

*The following case study features Silatech, who provides micro loans to young people in business through a partnership in Yemen with a microfinance bank.*

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## **SILATECH CASE STUDY: Silatech partners with Al-Amal Microfinance Bank in Yemen to give young entrepreneurs their first opportunity to access formal finance**

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Entrepreneur Fuad Al Suwari was able to establish his handicrafts production business with a loan from the Silatech Youth Loan Fund in Yemen

## Introduction

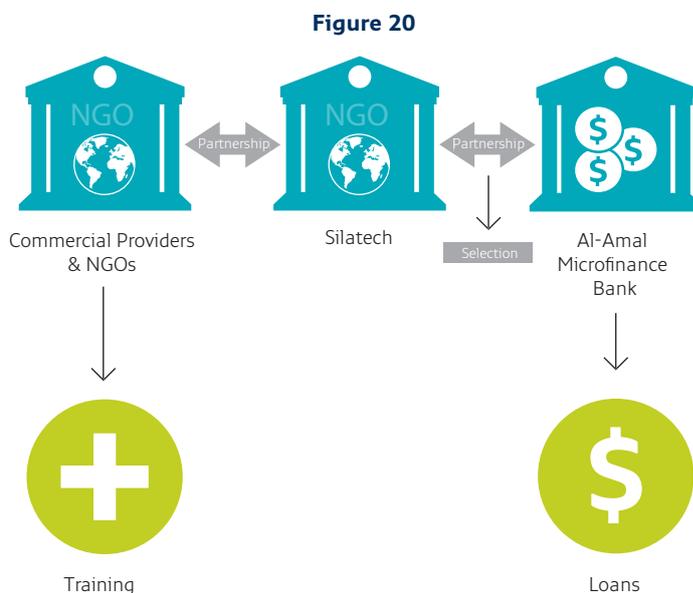
Although financial sectors tend to be large relative to GDP across the Middle East and North Africa (MENA), access to financial services remains relatively restricted, especially for young people. Yemen is one of the most economically challenged countries in the Arab world, with average annual incomes of USD 1,100 and unemployment levels over 20 per cent<sup>124</sup>. Just 10 per cent of the population have access to bank deposits<sup>125</sup>. Young people make up a third of the country's population and over 40 per cent are currently unemployed. They are being particularly excluded from formal financing by market bias against them, where older, more established clients are typically preferred over newer, younger ones<sup>126</sup>.

In response, Silatech established a strategic partnership with Al-Amal Microfinance Bank (AMB) in 2009 to launch a joint Youth Loan Fund to facilitate access to loan capital and non-financial support to young Yemenis aged between 18 and 30. The partnership has a specific objective to support young people through the transition from micro enterprise to small business, with a strong emphasis on long-term sustainability and job creation. For many of the young clients, these loans provide their first experience of formal finance.

The terms of the partnership are based on Silatech's microfinance team's experience providing sustainable entrepreneurship support for young people in other parts of the world. For AMB, the combination of financial and non-financial support services is crucial to successfully providing credit to a youth client base. As a result, the bank has been able to waive its usual requirement of a six month minimum business operating experience to accept applicants with no prior experience or track record. Since December 2009, over 9,700 youth owned business have received formal financing for the first time, creating or sustaining an estimated 15,000 youth jobs. Youth loan products now constitute the bank's fastest growing segment and over 40 per cent of its business.

## Structure of the access to finance partnership

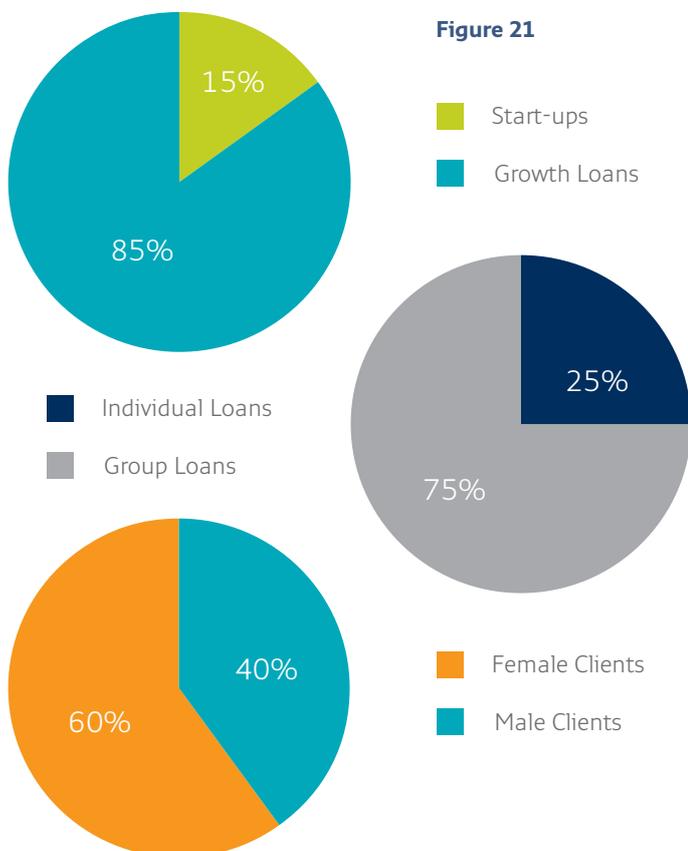
The diagram below captures the lending partnership between Silatech and Al-Amal Microfinance Bank in Yemen.



