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## Outreach of Microfinance Institutions in Yemen – A vital Part of Yemen Financial System

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### *Abstract*

This paper aims to evaluate microfinance institutions in Yemen in terms of growth in the number of active clients, microfinance loan portfolio and depth of outreach. The study found that microfinance institutions in Yemen have less outreach in terms of growth in the number of microfinance active clients, microfinance loan portfolio. However, the study found that microfinance institutions have good outreach scope in terms of depth of outreach. The study suggested that MFIs could also able to maintain the growth of outreach by attaining institutional sustainability by bringing down the administrative/operational costs to a lower level. It is also suggested that micro finance institutions should make an Integration of various microfinance products

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## **1.1 Introduction**

According to (Kasim & Jayasooria, 2001)<sup>1</sup> microfinance is defined as a process of lending small amounts of money to MSEs or poor people with no access to conventional financing services to enable them start or invest their own enterprises and thus improve their income and eventually reduce poverty and have better future instead. (Armendariz & Labie, 2011)<sup>2</sup> mentioned that microfinance concept emerged in 1970s in the form of microcredit provision, but then and namely in the last decade many of microfinance institutions (MFIs) began expanding their financial services like saving, money transfer, and insurance, technical and training support for MSEs as well as the poor.

Microfinance industry started in Yemen in 1997 by the Social Fund for Development. Performance concept relating to micro finance institutions is an important to donors, investors, Micro Finance Institutions (MFIs), Non- Governmental Organizations (NGOs) and policy makers. This study is very significant as it is the first study in the country to evaluate MFIs in terms of outreach with regard to growth in microfinance active clients, growth in microfinance loan portfolio and depth of outreach.

### **Outreach:**

Outreach at a glance means the number of clients served. The term outreach indicates the extent of reach of MFIs to their clients. Outreach is typically used to refer to the effort by MFOs to extend loans and financial services to an ever-wider audience and especially toward the poorest of the poor (depth of outreach) (Conning, 1999)<sup>3</sup>. Thus, reaching the poorest is depth of outreach, but reaching large number of people even if they are relatively less poor is breadth of outreach.

The term outreach is defined as an assessment of the number of under-privileged customers served by MFIs. Thus, reaching the poorest is depth of outreach, but reaching large number of people even if they are relatively less poor is breadth of outreach (Schreiner, 2002).<sup>4</sup>

(Hermes, Lensik, & Meestres, 2011)<sup>5</sup> express similar views. They contend outreach is to provide credit to the poor who have no access to commercial banks, in order to reduce poverty and to help them with setting up their own income generating businesses. In this study is analyzed from three indicators such as growth in the number of active micro finance clients, growth in micro finance loan portfolio and depth of outreach.

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<sup>1</sup> (Kasim & Jayasooria, 2001)

<sup>2</sup> (Armendariz & Labie, 2011)

<sup>3</sup> (Conning, 1999)

<sup>4</sup> (Schreiner, 2002)

<sup>5</sup> (Hermes, Lensik, & Meestres, 2011)

### **Outreach Indicators:**

These indicators show the extent of reach of the MFI. They take into account the growth in the number of the active clients, the expansion of the microfinance portfolio, and the depth of outreach.

A) Growth in Number of Active MF Clients

B) Growth in Microfinance Loan Portfolio

C) Depth of Outreach

### **1.2 Review of literature**

**Kaur, Ravinder**<sup>6</sup> “Outreach of Microfinance in India” The main objective of the paper is to study the outreach and trends of Microfinance Industry in India. The microfinance industry is growing at a fast pace and can be understood as a supplement to poverty alleviation programmers in India.

**Lafourcade, A., Isern, J., Mwangi, P., and Brown, .M(2005)**<sup>7</sup>, Overview of the Outreach and financial Performance of Microfinance Institutions in Africa”, the study stated that MFIs in Africa are dynamic and perform favorably compared with their counterparts in other global regions. Indeed, African MFIs lead the world in savings mobilization, in both the number of clients served and the absolute volume of savings on deposit. Although the result of this study indicate that the overall financial performance of MFIs in Africa lags behind other global regions, a growing number of MFIs- especially regulated and cooperative MFIs- are profitable.

