

MID-TERM TECHNICAL REVIEW

FOR

MICROSTART YEMEN

**Prepared by the Special Unit for Microfinance, UNCDF
For UNDP, Yemen**

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ACRONYMS

UNDP	United Nations Development Programme
UNCDF	United Nations Capital Development Fund
ICSSW	Charitable Society for Social Welfare (El Islah)
SOFD	Social organization for Family Development
WASD	Women's Association for Sustainable Development
TWU	Ta'iz Women's Union
NGO	Non Governmental Organization
MLSW	Ministry of Labor and Social Welfare
MIS	Management Information System
MFI	Microfinance Institution
MSY	MicroStart Yemen
BOD	Board of Directors
ITSP	International Technical Service Provider
LTSP	Local Technical Service Provider
ABA	Alexandria Business Association (ITSP)

Introduction:

The MicroStart Yemen technical review was conducted in June 2001 by Ahmed Abou Elyazeid, Micro Finance and Small Business Development Expert and Pan Yemen Consult. The findings of the mission were formulated and conveyed in this report with the assistance of Deena Burjorjee, Programme Officer, SUM UNCDF. The purpose of this mission was to review the progress made under MicroStart Yemen to date and to make recommendations for enhancing its performance in the remaining 17 months. The mission gave special attention to MFI institutional and financial performance, the effectiveness of the ITSP's efforts to build the capacity of the Local Technical Service Provider and the LTSP's ability to provide adequate technical follow-up and support in the field. The mission has drawn some lessons and made recommendations to enhance project performance through the remaining 17 months.

As the MicroStart project in Yemen is a component of UNDP's broader Support to the Yemen National Poverty Alleviation Programme, the findings of the this mission will be fed into the Mid-Term Evaluation of the larger Poverty Alleviation Programme being undertaken simultaneously.

1. Background:

On June 18, 1998 The MicroStart project was signed by the government of Yemen as a pilot component of The Support to Yemen National Poverty Alleviation Programme. The main objectives of this project were:

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

Alexandria Business Association (ABA) was selected as the International Technical Service Provider (ITSP) for the project, who in turn subcontracted Pan Yemen Consultant as their local counterpart (LTSP). Three local NGOs have participated in the project, the Charitable Society for Social Welfare (El Islah), the Social Organization for Family Development (SOFD) and the Women's Association for Sustainable Development (WASD). The fourth grant recipient was the Ta'iz Women's Union; however, the project was removed from its umbrella organization due to internal disputes over fund management issues and is currently operating as a separate project. All of the programmes have been disbursing loans for one year and have received Micro Capital Grants totaling US\$150,000 except for The LTSP has received \$67,000 of its \$115,000 contract leaving a balance of \$48,000 and ABA has received \$300,000 of its total \$500,000 contract.

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1. EXECUTIVE SUMMARY

1.1 Key Data

Table # 1: Summary of Key Programme Data

	ITEM	ACTUAL		PROJECTED	
		Dec-2000	May-2001	Dec-2002	Dec-2003
1.	Number of currently active loan clients	555	2,122	7856	NA
	Percentage of female clients	84%	91%	95%	NA
2.	Total outstanding loan balance (US\$)	54,115	166,876	1,519,540	NA
3.	<u>Average loan balance per client</u>	97.5	78.6	193	NA
4.	Number of voluntary savings clients	-	-	-	-
5.	Total balance of voluntary savings accounts (US\$)	-	-	-	-
6.	<u>Loan loss rate</u>	0.0%	0.0%	2%	NA
7.	<u>Delinquency rate (portfolio at risk basis > 1 day late)</u>	0.0%	1.21%	2%	NA
8.	Year-end free market exchange rate	165	168	NA	NA
9.	<u>Per capita gross domestic product (US\$)</u>	260	260	260	260

1.2 Summary Conclusions

MicroStart's added Value to the Sector

The MicroStart project in Yemen has succeeded in establishing a solid foundation for sustainable microfinance mechanisms capable of providing financial services to the economically active poor in the local communities. In a short period of time, Four MFIs have been selected, equipped with the necessary management and financial systems, organizational structures and effective computerized loan tracking systems and trained in the essentials of microfinance lending. These MFIs now have the capacity to provide micro financial services to thousands of micro economic activities located in very poor communities in Yemen using a range of methodologies, including Islamic lending practices being piloted under the project. The experience gained from implementing the MicroStart project in Yemen has confirmed the flexibility, effectiveness and appropriateness of its strategy, which has allowed for a diversity of approaches to be tested. With clear evidence from the field, through the MicroStart project strategy, a microfinance best practice model has been transferred to Yemen. Furthermore, random sample interviews conducted with project clients revealed that the project succeeded in reaching its target groups, and in achieving tangible results in increasing their income.

MicroStart has been particularly important in Yemen for its contribution to both gender equity and professionalizing the delivery of microfinance services in the country. Under MicroStart 1,978 women are now receiving microfinance services (87% of the total number of clients) compared to 17% being reached by programs such as the Social Fund. Efforts by ABA to establish lending relationships between participating MFIs and local banks has proven extremely innovative in the Yemeni context and provides a model for a commercialized approach to microfinance delivery in Yemen.

