

Evaluating the Self-Sustainability of Micro-Finance Institutions (MFIs) Using the Balanced Scorecard Approach (BSc)

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I would like to dedicate my work to my father who is willing to sacrifice anything for his children's success, to my mother who gave it all for us but did not get much in return and to my wife who always provided her unconditional support to this cause. Also, to my sisters, brothers, relatives, and friends who gave me lots of encouragement.

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ABSTRACT

This thesis included two parts: first, The theoretical study to identify integrated critical factors that influence self financial sustainability according to the reviewed literature using the desk research approach, then, categorizing them based on the balanced scorecard approach of Norton & Kaplan that contains 4 perspectives; Financial, Customer, Internal-Business-Process, and Learning & Growth, it also aimed to identify common strategies and performance indicators for each factor in order to formulate integrated questionnaire or rather integrated performance tool; Second, the empirical study to evaluate the performance of Yemeni MFIs.

The problem is that most performance evaluation tools focus only on financial perspective; rather, they do not pay attention to other perspectives, thus, the theoretical study was the base to formulate an integrated performance evaluation tool, the questionnaire, which pays attention to all organizational perspectives.

The empirical study adopted the extensive descriptive approach, the questionnaire has been sent to all 11 registered MFIs with Social Fund for Development in Yemen. It targeted the executive managers of MFIs since they have adequate knowledge about MFIs, as well; they are the decision makers in their MFIs. The responses ratio to the questionnaire was about 73%.

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.

the study has formulated several important recommendations such as: Enhance of strategic alliances that contribute in the reduction of capital cost and costs in general, and, contribute in increasing outreach, revenues and capacity building; Enhance the role of R&D and performance managements in order to strengthen the overall organizational performance; the importance of the contribution of all stakeholders to support the social mission of MFIs; and increasing campaigns that enhance awareness of microfinance services.

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CHAPTER 1: INTRODUCTION

INTRODUCTION

The mission that microfinance born to adopt is to assist poorest people to be self employed, self independent, sufficient, and achieve adequacy. MFIs aim to eliminate poverty among poorest women though they face poverty and gender-bias, plus, they are more efficient than men to get out of poverty line and are scoring higher repayment rate, thus, most MFIs have clear market segmentation in order to serve clients and achieve the dual mission of; ensure the impact on clients, and struggle to be profitable Non-Profit organization (Churchill & Frankiewicz, 2006). This study investigates how to make Yemeni MFIs achieve financial self sufficiency, that is important to them in order to be sustainable, and, it is possible to achieve that as many studies and reports indicate (McGuire & Ors, 1998). According to Kaplan and Norton (1996, 2004), BSc translates mission and goals into measures that help as a framework for strategic management and measurement systems, accordingly, this study will build a framework or a guideline to help MFIs achieve FSS and then ensure the social mission..

MICROFINANCE

“Do not give me a fish but fishing hooks” common saying

Microfinance is defined as “financial services for poor and low income clients” (microfinance-gateway, 2009). Gert Va Maannen (2004) defines microfinance as “banking the unbankables, bringing credit, savings and other essential finance services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral” (Maanen, 2004). Microfinance is based on the assumption that poor have skills but remains unutilized because the lack of financial resources. Thus, the solution is to provide poor with money, as credit, to generate income and create self dependency, rather than give them money out of charity and help poverty to continue.

In general, traditional banks only serve rich people, or at least those who have money, but they are not for the poor. Thus, microfinance industry comes to fill this gap. Although microfinance transactions has historical origins, such as borrowing from relatives or friends based on trust, but the formal birth of microfinance was in 1970s when Mohammed Yunus, who won Nobel Prize in

2006, established Grameen Bank. Later, it was followed by many pioneering initiatives. And most MFIs, if not all, proved that poor always payback especially women.

World Bank, CGAP unit, claims there are about 7000 MFIs serve more than 16 million people all over the world, and CGAP experts means that about 500 million families' members benefit from microfinance loans (Perkins, 2008). Studies show there are significant impacts on per capita income, expenditures on food, number of enterprises and employment, household assets, and human capital investment such as education and health.

SELF SUSTAINABILITY:

“Do not prohibit behavior that you do” common saying

According to Pissarides (2004), MFI can be proclaimed to be self-sustainable if, without using of subsidies, grants or other concession resources can profitably provide finance to poor on an acceptable scale (Pissarides, 2004). Sustainable MFIs have repeatable operations, they are able to serve poor now and in future as well.

According to Chaues and Gonzales– citing from (Schreiner, 1996)- self sufficient MFI might be financially sustainable but it is not self financial sustainable unless it is also privately profitable. CDA (committee of Donor Agencies) defines two degrees of self sufficiency; first is operational self sufficiency that “requires MFIs to cover all administrative costs and loan losses from operating income” (McGuire & Ors, 1998). The second degree is the financial self sufficiency “requires MFIs to cover all administrative costs and loan losses from operating income, after adjusting inflation and subsidies and treating all funding as it had a commercial cost” (McGuire & Ors, 1998).

In any case, MFIs must be institutionally sustainable to be sustainable. Also, MFIs should generate real social impact on poor. Thus, they should have depth growth, impact on current clients, and breadth growth, outreach to other poor, in order to reach sustainability and keep its social mission.

An study, in Asia Pacific region, reveals that only six out of 49 MFIs ASA¹ were self financial sufficient. Another six MFIs, including Grameen Bank, were over 80% self financial sufficient, while the remaining 37 MFIs were less than 80%. Another study by CGAP reveals that only 5% of MFIs, applied for CGAP funding, were operational self sufficient (McGuire & Ors, 1998).

¹ Association for Social Advancement

MICROFINANCE INITIATIVES IN YEMEN:

Yemen, as one of the least developing countries in Middle East, has 45% of its populations live under poverty line. The population of Yemen is about 22.4 millions with annual growth rate equal 2.2% (2007), the PPP is \$870 and the implicit GDP deflator is 15%. Population under \$1 a day ratio is %15.7 and while population under \$2 a day ratio is 45.2%. The unemployment rate in Yemen currently is estimated to be 17%. There is scarce on qualified labor force and capacity building, and that's not surprise when the total school enrolment (age 6 to15) rate is 55% (UNDP, 1998). The population density is 37 people per square kilometer and just 25% of population live in urban areas (WORLD-BANK, 2007). All the above reasons led the Yemeni government to work to; enhance and develop strategic plans to build and support the investment environment, and develop small businesses and cooperatives and adopt the microfinance as a solution to face poverty.

Yemen faces many poverty difficulties, this leads many international agencies to support the government to create suitable strategies and projects to reduce poverty; they have set up many programs to achieve the goals of millennium developments. One of them is the program of UNDP witch called MICRSTART, this program focuses on fighting poverty and supporting MFIs in achieving sustainability. Microstart supported many microfinance NGOs in addition to the governmental organizations. Social Fund for Development (SFD) leads this industry in Yemen and supposed to be the authority of microfinance in Yemen. SFD has established specialized unit called SMED, Small and Micro Enterprises Development, to focus its efforts on microfinance and help institutions in capacity building. And, it has another unit, SMEPS; focus on clients' capacity building (SFD, 2009). Now, SFD is creating the microfinance network which one of its tasks is research and development (R&D).

Yemen just has about 11 MFIs that are registered with SFD and all of them are not regulated by microfinance law accept the new microfinance bank called Alamal Bank; it was established in 2006 by a special law, the other MFIs in Yemen work as social NGOs except for Alawail MFI; it is transferred to a company with support of Microstart. Hence the bylaw of microfinance banking is in progress under the authority of Central Bank. According to the World Bank report (2007), "the formal financial sector in Yemen is highly underdeveloped" (WORLD-BANK, 2007). There are just 15 banks, 5 of them are public and the rest are Islamic and Commercial banks that have a strong tendency to invest in treasury bills and their ratio of credits to deposits is just 39 percent, this indicates that those banks have weak contribution to the economic development, and support investments, and reducing poverty. However, most population doesn't access to them, and just

3.5% of populations have account with banks, and loans have high interest rates and collaterals, and they don't have microfinance products to small enterprises (WORLD-BANK, 2007). But, according to SFD and UNDP references, SFD tries to convince banks to engage in microfinance and it implements interest rate strategy to enhance MFIs convert to banks' loans in future, till now, two banks are opening microfinance window.

The targeted Clients of microfinance products in Yemen are those who represent the economically active poor with an average family size of 7 persons and a monthly income of less than \$ 30 a month. In several cases the micro economic activities are the only source of income for the family (Micro-start, 2003).

The 11 MFIs in Yemen have an outreach about 38,000 clients, with total loan portfolio of US\$ 11 million. And, the average loan amount \$97 and varies from \$25 to \$1250, loans are offered to clients in groups and individuals (SFD, 2009) (see appendix 1).

THE IMPORTANCE OF THIS RESEARCH:

There is rareness in such studies that identify and focus on this topic in Yemen. Also, there is a gap of non-integration in performance management and evaluation that is related to the sustainability of MFIs. The previous studies are mainstreamed to the financial perspective, and later, to the social performance, which refer to the customer perspective. Thus, there is a need to the studies that integrate all perspectives.

THE OBJECTIVES OF THIS RESEARCH:

This research adopts the integrated perspectives, and strives to fill this gap. It will develop the balanced scorecard of Self-Financial sustainability and the overall sustainability for NP-MFIs, and then, implement it statistically to evaluate the situation in Yemen. Also, this research will help as a framework for those institutions to reach the self-financial sustainability and the overall sustainability.

RESEARCH QUESTIONS:

What are the integrated critical factors that affect the overall sustainability and self-financial sustainability, of NP-MFIs, based on the common and consensus mission and goals?

What are the successful integrated strategies that deal with those factors?

What are the relevant key performance indicators (KPIs)?

How is the performance of Yemeni MFIs?

THE LIMITATIONS OF THIS RESEARCH:

This research is limited geographically to all Yemeni MFIs that spread in many provinces. Timely, this study is limited to MFIs that still provide p/s during the last quarter of 2009 regardless how long they have been service. The objective limits are; all Yemeni MFIs who provide microfinance p/s, and registered with SFD, and aim to enforce real impact on clients, and aim to achieve self sustainability especially self-financial-sustainability.

RESEARCH PHASES:

First phase: it is a content analysis, explore/identify/analyze/categorize the critical factors by; use the Balanced Scorecard approach, link the factors to the consensus mission and goals, review related references and previous studies, make interviews with experts, and study the successful initiatives.

Second phase: identify the common strategies for each factor, and develop the relevant and common KPIs.

