

Islamic Microfinance Institutions in Yemen: Problems And Prospects

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Abstract: *This empirical study aims to identify the Problems of Islamic Microfinance Institutions in Yemen. Also, it aims at identifying the prospects of Islamic Microfinance Institutions in Yemen. This study is mainly based on both primary and secondary data. The primary data was collected through survey while the secondary data was collected from the records of the Social Fund for Development, Yemen Microfinance Network, Microfinance Magazine, Consultant Group to Assist the Poor, Microfinance books, MFIs websites, and other sources related to the research subject. The main important findings of the study were that Islamic Microfinance Institutions in Yemen facing major problems such as weak judicial institutions in solving problems related to Islamic Microfinance, Islamic Microfinance Institutions clients cannot bring all the required warranties to get the loan, lack of lending culture in the Yemeni society and absence of private markets for micro entrepreneurs products. The study made appropriate recommendations & suggestions for alleviating and solving such problems in order to improve the performance of Islamic Microfinance institutions in the country and enhance their role in the economic development.*

Keywords: *Islamic Microfinance, Microfinance Institutions, Problems, Prospects, Yemen.*

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1. INTRODUCTION

The main objective of this study is to identify the major problems faced by Islamic Microfinance Institutions in Yemen. Moreover, the purpose of this study is to figure out the major challenges facing Islamic Microfinance institutions in Yemen. The study is based on both primary and secondary data. The researcher also based on the findings of the study suggested major recommendations for IMFIs in Yemen in order to overcome such challenges and problems and enhance their performance in order to contribute to the economic development of Yemen. The evolution of the microfinance industry has led to a greater focus on the financial viability of microfinance institutions (MFIs). A variety of measurements have been used to measure MFI performance, many of which have been recognized as standard indicators such as Operational Self-Sufficiency (OSS), Financial Self-Sufficiency (FSS), Efficiency, etc. On closer examination, it is evident that these standard indicators are being calculated and applied in different ways.

Islamic microfinance, as a relatively young industry, provides services particularly to meet the demand of a specific market whose members cannot accept the conventional financing product due to their adherence to Islamic principles. Thus, Islamic Micro Finance should be considered contributing to poverty alleviation, financial development and also financial inclusion because it offers unique characteristics with rich of values and human oriented. In practice, it has interest free approach; hence, it will not drag clients to debt trap and worse condition. Islamic Microfinance Institutions are considered as an effective tool for achieving the objective of financial inclusion. To achieve this objective it is necessary that IMFIs should be sustainable while reaching the poorest of poor. Islamic 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.

Forays into Islamic Microfinance have been few and scattered and of limited outreach. Some have been mandated by the state, but lack popular demand, other have emerged in response to popular demand, but lack regulatory support by the state. (Goud, 2007)¹, stated that millions of Muslim poor would have access to financial aid, where they are currently rejecting microfinance products due to its incompliance to Islamic law. An Islamic model of microfinance would propose a paradigm shift of social

enterprise, where profit and loss sharing that is being practiced widely in Islamic finance would replace interest-based financing of the current microfinance practice. The researcher presented the profile of Islamic Microfinance Institutions; number of active borrowers, outstanding loan portfolio, Number of loans disbursed, etc.

Table 1 Profile of Islamic Microfinance Institutions in Yemen

Al-MFIs	Number of Active Borrowers	Outstanding loan portfolio (Million YR)	Rates			Cumulative numbers from the beginning of activity		Active borrowers share for each member
			Portfolio At Risk	Operational self sufficiency	Financial self sufficiency	Number of loans disbursed	Value of loans disbursed	
Al-Amal MF Bank	40,819	2,765	0.33%	260%	163%	113,515	8,753	36.58%
National MF Foundation	18,242	806	3.78%	120%	86%	133,717	6,827	16.35%
Nama MF Development Program	9,964	667	2.67%	112%	91%	75,929	5,506	8.93%
Aden MF Foundation	14,757	980	0.00%	192%	125%	68,050	4,170	13.22%
Tadhamon MF Bank	7,886	1,271	2.66%	112%	101%	36,526	8,318	7.07%
Al-Awael MF Company	1,464	52	14.18%	97%	65%	57,220	2,135	1.31%
Azal MF Program	4,500	456	7.82%	93%	69%	45,224	2,422	4.03%
Hadhramaut MF Program	6,215	745	7.83%	144%	125%	20,069	2,064	5.57%
Al-Kuraimi Islamic MF Bank	7,750	2,047	0.51%	96%	89%	16,131	7,371	6.94%
Total	111,597	9,789				566,381	47,566	1

Source: Yemen Microfinance Network, (2015).

It is observed from the Table above that Al-Amal Microfinance Bank has the highest number of active microfinance clients around 40,819 and the total number of active borrowers was 111,597. Also, the Outstanding Loan Portfolio (Million YR), Al-Amal Microfinance Bank has 2,765 while the total of the Outstanding Loan Portfolio (Million YR) was 9,789. It is also noticed that Al-Awael Microfinance Company has the highest Portfolio at Risk by 14.18%.

1.1 Need for Islamic Microfinance

Honohan (2008)² claimed that an estimated 72% of people living in Islamic countries cannot access formal financial services. A survey conducted by CGAP in 2007 had revealed that Islamic microfinance had a total estimated outreach of 380,000 clients, which accounts for only 0.5 per cent of the total microfinance outreach. This is where the concentration of Islamic microfinance products is focused in several countries, with Indonesia, Bangladesh and Afghanistan being accounted for 80 per cent of the overall global outreach (Karim, Tarazi, & Reille, 2008)³, Karim & Khaled, 2011)⁴. In most Arab countries, microfinance institutions that have been established for 7 to 10 years would normally reach a number of 2,000 to 7,000 clients that actively uses these institutions' Islamic products while in contrast acquiring thousands of active clients for their conventional products.

1.2 Islamic Financial Products

Islamic financial products are complicated, unfamiliar to most, and poorly understood by many banking staff. Most of the lending is trade financing at a fixed margin (murabahah), which is felt to be little different from conventional banking, except that it requires two contracts by the bank: one with the seller and one with the borrower to whom the bank sells the commodity.

The strength of Islamic finance lies in its conservative character: only real transactions with sufficient collateral, but no speculative investments, are financed. This, however, has substantially reduced financings to start-ups and micro entrepreneurs without collateral; a major section of a potential microfinance market.

