

# Effect of microfinance on poverty reduction in Yemen: An empirical research

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## ABSTRACT

Yemen is described as one of the poorest country in the region of the Middle East and North Africa (MENA), around 50% of its population is spread in rural areas, half of its population depends mainly on agriculture activities, which makes the business environment appropriate for microfinance activities due to their importance in tackling the social, economic and financial challenges as well as social uplifting in the country. This research provided an empirical relationship between the disbursement of microfinance loans and the alleviation of poverty through the use of chi-square test, F-test and T-test. The results disclosed that there is an important difference between those who used microfinance organizations and those who did not use them. Microfinance organizations have a major impact on poverty alleviation by enhancing revenue and altering the economic status of those who patronize them. The research concludes that microfinance is indeed a powerful poverty reduction strategy and a feasible instrument to provide the poor with credit.

**Keywords:** Effect, Microfinance, Microcredit, Poverty Reduction, Yemen.

## 1. INTRODUCTION

Yemen, one of the poorest Arab countries and has the Arab world's poorest economy. Highly dependent on revenue from its comparatively tiny oil and gas reserves As of 2014, a complicated and intense civil war has created a humanitarian crisis and exacerbated financial issues, unemployment and food, water and medical shortages (UN).

Because of economic and political issues, the World Bank-supported Yemen in 1995 for economic reform programs, but there has been no significant development in the economy over the past two decades. Yemen has one of the highest rates of population growth in the world, the population is anticipated to double to approximately 40 million in 23 years (UNDP). This increases the demand for education and health services, with the age group below 15 years representing 46.3% of the population creating large demands for education and health services, and access to clean drinking water and employment (UNDP). Yemen's GDP depends mostly on oil but nowadays the GDP is estimated to

have contracted by about 50% since 2014 due to the current conflict. Agriculture and fisheries, which accounted for more than 54% of the rural workers, were severely restricted by a shortage of agricultural inputs such as feed and other vital goods (World Bank 2018). The violent war in Yemen has led the financial and social circumstances of the country to deteriorate significantly. FAO estimates that more than 7 million people are at risk of starvation in 2017, and that a cholera epidemic is sweeping the country by some 450,000 suspected cases that killed nearly 2,000 deaths at the end of August (World Bank). A disastrous humanitarian crisis has been triggered by the ongoing conflict in Yemen. As of March 2017, 17 million Yemenis (about 60 percent of the total population) are estimated to be food insecure. Instead, poverty is expected to remain high at around 75% in 2018 and 73% in 2019 (World Bank). Given the bleak prospects in Yemen, substantial foreign assistance will continue to be needed for post-conflict recovery and reconstruction (World Bank). The Yemeni government has concentrated more on creating Yemen's microfinance sector in an attempt to reduce poverty and unemployment in the nation, among other development initiatives, to view the popularity of microfinance as a potential instrument for addressing poverty in many underdeveloped and developing countries. Financing is a very effective tool in spreading economic opportunities and fighting poverty. Reaching to finance allows the poor people to use their rich talents or open ways for greater opportunities. The provision of sustainable credit services is one way of increasing the income and productivity of poor people. Therefore, an evaluation of the extent to which microfinance has affected poverty reduction in Yemen should be undertaken. This is the general goal of this research Literature review

## **2. OBJECTIVES OF THE STUDY**

The study's objectives can be demonstrated in the following points:

- To explore the role of microfinance institutions in poverty alleviation.
- To investigate the level of operation in the Microfinance Banks to the nation-building through poverty alleviation.
- Provide a recommendation for the effectively and efficiently application of the scheme.

## **3. QUESTIONS OF THE STUDY**

In order to accomplish the above - stated objectives the following research questions are advanced:

- 1) Does microfinance contribute considerably to poverty alleviation and improving people's living standards in Yemen?
- 2) Do people under the poverty line have to reach to microfinance funds and loans for the development of micro-enterprises in Yemen as expected?
- 3) What are the possibilities of microfinance for poverty alleviation in Yemen?
- 4) Will the alleviation of poverty affect Yemen sustainable development?

