

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Programme of the Government of Yemen**

**Programme Support Number: YEM/97/300/B/01/99/**

**Title: MicroStart Pilot Component of Support to  
Yemen National Poverty Alleviation Programme**

**Duration: Three years**

**Project Site: Sana'a, Taiz, Aden**

**ACC/UNDP Sector and Subsector: \*\***

**Government Sector and Subsector: \*\***

UNDP and Cost Sharing Financing:

<b>UNDP:</b>	
<b>TRAC 1</b>	<b>960,000</b>
<b>RBAS</b>	<b>500,000</b>
<b>Co-Financing (Local businesses)</b>	<b>150,000</b>
<b>Total:</b>	<b>\$1,613,000</b>

**Executing Agency: Ministry of Insurance and Social Affairs (MoISA)**

**Implementing Agency: International and local technical Service Provider**

**Estimated Starting Date: April, 1998**

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**Brief Description:**

In consultation with practitioners and donors, MicroStart has been devised as a pilot global UNDP programme to build the capacity of local organizations to initiate or expand existing microfinance activities. An innovation of the MicroStart Programme is that UNDP Country Offices can contract one of 36 pre-selected global microfinance best practitioners to provide technical assistance to local organizations. In its pilot phase the Global Programme will work in 25 countries, with an average of 5 countries per region. MicroStart addresses the need to strengthen existing programmes, as well as develop new microfinance initiatives, to provide financial services to the poor on a sustainable basis.

MicroStart Yemen will be a component of the much broader UNDP Support to the Yemen National Poverty Alleviation Programme. MicroStart is directed toward one of four main objectives of UNDP's support to the Government of Yemen's five year National Programme Framework for Poverty Alleviation; i.e. "to promote the socio-economic integration of the poor, especially rural women, through providing microcredit and creating sustainable livelihood opportunities." The Component will provide financial and technical assistance to develop the capacity of local participating organizations to deliver sustainable microfinance services to the poor, especially women. Additionally, local capacity to deliver technical assistance in microfinance will be developed. The experience gained from MicroStart will contribute substantially to the nascent field of microfinance in Yemen.

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**This Document is considered to be an Annex to the Programme Support Document, which has been signed with Government on June 12, 1997.**

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## Executive Summary

Yemeni microfinance is in its infancy and Yemen is not littered like some countries with failed microfinance programs. One might say the time is not right for MicroStart because of the lack of experience with microfinance in Yemen. The exact opposite is true, because of the lack of experience, the time is right for MicroStart. NGOs and Government alike require a ready source of information on microfinance, of international best practices that can be adapted to fit the Yemeni context. The demand for knowledge of microfinance exists however, since microfinance is client driven, the dimension of client demand must be considered.

One method of deriving potential national demand for microfinance is to use a loan size expected according to microfinance best practice to reach the poor. The benchmark of accepted loan size is less than or equal to GDP per capita, which is for Yemen was \$281 in 1996. Based on the percentage of the population below the poverty line (21%), there are approximately 3.2 million Yemenis living in poverty. This represents approximately 454,000 households based on the 1994 Census. Assuming one in five households would utilize a loan equal to GDP, demand would be \$25.5 million. The typical loan size in a MicroStart program of \$50 to \$500 is reasonable for reaching the poor based on the Mission's rapid appraisal in the three urban locations and one rural area.

Several categories of participating organizations are possible partners. Local Welfare Associations exist in all areas, but are the primary source of non-government sponsored development activity in rural areas. Local Welfare Associations objectives are to develop specific geographic areas and they are often able to solicit sizeable funds, especially from Yemenis working abroad. Because of their ability to leverage funds, and because they are often associated with influential and wealthy businessmen, Local Welfare Associations are attractive potential partners.

Three initial locations are recommended based on two criteria; 1) reaching the poor, and 2) reaching them in areas where there are sufficient numbers to allow MicroStart to achieve significant scale. The three initially recommended areas are urban containing over 250,000 households, with about 53,000 of the households living in poverty.

MicroStart in Yemen will be operationally autonomous, however it will be a component of the UNDP Programme Support to the Yemen National Poverty Alleviation Programme. The immediate objectives of the Component are threefold:

- To develop the capacity of local participating organizations to deliver sustainable microfinance products to the poor.
- To increase the ability of the poor to use microfinance, both savings and credit to increase their economic wellbeing.
- Develop local expertise to provide technical services to microfinance practitioners

Based upon successful experience, it is expected that MicroStart participating organizations will be able to leverage funds by the end of the three year pilot phase.

## Background

The Government of Yemen through the Ministry of Planning and Development (MOPD) has prepared a draft Country Strategy Note (CSN). The UNDP country Team collaborated with MOPD in launching preparation of the CSN. The CSN outlines the contribution of the UN agencies in response to the requirements identified by Government in its Five Year Plan. Although exact details are not available, the CSN focuses on seven themes:

- Human resource development (education, health and population)
- Poverty alleviation and sustainable livelihood;
- Protection of the environment;
- Advancement and empowerment of women;
- Agriculture, food security and water;
- Democracy and Decentralization;
- Strategic planning

The UNDP Country Office signed a major Programme Support Document, Poverty Alleviation and Employment Generation, with the Government of Yemen on June 12, 1997. Known by the Programme Support Number YEM/97/300/B/01/99, the document describes the Government of Yemen's five year (1997-2001) National Programme Framework for Poverty Alleviation based on the First Five Year Development Plan and assistance planned by the major donors to Yemen. The Framework is built around initiatives in four areas: Social Development (including health, education and welfare), Agricultural Development, Social Infrastructure Development, and Industrial Development. Funding for the programme is US\$ 23.3 million including US\$ 15.5 million of TRAC 1 and 2 resources. There is an additional US\$ 17.1 million in parallel financing from UNCDF, WFP and SPR.

UNDP Programme Support will be directed to creating an enabling environment for poverty alleviation through assisting Government in formulating and operationalizing appropriate policies and initiating concrete and alternative pro-poor activities. This includes promoting socio-economic integration of the poor, especially rural women, through providing micro-credit and creating sustainable livelihood opportunities

MicroStart relates to six of the seven themes identified by Government in the CSN, but primarily to 1) Poverty alleviation and sustainable livelihood and 2) Advancement and empowerment of women. Additionally the main UNDP support element; Promote socio-economic integration of the poor, especially rural women, through providing micro-credit and creating sustainable livelihood opportunities, relates well to MicroStart objectives. Accordingly, MicroStart is a natural fit with both Government objectives and planned UNDP support.

## **CURRENCY EQUIVALENTS**

(November, 1997)

Currency Unit	=	Yemeni Rial (YR)
YR 1	=	US\$ 0.007576
US\$ 1	=	YR 132

## **OFFICIAL POVERTY INDICATORS**

(Based on World Bank Poverty Assessment June, 1996)

Weighted National Lower Poverty Line 1992	=	YR 11,496 Per Capita Per year
Weighted National Upper Poverty Line 1992	=	YR 16,488 Per Capita Per Year
Number Living in Poverty in 1995	=	3.2 million

## **GOVERNMENT OF YEMEN FISCAL YEAR**

January 1 – December 31

## **ABBREVIATIONS AND ACRONYMS**

ACS	Aden Charity Society
ACU	Agricultural Cooperative Union
ADRA	Adventist Development and Relief Agency
CACB	Cooperatives and Agriculture Credit Bank
CBY	Central Bank of Yemen
CERWS	Center for Empirical Research and Women's Studies. Sanaa University
CSSW	Charitable Society for Social Welfare
EoKN	Embassy of Kingdom of Netherlands
EUTA	European Commission Technical Advisory Office
GTZ	German Technical Cooperation
HCA	Hadhrami Charity Association
ITSP	International Technical Service Provider
LTSP	Local Technical Service Provider
MoI	Ministry of Industry
MoISA	Ministry of Insurance and Social Affairs
MoPD	Ministry of Planning and Development
PCS	Peoples Charity Society
PFCS	Productive Families Charity Society
SCS	Sanaa Charity Society
SEDU	Small Enterprise Development Unit
SFD	Social Fund for Development

SIB	Saba Islamic Bank
SOFD	Social Organization for Family Development
UNDP	United Nation Development Program
WB	World Bank
WAPB	Welfare Association for Preventing Begging
YWU	Yemen Women Union

## **I. NATIONAL CONTEXT:**

### **A. COUNTRY SITUATION**

#### **1. Political structure**

The Republic of Yemen was founded on May 22, 1990 as a result of the reunification of the Yemen Arab Republic (North Yemen) and the People's Democratic Republic of Yemen (South Yemen). The new states adopted a democratic system and free market principles.

The Republic of Yemen has a 301 member Parliament elected by direct votes. Administratively, the country is divided into 17 governorates plus Sana'a city. The Government continues to be highly centralized, however it started to delegate authority to its officials at the governorate level. Additionally, Government is also undertaking a major program to restructure the present governorates and establish a decentralized system.

During the last years the Government made a strong effort to build the structure of the new country; unifying the two almost opposite administrative and political bodies, establishing new laws and regulations, and streamlining the activities of the state. However, Government efforts to build the new state were hard hit and hindered by political and economic factors.

With the Gulf War, repatriation of almost one million Yemeni migrants from Saudi Arabia and the Gulf States exerted more pressure on government services and infrastructure. Concurrently, Government and society lost the income formerly generated by these migrants. At the same time, external aid and loans became limited. The ability of the government and the private sector to create new jobs was limited.

The political struggle between the different parties increased and resulted in the 1994 civil war, which caused extensive damage to production facilities and infrastructure. Economic development in Yemen was severely affected by this war.

As a result of the civil war and the repatriation of migrants the economic situation deteriorated. The deterioration was evident in a higher rate of unemployment, a higher level and depth of poverty, a higher inflation rate and a large budget deficit.

#### **2. Socio-economic situation**

The population of Yemen was 15.9 million in 1996 and growing at the high rate of 3.5 % annually. The majority of the people live in rural areas. According to the 1994 census only 3.9 million of the total population live in urban areas (24.6 %) while the remaining (75.4 %) live in rural areas.

The scarcity of economic resources and job opportunities in the rural areas drives more people each year to the main cities. Males go to the cities and females stay in the rural areas.

The total population density in the country is 28 persons/km<sup>2</sup>. Because of geographical, economic and climatic reasons, the density varies from one governorate to the other. The highest density is in Sana'a city with 4,385 p/km<sup>2</sup> followed by Ibb governorate where the density falls to 299 p/km<sup>2</sup> and Taiz governorate with 196 p/km<sup>2</sup>. Density becomes less as we go eastward and southward where it becomes 6 p/km<sup>2</sup> in Hadramout and Marib, 5 p/km<sup>2</sup> in Shabwah, 4 p/km<sup>2</sup> in Al-Jawf and only 2 p/km<sup>2</sup> in Al-Mahrah. See the map in Annex IV for location of the governorates.

The total school enrollment (age 6 to 15) rate in Yemen is 55 %. The rate varies in regard to gender and geography. Males enrollment rate is 70.8 % and this rate drops to 37.5 % for females. Urban areas have a higher rate of enrollment at 79.5 % compared with the rural rate of 48.5 %.

Illiteracy is high especially among women. The total illiteracy rate is 55.84 % with males at 36.53 % and females at 76.2 %.

Health care and services have improved somewhat. However, much still needs to be done. The infant mortality rate is 80/1000. Infectious disease cases totaled 862,354 in 1996. The number of population for each doctor is 4,175 and the number of population for each hospital bed is 1,404. Only 55 % of the population has access to health services.

With the high population growth and the scarcity of economic resources, unemployment is becoming a major problem. The unemployment rate was estimated at 25-30 % in 1996. The Economic Declaration described unemployment as an important socio-economic problem that should be addressed.

The role of self-employment and the informal sector is noticeable. The First Five-Year Plan (1996-2000) estimated the GDP generated by the informal sector in 1994 to be in the neighborhood of 20-30 % of the GDP generated by the formal sector.

The first industrial survey, 1997, shows that the total of industrial establishments is 33,284. Among that number, 31,730 (95.3 %) establishments were small industries of 1-4 workers. These enterprises are providing jobs for 53,388 workers or 48.6 % of the total jobs provided by the industrial sector, which is 109,939. These figures indicate the importance of small and micro-enterprises in the economy of Yemen.

The 1994 census indicates that among the economically active population 35.8 % were self-employed and 22.6 % were working with family and 40.0 % were employees. Among males 41.3 % were self-employed. Only 14.8 % of economically active women were self-employed, the balance being unpaid family workers, 72.2 % and employees, 12.4 %. There is limited knowledge of poverty. Reliable statistical data concerning the extent, geographical distribution and trends of poverty are not available. However, it is clear that the rural areas and women suffer disproportionately.

In 1996 the total GDP was 150,797 million Yemeni Rials. The GDP growth rate was 4.41 %. The contribution of the main sectors was:

	<u>YR millions</u>
● Agriculture, forestry and fishing	YR 44,681
● Mining and quarrying	YR 28,649
● Manufacturing	YR 12,014
● Wholesale and retail trade	YR 21,074

The highest growth rate was in the mining and quarrying (13.4 %) due to new oil field operations. Manufacturing sector was second with a growth rate of (10.5 %), then wholesale (4.0 %) and agriculture (1.7 %). However, the agriculture, forestry and fishing sector still makes the highest contribution to the total GDP with 29.6 %. Mining and quarrying came second with 19 %, then wholesale and retail trade 14 % and manufacturing 8 %.

The years between 1990 and 1995 were characterized by sharp a decline in the economy of Yemen. GDP per capita dropped from \$ 686 in 1990 to the low level of \$ 281 in 1996. The inflation rate reached 100 % in 1994 when the budget deficit was 16.7 % of GDP. However, since the Government started implementing the economic reform program in 1995 the economic situation has been improving. In 1996, the inflation rate and budget deficit were 28 % and 0.6 % respectively.

### **3. Cultural context**

The Yemeni society is basically a tribal society. People still hold strongly to their tribal ties and behave according to the tribal customs and regulations. In urban areas and in coastal areas this general rule may be less true, but nevertheless, valid.



The Arabic language, conservative Islam and Arab heritage are common bonds that unite Yemeni society.

Women are less active in the Yemeni society than men. Although in theory women can work and own assets and economical resources, men are directing the use of such assets. Within the poor regions and population women are more economically active.

The information collected from some pilot projects indicate that though women shy from participating in economical activities, they will engage in such activities once they recognize the benefits. This is more true among the poor and disadvantaged groups.

