Chapter – VI

Problems in the Implementation of Microfinance
6.1 Introduction

This chapter makes a critical review of the implementation of microfinance for identifying the problems that make hurdles in the smooth process of functioning of microfinance towards the mitigation of poverty and unemployment in the area of the study. The earlier analysis made in the fifth chapter amply proved a positive impact of microfinance on the mitigation of poverty and unemployment in terms of income, expenditures, number of working workers, and number of working household members. Therefore, there arises the necessity for identifying the problems in the implementation process to facilitate the result being the positive impact as stated above. For the said purpose, the sections in this chapter have been classified under two broad heads namely the demand and the supply sides as below:

6.2 The Demand Side

6.2.1 Problems Faced by the Borrowers of the MFI

1. There is no serious effort spent on introducing the service of micro insurance scheme to the borrowers to support them at times of crises or at the loss of business activities. It is noted that, in table (5.14), only (1.8%) of the total borrowers reported having insurance accounts. Those who reported had in reality Micro Takaful accounts, and not micro insurance that the researcher believes is more beneficial to the MFI rather than to the poor borrowers. It, in fact, compensates the MFI not the borrowers in case of loss in the borrower’s income generating activities; this is done by deducting the reserved amount kept with the MFI as compensation for the remaining balance that was supposed to be paid by the borrowers to the MFI.
2. There is a lack in the training and the consultation services extended by the microfinance institutions before and after sanctioning the loans to the borrowers as table (5.23), and (5.24) showed that, there is about (91.2%) of the sample borrowers reported receiving no training or consultation services either from the MFIs, or any other agencies. They either consulted their relatives, friends, experts, or had their own traditional experience. Some of them have learnt the skills by practicing and the remaining did not need any skills or training.

3. The lack of the required physical infrastructures create difficulties before the small borrowers, according to table (5.25), (50.6%) of the respondents revealed having difficulties in the required power. (28.3%) revealed having challenges in the raw material available, (29.1%) reported having difficulties in the transportation facilities, (14.7%) reported having difficulties in the product marketing, and finally (12%) of the sample revealed having challenges with the connectivity.

6.2.2 Problems Faced by the Non-Borrowers and their Opinions on Microfinance

This section is divided into two parts as follows:

The Problems

According to the answers received from the non-borrowers when asked about the difficulties and challenges that face them when applying for microfinance loans, (48.4%) of them reported having difficulties with the required collaterals demanded by the MFIs, the demand of high interest rate, and the existence of very lengthy loan procedures. The remaining sample of the study reported having difficulties with the offered available loans that are not based on Islamic Shariah principles, and difficulties with demanding of many official documents. If the above problems are solved, the majority of the sample, i.e., the (104) who makes up (65.4%) ascertains that, there will be a positive impact on their standard of living.
6.2.2.2 The Opinions of the Non-Borrowers on Microfinance Products and Services

1. Among the overall non-borrowers, i.e., the (159), (65.4%) of them believe that if they had been granted microfinance loans, they would have been positively affected by them.

2. According the opinions of the non-borrowers, the main difficulties that stand as hurdles before them include the followings:
   - The non-availability of the required collaterals demanded by the MFIs
   - The demand of high interest rates
   - The existence of very lengthy procedure when applying for loans
   - The non-availability of loans based on Shariah principles
   - The demand of many official documents when applying for loans

3. According to the opinions of the non-borrowers, (74.8%) of them reported the intention to apply for loans from MFIs in the coming future, while (25.2%) of the same sample revealed their unwillingness to apply for any loans in the near future.

4. About the appropriate loans amounts for them, (39.6%) of the non-borrowers sample revealed that, the appropriate amount for them to start their small enterprises exceeds YR 400,000; whereas (25.8%) of them reported the need for amounts that range between (YR 100,000-YR 200,000). The remaining sample, i.e., (18.9%), (13.8%) and (1.9%) disclosed their needs for amounts which range between (YR 200,001-YR 300,000), (YR 300,001-YR 400,000), and Less than YR 100,000 respectively.