Islamic microfinance's exclusion of interest could alleviate a major criticism of conventional microfinance—namely the high interest rates charged on loans. Commonly available types of Islamic microfinance contracts that work in lieu of conventional loan agreements include⁵:

- Cost plus markup (murabaha)
 - Under the murabaha model, the MFI buys goods and resells them to the micro entrepreneurs for the cost of the goods plus a markup to cover administrative costs. The borrower often pays for the goods in equal installments, and the microfinance institution owns the goods until the last installment is settled.
- Profit and loss sharing (musharaka and mudaraba)
 - Musharaka is equity participation in a business venture where the MFI and the client share profits and losses according to a predetermined ratio.
 - Mudaraba is a form of trustee financing with one party acting as the financier and the other providing managerial expertise and executing the project; profits are shared according to a predetermined ratio while losses are borne entirely by the MFI.

1.3 Islamic Microfinance Institutions and Conventional banks

The table below shows the difference between Islamic Microfinance Institutions and Conventional banks.

Table 2 Comparison between Conventional Banks and Microfinance Institutions

Conventional Banks	Microfinance Institutions (MFI)
A profit-maximizing firm	Non-profit Government/Nongovernment Organizations
Financial Intermediary between savers and investors in the economy	Funds from external sources provided to the poor
Deposit forms the bulk of the Liability	Savings (forced) of the clients only
Does not include social/educational Programs	Deposits
Physical Collateral required to get Funds	Includes social/educational programs
Clients are relatively well-off	Social collateral through group and center formation
Clients come to the bank	Clients are poor
Amount of loan is large	MFI goes to the people
Capital and interest usually paid at the maturity of the contract	Amount of loan is small
Most clients are men	Capital and interest paid in weekly/monthly installments over a year.
	Most clients are women

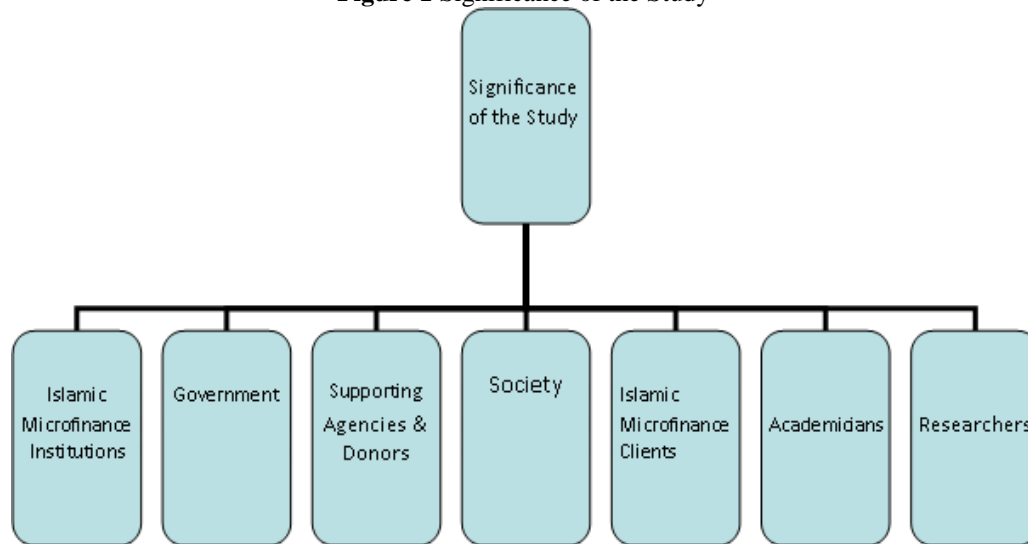
1.4 Significance of the Study

This study is intended to identify the major problems facing Islamic Micro Finance Institutions in Yemen. The researcher made appropriate recommendations for readdressing and eliminating them so that the IMFIs 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.

To the best of my knowledge, there is no study done in my country to identify the major problems facing Islamic Microfinance Institutions in Yemen. Hence, the current study is significant and is a good contribution to the body of knowledge: theoretically and practically.

The findings of the study would help policy makers to support IMFIs, which in return would create employment for the youth and also equip them with modern infrastructure. Furthermore, this study would help target groups to have solution to some of the problems facing IMFIs in Yemen. With the concerted efforts of all the microfinance institutions, banks, government officials, concerning authorities, MSEs Promoters, Non-Governmental Organizations (NGOs), Investors, etc., the researcher hope that the fortune of MSEs in Yemen would dramatically improve.

Figure 1 Significance of the Study



Source: Author

1.5 Objectives of the Study

The overall objective of this study is to identify the major problems facing Islamic Microfinance institutions in Yemen. The main objectives of this study can be stated as follows:

1. To present a general profile of Islamic Micro Finance Institutions in Yemen.
2. To identify the major problems facing Islamic Micro Finance Institutions in Yemen.
3. To recommend, based on the findings, the most appropriate ways in order to enhance and improve the performance of the Islamic MFIs in Yemen.

1.6 Hypothesis of the Study

In line with the above objectives of the study, the researcher formulated the following hypothesis:

H1: Islamic Micro finance Institutions in Yemen are facing major problems affecting their performance.

H01 Islamic Micro finance Institutions in Yemen do not face major problems affecting their performance.

2. REVIEW OF LITERATURE

After a long journey of searching earlier studies on the topic, the researcher found it very difficult as microfinance is still in its fancy stage. The researcher found only few studies concerning the topic.

Rahman, R., et al (2015)⁶. Paper entitled “Sustainability of Islamic Microfinance Institutions through Community Development.” The main objective of this paper was to present Islamic microfinance institutions in Malaysia. The two largest Islamic microfinance institutions in Malaysia, being AIM and Bank Rakyat, With that, there is a need to establish a proper Islamic microfinance community that would be better tailored for contexts employing Islamic principles rather than having only cosmetic changes to their operations and products to acquire the Islamic credential. IMC should be working towards triple bottom lines; social, spiritual well-being and financial sustainability. This aspiration highlights the need for collaboration between the existing Microfinance Institutions in Malaysia, Banks, Telcos, Government Agencies and other stakeholders (such as institutions of higher learning (e.g. ARI), Bank Negara Malaysia and Financial Service Providers). The financial system will promote justice when risks are shared between financier and entrepreneur and the system mobilizes resources and make them available for the poor through expansion of opportunities for investments, generation of employment and production to fulfill basic needs thereby contributing towards reduction in inequalities in income and wealth.

