

Building Resilience Through Digital Financial Services

Middle East COVID-19
Digital Finance Market Impact Series

Yemen

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

As the conflict in **Yemen** continues, it is considered the world's worst humanitarian disaster. About 70% of Yemen's economy is informal, and most Yemenis rely on remittances and aid inflows to fund consumption. Agriculture dominates the real economy but suffers from extreme volatility owing to bouts of flooding and swarms of plant pests¹. Due to the low coverage of telecommunication and internet services, banks and microfinance institutions (MFIs) focus on providing financial services to urban areas, leading to a financial inclusion index of less than 8% while rural areas are home to 70% of the population. The growing number of mobile phone subscribers currently at **17.82 subscribers and the upward trend in mobile-enabled connections provide positive basis for the expansion of DFS.**



YEMEN: KEY COUNTRY STATISTICS



29.5 million

Population

39.22% total population are aged 0 to 14 years

Expected to surpass this amount by more than 4 million by 2022



645.13 USD

GDP per capita, in 2020



10%

Average inflation rate
from 1995 to 2005.

In 2019, inflation rate amounted to 10% compared to previous year.



12.83%

Unemployment rate

According to ILO in 2020, the estimated youth unemployment rate in Yemen was at 23.94%

IMPACT OF THE COVID-19 PANDEMIC

All the key governmental and private financial sector players responded to the pandemic with supportive measures in their jurisdictions.

Table 1: Central banks, Banks and MFIs

Institution	Covid-19 Response	Implication	Products and Services	Geographic Presence
Central Bank of Yemen	Central Bank closed 30 private exchange firms for violating currency speculation rules	Curb currency speculation and money laundering	Informal remittance system between local exchange firms known as Hawala , and replaced it with a formal electronic network under its supervision	Aden and Sanaa
	Devaluation of the currency	Make basic commodities available for the citizens. Increases the purchasing power of the citizens during the civil war and COVID 19	Regulatory	Aden
Yemeni Al Amal Microfinance Bank's	Al Amal launched its electronic money service PYes (meaning money in the colloquial Yemeni dialect)	Digital transformation to address issues of liquidity and access through the development of its mobile- enabled banking services	PYes is accessible through 3,300 access points spread throughout the governorates of Yemen to cover all rural and urban areas	Both urban and rural areas
Al Kuraimi Islamic Bank (KIB)	Adoption of digital finance services	Reduction of high risks and costs of providing financing to small and micro enterprises	Financial products to small and medium enterprises	Enable services to rural clients

Source: [The Arab Financial Inclusion Innovation Prize \(AFIIP\) 2020](#)

Table 2: MNOs, Internet Service Providers (ISPs) and telecommunication companies

Institution	Covid-19 Response	Products and Services	Implication
Aden Net (ISP)	Upgrade of a COVID-19 hotline in Sana'a and the establishment of a new hotline in Aden	Internet access through fiber optic to businesses and the government 4G wireless internet to individuals	Supported business continuity especially for DFS player, and allowed national staff to continue working from home
Tele Yemen	Moved Tele Yemen's headquarters from Sana'a into Aden	Emergency communications services	Provide alerts on the outbreak
Public Telecommunication Corporation	Internet access was disabled for around a month	Civil unrest disrupted offering of the service	Limited access to banks, enterprise and money exchange outlets
Yemen Mobile	No specific measure for the Covid response	Civil unrest disrupted offering of the service	Limited access to banks, enterprise and money exchange outlets
Sabafon	No specific measure for the Covid response	Civil unrest disrupted offering of the service	Limited access to banks, enterprise and money exchange outlets
MTN Yemen	Awareness creation	Information on Covid 19	Information about the 5G network and Covid 19
Y Telecom	No specific measure for the Covid response	Civil unrest disrupted offering of the service	Limited access to banks, enterprise and money exchange outlets
Emergency Telecommunication cluster	No specific measure for the Covid response	Civil unrest disrupted offering of the service	Limited access to banks, enterprise and money exchange outlets
DARE Submarine Cable Consortium	No specific measure for the Covid response	Civil unrest disrupted offering of the service	Limited access to banks, enterprise and money exchange outlets

Source: [BusinessWire \(2020\)](#), [Smex \(2020\)](#)

DFS MARKET OVERVIEW

Compared to its regional peers in the MENA region, Yemen is lagging behind in financial inclusion. There are 17 local and international banks with 328 branches in the country, alongside 12 MFIs with 106 branches.

