

Challenges and Difficulties of Microfinance Industry in Yemen

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ABSTRACT

This study aims to identify the challenges and difficulties faced of the Microfinance (MF) industry in Yemen, which is mainly based on the secondary data collected from the records of the Social Fund for Development, Yemen Microfinance Network, Al-Amal Microfinance Bank MFIs websites and other related sources. Our study covered the period from 2011 to 2018. The result of the study reported that there are several factors facing MFIs in Yemen such as Under Developed Infrastructure, lack of services, Clients Incapacity, Improper management, Through innovation and experimentation, Yemen can develop its own sustainable microfinance model that takes into account the difficult local characteristics of Yemen.

Keywords: Microfinance, Microfinance Institutions (MFIs), Challenges, Difficulties, Yemen.

INTRODUCTION:

Yemen is an Arab country, located between Saudi Arabia and Oman, and is one of the least developing countries according to the United Nations, and it has the poorest economy in the Arab World. Due to economic and political issues, the World Bank supported Yemen in 1995 for economic reform programs, but there was no remarkable development in the economy during the last two decades.

Yemen has one of the highest population growth rates globally, with the population expected to double in 23 years to around 40 million. This increases the demand for education and health services, the under-15 age group represents 46.3% of the population creating huge demands for education and health services, access to clean drinking water and job opportunities (UNDP 2018). Yemen's GDP is estimated to have contracted by about 50% since 2014. The agriculture and fishery sectors, which employed more than 54% of the rural workforce have been severely constrained by a shortage of agricultural inputs such as feed and other essential commodities (word bank 2018). The violent conflict in Yemen has caused a dramatic deterioration of the economic and social conditions in the country. Output has contracted sharply. FAO estimates that over 7 million people are at risk of famine in 2017, and cholera outbreaks are ravaging the country with nearly 450,000 suspected cases have resulted in nearly 2,000 deaths per end of August (word bank 2017). The ongoing conflict in Yemen has caused a catastrophic humanitarian crisis. As of March 2017, an estimated 17 million Yemenis (about 60 percent of the total population) are estimated food insecure and a further 7 million severely food insecure. Rather, poverty is projected to remain high at approximately 75% in 2018 and 73% in 2019. Given the bleak outlook in Yemen, massive foreign assistance would continue to be required for recovery and reconstruction in a post-conflict period (word bank 2017). In an attempt to mitigate poverty and unemployment in the country, among other development efforts, the Yemeni Government has focused more on the development of the microfinance industry in Yemen on seeing the popularity of microfinance vastly used as a possible tool for poverty cure in many underdeveloped and developing countries. However, despite the lack of exposure internally in this sector, the Yemeni government's desire to benefit from the MF in the challenge of extreme poverty and unemployment. Until recently Microfinance is still new and it has not yet accomplished the stabilization and full growth. This is due particularly to the continuous rise in poverty and unemployment in the country and also to the shortage in the local governmental and international resources that may support this kind of projects. This clearly indicates a need

for studying various challenges that face in the process of development of the Microfinance industry in Yemen. Thus, the main purpose of the research is to identify the challenges that face this type of microfinance and workout on some strategies for effective utilization towards poverty alleviation and unemployment in the future.

LITERATURE REVIEW:

Alshebami, A. S., & Khandare, D. M. (2014). Here the author aims to identify the challenges and the opportunities facing Microfinance in Yemen based on used secondary data which covered the period from 1997 to 2013. The result of the study reported that there are multiple factors affecting the development of microfinance in Yemen.

AboHulaika, E. H., & Laturkar, V. N. (2016). This paper aims to identify the challenges and opportunities of Microfinance in Yemen based on used secondary data which covered the period from 1997 to 2015. The result of the study showed that there are several factors affecting the development of microfinance in Yemen.

AboHulaika, E. H., & Laturkar, V. N. (2016). The study aimed to identify the impact of 2011 events on the performance of Microfinance Institutions in Yemen based on used secondary data which covered the period from 2011 to 2015. The result of the study showed that there are several factors affecting the development of microfinance in Yemen.

