شبكة اليمن للتمويل الأصغر
Yemen Microfinance Network

Microfinance in Yemen
War Impact Assessment

UNDP

SFD
الصندوق الاجتماعي للتنمية

Acknowledgements

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Executive Summary

The Yemen Microfinance Network with support from the Small & Micro Enterprise Development Unit at the Social Fund for Development and the Early Recovery Cluster at UNDP Yemen, conducted a field study to assess the impact of the ongoing war and crisis on the microfinance sector in Yemen including MFIs and their clientele. The results of the field surveys are combined with the available institutional MFIs data collected over the years from YMN member financial institutions, and for which some of the indicators go as far back as. This assessment also tries to group comparisons of a series of previous assessments implemented by YMN prior to break-out of war in 2015.

The general objective of the assessment is to evaluate the current status of the microfinance sector (MFIs and Clients) and in comparison with the pre-war status, as well as the first two years of war in Yemen. The objective is to measure whether, how, and to what level the sector has developed sufficient resilience while surviving the mayhem of four years of war, and whether it can sustain further likely or unforeseen shocks. More specifically, the assessment measures to what extent microfinance institutions have managed to overcome the shock and work out alternative means to continue their activities.

The Findings part of this assessment presents the change of status in loan portfolios, productivity, outreach, percentage of women borrowers, and other indicators. The respondents stated that the main problem that microfinance institutions and entities face is with loans with regards to nonpayment of loans and an increase in the risk, as well as a decrease in lending, decrease in active clients due to more complicated guarantee procedures and limited loan ceilings, the deteriorating security situation, and decreasing return of value on interest given the devaluation of the local currency.

Additionally, %84 of the respondents (MFI Managers and Credit Officers) indicated a huge decrease in the number of active clients, and %96 of the same respondents stated a large drop in number of new clients. The service provision expense rates have increased due to the increase in field visits to clients, increasing prices and costs of transportation.

The results showed that %13.8 of microfinance clients have become internally displaced, leaving their micro-enterprises behind, while %19.7 of the clients closed down their businesses, and %5.1 had to relocate their businesses from areas with ongoing conflicts to other areas.
Decreasing income from micro-enterprises due to the non-payment of salaries, stagnation of the market, decreased purchasing power, the devaluation of the local currency, and the increasing customs and taxes that are paid due to the financial crisis that Yemen is going through. The results showed that %78.02 of the clients of microfinance mentioned that their enterprises were suffering from a large decrease in income.

A large number of the respondents stated that a problem that faces clients of microfinance is the deterioration of the lending process and them not applying for loans due to a fear of the collaterals required and their inability to provide these collaterals, as well as ceilings on the loans, lack of large loans, and difficulty choosing a suitable enterprise or suitable loan due to the current situation.

The results also showed that %78 of the respondents (loan officers in MFIs) stated that there is an increase in complications in guarantees for loans, which has led to clients not being able to renew loans, leading to them leaving the sector.

Assessment Methodology and Respondents

A mixed model methodology (Qualitative & Quantitative) has been adopted in this study. Appropriate tools were developed and tested, and interviews carried out in the targeted governorates. It is worth mentioning that three main data collection tools were designed (Questionnaires, KIIs, and a validation workshop). An initial workshop was held with at YMN to discuss and finalize the piloted survey questionnaires and tools ahead of the data collection process. Another workshop was held with selected relevant stakeholders to discuss the initial findings prior to finalizing the analysis and assessment report. The quantitative data was analyzed using SPSS software.

1.1. Survey Sample Characteristics

The overall sample of this included ١٥٠٠ respondent MSE owners and the in-depth interviews included ٣٠ MFI senior & middle management staff, loan officers, and other stakeholders, as explained below:

1.1.1. In-depth Interviews

Qualitative data was gathered through in-depth interviews with senior and middle management staff at the MFIs in the sample. Therefore, a purposive sampling was used to identify the key respondents based on their positions, knowledge, and experience in the industry. The sample included MFI CEOs, Operation Managers, Internal Auditors, other head of departments, and two loan officers per each MFI.

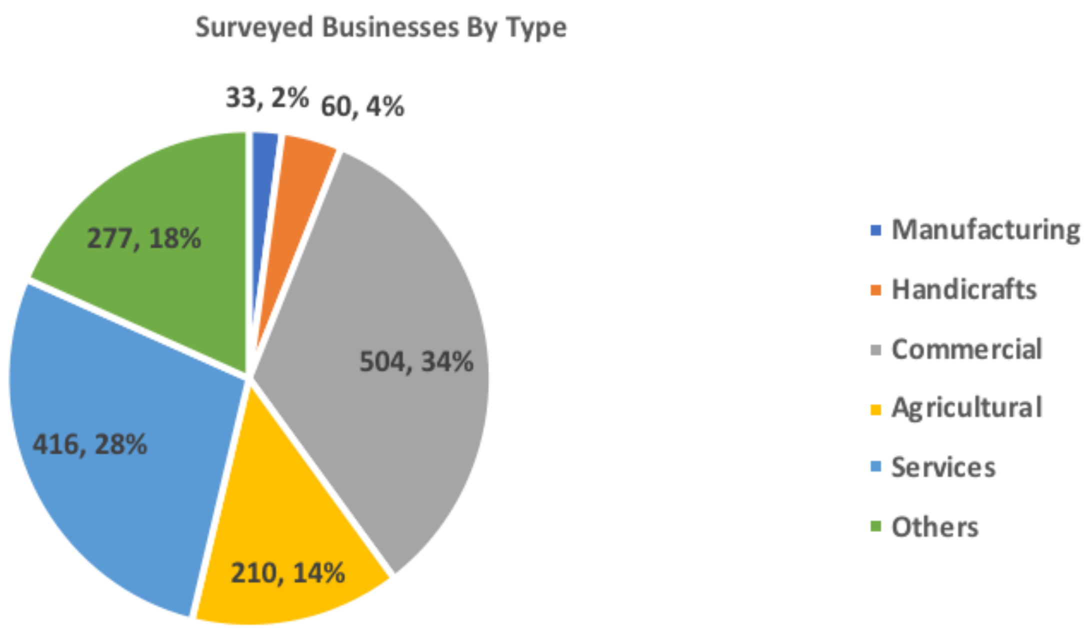
In-Depth Interview Table					
#	Name of Institution or Bank	Geographical Operation Coverage	Management	Loan Officers	Total
1	National Microfinance Foundation	Several Governorates	1	2	3
2	Nama Microfinance Foundation	Sana'a, Taiz, Hodeidah, & Ibb	1	2	3
3	Tadhamon Microfinance	Several Governorates	1	2	3
4	Azal Islamic Microfinance	Several Governorates	1	2	3
5	Kuraimi Islamic MF Bank	Several Governorates	1	2	3
6	CAC Bank	Several Governorates	1	2	3
7	Aden Microfinance Foundation	Aden, Lahj and Dhalea	1	2	3
8	Union Microfinance Program	Abyan, Lahj and Aden	1	2	3
9	Hadhramout Microfinance Program	Hadramout, Mahra, & Shabwa	1	2	3
10	Al Rayyan Foundation	Hadramout and Mahra	1	2	3
Total			10	20	30

1.1.2. Structured Survey Questionnaire

A survey was designed to collect quantitative data from microfinance active clients (MSE owners), and the surveys were conducted through filed visits as well as phone interviews with the selected sample. The assessment followed a systematic random sampling approach from the database of clients provided by the MFIs. The planned sample size was ١,٥٠٠ active microfinance clients from a pool of ٣٩,٠٥٨ clients. The size of the representative sample in this assessment was deliberately increased to ensure sufficient representation of microfinance clients per governorate as well as MFI.

