

**LEARNING REPORT #2:**  
**Enterprise Loans for Rural Youth in Yemen**

IFAD RURAL YOUTH ECONOMIC EMPOWERMENT PROGRAM (RYEEP) 2013-2016

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## Learning Report #2: Enterprise Loans for Rural Youth in Yemen



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## ABBREVIATIONS AND ACRONYMS

AMB:	Al Amal Bank
IFAD:	International Fund for Agricultural Development
MIS:	Management Information System
NENA:	Near East and North Africa
NGO:	Non-governmental organization
RYEEP:	Rural Youth Economic Empowerment Program







# 1- EXECUTIVE SUMMARY

With funding from the International Fund for Agricultural Development (IFAD) and in partnership with Silatech, Making Cents International implemented the IFAD Rural Youth Economic Empowerment Program (RYEEP), a three-year grant seeking to increase employment and self-employment of young people aged 15-35 in the Near East and North Africa (NENA) countries of Egypt, Yemen, Morocco and Tunisia. The program provided capacity-building and technical assistance to local institutions to pilot models delivering youth-inclusive financial service (YFS) and non-financial service (NFS) to rural youth and to the enterprises that employ them. **By the program's end, RYEEP pilot projects delivered savings or credit services to 20,543 rural youth and non-financial services to 14,252 rural youth.**

As important as these quantitative outputs was the knowledge generated by five pilots. Thus, a major focus of the program was to capture and disseminate this learning to help IFAD and financial services practitioners develop more effective and scalable programs for rural youth. The program, which built upon proven and successful methods, advanced learning around five research topics:

- Adapting and Developing Effective Financial Products for Rural Youth
- Determining the Appropriate Level and Delivery System for Supportive Non-Financial Services
- Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance
- Linking Products or Institutions to Facilitate Movement from Informal to Formal Structures
- Designing Innovative Approaches for Scaling Products in Rural Environments

In Yemen, RYEEP supported Al Amal Bank to **serve 4,479 rural youth with financial services** and through this experience, to expand learning across the RYEEP learning topics. Despite the onset of a major conflict in the country during the project in 2015 which curtailed its work, Al Amal Bank developed a rural expansion strategy, launched operations in 13 rural areas, invested in technology to reduce costs, and at the end of the project was actively serving 4,479 young borrowers of which 3,482 also opened savings accounts.

Learning from the program was generated across the learning topics. Highlights include:

- **Youth-inclusive rural finance strategies are possible:** Al Amal demonstrated that rural expansion can (and should) include an explicit focus on youth.
- **Alternative collateral can be key to youth-inclusive service provision:** Through its Reayah Welfare Payments program, Al Amal enabled youth to use a new collateral source to obtain credit.
- **Non-financial services are only necessary for some segments of the youth market:** The conflict prevented Al Amal from delivering non-financial services, but loan performance was not affected, indicating that non-financial services were not as important for youth financial services provision as Al Amal first thought.
- **Youth can be no riskier than adults:** Youth borrowers performed similarly to adults before the conflict and outperformed them in terms of repayment afterwards, belying perceptions that youth are riskier borrowers than adults.
- **Technology is important to improve cost-efficiency:** Basic investments in technology for its loan officers and to link Al Amal with agents were as important as product innovation in the initial success of Al Amal's expansion.

This Learning Report is one of six learning products to be delivered by the RYEEP grant. It introduces the learning agenda of the overall program and focuses on what has been learned from the Al Amal pilot project in Yemen. Findings have been incorporated into the overall learning product ("Findings From Five Rural Youth-Inclusive Pilot Projects") which summarizes learning from the five pilots and suggests ways forward to most effectively advance rural youth financial inclusion in the NENA region.





## 2- THE RURAL YOUTH ECONOMIC EMPOWERMENT PROGRAM LEARNING AGENDA

### 2.1 The Challenge of Serving Rural Youth

Rural youth in developing countries make up a very large and vulnerable group. Globally, three quarters of the poor live in rural areas, and about half of this population is composed of young people, generally defined as between the ages of 18-30<sup>1</sup>. This young and growing population is confronted with a number of challenges to building sustainable livelihoods. The quality of education in rural areas is worse than in urban areas and does not prepare youth adequately for existing livelihood opportunities. The lack of basic infrastructure such as electricity and water supply limits livelihood options and burdens youth with responsibilities that can reduce training and educational opportunities. While agriculture is for many the most viable livelihood option, growing populations, the ongoing subdivision of land, and soil degradation means that youth often lack access to or control of sufficient land for farming, thus preventing or inhibiting their pursuit of this opportunity. Finally, for girls in particular, more traditional cultural stereotypes in many societies reduce livelihood options to those within the household.

Nonetheless, rural youth are economically active and options exist for improving their livelihoods. In contrast to urban areas, **the problem for youth in rural areas is not one of unemployment**, but underemployment. Youth are active in a variety of farm and non-farm activities and for those who cannot pursue farming directly, the rural non-farm sector can serve as the “ladder” from underemployment in low-productivity, smallholder production, to regular wage employment in the local economy, and from there to jobs in the formal sector.<sup>2</sup> **In this context, the challenge for those interested in rural youth development is to develop the right mix of cost-effective and appropriate financial and non-financial services that increase youth capacity and access to the resources that they can use to invest in farm or non-farm opportunities.**

### 2.2 RYEEP Pilot Projects

The five RYEEP pilot projects are designed to address many of these challenges and to test different financial and non-financial service delivery models for rural youth. Pilots are implemented by local partners, including commercial banks, microfinance banks, local community development organizations, and for-profit companies, and supported technically by Making Cents International and Silatech.

