Chapter – I

Introduction and Methodology
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INTRODUCTION AND METHODOLOGY

1.1 Introduction

The past three decades have witnessed the emergence of financial institutions called Microfinance Institutions (MFIs) in the rural financial landscape, with the interest of providing financial products and services to the poor people in the society. The situation has arisen because the poor section of the people was not able to obtain the financial services offered by formal financial institutions that are traditionally designed for the class of people who are found to be a viable category for their commercial finance activities. This emergence of new MFIs enables the poor to access micro loans, increases the household’s income, and improves the welfare of the family and advances the economic status of poor households. Since the target group for the microfinance hails from poverty sector, the term microfinance has been defined explicitly as “The provision of financial services to low-income people”, (The Consultative Group to Assist the Poor [CGAP] & Microfinance Gateway, n. d. para.1).

When the values of micro-credit have been recognised in many developing and under developing regions in the world, microfinance products, and services have gradually taken different forms and sizes according to the demand for supporting and improving the standard of livings of the poor in the society. They mostly aim at creating new job opportunities and mitigating poverty for the largest excluded population groups in the community who cannot avail of the financial products and services offered by the traditional banks. It is believed that “In most developing countries, licensed banks typically serve no more than 5 to 20 percent of the population” (Gallardo, Ouattara, Randhawa & Steel, 2005, p.13). Furthermore, it is estimated that “Fifty percent of adults worldwide do not have an account in a formal financial institution—a bank, credit union, cooperative, post office, or microfinance institution. These 2.5 billion “unbanked” adults lack a safe place to save and are likely to have only limited access to credit” (Demirguc-Kunt
Hence, the financial gap between supply and demand could not be bridged to cover the needs of the needy people in their respective countries. Presently, the development strategy of microfinance has gained vital space in academic thoughts and theories of modern economy towards reducing the yearly growing number of poor people in the world. The need for a strategic microfinance planning arose due to the limited available resources for funding and the increase competition in the liberalised market economies.

Poverty has become a multifaceted phenomenon in the modern society. In spite of the huge effort spent on the process of poverty reduction in the world particularly in East Asia, for it was estimated that “there are still about 1.4 billion people living on less than US $1.25 a day, and close to 1 billion people suffering from hunger,”. In addition, it was reported also “at least 70 percent of the world’s very poor people are rural, and a large proportion of the poor and hungry are children and young people,” (The International Fund for Agricultural Development [IFAD], 2011, p.16).

With the given inadequacies in the implementation of strategies for alleviating poverty, it remains a primarily rural problem as the majority of the world’s poor live in rural areas. These people will likely remain poor persistently in the future and coming decades. While microfinance is gaining momentum in the financial market with the policy driven for inclusion of low-income people, it is interesting to observe that when the United Nations (UN) declared the 2005 year as an international year for microfinance, it gave an immense international recognition to the important role played by microfinance and its programs. It has gained its significance due to the importance of its financial products and services necessary for building financial system that is open to all, and in terms of the importance of microfinance projects.

Microfinance programs offer employment opportunities and raise the living standards of the low-income people particularly poor people who reside in rural areas. This recognition provides a prospect for a comprehensive and sustainable development of microfinance sector, principally in a world where “roughly 4 billion people living in developing countries and emerging economies do not have access to financial services such as credit, saving and insurance”
(Sjauw-Koen-Fa & Vereijken, 2005, p.1). However, despite the tremendous efforts exerted by the United Nations (UN) and the International Monetary Fund (IMF) to reduce poverty, it is still believed that, the poor people residing in rural areas still face many procedural obstacles and challenges in their access to financial services. These challenges can be many; however, the majority of them may include the refusal of formal financial institutions to finance the rural areas due the high transactions costs incurred and high risks. Adding to the factors mentioned earlier are the remoteness of financial institutions locations, the inability of the poor people to provide necessary official documents required for sanction of loans, high interest rate charged, lack of required collaterals, high financial illiteracy, poor infrastructure etc.

These obstacles coupled with other challenges are considered the most prominent as they render rural enterprises from accessing the formal financial services. In addition to that, the situation was exacerbated more because of the intensification and the multiplicity of risks encountered in running small rural enterprises with the borrowed finance, and the absence of appropriate mechanisms to manage these risks and reduce them.