Third phase: empirical study to measure the situation in Yemen by; developing a questionnaire depends on the indicators, then, send it to all formal MFIs in Sana'a city and other cities, and, use formal statistical records. Finally, depend on the findings will be recommendations.

DIVISIONS OF THE STUDY:

The 1st chapter is an introduction to the main topic. The 2nd chapter is the literature review. The 3rd is the theoretical study which contains the factors influencing the sustainability and categorizes them to the four perspectives. The 4th is the methodology of the empirical study. The 5th is presenting and analyzing the data. The 6th chapter is presenting the findings, setting recommendations, and suggesting future studies.

DEFINITIONS

Financial self sufficiency “requires MFIs to cover all administrative costs and loan losses from operating income, after adjusting inflation and subsidies and treating all funding as it had a commercial cost” (McGuire & Ors, 1998)

Lagging indicators: “the performance outcomes” (Kaplan & Norton, 1996)

Leading indicators: “the performance drivers” (Kaplan & Norton, 1996)

Microfinance: “financial services for poor and low income clients” (microfinance-gateway, 2009).

Operational self sufficiency “requires MFIs to cover all administrative costs and loan losses from operating income” (McGuire & Ors, 1998).

GENERAL ABBREVIATIONS

BSc: Balanced Scorecard

BRI: Bank Rakyat Indonesia

CGAP: Consultative Group To Assist Poor

FSS: Financial self sufficiency

IBP: Internal Business Processes perspective

IR: Interest Rate

KPIs: Key Performance Indicators

LG: Learning and Growth perspective

MENA: Middle East and North Africa region

Mfi: Micro Finance Institution

Mfis: Micro Finance Institutions

MFO: Microfinance Organizations

NGOs: Non Governmental Organizations

NP-Mfis: Not for Profit MFIs

NPOs: Not for Profit Organizations

OSS: Operational self sufficiency

P/S: products and services

SFD: Social Fund for Development

SPM: Social Performance Management

St.Dev.: standard deviation

CHAPTER 2: LITERATURE REVIEW

INTRODUCTION

This chapter covers several dimensions: the first is an overview about BSc, the second shows different empirical studies that monitored sustainability in different countries in addition to the used approaches, the third is short analysis and comments on these approaches, the fourth explores the new common concept which is Social Performance Management (SPM) and explores tools and initiatives that adopted SPM, the fifth shows the performance studies that adopt BSc and another two approaches.

BALANCED SCORECARD (BSC)

The adopted theoretical framework of this study is the Balanced Scorecard (BSc) methodology. It is a strategic performance management tool developed by Kaplan and Norton; it translates organization's mission and strategy into tangible objectives and measures (Niven, 2002), "The measures and objectives view the organizational performance from four perspectives" (Kaplan & Norton, 1996), the four perspectives are: financial, customer, IBP, and LG.

According to Kaplan and Norton (1996, 2004), BSc translates mission and goals into measures that help as a framework for strategic management and measurement systems. So, BSc is three things; strategic management system, measurement system, and communication tool to employees and external stakeholders (Niven, 2002). It complements financial measures with future performance drivers' measures (Kaplan & Norton, 1996).

EMPIRICAL STUDIES THAT MONITORED SUSTAINABILITY

Many empirical studies have investigated the sustainability issue in many countries in microfinance sector. They used different approaches. Mark Schreiner (1997) has developed "A Framework for the Analysis of the Performance and Sustainability of Subsidized MFIs" (Schriener, 1997); he applied it on two international MFIs; Grameen Bank and BancoSol. He argues that "this framework is a disciplined way to measure how well an MFO uses public funds to improve the welfare of the poor. It suggests a way to sum up the performance of an MFO from the point of view of six groups of stakeholders: society, the poor, poor customers, donors, workers, and investors" (Schriener,

1997). An Indian study has made an attempt to look at sustainability from multiple dimensions such as demand, mission, legal and regulatory framework, ownership, governance and human resources, and financial sustainability (Vijay & Nagasri, 1999). Emilio Hernandez (2004) did a study to evaluate sustainability in Nicaraguan MFIs and if they were able to reach sustainability but the evaluation was based only on their financial performance. Another study in Ethiopia in 2007 is done by Kereta, he used the Microfinance Triangle Model, developed by Mayer (2002), the corners of this triangle are; outreach to poor, financial sustainability and welfare impact. Ismail and Condro (2008) also analyzed the sustainability of Islamic MFIs in Indonesia, they used two approaches; technical efficiency (using data envelopment analysis (DEA)² and level of outreach.

COMMENT ON THAT STUDIES APPROACHES

The majority of these studies focus only on financial measures which serve as lagging indicators (outcomes) to monitor past performance. Financial measures alone are not enough to help organization walk to intended direction; rather, they need integration with leading indicators and the other perspectives to support the management of future challenges (Kaplan & Norton, 1996). For this purpose, Kaplan & Norton in 1996 has developed the Balanced Scorecard (BSc) with four interrelated perspectives: financial, customer, internal-business-process, and learning and growth perspective. BSc can be adapted for Non-Profit organizations (NPOs) as well as for-profit ones, and, new perspectives could be developed and adapted to the organization nature (Kaplan & Norton, 2004; Markus, 2009).

SOCIAL PERFORMANCE MANAGEMENT (SPM)

Social performance management is a modern concept in microfinance industry, “it measures how well an institution has translated its social goals into practice” (CGAP, 2004), and, social performance is “measured through the principles: the actions and the corrective measures implemented” (CERISE, 2003). Social performance is defined also as “The effective translation of an institution’s social mission into practice in line with accepted social values that relate to: serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI” (SP-Task-

² Data Envelopment Analysis (DEA) is a nonparametric method in operations research and economics for the estimation of production frontiers. It is used to empirically measure productive efficiency of decision making units (or DMUs). Source: http://en.wikipedia.org/wiki/Data_Envelopment_Analysis.

Force, 2006). SPM is adopted by many international agencies and programs of UN, World Bank and others such as: the Imp-Act Consortium, the CERISE group, CGAP-Ford Social Performance Indicators Project, the Social Performance Working Group (SPWG) of The SEEP Network, the Council of Microfinance Equity Funds, and M-CRIL³. They try to develop their own assessment tools with common set of standard indicators. These tools are distinguished by perspectives or dimensions they focus on, but they agree on a common framework of social performance that includes three dimensions; context, process, and results. Each one of these dimensions consists of sub-dimensions (figure1); furthermore, new indicators have been used ranging from accounting-based indicators to integrated measures such as BSc (Ittner & Larker, 2001; Spraakman & Waweru, 2009).

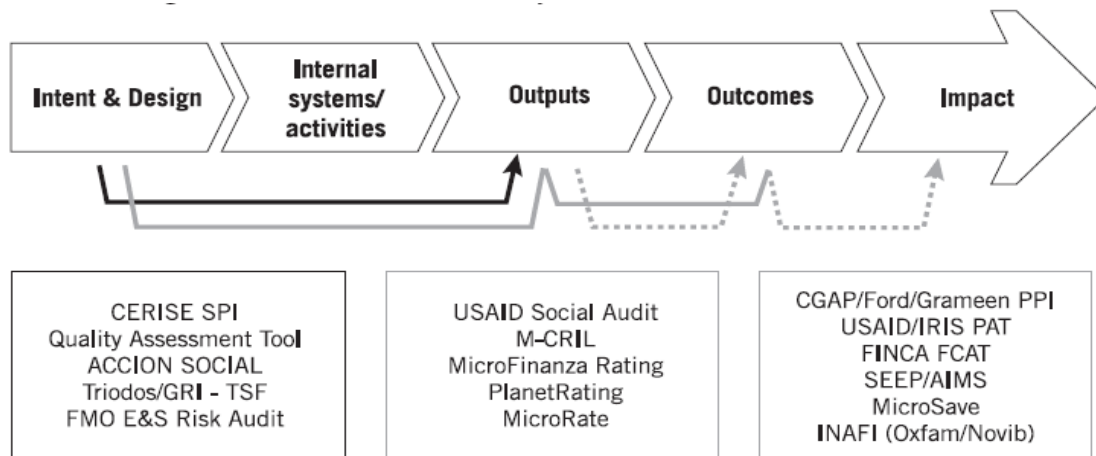


FIGURE 1: THE COMMON FRAMEWORK OF SOCIAL PERFORMANCE AND THE WORKPLACE OF ITS WELL-KNOWN TOOLS. THE SOURCE: SOCIAL PERFORMANCE MAP, 2008, SEEP NETWORK.

About 1406 MFIs, 104 investors and 186 partners, around the world report to MIX Market⁴ (MIX, 2008), “The MIX Global 100 Composite Ranking table” is a multi-dimensions ranking tool; it rates the highest performance MFIs based on four dimensions criteria: financial sustainability ratio, outreach, efficiency, and transparency (MIX, 2008).

³ (Micro-Credit Rating International Limited: rating agency of MFIs.

⁴ The MIX MARKET™ is a global, web-based, microfinance information platform. It is supported by CGAP, the Citigroup Foundation, the Open Society Institute, the Rockdale Foundation, and other private foundations. Source: <http://www.cmfnepal.org/?pg=mfn>

NEW APPROACHES

It is rare to find initiatives that investigate MFIs performance using BSc except for a joint project, done by Ford Foundation and its partners; they formed the strategic management toolkit⁵ using BSc approach⁶. Another approach is developed by Fitzgerald and others. (1991), it consists six dimensions of performance that split in two categories; the first measures the results (financial performance and competitiveness), the other measures the determinant of the strategy's success (quality, flexibility, resource utilization, and innovation) (Sprakman & Waweru, 2009). Based the last two approaches, Sartorius and others expanded the two approaches to include a dimension of competitiveness and employees' motivations (Anderson & McAdam, 2004; Sprakman & Waweru, 2009).

This study took advantages of the differentiations among these performance tools and studies to develop integrated performance tool that cover all BSc perspectives in order to build the framework of financial self-sustainability. Even it has been argued that the balanced scorecard ignores other stakeholders such as employees and society (Anderson & McAdam, 2004; Sprakman & Waweru, 2009), but, this study adopt a reverse point of view; all stakeholders are involved in the analysis of the BSc in this study.

