An Evaluation study of Social Performance of Microfinance Institutions in Yemen

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Abstract: *This paper aims to evaluate microfinance institutions in Yemen in terms of social performance. The study is based on both primary and secondary data. Primary data was collected through questionnaire, and secondary data was collected through books, microfinance institutions reports, social fund for development reports, and reviewed literature. The main findings of the study are that micro finance institutions in Yemen are achieving social performance, working according to their goals, mission and social objectives, and providing loans according to clients needs and requirements. The study found that micro finance institutions in Yemen are also achieving social responsibility. The study suggested some points to enhance the role of microfinance institutions in Yemen for achieving better social performance and objectives.*
Keywords: *Performance, Evaluation, Microfinance, Microfinance Institutions, Social Performance*

I. INTRODUCTION

Microfinance has gained a universal recognition as an important tool for reducing poverty in many developing countries. Performance concept relating to MFIs is a vital and crucial issue for many reasons such as: to ensure donors or/ investors effective and efficient utilization of billions of dollars invested in MF programs also help regulators in controlling and monitoring the MFIs, stating that inefficient MFIs represents a main constraint on the development of the microfinance industry. Therefore, performance evaluation is a good tool for managing MFIs and is a requirement for achieving sustainability, outreach, efficient, and effective utilization of the resources.

According to(Kasim & Jayasooria, 2001)[1] 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)[2] 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.

This study is intended to assess the performance evaluation of Micro Finance Institutions in Yemen relating to social performance. Yemen and also made appropriate recommendations for readdressing and eliminating them so that the MFIs could occupy their pride of place in the Yemeni economy and hence play the vital role that they are expected to play in the economic growth and development of Yemen.

Microfinance institutions are considered as an effective tool for achieving the objective of financial inclusion. To achieve this objective it is necessitate that MFIs should be sustainable while reaching the poorest of poor. Microfinance is also considered as an innovative tool for enabling the poor to reap the benefit of growth. In recent past, it has emerged as an effective tool for achieving the mission of financial inclusion in the developing countries.

II. EVOLUTION OF MICROFINANCE IN THE WORLD

The history of micro credit is traced back to the early 1700s when Jonathan Swift, an Irishmen, had the idea to create a banking system that would reach the poor. He created the Irish Loan Fund, which gave small short term loans to the poorest people in Ireland who were not being served by commercial banks, in hopes of creating wealth in the rural areas of Ireland. By the 1800's, the Irish Loan Fund had over 300 banks for the poor and was serving over 20% of the Irish population. In the 1800s similar banking systems showed up all across Europe targeting the rural and urban poor. The idea of credit unions spread globally and by the end of the 1800s,

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[1] *(Kasim & Jayasooria, 2001)*
[2] *(Armendariz & Labie, 2011)*

these micro credit systems had spread all the way from Ireland to Indonesia. In the 1950's donors and government subsidies were used to fund loans primarily for agricultural workers to stimulate economic growth but these efforts were short lived.

In the 1970s the biggest developments in micro finance occurred. Grameen Bank started off as an action based research project by a professor who conducted an experiment credit program. Grameen Bank is now one of the world's largest micro finance institutions with over 4 million lenders. By the1990's lenders had learned how to increase loan repayment rates enough to make micro finance institutions sustainable. They targeted women as borrowers and gave them money to invest in businesses that would increase their income and charged very low interest rates so the borrowers could pay back their loans and still have money, i.e. create wealth, for themselves. This is when the term micro finance was coined to replace micro credit, because the new institutions were doing more than making loans; they were offering other financial services to the poor like savings accounts, insurance and money transfers. Aforementioned, banks are increasingly becoming commercialized. The first commercial microfinance institution was founded in Bolivia in 1992, Lindsay, Jennifer, (2010)[3].

