



AMB's Micro Letters of Guarantee (Micro-LGs)

A New Development to Microfinance Industry in Yemen

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The concept of profit maximization dominated the culture of traditional banks, which directed their strategies to the restriction of financial service provision to customers with large financial solvency to achieve their goals, on one hand, and avoid risks, on the other. To this end, they tended to cover risks with real-estate mortgage and security cheques until the appearance of microfinance institutions (MFIs), which overturned all those concepts and adopted a mission opposed to the exclusion of poor community groups from the banking experience. Therefore, the MFIs tailored their financial and non-financial services to these groups in a manner that met their needs and contributed effectively to their integration into the banking sector as a basic foundation for promoting financial inclusion, social equity, and equal opportunity.

Beginning of Microcredit in Yemen ⁽¹⁾

Microcredit began in Yemen in 1997 in response to the urgent need to create more employment opportunities for the poor and limited-income groups amid the high unemployment and poverty rates, with Yemen ranking among the poorest countries. The microcredit sector appeared as a successful and vital arm for fostering development in Yemen and contributed to national economic growth by means of reducing the burden on the government in fighting and reducing poverty and bridging the large financial gap created by traditional banks that focused on the rich. MFIs started by expanding the concept of credit and giving a chance for the poorest groups in society to access loans for their small and micro enterprises (SMEs) according to credit facilities and with loan ceilings commensurate with their income to enable them to revive their businesses. That was a preemptive step to address the poverty of this large segment, invest in their ideas, energy, and interest to make their dreams come true, and consequently transform them into lucrative and self-developed entities to attain self-sufficiency and provide decent living for themselves and their dependents.

Shift to Microfinance

Al-Amal Microfinance Bank (AMB) started its business in 2009 as the first microfinance bank in the MENA region by a special law allowing AMB to provide various financial services to the SME sector. With the inception of other MFIs one by one, Yemen moved on to the concept of 'Microfinance' as a response to the expansion and growth of customers' businesses by adapting saving products to this group to meet the need for managing returns from their businesses, which traditional banks were not ready to receive and manage for them. The MFIs stepped up efforts to encourage the saving practices of these groups as a part

of promoting financial accessibility for the poor by means of connecting them to the banking sector. That step set aside the complicated traditional saving requirements.

Also, the growth of needs and customers' expectations, on one hand, and the increasing responsibility of microfinance actors to complete customer integration into the banking sector, on the other, prompted their entry into the transfers market to provide high-quality service to their customers at symbolic fees, thus enabling customers to send and receive money with modest ceilings, particularly from cities to the countryside. This indirectly contributes to building a safety net for their families and managing their wealth, among other benefits involved in the individual transfer service.

Although the microinsurance services have so far not been provided formally via specialized institutions, AMB has unique experience in the management of a solidarity (Takaful) fund to the funding of which all AMB's borrowers contribute at a rate not exceeding 1% of the disbursed loan. This fund provides solidarity-based insurance on the balances of customers' outstanding loans in the event a customer's business is impacted by mishaps such as fires, among others. In addition, it repays a customer's outstanding debt balance in the event of death, or total or partial disability of a customer, as a type of contribution to mitigate financial burdens on customers and their families in emergencies and enable them to obtain subsequential loans following closure of the outstanding loan.

All those experiences and advancements in financial services in the microfinance sector were in need of being supported with a package of non-financial services, which contribute to supporting SME entrepreneurs in a way that ensures sustainable growth of their businesses through a responsible focus on eliminating barriers that hinder the success of their businesses and working on creating an added value to financial services provided to them, particularly entrepreneurial training and financial and practical counseling.

Amid digital transformations in the banking sector, MFIs have been keen on prompting their customers to keep up with such progress and utilize advancements in financial technology by means of educating and empowering customers to manage their funds and control their expenditures through the e-portfolio, which enabled them to access various financial services meeting their needs timely, quickly and at minimal cost. This yield contributes to promoting financial inclusion in society.

