



# Bridging the Gap: Leveraging Village Savings and Loan Associations for Women's Financial Inclusion in Yemen

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# DISCLAIMER

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## Executive Summary

After nine years of armed conflict, Yemen has some of the lowest human development and financial inclusion indicators in the world. Despite efforts to close the financial inclusion gap, the MFI sector, with just 81,000 current outstanding loans, has struggled to reach scale and has contracted since the onset of conflict. Loan sizes have also increased, leaving the ultra-poor behind.

Against this backdrop, Yemen's Social Fund for Development (SFD) has actively pursued alternatives to address unmet credit needs of MSMEs, including establishing over 360 Village Savings and Loan Associations (VSLAs) with 8,000 members (50 percent women) between 2018-2021. SFD has ambitions to scale VSLAs to 1 million members (30k groups) nationally by 2030, and to use VSLAs as a "red carpet" to expand access to finance in rural communities. SFD is currently exploring opportunities to link VSLA members with financial service providers (FSPs). Efforts and conversations are underway with Al Kuraimi Microfinance Bank (to link VSLA participants to the Mfloods digital wallet), and Al Azal Microfinance Bank (which is taking over administration of some VSLA groups from SFD, with long-term ambitions to convert some VSLA members into clients).

This research was commissioned by CGAP to understand efforts to leverage savings groups as an entry point for formal providers to reach underserved segments including women and rural communities in Yemen. Interviews and focus group discussions were carried out with over 100 participants during the summer of 2023 to support CGAP's global research on financial inclusion in fragile contexts.

We found that:

- In a highly restrictive gender norms environment, savings groups generate new spaces for women's financial participation through a holistic support package (e.g., training and enhanced social capital) -- support often absent in formal financial models.
- Formal financial products are likely to layer on top of holistic saving group services and other informal activity, rather than immediately replace them.
- Consumers have unmet credit needs, but access barriers for women will be difficult for providers to overcome without support.
- Providers are interested in leveraging savings groups as an entry point but progress on making linkages is nascent amid cost and access barriers.

In short, we found that VSLAs are already delivering quite a bit of “what women want”, making it easier to contribute economically to their families and communities, with the support of men in their lives, and in solidarity with women around them. For some women, this may be enough, while others seem ready for larger loans and engagement with formal providers. The providers consulted in the study see the VSLA groups as a growth opportunity but will likely need some support to overcome the barriers that will complicate engaging this segment (including proximity, digital exclusion, lack of ID, and restrictive gender norms). Actors like SFD can build on the foundation of their VSLA program and play a pivotal role in facilitating solutions to the opportunities and barriers outlined in this study.

## Introduction & Research Purpose

The Social Fund for Development (SFD) introduced the Village Savings and Loan Association (VSLA) program in September 2013, aiming to increase access to financial and non-financial services, enhance community resilience, and promote employment opportunities. However, due to the instability in Yemen from 2014, there was little activity in the program until 2018. To date, the VSLA program successfully established more than 360 VSLAs with 8,000 members (50 percent women) in five governorates, and 1,127 members have taken out loans. When compared to the traditional “Hakbah” model which is a traditional savings circle practiced in many Yemeni communities, the VSLA model offers more structure and clarity of rights and responsibilities, complimentary services, and directs any loans taken from the VSLA towards productive income-generating activities (as opposed to consumption activities that Hakbah is usually used for).

The purpose of this study is to explore SFD’s hypothesis that savings groups could be a “red carpet” for Microfinance Institutions (MFIs) to expand their reach to rural and underserved women customers throughout Yemen. It specifically aims to:

- Prompt reflection, discussion, and action within SFD and their MFI members around reaching rural women (and similarly rural men) clientele.

<p style="text-align: center;"><b>SFD's VSLA MODEL</b></p> <p style="text-align: center;">SFD’s VSLA approach brings together 15-25 people who pool their savings, then alternate taking small, interest-free loans from the savings pool. Separate but equal numbers of men’s and women’s VSLAs are formed in a single community. The VSLA support package includes livelihoods skills training, financial literacy, and life skills training. SFD’s model also includes an emergency fund which VSLA members contribute to and deploy to address community needs and crises, and a maintenance fee, which covers costs of administering the VSLA group.</p>
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- Help SFD to deepen and advance their strategy to expand financial access for women at the last mile, by understanding which types of VSLA participants may be ripe for graduation to other financial services, which are not, and why.
- Prompt funders to consider the best approaches for supporting savings group activities for long-term outcomes.

## Background: The human and financial impacts of Yemen's conflict

***After ten years of armed conflict, Yemen's human development and financial inclusion indicators are among the lowest in the world, and the MFI sector has contracted.***

Yemen finds itself in its tenth year of grappling with an armed conflict which has caused macroeconomic collapse and a devastating humanitarian crisis. According to the Humanitarian Needs Overview of 2022, a staggering 60 percent of the population is in dire need of food assistance, with nearly 54 percent facing acute levels of food insecurity. The fragmentation of national institutions due to conflicting parties and disjointed policy decisions has only worsened the already dire economic and humanitarian predicament.