Additionally, MicroStart's approach of building up young intermediaries is not something widely done in Yemen and has contributed significantly to the pool of operators who are potential investments for other donors wishing to replicate UNDP's initiative.

Effectiveness of the ITSP

The selection of ABA as the International Technical Service Provider (ITSP) for MicroStart Yemen is one of the main factors that has contributed to the project's success to date. This is due to ABA's experience in managing microfinance projects in the region based on best practice and the communication skills and effectiveness of its staff. Transfer of knowledge is evident from the level of professionalism observed in the participating MFIs who started from a zero base of experience and now have a highly trained and committed staff, efficient operating systems and a solid client base upon which to build. In spite of ABA's solid performance to date, a number of institutional weaknesses among participating MFIs were identified during the mission, which will require ABA's intensive follow up during the remainder of the project. These areas have been enumerated in the Institutional Factors section of this report with recommendations for follow up clearly outlined under Recommendations for Future Implementation.

Efforts to build the capacity of the LTSP have been less successful in spite of intensive training efforts (on the job and through formal courses) and repeated involvement of the Pan Yemen team in MicroStart operations. After a year and a half of project implementation, the

LTSP is still perceived by the MFIs (and Pan Yemen itself) as an administrator for ABA, rather than a provider of technical assistance. In order to actively engage Pan Yemen into the technical aspects of the job, ABA and Pan Yemen should jointly review the LTSP TOR and agree upon a workplan and capacity building programme that will enable Pan Yemen to more substantively add to the implementation process.

MFI Financial Performance

The MicroStart MFIs are characterized by extremely high repayment rates (over 98% for most organizations) and portfolio at risk of less than 2%. They have made excellent progress in terms of operational efficiency, reaching between 50-119% cost recovery within the first year of operations and financial self-sufficiency of between 22-39%. They are all projected to break even by the end of 2002. The increase in the average loan size of three of the participating MFIs since the start of the project reflects an adjustment to clients' actual borrowing needs. Initially, loan sizes were kept conservatively small to get clients use to the project and lending methodology and to gradually build up their repayment discipline. Over time SOFD, WASD and Ta'iz have gradually increased their loan sizes better meeting their clients' needs while at the same time maintaining a high repayment rate. The importance of this approach is illustrated by the case of CSSW, which is now experiencing the reverse trend. Having started with loan sizes almost three times those of its competitors, CSSW experienced serious delinquency problems, which has forced it to suspend lending activities in one of its main areas. While CSSW is now lowering its loan sizes to bring it more in line with clients' actual debt capacity, its average is still significantly higher than the others. All of the MFIs have exceeded their outreach targets for the project having reached over two thousand active clients by the end of May 2001. Because growth has exceeded expectations, the MFIs have already absorbed the \$150,000 available as MicroCapital Grants and will need more loan capital if they are to continue to grow and increase their impact in terms of client outreach.

The income statements reveal that two of the MFIs (Ta'iz and SOFD) are not implementing a policy of loan loss provisioning. In spite of the fact that they have been experiencing very low Portfolio at Risks, ABA should work with them to establish a provisioning and write off policies based on past financial performance and historical repayment trends.

In terms of overall efficiency, MFI performance varies greatly with WASD credit officers having a rather high caseload for individual lending of 214 clients per credit officer, Ta'iz at 131 active clients per credit officer and Islah performing with a much more limited caseload of 57 clients per credit officer (actually down from rates last year). SOFD which is using a group lending methodology is also exhibiting a relatively low productivity level with a caseload of 97 clients per credit officer. Current industry performance reflected in the most recent MicroBanking Bulletin (April 2001) suggest that productivity levels of 230 clients per credit officer for individual lending and 270 clients for solidarity group lending can be reasonably achieved. Trends in this direction should be expected.

Three of the MFIs have managed to reduce their administrative costs considerably, enhancing their operational efficiency to levels of between 15% and 19%. While SOFD has made progress as well, reducing its operational efficiency level from 66% to 34%, its limited

outstanding loan portfolio keeps it from further enhancing its operating efficiency. A gradual increase in outreach will help bring this cost ratio down.

Ongoing MFI Technical Assistance Needs

While the four programs have made extensive progress in terms of capacity building over the last year and a half, there are still areas of operations in need of further support, such as:

- Lack of ownership and capacity of MFI Boards
- Lack of distinction between board responsibilities and management
- High client dropout rates and client screening problems
- Lack of local experience with basic MIS trouble shooting
- Lack of regular external audits
- No clear market strategy or marketing surveys
- Unclear understanding of incentive schemes

Ta'iz NGO

The program in Ta'iz has been operating on a project basis for the last year without any formal institutional structure. In spite of this, it has had excellent results with 655 clients at an average loan size of \$66. However, in order to ensure sustainability of its current microfinance activities, the project must be institutionalized. A number of possibilities have been explored such as finding an umbrella organization, creating a single purpose NGO or establishing a private share company.

As per Advisory Board recommendation, a team composed of UNDP, ITSP, and Government representatives was appointed to review the situation in Taiz and met with various NGOs to discuss the potential for and interest in creating an umbrella organization. One organization expressed willingness to oversee the project under Islamic lending practices. However, given the early stage of development of the microfinance sector in Yemen, it is felt that all possible options should be explored before any final decision is made. For this presents an excellent opportunity to set an example for other operators in the country.