## **4. FORMULATION OF HYPOTHESIS**

In the course of this research, the following null hypotheses are suggested and tested:

- 1) There is no importance difference between people who use microfinance and who do not.

- 2) There is no importance effect of microfinance on poverty alleviation in Yemen.
- 3) There is no importance impact of microfinance activities on sustainable development.

## 5. REVIEW OF LITERATURE AND THEORETICAL FRAMEWORK

Revised responses to the definition of the poor have shown that most MFIs working on the market generally define the poor person as an individual who does not have a stable revenue or adequate resources to meet their requirements or to cover their family requirements. MFIs like Alamal Microfinance Bank have described the poor person as an individual with the conceptual and physical capabilities needed to help them and their families, but without the financial and technical support opportunities. The Aden Microfinance Foundation also described the poor person as the individual who has no work to meet their daily requirements and to cover their home requirements. On the other hand, the Azal Microfinance Program defined the poor person as the person who has a small business or project and who is unable to expand it due to the lack of capital required by the formal financial institutions. Therefore, Poverty is a major barrier to achieving a decent living standard for people. The world has made progress in its fight against poverty through microfinance.

### a) What is microfinance?

World Bank Report (2007) referred to microfinance as "Small loans that help poor people who want to start or expand their small business but are unable to obtain loans from banks. Also known as microloans. In Dhandapani's words (2009) microfinance means extending small loans to the poor, especially women, to start a business, investing in self-employed workers with the aim of increasing their income and living standards. Alamal Microfinance Bank (2012) however, defines microfinance as 'a financial service provided by financial institutions to the poor, which may include savings, credit, insurance, leasing, money transfer, equity transactions, etc.

### b) Microfinance institutions in Yemen

A large number of institutions both in formal and informal sectors provide financial services to the poor although delivery mechanisms and channels used by them are different in structure and nature. Some of the agencies solely focus on the marginal sections of the society others provide such services to poor along with regular banking services to all type of customers.

Microfinance sector developed by the Social Development Fund in Yemen in 1997, which tested five programs for microfinance in rural regions. The first program began activities in Al-Hodeida City in January 1998 (SFD). For a while, these programs have been a good instance, but later they have collapsed because of the activity that focuses on one company such as cattle breeding and crop inputs. This and other reasons restricted the variety of products and services available in rural regions, which resulted in some of them being closed or sold to other microfinance institutions. In 2000, a fresh stage started with the establishment of powerful urban programs with the concept of being able to divide them into rural regions. The primary program was Alif program that began with three primary branches in Taiz, Ibb, and Dhamar and was modeled on the methodology of group lending and saving (Yemen microfinance network). The rapid development of the Yemen microfinance sector made finding a legal and institutional recipe for MFIs necessary. The first movement began in 2002 when one of the

programs became the National Microfinance Foundation (NMF) by forming for it a board of trustees. In 2004, when Taiz Micro start changed to Al-awael Microfinance Company, the second transition took place. Three programs converted into the Aden Microfinance Foundation in the third phase in Aden. In 2006, the first private bank called Al-Tadhamon International Islamic Bank opened a window to serve small and medium-sized enterprises followed by the establishment of Al-Amal Microfinance Bank in 2008 and then the Yemen state formally created the Microfinance Law in 2009. Under the central bank providing microfinance services, Al-Kuraimi Islamic bank was recorded in 2010. In 2005, in order to promote microfinance products and services, the government was urged to set up a distinct and independent business development service agency for microfinance customers (SMEPS) due to the continued growth of the industry. In 2005, in order to promote microfinance products and services, the government was urged to set up a distinct and independent business development service agency for microfinance customers (SMEPS) due to the continued growth of the industry. The microfinance institutions in Yemen provide two models which are: Individual loan this product is developed to target individuals who have small and micro-enterprises. And group loan which provides to Micro and small entrepreneurs, male and female, Individuals with income-generating activities and those offering transportation services, Salaried individuals with business projects. The microfinance institutions provide services which reached their active number of clients in 2017 to 85,259 and the outstanding loan portfolio Million YR7, 800 at the end of 2017.