**Hermes, N., Lensink, R., and Meesters, A**<sup>8</sup> paper entitled “Outreach and Efficiency of Microfinance Institutions,” This paper has used SFA to examine whether there is a trade-off between outreach to the poor and efficiency of MFIs. Using a sample of more than 1,300 observations, we find convincing evidence that outreach is negatively related to efficiency of MFIs. More specifically, we find that MFIs that have lower average loan balances, which is a measure of the depth of outreach, are also less efficient. Moreover, we find evidence showing that MFIs that have more women borrowers as clients – again a measure of the depth of outreach are less efficient.

**Gebremichael, B. Z. (2013)**<sup>9</sup> study entitled “Efficiency, Outreach and Sustainability of Ethiopian Microfinance Institutions”, the main objective of this study is to examine the performance of Ethiopian Microfinance institutions (MFIs) focusing on efficiency,

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<sup>6</sup>(Kaur, n.d)

<sup>7</sup>(Lafourcade, Isern, Mwangi, & Brown, (2005))

<sup>8</sup>(Hermes, Lensink, & Meesters, n.d.)

<sup>9</sup>(Gebremichael, 2013)

outreach and sustainability. The findings of the study were found that Technical efficiency of Ethiopian MFIs is estimated using the preferred DEA approach. Under the DEA, efficiency scores are calculated for both constant returns to scale (CRS) and variable returns to scale (VRS) assumptions to shed light on the potential impact of scale differences on efficiency. Based on constant returns to scale, the study found that average technical efficiency of the MFIs ranges from 0.524(52.4%) in 2004 to 0.775(77.5%) in 2009 with an overall mean efficiency of 0.667 (66.7%). This implies that Ethiopian MFIs, on an average, could have increased their output by 33.3 % using the existing level of inputs (without any additional inputs). Regarding the sources of technical inefficiency, it has been noticed that the observed technical inefficiency in the Ethiopian microfinance industry is due to both poor input utilization (i.e., managerial inefficiency) and failure to operate at most productive scale size (i.e., scale inefficiency).

**Kaur, Prabhjot (2014)**<sup>10</sup> Paper entitled, “Outreach and Sustainability of Microfinance Institutions in India in Pre and Post Andhra Pradesh Microfinance Crisis in Context of South Asia”, in this paper an attempt has been made to examine, crucial aspects related to financial sustainability and outreach of MFIs in India, in context of South Asia, in pre and post Andhra Pradesh crisis

For the purpose of comparing outreach and sustainability of Indian MFIs with their counterparts in South Asia, data is collected from Microfinance Information Exchange database, for the year 2008 and 2012 (pre and post Andhra Pradesh microfinance crisis period respectively) . It is clear that Operational Self Sufficiency (proxy for sustainability of MFIs) of Indian MFIs has declined from 2008 to 2011 to the extent to make them operationally non sustainable. Operational Self Sufficiency (OSS) less than 100 per cent shows operations of MFIs are not sustainable and their incapacity to recover their operational costs from the operational revenue.

### **1.3 Statement of the problem**

In spite of the growth of microfinance institutions in the country and the importance role of microfinance institutions in the development of the economy of the Yemen, and the review of literature, the researcher would like to evaluate the outreach of microfinance institutions in Yemen.

### **1.4 Objectives of the study**

- 1.** To evaluate the performance of MFIs in Yemen in terms of outreach with regard to the growth in the number of active micro finance clients.

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<sup>10</sup>(Kaur, 2014)

2. To evaluate the outreach of MFIs in Yemen with regard to the growth in micro finance loan portfolio.
3. To evaluate the outreach of MFIs in Yemen in terms of depth of outreach.

### **1.5 Research methodology**

For evaluating the outreach of microfinance institutions in Yemen, the data was collected during microfinance the mid of December 2015 from various microfinance institutions in Yemen. The results are based on both primary and the secondary data collected from the records of the MFIs Annual Reports, MFIs Websites, Social Fund for Development, Yemen Microfinance Network, Microfinance Magazine, MFIs websites, etc.

#### **1.5.1 Sample of the Study:**

The sample procedure used in the questionnaire is non-probability sampling due to the nature of data available. The sample size for the questionnaire was 11 MFIs located in 4 governorates (Al- Amanah, Sana'a, Aden and Hadramaut) which represent 78 percent of all micro finance institutions in Yemen.