FSS'S FACTORS AND STRATEGIES

MFIs should adopt several strategies to achieve FSS, ideal experiences suggested many strategies to achieve that. The Bengali association of social advancement (ASA) has achieved FSS; it has a great experience mixed with many changes and struggles to achieve that. ASA summarized some of its most important features that guide it to achieve FSS (ASA, 2008); it relates this achievement to several factors⁷. When we see these features in depth, they indicate that ASA focuses on several themes to achieve FSS: first, it focuses on clients' satisfaction by enhance non-financial services beside effective financial products with simple and efficient processes. Second, it emphasizes effective management style, policies, internal control system, and effective fund management.

⁵ The project was managed by the MFC. *ImpAct* Consortium, Microfinance Opportunities, *MicroSave* and COPEME provided technical inputs and sat on the steering committee: source: <http://www.mfc.org.pl>.

⁶ The researcher has contacted many times with MFC to provide him with this toolkit since it is not published, but, no response

⁷ See website: http://www.asa.org.bd/about_salient_feature.html

Third, it focuses on employees' competencies, but, with no attention to incentive and reward system. These factors are linked to the four perspectives of BSc and show the importance of these factors that led ASA to achieve both FSS and keep real impact on its clients.

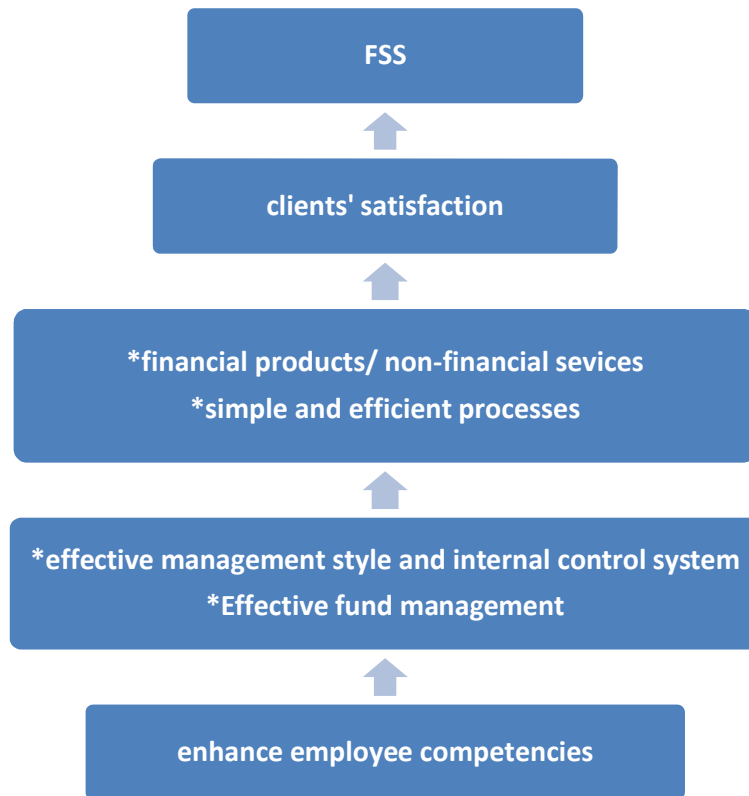


FIGURE 2: ASA'S CATEGORIZED FEATURES THAT LED IT TO FSS

Another successful experience of achieving FSS is the experience of Bank Rakyat Indonesia (BRI). Robinson (2005) has investigated in this achievement and he relates the achievement to several

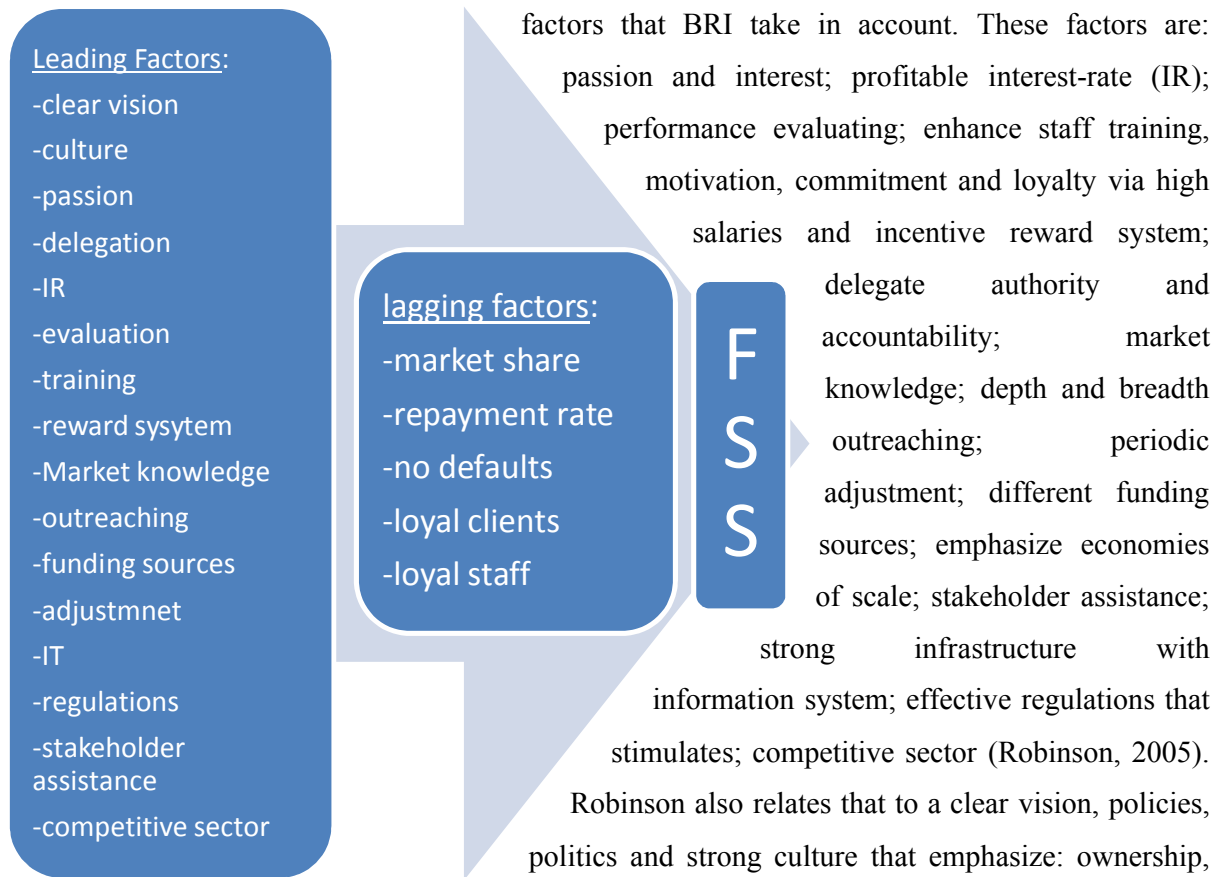


FIGURE 3 ©: BANK RAKYAT INDONESIA CATEGORIZED FACTORS THAT LED IT

Robinson also relates that to a clear vision, policies, politics and strong culture that emphasize: ownership, governance; professionalism; business focus; internal supervision; and transparency. All these mentioned factors could be classified and considered as leading factors which are important as well as these follow lagging factors such as: good market share; no loan defaults; high repayment rate; and loyal customers. This conclusion indicates that BRI take in account cause-and-effect relationships through strategies that it adopt to achieve FSS.

ASA and BRI are two of the largest MFIs over the world; they could be ideal examples of successful experiences that are able to be replicated – with adjustment - in Yemen and other countries, they implement successful strategies and initiatives that lead to FSS. Finally, it is important when an MFI plan strategies to take in account: the integration by linking strategies to all four perspectives- financial, customer, process, learning & growth- ; cause-and-effect relationships between strategies and make them tell a story of that strategic track (Kaplan & Norton, 1996).

subsidized loan funds as a source of funds for MFIs, Hollis and Sweetman (1998) consider them as a fragile and weak source while other authors - (Woller, 1999) (Morduch, 2000) - consider donations as a form of equity and donors as social investors since they expect to achieve social return (Brau & Woller, 2004), moreover, the return on social investors is considered as “Hassanat” as in Islamic culture. This study agrees with this point of view to the extent that it does not hinder MFIs to seek ideal commercial sources of funds.

Segrado (2005) emphasizes several factors that have an effect on FSS: no barriers to entry; competitive sector; outreach; diversification in services and offered products; integration of all stake holders; make bridging between banks and MFIs. Segrado’s study distinguished by indicating the important roles of stakeholders -beside other factors- especially banks to strengthen the funding dimension and make MFIs focus more on its core business.

Another study has classified sustainability to four dimensions: first, market sustainability by designing multi choices of effective services and products that suit clients’ needs; second, legal and policy sustainability; third, impact sustainability by ensure a positive impact on poverty; fourth, institutional sustainability which is branched to four sub-dimensions; mission sustainability, program sustainability by make a value and ownership for clients, human resource sustainability and emphasize competencies, financial sustainability by charging enough interest rate (IR). The study also suggested several critical strategies, plus enough IR, to achieve financial sustainability such as: “manage delinquency; keep cost of capital low by mobilizing savings; rotate portfolio efficiently; control operational expenses” (the Association of Community Development Finance Institutions, 2004), the study is distinguished by the identifying of critical factors in financial perspective.

Vijay and Nagasri (1999) came totally with same key dimensions of Robinson; they use them to investigate building sustainable microfinance in India (Vijay & Nagasri, 1999).

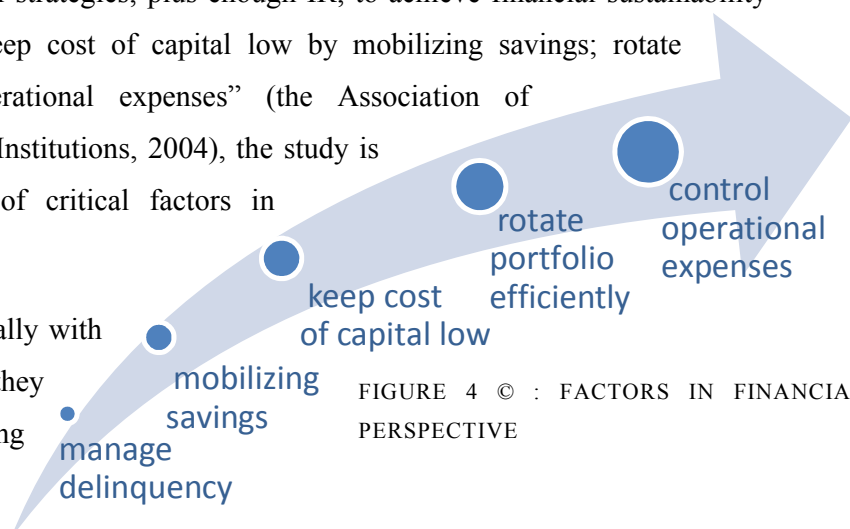


FIGURE 4 © : FACTORS IN FINANCIAL PERSPECTIVE

European Microfinance Network (2004) putted a framework that could be linked to FSS. It suggested several strategies in the four perspectives of BSc, and moreover, it invented fifth perspective labeled as social perspective. In social perspective, it suggests the strategy of outreach and ensuring impact. In financial perspective, the suggested strategy is maintain financial sustainability, this strategy is not specific; it is considered as lagging objective by itself, it is critical but needs leading strategy in the same perspective like what last study figured (see Figure 4). In customer perspective, the strategies are; decrease target clients' exit and increase funding from socially oriented investors, it considers donations as form of equity. The strategy in internal processes perspective is increasing staff productivity with serving target clients. Learning and growth perspective involves; increase incentives for pro-mission performance, and decrease staff turnover (European Microfinance Network, 2004).

