

Microfinance in Yemen “Challenges and Opportunities “

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Abstract

This paper aims to identify the challenges and the opportunities facing Microfinance in Yemen. The paper is mainly based on the secondary data collected from the records of the Social Fund for Development, Yemen Microfinance Network, Government of Yemen, Microfinance books, websites, official reports and other sources related to the research subject. The said study covered the period from 1997 to 2013 and the region for the study was Yemen. The result of the study reported that there are multiple factors affecting the development of microfinance in Yemen, such as high interest rate, improper management, shortage in the qualified staff, unavailability of professional skills, financial literacy, religious perception, demanded collaterals. However, despite the difficulties and challenges facing Microfinance industry in Yemen, many studies revealed that there is potential promising market in Yemen. It is believed that about 3% of the total market has been penetrated and left more than 2 million potential clients un-served.

Key words

Microfinance, Challenges, opportunities, Yemen

1. Introduction

Yemen is ranked as one of the poorest Arab countries that suffer economically with high incidence of poverty and geographically skewed basic infrastructure. The country is faced with many political and economic problems and this aggravated the situation there, especially after the political crises that hit the Arab region recently. Eventually the poverty rate also rose from 42% in 2009 to 54.5% in 2012 (World Bank, 2014). In addition, Yemen was placed in 154th position among 187 countries in the Human Development Resources (HDR) scoring an index of 0.500 (HDR, 2013). With reference to unemployment among youth, it is revealed that the rate of unemployment has increased from 14% in 2011 to almost 60%. With regards to rising in products and services, the food prices rose by 23% at the end of 2011 (World Bank, 2012). Further 45% the population was categorized as food insecure (World Bank 2014).

In an attempt to alleviate poverty and unemployment in the country, among other development efforts, the Yemeni Government has focused more on the development of microfinance industry in Yemen on seeing the popularity of microfinance widely used as a potential tool for poverty cure in many under developed and developing countries. However, despite lack of exposure internally in this sector, Yemen government desire to tap MF potential for challenging the twin poverty and unemployment.

Till recently Microfinance is still new and it has not yet achieved the stability and full growth. This is due to particularly to the continuous raise 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 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.

2. Methodology

Problem of the Study:

In spite of the initial results showing a positive impact of Microfinance on the livelihood of low income people in Yemen, this type of industry still remains infant stage with a lot of difficulties and challenges that hinder it from further progressing in achieving the desired goal with 2 million un-served people behind, the industry further appears to have a promising market and future opportunities for microfinance. Therefore this study is an attempt to probe deeply on the following questions:

What are the challenges and difficulties facing Microfinance in Yemen?
What are the future opportunities for improving Microfinance in Yemen?

Purpose of the Study:

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

- ❖ To briefly study the history of Microfinance practices from development perspectives in Yemen
- ❖ To describe the challenges and difficulties facing Microfinance Industry in the process of poverty alleviation and To determine the most challenges and opportunities that face Microfinance in Yemen
- ❖ To suggest some strategies for meeting the identified challenges and providing suitable opportunities for achieving the desired goal

Importance of the study:

- ❖ The study provides a brief new literature to interested parties in Microfinance.
- ❖ The study provides valuable suggestions & recommendations to policy makers.
- ❖ The study shall narrate the challenges facing the Microfinance Industry and Opportunities 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, International Finance Corporation, Yemen Microfinance Network, the Small and Micro enterprises Development Unit, Central Bank of Yemen, Government of Yemen, books, articles and other official sources. The study takes place in Yemen and covers the period 1997- 2013.