The mobile market is mostly prepaid (88%) and internet broadband access represent 17% of mobile connections for a subscriber base of 17.82 million people which represents a 60% penetration rate amongst the population.

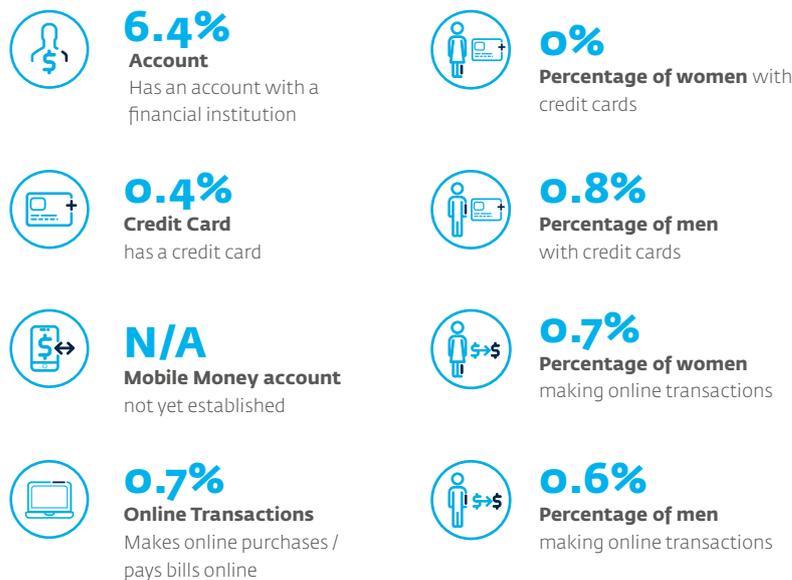
Digital adoption is growing

- There are 7.9 million (25% penetration) internet users. Of those, 2.5 million (8.5% penetration) are active on social media.
- Over the period from Jan 2019 to Jan 2020, there was a growth of 2.3% in the use of digital technology. Over 664,000 people made together an increased 420,000 mobile connections, while the number of internet users grew by 177,000.

The market is responding positively to innovation

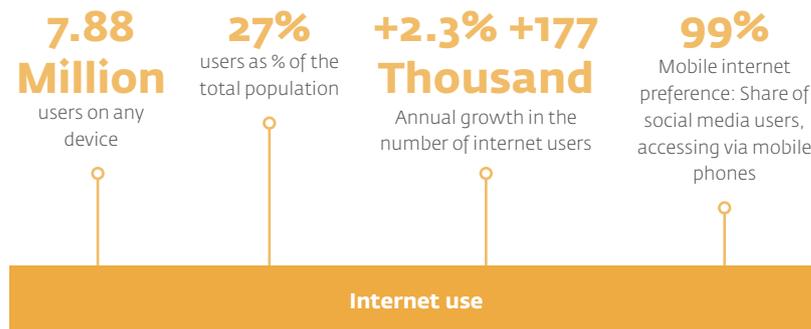
- The increased adoption of mobile devices has resulted in high digital usage in the market
- Major players in the market are making costly investment in RegTech to comply with regulations
- Online purchase and e-payments, especially mobile-enabled payments and POS, have experienced a boom due to increase in e-commerce activities especially amongst the younger population

Figure 1: Key financial inclusion indicators



Source: [Datareportal](#)

Internet use overview



Source: [Datareportal](#)

EVENTS SHAPING DFS IN YEMEN

While Yemen possesses the essential infrastructure required to drive the development of DFS, more dedicated action is required to strengthen products and services offerings, foster innovation and drive specific user categories.

Robo-Advising

Usage of multiple AI's for identifying investment opportunity and advising the same to the user.

Consumer Banking

Banking applications that will help the individual to manage their banking assets and account are another area of DFS.

- Consumer banking types:
- Mobile banking
 - Digital Banking



Payment Gateways

Merchant Service that will be provided by multiple electronic commerce providers that help the customer to authorize the payment.