Yusuf, Tajudeen, Mobolaji, Abdul Hakeem (2012)⁷ paper entitled “The Role of Islamic Micro Insurance in Economic Growth and Development: The Nigerian Experience: A Case Study of Al-Barakah Microfinance Bank, Lagos.” The objective set for the present study

is to highlight the potentials inherent in Islamic microfinance as a growth and development tool in the developing economies; while showcasing Al-Barakah microfinance in Lagos-Nigeria. The tentative findings suggest that Islamic Micro insurance Company might be doing better than its conventional counterparts. The question then would be, —Bearing religious considerations, what could be the selling points for Islamic micro insurance as against the conventional micro insurance? More pointedly, —are there any unique features in Islamic micro insurance which offer better attractions to customers than conventional micro insurance? While taking the findings in perspective, customers' trust and confidence seem to be growing faster for the nascent company. For the company to sustain the present growth, the following suggestions are made: (1) The company should not be tempted by growing customers to compromise on quality service delivery. (2) The company should relentlessly focus on internal control mechanism to prevent fraud by its staff. (3) Disclosure, transparency and accountability should permeate all levels in the organization. (4) The supervisory and regulatory body should adopt prudent and risk-based approach of overseeing the company to sustain the current trust and confidence of customers.

Ghanem, M., (2010)⁸, study entitled “State of Islamic Micro finance in Palestine and the Prospects of its Development.” The study aimed to identify the state of Islamic micro finance in Palestine and determining the major challenges and barriers facing Islamic micro finance in Palestine. The major findings of the study was that The portfolio of Islamic micro finance institutions in Palestine was about 15.88% of the total active portfolio of all the Islamic micro finance institutions in Palestine till 31 December 2009 which indicated that it is very low percentage comparing to the high demand on Islamic Micro finance products in Palestine. The study recommend certain points such as the importance of implementation of Islamic micro finance products, the Islamic banks should open finance to micro and small projects in the country, and that the donors, supporting agencies and Islamic micro finance institutions in the country should work together to improve and enhance employees skills, capabilities in order to enhance the products and the role of Islamic micro finance institutions in the country.

Al-Haidi, M., (2009)⁹, study entitled “Evaluating the Self-Sustainability of Micro Finance Institutions in Yemen Using the Balanced scorecard Approach”. The study has reached many findings such as: only 12.5% of MFIs has reached FSS while only 50% of them has reached OSS; there is a weakness in general in the productivity of Yemeni MFIs; there is too weakness in term of using effective and differentiate funding sources; there is a weakness in the efficiency and the revenue growth strategies in general; MFIs are not satisfied about the role of government, community and clients to support MFI's mission; no focus on rural areas although there are the majority of poor and population too; weak sufficiency of campaigns that aim to enhance awareness of microfinance services among poor; the need to enhance capacities; and the weak role of voluntary work and contribution in MFIs.

Another study done by **Al-Tamimi, H. (2007)**¹⁰ entitled “Institutional Performance Evaluation of Micro finance Institutions in Yemen”, the study aimed to identify the institutional performance level of Micro finance institutions in Yemen. The study also recommended the following points 1) Concentration on reaching on the objectives of the financial and operational self sustainability. 2) Increase the interest and concentration in the coming phases of creative components of institutional performance. 3) To benefit from the pioneering financial experiments of the Arab world standard and the world standard , as the accumulative experiences have great effect in refining the financing experiments, raise their standards, avoid repetition of mistakes, and leads them to the best in this field.

Another study by **Rana, Mohd et al (n. d)**¹¹ “Islamic Microfinance in Palestine: Challenges and Prospects.” The objective of the paper is to identify challenges and opportunities in Islamic micro finance industry by reviewing the present status of Islamic microfinance in Palestine and later suggesting a multiple-stages financing model which will alleviate poverty significantly. The study suggested a financial framework incorporating several Islamic financial models and the sources of fund applying into different levels of

poverty in Palestine. The paper concludes with some policy recommendations, which may potentially create small entrepreneurs and alleviate poverty to a certain extent.

Another study done by **Islamic Institute for Research and Training (2008)**¹², a working paper entitled “Development of Islamic Microfinance: challenges and initiatives.” The study aimed to examine the challenges facing the Islamic Microfinance and providing initiatives and solutions to meet those challenges have paper dealt with Islamic Microfinance on three levels: micro (institutions microfinance products and resources) and middle level (financial structure) and the macro level (the political and regulatory framework). The study posed strategic initiatives as solutions to those challenges, and the findings of the study that the level of micro-stems of the major challenges faced by institutions that provide microfinance due to their organizational structures and diverse issues related to abide by Sharia law and the lack of product diversity and weak linkages with banks and capital markets.

Karim, Nimrah et al (2008)¹³, “Islamic Microfinance: An Emerging Market Niche.” The study presented the principles of Islamic finance, Development of the Islamic Finance Industry, Government Regulations, Government Promotion of Islamic Microfinance. According to the CGAP survey, Islamic MFIs¹³ reach 300,000 clients through 126 institutions operating in 14 countries and an estimated 80,000 clients through a network of Indonesian cooperatives. According to the survey, Bangladesh has the largest Islamic microcredit outreach, with over 100,000 clients and two active institutions. However, Bangladesh is also the country where conventional microfinance products have the largest outreach—nearly 8 million borrowers—and Islamic microfinance represents only 1 percent of its microfinance market.

In all Muslim countries, Islamic microfinance still accounts for a very small portion of the country’s total microfinance outreach. The supply of Islamic microfinance is very concentrated in a few countries. Indonesia, Bangladesh, and Afghanistan account for 80 percent of the global outreach of Islamic microfinance. In all other countries, microfinance is still in its infancy, with no scalable institutions reaching clients on a regional and national level. The authors suggested the following points: a) Building Sustainable Business Models, b) Capacity Building and c) Product Diversity.

3. RESEARCH METHODOLOGY

The research methodology was formulated after a detailed survey of the available literature and a general understanding of the Islamic Microfinance industry after interaction with a few executives across the levels in various Islamic Microfinance Institutions. The research methodology was arrived at after extensive survey of published information and a series of interaction with the executives, Branch Managers, Loan Officers, representing the industry specifically besides consultation with academia and experts.

