

**The Social Fund for Development**  
**The Small and Micro Enterprise Development Unit (SMED)**

**May, 2015**

**The Impact of the 2015 Conflict in Yemen on the**  
**Local Microfinance Industry**

**(Final Draft Report)**

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## **Executive summary**

After going through a major and deep political, economic, and security crisis in 2011, and after a brief recovery period during 2012-2014, Yemen has witnessed a renewed crisis in 2014, leading to a full scale war since March 2015. As a result, the living conditions for people in the country has become very difficult, with severe shortages of basic foodstuffs, medicine, fuels, electricity, and other basic necessities of live. Although some humanitarian aid has flowed into the country in recent days, the economic and security situation in the country continues to remain very precarious. For instance, the Central Bank of Yemen is struggling to keep the currency from deteriorating any further. Most organizations and businesses have downscaled their operation or closed down, resulting in many people losing their jobs. Some of the major cities of Yemen such as Aden and Taiz are difficult to reach, witnessing daily armed clashes, which alongside the airstrikes, has made life for people impossible. Consequently, it has become extremely difficult to impossible for humanitarian aid to reach some areas of Yemen.

The local microfinance industry has been deeply affected by the current situation in Yemen in a very negative way, in which even the emergency plans prepared by MFIs have been unable to cope with the fast deteriorating events, as they were too sudden and disproportionate to deal with effectively. Many MFIs have closed down some of their branches, laid off employees, cut on costs, seen their revenues shrink rapidly, and experienced rising portfolios at risk. For instance, MFIs and branches in areas like Aden, Taiz, Dale', Lahj, Shabwah, and Abyan had to close down all their operations for most of the time during the war.

Currently, the main concern for MFIs is to manage their loan portfolios as best as they can while putting in mind the social and economic aspects of loans repayments on their clients. As it is important to ensure clients are repaying loan installments, it is important as well to ensure that these installments do not lead to a further worsening of the clients living conditions. Unfortunately, the situation is mostly beyond the control of clients, MFIs, and SFD, and striking balances is mostly unworkable. The war has simply affected everyone and everything beyond control, and without an end in sight.

This report intends to shed some light on the impact of the current situation on the Yemeni economy as a whole, with a special focus on the local microfinance industry. The report first highlights the changes in the economic situation and microfinance industry, in particular, in the country resulting from the 2011 crisis. It then moves on to illustrate the recovery and growth of the microfinance industry during the recovery period from 2012 until 2014, ending with the impact of the recent events of 2014-2015 on its growth. The next part of the report focuses on the MFIs reactions and the obstacles they are facing during this period, while highlighting some cases from various MFIs. The report also underlines the expected role of the MFIs in the post conflict phase and what role SMED will play to facilitate its growth. Finally, some cases of clients who have been affected by the conflict are also illustrated to give the reader a live picture of how current events have had a negative effect on them.

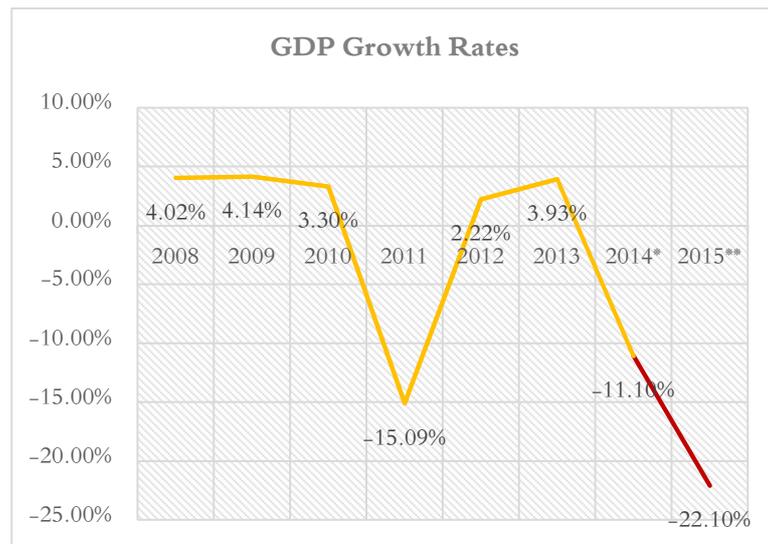
Collecting data for this report was not an easy task, taking over three weeks including MFI reports, interviews with clients, as well as data and information gathered from other sources.

# 1. An overview of the current economic situation in Yemen

This section of the report is intended to briefly review the evolution of the most important indicators of the Yemeni economy, in order to illustrate the overall development of the national economy and the impact of the political crisis experienced by Yemen since the beginning of 2011 until the time of writing this report, with a prediction for the values of the most important economic indicators for 2015. The data and facts were obtained from a report compiled by Mr. Adnan Quteina, from the Central Bank of Yemen (CBY).

## 1.1 Growth rate in the Gross Domestic Product (GDP)

The GDP was affected as a result of the political crisis and instability during the period 2011-2014. Yemen has experienced and is continuing to the present day. In 2011 the real GDP dropped by 15% in 2011. While in 2012 and 2013 the GDP recovered



strongly to the level of 2011 it again dropped in 2014 as a result of the turmoil and political crisis Yemen witnessed. However, due to the ongoing war, it is expected to fall further and by up to 22% in 2015, according to the predictions made by the Central Bank of Yemen. This is also as a result of the expected decline being experienced by various vital sectors and the worsening security situation as a result of the land, air and sea blockade, which currently Yemeni is experiencing.

Table ( 1 ) Figures on the Gross Domestic Product

	2009	2010	2011	2012	2013	2014*	2015**
<b>- GDP at current prices</b>	5,773	6,787	6,645	6,875	7,701	7,218	6,706
<b>- GDP growth rate at current prices</b>	-5%	18%	-2%	3%	12%	-6%	-7%
<b>- GDP at constant prices</b>	2,668	2,756	2,340	2,392	2,486	2,210	1,722
<b>- Real GDP growth rate</b>	4.14%	3.30%	15.10%	2.22%	3.93%	11.10%	22.10%

\* Preliminary data.

\*\* Forecast (forecasts have been calculated according to expenses).

## 1.2 Average per-capita Income

Per capita GDP dropped from USD 1,318 dollars in 2013 to USD 1,294 in 2014, and this decline is expected to continue through most of 2015 to reach \$ 1,116, leading to a lower standard of individuals and higher poverty rates. The United Nations reports also show that 54% of households are already living below the poverty line, and this percentage is expected to rise in 2015 to reach 60% of the total population.

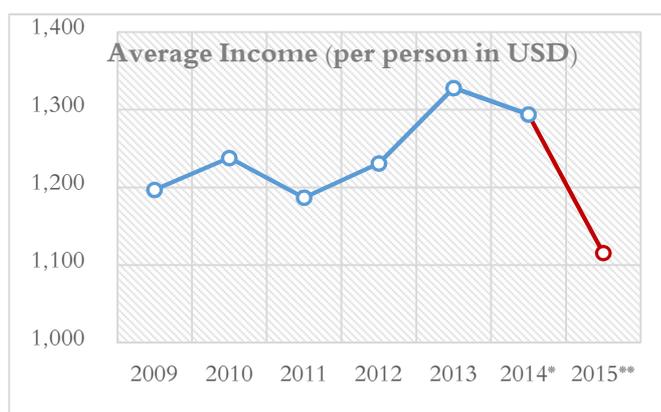


Table ( 2 ) Changes in Personal Income

Item	2009	2010	2011	2012	2013	2014*	2015**
Y.R.	242,894	271,822	253,691	263,952	285,465	278,078	239,709
USD	1,197	1,238	1,187	1,231	1,328	1,294	1,116
% Change	-7%	3%	-4%	4%	8%	-3%	-14%

\* Preliminary data.