When 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 1.

**Table 1: 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.

The main challenges of microfinance in Yemen include: Lack of Experience and Weak Intermediaries, poor of infrastructure, Cultural Barriers, and Attitude, Clients Incapacity, High-Interest Rate, Improper

Professional Skills Management, Financial Literacy, and Religious Perception. The research confirms that there are several challenges and problems that prevent MFIs from advancing and fulfilling their task in terms of reaching out to the poor (Alshebami 2017).

## 6. METHODOLOGY

The technique used in this research is the descriptive survey technique. The technique is optimal because the research involved gathering information from microfinance organizations (MFIs) members of rural populations in order to determine whether or not microfinance contributes to poverty reduction by enhancing their revenue and welfare. All rural communities in Yemen were members of MFIs and non-members.

A preliminary investigation was executed on the MFIs in the country, the investigation showed that integrated microfinance banks and MFIs in term of outreach and locative location. To determine the relationship between poverty and microfinance, data were gathered from a sample member of these MFIs. A purposeful sampling technique has been used to select a sample of 100 participants that formed our sample size. The main tool of the study was a questionnaire entitled impact of microfinance on poverty alleviation in Yemen. The conditions and statements embodied in the questionnaire related to the study's goals and hypothesis. The questionnaire had two parts: Section A contained the respondents' background data, while Section B measured the respondent's perception of the efficacy of microfinance on poverty reduction in Yemen, rating Strongly Agree 4, Agree 3, Disagree 2, Strongly Disagree 1.

In other microfinance banks not part of the research, a reliability test was performed on participants using test-retest techniques. The results acquired from the questionnaire administration were fixed using a coefficient of 0.78 for the Pearson product-moment correlation. Of the 100 copies administered by the questionnaire, 68 were returned and analyzed. The questionnaire data gathered were evaluated. Using descriptive statistical techniques such as complete score and easy proportion, summarized and interpreted accordingly. Chi-square was used to evaluate the discrepancies between the frequency observed and anticipated and to prove the meaning level of the hypotheses indicated in the experiments. Regression analysis and variance analysis (ANOVA) were calculated using the Social Science Statistical Package (SPSS). It recognized and interpreted the trend and pattern and connection between information. Hypothesis testing and results interpretation. Three hypotheses have been raised to test for study at 0.05 of an impotence level.

**Hypothesis 1: There is no importance difference between people who use microfinance and who do not.**

**Table 2:  $\chi^2$  Summery**

Chi-square enables to test the statistical significance of variations in a scheme of classification (one-way classification) or the relationship between two schemes of classification (two-way). To do this chi-square test, one must already have the data categorized in a frequency table (this test is not performed on the raw data) A frequency table indicates the number of instances that belong to two or more separate categories concurrently as shown in the column "N." In this research, adoption, and non-adoption of microfinance institutions rating of participants revealed an importance difference among

the those who used microfinance and who dint use microfinance at  $\chi^2 = 31.117$  with 1dgree freedom and 0.05 importance level. It means that most individuals have chosen microfinance organizations (57) 83.8% and microfinance institutions (11) 16.2% have not been adopted. The hypothesis one is rejected.

**Hypothesis 2: There is no importance effect of microfinance on poverty alleviation in Yemen.**

**Table 3: Model summary of the sample regression of poverty reduction**

Model	R	R Square	Adjusted R Square	Std error of the estimate
1	.819	.69	.57	157.4336

Predictions: (Fixed MFIs)

Simple regression analysis was used to test the second hypothesis to regress the independent variable against the dependent variable used to determine the dependent variable. The model overview of the simple regression equation predicting poverty alleviation is shown in Table 3 above. The values described are explained in the table below.