III. MICRO FINANCE IN YEMEN

In this part an attempt is made to present the Microfinance Sector in Yemen, followed by the profile of micro finance institutions in Yemen and the problems and challenges faced by MFIs. The microfinance industry is relatively new compared to other developing countries in the region. In 1998, the first microfinance program was launched by Social Fund for Development (SFD) and the Yemen Women's Union (YWU) and supported by Development Relief Agency (DRA) in Hodeida governorate targeting poor women in the rural area of Hays (south of Hodeida). At the end of 1998, the number of microfinance programs (Income Generating Programs) increased to be five and covered rural areas in Aden and Dhamar governorates. They provided mainly microcredit services to poor farmers such as cattle raising (sheep, goats and calves) and beekeeping. After a while, most of these programs were wither ceased or merged with other MFIs, due to lack of experience, poor organization, lacking diversification of microfinance services, poor market coverage, non-application of the best practices and poor infrastructures and services in the rural areas SFD, (2011)[4].

Table 1.1: SEEP REPORT, (2014) Profile of Micro Finance Institutions in Yemen

MFIs	Active Borrowers	Female %	Outstanding loan Portfolio(Million)	Rates			Cumulative Numbers from beg. of 2013	
				PAR %	OSS %	FSS %	No of Loans Disbursed	Value of Loans Disbursed
Al-Amal MF Bank	35,318	46%	2,140	0.60%	100%	56%	7,258	736
National MF Foundation	15,635	92%	644	3.95%	133%	90%	4,131	320
Nama MF Program	9,314	39%	587	3.07%	133%	103%	2,824	323
Aden MF Foundation	10,832	96%	674	0.%	231%	136%	2,691	276
Al-Thadhamon International Islamic Bank	8,787	37%	1,433	1.10%	116%	116%	8,631	2,105
Al-Awael MF Company	1,604	81%	47	22.24%	88%	55%	255	24
Azal MF Program	4,668	62%	355	6.05%	117%	78%	986	162
Wadi Hadramaut Credit Program	3,651	36%	467	10.32%	147%	118%	1,709	267
Al-Kuraimi Islamic MF Bank	7,023	3%	2137	0.33%	84%	84%	2008	919
Total	96,832		8,484				30,493	5,132

Source: SEEP REPORT, (2014)[5]P.P.1.

As shown in the above table that, the total number of active borrowers in Yemen reached 96,832 and 243,168 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 8,484 Billion. Likewise the cumulative number of loans is 30,493 loans with cumulative amount of YR 493,306 Billion. The reports further notes that Al-Amal Micro Finance Bank is the most active one among all other operators in the market with 35,318 active

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[3] (Lindsay, 2010)

[4] (SFD, 2011)

[5] (SEEP, 2014)

borrowers, 46% of them are women and 54% are men. Moreover, the total savers are 66,024. To sum up, the table shows that Al-Awael MF Company has the highest portfolio at Risk scoring 22.24%.

IV. SOCIAL PERFORMANCE

The social performance of an organization (whether a private-for-profit firm, cooperative or NGO) comprises the relations of the organization with its clients and with other stakeholder groups. Social performance is not equal to social impact, i.e. the change in welfare and quality of life (in all of its dimensions) among clients and non-clients (and the wider local, national and global community) due to the activities of an organization.

Following the Structure-Conduct-Performance (SCP) paradigm of industrial organization, the impact of an organization on socio-economic and environmental dimensions follows from its structure, conduct and performance and is influenced and/or conditioned by the external environment of the organization Zeller, M. et al, (2003)[6]

Social performance in microfinance reveals how effectively a MFI achieve its social objectives. According to CGAP (2009)[7], conventional evaluation has focused on ending results and impact. However, impact (which reflects changes in MFC or community conditions as a direct result of microfinance programs) is just one component of social performance. Social performance covers the entire process by which impact is produced.

Defining Dimensions of Social Performance With Respect To Microfinance
Based on the comprehensive literature review, the suggested definition of social performance can be summarized at the outset as follows:
The researcher in this study evaluates the social performance of microfinance institutions in Yemen based on the Four Dimensions Zeller, M., et al (2003) mentioned below:
1. Outreach to the Poor and Excluded: Mission and Targeting Strategies:
MFI have generally been developed to reach a population excluded from the classical financial system. MFIs can have the objective of reaching socially excluded populations or the poor, or simply to offer financial services in a region where classical banking systems are absent. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population.

2. Adaptation of the Services and Products to the Target Clients.
It is not enough to decide to reach a target population. The MFI must learn about the target population and work on the design of its financial services so that they can fit with the needs and the constraints of the clients. "Pro-poor" services are too often standardized. Social performance indicators can analyze the process leading to service definition and the extent to which the MFI knows about its clients 'needs.