**Figure 1: IFAD RYEEP: Four Countries, Five Models**

COUNTRY	LOCAL PARTNER (Institutional type)	FINANCIAL INSTRUMENT	NON-FINANCIAL INSTRUMENT
EGYPT	Plan Egypt (NGO)	Savings & Credit Groups	Entrepreneurship and life skills training offered through Savings Groups
YEMEN	Al Amal Bank (Microfinance Bank)	Enterprise Lending (for existing businesses)	Financial literacy, entrepreneurship and technical training offered by NGO partners
MOROCCO	Al Barid Bank (Postal Bank)	Individual Savings Product	Financial literacy training offered through mass media and face-to-face training
TUNISIA	Microcred (Microfinance Company)	Enterprise Lending (for start-up businesses)	Entrepreneurship and business management training offered by NGO partners
TUNISIA	Pro-Invest (Private Company)	Value Chain Finance (Trade Credit)	Value Chain Development, entrepreneurship and financial literacy offered through SMS

Case studies for each of these pilots have been developed and the overall learning has been encapsulated in a single report entitled “Findings from Five Rural Youth Inclusive Pilot Projects”. Those documents can be found on the IFAD and [Youtheconomicopportunities.org](http://Youtheconomicopportunities.org) websites.

<sup>1</sup>Bennell, Paul. Investing in the Future: Creating Opportunities for Young Rural People. Publication. IFAD, Dec. 2010, pg. 1.

<sup>2</sup>Bennell, Investing in the Future, pg. 6.



## 2.3 RYEEP Learning Topics

Pilot project implementation under RYEEP has been designed to build on the body of knowledge developed by youth financial service practitioners and IFAD. In addition, Making Cents, IFAD and Silatech have decided to focus knowledge management efforts on five learning topics of interest specifically to those serving rural youth.

### Adapting and Developing Effective Financial Products for Rural Youth

Inspiration for effectively serving rural youth can be found in successful rural finance models for adults or youth-inclusive financial service programs in urban areas. What are the key aspects of these products that need to be adapted for successful rural environment delivery?

### Determining the Appropriate Level and Delivery System for Supportive Non-Financial Services

Rural youth tend to be more poorly educated, have fewer livelihood opportunities, and are harder to reach. What financial capability or livelihood development services should be provided in rural areas, who should deliver them – financial institutions, NGOs or the government – and how?

### Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance

Making the business case for providing financial services to rural youth is especially difficult considering youth's general tendency to save less and demand lower loan sizes, combined with the low population density and poor infrastructure in rural areas. How can technology lower the cost of financial service delivery to youth, whether through financial institutions or value chain actors?

### Linking Products or Institutions to Facilitate Movement from Informal to Formal Structures

Youth capacity to use financial services develops over time as they grow in experience and knowledge. While informal financial services such as savings groups may be appropriate for youth starting out, how can these services be linked to formal financial institutions to provide youth with the greater variety and sophistication of formal financial services? Similarly, many youth begin informal income-generating activities as their first foray into business; how can financial or non-financial products encourage business growth and graduation from informal to formal enterprise management?

### Designing Innovative Approaches for Scaling Products in Rural Environments

Successful pilot projects can be scaled through the government – by policy changes or adoption of services by government agencies, the market – by private sector companies or entrepreneurs seeing value in services and offering them on a for-profit basis, or culture – when public awareness campaigns and behavior change strategies become adopted by communities and new practices are propagated. Which scaling-up pathways are appropriate for successful elements of RYEEP pilots and what strategies can be followed for expansion?<sup>3,4</sup>

<sup>3</sup>Muthoo, Ashwani, David Francis, and Oanh Nguyen. IFAD's Capacity to Promote Innovation and Scaling Up: Corporate-level Evaluation. Rep. no. 2240. IFAD, June 2010. Web.

<sup>4</sup>Cooley, Larry and Kohl, Richard. Scaling Up -- From Vision to Large-scale Change; A Management Framework for Practitioners. MSI and the MacArthur Foundation. March 2006



## 3- CASE STUDY: Al Amal Microfinance Bank - Enterprise Loans for Rural Youth in Yemen

### 3.1 Project Summary

The overarching goal of the Al Amal Rural Expansion project in Yemen was to increase employment and self-employment of rural youth by increasing their access and ability to use financial services, while simultaneously building their business management skills.

**Objective 1:** Build the capacity of Al Amal to develop and deliver youth-inclusive financial services in rural Yemen to 3,000 youth, or 30% of the bank's total rural clients served.

**Objective 2:** Build the capacity of Al Amal to select and support partners to provide youth-inclusive non-financial services to 3,500 rural youth.

