Ex post evaluation – Yemen

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Sector: Informal/semi-formal financial intermediaries (CRS code: 2404000)
Project: Promotion of the Financial Sector for Micro, Small and Medium Enterprises (MSMEs) (BMZ No. 2005 66 067)* and the associated complementary measure (CM) (BMZ No. 2008 70 105)
Implementing agency: Yemen Social Fund for Development (SFD) and its micro-financing arm, the Small and Microenterprise Development Unit (SMED)

Ex post evaluation report: 2021

All figures in EUR million	Primary measure (planned)	Primary measure (actual)	CM (planned)	CM (actual)
Investment costs (total)	4.5	4.5	1.5	1.4
Counterpart contribution	0.0	0.0	0.0	0.0
Funding	4.5	4.5	1.5	1.4
of which BMZ budget funds	4.5	4.5	1.5	1.4

Random sample 2018

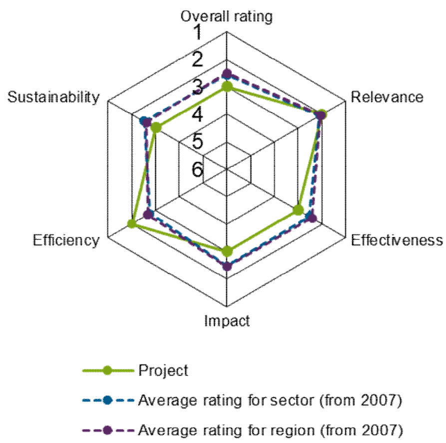
Summary: EUR 4.5 million in grant funding was provided from the investment measure to Yemen's Social Fund for Development (SFD) in its capacity as an apex institution. The SFD channelled the funds to qualified financial institutions, which they in turn used to finance loans to MSMEs. The complementary measure to the tune of EUR 1.4 million was employed to strengthen the capacity of the Small and Microenterprise Development Unit (SMED) and microfinance institutions (MFIs).

Development objectives: The module objective (objective at outcome level) was to establish efficient microfinance structures and have MFIs operating according to best practices. This was intended to help improve the provision and uptake of need-based financial services as well as helping to reliably deliver sustainable access to these financial services for Yemeni micro, small and medium-sized enterprises (MSMEs). A further module objective added during the ex post evaluation was for the access to the products of the participating MFIs to improve resilience of the population concerning impacts of conflict. The sectoral overarching development objectives (objectives at impact level) were 1) to help widen and deepen the financial sector while focussing on the target group, and 2) to help promote private-sector activity and private-sector job creation as well as playing a positive role in alleviating poverty in Yemen.

Target group: The direct target group was MSMEs and potential business founders – plus, indirectly, family members and the workforce at these MSMEs.

Overall rating: 3

Rationale: In line with Yemen's national development goals and the German Federal Government's development policy objectives, the measures were able to assist with establishing efficient microfinance structures and, in turn, to promoting private sector activity and ultimately alleviating poverty. Thanks to the cooperation with the executing agency, the SFD, the project was continued and efficiently implemented even in challenging security conditions. However, due to the conflict, there is a need for further involvement from international donors to ensure the continuity of the microfinance structures that have been created.



Highlights: One particularly welcome development was the support provided to two microfinance banks that almost exclusively do business with women.

In terms of the project's interaction with other promotional work, it has laid the foundation for the recent launch of a new project with well-functioning microfinance banks.

Rating according to DAC criteria

Overall rating: 3

Ratings:

Relevance	2
Effectiveness	3
Efficiency	2
Impact	3
Sustainability	3

General conditions and classification of the project

The implementation period of the projects assessed here (2012–2015) coincides with a period of political, economic and security-related crises. Following the resignation of long-serving President Saleh in the wake of the Arab Spring in 2011 and the appointment of President Hadi as his successor, a transition period marked by political power struggles began. This culminated in the invasion of the capital Sana'a by an alliance of actors from the north in 2014 and the entry into war of a Saudi Arabia-led military coalition in March 2015. Even before the outbreak of the war, Yemen was the poorest country in the Arab world and the most threatened by malnutrition. Since 2015, its economy and banking sector have almost completely collapsed, which has led to a liquidity crisis, inflation and devaluation of the Yemeni rial (YER). A naval blockade exacerbated the supply situation in the country, which is almost totally dependent on imported food and fuel.