Poverty and unemployment are currently gaining greater interest at the global as well as the local level as major problems. Worldwide, three billion persons are estimated to have jobs; yet, their jobs vary greatly. There are around 1.65 billion people who are employed and who receive regular salaries; another 1.5 billion work in farming and small household businesses or in any seasonal day labour. “Presently, 200 million people, a disproportionate share of them youth, are unemployed and actively looking for work. Almost 2 billion working-age adults, the majority of them women, are neither working nor looking for work, but an unknown number of them are eager to have a job,” (The World Bank [WB], 2013, p.3-5). It is further estimated that “over 201 million were unemployed in 2014 around the world, over 31 million more than before the start of the global crisis. And global unemployment is expected to increase by 3 million in 2015 and by a further 8 million in the following four years,” (International Labour Organisation [ILO], 2015, p.11). In the Arab region, it is actually a bit difficult to compute the exact figures of unemployment; still, it is projected that the unemployment rates
can be between (10%-15%) in Algeria, Lebanon, Egypt, Jordan, Morocco, Syria, and Tunisia. Remaining countries such as Libya, Sudan, and Yemen, the rate can be between (16%-20%). In Mauritania and Somalia, the rate exceeds more than (30%) (Jelili, n. d, p.2).

Regarding Yemen that is considered the poorest country in the Arab region, it has less experience in microfinance sector compared to other states in the region. The country is also surrounded by many political uncertainties and primary economic issues. Hence, it was very essential for the Yemeni government and the United Nations (UN) to intervene for rejuvenating the country from the largest economic downturn. In this regard, the government of Yemen has taken many development initiatives in cooperation with the financial institutions, international donors, and experts for the establishment of an independent body capable of providing small and micro financial services in a better way to the poor people in the country. For the most part, these initiatives have to be directed to assist over (47%) of the population living under the poverty line on less than € 2 per day (European Commission, Humanitarian Aid, and Civil Protection [ECHO], 2015). The government in cooperation with some of the international bodies and donors established the so-called The Social Fund for Development (SFD) in the year 1997. The SFD aimed to increase the creation of new employment opportunities and mitigate poverty phenomenon in the country.

The fund since then considered microfinance as an essential tool for sustainable economic development for the said purposes in Yemen. The SFD later established and supported different types of microfinance institutions through providing them with the required fund to finance the small and micro entrepreneurs. According to the records of the SFD published in July 2015, there are 11 microfinance institutions operating in the market represented by different forms other than the MFIs that do not report to the SFD. These microfinance institutions have outreached 114, 544 active clients and 698, 404 savers, both men and women, under all programs collectively. In spite of this progress, the process of extending financial services to small and micro enterprises in Yemen still faces various social and cultural barriers that resent the idea of borrowing with interest as it is considered a forbidden practice and against the Islam Shariah principles.
Moreover, another major issue is produced by the absence of the qualified staff that has the ability to manage such institutions. Among all the constraints, the biggest problem lies in the refusal of the private sector to downscale their activities and participate actively in developing the microfinance sector in the country and the poor infrastructures available. For all these reasons and others, it has become inevitable for the SFD to administer the best practices in this microfinance area and conduct awareness campaigns, workshops, and training courses that contribute to the development of pro SME services and products under microfinance (MF) platform.

In this vein, the SFD in collaboration with the United Nations Development Programs (UNDP) set up a network of microfinance for providing the required training and technical support to all microfinance institutions in the country. It further established the first microfinance bank in Yemen named Alamal Microfinance Bank (AMB) in partnership with the Yemeni government and Arab Gulf Fund for United Nations Development programs (AGFUND). It also established a special agency for the development of small and micro enterprises in Yemen, which is a professional agency in providing both financial and non-financial services to required entrepreneurs. Therefore, and on the light of the above developments in microfinance sector and development priorities of Yemeni economy, the study focuses on the contribution of microfinance towards alleviating poverty, unemployment, and improving the standard of living of poor households in Yemen.

1.2 Statement of the Problem

Despite the significant role of microfinance in serving the economy towards assuaging unemployment, poverty and covering the poor population in the last mile in most countries, it still faces many challenges that limit its development and progress. The values of isolated micro credit product is also questioned as an adequate tool in the battle against poverty as some of the developing countries have evidently witnessed microfinance crisis in the recent past. This throws greater challenges in the way for harnessing the potential of microfinance as an effective tool for attacking unemployment and poverty, (Rengarajan, 2013). The success of such projects depends to large extent on
several elements that include the provision of adequate funding, providing qualified personnel besides the availability of adequate infrastructure for creating suitable environment that ensures the success of this type of projects and the support of the official bodies. Thus, the research problem lies in identifying the role of microfinance in mitigating poverty and unemployment, improving the standard of living of the poor households in Yemen and providing adequate strategies and clear visions to policy makers, microfinance institutions (MFIs), micro and small enterprises, and community at large to enhance their respective contribution of microfinance for the said task.

