MicroStart Mid-Term Evaluation

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FINAL

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List of Abbreviations

CGAP	Consultative Group to Assist the Poor
GoY	Government of Yemen
GTZ	German Technical Cooperation
MFI	MicroFinance institution
MoF	Ministry of Finance
SFD	Social Fund for Development
SMED	Small and Medium Enterprise Unit
TA	Technical assistance
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank

I. Executive Summary

"MicroStart II Transformation of the Microfinance Sector in Yemen" was approved and formally launched in June 2003 and is scheduled until August 2006. To assess progress on the project, UNCDF has commissioned this external evaluation. The goals of the evaluation are to review the progress of the project to date and to make concrete and strategic recommendations for the remaining life of the project. The mid-term evaluation also serves as an external and objective view of the project status, assesses the validity of the project design and added value of the partners, and provides accountability to financial supporters and other stakeholders of the project.

It is important to note that MicroStart's aim has not been to build the overall microfinance sector in Yemen. By definition, the MicroStart methodology is focused on a limited group of providers and the aim is to build the capacity of these providers as a demonstration or pilot initiative. UNCDF has been shifting towards a broader sector approach than previously envisioned under MicroStart and it is with this in mind that this evaluation is undertaken. As the environment in Yemen has changed significantly since inception of the project, an additional aim behind this evaluation is to support UNCDF's repositioning within the sector.

The mid-term evaluation consists of an on-site field mission which took place between February 10 and 24, 2005, as well as desk review of reports and materials on the project. Site visits were undertaken to the three MFIs supported under MicroStart II, located in Taiz, Al Hodeidah and Sana'a, as well as meetings with relevant stakeholders such as MicroServe, UNDP, SFD, GTZ, USAID, Ministry of International Cooperation, and the Central Bank.

MicroStart II has three main objectives:

1 Technical assistance to three MFIs to meet growth and transformation objectives;
2 Building the capacity of a Local Technical Services Provider (LTSP);
3 Providing a series of national workshops on relevant microfinance issues for all microfinance programs in the country.

This evaluation has found that there has been some progress with regard to performance and transformation at each of the MFIs. There has also been some progress with regard to the LTSP, but this objective may need revision for the longer term. The third objective has been addressed in partnership with Sanabel and the SFD, but additional work is needed to more fully achieve impact on this objective.

At this moment in time, the three programs are currently at very different levels of institutional development. Al Awael is the strongest in terms of operational and financial performance. It maintains excellent financial and operational indicators. However, it continues to suffer from serious management and governance issues, which may hinder future growth of the institution. There is significant concentration of power with the executive director, the governing board is dysfunctional with friction between the management and the SFD which sits on the board, and there are no mid-level managers who can provide much needed support to the executive director who lacks the necessary skills to lead the growth of the organization from a project to an institution. Al Hodeidah, which was initially one of the weakest of the three partners, currently shows the strongest level of growth and progress since its involvement in the program. SOFD is by far the weakest of the three institutions. Despite being a part of MicroStart I, it is operating at the level of a start up institution with new staff, new systems, and a new methodology. It is currently focusing on recovering from a serious problem of fraud, which has left it with a 68% Portfolio at Risk (PAR). However, the institution shows signs that it is finally on the proper path to sustainable growth. The internal systems and product reforms, which have recently been implemented with the help of the Technical Service Provider (TSP), are likely to have the same level of impact and change as was experienced at Al Hodeidah, which also suffered from serious fraud.

The TSP was tasked with providing a tailored package of technical assistance as per the needs of each of the three implementing partners. Technical assistance provided has focused on: updating strategies and business plans; introducing a new group lending product; hiring and training new personnel; working with each MFI on operational issues related to incentive systems, arrears and drop outs; financial management; and management information systems. With Taiz, there has also been a focus on helping it transform into a not-for-profit company. With Al Awa'el, there has been a focus on the recruitment and training of shareholders and board members. To determine the specific workplan for the first year, the TSP conducted an inception mission to Yemen to conduct thorough institutional diagnostics and determine the activities that were needed to achieve the targets for each MFI, as well as meet is own terms of reference. The TSP has revised its initial workplan to reflect its perceived needs of the MFIs and the SMED units, which have changed since the initial workplan developed after the inception mission.

While some of the identified activities in the workplan may have been achieved, a resulting performance change at the MFI level is not always apparent. As per its contractual obligations to UNCDF, the TSP's main role is to achieve measurable impact at each of the MFIs. With a performance based contract, results are measured by the performance of the MFIs and the TSP is thus accountable for achievement of these results. Targets are established in coordination with UNCDF, which are then used to measure performance. The TSP is responsible for providing the relevant support, in whatever form needed, to ensure that progress is achieved as per identified targets. While some issues may be difficult to control as an outside technical service provider, this assessment finds that the TSP will need to further adjust its support to the MFIs in order to achieve its obligations as per the performance based contract with UNCDF. In some cases, this may require more on the ground and consistent support than is currently provided to the MFIs. In other cases this may mean more direction to the MFIs with regard to all areas of operations. While adjustments to the workplan will always be necessary to reflect demand of the MFIs, this plan should be viewed as a living document which is updated regularly.

The objective of building a local TSP within the SFD should be revised. Instead, the focus should be on improving the SFD's systems for serving as a wholesaler of funds and technical assistance to the microfinance industry. Given the relationship between SFD and MicroServe, as articulated by the SFD and UNCDF, it is recommended that an in-house advisor be placed within the SFD. Support would focus on improving its monitoring functions, help it determine appropriate criteria and benchmarks for different instruments of support to MFIs (grants or loans), and establish its own sustainability projections (portfolio for loans, interest rate to be utilized, reducing its operating cost structure, etc). Rather than incorporating this within the existing MicroStart II contract, UNCDF should work with the World Bank to address this issue. This will enable the sufficient level of political sway to ensure SFD participation, as well as relieve the burden on the TSP.

The project calls for a series of national workshops which bring together the MicroStart partners as well as other players in the industry. MicroServe, by and large, has addressed this objective by relying upon the Sanabel network or the SFD's own national workshops and trainings. Activities undertaken by the SFD and Sanabel have been important, but they do not appear to be sufficient from the perception of the MFIs, nor from their performance. There continues to be very little coordination or cross fertilization among programs. MicroServe feels strongly that duplicating or sidestepping any work that is clearly within the purview of the SFD would further alienate it as a partner in MicroStart II and does not serve the interests of the project. And yet, there are clear indicators that what is being done today, while meeting basic contractual objectives, is insufficient. Thus in order to have significant impact on performance among the MFIs broadly and the Microstart partners in particular, a new approach will be needed. This may require that UNCDF/UNDP step in to directly provide additional workshops or other networking opportunities to allow for cross fertilization among the institutions. UNCDF and UNDP are highly respected in Yemen and could serve this function without additional strain on the SFD relationship. Should UNCDF place a Chief Technical Advisor (CTA) in Yemen, this can be one of the main activities under his/her workplan, in addition to donor coordination and monitoring of the program.

Given the growing donor interest in Yemen, any future support to the industry should be coordinated. Coordination may be achieved through a multi-donor facility which aims at addressing all of the gaps in the industry or through a coordinated funding approach in which each donor identifies its strengths and takes on one or more of the gaps in the industry. UNCDF/UNDP's past experience and relationships with key government and nongovernmental players in the country places it in a unique position to guide future sector-wide strategies. UNCDF should consider a full-time position placed within UNDP in Yemen.

The key gaps in the sector, which require ongoing support, include:

- Support in building consensus among key stakeholders on a national policy framework for the microfinance sector.
- Financing for MFIs through a mix of grants and credit.
- Shifting the role of SFD to a wholesaler.
- Support in building a pool of individuals and institutions that can serve as local technical service providers.
- Encouraging the formation of a national network.
- Introduction of a more appropriate legal framework for non-bank financial institutions.

II. Project Data Sheet

Data as of December 2004	**Al Awa'el for Microfinance Taiz**	**Al Hodeidah**	**SOFD Sana'a**	**TOTAL**
Number of active loans	1,544	1,125	1,143	3,812
Total outstanding loan balance (Riyal)	23,113,080	7,845,295	7,769,973	38,728,348
Total outstanding loan balance (US$)	$124,935	$42,407	$41,999.75	$209,341.75
Average loan balance (US$)	$81	$37.70	$36.75	$51
Number of voluntary savings clients	0	0	0	0
Total balance of voluntary savings accounts (US$)	0	0	0	0
Portfolio-at-risk (more than 30 days late)	2.39%	0%	68%	
Number of branches	2	4	3	
Number of credit officers	11	14	9	
Active loans per credit officer	179	80	127	
Active portfolio per credit officer (Riyal)	1,781,169	560,378	863,330	
Active portfolio per credit officer (USD)	$9,627	$3,029	$4,666	
Administrative efficiency	7.9%	34.05%	21%	
Annual Portfolio yield	51.3%	35%	41%	
Operational self-sufficiency	104.7%	19.56%	29%	
Financial self-sufficiency	93%	18.18%	26%	
Year-end free market exchange rate (local currency/US$)				185
Per capita GNI (US$)				$390

III. Introduction

"MicroStart II Transformation of the Microfinance Sector in Yemen" was approved and formally launched in June 2003. The MicroStart II project is scheduled through August 2006 and was initially designed with funding from the UNDP, the Dutch Government, and parallel financing from the SFD. UNCDF's initial role was to provide all technical support to the project. UNCDF has increased its involvement to include funding, in addition to technical assistance, in response to the Dutch Government's inability to fulfill its financial commitment due to budget cuts. The total project allocation is $1,437,908 with an additional $1.2 million as parallel financing from SFD.

UNCDF has commissioned this external evaluation to assess progress on the project. The Terms of Reference (ToR) for the mid-term evaluation are attached as Annex I. The goal of the evaluation is to review the progress of the project to date and make concrete and strategic recommendations for the remaining life of the project. The mid-term evaluation also serves as an external and objective view of the project status, assesses the validity of the project design and value added by the partners, and provides accountability to financial supporters and other stakeholders of the project.

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The consultant met with relevant board members, the executive director, branch managers, loan officers, MIS staff, and finance personnel at each institution evaluated. In addition, the consultant held focus group meetings with both group and individual clients, when appropriate. A detailed appraisal for each institution is provided in Annex IV-VI.

In addition to on-site meetings, the consultant reviewed project documents, mission reports by MicroServe, financial and ratio reports produced by the MFIs, as well as other related documents. A list of documents reviewed is provided in Annex III.

IV. Evaluation of Project Results

A. Actual versus planned results to date

The Project Document for MicroStart II identified three main objectives:

> Objective 1: Provide a tailored package of technical assistance and funding to three breakthrough MFIs to help them meet their growth objectives as well as to help them meet their institutional and legal transformation goals;
>
> Objective 2: Build the capacity of Local Technical Services Provider, able to replicate the transformation model after the end of Phase II;
>
> Objective 3: Provide a series of national workshops on relevant microfinance issues for all microfinance programs in the country. As a result, some of these may become future breakthrough MFIs.

This evaluation has found that there has been some progress with regard to performance and transformation at each of the MFIs. There has also been some progress with regard to the LTSP, but this objective may need revision. The third objective has not been directly addressed by the TSP and a new strategy and perhaps partner to fulfill this objective may be needed.

<u>Objective 1</u>: The goal of MicroStart I was on creating projects and building their capacity to achieve significant outreach. This focus was continued as part of MicroStart II, with the added goal of transformation into companies. An assessment was undertaken to determine the legal climate for microfinance in Yemen, and the transformation into companies was determined as the most appropriate legal structure. This was particularly relevant for Taiz, which was a stand alone project with no legal foundation. The table below provides the targets and achievements reached thus far under MicroStart II. Note that the targets have been modified since inception to reflect a more realistic scenario for each of the MFIs. As can be noted from the table, only Al-Hodeidah has been able to exceed its targeted goals in 2004 with regard to client outreach. However, it should be noted that these targets were lowered to reflect the high default experienced by the organization earlier in the life of the program. Both Al-Awa'el and SOFD have fallen short of targets on outreach. With regard to PAR>30, both Al-Awa'el and Al Hodeidah have either met or are better than targeted levels. SOFD, on the other hand, has seen a considerable decline in performance with an extremely high 68% PAR>30. Only Al Hodeidah has exceeded its objective with regard to Adjusted Return on Assets (AROA). Al-Awa'el has actually seen a slight decline in its AROA since 2003, but this should be expected as it continues to add branches and employees. SOFD's AROA is very low and has worsened considerably since 2003, before the fraud was discovered.