Methodology refers to the choice of methods in planning and executing a research. (**Silverman, 2006**)¹⁴. **Easterby-Smith et al. (2008)**¹⁵ states, research methodology combines some techniques used to enquire into a specific situation that has become a way of approaching a question and a way of justifying an answer.

The main objectives of this empirical study are to identify the major problems that are facing Islamic Microfinance institutions in Yemen. The second objective of this study is to recommend and suggest proposed strategies to overcome such problems and enhance the performance of IMIs in the economic development of the country. The study is based on both primary and secondary data. The sample procedure used in this study is non-probability sampling due to the nature and availability of data available and it is suitable for this study.

In this study, the researcher analyzed the data using F test Mean, and relative weight. The researcher tested the hypotheses of the study using Pearson Correlation Coefficient to find out the correlation between the performance of IMIs and the problems that they are facing.

3.1 Research Design

A research design was devised in a more traditional fashion specifying the research strategy. The research strategy will use the multi- methods approach to dig in and gather more information about the problems facing Islamic Microfinance Institutions in Yemen. The

growth of Islamic Microfinance institutions is phenomenal as it is being reflected by the entry of new Islamic Microfinance Institutions into the market. However, the growth of IMFIs industry is linked with successful implementation of good performance of Islamic Microfinance Institutions. Thus, the research design of the study is divided in this manner.

3.1.1 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)¹⁶**. Selecting a sample procedure for this study was never an easy task because it is tough to get a chance to interview senior IMFIs professionals and get easy access to fill up questionnaire through senior officials. Thus, the researcher selected senior Islamic microfinance institutions, Executive Officers, Branch Managers, Loan officers as they have more knowledge about microfinance operations and they are the decision makers.

The sample procedure used in this study is non-probability sampling due to the nature and availability of data, it is also suitable for this study. The use of convenience sampling is made; as the questionnaires have been, submitted by hand to senior IMFIs professionals. The sample size for the study was 11 IMFIs located in 4 governorates (Al- Amanah, Sana'a, Aden and Hadramaut) which represent 78 percent of all micro finance institutions in Yemen.

In this study 159 questionnaire forms have been submitted during the first half of December 2015 to all 11 IMFIs, they targeted Executive Managers, Branch Managers, Financial Managers, Loan Officers, and Operating Managers of various IMFIs as they have good knowledge about the work of IMFIs and they are the decision makers. The received forms are 130 out of 159 with 82 percent.

Table 3 Sample Size of Islamic 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.

3.4 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 IMFIs Annual reports, Yemen Microfinance Network (YMN), Social Fund for Development (SFD) Annual reports, Microfinance Magazine, reviewed literature, etc.

4. 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, and Relative Weights. Furthermore, the researcher also used Tables to present the major problems facing IMFIs 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 $4/5=0.8$.

4.1 Data Description

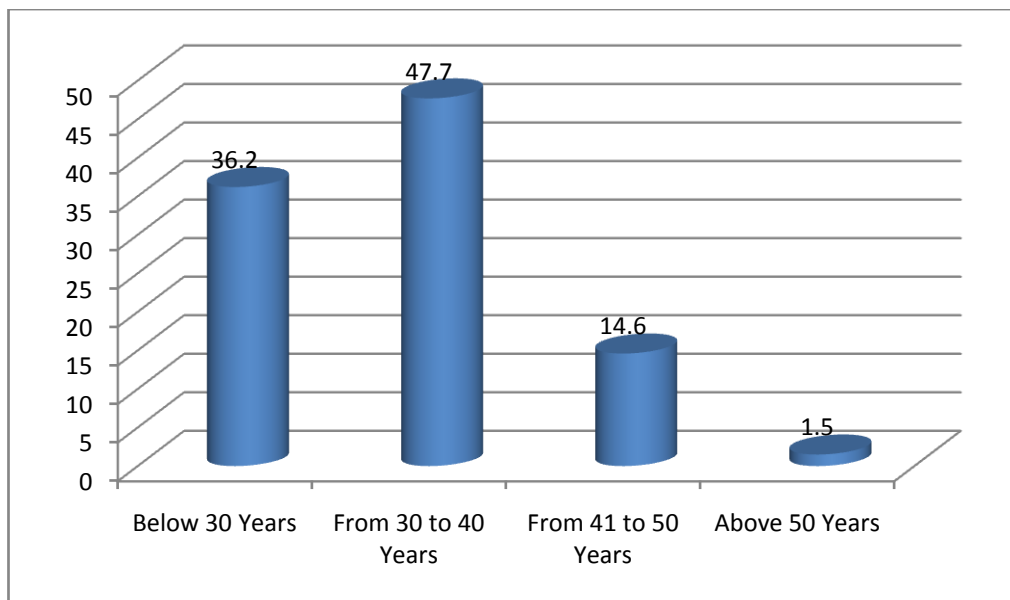
4.1.1. Age-wise Distribution of the Respondents

Table 4 Age-wise Distribution of the Respondents

Age	Below 30 Years	From 30 to 40 Years	From 41 to 50 Years	Above 50 Years	Total
%	36.2%	47.7%	14.6%	1.5%	100
Frequency	47	62	19	2	130

Source: Primary Data.

It is observed in Table 4 that 47.7 percent of the individuals involved in the study fall within the age of 30 to 40 years, which means that they are in matured age and the decision makers of the microfinance institution as well. And 36.2 percent are under the age of 30 years, and 14.6 percent within the category of 41 to 50 years, and 1.5 percent above fifty years.



Graph 1 Age-Wise Distribution of Respondents

Source: Primary Data

4.1.2 Years of Experience-wise Distribution of Respondents

Table 5 Years of Experience-wise Distribution of Respondents

Years of Experience	Below 3 Years	From 3 to 10 Years	Above 10 Years	Total
%	33.8%	44.6%	21.5%	100
Frequency	44	58	28	130

Source: Primary Data.

It is observed in Table 5 that 33.8 percent had less than 3 years of experience, and that 44.6 percent of the members of this study holding experience from 3 to 10 years, and that 21.5 percent of the respondents have experience above 10 years and this means that two-thirds of individuals working in microfinance institutions in Yemen have a cumulative experience of more than three years. In addition to that it is clear that 66.1 percent of the respondents have more experience and they are more professional in the micro finance field than others.

