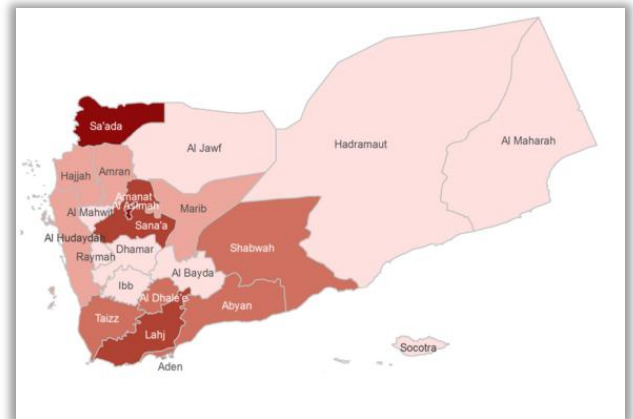




# MICROFINANCE IN YEMEN

*Hopes vs. Reality*

*"A first insight into the impact of war on the industry"*



## ABSTRACT

*In FY 2014 there were several indicators signaling a positive outlook for the microfinance industry in Yemen for the year ahead. In Q1 FY 2015 however war broke out in Yemen. YMN is documenting the impact of the war on the microfinance industry, focusing on its member MFIs and their respective clientele.*

Yemen Microfinance Network  
July 2015



[www.yemennetwork.org](http://www.yemennetwork.org)

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## 1. State of MF Prior to War Situation

Despite the unstable and challenging environment facing the microfinance industry in Yemen ever since the 2011 crisis (Arab Spring), with its implications and up until the beginning of 2015, the industry had been looking ahead to better performance and a more promising year in 2015. This positive outlook was evidenced by the steady (although moderate) increase in microfinance outreach with higher numbers of active clients across all YMN member MFIs. This was supported by the more serious efforts by member MFIs to break the barrier of only working in service-clustered urban parts of the country, and instead expanding their services to rural Yemen where the potential and need for suitable client-focused financial services is much needed and could be highly fruitful and impactful. Another primary indicator for steady growth was the notable increase in YMN's membership, which by the end of 2014 alone had gone up by over 60% showing greater diversity in focus and product and service offerings to include new commercially funded MFIs in the launching stages, commercial & Islamic banks and BDS providers.

Additional evidence that support this positive outlook can be summarized below:

- i. Increase in the number of projects/initiatives supporting the MSME market in Yemen;
- ii. Entry of new players into the market from the private sector along with foreign investors;
- iii. MFIs expansion plans and development of new service delivery channels;
- iv. MFIs' efforts to diversify and develop new client tailored services (financial & non financial)
- v. Establishment of a steering committee for the micro insurance initiative
- vi. Higher interest in mobile banking, as well as initiatives to enhance client protection, social performance management and financial education;
- vii. Increase in support provided by international development organizations, investors and donors including GIZ, KfW, IFC, USAID, Silatech, SANAD Fund for MSME, European Commission, and others; and
- viii. Plans to establish a Microfinance Academy in Yemen

## 2. The Current Situation in Brief:

Prior to this striking deterioration of the situation in Yemen, the general feeling was that the people had somehow become resilient to the environment of instability in Yemen over the past decade. However, nothing was to prepare Yemenis for what was yet to come!

The internal conflicts and clashes in the months up to February 2015 had a negative impact on the microfinance industry's performance. Despite this, the overall indicators for most MFIs remained positive including the number of active clients up to February 2015, mainly because the conflicts were restricted to certain parts of some governorates. However, the rapid acceleration of events following president Hadi's move to Aden, his escape out of Yemen, and the sudden launch of the "Decisive Storm" military airstrikes by the Arab coalition led by Saudi Arabia on March 26<sup>th</sup> 2015, was not anticipated. The continuation of the military airstrikes to date was also not expected. The external military airstrikes and the internal battles that were taking place simultaneously in several governorates have implicated the lives of every Yemeni in an unimaginably tragic degree. Human lives, financial, and physical losses, as well as the large-scale destruction of national infrastructure have led to catastrophic bearings. In addition, the total blockade enforced by the Arab coalition of all of Yemen's national travel and commercial ports has left the country almost completely paralyzed especially considering that Yemen imports over 90% of its food supplies and everyday life necessities.