#	Name of MFI	Number of Active Clients	Total Sample PER MFI	Actual Total Sample Implemented
1	Union Program, Abyan	3,600	138	121
2	National Microfinance Foundation	13,086	503	497
3	Nama Microfinance Foundation	4,591	176	180
4	Aden Microfinance Foundation	1,145	44	62
5	Tadhamon Microfinance	2,507	96	100
6	Azal Microfinance	3,741	144	147
7	Hadramout MF Program	7,088	272	264
8	Kuraimi Islamic Microfinance Bank	3,300	127	129
Total	8	39,058	1500	1500

The results that the study reached showed the type of projects that were targeted by the study as follows:

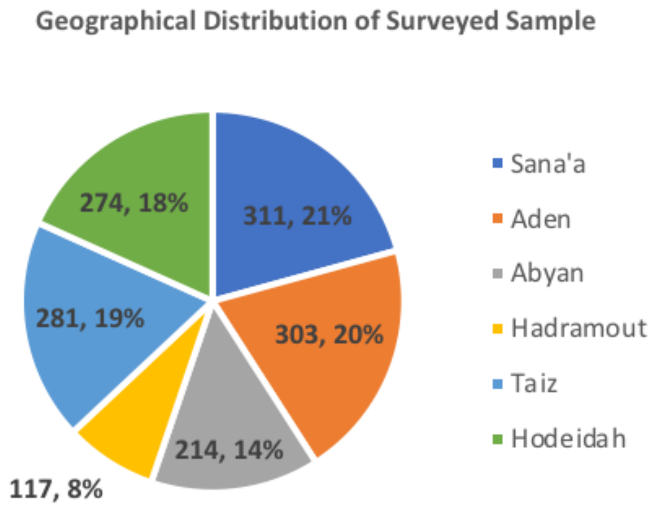


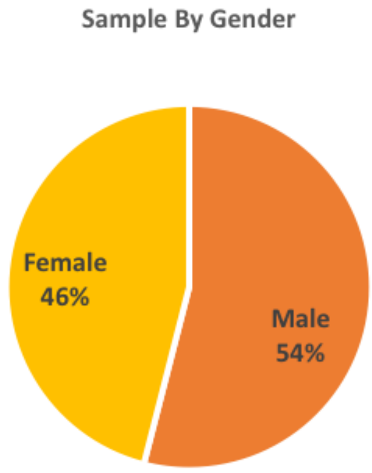
1.1.3. Geographical Coverage

The survey covered most of the governorates that have been affected by the conflict and in which YMN member MFIs are active. This included MFIs operating in the governorates of Sana'a, Aden, Taiz, Hadramout, Hodeidah, and Abyan..

3.2. Timeline

This survey measures the impact of the four years of war on the microfinance sector including MFIs and their clientele business owners, with a comparison of industry indicators since the pre-war period up until December ٢٠١٨. As for the surveyed micro & small businesses, the field





work took place in two phases, first in ٢٠١٦, then repeated in ٢٠١٨ for comparison.

2. Constrains & Limitations

i. Information gap and or inaccuracy in the received database of clients from targeted MFIs, which prolonged the sampling phase to ensure proper extraction of the required random samples.

ii. Many clients who were selected in the samples had phone numbers that were either suspended, incorrect, or belonged to other clients who were not included in the sample. Therefore, those had to be replaced which has caused to prolonging the process.

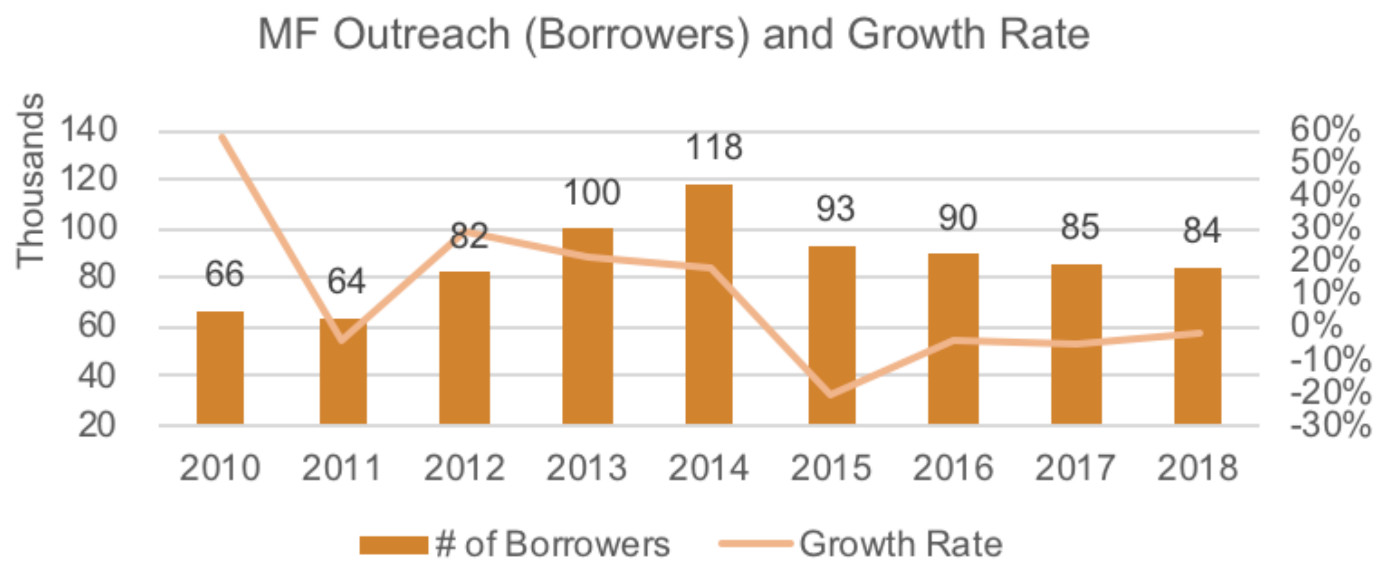
iii. Not getting the active client list from all of the microfinance programs and institutions during the period before collecting information led to a gap between the number of active clients in the lists and the number of active clients according to the results of the study.