Through RYEEP, Al Amal Microfinance Bank adapted its urban-focused youth-inclusive microfinance approach to rural areas. Al Amal was already a regional leader in youth-inclusive financial service; at project start, Al Amal was serving 8,652 youth (ages 18-35), or 22% of its overall portfolio countrywide. Al Amal achieved this goal by recognizing youth as a major target segment from the institution's inception, training staff on youth-inclusive practices, and setting ambitious targets for serving youth. Under RYEEP, the challenge for Al Amal was to maintain this youth-inclusive focus while extending its reach into difficult-to-serve rural areas.

To accomplish this rural expansion, Al Amal followed a deliberate process of market research, strategy formulation, partner identification, piloting, and expansion. Al Amal's market research was led by its internal research and evaluation unit, which used consultants as well as headquarters and branch staff to visit targeted rural areas to gather data on the market overall and on the special characteristics of youth. Local market research was supplemented by an international study tour to Kenya that informed Al Amal staff about best practices in digital financial services and rural youth financial service provision from market leader Equity Bank.

Using the market research information, Al Amal senior staff developed a rural expansion strategy that charted Al Amal's expansion into rural areas to serve both adults and youth. With its strategy in hand, Al Amal identified partners and pilot sites, then established two rural branches to test its existing suite of products (for adults and for youth.) Pilot results were used to adapt products, and Al Amal expanded into additional rural areas through rural branches or peri-urban branches that had rural outreach staff.

In its original plan, Al Amal intended to develop new rural products adapted for rural livelihoods, such as livestock-raising or agricultural production. Al Amal also had an ambitious agenda of training rural youth in financial literacy and rural livelihood technical topics. Unfortunately, conflict beset the country in early 2015, and Al Amal turned from a focus on expansion to protection of its portfolio. Despite these challenges, by project end, Al Amal was able to meet many of its original targets and develop significant learning about serving rural youth in Yemen.

### AL AMAL RURAL EXPANSION AT A GLANCE

- ▶ **Geographic area:**  
Yemen - Rural sections of Dhamar, Sanaa, Ibb, Taiz and Lahj governorates
- ▶ **Local Implementers:**  
Al Amal Microfinance Bank, the Reyadah Foundation, local NGOs
- ▶ **Financial Service:**  
Individual and group credit products, individual savings products
- ▶ **Non-Financial Service:**  
Financial literacy, enterprise management and technical-oriented training
- ▶ **Results:**
  - 4,479 active borrowers;
  - 3,482 active savers;
  - 397 trained rural youth, aged 18-35
- ▶ **Duration:**  
August 1, 2013 - February 19, 2016



### 3.2 Target Beneficiaries

The population served under this project can be described as follows:

**Youth ages 18-35.** Al Amal uses a definition of youth as between the ages of 18-35, reflecting traditional rural practices where young people do not gain control over assets (including land) until a relatively late age. Underemployment among this segment is widespread, estimated to reach between 60-70% in rural areas. While credit and savings products were available for this entire age range, Al Amal targeted older youth more expressly with credit products and younger youth with savings products, recognizing that older youth were more economically active and had greater potential to use credit effectively.



Girls are a key target group of Al Amal's rural expansion

**Geographic zones:** The geographic areas of focus for the project were in the rural parts of Dhamar, Sanaa, Ibb, Taiz and Lahj governorates. Al Amal served these areas through a combination of purely rural branches and urban/peri-urban branches with rural outreach units.

**Youth Livelihoods:** Youth are involved in a variety of on- and off-farm activities in these rural areas. A market study conducted by Al Amal Bank in the fall of 2014 identified youth as being very involved in the honey, livestock, fishing, horticulture, and textile/weaving industries, as well as being engaged in small businesses such as motorcycle transport, trading, and traditional food production (e.g. cheese). While rural youth may have primary businesses, their income is diversified, generally derived from at least two sources. Almost all rural youth were economically active, though as they grew older, they were more likely to have started their own enterprise as compared to assisting with household livelihood activities.

**Gender:** Women's livelihoods are constrained by traditions that restrict movement and the type of businesses deemed suitable for women. Nonetheless, young rural women contribute significantly to household income and are particularly involved in activities such as livestock-raising, textiles/weaving, and traditional food production. Al Amal sought to target a minimum of 35% women in its clientele.

### 3.3 Financial Services Offered

Al Amal's strategy was to initially offer rural clients the same mix of savings and credit products designed for urban adults and youth, slightly adapted for rural conditions, and then add specific rural livelihood products to its portfolio of services. Due to the conflict, Al Amal was unable to develop rural livelihood products, but found that it was able to achieve significant outreach with its existing products, slightly modified for rural conditions.

**Savings:** Al Amal delivered its specialized youth savings product, developed in partnership with Silatech. The product offers lower minimum balances than its normal savings products and incentives to join, such as a gift when youth clients open accounts and enrollment in lotteries. Al Amal found that this product did not need to be adjusted for rural delivery.

**General Lending:** Al Amal offered five different lending products for adults and youth. These products were designed to serve different purposes and accept different types of collateral. While the features of these products were generally the same as those offered in urban areas, there were differences in how young people utilized the products.

- **Group.** Group lending provided relatively small loans to clients for business or household needs. Loans were short-term, group-guaranteed, and increased in size over time with good repayment. In rural areas, in order to decrease the cost of lending, the size of the group was expanded from five to up to 25. Considering the smaller loan size and group guarantee, the product was attractive to young borrowers, accounting for 18% of the rural youth portfolio.

