

# Annual Report 2018





# Your Gate to Resilience

Through its operations, YLG works as an entity that provides a conducive business environment that allows micro and small enterprises to take advantage of financing opportunities in the economy and thus assure their resilience within the current socio-economic context in Yemen

## ABBREVIATIONS AND ACRONYMS

SFD	SOCIAL FUND FOR DEVELOPMENT
YLG	YEMEN LOAN GUARANTEE PROGRAM
MFIS	MICROFINANCE INSTITUTIONS
HDI	HUMAN DEVELOPMENT INDEX
MSE	MICRO & SMALL ENTERPRISES
JLGF	JORDAN LOAN GUARANTEE FACILITY
KAFALAT S.A.L	GUARANTEES FOR LOANS TO SMALL AND MEDIUM ENTERPRISES
CGC	CREDIT GUARANTEE COMPANY
ELGF	OPIC EGYPT LOAN GUARANTEE FACILITY
WB	WORLD BANK
KFW	GERMAN DEVELOPMENT BANK
GPAs	GUARANTEE PARTNERSHIP AGREEMENTS
TA	TECHNICAL ASSISTANCE
DFID	DEPARTMENT FOR INTERNATIONAL DEVELOPMENT – UK GOVERNMENT
IDB	ISLAMIC DEVELOPMENT BANK
PFI	PARTNER FINANCIAL INSTITUTIONS
EU	EUROPIAN UNION
NMF	NATIONAL MICROFINANCE FOUNDATION
YMN	YEMEN MICROFINANCE NETWORK
PAR	PORTFOLIO AT RISK

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## EXECUTIVE SUMMARY

The need for an entity that provides a conducive business environment that allows micro and small enterprises to take advantage of opportunities in the economy was found to be urgent and essential especially during the current socio-economic context in Yemen. As a result, in July 2017, the SFD, establish the Yemen Loan Guarantee Program (YLG), a non-for-profit guarantee provider, aiming to increase the facilitation of credit to enterprise owners for growth and expansion. The YLG provides partial guarantees on loans made by PFIs (banks and microfinance institutions MFIs) to micro and small enterprise borrowers located in the region.

Since establishment, YLG adapted a market-based approach aiming to understand the microfinance sector and to tailor a business model that reflects international best practices while remaining sensitive to the Yemeni local context and microfinance sector needs. The program worked closely with SFD, WB and KFW and number of international credit guarantee, microfinance and risk management experts to design its model, policies, procedures, internal controls and systems. In less than a year, the program was fully equipped to operate and signed its first partnership agreement with NMF, one of the biggest microfinance foundations in Yemen. In Nov 2017, YLG was able to issue its first guarantee certificate under a loan issued by NMF and opened doors to other PFIs to start submitting guarantee applications. Today, YLG has 6 active guarantee partnership agreements with 6 PFIs of which 2 are microfinance banks and 4 are microfinance institutions and programs and is currently discussion future partnership agreements with 2 commercial banks and 2 PFIs.

During the FY 2018, YLG reviewed 1,317 guarantee requests from which 714 clients were approved to obtain a loan under YLG guarantee scheme. Subsequently, YLG issued 318 guarantee certificates upon PFIs finalization of loan disbursements and is pending on issuing 396 guarantee certificates while waiting for clients to be financed by PFIs. YLG is receiving guarantee requests from all PFI branches in Yemen and is adopting a market spread strategy. Moreover, in 2018, YLG worked closely in designing and implementing tailored guarantee products and services towards women and youth empowerment, micro and small enterprise owners and PFI capacity building and knowledge sharing.

**This report describes YLG's establishment activities and cumulative operational progress during the year 2018.**



## INTRODUCTION

The Microfinance industry in Yemen is an important tool in the overall expansion of the Yemeni economy. For the past two decades, the microfinance industry was able to issue loans with the cumulative value of approximately **USD 50 millions (i.e. around 800,000 loans given to a total of 100,000 micro and small enterprises)**. The medium, small and micro enterprises have played a significant role **in income generation, poverty eradication, job creation (i.e. creating over 9,895 jobs), as well as the overall expansion of the economy**. However, recent studies by the EU stated that: **(1) the potential market for MSE finance in Yemen has a size of around 1.78 million microenterprises and 85,000 small enterprises; (2) the current microfinance industry in Yemen serves approximately 9% of the actual market size and; (3) over 61% of the rejected loans applicants were rejected due to the lack of sufficient collaterals**. Unfortunately, a large percentage of entrepreneurs cannot provide required guarantees, in whole or in part, though they are capable of paying installments and performing subsequent obligations in order to secure the service. **Hence, the need for a service that provides a conducive business environment that allows micro and small enterprises to take advantage of opportunities in the economy has become urgent and essential.**