Alshebami, A. S., & Khandare, D. M. (2015). The purpose of the study is to theoretically review the Islamic microfinance industry in Yemen and to identify the challenges and opportunities for this industry based on used secondary data which covered the period from 2011 to 2013. The study revealed that there is a promising demand for Islamic microfinance and at the same time there are some challenges facing its growth and development.

Alnawah, M. A. Q. A., Huimin, M., Alhaj, Y. A., & Towhid, A. S. M. 2018. Credit risk is one of the problems that banks are faced while doing their tasks. There is high competition among the financial institutions in Yemen, leading to the default of most finances. This study used historical data on payments demographic characteristics and a binary logistic regression model we undertake to examine the factors that affect default among the borrowers to calculate the probability of default. The results showed that the borrowers of large amounts default over the borrowers of small amounts.

Alshebami, A. S., & Rengarajan, V. (2017). Here the author examines different types of barriers limiting the growth and development of microfinance institutions operating in Yemen. This study is descriptive and analytical in nature. The data collected through both primary and secondary sources but not covered all MFIs. This study emphasized that there are several challenges which prevent the MFIs from progressing and fulfil their mission in terms of outreach to poor people.

Dr. Eissa Hasan AboHulaika (2017). This empirical study seeks to identify the Problems of Islamic Microfinance Institutions in Yemen. Also, it aims at identifying the prospects of Islamic Microfinance Institutions in Yemen. This study based on primary and secondary data. The result showed that Islamic Microfinance Institutions in Yemen facing major problems.

Dahir, A. M. (2015). Her the author seeks to introduce practical evidence about challenges facing microfinance institutions in poverty eradication and to examine what role microfinance institutions can play in the alleviate of poverty in Mogadishu. The study used primary and secondary data. The results showed that microfinance institutions have a positive impact on the alleviation of poverty among poor people.

Acha Ikechukwu, A. (2012). This study theoretically examines the challenges these banks have had to grapple with from their inception. Furthermore, it scans the business environment to assess the prospects of microfinance banks in Nigeria. The result shows that microfinance banking in Nigeria faces enormous challenges in infrastructural inadequacies, social misconception, poor legal and regulatory framework. This paper, therefore, concludes that the future of microfinance banking in Nigeria is bright.

History of Microfinance in Yemen:

Microfinance industry established in Yemen in 1997 by the Social Fund for Development which tried out 5 microfinance programs in rural areas. The first program was in Al-Hodeida city which started its operations in January 1998. These programs were a successful example for a while, but later on, they collapsed due to the activity that concentrates on one business such as; cattle breeding and agricultural inputs for crops. This reason and others limited the diversity of products and services available in rural areas, which closed down some of them or sell them to other Microfinance Institutions. A new phase began in 2000 by establishing strong urban programs with the idea that they could branch out into rural areas. The main program was Alif program which started with three main branches in Taiz, Ibb and Dhamar and was modelled after ASA's group lending and saving methodology (Yemen microfinance network).

The quick growth of the microfinance industry in Yemen made it necessary to find a legal and institutional recipe for MFIs. The first movement started in 2002, when one of the programs transformed into the National

Microfinance Foundation (NMF) through forming a board of trustees for it. The second transformation took place in 2004, when Taiz Microstart changed to Al-awael Microfinance Company. In the third transformation three Programs in Aden transformed into Aden Microfinance Foundation.

In 2006, the first private bank called Al-Tadhamon International Islamic Bank opened a window for serving SMEs followed by the establishment of Al-Amal Microfinance Bank in 2008 and then the government of Yemen officially established the Microfinance Law in 2009.

In 2010 Al-Kuraimi Islamic bank was registered under the central bank that provides microfinance services. Due to the continuous expansion in the sector, the government was encouraged to establish a separate and independent business development service agency for microfinance clients (SMEPS) in 2005 for the purpose of promoting microfinance products and services. In addition to that, the Yemen Microfinance Network was established to provide technical support and training to Microfinance Institutions (SFD, 2011 & YMN, 2013). The table (1) shows the microfinance institutions operations during 2017.

