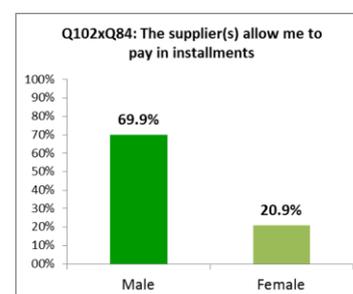
**Table 5 Age distribution differentiated by Micro and Small Businesses**

	Up to 23 years	24 to 40 years	41 years and older
Micro (0-4 employees)	18.4%	68.1%	13.5%
SME (5-10 employees)	9.3%	67.1%	23.7%

In terms of their education, 37.9% of business owners have completed their high school, 23.2% finished Primary School, while 17.5% went through a BS and 9.7% have obtained a diploma. Only 10.1% have no formal education or are illiterate.<sup>11</sup>

### 4.3 Credit Culture

84.2% of the women and 61% of the men state that when they pay for their purchases they deliver the full amount in cash. Anyway also 69.9% of men and 20.9% of women said that their suppliers allow them to pay in instalments. This means that Micro and Small Entrepreneurs in Yemen actually have some culture of deferred payments and hence are not completely unaware of credit culture. This is especially reflected when respondents were asked if they accept any kind of deferred payments (no interest rates or fees are charged) from their customers: Almost 25% accept deferred payments as a rule, while 46.2% accept them sometimes. Deferred payments are something highly accepted in Yemen, while granting credits to customers (with interest rates or fees charged) is rather unusual: About 93.3% stated that they do not grant credits to their customers as a rule. In this regard there is almost no difference between men and women or Micro businesses and SMEs.<sup>12</sup> Only at SMEs one can see that SME owners (37.1%) usually accept more often deferred payments as a rule, compared to microbusinesses (22.9%).



The qualitative survey is a very important source of information – especially for more sensitive topics. Therefore we integrated the results of the qualitative survey in the analysis. In the following we differentiate between quantitative and qualitative by highlight the qualitative information in italics in a box.

<sup>10</sup> This does not necessarily have to be equal with the general age distribution in Yemen

<sup>11</sup> These numbers may of course not be in line with general statistics

<sup>12</sup> We used descriptive statistical techniques in order to assess the numbers

*Findings from Qualitative Research:*

*Female participants in the FGD of Sana'a confirmed receiving instant in-kind credit from wholesale supply traders but they pay a profit margin of 30-40% per 10 months (i.e. 3-4% per month) of the cash price. Other participants receive in-kind credit from their suppliers instantly without interest. Hence, wholesale suppliers are a reliable source of finance for retail traders.*

#### 4.4 Challenges

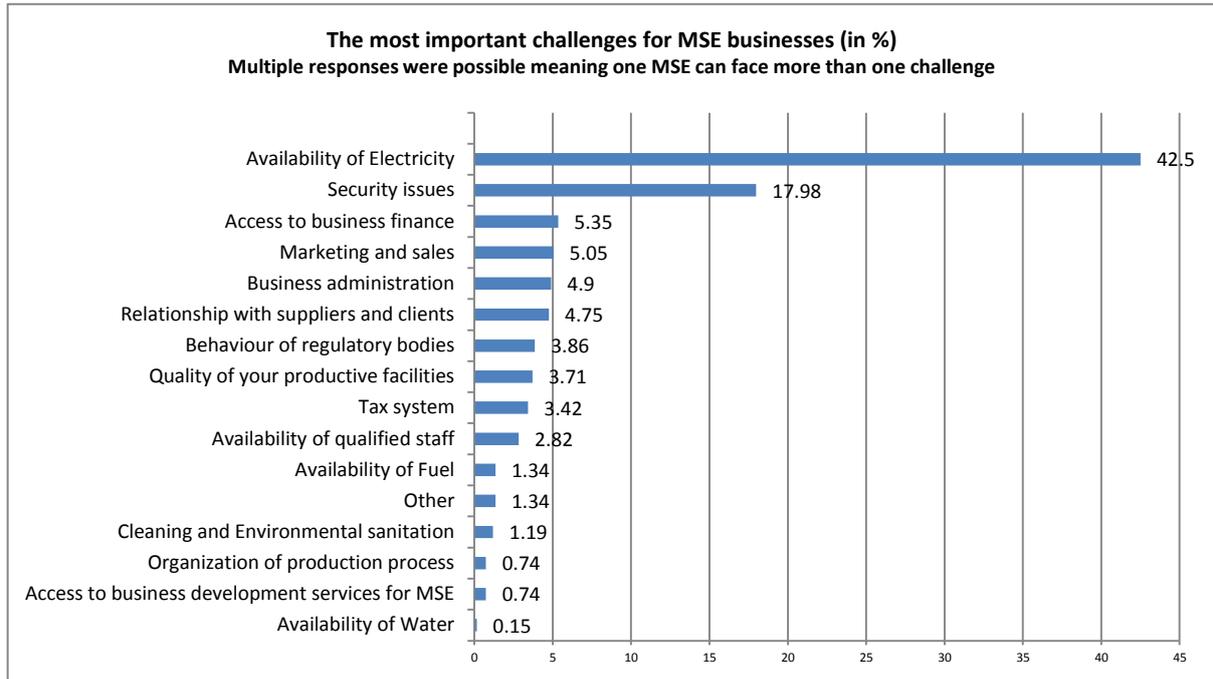
The main challenges that affect our respondents' businesses are the lack of availability of electricity: 42.5% of the respondents stated this challenge as the most important. That issue might be very interesting for loan product design – special loans for solar power or generators could therefore lead to good response within the MSE sector. Also security issues are affecting the respondent's businesses a lot: Almost 84% of the respondents ranked security issues as high (the possible rankings were high, moderate, low and not applicable). Also from the qualitative survey – especially from case studies – one could observe that many customers are suffering from low sales due to security reasons.<sup>13</sup> Also mentioned by over 50% of the respondents as big challenges with high impact to their businesses were the following topics: "Cleaning and Environment"<sup>14</sup>, "Availability of Fuel", "Relationship with suppliers and clients", "Business Administration", "Availability of qualified staff" and "Marketing and Sales".

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<sup>13</sup> Also when analyzing the first results of the CSO/SFD market research from December 2013, one can see that political instability is a severe obstacle. In that research also competition was a severe issue.

<sup>14</sup> Referring to Apex, in the previous two years we faced in Yemen serious environmental problems as the cleaning workers has had a strike and that caused the gathering of the garbage in a huge portion in the streets and in front of the business locations. Although the strike was over, yet the garbage is gathered from time to time only, hence this is affecting the business despite who is now responsible itself of this problem.

Figure 4 The most important challenges to MSE



## 5. FINANCIAL PROFILE AND PATTERNS

### Key findings:

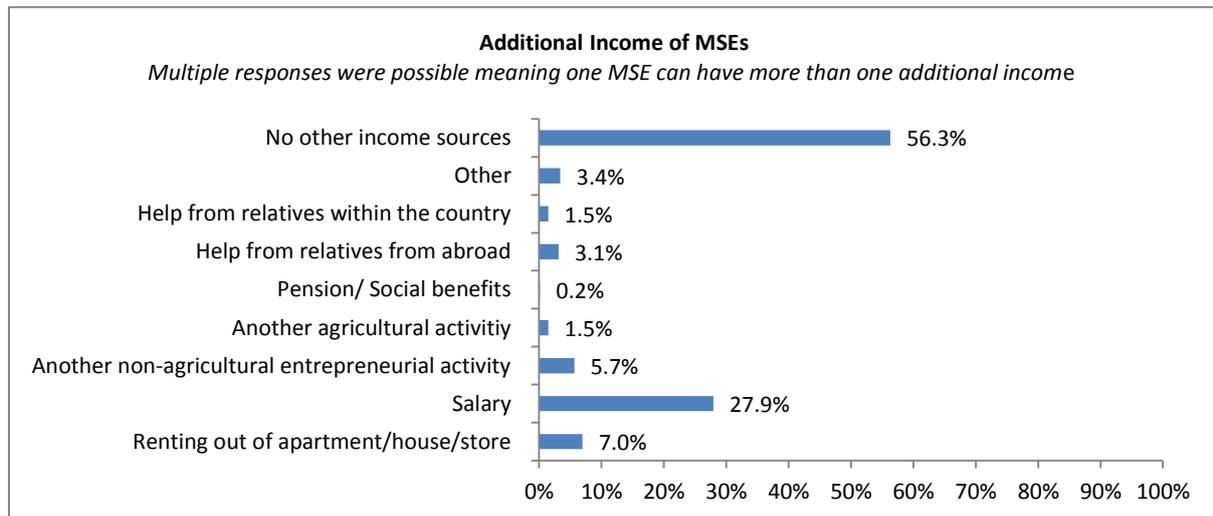
- ✓ An average micro business obtains monthly sales of YER 200,000, while SMEs sell about YER 800,000 per month
- ✓ The average monthly net profit for micro businesses is YER 50,000 and for SMEs YER 140,000
- ✓ An ordinary micro business owns stock worth YER 1 Million, an ordinary SME owns stock worth YER 9 Million
- ✓ Male owned businesses are six times bigger than female owned businesses
- ✓ The Profit Margin of businesses are on average 20%

Although methodological and time constraints did not allow us to conduct an in-depth business assessment with each of the interview partners, we were still able to perform a “mini-assessment” that conveyed some of the core financial figures of the business. Overall, a large majority of participants were willing to provide this rather sensitive information.

### 5.1 Additional Income

About 43.7% of the respondents derive additional income from activities besides their main business – mainly salary (28%). Even though we have no information about the level of those incomes, it is striking that so many of our interviewees report additional income sources. Loan assessments should therefore explicitly ask for those additional income sources and consider them when calculating the repayment capacity (as long as they are significantly large enough).

**Figure 5 Additional Income of MSEs**

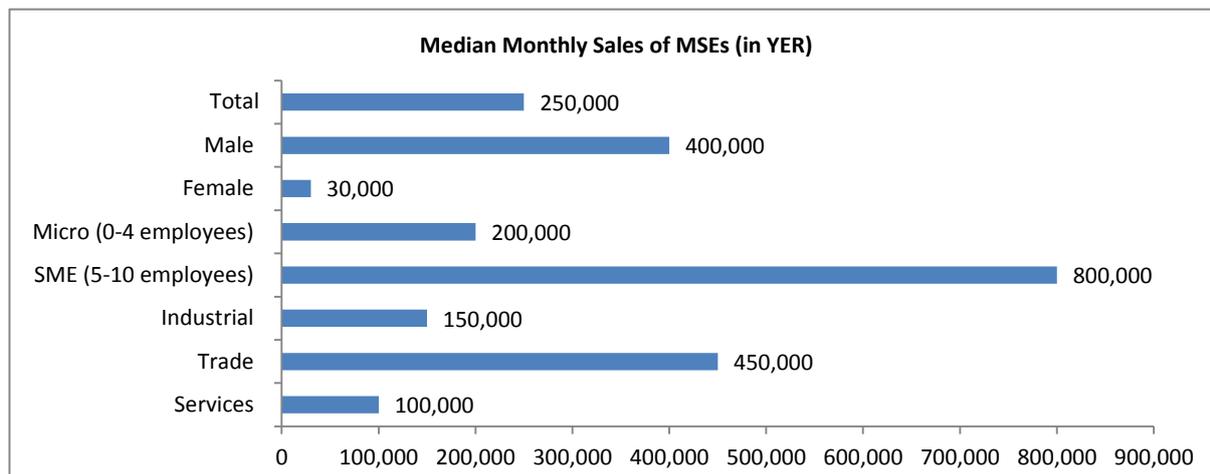


Nevertheless, when asked for the most important source of income, about 76.4% declared the business as most important income source, while only 14.5% of the respondents stated that the main income derives from their salary and 9.1% have declared other incomes as main income.

## 5.2 Sales

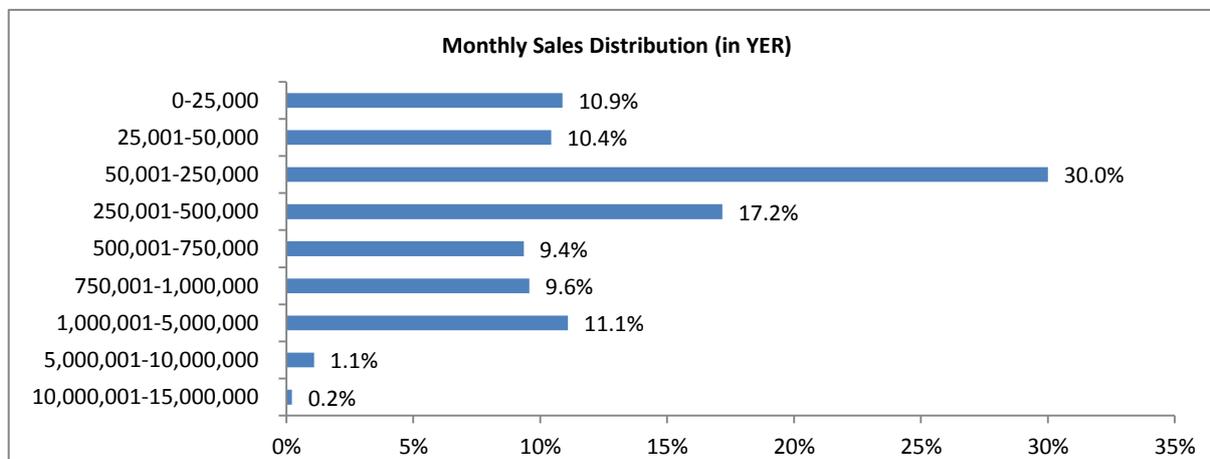
An average business has monthly sales of YER 250,000<sup>15</sup>. Monthly sales figures for men lie at YER 400,000, while women have a median monthly turnover of only YER 30,000. The median micro business has YER 200,000 sales per month, while SMEs have ordinary sales of YER 800,000 per month. Generally the trading businesses take in more sales than the manufacturing and services businesses. In the following table you can see the mean and median sales per month for the above mentioned groups.

**Figure 6 Monthly Sales of MSEs**



When looking at the Sales distribution, 51.3% of the MSEs earn monthly sales up to YER 250,000. Most of the business owners (30%) are generating monthly sales between YER 50,000 and YER 250,000.

**Figure 7 Monthly Sales Distribution of MSE**



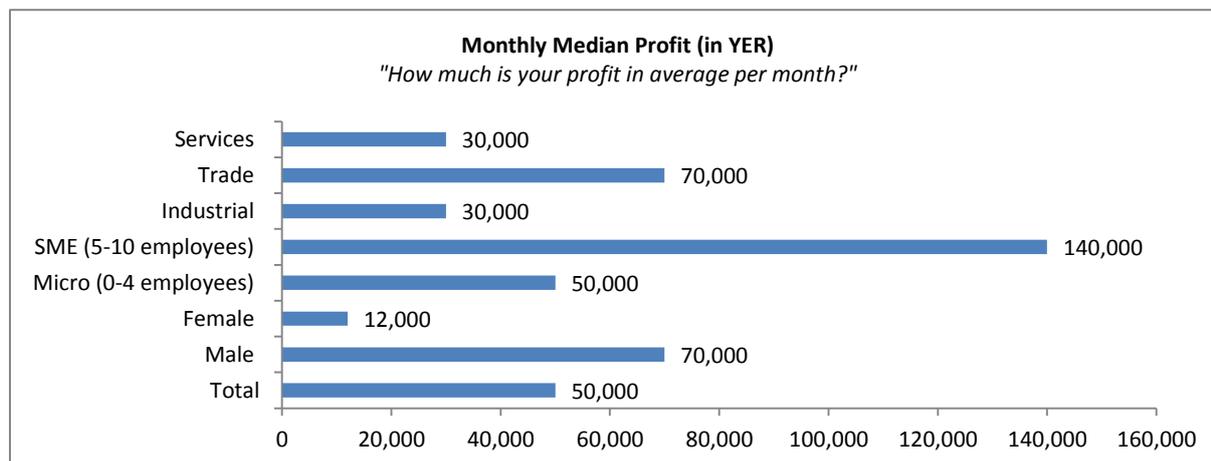
<sup>15</sup> The median (also called middle value) is a numerical value separating the higher half of the data from the lower half. In order to be conservative with our statements, we use the median value instead of the average (also called mean) in this analysis as it shows that the average is very often much higher than the median, as some few respondents gave very high numbers as answers and hence distort the results.