5. About the interest rate of the microfinance loans, (69.8%) of the non-borrowers sample selected for the study reported their capability to pay interest rate in the range of (1% to 10%). The remaining sample, i.e., (8.8%) and (0.6%) revealed their capability of repaying interest rates that are in the range of (11%-20%) and (21%-30%) respectively. Finally, (20.8%) of the same sample preferred receiving loans without paying an interest rate.

6. About the type of collaterals, (32.7%) of the non-borrowers sample preferred to offer their businesses as collaterals for guaranteeing the loans
borrowed from the MFIs. This number is followed by (29.6%) of the same sample who preferred not to offer any collaterals to the MFIs when applying for loans. The remaining sample that represents (14.5%), (12.6%) and (10.7%) preferred to provide (other types of guarantees), (Commercial guarantees) and (Personal guarantees) respectively.

7. Concerning the type of finance, (73.6) of the total non-borrowers sample preferred to have loans based on Islamic principles, while (26.4%) preferred the traditional loans.

8. About the type of training needed to be received, (85%) of the sample of the non-borrowers reported that, they do not need any training. The remaining (10.1%) and (4.4%) revealed their need for some training pertaining to management of business and management of risk in business, respectively.

9. About the suggestions of the non-borrowers for the improvement of microfinance industry, they included the followings:
   - Spreading the awareness about microfinance
   - Reduction in the interest rate charged
   - Removing the demanded collaterals
   - Increasing the amounts of the loans and extending free loans

6.3 The Supply Side

This section is divided into two parts as follows:

6.3.1 The Challenges Facing the MFIs operating in Yemen

1. Without adaption of uniform codes by NGOs for selection of MFIs borrowers, the MFIs keep finding difficulty in accommodating more number of low-income groups.

2. According to opinion number (4.4.31), uniformly, all MFIs expressed concern on the factors such as the political crises, ethnic, and religious conflicts that affect micro financing programs.
3. Lack of marketing support by the government for the products of micro enterprises that are financed by the MFIs discourages further expansion of credit to the service sector as shown in table (4.12).

4. Lack of physical infrastructures such as roads, bridges, transport facilities, and power prohibits faster financial inclusion of low income-groups, opinions number (4.4.33).

5. It is noted that, MFIs give more attention to the consumption loans on the cost of income generating loans as there is (35.6%) of the borrower’s sample (Table 5.12) in the study received loans for consumption purposes to purchase households assets such as solar panels and furniture. They were also used for repaying debts and repairing houses.

6.3.2 The Suggestions by the MFIs operating in Yemen

The suggestions for effective microfinance intervention based on the opinions of the MFIs can be summarised as below:

1. The adherence and commitment to the protection of the clients from practices such as avoiding over-indebtedness, ensuring transparent pricing, applying appropriate collections practices, ethical behaviour and commitment of the employees, the application of grievances and redressal mechanisms, and ensuring customers data privacy.

2. Helping to develop ideas for income generating projects, reducing the emphasis on financing of consumer goods and activities, the need for follow-up and provide post-financial services such as training and consultancy services, simplifying and streamlining the procedures for obtaining the funds, and raising the ceilings of loans for investment activities.

3. There is a need for donors to cover the collaterals of the poor borrowers (Loan insurance) to facilitate the lending process for those who do not have the safeguards and collaterals.

4. Training the borrowers before and after granting them the loans and studying well their projects in addition, providing them with post financial
services such as financial consulting, audit of the projects accounts and other things.

5. Providing the necessary support to the MFIs and facilitating the process of funding for the beneficiaries, the training and qualifying all microfinance institutions and beneficiaries of the loans.

6. Working as per the proposed plan A) creation of the project idea for the client b) offering the required training and rehabilitation c) funding for the project D) Follow-up for post-funding of the project E) the training and rehabilitation is conducted by institutions, financed organisations and banks.

7. Provision of more subsidised loans for MFIs may help them extend more loans to agriculture and allied activities as they represents about (75%) of the vegetables and fruits activities in Yemen. In addition, MFIs must provide consultancy and capacity building for customers; reduce the proportion of Murabaha (interest rate), and finally setting the level of loans provided to clients based on feasibility studies not the MFIs ceiling.