Zeller, Manfred, Lapenu, and Greeley (2003) have formed a questionnaire of measuring social performance, they adopt four dimensions: outreach; pro-poor services and products; improving social and political capital of clients and communities; and social responsibility of MFIs

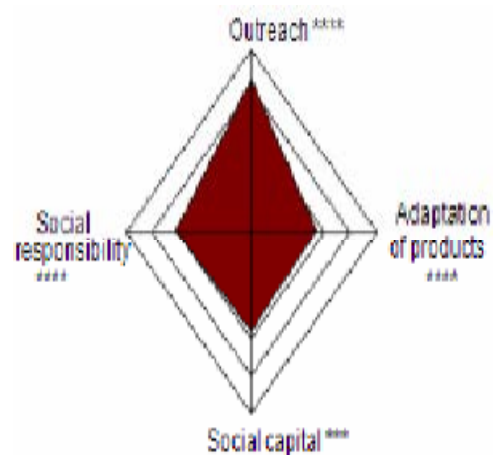


FIGURE 5: DIMENSIONS OF SP (LAPENU, 2008)

(Zeller, Manfred, Lapenu, & Greeley, 2003), the four dimensions are interested mainly on customer and could be linked to customer perspective of BSc. Cerise and other organizations also adopt questionnaire with same four dimensions to measure social performance (Lapenu, 2008).

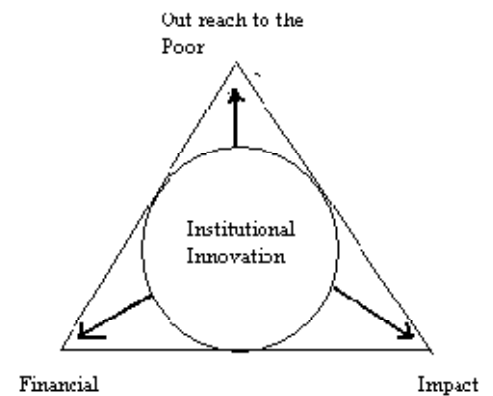


FIGURE 6: MICROFINANCE TRIANGLE: CITED FROM (KERETA, 2007)

Meyer (2002), citing from (Kereta, 2007), has formed the *Critical Microfinance Triangle* with inner and outer circles. The corners of this triangle are: outreach to poor; financial sustainability and; welfare impact on them. The inner circle represents institutional innovations in technology, policies, and management. The outer one involves several factors related to environment such as: “human and social capital possessed by the poor; the economic policies of the country; and the quality of financial infrastructure that supports financial transactions” (Kereta, 2007).

Schreiner (1997) added different factors to ensure long-run FSS, these factors are: system of organization; the structure of rules and incentives; and Meta rules. It means that “Financial self-sufficiency can last in the long term only if the structure of rules and incentives and the system of organization prompt stakeholders to adapt the rules to fit changes in the market. Such permanence requires meta-rules—rules for making rules. Good meta-rules help an MFI to perform well over time without extraordinary labor, luck, or leadership. MFIs live in a market environment that changes with time, and so MFIs must change too if they are to do well in the long term” (Schriener, 1997).

The previous discussions included resources that investigate, directly and indirectly, FSS and its strategies and factors avoiding – as much as possible- the repetition of same factors and strategies in different studies. They represent an appropriate background for next part which will contain a categorization of Critical Success Factors of financial self sustainability FSS. This categorization adopts Kaplan and Norton methodology- (Kaplan & Norton, 1996) - in building the balanced scorecard using the previous discussions and sources.

CHAPTER 3: THE THEORITICAL STUDY: FACTORS INFLUENCING SUSTAINABILITY

INTRODUCTION

There are many critical success factors that influence FSS directly and indirectly; each one has a contribution in the journey of achieving FSS. Even there might be a lot of factors but MFIs should choose what suit them, each MFI has its different situation and operates in different environment; it should adapt its strategies to the segmented market it chosen to serve. It is not necessary to adopt all these factors but it is necessary to deal with the important and appropriate factors and implement the right strategies; MFIs have to plan- themselves- the appropriate initiatives to deal with factors.

In terms of factors' categorization, the first level is categorizing factors to four perspectives: financial, customer, internal-business-processes, and learning-and-growth perspective. Then, in the second level, these factors will be categorized based on several methodologies: they could be sorted to lagging factors as outcomes and leading factors as enablers or performance drivers; the other categorization is categorizing them in strategic themes depend on suggestions of several authors and the contribution of this study as will be followed in this chapter. Also, each factor has to be measured because "if you cannot measure it you cannot achieve it" (Kaplan & Norton, 1996), thus, it is important to put one measure or more for each factor.

There are two approaches to start formulating the BSc using these factors: first, MFI could start with identifying the objectives of financial and customer perspectives, then, work on internal-business-process (IBP) perspective and identifying the critical processes to achieve that objectives (Kaplan & Norton, 1996); the second approach is the resource-based view which argues that MFI could start establishing the internal processes objectives before addressing the financial and customer perspectives (Collis & Montgomery, 1995)- citing from (Kaplan & Norton, 1996)-. Using the second approach, Kaplan and Norton (2004) argue there are four strategic themes for creating value through the four perspectives; they classified IBP perspective into four clusters: operations management; customer management; innovation; regulatory and social (Kaplan & Norton, 2004);

- "Operations management: producing and delivering products and services to customers

- Customer management: establishing and leveraging relationships with customers
- Innovation: developing new products, services, processes, and relationships
- Regulatory and social: conforming to regulations and societal expectations and building stronger communities” (Kaplan & Norton, 2004)

In summary, the next sections contain the categorized factors and objectives into four perspectives: financial, customer, IBP, and LG, then, classify them based on different suggestions. Also, each factor has a link with one –or more- of the four strategic themes of internal-business-process perspective: operations, customer, innovation, and regulatory and social. Factors are collected from reviewed literature and classified using the two solid references of Kaplan and Norton (1996, 2004). A summary of each factor will explore: what is it? Its role or how does it participate and contribute to reach FSS, related to which strategic theme? How to measure it, and example of needed initiatives.

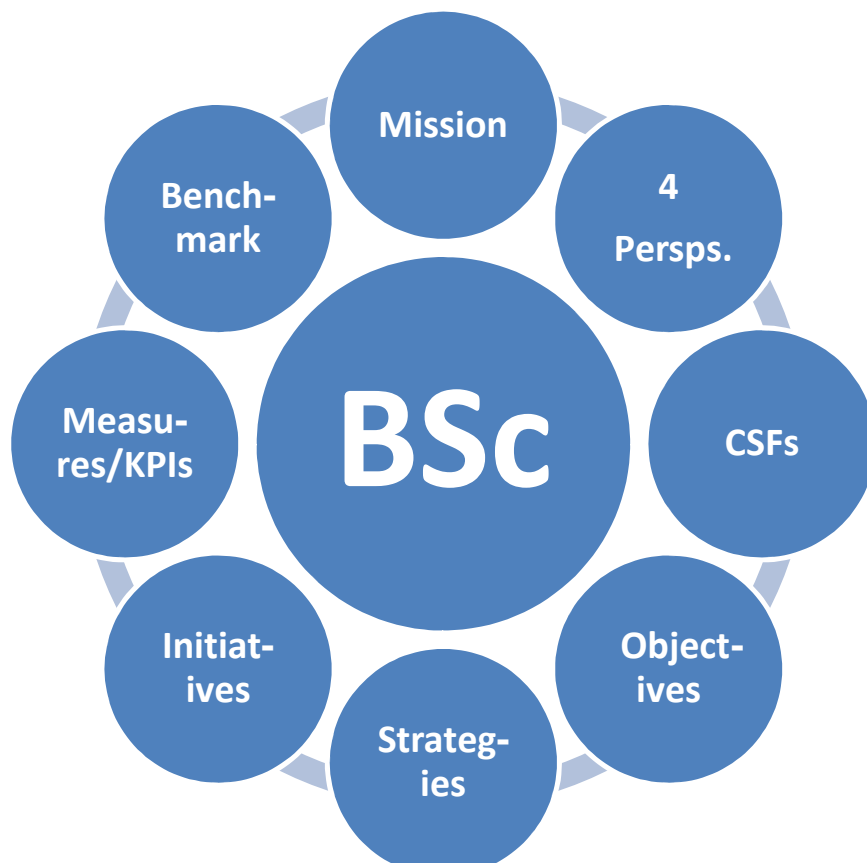


FIGURE 7 ©: CONTENTS OF THE BALANCED SCORECARD



FINANCIAL PERSPECTIVE

The reviewed literature shows that there are about 15 factors related to the financial perspective, these factors include leading and lagging factors; the leading factors are the performance drivers to reach the lagging factors or outcomes, while reaching these lagging factors are the ultimate financial objectives which are essential to achieve FSS.

Kaplan and Norton (1996) have suggested four financial objectives for any company, these objectives are: increasing revenues, improving cost and productivity, enhancing asset utilization, and reducing risk, furthermore, these four financial themes have important linkages with other perspectives. Later, Kaplan and Norton (2004) argued that financial performance of any business firm can be improved by two basic approaches, these two approaches are profitable revenue growth in long term and productivity in short term. Profitable revenue growth could be achieved by: strengthen relationships with clients to achieve breadth and depth outreach; new diversified products and services; targeting new market segments; and improve profitability of existing clients. Productivity occurs by two ways: first, reduce costs by lowering direct and indirect expenses; second, utilize assets efficiently which leads to reduce needed working capital.