The ramifications of the ongoing war situation are much deeper than can be imagined by those living outside Yemen. However, the below table tries to summarize the gravity of the situation in Yemen and its negative implications on the population and economy - including the microfinance industry:

**Table 1: Key Factors Affecting War-Torn Yemen and Their Implications**

FACTORS	IMPACT
<b>Absence of a functional government</b>	<ul style="list-style-type: none"> <li>i. Macroeconomic paralysis</li> <li>ii. Lack of legal framework nationwide</li> <li>iii. Difficulty in transferring funds               <ul style="list-style-type: none"> <li>- Loss of trust in the local currency, and financial institutions,</li> <li>- Scarcity of US dollar and other foreign currencies in the market</li> <li>- The Central Bank of Yemen is barely managing to disburse public employees' salaries and pay for some of the vital imports and its ability to continue to do so in the near future is uncertain</li> <li>- Hyperinflation and risks of complete dysfunction of what was already a fragile banking system</li> <li>- Threats of collapse of the limited government social safety net</li> </ul> </li> </ul>
<b>Military airstrikes by the Arab coalition and fierce military clashes between pro &amp; anti escaped president militias in several governorates</b>	<ul style="list-style-type: none"> <li>i. Large scale destruction to the country's infrastructure nationwide<sup>1</sup></li> <li>ii. Loss of thousands of human lives including children: 3,562 registered deaths including children, 16,864 registered injuries, and nearly 1.3 million internally displaced people.<sup>2</sup></li> <li>iii. Rates of unemployment and poverty soared to unprecedented levels, i.e. YCC<sup>3</sup> estimates unemployment in the private sector has reached nearly 80% since the crisis began in March 2015</li> </ul>
<b>Blockade of all national ports in Yemen enforced by the Arab coalition</b>	<ul style="list-style-type: none"> <li>i. Sharp decline in food and medical supplies imports leading to insufficient food supplies and an imminent collapse of health services</li> <li>ii. Shutdown of the majority of industrial and commercial businesses that depend on trade</li> </ul>
<b>Near complete outage of electricity throughout the country, and shortage of oil derivatives (petrol, diesel, gas)</b>	<ul style="list-style-type: none"> <li>i. Difficulties in continuing operations for all public and private service providers and businesses</li> <li>ii. Limited transportation services (both public and private)</li> <li>iii. Unreliable communication services including internet services leading to long periods of blackouts and absence of any connectivity to the outside world</li> </ul>

**Box 1: United Nations Update Announcement on Yemen**

On July 1<sup>st</sup>, the United Nations declared that war-torn Yemen has reached its highest level of humanitarian emergency; as it stands over 80% of the population desperately requires humanitarian assistance. Officials have stated that Yemen is one step away from famine.

Source: United Nations

<sup>1</sup> "The damage to critical infrastructure in the whole country, including hospitals, schools, air and sea ports, mosques, and residential premises is unacceptable and goes against all responsibilities that parties to the conflict must adhere to under international humanitarian law", Humanitarian Coordinator for Yemen, Johannes Van Der Klaauw, 27 July 2015

<sup>2</sup> OCHA Yemen: Humanitarian Emergency, Situation Report July 13<sup>th</sup> 2015

<sup>3</sup> Yemeni Chamber of Commerce, Sana'a, June 2015

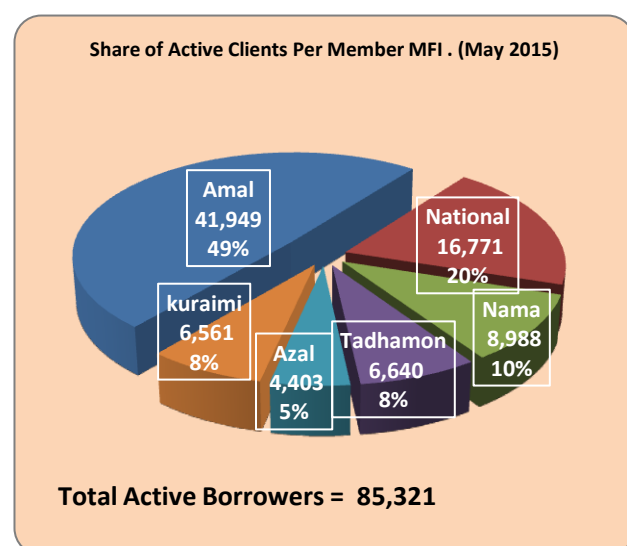
### 3. Direct Impact on MFIs:

Due to the severity of the situation nationwide, it has been extremely challenging for YMN to collect and disseminate information and performance indicators from its member MFIs on a timely basis especially since the MFIs themselves are facing difficulties in reaching their clients in the field in several provinces. This is mainly due to the hostile environment characterized by an absence of security, and lack of electricity and fuel for operations and transportation, instable performance of communication services and destruction of infrastructure. The biggest obstacle facing MFIs; however, has been the displacement and relocation of thousands of their clients. This paper presents data collected from six member MFIs as of the end of May 2015. It is worthy to mention that at least three members were unable to provide representative data since the crisis began in late March 2015. This is either because they are located and only active in areas where the internal conflict is most vicious, such as the case with Aden Microfinance Foundation one of the best performing member MFIs and Women Association for Sustainable Development which are located in the province of Aden, or because their offices have been completely destroyed by the internal clashes or airstrikes, such as the case with Awael Microfinance Company in Taiz province. Or in the case of Hadramout province which is one of only two relatively more stable provinces in Yemen currently and have not suffered from the internal fighting and or airstrikes until this moment, but due to lack of electricity and deterioration of communication infrastructure representative data for members could not be provided in time such as the case for Hadramout Microfinance Program.