1.3 Significance of the Study

The importance of this research lies in the vision pursued by all communities and states for the economic development that stands on building the required facilities necessary for increasing the national income and per capita income of individuals, which, ultimately, results in improving their standard of living. The economic development is achieved by supporting the small and micro enterprises sector along with microfinance sector. The study is deemed useful to various institutions such as microfinance institutions (MFIs), Non-governmental organisations (NGOs), community organisations, funding agencies, financial institutions, policy makers, micro, and small enterprises (MSEs) and apart from all, the ultimate beneficiary of microfinance namely the poor community at large. The importance of this study can be further elucidated as follows:

1. The study will add a new approach with a refined microfinance theory to what was previously followed on the topic of microfinance and its role in fighting unemployment and poverty.

2. This research sheds some light on one of the most concerning topics to the economists, social scientists and other researchers interested in assessing the impact of microfinance in mitigating unemployment and poverty in their societies.

3. The study facilitates to appreciate the potential values of microfinance in terms of the level or extent of changes in reduction in poverty and
unemployment influenced by microfinance programs in the given area be it Yemen or any other country considered for the said purposes.

4. The findings of the research would also benefit micro and small enterprises sector (MSEs) in designing suitable policy for achieving the social and economic development of unemployed youth in Yemen through access to microfinance.

5. In the context of predominantly prevailing supply oriented products and services in the financial market, it is one of the rare research studies that aims at diagnosing the functional realities of microfinance from demand side at poor household borrowers level in Yemen. So that demand based products and services could be prudently designed to tailor the needs of target groups in the industry towards contribution of microfinance to the mitigation of unemployment and poverty in Yemen.

1.4 Objectives of the Study

The overall objective of the study is to evaluate the extent to which access to microfinance has mitigated poverty, created new job opportunities, and improved the socio-economic status of the poor borrowers. In addition, the specific objectives of the study include the followings:

1. To study the magnitude of poverty and unemployment in Yemen and the need for microfinance tool for tackling the issues related to poverty and unemployment in the country.

2. To understand the values of microfinance from development prospective in general it’s potential for overcoming the unemployment poverty and in particular.

3. To review the microfinance institutions (MFIs) system and analyse its implementation mechanisms in Yemen

4. To examine the contribution of microfinance in the alleviation of poverty phenomenon in Yemen

5. To assess the contribution of microfinance in the mitigation of unemployment phenomenon in Yemen
6. To evaluate the impact of microfinance on improving the standard of living of poor households in Yemen

7. To identify the obstacles and the challenges facing the microfinance industry and its institutions in Yemen

8. To study the degree of difference between the experimental group (Borrowers) and the control group (Non-Borrowers) in terms of income level.

9. To study the degree of difference between the experimental group (Borrowers) and the control group (Non-Borrowers) in terms of expenditure level.

10. To come out with policy proposals and recommendations for addressing poverty and unemployment through development of the microfinance industry in Yemen

1.5 Hypothesis of the Study

The study has the following assumptions:

**H01:** There is no significant effective relationship between microfinance and the mitigation of poverty phenomenon in Yemen.

**H02:** There is no significant effective relationship between microfinance and the mitigation of unemployment phenomenon in Yemen.

**H03:** There is no positive relationship between microfinance and improving the standard of living of poor households in Yemen.

**H14:** There are obstacles and challenges that block the growth and development of microfinance sector projects towards challenging the twin problems pertaining to poverty and unemployment in Yemen.

**H05:** There is no significant difference between the sample of the experimental group (Borrowers) and the sample of control group (Non-Borrowers) in terms of income level.
H06: There is no significant difference between the sample of the experimental group (Borrowers) and the sample of the control group (Non-Borrowers) in terms of expenditure level.

1.6 Scope and Limitations of the Study

The study intends to trace the historical growth of micro finance and to cover the system development nature of microfinance industry at the global level in general, and in Yemen in particular towards mitigating poverty and unemployment phenomenon in Yemen. As for the limitations of the study, the current study confines itself to the following:

1. This is one of the rare research studies at the university level, which, focuses on the impact of microfinance on poverty and unemployment in Yemen, an Arab region, particularly in Sana’a and Alhodeidah governorates. Thus, it was not easy to study enough literature and methodologies on the subject directly related to Yemen profile.

2. During the period of research study, Yemen has been facing an internal conflicts disrupting the normal lifestyle with more intensity in different parts of the country covering many governorates. Consequently, the research is limited to the governorates, which are considered safe for the life of the investigator to contact the respondents comfortably.