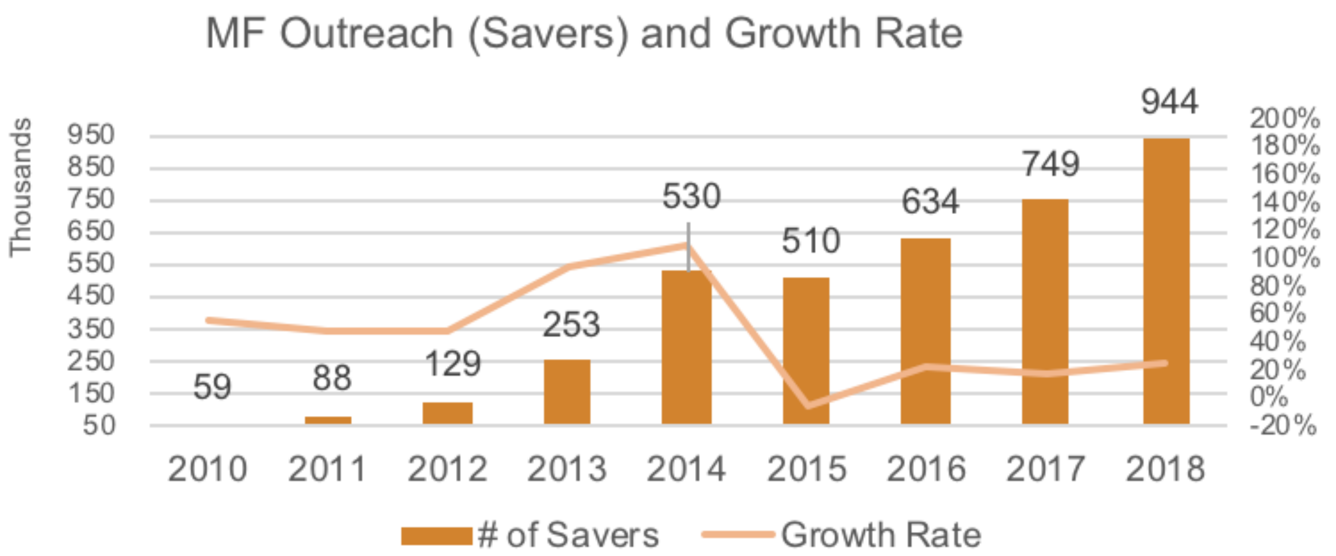
3. Findings

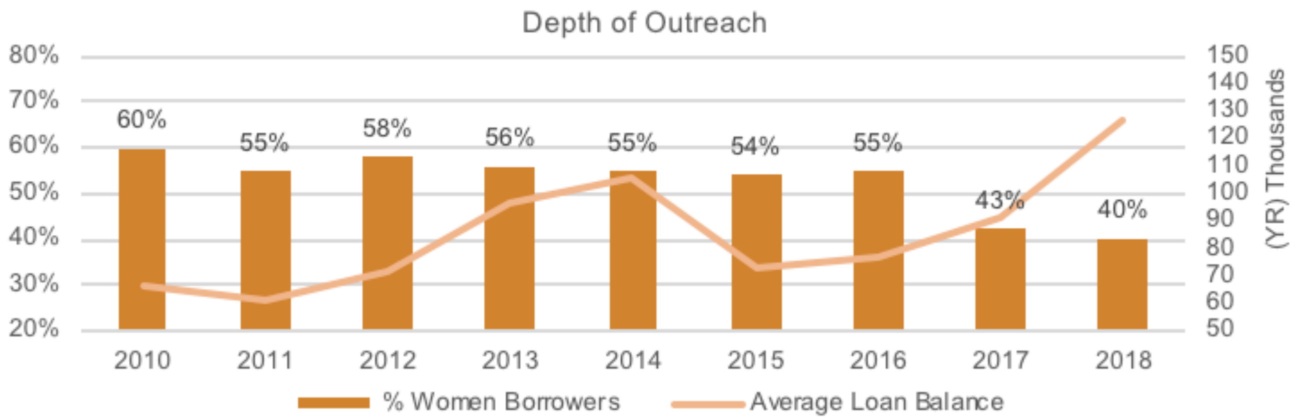
3.1. Findings at the MFIs Level:

This section looks at the results related to MFIs' outreach, profitability, efficiency and productivity, loan portfolio quality, lending methodology, and staff)

3.1.1. Outreach and Growth Rate



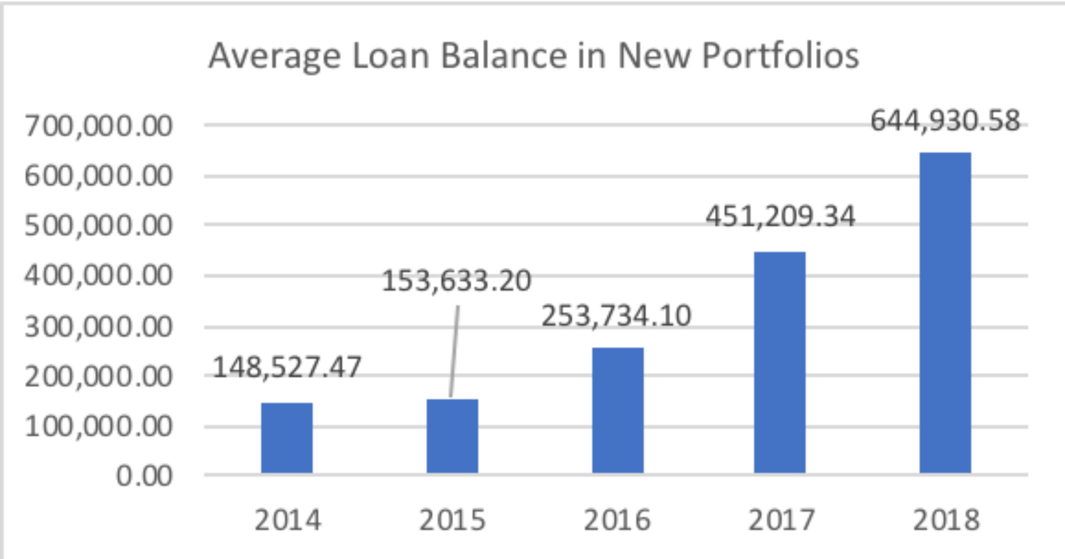




As of December 2018, the average %42 of the outstanding borrowers in Yemen were women. While this is still a relatively reasonable figure, it represents quite a decline of %15 compared to the year 2014 (pre-war), and given the fact that women borrowers represented %60 or higher of the total number of borrowers over the period from 2010 – 2006. At the same time, the average loan balance in Yemen was slowly increasing as the focus has been gradually shifting from group lending to individual and commercial lending.

However, when separating the new loan portfolios which most MFIs have had to start during the conflict to maintain business activities, it shows a sharp increase in the average loan balance over the period 2018 – 2015 as illustrated below:

This sharp increase in average loan balance is triggered by both, the MFIs shift towards providing larger loans to more carefully selected small businesses rather than micro ones (loan quality over number of loans), and to be able to catch up with the rapid devaluation of the currency.



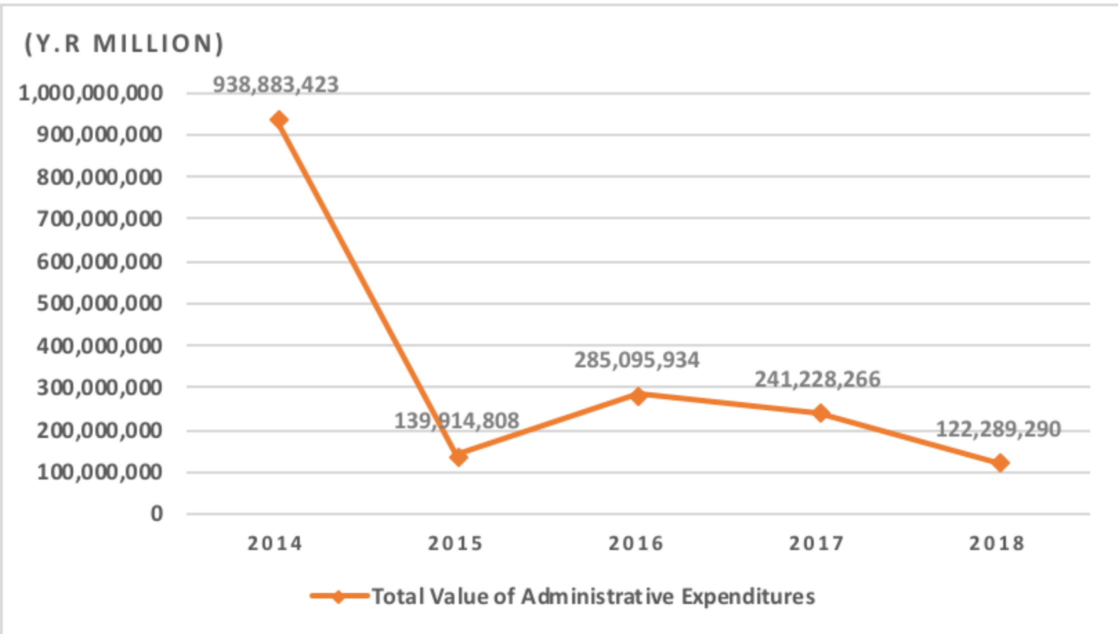
Key Notes:

Initially, MFIs were reluctant to resume loan disbursement during the first year of war as the shock had not been absorbed just yet. The then unforeseen possible developments of the conflict and state of confusion were perhaps the biggest challenges to MFIs. At the same time clients demand for loans was extremely weak in the first few months of war, the number of clients decreased, stricter collateral requirements, and abolishing all expansion plans. However, MFIs have picked up the pace again, and have started to offer new products targeted at now more attractive economic markets, and with larger loan sizes.