Mobile Payment

Financial Services that will be performed from Mobile Devices
Key Mobile Services:

- Presenting barcode
- Using NFC
- QR Code scan
- Peer-to-Peer payment

Budgeting Applications

Application that will be used to track the spending and income of an individual are known as budgeting applications.

Source: [Razzaque A, et al \(2020\)](#)

Key Innovation DFS Trends

	Digitization of Value Chains (especially agriculture)
	Regtech for industry compliance
	Digital cash & interoperability
	Block Chain technology
	Electronic KYC

DFS User categories

	B2B in banks and financial institutions
	Direct use by the consumer
	Business clients of financial institutions
	B2C for small business

Source: Auer, R.; Cornelly, G.; and Frost, J. (2020), World Bank (2021), Agur, I.; Martinez Peria, S. and Celine Rochon, C. (2020)

GAPS AND CHALLENGES²

Yemen's banking sector faces many challenges stemming from the country's ongoing economic collapse and the warring parties' competition for financial control. The most notable areas of concerns are:

- Division of the central bank between Sana'a and Aden
- Fierce competition between these two branches over the administration and regulation of the country's commercial and Islamic banks
- Prolonged liquidity crisis, the deteriorating local currency exchange rate
- Loss of revenue from freezes on assets and public debt repayments
- Obstacles to moving money within Yemen and internationally
- General deterioration in private sector confidence in the banking sector that has spurred the migration of the financial cycle from the formal economy to informal markets and networks.

In addition, there is low physical engagement of customer with companies which can increase the level of customer attrition. The high risk of cybercrime due to the majority of transactions taking place online has exposed customer to online fraud and sensitive data leak

In this context, there are a number of immediate actions that can be taken to create an enabling environment for the development of DFS. For example, there is a need to:

- Reunify the administration of the Central Bank of Yemen.
- Reactivate Yemen's anti-money laundering and counterterrorism financing mechanisms.
- Release Yemeni bank balances frozen in central bank accounts through re-activating the central bank's payment clearing house functions.
- Facilitate the secure transfers of cash holdings of foreign and domestic reserves.
- Ease import financing requirements to allow banks to utilize their frozen non-cash balances.
- Establish a cash clearing system to swap cash payments between banks, money exchange networks and businesses.
- Restart partial servicing on the accrued interest of outstanding public debt.
- Replace damaged banknotes.

Source

2 <https://sanaacenter.org/publications/analysis/7049>

OPPORTUNITIES FOR MARKET GROWTH

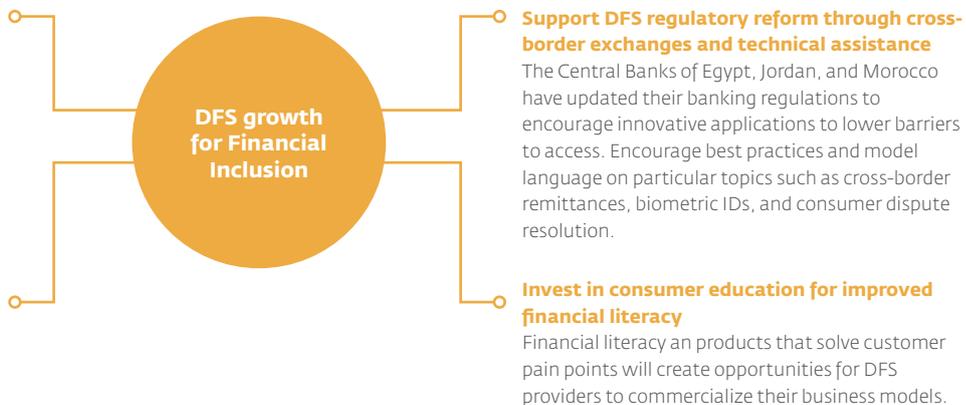
DFS growth opportunities exist by focusing on improving the regulatory environment, increasing efforts to reach specific user groups such as women and the most vulnerable members of the population, and by investing in consumer education and financial literacy.

Close the gender gap

Identify, broker, and nurture the DFS partners who commit to co-designing services specifically designed to meet the needs of women. Country-specific research can identify gaps and solutions such as bundling DFS with other high-demand products to increase account ownership.

Engage with DFS initiatives to enhance targeting of the most vulnerable

Partner with stakeholders including NGOs and government agencies to introduce products that meet the needs of the poorest.



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