The YLG provides partial guarantees on loans made by lenders (banks and microfinance institutions MFIs) to micro and small enterprise borrowers located in the region. The use of a partial guarantee ensures that the judgment of the lender will be part of the application decision process along with the expertise of YLG's employees. **The expectation is that the banking community will be able to serve a larger number of micro and small enterprises, which will create jobs and expand the local economy.**

## **Vision, Mission and Strategic Goals**

### **Vision**

Improved financial inclusion for target segments leading to better standards of living in Yemen.

### **Mission**

Facilitate financial access for target segments through the provision of guarantees products and services to those with insufficient collateral.

### **Strategic Goals**

- I. Improve the target segments' economic status.
- II. Support the expansion and growth of the small and microfinance sector.
- III. Pioneer a guarantee experience for MSMEs based on international best practices and innovative principles.
- IV. Establish a more trust-based credit culture in the small and microfinance sector.

## **FY 2018 Milestones**

### **Strong Governance**

YLG is a not-for-profit program operating under the legal umbrella of the SFD with the intention of taking further legalization actions towards the independency of the program after the first two years of establishment. Currently, the program is operating under a steering committee i.e. representatives of the SFD. However, during 2018 and with the guidance of SFD, YLG developed a semi-independent strong governance and internal controls. This includes but not limited to; the development of a risk management manual; a 5 year strategic road-map; the establishment of a steering committee; the development of an Human Resources manual; the review of the operational manual; the review of guarantee policies and procedures; the implementation of international best practices in finance & auditing; the recruitment and training of a full dedicated team; the development of new guarantee products & services; the establishment of relevant partnerships.

### **Recruitment and Training**

YLG recruited and trained qualified staff on loan guarantee models/tools, credit evaluation, financial analysis, risk management, agro-lending, fraud management and strategic planning. During 2018, YLG team was operating under the TA and guidance of WB, KFW and SFD. Accordingly, YLG team worked on channeling acquired knowledge and experience to PFIs through workshops, training sessions and knowledge sharing seminars.

Table 1

Institution	No. of staff trained during 2018
YLG	8
PFI	6 PFIs from which a minimum of 3 staff member benefited (i.e. 18 personal)
Volunteers and Interns	8 university graduates were trained for a minimum of 3 months each

### Partnerships with PFIs

YLG worked intensively in advocating for the program to local PFIs along with building strong relations and partnerships with important players in the industry including MFIs/banks, commercial banks and local NGOs. YLG conducted number of workshops, orientation sessions and meetings with local MFIs/banks to understand the market/sector needs, design appropriate guarantee products/services and raise awareness among PFIs of YLG role in the industry. This included; Al-Kuraimi Islamic Microfinance Bank, Al-Amal Microfinance Bank, Tadhamon Microfinance Program, National Microfinance Foundation, AZAL Microfinance Program and Union Microfinance Program, Aden Microfinance Foundation, Hadramout Microfinance Program, Saba Islamic Bank, Yemen Bank for Reconstruction and Development.

### Donors & Contributors

In addition to the TA and in-kind grants YLG received from WB and KFW during the FY 2018, YLG received grants in towards its capital from the DFID and towards implementing the 4<sup>th</sup> component of the Vocational Literacy Program for Poverty Reduction from IDB. On the other hand, YLG is gaining international recognition by number of potential donors including EU, KFW, SANAD, UNOPs, USAID, WB and IFC.