\*\* Forecast

### 1.3 Aggregate demand and supply

#### - Aggregate Demand

Aggregate demand decreased (expenditures on Gross Domestic Product) during 2014 by 63% reaching 7,218 YR Billions, compared to an increase of 12% in 2013 to 7,701 YR Billions. This was due to the decrease of total both private and public investments and expenditures. It is expected that these figures will further decline during 2015 by 7%, in addition to an expected decline in exports.

**Table ( 3 ) Expenditure on Gross Domestic Product (Total Demand)**

Figures are Billions YR

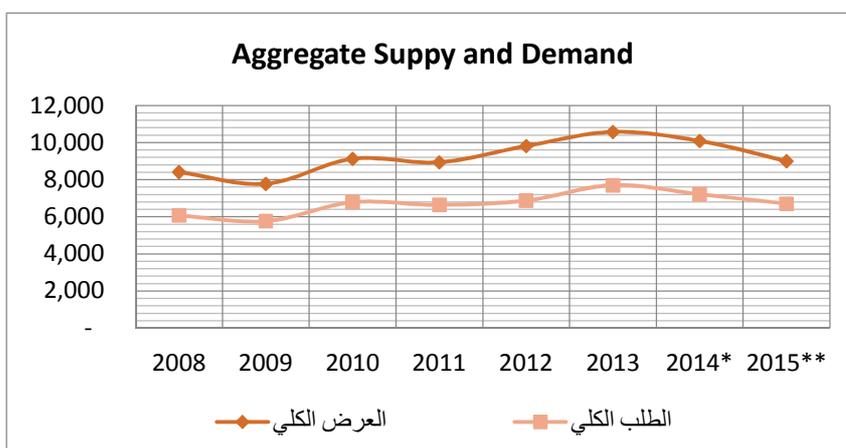
Item	2009	2010	2011	2012	2013	2014*	2015**
Gross Final Consumption	5,108.20	5,786.40	5,545.70	6,472.50	7,373.70	7,348.10	6,673.40
Gross Investments	1,239.30	1,299.90	1,168.20	1,326.80	1,076.10	679	577.2
Exports of Goods and Services -minus Imports of Goods and Expenses on GDP by market price (Total Demand)	<b>5,772.90</b>	<b>6,786.80</b>	<b>6,644.70</b>	<b>6,875.30</b>	<b>7,701.30</b>	<b>7,217.80</b>	<b>6,706.00</b>
% increase of Total Demand	-4.90%	17.60%	-2.10%	3.50%	12.00%	-6.30%	-7.10%

\* Preliminary data.

\*\* Forecast

#### - Aggregate Supply

Aggregate supply decreased during 2014 by 5% to 10,084 YR billions compared to an



increase of 5% in 2013, and it is expected to decrease further in 2015 by 11%. This is due to expected decrease

in imports and GDP.

**Table ( 4 ) Supply and Use of Goods and Services by Current Prices**

Figures are in billions YR

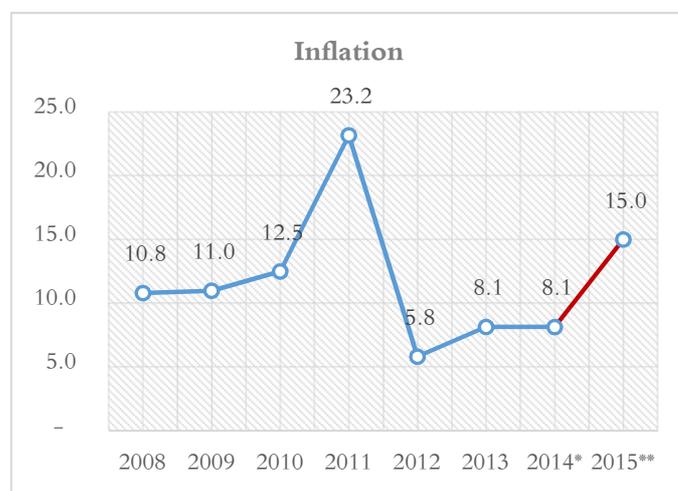
Item	2009	2010	2011	2012	2013	2014*	2015**
GDP by Market Price	5,773	6,787	6,645	6,875	7,701	7,218	6,706
Imports of Goods and Services	1,999	2,333	2,289	2,936	2,869	2,866	2,293
<u>Aggregate Supply of Goods and Services</u>	<u>7,772</u>	<u>9,120</u>	<u>8,934</u>	<u>9,811</u>	<u>10,570</u>	<u>10,084</u>	<u>8,999</u>
% Increase of Supply	-8%	17%	-2%	10%	8%	-5%	-11%

\* Preliminary data.

\*\* Forecast

### 1.4 Inflation Rate

Inflation has witnessed varying rates during the period 2009-2014, as it has increased



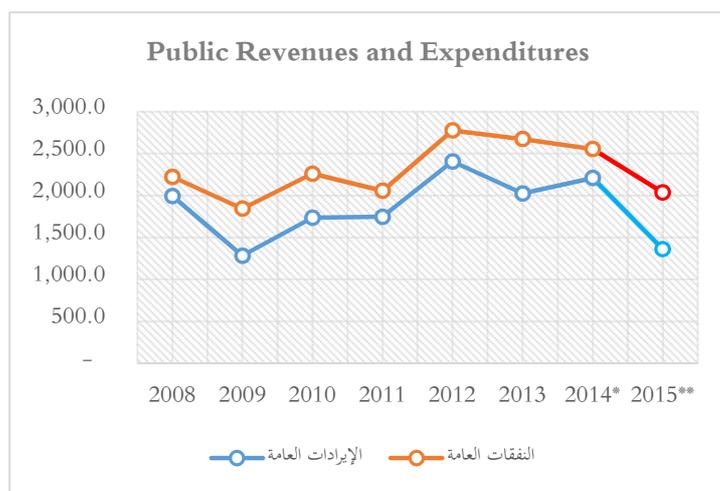
annually from 11% in 2009 to 23.2% in 2011 as a result of the political crisis during that year. It then receded in 2012 to 5.8% to increase again to 8.1 in 2013-2014. Inflation is expected to continue to increase during 2015 to reach 15% as a minimum.

### 1.5 Public finances (Revenues-Expenses)

#### - Public Revenues:

Public Revenues have increased in 2014 in comparison to 2013 by 184 Billion YR and by 9% percentagewise, reaching 2,209 YR Billions. This was the result of an increase in foreign grants by 168.6 YR Billions and Tax Revenues of 58 YR Billions.

It is worth mentioning that income from oil decreased 7% in 2014 compared to 2013 by about 75.5 YR Billions. Public Revenues are expected to decrease enormously in



2015 by about 847.7 YR Billions (38%) compared to the previous year due to the deteriorating security situation in Yemen, large decrease in oil revenues, and the siege caused by the ongoing war.