3. Evolution of Microfinance

The concept of micro credit can be traced back to the beginning of the seventies when Nobel Prize Laureate Prof. Mohammed Yunus returned back home to Bangladesh after a study trip to the USA. Upon his return he was completely shocked to see the living condition and the status of human suffering in his country due to the bloody conflict associated with its independence from Pakistan. He immediately started thinking of a way to get the country out of this situation. His first attempt was the analysis and observation of the ongoing credit-based projects developed by the government in poor societies of Bangladesh in order to reduce poverty. He also focused on the experience of Akhtar Khan in Microcredit who was the pioneer of the "Comilla Model" which was employed in 1950 by the government of Pakistan (later on became Bangladesh). The government distributed loans to low income people through Sector-based cooperatives. Though this model failed due to the continuous pressure from the government of Pakistan to use it as a vehicle to build infrastructures, however he got some lessons from it. In another step, Yunus visited his own village and observed the poor women performing some additional tasks to their farming work such as raising chickens and making nets by borrowing money from greedy moneylenders with high rate of interest, he felt upset for this practice and decided to provide the poor an amount of 27\$ to them to start their own bamboo based basket making activities without moneylenders support. Instead of financing to individual, he encouraged group financing based on mutual guarantees of the members of group (five members). The innovative element here is the group guarantee acting as collateral substitute for such micro financing for the poor who could not give any tangible asset as collateral as insisted in formal lending institutions

This step was considered as an inspiring move towards his objectives to discover a way to empower unbanked people, Yunus observed a very high commitment in repayment of the loans to the lenders on time thus he approached the government of Bangladesh to finance his Institute, The request of Yunus was approved, however the responsibility of distribution and recollection of loans was given to his institute. The institution started in 1976 and later turned on to a legal bank that called "Grameen Bank". In 1983, the government's share in the bank amounted to 40%, 40% was members' share of the bank and 20% was the share of the two state banks (Bateman, 2010,). Now the bank is considered one of the most successful Microfinance banks serving approximately 6 million clients (Grameen Bank Report, 2014).

4. Definition of Microfinance:

The Consultative Group to Assist the Poor (CGAP)

“Micro finance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks.

Poor people usually address their needs for financial services through a variety of financial relationships, mostly informal. Credit is available from informal moneylenders, but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. Traditionally, banks have not considered poor people to be a viable market.

Different types of financial services providers for poor people have emerged - non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale - offering new possibilities. These providers have increased their product offerings and improved their methodologies and services over time, as poor people proved their ability to repay loans, and their desire to save. In many institutions, there are multiple loan products providing working capital for small businesses, larger loans for durable goods, loans for children’s education and to cover emergencies. Safe, secure deposit services have been particularly well received by poor clients, but in some countries NGO microfinance institutions are not permitted to collect deposits. Remittances and money transfers are used by many poor people as a safe way to send money home. Banking through mobile phones (mobile banking) makes financial services even more convenient, and safer, and enables greater outreach to more people living in isolated areas. Financial services for poor people have proven to be a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress.”

Asian Development Bank (ADB)

Micro finance is defined as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to the poor and low-income households and, micro enterprises. Micro finance services are provided by three types of sources: formal institutions, semi-formal institutions such as NGOs, and informal sources such as money lenders and shopkeepers. Institutional micro finance is defined to include micro finance services provided by both formal and semiformal institutions. Micro finance institutions (MFIs) are defined as institutions whose major business is the provision of micro finance services. It was further defined as the provision of the financial services to low- income clients including the self-employed “(The World Bank, 1999, p.1). In order to build a better financial system for the poor, the CGAP and its 31 Member donors established the key principles for Microfinance in 2004. These principles can be illustrated as follows:

- The poor need a variety of financial services, not just loans
- Microfinance is a powerful instrument against poverty
- Microfinance means building financial systems that serve the poor
- Financial sustainability is necessary to reach significant numbers of poor people
- Microfinance is about building permanent local financial institutions

- Microcredit is not always the answer
- Interest rate ceilings can damage poor people's access to financial services
- The government's role is as an enabler, not as a direct provider of financial services
- Donor subsidies should complement, not compete with private sector capital
- The lack of institutional and human capacity is the key constraint
- The importance of financial and outreach transparency

There are around 500 million low income individuals in the world however there is only about 5% of them has access to financial services. The micro enterprises sector represents around 80% of the total enterprises in the world, 50% of the urban enterprises and 20% of GNP of their countries (**Bajpai, 2010, p.24**), most of Microfinance clients are self employed and they depend mainly on small scales products produced in their homes.