- ▶ **Reayah (Welfare).** The Reayah product targeted poor households who receive government support payments. Loan sizes were small, and the government payments were used as collateral. Reayah was designed as a graduation product by Al Amal -- used to test low-income borrowers for credit-worthiness -- with the idea that those who repay on time and have a successful business could graduate to larger loan products. This product proved the most attractive for rural youth, with 69% of rural youth borrowers beginning with this product.
- ▶ **Individual.** The individual loan product was Al Amal's core enterprise lending product for adults. It offered loans of up to 1,000,000 YR (\$4,667), but required more stringent business plans and collateral. During the project, few rural youth were able to obtain this loan (4% of total loans disbursed), indicating a relative lack of assets and business opportunities needed to meet loan conditions. Al Amal had planned to launch its specialized individual loan product for youth -- the mashrou3i product -- which has lower barriers for collateral and smaller loan sizes compared to the individual adult offering, but was unable to do so due to the conflict.
- ▶ **Mawsimi (Seasonal).** The Mawsimi loan was a consumption-oriented product that helped active borrowers respond to cash-flow needs around holidays or the school season with an additional supplementary loan. It has not been used significantly by rural youth, and Al Amal suspended this product because it did not believe clients would be able to repay larger loan amounts as a result of Yemen's ongoing violence.
- ▶ **Sharakat (Salary).** The Sharakat loan product was for salaried employees and generally used for consumption purposes. Considering the low levels of formal employment of youth in rural areas, this product was not used significantly by rural youth (9% of portfolio).

**Rural Livelihood-Specific Loan Products:** Based on its Rural Market Survey, Al Amal had planned to develop value-chain products for economic activities popular among youth, such as beekeeping and livestock-rearing. These products included repayment terms based on the seasonality of income and on the specific characteristics of the income-generating activity. Due to the conflict, these products were neither fully developed nor delivered.

The financial services offered by Al Amal that were most appropriate for youth are summarized below:

**Figure 2: Financial Services Offered**

FEATURES	YOUTH SAVINGS PRODUCT	YOUTH LENDING PRODUCTS (Mashrou3i) Planned but not delivered	GROUP AND REAYAH PRODUCTS
Purpose	Build assets for enterprise or consumption	Start micro enterprise	Finance enterprises or consumption activities
Target	• Youth, ages 18-25	• Youth, ages 18-35	• Adults and Youth
Islamic Category	• Mudaraba	• Murabaha, Ijarah (when applicable)	• Murabaha
Amount	• Minimum Balance of YR 250 - \$1	• YR 30,000 to YR 250,000 (\$140-\$1,162) <sup>5</sup>	Group: YR 50,000-200,000 (\$235-\$940) Reayah: YR 35,000-100,00 (\$165-\$470)
Duration	Demand deposit and term deposit options available	6-24 months	Group: 6-24 months (longer terms as loans increase in size) Reayah: 12-24 months
Fees	Small return based on profit of bank	1.2-2.4% per month, + .5% fees and 1% <i>takaful</i> (life insurance)	1.2-2.4% per month + .01-.05% fees, and 1% <i>takaful</i> (life insurance)
Collateral	None	1 co-signer and in some cases a group guarantee (group size 4-7 youth)	Group: Group Guarantee Reayah: Social Welfare card
Delivery Vehicle	Mobile Branches Rural Branches	Agents (disbursement/collection) Mobile Branches Rural Branches	Agents (disbursement/collection) Mobile Branches Rural Branches
Other		For start-up businesses, a business plan is required and the loan is partially guaranteed by funding from Silatech	
Key Differences with Adult-focused Products	<ul style="list-style-type: none"> <li>• Lower minimum balance</li> <li>• Incentives to join, including gift upon account open and enrollment in lottery</li> <li>• Alternative IDs accepted (letter from municipality, marriage license) for clients who do not have national ID</li> </ul>	<ul style="list-style-type: none"> <li>• Can be used for start-up businesses, as compared to adults for whom business must have been in operation for six months</li> <li>• Option for group guarantee for collateral</li> <li>• Alternative IDs accepted (letter from municipality, marriage license) for clients who do not have national ID</li> </ul>	<ul style="list-style-type: none"> <li>• Adult and Youth products the same, however, lower loan sizes and easier collateral requirements favor youth utilization</li> </ul>

<sup>5</sup>An exchange rate of \$1USD = 214.28 YR has been used throughout the report

### 3.4 Non-Financial Services Offered

Based on its initial market research, Al Amal believed that non-financial services would be a crucial component of its rural expansion strategy. Those services would provide knowledge and skills to inexperienced youth that would help them to better understand the financial products offered, and to manage enterprises more effectively, ensuring better repayment. To provide these services without distracting or over-burdening its front-line staff, Al Amal decided on an outsourcing strategy. It partnered with the Reyadah Foundation, a non-financial services provider based in Sanaa that Al Amal helped establish in 2013. Through Reyadah and local partners, three types of non-financial services were to be provided for youth: financial literacy, business management training, and technical training.