The Youth Loan Fund is the first of its kind in Yemen, and open to any young local person aged 18-30 who has been unable to access formal sources of finance to support their business needs. AMB is responsible for the screening and selection of applicants to the Fund, based on its existing client qualification standards. The same terms of interest and repayment rates as AMB's other loan products also apply. Typically loan terms are six to twenty-four months. Both start-up and business expansion loans are available between USD 50 and USD 1,000 per applicant, depending on their needs. Average loan sizes are around USD 250. Loans for start-ups are typically smaller.

For new businesses, group lending is available, and indeed preferred by AMB as an additional method to offset the risk of lending. The maximum group size is eight and the average size is five. The gender balance is overwhelmingly in favour of women. Start-ups represent around 15 per cent of the total portfolio of the Youth Fund, with a split between group loans and individual loans of 75/25. Young women make up 60 per cent of all clients and 75 per cent of start-up loan clients.

## Youth Loan Fund portfolio overview



A key factor in this partnership is the training and other non-financial services that the young entrepreneurs receive. Pre-finance training received by Fund applicants is considered an alternative form of guarantee. Young people who have received non-financial support from AMB validated training institutions are offered “priority access” to applying for loans from the Fund.

As a result, the bank has been able to waive its usual requirement of a six month minimum operating experience to accept applicants with no prior experience or track record.

In order to facilitate the establishment of the joint Youth Loan Fund, Silatech provided a seed investment in the form of a concessional loan, matched by AMB. Prior to launch, Silatech also provided technical assistance through a grant and in-kind support to test the market demand for formal financial services among the target youth demographic.

## Recognising the value of non-financial support

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The crux of the partnership between Silatech and Al-Amal Bank is the integrated approach to entrepreneurship support – providing access to credit linked to the receipt of pre- and post-loan non-financial support. Silatech and AMB have brokered a broad range of agreements with educational and training institutions, non-governmental organisations (NGOs) and civil society organisations (CSOs) that support self-employment opportunities for youth and private training providers that provide post financing business development services.

Providers are validated by AMB through reviewing and testing their curriculum to determine relevance to client needs and through in-person meetings with management and training teams to assess factors such as delivery capacity and professionalism. A formal agreement is signed between AMB and approved providers.

Pre-finance training starts with preparing young people for self-employment. Entrepreneurship education is delivered by partners either as part of the core curriculum (schools, technical colleges and universities) or as stand-alone programmes (in the case of NGOs and CSOs).

Pre-finance training also includes business training and incubation services as well as support to develop a business plan. In 2011 the pre-finance support on offer is being extended to include financial literacy training and mentorship support, both pre- and post-financing, through local and regional voluntary mentoring platforms.

Successful young clients are eligible for ongoing business development services after they receive financing to help them sustain and grow their business. The training is delivered in two tracks: managerial, covering

the general aspects of growing a successful business; and technical, focusing on sector-specific needs. Silatech and partners arrange this training through commercial providers at a subsidised rate, although the young business owners are expected to pay a reasonable fee. The courses range from a one-off one-day session, to a few hours weekly over a period of one to one-and-a-half years, to daily night classes for two to three weeks.

Silatech has begun an evaluation of these post-finance business development services using indicators including client revenues, repayment rates, uptake of additional financial services and employment creation.

Since December 2009, over **9,700 youth-owned businesses** have received formal financing for the first time, creating or sustaining **an estimated 15,000 youth jobs**. Youth loan products now constitute the bank's fastest growing market segment and over 40 per cent of its business.

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AMB now openly recognises that young people were an under-served segment of the (micro-)finance market in Yemen and one that continues to offer significant opportunities for growth.



*"Before Silatech, we at AMB did not fully appreciate the opportunity of investing in youth. By working with Silatech to change our lending policies to intentionally focus on youth we have seen significant positive impacts,"*

*Mohammed Al-La'i, AMB CEO<sup>127</sup>.*



Moreover, there has been a measurable shift in the bank's perceptions of lending to young entrepreneurs:



*"the youth we loan to have proven to be excellent, reliable clients, something which has changed perceptions amongst our staff and the wider community about the responsibility and maturity of young people in Yemen<sup>128</sup>."*

*Mohammed Al-La'i, AMB CEO .*



Recognising the strong performance of the partnership and the significant market demand, Silatech and AMB have now mobilised close to USD 5 million for this Fund through their own and other investments, and have committed to extend financial and non-financial support to an additional 50,000 young business owners by 2013. It is estimated that these loans will create or sustain around 75,000 youth jobs over the same period.

Silatech and AMB are working closely to build on the success of the partnership, through the development of new youth-focused products and services as well as marketing and outreach solutions using regional and global partnerships and innovative technologies. One new product set to launch in 2011 is a Youth Savings Scheme, which will provide young people and their families with a safe place to deposit their savings and accumulate assets over time.

Silatech works with over ten microfinance organisations in five Middle East and North African (MENA) countries to develop initiatives that increase youth access to financial services. Silatech has the objective of supporting 150,000 young people across the MENA region access sustainable financial services by 2013.

124. [http://www.silatech.com/index.php?option=com\\_content&view=article&id=102&Itemid=34](http://www.silatech.com/index.php?option=com_content&view=article&id=102&Itemid=34)

125. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/EXTMNAREGTOPPOVRED/0,,contentMDK:22746249~pagePK:34004173~piPK:34003707~theSitePK:497110,00.html>

126. [http://www.silatech.com/index.php?option=com\\_content&view=article&id=180&Itemid=143](http://www.silatech.com/index.php?option=com_content&view=article&id=180&Itemid=143)

127. [http://www.silatech.com/index.php?option=com\\_content&view=article&id=158:youth-microfinance-initiative&catid=33:yemen&Itemid=84](http://www.silatech.com/index.php?option=com_content&view=article&id=158:youth-microfinance-initiative&catid=33:yemen&Itemid=84)

128. Ibid