5. Literature Review/Previous studies

Aliriani (2002) reported that Microfinance has reached only to a few poor people; he revealed some factors that hinder the progress of Microfinance in Yemen market such as lack of experience, economic instability, culture barriers, scattered population & inadequate infrastructure. In an impact assessment of **SFD (2003, 2006 and 2009)** it was revealed that Micro finance has increased people's income, improved their living standards, empowered women and created more job opportunities for communities. **IFC (2007)** another study which has revealed a huge promising market for microfinance in Yemen. The success of Microfinance depends entirely on the education of clients, loan facilitation and finally training and consulting clients. **SFD (2008)** that conducted a market study on women reported that most of women microfinance clients are engaged on a very small scale of activities, most of them are home based enterprises. The chances for working outside are limited. It is due to some factors restrict the mobility of the Yemeni women. **SFD (2009)** in a study conducted by SFD it showed that the impact of microfinance on income generation was by 50% and the repayment rate was 96% - 100%. Grameen-Jameel (n.d) which is a professional MFI reported on its official website <http://grameen-jameel.com/yemen/> that only 3% of the Yemen microfinance market has been penetrated by MFIs leaving around 2 million potential clients un-served. **SFD (2011)** disclosed that 90% of funding for SMED is done by foreign donors and 10% by the government of Yemen. **Alshami et al (2013)** proposed a conceptual frame work in the role of Malaysian and Yemeni Microfinance on the poor wellbeing and provided guidelines on how to improve the sustainability and outreach of MFIs. In another conducted paper on Arab region, **The World Bank (2013)** reported that Yemen lags in innovation comparing to other regions.

6. History of Microfinance in Yemen

The emergence of Microfinance in Yemen goes back to 1997 when the government of Yemen in cooperation with some international donors made an attempt to alleviate the percentage of poverty and unemployment in the country through the establishment of the so called Social fund for development (SFD). The social fund for development created a special unit named as Small and Micro Enterprise Development Unit (SMED) which is a special unit for Microfinance industry that operates under the supervision and control of SFD. The first task of the social fund for development (SFD) was the establishment of 5 Microfinance Programs in rural Areas; the first one was in Alhodieda governance. It started working in January 1998. These programs succeeded for a while, but later on they collapsed due to the activity that focused on one business such

as; livestock and agricultural inputs for crops. This reason and others restricted the diversity of products and services available in rural areas, which led to close some of them or sell them to other Microfinance Institutions.

The collapse of the five first programs didn't stop the effort of developing this sector. A new stage began in 2002 by establishing other programs in the urban areas. Those programs aimed to own more branches in the rural areas. The first program named Alif. It started operating with three branches in Ibb, Taiz and Dhamar. The program employed the model of ASA's group lending and saving methodology. It increased the opportunities to enlarge scale of SMED, to have more women clients and to open up more programs in various cities such as; Aden, Abyan, Seiyun, Hadramout and Sana'a.

The rapid 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).

7. Social Fund for Development Services (SFD)

The social fund for development represented by SMED provides various services to Microfinance Institutions and Small and Micro enterprises, Its primary objective is to fund the small and micro enterprises. This fund is provided through different types of MFIs, Banks, Programs and Foundations. The SFD keeps supporting MFIs from the first moment until they reached the sustainability stage and become self-reliant. The SMED also provides different types of technical support, training, management skills, and marketing skills of micro and small enterprises to achieve more profits and succeed via SMEPS and YMN (SFD, 2011).

8. The Main Microfinance operators in Yemen

There are about 13 players in the market, they provide different microfinance products and services, and they differ from banks to Foundations to programs, companies and others. They can be described as below:

Microfinance Banks:

- ❖ Al-Amal Microfinance Bank
- ❖ Altadhamon Bank
- ❖ Alkuraimi Islamic Microfinance Bank

Microfinance Company:

- ❖ Al-Awa'el MF Company

Microfinance Foundations & Programs

- ❖ National MF Foundation
- ❖ Aden MF Foundation
- ❖ MF Development Program (Nama)
- ❖ Sana'a MF – Azal
- ❖ Small Enterprise Development Fund (SEDF)
- ❖ Hadhramaut Microfinance Programs
- ❖ Aletehad Microfinance Program
- ❖ Social Institution for Sustainable Development (SFSD)
- ❖ Other Activities & IGPs

9. Products and Services provided by Microfinance Institutions in Yemen

- Individual Lending
- Group Lending
- Village Bank
- Savings
- Youth Loan Product:
- Micro Insurance:
- Money Transfer and foreign currency Exchange:
- Micro-Leasing:
- Islamic lending:

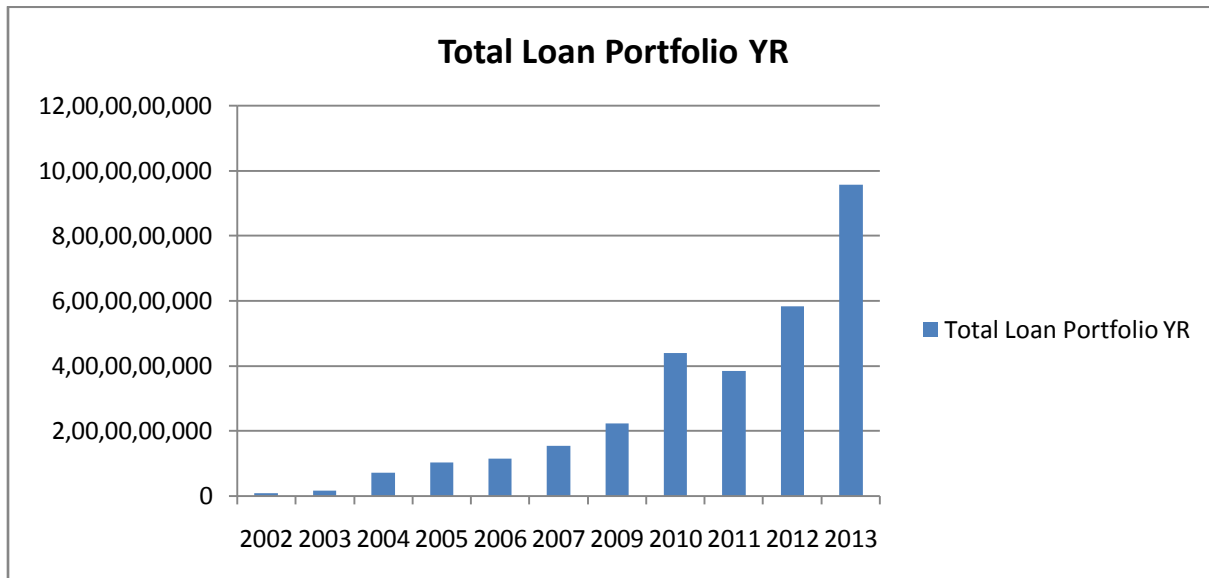
10. Table No 1 showing the current landscape in Yemen December 2013

Program	Active number of clients			Outstanding loan portfolio Million YR	PAR (%)	Cumulative Numbers		
	Borrowers		Savers			No. of loans	Loan amounts million YR	
	Total	Women (%)	Total					
1	Al-Amal Micro finance Bank	34,374	51	57,894	1,904	0.53	84,216	5,457
2	National MF Foundation	14,986	93	24,354	594	4.81	116,414	5,463
3	Aden MF foundation	10,043	90	12,531	593	0	54,892	2,787
4	MF Development program (Nama)	8,805	45	1,872	539	5.69	64,830	5,298
5	Altadhamon Bank	8,787	37	0	1,433	1.10	31,549	6,658
6	Alkuraimi Islamic Micro finance Bank	5,847	3	148,619	1,854	0.4	9,226	4,119
7	Sana'a MF –Azal	4,672	58	2,688	341	5.79	41,538	1,868
8	Small enterprise development fund (SEDF)	3,739	19	0	1,481	5	18,919	14,735
9	Hadhramaut Microfinance Program	2,720	39	3,534	261	6.98	14,492	1,134
10	Aletehad Microfinance Program	2,487	90	1,800	360	0	44,592	1,800
11	Al-Awa'el MF Company	1,820	81	0	50	19.78	58,799	2,018
12	Social Institution for Sustainable Development	1,446	66	0	180	2.71	17,529	1,723
13	Other activities & IGPs						67,495	1,690
	Total	99,726		253,292	9,590		624,491	54,750