Barringer and Ireland have suggested five financial clusters: Efficiency; Profitability; Stability; Liquidity; and Cost effectiveness (Barringer & Ireland, 2008).

From the reviewed literature there are several important financial themes observed. And, they consist of many factors and objectives.

- Productivity
 1. Costs (cost effectiveness): MFIs struggle with this factor to achieve FSS because it has direct relationship with FSS, thus, MFI has to establish many objectives to improve costs effectiveness and productivity performance. Some of these objectives are:
 - a. HR productivity and revenue enhancement of human resources. This could be measured by detect the revenue per employee and then compare it to local or international benchmarks. MFI should try to increase the result of this measure which contributes much to achieve FSS.
 - b. Control operational expenses and “low cost culture practiced from top to bottom” (ASA, 2008). MFI should set objectives to reduce costs and operational expense to be relative to other MFIs and benchmarks but with no conflict with its other objectives like quality,

R&D, and outreach especially when the MFI is in the growth stage. To achieve that, MFI could adopt many sub objectives, for instant; it could practice part time staff to face the problem of limited financial resources, and, it could implement ABC – Activity Based Cost – analysis which assists a lot to control costs and improve cost reduction objective.

- c. Improve channel mix: MFIs could choose to receive or go to clients, the simple delivery channel help a lot in cost reduction. However, there are several products’ delivery methodologies e.g. JIT, push strategy, and, selecting one of them depends on not just cost control but MFI has to balance this objective with other qualitative objectives such as its availability and outreach. To assist that, several initiatives could be adopted such as serving by telephone or using information system which costs a lot in the beginning but when dividing costs on several years it becomes cheaper and, better solution for monitoring and operational risk control objective.
2. Life cycle: MFI face different costs from a life stage to another. In the early stage, MFI spends more in: infrastructure; develop products and services; set awareness among clients; build operating capabilities; build relationships with business partner e.g. donors and traders. In the growth stage, MFI operates with negative cash flow and low current return on investment (Kaplan & Norton, 1996), thus, its objectives have to be focused a lot on outreaching in several segments and regions. In the sustain stage, objectives are related mainly to profitability and maximizing income from existing capital, also, costs in this stage is lower than in growth stage, thus, the performance measures of this stage relate to accounting income earned and invested capital (Kaplan & Norton, 1996) e.g. return on investment and return on capital employed, in addition to special measures such as return on social investors because their donations are considered as a form of equity. In mature stage, the reduction in working capital requirements plus stress operating cash flow are main objectives (Kaplan & Norton, 1996)
 3. Resources utilization: the effective utilization of all resources e.g. financial assets, physical assets, personnel assets is critical to reduce the cost of capital and achieve FSS. MFIs could keep the cost of capital low by: rotate portfolio efficiently; mobilize clients’ savings; keep cash to cash cycle as low as possible; and set objective to decrease payments delaying. Traditional measures e.g. return on investment, return on capital employed, and economic value added are main indicators for the success of increase resource utilization and reduce costs strategies as well as revenues growth.

4. Risk management: the stability of MFI is an important factor to be sustainable, and, managing risks effectively is critical to let it be stable. Managers of MFIs struggle with operational risks to decrease loan defaults and increase repayment rate to be close to microfinance sector benchmarks, also, they may face another operational risks such as corruption among staff in addition to the financial risks of interest rates on borrowed credits. In some countries, MFIs are not allowed to execute traditional commercial businesses although they are important to enhance resources productivity as well as revenues growth, this risk is related to the legislations; the government takes the responsibility to manage it in a way that supports MFIs to diversify its portfolio in order to achieve FSS.

- Profitable revenue growth

Profitable revenue growth is referred to: enhancing effective funding sources, expanding the offered products and services, enhancing economies of scale, and implementing a profitable pricing strategy. The growth rate of the offered loans is the most common measure of revenue growth.

1. Funding sources: funding sources play the main role in the journey of achieving FSS, and, it indicates the success of management to drive the MFI in the effective direction. The Effective fund management seeks liquidity with healthy strategies and leads the organization to be FSS or at least capable to cover its financial expenses, especially when it is in the growth stage. MFI should have different funding sources and not just depend on one or two sources, also, it is more important to have self-dependent source of funding like commercial funding sources such as trading, insurance, and other innovated profitable services. In other side, some experts consider donations as a form of equity therefore MFI could receive fund from social donors, they could try to increase funding from special oriented investors who want to gain return on their social investment as positive impact on served poor and drive them out of poverty. Also, MFI could build successful relationship with banks and invent a methodology that enhance business specialization and serve poor using effective partnership, the legislations here has a role to allow and support bridging between banks and MFIs. Official donors are other sources of funding; the most common official donors are international NGOs and local official organizations, they may also provide technical assistance which helps MFI especially in growth life stage. But, depending on such financial assistance more than commercial sources is not healthy for MFIs that seek FSS.

2. Products and services: expanding the offered products and services is a main supplier of revenue growth, the percentage of revenue from new products and services introduced within a

specific period is a common measure for this objective (Kaplan & Norton, 1996, p. 52). Emphasizing the research and development (R&D) management plays an important role to grow revenues by build innovated products and services mix and adjust common ones to be suitable for maximum number of local targeted clients. Also, to satisfy the deferent demands and abilities of its clients, MFI has to stress diversifications of products and services offerings, and diversified applications such as seasonal loans, education loans, agricultural loans, and joint projects. Furthermore, the percentage revenue from new applications and return on R&D are other measures for the objective of revenues growth.

3. Economies of Scale: breadth outreach is another main factor for revenue growth. When the MFI emphasizes economies of scale and achieve good market share, it will gain more revenues, plus, the distinction between its fixed and variable costs will be eliminated. Thus, outreaching is an important requirement for overall sustainability and FSS. MFI could expand its clients' base by being available in many urban or/and rural regions depends on its targeted clients, it could achieve more outreach by targeting different segments like demographic segmentation. Examples of this objective's measures are: market share, growth rate of number of regions or segments served, and growth rate of clients served.
4. Pricing strategy: this factor refers mainly to profitability of MFI and the success of its management efficiency. Setting efficient pricing and re-pricing strategies promise enough revenues that cover operational and financial costs plus profit, and then it leads MFI to be independent financially. Thus, the premium or interest rate (IR) on loans play reasonable role to FSS, MFI should set enough IR that covers all costs using activity based cost analysis, as well, IR should be profitable to ensure expanding its operations and serving more clients in order to gain revenues growth. The client's profitability is an indicator for the success of pricing strategy.



CUSTOMER PERSPECTIVE:

According to the reviewed literature, customer perspective relates to not just clients who benefit from financial products and services, but, also relates to other stakeholders such as social investors, official donors, technical assistants, and government. This perspective contains many lagging factors that have an effect on FSS such as: customers' loyalty, satisfaction; decrease customers exit or retention; return on social investors, official donors, and other assistants; stakeholder value; stakeholder ownership and responsibility; and Ideal impact on clients' poverty. Success in these

factors needs performance drivers or leading factors that create customer value such as: diversified and customized loan products that meet demands and abilities; innovative mix of products and services; adjusted requirements and allowances; depth and breadth outreaching with different segments and excellent selection; pro-poor and functional services and products that ensure positive impact on poverty and enhance social responsibility; fair and competitive prices; speedy and timely loans delivery and customer acquisition. All these lagging and leading factors could be categorized in similar methodologies, Kaplan and Norton (1996) suggested two clusters: first, customer core measurement group and it contains “market share, customer retention, acquisition, satisfaction, and profitability” (Kaplan & Norton, 1996); second, customer value propositions such as “product/service attributes, customer relationship, and image and reputation” (Kaplan & Norton, 1996). Also, they argued that organization should identify specific targeted customer segments to support its growth and profitability (Kaplan & Norton, 2004) and its social mission in case of the microfinance sector. In this case, the other stakeholders e.g. official and special social donors, government, technical assistants should be considered when plan and manage this perspective as well as clients.

- Lagging indicators

Customers’ retention, acquisition, satisfaction, profitability, market share, commitment, and customer ownership and responsibility are essential indicators of the MFIs’ success of building effective strategies for FSS. These indicators have causal relationships between them and with FSS; customer satisfaction leads to more retention, and, it leads to customer loyalty. When MFI imply ideal impact on poverty on existing customers then the word of mouth will play good role in acquiring new customers, all that achievements with high customers’ acquisitions will lead to high market share. However, if customers are profitable plus high achievement in market share and other achievements, then, MFI will be sustainable and can reach FSS.

1. Market share and account share

Microfinance networks, government statistics, and other public sources provide good information about poverty status and market size regionally and demographically, then, MFI could estimate the size of the targeted segments, these estimations should be used to motivate MFI to use effective strategies and set specific objectives that lead to overall sustainability and FSS particularly (Kaplan & Norton, 1996), also, achieving moderate market share in contribution with progress in financial indicators make MFI comfortable that it implements the right strategies, in contrast, if MFI has growth in financial indicators without growth in market share, this indicates that it should review

and maintain its strategies and objectives. Therefore, market share indicator plays critical role in the journey of achieving FSS. As well, account share is an essential indicator; it means that MFI attract a percentage of spending from targeted customer such as official donors, this indicator could be used in many ways, For example, continuous or growth account share of government donations - or from other special oriented donors like MF organizations – indicates the satisfaction of such stakeholders, and as a result, it may indicates that MFI implement the right strategies as well. Accordingly, both indicators indicate the overall sustainability and FSS as well.

2. Customer retention and loyalty

Customer retention is a critical objective that MFI should monitor from period to period, MFI should set the right strategies that increase retention because it is a useful way to increase market share (Kaplan & Norton, 1996). Also, customer retention should be in harmony with the decreasing in clients' poverty status to the extent that client could continue work being independent financially without external assistance, thus, progress in decreasing poverty status is essential for customer retention otherwise customer will exit if there is no impact on poverty. Organization can measure also customer loyalty by monitoring “the percentage growth of business with existing customers” (Kaplan & Norton, 1996), in other words, depth outreach means that MFI makes growth in loans and this indicates that client is loyal. Customers include other stakeholders as well, for example, acquiring more donations from existing donors is indicating their loyalty.

3. Customer acquisition

Customer acquisition means that MFI has an objective to make breadth outreach and attract more poor clients, and more assistants' stakeholders. Enhancing economies of scale is useful if customers are profitable, which lead to grow revenues and reach FSS. According to Kaplan and Norton (1996), number of new customers is a one way to measure customer acquisition, the other way is measuring the total loans to new clients.