Figure 3: Non-Financial Services Offered

	FINANCIAL LITERACY TRAINING	BUSINESS MANAGEMENT TRAINING	TECHNICAL TRAINING
Delivery Vehicle	Reyadah conducts Training of Trainers (TOT) on financial literacy curriculum for local trainers, who deliver it to youth	Reyadah conducts TOT on business management curriculum for local trainers, who deliver it to youth	Reyadah contracts local technical experts to provide training
Purpose	Improve personal financial management skills and increase knowledge of financial products offered by Al Amal and other institutions	Improve business management skills of youth starting or expanding income-generating activities	Improve specific technical skills of youth in promising value chains
Curriculum	Current Financial Literacy Curriculum, adapted for lower literacy and rural contexts	Adaptation of Build Your Business curriculum currently offered by Reyadah	New Training curriculum developed for specific technical skills offered
Topics	Setting financial goals Budgeting Savings Financial Products	Market Studies Business Planning Costing/Pricing Marketing	Beekeeping Livestock-Raising Weaving Horticulture
Audience	4,000 Al Amal Clients	2,000 Rural Enterprise Managers	900 Youth in specific value chains
Duration	12 hours over 3 days	12 hours over 3 days	Variable - between 1 session on 1 day and 10-15 sessions over 1-2 months

#### Beekeeping

Al Amal's rural market study explored prominent value chains to understand the income-generating activities that rural populations were engaged in and how they could best be supported with financial services. The study indicated that the honey industry was a prominent one for youth, with almost three-quarters of producers under the age of 35. In a survey of 82 producers, participants requested credit to purchase equipment, but also training on production and business management techniques. Reyadah planned to contract local NGOs to provide this technical training in conjunction with Al Amal's lending activities.





## CASE STUDY - YEMEN

**NAME:** Alhan Abdul Basit

**AGE:** 26

Before being exposed to financial services offered by AMB, Alhan's family was suffering financially. She lived with her mother in a small house in a run-down neighborhood in rural Yemen. After finishing her primary and secondary education in the regional school, Alhan was interested in providing assistance to others and decided to study nursing and first aid. She successfully completed her studies, but like many young graduates, she was unable to find a job after graduation and was unemployed for many months.

When the Al Amal Bank staff carried out a promotion campaign in Alhan's village, Alhan applied for her first small loan with the idea of establishing a small first aid clinic in her village. After receiving her application, Amal Bank conducted a feasibility study and approved Alhan for a YR200,000 individual loan (approximately 931 USD). One of Alhan's relatives who worked at the National Post Office guaranteed the loan. Alhan used this initial funding to furnish the clinic and begin buying first aid equipment. Alhan now is supporting her family from the clinic's profits and helping her brothers to finish their education.



Alhan standing in front of her shop during the inauguration ceremony.





## 4- PROJECT RESULTS AND LEARNING

At the outset, the rural expansion was proceeding faster than originally expected, and Al Amal had exceeded its target of 3,000 youth by 20% at the end of March 2015. However, due to the conflict, expansion was halted and Al Amal focused on protecting its portfolio. Targets, results in March 2015, and final results (January 2016) are included below:

Figure 4: Final Results

MAIN INDICATORS FOR YOUTH	TARGET	March 2015 (pre-conflict)	JANUARY 2016
Number of Active Loans	3,000	5,116	4,479
Value of Active Loans	NA	\$1,730,696	\$1,352,941
Number of Active Savings Accounts	3,000	4,136	3,482
Value of Savings Portfolio	NA	\$30,845	\$25,968
Number of Disbursed Loans	NA	5,383	5,445
Value of Disbursed Loans	\$930,233	\$1,993,113	\$2,016,053
Average value of disbursed loans	\$310	\$375	\$370
% of loans to women	35%	34%	30%
Number of youth trained	3,500	2,450	397
Number of youth who used loans to expand businesses	2,500	2,450	2,512
Number of Branches	10	13	13
Number of Mobile Banks	20	5	5
Number of Agents	20	12	12
Number of Partner NGO(s)	20	15	15

In terms of individual products, the outstanding portfolios as of March 2015 and January 2016 were:

Figure 5: Outstanding Portfolios

	ACTIVE LOANS		OUTSTANDING PORTFOLIO	
	Mar 2015	Jan 2015	Mar 2015	Jan 2015
Group	1,308	794	\$162,589	\$50,774
Reayah (guaranteed by welfare benefits)	3,099	3,106	\$1,041,275	\$1,041,915
Individual	282	179	\$257,893	\$93,316
Mawsimi (seasonal)	16	1	\$2,687	\$56
Sharakat (guaranteed by salaries)	411	399	\$266,252	\$166,880
<b>TOTAL</b>	<b>5,116</b>	<b>4,479</b>	<b>\$1,730,696</b>	<b>\$1,352,941</b>



During implementation of the project, Making Cents and Al Amal gained knowledge in many of the areas covered by the RYEEP Learning Agenda. The section below describes learning to date over the life of the project.

### Learning Topic 1: Adapting and Developing Effective Financial Products for Rural Youth

#### For initial expansion efforts, successful urban products can be used to penetrate rural markets

Al Amal's rural expansion strategy called for launching activities in rural areas with its products developed for urban areas, with a few adaptations. This strategy would allow Al Amal to gain experience in rural areas that, in conjunction with a detailed rural market study, it could use to adapt its urban-focused products and to develop new products specifically adapted to rural needs. Due to the conflict, Al Amal continued with its general urban products throughout the project period. One might anticipate that this would lead to problems with product uptake or repayment since the product features were not tailored to the needs of the rural population and especially rural youth, who in principle, should be harder to serve.