Rather than promoting another multi-service NGO with a charity orientation and difficulties grasping the need for a business approach to development, UNDP and the GOY can promote a professional, single purpose MFI (the trend in microfinance) capable of reaching massive scale on a sustainable basis. This has broad policy implications for the sector as a whole by setting a model for sustainable development of microfinance in Yemen and the region more broadly.

Recommendations for Future implementation

The ITSP should reevaluate the role of the LTSP and explore alternative strategies for engaging Pan Yemen in technical assistance delivery, if possible, or canceling the remainder of the LTSP contract altogether. Should ABA decide to continue working with Pan Yemen, it should only be after a thorough assessment of the remaining budget and staffing structure, and based upon clearly articulated Terms of Reference outlining the roles and responsibilities

of both the LTSP and ABA. ABA should also establish a workplan of activities for the LTSP in collaboration with Pan Yemen for the remainder of the project. This plan should clearly outline Pan Yemen's responsibilities as a local technical service provider (including new backstopping duties for MIS) as well as the staff's training needs and efforts to be made by ABA to ensure Pan Yemen's ability to carry out the tasks assigned.

UNDP should use the undisbursed grants under MicroStart to support the continued growth of these MFIs and every effort should be made to share information on the MicroStart performance, engaging other donors on the MicroStart Advisory Board to garner further support for future replication of the project.

The ITSP needs to review the initial work plans included in the grant proposals to accommodate the new changes of the project progress and structure. **Cash flow projections, capacity building plans and MFI budgets need to be modified and updated** in conjunction with MFI staff. A **strategic planning exercise** that will work with MFI staff to build a common vision and objectives for the organization will help ensure the utility of the plan as a management tool. Specific activities for the remainder of the project should include:

- Board trainings and sensitization to microfinance issues to institutionalize the vision of dynamic leaders
- Training of Trainers for new credit officers to ensure effective and consistent transfer of institutional vision, lending technologies and operational procedures
- Specific management training session on financial management, strategic planning, cash flow projections, as needed
- Training of staff or LTSP on the technical aspects of MIS trouble shooting to avoid delays arising from the lack of a local ITSP presence
- Conducting of external audits on a yearly basis to ensure of the transparency of the financial records of the MFIs
- ITSP support in establishing market strategies as part of the strategic planning process

Research should be done on the legal and regulatory environment in Yemen and the range of institutional options available for formalizing the Ta'iz operation into a formal microfinance institution. Resources should be allocated for this activity and a timeline agreed upon to ensure the timely execution of this process.

1.3 Micro Start Strategic Partners

The International Technical Service Provider (ITSP)

Alexandria Business Association (ABA) was selected as the MicroStart Yemen technical service provider having been recognized as one of the best practice micro finance models in the sector. The main role of ABA under their agreement with UNDP is to provide participating MFIs all necessary technical assistance and transfer of know-how and skills of their recognized best practice operation. While ABA has made big strides in terms of capacity building of local partners, gaps still exist in service delivery resulting from the lack of a permanent presence on the ground. Concerns over cost efficiency during ITSP missions and busy mission schedules often result in limited time for field visits and addressing detailed operational concerns and or questions of MFIs.

Since ABA visits occur on a quarterly basis, efforts must be made to ensure that the team spends at least two days on average in each MFI to talk with staff and respond to different problems and issues raised during the quarter.

The Local technical Service Provider

PAN Yemen was selected by the ITSP as the LTSP for MicroStart Yemen. PAN Yemen was established in 1988 as a consulting organization with specific specialization in environmental issues. In 1995, the organization leader expanded his consultant business to include capacity building and management. PAN Yemen implemented several capacity building programs for the government, donors and the private sector. In January 2000, PAN Yemen has been contracted by ABA to assist in providing the essential technical assistance to the MFIs in Yemen. Based on this contract 2 additional permanent staff members were added to Pan-Yemen work force and made the total staff 4 persons including the executive manager and an accountant.

The main roles of PAN-Yemen under MicroStart sub contract agreement are to:

1. Provide local TA to the MFIs as needed
2. Monitor the Project progress
3. Collect and prepare the required field reports

Two employees from PAN-Yemen received training in Boulder and in Egypt and the ITSP involved the LTSP staff in most of their field visits and training activities. Despite the intensive technical assistant provided to the LTSP by ABA during the past period, Pan Yemen has failed to take initiative in playing a more proactive role in the technical service delivery, and as such is seen by the MFIs as an administration representative for the ITSP.

It is highly recommended to further analyze the capacity of the LTSP, and to set an overall capacity building strategy, if it is still feasible. Otherwise, the ITSP should explore other alternatives to ensure the sustainability of the local technical service provision. One of the possible alternatives is to upgrade the skills of one of the MFIs to be able to take the role of the local technical service provider in the near future.

2. INSTITUTIONAL FACTORS

2.1 Legal Structure and History

MicroStart Yemen – currently operates under the legal auspices of three NGOs, SOFD and Islah in Sana'a, and WASD in Aden. The fourth MFI programme was initially established under Ta'iz women union, however, currently works as independent project under the direct supervision of the ITSP and the LTSP. The ITSP is exploring the different alternatives for hosting the project under appropriate institutions.