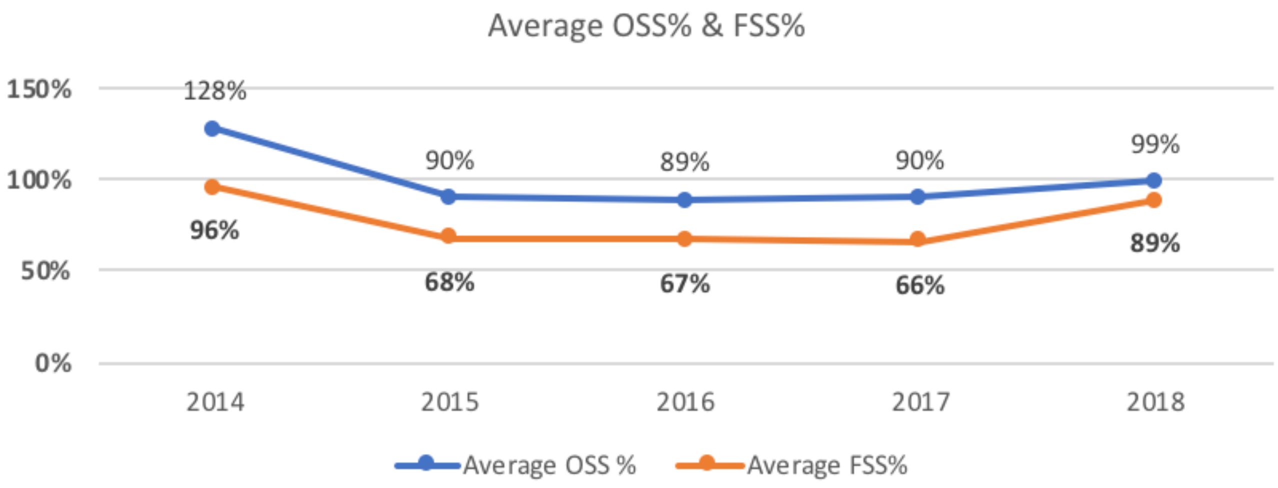
The study found that the plans of microfinance institutions and entities to deal with problems relating to outreach are in the following fields:

I. Focusing on products that are reflected more demand during the conflict such as solar energy and greenhouses.
2. Working on new products in the agricultural sector, like irrigation, seeds, and livestock breeding.
3. More focus on financing for specific commercial products, like honey or perfumes
4. Opening branches in safe areas
5. Increasing geographical coverage of the old branches so that they cover rural areas
6. Working through some branches near areas of conflicts to cover those areas (merging branches)

3.1.2. Efficiency and Productivity



Productive efficiency is represented by Operational Self Sufficiency (OSS) and Financial Self Sufficiency (FSS) are key aspects to sustainability of MFIs. The conflict has had a large impact on the productive efficiency level, and this is a presentation of problems relating to productive efficiency and the plans of microfinance entities and institutions to decrease these effects:



Key Notes:

1. Low financial self-sufficiency because of the inability to market products, decreased revenue, disruption to micro & small business owners, lack of financing for sectors that are operational in the local market, like medicine, and complexity of collateral requirements.

2. Low internal operational efficiency because of the inability of the sector to get grants and in-kind support, with the lack of concern for this sector during war and emergencies, with grants and aid going to deal with emergency issues

MFIs' Response and Mitigation Steps:

The study found that the microfinance institutions and entities had plans to deal with problems relating to productive efficiency through the following fields:

1. Increasing internal financial efficiency by raising the level of funding while keeping the interest rate the same, as well as going into new productive enterprises, like agricultural projects, and others

2. Increasing internal operational efficiency by looking for grants from the Social Fund for Development and some international organizations that provide funds to cover losses, compensate those affected, and

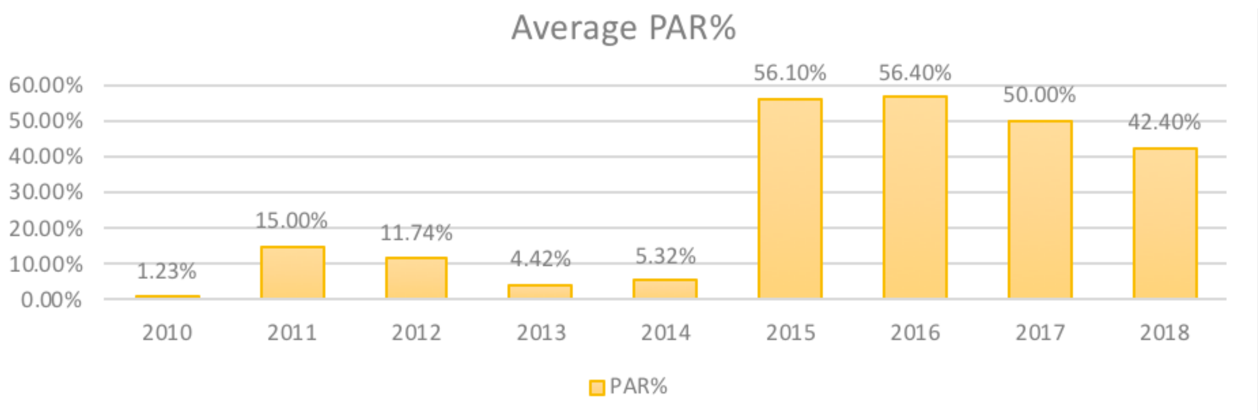
increase the returns from loans

Quantitative Results from the Study

- There is a large decrease in the average rate of internal operational efficiency from the end of 2015 and until the end of 2017. The average rate of operational self-sufficiency was %128 in the end of 2014 before the war, then fell sharply to %68 and maintained similar figures for the next 2 years, however, started to improve and reached %99 in December 2018.
- The same can be said for the average FSS across the surveyed MFIs. The measures taken by the MFIs were effective for many to climb back the efficiency rate.

3.1.3. Loan Portfolio Quality

The quality of the loan portfolio is represented by the percentage of portfolio at risk during a specific period and the average risk margin. The below chart illustrates the average PAR% changes as far back as the FY2010 to end of 2018. The PAR% changes are affected by the country stability and this clear in the year 2011 where the PAR% jumped by close to %14 during the uprising in what was known as the Arab Spring. MFIs however, managed to gradually decrease their PAR% in the following years, some through starting entirely new portfolios. The PAR% increased again slightly to over %5 in 2014 amid the fighting over the control of Sana'a, but dramatically soared to over %56 when the war broke out in March 2015. MFIs which remain active in the sector have managed to absorb the shock and once again were able to continue their activities even though at lesser and extra cautious scale despite the repeated economic downturns and national currency devaluation. Most MFIs have had to start new portfolios, while continuing to collect as many late installments as possible from previous ones. In general, the PAR% has gradually decreased to just over %42 by the end of FY2018.



Key Notes:
Some key aspects impacting MFIs' loan portfolios quality include clients' inability to make repayments due to increasing debts, suspension of public salaries disbursement, slow economic activities, and overall prices increase. In addition to the increasing risk margin because of the destruction and damage to micro-enterprises.