- **Public Expenditures:**

Public expenses declined by 4.5% during 2014 totaling 119.3 YR Billions, compared to revenues of 2,554 YR Billions in 2013. The decline was the result of a decline in Current Expenditures by 65.8 Billion Riyals and lower Capital Expenditure by 53.5 YR Billions, which declined by 2.7% and 27.3% respectively. This was due to the government's austerity policy and reduction in the state budget deficit. It is expected that public expenditures to decline further throughout 2015 by about 517.5 YR Billions (20% compared to 2014).

- **State Budget Deficit:**

The state budget deficit for 2014 decreased 46.9% compared to 2013 by 304.7 YR Billions, reaching 344.9 YR Billions. In 2014, the budget deficit reached the proportion of 4.8% of GDP, compared with 8.8% in 201. It is expected in 2015 to reach 675.2 YR Billions, representing 10.1% of the GDP, representing an increase of 95.7% compared to 2014.

**Table (5) Public Finances**

Figures are in billions YR

	2009	2010	2011	2012	2013	2014*	2015**
Public Revenues	1,282	1,735	1,745	2,404	2,023	2,209	1,361

Public Expenses	1,844	2,259	2,056	2,775	2,673	2,554	2,036
Deficit/Surplus	<b>562.2-</b>	<b>524.0-</b>	<b>311.0-</b>	<b>370.7-</b>	<b>649.7-</b>	<b>344.9-</b>	<b>675.2-</b>
% of Deficit /	-	-	-	-	-	-	-
Surplus	10.10%	8.20%	5.00%	5.60%	8.80%	4.80%	10.10%

\* Preliminary data.

\*\* Forecast

### - Public Debt

The total public debt rose 9.2% in 2014 by about 1,591 USD Millions compared to 2013, reaching 18,930 USD Millions, which represents 56.4% of the GDP.

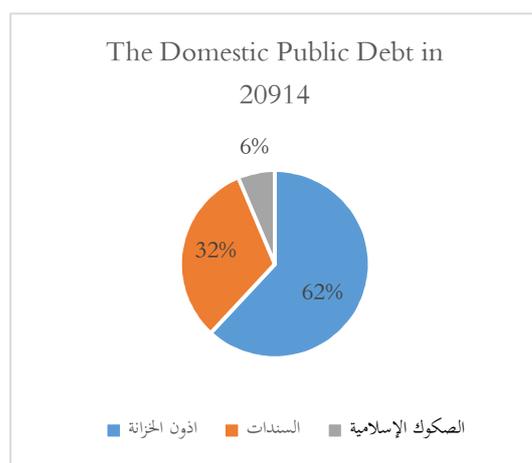
**Table ( 6 ) Public Debt**

Figures are in YR millions

	2009	2010	2011	2012	2013	2014*
External Debt	6,035.90	6,144.20	6,080.80	7,240.30	7,245.60	7,259.40
Domestic Debt	4,454.70	4,931.30	5,424.80	7,150.50	10,093.6	11,670.8
<b>Total Public Debt</b>	<b>10,490.6</b>	<b>11,075.5</b>	<b>11,505.6</b>	<b>14,390.8</b>	<b>17,339.2</b>	<b>18,930.2</b>

\* Preliminary figures

### - Domestic Debt:



The domestic public debt rose 15.6% during 2014, increasing by 338.9 YR Billions (equivalent to 1,577 YR Millions) in 2013. It reached 2,508 YR billions, which represents 34.7% of the total GDP. Treasury bills represented 62% of the total domestic debt, with bonds representing 32%, and Islamic instruments 6%. The already high external public debt rose 0.2%

by about 13.8 USD millions in 2014 compared to 2013 (see Table (6)).

**Table ( 7 ) Domestic Debt**

Figures are in YR Millions

	2009	2010	2011	2012	2013	2014
Domestic Loans	923,548.00	1,054,301.50	1,159,814.90	1,536,578.60	2,169,013.40	2,507,929.20
Treasury Bonds	557,748.00	647,401.50	697,664.90	988,433.60	1,425,613.40	1,551,812.20
Bonds	365,800.00	406,900.00	458,900.00	498,100.00	640,800.00	797,900.00
Islamic Instruments			3,250.00	50,045.00	102,600.00	158,217.00

**- External Public Debt:**

The External Public Debt increased by 0.2% 2014 to 13.8 USD Millions, compared to 7,259 USD Millions 2013. The External Public Debt was 21.6% of GDP in 2014, compared with 20.2% in 2013. The Debt was 75.9% of Total Exports in 2014 compared with 73.4% in 2013, and 155.6% of the foreign reserves in 2014 comparing to 135.5% in 2013.

**Table ( 8 ) The main indicators for the Public Debt**

Public Debt Indicators	2013	2014
Public Debt to GDP	48.40%	56.40%
Foreign Debt to GDP	20.20%	21.60%
Domestic Debt to GDP	28.20%	34.70%
Foreign Debt to GDP	73.40%	75.90%
Foreign Debt to Foreign Reserves	135.50%	155.60%
Individual share of Public Debt	687	729
Public Debt of Public Revenues	184.10%	184.10%
Public Foreign Debt of Public Revenues	76.90%	70.60%

**1.5 Poverty indicators**

Yemen is one of the poorest and least developed countries in the world. According to the Human Development Index of the United Nations Yemen ranked 154 out of 177 countries included in the index. Also, the World Bank report of 2014 shows that the poverty rate in the Republic of Yemen has increased from 42.0% in 2009 to 54.5% in

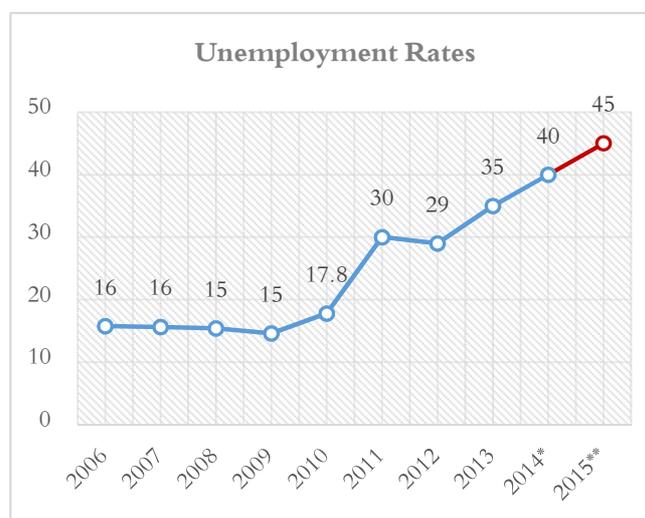
2012, and it is expected to rise in 2015 to 60% as a result of the security unrest and political conflicts that are being currently experienced by the country.

As shown in the United Nations report of March 2015, 15.9 million inhabitants (or 61% of the total population of Yemen) need at least one of many kinds of humanitarian assistance, which is up by 8% from last year as a result of the worsening crisis and political conflicts, high migrations, displacement of peoples, high population growth rates, and a lack the most basic services.

## 1.6 Unemployment

Yemen suffers from a high unemployment rate, which averaged 16% during the period 2002 to 2010, but rose dramatically after the political crisis of 2011 reaching up to 40% during 2014. This percentage rises among young people for up to 60%, and is expected be exacerbated more in 2015 to reach 45% as a result of crashes of a many investment projects, and the laying off of many private sector employees.