3. **Improving Social and Political Capital of Clients and Communities:**
For the MFI, trust between the MFI and the clients can reduce the transaction costs and improve repayment rates. It thus can foster collective action and reduce free-riding, opportunistic behavior, and reduce risks. For the clients, strengthening their social and political capital can enhance their social organization (collective action, information sharing, political lobbying, etc.). Social performance indicators should measure the degree of transparency, the effort of the MFI towards giving voice to its client's within the organization and beyond (community, local government, national government, etc.).

4. **Social Responsibility of MFI**:
Social awareness is a necessary pre-requisite for socially responsible corporate behavior. Social responsibility requires an adaptation of the MFI corporate culture to their cultural and socio-economic context, an adequate human resource policy, credit guarantees adapted to the local conditions, and balanced relationships between staff and clients (in particular in MFIs where there are elected clients who participate in decision making).

V. REVIEW OF LITERATURE

Timothy, Lyman, R. et al (June, 2005) [8] Report of CGAP entitled "Multi Donor Mission Microfinance in Yemen", the report outlines the conclusions of the research mission. It builds on an extensive desk review and consultation with donor staff, representatives from the Yemen government [notably the Yemen Embassy, the Ministry of Planning and the Social Fund for Development (SFD)]

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[6] (Zeller, et al, 2003)

[7] (CGAP, 2009)

[8] (Timothy, Thierry, & Xavier, 2005)

and microfinance experts. The report also discussed the state of the development of the microfinance sector in Yemen which dated back to the late 1990s; the microfinance sector in Yemen is young compared with several other countries in the region. The outreach is still limited with just under 20,000 borrowers (88%women) and about 20,500 savers through 15 MFIs and programs (excluding Small Enterprise Development Fund) as of the end of 2004. The average loan balance of an MFI program is about $ 100 USD. Several MFIs are facing governance problems and repayment crisis, and fraud has been a significant problem in more than one instance.

The second part of this report was the diagnostic part which discussed following points:

- The current legal and regulatory framework applicable to microfinance activities in Yemen.
- Three primary pieces of legislation, and related implementing regulations, govern the formation, licensing and operation of commercial banks in Yemen: the law on banking, the law on Islamic banking and the law on the central bank.
- The interest rate Policies: it is unclear whether lending institutions in Yemen are free to establish their own interest rates.
- The tax Issues: legal entities formed under the law on public associations, corporations and organizations are not taxed on their net surplus of revenues over expenses.

The third part of this report discussed the prospects to scale up microfinance and increase outreach in rural areas is as follows:

Policy Reform
A- **Capacity Building**
B- **Building the Transparency Infrastructure**
C- **Bank Downscaling**
D- **Opportunities in Agricultural Finance**

Al-Zamzami, (2005)[9] study entitled "Microfinance Industry in Yemen", this study aims to present Microfinance industry in Yemen through one of the successful trial in the field of microfinance industry. The study shed light on evolution of microfinance industry in Yemen and the barriers and difficulties facing this industry which can be shown as the following:

- Non- availability of institutions capable of sustainable management programs.
- Lack of financial institutions especially in rural areas.
- Lack of training and development in microfinance industry.

The study also presents some information concerning lending and number of clients and accumulative number of borrowers. The study also shed light on the studies made by SFD (Social Fund for Development) as the SFD play an important role in establishing NMF (National Microfinance Foundation) which is considered to be the first Microfinance institution in Yemen providing financial services to the most poorest families. After that the researcher presents to the evolution of NMF and its methodology of lending and the most activities of the institution and a full study of its performance and its productive and operational capacity levels. The study recommends the following points 1) the importance of issuing legislation laws concerning organizing microfinance institutions in Yemen. 2) The importance of training in the field of microfinance because of shortage of specialists professionals in Yemen. 3) The necessity of availability of financial resources to cover the whole Yemen. 4) The necessity of introducing an automotive system because of wide spread of the activities of microfinance institutions.