Yemeni society has a long tradition of cooperative work. The government used this social trend to mobilize more human and financial resources for the development of the country. Organized cooperatives and unions were established in mid 1970's and they have a noticeable participation in the establishment of development projects. This tradition suggests that the methodology of group lending could be readily adopted.

The number of NGOs increased dramatically during the last two years. The government is getting less involved in the management of social activities, and thus the role of NGOs is becoming more important. However, most of the NGOs are still incapable of running their businesses in an effective and an efficient way. They require support especially in management and know-how.

Being a conservative Muslim society, the concept of interest on loans is not readily accepted in Yemen. Banks do however provide interest on deposits and collect interest on loans. However the majority of people opposes this practice. It is important to mention here that service charges, including a profit for the bank are not opposed. The trend among the poor people is to accept extra charges on loans especially when they realize the benefit of getting the loan.

#### **4. Finance and banking**

The history of banking system in Yemen is relatively short. The first bank was established in the northern governorates in early 1960's while southern governorates enjoyed a longer history of banking activities.

There are nine commercial banks operating in Yemen. The Yemen Bank for Reconstruction and Development, partially owned by the government is the largest bank in terms of the number of branches and operations. National Bank of Yemen is a public sector bank with branches covering most of the governorates. Seven other private banks are active with branches in the main cities only. Commercial bank financing of small and micro-enterprises is very limited. The high level of collateral and difficult procedures required by these banks, make them inaccessible to micro-borrowers. The unhealthy environment existing in the financial markets in Yemen makes it difficult for the commercial banks to be flexible.

The newly established Islamic banks are penetrating fast in the financial market. During the last two years three Islamic banks started their operations. Started their business in Sana'a, some of them already have expanded to other cities. Some of these banks may provide micro-loans with more flexibility than commercial banks.

There are three specialized development banks in Yemen; namely the Industrial Bank of Yemen, the Housing Bank and the Cooperatives and Agricultural Credit Bank (CACB). These banks offer loans of different sizes to their clients. However, due to lack of financing and for some managerial problems, these banks are of limited effect. The government is in the process of restructuring these banks since it is commonly believed that charging an appropriate provision for loan losses would wipe out each bank's capital. Among these banks the CACB is providing small loans of less than 100,000 Rials and has 36 branches many of them in rural areas, which makes the bank a potential candidate for providing micro loans.

The Ministry of Industry operates the Small Enterprise Development Unit, a pilot project that provides loans to small and micro-enterprises. A large number of SEDU's loans are micro-loans. SEDU is the only financial institution that provides micro-loans at the present time, although SEDU officials indicate that micro-lending is not profitable for SEDU. The proposed Small Enterprise Development Fund may be established upon SEDU's successful experience. If the Fund starts its operations soon and branches throughout Yemen, it could be another micro-loan provider.

## **5. Government policy vis-à-vis the microfinance\enterprise sector**

From an employment generation perspective the Micro/Small Enterprise (MSE) sector is the most dynamic. Informal sector activities, in which the MSEs are lumped, constitute a considerable part of the national economy, both in terms of production value and the number of employees. In the 1994 census, 216,456 out of 226,254 non-agricultural enterprises of all types and sizes had less than 10 persons employed and therefore belong to the MSE category. It is estimated that the total value added generated by this sector ranges between 20 to 30% of that generated by the total national workforce. Moreover, the economically active population working in the informal sector is estimated to reach 34% of the total non-agricultural economically active population. In fact, two thirds of the urban labour force in the local private sector (i.e. 40% of the total urban area workforce) are working in the informal sector and MSE. Given the rapid pace of rural to urban migration- leading to an annual urban growth rate of 8% per year- it is highly probable that the importance of non-agricultural MSEs in the economy will increase further in the coming years. In particular, given Yemen's abundant labour force and long-standing handicraft tradition, small scale manufacturing is regarded as a potential base for expanding the activities in low-technology production aimed at the regional markets in sectors such as garment, furniture, and pottery.

In light of the above, the government has recognized the need to accord the MSE sector a highly significant role in the national development process, especially as part of a national employment generation strategy. In 1995, it started implementing a reform program based on increasing private sector participation in the economy. More emphasis was given to small and micro-businesses. The Ministry of Planning and Development released the Economic Declaration of the Government on July 13, 1996. The Declaration was linked to the Five-Year Plan and stated that one of the bases for the new strategy in industry was "developing small industries, handicrafts and cooperatives and providing managerial and technical training to them."

More precisely, the Government gave priority to the development of the informal sector, which is carried out by individuals on a micro-level. The Economic Declaration called for the promotion of this sector through:

- Promoting subcontracting businesses in the informal sector
- Giving more attention to the needs of handicrafts
- Promoting financing and lending policies for micro-businesses.

Government interest in small and micro-economic activities is also manifested in several other areas. The Ministry of Industry in early 1997 established a Department for Small and Micro- Enterprises. The Social Fund for Development, which started operations early this year, is directing a good portion of its activities to small and micro-businesses. Government is studying a proposal for the establishment of the Small Enterprises Development Fund. According to the proposal, the Fund would provide financing or help in providing financing to small enterprises, provide a guarantee scheme, provide technical advisory services and explore and promote investment opportunities. Essentially, the Fund would be created by transforming the Small Enterprise Development Unit (SEDU) into an autonomous body, independent of both the Industrial Bank of Yemen and the Ministry of Industry.

The Central Bank of Yemen supervises banking activities. No entity is allowed to practice banking activities without a license from the Central Bank. However, if an organization is providing loans without performing the rest of the banking activities such as opening current accounts or saving accounts, then the license of the Central Bank is not needed. Such an organization would need to be licensed by the Ministry of Trade.

During 1996 the Government established the current Development Plan. There are twelve major socio-economic development objectives as follows:

- Increase economic growth and accelerate social development at the highest possible rate in order to ensure substantial improvement in the standard of living as quickly as possible;
- Create new job opportunities and reduce dependence on foreign workers;
- Increase exports, developing hard currency resources from sources other than oil, gas, loans and grants;
- Expand and diversify national income sources and develop local savings to participate in financing investment and government expenditures;
- Restructure the economy to change the relative contribution of each sector to GNP;
- Reduce dependency on oil income for Government expenditure;
- Expand and improve education and public health services to meet the increasing needs of the nation;
- Establish new projects in infrastructure (water, roads, ports and airports) and complete those already started;
- Distribute economic and social development returns among all governorates ; reduce wide disparities among various social groups and areas; and ensure equal opportunities for all citizens;
- Improve the environment and protect it from deterioration;
- Conserve water resources and improve the management of water resources;
- Create a environment conducive to enhance productivity of labor in terms of education and training and promote entrepreneurial spirit and excellence among Yemenis.

It is worth noting that however favourable these policy prescriptions are vis-à-vis the promotion of the MSE sector, the practical implementation plan for these policies is not yet well developed. Nevertheless, the prevailing policy-regime (e.g. taxation, regulations, etc.) does not favour other sectors at the expense of MSE and is mostly driven by market principles and is therefore devoid of heavy regulation.

## **B. UNDP COUNTRY OFFICE**

### **1. UN Sector Strategy**

The Government of Yemen through the Ministry of Planning and Development (MOPD) has prepared a draft Country Strategy Note (CSN), which has not been circulated and approved. The UNDP country Team collaborated with MOPD in launching preparation of the CSN. The CSN outlines the contribution of the UN agencies in response to the requirements identified by Government in its Five-Year Plan. Although exact details are not available, the CSN focuses on seven themes:

- Human resource development (education, health and population)
- Poverty alleviation and sustainable livelihood;
- Protection of the environment;
- Advancement and empowerment of women;
- Agriculture, food security and water;
- Democracy and Decentralization;
- Strategic planning

### **2. Programme Overview**

The UNDP Country Office signed a major Programme Support Document, Poverty Alleviation and Employment Generation, with the Government of Yemen on June 12, 1997. Known by the Programme Support Number YEM/97/300/B/01/99, the document describes the Government of Yemen's five year (1997-2001) National Programme Framework for Poverty Alleviation based on the First Five Year Development Plan and assistance planned by the major donors to Yemen. The Framework is built around initiatives in four areas: Social Development (including health, education and welfare), Agricultural Development, Social Infrastructure Development, and Industrial Development. Funding for the

programme is US\$ 23.3 million including US\$ 15.5 million of TRAC 1 and 2 resources. There is an additional US\$ 17.1 million in parallel financing from UNCDF and WFP.

UNDP Programme Support will be directed to creating an enabling environment for poverty alleviation through assisting Government in formulating and operationalizing appropriate policies and initiating concrete and alternative pro-poor activities. The main elements of UNDP support are:

- Assist Government in formulating a national policy framework on poverty alleviation and in establishing a national entity to manage it.
- Enhance Government efforts to streamline its institutional network and reinforce its capacity in the areas of labour policy formulation and data management.
- Promote socio-economic integration of the poor, especially rural women, through providing micro-credit and creating sustainable livelihood opportunities.
- Support Government in redirecting development activities to the regions by assisting regional authorities in building their development planning and implementation capacity.

### **3. Relationship to MicroStart**

The activities under MicroStart will directly support two of the thematic areas identified by Government in the CSN - Poverty Alleviation and Sustainable Livelihoods and Advancement and Empowerment of Women - through the provision of direct economic support to beneficiaries (at least 50% to be women) in the form of microcredit services. By building up microfinance institutions capable of providing sustainable microfinance services to the poor, MicroStart will be helping UNDP Yemen achieve one of its main support elements, which is to promote socio-economic integration of the poor, especially rural women, through providing micro-credit and creating sustainable livelihood opportunities.

#### ***Coordination and Collaboration***

In addition to the synergy that exists between MicroStart and other UNDP initiatives, potential for collaboration with outside projects and other donors exists, as noted above. Part of the International Technical Service Provider's role is to help MFIs diversify their sources of funding. Therefore, the TSP will be responsible for exploring these opportunities and forging linkages wherever possible. In developing its workplan and coordinating technical assistance, the TSP will make contact with donors present in Yemen and identify funding sources such as Social Funds. As part of the dialogue with donors and other interested parties, the TSP will share documentation on participating MFIs to raise awareness of activities under MicroStart and engage future partners early on.

The UNDP Country Office also has as a stated goal under MicroStart to help link start-up microfinance institutions with diverse sources of funds. In pursuit of this goal the Country Office should seek to include major donors on the Advisory Boards to bring them into the process. In turn, the Advisory Board will explore the mechanisms by which MFIs receive funding in the country and how MicroStart can help support these and other mechanisms.

### **C. GOVERNMENT AND DONOR INTERVENTIONS IN THE MICRO AND SMALL ENTERPRISE SECTOR**

The MSE sector is characterized by the near absence of effective institutions presently servicing the non-agricultural MSEs. Also there are very few donor-supported programmes. In the field of small and micro-credit as an input to expand and increase the productivity of these MSEs, within the larger goal of employment generation and poverty reduction, the situation is rather embryonic and is therefore devoid of heavy regulation.

#### **1. Social Fund for Development**

The Social Fund for Development (SFD) was officially established February 7, 1997 by Law No. 10 to alleviate difficulties caused by the economic adjustment program implemented by the Government of

Yemen. SFD reports directly to the Prime Minister's office and is governed by a Board of Directors chaired by Prime Minister. Other Board members include representatives of the private sector, representatives of NGOs and Government ministers. The Managing Director who was appointed one year ago spent considerable time in the preparatory phase of establishing SFD. Funding, is primarily from the World Bank and the EU. Some support is also coming from the Dutch Government. Overall, approximately US\$ 80 million will be available over five years under the three main programs of the SFD. The following table illustrates the allocation of funds.

Social Fund for Development Budget by Program over 5 Years	
Program	US\$ millions
Community Development (Primary Health Care, Basic Education, Water, Environment)	38
Micro and Small Enterprise Development	27
Capacity Building of NGOs and SFD	15
Total:	80
Source: Social Fund	

No allocation has been established for microenterprise credit, although some documents refer to a figure of 10% of funds. SFD is looking to opportunities to invest in viable microcredit schemes due to the lack of significant experience or institutional capacity in microfinance.

Two pilot programmes, one in Dhamar and one in Hodeidah Governorates are being established with the assistance of EU and Dutch Government financing. No activity has taken place on the Dhamar pilot. The Hodeidah programme will target the urban poor through a local implementing partner, the Hodeidah Chapter of the Yemeni Women's Union. Work is currently underway in developing procedures and manuals. Important findings and recommendations from the programme to date are: 1) Loans should be made using group guarantees; 2) Loans should be offered using Islamic banking practices; 3) Average loan size needed was \$100-\$200.

In addition to the two pilot programmes, SFD is supporting standardized income generating activities (IGA's). Two models of IGA's to be used are 1) an intermediary, such as an agricultural cooperative sponsors a credit scheme (cattle fattening) where credit in kind is given to the clients, 2) an intermediary sponsors and manages an activity and hires the beneficiaries. (the word is intentionally used instead of client, as there is an employer-employee relationship in this case) Both types of activities can have an impact on the poor, but are outside the purview of conventional microfinance. The Wadi Seham agricultural cooperative is implementing an IGA for cattle raising in Marawa'a District, Hodeidah Governorate. Total funding is \$189,000, with \$146,000 going toward lending. Maximum loan size is \$400.

As of October 25, the Social Fund had 27 projects under implementation with a value of \$2,545,000. Four of the projects, (all located in Hodeidah Governorate) with a total value of \$939,000 deal with micro-credit. The Wadi Seham Project is the only one that has disbursed credit. The other 23 projects relate to community development. A further 16 projects, primarily community development are under study at the Social Fund. One of the potential projects will deal with small enterprise financing through banks in Sana'a, Aden, Taiz and Mukallah. Finally, 75 additional projects have been identified, most dealing with infrastructure, but seven deal with microcredit, primarily cattle fattening. Four projects, all health with a total value of \$50,000, are under contracting. Values of projects under study and projects identified were not specified.

The Social Fund and MicroStart should maintain close coordination in order to avoid potential saturation of microfinance markets in specific geographic areas. Social Fund as a new organization does not have the backstopping experience available to MicroStart in the form of the International Technical Assistance Provider. This advantage could allow MicroStart to activate its program more quickly with participating organizations. Initially, because of staffing patterns, Social Fund looks to rely more on microfinance projects implemented through others rather than designing its own microfinance activities. Since Social Fund has a five year life of program as opposed to MicroStart's three year pilot phase, successful

MicroStart participating organizations could be attractive future clients for the Social Fund. There exists a shortage of NGOs with sufficient capacity to implement microfinance programs. Financial institutions are not at present interested in microfinance. Therefore any participating organizations strengthened by MicroStart will add to the scarce national base of NGOs qualified to engage in microfinance.