The banking sector is comprised of 11 Commercial banks, 4 Islamic banks, 4 Microfinance Banks (MFBs) regulated by the CBY and 7 donor funded and unregulated MFIs. The commercial and Islamic banks are primarily focused on urban centres, and a significant portion of commercial bank investments are tied up in government treasury bills. MFIs first entered Yemen in 1997 but their scale is still low at only around 81,000 outstanding loans, of which the largest, Al-Kuraimi, has a 40 percent share of the value. SFD industry data highlights that since the conflict **began the sector has seen a one-third reduction in active borrowers since 2014**, many of whom have become internally displaced or had to relocate their businesses away from conflict zones. Most microfinance loans today are in agriculture and solar energy pumps. The smaller NGO/donor backed MFIs have fared much worse than the private sector microfinance banks, and there is some concern that there is an issue with the business model overall, unrelated to the conflict. For example, the Portfolio at Risk (PAR) for smaller MFIs can reach up to 30-40 percent, up to two times worse than some of their private sector counterparts.

By a range of financial inclusion indicators, Yemen ranks among the lowest countries in the MENA region in terms of financial access. Consequently, it comes as no surprise that Yemen also exhibits the widest gender gap in terms of accessing financial services. Data from 2014 regarding financial inclusion indicates that a mere 2 percent of women aged over 15 hold accounts with financial institutions, and less than 1 percent of women in the same age group have received loans from these institutions. In contrast, the average rates for the MENA region (excluding high-income countries) stand at 35 percent and 7 percent respectively. Given the

state of the financial sector and women's access to financial services in Yemen, VSLAs seem to be a valuable tool to extend a basic level of financial literacy and services (savings/loans) to rural populations especially women.

## Methodology

***Over 100 VSLA group members, SFD staff, community leaders, and provider staff were consulted as part of this research. More women than men were consulted in the process.***

Following a desk review, primary research was carried out between June and July 2023, including Focus Group Discussions with 90 VSLA participants (4 women and 2 men VSLAs per governorate, for a total of 12 VSLAs). Of FGD participants, 66 percent were women, and the 12 VSLAs selected represent 16 percent of the 74 well-established VSLAs in targeted areas. The 18 Key Informant Interviews were conducted with VSLA participants, VSLA consultants, SFD staff, community leaders, and financial service providers (including MFIs, exchange houses and digital wallet providers). See Annex 1 for more detail.

All of the women FGD participants in Lahj were focused on domestic responsibilities, while in Hadhramout 42 percent were housewives and the remaining participants were either students, farmers, or had their own small business. 91 percent of women FGD participants in Lahj were married, with the remaining either single (6 percent) or divorced (1 percent), while in Hadhramout 61 percent of women FGD participants were married, while the rest were either single (30 percent) or widowed (9 percent). Salary of the husband or father is the main source of income for 82 percent of the women FGD participants in Lahj and 58 percent of the women FGD participants in Hadhramout. The average household is around 6 members in both governorates.

The majority of women respondents in Hadhramout (65 percent) were either illiterate or had low levels of education (elementary), with only 4 having university-level education. Overall, men in both governorates reported better levels of education. The data collectors also gathered data on the level education of the respondents in Hadhramout<sup>1</sup>, which indicate that the majority of the respondents were illiterate (28 percent and all of them were women), 26 percent completed their secondary education, 23 percent completed their postgraduate education, 19 percent completed their basic education and the rest have completed their preparatory education.

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<sup>1</sup> The level of education was not part of the survey background questions in the tool.

The 18 field KIIs were conducted with the following:

- 4 interviews with SFD Microfinance Consultants (1 with the Lead Consultant, 1 with the Assistant Consultant training per governorate).
- Interviews with 5 VSLA members per governorate (total of 10 VSLA members, 8 women and 2 men)
- 1 Community Leader per governorate (total of 2)
- 1 'last mile' Money Exchange Agents per governorate (total of 2).

In addition to the field KIIs, the following interviews were conducted online led by CGAP team with support from DeepRoot:

- 1 interview with the SFD VSLA Senior Project Officer.
- 1 interview with the Yemen Microfinance Network (YMN) which provides the technical support to SFD VSLAs
- 2 interviews with MFIs: Al-Kuraimi microfinance bank (also an e-wallet provider) and Azal Microfinance Program
- 1 interview with mobile money/e-wallet provider: CASH e-wallet.

The FGDs explored women's key financial tasks, needs, and preferences; as well as gender norms shaping financial behaviors. As social connections and social capital play an important role in financial coping strategies, the research team also examined the role of social capital in attitudes towards a range of financial services. KIIs were conducted to explore the experiences and perspectives of VSLA practitioners and community leaders, as well as the views of MFIs and Financial Services Providers around expanding to serve women, rural, and group-based clients. Among other topics, the KIIs attempted to explore how close or far are providers on the journey towards reaching VSLA clients, and how current women MFI clientele differ from saving group segments.

