

Microfinance in Yemen Amid Intensifying War and Novel Coronavirus



© 2020 Yemen Microfinance Network



COVID-19 Pandemic Potential Repercussions on Microfinance in Yemen

Introduction

International organizations and agencies continue to raise red flags of imminent danger threatening Yemen and warn of the catastrophic effects of the novel coronavirus (COVID-19) outbreak sweeping the country, which would exacerbate the already declining living and humanitarian situation of the majority of the population, intensifying their agony and leading to unbearable results.

A war-torn country being havocted for over five years is suffering a sharp decline of the already poor national economy, clearly reflected in the decreased GDP, lower income per capita, increased poverty, collapse of social security network, devaluation of national currency, rapid increase of commodity and service prices, decreased revenues, cessation of production and exportation, impairment of banking sector services, stalemate of investment projects as well as inability of state institutions to fulfill their duties due to public budget deficit and public debt burden. The sharp decline of state revenues, mainly oil and gas revenues, has exacerbated the economic situation, interrupted public servant salaries for several months in governorates and cut down thousands of private sector jobs. The bombardment of infrastructure and vital facilities in the country has worsened the basic and vital services and led to their suspension in many areas, such as health, education, electricity, water and sanitation, transportation, communications and other basic services.

Like other vital sectors, the microfinance sector has significantly been impacted by the ongoing war, as most of the small and micro enterprises (MSEs) have stumbled in conflict areas and their owners were displaced, leading to the loss of their main sources of income and thus rendering them unable to pay their financial obligations. Consequently, Banks and MFIs programs have been greatly affected by these changes, as they lost a large proportion of their clients and staff and suffered multiple problems, most notably the acute shortage of liquidity, operational and capital losses, and the inability to meet increased financing demands, in addition to their inability to expand and reach to new regions and markets, given the reduced capabilities and capitals of these MFIs and programs.

Furthermore, the efforts made by the Social Fund for Development (SFD), the Small and Micro Enterprises Development Unit (SMED) to support the microfinance sector have had a great impact on the recovery of this sector. Such support included support and rescue packages such as grants intended to cover capital losses, business continuity support for MFIs and microfinance programs, huge funds provided to MFIs and microfinance programs, as well as grants intended for expansion to new areas. The support also covered more than 4,000 conflict-affected entrepreneurs from MFIs and microfinance programs clients to restore their activities, in partnership with Yemen Microfinance Network (YMN), project implementer.

Supporting the expansion of financial and non-financial services in poor rural areas through Village Savings and Loan Associations (VSLAs) has had a profound impact in improving the living conditions of rural communities by empowering them to provide and enhance their income sources and building their capacities in multiple areas. This is in addition to launching the Yemen Loan Guarantee Program (YLGP) to help reduce the war-related economic and social impacts and assist entrepreneurs overcome credit obstacles to obtain the necessary funds to continue their activities. During inception, the YLGP adapted and made changes to its procedures to accommodate changes in the finance sector.

The YLGP is experimenting portfolio guarantee in financing institutions (FIs) as well as individual guarantees and risk sharing through partnership, which will enable FIs to operate in the coming foggy period for financing to continue and for providing more fair opportunity to the vulnerable groups

such as novice women and youth in the labor market.

The financial inclusion process has also been supported and promoted through encouraging and supporting the use of electronic financial services via mobile phone in partnership with microfinance banks. Continuous support for microfinance sector staff has also been provided to build their capabilities and develop their skills in many areas, both internally and externally, to meet the needs of the market and keep pace with the rapid industry changes, in addition to other efforts and contributions.

Undoubtedly, COVID-19, which has rapidly swept the nation, has unprecedentedly affected all walks of life and made the world live in isolation and great social distancing. COVID-19 has completely paralyzed all vital sectors, especially the microfinance sector, and forced all countries to take many measures to confront this pandemic and reduce its repercussions.

Yemen was not immune from this, as it started forcing precautionary measures in March 2020 and instructed the institutions and private sector officials to adhere to all the necessary measures to prevent the spread of the pandemic, reduce office workers to 20% and provide instruction posters and sterilizers.

The Labor Inspection Committees and Health & Safety Committees monitored the implementation of these procedures, enforced strict measures against violators, and closed some of these facilities.