	Al-Awa'el - Taiz				Al Hodeidah				SOFD- Sana'a			
MFI	# of clients	% female	AROA	PAR>30	# of clients	% female	AROA	PAR>30	# of clients	% female	AROA	PAR >30
Baseline 2002	761	100%	?	?	0	NA	NA	NA	763	100%	?	7%
Actual 2003	1,160	100%	.33%	0	105	77%	-20.6%	0%	1,560	100%	-5.58%	12%
Targets 2004	1,750	100%	2%	<1%	1,000	75%	-10%	<1%	1,750	100%	0%	<8%
Actual 12/31/04	1,544	100%	-0.26%	1%	1,125	90%	-6.3%	0	1,143	100%	-118%	68%

At this moment in time, the three programs are currently at very different levels of institutional development. Al Awael is the strongest in terms of operational and financial performance. It maintains excellent financial and operational indicators. However, it continues to suffer from serious management and governance issues, which may hinder future growth of the institution. There is significant concentration of power with the executive director, the governing board is dysfunctional with friction between the management and the SFD which sits on the board, and there are no mid-level managers who can provide much needed support to the executive director who lacks the necessary skills to lead the growth of the organization from a project to an institution. Al Hodeidah, which was initially one of the weakest of the three partners, currently shows the strongest level of growth and progress since its involvement in the program. SOFD is by far the weakest of the three institutions. Despite being a part of MicroStart I, it is operating at the level of a start up institution with new staff, new systems, and a new methodology. It is currently focusing on recovering from a serious problem of fraud, which has left it with a 68% PAR. However, the institution shows signs that it is finally on the proper path to sustainable growth. The internal systems and product reforms which have recently been implemented with the help of the TSP are likely to have the same level of impact and change as was experienced at Al Hodeidah, which also suffered from serious fraud. A summary of the strengths and weaknesses and possible interventions that are needed in the near to medium term are presented in the following table.

Institution	Strengths	Weaknesses	Recommendations
Al Awa'el Taiz	• Sound procedures and systems • Relatively efficient as compared to other programs • Relatively good financial performance	• Weak governing structure • Concentration of power in Exec Director • No senior staff • Low salaries / high turnover • Poor relations with SFD and other institutions • Heavy reliance on one donor	• Expand and train board members. Consider internationals with microfinance or other relevant experience as members of board • Adhere to bylaws, hold board meetings and improve process for decision making • Hire Operations Manager and train Finance Manager • Modify salary scales
Al Hodeidah	• Strong Executive Director • Strong staff and mid-level management • Planning for future • Good systems and procedures • Good relations with Women's Union	• Poor financial performance • High default in the past has set back institution several years • Heavy reliance on one donor	• Expand donor base • Provide more advanced training to staff • Institute internal mechanisms to learn from clients and to allow for product development and innovation
SOFD Sana'a	• Strong Chairman of the board • Improved lending methodology • Improved systems and procedures • Began to diversify funding	• Untested new staff • Untested new methodology • High default in the past has set the institution back to the beginning • Management capacity limited – no senior staff other than director	• Needs close monitoring and "supervision" • Requires significant training at all levels of the institution • Hire Operations Manager and train new Finance Manager

The TSP was tasked with providing a tailored package of technical assistance as per the needs of each of the three implementing partners. Technical assistance provided has focused on: updating strategies and business plans; introducing a new group lending product; hiring and training new personnel; working with each MFI on operational issues related to incentive systems, arrears and drop outs; financial management; and management information systems. With Taiz, there has also been a focus on helping it transform into a not-for-profit company. With Al Awa'el, technical assistance has included the recruitment and training of shareholders and board members. The terms of reference for the TSP are highlighted in Box 1 below. To determine the specific workplan for the first year, the TSP conducted an inception mission to Yemen to conduct thorough institutional diagnostics and determine the activities that were needed to achieve the targets for each MFI noted earlier, as well as meet is own terms of reference.

Box 1: Terms of Reference for the TSP

- Developing tailored training, exposure and technical assistance plan for each participating MFI in consultation with SMED and organization concerned;
- Providing regular technical assistance and monitoring visits to the program (with an average of at least three days per month) to help them meet their annual capacity building objectives particularly in the areas of product development; promotion, marketing and branch network development; financial management/administration; human resource development/management;
- Support the participating MFIs in their legal transformation process (e.g. assist with community outreach and identification of potential board members, provide sensitization to potential Board members on their roles and responsibilities in the new company, work with the legal advisor and management team on issues related to new ownership structure);
- Identification and capacity building of new Board members;
- Ensuring that recipient organizations have appropriate, reliable and transparent reporting;
- Reviewing quarterly reports and the progress of local organizations;
- Translation and dissemination of all relevant progress/technical reports.

The TSP has revised its initial workplan to reflect its perceived needs of the MFIs and the SMED units. The main areas which were not accomplished in the initial one year workplan include working with the SFD to develop a business plan, conducting workshops with Al Hodeidah and SOFD on board recruitment strategies, reviewing and developing human resource tools, and conducting a client services workshop. Several of these activities were postponed to the second year of the project. Other priority areas were addressed in the first year to reflect the needs of the project and its partners. This included improving reporting formats for monitoring by the SMED unit, support to MFIs other than the MicroStart partners (as per SFD request), assessing the potential to introduce new partner MFIs to the project, and providing support to SMED on the MIS development.

While some of the identified activities in the workplan may have been achieved, a resulting performance change at the MFI level is not always apparent. For example, despite participating in Microfin courses, the MFIs still have not been able to use these tools in any meaningful way within their organizations. Similar results are evident with the CGAP financial reporting tool. This is partly due to the high turnover within Taiz, and most recently the firing of many employees at SOFD.

As per its contractual obligations to UNCDF, the TSP's main role is to achieve measurable impact at each of the MFIs. With a performance based contract, results are measured by the performance of the MFIs and the TSP is thus accountable for achievement of these results. Targets are established in coordination with UNCDF, which are then used to measure performance. The TSP is responsible for providing the relevant support, in whatever form needed, to ensure that progress is achieved as per identified targets. While some issues may be difficult to control as an outside technical service provider, this assessment finds that the TSP will need to further adjust its support to the MFIs in order to achieve its obligations as per the performance based contract with UNCDF. In some cases, this may require more on the ground and consistent support than is currently provided to the MFIs. In other cases this may mean more direction to the MFIs with regard to all areas of operations. While adjustments to the workplan will always be necessary to reflect demand of the MFIs, this plan should be viewed as a living document which is updated regularly.

Objective 2: MicroStart II has worked with the Social Fund for Development as the Local Technical Services Provider. At the time that the project was conceived, there were few other alternative organizations with the capacity to serve as the LTSP. SFD also saw technical assistance as one of its core areas of support for the sector. UNCDF and UNDP saw a possible window of opportunity to include the SFD in the project to build upon both of their respective achievements in prior years. MicroServe's approach for supporting the SFD is using the "buddy approach" in which consultants from MicroServe are paired with a staff person from SFD in their missions and during training sessions. This approach has begun to show some signs of success. The type of monitoring and the training undertaken by SFD appears to have improved since their involvement in MicroStart II.

Despite this progress, it is questionable whether the SFD has a long-term role in serving as a direct technical assistance provider. In its recent strategic planning process, the SFD has come to realize that its future role in the sector is that of a wholesale facility for both finance and technical assistance, rather than as a direct TA provider. This has been the emerging best practice among other similarly structured entities in other regions of the world.

In addition to the actual value of SFD's role as a LTSP, there is also the issue of perception and practicality under MicroStart II. The SFD does not appreciate the support received to date from MicroServe and believes that it already had internal capacity at the same or above the level of support offered by MicroServe. While MicroServe views this differently and believes that the SFD's participation in MicroStart II has had an evident effect on its performance, this progress is not commensurate with the level of investment that has gone into the SFD, both under MicroStart as well as directly utilizing its direct World Bank funding. Given the resources within reach for the SFD, as well as the investments it has already made in training of its staff, it is questionable how much additional training or technical support can improve its performance as a direct local technical service provider.

At the practical level, including the SFD in the delivery of technical support to the MFIs has not represented a significant obstacle to the program. However, the SFD feels that it is being used more as a logistical support office, rather than as a true partner. There appear to be political issues between MicroServe and the SFD, as expressed by both the SFD as well as UNCDF, which have been counterproductive, particularly given the fact that the SFD's future role is not in being a LTSP. These issues have played out, for example, in the unwillingness of the SFD to allow MicroServe to facilitate development of its strategic planning process, as per the project workplan, whereas the SFD was open to having UNCDF provide this function through an independent contractor. It is a more efficient use of resources for MicroStart II to focus the role of SFD as a wholesaler only and to keep any support that MicroServe provides it limited to this role. MicroServe and SFD can continue to work together as in the past, with the hope that indirect support will have some continued impact, however, this should not be perceived as sufficient support to the SFD's institutional development. For significant improvements in performance, an alternative approach is necessary.

Objective 3: The project calls for a series of national workshops which bring together the MicroStart partners as well as other players in the industry. MicroServe, by and large, has addressed this objective by relying upon the Sanabel network or the SFD's own national workshops and trainings. Activities undertaken by the SFD and Sanabel have been important, but they do not appear to be sufficient from the perception of the MFIs, nor from their performance. There continues to be very little coordination or cross fertilization among programs. MicroServe feels strongly that duplicating or sidestepping any work that is clearly within the purview of the SFD would further alienate it as a partner in MicroStart II and does not serve the interests of the project. And yet, there are clear indicators that what is being done today, while meeting basic contractual objectives, is insufficient. Thus in order to have significant impact at the level of performance among the MFIs broadly and the Microstart partners in particular, a new approach will be needed. This may require that UNCDF/UNDP step in to directly provide additional workshops or other networking opportunities to allow for cross fertilization among the institutions. UNCDF and UNDP are highly respected in Yemen and could serve this function without additional strain on the SFD relationship. Should UNCDF place a CTA in Yemen, this can be one of the main activities under his/her workplan, in addition to donor coordination and monitoring of the program.

B. Constraints

Fraud: MicroStart II has dealt with numerous constraints during its 1.5 years of activity. The first of these is major fraud at two of the institutions being supported. Both SOFD and Al Hodeidah have had to completely revamp their programs due to serious endemic problems with loan officers in their organizations. This has set the programs back considerably. Much of this may be attributed to the project orientation of MicroStart I (SOFD) or support offered by the SFD (Al Hodeidah). Poor systems, such as a weak MIS, limited internal controls, low salaries, and poor monitoring, were all a direct cause of the serious problems that have been experienced by the partner institutions.

MIS: Under MicroStart I, the MFIs were utilizing the ABA loan tracking system. The system itself had many weaknesses and without regular ABA support, the system presented considerable problems for SOFD and Taiz. SOFD no longer relies on the ABA software and has fully switched to the system developed by the Social Fund. Taiz has negotiated a new technical service agreement with ABA, which provided them the latest version of the software with many updated components. Taiz is relying on both systems and will eventually switch to the SFD system, but currently relies on the ABA system as its main program. Al Hodeidah has always relied on the SFD system and continues to work with the developer to upgrade it as needed.

Under MicroStart II, MicroServe has recommended that focus is placed on strengthening the SFD system so that local service may be obtained as needed. The system itself has been upgraded considerably, with ongoing support by MicroServe, and has evolved into a workable solution given the level of maturity of the institutions. As they grow further, add products and other variables in their lending, the system will need to be adapted accordingly.

Technical Service Provider: The type and level of support provided by MicroServe has been heavily praised by all the MFI partners. However, there does appear to be limitations on the availability of consultants fielded by MicroServe with the necessary management expertise to provide support at the governance and management levels. Support has focused more heavily on loan officer training and developing new products, which were the perceived needs of the MFIs at the time. While necessary, this is insufficient to meet the overall institutional needs of the partners. As mentioned elsewhere, other support was also offered, however, the perception among the partners is that management level support has been below expected levels. This is also consistent with UNCDF and UNDP's assessment of the TSP's activities on the project. The MFIs and the SFD also expressed unhappiness with the scheduling and coordination of missions. Additionally, there were also complaints about the timing of reports and the fact that they were in English and therefore had to be translated before sharing them with the relevant partners. While it is difficult to ensure that everyone is satisfied with all services offered, the general perception among the partners is that the TSP can improve and increase its support. It is important for the TSP to recognize how it is perceived by others and adjust its performance accordingly in order to meet its contractual obligations to UNCDF.

<u>Local Technical Service Provider</u>: As mentioned earlier, there is a question as to the SFD's long-term role as a LTSP. Its history with its own partners, as well as its top-down approach, has presented a serious obstacle to MicroStart II. Initially, this presented a problem with Al Hodeidah, which was a former SFD partner that worked closely under its supervision. Over time, MicroStart II was able to establish a better working relationship between SFD and Al Hodeidah, but there was considerable effort expended to achieve this end. With the non-SFD partners, SOFD and Taiz, other operational problems existed and still currently plague progress of the program. The relationships that the SFD has with these organizations are strained. However, this is not always due to the fault of the SFD.

In many ways, combining the roles of a donor/wholesaler and TA provider directly results in the problems currently experienced under the project. Separating these functions will go a long way in easing tensions that may currently exist. However, it presents a new problem which is the current gap in the market, as there are no other obvious LTSPs.

C. Relevance of project strategy

The project's strategy which placed a heavy focus on institutional development and transformation reflected the stage of development of the MFIs. The transformation objective reflected the need to house the Taiz project under a legally recognized entity and also reflected the existing Yemeni laws.