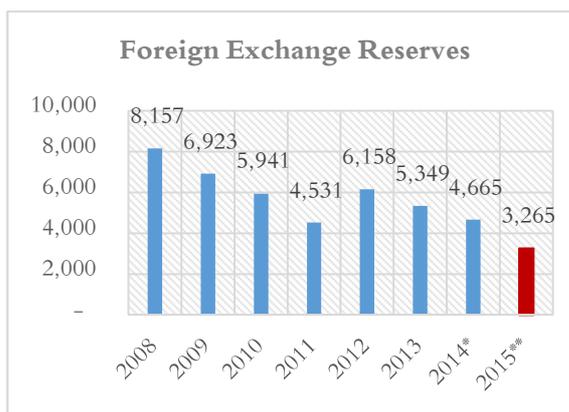
Thus, the problem of unemployment will remain a major problem facing development in Yemen because of its social, security, and economic effects, at the forefront of which is the waste of labor. This leads to a loss in the value of output that could have been gained for the unemployed had their productive potential been exploited, turning unemployed youths easy pray for terrorist groups and armed militias.



## 1.7 Foreign reserves and currency exchange

Foreign exchange reserves at the Yemen Central Bank's fell from USD 5.9 billions at the end of 2010 (which could cover 7.2 months of imports) to about USD 4.6 billions at the end of 2014, which was enough to cover imports for 4.6 months. The reserves

are expected to decline further during 2015 to an estimated USD 3.3 billions, covering only 3.1 months of imports. The drop was the result of lower world oil prices, and the need to cover the large deficit in the balance of payments. This indicates that the Yemeni economy is unable



to cope with short-term shocks alone, and it urgently needs aid to cover the large deficit in its balance of payments and stabilize the Yemeni Riyal's exchange rate.

The official exchange rate of the Yemeni Riyal remains unchanged at USD 214.85, while in the black market it hovers around USD 222. Given the ongoing situation, while the Yemeni Riyal has not lost a huge percentage of its market value (about 4%), should the war continue it is certainly expected to drop more significantly. As trouble loomed in the horizon, people already were withdrawing sizeable amounts from their accounts and changed them in US Dollars or other foreign currencies, putting enormous pressure on commercial banks, and requiring the Central Bank of Yemen to gradually put severe limits on withdrawals in foreign currency, banning most transfers abroad, and placing many other restrictions on foreign currency.

## 2. The 2011 crisis and its effects on microfinance in Yemen

### 2.1 The 2011 Crisis

Yemen witnessed during 2011 a deeply unstable political, economical, and security situation that has left the country in many aspects severely scarred and distressed. Certain areas of Yemen, such as the Governorates of Abyan and Al-Beidha witnessed military confrontations between government forces and terrorist groups. As a results, tens of thousands of people were displaced and became refugees. Even in the capital Sana'a, and Taiz (Yemen's second largest city) thousands of people evacuated their homes when fighting broke up between government forces and the armed opposition in mid 2011. The events in 2011 also caused a great economical crisis. For instance, devaluation of the Yemeni Riyal, frequent power outages, an almost total lack of

fuels. Furthermore, difficulties in transportation caused by great security risks in large areas of the country have affected ability of people in Yemen to move around enormously, particularly in the Governorates of Abyan, Al-Beidha, Shabwa, Marib, and the cities of Sana'a, Taiz, and Aden.

## 2.2 The effects the 2011 crisis on microfinance in Yemen

The events of 2011 also reflected themselves on the performance of microfinance in Yemen, which translated into greatly reduced lending activities in some of the branches of MFIs, higher levels of portfolio at risk (PAR), and downsizing of loan portfolios, in general. Expansion plans and new initiatives were postponed, branches in "hot areas" were closed or relocated, hundreds of borrowers became displaced, and financial and property losses were incurred by both MFIs and clients. For instance, Abyan MFI was almost completely destroyed by terrorists (about 80% of the loan portfolio was rescheduled), while Nama MFI in Taiz was emptied of the gold it held as a guarantee against many of its borrowers. These were the two most extreme cases of what MFIs faced during the crisis. Table (9) summarizes the main figures for MFIs in 2011, and compares them to those of 2010 – the last "peaceful" year prior to the crisis.

**Table ( 9 ) Comparison of main figures for 2010-2011**

	<b>2010</b>	<b>2011</b>	<b>% increase or decrease</b>
<b>Active borrowers</b>	66,440	63,568	<b>- 4.29 %</b>
<b>Outstanding portfolio YR (thousands)</b>	4,413,000	3,853,000	<b>-12.69 %</b>
<b>Portfolio at Risk (PAR)</b>	1.6 %	11.2 %	<b>600 %</b>
<b>Active savers</b>	59,033	87,615	<b>48.28 %</b>
<b>Savings amounts YR (thousands)</b>	1,180,520	3,105,290	<b>280.16 %</b>

It can be noticed from Table 1 that despite the fact that most indicators in 2011 appear negative, it must be said that quite the opposite emerged with regards to savings. In fact, in times of social upheaval people would tend to secure their money by placing them in banks and financial institutions to safeguard them against potential risks. This is why the figures for saving in 2011 were quite positive.

### **3. Post-crisis recovery of microfinance in Yemen (2012-2014)**

Despite the shock (overall a relatively minor one) to which microfinance in Yemen was subjected in 2011, the sector eventually rebounded in 2012, 2013, and 2014. An agreement brokered by the Gulf countries in what it became known as the "Gulf Initiative" brought the opposing parties (government and opposition) together and did stabilize the situation in Yemen (although temporarily). As a result of the initiative presidential elections were held, a new coalition government was formed, the economy started moving again, and the security situation gradually improved. Most displaced people returned home, streets and roadblocks were removed, government offices were reopened, and new hopes started to shine in the horizon.

As a consequence of the relatively newly found stability in Yemen resulting from Gulf Initiative the microfinance sector made a gradual and steady recovery, and started to regain the momentum lost in 2011. Branches and areas that were once off-limit became accessible, new branches were opened, MFIs started working in new areas outside their traditional geographic bases, new financial products were gradually introduced, and even a new microfinance bank was established (Capital Injaz).

Table (10) below, shows the main figures achieved by the MFIs during the recovery period 2012-2014, showing surprisingly positive numbers that reflect the optimistic outlook for the future, and the drive to recoup the losses incurred in 2011.

**Table ( 10 ) Comparison of main figures in the MFIs during 2012-2014**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Active borrowers</b>	82,226	99,726	120,839
<b>Outstanding portfolio YR (thousands)</b>	5,846	9,590	12,226
<b>Portfolio at Risk</b>	11.4 %	2.3 %	2.1 %
<b>Active savers</b>	129,464	253,292	622,114
<b>Saving amount YR (thousands)</b>	<b>Not Available</b>	<b>Not Available</b>	<b>Not Available</b>

As the situation seemed to stabilize in a gradual manner throughout 2012, and 2013, and most of 2014, the Social Fund for Development too was encouraged by the recovery made by the microfinance sector following the 2011 Crisis, and worked accordingly by establishing new partnerships, working on the establishment of a Greenfield MF bank, and by funding new projects. Furthermore, SFD made significant loan disbursements to the MFIs during the recovery period, as shown in Table 3, below. The increased pace of lending by SFD compared to 2011 is also noticeable.