The Higher Committee for Epidemic Control has further instructed the closure of wedding halls, internet cafes and woman beauty salons, and earlier, precautionary measures were taken including closure of schools, institutes and public and private universities.

All of these measures were taken to prevent and limit the outbreak of COVID-19. However, unfortunately Yemen was not an exception from this storm, as the first case was officially recorded at the end of April 2020, and many other cases were later recorded in several governorates, reaching (122) confirmed cases as of this writing, including (18) deaths, which is a large percentage compared to global rates due to the deterioration of health sector, which has been exhausted by wars and supply shortage for more than 5 years, rendering it unable to perform its mandate and placing a high risk of death on golden age groups for MFIs (clients over 45 years old).

Implications of COVID-19 Outbreak

The COVID-19 outbreak has produced adverse effects on the microfinance sector such as closure of markets and shops and suspension of enterprises' activities, especially those working with groups including private institutes and schools, internet cafes, private parks, and sport and cultural clubs, wedding halls, and woman beauty salons, which have been blowing the dust of war off their businesses alongside other surviving business facilities.

However, now these enterprises are in the face of a greater ordeal that will inevitably make them stumble or eventually cease their activities unless there is a divine miracle to stop the virus or donor intervention to support these enterprises' continuity. MFIs and microfinance programs are not immune to COVID-19 effects, which will lead to a significant decrease in their revenues as well as an increased risk of not recovering the funds granted to clients as a result of the failure of their activities. Furthermore, these institutions and programs activities will suffer a sharp decline, leading to a decrease in their operational efficiency, lack of liquidity and erosion of capital and productive assets, and many workers in this sector will lose their jobs as a result of the large losses that MFIs and microfinance programs will incur.

Many workers in this sector will also lose an important opportunity for growth and development and acquisition of new skills and experiences in the industry, given the inability to hold online training programs due to the poor telecommunication infrastructure, especially in rural areas, and the poor capabilities and skills required of a large number of workers in the sector to hold online trainings.

COVID-19 outbreaks also stopped field verification visits intended to verify the funding procedures of microfinance institutions and programs, as they require direct contact with teams and field visits to markets, which if not implemented may lead to corruption unless technology is used to activate alternative means to ensure continued verification and transparency. Moreover, funding to many sectors was suspended, except for some vital sectors that were less affected by the pandemic, such as the agricultural, fishery, livestock, health, and information technology sectors. The blurring vision about the extent of the virus, its effects, and its end date made some enterprise owners reluctant to request funds.

Therefore, it is expected that there will be a decrease in the number of funds granted as well as a shrinking portfolio size in the coming period, which will adversely affect covering the costs of institutions and programs and decrease rates of financial and operational self-efficiency although they started to improve before the pandemic.

Due to the lack of preparedness of this sector for staff to work from home and the lack of the infrastructure for this transformation, the 20% staff who are allowed to work in offices will not be able to fulfill all duties, which will lead to delays in activities and productivity of microfinance institutions and programs.

Although disasters or crises have negative effects, they may also have positive effects. As the proverb reads, "Every cloud has a silver lining", COVID-19 had some positive aspects as well, for example, triggering increased demand for using electronic financial services due to the sensitivity of dealing with paper money, as banknotes are one of the most common virus transmission modes. Furthermore, microfinance banks promoted electronic financial services significantly, and awareness of these services is expected to increase, which will lead in the future to more broadly enhance the financial inclusion process.



© 2019 Yemen Microfinance Network

The increased need for training and institutional building has also prompted the adoption of distance training through applications such as Zoom and WebEx. For example, in a short period, 65 administrative staff of microfinance institutions and programs were trained on these applications, out of 161 staff who YMN provided them with online training using Zoom app. Moreover, new skills were acquired such as remote management and telework. Meetings now take place via videoconferencing and working groups are activated through Workplace, WhatsApp, or Microsoft Team.

A Crisis Management Committee (CMC) for microfinance sector was created, which greatly helped share information, knowledge and experience to face pandemic. YMN played a major and active role in establishing and activating the CMC and sharing information and data on a wider scale.

Further, some microfinance institutions and programs have overcome routine and introduced accessible methods and procedures to grant funds and repayments. As the proverb reads, “Necessity is the mother of invention,” many enterprises and the sector in general had to invent easy and accessible procedures to achieve the desired results away from the cumbersome bureaucracy.