1) Yemen Microfinance Network – Yemen Microfinance History:
<https://yemennetwork.org/our-history/>

AMB's Experience in Developing Financial and Non-financial Services for the Poor

Notably, 2009 saw a change in Yemen's microfinance landscape with the entry into the sector of AMB as the first microfinance bank in the Middle East and North Africa (MENA) and its involvement in forming new economic concepts by which it replaced the 'lending concept', which had dominated over Yemeni microfinance sector since 1997, with the current concept, which in turn represented a new turning point in empowering the poor and changing them into economically active entities under the banking sector umbrella and Law of the Central Bank of Yemen (CBY). Based on its humanitarian and social responsibility and vision for the future, AMB has for the past 15 years expended incomparable efforts, which in aggregate led to the innovation and development of financial and non-financial services that had been restricted to traditional banks and customers with large and medium financial solvency, thereby putting before the poorest groups in society multichoice banking services fitting their financial position, meeting their expectations and realizing their ambitions after lending had been the only choice available to them. Below is a series of successes and achievements made by AMB, which also describe how the Bank developed financial and non-financial services and redirected them to the poor:

- Developed and launched the first loan service in the Yemen microfinance sector, which contributed to the establishment of real financial inclusion of customers by means of linking the loan account to the bank account.
- Launched the first voluntary saving service in Yemen's microfinance sector according to recognized banking principles through multi-purpose bank accounts (current, saving, and deposit).
- Developed and launched the first money transfer service with a social nature, by which financial assistance and welfare benefits/entitlements provided by international organizations are delivered to beneficiaries, via outreach payment teams dispatched to rural and remote areas and more than 5,000 payment sites in all Yemeni cities. This mechanism of cash distribution takes into consideration the parameters of humanitarian work in emergencies and contributes to reducing the cost and burden on beneficiaries and all those eligible for humanitarian assistance to pick up their individual entitlements. Elderly people, persons with disability, pregnant women, and people with illness are given special treatment in terms of delivering their entitlements to their homes.
- In partnership with Arab Gulf Program for Development (AGFUND) and Arabian Bugshan Group, the first non-profit foundation specialized in entrepreneurship and business development service (BDS) was established. This foundation provides services in three areas:
 - **Skill development:** Specialized vocational and management training program.
 - **SMEs and entrepreneurship:** Training and counseling for SME entrepreneurs.
 - **Business Incubator:** An integrated assistance center serving in areas of businesses, counseling, and networking, and easing access to loans and the market.
- AMB ranks second in the list of Yemeni banks providing e-Money through its PYes App, which is part of local and international transformations to cellphone-enabled digitalization, particularly amid the urgent and growing need for this service in Yemen due to liquidity shortage in the banking sector which is exacerbated by the war and worn-out banknotes. With this in mind, PYes app. has turned out to be a key digital channel for the provision of all AMB services (loans, savings, money transfers, e-payment, social transfers, and letters of guarantee).
- Developed and launched the first e-product in Yemen, which is entirely managed via PYes, including loaning, repaying, and renewal. It currently accounts for nearly 40% of the total loans annually distributed by the Bank.



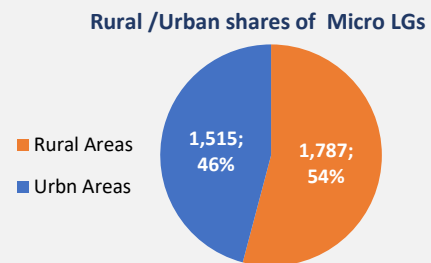
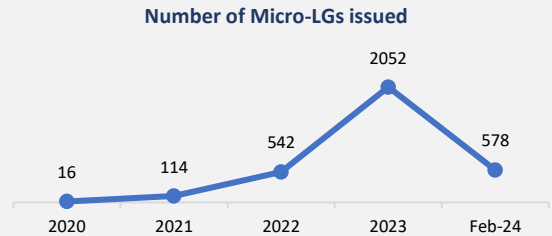
Micro-LGs in AMB:

LGs play a significant role in activating the different sectors by facilitating commercial transactions, and consequently contributing to boosting economic growth as a crucial financial instrument, which traditional banks issue at high value and with requirements and criteria not applicable to senior contractors, merchants, and large and medium capital owners.

Due to the growth of the humanitarian and development work of international organizations in Yemen as a result of the war, SME owners have seen an opportunity to provide services and implement various projects for these organizations through competitive bidding. However, their financial needs for project implementation did not align with AMB's financing products in terms of loan amounts and long repayment periods. Hence, AMB was forced to offer short-term financing due to the liquidity crisis faced by the banking sector, Therefore, AMB launched in 2020 the Micro-LGs service, thus becoming the first microfinance bank in Yemen and MENA to issue Micro-LGs. The aim of this is to enable low-profile contractors, merchants, and SME entrepreneurs to access LGs service for multiple purposes, such as preliminary guarantee, implementation guarantee, maintenance guarantee, and advance payment, among others, With an average cash deposit rate of 30% of the facilities provided by the Bank to this segment of customers. This service is rendered for low fees and simplified terms and requirements which they can meet. Previously, LGs requirements in traditional banks were an impediment to them accessing the service and enjoying its benefits. With this, AMB made a difference by which it enriched the Yemeni microfinance sector with new and up-to-date economic concepts, let alone MFIs won the trust of customers and junior importers and contractors, who do not have sufficient real-estate and financial mortgages required by traditional banks for issuing LGs.