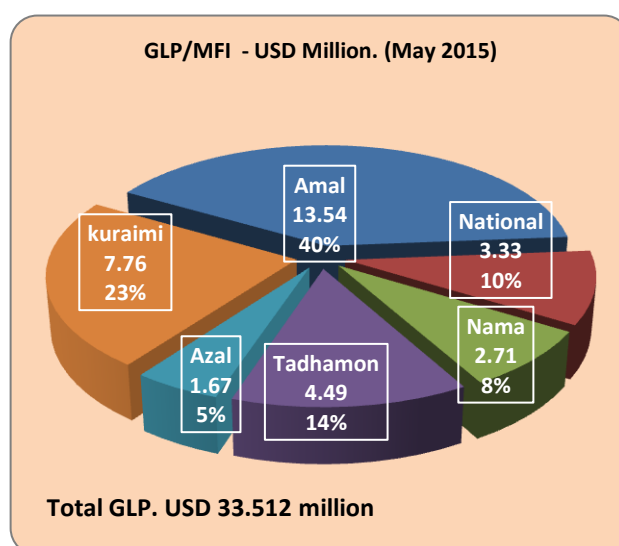
**Table 2: Sample MFIs selected (Data as of end of May 2015)**

#	Institution Name	Year of Establishment	Institution Type	# of Branches	# of Personnel	# of Borrowers	Area of Operation
1	Amal Microfinance Bank	2009	MF Bank	12	266	41,949	National
2	Azal Islamic Microfinance Program	2001	NGO	5	83	4,403	Sana'a Province
3	Kuraimi Islamic Microfinance Bank	2010	Bank	61	73	6,561	National
4	Namaa Foundation	2000	Foundation	4	109	8,988	National
5	National Microfinance Foundation	2003	Foundation	13	138	16,771	National
6	Tadhamon Microfinance Unit	2008	Bank Unit	11	120	6,640	National

**Graph 1: Share of Active Borrowers per Member as of end of May 2015**



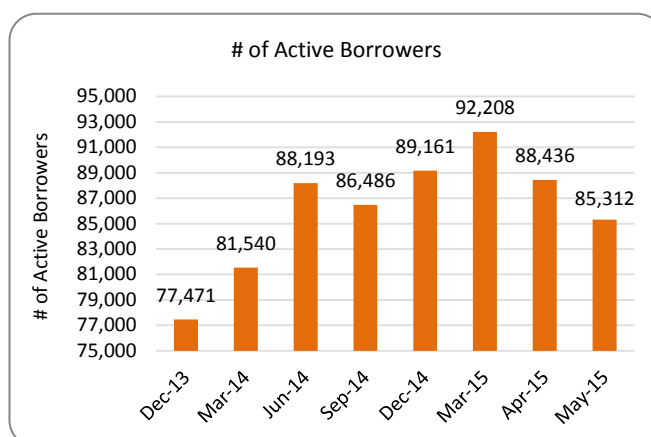
**Graph 2: Gross Loan Portfolio (GLP) by Member as of end of May 2015**



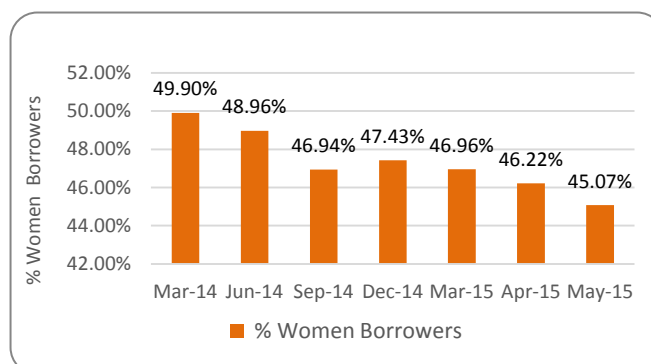
- **Sharp decline in the number of active borrowers due to several aspects:**
  - ix. Internal displacement of thousands of clients
  - x. Destruction and loss of clients' activities and business assets
  - xi. MFIs' reluctance to take on new clients, and/or renew loans even for creditworthy clients due to the current environment of uncertainty and high risk
  - xii. Inability to resume microfinance operations and services in several provinces

The numbers for the six MFIs sampled in this paper show a growth of 5.3% in Q1 2014 from the previous 77,471 Active Clients in Dec 2013, followed by 8.2% increase by the end of Q2 2014. This is mainly due to the relative stability of the political situation back then, which also encouraged MFIs to increase their outreach and expand to rural Yemen with a financial support of the Social Fund for Development (SFD) in most cases. However, Q3 2014 indicates a 1.9% decline as that period witnessed a return of dispute this time between the reconciliation government and Houthi rebels ending up with Houthis taking over the control of the capital Sana'a on September 21<sup>st</sup>, and most of the country. Nonetheless, Q4 2014 ended with a positive 3.1% mark up, followed by another 3.4% increase by the end of March 2015. However, it all went downhill since then as the fighting escalated and airstrikes began.