Geographically, the areas initially recommended for MicroStart do not coincide with areas known to be targeted by Social Fund with microfinance programs of its own design. These programs have a long gestation period and so it is advantageous for MicroStart participating organizations to be available to eventually seek funding by the Social Fund. The Social Fund will require a positive trend toward financial self-sufficiency, and the records of MicroStart participating organizations will be able to demonstrate the trend. Social Fund could support microenterprise activities through supporting NGOs provision of nonfinancial services to microenterprises. MicroStart does not have the resources to deliver nonfinancial services, but could collaborate by helping to identify enterprises in need of assistance.

Issues to be discussed and resolved with Social Fund include geographic areas served and conditions under which a MicroStart participating organization would be eligible for Social Fund funding. The geographic areas do not need to be exclusive, however, the planned microfinance activity should be gauged to potential demand. A possible association of MicroStart participating organizations could be considered as a conduit for Social Fund loans to reduce transaction costs for the Social Fund.

## **2. UNCDF**

UNCDF supported a pilot project, the Small Enterprise Development Unit (SEDU) within the Industrial Bank of the Ministry of Industry. Total project cost was US\$ 5.4 million including Government of Netherlands co-financing. The project completion date is the end of 1997. Up through September 1996, SEDU had disbursed over \$3 million in 431 loans. Financing is aimed primarily at small enterprises, although approximately 32% of the loans by number were less than \$500. This loan segment represented only 2% of all loan funds disbursed. Average loan size was \$7,100. SEDU is only located in Sana'a although it has disbursed loans throughout Yemen. Due to the lack of branches, SEDU is not equipped to lend to microenterprises.

In addition to the outreach limitation for microenterprises, SEDU management does not view microenterprise finance as a profitable activity. It is currently charging 12% interest for microloans (less than YR 200,000) 18% for small loans, and 16% for fixed asset financing. As part of a Government entity, it is under pressure to keep microcredit rates low. Although SEDU will likely not phase out lending to microenterprises, it cannot be expected to expand increase the share of lending to this category. SEDU is striving for sustainability and recognizes that with its present structure it cannot achieve sustainability as a microlender.

UNCDF has approximately \$500,000 of undisbursed budget for loan funds that will likely not be disbursed. Conversion of SEDU into the Small Enterprise Development Fund is under consideration by Government. This conversion has been discussed for quite some time and timing and eventual outcome is highly uncertain. The Small Enterprise Development Fund would be an autonomous body, but it is expected the posture to steer away from microloans would carry through from SEDU. Continued support for technical assistance and training is anticipated from the Netherlands Government.

## **3. GTZ**

GTZ has in the past supported the General Authority for Vocational and Technical Training (GAVTT) which has various centers throughout Yemen. Although these Government-run centers have graduated trainees with new skills, the skills have not always been marketable. GTZ will initiate the Promotion of Small Scale Enterprises Project during January of 1998. The projects major objective, during its eight-year life, is to improve the performance of the small-scale enterprise sector. In order to achieve the objective, the project will help government, NGOs and concerned entrepreneurs to attain several sub-objectives:

- Establish and implement appropriate strategies and policies as well as legal and institutional framework conditions for the development of the SSE sector
- Strengthen the capabilities of governmental and non-governmental institutions/organizations which are established or supposed to provide adequate services to SSEs
- Establishing and / or strengthening self-help organizations of SSEs
- Enhancing the technical and managerial capabilities of SSEs
- Facilitating access of the SSEs and potential business creators to consultancy services, training, information and credit
- Strengthen selected NGOs and enhance their capabilities to provide better services to microenterprises and to promote income-generating activities for women.

During the first phase of three years, which will be a pilot phase, work will be in Taiz (main project office) and Aden. Expansion to other regions will be considered well before the second phase. The primary target groups of the project are: 1) small-scale enterprises (employing up to 10 persons) and working in the field of industrial production and industry related repair and maintenance services and 2) women. Working with women is envisioned through NGOs. NGOs in the project area active in the field of skills training, business counseling and business creation will be strengthened to serve women in a more efficient and market oriented manner.

GTZ's governmental partner in the project shall be the Ministry of Industry, which shall supervise project implementation. A Project Management Unit composed of Yemeni, German and regional professionals will undertake planning and management. A Project Advisory Committee composed of high ranking representatives of concerned private and public sector institutions, NGOs and target groups will serve under the chairmanship of the Minister of Industry.

There is great potential for collaboration and complementation between the GTZ project and MicroStart. GTZ management expressed keen interest in collaboration with MicroStart. Service to women is a major area of common interest. Additionally, the two areas in which GTZ will work match two of three recommended geographic areas for the beginning of MicroStart. The International Technical Assistance Provider of MicroStart and the Project Management Unit personnel for GTZ should meet regularly to keep updated on each other's activities.

#### **4. Adventist Development and Relief Agency (ADRA)**

ADRA is a worldwide network of country specific synergistic assistance programs primarily in health, education and water. The programs work at the grassroots level and ADRA has been in Yemen three years. ADRA has considerable experience in Sudan, a nearby Arab and Islamic country. In Hays, Hodeidah governorate, ADRA is implementing the last remaining USAID funded project in Yemen, the Child Survival Project. The Project has three components 1) literacy, 2) health, 3) savings and credit. The savings and credit component has been much in demand by local women. Due to the strong Islamic tradition, men and women are served separately by the project. Men have not been involved in the credit component to date. Approximately 550 women in 28 groups have been involved with the project, which is 1 ½ years old. Through October 1997, 159 women from 12 groups have received loans. The cumulative value of the loans is approximately \$7,200 (YR 6,000 each).

The ADRA methodology uses group lending for individual projects. Most of the projects are livestock and some are for trading. A woman project director handles both the literacy and microfinance components. She has trained women facilitators who form and train the groups. Groups undergo a 6-8 month training period during which the literacy training takes place. Each group member saves a set amount per week and deposits it with the group treasurer. Only one half of the group members are eligible to take a loan, which is for approximately 9 months. The longer than normal repayment period for group loans reflects the nature of the economic activity. There is a 16% flat fee, with interest deducted in advance due to the lump sum payment of livestock activity. Progressively larger loans are granted based on successful repayment.

ADRA's activities are one of the pioneering efforts in Yemen microfinance and are quite important in what they have demonstrated in the short project period. First, women can become involved in economic activities, in the conservative Islamic Yemeni culture. The project was careful to secure concurrence from key male community members and allowed the community to choose the women who would undergo leadership training for project activities. The women recognize the service charge they are paying for the use of the money. Finally, the women were able to save each week, contrary to what people thought about the ability of the poor to save.

Great potential exists for collaboration with ADRA. ADRA personnel are eager to cooperate with MicroStart and have asked to be considered as Local Technical Service Providers. The woman project director in charge of the credit and savings component is Sudanese and fluent in Arabic. ADRA would be willing to subcontract to provide her expertise. Additionally, ADRA might be able to provide on site training with their present groups. The ITSP should explore cooperation with ADRA. The Social Fund has already contracted ADRA's services under a project.

#### **D. LOCAL NGO INTERVENTIONS IN THE SECTOR**

Yemeni NGOs are not active in credit activities. They mostly devote themselves to charitable and social projects. However, it appears that this is a result of a lack of familiarity with the notion of microcredit as an instrument to advance the welfare of their target groups.



## **II. PROGRAMME JUSTIFICATION**

Microfinance is one of several development tools available to help the poor help themselves. As a poverty alleviation tool, it is not necessarily the answer to every poor person's problems. Poverty is complex, and manifests itself in different ways. Development practitioners worldwide have learned valuable lessons from past well-intentioned efforts to provide subsidized credit to the poor. The efforts most often failed in a number of ways. First, credit often never reached intended "beneficiaries," the persons development practitioners were targeting. More influential persons often were the recipients of the subsidized credit. Institutions which were forced to administer subsidized programs quickly recognized that the programs were unprofitable and placed barriers on the programs which made it unlikely that the intended "beneficiaries" would persist in obtaining a loan. Second, past programs failed to recognize the importance of savings to the "beneficiary" and to the continuance of the finance program. Sustainability was not a concern with many programs of the past.

The new paradigm of microfinance recognizes the poor as CLIENTS, not beneficiaries. As clients of microfinance, microfinance products are tailored to their needs. Not only do the products need to be tailored to the needs of the client, but also they must be accessible to the client and the delivery of the products must be sustainable. This implies charging a sufficient amount for the product to enable the institution providing the product to stay in business and utilizing a methodology which will make the product accessible to the client.

All NGOs interviewed during the course of the Mission indicated a shift in their thinking toward cost recovery. The representatives recognized that support for their activities was coming under increased scrutiny by their supporters, be they private sources, donors or government. The supporters recognized the need for assistance to the poor, but are becoming increasingly wary of being relied upon year after year. Interviews with Government revealed frustration with NGO programs, which lack purpose, clarity and transparency. The Government, however, is looking to the private sector to shoulder more of the development work in Yemen.

Microfinance is at its infancy in Yemen. There are few programs, and they have only scratched the surface in terms of potential demand. Government does not have a policy on microfinance and one might say the time is not right for MicroStart because of the lack of experience with microfinance in Yemen. The exact opposite is true, because of the lack of experience, the time is right for MicroStart. NGOs and Government alike require a ready source of information on microfinance, of international best practices that can be adapted to fit the Yemeni context. MicroStart can serve that function and act as a national resource to lead the way in seeing that the characteristics of successful microfinance programs in other countries are known in Yemen. Such characteristics could then be considered by the Government in policy making and by organizations planning or implementing microfinance activities. The demand for knowledge of microfinance exists, however, since microfinance is client driven the dimension of client demand must be considered.

### **A. DEMAND FOR MICROFINANCE**

#### **1. Estimate of Potential National Demand**

One method of deriving potential national demand for microfinance is to use a loan size expected according to microfinance best practice to reach the poor. The benchmark of accepted loan size is less than or equal to GDP per capita, which for Yemen was \$281 in 1996. Based on the percentage of the population below the poverty line (21%), there are approximately 3.2 million Yemenis living in poverty. This represents approximately 454,000 households based on the 1994 Census. Assuming one in five households would utilize a loan equal to GDP, demand would be \$25.5 million. More conservatively, a loan of one half of GDP per capita would result in demand of approximately \$12.7 million.

## 2. Estimate of Demand in Select Areas

The three Major urban centers of Sana'a, Aden and Taiz have approximately 252,000 households. Based on the average of 21% of the population in poverty, approximately 53,000 households live in poverty. If one in five were to utilize a credit of \$281, the demand would be \$3.0 million. More conservatively, this figure could easily be \$1.5 million.

Potential Credit Demand in Three Urban Areas of Yemen				
Urban Area	Sana'a	Aden	Taiz	Total
No. Households	140,661	65,328	46,375	252,364
No. Households Living in Poverty (21%)	29,540	13,720	9,740	53,000
1/5 of Households in Poverty	5,908	2,744	1,948	10,600
Credit Demand at GDP per Capita (\$281)	1,660,148	771,064	547,388	2,978,600
Credit Demand at ½ of GDP Per Capita (\$140)	827,120	384,160	272,720	1,484,000
Source: 1994 Census, World Bank Poverty Assessment, Own calculations				

Considering that MicroStart has a budget of US\$ 1 million for startup capital grants to microfinance institutions, the above urban markets alone present potential demand far in excess of the startup facility. These three urban areas were chosen as a representative sample of markets where a microfinance program could expand rapidly. This does not, however, preclude the possibility of supporting microfinance activities in rural areas not included in this assessment. These areas should not be overlooked, considering that 80% of the poor in Yemen live in these rural areas. One of the first tasks of the International Technical Service Provider will be to undertake a more detailed assessment of potential indigenous organizations servicing rural communities, as potential microcapital grant recipients. (See Implementation Arrangements II. F.)

### B. EXPECTED OUTCOMES

- Participation by 6-7 partner organizations in varied geographic locations within Yemen
- Sustainable microfinance programs established in at least 4 partner organizations
- Best Practice Microfinance technology utilized by 6-7 partner organizations
- Increased access to microfinance by the poor
- 4,000 active microfinance clients, at least 50% of whom will be women
- Increased household income for microfinance clients as a result of increased economic opportunity.
- Industry standard financial reports available from all participating organizations
- Local Technical Service Provider skills enhanced or developed
- MicroStart becomes a focal point for disseminating knowledge of microfinance best practice in Yemen.

## **C. POTENTIAL PARTICIPATING ORGANIZATIONS AND CLIENTS**

### **1. Clients**

Microfinance is a tool for poverty alleviation, therefore clients will be the poor. Poverty is a relative term, and therefore deciding exactly who is poor and therefore qualifies for microfinance is subjective. Successful microfinance programs are designed to provide products, which can be managed and are useful to the poor. The clients themselves select the products because they are poor. Few if any non-poor would choose the product since it does not fit their needs. This basically translates into providing very small loans, which match enterprise needs of the poor. These small loans will not be adequate for the typical needs of wealthier individuals, resulting in a natural and very effective screening process. Additionally, since loan charges will provide for sustainability and not be subsidized, there is no incentive for the non-poor to use their influence to obtain the small loans. The typical loan size in a MicroStart program of \$50 to \$500 based on availability of repeat credit to borrowers with satisfactory loan performance is reasonable for reaching the poor based on the Mission's rapid appraisal in the three urban locations (mentioned in Section D) and one rural area.

### **2. Participating Organizations**

Several categories of organizations are possible partners. Some organizations only cover a local area whereas others are regional and even national. Organizations with national coverage would be very desirable from a standpoint of rapid expansion potential.

#### **a.) Potential National Partners**

##### **i. Cooperatives**

The most widely known cooperatives are the agricultural cooperatives, which are discussed in this section. There are 267 registered agricultural cooperatives but only 153 are active. Of the active cooperatives, approximately 100 have full time staff year round and would represent potential partners. Since the cooperatives concentrate in rural areas, they would be especially useful to consider for those areas. Officials in the Agricultural Cooperative Union, the national body to which most agricultural cooperatives belong, report that the cooperative associations have 85 thousand members, with about 20% being women. The largest of the agricultural cooperatives have over 11,000 members. An average cooperative has an annual business volume of YR 20 million, with some in the YR 70-100 million range. All cooperatives are subject to external audit annually. A potential drawback to partnering with cooperatives is their linkage with the government. Annex V provides greater detail about cooperatives, including financial statements of the Agricultural Cooperative Union and a representative cooperative.