### 5.3 Profit

#### Net profit

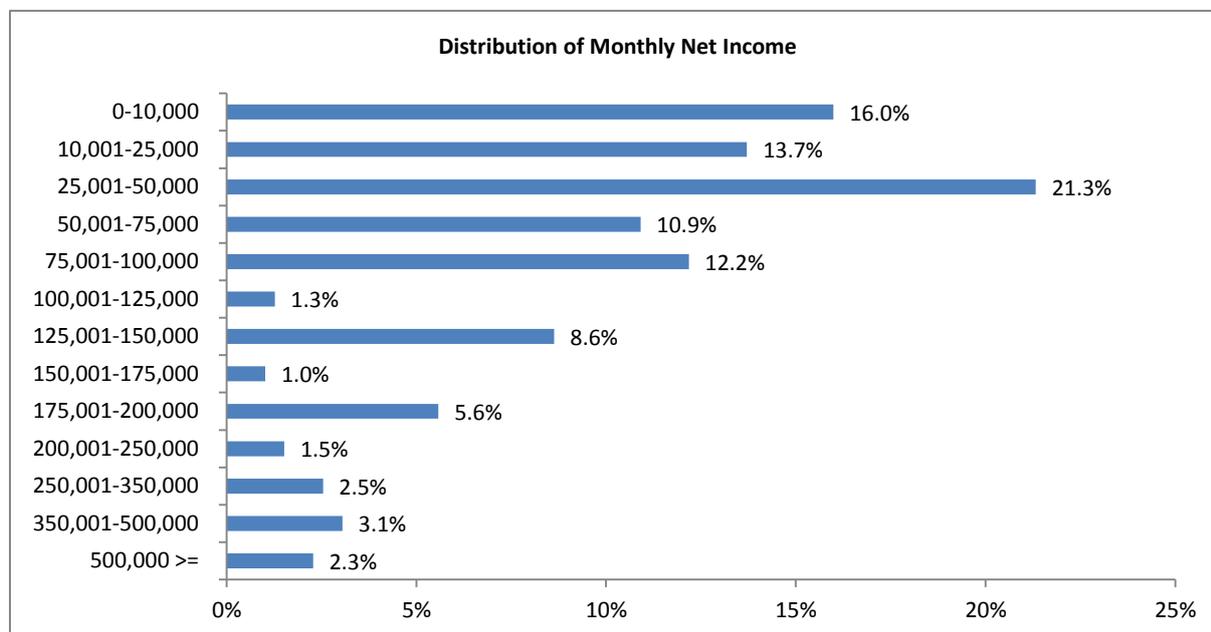
Looking at net profit per month (the money that remains when deducting all operational costs), the male respondents ordinarily earn YER 50,000 per month, while women have a monthly net profit of only YER 12,000. Micro business can generate YER 50,000 per month and SMEs about YER 140,000.

**Figure 8 Monthly Median Profit**



When looking at the distribution of monthly average profit, it is interesting to see that about 50% of the respondents have less than YER 50,000 per month. About 75% of the respondents have an average monthly profit of up to YER 125,000. It is remarkable that almost 16% of the respondents have only up to YER 10,000 per month as net profit. With this money they still have to pay for family expenses.

**Figure 9 Distribution of monthly net income**



#### (Net) profit margin

Profit margins measure how much of a business' sales are converted into profits. Profit margins for all businesses oscillate around 20%, while Trade businesses have a margin of 15.5%. Service businesses reach

profit margins of about 30% which is in line with the general knowledge that Service businesses have a higher profit margin than all other sectors.

**Table 6 Net profit margin**

Category	Net Margin	Category	Net Margin	Category	Net Margin
<b>Total</b>	<b>20%</b>			Industrial	20%
Male	17%	Micro (0-4 employees)	25%	Trade	15%
Female	40%	SME (5-10 employees)	17%	Services	30%

Women have very high profit margins. This might be due to many factors, such as that women often run service businesses (generally higher margin), that they economize more than men and that operational costs are not so high as they usually do not pay extra rent for their business as they run their business from home. Also the portion of SMEs is smaller with women and SMEs usually also have smaller profit margins than micro businesses.

**Box 1 Case Study – Profit Margin**

Ammar Ali owns a traditional fabrics and tailoring shop in Taiz. His shop is located in a narrow street off Jamhoria street. He makes and sells local women dresses. The shop has been operating for 50 years. He said that he used to work in the shop with his father, and he inherited the shop after the death of his father several years ago. There were three sewing machines and other tools in the shop. According to Ammar estimates, the finished dresses and raw fabrics in stock worth around YR 600,000 and the sewing machines and other tools worth around YR 300,000. During normal times his average daily sales amounts to around YR 10,000, and during the Eid seasons it increases to a daily average of YR 30,000. He makes around 30% profits of his sales and he saves annually around YR 250,000. He uses his savings to buy more fabrics and to spend on emergencies during times when the daily sales are low. He has never borrowed from formal finance institutions or informal sources and he has never dealt with any financial institution



## 5.4 Fixed assets and stock

Balance sheets of micro-businesses are virtually completely composed of fixed assets and stock, which enables LOs to quickly estimate the business' net worth. As a rule, individual credit volumes should not exceed the value of a business' current assets (which is mainly stock); hence these numbers give an idea of maximum loan amounts for the different groups. The stock of an average Microbusiness is YER one Million, while SMEs ordinarily own stock worth YER 9 Million.<sup>16</sup>

**Table 7 Median Stock and Fixed Assets (in YER million)**

Category	Stock	Fixed Assets	Category	Stock	Fixed Assets	Category	Stock	Fixed Assets
<b>Total</b>	<b>0.00</b>	<b>0.50</b>				Industrial	2.50	0.70
Male	2.00	0.50	Micro	1.00	0.40	Trade	1.25	0.50
Female	0.06	0.20	SME	9.00	2.00	Services	9.50	0.40

In line with findings from other studies and with the declarations of our respondents, we find strong evidence that the size of a business strongly correlates with gender: Male-owned businesses have on median 2.5 times more fixed assets (YER 500,000 vs YER 200,000) than female owned business and more than 33 times of stock (YER 2,000,000 vs YER 60,000).

<sup>16</sup> The reason, why services businesses have such high values of stock is that only six respondents from Service businesses were giving information about their values of fixed and current assets, hence this information is not statistically trustable. Usually Service businesses have a rather low amount of stock.

## 6. CURRENT USE OF FINANCIAL SERVICES

### 6.1 Non-Credit Products

#### 6.1.1 Savings

##### Key findings:

- ✓ More than 90% of MSMEs do not have any account in a financial institution
- ✓ About 25% of the respondents do not have any surplus cash to save
- ✓ 16% of the respondents keep their money at home
- ✓ Women are less financially included than men
- ✓ In ROSCAS respondents save around YER 10,000 per month
- ✓ Insurance Services have a huge potential market: From 673 respondents only 16 use or used an insurance service in the past 12 months

Respondents were asked about their savings and lending behaviour. The following table shows how the respondents answered to the question in which form their household saves. It is remarkable to see that about 25% of the Micro Entrepreneurs stated that they do not have any surplus cash. This will be an important factor when calculating the number of potential saving customers for MFI. Also 60.5% of the respondents stated that they use their money to reinvest in their business, meaning that these respondents also claim to not save it and not to have any surplus to keep aside as savings. Anyway this high number is interpretable in different ways: Either the majority of respondents really do not have any surplus cash, or respondents just tend to say that they use money for reinvestments as this is the easiest answer and makes them look like good business men. Therefore, we should not exclude them from potential savings or loan customers.

**Table 8** How MSEs save (Multiple responses were possible)

	Total	Micro	SME
Reinvest in this business or other business	60.5%	58.2%	74.2%
I don't have any surplus cash	23.0%	25.9%	6.2%
Keep at home	16.2%	16.5%	14.4%
Voluntary deposit in a bank	4.8%	4.3%	7.2%
Reinvest in real estate	2.2%	2.3%	2.1%
Other	1.6%	1.4%	3.1%
Voluntary deposit in a PPSC	1.5%	1.6%	1.0%
Voluntary deposit in a MFI	0.9%	0.7%	2.1%
Lend to friends	0.6%	0.7%	-
Invest in farm/animals	0.2%	0.2%	-

When asking, which of the following financial transactions and services are currently used or have been used at least once in the past 24 months by the respondents, following results can be seen: About 22% of the women have not used any service in the past 24 months, while only 7.5% of the men haven't used any service. This gap is pretty high and shows very clearly that there is a huge potential market for financial inclusion of women.

## Box 2 Case Study – Savings

Khalid Mohamed is young man in his twenties. He owns a footwear shop in Jamhoria Street in Taiz. He established the shop one year ago. Khalid estimated the value of the goods in stock to be around YR 800,000. His average daily sales in normal times were around YR 15,000 but in Eid seasons his average daily sales would increase up to YR 55,000. He estimated his profit at 10% of his sales, but spends it all in family consumption. He said that since he established the shop he did not accumulate any savings.



Anyway, for almost every financial service there is still an unserved potential market, both for men and women. About 17% of the MSMEs are using or have used a Current Account in the past 24 months - for Savings Accounts only 12% of MSMEs. For accounts, the MSMEs mostly rely on FIs, while Local Money Transfer within Yemen is with over 70% fully in the hands of MFIs. Especially this service is done very regularly in Yemen: almost 75% of the MSEs are using or have used this service. Even foreign exchange is a service, which is regularly used mainly by men. Regular services (such as salary payments, standing orders, payments of utility bills) are used quite often and are mainly operated through PPSCs.

**Table 9 Current Usage of Financial Services (in %) (multiple responses were possible)**

	Total	Male	Female
Local Money Transfer (within Yemen)	74.0%	83.9%	36.0%
Foreign Exchange Services	60.2%	65.9%	38.1%
Regular Services (i.e. Salary payments, standing orders...)	44.0%	42.0%	51.8%
International Money Transfer	26.3%	29.2%	15.1%
Current Account	16.9%	18.7%	10.1%
Savings Account	12.0%	10.1%	19.4%
None	10.6%	7.5%	22.3%

### Findings from Qualitative Research:

*Of the 5 micro-entrepreneurs whom were personally interviewed in Aden and Taiz in the course of in-depth interviews, only one of them confirmed making annual savings of YR 250,000 or around YR 21,000 per month. He makes this amount in the two Eid-seasons (Eid Alfitr and Korban Eid) and usually uses these savings to buy fabrics and for emergencies during seasons when the daily sales are limited. The other four entrepreneurs confirmed that for three years and since the political unrest started, they were not making any savings out of the profits they make because they use it to cover household expenses.*

*The Focus Group Discussions showed that generally spoken women save more money than men. Also they use their savings for family purposes while men are using their savings for different purposes. These results indicate that targeting more women with loans and savings products will result in more social and economic development at the family level.*

*About 16% of the respondents stated that they keep their money at home. These respondents are of course potential clients for bank accounts. Only 7.13% of the respondents keep voluntary deposits in a financial institution, that means that 92.87% of MSMEs are not having an account – taking this into consideration one can see that a huge majority of MSMEs is still unbanked and hence there is still a big group of people who need to become financially included.*

## ROSCAS

When respondents were asked, if they participated in an informal collective saving scheme, only about one fourth claimed to be member of a ROSCA (such as *Hakba Jameea*).

**Table 10 Participation in a collective saving scheme in the last 12 months**

	Participating	Not Participating
Total	25.0%	75.0%
Micro (0-4 employees)	26.4%	73.6%
SME (5-10 employees)	16.5%	83.5%
Male	19.7%	80.3%
Female	45.3%	54.7%

It is interesting to observe that it is mainly women who are involved in ROSCAs (about 45% of women have participated in a collective saving scheme in the past 12 months) and rather Micro entrepreneurs than SMEs. About 67% of the respondents, who participate in a saving scheme, participate in one group only, while 18% participate in two groups and 9% in three groups in the same time. In about 26% of the cases, the groups consisted of ten group members.

On average, respondents make a monthly contribution of about YER 24,000. The median contributions are only YER 10,000. The male participants save YER 15,000 per month in their saving scheme, while women save YER 10,000. This money is then used for different purposes: About 30% of the respondents who save in ROSCAs use the saved money to open a new or reinvest into the own business. For the about 50% of the respondents this money is used for exceptional expenses (such as family occasions, buying household goods, etc.).

**Table 11 How money saved in ROSCAs is used**

Purpose	Share		Share
Start new/ extend existing business	30.7%	Buy Home Appliances, Furniture, HiFi	10.6%
Other	21.6%	Buy Car	3.5%
Family Occasions (e.g. wedding, funeral)	15.6%	Education	3.5%
Improve Housing Situation	13.6%	No special purpose	1.0%

Hence, considered that this money is used as savings it could theoretically also be taken for repaying loans. Anyway, it would be also wrong to say that the monthly savings into ROSCAs is conform with the monthly repayment capacity as we know that respondents also tend to keep money at home and not to save all their money at ROSCAs. The monthly repayment capacity therefor should be higher. An idea (but not statistically confirmable) of the actual repayment capacity can be given by the qualitative survey, where we could find out from our respondents how much they can save per month: Women stated that they usually save about YER 46,250 per month (which is higher than the monthly profit; anyway we know from the study that women tend to have additional income from other businesses or salary payments), while men save about YER 64,775 per month (which is in line with the male net profit).

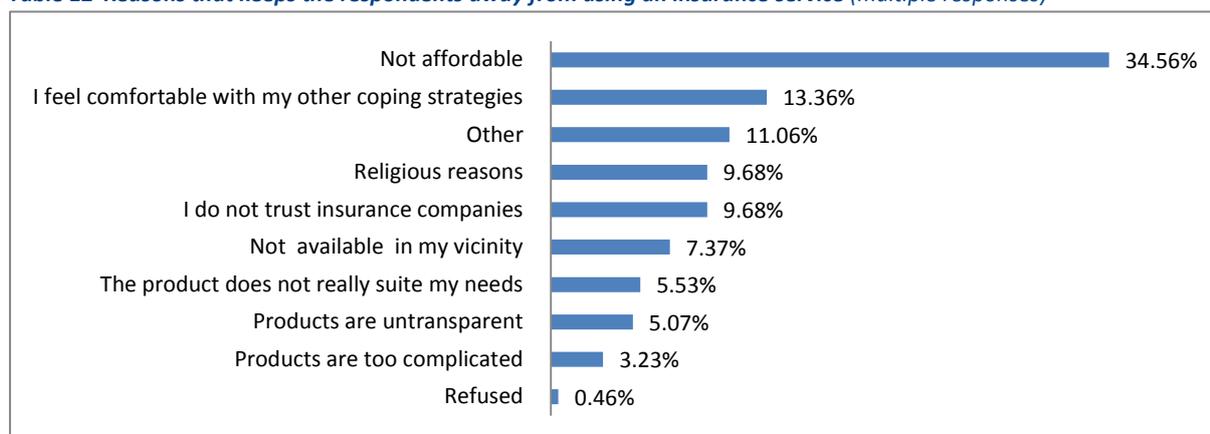
### 6.1.2 Insurances

We asked our respondents if they are aware of any insurance services that they can use for their business or private needs. 38% of the male respondents and only 18.71% of the female respondents knew of an insurance service<sup>17</sup>. Looking generally at the MSEs, only 34.03% are aware of at least one insurance service that they can

<sup>17</sup> Here it is important to mention that – according to a source from SFD - respondents might have gotten confused between private sector insurance and the government social protection insurance scheme that targets poor people by providing them with a monthly stipend distributed through the social welfare fund branches or through PPSCs. Hence it is possible that those insurance services provided by PPSCs that are mentioned by respondents in this chapter might be the social

use for their business or private needs. Of those who knew something about insurances, anyway 93.13% of them do not use any insurance service. From all our 673 respondents, only 16 respondents (2.4% of MSEs) use an insurance service or did so at least once in the past 24 months - almost all of these insurance services were offered by PPSCs. This shows an immense unserved potential market for insurances. When asking the respondents, who haven't had any insurance in the past two years, but who knew about insurances, what kept them away from using a formal insurance, about 35% of them stated that they could not afford any insurance. 13.4% of the respondents stated that they feel comfortable with their other strategies. Religious reasons were with 9.7% also an important factor, as well as that 9.7% of the respondents do not trust in insurance companies. Many of the mentioned restraints of not using insurance services can be minimized by defining special products for MSMEs (sharia conform, easy and transparent) and by investing in education and marketing campaigns.