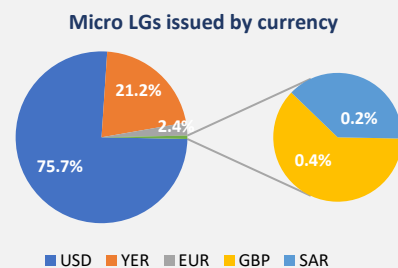
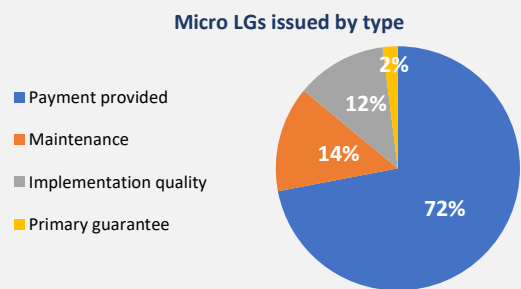
AMB has, from 2020 to February 2024, issued 3,302 Micro LGs worth YER 9.3 billion (USD 17,597,484), of which 39% are worth less than USD 1,000 and 51% range between USD 1,000 and 10,000. These figures reflect the significant need of microfinance customers for such a service, which is aggregately targeted at helping them develop their businesses. Also, the fact that 72% of LGs were preliminary guarantees for admission to tenders and submission of bids has impacted customers' businesses and their capacity to compete for tenders or enter into procurement deals with organizations , governmental and private entities.

- Micro Letters of Guarantee Characteristics and Conditions**
- Applicants must maintain a current account with the bank.
 - An average of 30% of the LG's value is required as cash collateral.
 - Fees start from \$10 and increase based on the LG's value.
 - Applicants are not required to pledge any property as collateral.
 - The currency of the guarantee letter and the cash collateral do not need to match.



Micro LGs issued by Amount

Amount (\$)	Number of LGs		Value of LGs	
	Number	%	Value (\$)	%
1000 – 0	1,300	39.4%	539,058	3.1%
10,000 – 1,001	1,672	50.6%	5,591,209	31.8%
50,000 – 10,001	292	8.8%	6,076,447	34.5%
100,000 – 50,001	25	0.8%	1,824,390	10.4%
100,000 <	13	0.4%	3,566,380	20.3%
Total	3,302	100.0%	17,597,484	100.0%



E-Micro LGs: An Innovation Serving the Rural Areas:

The outreach of financial services to rural areas is considered to be a big challenge, particularly amid obstacles preventing access of rural populations to basic financial services. These obstacles, which include poor infrastructure, population dispersity, and low financial literacy, drive up the level of risk and costs to an extent impacting the feasibility of providing financial services in rural areas. Nevertheless, AMB believed that the rural population has a right to access these financial services and enjoy their benefits, and therefore it designed products and services that are commensurate with their simple needs and achieve added value by using best practice-based technology.

With an entirely automated process, AMB launched E-Micro LGs, thus becoming the first bank in the region enabling its customers in rural areas to access LGs on cellphones via PYes (with no need to visit AMB branches). Accordingly, a contractor sends a request for an LG via PYes on the security of his e-account balance. In addition, they can send requests for extension or cancellation via the application, too. The beneficiary entity uses the online web platform (e-platform) to review contractors' requests for issuance, extension, or cancellation of LGs, and have them approved, printed out, and archived with no need for the contractor to visit the beneficiary entity. Minimizing the cost of travel from rural areas to cities, this mechanism is an easy and innovative way to enable junior contractors in rural areas to obtain LGs required for accession to small enterprise tenders and community-based committees in rural areas, by means of relying on the broad geographic outreach of AMB agents in rural areas all over Yemen. It enabled them to access LGs commensurate with the nature of small contractual tenders/procurements worth up to USD 1,000. In addition, they can access the service wherever they are, with no need for travel to the city,



which increases the cost of accessing the service for those people, thereby impacting the goal and the quality of the service.