Due to security concerns stemming from wartime hostilities, the complementary measure was temporarily suspended in 2015 and its term was extended. Nonetheless, the actors in the microfinance sector supported by the project (SMED, MFIs) were able to continue their work as well as assisting with reconstruction and mitigating the humanitarian crisis.

Relevance

At the time of the appraisal, the Yemeni economy was highly dependent on the oil and gas industry, with manufacturing playing a lesser role. The vast majority of the businesses engaged in manufacturing are micro, small and medium-sized enterprises (MSMEs).

The financial sector was heavily underdeveloped. There was no interbank market at all, and integration with international financial markets was weak. The formal banks operated inefficiently and placed a strong emphasis on loan collateral, which led to a significant level of concentration among a few large companies. As a result, the MFIs were given a key role in financing MSMEs. However, if they did not have bank status, they were not permitted to accept any client deposits, which deprived them of any refinancing opportunities, except from international financial institutions and the SFD SMED.

Yemeni society as a whole is strongly male-dominated, which is also reflected in economic life. Women have largely been denied economic rights, including the important right of inheritance. Only 1.5% of MSMEs across Yemen were run by women at the time of the appraisal. Although there are no up-to-date figures available, one of the impacts of the conflict in Yemen has been a shift in gender roles. In particular, when husbands have lost their jobs, their wives have frequently sought employment.

Lending to the private sector accounted for a low 7.4% of Yemen's gross domestic product at the end of 2008. A large proportion of the population and private businesses consequently had little access to financial services.

In 2009, the situation concerning access to financial services in Yemen had already improved to some extent, as the SFD began to provide targeted support to the microfinance sector in 2003. However, many important basic elements were still missing at that time, which only improved when a national microfinance strategy was adopted in 2007 and microfinance legislation passed in 2009. As a result, there was still a strong need for additional financial services for MSMEs in 2009.

It was possible to address the MFIs' key problems described above by providing refinancing funds to the SFD SMED as part of an open programme. All in all, the results chain makes good sense – the funds provided in the form of loans by the SFD SMED are demanded by the MFIs and make it possible to lend to creditworthy MSMEs.

With its set goals, the project was in line with the German Federal Government's development policy guidelines, especially with regard to the 2015 action plan (strengthening economic dynamism and ensuring that the poor enjoy active participation in the economy) as well as the financial systems development strategy of the Federal Ministry for Economic Cooperation and Development (BMZ). Promoting the MSME sector is a priority area in Yemen's development strategy due to its key role in generating income and employment.

Due to MSMEs' high demand for financial services and the generally sound project design, we rate the level of relevance as good overall.

Relevance rating: 2

Effectiveness

Given the tumultuous events since 2015/2016, the projects' effectiveness is evaluated as of March 2015 and December 2014, i.e. just before the start of the war.

The open programme's sectoral objective was to establish efficient microfinance structures and have MFIs operating according to best practices, which in turn would help to improve the provision and uptake of need-based financial services as well as helping to reliably deliver sustainable access to these financial services for Yemeni MSMEs. The module objective aimed at strengthening resilience, which was added during the EPE, was for the access to the products of the participating MFIs to improve resilience of the population concerning impacts of conflict.

A total of eight MFIs received refinancing and support through the complementary measure (for details, see Part 2 and Appendix 5), while four additional MFIs only received support as part of the CM.