MFIs' Response and Mitigation Steps:
Some of the measures taken by most MFIs to mitigate this challenge include:

1. Extending the installment patyment period for the clients whose businesses were affected, restructuring and decreasing the size of the installments;
2. Rescheduling, restructuring, or redeploying the loans
3. Renewing loans for some clients with good credit history in light of the non-payment of previous installments

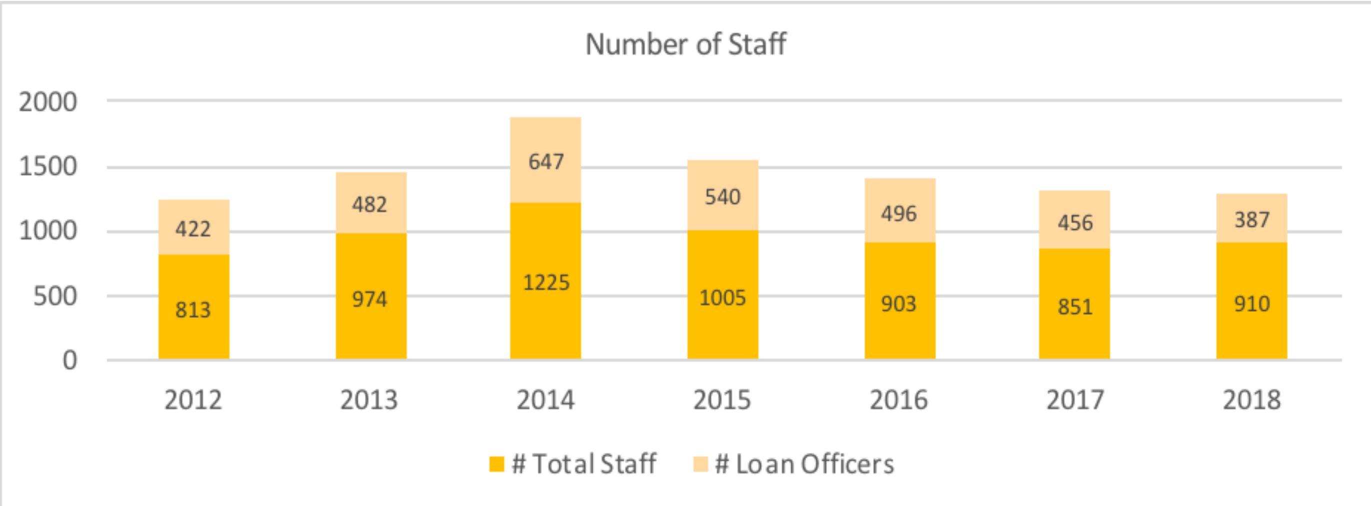
3.1.4. Lending Methodology

Group lending has always been a popular financial product offered by MFIs, mainly targeted at female borrowers. However, most MFIs have had to seize group lending due to the increase of internally displaced people as a result of the clashes on the ground and air strikes. This is combined with a large decrease in individual lending as well.

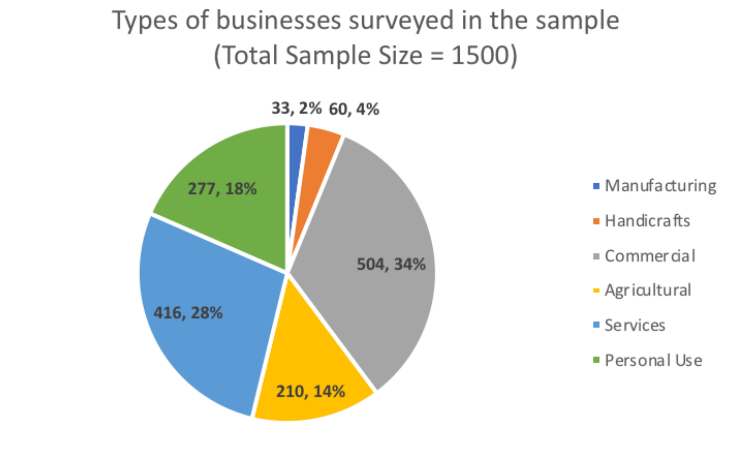
Key Notes:

The situation has pushed MFIs to require stricter collateral from clients such as gold and other assets as well as commercial guarantee certificates.