While the strategy to utilize the SFD as a LTSP was appropriate given the conditions at the beginning of the project, this strategy is no longer relevant. As noted earlier, the role of TA provider is not commensurate with the SFD's capacity or long-term role within the sector. Building LTSP's has not proven to be a simple task in this or the previous MicroStart project in Yemen. This experience has also not been exclusive to Yemen but has been common in many countries where the MicroStart program has been implemented. A local market for consultants and companies will need to be built in Yemen and the structures that have been utilized under MicroStart are not sufficient to allow for this. Instead, other strategies may be deployed which will be addressed in the recommendations section of this report.

D. Likelihood of achieving project objectives

It is highly unlikely that either SOFD or Al Hodeidah will be able to transform into companies by the end of 2005, as originally envisioned. Rather than force this objective on institutions that are not ready, MicroStart II should focus in the remaining half of the project to building institutional capacity. The project should work within the confines of the management and staff of these institutions. The process of transformation should be set in motion, but the timeframe should reflect these institutions' capacity. All three partners clearly understand the need to transform and have the willingness to do so, but need the time and capacity to put in place the steps in order to have a successful institutional transformation.

It is highly unlikely that MicroStart II will ever achieve a viable LTSP within the current SFD, given its structure, staffing, and long-term vision. The objective of MicroStart II to build the capacity of the SFD as a LTSP should be revised to reflect the SFD's strength and future potential as a wholesaler only.

V. Evaluation of variables influencing achievement of project Results

A. Institutional and implementation arrangements and partnerships

The project calls for the participation of UNDP, UNCDF, an international TSP and a local TSP. In addition, there is a GoY financial contribution to the project.

<u>UNDP:</u> The role of UNDP is both as a donor as well as to serve as a supervisory and monitoring body for the project. UNDP's involvement has been limited given the obligations of UNDP personnel in Yemen and their overall portfolio covering numerous projects and sectors. When needed, UNDP has intervened to support the project in ways such as facilitating interaction between the MFIs and SFD and/or the TSP.

<u>UNCDF</u> - The role of UNCDF was initially as a technical advisor to the project. UNCDF directly supervises the international TSP and has provided guidance to UNDP on the ground. Due to funding constraints, UNCDF has also had to contribute its own funding to the project and is now also a donor. UNCDF's main role is to oversee the work of the TSP. UNCDF's track record in Yemen is highly respected. An increased role in the project, perhaps through a placement of a resident advisor in UNDP, may be both a strategically important next step, as well as a mechanism to achieve project objectives.

<u>International TSP</u>: MicroServe's role as an international TSP was to assist both the MFIs as well as raise the capacity of the SFD to provide TA to MFIs in the future. The TSP sees its main role as advising the MFIs and has administered a "buddy system" with SFD. In its first year, MicroServe focused on training activities that were applicable to the three partners. There is a shift in this approach taking place whereby support is more tailored to each MFI. The design of MicroStart II, with an offsite TSP, has created some difficulty in consistency and the speed at which support can be offered to the MFIs. In the design, this consistency and supervision is to be provided by the LTSP, however, this has not proven to be an appropriate structure for the project. In the immediate term under the MicroStart II project, it will be necessary to address this gap by increasing the on-the-ground presence of the international TSP. In the longer-term,

UNCDF, in coordination with other donors, should consider sector wide support to build the capacity both of individual consultants as well as firms in Yemen that can serve the sector.

Local TSP: SFD has presented somewhat of a challenge as a partner, given its historical role in Yemen, and its relationship with MicroServe. SFD has directly articulated its uneasiness with MicroServe to serve as its TSP to this consultant as well as to UNCDF directly. This is further evidenced in results thus far on the project. SFD's role in the past has been very directive to its partner MFIs, which has caused significant friction between it and the MicroStart II partners. Through its participation on MicroStart II, the SFD has begun to ease its oversight to reflect better practices. This achievement, coupled with the SFD's new strategic thinking, represents significant contributions by the project to the microfinance sector in Yemen. Further refinement of SFD's role and improved instruments to support the financial needs of MFIs will go a long way to further developing the sector.

GoY: The Government of Yemen is committed to providing $100,000 to support the program. No funds have yet to be allocated by the GoY for MicroStart II.

B. Project management and systems performance

At the MFI level, the three MFIs are operating using best practices and systems. Lending systems are sound and maintain sufficient internal controls. Innovation is limited and is still heavily reliant on the technical assistance provider. Exposure has been limited for non-management staff, even between MFIs in Yemen. For example, branch managers can gain significantly from visiting other programs in Yemen or from workshops at their level to share experiences across programs. Management capacity is an issue for Al Awa'el, and, to a certain extent SOFD, as is the governance issue for all three MFIs. Financial management is improving at the three institutions, but continues to be limited as all three institutions have relatively new financial managers in place. The organizations have not yet begun to look internally to analyze their results. For example, little or no impact research, market research among existing clients for new product development, or use of ratios and financial reports to assess their strengths and weaknesses is being done. While all three MFIs produce the CGAP ratio reports which are submitted to the TSP, it is not evident that the management is fully utilizing these reports to learn and understand from performance.

At the overall project level, the monitoring and evaluation systems in place may be strengthened. The TSP regularly updates the online performance reports for the MFIs. The TSP also produces regular mission reports. These mission reports currently produced by the TSP are limited in usefulness for overall project management. However, they can be very useful at the local level. It is unclear why these reports are not reaching the appropriate individuals within the MFIs. While MicroServe claims to make them available in Arabic immediately after their missions, the SFD claims that these reports arrive in English often one month or longer after the mission. Streamlining this report dissemination process is one area where UNDP and UNCDF may intervene.

With regard to overall program reporting, a different type of monthly or quarterly reporting format by the TSP would improve the overall understanding of target versus actual performances of the three MFI partners, measuring progress on the workplan, looking at trends over time and generally providing a broader view of the project, rather than a list of activities undertaken. The current reports are not analytical and identify only the details of each mission. While interesting, this does not provide sufficient management level information to make appropriate decisions or to stay abreast of the project. Currently, this type of analysis is provided on an annual basis only. It is recommended that the frequency of such reporting be increased and that the TSP be required to update the workplan regularly to reflect the evolving needs of the MFIs.

C. Input delivery

The two main input components of the project are financial support and technical assistance. The overall budget for MicroStart II is $2.6 million as noted in the table below. Of this amount, UNDP has disbursed $400,000, UNCDF has disbursed $307,095, and SFD has disbursed $225,631. Of the funds SFD has disbursed, $5,388 has gone toward training activities, while an additional $21,000 has been spent on the MIS. The remaining $199,243 represents a loan to SOFD. UNCDF projects disbursement of $447,905 in 2005.

	Budget	**Actual As of December 2004**
UNDP	$537,908	$400,000
SFD	$1,200,000	$225,631
UNCDF	$800,000	$307,095
GoY	$100,000	0
	$2,637,908.00	$932,726.00

The delay in disbursement of capital to the MFIs is a result of the fraud which has taken place at both Al Hodeidah and SOFD. Additionally, the program has attempted to link performance to disbursements and has demanded increased and improved performance by Al Hodeidah prior to disbursement of installments of the grant. This principle was also to be applied to SOFD, however, the SFD issued SOFD a loan even though indicators showed high PAR, which was later discovered to stem from loan officer fraud. Currently SOFD has some problems with its loan repayment to the SFD.

The use of loans or grants by the SFD is an element which has not been discussed or incorporated into the project document or the design of the program. This is an important design issue which should be one of the main principles negotiated with the SFD for the project. As institutions mature, there is a need to shift their funding sources from equity/grants to credit. Given the existing level of development of SOFD, a loan at 5% may be beyond its capacity to manage and repay given its current portfolio performance and staff capacity. As the weakest of the three institutions, SOFD should be the least likely recipient of a loan from the SFD.

With regard to technical assistance, the TSP has modified its support to reflect the prevailing conditions of the MFIs, which is different than originally envisioned when the initial workplan was developed. The type of support which has had to be provided has, in many ways, been more basic. The focus has been on improving institutional systems and methodologies. MicroServe's ability to adapt to the prevailing conditions should be commended. However, greater modification of the workplan will be needed. Areas where the TSP's support has fallen short of needs include:

- Better coordination and scheduling of missions is required.
- There is a need to introduce "softer" topics of support such as management and leadership. The delivery of this support can be structured in the form of training as well as one-on-one with relevant personnel. This type of support should be provided to program directors, as well as mid-level managers such as branch managers. Given the heavy investment on one-on-one management support to date, it may be appropriate to consider more structured and succinct delivery of this type of support.
- More support on governance is needed. This includes criteria for board selection, the development of by-laws, the hiring of local legal counsel, and other steps needed to initiate the transformation process. Individuals with this experience should be fielded as part of the short-term missions.
- Given the level of the partner MFIs, there is a need to offer more direction to the MFIs. While this has not been the perceived need for other Arab countries, there needs to be a modification for the special conditions prevalent in Yemen. This is both demanded by the MFIs as well as appropriate to countries with similar educational and capacity constraints. Once again it is important to note that more direction does not imply the "cut and paste" approach as applied by SFD or ABA in the past. Understanding and balancing its roles between support and intervention should be an important role of the TSP.
- There is a need for more follow-up with the MFIs. As this is a role that was initially identified for the LTSP, but should no longer be appropriate given its shift in focus, this is an area where the TSP will need to step in. The ideal TA would include on-the-ground presence with periodic support that is better coordinated with the MFIs. This has not been planned by MicroServe and so some negotiation, and possibly budget modification, will be needed to provide for better follow-up and support to the MFIs.

MicroServe's institutional and professional experience is on managing and building MFIs. The organization has not been involved in building an overall sector, although its members are founders of a regional network, Sanabel. Building a membership based network organization is not the same as developing or leading a broad national sector approach in microfinance in any given country. While a regional network focuses on capacity building of its members, it is effectively a membership based organization representing its members which are exclusively MFIs. This is only one area within the sector approach. Building a national microfinance sector is significantly broader and takes into account stakeholder involvement at all levels. A sector approach to microfinance includes the development of a national policy, reform of legal and regulatory issues, building of suppliers of financial services (whether banks, NGOs or cooperates) and supporting technical service delivery for the overall sector. Taking a broad sector approach requires expertise in many different areas of microfinance, which are not currently available in the Middle East broadly, and which are not currently part of the professional experience of MicroServe partners and consultants.

This dual role of representing a regional network and a private for-profit company has sometimes proven useful such as in offering CGAP courses in Yemen. At other times, this dual role has limited the vision of the TSP. For example, rather than offering a ToT for Yemenis only, the TSP sees this as unnecessary given Sanabel's regional involvement. While the experience in the Arab world has indeed been progressively significant in recent years, it is by no means the only experience by which this region and Yemen may gain. There are numerous examples of both national efforts as well as regional efforts to strengthen the microfinance sectors. Having one should not preclude a focus on the other. Given Yemen's particularly low level of capacity, it seems paramount that a more concerted effort to build the capacity of individuals, trainers and institutions be part and parcel of the project.

D. External operations / policy environment as it relates to project performance

The policy and operational environment for the MicroStart II project in Yemen is characterized as favorable. There is considerable governmental support for microfinance in Yemen. The Central Bank, with a seat on the SFD's steering committee, is aware of the issues relevant for microfinance and is in support of an expansion of the sector. Support is also strong with the Minister of Social Affairs and head of the Social Fund, and the Ministry of International Cooperation. In general, the government perceives microfinance as a poverty alleviation tool which should be expanded upon country-wide.

As is typical of many Central Banks, there is sensitivity to savings as a product to be used by institutions that are not regulated. Thus far, many of the providers in Yemen do not partake in deposit-taking and therefore have not raised a flag for the Central Bank. There is currently no law in Yemen to govern non-bank financial institutions. The Central Bank believes there is a need for this given growing financial players such as various funds, lenders, and insurers. Currently there is no centralized supervisory body for the various types of non-bank financial institutions, funds, and companies.

At the donor level, there is a great deal of interest in Yemen. GTZ has been financing a technical assistance program which has worked with a select group of MFI partners in Aden and Taiz. The program is currently in transition and will likely be modified. GTZ is interested in coordinating with other donors in its revised program. CGAP has recently conducted an assessment of Yemen for possible sector wide interventions. The IFC is also involved in the sector. It has been approached to be a technical assistance provider to Bank Al Amal and is awaiting a revised business plan from the bank to determine its involvement. The IFC is also in the process of supporting the development of local technical service providers for its SME training curriculum which it has developed for use across the region. The model used to identify and train BDS providers may be applicable for identifying and training LTSPs for microfinance. The IFC is also involved in promoting leasing as a product by banks in Yemen. USAID has also expressed interest in coordinating with other donors and in supporting multi-donor activity aimed at supporting the overall sector.

Given UNCDF/UNDP's central role in supporting the microfinance sector in Yemen thus far, it is in a position to leverage the existing donor and government support to further the objectives of MicroStart II and overall sector development in the country. To do so, it will need to make additional investments under the current project as a way to build in mechanisms for its longer term role in the sector. Additional investments which should be considered include:

- Placing a resident advisor within UNDP for project monitoring, donor coordination and hosting national activities for the microfinance sector in Yemen.