**Table 12 Reasons that keeps the respondents away from using an insurance service (multiple responses)**



## 6.2 Credit Products

### Key findings:

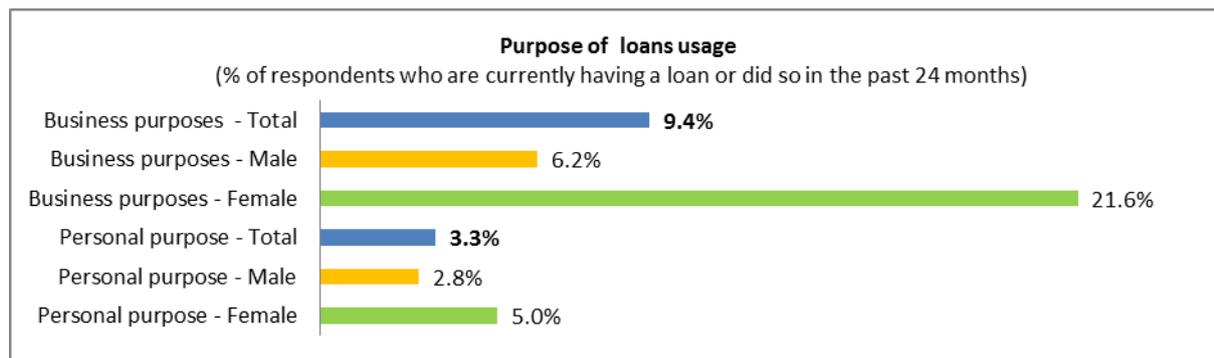
- ✓ Less than 10% of respondents have taken a business loan in the past 2 years and less than 4% a private loan
- ✓ Obtained median loan amounts range at around YER 100,000 (although average loan amount is around YER 420,000)
- ✓ Average loan maturity of obtained loans is 12.5 months
- ✓ Almost 90% of the respondents claimed that they repaid the loan with money derived from the business

Respondents were asked if they use loans for business or private purpose or did so in the past 24 months. The majority of respondents have not taken a loan in the past 24 months. Anyway some got business or consumer loans. About 9% of the respondents took a loan for business purposes and about 3% of the respondents took a loan for private purpose (while this can mean that the same respondents who took a loan for private purpose also took a loan for business purpose).<sup>18</sup>

protection insurance schemes. This actually would mean that the potential market for private sector insurance would be even bigger as described in this chapter.

<sup>18</sup> The results of the CSO study show that currently only 2.5% of the respondents in Ta'izz, Sana'a and Adan are currently repaying a loan. The difference between our result (9.36%) and the 2.5% is that we asked our respondents if they are currently repaying a loan or have had a loan in the past 24 months, while the CSO study was asking only about current loans.

**Table 13 Usage of Loans**



A comparably high percentage of female respondents have taken a business loan within the past 24 months. This number is distorted for following reason: As women were hard to find in the markets and by random, the local research company *Apex Consulting* found some of the women with help through microfinance organizations. Based on this knowledge, one can suspect that the real percentage of women having taken a loan is much lower. Anyway based on the results what can be clearly declared, is that less than 10% of the MSMEs have taken a loan for business purpose and even less than 4% have taken a loan for private purpose.<sup>19</sup> These numbers can be taken in order to find out a potential market. This opens a huge potential market.

Comparing the usage of Micro entrepreneurs and SMEs, one can see that there is almost no difference in their lending behaviour: Looking at respondents with microenterprises (including the distorted numbers of female respondents), 9.4% have taken a business loan in the past 24 months, while it's 9.3% for SMEs (also including the distorted numbers of female respondents). This is not different for private loans.

For business loans, 77.8% of the respondents who have taken a loan in the past 24 months, have taken the loan from an MFI, while only 22.2% were getting the loan from a Formal Financial Institution (i.e. bank). For private loans, about 72.7% got the loan from an MFI, while 27.3% from a FI.

When the 65 loan-experienced respondents were asked, which loan product was used for the respondent's most important loan, more than a half (58%) stated that the loan was an individual loan. About 17% of them took a group loan<sup>20</sup>, and another 23% were taking an Islamic loan product, although only one of these 17 people knew which kind of Islamic loan product it was.

**Table 14 Which kind of loan product was used for the last most important loan**

Type of Financing Facility	Share
Individual loan with determined interest rate, repaid in instalments	58.5%
Group loan with determined interest rate, repaid in instalments or as bullet repayment	16.9%
Islamic loan (I do not know which kind)	23.1%
Islamic Product (Specify) (	1.5%

<sup>19</sup> Also when analyzing the first results of the CSO/SFD market research from December 2013 about 93.4% of the respondents have stated that they haven't received a loan yet. This is in line with our results.

<sup>20</sup> It is interesting to see that when we asked our respondents about the type of collateral that they were providing for their loans, 33.85% of them stated that they provided the group as collateral. The reason for the discrepancy might be that the respondents are not so well educated and felt, when they took a group loan, that the loan was anyway for them individually. Hence, we can act on the assumption that actually 33.5% of the respondents took a group loan and only about 42% of the respondents took an individual loan

### Loan Amount & Maturity

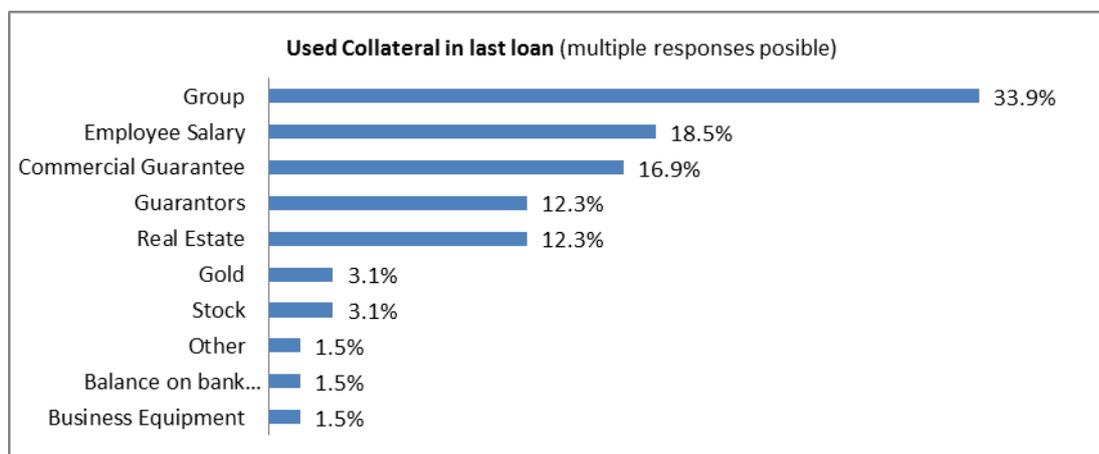
The average loan amount of the most important loan from the 65 respondents is YER 421,369.23. Anyway, median loan amounts range at around YER 100,000. Very few respondents (65) actually took a loan and hence could answer the question about loan details. Hence, it is statistically impossible to analyze the loan amounts more into detail and to draw statistically reliable conclusions about men, women, Micro entrepreneurs and SMEs. What can be said with statistical doubtlessness is, that on average women have taken loans with much lower amounts (YER 150,031.25) than male respondents. Also one can conclude that the average loan amounts of the male respondents are lying above the general average of YER 421,369.23.

The average loan maturity for loans is 12.5 months, with 61% of the respondents having taken a loan with a term of 12 months and 14% with a term of 10 months. The minimum maturity was three months and the maximum is 60 months.

### Collateral

When it comes to collateral, the group, salary, a commercial guarantee, real estate and guarantors are the most important collaterals

**Figure 10 Used collateral**



### Repayment of Loan

When asking the respondents from which sources they repay their loan, 89.23% stated that the most important source comes from the earnings from the business. About 10.77% said that their most important source is the monthly salary. The respondents were also asked, if they used any further loans during the time they had liabilities for this most important loan, but about 87.7% denied. This is a good sign, that the loans can be repaid via the business income in most of the cases, meaning that the loan amounts must have been appropriate (or too little) for the size of the businesses.

### Reasons for Rejections

Respondents, who haven't received a loan in the past 2 years, were also interviewed. When they were asked if they applied for a loan in the last two years, 93.4% of them responded that they have not.<sup>21</sup> Only 5.3% (32 respondents) out of 608 respondents stated that they had applied for a loan, but that they were rejected. With

<sup>21</sup> In the CSO study respondents were asked if they ever requested for a loan from an informal source: 26.24% in Taiz, Aden and Sanaa responded that they have applied for a loan before. We only asked for the last two years, hence the information is not comparable.

61.3% the most important reason for the rejection was that they did not have sufficient collateral. 6.5% stated that their business was not registered and that was why they couldn't obtain a loan. About 32.3% of the respondents said that there were other not specified reasons why they were rejected. When they explained more in detail, reasons such as too high interest, religious reasons or too low amount were mentioned.

### 6.3 Perception of Banks

#### Key findings:

- ✓ Respondents have limited knowledge about banks and are discouraged to open accounts with banks
- ✓ Sharia conformity of an FI is an essential and important factor for respondents
- ✓ Bad marketing: Regarding to loans. Only 10% of the respondents learned from the institution via direct marketing
- ✓ Easy collateral, adequate maturity and quick loan process is an important factor to choose a certain type of loan

#### 6.3.1 Knowledge of formal institutions

##### *Findings from Qualitative Research:*

All the participants in the three locations at FGDs confirmed knowledge about some formal and informal microfinance providers. Anyway, when they were requested to mention names of formal microfinance providers, only very few knew about some institutions. This result may indicate that most microfinance institutions/banks, other commercial banks and microfinance providers have inadequate promotion and marketing plans. Another important reason for the limited knowledge was that most of the non-bank microfinance institutions, with the exception of NMF, operate in few governorates.

#### 6.3.2 Savings

We went through some features with the respondents that might affect the attractiveness of formal savings for them. One feature after the other was read out and the respondent had to say how important this could be for him/her. The questions were about reputation, Interest rates, Sharia conformity, etc. The following table shows how the MSE scored those features:

**Table 15 Features that affect the attractiveness of formal savings**

	Very Important	Important	Moderately Import.	Not Important
Sharia conformity	92.0%	1.2%	0.9%	5.8%
Good reputation of the bank	89.5%	3.6%	0.6%	6.2%
Option to withdraw money on demand	84.7%	8.0%	1.3%	5.8%
Easy procedures; good customer service	81.7%	10.0%	1.2%	7.0%
Option to deposit money on demand	78.5%	12.0%	2.5%	6.8%
Geographic proximity of branch	69.8%	18.6%	4.5%	7.0%
Option to get a loan	45.5%	20.5%	8.5%	25.4%
High retain rates	24.2%	15.8%	7.9%	52.0%

Sharia conformity is for a high majority of the respondents a very important factor to use a financial service, hence also for over 50% of the respondents, high retention rates are less important. What is interesting to see is that not everybody is interested in the option to get a loan from the financial institution where they save their money. There might be two reasons for it: Either 25% of the respondents are simply not interested into

taking a loan, or for them it is simply not in their mind that a bank might even give the opportunity to lending money. Most probably it is a combination of both.

***Findings from Qualities Research:***

*In the course of the FGD formal institutions were more preferred for savings than informal forms, hakbas<sup>22</sup> and keeping money saved in the house. Anyway following problems discourage savers to resort to formal financial institutions and encourage informal forms of savings: lengthy procedures of establishing savings plans; difficult conditions of plans offered by financial institutions which cannot be met by the majority of respondents; limited knowledge of respondents regarding to features of the products offered by financial institutions; limited geographic coverage of the networks of financial institutions.*

*The participants of the FGDs were asked about the advantages and disadvantages of saving in a bank:*

**Table 16 Advantages and Disadvantages of banks savings plans**

Advantages	Disadvantage
<ul style="list-style-type: none"> <li>▪ More trusted and safety compared to <i>Hakbas</i></li> <li>▪ Freedom and easiness of depositing and withdrawal</li> <li>▪ Returns on savings</li> <li>▪ Instant access of cash when needed compared to <i>Hakbas</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ Lengthy procedures and paperwork</li> <li>▪ Not meeting the conditions required for establishing savings plan. Mainly the minimum initial amount to establish a saving plan may not be available at one time and lack of identity documents. (All these limitations were mentioned by the majority of participants)</li> <li>▪ Reluctance because of uncertainty that banks' savings products conform with Islamic Sharia principals</li> <li>▪ Their savings are small and do not deserve the troubles of establishing a saving plan</li> <li>▪ Long distances to reach a bank</li> <li>▪ No trust because one of the banks announced bankruptcy (mentioned by few)</li> <li>▪ Unavailability of cash in the some banks at times of withdrawals (mentioned by few)</li> </ul>

*Following banks were mentioned by the FGD participants when it comes to where someone could save money: Tadamon Bank, Alkuraimi Microfinance Bank, Saba Islamic Bank, Post Office, Yemeni National Bank.*

### 6.3.3 Loans

***Formal versus Informal Financing***

***Findings from Qualitative Research:***

*The following table reflects the opinions of the majority of the participants of focus group discussions regarding features of loans from formal and informal sources.*

**Table 17 Differences between formal and informal sources regarding to loan features**

Loan features	Formal microfinance providers Microfinance institutions and Banks	Informal sources		
		Wholesale Suppliers	ROSCA	Relatives Friends
Loan size	<p><i>Bigger than Relatives, Friends, and ROSCAS</i></p> <p><i>Most probably the loan amount is less than needed</i></p> <p><i>Stepped loan system which guarantees a bigger second loan if repayment performance of the second loan is good.</i></p>	<p><i>Bigger loans according to need</i></p>	<p><i>Generally Smaller loans compared to formal MF providers</i></p>	<p><i>Smaller loans compared to microfinance providers.</i></p> <p><i>Getting a loan is not guaranteed compared to</i></p>