Donors Contributors in 2018	
DFID	USD 2,000,000 towards capital for issuing guarantees
SFD	USD 180,256 towards Operational Expenses for FY 2018
IDB	USD 824,275 towards implementing the 4 <sup>th</sup> component of the Vocational Literacy Program for Poverty Reduction
WB	TA for YLG Management, in-kind grant towards developing YLG branding identity
UNOPS	In-kind grant towards developing MIS system for guarantee issuing, risk and portfolio management
KFW—LFS	<ul style="list-style-type: none"> <li>- TA in risk management, agro-lending, strategic planning</li> <li>- Exposure visit to CGC, ELGF, JLGF and Access Bank Tanzania</li> </ul>

Table 2

### 5-year Strategic Plan

In **July 2018** and with the assistance of KFW expertise, YLG developed its 5-year strategic roadmap, which is to be implemented as of Jan 2019. YLG 5-year strategic roadmap lays out the program's focus strategic areas of work, its target segments/sectors/geographic reach for the next 5 years, institutional strategy, operational strategy, communication strategy, risk management strategy ...etc... YLG will share its 5-year plan with potential donors and will be seeking more capital allocation towards implementing of its 5 year strategy.

## Products and Services

In Nov 2017 (Pilot phase), YLG started its operations with the launch of two-guarantee products (i.e. Basic and VOLIP). However, by the end of 2018, YLG was already operating with four guarantee products (i.e. Basic, VOLIP, Miro-spread, Geo-spread). Table (3) below gives more details on the guarantee products/services developed and implemented during 2018.

Table 3- Guarantee Products & services FY 2018

	Basic	VOLIP	Micro-Spread	Geo-Spread
<b>Guarantee Coverage by YLG</b>	50% - 70%	90% - 100%	90%	70%
<b>Loan size range</b>	Y.R 500,000 – Y.R 2,000,000	Y.R 10,000 – Y.R 1,500,000	Y.R 100,000 – Y.R 1,000,000	Y.R 100,000 – Y.R 2,000,000
<b>Sectors/target segments</b>	Agriculture-commercial – industrial- services - startups	Female entrepreneurs – Youth entrepreneurs	Agriculture – commercial – industrial – manufacturing – Services	MSMEs from newly launched PFI branches or branches with less than 300 loans issued per year for the past 2 years and have been facing difficulties.
<b>Additional Added value</b>		3 month Capacity Building and mentorship	Pilot for the implementation of a portfolio model	

## Portfolio Analysis

During 2018, YLG conducted credit guarantee analysis and evaluation for a total of **1,317 clients**, from which **714 were found eligible for a guarantee** i.e. approved to be issued a loan by PFIs under the guarantee of the YLG. However, YLG MIS system reports the completion of issuing **318 guarantee certificates** i.e. 55.4% of the actual total number of approved guarantee clients for FY 2018.

According to YLG policies, a guarantee certificate is issued only when PFI finalizes the loan disbursement process. Therefore, 396 guarantee certificates are pending and yet to be issued as soon as PFIs finalize the loan disbursement process. Tables (4 and 5) and Figure (1) below, summarizes YLG Portfolio per product per PFI and per month.

Table 4 – FY 2018 Portfolio summary per guarantee product

## YLG 2018 Portfolio Summary Report (per guarantee product)

Indicators	Guarantee Products				
	Basic	Geo-Spread	Micro-Spread	VOLIP	Total
# Guarantees applications	94	3	12	1208	1317
# Guarantees Approved *	8	0	3	381	392
# Guarantees issued **	66	3	9	244	322
# Rejected Clients	10	0	0	367	377
# Withdraw Clients/ not matching the criteria	10	0	0	1	11
Default Rate (PAR)=>30	0	0	0	29%	11%
Value of Outstanding Loan Portfolio	131,011,780 YER	4,408,963 YER	6,397,725 YER	74,305,931 YER	216,124,399 YER
Value of Outstanding Guarantee Portfolio	72,673,913 YER	3,086,274 YER	5,487,953 YER	51,460,657 YER	132,708,796 YER
Value of Cumulative Loan Portfolio	137,694,280 YER	4,408,963 YER	6,397,725 YER	75,417,019 YER	223,917,987 YER
Value of Cumulative Guarantee Portfolio	85,378,132 YER	3,086,274 YER	5,757,953 YER	75,417,019 YER	169,639,377 YER