WASD was registered as an NGO in March 1998, where it was initially established as one of the productive family program centers in 1995. Under their constitution, they can provide financial and non-financial services to poor women in the local communities within Aden province. They have accumulated good experience in women vocational training and program management prior to being involved in the management of the microfinance programs. Before their involvement in the MicroStart project, WASD piloted a successful microfinance program for which it was able to raise the funding from UNFPA and MOLSA. In September 1999, they signed a grant proposal agreement with UNDP and received the first tranche of the fund in February 2000. WASD was also successful in leveraging additional donor funding with UNDP's initial support getting a grant from the AGFUND in the amount of \$133,000 to further expand its new line of microfinance business. This is the first example of small-scale replication of UNDP's efforts under MicroStart, which will contribute, to the impact of UNDP's efforts on the ground. Future replication is expected as the MFIs continue to demonstrate increased performance. As of May 31st, **WASD** has the following sources of funding:

Project Name	Source	Amount	Terms
MicroStart	UNDP	\$150,000	Grant for loan capital and operating costs
Micro and small enterprise development	AGFUND	\$133,000	Grant for loan capital and operating costs
MicroStart	Yemen Commercial Bank	\$100,000	Line of credit @ 16% on CD 1:1 leverage

SOFD was founded in 1990 as a non-governmental organization working in the governorate of Sana'a. SOFD's Chairwomen has a clear vision that drives the organization to develop several programs that would contribute to the poverty alleviation of the very poor local communities. MicroStart project is one of the main programs believed to directly enhance the economic conditions of the poor. The absence of other board members during the past few years has made it difficult for the organization to have proper governance. Despite the governance and Board problems, in a short period, they have been able to get their operational systems set up, hire and train staff, and distribute loans to their clients. SOFD also provides their clients with other non-financial services including various vocational training activities.

As of 5/31/01

Project Name	Source	Amount	Terms
MicroStart	UNDP	\$150,000	Grant for loan capital and operating costs
MicroStart	Andu Suez Commercial Bank	\$ 80,000	Line of credit @ 18% on CD 1:9 leverage

CSSW (ISLAH) was founded in 1990 to provide charitable and social assistance to the poor in most of Yemen provinces. They are one of the biggest organizations working in Yemen with 22 main branches and other sub local branches located in the poor communities. ISLAH has the proper infrastructure to achieve a massive outreach in most of Yemen communities. The Board is made of strong leaders who have solid networks with the government authorities and donors. The MicroStart project made a great impact on the organization's vision by attracting the leadership's attention to the importance of micro finance services as an effective mechanism for poverty alleviation.

CSSW is the only NGO under the program piloting Islamic lending methodologies, which if successful could provide a model to other operators in the country. They are currently studying the possibilities of implementing the project in all of their branches. The know-how and the skills learned from the ITSP has made a solid impact on the management, however, further technical assistant will be needed prior to taking any steps for expansion. UNDP and its counterparts should further study this opportunity to expand the project to most of the poor communities in Yemen, in the event that proper and continuous technical assistant is provided to the organization. The ITSP has solid experience in creating new branches and in leading such expansion.

Project Name	Source	Amount	Terms
MicroStart	UNDP	\$150,000	Grant for loan capital and operating costs
MicroStart	Kuwait International Development Foundation	\$ 5,000	Grant for loan capital
MicroStart	Islah Association	\$ 17,000	Loan, zero interest rate

The fourth grant recipient was the **Ta'iz Women's Union** however the project was removed from this umbrella organization (currently operating as a separate project) due to internal disputes over fund management issues. The ITSP in cooperation with the UNDP-Yemen are currently exploring institutional alternatives available for the program, such as creating a private non-financial institution, Shareholder Company, non-for Profit Company or single purpose NGO. The advantage of creating a private institution is that many of the governance issues and ownership problems inherent in NGOs (such as overlapping responsibilities between the board and management staff, lack of ownership and accountability, etc.) can be avoided from the outset. As no other single purpose MFI exists in Yemen, the successful transformation of this program into a licensed financial institution would be extremely innovative and important for the future development and professionalisation of the sector.

Project Name	Source	Amount	Terms
MicroStart	UNDP	\$150,000	Grant for loan capital and operating expenses
MicroStart	Commercial Bank	\$ 98,000	Line of credit @ 18% on CD 1:.9 leverage

2.2 Ownership/Board of Directors

The majority of the MFIs have a general assembly and are governed by 9-11 board members. In Yemen, the chairperson typically is the key leader of the organization with the other board members being either passive or making a limited contribution.

WASD has 25 female members in its General Assembly and is governed by 9 female board members. The board members possess different backgrounds and experiences. The majority of them hold university degrees and a few of them have middle school educations. They have a common vision towards poverty alleviation and the enhancement of women's conditions in poor local communities. The Board members hold monthly meetings to discuss the project issues and to resolve any implementation problems. They have distributed the monitoring function among themselves and share their experiences during the monthly meetings. Some of the Board members are also staff of the different projects with the chairwoman acting as the manager of the MicroStart project. There is no clear line between the board responsibilities and the management, which makes a potential of create a conflict of interest. To date, there is no evidence that this type of arrangement has encumbered the project implementation, but the ITSP should closely monitor the situation to avoid future tensions. The chairwoman is a strong leader with remarkable communication and leadership skills. She is the founder of the organization and has a wide network and connections with the community leaders, government officials and donors.