The achievement of the objectives at outcome level defined at the project appraisal can be summarised as follows:

Indicator	Status PA, target PA	Ex post evaluation
Sectoral		
(1) The financial intermediaries promoted develop their business in a demonstrably sustainable manner (operational and financial cost coverage), measured by operational self-sufficiency (OSS) and financial self-sufficiency (FSS).	Status PA: ./. OSS >100 in year 4 after promotional support. FSS >100 in year 4 after promotional support.	2015: No MFIs' OSS >100. No MFIs' FSS >100. 2018: One MFI's OSS >100. This MFI's FSS was also >100. **-> Indicator not achieved.**
(2) The funds provided are fully disbursed to the target group within four years and made available on a revolving basis (proof of target group focus).	Status PA: ./. Financial Cooperation (FC) funds provided are fully disbursed in year 4 after promotional support.	The funds were fully disbursed to the SFD in the March 2013–February 2015 period. **-> Indicator achieved.**
(3) The portfolio at risk (PaR)	Status PA: ./.	**Until the outbreak of war** in De-

belonging to the MFIs promoted is no higher than 5% (loan portfolio and lending quality).	PaR <5%.	cember 2014: **achieved** at 5 out of 8 MFIs. Not achieved in 2018: 7.7–78%. (As a result of armed hostilities and in the years that followed, the ability to service the debt deteriorated substantially). **-> Indicator 60% achieved at end of 2014.**
(4) MSME loan portfolio experiences annual growth of at least 25% on average (expansion of need-based product portfolios).	Status PP: N/A. Portfolio grows by at least 25% per year. [NB: This indicator is too high, even in a non-conflict context, so it has very little influence on the rating.]	Number of loans: In 2012: 417,600 In 2013: 558,000 (+34%) In 2014: 642,200 (+15%) In 2015: 658,800 (+3%) In 2016: 592,000 (-10%) In 2017: 680,100 (+15%) In 2018: 640,000 (-6%) **-> Indicator still achieved in 2013. From 2014 onwards (outbreak of war), there has still been moderate growth in three years.**
(5) Relative share of women borrowing from the MFIs promoted increases over the baseline level.	PA status: 67%.	2014: 72%. 2018: 47%. **-> Indicator achieved in 2014**, no longer achieved in 2018.
Resilience strengthening		
(6) Financial products facilitate economic activity.	Status PP: N/A.	See below. **Indicator achieved.**
(7) Clients use products to mitigate the consequences of conflict or products prevent negative response strategies.	Status PP: N/A.	See below. **Indicator achieved.**
(8) Products improve mobility among the target group.	Status PP: N/A.	See below. **Indicator achieved.**
(9) The MFIs enable business clients whose banks have stopped lending due to the conflict to keep up their activities in hard-to-reach areas.	Status PP: N/A.	See below. **Indicator achieved.**

The FC funds were fully disbursed to the target group before the first military hostilities at the end of March 2015. As the MFIs have performed differently in business terms, it is not possible to make a broad conclusion on the achievement of the target value indicators for the MFIs promoted since 2012. It is worth noting that three of the four largest MFIs had a very low portfolio at risk until 2014. This does not necessarily mean that the smaller MFIs have performed badly, only that the target indicators have been partially achieved. The picture is mixed in terms of the proportion of women among ultimate borrowers, although it is notable that at least two of the participating MFIs themselves had very high percentages of female employees in 2018 (79% and 81% respectively). In a strongly male-dominated society such as Yemen, as mentioned above, this is a very good achievement.

The participating MFIs' business situation then became uniform starting with the outbreak of war in 2015. The portfolio at risk increased for all MFIs. Operational and financial cost coverage tended to be difficult both before and after the outbreak of war.

Indicator	**Status in December 2012 (start of project)**	**Status in December 2014 (end of project)**	**Status in September 2018**
(1) Number of (still existing) MFIs that participated in the project: Refinancing + CM: CM only: Total:	 8 4 12	 7 3 10	 7 3 10
(2) Volume of lending (in YER million) among the MFIs promoted, adjusted for inflation (base year: 2012)	37,747 37,747	53,051 44,209	71,994 24,344
(3) Number of clients taking out loans from the MFIs that were promoted	82,206	120,839	84,219

The microfinance sector has experienced inconsistent development since the end of 2014. The inflation-adjusted volume of lending in YER fell, although this rose without an adjustment for inflation, as did the number of borrowers.