Al- Iriani, K. A (Feb, 2002) [10] paper entitled "Microfinance In Yemen, Providing Financial Services to the Poor in Yemen", the paper stated that there are 16 microfinance initiatives in Yemen serving an estimated 7000 clients at the end of December 2002. Only 6 providers offer savings to about 3,000 clients. The total loan outstanding for all initiatives end of December 2002 is estimated YR 200 million. These are rather small numbers and only a very small portion of the market is served, but most microfinance providers could grow and expand. The paper found that the microfinance industry in Yemen is challenged by many barriers, most important of which are: limited capacity of intermediaries, cultural barriers, scattered population, and limited capacity of clients. In order to achieve a breakthrough, the Government of Yemen, donors, intermediaries, and clients, need to work together to develop a workable model to provide sustainable microfinance services.

Objectives of The Study

[9] (Al-Zamzami, 2005)
[10] (Al-Iriani, 2002)

The main objectives of this study are as follows:
1. To present a general profile of microfinance institutions in the country.
2. To evaluate the performance of MFIs in Yemen in terms of social performance.
3. To recommend, based on the findings, the most appropriate ways in order to enhance and improve the performance of the MFIs in Yemen.

Significance Of The Study:
Microfinance has gained a universal recognition as an important tool for reducing poverty in many developing countries. Performance concept relating to MFIs is a vital and crucial issue for many reasons such as: to ensure donors or/ investors effective and efficient utilization of billions of dollars invested in MF programs also help regulators in controlling and monitoring the MFIs, stating that inefficient MFIs represents a main constraint on the development of the microfinance industry. Therefore, performance evaluation is a good tool for managing MFIs and is a requirement for achieving sustainability, outreach, efficient, and effective utilization of the resources. To the best of my knowledge, there is no study done in my country to evaluate the microfinance institutions in terms of social performance.

It is also expected that the outcome of this research would help future researchers who would try to do additional research and also help MFIs partners, shareholders to have solutions to the challenges that are facing this sector in Yemen.

Figure 1
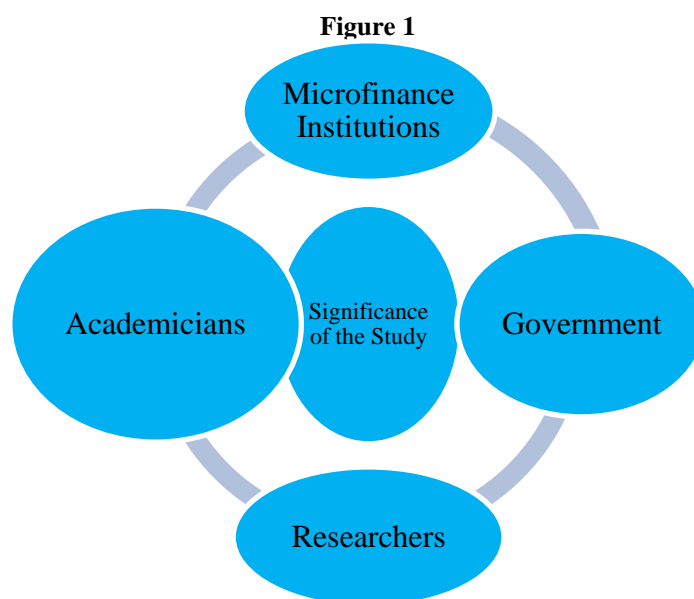
Source: Author, Dec.15.

Scope Of The Study
The scope of this study is covered 11 MFIs registered in the Yemen Microfinance Network (YMN) such as Sana'a Microfinance Program (Azal), Al-Amal Microfinance Bank, Small and Micro Enterprise Development Unit affiliated to the Social Fund for Development, Saba Islamic Bank, Al-Kuraimi Islamic Microfinance Bank, Al-Tadhamon Small and Microfinance program, and Wadi Hadhramaut Microfinance program. Thus, the study covered 11 MFIs in 4 governorates (Al-Amanah, Sana'a, Aden, and Hadramaut) which represent 78 percent of all microfinance institutions operating in the country. The study is an evaluation of the microfinance institutions in Yemen with regard to social performance.

VI. RESEARCH METHODOLOGY

It is a systematic and intensive study directed towards a more complete knowledge of the subject studied. All progress is born out of inquiry. 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. The research relies on the use of the deductive method. There are different ways

of conducting a research as Yin (1994)[11] mentioned five major research strategies namely experiment, survey, case study, archival and history.