SOFD is made up of 31-member general assembly and is governed by 9 members. Currently, the chairwomen are the only leaders of the organization, with some of the members having left due to loss of interest and the others considering themselves as passive members.

2.3 Alliances

ABA has helped the participating MFIs forge funding relationships with local banks to build up continued and future access to commercial sources of funding. Most MFIs have taken their grants and deposited them in certificates of deposits in dollars (protecting against potential devaluation) with an arrangement for an overdraft facility up to 100% of the deposit. Interest earned on the CD is 5.5%, with a bank lending rate on the overdraft of up to 18%. This has instilled a commercial orientation in many of these MFIs from the beginning as they are paying the full cost of their funds.

In addition, ISLAH and WASD have been able to build strong alliances to date with other organisations, government authorities and donors.

ISLAH has built several partnership agreements with different NGOs in Yemen and has implemented different development programs through such alliances. ISLAH has built strong networks with different international donor organisations and has succeeded to raise funds for its projects including the MicroStart loan capital.

WASD has built several partnerships with other local NGOs, and has been able to expand its outreach in different poor slum areas in co-operation with such NGOs who assist with client identification and outreach. There is great potential for WASD to play the role of an APEX type institution for other MFIs in the sector, once it has refined its own lending operations.

2.4 Human Resource Management

Table # 4 : Personnel Statistical Summary as of May 2001

	SOFD	ISLAH	WASD	Ta'iz
Number of total staff , end of period	9	13	7	9
Number of staff hired during period	9	13	7	9
Number of staff who left during period	1	0	0	3
Turnover rate (staff who left over avg. staff)	11%	0	0	33%
Number of loan officers , end of period	4	8	3	5
Percent loan officers of total staff	44%	61.5%	42%	55.5%

The table indicates that the percentage of field staff to total MFI staff is not in agreement with the best practice requirements optimally set closer to 75%. This due to the fact that all the four MFIs are still in their developmental stage where credit officers are being slowly hired and trained. As the MFIs build their capacity to effectively manage their loan portfolio, additional credit officers will be hired to take on the growth.

The high turnover in the Ta'iz project was due to the misbehavior of two credit officers during a workshop conducted by the ITSP in Egypt. In case of SOFD, the credit officer left her job to get married.

2.5 Structures, Profile and Recruitment:

Each MFI has staff consisting of a project manager, 3-5 credit officers, an accountant, treasurer and MIS secretary. The majority of the credit officers are women selected from the same communities where they work giving them the opportunity to know their clients better. The majority of the staff have an adequate educational background, which assisted them to absorb the knowledge and skills transferred from the ITSP.

At the beginning of MicroStart, new credit officers received direct training from ABA who was involved in the recruitment process. However, once the staff started to turn over new recruits had to rely on available internal technical resources for their training and orientation needs.

This has proved insufficient, reflected in confusion over loan methodologies and operating procedures in the field. A training for trainers workshop and a trainer guide for the MFIs manager and selected credit officers is needed to ensure the sustainability of providing the newly hired credit officer with the essential knowledge and skills.

2.6 Salaries and Incentives

The credit officer's salary is divided between a basic salary and a bonus. The basic salary range between YR 13,000-15,000. The number of active clients determines the bonus as long as the repayment rate is above 98%. The management and the support staff also receive an incentive based on the overall performance of the project. However, discrepancies between stated policies and realities on the ground suggest the need for ABA to examine the MFIs' understanding of their incentive schemes to ensure their proper functioning.

2.7 Recruitment and Training:

All MFIs hired their staff from the local community of their geographical coverage. The general policy is to hire the credit officer from the same community they are going to serve. The staff received the basic training from the ITSP. The training for the credit officers covered loan policy and procedures, client selection and loan processing. The original credit officers went to Egypt and received further training at the ABA office and got the chance to see best practice models at work in the field. Later credit officers have received more limited training passed down to them from their colleagues. There is no clear training plan for the MFIs, which happens during the periodic visits of the ITSP. Some of the financial managers are more advanced than their colleagues but in all cases a clear demand for further training in financial analysis and preparation of financial statements is required. The organization leaders have a good knowledge about micro finance management but they are also in need of further training on strategic planning, basic micro finance financial analysis, cash flow projection and break-even analysis.

2.8 Financial Manager

The micro finance institutions have accountants and treasurers who take responsibility of the financial management under the direct supervision of the project manager. There is adequate segregation between different financial roles to ensure proper internal control. The Accountant is responsible for keeping track of all financial transactions and maintains different accounting ledgers. He is also responsible for issuing bank checks to cover the loan requirements based on authorization from the project manager. The treasurer is responsible for cashing the checks, disbursing the loans to the clients based on the loan agreement, collecting the installments and depositing them in the Bank on a daily basis. The treasurer maintains a cashbook that includes all transactions on a daily basis. One MFI (WASD) has contracted an external auditor to make monthly audits on all the financial transactions and to assist the accountant in the development of the monthly trial balance. All MFIs should follow this model to avoid potential mistakes that may result from the limited experience of their financial staff.