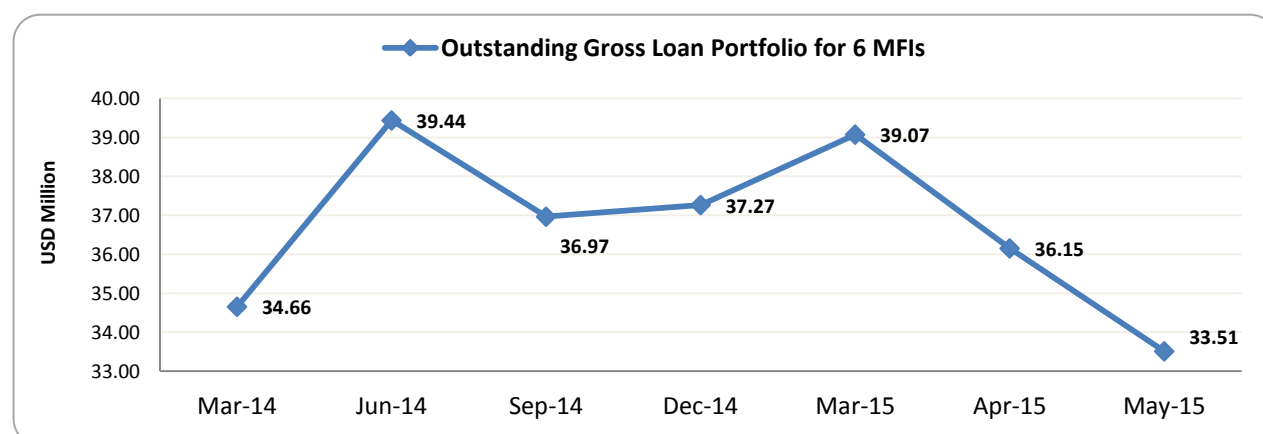
**Graph 3: Number of Active Borrowers Based on Sample of Six YMN Members – Dec 2013 - May 2015**