**Table 1.1**

**Sample Size of Micro Finance Institutions in Yemen.**

No	MFIs
1	Al-Amal MF Bank.
2	Cooperative and Agricultural Credit Bank.
3	Al-Tadhamon MF Program.
4	Al –Kuraimi Islamic MF Bank.
5	Saba Islamic Bank.
6	Aden MF Foundation.
7	National MF Foundation.
8	Nama MF Program.
9	Sana'a MF Program (Azal).
10	Wadi Hadramaut for Credit and Saving Program.
11	Small Enterprises Development Fund.
	Total

Source: Author, December, 2015

#### **1.5.2 Sources of Data Collection used:**

The research relies on the use of the deductive method. For this study, the researcher has used both primary and secondary data. Primary data was collected from questionnaire survey and open –ended interview. The secondary data was collected from reviewed literature, books, academic articles, and information provided in annual reports of microfinance institutions and websites.

**1.5.3 Data analysis**

The collected data was analyzed based on Micro Rate and Inter-American Development Bank (2003)<sup>11</sup>and Philippine Microfinance Standards, (2007)<sup>12</sup>.

**Table1.2**

**Outreach Analysis**

Area	Indicator	Definition/ Ratio	Standard
<b>OUTREACH</b>			
1	<b>Growth in Number of Active MF clients</b>	Ending No. of Active MF Clients- Beginning No. of Active MF Clients ÷ Beginning No of Active MF Clients	≥ 5%
2	<b>Growth in Microfinance Loan Portfolio</b>	Ending MF Loans Outstanding- Beginning MF Loans Outstanding ÷ Beginning MF Loans Outstanding	≥ 5%
3	<b>Depth of Outreach</b>	Total Loans Outstanding ÷ Total Number of Borrowers ÷ GNP Per Capita	20% or Below

Source: Micro Rate and Inter-American Development Bank (2003) & Philippine Microfinance Standards, (2007).

The data was analyzed in three aspects a) Growth in Microfinance Active Clients, Growth in microfinance loan portfolio, and depth of outreach.

**Table 1.3**

**Outreach of MFIs in Yemen as in December, 31 2014**

<sup>11</sup>(Stauffenberg, Jansson, Barluenga-Badiola, & Maria-Cruz, 2003)

<sup>12</sup> Philippine Microfinance Standards, (2007)

No	MFI	Growth in No of Active MF Clients. ≥5%	Growth in Microfinance Loan Portfolio. ≥5%	Depth of Outreach Not exceeding 20%.
1	Al-Amal Micro Finance Bank	0.33	0.45	5.51
2	<b>National Microfinance Foundation</b>	0.22	0.35	7.29
3	Nama Micro Finance Program	-0.23	0.24	8.75
4	Aden MF Foundation	0.67	0.64	6.83
5	Al-Tadhamon for Small & Micro Finance	1.03	-0.11	5.91
6	Azal MF Program	0.05	0.34	7.35
7	WadiHadramaut lending &Saving Program	2.12	1.52	6.90
8	Al-Kuraimi Islamic MF Bank	0.10	0.10	6.85
9	Small Enterprises Development Fund	0.46	0.53	6.47
10	Saba Islamic Bank	N.A.	N.A.	N.A.
11	Cooperative And Agricultural Credit Bank	N.A.	N.A.	N.A.
	Mean	0.53	0.45	6.87

Source: Primary Data.

It is observed in the Table 1.3 that the general standard is greater  $\geq 5\%$  (Greater than or equal to 5%). It has been reported that all MFIs in Yemen are less than the standard criteria mentioned above. For instance, Al-Amal MF Bank has 0.33%, while National MF Foundation has 0.22% and Wadi Hadramaut MF Program has 2.12%. The rest of other MFIs also have less than the standard criteria mentioned above. The mean was 0.53 which indicates that MFIs have less outreach scope in terms of number of active MF clients.