<sup>22</sup> Hakba is the local name for ROSCA

	<i>Getting a loan is more guaranteed compared to friends and relatives irrespective whether the loan is adequate or not.</i>			<i>formal sources.</i>
<i>Collateral</i>	<i>Personal guarantee from trader locally know as commercial guarantee. Salary guarantee Jewelry (Aden MFI and Tadamon) Promissory notes<sup>23</sup> Real estate mortgage<sup>24</sup></i>	<i>Personal knowledge of the lender with the borrower character Promissory note</i>	<i>Personal knowledge of ROSCA members</i>	<i>Personal knowledge of the lender with the borrower character Informal/Personal promissory note</i>
<i>Speed</i>	<i>The loan can be obtained in a short time; especially subsequent loans after the first loan.</i>	<i>Instant in kind loan no procedures</i>	<i>Slow, you have to wait for your turn. Some groups give priority to the most needy</i>	<i>No procedures the speed and obtaining of the loan depends on the availability of cash and the relation between borrower and lender.</i>
<i>Profit margin/rate only</i>	<i>1.6% - 2.5%/Month</i>	<i>Profit margin ranging from 3% -4% per month.<sup>25</sup></i>	<i>No interest on loans</i>	<i>No interest on loans</i>
<i>Loan maturity</i>	<i>Longer maturity 12- 24 months according to loan size and purpose</i>	<i>Shorter maturity not exceeding 10 months</i>	<i>Maturity depends on the duration of the ROSCA,</i>	<i>Shorter maturity not exceeding 3-4 months</i>
<i>Repayment methodology</i>	<i>Systematic repayment schedule in monthly instalments. Most participants think that this good feature because paying in systematic instalments teaches them how to manage and control their cash flows.</i>	<i>Weekly or Monthly instalment depending on the loan size, frequency of borrowing, and quality of the business relation.</i>	<i>Weekly, biweekly or monthly instalments</i>	<i>Repayment mostly not systematic according to borrower capacity The lender may suddenly request repayment of the loan without prior notice</i>
<i>Penalties</i>	<i>All participants mentioned that the institutions which serve them do not charge any fines for delayed repayments. They mention that they know of other institutions which charge fines.<sup>26</sup></i>	<i>No penalties</i>	<i>No penalties</i>	<i>No penalties</i>

*Also the attendants of the Focus Group Discussions were asked what they liked and disliked about loans from*

<sup>23</sup> These are informal promissory notes or personal ones that are issued by the borrower to the lender, where the borrower states that he received a certain amount of money or goods in kind (in some Arab countries it is called *Wasl/Sanad Amanah* and means *trust bill* or *note*). The borrower undertakes/promises to pay the borrower the sum borrowed in cash or the value of the goods agreed upon on a certain date. These promissory notes were mentioned at FGD by women in Sana'a and men in Aden as a valid security for informal sources such as friends, family or whole sale suppliers.

<sup>24</sup> At FGD respondents were asked about the features of loans from banks and microfinance institutions; it was stated that real estate mortgage is requested by banks only

<sup>25</sup> Stated during Focus Group Discussions at FGD with women in Sana'a

<sup>26</sup> Men in Aden mentioned that the *Small Scale Industries Development Fund* in Aden and the *Agricultural Bank* charge fines per day for delayed payment.

formal sources:

**Table 18 Likes and Dislikes of loans from formal sources**

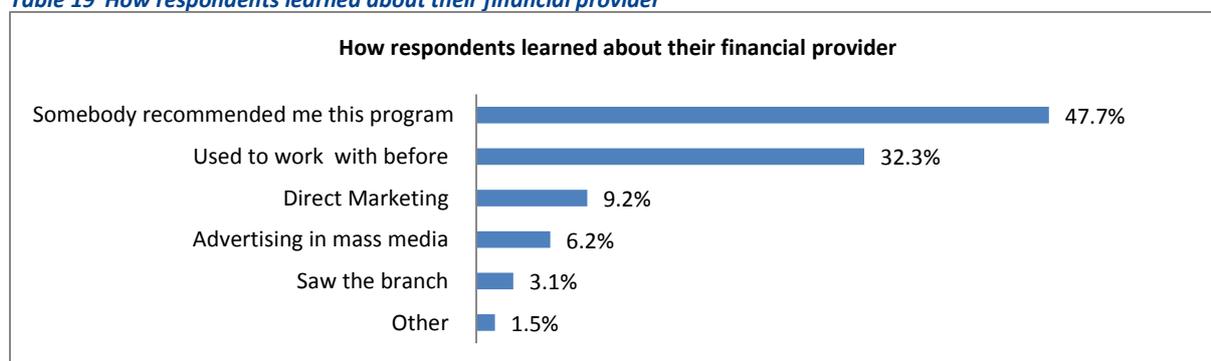
Loan features	What they like in formal loans	What they do not like in formal loans
Loan size	<ul style="list-style-type: none"> <li>Stepped loan system, size increases in subsequent loans</li> </ul>	<ul style="list-style-type: none"> <li>Get less than requested in the loan application</li> </ul>
Collateral	<ul style="list-style-type: none"> <li>Collaterals required were easily accessible</li> </ul>	
Speed	<ul style="list-style-type: none"> <li>Obtaining a loan is guaranteed when requested compared to non-formal sources</li> <li>Getting loan in time</li> </ul>	<ul style="list-style-type: none"> <li>The new Islamic lending procedures are lengthy and may take more than a month, which they do not like</li> </ul>
Compulsory Savings	<ul style="list-style-type: none"> <li>Savings received after loan repayment</li> </ul>	
Profit margin/rate	<ul style="list-style-type: none"> <li>Appropriate profit margin</li> <li>In line with sharia principals</li> </ul>	
Maturity and repayment methodology	<ul style="list-style-type: none"> <li>Repayment in monthly instalments</li> <li>In line with cash flow and borrowers repayment capacity</li> <li>Rescheduling of loans for reasons beyond the client control.</li> </ul>	
Penalties	No opinion is mentioned here because the majority mentioned that the institution do not charge fines for late repayment	
Staff behaviour	<ul style="list-style-type: none"> <li>Well treatment from institutions' staff</li> </ul>	

### Perception of loan-experienced respondents

In our quantitative survey we asked our respondents, who had gotten a loan in the past 24 months, how they learned about their financial provider. It is striking to see that only 9.2% of the respondents got to know their financial provider via direct marketing, as direct marketing usually is a strong tool to reach MSMEs directly at their businesses.

32.3% stated that they used to deal with the financial institution before, which means that they most probably either had an account or they received more than one loan from the very institution. Usually it is the goal of an FI to keep clients for more than one loan cycle; hence it is interesting to see that only about 30% of the respondents have a longer relation to the FI.

**Table 19 How respondents learned about their financial provider**



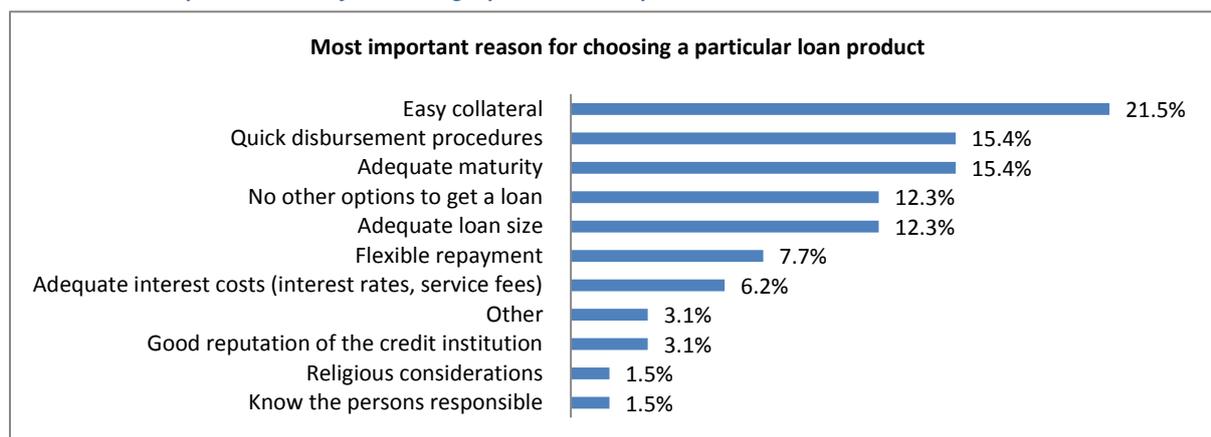
Our loan experienced respondents were asked what the most important reason was for choosing the particular loan product. This question gives important information about how products for FIs should look like in order to be tailor made for the needs of MSEs. Hence it is interesting to see that the most important reason for

choosing a particular loan product was easy collateral. Also an adequate maturity for loans is important as well as quick disbursement procedures.

An adequate loan size was not stated as one of the most important reasons for the respondents to choose a certain financial provider - most probably because from their point of view they received a non-appropriate loan amount (lower than they wished). As we know the demanded median loan amount (YER 700,000) is not in line with the actual median loan size (YER 100,000) that the customers got.

It is also interesting to see that flexible repayment is not the most important reason in first place, but 19.23% mentioned this reason in second place.

**Table 20 Most important reason for choosing a particular loan product**



When the loan-experienced respondents were asked if they would use the source of finance again, 83.1% responded with yes. Eleven respondents (16.9%) stated that they wouldn't like to use their loan source again. Reasons were that there are no needs for further finance and that conditions were not favorable.

### Respondents without loan experience

The respondents, who haven't applied for a loan in the past two years, were asked about the reasons that kept them away from using a formal financial institution for investments in business or for private needs. A huge percentage (53.3%) of the respondents stated that they can finance their needs on their own and that their business does not need further investments. This is in fact something natural and is experienced in many countries that people usually think that they don't need further investments. Experience anyway shows that MSMEs are first sceptical about loan products, but when loan officers explain the conditions (direct marketing) and when they see that their neighbours or friends have borrowed money and have made a good experience with it, they usually also jump on the bandwagon.

### **Box 3 Case Study - Borrows from supplier and not from FI**

Abdel Hakim Aldabiee Rudwan is local dresses retail trader in Sheik Osman Market in Aden. His shop is located in a narrow street within small trading compound. He is employing his nephew to assist him in managing his shop.

He estimated the value of the stock in his shop to be around YR 5 million. His average daily sales in normal seasons amount to around YR 30,000. In Eid Alkorbam season, he said that his average daily sales increased to around YR 150,000 – 200,000, but immediately after the Eid it dropped to around YR 20,000.



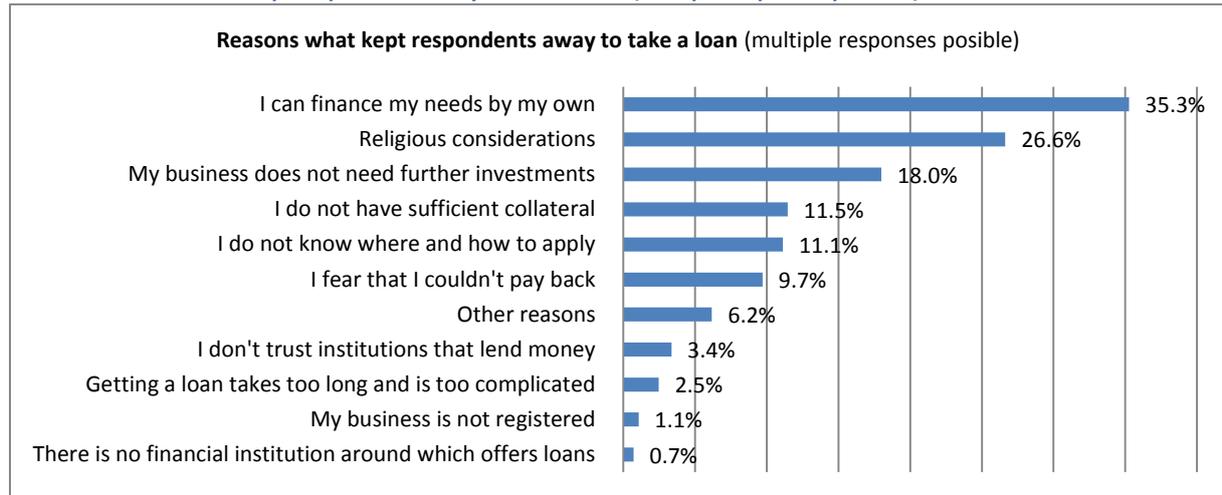
He confirmed that he did not borrow from or dealt with any financial institution.

He usually borrows in-kind from 1 or 2 wholesale suppliers. In each time he borrows stock in the value of YR 200,000 and he repays his debt in weekly instalments of YR 10,000 and he is not charged any profits for his borrowings. He confirmed that the borrowed goods were instantly delivered. Abdel Hakim have ambitions to increase the volume of his business by

opening another shop in a busy street, but the level of activity in the market and sales have dropped sharply during the last three years, since the start of the political unrest. He added that before the unrest his yearly savings used to be around YR 1 million. Currently and due the low activity in the market, his profits can only cover family expenses. He pointed to the closed shops, which are more than those operating, and he said “you see most of the traders were bankrupted and they closed their shops”.

Religious considerations kept 26.6% of the respondents away from applying for a loan. It is also interesting to see that not having sufficient collateral<sup>27</sup> and not knowing where and how to apply keeps respondents away from applying for a loan. To attract these potential customers, a financial institution has to create special products and to do marketing that is tailor-made for this target group.

**Table 21 Reasons what kept respondents away to take a loan (multiple responses possible)**



<sup>27</sup> Also when analysing the first results of the CSO/SFD market research from December 2013, the reason of lack of collateral was the major reason as well as religious believes.

## 7. DEMAND FOR FINANCIAL PRODUCTS

### 7.1 Non-credit products

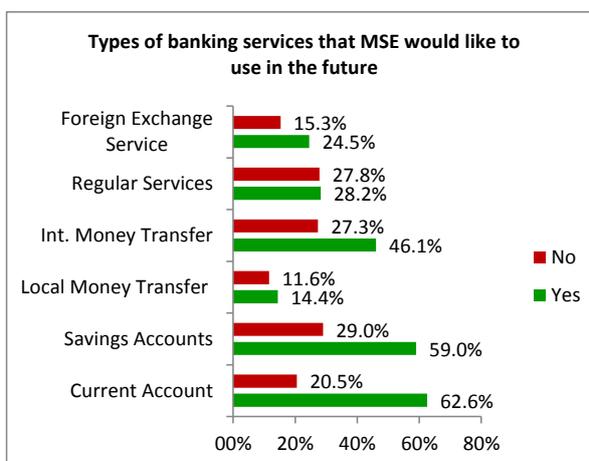
#### Key findings:

- ✓ The demand for non-credit products is substantial
- ✓ Insurances have a big potential market and demand for it is huge

Our respondents were asked which financial services they would like to use in future. Those respondents who have used the product already were not asked as we can assume that they are interested in using the same product also in future.

#### 7.1.1 General Banking Services

About 75% of the respondents, who haven't used a current account before, would like to use a current account in future. For savings accounts it is 67% of them. Local money transfer wants to be used by about 55% of those respondents who haven't used this service before – for international money transfer it is almost 63% of them. Regular Services (such as salary payments, standing orders, payments of utility bills) are only desired by 50% of the respondents who haven't used any before. Regarding to Foreign Exchange, about 62% of them would be interested. If we also take those into consideration who already have used these services before), one can see that there is an immense potential market for financial services within the group of MSMEs.



#### 7.1.2 Insurance Services

When asking our respondents, that knew something about insurances, whether they would be interested in insurances, 57% of them stated that they would be interested in insurances of their buildings, 61% would be interested in a car insurance assuming they had a car, 66% were interested in a health insurance and 41% would be interested in a life insurance. Hence, one can see that there is a demand for insurance. Nevertheless it is important to mention at that point that only a small percentage (about 34%) of all respondents were interviewed about their desired insurances, who were actually aware of insurance services in general. Of course that doesn't exclude the other respondents as potential insurance clients, but in order to attract them additional educational advertising has to be taken into account.