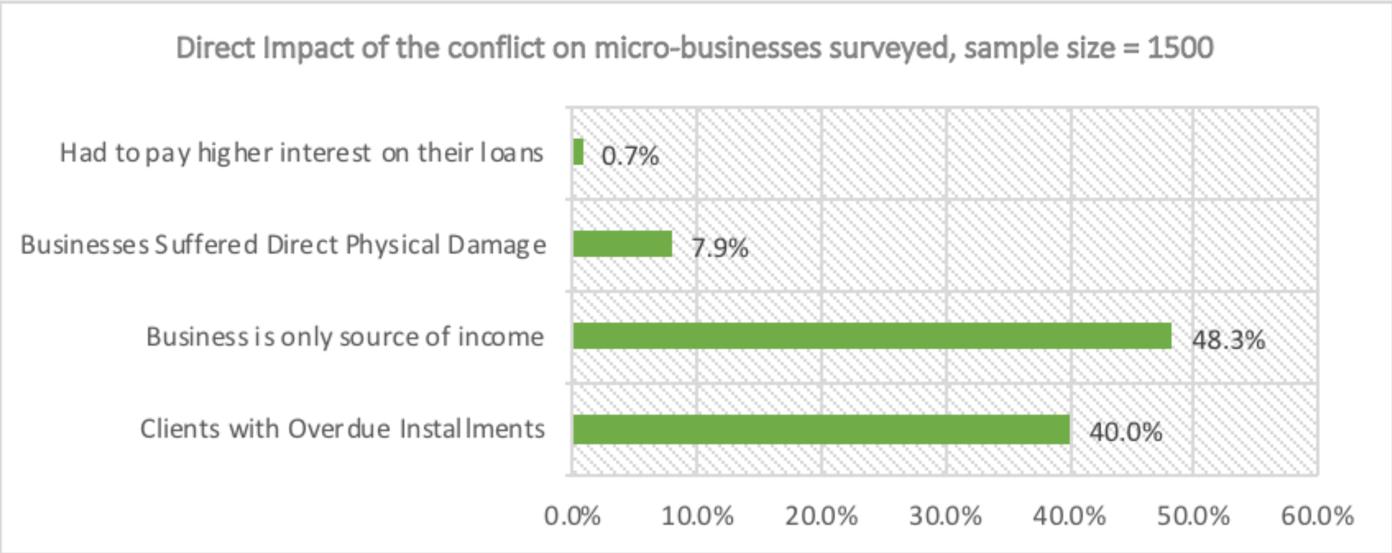
3.1.5. Human Resource Factor



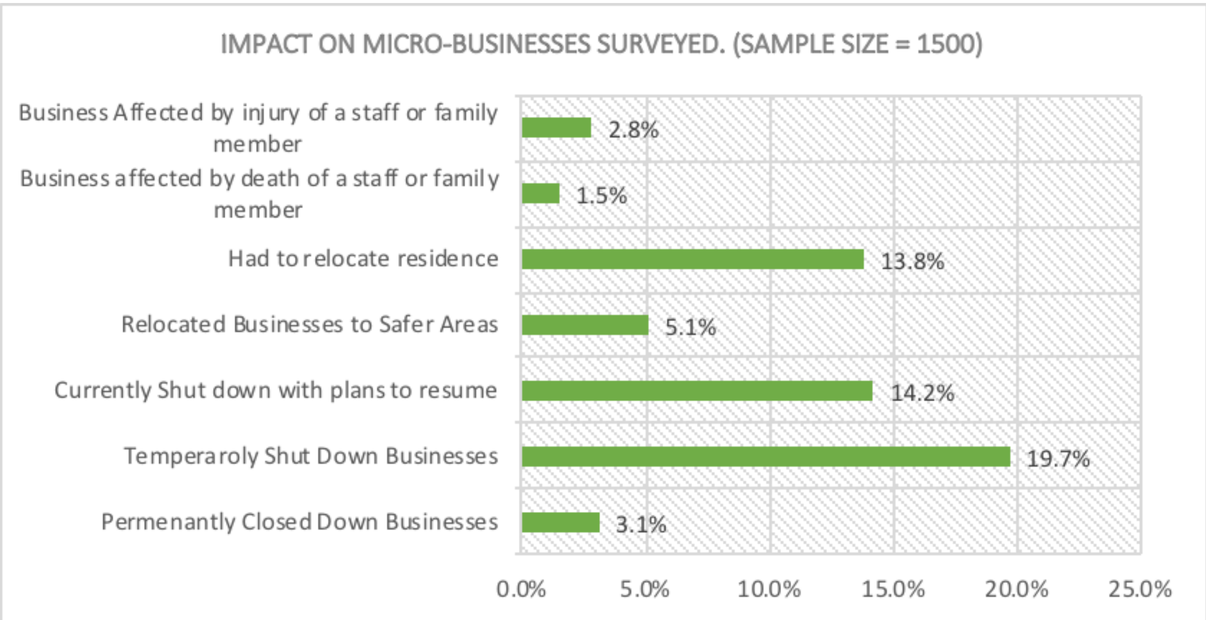
5.2. At the Clients Level



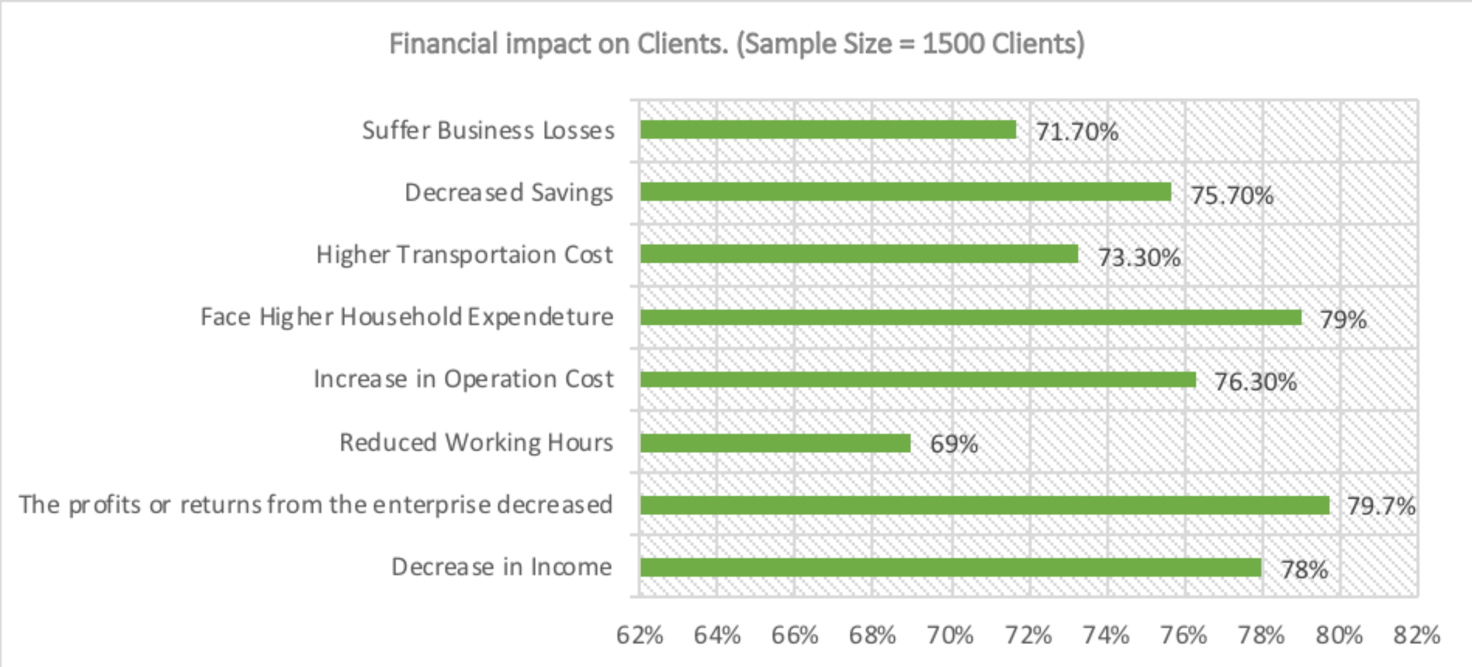
3.2.1. Impact on Active Loans



5.2.2. Direct Damages to Businesses



5.2.3. Effects of the War on Income, Expenditure, and Employees in the Enterprise



4. Challenges Facing the Sector

4.1. Challenges at the Clients (business owners) Level

Disruption to Micro & Small Enterprises

The results showed that %13.8 of the clients of microfinance were displaced and left their micro-enterprises, %19.7 closed their enterprises because of the war, and %5.1 moved their enterprises from areas that had ongoing conflicts to other areas.

Decreasing Income

Decreasing levels of income from their micro-enterprises, (Results showed that %78.02 of the surveyed microfinance clients/businesses had suffered large decrease in income). Due to non-payment of salaries which has weakened local trades and economic activities, unprecedented rates of unemployment, decreased purchasing power, the devaluation of the currency, and the higher customs and tax fees that they have to pay because of the ongoing crisis in Yemen.

Deteriorating Lending Process

A large number of respondents stated they would not apply for loans because they believe the collateral requirements are too complex and out of their ability, as well as the size of loan on offer is not usually large enough for their requirement of their businesses.

From MFIs' side, %90 of the respondents mentioned there was a decrease in the loan renewal rate. And %78 of the respondents stated there were complications in the collateral required for loans, which has led to clients being unable to renew their loans and thus having to leave the sector.

6.2. Challenges at the MFIs Level

Loan Portfolios

The respondents mentioned that the main problem that microfinance institutions and entities face with regards to loans is non-payment of installments and the increasing risk in loan portfolios, as well as the decreased lending rate and active clients leaving the sector in light of the complicated guarantees that were needed, the limits placed on loans, the deteriorating security situation, and the decreasing value of interest rates in light of the devaluation of the local currency.

Lack of Liquidity

The respondents stated that microfinance institutions and entities not having the necessary liquidity is one of the problems that they are suffering from in the sector because of the devaluation of the local currency, decreasing deposits, and other reasons. %94 of the respondents (MFIs) stated they lacked the liquidity required in their branches. %78 of the same group of respondents stated there was a decrease in deposits from microfinance clients.

Increase in Expenditures

The results showed that there was a rise in total administrative spending now to 241,228,266 YER per month, when it was 139,914,808 YER a month in the previous study.

The results showed that %84 of the respondents (loan officers and managers) stated that there is a large increase in the rate of operational expenditures.

Disruption to Operations

The respondents stated that entities or institutions stopping their operations, or stopping the operations in their branches, is one of the biggest problems that face microfinance institutions and entities. This is done because some of them, or their branches, have been targeted by strikes, while some branches that are located in areas with ongoing fighting have been closed.

The results showed that %68 of the respondents (MFIs) stated they suffered physical damages to their institutional assets either in their HQs or branches, while %94 of the same group of respondents stated that the area surrounding the entity, institution, or branch was directly affected by airstrikes or ground fighting.

Other General Results of the Study

Here are some of the other results that the study had from the in-depth interviews with officers in the microfinance entities and institutions, loans officers, or clients who are beneficiaries of microfinance. These are the results:

Devaluation of the Local Currency

Microfinance Institutions

- Respondents stated that the devaluation of the local currency affected their institutions via increased spending, lack of liquidity, and rising and unstable exchange rate differences.

Microfinance Clients

- Respondents microfinance institutions stated that the devaluation of the local currency has affected the clients, leaving them unable to make payments due to the exchange rate, goods piling up, guarantors running away, decreased demand for new loans, and the rising cost of transportation and movement.

New Economic Opportunities

In general, the conflict has led to the thrive of several new economic opportunities in general, especially in the field of industry, and these opportunities were listed as follows by the respondents (managers in institutions and entities, loan officers, and clients of microfinance):

- Maintaining, installing, and selling solar power systems and alternative energy
- Making, freezing, and selling ice and very cold products, and repairing and installing refrigerators for cooling
- Agricultural requirements, like greenhouses and modern irrigation

methods, and the farming of vegetables, tomatoes, and other crops.