- Coordinating with other donors to place an advisor within the SMED unit of the SFD. The advisor should work with the unit to further refine its business plan, develop a long-term sustainable model for lending and financing MFIs, improve its capacity to assess MFIs and in turn negotiate more appropriate conditions for its lending, and improve its monitoring function to be more efficient and appropriate given its evolving role. The World Bank, given its historical relationship with the SFD, would be the most appropriate donor to provide continued support to the SFD in this regard. Additionally, the political sway which is feasible under World Bank guidance is likely to be significantly higher than that of UNDP, UNCDF or MicroServe.

VI. Evaluation of project relevance and added value

The original aim of MicroStart II was to build local microfinance institutions and also develop local technical assistance providers. In general, the goal of building microfinance institutions has been achieved. However, these institutions continue to be small in size and limited with regard to geographic outreach. MicroStart has not been able to develop a national institution capable of achieving financial sustainability, utilizing commercial sources of funding for its future growth. For two of the MFIs, which have been under MicroStart I and II, their level of development is sound, however, their achievements are considered limited as compared to other MFIs with a 4.5 year life span. One could argue that should UNCDF/UNDP have focused on just one MFI, the total outreach achieved by all three MFIs could have been surpassed by just this one MFI, as has been the experience of many donor efforts elsewhere. Instead, a great deal of effort has been used to develop three different institutions, in an environment where finding relevant talent and individuals capable of providing governance and oversight are few and far between. The additional goal of building a local TSP seems to be difficult under the same umbrella of MicroStart II. UNCDF/UNDP should consider focused initiatives that provide directed support to the appropriate institutions. Support to a future LTSP (not SFD), for example, should be in the form of Training of Trainers, and not purely participants in training as other MFI staff.

The project has played an important role in representing an alternative approach to that implemented by SFD. By brining in SFD into MicroStart II, this has allowed SFD to learn from the experience and to improve or at least better refine its role with its implementing partners. The experience thus far brings to the forefront many lessons which can be used to apply to a broader, more sector wide development approach. These are discussed in the following sections.

VII. Evaluation of sustainability of project results and project exit strategy

<u>Sustainable MFIs</u>

The three MicroStart II partners are each at different levels of institutional development. Taiz, while it reports operational sustainability, continues to lack key institutional foundations which can guarantee its long-term future. The organization has weak governance, limited managerial capacity, and no mid-level management that can carry the institution to greater expansion. As it invests in its growth, the sustainability figures are sure to drop, as would be expected in a growing institution. Al Hodeidah has made significant improvements in its performance and is on the right path to sound growth. At the same time, it is far from its transformation objective. SOFD, for all practical purposes, would be characterized as a start up institution despite its involvement with the MicroStart program from inception. The recent fraud has left the institution with very limited past experience from which to draw; it is currently revising its methodology, systems, and personnel. It is too early to judge its future potential, although it is clear that the recent reforms are on the right path and are clearly an improvement from the past.

These institutions, if left on their own without continued access to technical assistance and financing, will likely never achieve sustainability (both institutional and financial). Continued support, whether through MicroStart, or another initiative, is necessary.

<u>Local TSP</u>
It is in the sector's best interest that the SFD not serve as a local technical assistance provider, but instead refine its role as a wholesaler for both finance and TA provision. In its recent strategic planning session, this was agreed upon by the SMED unit and they indeed plan on slowly withdrawing their direct TA role. However, a significant gap in the microfinance sector still remains, and there needs to be a focused strategy to build local capacity.

In the past, UNCDF has focused on building technical service providers that are institutions, rather than individuals. A two-tiered approach, which builds individuals as well as institutions, may be a more appropriate intervention given the state of capacity (both individual and institutional) in the Yemen. In numerous countries, professionals working in microfinance either as consultants or as donors, have no direct field experience managing or working within MFIs. Nonetheless, these individuals can bring other important skills to the field, without necessarily having had direct previous work experience within an MFI. For example, professionals with accounting backgrounds can bring this important skill set to the microfinance sector, provided exposure to the field and training in the main issues is undertaken. Some strategies which can expand the pool of individuals which can be hired by MFIs or future TSPs engaged in the sector include:

- Offer fellowships for a large number of Yemeni professionals (consultants, MFI practitioners, researchers) to participate in international trainings on microfinance (Sanabel courses, Boulder or New Hampshire). Should visa or language issues present a constraint, focused training in Yemen can be offered using international or regional trainers. The IFC's PEP-MENA initiative offers an interesting model for identifying technical service providers for business development services. This model may be adapted to include microfinance technical service providers.
- As part of the fellowships, arrange for internships with successful MFIs in the region such as those in Morocco or Egypt. For those who speak English, encourage internships in other regions so that other world experiences can be brought into the sector here in Yemen.
- Form a link with a US university (such as New Hampshire) to offer a University course or a summer training in Yemen.

Coupled with this strategy, building a network of practitioners for Yemen may also reinforce the overall capacity among the MFIs as well as individual professionals. Given the limited capacity of the existing MFIs, it is unlikely that one or more of these institutions will take on the role of building a network organization able to lobby on their behalf, offer training and expertise from domestic, regional and international sources and serve as a forum for sharing of information. There is a perception among MicroServe staff that a network must be built from the ground up and indeed this is perhaps the most preferable option. However, donors can have a role in encouraging an initiative by providing financing and an introductory forum for dialogue among practitioners. While SFD has taken on this role for itself, the divide that exists between MicroStart program partners and SFD programs will make coordination with the SFD difficult. Additionally, SFD is not a network nor does it represent the entire industry. Thus an initiative with SFD at the center would be counterproductive and would not truly represent the practitioners. Some strategies which may support the formation of a network include:

- Host a national conference for Yemeni MFIs.
- Bring experiences from other countries of building national networks (Pakistan for example has had excellent experience in this regard).

In the immediate term, there will be a need to ensure service provision is offered in the country. Given the existing market conditions, it is highly recommended that additional expatriate presence in the form of a resident advisor(s) be incorporated into MicroStart II. Countries which face similar capacity constraints as Yemen often rely on external experts placed within MFIs to quickly build institutional capacity.

<u>Exit Strategy</u>
Given the level of institutional development of the partner MFIs, it is premature for UNCDF/UNDP to exit without some continued form of support from the UN or other donors supporting the sector. The UNCFD/UNDP should coordinate with other donors to ensure that the overall needs of the sector are addressed. This can be achieved either through a coordinated project/facility or through a division of labor among the donors, each focusing on a specific area of support. For example, one donor can focus on supporting the capacity of the SFD, while another can support the development of LTSPs, and so on.

VIII. Lessons learned

The main lessons which can be drawn from MicroStart's experience in Yemen include:

- It is necessary to focus on institution building from the onset, parallel to credit delivery. Without building the proper institutional systems to ensure internal control and sound management, institutions will not be able to grow.
- It is more appropriate to separate capacity building of LTSP from capacity building of MFIs. These are two very different forms of institution building.
- There is a need to focus on broad based capacity building and the creation of professionals that can support the sector. It is best to focus on individuals in cases in which an institutional partner is not available. An inappropriate institutional partner leads to waste of both time and resources.

IX. Conclusion and recommendations

At this stage of the MicroStart II project, the three partners are all on the right path, albeit SOFD is still considerably weak and will need much support in the remaining life of the project. While the three institutions are at very different stages, continuing their evolution should be the focus of the remaining life of the MicroStart II project. The focus on transformation should be less time sensitive and more closely linked to institutional capacity.

For Al Awa'el, future support should focus heavily on board development and strengthening mid-level management. Support to the board should include adding board members with pertinent oversight capacity of the MFI. This may include adding internationals with strong microfinance experience. As part of this board development process, the role of the board as supervisor to the executive director must be stressed. This includes identifying clear targets of performance for the executive director. Should these not be achieved, the board must be capable of replacing the executive director if necessary. Parallel to board development, mid-level managers need to be strengthened to ensure that the organization can continue to operate should management changes be required. In particular the key positions of operations manager and finance manager should be filled or strengthened. Additionally, these individuals should be encouraged to report to the board directly, as part of regular board meetings. The high turnover of staff needs to be addressed. Immediately, there is a need to raise the salary scale for staff to reflect market rates. Clear workplans and objectives should be put in place for mid-level managers and no decision to hire or fire should be made without board support.

For Al Hodeidah, reinforcing progress made to date is important. This should entail expanded and more diversified training, domestic exchanges and exposure for all levels of staff within the organization. In particular, building the capacity of branch managers, strengthening the recently hired internal auditor and strengthening the finance manager are critical to continued growth. In addition, the organization should also consider hiring an operations manager and either expanding the function of the internal auditor to include financial as well as operational audits or hiring an additional auditor to serve that function. Given the very conservative environment in which this MFI operates, training female branch managers and other staff will likely need to be done in-country, and preferably in Al Hodeidah. Relevant reading materials and other opportunities to exchange knowledge for mid-level management is important for continued professional growth. Al Hodeidah is poised for growth and it can achieve this with a combined focus on continued professional development of staff as well as a focus on learning from clients. The organization can clearly benefit from incorporating market research techniques, such as those developed by MicroSave, to introduce new products or refine its existing products in order to maintain high retention and expand its outreach.

As mentioned elsewhere, SOFD is by far the weakest of the three MFIs. Its needs are many and range from board level support, management support to basic operational support. To date, the TSP has helped SOFD identify its fraud problems, fire culpable staff, hire new personnel, revise its lending methodology, improve its management information systems and expand branches. In the remaining 1.5 years of the project, it will be necessary to work closely with the board and management to improve their supervisory function. SOFD is de facto managed by the chairman of the board, rather than the executive director (ED). It is important to work with the chairman and the ED to better refine their roles and functions, and to make management changes if needed. As with Taiz, it is important for the board to be recruited and trained to supervise the ED. Clear targets and performance measures should be set and appropriate incentives or penalties should be made. It is critical that mid-level managers be strengthened and recruited. There is a need to hire an operations manager. The finance manager is new and will require continued support to be able to sufficiently learn and utilize financial management tools for microfinance (such as the MIS, microfin, ratio reporting, etc). Branch managers need to be strengthened and provided with appropriate tools to supervise and manage their personnel. SOFD should focus heavily on improving its existing operations, rather than expanding either geographically or with regard to product diversification.

Once its outreach increases, it continues to collect on its loans in arrears, and begins to see the results of its recent staffing changes, its portfolio indicators will likely improve considerably. As SOFD is the only institution among the three partners that has an existing loan with the SFD, on which payment is to commence in May 2005, it is important to work with SFD and SOFD to review its financials to ensure repayment can begin on this loan.

The objective of building a local TSP within the SFD should be revised. Instead, the focus of the remaining period within MicroStart II should be on improving the SFD's systems for serving as a wholesaler of funds and TA to the microfinance industry. Given the relationship between SFD and MicroServe, it is recommended that a resident advisor be placed within the SFD who can work with it to improve its monitoring functions, help it determine appropriate criteria and benchmarks for different instruments of support to MFIs (grants or loans), and establish its own sustainability projections (portfolio for loans, interest rate to be utilized, reducing its operating cost structure, etc). Involving the World Bank in the placement of this position, which is outside of the MicroStart II project, would be the most politically savvy approach to achieve significant impact with the SFD.

Given the growing donor interest in Yemen, any future support to the industry should be coordinated, and should look beyond the existing MicroStart II project. Coordination may be achieved through a multi-donor facility which aims at addressing all of the gaps in the industry or through a coordinated funding approach in which each donor identifies its strengths and takes on one or more of the gaps in the industry. UNCDF/UNDP's past experience and relationships with key government and nongovernmental players in the country places it in a unique position to assume a strong role in guiding future sector wide strategies. To fully embark on this, UNCDF should consider a full-time position placed within UNDP in Yemen.

The key gaps that remain in the industry which need future support include:

- Working with donors and government agencies to build consensus on a national policy framework for the microfinance sector in Yemen.
- Continued financial support to MFIs. Support should be in the form of both grants and loans depending on the level of the institution. Eventually, engaging commercial banks should be an important step in ensuring long term access to financing for the MFIs. Bank guarantees or other forms of incentives to encourage commercial bank involvement should be considered.
- Support in shifting the role of the SFD to that of wholesaler. This may entail a need to remove the SMED unit from the SFD and to support a revised lending methodology. It may also entail human resources changes internally. Coordinating this shift with the emergence of Bank Al Amal and other donor finance initiatives will be necessary.
- Support in building a pool of individuals and institutions that can serve as local technical service providers. The model and institutions selected by the IFC for their BDS training may be appropriate to explore further for building microfinance technical service providers. It is important to broaden the pool of individuals and institutions widely rather than focus only on MFI partners. Capacity building of individuals can take on many forms including participating in training, offering training of trainers in Yemen, financing research on the industry, financing internship opportunities to other countries and programs, financing resident experts who can work with specific institutions, and offering overall sector building activities, etc.