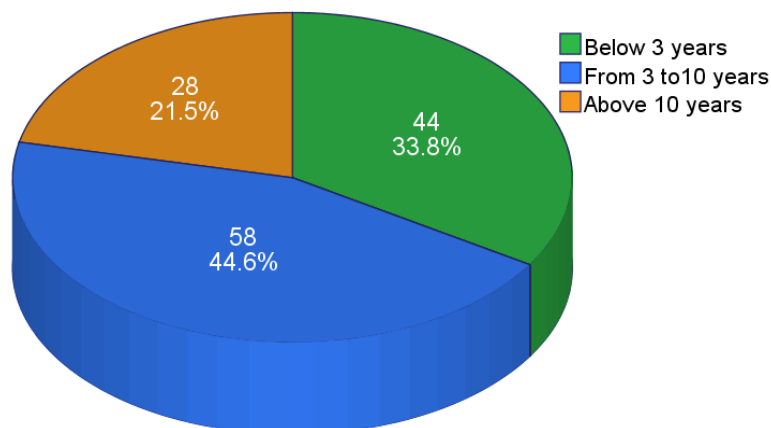


Chart 1 Years of experience-wise Distribution of the Respondents

Source: Primary Data.

4.1.3 Validity and Reliability of the Study

The Table below analyzed the reliability and validity of the study using Correlation Coefficient.

Table 6 Correlation Coefficients between each statement in this scope with the overall average of the Scope

Sr. No.	Statement	Pearson Correlation Coefficient (R) %	Sig	Relationship
1.	Lack of qualified and well trained employees in Micro finance	44.0	.000	Positive
2.	Lack of infrastructure facilities (internet and electricity) continuously.	37.7	.000	positive
3.	The institution lacks of internal control and auditing.	56.2	.000	positive
4.	The institution does not make marketing programs for it products and services adequately.	59.3	.000	positive
5.	The institution lacks of adequate capital for financing Micro and Small projects.	56.7	.000	positive
6.	Limited donors and supporting agencies to Micro finance in Yemen.	52.4	.000	positive
7.	High interest rate per a single loan.	52.3	.000	positive
8.	Clients do not pay their loan installments on time.	57.7	.000	positive
9.	Weak legislation and law about organizing Micro finance work in Yemen.	58.2	.000	positive
10.	Weak judicial institution in solving the problems related to Micro finance.	49.6	.000	positive
11.	Instability of exchange rate has a negative impact on institution performance	39.6	.000	positive
12.	Clients in ability to conduct project feasibility study.	60.6	.000	positive
13.	Client inability to bring all adequate warranties to get the loans	49.5	.000	positive
14.	Lack of lending culture in local communities.	57.9	.000	positive
15.	Absence of private markets for entrepreneurs products.	61.6	.000	positive

Source: Primary Data.

It is observed in table 6 that the smallest correlation coefficient was 37.7% and was statistically significant while the largest correlation coefficient was equal to 61.6%, which indicates a strong positive relationship and this relationship is statistically significant at the level of significance of alpha = 0.05, where the value of the SIG less than 0.05 and this is statistically significant. In general, all the values of correlation coefficients were greater than 37.7% and were statistically significant at the 0.05 level of significance, which confirms that these group statements have strong correlation with the overall average of the scope of the study which underlines the validity of the general content of this scope.

The researcher use Two Split –Half Test between individual items and marital items, where we found that the correlation coefficient is equal to 74.5 percent and calculates the correlation

using the Spearman Correlation Coefficient Brown equation we found that the reliability coefficient is equal to

$$\text{Reliability Coefficient} = \frac{2 \times 0.745}{1 + 0.745} = 0.853$$

It is statistically significant coefficient and accepted reliability.

4.1.4 Analyzing the Problems Facing Islamic Micro Finance Institutions in Yemen

In this part, the researcher analyzed the problems facing Islamic Micro finance Institutions in the country in this manner.

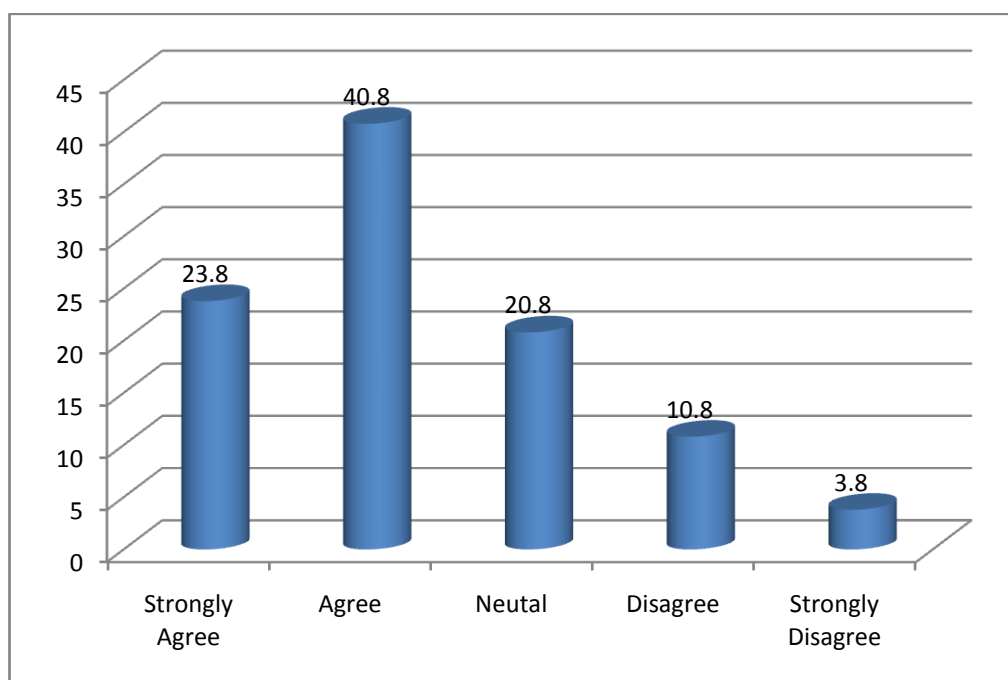
Table 7 Respondents views regarding the Problems facing Islamic Micro Finance Institutions in Yemen.