**Graph 4: % of Women Borrowers Based on Sample of Six YMN Members – Mar 2013 – May 2015**

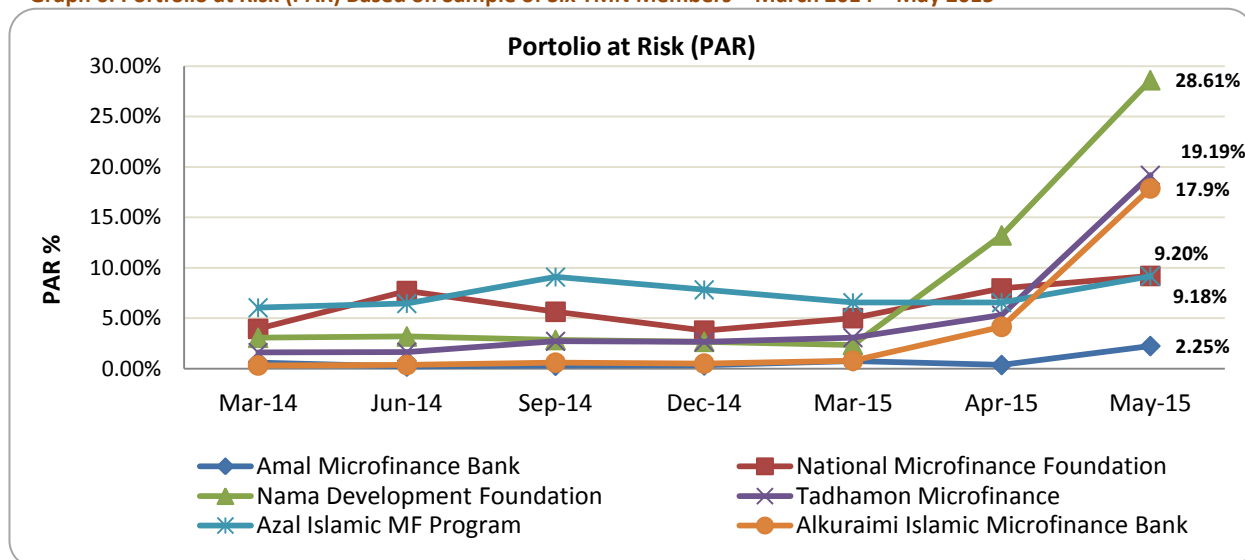


**Graph 5: Outstanding Gross Loan Portfolio (GLP) Based on a Sample of Six YMN Members - March 2014 - May 2015**

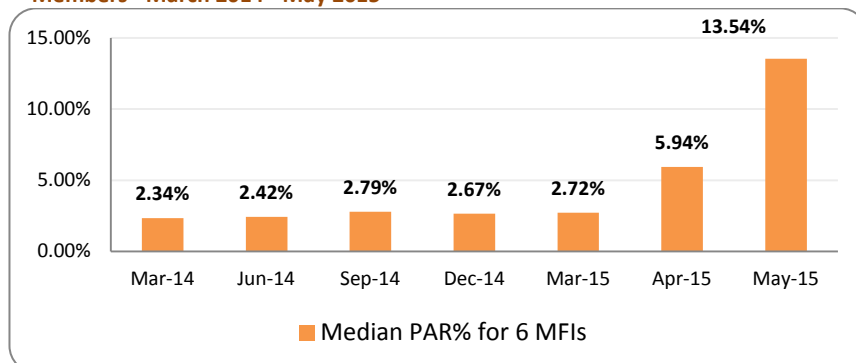


- **Sharp PAR% increase;**

**Graph 6: Portfolio at Risk (PAR) Based on Sample of Six YMN Members – March 2014 – May 2015**



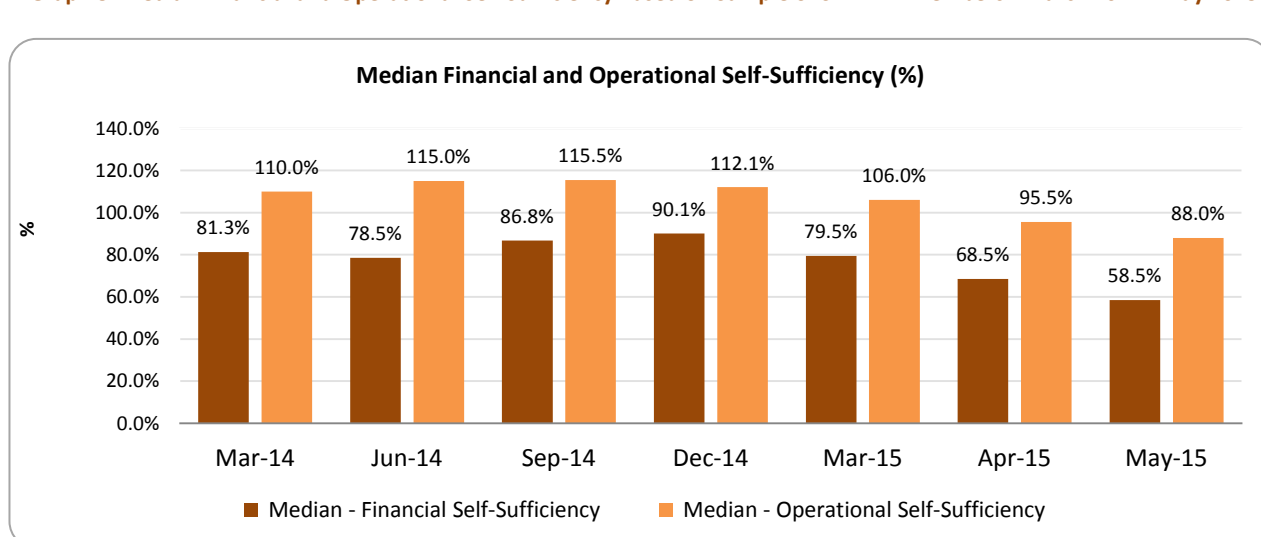
**Graph 7: Median % PAR Based on Sample of Six YMN Members - March 2014 - May 2015**



The situation for some MFIs which were not included in the sample is even worse, i.e. Aden Microfinance Foundation and Awael Microfinance Company reported earlier in July that their PAR>90 days remained at 100% at the end of June ever since the war broke out in late March 2015.

- **Sharp decline in both operational and financial self-sufficiency:**

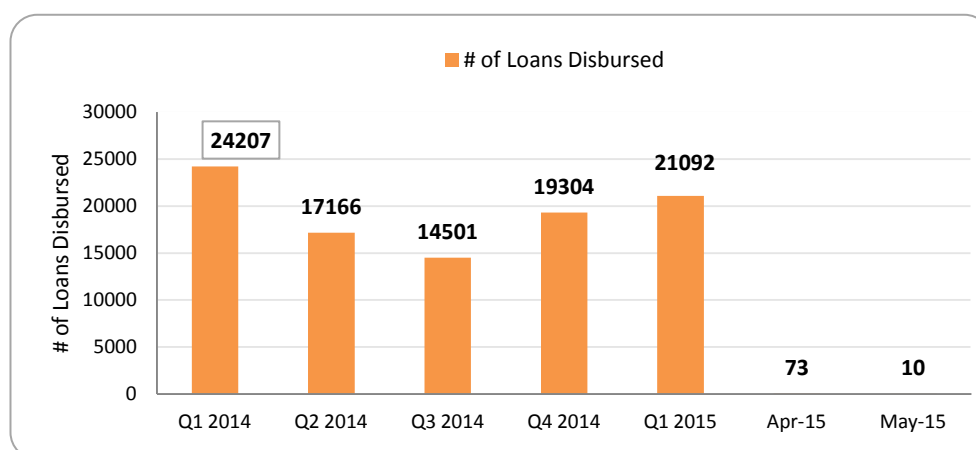
**Graph 8: Median Financial and Operational Self Sufficiency Based on Sample of Six YMN Members - March 2014 - May 2015**