Research was carried out in the two governorates of Lahj and Hadhramaut. Both governorates are culturally conservative. While both are primarily rural, Hadhramout's capital city of Mukalla is one of Yemen's largest urban centers.

Figure 2: Lahj Governorate (Source: Wikipedia)



Figure 1: Hadhramout Governorate (Source: Wikipedia)





Lahj is located in the southwest of Yemen, on the “Tuban” valley delta, making it a fertile area for agriculture which constitutes the main economic activity for its inhabitants. Lahj is 12,648 sq. km<sup>2</sup>, with a population of 722,694 in 2004 (last official census) and an estimated population of 865,791 in 2011<sup>3</sup>, giving it a population density of 68.45/sq. km. In addition to agriculture, animal husbandry, honeybee farming, transportation, salaries from public sector employment, and fishing constitute the main economic activities for its inhabitants.

Hadhramout, located in the east of Yemen, is the largest governorate of the country in size (193,032sqkm), representing approximately 36 percent of the total land area of Yemen. However, it has a relatively small population of 1,028,556 in 2004 (reaching an estimate of 1,255,221 in 2011), resulting in a low population density of only 6.5/sqkm. This is due to large areas of Hadhramout being a desert. While the governorate is rich in oil, the main economic activity for its inhabitants is agriculture and animal husbandry, followed by honey bee farming and fishing. Other employment includes public sector jobs (for men) and micro businesses, such as sewing and incense making (for women).

The research takes place amidst a national model rolled out with largely the same processes. All the FGD respondents from Lahj and Hadramout reported that VSLAs go through five phases, as follows:

- Phase 1: VSLA awareness raising, which includes encouraging target communities to establish VSLA groups.
- Phase 2: establishing VSLA groups.
- Phase 3: Training VSLA group members on the VSLA saving and financing methodology.
- Phase 4: VSLA groups start working i.e members pay their savings shares and first loans to VSLA members are granted.
- Phase 5: ongoing VSLA activities, including management of a community emergency fund

In addition, 50 percent (25 groups) in Lahj received grants of 360,000 YR (approximately 275 USD) in 2021 that were added to the group savings. Overall, the FGD respondents considered the second phase (VSLA establishment) as their favorite phase because they think they have learnt how to organize themselves better, select their leaders and start practical steps on saving and on planning and implementing some income generating activities. However, many FGD women respondents listed the third phase (training) as their favorite, because they were equipped with ideas and skills to start their own activities.

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<sup>2</sup> <https://yemen-nic.info/gover/lahj/brife/>

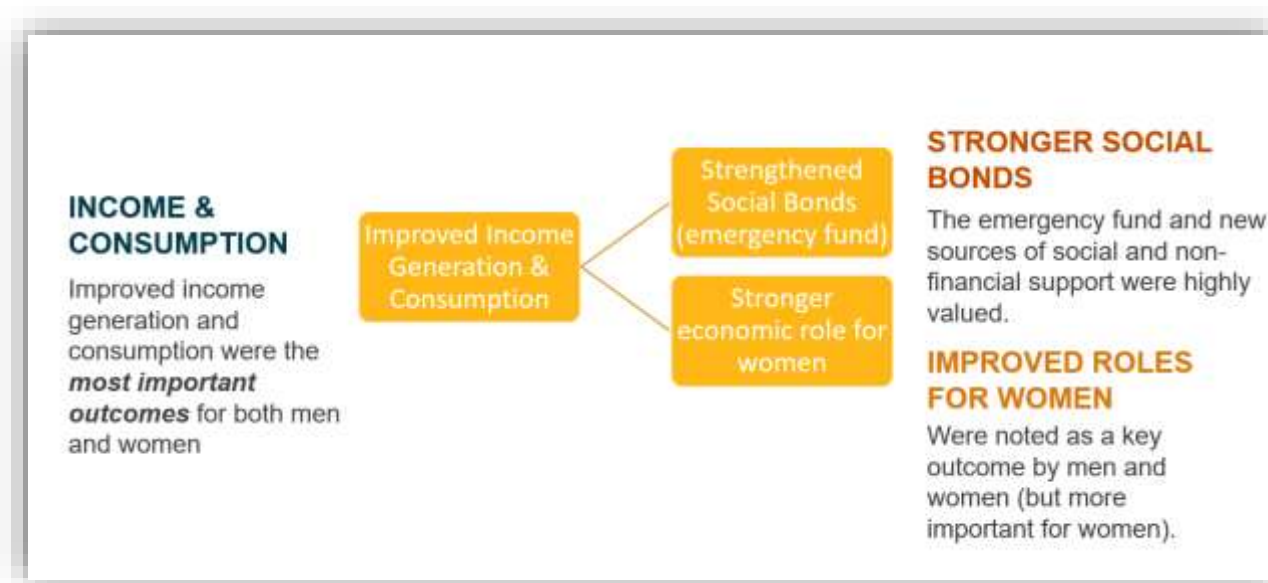
<sup>3</sup> <http://www.cso-yemen.org/publication/yearbook2011/population.xls>