The institutions and individuals’ awareness has increased regarding the importance of hygiene and sterilization, leading to increased occupational health and safety procedures and social distancing. This has also helped reduce infection and transmission of COVID-19 and other diseases. This pandemic has led to a great recovery in some sectors such as the detergent and sterilizer sector, the pharmaceutical and medical supplies sector, and the information technology sector.

War and COVID-19

“Despite being over 48 years old, neither my father nor I have ever witnessed such a pandemic that terrified the world, as we believed that the devastating war and missiles were the worst we could face. However, this virus brought about a more frightening and terrifying scene than the devastating war. During wars, SMEs close their doors in war zones and then re-open them as the clashes end, as they are dealing with familiar parties and specific risks related to the location and source. In the worst-case scenario, and if the necessary precautions are taken, the activity will be resumed elsewhere. However, COVID-19 is a totally different matter, as you cannot predict its existence, determine its location, or know whether or not a person has been infected, as its symptoms show in a longer period enough to infect hundreds of people. ”

- Osama Mohammed Al-Shami, Head of SMED Unit, SFD Yemen.

Actions to Reduce COVID-19 Effects on Microfinance Sector

In order to fulfill the SFD’s SMED Unit responsibility towards this vital sector; to mitigate the imminent danger and potential catastrophic effects on the microfinance sector in Yemen, and to enhance the sector's resilience and continuity of services to the public, we have prepared from an early stage a contingency plan to address this situation. This plan has been put into practice and is constantly updated based on new data and events.

Contingency plans have also been developed in all microfinance institutions and programs, in addition to rescheduling the repayment of funds granted to microfinance institutions and programs through grace periods of up to 6 months, as well as encouraging institutions and programs to provide financial services to support agricultural activities, food security projects and food supply chains.

In the coming period, we are planning to seek funds to implement a package of measures, including providing SMEs and VSLAs with health education materials related to COVID-19, hygiene and sterilization materials, face masks, gloves, soaps, etc. The support will also include providing VSLAs’ emergency funds with grants targeting COVID-19 affected groups, which we expect to contribute to the provision of health care in the event of COVID-9 infection and to compensate the affected owners of income-generating projects and activities by paying their financial obligations to the groups and restoring their affected activities.

The planned measures include compensating the COVID-19-affected small entrepreneurs, clients of microfinance institutions and programs, by repaying their debts and providing them with free grants to restore their activities after the pandemic. This measure is being successfully implemented through the compensation project for war-affected entrepreneurs; opening electronic bank accounts for entrepreneurs to enable them to use financial services via mobile phone to facilitate paying their financial obligations and their project inputs, purchases of goods and services; collecting their dues from others to avoid risks associated with using financial services by traditional methods.

This measure also includes exempting entrepreneurs from the interest and fees on the funds from microfinance institutions and programs; granting them grace periods to pay the installments; extending the repayment deadlines up to 3 to 5 years; providing the necessary collaterals to owners of small enterprises who cannot provide them.

It will also fund studies and research on the impact of COVID-19 on the microfinance sector; establish new and independent financial portfolios for funds to be distributed during COVID-19 pandemic and improve the capabilities of owners of projects and income-generating activities to market and increase their sales by digitizing these activities and projects and linking them to “safe contactless delivery”.

According to Food and Agriculture Organization (FAO Yemen) newsletter dated April 17th, 2020, “COVID-19 Pandemic Monitoring,” a sharp rise in the prices of food commodities was noted throughout the country with a slight variation between governorates due to the increased demand for food commodities as well as the high costs of transportation services due to the precautionary measures imposed at land and sea ports, leading to an increase in prices for consumers.

“Compensating the affected small entrepreneurs, clients of microfinance institutions and programs, by repaying their debts and obligations to the microfinance institutions and programs and providing them with free grants to restore their activities after the end of pandemic.”

”

© 2019 Yemen Microfinance Network | www.yemennetwork.org



Lessons Learned from War Against COVID-19

The microfinance sector in Yemen has recovered from the shock of war in 2015 with more than 5,000 defaulted economic enterprises unable to continue providing their services and to fulfill their obligations towards financing programs and institutions due to the suspension of their activities in whole or in part.