The operational and financial performances of MFIs are greatly undermined by the deteriorating clients' repayment level and higher defaulting rates across all MFIs as thousands are displaced. Therefore, MFIs resorted to freezing loan disbursements. All of which has caused lower productivity, returns on investments and equity.

**Graph 9: # of Loans Disbursed Based on Sample of Six YMN Members - March 2014 - May 2015**



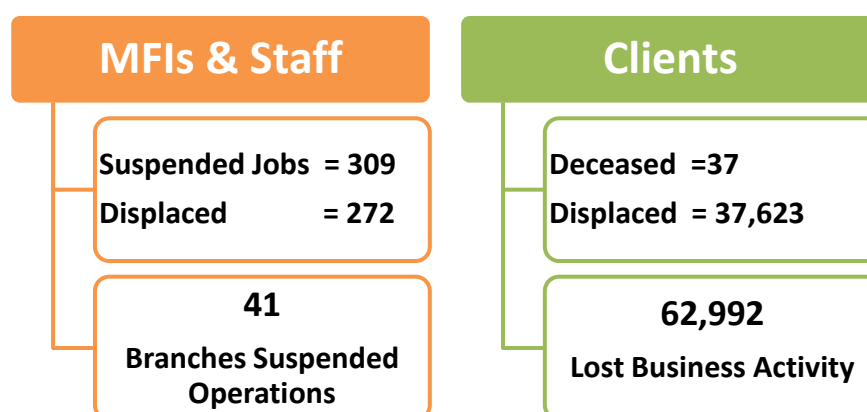
Cessation of lending due to high risk, and especially group lending as the required collateral had to increase. The 83 loans disbursed between April and May 2015 were mostly individual lending in rural areas, and with gold used as collateral.

- Physical losses and damages to organizational assets**

The internal fighting in several provinces but most vicious in the cities of Aden and Taiz, combined with the intense military airstrikes on almost the entire country have all caused severe physical damages to organizational assets with loss variance between member MFIs. All members reported damages to their offices and organizational properties in several provinces.

- Clear hindrance to fulfillment of microfinance's social and economic impact**

**Figure 1: Impact on MFIs and Clients in Numbers.**  
Based on feedback from Nine YMN Members (primary sources, June 2015)





In addition, the impact of rise of food prices and fuel derivatives combined with hostile environment, lower business activities, demand and profitability has lead many clients to consume savings to buy food.

#### 4. MFIs Reaction to Situation:

Unlike in previous crisis which have stormed Yemen over the past few years including the 2011 Arab Spring, and clashes between the army and Ansar Alshariah who took control of the southern province of Abyan in 2012, as well as other cases, the situation was usually less complicated and much lower in scale, and most MFIs were better equipped with information at least in order to forecast possible developments, alter their operations, develop and implement their contingency plans accordingly i.e. in previous crisis, MFIs particularly the ones operating in several provinces in the country were able to rely on their other branches operating in more stable areas to carry through their operations. However, this time Yemen is in a complicated and extensive full-out conflict which also includes military interventions by most of the MENA region countries.

The below is a summary of the common measures taken by member MFIs:

- Complete closure of all MFI branches within the conflict zones in the cities of Taiz, Aden, Lahj, Abyan, and other directly affected governorates;
- Temporary closure of some branches to decrease operational expenses including diesel consumption by backup generators;
- Cessation of loan disbursements including loan renewals for creditworthy clients, even in the governorates that were less affected by the internal armed clashes, due to uncertainty of the situation and its possible developments;
- Increasing write-offs, shifting, and rescheduling of the majority of loans;
- Focus on securing loans repayment collection and processes;
- Decrease of number of staff, working hours, and staff salaries – with the exception of loan officers in the case of some MFIs;
- Suspension of expansion plans for 2015, and focus on short-term sustainability while the crisis is ongoing;
- Development of a few post-crisis financial products by some MFIs, however, the situation is still at the crisis stage and deteriorating (*Such products include savings for IDPs, housing loans to rebuild homes, loans for solar energy solutions, etc.*); and
- Postponement of launching microfinance services by two new microfinance providers from the commercial banking sector.