6.1 Sample of the Study:

Samples can be of two natures: Probability samples and Non-Probability samples. The Probability sample implies that everyone within the subsets of the population has a non-zero probability of selection. Non-probability samples on the other hand imply that no attempt is made to ensure that a representative cross section of the population is achieved McDaniel and Gates, (1996)[12]. Selecting a sample procedure for this dissertation was never an easy task because it is tough to get a chance to interview senior MFIs professionals and easy access to fill up questionnaire through senior officials.

The sample procedure used in the questionnaire is non-probability sampling due to the nature of data available. The use convenience sampling is made; as the questionnaires have been, submitted by hand and also sent to senior MFIs professionals. 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.

The researcher conducted 159 questionnaire forms have been submitted during the first half of December 2015 to all 11 MFIs, they targeted Executive Managers, Branch Managers, Financial Managers, loan officers, operating Managers of various MFIs as they have good knowledge about the reality of MFI plus they are the decision makers. The received forms are 130 out of 159 with 82 percent.

Table 2: Sample Size of Micro Finance Institutions in Yemen.

Sr.No.	MFIs	Population	Sample Of the Study	No of Respondents	Total No of Respondent
1	Al-Amal MF Bank.	12	5	3	15
2	Cooperative and Agricultural Credit Bank.	33	12	3	36
3	Al-Tadhamon MF Program.	11	4	3	12
4	Al –Kuraimi Islamic MF Bank.	61	10	3	30
5	Saba Islamic Bank.	14	6	3	18
6	Aden MF Foundation.	5	2	3	6
7	National MF Foundation.	13	5	3	15
8	Nama MF Program.	4	2	3	6
9	Sana'a MF Program (Azal).	5	2	3	6
10	Wadi Hadramaut for Credit and Saving Program.	2	2	3	6
11	Small Enterprises Development Fund.	7	3	3	9
	Total	167			159

Source: (Author based on the Survey conducted during the study period).

As it is shown in the table above the total number of the financial institutions that provide finance to the micro and small enterprises in Yemen are 11 and the sample size are 159 respondents which represent 32 percent of the total population of the study. The researcher made survey, an open-ended interview with three respondents from each financial institution.

6.2 Data Collection:

The data of the study was collected in two ways: primary data and secondary data. The primary data was collected through survey, open ended interview. While the secondary data was collected from MFIs Annual reports, Yemen Microfinance Network (YMN), Social Fund for Development (SFD) Annual reports, Microfinance Magazine, reviewed literature, etc.

VII.   DATA ANALYSIS

The collected data is filled and analyzed using SPSS (Statistical Packages for Social Sciences). The statistical techniques used are - percentages, averages, and frequencies. In this study, the researcher also used T test for one sample, F test, Spearman correlation coefficients, Alpha Cronbach, and Relative Weights. The researcher also used Tables, Graphs, Charts to describe the performance of MFIs based on those answers in order to find out the weaknesses and strengths. In case of sorting questions with Likert scale, the scale has 5 degrees and the range is 5-1=4, so each degree range equal 4/5= 0.8**.**

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[11] (Yin, 1994)
[12] (McDaniel & Gates, 1996)

Table 3: Respondents Views regarding the Social Performance of Micro finance Institutions in Yemen