## Finding 1: Member Prioritization of VSLA outcomes

***When asked to rank outcomes from VSLAs, income and consumption gains were most important to participants, followed closely by gains in social capital and economic roles for women.***

FGD respondents identified several positive outcomes brought by the VSLAs, with slight nuances in rankings of outcomes between men and women's FGD groups and locations. Overall, three benefits were highlighted, including income/consumption gains, stronger social bonds, and improved roles for women. Income generation was enabled not just by lending and saving, but also by training and confidence building. Other valued outcomes included stronger relationships between VSLA members and their families.

### **Most Important VSLA Outcomes (Ranked by Members)**



The **KII respondents** (both men and women) reported that VSLAs helped women to increase their income, save money, and meet their families' needs. They were able to do this through their own earnings, VSLA loans, and VSLA saving contributions. Specific examples of how the VSLA groups helped the interviewed women include the start-up of new businesses (From clothing sales to goat-keeping and sewing), and the increased ability of savings helping women meet family needs. The VSLA groups also helped women to gain financial literacy and to develop their business skills which will help them to continue to improve their financial situation in the future. Some of the women respondents with businesses reported that they feel more confident in managing their businesses.

Interviewed **community leaders** confirmed that VSLAs were helpful in enabling some beneficiaries to start their businesses and improve their income and helping the community members to start better rationalizing their spendings to save money. They further stated that VSLAs helped women to save more, start their own projects and contribute to the livelihoods of their families.

Interviewed VSLA **consultants** reported that savings and earnings resulting from participation in VSLA groups are being used in a variety of ways: to set aside money for difficult times, to improve the livelihoods of their families, to meet their needs for medicine, to cover wedding/ social occasions expenses, to establish/expand their own businesses, and to help the community through the Emergency Fund. Consultants also observed that the **VSLA format** (easy to access and low cost) helped members improve their households' income, consumption, and savings – noting that, in short, many have a better life than before the VSLA was introduced. They further stated that the training courses resulted in improvement of the VSLA members' skills.

*“Women are eager to participate in VSLAs as they don't have an income and see them as a way to generate savings and take loans – a way to achieve some financial independence.”*

VSLA consultant, Hadhramaut



Beyond impacts at the individual level, consultants reported that VSLAs have sparked savings and entrepreneurship trends among the target communities, and there were some new businesses introduced to some of the targeted villages such as selling construction materials and mini markets. Furthermore, they reported that social cohesion among the target communities became stronger because of the VSLA support provided to communities through emergency fund projects (e.g., rehabilitation of roads and water wells and the financial support provided to the poor people in need for medical care).

**Overall**, the VSLA groups seem to have been beneficial for the women and men who participated in them. They have helped to increase income, save money, and improve financial literacy. They have also helped to promote entrepreneurship and social cohesion.

## Finding 2: VSLAs and gender norms

***VSLAs create safe and accepted spaces for women's financial participation amidst restrictive gender norms and increased pressure for women to fill gaps in household finances.***

SFD staff and research participants identified the following influential gender norms & corresponding behaviors that limit women's financial opportunities:

	Norm	Resulting Behavior / Impact
Most influential      Least influential 	Widespread beliefs that men are "breadwinners", and that women should focus on household tasks	Women receive limited support for income generation activities outside of the home
	Women are expected to consult family members in financial decision making	Women have limited privacy and autonomy in financial decision-making
	Women should not travel alone or interact with men outside the family ("Mahram"; strong in rural areas)	Women are generally not able to travel or visit agents independently in rural areas
	Men are prioritized for formal education and access to capital	Women have a lower baseline of hard skills and confidence and are perceived as having lower capacity to manage complex businesses
	Norms around women's phone ownership and use vary between regions, but can be restrictive	Digital exclusion for women

The most influential restrictive norm cited by informants involved the widespread belief that men are the natural breadwinners, which contributes to men's access to greater resources for income generation, and skepticism around women's capacity to engage in business activities. Other important norms involve women's expectation to consult or defer to family members in financial decision making, restrictions around women interacting with men outside the family, and men being prioritized for more formal education than women.

*"I would like society to change its view of women based on the idea that the best place for a woman is her home, and this will only be achieved by increasing women's support and participation in groups and the work of income-generating projects."*

-VSLA consultant, Social Fund for Development. Lahi Al Farsha

Several informants noted that VSLA activities for women were initially greeted with skepticism from community members, with some men in the community believing that VSLAs would generate no value for women. However, women's income generation and contributions to household budgets has "proved them [the skeptics] wrong", signaling a shift in beliefs. Women's contributions to community solidarity projects (e.g., wells, medical care) through emergency funds have won them greater respect

among community leaders and played a role in shifting initial skepticism.