**Table ( 11 ) SFD disbursements to MFIs during the recovery period 2012-2014**

<b>Year</b>	<b>Amounts Disbursed (Yemeni Riyals)</b>
2011	1,233,750,000
2012	680,000,000
2013	1,797,000,000
2014	2,114,400,000

It is worth mentioning in the table above that SFD's disbursements in 2011 were higher than in 2012 due to the fact that most of the disbursements were made during early 2011, before the situation deteriorated dramatically. Also, in 2012 disbursements were relatively moderate, as the situation was still unclear for a good part of the year,

and as MFIs still had plenty of unused cash left from 2011, during which credit was tightened.

#### **4. Renewed crisis in Yemen and war (2014-2015)**

Due to the many "unsettled scores" left over from 2011, Yemen was plunged again in a deep crisis that started in September 19, 2014 when the capital was finally taken over by armed insurgents, after months of fighting in the extreme north of Yemen. Over time, the armed insurgents have occupied more areas of Yemen and overthrown the Government, thus gradually plunging Yemen in a civil war. Furthermore, the situation has been internationalized by the armed intervention of the Arab Coalition, making 2011 look even "benignant", in comparison. The war has resulted in the military besiege of Yemen by ground, air, and sea, plunging the country in a renewed economic and security crisis, even deeper than the one witnessed in 2011. The war that has officially started in March 26<sup>th</sup> 2015, and the resulting disruption of public services (such as electricity and transportation), as well as food and fuel shortages and damages to the infrastructure, have altogether reflected themselves in a very negative way on the performance of all MFIs to a much greater scale than in 2011.

#### **5. General situation of microfinance during 2015**

As in 2011, the microfinance sector in Yemen has suffered as a result of the situation the country is now facing – only on a much larger and dangerous scale. Although the fighting is still somewhat localized to certain fronts and cities, since roughly the end of March 2015 MFIs have almost stopped lending, especially in war areas, such as Aden, Lahj, Taiz, Dhale, and Abyan, with Sana'a completing the list, as the military bases and arms depots it encompasses have been subjected to heavy bombings. Even in relatively calm cities and areas (for instance, Hadhramout, Tihama, Ibb, Al-Mahweet, and Hajja), the war, its resulting uncertainties about the future, high potential risks, displacements of the population, deteriorating currency, salary

reductions among employed borrowers, and all the rest, have led MFIs to drastically reduce lending to a trickle. Actually, most MFIs have temporarily stopped lending.

Table 4 shows the main figures for MFIs during the first three months of 2015, and compares them to those at the end of 2014. Although things seemed to go well during the first two months of 2015 and well into the month of March, the performance of MFIs has dropped during the month of April, and is expected to deteriorate thereafter at an even faster pace.

**Table ( 12 ) Main figures from the MFIs in 2015 compared to 2014**

	<b>2014</b>	<b>January 2015</b>	<b>February 2015</b>
<b>Active Borrowers</b>	120,839	120,872	122,105
<b>Outstanding Portfolio (YR (millions))</b>	12,226	12,301	12,520
<b>Portfolio at Risk</b>	2.1 %	1.6 %	1.6 %
<b>Active Savers</b>	622,114	640,812	659,841

Data for March and April for several MFIs are generally incomplete and not updated. The monthly summaries of MFIs for March and April 2015 are annexed at the end of this report.

## **6. Obstacles facing MFIs in 2015 during the war**

Even in relatively peaceful areas, repayments by borrowers have been affected enormously as a result of the war, as clients have other more pressing priorities. Although the situation of provisions has improved slightly in the past few days due to the inflow of humanitarian relief materials, the economy has come to an almost virtual standstill. The scarcity and high prices of basic commodities, price hikes, scarcity of fuels (especially cooking gas), increasing prices of food and water, the difficulty in conducting business, and almost total lack of electricity has made it for borrowers increasingly difficult pay their monthly installments. On the other hand, in the disaster areas of Aden, Taiz, Lahj, Abyan, and Dhale' repayments have almost stopped.

Particularly in Aden (and more recently Taiz) the movement of borrowers has been severely restricted due to the presence of snipers and street combats, thus preventing those few borrowers who have the financial means from making their repayments.

Although the microfinance sector in Yemen as a whole has been dramatically affected by the war, it must be said that MFIs have been affected by to varying degrees. In the most extreme cases, those MFIs and branches found in the cities where street fights occurred or have occurred have managed to salvage vital fixed assets, such as servers, computers, files, documents, etc. This is the case of the MFIs and the branches found in the disaster cities of Aden, Taiz, Lahj, Abyan, Dhale', and Ataq, the capital of Shabwa.

In the case of other lesser cities, although full scale fights have not yet occurred MFIs and branches present in the eastern city of Mukalla have preemptively stopped their operations due to the widespread presence of Al-Qaeda terrorist affiliates who have broken out of prisons. Although they are not being infested with Qaeda operatives they still present significant risks to their close proximity to combat areas, microfinance has also stopped operations in lesser cities, such as the city of Al-Qaeda (which lies 20 km from Taiz and should not be confused with the notorious terrorist group), Yarim (on the dangerous road between Sana'a and the southern areas of Yemen), Al-Raheda (between Taiz and Aden), and Abs (near the border with Saudi Arabia).

Due to the war the ongoing economic crisis, many of the clients have either left their cities, or it has become very difficult to keep in touch with. Some clients have either lost family members, or deceased themselves. So far, MFIs have reported around 20 known deaths among their clients in Sana'a and other cities such as Aden, Sana'a, Taiz, and in the Governorate of Abyan in the south. Furthermore, due to the disruption of the economic activities of most clients, many refuse or are unable to repay their loan installments as they need the cash to purchase food rations, provide for their families, and pay for medical emergencies, etc.

In conclusion, while microfinance in Yemen has never faced a crisis of this magnitude during its almost 17 years of existence, and despite the increasing difficulties it is facing, it nonetheless continues to retain its basic infrastructure intact: employees, expertise and know-how, manuals and computerized systems, databases, files, servers,

most fixed assets, client base and markets, etc. It is only time that is holding back the MFIs from making a comeback once the situation in Yemen returns to normality.

## **7. Actions and activities undertaken by the MFIs to reduce the impact of the war on the MF industry**

Based on the guidelines of the Microfinance Emergency Plan prepared by SMED in 2011 to meet the challenges of the Crisis, each MFI has further developed in 2015 and put in place those contingency plans. The plans were devised by the MFIs in such a way to cope with the challenges posed by the war according to their own particular situation. Borrowers have been classified according to their situation (eg. displaced, stopped working, still operating, deceased, etc.). Areas have been classified too according to the dangers present, branches closed, or evacuated, or working at minimal pace, and so on. Furthermore, some MFI have begun reducing their staff (Al-Awael MF Company, for instance), while others are actively planning to. For instance, MFIs are now largely accepting partial repayments by borrowers. Important assets such as servers, computers, files, and documents have been secured.