##### **ii. Charitable Society for Social Welfare (Islah)**

This organization was established in 1990 and has 19 centers located throughout Yemen and can be considered for partnership in both rural and urban areas. There are five full time employees in the main Sana'a office and 30 throughout the centers. The Society is regarded as the most important of the charitable societies in Yemen. Its past activities have been directed through six main committees:

- Neighborhood Activities, which arranges for donation boxes to be set up and the proceeds disbursed to needy persons in the neighborhood;
- Women's Committee, which runs adult literacy and needlework courses, girl's clubs and kindergartens;
- Orphanage Care and Sponsorship Committee, which arranges monthly subsistence allowances for orphans and supports orphanages;

- Basic Health Services Committee, which runs primary health care and food distribution centres in rural areas as well as mobile health units.
- Special Projects Committee, which supports microenterprises and survival projects:
- Emergency Relief Committee for returnees and disaster victims, which assisted Gulf crisis returnees and 1994 civil war victims.

The Society now wants to place more emphasis on sustainable activities rather than continuing to operate on only a grant basis. They are now engaged in training activities and plan to expand this further with a training center for men and women. Training is planned in eleven skill areas which include carpet making, sewing, handicrafts, leather, semi-precious stones, wood engraving, typing, and secretarial work. The society is looking to provide some of the people who have gone through their training program with small loans. Some of the loan purposes might be to purchase small carts, handicraft materials and inventory.

The annual budget for the main society is about 30 million YR per year. The budget comes primarily from donations, however it does charge for some of its services.

### **b.) Location Specific Partners**

Local Welfare Associations are the primary source of non-government sponsored development activity in rural areas. Local development associations had played this role before they became government-controlled entities. Local Welfare Associations objectives are to develop specific geographic areas and are often able to solicit sizeable funds, especially from Yemenis working abroad. All organizations mentioned in this section except the Aden Branch of the Yemeni Women's Union are examples of Local Welfare Associations. Because of their ability to leverage funds, and because they are often associated with influential and wealthy businessmen, Local Welfare Associations are attractive potential partners. Working with partners who have a business-oriented approach should make it easier to achieve sustainability in a microfinance program.

#### **i. Aden Charitable and Social Society**

The Aden Charitable and Social Society was established in 1992 and had an operating budget of approximately 10 million YR in 1996. The Society President is Ghazi Abdulaziz Alwan, a prominent businessman and there are over 700 members, of whom a third are women. The Society has six full time staff members, including a manager, social manager, and secretary.

The Society's activities have been primarily targeted toward 2,000 poor families in Aden. In 1997, 10,000 uniforms were provided to poor school children. Income generating projects to support poor families are being considered, although most are of a collective nature, a legacy of the former socialist system. Staff members agreed that there were indeed economic opportunities for the poor in Aden to pursue with loans in the \$50 to \$500 range.

#### **ii. Hadrami Charitable Association (in Aden)**

The Hadrami Charity Association was originally established in 1947 and targets people from Hadramaut Governorate. Operations of the Association were suspended from 1972 through 1990 by the former government in the South. After the unification of Yemen in 1990, the Association again was able to resume operations, which it did in 1992. The 1996 budget was about YR 3 million and was spent primarily on 2,000 poor families during the Holy Month of Ramadan. Other activities have centered on providing surgical care in special mobile "camps." Funding comes from membership subscriptions and private donations.

The General Secretary, Awadh Al-Wazzan is an Aden businessman and he is supported by active and interested membership. The Association owns a four story building in Aden which houses its offices and a soon to be opened computer training center. The Association requires fees for its training. Where a person

will not be able to afford the tuition, scholarship assistance will be solicited for the person, however, everyone will be required to pay part of the cost themselves. The Association is considering how to develop a finance program to assist the poor.

**iii. Aden Branch, Yemen Women's Union**

The Aden Branch predates the 1990 unification of Yemen. In 1968, two women's societies in Aden, which dated to 1946 and 1956, were merged. With unification, the societies in the North and South were joined. The Aden Branch has about 1,500 members but has fallen on hard times due to much diminished Government financial support, which is now YR 180,000 per year. The only other source of income is YR 480,000 per year received in rental from property owned by the Branch. The annual budget is thus about YR 660,000.

Common criticisms of Women's Union Branches are a tendency toward an unwritten political agenda. This Branch is especially interested in starting income generating activities for increasing Branch income.

**iv. Hail Saeed Anam Charity Society (in Taiz)**

The Hail Saeed Charity Society was formally registered as an NGO in 1995, to carry on the works of the late Hail Saeed, a prominent Taiz businessman. The Hail Saeed Group of Companies composes the largest private business group in Yemen. Members of the Hail Saeed family, all business professionals own the various companies and serve in on the Board of the Society. The Society is endowed with 10% of the profit from each of the Hail Saeed companies, so income is not a problem.

The projects undertaken by the late Hail Saeed and the Society have been principally of a construction nature, including mosques, health centers, and water projects. Twelve engineers are employed to assess potential projects and oversee implementation. Other activities include financial assistance to the poor and handicapped, clothing distributions and scholarships. The society also provides an eight-month training course for women, which trains 60 persons per cycle. The Society facilitates orders for clothing from Hail Saeed Companies to the graduates.

Due to the business background of Board members, the organization is quite efficient. Board members expressed interest in microfinance technology as a tool in poverty alleviation.

**v. Welfare Association for Preventing Begging (in Taiz)**

This Association, newly formed in 1997 is targeting 2,000 persons in Taiz, 700 of whom are beggars. The Association has conducted extensive research into the targeted persons and is formulating a program of how to proceed. The principal objective of the organization is to help the poor become able to generate enough income for a decent living rather than to provide handouts. The Hail Saeed Group, with the Finance Manager being Abdulla Abdo Saeed of Hail Saeed Anam & Co LTD, backs the Association. The Chairman is the Director of Public Health in Taiz. Both the Chairman and Finance Manager are interested in microfinance as a tool to assist their target group. With the backing of a Hail Saeed Company, this organization will likely be able to mobilize financial and human resources easily.

**vi. Sana'a Charitable Society**

The Sana'a Charitable Society was established in 1992 and works in Sana'a City and the surrounding area. There are 30 full time employees and the annual budget is about YR 7 million. Funding comes from donations. Past activities have centered assisting the poor with food, clothes, sometimes cash and occasionally medical treatment outside Yemen. The Society has three training centers. Courses include elementary health care and sewing.

The Society has guaranteed loans for about 85 women and experienced only one default. They are interested in finance for income generating projects run by their target group and have contacted the Small

Enterprise Development Unit to explore possible cooperation. The general feeling was that projects would require YR 100,000-150,000. The Chairmen of the Society is also the head of the Sana'a Local Council.

#### **D. LOCATION**

Three initial locations are recommended based on two criteria; 1) reaching the poor, and 2) reaching them in areas where there are sufficient numbers to allow MicroStart to achieve significant scale. Most of the poor (an estimated 81%) live in rural areas, and of that number about 80% live in communities of less than 500 (about 71 households). Additionally, villages are widely disbursed in the rural areas. Access is difficult, especially in the mountain areas. Roads and public services are generally inadequate. Accordingly the three initially recommended areas are urban areas which have over 250,000 households, with about 53,000 households living in poverty. This, however, does not preclude the consideration of indigenous organizations servicing rural areas. Special attention should be paid by the International Technical Service Provider to identify these organizations and assess the viability of working with them to reach rural communities. (See point 4)

##### **1. Sana'a**

Sana'a city has approximately 30,000 households living in poverty and hosts the largest pool of poor households in a compact geographical area. The number of poor in Sana'a is expected to increase as individuals from outlying areas migrate in search of economic opportunities.

##### **1. Aden**

Aden has approximately 14,000 households living in poverty. Aden is an especially appropriate choice considering that it has not received a great deal of development attention and continues to suffer from neglect of the pre-1990 socialist regime. Development of a free zone is expected to increase economic activity in the Aden area. The growth in economic activity should create expanded opportunities for employment in microenterprises.

##### **2. Taiz**

Taiz City has approximately 10,000 households living in poverty. Furthermore, Taiz Governorate is one of the largest in Yemen, with over 2 million people living in over 321,000 households. Reflecting the overall national averages, about 83% of the households are in rural areas. Since Taiz Governorate is not large geographically, it has the third largest population density in Yemen.

##### **3. Additional Locations**

Rural areas account for approximately 368,000 households living in poverty. Since this represents the vast majority of the poor in Yemen, rural areas must not be ignored. Careful consideration is required to select the areas with greater concentrations of the poor. The areas need to be accessible, and sufficient numbers need to be present in order to be able to scale up the service to a viable number.

Four of the five action areas in the Regional Development Component of the Poverty Alleviation Programme are in rural areas. MicroStart can be considered in each of these areas after a careful analysis of the areas or after experience in the urban areas. There is potential for much complementation, as MicroStart could strengthen the Regional Development Component and the Component could develop participating organizations. After community development organizations established under the Regional Development Component begin operations, they may be able to become participating organizations under MicroStart. Action areas under the Regional Development Component are:

- Bani Sad in Al-Mahweet Governorate;
- Ghayl Ben Yamayin in Hadramawt Governorate

- As-Sawadiyah in Al-Bayda Governorate;
- Al-Mukha in Taiz Governorate;
- Parts of Sirah and Ash-Sha'ab Districts in Aden Governorate

## **E. RISKS AND SPECIAL CONSIDERATIONS**

In addition to the problems already noted above, namely the absence of an implementation plan for the policies vis-à-vis the MSE sector contained in the Five-Year Plan and the embryonic nature and relative ineffectiveness of the support institutions to the MSEs in the areas of trade credit, a few others are worthy of note:

### **1. Lack of significant experience in microfinance.**

MicroStart will be “plowing new ground” in Yemen. Ordinary citizens, much less the poor are not accustomed to borrowing, and the little borrowing that takes place between family and friends is done without interest. This is actually an opportunity for Yemen as there has not been a proliferation of poorly designed programs to create problems for well-designed programs. Accordingly, MicroStart can bring to play best practice microfinance technology without having to deal with mistakes created by earlier programs.

### **2. MicroStart in Yemen is a semi-autonomous initiative within the Yemen National Poverty Alleviation Programme.**

Although MicroStart will be part of the Yemen National Poverty Alleviation Programme, the implementation of the MicroStart project will be the responsibility of the ITSP (to be contracted directly by the UNDP Yemen Country Office) and LTSP. Oversight and guidance will be provided by the Advisory Board, which will include a government representative. Funds will be released directly to participating organizations in tranches by the UNDP Country Office, on instruction from the Advisory Board. The UNDP Country Office will need to sensitize Government regarding the different approach. MicroStart will strive to work in departments identified by the Yemen National Poverty Alleviation Programme to maximize the synergy between them and improve the potential to contribute to poverty eradication.

### **3. MicroStart is a global pilot initiative.**

MicroStart is a pilot initiative on a global scale, which will involve learning by doing and flexibility. Each programme should carefully document its experiences--successes as well as failures--to share them with other country programmes and to be used in building on the pilot initiative. The Special Unit for Microfinance, both the headquarters experts and the regionally based expert will need to provide significant backstopping to ensure MicroStart's success.

### **4. The infancy-status of microfinance in Yemen necessitate a careful selection of the ITSP and LTSP.**

In order to provide adequate support to the participating organizations and the sector as a whole, the ITSP and LTSP must be selected carefully, to ensure that they have the requisite experiences, knowledge, and capacity to support these different approaches.

### **5. Diversity in Yemen**

Due to the tremendous geographic and cultural diversity in Yemen slightly different approaches may be required in each area where MicroStart will be implemented to adapt to complex socio-cultural configurations. The features of which include the following: a) Community social structure is based in the authority of a sheik presenting a paradoxical situation. On the one hand this authority system could impede genuine participation and on the other it may facilitate the adoption of the group lending methodology. B) significant gender bias dictated in large part by religious norms may impede women's access to the programm. C) Wide geographic dispersion of the population and sparsely populated communities present the problem if critical mass formation and access as well as targeting.

## **6. Social Venture Capital**

Given the infancy of microfinance in Yemen, not all the organizations receiving technical assistance and capital grants under the MicroStart project in Yemen may reach the required level of self-sufficiency and/or sustainability. In making investments in organizations with little or no experience in microfinance, UNDP must recognize and be willing to take risks.

## **7. Sustainability MicroStart Project**

During the pilot programme, a mechanism for ensuring continuation of the MicroStart initiative will be developed for consideration. During the course of programme implementation in Yemen, the ITSP, LTSP, Advisory Board, and participating organizations, as well as other organizations active in microfinance, should reflect on the appropriate structure or mechanism to ensure the sustainability of the initiative. This may take the form of a technical unit, apex organization, federation of associations, trust fund, or something else. The forward-looking evaluation will be helpful in identifying appropriate options.

## **8. Role of Women**

Yemen is a very conservative Islamic country. Women in general do not take an active part in activities outside the home. Additionally, their participation in activities requires concurrence of male members of the household. This somewhat restricts the economic activities in which women can participate. Additionally, the Project needs to be keenly aware of the need to obtain concurrence from community leaders to ensure cooperation. Once a commitment was secured from community leaders, women were able to participate in a group-lending program sponsored by ADRA, an International NGO. Women and men will need separate groups. Cultural diversity cannot be overlooked, because in some areas of Yemen, women make the business decisions. Examples are in Jebel Saber near Taiz, and Al Mahara Governorate, an almost matriarchal society.

## **9. Capacity of Partner Organizations**

Capacity of partner organizations in the area of microfinance is non-existent. Given the low-level of awareness regarding the potential of microfinance and the lack of capacity of local organizations to readily assume a supporting role in the MSE and microcredit sector, it is extremely important that partner organizations are trained not only in microfinance, but also in management and governance. An advantage of this situation is that partner organizations do not have to unlearn unsatisfactory microfinance practices.