#### Box 4 How to reach potential customers

*To encourage and attract more clients to expand outreach, microfinance providers need to promote their savings and loan products by designing, planning and implementing special marketing and promotion programmes. The programmes should be creative covering the media in addition to exhibitions and meetings in the market places mostly occupied by micro and small entrepreneurs. In the exhibitions, clients of microfinance institutions could participate actively by displaying their products and goods and also by explaining to the visitors the features of the different offers of savings and loan products provided by their institutions. (Source: Findings from Qualitative Research)*

## 7.2 Credit Products

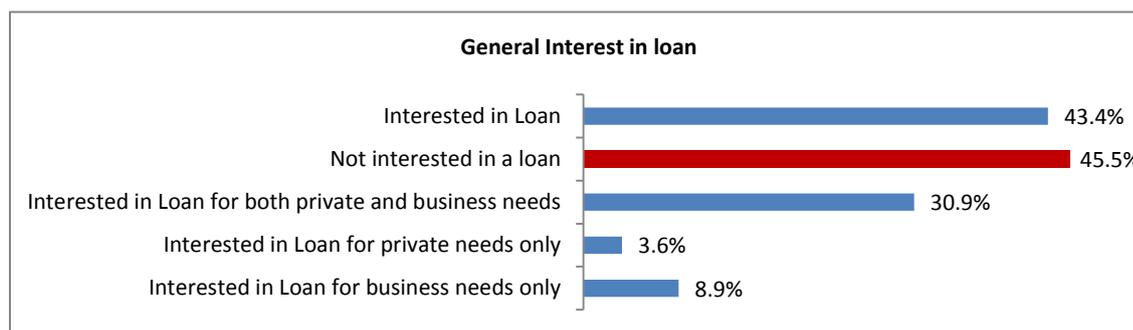
### Key findings:

- ✓ About 43.4% of the respondents would be interested in a loan
- ✓ 45.5% of the respondents clearly stated that they would not like to have a loan
- ✓ Women with home based businesses would prefer to be visited by a female loan officer
- ✓ The median desired loan amount is YER 500,000
- ✓ Sharia conformity is a must have for loans in Yemen

### 7.2.1 General Interest

The respondents were asked whether they are generally interested to get a loan for business or private purpose in future. 43.4% of the respondents (292), who haven't received a loan before, stated that they want to take a loan in future. 30.9% want both a loan for private and business needs, 3.6% want to only have a loan for private needs and 8.9% want a loan for business needs only. 45.5% of the respondents clearly said that they do not want to have any loan. It is interesting to see that women (we are talking about those who haven't received a loan before) rather tend to not wanting a loan: while 48% of the men want to get a business loan in future, only 33% of the female respondents said that they would be interested in one. The same for consumer loans: 41% of the men are interested in a private loan in future while it is only 31% from the female respondents.<sup>28</sup>

Figure 11 General Interest in Loan



### Box 5 Case Study – Demand for Loans

Kamil Sayd is a tailor and his workshop is not far from Abdel Hakam in the same narrow street. He usually designs and sews the fabrics provided by his clients. There were 3 sewing machines in the workshop but he is the only person working in the shop at the time of the visit. He said that the other two workers have left because of the limited business. He added that he used to sell footwear in the shop but he shifted to tailoring, his original occupation, because the sales of footwear has dropped down and he nearly bankrupted and lost most of his capital. His net weekly income was around YR 4,000 and he uses it for family expenses. Kamil said that for the time being he is not thinking of developing his business by making and selling readymade dresses, because there is no business and sales are low. If the situation improved he said he might need a loan to buy fabrics but he does not know how much he will need.

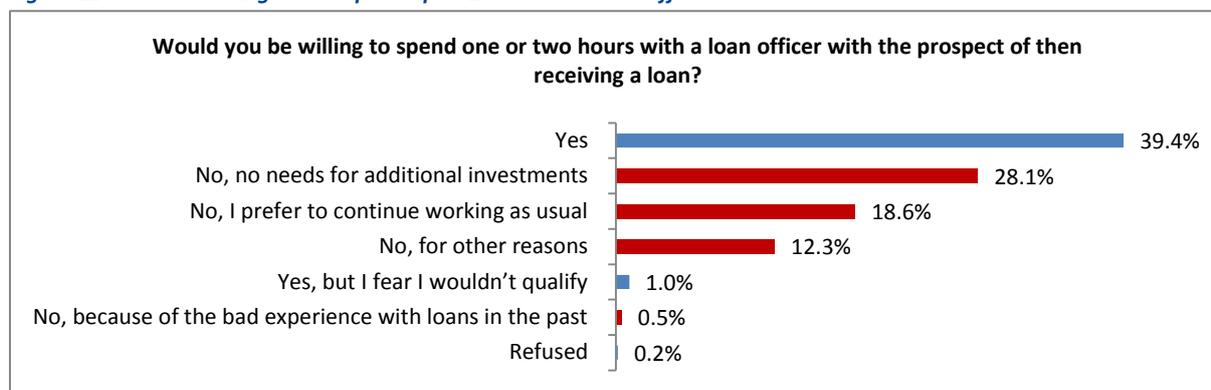


<sup>28</sup> At the CSO study 42.10% respondents who own an enterprise have potential interest in requesting a loan (anyway this could possibly business or consumer loan and is not specified)

## 7.2.2 Concrete Interest

Clearly one can see that there is some general interest in loan products. Anyway all respondents were also asked very directly what would happen in the situation when a new financial institution would send an officer to their business. The respondents were asked if they would be willing to spend one to two hours with the prospect of then receiving loans tailor-made to the needs of their business.

**Figure 12** Willingness to spend up to 2 hours with loan officer



39.38%<sup>29</sup> of the respondents would like to get a loan<sup>30</sup>, while 46.65% say that they do not need further investments and that they would like to prefer to work as usual. These two groups of respondents should anyway not be excluded from the number of potential loan clients; as experience shows that these people will come to ask for loans after some time, when they watched their neighbouring and friends businesses grow.

## 7.2.3 Emotional Considerations

### Findings from Qualitative Researchs:

*In the course of FGD the majority of participants, with the exception of two men of the participants from Sana'a, confirmed that they do not feel embarrassed and the feelings of others towards them were normal and their relatives and friends do not treat them differently as being clients of microfinance institutions. The two men from Sana'a mentioned that they feel embarrassed because some people around them think that it is not in line with Islamic Sharia principles. Others mentioned that they feel pride when they borrow from a microfinance institution because they feel that they were self-sufficient and they were not in need of help or assistance from other people like them. Others think that they were benefiting themselves, others, and their communities. The majority of participants confirmed sharing information about their loans and the microfinance institutions from which they have borrowed with friends and relatives and they encourage them to take loans. Women with home based businesses would prefer to be visited by a female loan officer.*

## 7.2.4 Investment Plan

37% of those who would be interested in receiving a loan would use the money for their business. 1.5% would like to use the money for buying some real estate. Only 1% would use the money for private consumption. The respondents had the option to say that they want to invest in something else than our proposed investment

<sup>29</sup> This percentage slightly differs from the general interest of receiving a loan (43.4%), as the question is more specific and implicates that applying for a loan also means some effort (spending time with a loan officer who will visit your business, giving lots of information about business, etc.).

<sup>30</sup> Also when analyzing the first results of the CSO/SFD market research from December 2013, we can see that these numbers are correct: At that survey about 38.9% of the respondents said they were interested in a loan.

plans and several times respondents mentioned that they would like to buy a vehicle and that they would like to use the money for creating a new business. This could be interesting to create special loans for start-ups and loans for buying cars.

### 7.2.5 Loan Amount

The median desired loan amount lies at YER 500,000, with a significant difference between male (YER 700,000) and female (YER 200,000), Micro<sup>31</sup>- (YER 500,000) and SME respondents (YER 1 Million), and even between the sectors and the cities. These numbers can also be confirmed through the Focus Group Discussions during the qualitative survey.

**Table 22 Desired Loan Amount**

	Median <sup>32</sup>	Minimum	Maximum
Total	500,000 <sup>33</sup>	40,000	100,000,000
Male	700,000 <sup>34</sup>	50,000	100,000,000
Female	200,000	40,000	3,000,000
Micro (0-4 employees)	500,000 <sup>35</sup>	40,000	43,000,000
SME (5-10 employees)	1,000,000 <sup>36</sup>	400,000	100,000,000
Industrial	600,000 <sup>37</sup>	100,000	10,000,000
Trade	550,000 <sup>38</sup>	50,000	100,000,000
Service	500,000	40,000	20,000,000
Aden	700,000 <sup>39</sup>	100,000	10,000,000
Sanaa	500,000 <sup>40</sup>	50,000	100,000,000
Taiz	500,000	40,000	20,000,000

#### Findings from Qualitative Research:

*There was a marked difference in loan size between the desired and actually received. The average size of desired loans requested by FGD participants equal approximately 4.5 times of the overall average received by them. Though the marked difference may partially reflects unrealistic wishes compared to the repayment capacities of some of them, this marked difference also is a good reason for microfinance institutions to revise their the sizes of their loan products and design loan products with different ranges to meet the needs of micro*

<sup>31</sup> Also when analyzing the first results of the CSO/SFD market research from December 2013, the average desired loan amount for micro is about YER 660,000. Anyway looking at respondents with five to nine employees they stated an average amount from only YER 570,000 Here it would be interesting to know how the respondents were chosen in this study.

<sup>32</sup> Numbers are after elimination of outliers (elimination process by Hoaglin and Iglewicz)

<sup>33</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount YER 700,000.

<sup>34</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 1,000,000.

<sup>35</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 500,000.

<sup>36</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 3 Million.

<sup>37</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 650,000.

<sup>38</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 1,100,000.

<sup>39</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 1,000,000.

<sup>40</sup> Without the present elimination of outliers (Hoaglin and Iglewicz) we come to a median loan amount of YER 600,000.

and small entrepreneurs.

### 7.2.6 Loan Maturity

When asked about the preferred loan maturity one could see that some desired maturities were pretty high. The median maturity is 20 months. When taking the median loan amount that would mean a median monthly loan principal of YER 35,000. We will later come back to it.

**Table 23 Desired Loan Maturity in combination with loan amount ranges (in months)**

	Median	Minimum	Maximum
Total	20	2	200
0-75,000	8	5	10
75,001-150,000	12	5	24
150,001-250,000	15	2	40
250,001-300000	15	6	60
300,001-750000	18	6	60
750,001-1500000	20	4	108
1,500,001-3000000	27	11	120
3,000,001-6000000	25	8	120
6,000,001-12000000	24	10	200
12,000,001-24000000	24	21	100
≥ 2,4000,000	22	12	36

### 7.2.7 Interest Rate

It is always difficult to ask somebody how much one would be willing to pay as interest or profit margin; most of the times respondents would say pretty low interest rates which makes it difficult to analyze the results. Anyway these numbers can give you an idea how the perfect world of a MSE would look like. The average yearly desired interest/profit margin for the majority of respondents was 18%<sup>41</sup>. Anyway, one can see that the willingness of high interests is pretty low in Yemen; hence for product design it might be a choice to ask for lower interest rates, but for higher arrangement fees.

### 7.2.8 Collateral

The respondents were asked what kind of collateral would be able for them to provide for a loan. Guarantors, Real Estate and stock are the most favoured types of collateral. Also mentioned were commercial guarantees and salary guarantees as well as business equipment.

It is interesting to see that only one respondent stated that he would be able to provide home equipment as collateral. It obviously seems to be very uncommon in Yemen to provide household goods as collateral, which is in many other countries a frequently used type of collateral for micro loans.

<sup>41</sup> In the questionnaire we did not ask if this would mean a declining or constant interest rate for them as this would go beyond the knowledge of the respondents. These 18% can be used as a guidance to find the threshold of potential customers.

### Box 6 Case Study – Collateral

Arif Ahmed Abdalla own a home based tailoring business and he owns three sewing machines. He buys the fabrics in small quantities, makes local dresses and sells it. For this purpose he requested a loan of YR 200,000 from Amal Bank to buy fabrics in a large quantity at wholesale prices to increase his profits. The bank requested as collaterals commercial guarantee, signatures of two neighbours to his business place, and a lease contract for his business place. He could not get the loan because he cannot provide a commercial guarantee.

### 7.2.9 Group Loans and Guarantees

Respondents were asked if they would be willing to guarantee for the loan of a neighbour or friend if they did the same for him/her. 73% of the respondents agreed and are willing to, while only 27% are not. Also they were asked if they preferred group loans or individual loans and the vast majority of respondents (90%) prefers an Individual loan. It is striking to see that there is quite a difference between the female and male respondents: 32% of the female respondents would prefer group loans, while only 4.6% of the male respondents would prefer a group loan.

### 7.2.10 Sharia Conformity

Sharia conformity is a must have in Yemen: 96.7% of the respondents stated that Sharia conformity is a reason for them to choose a financial product. Hence it would be wise for a microfinance institution to offer sharia conform products (for both credit and non-credit products).

From our qualitative survey: The participants of Sana'a FGD, men and women, have remarked that lending should be in line with Islamic Sharia principals. Half of the participants preferred in kind loans, which could be issued using morabaha, Ijarha or Istisna'a Islamic contracts, the most famous contracts applied by the majority of MFIs and Banks. The other half of the participants required cash loans. Cash loans can only be implemented by Mosharaka or Modaraba.<sup>42</sup>

### 7.2.11 Repayment Capacity

We asked our respondents how much they could easily pay back for a loan considering all the income and expenses of business and family. Experience shows that these numbers, when concretely asking potential loan clients how much they can easily pay, are usually the most realistic. Other estimations of customers, such as monthly sales and profits and expenses are in comparison to this number rather roughly estimated.

This payment capacity is in line with the profit while we then have to assume that the monthly family costs are then covered by additional income (as we know about 43% of our respondents have an additional income).

**Table 24 Repayment Capacity – What respondents can easily pay per month for a loan**

	Median <sup>43</sup>	Minimum	Maximum
Total	35,000	5,000	5,000,000
Male	50,000	5,000	5,000,000
Female	10,000	5,000	83,000
Micro (0-4 employees)	30,000	5,000	3,500,000

<sup>42</sup> In the CSO study respondents were asked about the type of loan they would prefer. Islamic Murabaha was by far the most preferred loan type followed by traditional loans and Islamic Musharka. Islami Mudtharaba did not seem to be preferred by many and some didn't show any preference of loan type.

<sup>43</sup> Number is after elimination of outliers (elimination process by Hoaglin and Iglewicz).

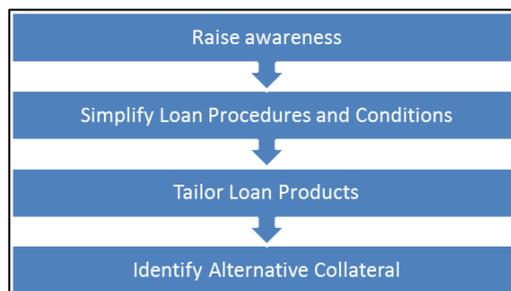
SME (5-10 employees)	50,000	20,000	5,000,000
Aden	42,000 <sup>44</sup>	7,892	1,000,000
Sana'a	30,000 <sup>45</sup>	5,000	5,000,000
Taiz	30,000	5,000	290,000

<sup>44</sup> Number is after elimination of outliers (elimination process by Hoaglin and Iglewicz). Without elimination it is YER 43,042

<sup>45</sup> Number is after elimination of outliers (elimination process by Hoaglin and Iglewicz). Without elimination it is YER 32,500

## 8. CONCLUSIONS

While the results of the quantitative and qualitative survey display a significant **market of 1.9 million enterprises in Yemen** and a substantial demand for non-credit products, they also show a certain hesitance of respondents to credit. This hesitance may be basically traced to three constraints: (i) the prevailing security situation and the lack of regular access to electricity and fuel which negatively impact productivity and accordingly repayment capacity rendering investments into businesses more risky, (ii) the current perception of financial institutions in terms of lending procedures and borrowing requirements and finally (iii) moral and religious concerns regarding to financial products and services.