Through this innovation, AMB sought to realize the following benefits:

- Provide an appropriate mechanism for the opening of e-accounts for contractors via the online app or the nearest agent.
- Provide an appropriate mechanism for depositing the LG value in the e-account via the nearest agent [in the target area].
- Allow for submitting a request for LG on cellphones, thus reducing the cost of visiting AMB branch offices.
- Provide an appropriate e-mechanism for reviewing the data of the LG and having it approved by the recipient before the LG is issued with the aim of verifying the data such as the project's name and period, and the LG value.
- Utilizing this service to expand financial inclusion into rural areas.

AMB has issued nearly 222 E-Micro LGs. In the meantime, LGs issued for customers in rural areas accounted for 54% [of the total LGs]. These achievements are evidence of AMB's prompt and exceptional efforts towards promoting financial inclusion in society and keeping up with digital transformation in the banking business.

Numan Harash: found what he was looking for in E-Micro LGs.

A resident of Wisab Al-Ali District in Dhamar Governorate, Numan Harrash found himself perplexed and frustrated in the face of difficulties associated with securing an LG, which had always prevented him from practicing his career as a contractor for implementation of projects provided by donor organizations to his local area. His access to a preliminary guarantee worth USD 1,000 to be considered for competition for a tender required him to travel through rough roads for more than 200 km to reach Dhamar City, which also bears an estimated cost of USD 200 (to cover the expenses of travel and accommodation for several days in order to obtain an LG from a bank in Dhamar City. He was also required to provide a real-estate mortgage .

The E-Micro LG on AMB-run PYes App was what he was looking for. It enabled him to secure as many as 11 E-micro-LGs with no need to depart from his village. The LGs' values ranged from USD 100 to USD 1,250 at a cost not exceeding USD 5 per LG. That was possible for him to obtain after he opened an e-account on PYes and deposited the guaranteed money with an AMB agent based in Wisab As-Safil District. Consequently, today Numan has become an active contractor. He has implemented many projects, which appeared more feasible and profitable than they were before.



Micro-LGs' Impact on Clients

AMB has enabled low-profile suppliers, merchants, and service providers - who were unable to access LGs from commercial banks - to secure LGs commensurate with the nature and size of their enterprises/projects, with easy-to-meet requirements. It has also enabled them to expand the scope of their services by competing for different tenders, and in the meantime, increasing their capacity to make commercial deals with LGs concerning advance payments required by SME entrepreneurs to start service provision. This benefit was not previously accessible for them due to the requirements of service providers to either submit an LG for advance payment or postpone payment to an enterpriser pending completion of works. Consequently, they had to borrow from MFIs or banks and bear interest and guarantee fees, which reduces their profit from such deals, and makes them no longer feasible.

The following table illustrates the key elements of added value that various letters of guarantee have generated for customers.

Initial Letter of Guarantee (Bid Bond)	This enables SME owners/small-scale contractors to compete for contracts with local and international organizations.
Advance Payment Letter of Guarantee	This allows SME owners/small-scale contractors to receive advance payments from international organizations instead of relying on high-cost contract financing with unsuitable repayment schedules.
Performance Letter of Guarantee	This ensures that SME owners/small-scale contractors receive all their financial entitlements instead of having their final payments withheld as a guarantee for maintenance or proper execution.
Maintenance Letter of Guarantee	

Micro-LG's Impact on AMB:

- Growth of the saving portfolio through insurance money related to LGs. In addition, many customers sought to transfer their balances from other banks to AMB in order to have access to more benefits.
- Expanded scope of AMB's business by means of utilizing LG insurance money, of which accumulative value exceeds USD 9 million, as one of the sources of funding for the loan portfolio for the same group of customers.
- Enhance AMB's capacity to retain customers and provide diverse services in line with the level of

growth and development in the size and needs of customers' SMEs.

- Attraction of new customers from SME entrepreneurs, who had been previously reliant on other banks for issuance of LGs due to lack of easier and affordable options.
- Expanded geographic outreach covered by AMB's services through targeting rural areas with e-Micro LGs and contribution to financial inclusion in rural areas.
- Secured ongoing and renewable sources of cash liquidity.

Conclusion:

SMEs are known to have high resilience in coping with market changes and seizing the opportunities of change and developments in products and services they provide in line with new market changes. Therefore, the financial and non-financial needs of microfinance customers keep changing due to the ongoing change and development of their enterprises. This put AMB up to the responsibility of continuing with research and ongoing development of financial services provided to customers while being keen on maximizing the use of financial technology, which plays a great role in the provision of quickly implementable and affordable financial solutions, thereby overcoming geographic challenges posed to the reach of customers and increasing financial inclusion indicators.



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