Table 6 -- FY2018 Portfolio Report per PFI

## YLG 2018 Portfolio Summary Report (per PFI)

Indicators	Partner Financial Institutions						
	Al-Amal Bank	Al-Kurimi Bank	NMF	AZAL	Al-Etihad	Tadhamon	Total
# Guarantees Approved *	254	5	7	1	37	88	392
# Guarantees issued **	71	13	94	21	26	97	322
# Rejected Clients	5	1	2	2	0	0	10
# Withdraw Clients/ not matching the criteria	1	1	5	2	0	2	11
Default Rate (PAR)=>30	0%	0%	38%	0	1%	18%	11%
Value of Outstanding Loan Portfolio	35,781,711.80 .ري.	27,860,828.00 .ري.	79,794,502.60 .ري.	33,714,250.00 .ري.	3,352,958.20 .ري.	35,620,148.20 .ري.	216,124,398.80 .ري.
Value of Outstanding Guarantee Portfolio	24,380,752.80 .ري.	17,353,746.00 .ري.	41,360,746.50 .ري.	21,037,631.00 .ري.	1,592,732.00 .ري.	26,983,187.60 .ري.	132,708,795.90 .ري.
Value of Cumulative Loan Portfolio	35,781,711.80 .ري.	27,860,828.00 .ري.	83,118,062.60 .ري.	37,358,750.00 .ري.	4,178,486.20 .ري.	35,620,148.20 .ري.	223,917,986.80 .ري.
Value of Cumulative Guarantee Portfolio	27,946,034.80 .ري.	17,353,746.00 .ري.	60,849,057.60 .ري.	25,358,425.00 .ري.	4,178,486.20 .ري.	33,953,627.80 .ري.	169,639,377.40 .ري.

1

<sup>1</sup> Approved\*; meaning, YLG conducted credit guarantee evaluation and analysis for client and declared client eligibility for a loan disbursement under the guarantee of the YLG. However, guarantee certificate is not issued yet due to the delay in loan disbursement by PFI.

Issued\*\*; meaning, YLG conducted credit guarantee evaluation and analysis for client and declared client eligibility for a loan disbursement under the guarantee of the YLG. A Guarantee certificate was issued due to the completion of loan disbursement by PFI.