Source: Social Fund for Development (SFD) 2013 annual report

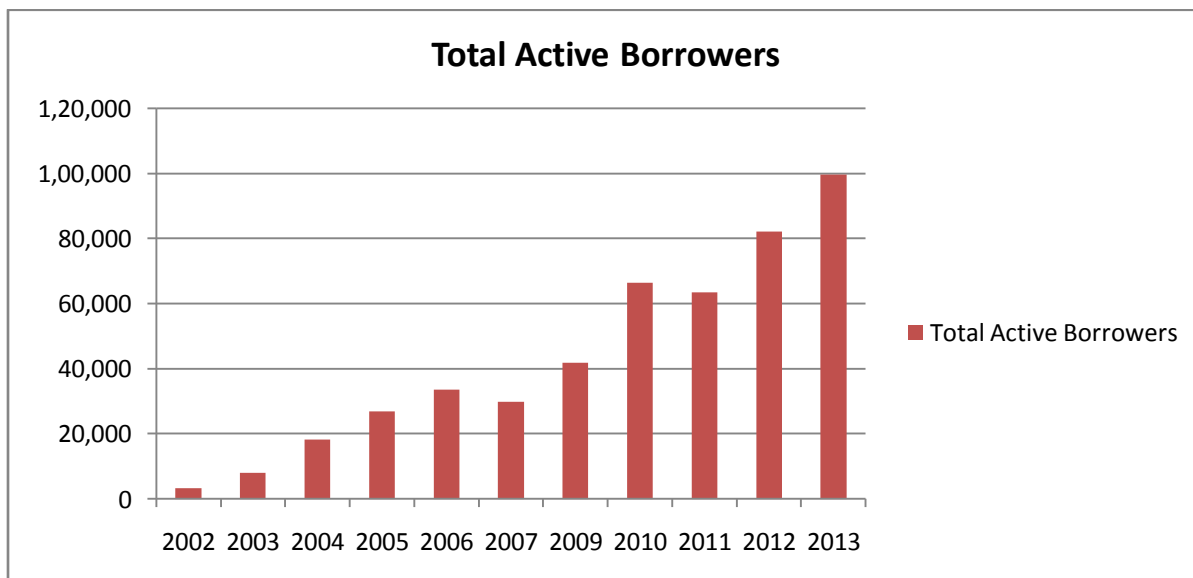
Table 1 shows the total number of poor borrowers in Yemen reached 99,726 and 253,292 savers as per the latest report published by the social fund for development in December 2013. Similarly the total amount of the microfinance portfolio is YR 9,590 billion. Likewise the cumulative number of loans is 624,49 Loans with cumulative mount of YR 54,750 billion. The report further notes that Al-Amal Micro finance Bank is the most active one among all other operators in the market with 34,374 active borrowers, 51% of them are women and 49% men. The total savers are 57,894. Finally the table shows that the Al-awa'el MF Company has the highest portfolio at risk scoring 19.78%.

Figure1: Total Loan Portfolio (2000-2013)



Source: previous SFD Yearly Report

Figure2: Total Active Borrowers (2000-2013)



Source: prepared by the researcher based on the previous SFD Yearly Reports

11. Challenges of Microfinance

The concept of Microfinance is relatively new in Yemen. This resulted to generate many difficulties and obstacles that may limit the scope and process of the development of the economy. Previous studies were conducted by the Social Fund for Development and Kias Aliriani agreed that there are several challenges facing the industry. The researchers added more challenges and difficulties that observed during the investigation. These challenges can be categorized and illustrated as the followings:

- ❖ Challenges facing the industry of Microfinance
- ❖ Challenges facing the small and Micro enterprises

Challenges Facing the Industry of Microfinance

➤ **Wrong Perception about Lending Poor People**

It's argued that because of the status of the borrowers, which often of poor people and cannot be able to repay the loan back; they should be exempted from the repayment or should be given a very low rate of interest.

➤ **Lack of strong institutional capacity in some partners**

This is simply because the provision of microfinance services to SMEs is not their main business of the NGOs. Thus, they do not focus seriously on providing financial services.

➤ **Shortage in the qualified personnel**

Microfinance industry is facing some difficulties in finding professional and qualified staff to work for MFIs, especially in the rural areas and this lead to the deficiencies of management.

➤ **Improper management in Microfinance institutions**

This is basically related to the inconsistent in planning and the improper strategies, which affect the whole financial performance.

➤ **Lack of basic infrastructure and other services**

The shortage of the infrastructure in the country such as road, transport, electricity, telecommunications and other operation services create another problem for Microfinance Institutions and limit their outreach of un-served population.