With regards to the norms of **consultation around financial decision making**, women

members all stated that they keep their husband/family informed about their VSLA and other financial transactions so they safe in case of problems or challenges. As a woman VSLA member from Lahj stated, “I keep my family informed about my financial transactions as social norms dictate and as a risk mitigation strategy... in the event of a problem, my family can intervene.”

The custom to keep men informed of financial decision-making was not seen as a barrier for most women FGD respondents. Most were easily able to obtain the consent of their husbands/fathers/brothers to be part of VSLAs and related economic and social activities. Many women consulted for the research noted that VSLA groups offer a space that they find themselves free to make their own decisions. Some women reported a **gain in financial independence** linked to VSLA participation and new income sources. And sharing information around VSLA activities was not limited to women, interviewed men also mostly reported keeping family aware of VSLA and other financial transactions. Some women reported that the rural communities and villages are very small and it is hard to keep financial transactions and women’s VSLA interactions in particular confidential.

*“The other women members and I make our own VSLA decisions collectively but independently from any others”.*  
-Woman VSLA member from Lahj

*“After joining the group, I became more self-reliant and independent in personal purchases due to having an income source independent from my spouse.”*  
-Woman VSLA member, Hadhramout

The interviewed consultants noted that in line with norms **restricting women’s interactions with other men**, women’s projects tend to market their products/services to women and where necessary (as in the case of taking livestock to market), trusted men can support. Informants noted that the men’s projects face less restrictions and can target all the community members as clientele.

**Finding 3: Social capital strengthening through VSLA activities**  
***VSLAs strengthened social capital both between VSLA members and within the wider community through the emergency fund.***

The interviewed women indicated that their relationships were strengthened with the other VSLA members, with moral, technical, and practical support. One woman gave the example of VSLA members treating each other like sisters, and supporting each other in the difficult times (e.g., when someone gets sick, she gets housework support from VSLA members). Others noted support in times of lifecycle events such as weddings and funerals. Others noted support from VSLA members in marketing products, like incense, to their family and friend networks.

*“We are coming from the same village however, being part of the VSLA we knew each other better and we have each other’s backs.”*

– Woman VSLA member, Lahj.

All the respondents also noted that the Emergency Fund, which involves VSLA members making small regular contributions to spend on community needs, enables them to fulfill social responsibilities and get closer to their communities. The Emergency Funds are used for needs including emergency medical care, rehabilitation of roads and water wells, and support to group members during difficult times. However, they pointed out that generally the money available in the men VSLA’s Emergency Fund is more than that of the women considering their financial capabilities which accordingly determines the size of their contributions to the communities.

One of the interviewed community leaders from Hadramout stated that VSLAs were helpful to strengthen social cohesion and supported community rehabilitation, stating “If we face an emergency in our community, I coordinate and consult with the VSLAs to see what help they could provide”.

#### Finding 4: Size/Scale of VSLA transactions and enterprises

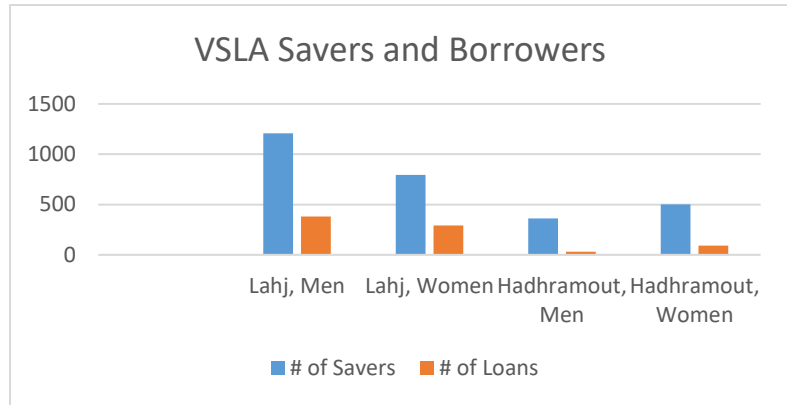
***A quarter of VSLA members take loans (average size of \$91 USD for women and \$145 USD for men), which are smaller than average MFI loan sizes.***

Contributions to VSLA funds varied between men, women, and community, but generally included both savings, emergency fund, and “expenditure fund” contributions (the latter used to cover costs of VSLA administration). The average contribution as reported during KIIs are noted below.