METHODOLOGY:

Questions of the study:

- ❖ What are the major challenges and difficulties facing Microfinance institutions in Yemen?
- ❖ What are the impacts of 2015 to 2017 crisis on the performance of microfinance institutions in Yemen?
- ❖ What are the remedies and solutions to overcome these problems and difficulties?

Objectives of the study:

The objectives of the study can be illustrated in the following points:

- To present a general profile of microfinance institutions in Yemen.
- To identify the impact of 2015 to 2017 crisis on the performance of microfinance institutions in Yemen.
- To identify the major challenges and difficulties facing microfinance institutions in Yemen.
- To recommend based on the findings the most appropriate solutions to overcome these problems and difficulties facing microfinance institutions in Yemen in order to enhance their role in the economic development of the country.

Importance of the study:

- The study provides a brief new literature to concerned parties in Microfinance.
- This study extends valuable suggestions & recommendations to policymakers.
- The study shall report the challenges and difficulties facing the Microfinance Industry for awaiting that make it easier for the Yemeni government to take action toward further improvement in the industry towards addressing poverty and unemployment problem.

Data collection:

The study is based on the secondary data collected from various records such as the Social Fund For Development, Consultative Group to Assist the Poor, World Bank, UNDP, Yemen Microfinance Network, the Small and Micro enterprises Development Unit, Al-Amal Microfinance Bank, the government of Yemen, articles and other official sources. The study takes place in Yemen and covers the period 2011 - 2018.

Impacts of 2015 to 2017 Crises on the Microfinance Sector of Yemen:

Before this remarkable deterioration in the situation in Yemen, the general feeling was that people had become flexible to the instability environment in Yemen over the past decade. However, there was nothing to prepare Yemenis for what would yet come. Yemen has plunged again in a deep crisis that started on September 19, 2014, when the capital was finally taken over by armed insurgents, after months of fighting in the extreme north of Yemen gradually plunging Yemen in a civil war. Furthermore, the situation has been internationalized by the armed intervention of the Arab Coalition. The war has resulted in the military besiege of Yemen by ground, air, and sea, plunging the country in a renewed economic and security crisis, even deeper than the one witnessed in 2011. The war that has officially started in March 26th 2015, and the resulting disruption of public services (such as electricity and transportation), as well as food and fuel shortages and damages to the infrastructure, have altogether reflected themselves in a very negative way on the performance of all MFIs to a much greater scale than in 2011. since roughly the end of March 2015 MFIs has almost stopped lending, especially in war areas, such as Aden, Lahj, Taiz, Dhale, and Abyan, with Sana'a completing the list, as the military bases and arms depots it encompasses have been subjected to heavy bombings. Even in relatively calm cities and areas

(for instance, Hadhramout, Tihama, Ibb, AlMahweet, and Hajja), the head offices and the main branches of some MFIs suffered damage to property due to conflict.

During the crisis has increased the lean risk ratio to an unprecedented level in MFIs, represented a real challenge and difficulties to the capacity of MFIs security protection and also faced an unprecedented liquidity crunch and salary reductions and stop among employed borrowers, and all the rest which led the borrowers increasingly difficult to pay their monthly instalments that have led MFIs to drastically reduce lending to a trickle even the loans given under the guarantee of salaries that were classified as relatively safe which adopted by the MFIS significantly during the crisis period has become riskier. Actually, most MFIs have temporarily stopped lending.

Since of war, the microfinance sector indicators have largely declined as a result of client's activities or sources of income and displacement of many clients to other areas. Let alone the high risk of continued lending in an unstable security environment.

Compared to December 2014, i.e, the pre-war period the number of active clients has decreased by the end of 2015, 2016 and 2017 respectively when compared to 2014. The active portfolio volume has declined when compared to 2014 which showed in the down table. The portfolio at risk increased to 48% in 2015, 2016 compared to 4% in 2014 while the sector has endured larger suffering as a result of shrinking debt collection rates and diminishing revenues. Consequently, many MFIs had to reduce their activities and lay off many of their employees which shows in the table (2).