2.9 Leadership

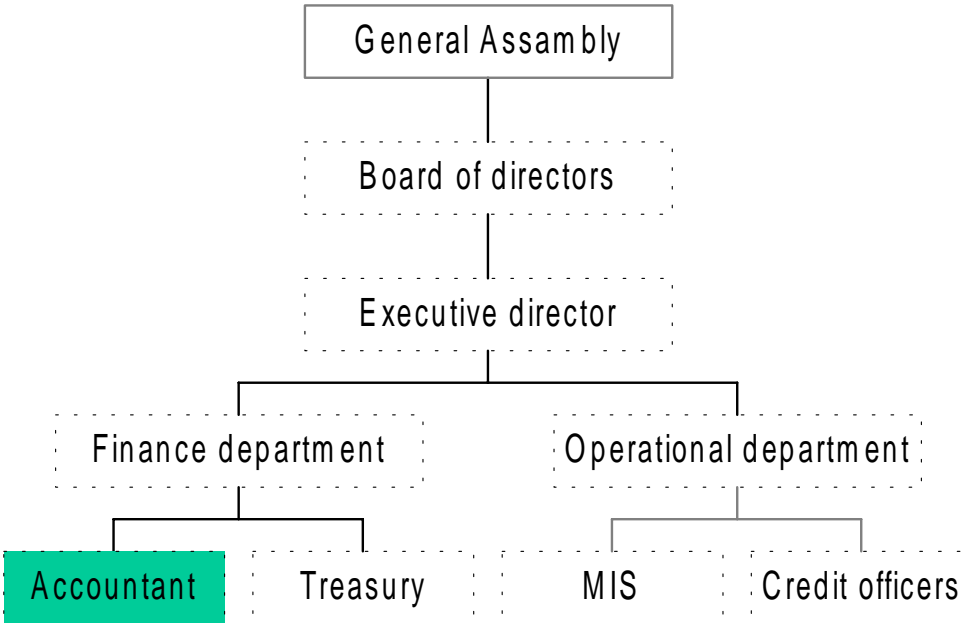
In the case of WASD the MFI leader/manager is also the chairperson of the organization. This creates the potential for conflict of interest as the management and oversight function is being carried out by the same person. In the case of SOFD, the chairwoman has given the project manager the full responsibility of managing the program with some close monitoring from her side. However, the other board members no longer hold meetings and some of them have left the organization. Should the Chair leave there is the risk of a change of vision with regard to the orientation of the microfinance program (i.e. target group, cost recovery, interest rates, etc.). In case of ISLAH, there is a clear line between the project management responsibilities and the board. The Board is thinking more about the overall issues such as outreach, expansion and funding. While this governance issue has not presented a problem thus far, it is important that attention be paid to Board capacity building and ownership issues to ensure that it is not a problem in the future.

2.10 Work Environment

Overall, the staff is very dynamic and committed to their work. The relationship between the staff and the management seems to be friendly and based on respect. The staff has appraised their leaders in all the MFIs and the general work environment seems to be social and friendly. Field visits to some of the clients have indicated the difficulties of reaching the clients in rural remote areas that lack means of transportation other than walking. The relationship between the MFIs and the ITSP is a good one, where the MFI leaders and staff appreciate and respect ABA staff. However, it is often felt that the MFIs do not get enough intensive technical assistance in the field and must often wait a long time for replies to their requests for help.. This is due in part to the perception of MFIs that the LTSP does not play a significant technical assistance role and instead is merely a monitoring body collecting data on the project.

Organizational structure

A typical organization structure for all the MFIs is shown in the following diagram:



2.11 Management Information System

2.11.1. Hardware and Software.

The ITSP has developed and installed an efficient bilingual (English and Arabic) loan tracking system at each MFI main office, purchased by the MFIs under the MicroStart grant proposal budget. Initially, the accountants were responsible for maintaining the MIS data and reports, and specialist secretaries were hired and trained in the process of data entry and report generation. Most of the MFIs have experienced difficulties in running the system and have had to stop processing the loan data for weeks, due to lack of local experience with basic MIS trouble shooting. It is highly recommended for the ITSP to train a local staff member on the technical aspects of MIS trouble shooting to avoid the delay that might happen again due to the non-permanent presence of the ITSP. The LTSP within its current capacity is unable to provide such technical assistance and there is a great need for alternative solutions.

Reports

The MIS system is capable of producing several progress and monitoring reports. Among such reports are:

1. Loan Status report, which includes all loan distribution data for specific periods of time classified by different categories.
2. Summary performance report, which include all the loan portfolio performance data.
3. Portfolio at risk report
4. Arrears report
5. Loan officer client report
6. Client performance report
7. Loan analysis report and others

In addition to the computerized reports, the MFIs maintain manual records of the credit officers' field visit and management monitoring reports. On a monthly basis, each micro finance institution provides the ITSP with all the required reports to be consolidated and analyzed prior to entering data into the MicroStart Internet MIS system.