4. Customer satisfaction

Customer satisfaction is driven by satisfying customers' needs; microfinance clients and other stakeholders need considerable impact on the poverty status. Measuring customer satisfaction is not that simple, it needs low to high costs and time; it depends on the used method either surveys or interviews, and, it depends on the conducting medium such as phone, mail, or personnel. Some organizations appoint that to a specialized firm in market research. MFI could conduct a survey to its clients from period to period measuring their satisfaction with existing products, services,

procedures, etc, notice that “recent research has indicated that just scoring adequately on customer satisfaction is not sufficient to achieve high degrees of loyalty, retention, and profitability” (Kaplan & Norton, 1996).

5. Customer profitability

Profitable customers lead MFI to FSS, but, increasing unprofitable customers do not support MFI, and, growth in unprofitable customers is just increase barriers that hinder MFI to reach FSS. MFI should set objectives that make the customer profitable balancing with other critical objectives such as customer satisfaction, breadth and depth outreaching, and other objectives that match the social responsibility of MFI. MFIs can make customer profitable using several ways such as: monitor price of loans when any change happen like economic changes, set cost effectiveness strategies and objectives; implement activity based costs analysis system and dismiss unnecessary processes, and make reengineering for its system.

6. Customer commitment

Customer commitment means that clients are committed to their obligations to MFI, for example, they pay their payments on time without delay or defaults. The percentage of loan defaults or delays are indicators of customer commitment to obligations and responsibilities toward MFI. However, the commitment contributes effectively in the progress to achieve FSS. Thus, MFI should set the right procedures, objectives, and strategies that ensure customers’ commitment to its requirements.

7. Customers’ ownership and responsibility

It is important to integrate the social mission ownership and responsibility among all stakeholders, all stakeholders should be aware of their responsibility toward ensuring the social mission sustainability; they should realize their ownership of MFI, all of them are responsible to make MFI successful since MFI is created to serve poor with a social mission and social oriented business. Customer ownership and responsibility leads to customer commitment and loyalty, then, it leads to reach FSS.

8. Impact on poverty

Impact on poverty is the most important indicator that shows how MFI progresses in achieving the social mission, an ideal impact on client’s poverty status will lead to many achievements in other indicators; it will increase the satisfaction and retention of the other stakeholders. The impact can

be measured by percentage growth of client income affected by using MFI's products and services, and, it should be monitored from period to period.

- Performance drivers

There are three performance drivers in the customer perspective: first, customer segmentation; second, effective and efficient Products/service attributes; third, customer relationship

1. Customer segmentation

Customers are not homogenous; they come from different demographics, Geographies, backgrounds, and they have different values and needs. All these factors should be considered when an MFI builds: its relationships with assistants, and products and services for clients. There are two common approaches for targeting clients; the first, MFI can choose to serve all kind of clients with any preference or needs but “this approach runs the risk of doing nothing well for anybody” (Kaplan & Norton, 1996); the second, MFI can choose to serve specific segments, even one or more, but it should identify deeply the targeted segments using market research and then defines their needs and values in order to build its strategy that creates the value propositions.

Microfinance clients have different segments since they have different situations; they differ in their financial situation ranging from very poor to the lower middle class, also, they could be segmented depending on their sexual kind either males or females especially in societies that harm women rights, or regarding that women pay better than men. Segmentation could be dependent on their social situation, mutually, healthy, and by the clients' response-to-poverty behaviors such as seeking social donations or working in available worst work. Also, clients might be urbane, rural, divorced women, widows, orphans, disablers, handicappers, and/or beggars. Also, some clients could not accept un-Islamic products and services such as traditional interest rate on loans especially religious clients. Abilities also defer from a client to another; some have skills and some needs training to start a work, thus, MFI should contribute and put the best available solutions for that even provide training itself or by planning with other assistant organizations. So, MFI should carefully define the targeted clients in order to serve them better and take them out of poverty in order to attain its social mission and assure its sustainability accordingly.

Otherwise, MFIs needs to build relationships with assistant stakeholders, and, it needs to identify and define these stakeholders. The targeted donors might be special social oriented investors, even individuals or organizations. The targeted organizations have different identities, they might be local or international with different backgrounds such as Islamic or non religious organizations,

and, they might ask different requirements and returns on their social investments. Banks can be another kind of the strategic assistants since they can provide MFIs with financial resources, thus, they have a critical role should be improved. Strengthen the relationships and partnerships among all stakeholders are important to build integration and assure the social mission sustainability.

After the MFI identifies and defines its targeted segments, it should explore customer values, after that, it should decide which value proposition that it will deliver to clients (Kaplan & Norton, 1996). Successful delivered attributes create a value among customers either clients or other stakeholders, and then, it leads to gain high achievement in the lagging indicators. The three suggested classes of attributes by Kaplan and Norton (1996) are: the first, product and service attributes which refer to functionality, quality, and price; the second is the customer relationship which includes the quality of purchasing experience and the personnel relationships; the third attribute is the image and reputation. The reviewed literature includes several suggestions that show how MFI could establish its own set of objectives to create value among customers. These suggestions will be categorized according to the suggestion of Kaplan and Norton with some adjustment to suit MFIs.

2. Effective and efficient Products/service attributes:

First, MFI should build pro-poor diversified and customized loan products that meet the targeted segments' demands and abilities, with innovative mix of products and services. Second, it should offer Effective loan size that match clients' demands and abilities, and make reasonable impact on client's income growth. Third, convenient access to services and products is useful to attract more clients, MFI should adjust processes and loan requirements with efficient delivery time too. Forth, suitable loans requirement that attracts more clients, and, good allowances that ensures their commitment to obligations. Fifth, price of loan or premium (interest rate) should be suitable for clients, and, it should be profitable for MFI to sustain its operations and help it being self financially sustainable.

3. Customer relationship

MFI should set effective objectives and strategies that enhance the relationships with all customers. Notice that MFI should strengthen the relationship with all stakeholders (clients, social and official donors; banks, government, other assistants). There is significant low awareness among poor, thus, MFI should, firstly, improve the awareness of microfinance and communicate its mission to the targeted segments by effective campaigns, secondly, MFI should improve the relationship with

clients by providing co-services such as training, guidance, useful events like bazaars and negotiation meetings, and providing assistance to clients such as health care assistance, medical insurance, and educational loan for children, thirdly, MFI should emphasize high responsiveness to customer complaints and suggestions, finally, depth and breadth outreaching are critical to achieve high market share and ensure more impacts with new and existing customers. There are several measures that could be used such as responsiveness to complaints or suggestions, number of new strategic alliances, etc.



INTERNAL BUSINESS PROCESSES PERSPECTIVE

Kaplan and Norton (1996) argue that there are three processes value chain that any organization should excel at them: the innovation process; the operations process; and the postsale service process. Later, the same authors (2004) argue four strategic themes that capture this perspective, and, they are linked and creating values for all the other perspectives. The suggested themes are: operations processes; customer processes; innovations processes; and regulatory and social process. The reviewed literature shows several strategies and objectives relate to this perspective and lead MFI to achieve the social mission and FSS, these strategies and objectives are: functional operating manual; focusing on the core business; fast outreaching policy; Decentralization and delegation of authority and accountability; flat and cost effective hierarchical organizational structure; uncomplicated and transparent accounting and record-keeping system; easy loan processing; No collateral requirement for loans (ASA, 2008); Periodic adjustment or meta-rules (Schriener, 1997); Ownership and governance; Manage delinquency and risk management; and Increase staff productivity. This study has investigated the customer process theme in the Customer Perspective as a performance driver of customer management outcomes, and, it will investigate Regulatory and social process management in the Learning and Growth Perspective (LG) because it is an intangible asset which relates to LG perspective. In the Internal Business Process (IBP) perspective, it investigates the important factors in suggested themes and categorization: innovation management; financial management operations process management; risk management; performance management. Through these themes, there are shared or cooperated processes that indicate the importance of integration between all departments to drive MFI in the success way to achieve its objectives.

- Innovation and development management

MFI that seeks FSS should enhance the research and development to all its operations, services, and products. It should emphasize strategic planning and knowledge sharing with others to ensure good results on its plans and operations. It is important for MFI to develop and adjust its products/services mix periodically to suit the nature and changes in market it works in such as economic changes, seasons, or special events. Developing effective relationships with existing partners are important such as strengthen relationships with banks, microfinance networks, and other business likes. MFI could seek new relationships by attending local and international conferences and events which help to share knowledge. And, achieving FSS needs MFI to innovate and develop good investments and fund sources. MFI should set strategies and objectives that emphasize business development such as outreaching, new solutions, prototyping, and franchising, and, MFI should set targets and indicators for them. On the other side, MFI should develop new poverty solutions other than loan solutions such as: skilling poor, establishing joint project with poor, establishing projects that increase employment among targeted clients, providing suitable insurance products; provide medical assistance, etc. The effectiveness of development or innovation could be measured in many ways, for example, new innovation in products or services could be measured by its impact on client's poverty and by its impact on revenue growth. The new process development could be measured by its impacts on costs reduction and time efficiency.

- Financial management

MFI need effective and efficient financial management since it is the core process of any MFI. Mangers should manage the balance of assets and liabilities effectively in a way that leads to FSS. The tasks of financial manger contain also managing credit, loans process, liquidity, and funding resources as well as investment and trading. Financial planning is critical as well; it is the mean of systemically thinking about financial and investment policies, it builds guidelines for change and growth in MFI in short and long term (Ross, Westerlfield, & jordan, 2006). Four this purpose, MFI should set policies for: the needed investment in new assets; capital structure policy; and net working capital decision. Accordingly, financial management should adopt growth as a goal should be achieved. Ratio and financial statement analysis is a core process as well to evaluate the financial performance of MFI (Ross, Westerlfield, & jordan, 2006).

- Operations processes management

Operations management should set actions to improve processes as follows: revise process; revise activities; reconfigure flows; revise policies and procedures; change outputs; and realign structure (Jacobs, Chase, & Aquilano, 2009). All MFI's processes should have the following features: Efficiency, effectiveness, standardization, simplification, and flexibility. MFI also should emphasize Simple and least hierarchical organization structure and enhance delegation and decentralization of authorities in order to improve the cost effectiveness and productivity. Operations management refers to several core processes such as: clients segmenting, selecting and/or group formulating process; clients accepting process; loans affording process; record keeping and accounting process; and repayments collecting process. The outcomes of these processes could be measured in different ways; the social impact and the financial performance are outcomes of effective operations management, several indicators also could be used to measure this management's performance such as: loan delivery efficiency or lead time relative to benchmarks; process throughput time (Jacobs, Chase, & Aquilano, 2009); Activity-based cost of key operating processes; number and frequency of customer complaints; and order backlog.