In contrast, Al Amal has had no difficulty attracting rural youth to its products, nor securing repayment from young borrowers. In fact, as of March 2015, Al Amal served a larger proportion of youth in rural areas than in urban (33% vs. 22%), and repayment performance before the conflict was comparable in rural and urban areas. After the conflict began, the rural youth portfolio then performed better than the urban youth one.

Al Amal believes that this strong performance in rural areas is attributable to four factors:

1. **Pent-up Demand.** Al Amal was the first financial institution to serve many of the rural areas where it is currently active. As a result, there was a high demand for any formal financial services that offered a safe place to save and credit for investment, whether specifically tailored to rural populations or not.
2. **Variety of Product offerings.** Al Amal began operations in rural areas by offering five distinct loan products, each of which could be used for a variety of consumption and investment activities. This variety allowed youth to choose the products that most closely met their needs, even if the individual products were not tailored for youth specifically. In this case, youth flocked to the Reayah and Group loans, which offered low loan sizes and alternative collateral requirements.
3. **Youth-Inclusive Mission and Training.** While tailored products are important, just being open to serving youth and training staff on techniques to engage youth is a critical foundation to work from. Serving youth was part of Al Amal's vision, so prospective youth clients found the institution friendly to their applications, even if the product features were not "youth-specific."
4. **Partnerships.** Al Amal has worked hard to develop partnerships with local organizations to pave its way into rural areas and to recruit new clients. These organizations have given Al Amal credibility and encouraged more marginalized populations, including youth, to open accounts and apply for funding.

Although Al Amal achieved success during the project in attracting youth and securing repayment, it recognized that adjustments will need to be made to expand beyond the first wave of demand and begin to serve additional young people. Al Amal anticipates at least three adaptations being made to its product features to serve youth more effectively after the conflict abates. These include:

- **Seasonal repayment.** Al Amal's market study reinforced the importance of seasonality on rural household cash flows. In response, Al Amal is considering how to adjust its current loan products to synchronize repayments with seasonal cash flows.
- **Products adapted to rural economic activities.** Economic opportunities for youth in rural areas extend beyond common retail and transport businesses to those in livestock and honey. However, Al Amal does not have lending products that respond to the investment needs and seasonality of income for these

businesses. Al Amal is considering developing “investment” type products that will address these opportunities and successfully engage additional youth.

- **Youth-specific individual products.** In urban areas, Al Amal has tested a start-up loan for young people called mashrou3a. The individual loan addresses a major constraint for many young people – start-up capital – and is guaranteed by co-developer Silatech to address the higher risk of this product. Al Amal is awaiting results of its pilot of the mashrou3a product in urban areas before launching it in rural ones.

Once stability returns, these adaptations should help Al Amal to serve youth more effectively and further expand its portfolio.

### Collateral innovations can be key to rural finance provision

Considering the lower levels of collateral that youth possessed compared to adults in rural areas, Al Amal initially expected to grow its rural youth portfolio through its group guarantee product. However, when Al Amal began to develop its infrastructure to serve rural areas, it was approached by the government to serve as an institution to welfare benefit payments to rural populations. Providing this service gave Al Amal two advantages – an alternative source of income to sustain its rural finance provision, and a ready source of clients who could use the regular welfare benefit payments as collateral to borrow for business activities. Youth were the major beneficiary of this program, since welfare benefits were largely provided to older populations who were not able to grow their own businesses. While not easily replicable in other environments, considering the link between welfare payments and lending, especially for youth, may be a strategy for other financial institutions to consider.

### Learning Topic 2: Determining the Appropriate Level and Delivery System for Supportive Non-Financial Services

Partnerships are important for non-financial service delivery in rural areas

Based on market research conducted in the fall of 2014, Al Amal had planned to provide training on financial literacy to raise awareness about financial products and how to use them, while business management practices and technical training would help ensure business success. Al Amal staff felt that this training would be critical to both attract youth and ensure repayment.

By the time the conflict began, Al Amal Bank had just begun its non-financial services provision. The Reyadah foundation trained 397 youth in four provinces on a 12-hour financial literacy course delivered over a four-day period. Reyadah-trained or otherwise certified trainers led the sessions and worked in close collaboration with local organizations to recruit participants and host the events. Al Amal felt that these partnerships were critical to the success of the first training sessions because the local partners were able to contextualize the content, recruit appropriate youth, and provide credibility to the trainers and information that would have been difficult for an urban-based institution to demonstrate. Going forth, Al Amal plans to maintain and expand these partnerships, training and/or contracting NGO staff to deliver services as a means to lower costs, as well as improve effectiveness of the training.



Financial Literacy Training for Youth

### Non-financial services may only be necessary for more vulnerable youth populations

After this initial foray, no additional non-financial services were offered. Surprisingly, despite the lack of non-financial services, rural youth performed equally well to or better than their adult or urban counterparts. Al Amal staff investigated those statistics and found that similar to the situation with its financial products, the non-financial services were not necessary for successful loan provision to

the first wave of youth clients. These clients were already economically active, had the support of their families, and generally were better-educated. Non-financial services would have been helpful, but were not essential to the repayment of loans. As with adapted products, Al Amal believes that non-financial services will be important for further expansion into rural areas, however, it will be reviewing its expansion carefully to determine when and to whom non-financial services are most appropriate.