## **10. Infrastructure and services in Rural areas**

Rural areas, the location of 81% of the poor are difficult to access due to rugged geography in the mountainous areas, poor roads and communications, and inadequate public services including health care, water and waste treatment. These conditions make it costly and time consuming to work in rural areas. In many rural areas, it may not be possible to implement a sustainable microfinance program. Building upon success in urban areas can mitigate this factor when spreading microfinance programs to rural areas. The initial round of participating organizations should be primarily from urban areas and consideration should be given to organizations that have a presence in both urban and rural areas.

## **F. IMPLEMENTATION ARRANGEMENTS**

MicroStart in Yemen will be operationally autonomous, however it will be a component of the UNDP Programme Support to the Yemen National Poverty Alleviation Programme (Programme Support No.YEM/97/300/B/01/99). As a Programme Component, MicroStart Yemen will deliver financial reports to the Programme Coordination Office for consolidation with other components. The financial reporting will not affect the autonomy of MicroStart, however it is expected that MicroStart would coordinate with other Programme components.



## **1. Country Selection**

Yemen is one of approximately 25 countries worldwide (5 per region) to be selected to participate in this pilot programme on the basis of:

- The presence of an enabling environment for microfinance programming (verified by a design team consisting of an international consultant and local consultant), and
- A demonstrated commitment to the activity and willingness to commit up to US\$1.5 million of their TRAC resources in MicroStart activities, or to mobilize the corresponding amount in cost-sharing (as stated in a letter of intent).

## **2. International Technical Services Providers (ITSP)**

### ***a) Selection***

UNDP/SUM has reviewed applications from microfinance organizations and consulting firms from around the world to identify roughly 30 pre-qualified organizations. SUM will forward the list to all participating countries. The country office will select from the list of pre-qualified organizations the one that best meets the needs in the country. The country office may instead elect to choose the International Technical Service Provider by international bid.

The UNDP country office may want to include the following criteria in addition to the best practice standards and performance indicators used by the SUM of UNDP in pre-qualifying ITSPs:

- Experience working in the language of the host country;
- Experience working in countries with similar income distributions, disparities and quality of life indicators;
- Significant experience in institution building;
- Skills in promotion and empowerment of women, particularly with regard to the religious and cultural context of the host country.

The country office and the ITSP will sign a contract for the fixed rate of \$500,000 for three years. This contract will be payable in tranches, based on the work plan elaborated by the ITSP and agreed to by the country office of UNDP, the Government and with clearance from the Special Unit for Microfinance (SUM).

### ***b) Responsibilities***

The International Technical Service Provider has overall technical responsibility for providing technical assistance services to selected participating local organizations and ensuring the quality of any technical assistance provided by the LTSP or other entities contracted by the ITSP. The ITSP will prepare a detailed workplan upon arrival for review and approval by the Advisory Board. Given the importance of training in the development of the microfinance sector in Yemen, the ITSP workplan should clearly outline a strategy for providing overall training during the life of the project and the mechanisms for the delivery of this training.

In addition to this key document, the ITSP will be responsible for the following:

- identification and selection of Local Technical Service Provider (local microfinance organization, consulting firm, or hire local staff) in consultation with UNDP and in accordance with the TOR for the LTSP;
- identification of potential grantees based on examination of their organizational, managerial, financial and pragmatic capacities and potential, mission and commitment to microenterprise, particularly to providing efficient services to large numbers of clients in a viable way;
- presentation of recommendations (with substantiating institutional proposals) and justification of selection of potential grantees to Advisory Board for approval;
- assuring that technical support and facilities needs are met;

- developing tailored training, exposure, and technical assistance plan for each participating organization in consultation with organization concerned;
- providing training and workshops for participating organizations, and other practitioners as feasible, with preference given to those associations working with UNDP programmes that have microcredit components;
- organizing exchange and exposure visits among participating organizations and to other organizations and institutions active in the sector;
- providing regular technical assistance and monitoring visits to participating organizations, to help develop appropriate management information systems; improve client selection/group formation/group sensitization processes; and enhance distribution and collection mechanisms; and build planning, review, and problem solving skills. It is envisioned that the TSP will spend several days every month with the participating organizations, in addition to the regularly scheduled training and workshops;
- working with participating organizations to establish quarterly work plans and reviewing achievements with them through scheduled visits;
- ensuring that recipient organizations have appropriate, reliable, and transparent reporting;
- requesting subsequent tranches for participating organizations;
- providing access to best practice and "state of the art" in monitoring, collection and avoiding delinquency and default, accounting, reporting, auditing, management of savings, management systems and tools, resource mobilization, and other areas as appropriate. This will be achieved through making documentation available to all participating organizations and facilitating translation into the local language for key resources. In addition, this will involve holding best practice seminars which share international experience and examine the specific country context to determine how best to apply lessons learned internationally.

The ITSP will report to the MicroStart Advisory Board, via quarterly reports copied to SUM, New York.

### **3. Local Technical Services Providers**

#### ***a) Selection***

The International Technical Service Providers will identify an individual, organization, institution, or company capable of acting as Local Technical Service Provider. The ITSP will consult with UNDP and other donors and practitioners in selection of an appropriate LTSP.

The criteria for selection will be determined by the ITSP, based on their perception of the needs of the sector, which could be addressed through a LTSP. The criteria for selection of a LTSP, whether an individual or an organization, should include:

- minimum educational attainment (completion of college/university),
- proficiency in the primary language of intended MicroStart clients,
- knowledge and understanding of the local economy and culture and diversity between regions,
- openness and ability to work closely with people, respect for local knowledge and experience,
- ability to work in both urban and rural areas,
- willingness to travel approximately 30% of the time, and;
- a high level of energy and commitment to the objectives of microfinance. Desired attributes include experience in community development, training skills, exposure to finance and banking, and particularly to microfinance.

The options regarding the choice of a LTSP are described below in order of preference as ways to overcome the limited experience in the microfinance sector in certain countries:

- Select one or two local microfinance organizations that will provide technical assistance to start-up or younger microfinance organizations identified by the ITSP and approved by the Advisory Board. The selected LTSP organization(s) would receive some financial support for their activities as well as benefiting from working closely with the ITSP and participating in global MicroStart activities. The advantage of this option is that these organizations typically already have a track record and understand the needs in the sector. They are also committed to providing microfinance services over

the long term. However, they would also need to be perceived as a “neutral broker” by the other members of the microfinance community.

- Identify persons who meet required criteria and at least some of the desired criteria. If persons without significant microfinance experience exist in the country, at a minimum, the ITSP can hire recent graduates and train them. Agree to a development plan, which ensures the learning and skill acquisition in order to be able to carry out the required responsibilities. The ITSP would have to ensure that these persons would have the infrastructure support (including office, fax, phone, transport, etc.) required to carry out the responsibilities of the LTSP. The ITSP and UNDP would need to identify a means for ensuring that the investment made in such persons would not be lost at the end of the three year pilot programme, and that the person would be involved in any eventual apex, federation, or other more permanent structure.
- Hire a local consulting firm with experience in Microfinance

#### ***b) Responsibilities***

The LTSP will be responsible for carrying out the activities specified by the ITSP in the TOR for the LTSP. These activities will also be included in the three-year and annual work plan. Performance will be reviewed on an annual or semi-annual basis with the ITSP. The LTSP will report to the ITSP. Payment for services will be made by the ITSP.

Among the responsibilities which the ITSP may assign to the LTSP are:

- maintain regular contact with participating organizations through phone, fax, e-mail, and mail;
- provide ongoing technical assistance according to work plan (these should be combined with monitoring visits, and should have clear technical assistance objectives, as well as responding to any other needs or problems observed during the visit);
- carry out regular monitoring visits, probably every month for 2-3 days for each participating organization;
- ensure that all quarterly reports from participating organizations are submitted to the ITSP on a timely basis;
- submit a quarterly activity report to the ITSP;
- other responsibilities as determined on the basis of the needs of participating organizations, the capacity of the LTSP, and the judgment of the ITSP;
- benefit from additional training as needed and as feasible, as one of the outputs of this programme is increased capacity of the LTSP to provide ongoing assistance in microfinance.

### **4. Participating Organizations**

#### ***a) Responsibilities***

Participating organizations will be responsible for the following:

- striving to expand the outreach of financial services to significant numbers of low income micro-entrepreneurs, with preference given to women;
- striving to provide appropriate financial services in an efficient and sustainable--participating organizations will charge rates of interest for their services sufficient to target reaching operational self-sufficiency within 5 years;
- promoting microfinance activities supported through MicroStart within the agreed upon geographic area and with the target population, with a focus on people below the nation's poverty line
- identifying the conditions of client participation in programme (e.g., loan terms, role of savings if any, non-financial services if any), with assistance of ITSP. Loan conditions must be consistent with broad guidelines of MicroStart programme;
- identifying potential clients, providing them with microcredit programme information, encouraging them to form solidarity groups, orienting them to programme mechanisms, and providing any additional pre-loan training;

- applying loan appraisal process (may simply be peer review in groups), disbursing loans, collecting principal and interest, and resolving any repayment problems;
- establishing or improving record keeping and management information to ensure good loan tracking and provide information on a timely basis;
- visiting each group on a regular basis--at least monthly;
- setting realistic targets and performance objectives at the beginning of the programme for each of the three years, with the assistance of the ITSP;
- establishing or maintaining a separate bank account for capital funds for on-lending;
- developing and realizing quarterly plans;
- preparing and submitting quarterly reports to the LTSP;
- participating actively in trainings, workshops, exchange visits, and other activities that are part of the MicroStart initiative;
- identifying and articulating needs so that technical assistance can be tailored to be responsive to these needs;
- providing the LTSP and ITSP with access to people and information to enable them to provide better support and technical assistance;
- making all records and information available for annual programme audit;
- participating in institutional impact assessment to be coordinated by UNDP/SUM;
- collecting baseline data and carrying out client impact assessment to be coordinated by the ITSP and LTSP;
- working in collaboration rather than in competition with other participating organizations as well as other providers of microfinance services.

## 5. Advisory Board

### a) *Composition and Formation*

The Resident Representative of the UNDP will name the members of the Advisory Board<sup>1</sup>. It is important that from among the categories to be included on the Board (NGOs, financial community, private sector), that the Board include someone familiar with the issues facing poor women. The Board will provide guidance and oversight to the MicroStart project, and will ensure that the programme is institutionalized at the end of the three year pilot in the form of an apex, federation of associations, technical assistance unit, trust fund, or other structure as appropriate. This joint Board will direct the startup of the MicroStart project. It will determine which ORGANIZATIONS NGOs are eligible to participate, and monitor the programme. Its services in determining the programme direction are crucial and the Board will play a pivotal role in the success and sustainability of the MicroStart initiative.

The composition of the Board will be determined by the UNDP Resident Representative, taking into account the country specific context. The UNDP Resident Representative should chair the Board. A co-chairing arrangement with a relevant government agency is possible.

It is desirable that the Board is composed of 7-9 members. Consistent with one of the principles of microfinance best practice, the Board should draw its membership from primarily the private sector and/or non-government organizations. The choice of membership should be the following:

1. UNDP Resident Representative, Chairperson or Co-chair
2. Senior Government Officials (max. 2)
3. Donors (max. 2)
4. Private sector individual (minimum 1)
5. Representative of civil society (minimum 1)
6. Regional Advisor (as an observer when in country)
7. Technical Service Provider (observer/presenter)

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<sup>1</sup> Detailed Terms of Reference for the MicroStart Advisory Board are included in Annex VI.

When a Board member also represents a potential grantee organization, then the member does not have the right to vote for his/her organization.

The Advisory Board should meet on a quarterly basis, with additional meetings at the beginning during the selection of participating organizations, finalizing of the exact implementation mechanisms, and establishing a work plan. The Advisory Board may wish to establish a sub-committee available to meet on an ad-hoc basis with the authority to approve micro-capital grants proposals.

#### **b) Responsibilities**

The specific responsibilities of the Advisory Board will include:

- Approve the initial 3-year work plan of the TSP;
- review proposed work plan of TSP on annual basis;
- select the participating organizations based on the recommendations of the TSP;
- review 'contracts' between the TSP and the participating organizations stating outputs to be achieved within specified time frames;
- monitor achievements of all participating organizations (TSP, MFI) and approve disbursement of second and third tranches based on achievements and future work plans<sup>2</sup>;
- ensure reporting requirements are being met;
- instruct the UNDP Resident Representative to contract annual audits of participating organizations as needed; review completed audits; and ensure compliance with audit findings;
- review evaluation to be carried out at the end of the second year of programme implementation and guide ITSP in implementing recommendations;
- develop a plan to institutionalize a technical support and financing mechanism to build on the experience of MicroStart--this could take the form of an apex institution, trust fund, federation of associations, technical support unit, etc.
- review the progress of MicroStart against the goals, objectives and achievements outlined in the project document;
- instruct the UNDP Resident Representative to make payments to: 1) the TSP and 2) participating organizations as required.

### **6. UNDP Country Office**

#### **a) Responsibilities**

The UNDP Resident Representative has overall fiduciary responsibility for the MicroStart Capital Grants facility. In addition, the Country Office has the following responsibilities in the MicroStart programme:

- select and contract ITSP from among qualified organizations, taking into consideration the ITSP's proposed budget and staff allocation;
- approve proposed three year outputs and annual work plan;
- review annual achievements and outputs and disburse additional funds based on performance and authorization from Advisory Board;
- consult on selection of LTSP;
- establish an Advisory Board and serve as Chair (Resident Representative);
- ensure that ITSP has flexibility to propose and work with local organizations with the best potential for sustainable growth;
- review quarterly reports and follow up as necessary with ITSP and LTSP;
- conduct monitoring visits as deemed appropriate, roughly semi-annually;

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<sup>2</sup> Maximum amount of each tranche will not exceed \$50,000, subsequent disbursements will require a request by the ITSP and approval by the Advisory Board, based on review of reports from the participating organizations and request of the ITSP.

- contract annual external programme audits with instructions from the Advisory Board;
- disburse initial and subsequent tranches of funds to participating organizations upon instructions from the Advisory Board, based on requests of ITSP. Conditions for fund disbursement include annual audits and satisfactory progress towards targets and performance standards and submission of work plan for the next period;
- ensure that copies of all progress and audit reports are sent to UNDP/SUM;
- contract forward looking evaluation after two years to help identify follow up to pilot.