- Risk management

Risks that affect MFI might be either external risks which refer to related risks to clients or internal risks which affect MFI directly. External risks might be: health and death risks; weather risk for farmers; security risk such as thievery; Ethical risks such as fraud; Alcoholism (or Qat chewing in Yemen); sudden increase in prices; keeping up loan repayments; loss in or of business. These risks affect clients but it could lead him to defaults or delay repayments, thus, they should be considered seriously. The other kind of risks are internal risks that affect MFI directly, they might be: credit risks; liquidity risk; interest rate risk; foreign exchange risk (Lidgerwood, 1999); dependency on ineffective fund sources; Regulatory barriers to enter in effective operations or investments; macroeconomic changes; fraud risk (Churchill & Frankiewicz, 2006); and the asymmetric information (adverse selection and moral hazard). "Comprehensive risk management includes: the designed practices to limit risk associated with individual product lines, and systematic quantitative methods to identify, monitor, and control aggregate risks across a financial institution's activities and products. The comprehensive approach to risk management reduces the risk of loss, builds credibility in the market place, and creates new opportunities for growth, because, effective risk management ensures institutional sustainability and facilitates growth, it has significant implication for MFIs with a social mission to serve an increasing number of poor households" (Fernando,

2007). There are several risk management solutions that MFI could implement and consider of them such as: enhancing governance and transparency; using information system; building effective internal control system.

- Performance management

Performance management is a way to ensure that MFI moves to reach FSS. Performance indicators should cover all the four perspectives, when they cover all perspectives, that mean they are integrated performance indicators. There are many tools that could help in enhancing performance management, MFI could employ internal and external audit, it should also emphasize the social performance or impact on clients using several initiative tools developed by international microfinance organizations such as Accion, Imp-Act, etc. MFI also should set targets for each indicator using benchmarks or its own targets, then, performance evaluation should be flowed by set of corrective actions and effective initiatives. Thus, there should be integration between all the processes and perspectives.

LEARNING & GROWTH PERSPECTIVE:

The learning and growth perspective refers to the intangible assets and capabilities that affect MFI and its strategy to achieve FSS; it highlights the role of aligning the organization's intangible assets to its strategy (Kaplan & Norton, 2004). Kaplan and Norton (1996) suggested three principal categories for the learning and growth perspective: "employee capabilities; information system capabilities; and motivation, empowerment, and alignment" (Kaplan & Norton, 1996). Later, in 2004, they suggested several objectives for three components of essential intangible assets to build any strategy: human capital; information capital; and organization capital. The reviewed literature shows several objectives that help MFI achieve growth and FSS, these objectives could be categorized to lagging ones such as: employees commitment and loyalty; competitive sector; professionalism; and staff turnover. The leading objectives are: dynamic leadership; participatory process in decision making; planning; capacity building like enhancing staff training and on-the-job training approach; easy and close communication; strong monitoring and supervision from all levels and performance evaluating; periodic member's group transfer among the loan officers; passion and interest; motivation; good salaries and incentive reward system for pro-mission performance; market knowledge; stakeholders assistance and integration; strong infrastructure with IT / IS; motivative regulations and no barriers to entry; transparency; and economic policies. Therefore, this study will adopt the external capital as important theme that affects the nature of microfinance, the external capital refers to the atmosphere that an MFI works through and how does it support the MFI to execute its strategy, it contains factors such as regulations barriers and supporters, economic stability, community's responsibility, strategic alliances, and voluntaries. Notice that objectives in this perspective should integrate with each other and align with other perspectives (Kaplan & Norton, 2004). The common measures of this perspective are "employee retention, employee satisfaction, and employee productivity" (Kaplan & Norton, 2004). The employees' satisfaction could be measured by conducting a survey, while retention is measured by the percentage of key staff turnover, the employees' productivity could be measured by several ways such as revenue per employee. Furthermore, there are several drivers through all themes that integrate to achieve high results in these common measurements, enhancing and improving human capital, information capital, organization capital, and external capital; they play as enablers that drive performance in those core measurements. However, the success in the other perspectives is the outcome of doing well in this perspective (Kaplan & Norton, 1996).

- Human capital

According to Kaplan & Norton (2004), human capital refers to the strategic competencies that should be available such as “skills, talent, and know-how to perform activities” (Kaplan & Norton, 2004), and required by the strategy of achieving FSS. Thus, MFI providing special programs to its employees to re-skill them and improve their key competencies. Employees’ re-skilling has two dimensions: the level of required re-skilling, and the percentage of employees that need re-skilling. Employees in all levels should be motivated not just by rewards and incentives but also by their passion toward the social mission. The MFI needs also: dynamic leadership; participatory process in decision making; capacity building like enhance staff training and on-the-job training approach; easy and close communication; strong monitoring and supervision from all levels and performance evaluating; periodic member’s group transfer among the loan officers could also help in improving employee competencies, market knowledge, and employees motivation.

- Information capital

The information capital contains of; the information systems, the knowledge applications, and the infrastructure that helps in the journey to achieve FSS and its objectives. The information system is critical not just for cost reduction but also it provides effective information that help MFI management in setting future plans, it provides managers with needed rapid, timely, and accurate feedback. It helps as well in controlling operational risk such as corruption. The strategic information coverage ratio is used widely to evaluate the performance in this theme.

- Organization capital

According to Kaplan & Norton (2004), organization capital has four objectives: first, emphasize culture objective by building awareness of MFI social mission, vision and values to execute FSS strategy; second, the availability of strong leadership and qualified leaders that help MFI to sustain its social mission; third, alignment of reward system and incentives with MFI’s strategy and its performance of achieving FSS; fourth, assets and knowledge sharing.

- External capital

The regulations might be barriers or supporters. Also, economic stability, community’s responsibility, strategic alliances, and voluntaries are examples of external capital that support MFI to progress in its social mission and FSS strategy. MFI should emphasize these factors roles in a long with other related factors, and, it should set good objectives that enhance the role of the

external capital. MFIs differ in their legal structure; MFI might work as a cooperative company, bank, or private social organization, each legal structure has its regulation, either supportive or unsupportive; it affects MFI's performance positively or negatively. Thus, MFIs should take in account this factor when deciding which legal structure that suits its objectives and strategies. Macroeconomic also plays a critical role on MFI's performance, for example, high inflation, currency depreciation, and increase in price index all affect the value of outstanding loans and this will reduce the real value of revenues and might lead to losses. Also, MFI according to its legal structure might be taxes free or not, and, this influences the financial expenses. The role of community is critical as well because it is necessary to achieve community acceptance and support, some MFIs might face resistance or barriers from communities at the targeted market, in contrast, MFI can attract special social oriented donors and their donations will help as a form of equity. Also, MFI should not miss the role of strategic alliances in performing the social mission. MFI can build effective strategic alliances with: the official donors to increase equity; the strategic partners and networks to share knowledge; the technical assistants that provide free or low cost re-skilling for employees or clients and provide IT solutions; the business partners such as banks, traders or suppliers; and the other business likes that have different competencies and competitive advantages. The Voluntaries also play a critical role in reducing costs and succeeding in social mission because they have the required passion plus they don't call for financial return on their work but just spiritual returns. For the purpose of measurement, there are several suggested measures that could be used to measure the performance in this theme such as: number of strategic alliances that affect revenue growth or reduce expenses; number of strategic alliances that support MFI in its social mission; degree of community participation to carry out the social mission; and the number of voluntaries.

Conclusion:

This chapter has investigated the direct and indirect factors that influence self-financial sustainability of MFIs. Factors are categorized to 4 perspectives (financial, customer, IBP, and LG). For each factor, there were common strategies that dealt with these factors, and, there were KPIs to measure the related performance of these factors. This chapter helps as a framework for MFIs that aim to be financially self sustainable because it considers all perspectives. Also, it helps as a base to build BSc and integrated performance measurement tool, as well, the empirical study will get benefits from it.

CHAPTER 4: THE METHODOLOGY OF THE EMPRIRCAL STUDY

INTRODUCTION

This chapter shows the method of the empirical study, population and sampling, data collection tool, creditability and stability of the data collection tool, study procedures, and methods of statistical treatments of data.

STUDY METHOD

The goal of this empirical study is to explore the reality and performance of Yemeni MFIs, and find out what is wrong and where should be the treatment. Thus, the extensive descriptive approach is suitable for this kind of studies which aim to find out how things are

POPULATION AND SAMPLE OF THE STUDY

The population of this study is the Yemeni MFIs which are registered with the Social Fund for Development (SFD); there are 11 MFIs that provide microfinance services, divided in 6 regions: 7 of them at Sana'a and Alamanah; and the other 4 MFIs are divided in 4 regions: Aden, Ta'iz, Abyan, and Hadrmut. This study is implemented on all of them. Since the population size is small, 11 questionnaire forms have been sent during the first half of October 2009 to all 11 MFIs, they targeted executive managers since they have good knowledge about the reality of MFI plus they are the decision makers. The received forms are 8 out of 11 with 72.7% respond percentage; all of them are in Alamanah, Sana'a, and Hadrmut.

DATA COLLECTION TOOL

A developed questionnaire, depends on reviewed literature, has been used to collect data; it was translated in Arabic and English language. The questionnaire includes four parts: First are general information questions about MFI, the second part contains 7 questions using the types of one and multi choices questions, third part contains 50 questions using Likert scale of the 5 degrees from 1 to 5: too low, low, medium, high, and very high respectively, fourth part contains 30 open

questions ask numerical values and percentages. Each question has a hidden code number which relates it to a specific perspective, dimension and sub-dimension of FSS factors as categorized in the last chapter and will be mentioned in the chapter of data presenting and analysis. See appendix [1].

Also, this study has used some public statistics and financial benchmarks from public sources to; enhance the analysis, and compensate for the shortfall in financial data.

CREDIBILITY AND STABILITY OF THE TOOL

The questionnaire is built based on reviewed literature mainly; Strategy Maps (Kaplan & Norton, 2004) and Balanced Scorecard (Kaplan & Norton, 1996). Then it was revised by some professors at CBA who enriched the questionnaire with their comments and recommendations. Also, the researcher has handed the questionnaire to some MFIs executives in Alamanah and Sana'a regions to find out their comments, thus, the questionnaire has takes time and had been reformulated many times to be in its final form.