With the outbreak of war, the economic conditions changed drastically, which was reflected in declining key performance indicators. Nonetheless, it subsequently became apparent that despite the war and humanitarian disaster, there was a need for microfinance services – and the MFIs were well positioned to continue doing business, even under the most difficult conditions. Two of the MFIs participating in the project had to cease trading. One of these had received refinancing and advisory services via the CM, with the other only receiving advisory services. However, according to the information provided, this did not result in any losses for the SFD. The remaining capital previously belonging to the wound-up MFI that received refinancing is to be transferred to a successor MFI, which is currently in the process of being established. The continued survival of the remaining MFIs under wartime conditions can only be considered a success.

At the start of the programme, in addition to complementary measures at the SFD-SMED, extensive measures were also planned at the partner MFIs (12 MFIs in total). As the crisis worsened, the broad support available from the MFIs was in less demand. Instead, assistance was provided with the foundation of the Yemen Loan Guarantee Programme and an application was created to make it easier to administrate agricultural financing for the MFIs. At a later stage, online rather than in-person formats often had to be utilised. This also worked well according to the information provided, except for time-critical processes.

In addition to the impact indicators defined at the time of the PA, the results of qualitative interviews with MFI employees and ultimate borrowers are also factored into the evaluation of effectiveness (see also Part 2, 2.02). Visits to the offices of some MFIs by an employee at the KfW office in Sana'a, as well as interviews with employees of the MFIs, revealed that it is fully possible to do business. The MFIs operate according to current best practices and offer advisory services and informative materials regarding need-based financing.

In the interviews with the ultimate borrowers, a large number of the interviewees stated that they had benefited from the financing via the MFIs and noted a positive change in their own living conditions. The need-based adjustment of financing components to suit the individual situations of borrowers stood out as a particularly positive aspect. This meant that borrowers were able to present a huge variety of guarantees, including material goods such as cars or gold; group guarantees from women's cooperatives; and guarantees that required the feasibility of the operation for payment and were later financed from mark-ups on the loan fees. In addition, it was possible to incorporate free months on a flexible basis in which borrowers did not have to make any repayments. In the case of agricultural financing, for example, these were chosen according to harvest times.

Some respondents stated that they had taken out the loans as a necessity due to the conflict, with the financing helping them through times of crisis. As a result, the FC project played a role in overcoming barriers to development and alleviating the consequences of war.

In summary, shortly before the outbreak of war, three of the five sectoral impact indicators were achieved, one was only partially achieved (PaR) and one was not achieved (OSS, FSS). Taking into account the positive impacts on individual borrowers, the basic ability to maintain orderly banking operations, but weak OSS/FSS and mediocre PAR, we rate the overall effectiveness as satisfactory.

Effectiveness rating: 3

Efficiency

FC cooperated with the SFD, one of the few institutions that was able to implement development-oriented measures on the ground even under difficult political and security conditions during the project period.

Detailed data to assess the production efficiency of the SFD – and, more specifically, its SMED unit – is not available. Previous evaluations[1] show the SFD to be highly cost efficient due to its decentralised administrative structures, well-trained staff, transparent contract award processes and on-time payments. The SFD projects' running costs are reported to be considerably lower than in projects by the UN and international non-governmental organisations.

The SMED channels the FC funds to the MFIs in a structured manner and according to set rules. Promotional support is only provided to MFIs that have: a registered legal form under Yemeni law, a set of by-laws approved by the Yemeni House of Representatives, members or shareholders who bear liability for financial obligations, and an appropriate loan monitoring system. The SFD's published annual reports reveal, among other information, the staffing levels of the microfinance banks promoted.

At the MFIs supported by the project, one loan officer serves an average of 210 clients (as of 2018), which can be considered satisfactory given the difficult prevailing conditions.

The credit line was implemented on schedule, though the complementary measure could not be implemented as planned due to the security situation. The CM activities had to be discontinued entirely from 2015 to 2017. After various steps were taken to reschedule, the measures were subsequently completed by the end of 2020.

We rate the production efficiency as good on the whole.

We do not see a better or more efficient solution than the approach chosen with the SFD as an apex institution and funds extended via accredited MFIs. The funds were used on a revolving basis at least once. After this, SFD-SMED funds were used in 2015/2016 to recapitalise partner MFIs or cancel a series of MFIs' debts. By this time, the FC measure had already come to an end and the long-term disposal of the

[1] E.g. Recovery and Development Consortium, DFID Yemen Social Fund for Development Impact Evaluation, London, 2010.

funds had been transferred to the SFD. We view the allocation efficiency as satisfactory and the overall efficiency as good.