Graph 1.1

Growth in the Number of Active MF Clients as in December, 31 2014

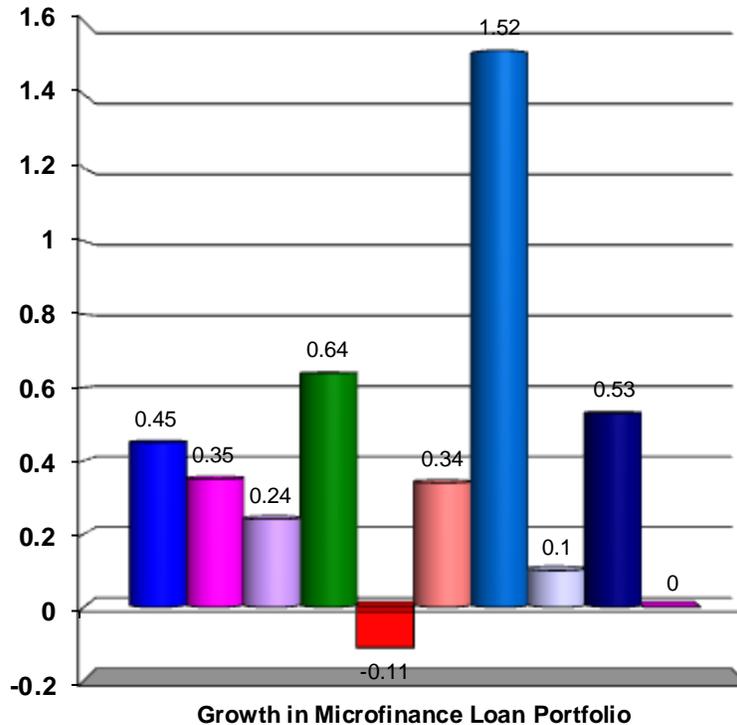


Source: Primary Data.

It is observed in the Table 1.3 that the general standard is greater  $\geq 5\%$  (Greater than or equal to 5%). It has been analyzed that all MFIs in Yemen are less than the standard criteria mentioned above. For instance, Al-Amal MF Bank has 0.45%, while National MF Foundation has 0.35% and Wadi Hadramaut MF Program has 1.52%. The rest of other MFIs also have less than the standard criteria mentioned above. The mean was 0.45 which indicates that MFIs have less outreach scope in terms of growth in the number of MF loan portfolio.

### **Graph 1.2**

**Growth in Micro Finance Loan Portfolio as in December, 31 2014**



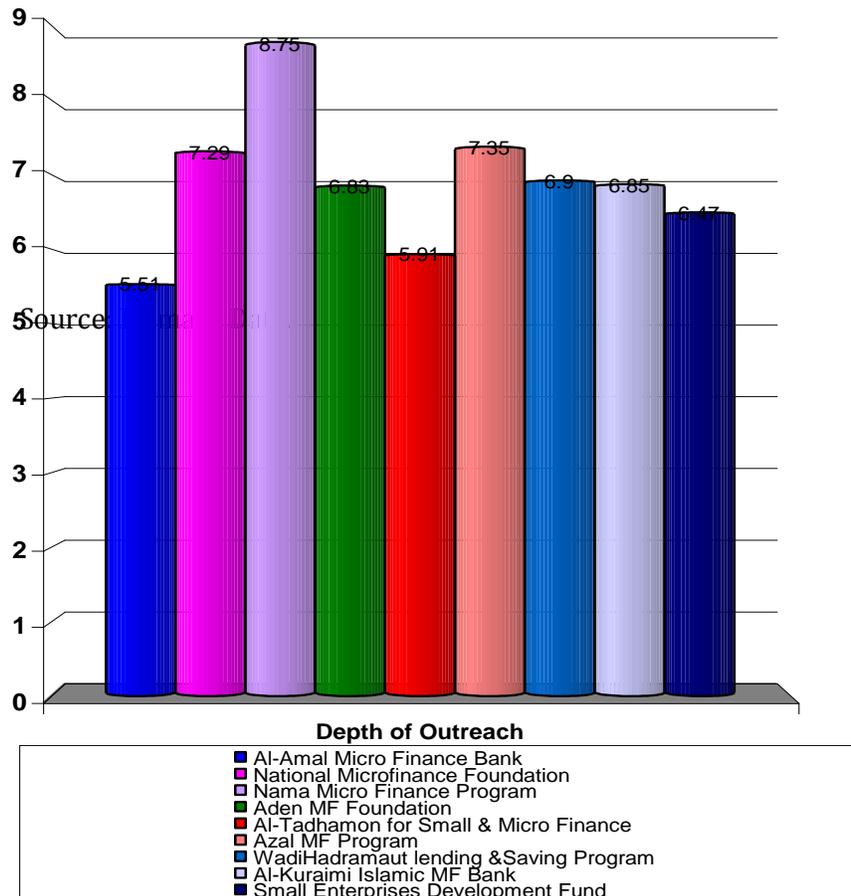
■ National Microfinance Foundation	■ Nama Micro Finance Program
■ Aden MF Foundation	■ Al-Tadhamon for Small & Micro Finance
■ Azal MF Program	■ Wadi Hadramaut lending & Saving Program
■ Al-Kuraimi Islamic MF Bank	■ Small Enterprises Development Fund
■ Saba Islamic Bank	■ Cooperative And Agricultural Credit Bank