3. Primary data on the impact of microfinance is collected directly from the poor borrowers through interview method. Since the respondents did not keep records related to income, expenditure, and employment recollected while responding to the researcher, bias is an unavoidable limitation of the study. However, the researcher, being Yemeni with familiarity in local language and social mannerism, is able to reduce the social distance between him and the respondents for gaining reliable data and minimizing the memory bias. Greater care has been taken for cross checking and perfecting the data collected through cross validation with MFIs loan officers.

4. Another limitation of the study was that though microfinance encompasses micro saving, micro credit, micro insurance, and other financial services
intended for the poor, the impact study is confined to the implication of micro credit only. This is mainly because of the lack of popularity and implementation in MF industry in Yemen.

5. Due to the resources and time constraints, the primary data collection was limited to only two governorates, viz., Alhodeidah governorate and Sana’a governorate that includes Sana’a municipality within its territory.

1.7 Period of Study

The field study for the research is purported to capture the impact of microfinance on unemployment and poverty at micro level, and to collect the primary data pertaining to opinions, views, and perceptions of the borrowers, non-borrowers in poverty sector and MFIs. The data is collected through questionnaires distributed during the period of October 2015 to May 2016.

1.8 Research Methodology

The methodology of the study has been discussed under the following headings:

1.8.1 Collection of Data

For achieving the objectives of the current study, it was essential to develop three different questionnaires for all of the borrowers of MFIs, the non-borrowers of MFIs and the microfinance institutions (MFIs). Each one of them targets a different group in the study area. Their design process, selection of study population, and selection of study sample are explained in detail in the sample design section. The current study is both exploratory and descriptive in nature; it has been carried out based on both primary and secondary data. The secondary data has been collected from various sources such as books, magazines, internet, periodical journals, government reports, annual reports of the MFIs, etc. The impact of microfinance on poverty and unemployment has been evaluated with the help of primary data collected by three different questionnaires distributed during the field survey. The first questionnaire was distributed to the poor borrowers who have been sanctioned micro-credit loans by the sample microfinance institutions (MFIs); the second one was distributed to the Non-borrowers of the MFIs belonging to the same poverty profile of the borrowers.
The third one was distributed to the MFIs for collecting the necessary information on their products and services for the poor and their performance at macro level.

1.8.2 Sampling Design

1.8.2.1 Sample Design, Selection of Respondents for the Study (Borrowers)

For selecting a fair sample of MFIs borrowers, the study covered only two MFIs; i.e., Alamal Microfinance Bank (AMB) and The National Microfinance Foundation (NMF) as well as two governorates, namely Alhodeidah governorate and Sana’a governorate, which includes within its territory Sana’a capital (Sana’a Municipality). The borrowers of MFIs were selected based on a multi stage purposive and proportional random sample method for selecting a fair sample of micro finance borrowers that represents all borrowers at filed level. The process of this selection has been adapted with the following steps:

- Stage 1: Selecting purposively the governorates with higher percentage of poor people and then selecting safe governorates with higher proportion of poor people.
- Stage 2: Selecting purposively a sample of microfinance institutions (MFIs) which have high branches network and high micro credit borrowers in the selected governorates
- Stage 3: Selecting a sample of micro finance borrowers randomly from the total population of the selected microfinance institutions with the help of Raosoft Sample Size Calculator for deciding the size of the sample of the study

Stage-1: Selecting purposively of governorates with higher percentage of poor people and then selecting safe governorates with higher percentage of poor people.

An attempt has been made to collect the sample data based on governorate wise population and poor population in Yemen from the data available in the Household Budget Survey (HBS) for the year 2005-2006 (Table 1.1). Thus, according to the table’s data, the appropriately fitting two governorates for selecting the study’s sample are Alhodeidah governorate, and Sana’a governorate that includes Sana’a municipality within its territory. These two governorates have
been selected simply because they host high percentage of population and are considered safe areas for conducting the field work unlike other governorates that have security issues due to military clashes albeit they have higher percentage of poor people such as Taiz governorate.