- Encouraging the formation of a national network which can serve to set standards for the industry, improve cross fertilization and learning, and serve as a forum for the sharing of information.
- In the mid to long-term, there will also be a need to work with the government to introduce a law on non-bank financial institutions which will serve as a better legal framework for MFIs.

ANNEX I
TERMS OF REFERENCE

United Nations Capital Development Fund

I. Project Background

Based on the recommendations of the MicroStart mid-term technical review and the legal/institutional assessment of the microfinance sector in Yemen and in support of the objectives of the Second CCF for the period (2002-2006), UNDP contracted UNCDF to undertake a joint formulation exercise for a second phase of the MicroStart project. As a result, the project "MicroStart II Transformation of the Microfinance Sector in Yemen" was approved and formally launched in June 2003 (after a four month delay following the first attack on Iraq) and will run until August 2006. Under this agreement, UNDP and the Dutch Government were to provide funding for capital grants to cover operating shortfalls and technical assistance to MFIs, the Social Fund for Development (SFD) was to supply follow up loans for MFI loan portfolios, and UNCDF was to provide all technical support to the project.

In August of 2003 the Dutch Government unexpectedly withdrew its support to the project due to unforeseen budget cuts. As a result in September 2003 an ad hoc investment committee meeting was called to assess a UNCDF investment in the ongoing MicroStart II Project to help bridge the financing gap and an investment of USD 800,000 was approved. UNCDF continued to provide technical support from HQ as well as management and financial support of the Project Management Component.

See Annex 1 for basic project data

II. The Project

The objective of the MSII Project is to support the development of professional, single purpose Microfinance Institutions (MFIs) in Yemen capable of reaching thousands of poor people (particularly women) on a sustainable basis. It intends to build upon the field level achievements of the first phase of the project (i.e. building the capacities of four local MFIs and increasing access by the poor to productive assets) and link with ongoing upstream policy support by establishing a new model for the future development of microfinance in Yemen and in the region more broadly. It will continue to contribute to the development of knowledge, expertise, and information sharing concerning microfinance at the local and central level and enhance the impact of development cooperative activities by:

a) Providing a tailored package of technical assistance and funding to three high performing MFIs to help them meet their intermediate stage growth and transformation objectives;

b) Providing a series of national workshops on relevant microfinance issues for all operators working in the sector;

c) Building the capacity of a Local Technical Service Provider (the Social Fund for Development's Small and Medium Enterprise Unit - SMED) to continue to support the sector through ongoing oversight, monitoring and training.

Building on the success of Phase I, Yemen is in the unique position the further jumpstart the development of its nascent microfinance industry. Through the creation of three sustainable microfinance companies that are each able to reach thousands of poor in their respective governorates, MicroStart II will demonstrate: (i) microfinance programs/projects with breakthrough potential can be institutionally and legally transformed into viable companies; and (ii) local capacity to undertake the required capacity and institution building can be developed. In effect, a legal and institutional model/example will be created that can be replicated in other governorates. Through ongoing policy dialogue with the government and other stakeholders from the private sector, lessons learned during Phase II will be disseminated and policy issues will be addressed.

The project is nationally executed by the Ministry of Labor and Social Affairs under the direct supervision of the Minister with the support of the UNDP Country Office and UNCDF headquarters.

III. Purpose of the Evaluation

The objective of the midterm evaluation is to review the progress of the project to date and make concrete, strategic recommendations in order to:

- Optimize the efficiency, effectiveness, relevance and impact of the project for the remainder of its duration;
- Provide stakeholders with an external, objective view on project status;
- Assess the validity of the project rationale, project design, key features and the appropriateness and value added of implementation agencies and partners for learning purposes;
- Provide accountability to financial supporters of the project and other project stakeholders.

Specifically, the mission will:

1. Assess overall progress in achieving project outputs, as specified in the project document and participating MFI business plans, and achieving (or likelihood of achieving) the immediate development objectives;

2. Assess the institutional and financial performance of the project's primary partners (SOFD, Al Awa'el and Hodeidah) and their ability to begin diversifying their funding base and accessing commercial capital. The mission will use the CGAP appraisal format as a guide, adapting as necessary for the youth and size of the participating organizations, and should highlight ongoing capacity building and funding needs;

3. Assess the variables that affect project performance, including:
    - o Managerial competencies, capabilities and innovation at all levels of implementation;

- Institutional and implementation arrangements, and partnerships, and their suitability for the successful attainment of project objectives;
- Managerial systems, including M&E and reporting systems, and their effectiveness as management tools;
- Quality and relevance of technical assistance provided under the project, and the effectiveness of the Technical Service Provider's efforts to build the capacity of the Local Counterpart (SFD/SMED) to provide adequate technical follow up and support to MFIs in the field;
- Financial management of the project;

4. Analyze the relevance of the project design, outputs, objectives, and comparative advantage of implementing and partner agencies to address the problem identified;

5. Assess and make recommendations on the sustainability of the implemented activities and the project transition strategy;

6. Assess MicroStart's added-value to the development of the microfinance sector in Yemen and comment on its relevance for a future sector development approach;

7. Identify any obstacles in the achievement of project results and make recommendations for more effective implementation of the MicroStart Programme where needed.

IV. Methodology

HQ Briefing

The consultant will receive a full briefing from the UNCDF Technical Manager before traveling to the field.

1. Review of Relevant project documents and files

The consultant will begin with a thorough desk review of all documents available on the project:

- Yemen Legal Review
- SFD Market SME Study
- MSII Project Document w/Annexes of three MFI Business Plans
- TSP Proposal
- TSP Workplan (Year 1 & 2)
- TSP Mission Reports
- TSP Annual Progress Report (Year 1)
- World Bank Appraisal Document (for reference)
- MFI updated Business Plans
- CGAP appraisal format
- MicroStart online reporting http://roo.undp.org/mst/index.cfm?MST=SUM

In Country Consultation

The consultant will meet with all relevant stakeholders in Yemen, beginning with project partners UNDP (Ministry of Labor and Social Affairs and the Social Fund for Development) and sector stakeholders (Central Bank and World Bank) in Sana'a, following up with participating MFIs in the field. While visits with the MFIs will focus mainly on an assessment of their internal operations, field visits to clients will also be important in evaluating institutional performance. All qualitative and quantitative data will be supplied by the MFIs in the field and will be used to assess planned vs. actual results achieved. Wherever possible, all evaluation data should be disaggregated by gender.

In-country Debriefing and Wrap-up Meeting

The consultant will hold a wrap-up meeting to debrief the UNDP Resident Representative, the Managing Director of the Social Fund for Development, the UNDP Assistant Resident Representative and Project Manager and the Director of the SMED Team, MFI representatives and other sector stakeholders of his/her mission findings. Minutes should be taken and sent to UNCDF HQ.

2. Compilation of Draft Final Report

The Consultant will be expected to submit a draft report one week after completion of the mission.

Debriefing of UNCDF HQ in New York by the consultant

The consultant will meet with the UNCDF Technical Manager to discuss mission findings and give a presentation to the UNCDF staff.

Finalization of the Report

Submission of a final draft of the report, incorporating all comments from HQ and the field will be due after the UNCDF HQ Debriefing.

V. Organization, Composition and Duration of the Mission

The evaluation will be carried with the joint support of UNCDF, UNDP and the Social Fund for Development. The UNDP Project Manager and the SFD SMED Director should be made available to support the evaluation mission as needed. The UNDP Project Manager will act as the focal point and will assist the consultant with all local logistics and travel. The UNCDF Technical Manager will check in periodically with the consultant in the field for regular updates.

The evaluation team will consist of a Microfinance expert with evaluation qualifications and regional experience. The tentative work-plan for the evaluation is as follows:

February 7^{th}	HQ briefing by Technical Advisor
February 8-9	(2 days) Desk review
February 12^{t} - 13th	(2 days) briefing, orientation meetings with UNDP, working session with SFD, work planning
February 14^{th} – 21^{st}	(8 days) field visits and consultation
February 22^{nd} – 23^{rd}	(2 days) Meetings with sector stakeholders in Sana'a
February 24-25^{th}	(2 days) Report Writing and meeting prep
February 26^{th}	(1 day) Wrap-up meetings and debriefing
February 26^{rd}	Mission Departs
February	(3 days) Final Evaluation report writing
TBD	(1 day) debriefing at UNCDF headquarters

The total assignment is for 21 days (14 work-days in country, 2 days mission prep, 2 days report finalization, 1 day HQ briefing/debriefing/presentation after the completion of the evaluation)

UNCDF Headquarters will recruit the Microfinance Expert on a lump sum contract with all travel arrangements (tickets and per diem) provided for upfront.

VI. Reporting

The consultants identified by UNCDF shall report to the UNCDF Technical Manager in HQ. In the field, the mission should report to the UNDP representative (i.e. the Resident Representative) and the SFD.

The mission should submit a Draft Evaluation Report no later than a week after the completion of the mission. An electronic version of the Evaluation report and Summary should be submitted to UNCDF, UNDP, the SFD and other relevant stakeholders for review and comments. An Evaluation Debriefing of UNCDF HQ by the Microfinance Expert will be arranged. The Microfinance Expert is expected to prepare a brief and clear presentation, preferably with use of PowerPoint or Overhead projector transparencies for this purpose. After the Evaluation Debriefing, the consultant should finalize the **Final Evaluation Report and Summary** within 2 weeks and submit electronically to UNCDF, UNDP and SFD. UNCDF will distribute the report to all parties concerned.

VII. Mission Costs and Financing

UNDP covers the evaluation costs of the Micro finance expert from the project budget and will provide UNCDF the appropriate Chart of Accounts for recruitment purposes. Payment agreements will be specified in the contract.

IX. FORMAT FOR THE EVALUATION REPORT

The Evaluation report should include the items listed below. The Evaluation team should feel free to elaborate and add additional relevant information:

1. Contents of the Evaluation Report

i. Table of contents

ii. Executive Summary, 2-3 pages providing an overview of the report, and a summary of the main findings and recommendations.

iii. List of abbreviations

iv. Project data sheet, providing key facts and figures on a single page

v. Introduction to the Evaluation, briefly stating the purpose of the mission, composition of the evaluation team, a schedule of activities carried out, the methodology used, and the structure of the report.

vi. Chapters (following from **Section III** above)

1. Evaluation of project results (by output):
    - Actual vs. planned results to date
    - Constraints
    - Relevance of output as strategy for addressing the problem identified
    - Likelihood of achieving project development objective
2. Evaluation of variables influencing achievement of project results
    - Institutional and implementation arrangements, and partnerships
    - Project management and systems performance (innovation, capacity,

financial management, M&E, reporting systems, etc)
    - Input delivery (financial, technical assistance)
    - External operational/policy environment as it relates to project performance
3. Evaluation of project relevance and added value
    - Relevance of project design, outputs and objective
    - Operational/policy environment as it relates to project relevance
    - Comparative advantage of implementing and partner agencies to address the problem identified
    - Added value of project/relevance for future sector development approach
4. Evaluation of sustainability of project results and project exit strategy
5. Lessons learned
6. Conclusion and recommendations

vii. List of persons interviewed

viii. List of documents and references used in the evaluation

ix. **MFI Appraisals**; an annex to the main report. This is distinct from the Executive Summary, and should contain appraisal reports of the 3 MFIs complete with financial data and portfolio performance information.

2. Contents of the Evaluation Summary

This is a 4-5-page annex to the main report. It is distinct from the Executive Summary, and should serve as a self-contained summary that may be read without reference to the main report. Outline:

a. Basic project data
b. Project background
c. Purpose of the evaluation
d. Key findings of the evaluation mission
e. Emerging issues and lessons learned
f. Recommendations of the mission
g. Members of the evaluation team

Annex: Project data

Country: Yemen

Full Project Number: 00031896

Project Title: MicroStart Phase II: Transformation of the Microfinance Sector in Yemen

Government Executing Agency: Ministry of Planning and International Cooperation

Approval Date: January 19, 2003
Starting Date: June 2003
UNCDF Approval: September 4, 2003
Completion Date: June 2006

Total Cost: US$ 1,437,908
Parallel Financing US$ 1,200,000

Financing

UNCDF:	US$ 800,000
UNDP:	US$ 537,908
GoY	US$ 100,000
SFD	US$1,200,000

Evaluation Date:	February 2005

ANNEX II
LIST OF PERSONS MET
(Outside of MFIs)

SFD
- Kais Ali Aliriani
- Najwa Abdullah Al-Adhi
- Kassem Mohsen Hamid

Small Enterprise Development Fund
- Khalid Al-Khalidi

Central Bank
- Abullah Al-Olofi

UNDP
- Randa Aboul-Hosn
- Khaled Magead
- Flavia Pansieri

IFC
- Saad Sabrah

GTZ
- Ewald Gold
- Dr. Helmut Grosskreutz
- Mr. Habib Sheriff
- Rolf Behrndt

USAID
- Shaif Al-Hamdany
- Dr. Douglas Heisler

ANNEX III
LIST OF DOCUMENTS REVIEWED

UNCDF:

- Project Document "MicroStart Phase II: Transformation of the Microfinance Sector in Yemen YEM/03/100
- Yemen Legal Review

TSP Reports and documents:

- Proposal
- TSP Workplan (Year 1 & 2)
- TSP Annual Progress Report (Year 1)
- TSP mission reports

MFI Reports and documents:

- Business plans
- Updates strategic plans
- CGAP ratio and financial reports for all 3 MFIs for 2004

Other documents:

- SFD Market SME Study
- World Bank Appraisal Document
- CGAP appraisal format

ANNEX IV
APPRAISAL TAIZ

Al Awa'el for Microfinance

I. Summary

	Data as of December 2004
Number of active loans	1,544
Total outstanding loan balance (Riyal)	23,113,080
Total outstanding loan balance (US$)	$124,935
Average loan balance (US$)	$81
Number of voluntary savings clients	0
Total balance of voluntary savings accounts (US$)	0
Portfolio-at-risk (more than 30 days late)	2.39%
Number of branches	3
Number of credit officers	11
Active loans per credit officer	179
Active portfolio per credit officer (Riyal)	1,781,169
Active portfolio per credit officer (USD)	$9,627
Administrative efficiency	7.9%
Annual Portfolio yield	51.3%
Operational self-sufficiency	104.7%
Financial self-sufficiency	93%

Summary of major conclusions and recommendations

Vision:
- Currently focused on growth in the governorate, with relatively modest growth target to reach 5,000 clients.
- Aim is to maintain a sustainable institution, but no clear vision yet to rely on commercial sources to achieve this.