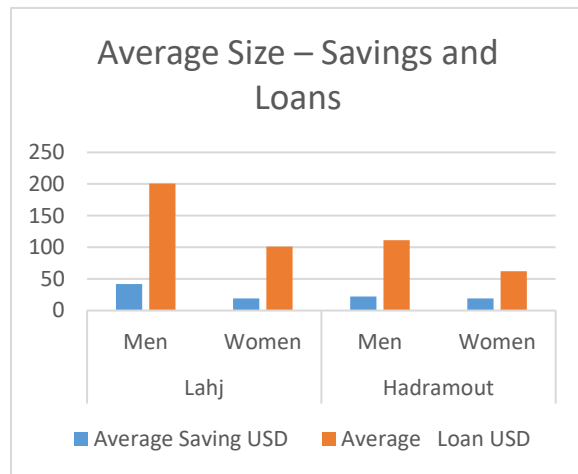
*Table 1: VSLA members reported contributions*

Governorate	VSLA	Average saving Contribution		Emergency Fund		Expenditure Fund	
		YRs	USD	YRs	USD	YRs	USD
Lahj	Women	2,000	1.43	325	0.2325	175	0.1225
Hadramout	Men	15,000	10.71	N/A	N/A	N/A	N/A
	Women	7,500	5.18	N/A	N/A	N/A	N/A

When comparing the VSLA participants saving vs. borrowing through the VSLA, just over a quarter of savers (28 percent, assuming one loan per person) are borrowing from their VSLA. Women are borrowing at slightly higher rates than men (30 percent).



The weighted average VSLA loan size, \$145 (\$91 for women), is lower than the average microfinance loan size (approximately \$700 USD).



According to the field interviews with VSLA women, the enterprises they established are all micro<sup>4</sup> projects with a capital of less than 164,000 YRs (183.33 USD) and tend to target women clients such as clothing/sewing business, Henna, incense, and goat keeping. Men’s VSLAs reported projects that are bigger than women but still micro. For example, two VSLA participants that were men have projects started with capital of 256,667 YRs (214.28 USD), with one reported starting a shop and the other investing in a goat

business.

The data shows significant gender and regional disparities in savings and loan amounts. For example, in Lahj men’s average monthly saving reached 59,459 YR (42 USD) compared to 26,996 YR (19 USD) for women. In the breakdown according to governorate, the average monthly saving for men in Hadramout is just 52 percent of the average monthly saving in Lahj; whereas it is the same for women with 19 USDs reported in both governorates. On the other hand, the average loan size across the two governorates for men reported 218,632 YRs (156.17 USDs) and average loan size for women reported 141,571 YRs (81.84 USDs). When looking beyond the two regions studied with primary research, VSLA loan sizes among SFD started VSLA groups averaged \$438 USD. ***It is worth noting while average loan sizes were smaller than***

<sup>4</sup> Micro enterprises: employing between 1 and 5 employees and Small enterprises: employing between 5 and 15 employees according to Social Fund for Development; Adel Mansour, “Small and Micro Enterprises Development in Yemen and Future Prospects”, SFD 2011, <https://sfd.sfd-yemen.org/uploads/issues/SMED%20Book%202011-20120716-142650.pdf>: Accessed on July 18, 2023.

*average MFI loans, MFI respondent found the VSLA transaction sizes of interest from a business case perspective<sup>5</sup>.*

## Finding 5: Challenges to VSLAs performance & Suggested Improvements

Several challenges for VSLA optimization and sustainability surfaced in consultations with stakeholders:

- **Complexity of VSLA process and ability of groups to continue independently.** Some VSLA consultants stated that weak management of VSLA financial records is a challenge and is linked to widespread illiteracy and the limited training provided to members. Consultants expressed concern about the ability of members to start and continue VSLAs on their own based on their experience without the SFD intervention.
- **Desire for additional technical livelihoods training.** Many interviewed VSLA members expressed a desire for additional training in specific livelihoods areas and noted that in some cases they were unable to attend trainings due to distance or schedules. Training on mobile phone maintenance and solar energy installations was highly demanded.
- **Seasonality of agriculture projects vs. repayment schedules.** Loan repayment schedules do not consider the projects' seasonality and resulting cashflow, making repayment difficult in some cases.
- **Size of loans available.** The small amount of savings restricts VSLA lending.
- **Difficulty of monthly contributions for poorer participants.** Some of the interviewed women/their families were struggling to provide the monthly saving contributions to the VSLA because they spent all their income on their households' needs.
- **Currency devaluation.** Which affected beneficiary capacity to payback installments

The respondents made several recommendations for improving the VSLAs, including the following:

- Increase training offerings on modern production techniques for entrepreneurs
- Increasing lending amounts to meet the need for expanding/starting bigger-scale projects
- Conduct literacy courses for women in the target areas
- Financially support more VSLAs with grants.
- Introducing regular financial services to the areas to respond to needs for larger sources of capital for larger enterprises
- Review the existing VSLA Manual and ensure that VSLA's generic bylaws and financial records are short, simple and easy to understand specially for the illiterate VSLA

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<sup>5</sup> Interview with Ali Thamer, Azal Microfinance Program August 1, 2023. Average loan sizes for microfinance institutions were \$830 USD and \$2611 for microfinance banks in September 2023.



members.