## **7. UNDP Regional Bureau for Arab States**

### ***a) Responsibilities***

The Regional Bureau for Arab States is responsible for the following:

- Funding the costs of the International Technical Service Provider at US\$ 500,000
- Facilitating and financing translation of MicroStart, Version 1.0 into Arabic
- Supporting regional impact studies
- Funding and organizing through the Regional Coordinating Organization annual regional workshops on selected issues of microfinance
- Establishing a regional learning network of microfinance institutions, including MicroStart projects to exchange information and disseminate lessons learned in the context of the Arab States
- Providing backstopping and support where required to the Country Office.

## **8. Joint UNDP –UNCDF Special Unit for Microfinance**

### ***a) Responsibilities***

The Special unit for Microfinance (SUM) is responsible for the following:

- providing guidance to UNDP country offices on contracting ITSP, and developing ITSP programme outputs, annual work plans, and budgets, as requested;
- technical backstopping;
- coordinating institutional impact studies;
- compiling results of institutional impact studies and ensuring broad dissemination;
- ensuring client impact studies are carried out by ITSPs following similar methodologies and protocols;
- compiling results of client impact studies and ensuring broad dissemination;
- carrying out programme audits on a random sample of programmes;
- facilitating international workshops;
- compiling quarterly country progress reports prepared by each ITSP into global reports and disseminating to UNDP Country Offices, ITSP locally and headquarters and international donors.

### III. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

#### A. DEVELOPMENT OBJECTIVE<sup>3</sup>

To generate and distribute economic and social development opportunities among all governorates and to reduce the current wide disparities among various social groups and thus ensuring equal opportunities for all citizens.

#### B. IMMEDIATE OBJECTIVES, OUTPUTS AND ACTIVITIES

Level	Indicators of Achievement	Means of Verification
<b>Objective 1:</b> To develop the capacity of local participating organizations to deliver sustainable microfinance products to the poor, especially to women	<ol style="list-style-type: none"> <li>1. Usage of best practice technology by all participating organizations.</li> <li>2. Steady progress toward operational self-sustainability.</li> <li>3. Transparent financial and operating reports produced by participating organizations.</li> <li>4. Increasing number of poor served with savings and credit facilities.</li> <li>5. Leveraging of microcapital grant facilities with funds from outside of Project, (for example Social Fund).</li> </ol>	<ol style="list-style-type: none"> <li>1. Project reports.</li> <li>2. Audited financial statements.</li> <li>3. Two-year evaluation.</li> </ol>
<b>Outputs:</b> <ol style="list-style-type: none"> <li>1. Participating organizations offering savings<sup>4</sup> and credit facilities to the poor.</li> <li>2. Participating organizations able to facilitate group formation for savings and credit.</li> <li>3. Participating organizations producing regular and consistent financial and performance reports on microfinance activities.</li> <li>4. Participating organizations exhibiting steady progress toward self-sufficiency.</li> </ol>	<ol style="list-style-type: none"> <li>1. Numbers of participating organizations</li> <li>2. A. Numbers of groups formed by participating organizations. B. Numbers of members per group.</li> <li>3. Reports on: a) Portfolio and Outreach, b) Interest Rates, c) Detailed Income and Expenses (See Annex VII)</li> <li>4. Ratio of Total Revenues: Total Expenses</li> </ol>	<ol style="list-style-type: none"> <li>1. Project Reports</li> <li>2. Periodic reports by participating organizations</li> </ol>
<b>Activities:</b> <ol style="list-style-type: none"> <li>1. Assessment of potential participating organizations, including training needs.</li> <li>2. Selection and contracting of participating organizations.</li> <li>3. Recruit and train staff</li> <li>4. Conduct local market assessment with participating organization.</li> <li>5. Design savings and credit</li> </ol>		

<sup>3</sup> As stated in the Programme Support Document for Poverty Alleviation, June 1997.

<sup>4</sup> The objective to have savings products as an output of the project will only be valid for organizations that have the legal mandate to do so, or are able to create the partnerships to do so.

<p>systems appropriate to local market.</p> <p>6. Orient potential clients on the availability of savings and credit facilities for productive activities.</p> <p>7. Initiate a Microenterprise interest group composed of participating organizations, donors, Government, NGOs and other interested parties to serve as a forum for discussion of microfinance and microenterprise issues.</p>		
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Level	Indicators of Achievement	Means of Verification
<p><b>Objective 2:</b> To increase the ability of the poor to use microfinance, both savings and credit to increase their economic wellbeing</p>	<ol style="list-style-type: none"> <li>1. Increased variety of economic activities undertaken by male and female clients.</li> <li>2. Increased income by male and female clients</li> <li>3. Increased number of male and female clients</li> <li>4. Number of repeat male and female clients</li> <li>5. Asset accumulation</li> <li>6. Increased variety and amount of expenditures</li> </ol>	<ol style="list-style-type: none"> <li>1. Project reports</li> <li>2. Two-year Evaluation</li> <li>3. Borrower impact survey</li> </ol>
<p><b>Outputs:</b></p> <ol style="list-style-type: none"> <li>1. Clients using credit and savings facilities in productive activities.</li> <li>2. Increased ability to withstand economic adversity</li> </ol>	<ol style="list-style-type: none"> <li>1. Number of male and female clients for savings, for credit products.</li> <li>2. Amounts outstanding of savings and credit products.</li> <li>3. Male and female client understanding of a) the cost of credit and b) repayment obligations</li> </ol>	<ol style="list-style-type: none"> <li>1. Participating organization and project records.</li> <li>2. Mid-term evaluation</li> </ol>
<p><b>Activities:</b></p> <ol style="list-style-type: none"> <li>1. Local market surveys identifying activities a) which have reached market saturation and b) with potential for growth.</li> </ol>		

Level	Indicators of Achievement	Means of Verification
<p><b>Objective 3:</b> Develop local expertise to provide technical services to microfinance practitioners.</p>	<ol style="list-style-type: none"> <li>1. Number of participating organizations assisted by LTSP.</li> <li>2. Requests by non-participating organizations for assistance from LTSP.</li> </ol>	<ol style="list-style-type: none"> <li>1. Project reports.</li> <li>2. Annual evaluation of LTSP performance by ITSP.</li> </ol>



	3. Positive trend toward sustainability of organizations assisted by LTSP.	
<b>Outputs:</b> 1. LTSP capacity to deliver microfinance technical assistance strengthened.	1. LTSP participation in networks of microfinance practitioners. 2. LTSP serves as a liaison for microfinance inquiries from interested parties. 3. Numbers of male and female technical assistance personnel employed by the LTSP.	1. Project reports.
<b>Activities:</b> 1. Subcontract between ITSP and an LTSP (firm or individual). 2. International best practice skills in microfinance transferred to LTSP 3. Best practice seminar sponsored by ITSP and LTSP. 4. Initiate a Microenterprise interest group composed of participating organizations, donors, Government, NGOs and other interested parties to serve as a forum for discussion of microfinance and microenterprise issues, including women's issues.		

#### IV. PROGRAMME INPUTS

##### A. MICROCAPITAL GRANTS

Most potential participating organizations are not well capitalized. Recognizing the need to establish a capital base from which to provide loan funds and the need for startup operating expenses, the microcapital grants component provides for up to \$1 million. The limit of grants per participating organization is \$150,000 over three years. Funding for the \$1 million would come from UNDP (\$850,000) and parallel financing (\$150,000) from Yemeni businesses associated with one or two of the participating organizations.

##### B. TECHNICAL SERVICES

The technical service input is in the form of a pre-qualified international firm skilled in microfinance best practices. The cost for the component would be \$500,000 over three years. The cost includes subcontract costs for a local technical service provider which work with the international firm.

#### V. ASSUMPTIONS

##### A. GOVERNMENT

1. Continue with economic reforms and not revert to interest rate ceilings.
2. Expedite the legal registration of organizations participating in MicroStart.
3. Consider any policy recommendations made by the UNDP Resident Representative, based on the advice of the ITSP, which would enhance the enabling environment for microfinance.

**B. PRIVATE SECTOR**

1. Large unmet demand exists among the poor for microfinance.
2. At least one NGO with substantial business backing will provide the YR equivalent of \$150,000 to use as microcapital grants for that NGO.

**VI. PRIOR OBLIGATIONS PREREQUISITES****VII. PROGRAMME MONITORING, REVIEW, REPORTING AND EVALUATION**

Programme progress shall be measured based on the three planning documents identified in the table below. The ITSP is responsible for providing (in order of increasing importance in case of conflicting instructions):

Planning Document	Comments
MicroStart Project Component Document	Serves as the broad outline for MicroStart activities in Yemen. The ITSP will utilize this document when preparing the other two planning documents. All parties to MicroStart will be guided by this document.
Three Year Plan	The ITSP will develop an overall plan as to how MicroStart will be implemented indicating
Annual Work Plan	The ITSP will develop and submit to the Advisory Board at least one month prior to the end of the year an annual operational plan for each of years two and three. The annual plans will be based on the

Regular Reports	Comments
Monthly Participating Organization Reports	Participating Organizations report operating income and expenses; loan and savings programme performance to LTSP.
Quarterly Financial Reports by ITSP	ITSP reports expenditures to the Programme Coordination Office for the Yemen National Poverty Alleviation Programme of which MicroStart is a component.
Quarterly Implementation Progress Reports by ITSP	The Annual Work Plan will serve as the framework for the elements of the Quarterly Report. Each item will be addressed as planned vs. actual, with reasons for variances. Any corrective action required will be outlined. Distribution will include the UNDP Resident Representative other Advisory Board members, and the Special Unit for Microfinance.

Other Activities	Comments
Annual Audit of Participating Organizations	Conducted by a qualified accountant retained by UNDP. Findings reported to Advisory Board, with ITSP asked to comment on the report and recommend corrective action if any.
Evaluation	At the end of the second year of implementation, the Special Unit for Microfinance (SUM) backstopping mission will participate in the evaluation. One person from SUM will participate as will one person delegated by the Advisory Board and one person provided by an

	ITSP that is not implementing MicroStart Yemen. The Evaluation will review progress to date against the Project Document, and work plans. Recommendations will cover any adjustments to be made for the final year of the project and how to maintain the trend toward sustainability as MicroStart makes the transition out of the pilot phase.
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## VIII. Legal Context

This document is an annex to the Programme Support Document for Poverty Alleviation. The Government and UNDP signed the Programme Support Document on June 12, 1997.

The Programme Support Document for Poverty Alleviation and Employment Generation shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement (SBAA) between the Government and UNDP, ratified by the parties on May 18, 1992. The host country executing agency shall, for the purpose of SBAA, refer to the government implementing agency in the agreement. The following types of revisions may be made to this document with the signature of the UNDP Resident Representative only, provided he/she is assured that the other signatories of the document have no objection to the proposed changes:

1. Revision in, or addition of, any of the annexes of the programme document;
2. Revisions which do not involve significant changes in the immediate objectives, outputs or activities of the programme, but are caused by the rearrangement of inputs already agreed to, or by cost increases due to inflation; and
3. Mandatory annual revisions (April and October) which re-phase the delivery of agreed programme inputs or increased expert or other costs due to inflation, or take into account agency expenditure flexibility.

## Section IX

<b>MICROSTART PROJECT BUDGET</b>					
<i>BL</i>	<i>Description</i>	1998	1999	2000	<i>Total</i>
11	<b>EXPERTS</b>				
16.01	Missions <sup>5</sup>				
17.01	National project Professional Secretariat to Advisory Board	10,000	10,000	10,000	30,000
	<b>SUBCONTRACTS</b>				
20	International Technical Service Provider (ITSP)	250,000	125,000	125,000	500,000
21	Borrower Baseline & Impact Survey	15,000	-	15,000	30,000
22	Audit Provision	6,000	6,000	8,000	20,000
23	<b>TRAINING AND FELLOWSHIPS</b>				
30	Training	30,000			30,000
53	<b>MISCELLANEOUS OVERHEAD</b>	1,000	1,000	1,000	3,000
54	<b>MICROCAPITAL GRANTS</b>				
54	Microcapital Grants	300,000	350,000	350,000	1,000,000

<sup>5</sup> Backstopping missions by the Special Unit for Microfinance (SUM)

	<b>GRAND TOTAL</b>	611,000	491,000	508,000	<b>1,613,000</b>
99					

## Annex I

### Small and Microenterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries

Committee of Donor Agencies for Small Enterprise Development  
Donor's Working Group on Financial Sector Development

The following document is included to give all organizations initiating microfinance activities, guidelines as to what donors have learned and expect in terms of performance.

It is a joint product of the Donor's Working Group on Financial Sector Development and the Committee of Donor Agencies for Small Enterprise Development. It was inspired by and is largely consistent with the recommended standards for support set out by a UN expert group of leading small and microenterprise practitioners convened by Women's World Banking in January 1994. The donor committees adopted the principles in their current form in June 1995, following consultations with key donor agencies involved in small and microfinance. This document is intended for use by project officers in donor and implementing organizations, managers, and policy makers.

The purpose of these principles is to establish common standards for donor agencies to apply in supporting broader access to financial services for micro and small enterprises<sup>6</sup>. Such enterprises have historically lacked access to the formal financial system, but the growing success of many institutions provides confidence that access can be provided sustainably in many settings. It has now become possible to identify and agree upon the basic principles that support successful micro-level finance, so that donors can work in concert to ensure that lessons of success are translated to the institutions they support.

The framework for donor support to micro and small enterprise finance centers on two equally important and complementary objectives. First, outreach embodies the aim of expanding access to increasing numbers of low-income clients. Second, sustainability provides the means to expand and maintain outreach. These concepts underpin the guiding principles described here.

Different types of micro and small enterprise clients have different characteristics and demand different services. Hence it is desirable to encourage a range of institutions that use specialized methods to serve their particular market niches. These can include commercial and development banks, credit unions, mutual or community banks, non-governmental organizations (NGOs), finance companies, cooperatives, savings and credit associations, and other specialized intermediaries. At the same time, however, this document is based on the premise that fundamental principles of finance apply widely and must be observed by all institutions if they are to succeed. Moreover, donors must design their support mechanisms in ways that are consistent with best international practices and long-run development of a sound financial system.

This statement of guiding principles first identifies characteristics donors should seek in selecting institutions to support. It then describes appropriate forms of donor support. An annex lists reporting standards on outreach and financial performance.

<sup>6</sup> Included in the term micro and small enterprises are a wide range of enterprises (industry, transport, commerce, services, agriculture, etc.) ranging in size from part time, seasonal activities of a single person to small, formal enterprises employing several non-family members.

## ***I. Institutional Performance Standards and Plans***

Intermediaries seeking support should be able to demonstrate the following characteristics, either in current operations or through credible plans underpinned by concrete measures. Since institutions are at different stages of development, it may be appropriate in some cases to adopt modified standards for limited support to new or transforming institutions.