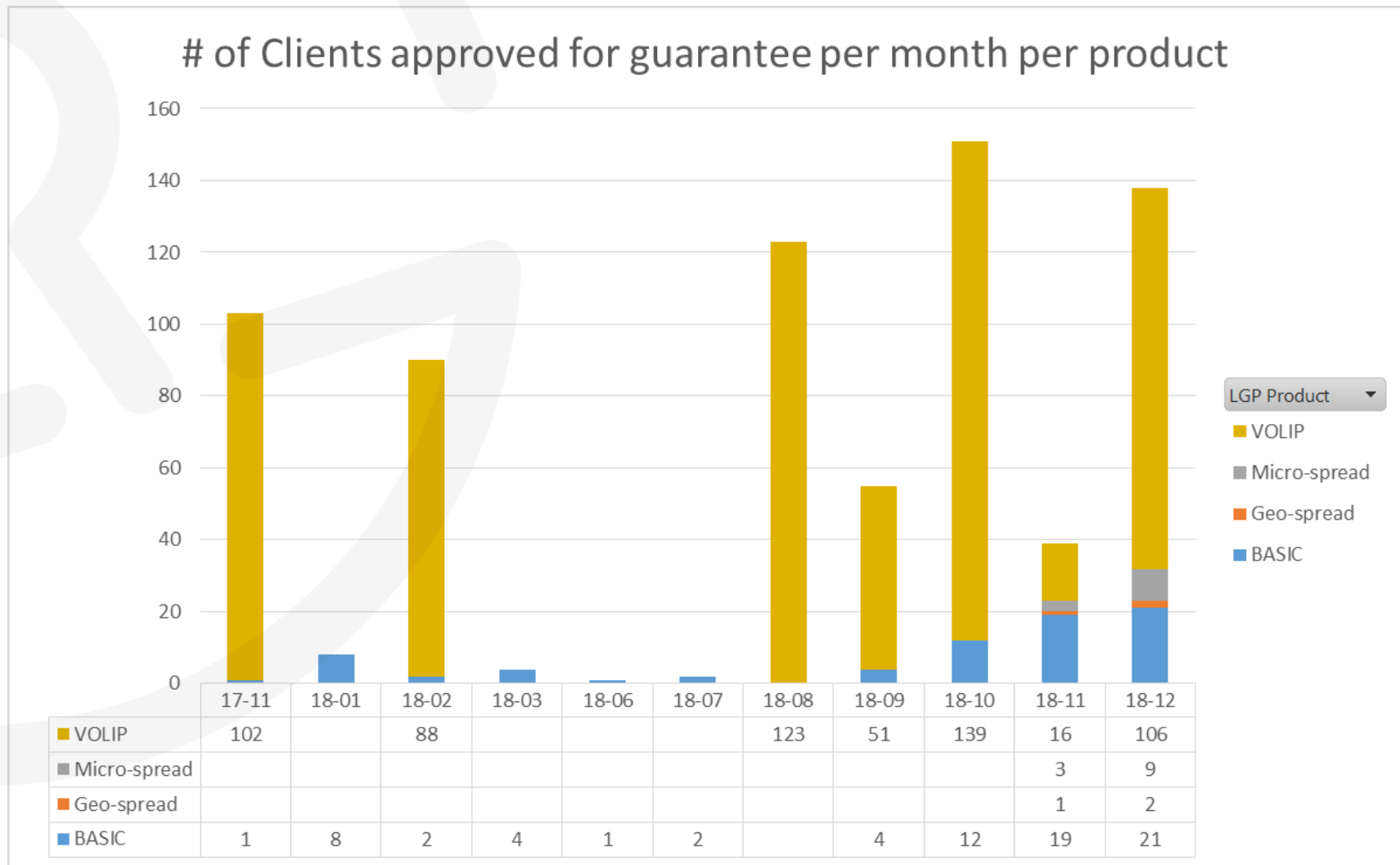


Figure 1 – FY 2018 Guarantee approval per month

YLG is committed to the financial inclusion of youth and women through the provision of guarantee products and services enable accessibility to financial services and economic opportunities in the market. As illustrated in figures (2 and 3) below, **64% of YLG portfolio in 2018 are women from which 62% are women between the age group of 18-35 years old.** While on the other hand, **36% of YLG portfolio are men from which 71% are young men between the age group of 18-35 years old.**