Source: Primary Data.

It is observed in the Table 1.3 that the general standard is not exceeding 20%. It has been analyzed that Nama MF Program has 8.75% While Azal MF program has 7.35% and National MF Foundation has 7.29%. And that Wadi Hadramaut for Lending and Saving Program has 6.90% while Al -Amal MF Bank has 5.51%. The Arithmetic Mean is 6.87% which indicates that Micro finance institutions in Yemen have good outreach scope in terms of depth of outreach.

**Graph 1.3**

**Depth of Outreach of MFIs as in December, 31 2014**



Source: Primary Data

### 1.6 Findings of the study

The major findings of the study was that most Microfinance institutions in Yemen do not have outreach in terms of growth in the number of active clients, growth in the number of microfinance loan portfolio. In the contrast, the study found that most microfinance institution in the country have good outreach in terms of depth of outreach.

#### 1.6.1 Specific findings

1. Most Microfinance institutions in Yemen have less outreach scope in terms of growth in the number of Active MF clients. The general standard is greater  $\geq 5\%$  (Greater than or equal to 5%). It has been analyzed that all MFIs in Yemen are less

than the standard criteria mentioned above. For instance, Al-Amal MF Bank has 0.33 percent, while National MF Foundation has 0.22 percent and Wadi Hadramaut MF Program has 2.12 percent. The rest of other MFIs also have less than the standard criteria mentioned above. The mean was 0.53 percent which indicates that MFIs have less outreach scope in terms of number of active MF clients.

2. Most Microfinance institutions in Yemen have less outreach scope in terms of growth in micro finance loan portfolio. The general standard is greater  $\geq 5\%$  (Greater than or equal to 5%). It has been analyzed that all MFIs in Yemen are less than the standard criteria mentioned above. For instance, Al-Amal MF Bank has 0.45 percent, while National MF Foundation has 0.35 percent and Wadi Hadramaut MF Program has 1.52 percent. The rest of other MFIs also have less than the standard criteria mentioned above. The mean was 0.45 which indicates that MFIs have less outreach scope in terms of growth in the number of MF loan portfolio.
3. Most microfinance institutions in Yemen have good outreach scope in terms of depth of outreach. The general standard is not exceeding 20%. It has been analyzed that Nama MF Program has 8.75% While Azal MF program has 7.35% and National MF Foundation has 7.29%. And that Wadi Hadramaut for Lending and Saving Program has 6.90% while Al - Amal MF Bank has 5.51%. The Arithmetic Mean is 6.87% which indicates that Micro finance institutions in Yemen have good outreach scope in terms of depth of outreach.

### **1.7 Suggestions**

1. To increase the outreach, the MFIs should combine and rearrange the outreach aspects based on their strength. MFIs usually have high length and can focus on scope, cost, worth and breadth.
2. Government should take its responsibility by supporting MFIs financially or technically at least to reach, OSS, Efficiency, FSS and expand outreach.
3. MFIs could also able to maintain the growth of outreach by attaining institutional sustainability by bringing down the administrative/operational costs to a lower level.
4. It is also suggested that micro finance institutions should make an Integration of various microfinance products.
5. It is suggested that micro finance institutions should customize financial products and delivery systems.
6. It is also suggested that microfinance institutions should adopt multiple lending models.
7. It is also suggested that there should be partnership and inter collaboration of MFIs.

8. It is also suggested that microfinance institutions in the country should enhance the role of research and development.
9. It is also suggested that MFIs should implement a strategic plan for expansion and diversification of financial, technical products and services supplied to SMEs.
10. It is also suggested that MFIs in Yemen should increase the institutional capacity building and development.

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