### **A. Institutional Strengths**

1. Institutional culture, structures, capacities, and operating systems that can support sustained service delivery to a significant and growing number of low income clients. Requirements include a sound governing structure, freedom from political interference, good fit to local context, competent and stable staff, a strong business plan for expansion and sustainability, and mission and vision which create a sense of purpose, ownership, and accountability.
2. Accurate management information systems that are actively used to make decisions, motivate performance and provide accountability for funds. Such systems are essential for effective and efficient management.
3. Operations that manage small transactions efficiently, with high productivity, as measured by variables such as loans per staff and operating costs as a percentage of average annual portfolio (while maintaining portfolio soundness).
4. Meaningful reporting standards. Transparent financial reporting that conforms to international standards and allows prospective funders to evaluate performance adequately. At a minimum, the raw data listed in the Annex should be reported, and institutions should regularly monitor financial condition using appropriate financial ratios derived from such data.

### **B. Quality of Services and Outreach**

1. Focus on the poor. Evidence of service to low-income clients, women and men, especially clients lacking access to other financial institutions. The focus need not be exclusive, as mainstream institutions such as banks are encouraged to become providers, but it must entail a distinct commitment to reaching the poor.
2. Client-appropriate lending. For example, for micro-level clients, institutions should feature quick, simple and convenient access to small, short-term loans, often short-term, that are renewed or increased based on excellent repayments. Use of collateral substitutes (e.g., peer guarantees or repayment incentives) or alternative forms of collateral to motivate repayment. Emphasis on character-based lending for smaller loans, with simple cashflow, and project appraisal for larger and longer term loans.
3. Savings services. Offering savings mobilization services, where legally possible and economically feasible, that facilitate small deposits, convenient collections, safety, and ready access to funds -- either independently or with another institution.
4. Growth of Outreach. Making significant progress in expanding client reach and market penetration, demonstrating both strong client response to services offered and competence in service delivery management.

### **C. Financial Performance**

1. Appropriate pricing policies. Offering loans at rates sufficient eventually to cover the full costs of efficient lending on a sustainable basis (after a reasonable start-up period), recognizing that poor entrepreneurs are able and willing to pay what it costs an efficient lender to provide sustainable financial services. Interest charges by the retail unit should be set to cover the costs of capital (at the opportunity cost, including inflation), administration, loan losses and a minimum return on equity<sup>7</sup>.
2. Portfolio quality. Maintaining a portfolio with arrears low enough that late payments and defaults do not threaten the ongoing viability of the institution. For example, organizations with loans in arrears over 30 days below 10 percent of loans outstanding and annual loan losses under 4 percent of loans outstanding satisfy this condition.
3. Self-sufficiency. Steadily reducing dependence on subsidies in order to move toward financial self-sufficiency. Achieving operational efficiency, i.e., covering all administrative costs and loan losses with client revenues within a reasonable time period, given local conditions. International experience shows that successful intermediaries have achieved operational efficiency in three to seven years, and full self-sufficiency, i.e., covering all financing costs at non-subsidized rates within five to ten years.
4. Movement toward financial independence. Building a solid and growing funding base with clear business plans, backed by operational capacities, that lead to mobilization of commercial funds from depositors and the financial system, and eventually to full independence from donor support.

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<sup>7</sup> It should be understood that costs of non-financial assistance provided to entrepreneurs may continue to receive subsidies. However, it is crucial that these costs be separated from the costs of lending operations, so that the financial viability of lending operations can be assessed.

Financial performance standards apply only to activities that are an integral part of providing financial services. If programs also provide non-financial services, such as business advisory services, health, or education they must account for such services separately from financial services. Standards for financial self-sufficiency do not apply to such services, and defining appropriate standards for non-financial services is beyond the scope of this document.

## ***II. Strategies for Donor Support***

Funding based on large, ongoing subsidies with a charity rationale has failed. Such programs have drained resources without becoming sustainable, and have contributed to the mistaken notion that the poor are unbankable. Funders should provide financial and other support in forms that foster the movement to scale, financial self-sufficiency, and independence from donor support, taking into account the particular characteristics of different types of institutions.

### **A. Appropriate uses for grants.**

1. Institutional development. Support for institutional development is appropriate at all stages of an institution's life, and for a wide range of institutions, although the nature and extent of such support should evolve with the institution. Such support should become more selective, as institutions become able to meet more of their organizational development needs from within. It should also become more specialized, as institutions tackle more difficult problems.

2. Capitalization, or grants for equity are of strategic importance in enabling organizations to build a capital base. Capitalization can be used to generate investment income, build the loan portfolio, and leverage funds from local banks. One of the key purposes of providing capital funding is to enable institutions to mix costs of grant funds with commercial sources during the period it takes to build efficient operations and scale. Externally-financed capitalization should be used as a catalyst and complement to domestic mobilization of funds by local institutions. Grant equity contributions can also help institutions seeking to become formal financial intermediaries to meet minimum capital requirements.

3. Operating losses. Donors should avoid covering operating losses except during a clear, time-limited start-up or expansion phase. By the nature of the small loan business every program will take some time to reach a break-even point. Donors should be willing to provide support during that time. Afterwards, however, such support becomes counterproductive.

4. Fixed assets. Donors may wish to support purchase of fixed assets, such as computers, vehicles or premises. Such funding may be seen as contributions to the equity base of the institution.

### **B. Appropriate uses of loans.**

Donor support through loans is appropriate for lending-based institutions that meet performance standards. However, loan capital from local and commercial sources should be sought as early as possible, even at start-up. Care should be taken to avoid burdening young institutions with foreign exchange risk in loans denominated in foreign currency, unless adequate precautions are taken. Donors are also advised to be careful not to undermine savings mobilization efforts of savings-based institutions, such as savings and credit associations by making loans available to them below the cost of mobilizing funds locally.

### **C. Commercial sourcing of funds.**

The transition to fully commercial sources of funding requires special forms of support that help introduce institutions to the financial system. Donors can act as catalysts to effect this transition through means such as:

1. Investor equity, from both official and private sources. Donor support can help leverage private investment
2. Second-tier operations, which raise funds from commercial sources and on-lend to microenterprise finance institutions.
3. Partial guarantees of loans made by commercial banks to NGOs.

### **D. Coherence of donor policies.**

Institutions following sound principles for sustainability must not be undermined by others providing competing services below cost or in ways that cannot be sustained. When providing subsidies (grant or loan) to small and microenterprise institutions, donors should ensure that they coordinate that support with other funders, such that institutions are given clear incentives to become financially viable. In particular, donors need to consult each other regarding appropriate interest rates and other terms on which assistance to any given institution is supplied. Donors should also coordinate institutional support with sectoral policies such that financial institutions, including informal and semi-formal sectors, find enabling conditions for institutional development and growth.





## EFFECTIVE MICROFINANCE IMPLEMENTATION AND MANAGEMENT CHARACTERISTICS

### **A Successful Microfinance Program is:**

#### **Client Responsive**

- ☐ Defines potential client clearly
- ☐ Meets needs of potential client
- ☐ Is demand-driven
- ☐ Operates directly in and for communities of potential client
- ☐ Builds upon potential client's existing skills and local market structure
- ☐ Gears promotion toward potential client
- ☐ Is promoted by borrowers

#### **Mutually Accountable**

- ☐ Borrowers:
  - ⇒ are customers, not beneficiaries
  - ⇒ play an active role in the lending process including loan recovery
  - ⇒ have a sense of ownership
  - ⇒ build self-confidence
- ☐ Credit staff:
  - ⇒ know and can relate to clients
  - ⇒ develop and maintain relationships with clients
  - ⇒ encourage savings
  - ⇒ build trust and discipline with potential clients

## **Financially Sustainable**

- ☐ Requires substantial loan volumes to reach scale and cover costs.
- ☐ Means charging an interest rate that covers all costs of delivery at scale.
- ☐ Achieves a high repayment rate.
- ☐ Maintains a very low default rate.

## **Operationally Efficient**

- ☐ Provides efficient operating and monitoring systems with:
  - ⇒ convenient and quick access to financial services
  - ⇒ very simple application procedures
  - ⇒ small and short-term loans
  - ⇒ frequent repayments
  - ⇒ easy access to repeat loans based on timely payments and business growth
  - ⇒ well-defined policies and procedures
  - ⇒ funds quickly disbursed
  - ⇒ convenient mechanisms for clients to save small amounts
- ☐ Organizational structure allows for:
  - ⇒ strong local management
  - ⇒ responsive and well-trained credit staff
  - ⇒ decentralized decision-making
  - ⇒ credit officers who work with a substantial number of borrowers
  - ⇒ committed board members with representation from target group

### **Annex III: List of Officials Met by the Mission**

#### **GOVERNMENT OFFICIALS:**

Mr. Anwar Alharazi, Assistant Deputy Minister  
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Ms. Aida Abboud, Director,  
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Ministry of Industry  
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Cooperatives and Agriculture Credit Bank  
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Mr. Ali Saleh Abdullah, Deputy Minister  
Ministry of Insurance and Social Affairs  
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Mr. Ed Dysinger  
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## **NON -GOVERNMENTAL ORGANIZATIONS:**

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Tel.: 230090  
Fax.: 230089

Mrs. Zalalham, Chairperson  
Productive Families Charity Society  
Bier Alshaif, Sana'a

Ms. Basma Al-Qubati, Chairperson  
Social Organization for Family Development  
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Tel./ Fax. : 214099

Mr. Ahmed Alsonaidar, chairman  
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Dr. Abo- Baker Al-Qerbi, Chairman  
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Aden Charity Society  
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Aden  
Tel.:  
Fax.:

Mr. Awadh Bagersh, General Secretary  
Hadhrami Charity Association  
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Ms. Sabah Omar, SEDU Borrower  
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Main street, Zabeed  
Tel.: 340290

Mr. Ibrahim Hamdain, SEDU Borrower  
c/o Mr. Osama Alhadrami  
Main street, Zabeed  
Tel.: 340290

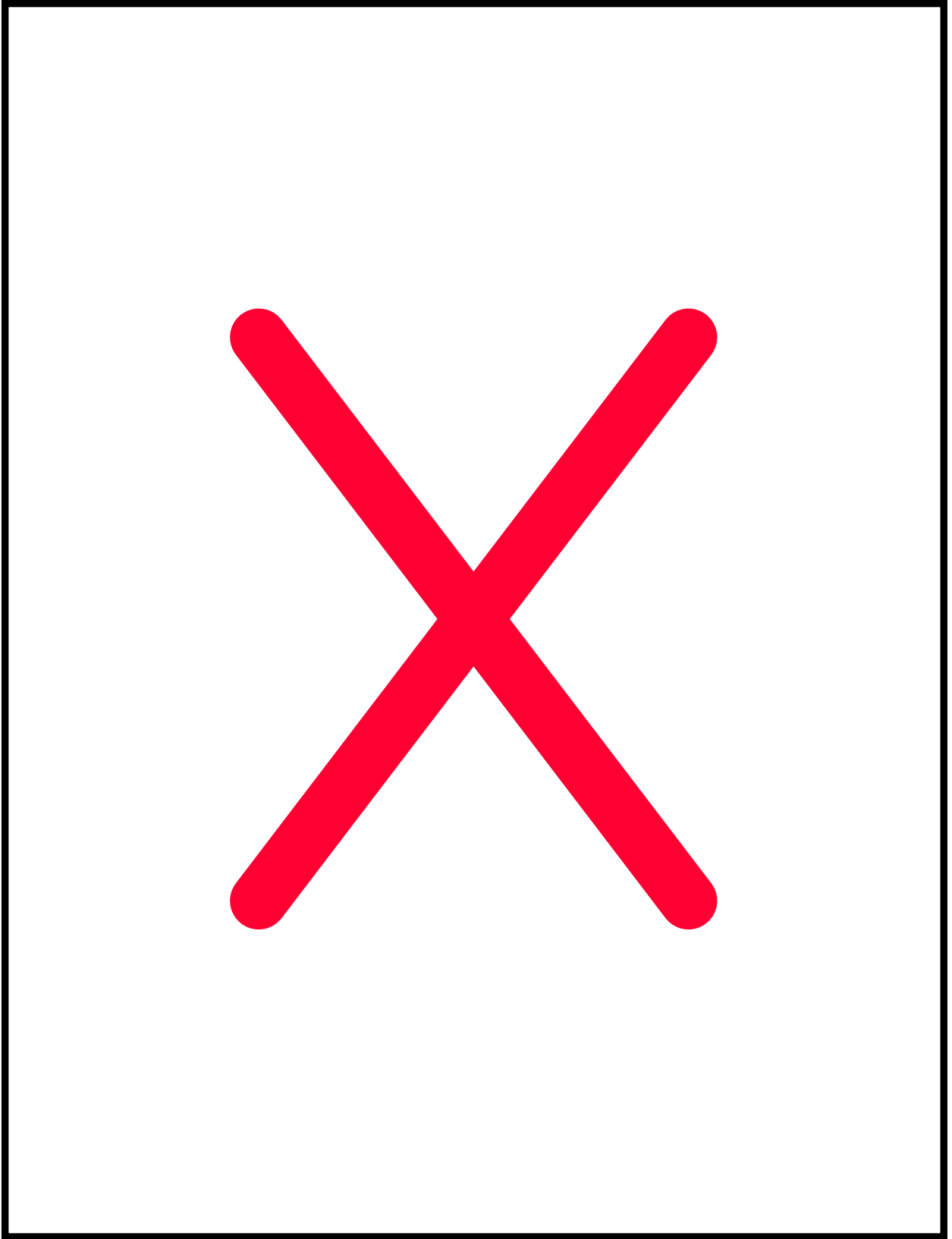
Mr. Abdo Moafa, SEDU Borrower  
c/o Mr. Osama Alhadrami  
Main street, Zabeed  
Tel.: 340290