To address these constraints we recommend initiatives both at the meso and institutional level. An awareness raising/ Marketing Campaign may be organized at the **meso-level** to address moral and religious concerns and hesitance to credit to raise awareness about benefits, lending procedures and requirements. In addition we propose to launch a gender specific direct promotion campaign to reach out to women entrepreneurs through female loan officers and address the specific constraints faced by female entrepreneurs.

At the **institutional level** we recommend to (i) speed up the loan disbursement process by simplifications of loan procedures and conditions to reduce the administrative burden on the clients, (ii) tailor loan products to the payment capacity of the clients and (iii) investigate alternative forms of collateral.

**Table 25 Potentials/Recommendations**

Potentials/Recommendations	
Awareness	<ul style="list-style-type: none"> <li>Address moral and religious concerns and hesitance to credit with a tailored marketing campaign about lending procedures and requirements</li> <li>Launch gender specific direct promotion campaign to reach out to women entrepreneurs through female loan officers addressing the specific constraints faced by female entrepreneurs</li> </ul>
Procedures	<ul style="list-style-type: none"> <li>Simplify and speed up loan disbursement process to reduce the administrative burden</li> </ul>
Loan Product	<ul style="list-style-type: none"> <li>Provide loans tailored to the payment capacity of the client (cash-flow based lending)</li> <li>Provide loan products in line with Shari'a as this seemed to be a crucial factor for the majority of respondents</li> <li>Develop loan products to finance solar power or generators to address the scarcity of electricity</li> </ul>
Alternative Collateral	<ul style="list-style-type: none"> <li>Address the lack of collateral of the majority of potential customers with the identification of alternative sources of collateral (f.i. home equipment)</li> </ul>

While marketing and direct promotion will be important instruments for raising awareness about the benefits of financial services, financial institutions at the same time will need to simplify loan procedures and conditions as the current perceptions call for simplicity of procedures, easy collateral and tight loan application process monitoring to **reduce administrative burdens on the clients** and speed up the loan disbursement processes.

The survey showed that **almost 60% of the MSEs may comfortably repay loans worth YER 500,000** with a maturity of 12 months and an interest rate of 20% (per annum). Every fourth MSE can even afford YER 1 Million. Hence it would be realistic to think about average loan sizes of YER 500,000 with maturities between 12 and 20 months when it comes to business planning. Annex 3 provides an overview of the variation of instalments when specific combinations of maturity and loan amount are assumed. These instalments are then set in relation to what survey respondents reported they could comfortably repay every month. The

instalments are comprised of the monthly principal and an interest of 20% per annum (which is in line with the desired interest).

The lack of collateral was with over 60% the most important reason for rejections of customers. Also respondents who were asked why they have not applied for a loan, many were stating that they do not have sufficient collateral. Collateral that was used as security for loans were often commercial guarantees, salary and the participation in groups. When asking potential clients which collateral they could/would provide, only one respondent declared that he would also provide home equipment as collateral. Hence, it seems that home equipment, as a form of alternative collateral, is not on the radar of MFIs (most probably due to very limited law enforcement) or in the mind of potential clients as potential collateral. However it may be interesting to find out if **alternative types of collateral may facilitate broader access to finance in Yemen**.

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## ANNEX A QUESTIONNAIRE

Region	Location	District	Quarter/Hara	Address	Number		

### LFS MSE Demand Survey Questionnaire (Yemen, Oct 2013)

Good day, I am ..... I would like to speak with the owner of the business or the person who handles the financial decisions for the business.

REPEAT INTRO IF NECESSARY: We are currently conducting a market study with micro and small business owners. We want to understand how entrepreneurs use financial services with the view to improve access to these services in the future. I would like to speak with the owner of the business or the person who handles the financial decisions for the business. Can you spare some time for a few questions, please? It will not take too long.

Our survey is anonymous and the data collected will be used for the purpose of the study only.

S1. Would you be willing to participate in this study?

1	Yes	PROCEED
2	No	TERMINATE THE RECORD

S2. Do you run this business since more than one year or less than one year?

1	More than 1 year	PROCEED
2	Less than 1 year	TERMINATE THE RECORD

How many people *excluding* you work here permanently on average?

1	1-4 PROCEED
2	5-10 PROCEED
3	More Than 10 TERMINATE THE RECORD
4	No employees (Non-owner)

1Q:

A- Number of employees / workers full-time researcher: employee / worker full-time he / she is working up to 8 hours per day and an average of 5 days a week at least, regardless of whether it works with or without pay?

??	?	?	?	?	?	?	3	2	1
----	---	---	---	---	---	---	---	---	---

B- How many people *excluding* you work here permanently on average?

1	1-4 PROCEED
2	5-10 PROCEED
3	More Than 10 TERMINATE THE RECORD
4	No employees (Non-owner)

## A. GENERAL DESCRIPTION OF MAIN BUSINESS

### 2. Business premises. TO BE COMPLETED BY INTERVIEWER

1	A market table/premise of a <b>permanent nature</b> , that is not moved overnight	4	A part of a residential property – <b>Business is run from home</b>
2	A business premise of permanent nature within a <b>group of other businesses</b> ( mall or market-like set-up)	5	Other (SPECIFY).....
3	A free standing building used solely for <b>this</b> business purposes		

### 3. What is the sector of main activity of your business? USE CARD NR.1 "SPECIFICATION OF BUSINESSES"

1	2	3	4
Industrial	Trade	Services	Other (SPECIFY).....

### 4. How long have you been running this business? READ

1	1-3 years	99	Don't know
2	3-10 years	66	Refused
3	More than 10 years		

### 5. Do you own or rent your business premises?

1	Own	99	Don't know
2	Rent	66	Refused

## B. RELATIONSHIPS WITH FINANCIAL INSTITUTIONS

**6. Now I will name different financial services to you. Please tell me, which of the following financial transactions and services do you use i.e. did so at last once in the past 24 month? READ**

**7. Which financial institution do you work with for these purposes, or did so in the last 24 month? MULTIPLE RESPONSE; RECORD THE NAME(S) OF FINANCIAL SERVICE PROVIDERS IN THE LIST; RECORD THE TYPE(S) OF FINANCIAL SERVICE PROVIDERS IN THE TABLE BELOW.**

**8. In case you don't use these services now, which of those would you like to use in the future?**

ASK THE COMPLETE QUESTION FOR EVERY SERVICE.

START: **Do you use Current account, or did so at last once in the last 24 month?**

IF "YES" CIRCLE THE 1 AND ASK: **Which Financial Institution do you work with?** THEN PROCEED TO THE NEXT SERVICE.

IF "NO" ASK: **Would you like to use current account in the future?** CIRCLE THE CORRECT ANSWER AND PROCEED WITH THE NEXT SERVICE "Saving account"

6. Type of service currently using		7. Type of financial service provider currently using			8. Type of service, which would like to use in future		
		1	2	3	1	2	3
		FI	MFI	PPSC	Yes	No	n/a
1	Current account	1	1	1	1	1	1
2	Saving account	2	2	2	2	2	2
3	Loan for business purposes (i.e. to finance trading stock, equipment, building)	3	3	3	3	3	3

4	Loan for personal/private purpose (i.e. to buy home appliances, car, finance study, emergency situations)	4	4	4		4	4	4
5	Local money transfer (within Yemen)	5	5	5		5	5	5
6	International money transfer (i.e. remittances)	6	6	6		6	6	6
7	Regular Services (i.e. salary payments, standing orders, payments of utility bills)	7	7	7		7	7	7
8	Foreign exchange service	8	8	8		8	8	8
9	Other (SPECIFY): _____	9	9	9		9	9	9
10	NONE							
66	Refuse							

### C. USE OF EXTERNAL FINANCIAL SOURCES

Now let us talk about the financing patterns of your business.

9. How do you pay for your purchases? Please consider all your suppliers. READ; MULTIPLE MENTIONS

		Cash	Transfer to bank account/cheque
1	Full amount upfront	1	1
2	The supplier(s) allow me to pay later (i.e. deferred payment)	2	2
3	The supplier(s) allow me to pay in instalments	3	3
4	Bank/MFI intermediates (i.e. conventional loan or Islamic finance)	4	4
66	Refused	5	5

10. Do you accept any kind of deferred payments from your clients? Deferred payments A. means no interest rates or fees are chargeable. ONLY ONE ANSWER

1	2	3	??	??
Yes, as a rule	Yes, sometimes	No, as a rule	Don't know	Refused

B. Do you grant credit to your clients? Credit means that interest rates or fees are chargeable. ONLY ONE ANSWER

1	2	3	??	??
Yes, as a rule	Yes, sometimes	No, as a rule	Don't know	Refused

11. With regard to other business and private needs, who supply you with the money you require for (or did so in the last 2 years). NAME PURPOSES AND PROVIDER; MULTIPLE RESPONSES  
START: As for working capital, do you use bank services?

	Working capital	Fixed assets (machinery, equipment)	Construction or purchase of building for the business	Consumption/home appliances, car	Improvements in housing situation	Educational	Emergency
	11_1	11_2	11_3	11_4	11_5	11_6	11_7



**16. What was the duration/maturity of your last loan? WRITE THE NUMBER IN THE CORRECT LINE; ONLY ONE ANSWER**

1	2	3	?	??
Days.....	Weeks .....	Months.....	Not determined	Refused

**17. What was the annual interest rate for your most important loan? ONLY ONE ANSWER; IF RESPONDENT CAN ONLY NAME INTEREST RATE PER MONTH, USE SECOND LINE TO ENTER**

?	Alternative: interest rate per year: _____ % p.a. Go To 21
?	Alternative: interest rate per month: _____ % per month Go To 21
??	Don't know
??	Refused

ASK QQ. 18-26 ONLY IF RESPONDENT USED ISLAMIC PRODUCTS

**18. How much did you borrow for your most important loan in the last 2 years?**

\_\_\_\_\_YER (AMOUNT)

**19. Within what time were you obligated to repay this most important loan? WRITE THE NUMBER IN THE CORRECT LINE. ONLY ONE ANSWER**

1	2	3	?	??
Days.....	Weeks .....	Months.....	Not determined	Refused

**20. What was the annual fee (profit margin) for this service, i.e. your most important loan in the last 2 years?**

\_\_\_\_\_ %p.month

\_\_\_\_\_ %p.a.

**Now let us speak about the way you paid for this service.**

**21. Did you have to repay the entire amount at once or make instalments?**

Entire amount at once

Instalments GO TO 23

**22. If you paid entire amount at once, how much did you pay?**

\_\_\_\_\_YER (AMOUNT)

(GO TO Q.26)

**23. If you had to make instalments, how many instalments did you have to make?**

\_\_\_\_\_ (NUMBER OF INSTALLMENTS)

**24. What was the repayment schedule?**

1	2	3	?	??
One instalment per day	One instalment per week	One instalment per month	Not determined	Refused

**25. How much did you have to pay per instalment?**

\_\_\_\_\_ YER (AMOUNT)

ASK ALL WHO USED FORMAL LOANS IN THE LAST 2 YEARS

**26. What was the collateral for your most important loan in the last two years? READ; MULTIPLE RESPONSES**

<input type="checkbox"/>	Group	<input type="checkbox"/>	Home equipment
<input type="checkbox"/>	Land	<input type="checkbox"/>	Balance on bank account
<input type="checkbox"/>	Promissory note	<input type="checkbox"/>	Compulsory savings
<input type="checkbox"/>	Real estate	<input type="checkbox"/>	Employee salary
<input type="checkbox"/>	Vehicle	<input type="checkbox"/>	Commercial Guarantee
<input type="checkbox"/>	Business equipment	<input type="checkbox"/>	Chicks
<input type="checkbox"/>	Stock	<input type="checkbox"/>	Other (SPECIFY)
<input type="checkbox"/>	Live stock, harvest	<input type="checkbox"/>	No collateral
<input type="checkbox"/>	Gold	<input type="checkbox"/>	Refused
<input type="checkbox"/>	Guarantors		

**27. From which sources did you repay this loan? We continue to speak about your most important loan in the last 2 years. MULTIPLE RESPONSES**

IF MORE THAN ONE ANSWER OPTION WAS SELECTED IN THE Q.31 ASK:

**28. Which was the most important source you used to repay your most important loan in the past 2 years?**

**29. Which source would you consider as the second important source you used to repay your most important loan in the past 2 years?**

**30. Which source would you consider as the third important source you used to repay your most important loan in the past 2 years?**

Q. 27 Sources used	Sourceses	Q. 28 Most important	Q.29 2 <sup>nd</sup> important	Q.30 3 <sup>rd</sup> important
<input type="checkbox"/>	Earnings from business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Money from other family members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Another loan/overdraft	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Sale of real estate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Sale of Stock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<b>Monthly salary</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Sale of something else	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Other (SPECIFY).....	8	8	8
<input type="checkbox"/>	Refused	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**31. Did you use any further loans during the time you had liabilities for this most important loan?**

1	2	??
Yes	No	Refused

**32. How did you learn about this financial provider? READ; MULTIPLE RESPONSES**

?	Used to work with before	?	Saw the branch
?	Somebody recommended me this program	?	Other (SPECIFY.....)
?	Direct marketing	??	Refused
4	Advertising in mass media		

**33. What was the most important reason for choosing this particular loan product, we continue to speak about your most important loan in the last 2 years? Please, name two more reasons if there are any. NOTE ONLY ONE RESPONSE IN EACH COLUMN.**

	Reasons	Most important	2 <sup>nd</sup> mention	3 <sup>rd</sup> mention
?	Repeated or additional loan	?	?	?
?	Adequate loan size	?	?	?
?	Adequate interest costs (interest rates, service fees)	?	?	?
4	Easy collateral	4	4	4
?	Adequate maturity	?	?	?
?	Flexible repayment	?	?	?
?	No penalties for delay	?	?	?
?	Quick disbursement procedures	?	?	?
?	Good reputation of the credit institution	?	?	?
??	Know the persons responsible	??	??	??
??	No other options to get a loan	??	??	??
??	Religious considerations	??	??	??
??	Other (SPECIFY)	??	??	??
??	Refused	??	??	??