Ability to reach massive numbers while relying on commercial funding:
- Limited capacity to access commercial funding.

Fundamental operating changes required:
- Governing structure: need to strengthen governing body and transfer oversight of director to the board. Currently board is young without much experience in MF (except for Social Fund) and capacity is not strong enough to assume oversight of management.
- Leadership: Committed leader but limited capacity to take the institution to the next level.

II. Institutional Factors

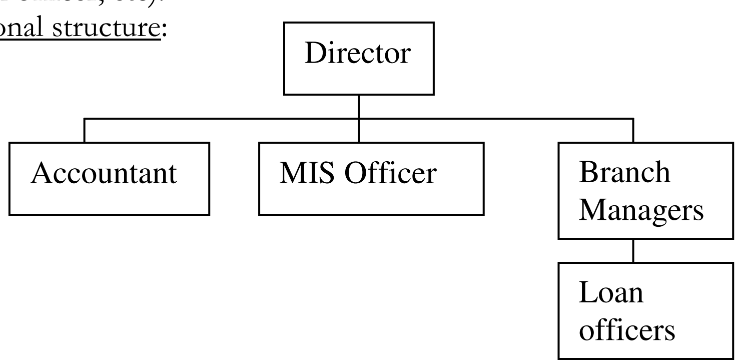
Legal structure
The institution has been transitioning from a stand alone microfinance project to a company. Al Awa'el has completed the formalities of the transition except for transfer of UNDP funds from the project account to the company.

History
Donor support

Source	*Date*	*Amount (US$)*	*Terms*	*Currency*	*Status*
1. MicroStart I		US$150,000	grant	U.S. dollars	Fully disbursed
2. MicroStart II		US$150,000	grant	U.S. dollars	$40,000

Ownership and board of directors

Shareholders: Six shareholders, of which SFD maintains 26%. Other shareholders include the husband of the director, a doctor, two sheiks, one of whom is currently a local politician.
Board: Three board members. Chairman of the board is local politician. Board has not yet met regularly.
Alliances**:** The organization is heavily reliant on UNDP as its main donor and technical assistance provider. Under MicroStart II, the program has had to also fall under the SFD umbrella but this has been a difficult transition for them to make and there remains many problems between the SFD and Al Awael, despite the fact that the head of the SMED unit sits on the board of the organization.
Leadership**:** The current executive director is also the founder of the project when it was first under the women's union and then branched out as an independent project. Anissa has been able to see the institution transition from a project to an independent MFI, but in the process has also revealed some weaknesses which put into question her ability to take the institution to the next level of growth. Her strengths include her experience in lending and her quality control on the portfolio. Her weaknesses include her limited vision as a leader, a focus on herself versus the institution, and limited managerial skills (in technology, analysis of financial data and portfolio data, human resource management, etc).
Human resource management: There is no separate HR department. All recruitment is lead by the Executive Director with assistance from the TSP. Loan officers are hired on a probationary 2-month period during which they undergo training by either the TSP or the SFD, then they shadow another loan officer until they are ready for their own portfolio. There is some turnover among loan officers, but this is explained as due to poor performance or their inability to adapt to field work. Generally, staff is hired out of college or school and this is their first job. While others have indicated that the staff are unhappy under Anissa's management, this was not directly expressed by any of the staff interviewed for this evaluation (branch managers, loan officers, management information officer, etc).
Organizational structure:



The current organizational structure is appropriate for a one-branch operation, rather than a growing organization. Mid-level management is required in order for the organization to grow.

Management information system: Al Awa'el maintains both the ABA and the SFD systems. It has two individuals in the MIS department, one of whom may be departing in the near term. The MIS has been a source of trouble for Al Awa'el in the past as they have had to send the whole hard drive to ABA for maintenance. They were able to negotiate a new maintenance contract with ABA which has included the provision of the latest version of the MIS with ongoing support for one year. Al Awa'el continues to prefer the ABA system over the SFD although they are maintaining data in both systems to test the SFD system before making a formal switch.
Internal control system, audits, and supervision: There is no internal auditor, although they are considering hiring this position. Good controls with regard to the loan disbursement and collection process.
Financial managers: The organization has an accountant who is new and does not have a financial manager. They do not see the need for such a position at this stage. They have had considerable turnover with the accounting position. They have lost two accountants in the last two years. The current accountant is new and is still undergoing training.

III. Services, Clientele, and Market

Services: Al Awa'el offers both group and individual loans. Group loans are issued to a group of 5 to 7 members and loan cycles start at 6 months and progress up to 14 months. Individual loans require a guarantor who is an employee with a regular salary.

Outreach:
Outreach figures for Al Awa'el may be inaccurate. The organization has had difficulties with its MIS and seems to have overestimated its outstanding portfolio and active clients and is in the process of correcting this information in its system. It has had to re-enter loan data into its system. Figures reported below are from a summary report obtained during the site visit. The CGAP monitoring report as of December 2004 has slightly different information. It is unclear which of these is accurate. Al Awa'el has not grown significantly in outreach during 2004. At the beginning of 2004, its active outstanding portfolio was 1,355 and by the end of the year it is reportedly 1,544.

Branches/ Offices	2
Employees per branch	6
Loan officers per branch	4
Number of active clients	1,544
Percent women	100%
Average balance per loan	$81
Average balance per loan as a percent of per capita GDP	20%

Clientele:
Al Alwa'el defines its client market as women entrepreneurs with small and medium businesses residing in the three municipalities of Taiz City. Al Awa'el is most active in the poorest areas in Taiz, but does not limit participation to the poor.

IV. Strategic Objectives

Al Awa'el's outreach objectives are to:

- Increase outreach of individual loans by December 2005 to 900 clients, with a loan portfolio value of 10,800,000 Riyals.
- Increase group loans by December 2005 to 1,000 clients with a loan portfolio value of 4,300,000 Riyals.
- Total outreach target by December 2005 is 1,900 active clients with an outstanding loan portfolio value of 15,100,000 Riyals.

Institutionally, Al Awa'el's objectives are to:

- Redesign individual loan product
- Develop new products
- Improve institutional policies and procedures, financial and administrative systems and develop its human resources by increasing staff, improving salary scales and incentive system and improving the MIS.

In general, the above strategic objectives reflect the limited vision and capacity of the current executive director and board. They do not, however, reflect the potential for this organization to grow. An institution at this level of development should be able to achieve more aggressive expansion. In order to do so, there will be a need to address the lack of vision and capacity at the management level as highlighted elsewhere in this report.

V. Financial Performance

Al Awa'el's financial statements are provided below. The organization is able to cover a significant level of its operating budget through income from interest and fees, as seen in its Income Statement. This capacity is commendable, however, as the institution grows and makes investments in its staff (including raising the salary scale), its profitability is sure to decrease. This is normal and necessary.

As per the ABA model which was brought over to Yemen by the former TSP, Al Awa'el places its grant funds in a dollar account at the bank as a guarantee, and borrows from the bank in local currency against these funds. This mechanism allows the organization to hedge foreign exchange risk. Thus Al Awa'el's balance sheets shows both high cash reserves and bank loans, however, the organization is not actually flush with cash reserves, as may appear from first glance. Given its existing funds used as guarantees, the MFI can borrow up to 28,000,000 Riyals from its bank. It currently has approximately 16,110,614 Riyals outstanding, which means it still has over 100,000,000 riyals to draw down given its line of credit with the bank.

Financially, Al Awa'el is one of the strongest MFIs in Yemen. It maintains low costs while attaining 104% operational self-sufficiency. As mentioned elsewhere, Al Awa'el's cost structure will need to change to reflect its growth and its ability to retain high level personnel. This will reduce its financial performance, but will be important to improve its institutional sustainability in the long term.

Operationally, Al Awa'el has excellent portfolio quality with PAR>30 days of 2.39%. Its administrative efficiency is good, however its overall productivity, with a loan officer case load of 179, is lower than international standards and can be improved, especially given its recent shift toward group lending.

INCOME STATEMENT - Taiz (Al Awa'el)

Exchange rate *185.00*

	Yemeni Riyals	US Dollars	Yemeni Riyals	US Dollars
INCOME	**2003**	**2003**	**2004**	**2004**
Income from interest and fees	6,764,681	36,565.84	893,544	4,829.97
Other financial income	164,919	891.46	0.00	0.00
Other investment income	0.00	0.00	60,508	327.07
Total Income	**6,929,600**	**37,457.30**	**954,052**	**5,157.04**
EXPENSES				
Bank fees	1,219,742.89	6,593.21	129,174	698.24
Provision for loan losses	0.00	0.00	102,726	555.28
Administrative expenses - salaries	2,877,035	15,551.54	421,255	2,277.05
Administrative expenses - other	1,199,513	6,483.86	635,761	3,436.55
Total Expenses	**5,296,290**	**28,628.60**	**1,288,917**	**6,967.12**
Net income / loss	**1,633,309**	**8,828.70**	**-334,864**	**-1,810.08**
Other Income and Expenses				
Grants	0.00	0.00	0.00	0.00
Other income	0.00	0.00	51,532	278.56
Other expenses	0.00	0.00	0.00	0.00
			0.00	0.00
Total Income / Loss	**1,633,309**	**8,828.70**	**-283,331**	**-1,531.52**

BALANCE SHEET - Taiz (Al Awa'el)

Exchange rate *185*

	Yemeni Riyals	US Dollars	Yemeni Riyals	US Dollars
ASSETS	**2003**	**2003**	**2004**	**2004**
Cash at bank	22,509,355	121,672.00	3,784,986.97	20,459.39

Reserve in central bank	0.00	0.00	0	0.00
Short-term investments	0.00	0.00	19,046,332.80	102,953.15
Loan portfolio	16,773,926	90,669.90	19,592,856.00	105,907.33
Loan loss reserve	-33,005	-178.41	-587,786.00	-3,177.22
Other short-term assets	174,535	943.43	3,962,174.00	21,417.16
Long term investments	0.00	0.00	0	0.00
Other assets	0.00	0.00		0.00
Fixed assets	560,066	3,027.38	2,885,680.34	15,598.27
TOTAL ASSETS	**39,984,878**	**216,134.00**	**48,684,244**	**263,158.08**
LIABILITIES				
Savings accounts	0.00	0.00	0	0.00
Bank loans	9,940,184	53,730.73	12,125,906	65,545.44
Central bank loans	0.00	0.00	0	0.00
Other short-term liabilities	274,270	1,482.54	3,984,789	21,539.40
Other donor funds (UNCDF)	0.00	0.00	403,240	2,179.68
TOTAL LIABILITIES	**10,214,454**	**55,213.27**	**16,513,935**	**89,264.51**
EQUITY				
Paid in capital - founders	0.00	0.00	1,760,400	9,515.68
Paid in capital shareholders previous years	25,727,442	139,067.26	28,996,202	156,736.23
Paid in capital shareholders current year	3,672,000	19,848.65		0.00
Profits/losses previous years	-1,262,329	-6,823.40	1,149,961	6,216.01
Profits/losses this year	1,633,309	8,828.70	-334,864	-1,810.08
Other equity	0.00	0.00	598609	3,235.73
Exchange gain/losses	0.00	0.00		0.00
TOTAL EQUITY	**29,770,423**	**160,921.21**	**32,170,309**	**173,893.56**
TOTAL LIABILITIES AND EQUITY	**39,984,878**	**216,134.48**	**48,684,244**	**263,158.08**

ANNEX V
APPRAISAL AL HODEIDAH

I. Summary

	Data as of December 2004
Number of active loans	1,125
Total outstanding loan balance (Riyal)	7,845,295
Total outstanding loan balance (US$)	$42,407
Average loan balance (US$)	$37.70
Number of voluntary savings clients	0
Total balance of voluntary savings accounts (US$)	0
Portfolio-at-risk (more than 30 days late)	0%
Number of branches	4
Number of credit officers	14
Active loans per credit officer	80
Active portfolio per credit officer (Riyal)	560,378
Active portfolio per credit officer (USD)	$3,029
Administrative efficiency	34.05%
Annual Portfolio yield	35%
Operational self-sufficiency	19.56%
Financial self-sufficiency	18.18%

Summary of major conclusions and recommendations

Vision:

- The current plan is to reach 4,000 clients in 2005 and accordingly its targets for 2006 may also be adjusted upward.
- Aim is to maintain a sustainable institution.