Table 1.1

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Governorate</th>
<th>Total Population</th>
<th>Total Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Taiz</td>
<td>2,375,677</td>
<td>898,018</td>
</tr>
<tr>
<td>2.</td>
<td>Al-Hodeidah</td>
<td>2,278,589</td>
<td>722,750</td>
</tr>
<tr>
<td>3.</td>
<td>Ibb</td>
<td>2,246,076</td>
<td>675,459</td>
</tr>
<tr>
<td>4.</td>
<td>Sana’a City</td>
<td>1,690,140</td>
<td>251,649</td>
</tr>
<tr>
<td>5.</td>
<td>Hajjah</td>
<td>1,489,225</td>
<td>707,810</td>
</tr>
<tr>
<td>6.</td>
<td>Dhamar</td>
<td>1,475,335</td>
<td>381,217</td>
</tr>
<tr>
<td>7.</td>
<td>Hadramout</td>
<td>1,002,174</td>
<td>356,652</td>
</tr>
<tr>
<td>8.</td>
<td>Sana’a Governorate</td>
<td>994,747</td>
<td>279,810</td>
</tr>
<tr>
<td>9.</td>
<td>Amran</td>
<td>878,604</td>
<td>561,716</td>
</tr>
<tr>
<td>10.</td>
<td>Sa’adah</td>
<td>736,205</td>
<td>121,835</td>
</tr>
<tr>
<td>11.</td>
<td>Laheg</td>
<td>707,790</td>
<td>334,110</td>
</tr>
<tr>
<td>12.</td>
<td>Aden</td>
<td>566,450</td>
<td>95,635</td>
</tr>
<tr>
<td>13.</td>
<td>Al-Baida</td>
<td>557,726</td>
<td>289,198</td>
</tr>
<tr>
<td>14.</td>
<td>Al-Daleh</td>
<td>506,044</td>
<td>223,869</td>
</tr>
<tr>
<td>15.</td>
<td>Shabwah</td>
<td>498,594</td>
<td>269,876</td>
</tr>
<tr>
<td>16.</td>
<td>Al-Mahweet</td>
<td>462,153</td>
<td>142,121</td>
</tr>
<tr>
<td>17.</td>
<td>Abyan</td>
<td>429,888</td>
<td>196,374</td>
</tr>
<tr>
<td>18.</td>
<td>Al-Jawf</td>
<td>427,155</td>
<td>211,763</td>
</tr>
<tr>
<td>19.</td>
<td>Reymah</td>
<td>422,582</td>
<td>143,974</td>
</tr>
<tr>
<td>20.</td>
<td>Mareb</td>
<td>225,396</td>
<td>103,420</td>
</tr>
<tr>
<td>21.</td>
<td>Al-Maharah</td>
<td>82,406</td>
<td>7295</td>
</tr>
</tbody>
</table>

| Total  | 20,052,956        | 6,974,551        |

Source: Compiled depending on the Household Budget Survey Data [HBS], (2005-2006)

Concerning the percentage of poor people, the percentage of poor people in Alhodeidah governorate is estimated to be 31.72 percent; 28.13 percent for
Sana’a governorate and 14.89 for Sana’a municipality, (HBS, 2005-2006). Additionally, Sana’a municipality hosts almost all MFIs operating in the market, as it is the capital city of the country. For that reason, these two governorates were purposively selected for the study, as they would help in covering the poor population sample for the current study that focuses on poverty and unemployment mitigation in Yemen.

**Stage-2: Selecting purposively a sample of microfinance institutions (MFIs) which have high branches network and high micro credit borrowers in the selected governorates.**

Once the selection of governorates is done, an attempt has been made to purposively select two leading microfinance institutions (MFIs) operating in the market in terms of the performance of microfinance lending to the poor in the selected governorates mentioned earlier in the first stage. In view of that, and according to table No.1.2, Alamal Microfinance Bank (AMB) and The National Microfinance Foundation (NMF) have been selected. The selection of these two MFIs was done based on the data available in The Social Fund for Development (SFD) in its latest newsletter published in June (2015). The following table shows the performance of eleven MFIs operating in the market in terms of the number of borrowers, gender wise, and outstanding loan portfolio.
Table 1.2