However, after holding many sessions and workshops for decision makers in the microfinance sector, a decision was reached to continue funding and launch a project to support war-affected entrepreneurs, which has so far been able to restore the activities of 4,738 enterprises. These enterprises were able to recover their activities with small amounts, and they contributed with the rest of enterprises to revitalizing the local market after stagnation.

These enterprises now employ thousands of people and support tens of thousands of household members. Without the successful and effective intervention of the SFD through YMN, these enterprises would not have been able to rise again, and a very large number of their workers would have been unemployed, burdening the country's highly increased unemployment rate.

The project also has a significant social impact, as it contributed to empowering the beneficiaries, through restoring their activities, to improve their lives and cover housing and daily expenses. It also enabled beneficiaries to access medical care and cover treatment costs of family members, in addition to return of many of their sons and daughters to schools to continue their education.

We are confident that the project will contribute effectively and substantially to mitigating the effects of this pandemic given the project's accumulated experiences for over three years in studying the stalled projects and ensuring that they meet the compensation conditions and criteria, provided that the compensation is approved for damaged and partially or totally suspended enterprises due to COVID-19.

The fact that SFD, during the war, has provided support to microfinance institutions and programs through training and institutional building, or through supporting business continuity of MFIs by covering part of their operating costs, which led to the speedy recovery of the sector from the war effects; enabled the sector to overcome the war trauma and resumed its activities to pre-war situation; enabled it to focus more on the productive, service and commercial sectors and ceased consumer credits once and for all.

The contingency plan and business continuity of institutions and programs had significantly helped overcome this stage, as microfinance institutions and programs gained the necessary expertise and skills that enabled them to develop contingency and business continuity plans to cope with the outbreak of COVID-19 in line with international best practices.

Furthermore, YMN has made operational changes and changed all direct training and technical support services provided to its members to distance training. YMN is currently developing a mechanism to reduce the spread of COVID-19 at the industry level, including financial institutions, YMN members and microfinance clients through tools and questionnaires targeting institutions and clients to assess the financial, social and environmental impact.

Opportunities for Microfinance Institutions and Programs After the End of COVID- 19

The main opportunities expected to be accessible to microfinance banks include significantly expanding their electronic financial services and furthering financial inclusion, especially through the initiative launched by one of the microfinance banks to abolish fees on microfinance institutions and programs for these services.

“ On a positive side, one of the major impacts of more than five years of crisis in Yemen is that the microfinance industry products and services are being rapidly pushed towards more rural, agricultural, digital, and environment-friendly products. Undoubtedly, the COVID-19 pandemic local and global impact will further push the industry to more automation of activities and products and changing the way business is conducted as well as further focus on food security and supporting of local products. ”

- Ali Abutaleb, Executive Director, YMN.

In addition to the available opportunities, there is sufficient time to carry out in-house arrangements for microfinance institutions and programs, review policies and regulations, develop and update the internal control systems, change some automated systems, use technology more broadly, and place emphasis on the promising sectors. This is evident as one of the institutions bought a global automatic system that is considered one of the best in the region and in the world.

The opportunities also include focusing on agricultural, food and health products, and paying more attention to the service sector including delivery and transportation. In this context, it is worth mentioning that one of the enterprises was trained and equipped to produce face masks and sterilizers following international quality standards.

Summary

The ongoing war for more than 5 years has exhausted the country, devastated the national economy and all vital sectors, especially the microfinance sector, where most of the small enterprises stumbled in the conflict areas and many of their owners fled to other areas, leading to the loss of their main sources of income and thus rendering them unable to meet their financial obligations.

The SFD major contributions to support the microfinance sector recovery included providing support to approximately 5,000 war-affected entrepreneurs from MFIs microfinance programs clients to restore their activities, in partnership with YMN, project implementer. The project is expected to contribute significantly and effectively to mitigating the effects of this pandemic, given the project's accumulated experiences for over three years.

The SFD contributions also included establishing VSLAs to help improve the living conditions of rural communities, establishing an independent program that provides the necessary collaterals for entrepreneurs who cannot provide them, enhancing financial inclusion by encouraging and supporting the use of electronic financial services via mobile phone in partnership with finance banks, and building the capacities and skills of workers in the microfinance industry in multiple areas.