Ability to reach massive numbers while relying on commercial funding:

- While Al Hodeidah has put in place sound systems and procedures for expansion, it still has limited capacity to expand significantly with commercial funding. Al Hodeidah will likely be reliant on donor funding for the near to mid-term.

Fundamental operating changes required:

- Al Hodeidah is set on the right path and needs the time and resources to train its staff before expanding massively. There is a need to put in place an operations manager and to continue to provide training for its branch managers and finance manager.
- With regard to its institutional transformation, Al Hodeidah needs to identify other board members and local counsel to get the process started.

II. Institutional Factors

Legal structure
Project within a larger multi-sector women's NGO. There are plans to form a separate not-for-profit company and some thought as to the board membership and shareholders has been taken, but no legal procedures have yet been followed.

History
The organization was the first to be established in Yemen. It was established in 1997 by the Women's Union with support from SFD. Due to a major fraud issue, the organization had to write off a substantial amount of its portfolio, fire a large number of staff and replace the director.

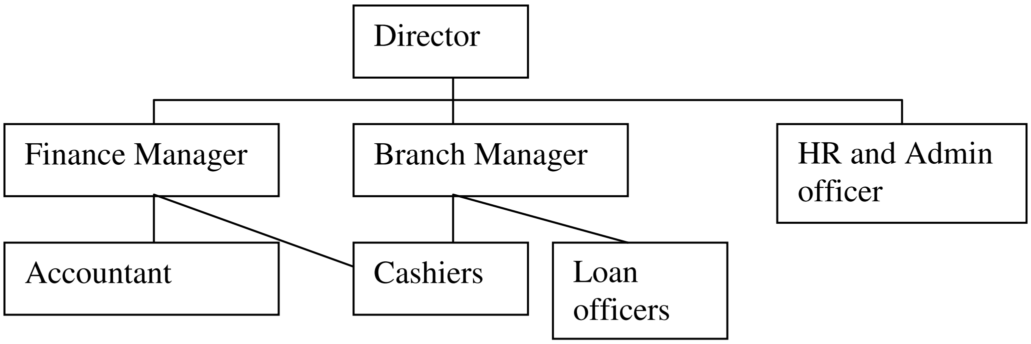
Donor support

Source	*Date*	*Amount (US$)*	*Terms*	*Currency*	*Status*
1. SFD	1998	$378,378	grant	U.S. dollars	Fully disbursed
2. MicroStart II	2003-6	US$150,000	grant	U.S. dollars	Received $60,00
Total		$528,378.00			

Ownership and board of directors

Shareholders: None.
Board: The board is composed of the same board members as that of the Women's Union. The Chairman of the Board is very active in the organization, conducting field visits with the director and staff. She will remain on the board when the project transforms into an independent company as will some of the existing board members. The plan is to increase board membership beyond the Women's Union.
Alliances: The organization's history is closely linked with SFD's work in Yemen. In its early phases, SFD would give direct orders to personnel, often bypassing the director. The relationship has now changed and SFD takes a more hands off approach. The project currently relies primarily on UNDP and the MicroStart Program as its main donor and technical assistance provider.
Leadership: The current executive director has a banking background, where he started as a loan officer. He has been with the organization for approximately two years and has worked to clean up the high default it experienced prior to the MicroStart grant. With support from MicroServe, he has instituted much more stringent lending and collection systems which limit opportunities for fraud. The director appears to be well informed of best practice microfinance principles, which he adapts to the local situation. He is focusing on transferring knowledge to staff through conducting in-house training and providing exchange and training opportunities to his branch managers and other key personnel.
Human resource management: One staff member, and administrative officer, handles human resources for the organization in coordination with the director. Al Hodeidah has a full HR manual which depicts job descriptions, salary scales and all other HR details. This manual was developed through support of an SFD consultant and has been adopted by SFD for all of its other programs.

Organizational structure:



Management information system: Hodeidah utilizes the SFD's MIS. Four staff members have access to the system over a network, each with different access levels depending on the position. There is one staff person dedicated to data entry. The Finance Manager, accountant, as well as the Executive Director are the only other staff members with access to the system. Reports are provided to branch managers on a weekly basis.

Internal control system, audits, and supervision: There is a newly hired internal auditor who is a recent graduate with an accounting degree. Her role is primarily operational auditing, rather than financial at this stage and she will be reporting to the Director. The Director is aware that at a future stage the organization will also need financial audit functions with reporting directly to the board of directors.

Financial managers: The Financial Manager has been with the organization for more than a year. He has attended several courses including Microfin as well as Financial Analysis. He is able to update and maintain the CGAP financial and ratio reporting formats, provided to the MFIs by MicroServe, and analyze and review the results on a monthly basis.

III. Services, Clientele, and Market

Services:

Al Hodeidah provides both individual loans and group loans to both female and male clients. It started with a predominantly male clientele and when completing its business plan in 2002, its aim was to reach a 50-50 split between male and female clients. The organization has significantly surpassed this aim and now has a 90-10 split favoring women.

Group loans start at 6,000 Riyals for 6-months and expand progressively with each cycle. The intent is that individuals within a group can qualify for an individual loan after completing three cycles, although this is not a fixed rule.

Individual loans are also available if a client has a guarantor, which can be either an employee or a business owner. Loan sizes are much larger and can go as high as 150,000 Riyals

Outreach:

Al Hodeidah has grown from only 105 clients at the end of 2003 to 1,125 as of December 2004. It continues to maintain this level of growth despite reducing its staff from 43 to 33 since the fraud incident. Staff is hired from among the communities it reaches. The organization maintains 3 branches in the city of Al Hodeidah and one branch in the rural areas. Growth in the rural branch has been strongest thus far. It maintains a branch manager, a cashier and loan officers at each branch. Branch managers are hired with a university degree in accounting and undergo training with the Executive Director, SFD or MicroServe. All branch managers are women and those interviewed for this review were highly competent and appeared to understand their roles and positions well.

Branch Offices	4
Employees per branch	6
Loan officers per branch	4
Number of active clients	1,125
Percent women	90%
Average balance per loan	$37.70
Average balance per loan as a percent of per capita GDP	10%

<u>Clientele:</u>
Al Hodeidah defines its client market as the economically active poor. They do not perceive their mission as targeting the poorest of the poor, not do they limit the lending to poor clients only. Clients have to have either previous experience or an active activity before they will be considered for a loan. Initially, Al Hodeidah focused on both men and women but has found that women are more reliable clients and most of its growth in the past year as been group loans for women.

IV. Strategic Objectives

Al Hodeidah has defined its objectives as follows:
- Transform to a microfinance company.
- Increase active clients to 5,000 by end of 2006.
- Increase client retention.
- Decrease staff turnover.
- Expand to 4 branches.

The revised objectives set forth in Al Hodeidah's new strategic and business plans are realistic given its recent achievements. More aggressive growth may be possible given the organization's current capacity and continued TA support as recommended in this evaluation. Expanding its product range may have significant implications for outreach, which is highly recommended.

V. Financial Performance

Given Al Hodeidah's cost structure, the organization is still far from covering all of its costs from interest income and fees. Rather than retaining high cash balances, the organization should maximize its income by expanding its outreach. Both the chairman of the board and the executive director perceive that the organization is short on cash for expansion. Support on managing its cashflow may be required. Additionally, assurances that either additional grants or loans are available to meet expansion may also be needed.

Al Hodeidah has a set level of loan loss reserve and only provisions for additional funds should its reserve fall below this level. Its 2004 income statement does not reflect additional loan loss provisioning as its loan loss reserve is 6% of its outstanding portfolio, which is significantly higher than its current PAR>30 days of 0%.

Al Hodeidah's operational self sufficiency is quite low at only 19.56%, but this is a reflection of the significant changes that the organization has undertaken to improve its portfolio quality in the past year. Its efficiency and sustainability ratios are expected to improve considerably as its outreach expands. Currently, the loan officer caseload is only 80 per loan officer which is far below optimal capacity and much lower than regional or international standards. However, this is a reflection of the time of this evaluation, rather than the potential level of productivity of the organization.

INCOME STATEMENT Al-Hodeidah

Exchange rate *185*

	Yemeni Riyals	US Dollars	Yemeni Riyals	US Dollars
INCOME	**2003**	**2003**	**2004**	**2004**
Income from interest and fees	43,783	236.66	305,899	1,653.51
Other financial income	557,969	3,016.05	220,686	1,192.90
Other investment income	2,332,180	12,606.38	0	0.00
Total Income	**2,933,932**	**15,859.09**	**526,585**	**2,846.41**
EXPENSES				
Bank fees	0	0	0	0.00
Provision for loan losses	0	0	0	0.00
Administrative expenses - rent and salaries	510,766	2,760.90	1,776,124	9,600.67
Administrative expenses - other	1,745,155	9,433.27	915,922	4,950.93
Total Expenses	**2,255,921**	**12,194.17**	**2,692,046**	**14,551.60**
Net income / loss	**678,011**	**3,664.92**	**-2,165,461**	**-11,705.19**
Other Income and Expenses				
Grants	0	0	0	0.00
Other income	0	0	0	0.00
Other expenses	0	0	0	0.00
	0	0	0	0.00
Total Income / Loss	**678,011**	**3,664.92**	**-2,165,461**	**-11,705.19**

BALANCE SHEET - Al Hodeidah

Exchange rate *185*

	Yemeni Riyals	US Dollars	Yemeni Riyals	US Dollars
ASSETS	**2003**	**2003**	**2004**	**2004**
Cash at bank	38,035,984	205,599.91	19,894,832	107,539.63
Reserve in central bank	0.00	0.00	0.00	0.00
Short-term investments	0.00	0.00	0.00	0.00
Loan portfolio	1,074,407	5,807.61	7,845,120	42,406.05
Loan loss reserve	-377,723	-2,041.75	-490,096	-2,649.17
Other short-term assets	1,432,943	7,745.64	2,270,797	12,274.58
Long term investments		0.00	0.00	0.00
Net fixed assets	5,236,229	28,303.94	4,597,238	24,849.94
TOTAL ASSETS	**45,401,840**	**245,415**	**34,117,891**	**184,421**
LIABILITIES				
Savings accounts	0.00	0.00	0.00	0.00
Bank loans	0.00	0.00	0.00	0.00
Central bank loans	0.00	0.00	0.00	0.00
Other short-term liabilities	3,381,332	18,277.47	5,340,087	28,865.34
Other long-term liabilities	0.00	0.00	0.00	0.00
TOTAL LIABILITIES	**3,381,332**	**18,277.47**	**5,340,087**	**28,865.34**
EQUITY				
Paid in capital - founders	0	0	0.00	0.00
Paid in capital shareholders previous years	92,749,792	501,350.23	96,421,792	521,198.88
Paid in capital shareholders current year	3,672,000	19,848.65		0.00
Profits/losses previous years	-23,342,366	-126,174.95	-68,436,219	-369,925.51
Profits/losses this year	-31,058,918	-167,886.04	-2,165,461	-11,705.19
Other equity	0.00	0.00	2,960,392	16,002.12
Exchange gain/losses	0.00	0.00	0.00	0.00
Total Equity	42,020,508	227,137.88	28,780,504	155,570.29
TOTAL LIABILITIES AND EQUITY	**45,401,840**	**245,415.35**	**34,120,591**	**184,435.63**

ANNEX VI
APPRAISAL SOFD - SANA'A

I. Summary

	Data as of December 2004
Number of active loans	1,143
Total outstanding loan balance (Riyal)	7,769,973
Total outstanding loan balance (US$)	$41,999.75
Average loan balance (US$)	$36.75
Number of voluntary savings clients	0
Total balance of voluntary savings accounts (US$)	0
Portfolio-at-risk (more than 30 days late)	68%
Number of branches	3
Number of credit officers	9
Active loans per credit officer	127
Active portfolio per credit officer (Riyal)	863,330
Active portfolio per credit officer (USD)	$4,666
Administrative efficiency	21%
Annual Portfolio yield	41%
Operational self-sufficiency	29%
Financial self-sufficiency[1]	26%

Summary of major conclusions and recommendations

Vision:
SOFD's vision is to offer credit to women with active enterprises and to transform into a financial company.