➤ **Dispersion of the population Areas**

The low density of the population in the rural areas of the country add a new obstacle toward the reaching of low income people, which limited the outreach of Microfinance and restricted serving the rural SMEs.

Yemen has been ranked as one of the lowest countries in the world in term of the participation of people in formal banking activities, people prefer to borrow from informal sources like their relatives for buying lands and other assets for their needs.

➤ **Insufficient supervision and Auditing**

There is no enough supervision and auditing for the SMEs financial Institutions by their NGOs organizations

➤ **Religious attitude**

Being one of the most conservative Islamic societies in Yemen, it is very difficult to accept the traditional way of bank credit. Islamic Sharia considers taking interest on loans prohibited activity; this has affected the operation of many Microfinance Institutions in the country especially in the north and center. Islamic practices such as Murabaha and Musharakh are accepted to some extent with suspicious.

➤ **Insufficient entrepreneur's skills**

When the entrepreneurs don't have enough skills in carrying out activities, they restrict the scope of market and limit the market areas making, particularly women clients.

➤ **Lack of training and consultation**

The limited training and technical support provided to SMEs have restricted their progresses operations, making their expansion very slow.

➤ **The instability of currency exchange rate**

This means limiting the loans borrowed from the donors and form other external sources, because of the continuing volatility in the exchange rate and make them depend mainly on the Social Fund for Development that lends in Yemeni Rail.

➤ **Inflation**

High inflation leads to high interest rates in the loans provided which make the borrowers more reluctant to apply for any type of loans. Recently the rate of interest has never gone below 18% without adding administrative expensive.

➤ **Non availability of market and economic data**

The difficulty in getting supportive information and data about the economic condition and market status creates many difficulties to Small and Micro enterprises and Microfinance Institutions as well.

➤ **No innovations in the products and services provided for serving microfinance market**

Almost all the Microfinance Institutions provide the same type of products and they are all traditional. There is no innovation to discover or establish new products.

Challenges facing Small and Micro Enterprises

➤ **Skills and skills Acquisition**

The business and managerial skills are mainly provided by relatives or friends. The formal or vocational training system barely reaches the entrepreneurs.

➤ **Marketing limitation**

The concept of marketing in clients mind is to find a place in a popular market or a road to be used as business premises. Small and micro entrepreneurs are passive marketer who want business to come to them rather than promoting it.

➤ **Associations and unity**

The unity or association is very weak among the SMEs in Yemen. There is not any contact with the chamber of commerce or any other sector of business association.

➤ **Ownership of women for SMEs**

The result of the 2000 survey conducted by the Social Fund for Development reported that around 92% of the SMEs are owned by men, 3% by women and 5% is mixed

➤ **The attitude of youth to work in SMEs**

The SFD conducted a survey of 1600 students enquiring about their attitude towards youth working in small and micro enterprises. 80% of the respondents responded negatively regarding working with SMEs.

➤ **High interest rate and collateral demanded by the Microfinance institutions**

Almost all microfinance institutions, banks, foundations or programs require providing collaterals for obtaining loans. However, this requirement is very difficult to be provided by low income people. Thus, the result is losing /limiting the chance of getting the loan. Moreover, the high interest rate demanded by the Microfinance Institutions restricts poor people to apply for any microfinance product or service as they feel there is no difference between the conventional lending and microfinance financing. The CGAP microfinance principles insist on keeping the rate of interest high so that the MFIs can achieve sustainability, however this result in limiting the borrowers applying for the loans.

12. Future opportunities for the microfinance industry in Yemen

Despite the positive results revealed by the Social Fund for Development and its partners regarding the Microfinance industry in Yemen and its impact on the development of the society in terms of poverty & unemployment however the percentage of growth is still very slow as comparable to other countries, as per the 2013 annual report of the SFD, the number of borrowers till December 2013 has reached 99,726 active clients both of women and men, however this number remains small if compared to 24 million which is the total population of Yemen. The **Grameen-Jameel, (n.d)** estimated the potential market for the country of around 2 million un-served clients; it reported further there is only 3% of the market has been penetrated so far.