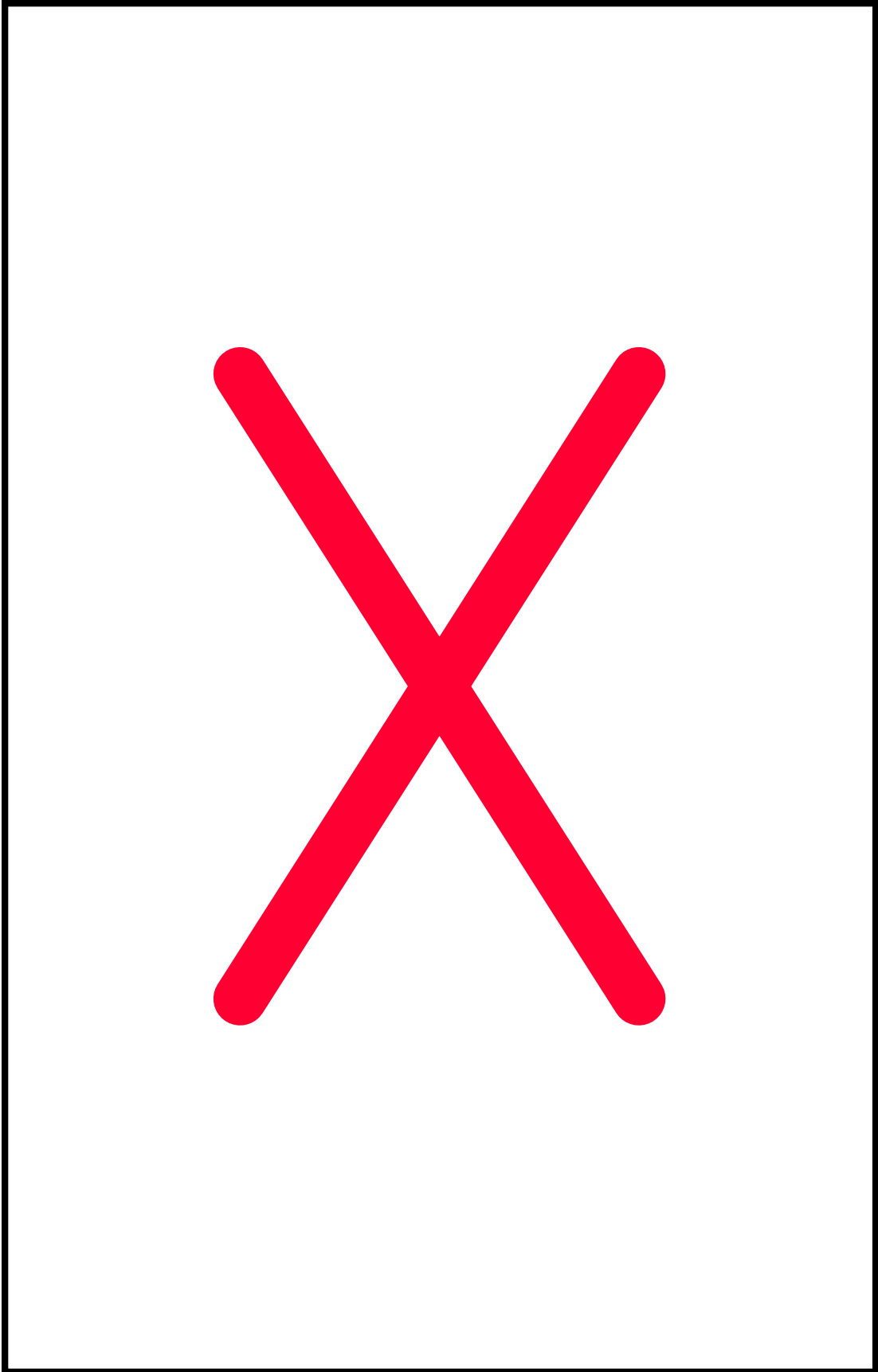
Abdulla Salami, SEDU Borrower  
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**OTHERS:**



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## **Annex V**

### **Cooperative Societies**

Self-help has been a tradition in Yemen for many years. After independence, cooperatives in the former People's Democratic Republic of Yemen were considered as public property. Those that served only a local area were banned in favor of organizations that could be controlled nationwide. Production cooperatives with joint ownership over the means of production were established by Government. Their record has been quite poor. In the former North Yemen, cooperative legislation was adopted in 1963. Until after the civil war (1962-1970) there was little activity. In the 70s and 80s Government began to use cooperatives for political purposes. Local Councils for Cooperative Development (LCCD) were effectively organs of Government. After unification in 1990, the LCCDs were renamed Local Councils, but continue to serve Government. Production cooperatives also were established during the 70s and 80s and these were profit oriented organizations with voluntary membership from people in specific geographic areas. These were true cooperatives, although Government exercised supervision over them.

Law No. 18 of 1994, the "Cooperation Law" replaced all earlier cooperative laws. Cooperatives are now established on the basis of common interest rather than geographic criteria. Five types of cooperative associations are defined:

- Agricultural
- Consumer
- Fisheries
- Housing
- Crafts

In addition to the cooperative associations, a union was established for each type of cooperative association, and a confederation was established to include all unions. Individual cooperative associations that are not members of their respective unions are included in the confederation. The Law allows Government considerable discretion over affairs of cooperatives. The Ministry of Insurance and Social Affairs is the principal ministry involved with all cooperatives, and another ministry exercises technical supervision over the societies depending on the specialization. In the case of agricultural cooperatives, it is the Ministry of Agriculture. Officials in the Agricultural Union are seconded from Government and the Union receives most of its revenue from Government. Because of this situation, caution is in order when considering cooperatives as potential partners. Following are balance sheets of the Agricultural Cooperative Union and one representative society and a table showing the distribution of the agricultural cooperative societies.

**Balance Sheet of the Agricultural Cooperative Union as of 12/31/96**

<b>Assets</b>	<b>YR</b>	<b>Liabilities &amp; Capital</b>	<b>YR</b>
Fixed		Capital	2,281,327
Equipment & Furniture	837,110		
Vehicles & Transport	1,033,000	Surplus & Provisions	
Office Equipment	1,031,725	This Year	4,393,010
Other	21,692	Previous Years	15,137,440
	2,923,527		19,530,450
Projects Under Implementation			
Projects	84,774	Creditors	654,671
	84,774		
Investments			
Tahiata Date Factory	2,216,362		
Dairy	5,693,500		
Ar Roda Nursery	272,800		
Marketing	700,000		
Fish Meal Co.	500,000		
Toban Ag. Association	700,000		
	10,082,662		
Letters of Credit	3,302,445		
Debtors	2,692,397		
Insurance & Advances	603,500		
Cash on Hand			
Union Bank	2,761,483		
Activity	705		
Cash	14,955		
	2,777,143		
<b>Total Assets</b>	<b>22,466,448</b>	<b>Liabilities &amp; Capital</b>	<b>22,466,448</b>

**Balance Sheet of Al Soaida Agricultural Cooperative Association as of 12/31/96**

<b>Assets</b>	<b>YR</b>	<b>Liabilities &amp; Capital</b>	<b>YR</b>
Fixed	357,005	Capital	3,835,000
Bank Account	950,000	1996 Profit	88,229
Cash	35,580		
End of Period Stock	2,360,077		
Debtors	220,567		
<b>Total</b>	<b>3,923,229</b>	<b>Total</b>	<b>3,923,229</b>

<b>Agricultural Cooperative Associations by Branch</b>	
<b>Branch</b>	<b>No. Associations</b>
Sana'a	32
Taiz	10
Hodaidah	14
Sayoun	6
Ibb	18
Abyan	13
Dhamar	18
Shabwah	11
Hajja	6
Mukalla	6
Lahj	12
Sadah	7
<b>Total</b>	<b>153</b>
Source: Agricultural Cooperative Union	

## **ANNEX V**

### **Terms of Reference MicroStart Advisory Board**

#### **Background**

MicroStart is the UNDP's global microfinance pilot programme that is to be implemented in 25 countries in Asia and the Pacific, Africa, Latin America and the Caribbean, the Middle East and the Commonwealth of Independent States. MicroStart is an attempt to build the capacity of local organizations to initiate or scale-up microfinance activities using internationally recognized best practice and practitioners.

One of the many innovations is the decentralized structure of MicroStart, where country Offices "buy-in" to the programme using their own core resources or resources mobilized from external sources. Over 50 Country Offices have formally expressed an interest in implementing MicroStart in their respective countries.

The MicroStart programme consists of two integrated components:

1. A micro-capital grants component (up to US\$ 1 million per country) in which 5-10 local organizations will receive grants of up to US\$ 150,000 to cover capital requirements and costs of overhead.
2. A technical service component (up to US\$ 500,000) whereby a pre-qualified technical service provider will provide a range of technical services to local recipient organizations.

The formation of the MicroStart Advisory board is the means by which the programme at the country level approves: the workplan of the Technical Service Providers (TSP); the recommendations of the TSP regarding micro-capital grants proposals and oversees the overall implementation of the programme.

#### **Composition and Formation**

The Resident Representative of the UNDP will name the members of the Advisory Board, representing a gender-balanced variety of relevant structures and institutions. The Board will provide guidance and oversight to the MicroStart project. This joint Board will direct the startup of the MicroStart project. It will determine which ORGANIZATIONS NGOs are eligible to participate, and monitor the programme. Its services in determining the programme direction are crucial and the Board will play a pivotal role in the success and sustainability of the MicroStart initiative.

The composition of the Board will be determined by the UNDP Resident Representative, in consultation with government in the country specific context. The Board should be co-chaired by the UNDP Resident Representative and government focal point.

It is desirable that the Board is composed of 7-9 members. Consistent with one of the principles of microfinance best practice, the Board should draw its membership from primarily the private sector and/or non-government organizations. The choice of membership should be the following:

8. UNDP Resident Representative, Co-chair
9. Senior Government Officials (max. 1)
10. Donors
11. Private sector individual (minimum 1)
12. Representative of civil society (minimum 1)
13. Regional Advisor (as an observer when in country)
14. Technical Service Provider (observer/presenter)

When a Board member also represents a potential grantee organization, then the member does not have the right to vote for his/her organization.

## **Criteria for Membership**

When determining the composition of the Board, UNDP and the Government should select individuals who are:

- Willing to meet on a quarterly basis;
- Willing to promote and advocate microfinance best practice generally and MicroStart specifically;
- Have high profile and influence;
- Have the ability and willingness to contribute to creating a positive environment for microfinance.

The Advisory Board should meet on a quarterly basis, with additional meetings at the beginning during the selection of participating organizations, finalizing of the exact implementation mechanisms, and establishing a work plan. The Advisory Board may wish to establish a sub-committee, available to meet on an ad-hoc basis with the authority to approve micro-capital grant proposals.

## **Responsibilities**

The specific responsibilities of the Advisory Board will include:

- Approve the initial 3-year work plan of the TSP;
- Review proposed work plan of TSP on annual basis;
- Approve the participating organizations proposed by the TSP;
- Review ‘contracts’ between the TSP and the participating organizations stating outputs to be achieved within specified time frames;
- monitor achievements of all participating organizations (TSP, MFI) and approve disbursement of second and third tranches based on achievements and future work plans<sup>8</sup>;
- ensure reporting requirements are being met;
- instruct the UNDP Resident Representative to contract annual audits of participating organizations as needed; review completed audits; and ensure compliance with audit findings;
- review evaluation to be carried out at the end of the second year of programme implementation, and guide ITSP in implementing recommendations;
- develop a plan to institutionalize a technical support and financing mechanism to build on the experience of MicroStart--this could take the form of an apex institution, trust fund, federation of associations, technical support unit, etc.
- review the progress of MicroStart against the goals, objectives and achievements outlined in the project document;
- instruct the UNDP Resident Representative to make payments to: 1) the TSP and 2) participating organizations as required.

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<sup>8</sup> Maximum amount of each tranche will not exceed \$50,000, subsequent disbursements will require a request by the ITSP and approval by the Advisory Board, based on review of reports from the participating organizations and request of the ITSP.



**Annex VII****Minimum Reporting Information by Category:****Portfolio and Outreach**

Number and amount of loans:
a. Outstanding at beginning of reporting period.
b. Outstanding at end of reporting period.
c. Disbursed during reporting period
Number and amount of small saver deposit accounts:
a. Outstanding at beginning of reporting period.
b. Outstanding at end of reporting period.
(Data for voluntary and compulsory savings should be dissaggregated)
Arrears based on loans outstanding:
a. Total unpaid balance of all loans with any payment overdue more than 30 days.
b. Aging report classifying arrears based on the length of time in arrears, 30, 60, 90 days and one year.
Percentage of female clients
Number of staff involved with savings and credit activities

**Interest Rates**

Effective annual interest rate paid by clients, accounting for all fees:
a. Nominal
b. Real
Effective interest rate paid to savers.
Local interest rates, annualized:
a. Interbank lending rate.
b. Ninety day CD rate
Annual inflation rate.

**Income and Expense Information**

Income:
a. Interest and fee income from loans (do not include accrued uncollected interest on non-performing loans)
b. Income from investments
c. Other operating income from financial services
d. Total ordinary operating income (a+b+c)
Expenses:
a. salaries and benefits
b. Other administrative expenses
c. Loan losses
d. Interest and fee expense by funding source.
e. Total ordinary operating expense (a+b+c+d)
Net operating profit (Operating income less operating expense).
Other Income and expenses:
a. Non operating income
b. Non-operating expense
c. Donations toward operating expenses
d. Donations toward specified capital items (loan fund, equity, fixed assets.)

**Balance Sheet Information**

Assets:
a. Cash on hand and in banks

<ul style="list-style-type: none"> <li>b. Mandatory reserves</li> <li>c. Short term investments</li> <li>d. Loans: <ul style="list-style-type: none"> <li>i. Loans outstanding</li> <li>ii. Loan loss provisions</li> <li>iii. Net loan portfolio outstanding (Outstanding less loan loss provisions)</li> </ul> </li> <li>e. Long-term investments</li> <li>f. Fixed assets (less depreciation)</li> <li>g. Other assets</li> <li>h. Total assets (a+b+c+d.iii+e+f+g)</li> </ul>
<p>Liabilities</p> <ul style="list-style-type: none"> <li>a. Savings and time deposits from target group clients</li> <li>b. Other deposits</li> <li>c. Loans from central bank</li> <li>d. Loans from other banks</li> <li>e. Other short-term liabilities</li> <li>f. Other long-term liabilities</li> <li>g. Total Liabilities (a+b+c+d+e+f)</li> </ul>
<p>Equity</p> <ul style="list-style-type: none"> <li>a. Paid-in equity</li> <li>b. Donated equity</li> <li>c. Retained earnings</li> <li>d. Other capital accounts</li> <li>e. Current year profit or loss</li> <li>f. Total equity</li> </ul>
Liabilities and Equity (Should equal total assets)