Efficiency rating: 2

Impact

The overarching development objectives (impact) included 1) deepening and broadening the Yemeni financial sector while focusing on the target group, and 2) promoting private-sector activity, employment and income generation.

The target values for these were 1) a broader financial spectrum than during the project appraisal, and 2) an increase in employees or a significant improvement in employment conditions among at least 50% of the MSMEs surveyed.

Some MFIs developed new business areas (e.g. financing solar panels) and expanded their focus to rural areas and agricultural financing. However, the high demand for loans from rural areas has not yet been fully served, with the solar panel support seemingly more of a niche product. The most popular products are loans to promote investments in the commerce and skilled trades sectors as well as agricultural loans.

During the interviews, several respondents reported that they knew of few or no other official lending institutions in their immediate vicinity. This reflects positively on the implementation via the MFIs, as these have at least a partial presence in the rural regions.

The expansion to rural areas managed, in turn, to modestly expand the financial sector. An increase in the volume of lending (see Effectiveness section) can be interpreted as a growth in demand, but this does not necessarily imply that the sector has grown broader or deeper, and there were only small successes in achieving the indicator.

The MFIs technically and financially supported by SMED played a part in creating around 59,000 jobs in micro and small businesses between 2015 and mid-2018.[2] It is plausible that the microfinance sector made it possible to better address the impacts of conflict, which can be supported by evidence.

A large proportion (>50%) of the owners of MSMEs interviewed in the on-site surveys reported an increase in the number of employees at their businesses and gave the financing provided by the project not insignificant credit for this. The loans allowed investments to be made, which were used to expand their businesses. The MSME owners reported both hiring employees and integrating family members into their operations. As a result, we regard this sub-objective as having been achieved.

On the positive side, the FC project ushered in an important development for Yemeni society under the most difficult conditions. While the project had a clear positive impact on the economic situation of the MSME sector and rising employment within the private sector, it was unable to help significantly deepen and broaden the financial sector. Instead, the FC project played a role in keeping a supply of financial services alive for MSMEs under the tough conditions caused by the conflict. Weighing up these aspects, we consider the overarching developmental impact achieved to be very satisfactory.

Impact rating: 3

Sustainability

The SFD has displayed a high degree of resilience in recent years. Its continued existence is naturally dependent on the continued support of international partners. Since the SFD carries out development projects and not projects that involve generating income, it cannot be self-sustaining. Funding from public bodies is not wanted by the donors, as this would jeopardise the independence of the institution under the circumstances at hand. As a result, this is the only reasonable solution in the current situation.

From today's perspective, we can assume that the microfinance structures that were promoted in Yemen will continue to exist during the ongoing war. Since 2017, a number of major donors, including the World Bank and FC, have launched new programmes with the SFD. Work has begun on making necessary ad-

[2] LFS SMED, September 2018.

justments to deal with the difficult macro-situation, including a corresponding sector concept that has been developed by the SMED.

The revolving use of the FC funds worked well on one occasion, before the crisis intervened and this was no longer the case. As long as the crisis persists, revolving, self-sustaining refinancing of MFIs via the SFD-SMED will face an uncertain fate. However, this cannot be attributed to the project concept or implementation – it is entirely a result of the war and the humanitarian catastrophe that it has brought about.

The microfinance structures created by the project remain just as fragile as the wider political and economic situation. In order to sustainably shore up the microfinance structures that have been created, further efforts by local institutions and foreign donors are needed along with an end to the war.

Overall, we rate the sustainability as satisfactory. The SFD's structures have proven to be sustainable and stable during the crisis. By contrast, the MFIs are currently not operating sustainably (see also the Effectiveness section, specifically on the OSS/FSS and high loan default rates). This is also difficult in a highly inflationary environment like Yemen. The developments in the SFD's and MFIs' environment pose a high level of risk that cannot be controlled.

Sustainability rating: 3

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).