Furthermore, SFD supported the Yemen Microfinance Network in organizing a workshop held in early April 2015 to review the effects of the ongoing conflict, such as the issues related to security, the effects of the deteriorating economic conditions on MFIs and MF clients, the death of clients, the difficulties of moving around (especially in rural areas) due also to the lack of fuel and transports, etc. The workshop was also an occasion to exchange opinions and ideas on how to overcome the difficulties MFIs were about to face as a result of their increasing portfolios at risk. The workshop resulted in the issuance of new general guidelines, such as the suspension of lending, and the application of alternative repayment means for loan installments, and so on.

Overall, the war has put all MFIs in Yemen under severe pressure. In the most extreme cases MFIs (such as Aden MFI and Al-Awael MF Company) have been totally paralyzed for several weeks in a row because of the fighting going on in their areas. Neither loan officers could leave their homes to follow up in the field, nor

borrowers could make their payments at the branches, or through postal offices and other outlets. Other MFIs that have branches in those areas (such as Al-Amal Bank, Al-Kureimi Bank, Al-Tadhamon Bank) are also under heavy pressure because their branches were also closed temporarily. Needless to say, the scarcity of fuel and costly transportation, and the almost total absence of electricity have exacerbated the situation further, forcing MFIs, for instance, to partially revert to manual systems in recording their transactions, to reduce working hours, accept partial installments from their clients, field collection, merger of some branches and close others, and staff reduction.

## **8. The current situation of selected SFD partners**

In this section, a summary of the current situation of some selected SFD partners is illustrated. Data and facts were collected through direct field visits, and reports provided by the partners to SFD. It must be said that some data is still incomplete, and at times imprecise. This was due to the fact that not all the numbers were entered in the MISs of the MFIs, due to the difficult access to some branches, and absence of some employees.

### **8.1 Aden Microfinance Foundation (AMF)**

Headquartered in Almansora (Aden) AMF is one of the leading MFIs in Yemen, counting over 15,000 active clients with a loan portfolio of approximately YR 1 billion, and 0% portfolio at risk until March 2015.

Due to the ongoing conflict in Aden and the other cities where it operates, AMF has been struggling for the past couple of months to collect loans, and stopped lending to its clients. At the end of March 2015, AMF had to shut down all of its operation (lending and collecting) for the safety of its employees . On the 13<sup>th</sup> of May 2015, AMF resumed operations (collection only) in three of its offices (the headquarter, Al-Bureiqa and Al-Mansoorah branches), while its other five branches are still closed (Al-Tawahi, Crater, Lahj, Al-Dalee, and Dar Saad). Till the 18<sup>th</sup> of May 2015, four clients

have lost their lives (Lahj, Al-Bureiqa, Salah Al-Deen, and Al-Tawahi), and most of the clients have lost their businesses.

Branches in AMF have been targeted by armed groups. For instance, the branch in Lahj was occupied by an armed terrorist group. Fortunately, the branch was fully emptied well in advance. In the case of Al-Sheikh Othman branch in Aden, the manager managed to leave minutes before it was occupied at gunpoint by armed men, taking out with her all the cash, which she later deposited in the MFI's bank account.

The collection of loans is having a high risk on the lives of the MFI's employees due to the presence of snipers in many buildings, including the branch office buildings. In addition, people in Aden have not receive their salaries during the past couple months, and their activities and businesses have come to a complete halt. While some clients still receive remittances from families residing abroad, they would rather use them to purchase food and medication, and to meet other emergencies rather than repay loans.

AMF has not been able to generate any kind of revenues during the past two months, so it has taken several measures to reduce its operational costs. Despite the difficulties, AMF has paid all the salaries for March and April. However, AMF plans to reduce salaries starting from June, and will enforce compulsory leaves on the employees on temporary contracts. Working hours have already been reduced to 5 daily (10 am – 3 pm) in the branches that have reopened. While work has partially resumed, AMF is still concerned of the continuing risks that could affect the safety of its employees. In addition, due to the logistical difficulties of the war, such as the closure of airports, 5 employees are still blocked in Cairo, as they had just finished attending a training course.

AMF has accounted for about 3,000 displaced people among its clients in Djibuti, 1,500 in Hadhramout, and some 5,000 within different areas in Aden that have not been greatly affected by the fighting. AMF has estimated that it would be able to operate for 5 months with its current cash capital. Should the war stop, AMF will work on several post-conflict activities, such as introducing new products - especially that Ramadan will be in middle of June.

So far, AMF has accounted for 4 deaths among its clients in the city of Aden.

## **8.2 Hadhramout Microfinance Program (HMP)**

HMP is headquartered in Sieyun, in the eastern governorate of Hadhramout, serving close to 6,000 clients in the several cities where it operates. The Mukalla branch of the program has been affected due to the invasion of the city by Al-Qaeda armed groups. The branch had to close its operations and was incapacitated from collecting installments or making loans. Since mid April, the Mukalla branch had to operate mostly during night hours, when electricity is usually available.

HMP is being very cautious in lending to its clients because, as most of their collateral is represented by their salaries disbursed through postal offices. As a consequence, and because postal offices have been subjected to armed robberies by terrorist groups, HMP has to deduct the loan repayments from the salaries clients receive through postal offices. Since April, however, the Mukalla, Shabwa, Al-Mahra, Al-Shehr, and Al-Hami postal offices have not been able to receive peoples' salaries.

The Hadhramout Microfinance Program is reducing its operational costs due to decreasing revenues. The program had to put on compulsory leave those employees who had more than 90 days off in their balance. Three out of seven branches are still fully operational, while the other five work only on loan collection.

## **8.3 The National Microfinance Foundation**

Like the rest of the MFIs in Yemen, NMF is suffering from the deteriorating situation in the country. In certain way, the negative effects of the current situation on NMF might be more apparent than on other MFIs due to its extensive operations in many parts of the country. Headquartered in Sana'a, and operating 20 branches spread across several cities and towns in Yemen, monitoring and supervision of branch operations in NMF has become severely restricted through its branch and regional managers, as traveling between cities has become dangerous and expensive. As such, supervision is being carried out mostly by phone and emails.

With its more than 18,000 active borrowers, NMF has been facing great difficulties in updating its database, as power cuts has forced its branches to use manual systems.

Furthermore, due to the mounting transportation difficulties reaching clients has become even more difficult than before, as some have disappeared without leaving any information on their whereabouts or wellbeing, and are unreachable by phone. For instance, near Sana'a International Airport, nearly all people living in the area have evacuated, including all the borrowers.

Other difficulties faced by NMF were found in its branch in Yarim, where female loan officers were prevented by their families from going to work due to security concerns. As a result, the branch was closed and filed operations are being conducted by loan officers coming from branches in other cities.

A number of NMF employees themselves have become displaced and refugees. However, they have been allowed to work from their areas to remotely follow up their loan portfolios.

On the other hand, to manage the risks caused by the current situation, NMF has taken a number of steps, among many:

- 1- Complete closure of 3 branches located in combat areas (Aden, Lahj, Taiz).
- 2- Relocation of all important documents, files, and fixed assets from the branch of Lahj to a secure hiding.
- 3- Constantly visiting those clients who live in Sana'a, and keeping an open line of communication with them and those in safer cities, as well as allocating more money for phone communication between loan officers and clients.
- 4- Giving the branches the authority to follow up with clients who have relocated from other cities or areas, and collect the loan installments in the field.
- 5- Conducting field checks to ensure the correctness of clients information, especially of those who have relocated.
- 6- Classifying clients in two categories: those who cannot pay, and those who can pay but are not willing to. This is to help loan officers and operations staff in following up with the procedures and collection of loans.
- 7- Extensive using of WhatsApp as a means of communication between the staff, and for sending and receiving reports and other documents.
- 8- Limit the amounts of cash that loan officers can collect from the field everyday in order to limit potential frauds.