### Portfolio Spread per Gender

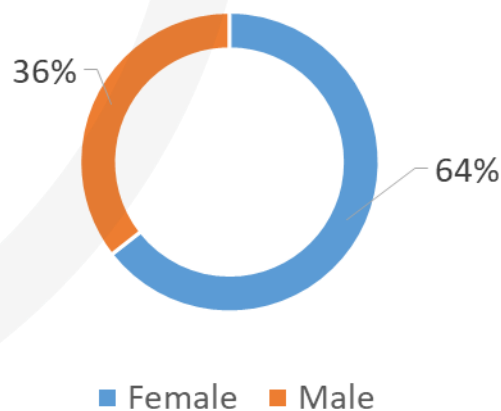


Figure 2 --- Gender Spread

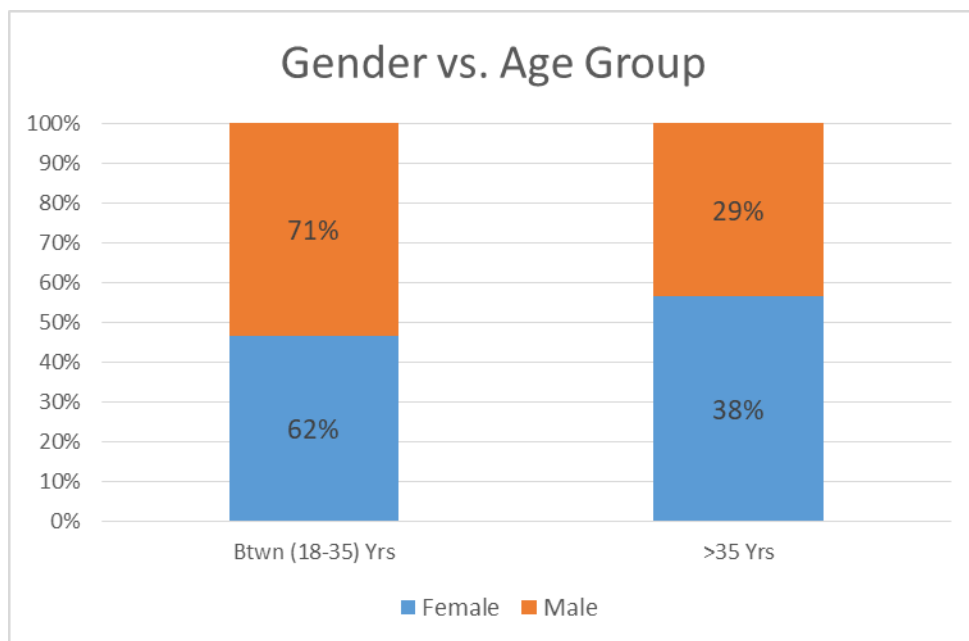


Figure 3 --- Gender Vs. Age Group



In 2018, YLG was determined to issue guarantees on a set of diverse sectors. This is to build a concrete base for the program for a better understanding of the market and further expansion towards the development of new and tailored guarantee products and services. Figure (4) below gives more details on YLG cumulative portfolio spread per sector.

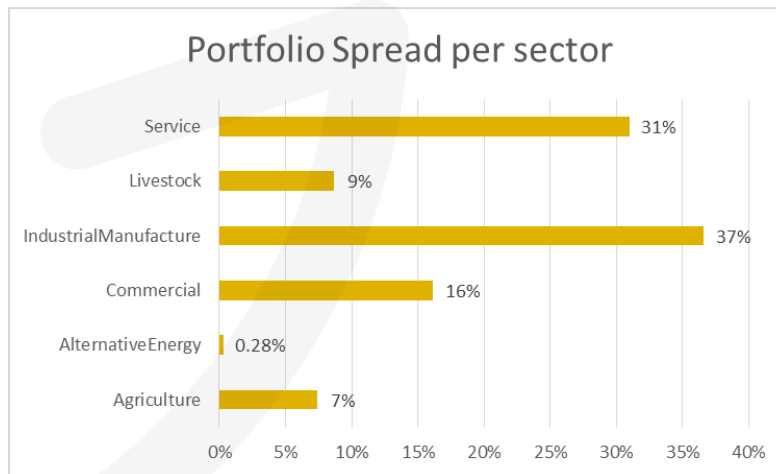


Figure 4—FY 2018 Portfolio Sector Spread

YLG's cumulative guarantee portfolio issued within the above sectors solely targeted micro and small enterprises to finance business related activities. This included; buying assets used within the business facility (36%), buying stocks and inventory necessary for running the business (19%), buying and implementing solar energy used as a source of energy to run the business facility and minimize operational costs (17%), buying raw material used during manufacturing (12%). Figure (5) below shows different purposes for loans that YGP guaranteed during 2018.

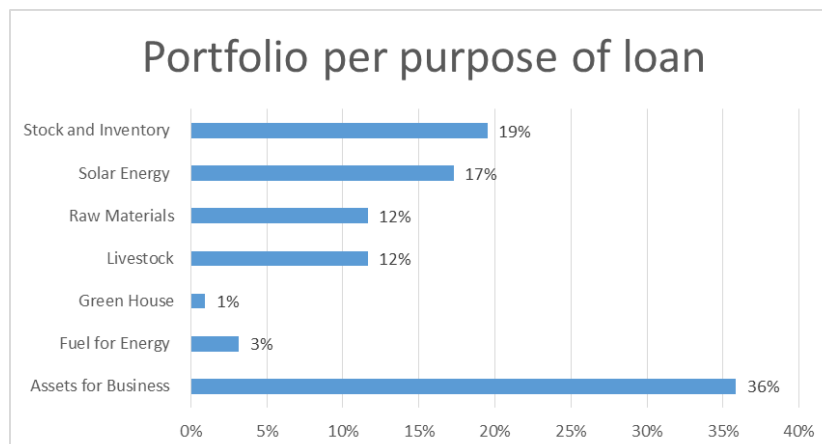


Figure 5 – FY 2018 loan purpose

## FY 2019 Milestones

### Geographic & Demographic Spread

To facilitate the accessibility to financial services for enterprise owners for growth and expansion and to provide a conducive business environment for micro and small enterprises within the microfinance industry and towards implementing its strategy, in 2019, YLG aims to expand and diversify its already existing guarantee products and services to implement a more comprehensive geographic and demographic spread strategy. Towards this end, YLG will develop and implement a: **(1) youth empowerment guarantee product; (2) women empowerment and entrepreneurship guarantee product; (3) geo-spread scale up guarantee product.**

### Youth Empowerment Guarantee Product (YE)

YLG is committed to youth empowerment and their role in economic development. YLG defines youth as young Yemeni men and women between the ages of 18-35 for all geographic locations and ethnic groups.