MFI’s Active Number of Clients and Outstanding Loan Portfolio

<table>
<thead>
<tr>
<th>Sr No.</th>
<th>MFI</th>
<th>Status</th>
<th>Active Number of Clients</th>
<th>Outstanding Loan Portfolio (Million YR)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No. of Borrowers</td>
<td>No of Savers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Women (%)</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Al- Amal Microfinance Bank</td>
<td>Bank</td>
<td>41,298</td>
<td>120,891</td>
</tr>
<tr>
<td>2.</td>
<td>National MF Foundation (NMF)</td>
<td>Foundation</td>
<td>16,122</td>
<td>28,428</td>
</tr>
<tr>
<td>3.</td>
<td>Aden MF foundation</td>
<td>Foundation</td>
<td>14,319</td>
<td>11,578</td>
</tr>
<tr>
<td>4.</td>
<td>MF Development Program(NAMA)</td>
<td>Program</td>
<td>08,604</td>
<td>3,010</td>
</tr>
<tr>
<td>5.</td>
<td>Altadhamon Bank</td>
<td>Program</td>
<td>06,352</td>
<td>882</td>
</tr>
<tr>
<td>6.</td>
<td>Alkuraimi Islamic Microfinance bank</td>
<td>Bank</td>
<td>06,066</td>
<td>527,552</td>
</tr>
<tr>
<td>7.</td>
<td>Hadhramaut Microfinance Program</td>
<td>Program</td>
<td>06,971</td>
<td>814</td>
</tr>
<tr>
<td>8.</td>
<td>Small entrepreneur fund</td>
<td>Fund</td>
<td>05,206</td>
<td>0</td>
</tr>
<tr>
<td>9.</td>
<td>Azal Microfinance Program</td>
<td>Program</td>
<td>04,121</td>
<td>2550</td>
</tr>
<tr>
<td>10.</td>
<td>Aletehad Microfinance Program</td>
<td>Program</td>
<td>03,939</td>
<td>0</td>
</tr>
<tr>
<td>11.</td>
<td>Al-Awa’el MF Company</td>
<td>Company</td>
<td>01,546</td>
<td>93</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>120,839</strong></td>
<td><strong>622,114</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from the SFD’s Newsletter Published on June (2015)
According to the table 1.2, Al-Amal Microfinance Bank (AMB) enjoys the highest number of active clients in the market as it accounts for one third of total MFIs borrowers in the market. Subsequently, it has been selected accordingly. The second institution is the National Microfinance Foundation (NMF), which represents a foundation type, has been chosen, purposively for the reason that it has the highest percentage of women clients in the market with 80 percent of loans for them. In addition, these two MFIs are functioning in the two selected governorates. Therefore, they were selected for the study.

**Stage-3: Selecting a sample of micro finance borrowers randomly from the total population of the selected microfinance institutions with the help of The Raosoft Sample Size Calculator for deciding the size of the sample of the study.**

The total number of borrowers of Alamal Microfinance Bank (AMB) and the National Microfinance Foundation (NMF) in the two selected governorates was equal to 16,014 active clients according to the data received from AMB and NMF as of 31 October 2015. This number represented the total study population, and out of this total population, the study sample size was selected using The Raosoft Sample Size Calculator. This system ensures a confidence level of 95 percent and an error margin of 5.62 percent. According to the Raosoft Sample Size Calculator, the recommended sample size for the study is 376 respondents; however, the researcher canvassed 430 questionnaires in both governorates and for both MFIs. From the 430 distributed questionnaires only 409 questionnaires were received back, remaining 21 questionnaires were rejected for various reasons; the percentage of rejected sample to the total sample size is equal to 4.8 percent. The total received questionnaires valid for analysis totaled to 390 questionnaires only. The sample population was proportionately distributed between the two selected MFIs according to their total coverage of poor borrowers in the selected governorates for the study. In addition, the questionnaires were administered randomly only to the borrowers who had availed loans during the period from first of January 2013 to 31 October 2015. The below table explains this distribution:
Table 1.3

Distribution of the Study Population & Sample Population among Selected Governorates and MFIs

<table>
<thead>
<tr>
<th>Almal Microfinance Bank (AMB)</th>
<th>National Microfinance Foundation (NMF)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governorate’s Name</td>
<td>Total Clients</td>
<td>Selected Clients (%)</td>
</tr>
<tr>
<td>Sana’a</td>
<td>8346</td>
<td>203</td>
</tr>
<tr>
<td>Alhodeidah</td>
<td>4845</td>
<td>117</td>
</tr>
<tr>
<td>Total</td>
<td>13,191</td>
<td>320</td>
</tr>
</tbody>
</table>

Note: Total borrowers of both MFIs in both Governorates = 16,014 active clients as of 31/10/2015

Source: Compiled by the Researcher using the Primary Data (October 2015)

1.8.2.2 Design of Non-Borrowers Population and Study Sample

The purpose of employing a quasi-experimental survey design (Non-Borrowers Questionnaire) that requires a comparison between the experimental group (borrowers) and the control group (Non-borrowers) is to obtain the opinions of the non-borrowers on the concept of microfinance and compare their income with the MFIs borrowers. The Non-borrowers of MFIs were selected randomly from the two already selected governorates namely Alhodeidah governorate, and Sana’a governorate that includes Sana’a municipality within its territory. A total number of 185 questionnaires were distributed in different areas there. However, only 159 were received back, the remaining 26 were rejected for different reasons; the percentage of rejected sample to the total sample is 14 percent. These 159 questionnaires were all valid for analysis and comparison between the experimental group and the control group. The non-borrowers are the poor people who have not benefited from any loans from MFI but borrowed from other informal sources or used their own money. They represent poor people who belong to the same socio-economic status of the category of the poor borrower of MFI. The table 1.4 gives a glance at the distribution of the non-borrowers in the selected governorates.
Table 1.4