- Communication and internet, installing private internet networks and selling internet cards, as well as repairing devices used for communication

Conclusions & Recommendations of the Assessment

7.1. Overall Conclusion

Microfinance providers are still facing the dual challenge of delivering effective and suitable services/financial products which meet the needs of their clients and can positively impact their businesses despite the ongoing conflict, and ensure MFIs' survival with adequate operational and financial efficiency. MFIs and their clients are still suffering from the effects of the ongoing war in Yemen, a war which many had expected would result to the complete collapse of the industry in Yemen.

However, MFIs decision with support from the Small & Micro Enterprises Development Unit at SFD (the largest investor in microfinance in Yemen) to resume loans disbursement was a brave and a much-needed step to ensure the continuation of the industry, and in line with the recommendations of this assessment in its first edition back in 2015.

Additionally, a few microfinance providers have been successful in striking partnerships with INGOs and donors to offer humanitarian cash disbursement services, a step that enabled them to avoid imminent risks on the foreseeable future. And despite the severity of the situation in Yemen, several MFIs[1] have succeeded in establishing the necessary infrastructure to provide mobile banking services, which can boast their future outreach and decrease their operational expenses provided that these MFIs also manage to decrease the currently high costs of service delivery channels/ technology.

The results of this assessment address the negative effects of the ongoing war, which has forced MFIs to decrease the number of disbursed loans, but also increase the average loan size in the industry as a partial mitigation measure. The deterioration of public services, economy, security and the judiciary, as well as the severe cash liquidity problems in the Yemeni banking sector, continue to cast their shadows on MFIs. This was evidenced by many elements including the increased client collaterals required by MFIs to disburse loans, prolonging of loan disbursement process, large decrease in the number of active loans, and increase in the average cost of loan to the near point of financial infeasibility unless repeated inflows of financial support are available for MFIs to continue to serve the poor and low-income people during the war. Thus, MFIs may find themselves in a race against time to find committed partners and donors willing to cover their financial deficits through grants and subsidies. Additionally, MFIs need to further embrace FinTech solutions to be able to drive down operation cost of their active loan portfolios .

The assessment also shows that some MFIs have resorted to increasing the average loan terms to slow down the sharp fall in the number of active loans. This however, could backfire if the devaluation of the Yemeni Rial continues. Particularly with the average PAR% over 30 days remaining at an unsafe and high level of more than %42.

Throughout the implementation of this assessment, micro and small enterprise owners have shown an admirable high resiliency and ability to survive and continue their income generating activities.

The current environment in which MFIs operate remains risky and despite having coped with it for several years, MFIs remain vulnerable to future political and economic events and changes as the war continues. While the role played by most donors has little focus on supporting the industry or the development side in general, but rather on short term emergency and humanitarian relief. And despite some international donors expressing their desire to support the budgets of microfinance institutions, and the expected positive effect this will have in strengthening the resilience of MFIs in Yemen, time is moving quickly, and donors are still hesitant to determine the best fields for intervention in light of the complicated war in Yemen.

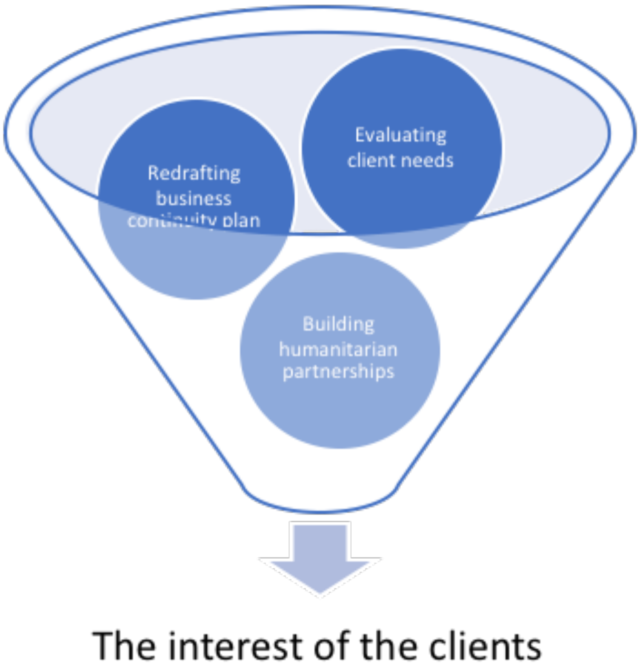
For example, the sector is still exposed to the risk of devaluation of the local currency since all active MFI loan portfolios are in the local Rial, and this has already had a negative effect on the financial positions of these institutions.

The sector could face a bigger shock if the local currency collapses further and at high speed as was the case in the during the end of 2018, which has already resulted to the Rial being dropped by many in commercial, trade, and payments locally. This can largely impact the value of the loan portfolios of MFIs, and even if they succeed in switching portfolios and loan granting to alternative currencies such the US Dollar or Saudi Rial.

4.1. Roadmap (General Vision)

In this vision of the roadmap, the Social Fund for Development, which is the largest investor in the microfinance sector in Yemen, and in cooperation with donors, will be tasked with providing the technical and financial support that is required and determined by the institutions after they adopt one of the recommended models in this vision of the roadmap:
The microfinance service providers, including banks, institutions, and programs, must have to choose one of two models to continue providing microfinance services and curb the effects of the war:
The first model is based on having a client-centric model for the institution[2] by:

- Evaluating the needs of clients: Understanding the position on the ground, better understanding the needs of clients, and responding to that.
- Redrafting the business continuity plan[3] (BCP): Creating and implementing a strong continuity plan in microfinance institutions so that the position of these institutions is restored, enabling them to better intervene and respond in the interest of their clients in light of the risks and crises.
- Creating more humanitarian partnerships: Establishing and creating partnerships with specialized organizations that provide humanitarian



As for the second model, it is based on putting the microfinance institution's future and profitability at the center of its concerns and giving priority to rescuing what can be rescued by being flexible, decreasing risks, and finding alternatives to ensure continuity. This is due to there not being enough time, and things need to be done quickly faster than any donor can rescue these institutions, and because most expected scenarios show that the war will continue. In addition to that, there will be the years of peace (negative) that will come after the war and for a period that we cannot prophesize, so all of these efforts of finance institutions might be wasted unless microfinance institutions start to implement extraordinary measures individually, like making amendments to the channels of providing microfinance services by using technology that is able to decrease the time and cost or by redeploying in markets that are less affected by the ongoing war and more profitable, like working in the agricultural sector or in rural Yemen. They can also adopt new financing methodologies that are suitable with the conditions of the ongoing war. These institutions must also benefit from their current institutional structures by providing additional non-financial services that are totally new and meet the needs of microfinance clients or other social groups, providing profit to the institutions to cover their high operational expenses.

Because most of the institutions that are working in microfinance in Yemen have the same priority (helping owners of micro-enterprises escape poverty and its effects), then each institution must

service chain, or loss or destruction of the main active structure. The business continuity plan is concerned with a number of catastrophe scenarios and the steps that the business will take. BCPs are made at an early time, and they could also include the backups that might be put in its place. Usually, they are created and include a number of emergency situations to curb possible damages to business activities during the scenarios that are addressed.

A negative peace means that the peace is not felt by many people in the society because of continuing phenomena, like conflicts and oppression, as well as violence (material, psychological, moral, cultural, and environmental).

definitely help ensure that it continues to serve its clients and meets their financial and non-financial needs. They must also work, at the same time, to look for other economic opportunities that are available to them depending on their conditions and abilities to benefit from their institutional structure and their strengths as microfinance institutions and innovate. This is what this sector needs during these difficult conditions, and the demand in the market is for services that provide a worthwhile return on investment.

It might also be important to implement collective measures, in coordination with the Small and Micro Enterprise Development Unit in the Social Fund for Development, the Yemen Microfinance Network, and donors, with the goal establishing coalitions between some microfinance institutions and programs to decrease their expenses and losses, curb negative competition, and benefit from the best available staff in these institutions. These alliances or coalitions must be prepared for expected shocks in light of the ongoing war and improving their abilities to serve microfinance clients.