Sr. No.	Statements	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	F	Sig	Mean	Relative Weight %
1.	Lack of qualified and well trained employees in Islamic microfinance	6.2	33.1	20.8	33.8	6.2	2.0	.004	2.99	59.8
2.	Lack of proper infrastructure facilities continuously	5.4	20.0	19.2	43.1	12.3	1.2	.272	2.63	52.6
3.	The institution lack of internal control and auditing	3.8	13.8	20.8	43.1	18.5	2.8	.000	2.42	48.3
4.	The institution does not make marketing programs for its products and services adequately	6.9	24.6	17.7	37.7	13.1	2.8	.000	2.75	54.9
5.	The institution lacks of adequate capital for financing micro and small projects	11.5	26.2	19.2	31.5	11.5	2.7	.000	2.95	58.9
6.	Limited donors and agencies supporting Islamic micro finance institutions in Yemen	26.2	36.9	21.5	10.8	4.6	2.4	.001	3.69	73.8
7.	High interest rate per a single loan	17.7	41.5	24.6	12.3	3.8	2.9	.000	3.57	71.4
8.	Clients do not pay the loan installments on time	19.2	46.2	15.4	16.2	3.1	2.2	.002	3.62	72.5
9.	Weak legislation and law about organizing micro finance work in Yemen	23.8	40.8	20.8	10.8	3.8	2.7	.000	3.70	74.0
10.	Weak judicial institutions in solving the problems related to micro finance	41.5	35.4	14.6	5.4	3.1	2.0	.004	4.07	81.4
11.	Instability of exchange rate has a negative impact on institution performance	24.6	33.8	26.2	13.1	2.3	1.9	.009	3.65	73.1
12.	Clients inability to conduct project feasibility study	24.6	46.9	18.5	8.5	1.5	3.1	.000	3.85	76.9

Sr. No.	Statements	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	F	Sig	Mean	Relative Weight %
13.	Clients inability to bring all adequate warranties to get the loans	25.4	53.1	12.3	7.7	1.5	2.7	.000	3.93	78.6
14.	Lack of lending culture in Yemeni Society	31.5	46.2	16.2	4.6	1.5	3.5	.000	4.02	80.3
15.	Absence of private markets for entrepreneurs products	41.5	43.8	9.2	3.1	2.3	3.7	.000	4.19	83.8

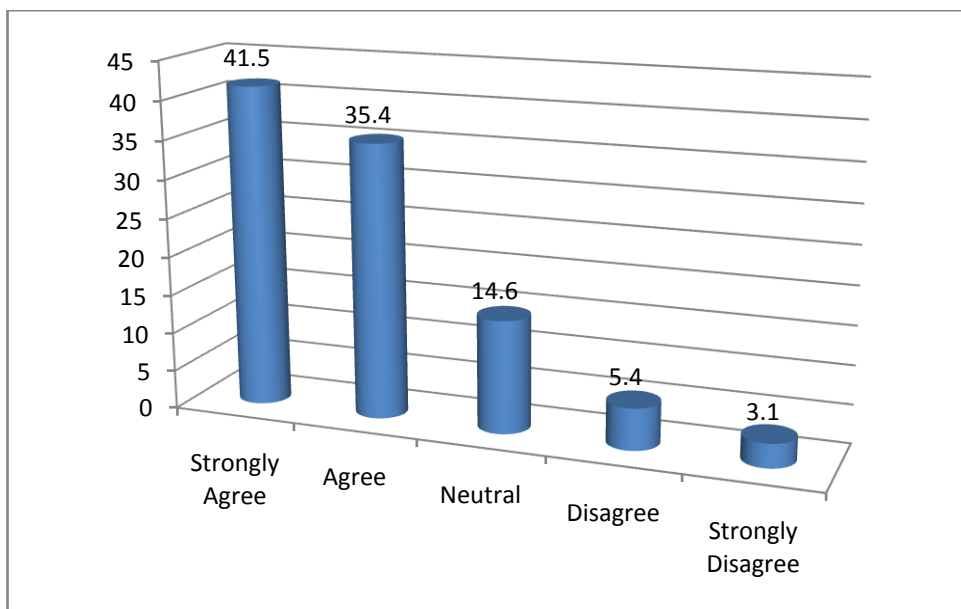
Source: Primary Data, December (2015).

The ninth statement in Table 7 shows that 64.6 percent agree that microfinance institutions in Yemen suffer from weak legislation and law concerning organizing micro finance institutions. While 20.8 percent are Neutral. In the contrast, 14.6 percent disagree with the statement mentioned above. The arithmetic mean is 3.70 percent and the relative weight is 74.0 percent which indicates that microfinance institutions in Yemen suffer from weak legislation and law concerning organizing micro finance institutions.



Graph 2 Weak legislation and law about organizing Islamic Micro finance work in Yemen

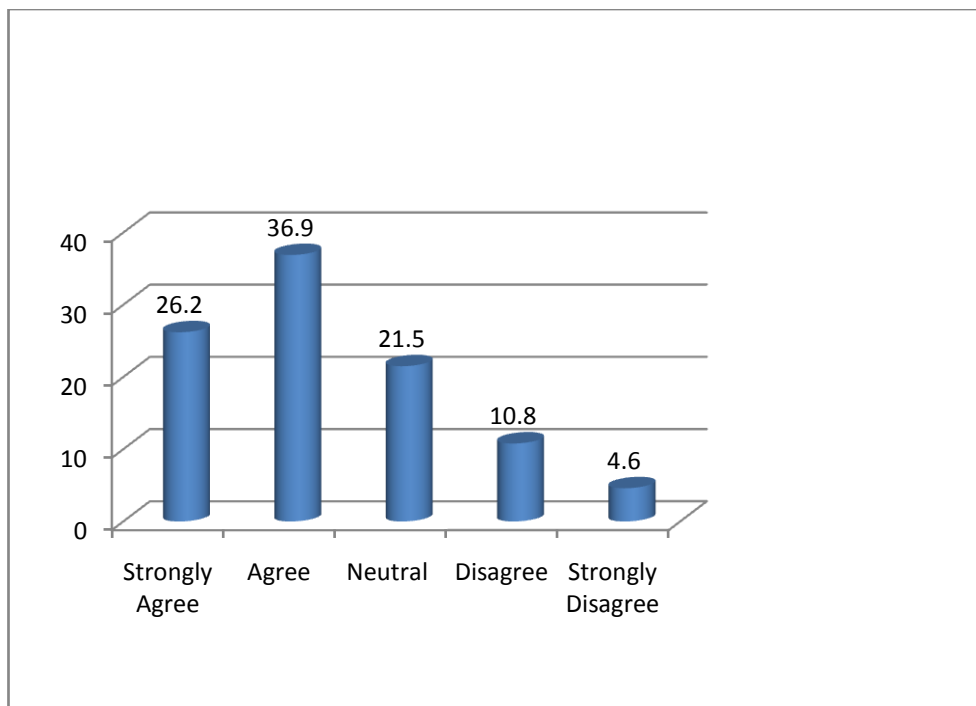
The Tenth statement in Table 7 shows that 76.9 percent agree that microfinance institutions in Yemen suffer from weak judicial institution in solving the problems concerning organizing micro finance institutions. While 14.6 percent are Neutral. In the contrast, 8.5 percent disagree with the statement mentioned above. The arithmetic mean is 4.07 percent and the relative weight is 81.4 percent which indicates that microfinance institutions in Yemen suffer from weak judicial institution in solving the problems concerning organizing micro finance institutions.