It was revealed from the previous studies and other international Organization reports that there are real many opportunities capable of participating in the growth, development and expansion of services of Microfinance industry in Yemen. These opportunities can be summarized as follows:

1. The continuation of the support provided by the United Nation programs to target the reduction in poverty and poor people through financing Microfinance programs.
2. The government should increase the awareness about microfinance by enhancing the concept of financial literacy and increasing the microfinance capital.
3. The establishment of an effective partnership between the government and the private financial organizations for the purpose of increasing the activities and capital of the microfinance sector.
4. The success of the studies and the survey researches conducted by the international organizations aiming to increase the scope of the enterprises, that need professional skills through microfinance programs , which were started by social fund for development and Alamal Bank.
5. Increasing the capital allocated for microfinance in the commercial banks and forcing them to legally downscale their activities.
6. The success of the existing activities in microfinance encourage and enhance the trust between the borrowers and the lenders
7. Increasing the activities of the cooperative associations.

13. Suggestions

- The necessity to establish a serious cooperation between commercial banks and other various Microfinance bodies, institutions, banks and programs in Yemen so that Microfinance Institutions can benefit from the long experience of commercial banks in the market. In India under the lead bank scheme of RBI, in each district the coordination called District Level coordination Committee (DCC)

oversees the coordination among the financial institutions operating in the district. On similar line the formation of such coordination committee in Yemen also may be considered.

- The enactment of legislation by the government that force the commercial banks to contribute to the expansion of microfinance industry by downscaling their activities and design suitable products and services that match the needs of un served in the last mile.
- Increasing the institutional capacity building and development in MFIs
- Expansion and diversification of financial, technical products and services supplied to SMEs.
- Integration and transformation of some programs and microfinance institutions
- The necessity to introduce the concept of Self Help Group in Yemen practiced in India as it promotes the unity among members and reduces the cost of obtaining loans form microfinance institutions.
- Gender Awareness programmes need to be conducted for active participation of women in Yemen in group-microfinance activities
- There is a need to reduce the interest rate of borrowing as many people refuse to apply for these loans as they feel there is no difference between them and commercial banks.
- The Government should improve the environment for micro-enterprises through the enabling the access to market and building proper infrastructure.
- The transaction cost in Microfinance Institutions to be reduced to enable the provision of reasonable products and services to underserved people.
- Support of experimentations and researches, lowering transaction costs, offering products and services which are more useful to the clients and finally searching new ways to reach underprivileged people.
- The necessity to introduce new products and services for Islamic Microfinance that help for poverty and unemployment reduction. In view of risk involved in running SMEs , insurance products need to be integrated with credit products
- It's very necessary to develop a special model for microfinance in Yemen to meet with the clients requirements with the infusion of Indian prototypes of SHG model and selected Islamic financial terms as well. This demand promotion of research & development wing in banking sector or government for experimenting & revisiting new models that suits Yemen for addressing the twin national problems viz., poverty and unemployment

14. Conclusion

The concept of Microfinance is relatively new to Yemen. It is simply the process of including the poor people in the financial system by supplying them with small financial services and products. These micro and small products might have a positive impact if they are used properly. In contrast, the impact will be negative if they are used improperly. The positive impact of microfinance should lead to the reduction of poverty, create job opportunities and improve the standard poor people life. However, if it is misused it will lead to indebtedness. There is also need to design credit product linked with insurance for protecting vulnerabilities faced by SMEs .The microfinance industry in Yemen is growing too slow though it is progressing and showing positive results on jobs creation and poverty reduction. The concept of Microfinance in Yemen was introduced in 1997 however only 13 financial players are operating in the market. Those operators provide different types of microfinance products and services. The total number of clients has reached only 99,726 active borrowers and 253,292 active savers. The total portfolio amount has reached YR 9,590 billion as of 31 December 2013.

The improper management, lack of marketing and management education, financial literacy, high interest rate, collateral demands, shortages in products innovation, market instability, culture barriers, scattered population, exchange rate fluctuation and many other factors are considered as the main reasons for the delay in the progress of microfinance industry. These factors required the government of Yemen to take immediate actions in this sector so that it can be improved as there is a huge potential promising market in Yemen. It should review the experience of other countries and develop a special model for Yemen market to fit the needs of the country. This is indeed a good opportunity for the government of Yemen to use microfinance as a development tools that can help in improving the living condition of people in Yemen.

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