**34. Would you use this source of finance again?**

1	2	??	??
Yes	GO TO 44	Ask Question 35 And Go To 44	No Don't know GO TO 44 Refused GO TO 44

**35. What is the reason you wouldn't use this source of finance again? ONLY ONE ANSWER**

?	There are no needs for further finance
?	Conditions were not favourable (SPECIFY).....
?	Other reasons (SPECIFY).....
??	Don't know
??	Refused

ASK ONLY RESPONDENTS WHO HAS NOT USED FORMAL FINANCIAL SERVICES FOR INVESTMENTS

**36. Did you apply for a loan for formal financial institution in the last 2 years?**

1	2	??
Yes, but I was rejected	No GO TO 41	Refused GO TO 44

**37. To your opinion, what reasons of the rejection for your loan application by the financial institution? Or the reasons for your rejection of the loan?** IF RESPONDENT. CAN NOT NAME THE REASONS, READ OUT ANSWER OPTIONS; MULTIPLE RESPONSE

IF MORE THAN ONE ANSWER OPTION WAS SELECTED IN THE Q.44 ASK:

**38. Which of the above mentioned was the most important reason for rejection of your loan application by the financial institution?**

**39. Which of the above mentioned would you consider as the second important reason for rejection of your loan application by the financial institution?**

**40. Which of the above mentioned would you consider as the third important reason for rejection of your loan application by the financial institution?**

Q. 37: Reasons for rejection	Reasons	Q. 38: Most important reason	Q.39: 2 <sup>nd</sup> important reason	Q.40: 3 <sup>rd</sup> important reason
1	Not enough repayment capacity	?	?	?
2	No sufficient collateral	?	?	?
3	Business is not registered	?	?	?
4	Failed to join or establish a group	4	4	4
5	Other reasons (SPECIFY)	?	?	?
6	Don't know			
7	Refused			

ASK Q.41 ONLY IF RESPONDENT DIDN'T APPLY FOR A LOAN FROM FORMAL FINANCIAL INSTITUTION IN THE LAST 2 YEARS OR REFUSED THE ANSWER (Q.44)

**41. Let us speak about the reasons that keep you away from using formal financial institution for investments in business or for private needs in the past 2 years. What is the most important reason that keeps you away from using formal financial institution for investments in business or for private needs in the past 2 years? DON'T READ THE ANSWERS,**

**42. What is the second important reason that keeps you away from using formal financial institution for investments in business or for private needs in the past 2 years?**

**43. What is the third important reason that keeps you away from using formal financial institution for investments in business or for private needs in the past 2 years?**

Reasons	Reasons	Q. 41 Most important reason	Q.42 2 <sup>nd</sup> important reason	Q.43 3 <sup>rd</sup> important reason
?	I can finance my needs by my own	?	?	?
?	My business does not need further investments	?	?	?
?	I do not have sufficient collateral	?	?	?
4	I do not know where and how to apply	4	4	4
?	My business is not registered	?	?	?
?	I fear that I couldn't pay back	?	?	?
?	I don't trust institutions that lend money	?	?	?
?	Getting a loan takes too long and is too complicated	?	?	?
?	Conditions imposed are not favourable (SPECIFY): _____	?	?	?
??	There is no financial institution around which offers loans	??	??	??
??	Religious considerations	??	??	??
??	Other reasons (SPECIFY): _____	??	??	??
??3	Don't know	X		
14	Refused			

**DESIRED LOAN FEATURES**

ASK ALL

**44. Consider the following situation: A new financial institution would send an officer to you to discuss the needs of your business, would you be willing to spend 1-2 hours with the prospect of then receiving loans tailored to the needs of your business? The financial institution will seek to avoid any inconvenience of cultural or religious nature.**

?	Yes	GO TO Q.0
?	Yes, but I fear I wouldn't qualify (SPECIFY WHY _____)	
?	No, no needs for additional investments	
?	No, I prefer to continue working as usual	
?	No, because of the bad experience with loans in the past	
?	No, for other reasons (SPECIFY _____)	
66	Refused	

**45. For which purposes would these inputs be used? MULTIPLE RESPONSES**

?	<b>Business</b>	4	<b>Other (SPECIFY): .....</b>
---	-----------------	---	-------------------------------

?	Real estate	99	Don't know
?	Private consumption / Purchase of household items	??	Refused

46. What amount would you be interested in?

\_\_\_\_\_YER (AMOUNT)

47. How much were you ready to add to the amount you borrowed as fee/interest rate? IF RESPONDENT CAN NAME INTERST RATE PER YEAR, CAPTURE THE ANSWER IN THE FIRST LINE

ALTERNATIVELY ASK: What amount would you consider to be appropriate as fee for your desired loan? CAPTURE ANSWER IN THE SECOND LINE

?	Annual interest rate	.....%
?	Amount	.....YER
99	Don't know	
66	Refused	

48. How much could you easily pay back for a loan repayment considering all the income and expenses of the family and business? (CAPTURE INFORMATION IN THE SPACE PROVIDED BELOW – ONE MENTION ONLY, E.G., 800YER PER MONTH, OR 50YER PER DAY)

?	Per month: _____YER
?	Per week: _____YER
?	Per day: _____YER
?	One time paymen _____YER
99	Don't know

49. Within what time could you easily fulfil your repayment duties with the opportunity to make repeat use of this (or other) financial product, adjusted to your current needs?

?	Days.....
?	Weeks.....
?	Months.....
?	Not determined
99	Refused

50. What kind of collateral would you be able to provide for the loan? Please look at the cards and name collateral to me. MULTIPLE RESPONSES; SHOW CARDS

?	Group	?	Guarantors
?	Land	??	Home equipment
?	Real Estate	??	Balance on bank account
?	Vehicle	??	Compulsory savings
?	Business equipment	??	Other (SPECIFY).....
?	Stock	??	No collateral
?	Live stock, harvest	??	Refused
?	Gold		

51. Would you be willing to guarantee for the loan of several other businessmen (for example neighbour) if they did the same for you?

1	2	??
Yes	No	Refused

52. What would you prefer: to give such mutual guarantees or be responsible only for your individual loan and provide own assets as collateral?

1	2	??
Group loan (mutual guarantees)	Individual loan (own assets as collateral)	Refused

**53. Is Sharia conformity for you a reason to choose a financial product?**

1	2	??
Yes	No	Refused

## D. BUSINESS CONDITIONS

**54. Now let us speak about issues, which may affect your business or not. I will read some statements for you and you choose the degree to what it is true in your case from 2for "very low impact" 3 "moderate impact" and 4"high impact ". SHOW CARD NR.4;**

**START: To which degree does quality of your productive facilities have impact on your business?**

		High	Moderate	Low	Not applicable
1	Quality of your productive facilities	4	3	2	1
2	Organization of production process	4	3	2	1
3	Business administration	4	3	2	1
4	Availability of qualified staff	4	3	2	1
5	Marketing and sales	4	3	2	1
6	Relationship with suppliers and clients	4	3	2	1
7	Legal certainty (your and your staff)	4	3	2	1
8	Behaviour of regulatory bodies	4	3	2	1
9	Tax system	4	3	2	1
10	Access to business finance	4	3	2	1
11	Access to business development services for MSE	4	3	2	1
12	Security issues	4	3	2	1
13	Availability of Electricity	4	3	2	1
14	Availability of water	4	3	2	1
15	Availability of Fuel	4	3	2	1
16	Cleaning and Environmental sanitation	4	3	2	1
17	Other (SPECIFY).....	4	3	2	1

**55. Which of above mentioned is the most important challenge? READ OUT ANSWER OPTIONS; ONLY ONE ANSWER**

1	Quality of your productive facilities	??	Access to business finance
2	Organization of production process	??	Access to business development services for MSE
3	Business administration	??	Security issues

4	Availability of qualified staff	??	Availability of Electricity
5	Marketing and sales	??	Availability of water
6	Relationship with suppliers and clients	??	Availability of Fuel
7	Legal certainty (your and your staff)	??	Cleaning and Environmental sanitation
8	Behaviour of regulatory bodies	??	Other (SPECIFY).....
9	Tax system		

## F. INSURANCE

**56. Are you aware of any insurance services that you can use for your business or private needs?**

1	Yes	2	No GO TO 68 70
---	-----	---	----------------

**57. Which of the following insurance services do you use services i.e. did so at last once in the past 24 month? READ**

**58. Which financial institution do you work with for these purposes, or did so in the last 24 month? MULTIPLE RESPONSE; RECORD THE NAME(S) OF FINANCIAL SERVICE PROVIDERS IN THE LIST; RECORD THE TYPE(S) OF FINANCIAL SERVICE PROVIDERS IN THE TABLE BELOW.**

**59. In case you don't use insurance services now, which of those would you like to use in the future?**

ASK THE COMPLETE QUESTION FOR EVERY SERVICE.

START: **Do you use insurance of buildings, or did so at last once in the last 24 month?**

IF "YES" CIRCLE THE 1 AND ASK: **Which Financial Institution do you work with?** THEN PROCEED TO THE NEXT SERVICE.

IF "NO" ASK: **Would you like to use current account in the future?** CIRCLE THE CORRECT ANSWER AND PROCEED WITH THE NEXT SERVICE "Car insurance"

. Type of service57	. Type of provider currently using?58			. Would like to use in future59		
	1	2	3	1	2	3
	FI	MFI	PPSC	Yes	No	n/a
1 Insurance of buildings	1	1	1	1	1	1
2 Car insurance	2	2	2	2	2	2
3 Health insurance	3	3	3	3	3	3
4 Life Insurance	4	4	4	4	4	4
5 Other (SPECIFY):	5	5	5	5	5	5
6 NONE ( GO TO Q.64)	6	6	6	6	6	6

FOLLOWING QUESTION ONLY TO BE ASKED IF RESPONDENT HAS MENTIONED FORMAL INSURANCE IN QUESTION 57

**60. What are the main problems with formal insurance from your point of view MULTIPLE MENTIONS**

IF MORE THAN ONE ANSWER OPTION WAS SELECTED IN THE Q.68 ASK:

**61. Please tell me, which of the above mentioned is the main problem with formal insurance from your point of view?**

Q. 60 Problems	Reasons	Q. 61: Most important	Q.62: 2 <sup>nd</sup> important	Q.63: 3 <sup>rd</sup> important
??	Too expensive	??	??	??
??	Frequency of payments (please explain):.....	??	??	??
??	Application for product was very complicated	??	??	??

4	Application for product was very time-consuming	4	4	4
?	I do not trust that I will get money in case of loss	?	?	?
?	The product does not really suite my needs (please explain):.....	?	?	?
7	Religious reasons	7	7	7
8	Other (SPECIFY).....	8	8	8
9	Non ( GO TO Q.6864 )			

**62. Which of the above mentioned is the second important problem with formal insurance from your point of view?**

**63. Which of the above mentioned is the third important problem with formal insurance from your point of view**

FOLLOWING QUESTION ONLY TO BE ASKED IF RESPONDENT HAS *NOT* MENTIONED FORMAL INSURANCE IN Q.68

**64. What are the main reasons that keep you away from using formal insurance? READ; MULTIPLE MENTIONS**

**IF MORE THAN ONE ANSWER OPTION WAS SELECTED IN THE Q.68 ASK:**

**65. Please tell me, which of the above mentioned is the main reason that keeps you away from using formal insurance?**

**66. Which of the above mentioned is the second important reason that keeps you away from using formal insurance?**

**67. Which of the above mentioned is the third important reason that keeps you away from using formal insurance?**

Q. 64 Reasons	Reasons	Q. 65: Most important	Q.66: 2 <sup>nd</sup> important	Q.67: 3 <sup>rd</sup> important
?	Not affordable	?	?	?
?	Not offered in my vicinity	?	?	?
?	Products are too complicated	?	?	?
4	Products are in transparent	4	4	4
?	I do not trust insurance companies	?	?	?
?	The product does not really suite my needs (pls explain).	?	?	?
7	I feel comfortable with my other coping strategies	7	7	7
8	Religious reasons	8	8	8



7	Help from relatives from abroad	?	?	?
8	Help from relatives within country	?	?	?
9	Other (SPECIFY): _____	?	?	?
10	No other income sources	??	??	??
11	Don't know	99	99	99
12	Refused	66	66	66

**73. In which form do you/ does your household save? READ; MULTIPLE MENTIONS**

<input type="checkbox"/>	Reinvest in this business or other business	7	Keep at home
<input type="checkbox"/>	Reinvest in real estate	8	Lend to friends
<input type="checkbox"/>	Voluntary deposit in a Bank	9	Invest in farm/animals
<input type="checkbox"/>	Voluntary deposit in a MFI	10	I don't have any surplus cash
<input type="checkbox"/>	Voluntary deposit in a PPSC	11	Other (SPECIFY):
<input type="checkbox"/>	Compulsory deposit (to get access to loan)		

**74. Do you participate, or did so in the last 12 month, in the collective saving schemes *Hakpa Jameea/ (ROSCA)*?**

<input type="checkbox"/>	Yes	<input type="checkbox"/>	No GO TO Q.79
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**75. How many groups do you participate in?**

\_\_\_\_\_groups

IF RESPONDENT PARTICIPATE IN MORE THAN ONE GROUP ASK HIM/HER TO ANSWER FOLLOWING QUESTIONS CONSIDERING THE MOST IMPORTANT GROUP

**76. How many members are in the most important group?**

\_\_\_\_\_persons

**77. How often do you have to make contributions in average and how much is the contribution?**

USE ONLY ONE LINE TO CAPTURE THE APPROPRIATE ANSWER

1	Daily (AMOUNT)
2	Weekly (AMOUNT)
3	Monthly (AMOUNT)

**78. Are there any special purposes for you to maintain savings? READ, MULTIPLE MENTIONS**

<input type="checkbox"/>	Start new business/Extend existing business	6	Family occasions (wedding, funeral, other)
<input type="checkbox"/>	Improve housing situation	7	To get retired
<input type="checkbox"/>	Buy home appliances, furniture, HiFi	8	Other
<input type="checkbox"/>	Buy car	9	No special purpose
<input type="checkbox"/>	Education	66	Refused

**79. Now let us go through some features that affect the attractiveness of formal savings for you. I will read the features and you please estimate, how important this could be for you: very important, moderate, not important**

		Very important	important	Moderate importance	Not important
--	--	----------------	-----------	---------------------	---------------

1	Good reputation of the bank	4	3	2	?
2	Option to deposit money on demand	4	3	2	?
3	Option to withdrawal money on demand	4	3	2	?
4	High retain rates	4	3	2	?
5	Sharia conformity (this could work as a check/control question)	4	3	2	?
6	Proximity of a branch	4	3	2	?
7	Option to get a loan	4	3	2	?
8	Easy procedures good customer service	4	3	2	?
9	Other (SPECIFY)	4	3	2	?

## H. BUSINESS DATA

### 80. What is your average turnover/sales per month?

INSTRUCTIONS: IF THE RESPONDENT PROVIDES A FIGURE PER DAY THEN CALCULATE YOURSELF: IF FIGURE GIVEN PER DAY, THEN ASK, HOW MANY DAYS PER WEEK THE RESPONDENT WORKS, AND MULTIPLY THE VALUE WITH THIS NUMBER. MULTIPLY THE WEEKLY FIGURE BY FOUR.  
IF RESPONDENT IS RELUCTANT TO REVEAL FIGURE, ENSURE HIM/HER THAT THE INFORMATION WILL NOT BE PASSED ON TO ANYONE.

1	2	??
.....YER/month	Don't know	Refused

### 81. How much is your profit in average per month?

INSTRUCTIONS: IF THE RESPONDENT IS NOT ABLE TO ANSWER, REFER TO THE PREVIOUS ANSWER (SALES) AND ASK THE RESPONDENT HOW MUCH OF EACH [1000 YER] IN SALES IS HIS PROFIT. CALCULATE THE TOTAL PROFIT OUT OF THE TURNOVER.  
IF RESPONDENT GIVES AN UNREALISTIC FIGURE (E.G. PROFIT HIGHER THAN SALES) THEN RETURN TO PREVIOUS QUESTION

1	2	??
.....YER/month	Don't know	Refused

### 82. What is the value of your stock at this moment?

INSTRUCTIONS: ASK THIS QUESTION ONLY TO BUSINESSES ENGAGED IN TRADE. IF RESPONDENT DOES NOT UNDERSTAND THE QUESTION, EXPLAIN: **How much money would you need to replace all the goods you have for sale in your business right now?**

1	YER	99	Don't know
2	Not applicable (e.g. service business)	66	Refused

### 83. What is the value of your fixed assets?

INSTRUCTIONS: IF RESPONDENT DOES NOT UNDERSTAND THE QUESTION, EXPLAIN WHAT FIXED ASSETS ARE: PREMISES IF OWNED BY THE RESPONDENT, MACHINERY, FIXED INSTALLATIONS (E.G. SHELVES) ETC.

1	.....YER	99	Don't know
2	None (e.g. trade business)	66	Refused

## DEMOGRAPHICS

### 84. Respondent's sex

1	Male	2	Female
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### 85. Respondent's age

\_\_\_\_\_ years

### 86. Education

1	Illiterate	6	Diploma (two Aoethelat years)
2	Without formal education	7	Bachelor
3	Middle School	8	Master
4	High school completed	9	Doctorate
5	Teach technical / vocational	10	Other (SPECIFY)

INTERVIEWER: Thank you very much for your time.