Statements	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	F	Sig	Mean	Relative Weight %
The Institution seeks to achieve its social objectives.	26.2	60.8	8.5	3.1	1.5	2.1	.003	4.07	81.4
The institution provides loans to large number of very poor clients.	11.5	30.8	13.8	29.2	14.6	2.1	.004	2.95	59.1
The institution provides loans to large number of less poor clients.	12.3	40.8	19.2	23.1	4.6	1.7	.028	3.33	66.6
The institution provides loans to youth clients.	7.7	54.6	26.2	10.0	1.5	2.3	.001	3.57	71.4
The institution provides loans to female clients	23.1	39.2	18.5	18.5	.8	1.8	.016	3.65	73.1
The institution provides loans and products in accordance with clients demand and requirements.	39.2	50.0	7.7	3.1	.0	4.2	.000	4.25	85.1
The re-payment period for loan is suitable with clients' ability.	31.5	53.1	10.8	3.8	.8	6.8	.000	4.11	82.2
The institution always evaluates customer satisfaction.	18.5	33.1	35.4	10.8	2.3	3.7	.000	3.55	70.9
An increase in the client business expansion after receiving the loan.	14.6	62.3	16.2	6.2	.8	2.8	.000	3.84	76.8
An increase in the client income and his family after receiving the loan.	16.9	60.0	20.8	2.3	.0	2.9	.000	3.92	78.3
The institution made training and qualified programs for the employees	33.8	42.3	13.8	8.5	1.5	2.7	.000	3.98	79.7
The institution made training and qualified programs for the borrowers	8.5	27.7	26.9	32.3	4.6	4.2	.000	3.03	60.6
The institution provides health insurance to the employees	26.9	46.9	10.8	10.0	5.4	1.0	.473	3.80	76.0
The institution makes exemption for the clients debts in case of his death	23.1	19.2	22.3	30.0	5.4	2.2	.002	3.25	64.9
The institution reschedules the time for loan payment in case of war and natural disasters.	19.2	41.5	16.9	19.2	3.1	2.0	.004	3.55	70.9
The institution work and activities is in accordance with community culture	30.0	54.6	8.5	6.9	.0	2.9	.000	4.08	81.5
The institution is working to achieve its social responsibility	34.6	40.8	14.6	10.0	.0	1.8	.018	4.00	80.0

Source: Primary Data.

VIII. FINDINGS OF THE STUDY

General Findings:

To Sum up, the main findings of the study are that micro finance institutions in Yemen are achieving social performance, working according to their goals, mission and social objectives, and providing loans according to clients needs and requirements. The study found that micro finance institutions in Yemen are also achieving social responsibility.

Specific Findings

The major Findings of this study regarding the social Performance are as follows:
1. The study showed that 87% of the respondents reported that microfinance institutions in Yemen are achieving social performance and working according to their goals and mission of the institutions towards achieving social objectives.
2. The study showed that 42.3% of the respondents respond that there are very less number of borrowers in micro finance institutions who are very poor.
3. The respondents of the study with 53.1% respond that there are large numbers of borrowers in micro finance institutions most of them are less poor.
4. The study also found that 62.3% respond that MFIs in Yemen provides loans to youth clients.
5. The study also found that 62.3% respond that MFIs in Yemen provides loans to female clients
6. The respondents of the study with 89.2% strongly respond that Microfinance institutions in Yemen are providing loans according to the client's needs and requirements.

7. The majority of the respondents with 84.6% of the total respondents of the study respond that the loan re-payment time is suitable with client's ability.
8. The study found that 51.6% of the total respondents respond that Microfinance institutions are evaluating their customer's satisfaction on the products and services they are providing to them.
9. The study also found that 76.9% of the total respondents of the study respond that there is an increase in client's business expansion after receiving the loan.
10. The study also found that 76.9% of the total respondents of the study respond that there is an increase in client's income and his family income after receiving the loan.
11. The study also found that 76.1% of the respondents respond that Micro finance institutions in Yemen are always making training programs for their employees.
12. Microfinance institutions in Yemen make exemption of client's debts in case of his death. It has been reported by 42.3% of the respondents.
13. Microfinance institutions in Yemen are achieving social responsibility. It has been reported by 75.4% of the respondents.

IX. SUGGESTIONS
The main important suggestions made by the researcher based on the findings of the study are as follows:
1. It is suggested that MFIs should increase the institutional capacity building and development.
2. It is also suggested that MFIs must make proper marketing strategies   for their products and services.
3. 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.
4. It is also suggested that there is a need to reduce the interest rate of borrowing as many people refuse to apply for such loans as they felt there is no different between micro finance institutions and commercial banks.
5. It is suggested that Micro finance institutions should enhance their role towards obtaining social objectives.
6. It is also suggested that MFIs should enhance the employee's passion toward the social mission.
7. It is also suggested that enhancing the role and awareness of MFI mission and services among the poor.
8. It is also necessary that MFIs must look for methods and techniques to increase their capital in order to provide more loans to large number of customers.

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