## 5. Eminent Challenges Facing MFIs:

The table below highlights the eminent internal and external challenges facing MFIs in Yemen in light of the ongoing situation.

**Table 3: External & Internal Challenges Facing MFIs**

EXTERNAL CHALLENGES	INTERNAL CHALLENGES
<p><b>1) Financial Infrastructure</b></p> <ul style="list-style-type: none"> <li>- Loss of trust in the local currency (Yemeni Rial), and scarcity of US dollar and other foreign currencies in the market.</li> <li>- The Central Bank has postponed fund disbursement to the Social Welfare Fund, the latter has agreements with several MFIs to loan its beneficiaries using their SWF monthly salaries as collateral. Therefore, these MFIs are unable to collect dues from SFW at the moment.</li> </ul> <p><b>2) Funding Gap</b></p> <ul style="list-style-type: none"> <li>- Exiting of all international supporters and donor organizations. This also has directly affected the Social Fund for Development (SFD) which channels donor funds to refinance several MFIs. This has resulted in many MFIs facing immense cash shortages and overall sustainability challenges.</li> <li>- The ongoing crisis has affected the entire banking sector, and given that commercial banks, which had provided lines of credit to some MFIs, are struggling themselves, leading to even more limited funding opportunities for MFIs.</li> </ul> <p><b>3) Political instability &amp; Security Environment</b></p> <ul style="list-style-type: none"> <li>- Immense threats to MFIs' staff and assets safety as the air strikes have repeatedly attacked targets in high population density areas.</li> <li>- Difficulties to continue operating during the ongoing crisis and disburse loans even in governorates less affected by airstrikes and military conflicts.</li> </ul> <p><b>4) Economic &amp; Hyperinflation</b></p> <ul style="list-style-type: none"> <li>- Food prices have reportedly risen to 76% in some governorates. And the national average price for oil derivatives (Diesel &amp; Petrol) has reached over 400%.<sup>4</sup></li> <li>- There are fears that the local currency could collapse and sharply diminish in value over the coming period.</li> </ul> <p><b>5) Absence of a Positive Outlook in the Foreseen Future</b></p> <ul style="list-style-type: none"> <li>- Collapse of several attempts for negotiations and peaceful resolution of conflict situation.</li> <li>- Increased intensity and map of internal conflicts and air strikes waged by the Arab Coalition with no indications of a resolution in the near future.</li> </ul>	<p><b>1) Liquidity</b></p> <ul style="list-style-type: none"> <li>- Operational constraints for MFIs to meet institutional obligations and liabilities.</li> <li>- Irregularities in collection and repayment, and rise of loan losses have had an adverse impact on cash flow.</li> <li>- Insurance (Takaful) products that were offered by some MFIs to their clients are unable to meet the large-scale losses and damages borne by clients' businesses under this case of <i>force majeure</i>.</li> </ul> <p><b>2) Operational Risks</b></p> <ul style="list-style-type: none"> <li>- Hesitance to continue operating during the ongoing crisis and disburse loans even in governorates less affected by airstrikes and military conflicts</li> <li>- Two member MFIs reported that their HQs in Sana'a have been occupied by the Houthi forces and their allies which limits their ability to resume minimal level of operations;</li> <li>- Several reported cases of armed looting of branches in some of the affected areas</li> </ul> <p><b>3) Contingency Planning</b></p> <ul style="list-style-type: none"> <li>- Difficulty to anticipate the development of the crisis even on the short term, in addition to the lack of reliable information from official sources.</li> <li>- Only 3 to 5 MFIs had prepared elaborate contingency plans ahead of the crisis. However, even these plans fell short of anticipating the military airstrikes on the entire country.</li> </ul> <p><b>4) Human Resources and Displacement of Thousands of Clients</b></p> <ul style="list-style-type: none"> <li>- Several MFIs reported concerns on their staff's ability to cope with the crisis, considering the lack of experience in such situations.</li> <li>- Displacement and reallocation of many staff members.</li> <li>- Hardship in tracking the displaced clients especially considering the reduced number of staff.</li> </ul> <p><b>5) Lack of electricity and oil derivatives in the market</b></p> <ul style="list-style-type: none"> <li>- Resulted in a reduction in the usual working hours by 30% to 50% to reduce fuel consumption by backup generators.</li> <li>- Obstacles in finding transportation which in turn affected staff attendance</li> </ul>

<sup>4</sup> WFP Yemen Market Situation Update, June 2015

## 6. Role of YMN during the Crisis:

YMN was not immune to the crisis itself, the network has suffered from most of the above-mentioned challenges facing the country at large. As the national microfinance network in Yemen, YMN had finalized in FY 2014 a new strategic business plan and had been looking forward to implementing its new ambitious plan for 2015 – 2017. The plan was member-driven and concentrated on improving and strengthening members' performance and operational capacity while also sharpening the industry's focus on continued positive social impact, client protection, financial literacy, and provision of needed non-financial services. Unfortunately, the plan's objectives and specific activities have all been dramatically hindered by these tragic developments in the country, with a swift shift in priorities from fulfilling the organizational development goals and objectives to ensuring day-to-day survival and security of staff and assets, as is the case for everyone in the country since late March. Although the internal clashes have not reached the capital Sana'a, but this relative fortune was undermined by the ferocious airstrikes on the capital Sana'a resulting in physical collateral damage to the network's premises as well as most of its members' offices.