Graph 3 Weak judicial institutions in solving the problems concerning organizing Islamic Micro finance Institutions in Yemen

Source: Primary Data.

The sixth statement in Table 7 shows that 63.1 percent agree that Islamic Micro finance institutions in Yemen lack of limited donors and supporting agencies to microfinance institutions in Yemen. While 21.5 percent are Neutral. In the contrast, 15.4 percent strongly disagree with the statement mentioned above. The arithmetic mean is 3.69 percent and the relative weight is 73.8 percent which indicates that micro finance institutions in Yemen lack of limited donors and supporting agencies.

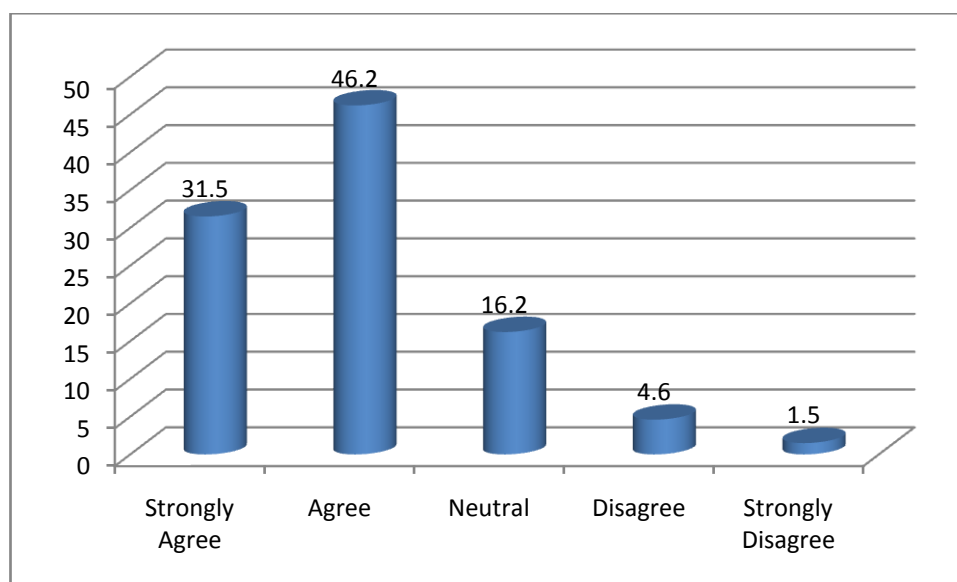


Graph 4 Limited donors and agencies supporting Islamic Micro finance Institutions in Yemen

Source: Primary Data.

The Fourteenth statement in Table 7 shows that 77.7 percent agree that lack of lending culture in the Yemeni society. While 16.2 percent are Neutral. In the contrast, 6.1 percent disagree with the statement mentioned above. The arithmetic mean is 4.02 percent and the relative weight is 80.3 percent

which indicates that lack of lending culture in the Yemeni society is one of the major problems facing microfinance institutions in Yemen.



Graph 5 Lack of lending culture in Yemeni Society

Source: Primary Data.

4.2 Hypothesis Testing

To test the hypothesis of the study, the researcher used Pearson Correlation Coefficient.

Table 8 Pearson Correlation Coefficient between the performance development of Islamic Microfinance Institutions and the challenges facing them.

Scope	Test	Value of the Test
Challenges facing MFIs in Yemen	Correlation coefficient R	72.2%
	Sig	.000
	N	130

Source: Primary Data.

Testing this hypothesis the researcher used Pearson test for the correlation at the significance level of 0.05, where it was found through the use of Pearson test that the value of the Correlation Coefficient (R) = 72.2% and the value of the level of SIG = .000 and this statistically significant at 5 percent level of significant which means that there are major challenges facing micro finance institutions in Yemen. Thus, the Alternative hypothesis (H1) is accepted and the Null Hypothesis (H0) is rejected.

5.FINDINGS OF THE STUDY

The major findings of this study regarding the problems facing Islamic Microfinance Institutions in Yemen are as follows:

1. Islamic Microfinance Institutions in Yemen do not lack of qualified and well trained employees. It has been reported by 40% of the respondents.
2. Islamic Microfinance Institutions in Yemen do not lack of infrastructure facilities. It has been reported by 55.4% of the respondents.
3. Islamic Microfinance Institutions in Yemen do not lack of internal control and auditing. It has been reported by 61.6%.
4. Islamic Microfinance Institutions in Yemen are making good marketing programs for their products and services. It has been reported by 50.8% of the respondents.
5. Islamic Microfinance Institutions in Yemen do not lack of adequate capital for financing micro and small projects. It has been reported by 43% of the respondents.
6. The study found that another major challenge facing Islamic Micro finance Institutions in Yemen is limited donors and supporting agencies to Islamic Microfinance in Yemen. It has been reported by 63.1% of the respondents.