Distribution of the Non-Borrowers Sample among the Selected Governorates

<table>
<thead>
<tr>
<th>Name</th>
<th>No of the Non-Borrowers</th>
<th>Percentage between Governorates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sana’a Governorate</td>
<td>96</td>
<td>60%</td>
</tr>
<tr>
<td>Alhodeidah governorate</td>
<td>63</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>159</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Compiled by the Researcher using the Primary Data (October 2015)

1.8.2.3 MFIs Selection

The present study covered only nine microfinance institutions out of 13 MFIs spread in different governorates, the targeted MFIs are as follows:

1. Alamal Microfinance Bank (AMB)
2. The National Microfinance Foundation (NMF)
3. Aden Microfinance Foundation
4. Hadhramaut Microfinance Program
5. Alrayyan Microfinance Program
6. Altadhamon Microfinance Program
7. MF Development Program (Nama)
8. Azal Microfinance Program
9. Tawsal Microfinance Program

The reasons for not covering all of them may include the fact that the remaining MFIs operate in conflict zones or that they have been badly damaged by the civil war, or the people in charge there refused to cooperate with the researcher. The officials of the selected MFIs were interviewed and requested to fill up the MFIs questionnaire. The MFIs operating are represented in different forms such as microfinance banks, NGOs, companies, Programs, etc. Some of these MFIs did not appear in the reports published by the Social Fund for Development (SFD) such as Alrayyan and Tawsal microfinance programs because they did not report to it regularly. The MFIs operating in the market of Yemen cater different types of microfinance products and services to the low-income people with fair network spread in many governorates of Yemen.
1.8.3 Tools of Analysis

The collected data from the field survey was edited, analysed, and interpreted carefully; different statistical techniques such as Percentage, Frequency, Weighted Average, Standard Deviation, Mean, T-Test etc., were employed to analyse and summarize the data. The findings of the study were presented with the help of different tables, graphs, and diagrams. In addition, computer applications such as Microsoft-Office of 2007 version and SPSS version seven were also used in the analysis. In the lines below, a brief explanation is given on each of the analysis techniques and tools used in the study.

• Frequencies

   The frequency is a statistical tool used to show the total number of every question (repetition) or statement repeated in the questionnaire of the study. It could be represented with the help of graphs and tables to make the data understandable for the reader.

• Percentages

   The percentage scale aims at finding out the size or proportion of every variable or question used in the study or its questionnaires.

• The Weighted Average

   The weighted average is employed in the analysis as it is difficult for the researcher to analyse and measure the size of the questionnaire’s questions or statements designed based on the Five-Points Likert scale. Likert Scale operates with five points starting with (Strongly disagree, Disagree, Neutral, Agree, Strongly Agree). The weighted average is calculated by determining numbers for every option in the Likert Scale to represent every question or statement in the questionnaire. For example, the figure (1) is given as a representation for the option of strongly disagrees, the figure (2) is given as a representation for the option of disagrees and the figure (3) is given as a representation for the option of neutral. In addition, the figure (4) is given as a representation for the option of agrees and the figure (5) is given as a representation for the option of strongly agrees. After calculating the total frequencies of every question/statement in the section of the questionnaire, the total is multiplied into the already set figures, i.e.,
(5, 4, 3, 2, and 1). For instance, if the total frequencies of the option of (Strongly Disagrees) equal 20, we multiply the 20 by 1, and continue with the same way for the remaining options. Once this task is done, the multiplication result of the question in the section of the questionnaire is added and then divided by the study sample. The outcome or the result will be the weighted average that will show us the direction or the trend of the question/statement.

- **Standard Deviation**

  It is a statistical measurement used to measure the relative dispersion of values around the average and compare the data with the same scale. It is also used to compare how close or far the data from its average is. It is obtained by calculating the square root of variance.