2.12 Internal Control System, Audits and Supervision

All MFIs are implementing the same procedures for financial internal control system. The financial functions are disaggregated among the accountant, the treasure and the project manager. The accountant writes the loan checks based on authorization from the project manager. The treasurer cashes the bank checks and distributes the loans to the clients based on the loan contract. The treasurer collects the loan installments and deposits it into the project bank account on a daily basis. The MIS secretary updates the clients records based on the loan repayment receipts. The reports of the MIS should match with the financial records of the client's ledgers. One MFI (WASD) has contracted an external auditor to conduct a monthly audit on the financial transaction and to produce a trial balance based on the findings. It's recommended that external audits be conducted on a yearly basis to ensure of the transparency of the financial records of the MFIs. The UNDP country office with the cooperation of the ITSP needs to arrange for such audits. The CGAP micro finance audit guide could be used as a reference guide for the auditing firm.

3. SERVICES / CLIENTELE / MARKET

3.1 Services

3.1.1 Financial Services

Two of the MFIs (WASD and Ta'iz) provide their clients with traditional individual loans, with the possibility of repetitive loans in case of good repayment. SOFD provides a mix of individual and group loans, depending on client demand, the latter requiring 3-5 women to guarantee each others loans. The loan sizes differ from one MFI to another ranging between YR 8,000 to 20,000 for the first time borrowers. The maximum limit of the subsequent loan is almost double. The loan process starts by filing a loan application with the assistant of the credit officer. Then the credit officer conducts a field visit to the client's business location where s/he conducts a loan appraisal of the activity to be financed. The project manager reviews the loan application and ensures the fulfilment of the collateral requirements (a guarantor from the client's local community) and decides either to visit the client or to approve the loan. The loan contract indicates the value and the number of instalments and loan cycle, which is almost 6 months. The interest rate on the loans is 28% flat rate.

CSSW is piloting the use of the Murabaha lending methodology based on Islamic financial principles. The main difference between Murabah methodology and traditional individual lending is the involvement of the implementing organisation in the purchase and resale of the client's working capital needs. With Murabaha methodology, the interest rate is replaced by a profit margin added to the cost of the goods. The credit officer goes with the client to the market place, where the client buys his/her business needs based on the approved loan. The credit officer pays for the goods, which he then resells to the client after adding a profit margin "Murabaha" of 20%. The client signs a contract stating the total value of the loan, the repayment period, and the value of each payment instalment. The goods remain the property of the NGO until the loan is fully repaid. If clients are in need of cash to manage their liquidity needs, loans are available as part of a package, where an extra market is charged on the goods (in addition to the 20% to cover the extra administrative expense).

The advantage of implementing Murabaha methodology as stated by CSSW's management is that it ensures the loans are being used for productive purposes. More importantly it meets the preferences of CSSW's target group who, perceive the Murabaha lending methodology to be more acceptable to their religious beliefs than traditional microfinance lending. Within a short period of time, the project management has been able to generate enough income to cover 119% of their operational costs. Suggesting that while this methodology requires more time and effort from the project staff (increasing operating costs) it shows great promise for providing a sustainable service delivery methodology.

3.1.2 Outreach

The following table provides a summary of the MFIs outreach:

MFI	As of December 2000	As of May 31, 2001
1. <u>WASD:</u> Number of Active Loans Percentage of clients who are women Average loan size in YR Average loan size as a percentage of per capita GDP	54 100% 29,074 62%	642 100% 22,150 47.73%
2. <u>ISLAH:</u> Number of Active Loans Percentage of clients who are women Average loan size in YR Average loan size as a percentage of per capita GDP	453 49.27% 35,609 76.7%	437 66.76% 36,032 77.61%
3. <u>SOFD:</u> Number of Active Loans Percentage of clients who are women Average loan size in YR Average loan size as a percentage of per capita GDP	33 100% 19,455 41.9%	388 100% 12,276 26.45%
4. <u>TA'IZ:</u> 1. Number of Active Loans 2. Percentage of clients who are women 3. Average loan size in YR 4. Average loan size as a percentage of per capita GDP	15 100% 19,000 40.9%	655 100% 15,345 33%

3.2 Clientele

3.2.1 Market

Each MFI has identified its own market as those active micro economic activities located within their geographical coverage. Each MFI conducts an initial market assessment before deciding on expanding the project services into new communities. There is no clear market strategy and no marketing survey has been conducted so far. The ITSP needs to support the MFIs in establishing a market strategy and include the results in a long-term strategic plan.

3.2.2 Clients and Poverty Targeting

The MFIs have been successful in selecting most of their clients who represent the economically active poor with an average family size of 7 persons and a monthly income of less than \$ 30 a month. In several cases the micro economic activities are the only source of income for the family. The following table indicates a summary of the interview conducted with some of the project clients.

Sample of the project client's micro economic activities

Client	Business Type	Loan Size in YR	Annual R.O.I	MFI
1. Om Aymen	Vegetable seller	10,000 20,000	1200%	WASD
2. Zakya Saleh	Garment trading	20,000	120%	WASD
3. Radya Ali	Garment trading	20,000	110%	WASD
4. Yasmen Ahmed	Bicycle renting	20,000	1080%	WASD
5. Nazera Hazem	Grocery	10,000	600%	Tai'Z
6. Safya Balahy	Knitting	10,000 20,000	1500%	Tai'z
7. Om Mohamed	Knitting	20,000	1200%	Tai'z
8. Un identified	Garment production	60,000	260%	Ta'iz
9. Heder Elkadmi	Grocery	25,000	180%	Islah
10. Abdo Hussein	Garment trading	30,000 60,000 60,000	240%	Islah
11. Nahma Ahmed	Grocery	30,000 60,000	200%	Islah