7. The study found that another major challenge facing Islamic Micro finance Institutions in Yemen is IMFIs are getting high interest rate per a single loan from their borrowers. It has been reported by 59.2% of the respondents.
8. The study found that another major challenge facing Islamic Micro finance Institutions in Yemen is Islamic Microfinance institutions borrowers do not re-pay their loan installments on time. It has been reported by 65.4% of the respondents.
9. Another major problem facing Islamic Microfinance Institutions in Yemen is weak legislation and law concerning organizing Islamic Microfinance work in Yemen. It has been reported by 64.6% of the respondents.
10. The study found that another major challenge facing Islamic Micro finance Institutions in Yemen is weak judicial institutions in solving problems related to micro finance. It has been reported by 76.9% of the respondents.
11. The study found that another major challenge facing Islamic Micro finance Institutions in Yemen is instability of exchange rate. It has been reported by 58.4% of the respondents.
12. The study also found that Islamic Micro finance Institutions borrowers/ clients are unable to conduct project feasibility study. It has been reported by 71.5% of the respondents.
13. The study also found that Islamic Micro finance Institutions borrowers/ clients are unable to bring all adequate warranties to get the loan. It has been reported by 78.5% of the respondents.
14. The study also found that Islamic Micro finance Institutions in Yemen facing another challenge such as lack of lending culture in the Yemeni society. It has been reported by 77.7% of the respondents.
15. The study also found that Islamic Micro finance Institutions in Yemen facing another major challenge such as absence of private markets for entrepreneur products. It has been reported by 85.3% of the respondents.

6. SUGGESTIONS OF THE STUDY

The main important suggestions made by the researcher based on the findings of the study for the development of a healthy Islamic Microfinance sector in Yemen are as follows :

1. There is a need to establish a proper Islamic microfinance community that would be better tailored for contexts employing Islamic principles rather than having only cosmetic changes to their operations and products to acquire the Islamic credential. Islamic Microfinance Community (IMC) will offer subsidized services to the entrepreneurs by providing training free of charge as part of the institution's social responsibility.
2. Financial inclusion among the community would help to break the vicious cycle of poverty and help to uplift the standards of living of the poor.
3. The need for collaboration between the existing Microfinance Institutions in Yemen, Banks, Government, and Non- government Organizations to support Islamic microfinance banks and institutions, can improve Islamic Microfinance products to reduce transaction costs rather than passed them onto clients.
4. The need for establishment of Islamic Microfinance Banks with their branches all over the country in both rural and urban areas.
5. It is suggested that microfinance institutions should increase the institutional capacity building and development.
6. It is suggested that Islamic Microfinance Institutions should implement a strategic plan for expansion and diversification of financial, technical products and services supplied to SMEs.
7. It is very necessary that Islamic Microfinance Institutions should make trainings and Self-Start program for their borrowers so that they know how to manage their projects and how to face risks in the future.
8. Partnership modes of financing are best suited for Muslim communities and it enhances productivity and wealth sharing in the society. It links the capital owner with the user in a cooperative way and developmental manner. Islamic microfinance could work with other networks such as retailers and wholesalers in a cooperative manner to achieve business success of micro-entrepreneurs.
9. It is also suggested that Islamic Microfinance Institutions must make proper marketing strategies for their products and services.
10. It is also necessary that Islamic Microfinance Institutions must look for methods and techniques to increase their capital in order to provide more loans to large number of customers and obtain financial self-sustainability.
11. It is also suggested that the government should improve the environment for micro enterprises through the enabling the access to market and building proper infrastructure

12. It is also suggested that the transaction cost in microfinance institutions should be reduced to enable the provision of reasonable products and services to underserved people.
13. Microfinance institutions should provide proper training to their employees concerning the field of microfinance such as how to attract customers, how to deal with bad loans, nonpaid loans, risk and etc.
14. The keys to building a sustainable microfinance operation, IMIs need dedicated and competent managers supported by well-trained and motivated staff. The employees need to be well trained in banking, finance, investment, product awareness, entrepreneurship development and community development to enable them to impart their knowledge to the community effectively.
15. Islamic Microfinance Institutions must reduce their operational costs to the minimum level and must make research and follow strategies to reduce such costs.
16. It is also necessary that Islamic Microfinance Institutions should enhance the role of Research and Development.
17. It is also suggested that micro finance institutions should adopt multiple lending models and methodologies.
18. It is also suggested that micro finance institutions should make an integration of various microfinance products.

6.1 Prospects of Islamic Microfinance Institutions

Islamic microfinance, as a relatively young industry, provides services particularly to meet the demand of a specific market whose members cannot accept the conventional financing product due to their adherence to Islamic principles. Thus, Islamic Micro Finance should be considered contributing to poverty alleviation, financial development and also financial inclusion because it offers unique characteristics with rich of values and human oriented. In practice, it has interest free approach; hence, it will not drag clients to debt trap and worse condition.

In spite of the major problems faced by IMIFs, the performances of Islamic microfinance in general are quite promising. Evidences from the impacts studies also provide good results on how Islamic microfinance can improve economic and social well being of the clients, although in certain areas improvement is still required, particularly dealing with improvement of regulation and provision of trainings in social development both for institution's employees and borrowers.

To sum up, the prospect of Islamic Microfinance Institutions in Yemen is promising.

7. CONCLUSION

Microfinance has gained a universal recognition as an important tool for reducing poverty in many developing countries. Microfinance institutions are considered as an effective tool for achieving the objective of financial inclusion. Forays into Islamic microfinance have been few and scattered and of limited outreach. Some have been mandated by the state, but lack popular demand, other have emerged in response to popular demand, but lack regulatory support by the state. Islamic microfinance, lacking broad popular demand and Islamic banking expertise, so far has been more a political than an economic project in Indonesia. Experience differs substantially by sub-sector. Only commercial banks appear to be able of quickly acquiring the art of Islamic banking by training young and dynamic people; but most of the commercial banks lack experience in microfinance as a specialized field. Islamic, unlike conventional, rural banks, have failed to prove themselves as efficient and dynamic providers of microfinance services. Unsupervised Islamic, like conventional, cooperatives are an outright menace to their member-shareholders and depositors, who risk losing their money.

This study is intended to identify the major problems facing Islamic Micro Finance Institutions in Yemen. Another important finding of the study is that Islamic Microfinance Institutions in Yemen facing major challenges such as weak judicial institutions in solving problems related to micro finance, clients inability to bring all the adequate warranties in order to get the loan, lack of lending culture in the Yemeni society and absence of private markets for entrepreneurs products. The study made appropriate recommendations & suggestions for minimizing and solving such problems in order to improve the performance of Islamic Microfinance institutions in the country.

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