- **The Trend Analysis**

  This measure is used to help the researcher in the analysis of data based on Penta Scale (Likert Scale); however, it is necessary to find out the distance between degrees of scales, and this can be done with the help of the weighted average explained above. To find out the distance between every degree in the Likert Scale, we first divided the figure (4) by the figure (5) which results in (0.80); this means the distance between every degree equals (0.80); so, the distribution will be as follows:

  - Range of (1-1.79) means (Strongly Disagree)
  - Range of (1.80-2.59) means (Disagree)
  - Range of (2.60-3.39) means (Neutral)
  - Range of (3.40-4.19) means (Agree)
  - Range of (4.20-5) means (Strongly Agree)

  Accordingly, the trend of the question or section can be identified.

- **The Mean**

  The mean is one of the central tendency measures; it is used to find out the analytical results related to variables of the study’s questionnaires. It is also employed to derive the central tendency of the data in question. It is found by adding all the data points/numbers in a population and then dividing the total by
the number of points there. Mean is used to study the relationship between two or more variables; it is further used for testing of hypothesis of the study with calculated (T) values and level of significance for determining the type of relationship between variable.

- **T-test**

  This value is obtained from the statistical T-Test; it is used to test the hypothesis by comparing the calculated (T) value and comparing it with tabular (T) value, which allows us then to either accept or reject the hypothesis provided that, the level of significance is less than (0.05) and the level of confidence is equal to (95%).

1.9 **Terminologies of the Study**

- **Microfinance**

  Micro credit for investment in income generating economic activities such as diary, beauty shops, fruits and vegetables shops, teashops, clothes etc.

- **New Projects**

  Loans intended for starting new income generating activities.

- **Existing Projects**

  Loans intended for supporting the running enterprises for further development and sustainment.

- **MFI**

  An institution offering small and micro loans along with other financial services to the poor people who have been excluded from accessing the financial services available in the formal financial institutions is called microfinance institution.

1.10 **Chapterisation Plan**

  The presentation of the research work has been organised as per the following chapters:
Chapter-1: Introduction and Methodology

The chapter gives a general introduction about the Thesis along with the methodology of the study; it deals with problem statement, significance, objectives, hypothesis, scope, limitations, period, research methodology, and tools of analysis of the study.

Chapter-2: Literature Review (Empirical Studies)

This chapter focuses on the literature review (previous studies). It reviews some of the key studies conducted in the Arab region, abroad that are related to the impact of microfinance on poverty and unemployment reduction and empowerment of women and micro and small enterprises, and it concludes by the contribution of the current study.

Chapter-3: Theoretical Framework

This chapter gives a conceptual framework at macro level on microfinance; it begins with an introduction about the chapter and then shows the historical development of microfinance and microfinance institutions activities. It then discusses the current landscape of microfinance in the world along with its nature, definition, features, clients, institutional development. The chapter then shifts to explain the characteristics of strong MFI, types of MFIs providers, the top ten MFIs in the world, multiple financial products, and services in microfinance, operating cost, and collateral demanded in microfinance and microfinance delivery models. The chapter further explains the concept of interest rate in micro-credit, microfinance, and small and microenterprise sector (SMES), major challenges facing microfinance in Asia and pacific region, the principles of microfinance, and the structure of microfinance industry. The chapter focuses also on microfinance delivery models in India, the status of microfinance in the Arab world and the international experience with microfinance. Concerning poverty, the chapter discusses also the concept and definition of poverty, measures of poverty, the vicious circle of poverty and ten commandments for responsible financing to the poor, vulnerability and poverty ratchets, the innovative graduation approach for ultra poor through integrated microfinance, poverty condition in Yemen, poverty mitigation through microfinance, unemployment mitigation...
through microfinance. This chapter also highlights the issues related to types of impacts on microfinance activities, microfinance crises in different countries, the differences between conventional and Islamic microfinance institutions and then conclusion of the chapter.

Chapter-4: Profile of Study Area

The chapter covers the profile of the study area; it provides a microanalysis on the functioning of microfinance there. It includes seven sections, i.e., general introduction about the chapter, the country profile of Yemen, the Yemeni banking sector, The MFIs in Yemen, the profile of the selected governorates for the study, the profile of the two selected microfinance institutions for the study, and finally conclusion about the chapter.

Chapter-5: Data Analysis and Interpretation

This chapter makes a microanalysis on the impact of microfinance on poverty and unemployment in Yemen. It concludes by showing the results of the hypothesis testing.

Chapter-6: Problems in the Implementation of Microfinance

This chapter makes a critical review on the problems in the implementation of microfinance in the study area. It has been divided into three sections, i.e., the problems faced by the borrowers, the problems faced by the non-borrowers and the challenges facing the MFI (Supply side).

Chapter-7: Conclusion, Findings, Recommendations and Area of Further Studies

This chapter provides a summary about the study, findings, recommendations, conclusion, and area for further study.