- Transform each VSLA at village level into a Community-Based Organisation (CBO) or an NGO that increases the community's capacity for savings and lending, provides literacy and other community development programs, and advocates for better women's empowerment and engagement within communities.

## Finding 6: Current Financial & Digital Practices for Men and Women in VSLAs

***Men and women rely almost exclusively on relationship-driven, informal financial tools, and face numerous barriers to formal finance that impact women more severely. But with significant unmet borrowing needs, many are curious about new products and channels.***

Focus group participants were asked about their current financial practices beyond VSLAs, which highlighted the largely informal and relationship-driven mechanisms used in rural Yemen to manage money. In terms of savings vehicles, animals are the most widely practiced savings approach among all focus group participants, followed by saving cash at home and with families and friends (including through hakbah).<sup>6</sup> Only one FGD (men) from Hadhramout reported saving in banking institutions, and one FGD (men) in Lahj listed saving in durable goods as a common saving practice. For borrowing behaviors, borrowing from family is the most popular approach, followed by shopkeepers and then friends. Just one man had borrowed from a financial institution. Most of the respondents indicated that they currently have no access to financial services except those of the VSLA services that they are part of. As a woman VSLA participant from Lahj stated, "Only the VSLA option was available for us".

On borrowing/saving from/in banks/microfinance institutions (MFIs), almost all the FGD participants, especially women, indicated that it is very difficult to do so, and among the cited reasons were the distance and high cost of transportation to reach these financial institutions. The customs and traditions require women to stay at home and to secure guardian permission (Mahram<sup>7</sup>) from a man in the family if she wants to leave or when making decisions related to saving and borrowing. Furthermore, widespread illiteracy especially among women and the lack of ID are also constraints that hinder women's ability to borrow. Accordingly, women prefer to borrow from family and relatives and save in animals and through hakbah; the most difficult saving practice for them is property because of customs that discourage issuing ownership contracts to women. One of the interviewed women respondents was skeptical about her

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<sup>6</sup> Members, who are family and friends that you trust, are invited to join the Rotational Saving Group or Jamaiah. Each member contributes a certain share of money per month and each month the total saving amount is given to one of the members in a rotational basis.

<sup>7</sup> Derived from the word haraam, which literally means something that is prohibited, mahram in fiqh (Islamic jurisprudence) refers to a person with whom marriage is prohibited because of their close blood relationship, because of radaa'ah (breastfeeding), or because of being related by marriage, more on: <https://giwps.georgetown.edu/wp-content/uploads/2022/08/Mahram-Womens-Mobility-in-Islam.pdf>

ability to use the formal financial services that the study team explained to her, exclaiming, “I’m illiterate do you think I can use these financial services?!”.

The interviewed VSLA consultants provided additional context on **potential barriers to men and women’s access to formal financial services**: 1- the interest rate (usury) which is forbidden, and the rural culture is very strict on that, 2- the practice of receiving free loans from VSLA which the members will use as a reference to evaluate new services, and 3- the need for collateral. (A man from Lahj reported that he received the VSLA loan very fast, and he would expect any similar service to be delivered in the same way.) 4- Traditions in the local villages make it almost impossible to get the husband’s/family’s consent for the wife/daughter/sister to provide her personal photo as part of her application to open a bank account.

Despite the challenges to accessing formal financial mechanisms, many interviewed VSLA members clearly expressed a **desire for access to larger pools of credit** to expand their businesses. Many concrete ideas were shared, from increasing the number of sewing machines to paying off the first VSLA loan to add a new agricultural business. A woman from Lahj stated, “I wish, like my other colleagues in the VSLA group, to expand my existing goat husbandry and clothing businesses and target other markets.” Another woman respondent stated, “Living in the village, I had only the VSLA option to get a loan; but if it [a new type of loan] will have the same terms as the VSLA I will take it”.

On **digital access**, 47.78 percent of the respondents in Hadhramout and 52.22 percent in Lahj reported having mobile phones. This drops significantly when looking at only women FGD respondents, with 30 percent in Hadhramout and 15 percent in Lahj having mobile phones. The KIIs conducted with women showed that some of them have phones but not smart phones, and literacy presents another barrier to digital inclusion. The interviewed respondents also reported that the poor internet, lack of mobile/smart phones and the lack of digital literacy training among the VSLA group members are the key access barriers to use of digital services. The VSLA man respondent from Lahj and a woman respondent from Hadramout reported that they heard about M-Floos<sup>8</sup> service and they are interested in using that service if the above access constraints are addressed. Overall, the interviewed respondents indicated that they would be willing to advice/encourage their families, relatives, and friends to use the digital financial services if they can try them and find them easy to use.