**Picture 1: An Air Missile Explosion in Sana'a (the building complex in the picture is where YMN's office is located)**



*During the first 5 days of temporary truce announced by the UN in late April, YMN snapped the opportunity and held a members meeting at the network's premises. The meeting included representatives from the Social Fund for Development (SFD) as well and the discussion focused on the impact of the internal unrest and airstrikes on operations and clients, and outlined the industry's most pressing needs and the roles of stakeholders including YMN during the crisis and in the post-crisis stage.*



**Table 4: Highlights of industry needs recommended by stakeholders**

Industry Needs	Level of Need		Supporting Parties		
	Urgent	Post Crisis	Government	Donors	YMN
Allocate support capital for MFIs Takaful Funds to aid clients during this crisis	***		**	***	
Develop a national strategy to guide donors interventions to revive microfinance in Yemen		***	***	***	**
Peer Exchange Activities with regional and international microfinance stakeholders in countries which had gone through similar crisis	N/A	***		***	***
Training and Technical Assistance in Crisis Management, Contingency Planning, and other relevant areas to enhance MFIs' resilience.	***	***		***	***
Information Exchange, Market Assessments, Researches, and Impact Documentation	***	***	*	***	***
Establishing a National Microfinance Support Fund for the industry (Risk & Cost Sharing, Reviving Grants, Subsidized Financing, and Clients Humanitarian Aid).		***	***	***	*

The network's activities had to be reorganized and reprioritized to focus on short term services that meet the needs of members and the industry during the crisis.

Figure 2: YMN's Ongoing Activities during the Crisis



## 7. Future Outlook

The year 2015 has come with yet more surprises for Yemen. The country's already complex political situation has become even more complex as events unfolded in 2015 whereby Yemen an internationally endorsed president and government in exile, while an ousted former president in 2011 remains in the country. At the same time, a siege was enforced on the country and a vast military campaign, which has turned into a fully-fledged war with intensive airstrikes, has been waged by a coalition of over ten countries targeting most of the country's governorates. Meanwhile, vicious internal fighting in several governorates continues between different local factions.

After more than 120 days of fighting, the cumulative impact and toll on Yemen is catastrophic at the macro, meso, and micro levels with no signs or positive indicators of a near-end to this mayhem. Even with some of the wishful scenarios where the war would suddenly end or a truce would be reached, and a fragile federalized state is formed, the political situation is likely to remain unstable over a long period of time. Amidst these difficult political circumstances, it is difficult to forecast any positive economic outlook for Yemen. Business activity continues to suffer from civil unrest, minimal inflows of capital, and difficulties in accessing markets due to damaged infrastructure. This is in addition to the added challenge of rehabilitating and reestablishing lines of trust between current and potential clients in the countless war-torn local communities that have suffered from human, financial, physical, and social capital losses as a result of this war. These are just a few of many obstacles facing financial institutions (including MFIs) in Yemen today. Most of these challenges will need years to be addressed in the post-crisis stage in order for Yemen to pick up from where it had left prior to March 2015. The reality on the ground is that the crisis is still ongoing, and continues to plunder years of MFIs' and clients' accumulated earnings and assets. Under these circumstances, the future outlook is uncertain and ambiguous.

### A Distress Call!!!

As the crisis continue; however, perhaps YMN's main role as the national microfinance association is continuing to provide a gathering and discussion platform for its members. Together with national and international support organizations and stakeholders, YMN will seek in the coming period to discuss, develop, and present possible suggestions that can help the industry survive and mitigate the various repercussions of this *force majeure* situation. This will include, amongst other things, organization of member meetings, continued collection of information from the field, dissemination of information on the situation to the members and partners, and the development of strategies and safety nets to ensure resilience and elasticity of the microfinance sector post crisis.

***“Microfinance opportunities for all low-income Yemenis.”***

**About YMN**

YMN is the national microfinance association in Yemen, a membership-based organization that seeks to represent the interests of its members and build their capacity to deliver better services to low-income clients in Yemen.

It is our mission to build a solid platform for responsible microfinance which responds to the needs of low-income Yemenis. We do this by building the capacity of microfinance practitioners through training, research, information exchange, product innovation, advocacy and promotion.

YMN members include over 90% of the microfinance service providers in the country, and our membership is guided by commitment to best practices, transparency, equity and responsibility.

[www.yemennetwork.org](http://www.yemennetwork.org)



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