Challenges and difficulties Facing Microfinance industry In Yemen:

The microfinance trade is facing several challenges and difficulties in the Republic of Yemen that affects the performance of microfinance establishments. These challenges and difficulties include:

- ❖ Inadequate support from international supporters and donor organizations.
- ❖ Inflation :
 - ◆ Reported showed that the costs of food increased up to 76% in some governorates. And the average national value for oil derivatives (Diesel & Petrol) has reached over 400%
 - ◆ The local currency collapse and sharply diminish in value over the period which causes in a severe liquidity crisis.
- ❖ Limited management capacity of microfinance institutions to deal with the crisis.
- ❖ Lack of trust within the native currency (Yemeni Rial), and deficiency US dollar and different foreign currencies within the market.
- ❖ Due to conflict the infrastructure got damage that leads to weak the performance of microfinance institutions.
- ❖ The Central Bank has delayed fund disbursement to the SFD, the latter has agreements with many MFIs.
- ❖ Lack of standardization reporting and performance control system to microfinance industries.
- ❖ Lack of repayment from the borrowers due to the crisis and weak follow-up activities of MFIs towards their clients.
- ❖ The microfinance institutions have stopped operations in some areas due to conflict.
- ❖ MFIs faced difficulties in reaching their clients in the field in many provinces.
- ❖ The Political instability and absence of security have limited the performance of microfinance institutions.
- ❖ Lack of electricity and oil derivatives within the market that caused to a reduction within the usual operating hours and difficulties to find transportation that successively affected staff attendance.
- ❖ The absence of positive expectations in the foreseeable future, leading to the collapse of several attempts at negotiation and peaceful resolution of the conflict situation.

FINDINGS:

However, in spite of considerable progress, microfinance in Yemen still small scale, especially through the low level of performance, follow-up activities towards their clients. During the war Most MFIs have not increased their initial loan size which not keeping pace with inflation and Currency Degradation, the diminishing value of the loan is ever more acutely felt in the current case of rising prices of food and oil derivatives. Moreover, the weak capacity of the management to deal with its clients in light of the current crisis, which led to a weak performance in the market, and faced difficulties in reaching their clients. Since of war, the microfinance industry faced risk of repayment in an unstable security environment when compared to last years which led to decrease loan to the clients even the loans given under the guarantee of salaries that were classified as relatively safe which adopted by the MFIS significantly during the crisis period has become riskier that led to decrease the number of active clients and active portfolio volume during years of conflict.

Microfinance sector was influenced by the military conflict as many clients fled their places of residence, and

many projects of other clients were influenced by the severe shortage of basic services, the withdrawal of many clients from the labor market, and the individuals spent out their savings to meet their consumption needs and Inadequate support from international supporters and donor organizations. Moreover, many institutions stopped providing new loans due to conflict, given the high risk, while other institutions were robbed or had their branch offices destroyed. MFIs have suffered big losses due to the increased operational costs and the considerable decline in the number of savers.

RECOMMENDATIONS:

In spite of the positive results detected by the Social Fund for Development and Yemen Microfinance Network regarding the Microfinance industry in Yemen and its vital role on the development of the society in terms of poverty alleviation & unemployment however the percentage of growth is remain very slow as comparable to other Arabic countries such as Egypt, Sudan, etc. The Social Fund for Development 2017 annual report stated that the number of borrowers till December 2017 has reached 85,259 active clients both of women and men, however, this number still small if compared to 25 million which is the total population of Yemen, It was revealed from the previous studies and other international Organization reports that there are real potential opportunities capable in overcoming of challenges and difficulties which also help to growth, development and expansion of services of Microfinance industry in Yemen. These opportunities can be summarized as follows:

1. Provide strategic technical support to partner MFIs in Yemen. As the industry's lead financier and implementing agency for the joint SFD/UNDP Yemen Microfinance Network Project for Yemen, the SFD will going on to play the critical role in the ongoing capacity building among MFIs guarantee that appropriate training opportunities are available through the Network and local training institutes on key operational and managerial issues.
2. To establish a database for all international donor organizations on the effects of war and its implications and the necessary needs to mitigate their effects in order to facilitate the use of this information by these organizations in order to identify areas of intervention.
3. The government should raise awareness about microfinance by promoting the concept of financial literacy and increasing the capital of microfinance.
4. The government should expand and create new companies with international donor organizations as an important source of foreign exchange.
5. Establish an effective partnership between government and private financial organizations for the aim of increase the activities and capital of the microfinance sector.
6. Promoting the institutional capacity building and development in MFIs.
7. The necessity to insert the concept of Self Help Group in Yemen which is practiced in India as it enhance the unity among members and reduces the cost of obtaining loans from MFIs.
8. Expanding branches of MFIs to facilitate access to clients and Spreading awareness about microfinance.
9. The adjustment of credit policies, the discontinuation of certain financing operations, the increase of other financing procedures and the modification of cash and funds in branches on a daily basis.
10. The government in cooperation with some donors must work on a guarantee system to support the poor people who cannot provide any collateral for their loans which help to alleviate of suffering.

CONCLUSION:

However, in spite of considerable progress, microfinance in Yemen still small scale, especially through the low level of performance, Most MFIs have not increased their initial loan size which not keeping pace with inflation and Currency Degradation, the diminishing value of the loan is ever more acutely felt in the current case of rising prices of food and oil derivatives. Moreover, the violent led to weak follow-up activities of MFIs towards their clients and the risk of repayment in an unstable security environment when compared to last years.

Microfinance sector was impacted by the military violent as many clients fled their places of residence, and many projects of other clients were influenced by the severe shortage of basic services, the withdrawal of many clients from the labor market, and the individuals spent out their savings to meet their consumption needs. In addition, several institutions have stopped providing new loans, given the high risks, while other institutions were looted and destroyed their branch offices. MFIs suffered significant losses due to increased operating costs and a significant reduction in the number of savers.

In the face of many challenges, microfinance may continue to grow to serve more people. Through innovation and experimentation, Yemen can develop its own sustainable microfinance model that takes into account the

difficult local characteristics of Yemen. In order to achieve further progress, a strong commitment is required from government, donors, intermediaries and clients alike.

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Table 1: Microfinance Institutions Profile Source

MF Category	Institution	Est.	Branches	Active number of clients			Outstand- ing loan portfolio Million YR
				Borrowers		Savers	
				Total	Women (%)		
Banks	Al-Amal Microfinance Bank	2002, actual operation 2009	15	34,098	38	127,940	2,285
	Al-kuraimi Islamic Microfinance Bank	2010	62	3,378	6	574,374	1,410
	Tadhamon Bank	2006	14	2,696	31	0	616
	Total of banks		91	40,172		702,314	4,311
Foundations	National MF Foundation	2003	18	12,799	38	26,137	889

MF Category	Institution	Est.	Branches	Active number of clients			Outstanding loan portfolio Million YR
				Borrowers		Savers	
				Total	Women (%)		
	Aden MF Foundation	2005	7	10,444	67	7,703	701
	Total		25	23,243		33,840	1590
programs	Hadhramaut Microfinance Program	2000	5	6,773	30	4,972	741
	MF Development Program (Nama')	2000	9	6,225	38	238	439
	Azal Microfinance Program	2001	5	3,629	53	5,023	285
	Aletehad Microfinance Program	2002	6	3,671	78	0	341
	Total # of Programs		25	20,298		10,233	1,806
Companies	Al-Awa'el MF Company	2000	5	1,546	79	0	93
	Total		146	85,259		746,387	7,800

Social Fund for Development, 2017

Table 2: Main figures from the MFIs in 2015 compared to 2014, 2016, 2017.

	2014	2015	2016	2017
Active Borrowers	120,839	93,118	89,514	85,259
Outstanding Portfolio (YR (millions))	12,226	6,741	6,853	7,799
Portfolio at Risk	4 %	48%	48%	46%
Active Savers	622,114	509,590	603,012	746,387
Employees	1,224	1,004	904	851

Source: Annual report Al - AMal microfinance bank 2017.