In working to do this, the institutions will face a new challenge, which is to determine the available opportunities that are profitable and possible in a short period of time, then choosing the best and least costly ones. This can then become an investment arm for these institutions so that they can manage these new activities with the least possible effect on microfinance activities in the institution.

5.1.1. Decreasing Current and Expected Risks

It will be better for microfinance institutions to continue to provide microfinance services through the management of finance portfolios and increasing the level of coordination and consultation between these institutions. This might require forming a temporary coalition (from 2018 to 2022) between the institutions in order to decrease competition and in order for institutions to provide services on behalf of each other through a coalition of institutions that has unified marketing in addition to the institutions being able to sign on contracts with each other to manage the portfolios of other institutions, especially for the institutions that face problems in following up with the activities in their branches in south Yemen. It might be easier for institutions to face the risks that are facing them by facing a number of risk committees managed by the Yemen Microfinance Network. This should be done to face the risks and challenges that are there now and the expected risks that might face the sector in different fields and environments during the period from 2018 to 2022. Among these expected risks are the following:

Risk Environment	Examples of the Risks
Technology environment risks	Deteriorating or stopping internet services, collapse of the national electricity grid, and regular shortage of fuel in the market.
Environmental risks	Climate change and cold waves, spread of diseases such as cholera, droughts and lack of irrigation water reserves, spread of locusts, diseases, and pests that affect crops.
Legal environment risks	Different financial and monetary policies between geographical parts controlled by the different parties.
Economic environment risks	Decreasing value of remittances from expatriates, decreasing gross domestic product, destruction of the few remaining petroleum and gas installations that are currently operating and permanent suspension of operations in the oil and gas sector. Combined with imposed restriction on agricultural and fishery exports.
Security environment risks	Increasing airstrikes against civilian targets, terrorism and religious extremism returning in some governorates, etc.
Service environment	Further deterioration of the state provided basic services (education, security, judiciary, and healthcare).
Social environment risks	Continuing displacement of clients of microfinance, a large number of clients going under the poverty line (0.5 dollars/day).

5.2. Recommendations for Microfinance Institutions

(Microfinance Activity)

The results of the study lead to a number of recommendations, which are categorized in accordance with the components of microfinance, as follows:

5.2.1. Outreach

It is recommended that:

- Microfinance institutions and entities must quickly work to study opportunities for deployment in new markets that have less risk and higher profit compared to the current markets and groups in the microfinance market, and there should also be capacity building for institutions that want to redeploy their efforts in different markets in order to have horizontal and vertical outreach during the period from 2019 to 2022.
- Microfinance institutions shall implement a work mechanisms through agencies and transfers because many institutions have closed some of their branches.
- The institutions that are facing a large decrease in the number of clients can work on transforming their large branches to small offices that are under their larger branches, and they are managed by them directly.

- The institutions shall prepare a development and adaptation plan for each institution, independently of the other institutions, to develop and use new and innovative work mechanisms that are suitable with the current conditions and expected future conditions in each governorate or area. These plans must be in line with the policies of each institution in order to encourage creativity that might lead to unexpected solutions.

5.2.2. Profitability

It is recommended that:

- Increasing the average loan size, gradually, by disbursing a large number of loans (more than 500,000 YER) for small enterprises through a credit specialist that specializes in this financing. This is due to the fact that the institutions do not have much choice with regards to the size of loans, and it is important for institutions to increase the size of their loans at the same time that they work to improve the abilities of their loans officers to choose clients that are able to pay the loans back, taking into account the rising value of the dollar compared to the riyal.
- Increasing the ceiling of funding for the owners of service providing and commercial activities to levels that are near or equal to, as much as possible, the change in the value of the local currency and the levels of inflation

- Cancelling additional work and overtime to decrease spending on employees, and if there is any additional work it should be counted as a part of the work of the employee and not be counted towards the salary
- Spending on stationery and ink should be decreased, and work should be automated as much as possible and be on online/offline networks.
- Decreasing advertising spending from the internal resources of the institutions
- Decreasing spending on travel abroad, unless absolutely necessary
- Adjusting the murabaha rates that are used and adding what would cover the increase in costs of transportation to the murabaha rates that are suitable for the market in order to ensure an income and return for the clients and for the institutions. The study team believes that increasing the murabaha rates for some products will become more attractive over time because of the delay in the procedures of providing financial grants to microfinance institutions, taking into account the extent to which clients will accept these kinds of increases.

- Recalculating the cost of different operational activities and analyzing the costs undertaken by the microfinance institutions with the goal of removing any unnecessary or costly activities

5.2.3. Operational Efficiency

It is recommended that:

- Continue conducting evaluations of the basic financial operational needs for each institution that the institutions cannot cover now
- Continuing to operate and activate the Financing Guarantee Fund that started operating in November of last year, and the programs and institutions must coordinate better to provide the needs to get financing from the Fund

5.2.4. Loan Portfolio Quality

It is recommended that:

- Microfinance institutions and entities shall form collection support committees that will play the role of providing logistical support to the first line employees and credit officers in the institutions
- Microfinance institutions and entities shall form committees for the clients that have not paid their loans and move them to portfolios that are managed by credit specialists that are specialized in scheduling loans, with there being a clear and complete policy to direct the clients to work on and improve their enterprises, which could include partnering with the client in their activities in exchange for the loan

that they owe, or restructuring and rescheduling the debt or project

- Determining the internal needs of the institutions in order to enable them to provide restructuring services then helping the institutions train loans officers that are specialized in restructuring and managing late payments in each finance institution.
- Following up with donors with the goal of getting technical and financial support to establish a Loan Guarantee Fund, and this guarantee should be provided to the loan portfolios of the microfinance institutions in the same currency of the donor or in USD in order to secure no less than half of the portfolios of the institutions and protect them from the risk of the value of the portfolio decrease due to the possible collapse of the local currency.

5.2.5. Human Resource Factor

It is recommended that:

i. Preserving the human capital of microfinance entities and institutions by developing mechanisms and abilities to manage the human resources in light of these events and what happens after them

ii. Evaluating the performance, on a regular basis, of all of the staff in microfinance institutions and entities and providing direct financial support, made up of bonuses and incentives, to the employees in the following fields: arrears department, auditing, productivity, and any other important fields.

iii. Always prioritizing the principle of safety and providing the necessary support to help the institutions that have employees in areas with military clashes that do not allow freedom of movement and field visits so that their employees can work from home and giving them the necessary equipment to do their job from home without putting them in danger. This does not mean stopping field visits if the clashes deescalate.

iv. Finding external financial resources to support training of the employees of these institutions

v. Designing training tracks for the employees of the sector by providing long-distance learning through free education sites on the internet.

5.3. Recommendations related to Microfinance Clients

It is important that MFIs support the resilience of their clients possibly through:

i. Protecting their current activities that generate revenue

ii. Benefitting from opportunities that appear and opening new horizons in light of the ongoing conditions of the war This can be done through the following:

a. Designing training materials for the clients of microfinance to help them gain the knowledge and abilities on managing their activities that generate an income in light of the conflicts and wars, then training the highest number of clients using this material

b. Implementing an awareness-raising campaign among the clients on the most important principles and advice to protect their enterprises in light of the war

c. Further embrace the potential interventions of the newly established Yemen Loan Guarantee Program in addition to removing the burden of looking for guarantees by encouraging the private sector to provide guarantee services to customers in exchange for them getting acceptable advantages that the guarantor has not gotten, meaning that the private sector is encouraged to provide guarantee services, as happens in many countries around the world, through the private sector and pawnshops, selling pawns, and providing guarantees to farmers from companies that store agricultural crops using the guarantee of their crops.

d. Directing microfinance clients to benefit from suitable economic opportunities that have appeared due to the war.

e. Continue to deal with clients who have not been able to make repayments and develop suitable intervention plans for their enterprises, including providing services to restructure the commitments of the clients towards the institutions

f. Activating a complaints service and a hotline, as well as a client support service and providing the necessary consulting services that they need