

# MicroStart Mid-Term Evaluation Summary

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**COMPLETED BY:**



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## I. Project Data Sheet

Data as of December 2004	Al Awa'el 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
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%	

## II. Project Background

"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.

## III. Purpose of Evaluation

The goals of this UNCDF commissioned external evaluation are to assess progress on 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. It assesses the validity of the project design and value added 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 both an on-site field mission, which took place between February 10 and 24, 2005, as well as a 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.

## IV. Key Findings of Evaluation

MicroStart II has three main objectives:

- 1 Technical assistance to three MFIs to meet growth and transformation objectives;
- 2 Building the capacity of a 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 that this objective may need revision. The third objective has been addressed by relying upon the Sanabel network or the SFD's own national workshops and trainings.

Objective 1: 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 legal climate for microfinance in Yemen, and 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 Performance at Risk (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	1160	100%	.33%	0	105	77%	-20.6%	0%	1560	100%	-5.58%	12%
Targets 2004	1750	100%	2%	<1%	1000	75%	-10%	<1%	1750	100%	0%	<8%
Actual 12/31/04	1544	100%	-0.26%	1%	1125	90%	-6.3%	0	1143	100%	-118%	68%

At this moment in time, the three programs are currently at very different levels of institutional development. Al Awa'el 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. The table below provides a summary of key strengths and weaknesses and recommendations for the near to mid-term period.

<b>Institution</b>	<b>Strengths</b>	<b>Weaknesses</b>	<b>Recommendations</b>
<b>Al Awa'el Taiz</b>	<ul style="list-style-type: none"> <li>• Sound procedures and systems</li> <li>• Relatively efficient as compared to other programs</li> <li>• Relatively good financial performance</li> </ul>	<ul style="list-style-type: none"> <li>• Weak governing structure</li> <li>• Concentration of power in Exec Director</li> <li>• No senior staff</li> <li>• Low salaries / high turnover</li> <li>• Poor relations with SFD and other institutions</li> <li>• Heavy reliance on one donor</li> </ul>	<ul style="list-style-type: none"> <li>• Expand and train board members. Consider internationals with microfinance or other relevant experience as members of board</li> <li>• Adhere to bylaws, hold board meetings and improve process for decision making</li> <li>• Hire Operations Manager and train Finance Manager</li> <li>• Modify salary scales</li> </ul>
<b>Al Hodeidah</b>	<ul style="list-style-type: none"> <li>• Strong Executive Director</li> <li>• Strong staff and mid-level management</li> <li>• Planning for future</li> <li>• Good systems and procedures</li> <li>• Good relations with Women's Union</li> </ul>	<ul style="list-style-type: none"> <li>• Poor financial performance</li> <li>• High default in the past has set back institution several years</li> <li>• Heavy reliance on one donor</li> </ul>	<ul style="list-style-type: none"> <li>• Expand donor base</li> <li>• Provide more advanced training to staff</li> <li>• Institute internal mechanisms to learn from clients and to allow for product development and innovation</li> </ul>
<b>SOFD Sana'a</b>	<ul style="list-style-type: none"> <li>• Strong Chairman of the board</li> <li>• Improved lending methodology</li> <li>• Improved systems and procedures</li> <li>• Began to diversify funding</li> </ul>	<ul style="list-style-type: none"> <li>• Untested new staff</li> <li>• Untested new methodology</li> <li>• High default in the past has set the institution back to the beginning</li> <li>• Management capacity limited – no senior staff other than director</li> </ul>	<ul style="list-style-type: none"> <li>• Needs close monitoring and "supervision"</li> <li>• Requires significant training at all levels of the institution</li> <li>• Hire Operations Manager and train new Finance Manager</li> </ul>

**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. 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.

#### Other Project Variables

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.

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.

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.

## **V. Emerging Issues and 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.

There is a growing interest in microfinance in Yemen both within different government institutions as well as among donors. Numerous initiatives are in the process of being designed and implemented. These initiatives include Bank Al Amal, a possible wholesaler of funds to MFIs; a revised GTZ capacity building program; a CGAP coordinated sector-wide initiative; as well as numerous others.

## **VI. Recommendations of the Mission**

Combining the main lessons learned with the favorable environment for microfinance in Yemen should be the basis behind any future activities envisioned under the remaining life of the project as well as UNDP/UNCDF's involvement in the sector beyond the project period. 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. One possible mechanism to achieve this is to place a CTA within UNDP for project monitoring, donor coordination and hosting national activities for the microfinance sector in Yemen.

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. In the immediate term, the project should require full-time, on the ground support by the TSP in order to ensure the provision of the needed technical assistance required, particularly given the lack of such support currently being offered by the LTSP and its shift away from this TA function.

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 World Bank's role with the SFD, it is recommended that it be encouraged by UNCDF to place a resident advisor who can work with the SMED unit 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).

To further strengthen the third objective of the project, a series of national workshops, UNCDF should consider addressing this directly. In addition to trainings offered by Sanabel and the SFD, UNCDF should

consider additional networking, exchanges and other opportunities for cross fertilization among its partners as well as other MFIs in Yemen.

Any future support to the microfinance 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. 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. 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 resource changes internally and possibly the placement of a resident advisor. 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 LTSPs. The model and institutions selected by the IFC for their BDS training may be appropriate to explore further for building microfinance technical service providers. 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.
- Encouraging the formation of a national network which can set standards for the industry, improve cross fertilization and learning, and serve as a forum for 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 that will be a better legal framework for MFIs.

## **VII. Members of the Evaluation Team**

This Evaluation was completed by Ms. Mayada El-Zoghbi, a partner at Global Microenterprise Initiatives, LLC.