Table (13) below is a list of displaced borrowers in some NMF's branches, updated up to the end of April 2015.

**Table ( 13 ) List of displaced people in some of the branches of NMF  
(as of May 20<sup>th</sup>, 2015)**

#	Branch	no. of displaced borrowers
1	Sana'a	320
2	Dares	235
3	Sabaeen	79
4	Maeen	61
5	City of Ibb	121
6	Yarim	48
7	Damt	113
8	Hodeidah	48
9	Bajil	76
<b>Total</b>		<b>1101</b>

#### **8.4 Al-Awael Microfinance Company**

Al-Awael has been dramatically affected by the latest events in Taiz , Yemen's second most populous city. Since fighting broke out in late April, Al-Awael has been working according to its contingency plan and got able to partially cope with the situation. The plan included a contingency team, in addition to several actions, such as removing files and documents to a safe place, removing the server and computers, backing up information on a daily basis, and depositing and withdrawing cash according to the situation, and so on. The situation, however, continues to remain very critical, especially in Taiz, as snipers are nearly everywhere, and random shelling still continues. The situation in its two branches outside of Taiz is vastly better (Al-Rahida and Al-Dimna). Although lending has stopped, collection of installments continues and is far better than in Taiz. These two branches, however, make up only a small portion of the total loan portfolio of Al-Awael (less than 15%).

As the situation began to worsen on an almost daily basis, and the armed conflict became more intensive and widespread across the city, collection of loans in Taiz suffered too, causing the company to almost totally stop operations in Taiz. Important

fixed assets (such as the servers, files and documents) though have been salvaged and put in a secure place.

The following is a summary list of the main issues Al-Awael MF Company is facing:

1. Working in an intensive armed conflict that has prevented most people in Taiz to safely moving around.
2. Employees becoming unable to reach the main office and branches in Taiz.
3. Employees becoming unable to reach clients, or even collect information on those who have moved out of the city, businesses that have been affected, etc.
4. Although the company has still managed to contact some of its clients by phone, those clients were still unable to reach the company to make their repayments.
5. Six employees out of 40 have moved out of the city due to the fighting.
6. One of the employees has been injured by a stray bullet.
7. Generally speaking, even those who are still in Taiz and are able to repay their installments are busy getting their basics necessities of life, such as water, fuel and electricity, and keep what little cash they have for themselves.

The last reliable figures for Al-Awael that could be obtained were for the month of March, indicating a portfolio at risk (PAR) of a 10.75%, while estimates for April are well over 50%.

## **8.5 Azal Microfinance Program**

The program operates 4 branches in Sana'a, in addition to a branch in the city of Al-Mahweet, some 100 km north-west of the capital. The program has faced a number of difficulties, although to a somewhat less extent than all other MFIs mainly due to the relative safety of Sana'a, where most of Azal's loan portfolio is present.

In a similar way with the clients of other MFIs, Azal's clients have faced several difficulties: exodus, interruption of most of their activities due to the lack of fuel and electricity, inability to repay the loan installments due to other priorities caused by the war, damages to the houses of some of the clients living near military bases and depots that have been the target of airstrikes, etc.

From its side, the MFI is facing several difficulties, such as less working hours (down from 8 to 5 daily), difficulties in field operations due to the difficult situation of transports, decreased revenues because of lower productivity, etc. Similarly to many MFIs, in many instances female employees have been prevented by their families from going to work due to safety concerns.

To counter and minimize the negative effects of the war and its consequences, Azal has taken a number of measures:

1. Unpaid leaves for recently hired employees.
2. Development of a salary reduction plan, that prioritizes employees according to the significance of their role, loan portfolio under their management, etc.
3. Greater decision making autonomy and flexibility for the branch managers. For instance, the authority to close a branch when the security situation requires it.
4. Making photocopies of the most important documents.
5. Formation of an emergency team.
6. Lowering the number of working hours for the generator to only three hours daily, as fuel reserves are sufficient for only 2 more weeks.

## **8.6 The Yemen Microfinance Network (YMN)**

The negative impact of the war on YMN and its ability to function properly has led the network to reduce daily working hours from 9 to only 5, put some employees on compulsory leave, and reduce operational expenses by 30%, including salaries.

With regard to its activities, the war situation has had a negative impact on YMN's ability to implement activities and projects, as almost 90 percent of the activities have been put on temporary hold. For instance, all training activities have been terminated (including international and on-the-job), and significant promotion and media activities and events suspended. In addition, research and development activities have been terminated too. With regards to information exchange, hardly any activity is taking place, as MFIs no longer submit information regularly or on time.

Despite the fact that most activities have been suspended, YMN, however, is attempting to cope with the situation by implementing other unplanned activities. YMN has started to contact MFIs more frequently, and is working intensively to facilitate information exchange among MFIs. As part of this, a special workshop regarding the current situation was conducted in early April in order to discuss the current situation, and share information among MFIs.

YMN has made radical changes in its plan of activities in order to focus on activities related to current events, including:

1. Holding several workshops in relation to current events, in which MFIs will present their cases.
2. Issuing a paper related to current events to be published by June 2015.
3. The undertaking of a comprehensive study in cooperation with SFD, including the reporting of cases of affected microfinance clients.
4. Contacting of potential donors more intensively, as YMN's own sustainability is at great risk.
5. Organizing a meeting of the Board of Members.

## **8.7 The Small and Micro Enterprise Promotion Services Agency (SMEPS)**

SMEPS has put its projects and interventions on hold due to the difficulties it has faced in conducting its usual activities in this conflict, especially in rural areas, and war zones and cities. One of its main branches located in Aden has been closed down, as it was damaged by the fighting.

Despite the difficulties, SMEPS has assembled five teams that are working in different areas of competency. The first team is an IT development team, responsible for developing emergency phone applications to disseminate emergency information that helps people identify the locations of basic food items, fuels, and provide warning on the areas witnessing active armed clashes. The second and third teams work on collecting information: one focuses on collecting and reporting success stories of business owners, and creative ideas initiated during the conflict, while the other focuses on conducting research on youth in times of conflict. This research aims at

identifying the main concerns among the youth during the conflict, and how they envision the future. The results of research will be disseminated to all interested parties (including government) with the hope that it will be of benefit for the post-conflict planning. The fourth team works in coordinating with the main suppliers of basic food items (such as wheat, sugar and rice) to facilitate their distribution through a wider range of distributors in order to ensure that it reaches as many people as possible. Finally, the fifth team works on developing a monthly newsletter that reports the condition of businesses in Yemen, called the "Business Climate Survey" (see annex-1), in which business owners are interviewed on a monthly basis to report on the obstacles they face, and how they were affected by the ongoing armed conflict.

## **9. Selected cases of clients who have been affected by the conflict**

Due to this unprecedented crisis, many of the affected clients were difficult to reach due to the lack of electric phone charge, poor telecommunication coverage, or the fact that the client became displaced, and thus unreachable. MFIs are continuing to try to gather further accurate information about their clients, and the following are some of the tragic stories of clients who have been affected by the war.