### **Learning Topic 3: Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance**

#### **Invest in technology to improve loan officer efficiency**

While Al Amal was successful in its outreach to rural populations, it continued to be challenged by the cost of provision. Even during its initial expansion when the political situation in Yemen was stable, Al Amal found that the cost of delivering services in rural areas was almost triple to that of urban areas due to the lower population density and poor infrastructure. Al Amal realized that if it was to continue providing services in rural areas to adults and youth, it would need to develop more cost-effective means of operating.

As one means to lower costs, Al Amal invested in technology to increase loan officer efficiency. It purchased tablet computers and invested in software that would enable loan officers to record data directly into the tablet, which would then be uploaded to the central management information system (MIS). Equipped with this system, loan officers will be able to complete the loan application in the field, calculate an installment schedule, conduct a field feasibility study, collect data on repayment and in the future, open savings accounts and collect payments.

#### **Use Agent Networks to Lower Costs**

In February 2014, Making Cents organized a study tour for Al Amal staff to Kenya to learn from Equity Bank's experiences with rural and youth financial services provision. Equity is a leader in Kenya, and in Africa more generally, for its success in using technology to lower costs as well as in engaging urban and rural youth. Based on the trip, Al Amal management decided to pursue agent banking more quickly, reasoning that the large rural network of exchange agents in Yemen and youth's greater propensity for trying new technologies would enable it to use agents as a cost-saving measure, while still maintaining quality service standards. By the end of the project, Al Amal had business relationships with 12 agents, had developed a program to link their computer systems to Al Amal's own MIS, and was using them for loan repayment, savings deposits and savings withdrawals. Al Amal believes that by using agents, it can reduce rural operating costs by as much as a third. Going forth, Al Amal will continue to rely heavily on agents to collect payments as part of its overall strategy to lower the costs of rural outreach.

#### Learning Topic 4: Linking Products or Institutions to Facilitate Movement from Informal to Formal Structures

Al Amal is gaining insight into the question of formality and business growth in at least two ways:

**Use informal networks to provide formal financial services.** Al Amal recognized in its rural strategy that it needs to draw upon partnerships with NGOs and rural cooperatives to extend services into hard-to-reach areas. One model that it began to explore is developing relationships in which these NGOs/cooperatives could later serve as “Rural Banks” to which Al Amal provides wholesale loans, which the partner then disburses on a retail basis. Experimenting in this way would provide insights into how informal networks and partners can expand formal financial services to hard-to-reach youth. The different channels Al Amal considers necessary for success are depicted in the graphic below:



Unfortunately, due to the conflict, Al Amal was only able to experiment with parts of this system. As described above, Al Amal was able to begin using agents to collect loan repayments and savings deposits. However, it was not able to deepen the relationship with NGOs, so through project end, they remained simply as partners helping Al Amal to enter into new communities, facilitate training, and recommend clients.

**Encourage business growth through graduated products.** Al Amal's suite of products encourages business growth by providing small loans with less rigorous collateral requirements, followed by larger loan opportunities for good clients. In rural areas, the Reayah product served as this stepping stone, enabling young people to get started with a small loan that is collateralized by welfare payments. Due to the conflict, the second step in the graduation process was not achieved but will be explored in the future.

#### Learning Topic 5: Designing Innovative Approaches for Scaling Products in Rural Environments

**Expand into rural areas through a broad-based strategy, rather than by simply focusing on youth**

Al Amal's rural expansion strategy is based on the premise that it needs to focus equally on rural adults and youth at the same time, rather than just on youth (or adults) alone, if it is to successfully expand into rural areas. By focusing on this broad target clientele, it can saturate an area with services and keep the overall cost per client lower than if it focused on a narrow target segment. By the end of this project, this strategy appeared to be working. Al Amal's rural lending grew to 35% of its overall portfolio, reaching over 15,000 clients in less than two years. At the same time, it was able to maintain its youth focus, even exceeding its youth outreach targets in rural areas by providing an inclusive set of services that were attractive to both youth and adult clients. While Al Amal was not





penetrating the more vulnerable or younger segments of the youth market, it was able to make significant inroads to serving rural youth overall. The ongoing challenge for Al Amal is twofold: (i) how to lower the costs of rural finance provision overall, so that it can make its rural outreach to adults and youth more sustainable and (ii) how to deepen its services to youth, so that it is serving more vulnerable segments of the market.

### Use partnerships to lower costs and achieve scale

Al Amal's strategy was also predicated on using partnerships for expansion - either to attract clients and gain credibility or to lower costs through agent networks. While its partnership strategy for non-financial service provision was stymied by the conflict, the challenges accelerated Al Amal's use of agent networks, which promise to lower costs and enable further expansion.