Location	
Interviewer	
Respondent's phone number (voluntarily)	

## ANNEX B APPROACH AND METHODOLOGY

### Desk Research

Generally speaking, information about the Yemeni MSE market is scarce. Most importantly, there is no clear data about the numbers of MSE in the country – figures vary from 400,000 to 1 million and are rather outdated (2000). However, a number of studies have been conducted in the past to analyse the number and characteristics of Yemeni MSEs. According to our current knowledge the most comprehensive sources available in Yemen with regard to MSE Demand for Microfinance Services comprise the *MSE (Micro and Small Enterprise) Baseline Survey* (2000), the *Yemen Establishment Census of 2004*, the *Assessment of MSE Financial Needs in Yemen* (IFC, 2007), the *SFD/CO/ILO Labour Force Survey*, scheduled for 2013/14 and the *MSES Market Demand Study* recently completed for Alkuraimi Bank.

The *MSE (Micro and Small Enterprise) Baseline Survey* (2000) is to date the most comprehensive survey and contains interesting and sound information on the sector. It covered 20,000 randomly chosen households from which 5,283 were actually running a business. According to this survey, the estimated number of MSE in Yemen was around 310,000, employing about half a million persons. Until now, in absence of more recent studies of national range, the Baseline Survey remains the most founded information source in terms of Number of MSE in Yemen and its segmentation along demographical and economic parameters.

Combining several sources, the *Assessment of MSE Financial Needs in Yemen* (IFC, 2007) adjusts the estimation of Yemeni MSE and comes to a number of 400,000 MSEs, which does not include farmers (1.4 million) nor the 10,000 medium-sized enterprises. The study additionally draws attention to the high proportion of unregistered businesses in Yemen, which are as a rule of micro scale, located in rural areas. Registered businesses in Yemen are engaged mainly into the trade (66%) and services sector (21%). Major limitations refer to information about female entrepreneurs. According to the authors of the IFC study, gender restrictions during the data collecting work caused very limited presence of female entrepreneurs in the survey sample.

Although both studies listed above contain valuable information about the market for Microfinance Services in Yemen in terms of the numbers and segmentation, as well as MSE borrowing attitudes, the results are outdated. Any non-longitude market study faces a bias of time. Within the 14 and 7 years that passed from the date of each study, not only demographic changes took place, but also relevant changes in the Microfinance Law were implemented, two MF Banks were established, and the country went through the 2011 crisis.

We therefore see other ongoing research, such as the SFD/CSO/ILO Labour Force Survey, scheduled for 2014, and the MSE Market Demand Study recently completed for Alkuraimi Bank, as important complementary sources of information that are taken into consideration for the results of this survey.

*SFD/CSO/ILO Yemen Labour Force Survey (2013/14)* was started on the initiative of SFD and ILO. The study is based on a statistical sample of 13,376 households and covers all regions of Yemen representatively. The study (first results expected by end 2014) will produce a rich, structured database, making it possible to conduct statistical analysis to estimate the market size for MSE finance services as well as its regional, demographical and sector segmentation.

A *Market Demand Study* recently done for *Alkuraimi Bank*. According to our discussions with SFD, the study owners showed interest to exchange the results. We expect that topics and regions covered by the Alkuraimi study will to a significant part overlap with the proposed LFS market study, which means in particular that up-to date information about the demand and usage of microfinance services in Yemen will be provided and may be useful for NMF as general market knowledge.

## Field Research

The LFS primary MSE demand survey was conducted by LFS in cooperation with the Yemeni market research agency *Apex Consulting* in the fourth quarter of 2013 applying a mix of quantitative and qualitative research instruments which allowed us to obtain a solid up-to-date knowledge of the targeted MSE market. Both elements were used to validate and inform each other. The qualitative part provided depth and context, while the quantitative part provided outreach.

The primary objectives of the demand survey were (i) to enable a more detailed analysis of the market potential and market gap for MSE financial services, and (ii) to derive a set of generalized assumptions and recommendations for the business planning process, in particular regarding average loan sizes, product offering and product pricing, marketing strategy (by assessing desired loan features) as well as branch sequencing (by mapping of business hotspots within the cities) and mitigating lending risks by know your customer principles (KYC). This chapter summarizes the sample composition and methodology. For further information about the methodology and sampling of the study please refer to the *Market Study Methodology and Design Report*.

## Quantitative Research

The ToR specifically demanded a “statistically representative sample” (p. 5) and a “representing sample” (p. 29). As outlined in our Technical Proposal, designing a statistically representative sample would have required certain conditions not available under the current circumstances of the project.

First, a predetermined list of businesses would have had to be visited and interviewed. Speaking from our previous survey experiences, a significant part of the interviews, with respondents chosen from the list, is not likely to be completed by the first visit. If a business is not available for interviewing for one reason or the other then it would have to be revisited until it is available in order not to endanger the representativeness requirement. This in turn would have negatively impacted the envisaged timeline. Second, the establishment of a representative sample requires a variety of information and databases to be drawn upon in cohesion with scientific principles. This encompasses an accurate registry of Yemenite firms in order to identify the base population and implement an adequate sampling. Given that an accurate registry exists, drawing a sample with the help of it would in turn exclude informal, non-registered firms from the survey. As the ToR states “micro

and small businesses of the country, whether formal or informal” (p. 3) as the programme’s target group, this approach would have neglected part of the target group. For these and other reasons such as the prevailing security situation we refrained from employing a sampling strategy that will yield a “truly” representative sample.

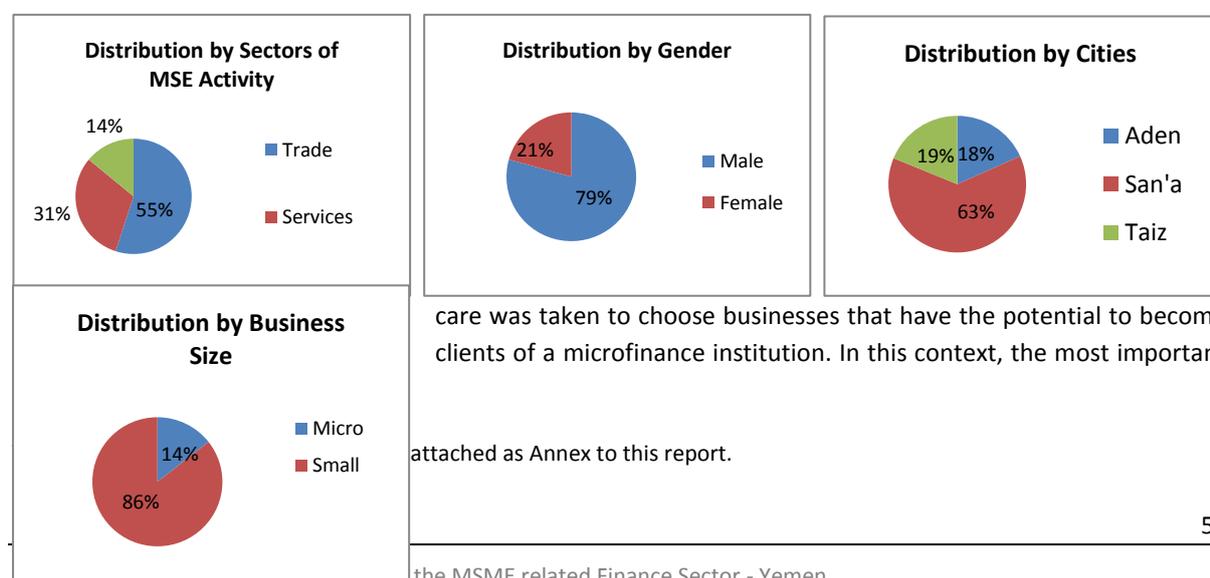
Instead, we applied a *stratified quota sampling methodology*. This means that we drew samples from different strata of the population (i.e. servicing, manufacturing and trade etc.), while the proportion of the samples reflects the proportion of the strata in the population.

Data was collected using Standardized *questionnaires*, *Qualitative interviews* and *Focus Group Discussions*. While the survey with the help of a standardized questionnaire ascertains some central characteristics of micro and small enterprises by analysing numerous items based on standardized questions, in-depth interviews concentrate on a limited number of entrepreneurs and enable the interviewer to better address the specific circumstances of the respondent. Both methods complete one another extraordinarily well, and thus allow a comparative analysis. The entrepreneurs for in-depth interviews have been selected by purposive sampling, with the intention of strengthening the validity of the data of the survey. Interviewed entrepreneurs represent the different segments identified during the empirical survey. The selected enterprises were interviewed using semi-structured interviews with an open questioning-technique. Finally, groups of clients with similar characteristics have been invited to present their views on the availability and quality of financial services in Yemen and how it impacted on their business and their household situation (if applicable). Particular emphasis has been laid on prior experiences with loan products and participants’ evaluation of loan features like maturity, profit margin, and amount. The responses of the participants have been documented in a “focus group results sheet”. The results sheet is designed in an identical way for all focus groups in order to allow for easy comparison and data aggregation. The mixture of these served to quantify and qualify the demand for microfinance products in Yemen – the results of which are summarized in the underlying report.

## Sampling Plan

The LFS/SFD primary MSE demand survey is based on 673 questionnaire-based interviews. At a confidence level of 90%, prevalence of variable of 0.5maximum, and a margin of error of 7% a sample of 640 units was found to be representative. Interviews were conducted face-to-face at the business location of the respondent, and were conducted solely with the owner of a business. Only businesses that had been operating for at least one year were selected. The survey questionnaire included 86 questions in the following categories<sup>46</sup>: (i) General description of the main business; (ii) Relationships with financial services and loans, (iii) Desired Loan Features, (iv) Business Conditions, (v) Insurances, (vi) information about the household, (vii) Information about the business and (viii) Demographics. The questionnaire was adjusted to the local context in close cooperation with Apex based on successfully tested survey questionnaires.

Respondents were sampled to reflect the geographic and economic diversity of the country. At the same time,



criteria were: (i) Geographic focus on urban centres in three locations in Yemen (Aden, Sanaa and Taiz), (ii) Sector of activity reproducing approximately the structure of the informal economy (trade (55%), Services (31%) and Manufacturing (14%)), (iii) Focus on micro and small-enterprises that have been operating for at least one year and (iv) inclusion of a certain percentage of female respondents (20.7%) to provide solid information about all entrepreneurs regardless of their gender. Compared to official statistics where informal businesses are not included this certainly led to an overrepresentation of female entrepreneurs in the survey sample. However the percentage provided a solid ground for statistical analysis.

Table 26 Sampling of the survey

SECTOR	MSE				TOTAL	
	micro (1-4 staff)		small (5 -9 staff)		# interviews	% of total
	# interviews	%	# interviews	%		
Trade	334	0.90	37	0.10	371	0.55
Services	176	0.85	30	0.15	206	0.31
Manufacturing	66	0.69	30	0.31	96	0.14
<b>TOTAL</b>	<b>576</b>	<b>0.85</b>	<b>97</b>	<b>0.14</b>	<b>673</b>	<b>1.0</b>

Table 27 Distribution of Male and Female Respondents

Respondents sex	no. of interviews	% of total
Male	534	79.4
Female	139	20.7
<b>TOTAL</b>	<b>673</b>	<b>100</b>

## Limitations

The following methodological limitations need to be taken into account when interpreting the results of the demand survey encompassing the (i) urban bias, (ii) survey bias and (iii) focus on MSE:

*Urban bias:* It was decided to conduct the study in urban centres. Given that Yemen is still to a large extent rural, the results are therefore not representative of the country as a whole, and further geographical areas should be explored as potential operational areas at a later stage.

*Survey bias:* Survey-based market studies are biased to the extent that responses are sensitive to the way questions are phrased and to the general situation in which interviews are conducted. Respondents might not be willing to disclose correct information, or might have an interest in over- or under-reporting financial data. While care has been taken to minimize these problems, they might remain to some extent.

*Focus on MSEs:* Time and resource limitations confined the quantitative demand study to the MSE sector, putting no weight on medium-sized businesses. Hence, the focus of the study remains on micro and small businesses.

## Qualitative Research

In addition to the quantitative demand survey, LFS also undertook Focus Group Discussions as well as in-depth interviews (in the study marked as “case-study”) in order to give attention to more detailed issues. Five Focus Group Discussions (FGDs) were organized during the period from November 13 to 18, 2013. FGD participants

were selected based on the results of the screening questionnaire which is part of the FGD manual. The screening questionnaire was used to ensure that participants were (i) experienced borrowers, (ii) willing to discuss the issues presented during FGD and able to provide quality information and (iii) available at the time proposed for the FGD.

In preparations for each FGD, Apex Consulting has contacted around 20 -30 microfinance clients by phone per FGD; with the exception for Sana’a FGD organized for women - the number contacted here was 80. Those contacted were interviewed using the screening questionnaire. Participants were selected based on satisfying the conditions of the questionnaire and willingness to attend the discussion. The last section of the screening questionnaire to select active participants was not utilized because it contains self-assessment questions that would have needed personal contact with the interviewee. Personal contact was considered not justifiably in terms of time and cost. The table below reflects the numbers contacted in each location, those qualified to participate, those agreed to attend, those that refused, and the actual number attended.

Table 28 Participants of Focus Group Discussion

Location/gender	#interviewed	#qualified	Agreed to attend	Attended	Date FGD	Time
Sana’a women	80	22	12	8	13/11/2013	4:15 – 5:50 pm
Sana’a men	32	18	12	7	14/11/2013	4:10 – 6:20 pm
Aden women	20	10	8	8	16/11/2013	9:45 am - 12:00
Aden men	22	12	9	9	16/11/2013	4:00 – 6:00 pm
Taiz Men	32	10	9	5	18/11/2012	4:30 – 6:15 pm
Taiz women	27	15	12	12		

Although the qualitative survey is not based on statistical conclusions, they are anyway a very important source of information – especially for more delicate topics. Therefore the results of the qualitative survey are integrated in the analysis: *When you see paragraphs highlighted with italic letters in olive green, the information given does not derive from the quantitative survey but from the qualitative part of the study.*

## ANNEX C POTENTIAL LOAN SIZES FOR BUSINESS PLANNING

Table 29 Affordable loan sizes

Loan amount Maturity	YER 25,000	YER 50,000	YER 100,000	YER 250,000	YER 500,000	YER 700,000	YER 1,000,000	YER 2,000,000
6	4,583	9,167	18,333	45,833	91,667	128,333	183,333	366,667
8	3,542	7,083	14,167	35,417	70,833	99,167	141,667	283,333
10	2,917	5,833	11,667	29,167	58,333	81,667	116,667	233,333
12	2,500	5,000	10,000	25,000	50,000	70,000	100,000	200,000
14	2,202	4,405	8,810	22,024	44,048	61,667	88,095	176,190
16	1,979	3,958	7,917	19,792	39,583	55,417	79,167	158,333
18	1,806	3,611	7,222	18,056	36,111	50,556	72,222	144,444
20	1,667	3,333	6,667	16,667	33,333	46,667	66,667	133,333
24	1,458	2,917	5,833	14,583	29,167	40,833	58,333	116,667

Note: Can be afforded by... 100% 95% 81% 58% 26% 13% 6% ...of the MSEs

The table shows us that almost 60% of the MSEs can comfortably repay loans worth YER 500,000 with a maturity of 12 months and an interest rate of 20% (per annum). Every fourth MSE can even afford YER 1 Million. Hence it would be realistic to think about average loan sizes of YER 500,000 with maturities between 12 and 20 months when it comes to business planning.