**Case 1** - Mokhtar Fadh Abdulla is a 36 year old man, married, with two kids – one is 4 years and the other 7 years old. He resides with his family in the area of Al-Mansoorah, in Aden, with his parents so that he can reduce the high cost of renting a house. Mokhtar receives a monthly governmental salary of 37,800 YER (approximately 180 USD), which does not fulfill his family needs. He has a loan from Aden MFI of 200,000 YER (approximately 930 USD), adding to other loans from friends and family members which he used to purchase a taxi car, so that he could generate an extra income on top of his regular salary.

He joined an informal ROSCA group, and his turn was supposed to be in April 2015. Sadly, with the recent war events in Aden Mokhtar was facing a financial crisis and everything fell upon his head. Food prices hit their highest ever, and there were long

lines for petrol. In addition, people were not able to receive their salaries. So, Mokhtar did not receive his saving from the ROSCA group because most members were not able to put any savings. In addition, he did not receive his monthly salary for March and April. Mokhtar, however, went around driving his taxi in the streets of Aden for extra cash. As the war broke out, he was faced with the a petrol crisis, and had to make long lines that would require him to stand in for hours if not days on a row, with the chance of being hit by a returning bullet. With the war closing in more and more as the days passed, Mokhtar found himself prevented from going any further than the area close to his house. He thought of borrowing from friends but no one would lend him because they too were going through hard times, if not worse.

**Case 2** - Mohammed Saeed, is a 34 years old single man, who is planning and saving for his marriage. Like many men in Yemen, Mohammed has sought for a job opportunity, but with no luck so far. To help realize his dreams, Mohammed has sought on starting his own business - a small internet café in the city of Al-Shehr, in the Governorate of Hadhramout.

Mohammed was planning to open his business after the Hajj Eid of 2014 (September - October 2014). He did not have enough capital to start his business, so he took a loan from the Hadhramout Microfinance Program (HMP) branch in another town called Al-Hamia.

In order for Mohammed to be eligible for a loan, he needed an employed guarantor or to provide enough collateral. Collateral was a difficult for Mohammed to provide, so he started looking for a guarantor. It took two months for Mohammed to find a suitable guarantor before he could obtain the loan from HMP, which amounted to 600,000 YER (approximately 2,790 USD).

Business was going well for Mohammed, netting around 10–15 USD on a regular day, which covered all of his costs including the installments. Al-Shehr is now going through long hours of electricity cuts, reaching up to 12 hours a day. Mohammed, though, had a generator that runs on petrol, which however, could not provide with any petrol due to the war. So, he converted the generator to run on cooking gas. But,

even with this conversion, clients are not approaching his internet café because they were on tight budgets.

Although Mohammed has cut on costs, and made some additions to his café (such as a soccer table game and some candies he sells to children) he is still barely able to pay the loan installments, and worried towards his guarantor who cannot afford having his salary deducted in case of default. Mohammed is even considering to delay his marriage plan, and sell the equipment of his café so he can pay back the loan.

**Case 3** - Murad Awadh is another client with Hadhramout Microfinance Program. He is 32 year old, and lives in Seiyun. Murad is married, and has three kids. One of his kids is in fifth grade, another in third grade, and the last is just two years old.

Murad owns a mechanics workshop, which generates him a decent income that covers all of his family's needs. In addition, he owns a taxi, which he makes rounds with in his spare time to add to his income. Although Seiyun did was not within the conflict areas, it was still somewhat affected by the economic and security consequences of the war. The city faces long blackouts on a daily bases, with the weather reaching 32 degrees centigrade, and as in many other Yemeni cities, it faces severe fuel shortages.

Before the crisis, Murad took a loan of 260,000 YER (approximately 1,210 USD) from HMP to purchase some tools and machinery for his workshop. He also took a loan of 300,000 YER (approximately 1,400 USD) to cover the medical bills of his elder brother, who is ill. He placed some gold jewelries he had as collateral for the loans.

Nowadays, Murad cannot generate enough profit from his workshop, as clients try to save rather than spend. He is not even able to run his workshop properly due to the long hours of power cuts. His taxi is parked, without petrol. Now, Murad is no longer able to provide himself and his family with the decent income he used to before the war. As a consequence, he is unable to repay the installments to HMP, and is worried for the gold he placed as collateral.

These are pictures of some of the clients' houses that have been damaged in Aden.



## 10. The expected role of microfinance in the post-conflict

## **phase**

Once the situation starts to return to normality in Yemen, the post-conflict phase should create vast opportunities for the microfinance sector. Substantial funds should flow into the country to support the rebuilding and development effort, and microfinance is expected to take its share. Additionally, as many people will start to reopen their businesses and rebuild their damaged houses, the demand for financing is expected to increase substantially from the pre-war period. The post conflict rebuilding will create new opportunities for both clients and MFIs, as well as donors, and providers of technical assistance.

The post-conflict period will also create new opportunities for MFI clients, as there will be some changes on the lending procedures implemented by the MFIs, such as rescheduling of loans, development of new products to help active and new clients in rebuilding their businesses and houses.

From its part, SFD will be active in lobbying for new funds to help the microfinance sector in Yemen recover. For instance, SFD will modify its funding policies vis-à-vis its partnering MFIs to accommodate for the repercussions of the war. Possible measures could include loan rescheduling, partial cancellation of the loans, grants for recovery (for instance to help purchase lost fixed assets), among others. These potential measure will of course depend on the availability of funds in SFD, the amount of losses incurred by MFIs, the extent to which some MFIs are worth rescuing (or rebuilding altogether), among several possible influencing factors.

SMED will continue its advisory and supervisory role in the post-conflict period to ensure the continuation and stability of the existing MFIs by helping create a healthy environment in which the microfinance sector can operate. SMED will work with its partners to improve the legal environment for the microfinance industry through improving the credit bureau system, and transferring the responsibility to the Central Bank of Yemen, and involve it further in supervising MFIs.

SMED will also play an essential role in providing technical assistance for MFIs during the rebuilding phase that will involve providing MFIs with grants for trainings, transformation, improving their internal controls, MISs, and operational procedures. Other areas in which SMED will be able to contribute to the industry will be the

creation a healthy competition by continuing its efforts in establishing a new MF bank, which was interrupted by the instability witnessed since September 2014.

Furthermore, in its effort to be the catalyst for the rebuilding of the local microfinance industry SFD will work to bring together the MFIs on one side, with YMN and SMEPS on the other, and formulate new partnerships aimed at uplifting the sector in the post-conflict period. YMN will be engaged in an effort to intensify training and workshops, carry out selected studies on the post-conflict situation of the microfinance sector, conduct promotion campaigns, and play an important role in information sharing and increasing MFIs transparency.

SMEPS will also be included in the post-conflict activities of SFD to further support the microfinance sector, by harnessing its business development services in bringing innovative and creative ideas and activities that will benefit MFI clients, as well as its usual wider base of small and micro entrepreneurs nationwide. SMEPS will work on strengthening ties between SMEPS and MFIs to help micro clients with specialized business development services aimed at helping them recover from the negative effects of the war.

## **Annexes**

1. March 2015 Monthly Summary Report of MFIs
2. April 2015 Monthly Summary Report of MFIs
3. Business Climate Survey – April 2015