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<sup>8</sup> M- Floos is Al-Kurimi bank offered service which includes: Paying for procurements, transferring from and to M-floos accounts, cash in and cash out through M floos agents, sending and receiving M-floos through mobile phones, transferring from and to banking accounts, modifying and cancelling sent remittances, checking account balance and operations amount ceiling. It is worth noting that all operations made through M-floos are licensed by the central bank of Yemen to enhance awareness of financial and banking services within Yemeni People.

## Opportunities and Challenges: Linking VSLAs to formal providers

***E-wallets for VSLA operations and MFIs for lending offer the most promising opportunities for VSLA linkages.***

### **Leveraging e-wallets for group funds**

The data collectors presented to the FGDs what would a digital VSLA look like, and how it could address many difficulties and challenges facing traditional VSLAs. The FGD respondents expressed interest in using digital VSLAs which they think will be easier and safer than the traditional one. However, according to them that will be possible only if 1- the telecommunication and electricity infrastructure is improved, 2- MFIs increase digital literacy awareness in the villages and 3- the smart phones become available to them. According to an interview conducted with one of the e-wallet providers, he thinks that it is technically possible, and the only issue will be how to address the payment of the lending installments.<sup>9</sup> Another interviewed respondent working for another e-wallet business stated that they have already drafted a proposal on the VSLA digital transformation to SFD and they are ready to implement it in case the startup financing is secured. Neither interviewed provider indicated that they had funding immediately available or dedicated to develop VSLA-oriented products, indicating that this is not a high priority among product or market development opportunities, and may require subsidization or other support to kick off.

### **Linking VSLA members to money exchange offices**

The interviewed exchange agent from Lahj reported that he currently provides remittances and money exchange services almost to men and he rarely finds women clients asking for any of the two financial services. He also stated that he is not providing any saving or lending services for clients and after explaining the VSLA average client to the respondent he does not find the linkage with his business feasible because he is not legally allowed to do that, and he lacks the know-how.

The other respondent from Hadramout explained that he started as an exchange agent and in compliance with the latest CBY Aden circular, he transformed into a branch for Al-Omry & Bros Exchange Company. He stated that he currently provides current and saving accounts for clients, remittances, and salary payment services. However, he confirmed that they are not offering group saving services. He stated that his clients are coming from Alsefaal, Radfan and Sharj Alfalaha villages, which is where VSLAs are also operating. Almost 98 percent of his clients are men and 2 percent are working women in Burum District. Furthermore, he stated that 90 percent of the clients were public sector workers, working for the Ministry of Education, and 10 percent were entrepreneurs. He thinks that he serves an average of 50 clients daily, 1 of

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<sup>9</sup> Interview with Ali Heba, Cash –wallet August 2, 2023.

them is a woman. Women have a separate queue from men and they are given priority when they come for the financial services.

After the data collectors explained the average VSLA member and if the respondent sees them as potential clients, he stated that they could be potential clients. However, based on the experts' feedback, the money exchange companies' profits are mostly coming from money exchange transactions and they are not in favor of saving accounts. The reasons are because of the depreciation of the local currency, the subsequent profit on savings which is a liability and the fact that taking savings is illegal for the money exchange agents.

Overall, linking the VSLAs with the money exchange companies is practically not feasible because of the lack of saving and lending experience let alone it is not possible from a legal perspective.

### **VSLA linkages to MFIs**

The interviewed MFI field officer thinks that VSLAs could be a starting point for microfinance outreach to the rural areas, based on his experience interacting with clients. However, he stated that operation costs will be high, and the MFIs will need SFD support to be able to reach to the rural areas and serve the VSLA beneficiaries. The YMN respondent thinks that the idea of linking VSLAs to microfinance is feasible. He also indicated that the VSLA consultants and trainers have the microfinance experience and some of them are trainers in the microfinance sector under Yemen Microfinance Network (YMN) and will help increasing the VSLA members capacity to be able to use the microfinance services.

## **Conclusions**

This research has highlighted how VSLAs are making a difference in the lives of Yemen's rural poor and are a particularly important and tailored tool to address the needs of women. Linkages to formal financial services are possible, but face barriers that social and development actors like SFD, can play a role in overcoming. Research conclusions include:

- In a highly restrictive gender norms environment, savings groups generate new spaces for women's financial participation through a holistic support package (e.g., training and enhanced social capital) -- support often absent in formal financial models.
- Formal financial products are likely to layer on top of holistic saving groups services and other informal activity, rather than immediately replace them.
- Consumers have unmet credit needs, but barriers to women's access will be difficult for providers to overcome without support.

- Providers are interested in leveraging savings groups as a potential entry point but concerns around cost of reaching rural consumers remain a barrier and progress on making linkages is nascent.

This exploratory study has identified trends and insights based on a limited snapshot of SFD activities but was not designed to rigorously evaluate SFD's VSLA program or impact. Next stage research questions on this topic could explore the impact of VSLAs on rural entrepreneur incomes, sustainability and profitability of linkage efforts, and the unique role SFD is playing as both an implementer and market facilitator.