4. Strategic Objectives

4.1 Mission and Objectives

The leaders of the MFIs have a clear vision, which influence and motivate the project staff. They have articulated several objectives to improve the economic conditions of the active poor living in the local communities within their geographical coverage. WASD and SOFD leaders believe strongly in sustainability of their programme and have ambitious plans to expand the project services to other local communities including those outside their provinces. They are also keen on covering their operational and financial costs as soon as possible and exploring different ways to reduce the cost. They have been inspired by the way ABA has managed its own programs in Egypt and are looking forward to being another ABA in Yemen. The MFI teams are made up of young graduates full of enthusiasm who are proud of the work they do and the successful stories of their clients. The ITSP needs to assist the MFIs to set their strategic and business plans based on the experience gained during the past period of implementations.

4.2 Objectives for the near to medium term.

The initial plans of the grant proposals need to update to accommodate the new changes of the project structure and the progress made in loan distributions. It is highly recommended that the ITSP work with the MFIs to review the initial plans and cash flow projections and to conduct a SWOT analysis exercise. The output of the exercise will form the basis for developing strategic plans for each MFIs based on their capabilities and goals. In some cases budgets may need to be amended to accommodate the essential requirements of the coming stage of implementation. The ITSP should think about integrating a new line item for research and development, which MFIs can use for conducting periodic market research, field visits and local training. This new line item should be part of operational costs and be reflected in the interest rate charged on the loans.

4.3 Performance to Date

	SOFD		ISLAH		WASD		Ta'iz	
	Dec 2000	May 2001	Dec 2000	May 2001	Dec 2000	May 2001	Dec 2000	May 2001
1. Total Outstanding loans (US\$)	1,225	19,386	49,543	46,978	2,776	57,168	571	43,344
2. Number of Active Loans	33	388	453	437	54	642	15	655
3. Average Loan size (US. \$)	37	50	109	107	51	89	38	66
4. Total balance of time deposit	29,812	29,812	56,200	111,230	45,293	101,432	32,775	NA
5. Number of Staff	8	9	10	13	6	8	6	9

ANNEX 1

List of interviews and meetings

Ministry of Social and Labour Affairs:

Mr. AbdelKriem Al-Arhaby
Minister of Social and Labour Affairs

UNDP office in Sanaa

Boualem Aktouf, Deputy Rep. Representative
Abdo Seif, Team Leader, UNDP, Team III
Abdulbasit Ishak, PO/Task Manager, UNDP, Team III

PAN Yemen Consultant

Mr. AbdelRahman / General Director
Mr. Abdo Hamoud/ Project officer
Ms. Fayza Abdo Saeed / Project officer

SOFD Board and staff:

Ms. Arwah El-Sharghy / Project manager
Mr. Abdallah Mohamed / Accountant
Ms. Wadah Ahmed / Treasury
Mr. Fahman Mohamed / MIS specialist
Ms. Afrah, Kawkab, Ishrak and Inisa / Credit officers

Islah Association:

Dr. Hamid Zayed / General secretary
Mr. Gamel Ahmed / General Manager
Mr. Fouad AbdelLatef / Operational manager
Mr. Adel Ali AbdelAllah / project manager
Mr. Amin Isay/ Accountant
Mr. Adel Elbakry / Treasury
Mr. Mohamed Ellsawy / Purchase officer

WASD association:

Ms. Hoda Mahfuz/ Chairwomen and project manager
Mr. Shafegh Ahmed Awad / Accountant
Ms. Sabah Saeid / Treasury
Ms. Arwa Ahmed/ MIS
Fekria Khaled, Tahany Salem, Amany Mohamed/ Credit officers

MicroStart Project in Tai'z:

Ms. Anya Mohamed Hasan/ Project Manager
Ms. Libya Ali Yahya / Accountant
Ms. Safya Ahmed Saied / Treasury
Ms. Samera Sanani, Ilham elabyad, Ibtam Abdalla, Asmahan Mohamed, Nadia Shogagh / credit officers

MicroStart Advisory Board:

Boualem Aktouf, Deputy Rep. Representative, UNDP

Ali Saleh, Deputy Minister, MoLSA

Shaker Bafuatim, D.G. for Planning, MoLSA

Jameel Al-Ahansy, Director General, CSSW (Islah)

Kais Al-Iriani, Head of SMED Unit, Social Fund for Development (SFD)

Abdulwahab Thabet, Member of Board of Directors, Thabet Brothers Group of Companies

Ali Mohammed Al-Maktari, Director of work relation, Hail Saeed Group of Companies

Gianni Brizzi, Country Manager, World Bank-Yemen

Dirk van Eijk, Commercial Attache, Royal Netherlands Embassy

Deena Burjorjee, Regional Officer, SUM/UNCDF – NY

Ahmed Mokhtar, ITSP, Alexandria Business Assoc.

Abdurahman Almoassib, Director, LTSP, Pan Yemen Consulting

Anne K. Glick, Intern, UNDP

Abdo Seif, Team Leader, UNDP, Team III

Abdulbasit Ishak, PO/Task Manager, UNDP, Team III