### Additional Learning: Youth in Conflict

Outside of the RYEEP learning topics, Al Amal's learning contradicted some of the stereotypes regarding youth-inclusive lending. Youth are generally considered riskier borrowers than adults due to their inexperience and mobility, and rural youth are considered even riskier due to the seasonality of income in rural areas and the impact of weather on rural livelihoods. However, Al Amal found that during the conflict, youth loans performed better than those of adults, and rural youth loans better than all other lending segments.

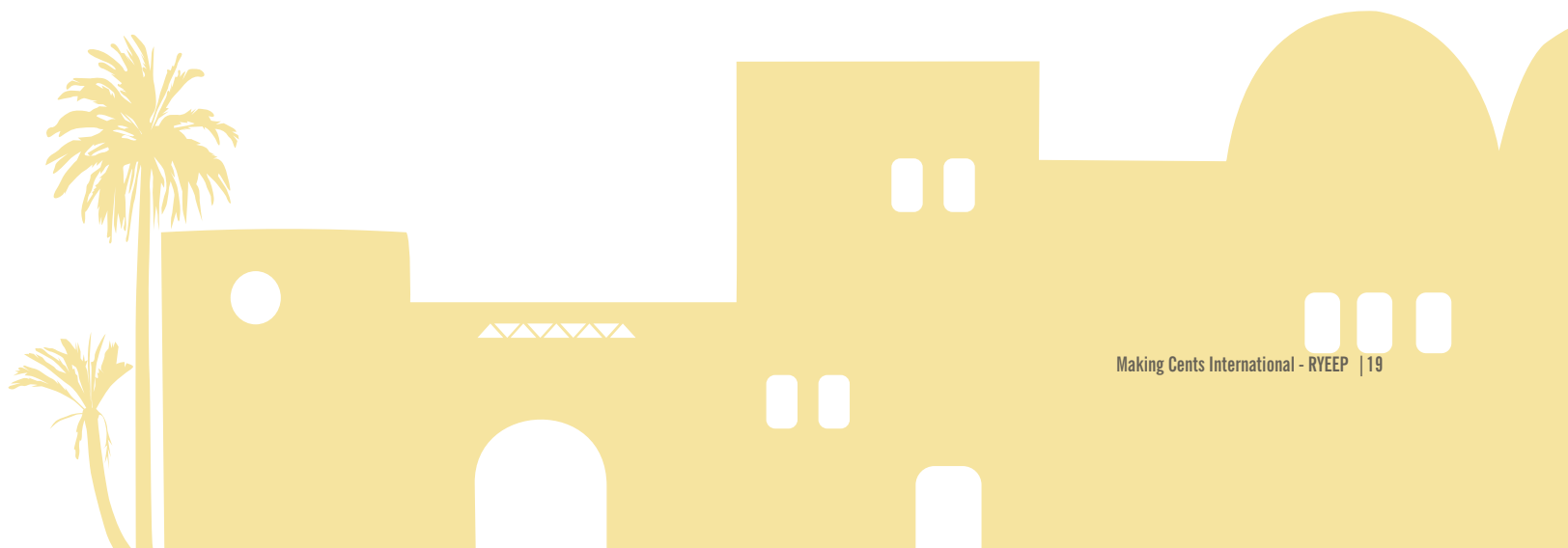
Figure 6: Portfolio At Risk Rates

	ADULTS	YOUTH
Rural areas	35%	30%
Urban areas	37%	34%

Al Amal staff reported that youth loans performed better for a few reasons:

- Youth were more adaptable during the crisis and were able to change their investments more easily to continue to earn income
- Social pressure worked more effectively in rural areas
- Youth had smaller loans that were easier to manage and repay.

Despite this strong performance, the youth percentage of Al Amal's portfolio is shrinking faster than its adult portfolio because youth are having harder time securing collateral for loans during the conflict and due to lower demand, since many male youth have joined militias as either a livelihood or political choice.







## 4- CONCLUSION

Al Amal's rural expansion was designed as a viable means to extend formal financial services to a broad spectrum of adults and youth. It also aimed to generate learning around the appropriate mix of financial products, the importance of non-financial services for rural finance provision, and how technology can effectively lower the costs of rural finance. By project end, Al Amal made progress on many fronts and generated learning in the following areas:

- ▶ **Youth-inclusive rural finance strategies are possible.** Al Amal demonstrated that youth can and should be expressly targeted as part of a rural expansion, since segments of the youth market are economically active and can qualify for loans.
- ▶ **Alternative collaterals can be crucial to youth-inclusive service provision.** The Reayah Welfare Payment Loan became Al Amal's major conduit for providing youth financial services due to its ability to provide youth with a ready source of collateral.
- ▶ **Technology is key for cost-efficiency purposes.** While results are still coming in, long-term sustainable provision of services for Al Amal will only come through the extensive use of technology to make its loan officers more efficient and agents to extend its reach into rural areas.
- ▶ **Non-financial services are only necessary for some segments of the youth market.** The outbreak of conflict halted Al Amal's non-financial service provision, but its expansion into rural areas and performance was not impacted, indicating that non-financial services are not critical for all rural youth and especially the more economically active segments.
- ▶ **Youth are no riskier than adults.** More economically active rural youth segments can utilize loans as effectively as adults and their urban counterparts, and in conflict, may be a better investment.

As the conflict abates in 2016, Al Amal will continue to expand its rural and rural youth portfolios and generate additional learning about providing services to this important target group.