Precautionary measures started in March 2020 by instructing the institutions and private sector officials to adhere to all the necessary measures to prevent the spread of the pandemic, reduce office workers to 20% and provide instruction posters and sterilizers. The Higher Committee for Epidemic Control has further instructed the closure of wedding halls, internet cafes and woman beauty salons, and earlier, precautionary measures were taken including closure of schools, institutes and public and private universities. The COVID-19 outbreak has produced adverse effects on the microfinance sector such as closure of markets and shops and suspension of enterprises' activities. In addition, the microfinance institutions and programs were affected by the decreased operational efficiency due to the lack of liquidity and erosion of capital and productive assets, and many workers in this sector will lose their jobs as a result of the large losses that MFIs and microfinance programs will incur. Many workers in this sector will also lose an important opportunity for growth and development and acquisition of new skills and experiences in the industry.

Furthermore, field verification visits intended to verify the funding procedures of microfinance institutions and programs, as they require direct contact with teams and field visits to markets. The sector was also reluctant to grant funds, except for some vital sectors that were less affected by the pandemic, such as the agricultural, fishery, livestock, health, and information technology sectors. Additionally, the blurring vision about the extent of the virus, its effects, and its end date made some enterprise owners reluctant to request funds.

To mitigate COVID-19 pandemic adverse effects on the microfinance sector, a number of measures have been taken, including contingency plans for all microfinance institutions and programs, rescheduling the repayment of funds granted to microfinance institutions and programs through grace periods of up to 6 months, as well as encouraging institutions and programs to provide financial services to support agricultural activities and food security projects.

Although COVID-19 has negative effects, it has also positively affected the microfinance sector, including triggering increased demand for using electronic financial services, which will lead in the future to more broadly enhance the financial inclusion, and the adoption of distance training through online applications, and the reactivation of an emergency team for the microfinance sector to manage the crisis, which played an active role in the beginning of the war and is playing an active role during this pandemic.

In addition, some microfinance institutions and programs have overcome routine and introduced accessible methods and procedures. Moreover, some sectors saw significant recovery, such as the detergent and sterilizer sector, the pharmaceutical and medical supplies manufacturing sector, and the information technology sector.

Furthermore, MFIs will place more emphasis on promising and more sustainable sectors in crises, whether productive, service or commercial sectors, and greatly expand their electronic financial services and contribute more to financial inclusion, which will be one of the most important opportunities for the sector.

Figures and Statistics:

%3.3 Expectations of real GDP contraction in 2020 if COVID-19 spreads in Yemen.
%60 ~ %70 Decrease in foreign remittances due to COVID-19 consequences.

(Economic and Social Developments in Yemen, Issue (47), April 2020, Ministry of Planning and International Cooperation, Economic Studies and Forecasting Sector)

10 health workers for every 10,000 people in Yemen.
50% of health facilities are partially or completely out of service.

(WHO, Yemen: Health Resources and Services Availability, 2018)

3.34 million people are internally displaced, and it is estimated this figure has reached about 4 million people by the end of 2019. Asylum seekers from Ethiopia and Somalia make up the majority of the 276,000 refugees and asylum seekers hosted by Yemen, most of whom still live in dangerous situation.

(United Nations Office for the Coordination of Humanitarian Affairs (OCHA), Humanitarian Response Plan, January - December 2013 - Yemen, February 2019)

(UNHCR <https://www.unhcr.org/ar/4be7cc27910.html>)

12. 2 million children need humanitarian assistance.
1. 71 million children are internally displaced.

(UNICEF Yemen Country Office - Humanitarian Situation Report (Reporting Period: 1 - 31 March 2020))

104 districts suffer from acute needs in all sectors, and 230 districts are at risk of starvation.

24. 1 million people need humanitarian assistance.

7. 37 million people need healthy nutrition, 4.4 million of whom are in acute need.

20. 1 million people need food and agricultural security, 10 million of whom are in acute need.

19. 7 million people need health care, 14 million of whom are in acute need.

17. 8 million people need water, sanitation and hygiene, 12.6 million of whom are in acute need.

4. 7 million people need education, 3.7 million of whom are in acute need.

6. 7 million people need shelter and site management, 4.5 million of whom are in acute need.

14. 4 million people need protection, 8. 2 million of whom are in acute need.