**Overall objective: Facilitate youth access to finance through design and provision of guarantee products and services; raise awareness of financial services available, to support youth empowerment and entrepreneurship in accordance with the Yemeni national strategy.**

Implementation approach: (1) design and implement tailored, subsidized guarantees, (2) encourage PFIs to provide loans with soft terms to the segment, (3) raise funds to provide capacity building to the segment, (4) reach out to raise awareness within the segment of financial services available, (5) enable market linkages for youth opportunities.

### Women Empowerment & Entrepreneurship Guarantee Product (WEE)

YLG is committed to women social and economic empowerment and the potential role women entrepreneurs play in job creation and poverty eradication. YLG defines women as Yemeni females of all ages, geographic locations, and ethnic groups.

**Overall objective: Facilitate women access to finance through design and provision of guarantee products and services; advocate women financial literacy and raise awareness to financial services available, to support women empowerment, entrepreneurship and business ownership.**

Implementation approach: (1) design and implement tailored, subsidized guarantees, (2) encourage PFIs to provide loans with soft terms to the segment, (3) raise funds to provide

capacity building to the segment, (4) promote importance of implementing women financial literacy programs among women development community, (5) reach out to raise awareness within the segment of financial services available, (6) enable market linkages and mentoring for women business ownership and opportunities.

### Geo Spread (scale up) Guarantee Product

**Overall objective: Stage 1; YLG works in all geographic areas reached by microfinance industry (PFIs). Stage 2; YLG encourages PFIs to expand geographically to reach unserved microfinance market demand.**

Implementation approach: (1) enabling existing YLG partners to utilize guarantees in all business locations, (2) sign up more PFIs for YLG, (3) support PFIs in geographic expansion, (4) design and implement tailored, subsidized guarantees for target geographic areas. Table (7) below gives more details on the guarantee products/services developed and implemented during 2018.

Table 7—FY 2019 Additional Guarantee Products/services

	YE	WEE	Geo-Spread Scale up
<b>Guarantee Coverage by YLG</b>	80%	80%	70%
<b>Loan size range</b>	Y.R 1,000,000 – Y.R 5,000,000	Y.R 100,000 – Y.R 2,000,000	Y.R 100,000 – Y.R 2,000,000
<b>Sectors/target segments</b>	Agriculture – commercial – industrial – manufacturing – services  Young Yemeni men and women between the ages of 18-35 for all geographic locations and ethnic groups who has a running business or relevant work experience.	Agriculture – commercial – industrial – manufacturing – services  Yemeni females of all ages, geographic locations, and ethnic groups.	Agriculture – commercial – industrial – manufacturing – services
<b>Additional Added value</b>			MSMEs from newly launched branches or branches with less than 300 loans issued per year for the past 2 years and have been facing difficulties.

### Portfolio Model

Towards increasing the utilization rate of the guarantee scheme among PFIs and to increase the clients' accessibility to financial services on a much wider scale, in 2019, YLG will be working closely with Silatech and SANAD on the establishment and implementation of a portfolio guarantee model within YLG currently operating guarantee scheme.