Ability to reach massive numbers while relying on commercial funding:

- SOFD is undergoing massive transformation after a serious fraud incident in 2004. They have had to lay off a large number of personnel and train new staff. They have revised their lending methodology, their internal control systems, and their disbursement and collection procedures. In 2005, their aim is to transform into a not-for-profit company and they have been focusing on working with lawyers and various ministries to ensure that they have the legal backing to make a transformation that will be recognized under Yemeni laws. Given their very transitional nature, it is unlikely that SOFD can expand aggressively in the near term or rely on commercial sources. While SOFD has been around for 5 years, it is currently at the level of development of a relatively new organization given its recent fraud incidents and its institutional changes.

Fundamental operating changes required:

[1] Please note that this is self-reported data from the CGAP ratio and financial statements report. The accounting assistant has been producing this report and it is likely that there are some errors.

- Identify and train board of directors.
- Train key management staff (financial manager, operations manager, branch managers).
- Implement new lending methodology and ascertain relevance for target clientele. Introduce or modify products as needed.

How long is it likely to reach this target:

- SOFD will require several more years of donor supported activity before it can rely exclusively on commercial sources of funding.

II. Institutional Factors

Legal structure

SOFD is currently a project within a multi-sectoral NGO. It is in the process of forming an advisory board to allow it to transition into a company by the end of 2005. SOFD has done extensive legal research to explore its transformation options and is in the process of getting governmental approval to form a not-for-profit company with the legal capacity to undertake lending services with interest.

History

SOFD was one of the institutions selected to work under MicroStart I. It received institutional support from ABA under MicroStart I. Due to its interest in the transformation from a project into a company, SOFD was also selected as an implementing partner for MicroStart II. As part of its involvement on MicroStart II, SOFD received a loan from SFD in May 2004. The loan is for 3 years with a one year grace period and 5% annual interest rate. Most recently, SOFD was able to obtain a grant from the AgFund after applying to get their involvement as a partner in their transformation into a company.

Donor support

Source	*Date*	*Amount (US$)*	*Terms*	*Currency*	*Status*
MicroStart I	1999-2002	$150,000	grant	US dollars	Fully disbursed
MicroStart II	2003-6	$150,000	grant	U.S. dollars	Received $40,000
SFD	2003-6	$120,000	loan	U.S. dollars	Fully disbursed
AgFund	2005	$60,000	grant	US dollars	Received $30,000
Total		**$480,000.00**			

Ownership and board of directors

Shareholders: None.

Board: The board is composed of the same board members as that of the host association. The Chairman of the Board is very active in the organization, and has been active in the plans and legal research for transformation of the organization. She has also participated in the Sanabel conference held in Egypt. The organization has put together an advisory board made up of representatives of its donors as well as individuals from the association. Their plan is to approach key businessmen in the community to for the official board of the company once it is transformed. They have already identified the future Chairman.

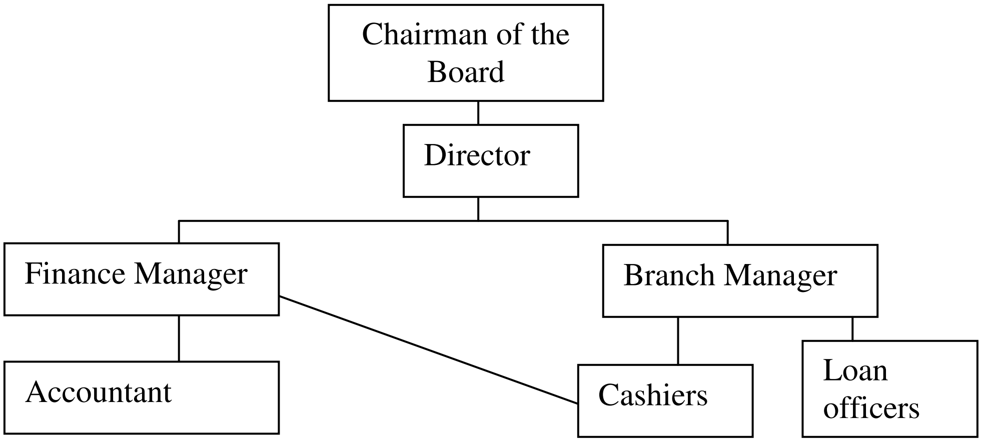
Alliances: SOFD was founded by the MicroStart project and remains heavily involved and indebted to that program. While they are now an SFD partner, they see them purely as a lender and do not consider themselves one of the SFD organizations. SOFD has approached other donors to form alliances and was recently awarded a grant from AgFund.

Leadership: The current executive director has been with the organization since inception. Prior to working on the MicroStart project, she was involved with the association as a consultant. Her educational background is in accounting and she worked as an accountant with the association prior to leading the project. The director has participated in numerous trainings offered by both ABA and MicroServe. She attended the Sanabel conference in Jordan and has visited ABA in Alexandria. While she has attended the Microfin training offered by MicroServe, however, she has not yet been able to use the program. She has expressed the need for additional training in numerous areas including: market research, branch expansion, financial analysis, and financial projections.

Human resource management: Only 4 of the old loan officers are part of the existing staff. Over 10 were fired after the fraud incident, including 1 who is now in jail and several others who are making monthly payments to the organization. Salaries have been raised but continue to be below private sector work. Loan officers used to earn between 8,000 to 14,000 Riyals depending on their educational background. They would also qualify for incentives. The new salary grades will take effect March 1 and loan officers will make 20,000 regardless of educational backgrounds. Working hours will also increase by 2 hours each day. In addition to loan officers, branch mangers also qualify for the incentive plan. Their incentives are based on cost of branch operations as well as portfolio at risk.

Organizational structure:

The Chairman of the board has recently taken on a great deal of direct management responsibility in coordination with the director. This shift was a result of the crises with loan officers which was recently discovered. The Chairman is a strong and dynamic individual and her growing involvement has strengthened SOFD.



<u>Management information system</u>: SOFD utilizes the SFD's MIS. It used to use the ABA software but encountered a great deal of problems. ABA's software also did not track group loans. Many staff persons have access to the software for different purposes. There is one staff person dedicated to data entry. The Finance Manager, accountant, as well as the Executive Director have access to the system. Branch managers also access it and print out their own reports when needed.
<u>Internal control system, audits, and supervision</u>: The accounting staff is not involved in actual loan disbursement or collection. This function is handled by the cashier. There is an internal auditor who was recently hired who is undergoing training. This position will focus on program audits, rather than financial audits, but a financial auditing position will be created in the future. The introduction of branch managers and a transformation of their loan disbursement and collection systems are aimed at improving their internal control systems. The program undergoes an external audit annually.
<u>Financial managers</u>: A new finance manager has recently been hired and is still undergoing training. He is currently being trained by a MicroServe trainer. The previous finance manager was engaged in other employment and was not providing sufficient hours or financial oversight on the program and was asked to leave. The default problems of the past did not include any of the finance personnel but was limited to loan officers. However, had the financial manager been vigilant in his duties, the fraudulent activities could have been identified earlier. There is an accountant who works as the financial manager's assistant. Over the course of the period where there was no finance manager, she undertook the responsibilities of this position including the completion of the CGAP reporting forms. All accounts are done manually, but there are plans to install separate accounting software.

III. Services, Clientele, and Market

<u>Services</u>: SOFD is in the process of transitioning from a mainly individual lending methodology to a group lending methodology. As clients finish their loans, those with excellent repayment will be offered the opportunity to take a group loan with sizes somewhat less than their individual loans but larger than the introductory loan size of 6,000 for the group loan. New group clients will be limited to loan sizes starting at 6,000 for 4 months. Progressive cycles increase up to 21,000 Riyals with correspondingly longer loan terms.

<u>Outreach</u>: SOFD has had to write off a substantial amount of its portfolio. Over 5,000,000 Riyals of the portfolio was stolen by loan officers, and is therefore considered unrecoverable. It is now

considered to be 4,000,000 Riyals as some funds were collected from the families of employees who stole the money. The organization has spent significant resources on legal cases and continues to collect from former employees and their families.

Branch Offices	3
Employees per branch	6
Loan officers per branch	4
Number of active clients	1,143
Percent women	100%
Average balance per loan	$36.75
Average balance per loan as a percent of per capita GDP	9.5%

The program currently has 944 active clients with 6,898,828 Riyals in individual loans and 199 clients (28 groups) with 871,145 Riyals in group loans. However, it is important to note that these numbers reflect fraudulent loans and the figures are expected to decrease considerably once adjustments are made to the portfolio. It is estimated that only 300 to 400 loans will remain on the books.

Clientele: SOFD defines its client market as economically active women. They do not perceive their mission as targeting the poor, however, given their branch network, they operate in poor neighborhoods.

IV. Strategic Objectives

SOFD has identified its strategic objectives as:

- Transform to a microfinance company.
- Increase active clients to 3,500 by end of 2005.
- Focus on building foundation of a company, rather than outreach.
- Reach sustainability by 2007.

The strategic objectives set forth in SOFD's revised strategic and business plans are realistic given its current capacity. A more aggressive growth objective is not advised as it is important that SOFD first demonstrate improved operational and financial performance.

V. Financial Performance

Despite its heavy losses due to fraud, SOFD's income statement shows that it is able to cover approximately 1/3 of its costs. Given the recent investments in new staff, it is likely that this financial scenario will not improve in the near to mid-term. Furthermore, the organization has not provisioned sufficiently to cover unrecoverable loans.

SOFD received a loan from SFD for the amount of $199,243. Its balance sheet shows liabilities valued at only $94,364, and it is unclear where the balance of this loan is depicted on its statements. Repayment on the loan commences in May 2005. As SOFD has not had an appropriate finance manager until recently, it is likely that these statements are inaccurate and require modifications. Numerous errors were also evident in the CGAP ratio report which has been produced by the assistant accountant. The new finance manager was undergoing training during the site visit. It will be necessary for the TSP to work closely with this new manager to ensure that past statements and reports are modified.

SOFD's ratios will need to be adjusted as it writes off its unrecoverable loans and cleans up its portfolio. Current figures show low operational sustainability at only 29%. Its administrative efficiency at 21% appears better than it should as does its loan officer case load at 129 per loan officer. Both of these ratios will be expected to worsen significantly once the portfolio is adjusted properly.

INCOME STATEMENT – SOFD

Exchange rate			*185*	
	Yemeni Riyals	**US Dollars**	**Yemeni Riyals**	**US Dollars**
INCOME	**2003**	**2003**	**2004**	**2004**
Income from interest and fees	651,879.00	3,523.67	360,021.00	1,946.06
Other financial income	0.00	0.00	5,000.00	27.03
Other investment income	21,596.80	116.74	316,492.29	1,710.77
Total Income	**673,475.80**	**3,640.41**	**681,513.29**	**3,683.86**
EXPENSES				
Bank fees	0.00	0.00	0.00	0.00
Provision for loan losses	389,400	2,104.86	549,821	2,972.01
Administrative expenses - rent and salaries	291,307	1,574.63	657,104	3,551.91
Administrative expenses – other	80,599	435.68	674,936	3,648.31
Total Expenses	**761,306**	**4,115.17**	**1,881,861**	**10,172.23**
Net income / loss	**-80,599**	**-435.68**	**-1,200,348**	**-6,488.37**
Other Income and Expenses				
Grants	0.00	0.00	0.00	0.00
Other income	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00
Total Income / Loss	**761,306**	**4,115.17**	**-1,200,348**	**-6,488.37**

BALANCE SHEET – SOFD

Exchange rate			*185*	
	Yemeni Riyals	**US Dollars**	**Yemeni Riyals**	**US Dollars**
ASSETS	**2003**	**2003**	**2004**	**2004**
Cash at bank	7,575,027	40,946.09	26,540,473	143,462.02
Short-term investments	6,417,263	34,687.91	11,451,851	61,901.90

Loan portfolio	14,387,383	77,769.64	7,769,973	41,999.85
Loan loss reserve	-1,316,356	-7,115.44	-4,469,273	-24,158.23
Other short-term assets	544,137	2,941.28	5,286,739	28,576.97
Other assets	596,024	3,221.75	917,169	4,957.67
TOTAL ASSETS	**28,203,479**	**40,946.09**	**47,496,934**	**256,740.18**
LIABILITIES				
Savings accounts	0.00	0.00	0.00	0.00
Bank loans	0.00	0.00	0.00	0.00
Other short-term liabilities	6,630	35.84	12,286,666	66,414.41
Other long-term liabilities	0.00	0.00	5,170,800	27,950.27
TOTAL LIABILITIES	**6,630**	**35.84**	**17,457,466**	**94,364.68**
EQUITY				
Paid in capital previous years	27,794,923	150,242.83	27,794,923	150,242.83
Paid in capital current year	0.00	0.00	5,888,000	31,827.03
Profits/losses previous years	-2,304,787	-12,458.31	323,384	1,748.03
Profits/losses this year	77,273	417.69	-3,966,840	-21,442.38
Other equity	974,429	5,267.18	0.00	0.00
Exchange gain (loss)	1,655,012	8,946.01		
TOTAL EQUITY	**28,196,850**	**150,242.83**	**30,039,468**	**162,375.50**
TOTAL LIABILITIES AND EQUITY	**28,203,480**	**150,242.83**	**47,496,934**	**256,740.18**