(United Nations Office for the Coordination of Humanitarian Affairs (OCHA), Humanitarian Response Plan, January - December 2019 - Yemen, February 2019)

10 million people are one step away from famine.

Closure of 31 out of 41 major United Nations humanitarian programs in the coming weeks unless they are funded urgently.

(Office of the UN Resident Coordinator and Humanitarian Coordinator in Yemen: Yemen in the eye of a COVID-19 perfect storm, Sana'a, 28 April 2020)

SME Loan Portfolio Indicators Until End of April 2020

منطقة العمل	عدد الفروع	عدد مسؤولي القروض	عدد الموظفين	FSS	OSS	الأرقام الترقية		محفظة القروض في المخاطرة (%)	اجمالي قيمة القروض المصدرة الربع الأول + أبريل 2020 (مليون دينار)	اجمالي قيمة القروض المصدرة 2019 (مليون دينار)	اجمالي قيمة القروض المصدرة 2018 (مليون دينار)	اجمالي قيمة القروض المصدرة 2017 (مليون دينار)	قيمة القروض المصدرة 4/2020 (مليون دينار)	قيمة القروض المصدرة (مليون دينار)	محفظة القروض (مليون دينار)	تعدد عدد العملاء		عدد الضمانات برنامج كالات	عدد القروض المصدرة 4/2020	اجمالي عدد القروض المصدرة الربع الأول + أبريل 2020	اجمالي عدد القروض المصدرة 2019	اجمالي عدد القروض المصدرة 2018	اجمالي عدد القروض المصدرة 2017	البرنامج	م		
						مليون دينار	مليون دينار																				
صناعة، تجزئة، خدمات	12	74	153	81	98	11,340	95,744	7	1,374	2,064	950	447	475	0	1,854	130	6,640	0	816	2,239	4,677	3,118	2,484	مؤسسات خدات	1		
أمانة العاصمة، تجزئة، خدمات	16	51	226	171	286	14,329	137,858	57	887	1,767	581	174	258	94	3,593	189,767	35,031	107	706	3,219	4,054	1,028	427	بنك الأمل	2		
أمانة العاصمة، تجزئة، خدمات	65	90	122	90	99	29,480	35,744	1	4,914	8,989	4,022	2,170	1,262	27	8,293	1,173,233	6,325	19	676	2,726	5,925	3,832	2,958	بنك الكويت الإسلامي	3		
صناعات، تجزئة، خدمات	8	37	75	117	131	6,432	39,688	15	448	1,142	773	715	133	0	1,142	5,799	6,768	0	433	1,244	3,927	3,447	3,523	مصرف الكويت	4		
أمانة العاصمة، تجزئة، خدمات	20	89	190	49	96	17,739	180,422	11	2,471	4,637	1,913	584	335	67	4,755	26,127	12,577	42	376	1,927	4,989	3,802	2,574	المؤسسة الوطنية للتأمين	5		
صناعات، تجزئة، خدمات	8	39	91	52	81	8,272	55,747	6	1,351	1,869	716	270	224	5	1,749	2,782	3,795	2	282	1,427	2,490	1,639	920	برنامج ازال	6		
أمانة العاصمة، تجزئة، خدمات	22	34	71	152	162	13,752	44,893	3	1,173	2,096	1,714	874	313	35	2,387	0	5,038	20	272	929	2,698	2,148	1,433	برنامج التأمين	7		
صناعات، تجزئة، خدمات	8	41	96	39	57	3,975	52,863	23	171	567	325	246	32	14	602	0	3,124	13	27	275	1,548	1,425	1,297	برنامج الاتحاد	8		
أمانة العاصمة، تجزئة، خدمات	11	11	19	N.A	N.A	1,495	112	0	702	865	-	-	162	4	1,330	0	108	1	13	88	24	-	-	بنك اليم والكويت	9		
صناعات، تجزئة، خدمات	5	34	65	43	68	4,376	54,019	77	-	-	-	-	0	0	666	7,065	9,802	0	0	-	-	-	-	مؤسسة عين	10		
مناطق مختلفة	-	-	-	-	-	23,168	169,411	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	مناطق حرة	11	
-	175	500	1,108	-	-	134,418	846,301	-	13,491	24,006	10,994	5,480	3,194	246	26,351	1,404,903	89,208	204	3,601	14,074	30,332	20,439	15,616	الإجمالي			