	Portfolio Model
<b>Guarantee Coverage by YLG</b>	Coverage of a 10% PAR
<b>Loan size range</b>	Y.R 100,000 – Y.R 1000,000
<b>Sectors/target segments</b>	Agriculture – commercial – industrial – manufacturing – services
<b># of PFIs</b>	3 – 4 PFIs in 2019

Table 8

### New Partnerships

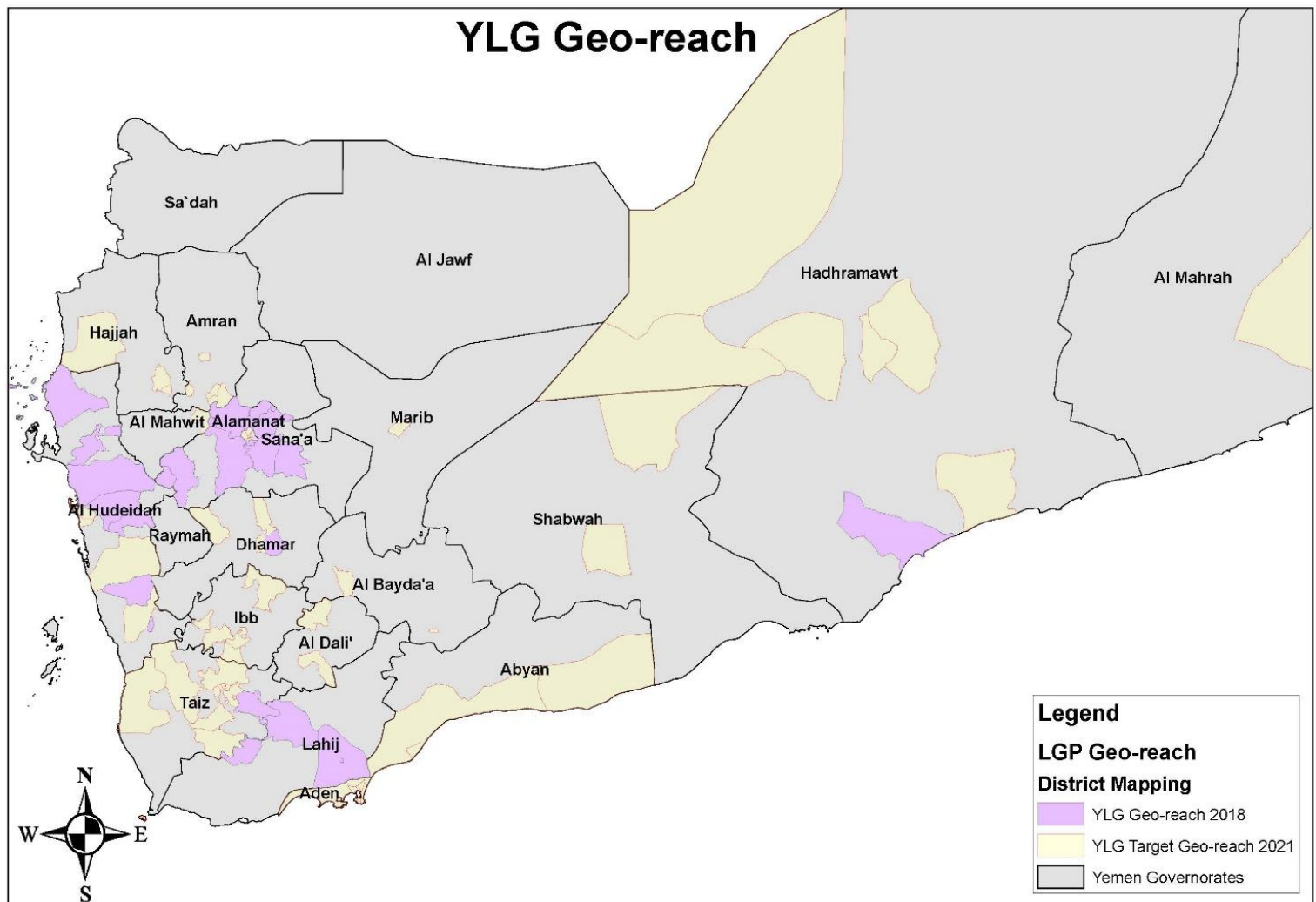
Towards building a long-term partnerships with major players in the banking sector and microfinance sector, YLG will be discussing potential partnerships with number of commercial banks and more PFIs across the region.

Table 9

Additional Partnership Agreements to be signed in 2019
Aden Microfinance Foundation
Hadramout Microfinance Program
Saba Islamic Bank
Yemen Bank for Reconstruction and Development.

## ANNEXES

### Annex II: YLG Geographic Coverage in 2018



## Annex VI: FY 2018 Partners and Contributors

### Donors & Contributors FY 2018





## Partner Financial Institution FY 2018





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