**Table 4: Summary of Poverty Reduction Variance Analysis**

Model	Variations	Sum of Square	Df	Mean Square	F	Sig.
1	Regression	762	1	762	26.34	0.05
	Residual	1946	56	38		
	Total	2708	57			

Predictions: (Fixed MFIs)

The summary table of the model offers helpful data on the evaluation of regression. First, the easy R column is the correlation between the independent variable effectively observed and the dependent variable predicted (i.e. predicted by the equation of regression). R square is the square and is also known as the ' determination coefficient. It specifies the proportion (percentage) of the variable (sample) that can be attributed to the independent variable(s) in the dependent variable. In this research, 69% of the difference in poverty reduction among members could be accounted for by the MFIs, the adjusted R square refers to the best estimate of R square for the population from which the sample was drawn. Finally, the standard error of estimate indicates that on average observed entrepreneurial productivity deviates from the expected regression line by a score of 177.4436. Hypothesis two which indicated that there is no importance impact of microfinance institutions poverty reduction was rejected at  $R = .819$ ,  $R^2 = .69$ ,  $F(1,48) = 26.34$ ,  $p < .05$ . This means that microfinance institutions have an important impact on poverty alleviation.

**Hypothesis 3: There is no importance impact of microfinance activities on sustainable development.**

**Table 5: Model Summary of this Simple of the Sustainable Development Regression**

Model	R	R Square	Adjusted R Square	Std. Error of the estimate
1	.513	.406	.369	4.1327

Predictions: (Fixed MFIs activities)

Simple regression analysis was used to test the third hypothesis to regress the independent variable against dependent variable used to determine dependent variable. The model overview of the simple regression equation predicting sustainable growth is shown in Table 5 above. The explanation of the presented value is given below in Table 6.

**Table 6: Summary of Sustainable Development Variance Analysis**

Model	Variations	Sum of Square	Df	Mean Square	F	Sig.
1	Regression	1728.18	1	1728.18	20.13	0.02
	Residual	2842	57	46		
	Total	4570.18	58			

Predictions: (Fixed MFIs activities)

The summary table of the model offers helpful data on the evaluation of regression. First, the easy R column is the correlation between the independent variable effectively observed and the dependent variable predicted (i.e. predicted by the equation of regression). R square is the square and is also known as the ' determination coefficient. It specifies the proportion (percentage) of the variable (sample) that can be attributed to the independent variable(s) in the dependent variable. In this research, 20% of the difference in poverty reduction among members could be accounted for by the MFIs, the adjusted R square refers to the best estimate of R square for the population from which the sample was drawn. Finally, the standard error of estimate indicates that on average observed entrepreneurial productivity deviates from the expected regression line by a score of 4.1327. Hypothesis two which indicated that there is no importance impact of microfinance institutions activities poverty reduction was rejected at  $R = .516$ ,  $R^2 = .406$ ,  $F(1.66) = .20.13$ ,  $p < .05$ . This means that microfinance institutions have an importance impact on sustainable development.

## 7. CONCLUSION AND RECOMMENDATIONS

It is not a trouble-free task to achieve the social and financial sustainability of MFIs. This is because such organizations cope with a fragile section of society that is rapidly impacted by any inner or external variables that could disturb the region of operation, therefore In conclusion, this research

shows that microfinance programs have the ability to reduce poverty, particularly as revenue levels increase and vulnerability decreases. This will foster the financial ability of individuals and bring about sustainable development. The following recommendations are made possible on the basis of the results of this research. If more needs to be done on program outreach and depth, microfinance can be a more feasible approach for sustainable poverty alleviation. The program needs to accommodate the country's poor. In addition, by ensuring political stability, a stable macroeconomic setting, and low inflation rates, the government should arrange for a setting for the microfinance program. The government should also maintain infrastructures that connect more distant regions to the market in order to have a sustainable microfinance action.

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