STUDY PROCEDURES

The questionnaire had two channels to collect data: first, manual questionnaire handled to MFIs personally to MFIs at Alamanah and Sana'a regions, and sent by email to all MFIs, and sent by fax to MFIs who do not have internet connection; second, the questionnaire was also available online on www.surveymonkey.com website. Also, all MFIs were contacted by phone to follow up the data collection. The received forms are 8 out of 11 with 72.2% responses percentage; 7 of them are in Alamanah and Sana'a regions beside one from Hadrmut as mentioned before.

STATISTICAL TREATMENTS

The collected data had been filled in Excel program to analyze data using: first, statistical methods such as: percentages, averages, range, and standard deviation (St.Dev.), counts, and frequencies to describe the performance of MFIs based on those factors or answers in order to find out 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 $4/5=0.8$. Thus, data will be described as follow:

average	Degree
>4.2 – 5	Very high
>3.4 – 4.2	High
>2.6 – 3.4	Medium
>1.8 – 2.6	Low
1 – 1.8	Very low

TABLE 2: GUIDELINE FOR DESCRIBING RESULTS FROM LIKERT SCALE QUESTIONS

DIFFICULTIES IN THE STUDY

There was low transparency, all MFIs did not send their financial reports, SFD was asked to give such information but they refuse too. Thus, some statistics had been collected from public sources to offset the decrease in financial statements.

CHAPTER 5: DATA PRESENTING & ANALYSIS

This chapter present data and its analysis based on performance perspectives: financial, customer, internal-business-process, and learning-and-growth perspective. Each one has sub-dimensions which could be measured in at least one indicator. The questionnaire includes questions that elaborate those indicators, and, some questions are asking information that could be used to calculate relative indicators.

FINANCIAL PERSPECTIVE

The final goals that MFI aims to achieve are achieving both financial self sufficiency FSS, and operational self sufficiency OSS. In order to achieve that, MFI should have a good performance in all perspectives and dimensions. Collected data shows only 12.5% (1/8) of MFIs has both FSS and OSS; while the left 87.5% did not achieve FSS. And 50% (4/8) of MFIs have OSS while the left 50% did not reach OSS. The average OSS is 93.25% with St.Dev. 32.86% while average FSS is 75.63% with St.Dev. 25.23%. Also, this perspective includes two dimensions to measure its performance; productivity and profitable revenue growth.

- Productivity

Productivity dimension has several sub dimensions such as; cost effectiveness, life cycle, resource utilization, and risk management. In case of cost effectiveness it contains; HR productivity which shows average 166 clients per employee with standard deviation equal to 49.4 comparing to 119 in MENA⁸ region which indicate good performance in this factor; the average of operational expenses/assets is 33.5%⁹ comparing to 14.82% in MENA region which is so high and effects FSS and OSS negatively; 87.5% Yemeni MFIs use the delivery methodology of go to clients and seek them and this indicates higher expenses than receiving them, but it should be balanced with outreach objective which will help in achieving higher OSS/FSS in future. In case of life stage, the average number of years in service is 7 years with standard deviation 2.4 years. Studies show that MFI needs 3 to 7 years to achieve OSS (McGuire & Ors, 1998). Only 12.5% of Yemeni MFIs is less than 3 years and 62.5% of them still receive grants or social equity. In case of resource

⁸ Middle East and North Africa , source : Mix Market at www.mixmarket.org

⁹ Source : Mix Market at www.mixmarket.org

utilization, it depends on – for example- mobilizing savings, but data shows 50% of MFIs do not offer saving services, also ROA average in Yemeni MFIs is 1.14% while it is 3.01% in MENA region². In case of risk management, statistics² show that average portfolio-at-risk-more-than-30-days is 4.41% in Yemeni MFIs comparing to 2.84% in MENA region, also Non-earning liquid assets is 29.21% of total assets in Yemen while it's 19.61% in MENA region but the write-off-ratio is the same¹⁰. Accordingly, data indicates that there is a weakness in general in the productivity of Yemeni MFIs.

- Profitable revenue growth

Profitable revenue growth refers to several factors: First, effective and differentiate funding sources which is totally too weak in Yemeni MFIs because there are no investments or trade funding sources according to collected data, they just depend on revenues coming from: loan service rather interest rate , grants or social equity as mentioned before, and strategic alliances that contribute in

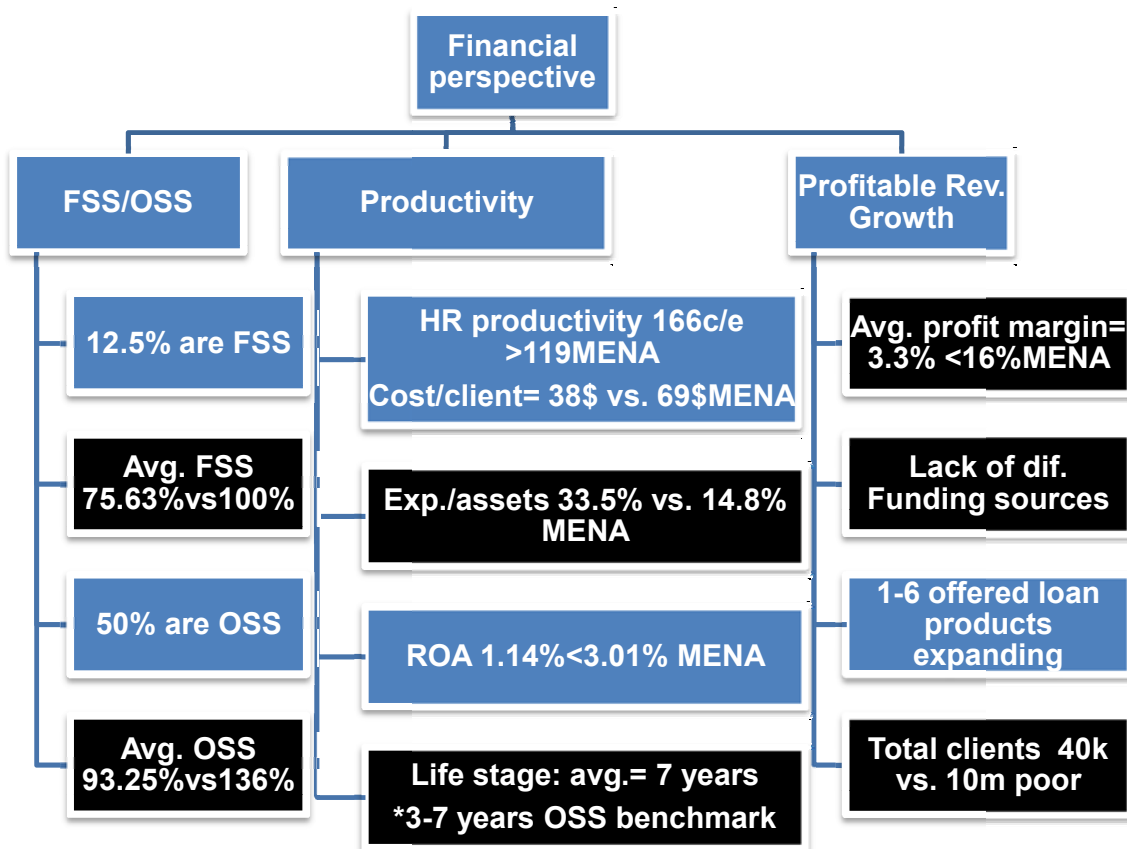


FIGURE 8: FINDINGS OF FINANCIAL PERSPECTIVE

¹⁰ Source : Mix Market at www.mixmarket.org

revenue growth; the second is expanding offered products and services, data shows that the number of loan products offered range from 1 to 6 products with average equal 2.4 products, this indicates that MFIs depends on little traditional loan products and there is no ideal expanding in offered products or innovative too; the third, enhancing both depth and breadth outreach are important to achieve higher revenues as well as reducing cost per loan, data shows that growth in loan with same client range from 10% to 60% with average equal 31.7% and St.Dev. 17.8%; the fourth, implement profitable pricing strategy is essential to achieve FSS/OSS, data shows that MFIs pay interest on borrowed funds range from 5 to 10%, and, they pay interest on clients savings range from 5 to 10% as well, while they set interest rate or price premium on loans range from 12.5 to 24%, also, the average profit margin is 3.3% comparing to 15.97% in MENA region¹¹, while the cost per borrower in Yemen is 38 USD comparing to 69 USD in MENA³. This indicates that Yemeni MFIs has weakness in financial efficiency and revenue growth in general; it might be caused by relative reasons or weaknesses in other perspectives.

¹¹ Source : Mix Market at www.mixmarket.org

CUSTOMER PERSPECTIVE

There are two dimensions to measure the performance of customer perspective; there are lagging factors or outcomes, and there are leading factors or performance drivers.

- Lagging factors

Firstly, the clients' retention has been measured via two indicators; percentage of clients exit cause of weak experience, and percentage of clients exit cause of becoming out of poverty. only 12.5% (1/8) of MFIs has a methodology to measure both indicators and the respond average was about 68.8% of MFIs for both questions. MFIs estimate the average percentage of clients exit cause of dissatisfaction is 11.8% while the average percentage of clients exit cause of becoming out of poverty is 21%, MFI should aim to decrease the first one and increase the last one to have a better performance in this factor. Secondly, MFIs point out that clients, donors, and government are satisfied with high degree average, while MFIs are less satisfied about the responsibility of government, clients, and community to support MFIs' mission. Finally, the Last lagging factor is the impact of MFI services on clients' poverty such as impact on their food spending, illiteracy, health, and skills, the average response to this factor's questions was 77% and the estimated degree of impact on clients' poverty is medium, and, only 37.5% of MFIs responded and estimated that average percentage increase on clients' income is 27.3% per new loan with active client, while 50% of MFIs estimate that 30.5% of clients have moved out of poverty line.

- Leading factors

In order to achieve higher performance in lagging factors, MFIs should also do a better performance in the leading factors because they play as performance drivers. There are three leading factors. the First is the customer segmentation, respondents point out they use standardized conditions for clients' selection with very high degree, 57% of respondents use National Poverty Line as standard to measure poverty status and 28.5% use (less than 2 \$ per day/ individual) standard while the left ones use (less than 1 \$ per day/individual) standard, the targeted clients are both men and women who plan to – or already - have small or medium enterprises with average percentage 85.7% of MFIs and only 12.5% targets also special social groups such as widows and handicapped, while no MFI targets very poor mainly. The respondent MFIs offer their services in 10 regions out of 21 regions in Yemen, also, no MFI targets rural areas mainly although the majority of poor and population are rural. The second performance driver is the effective and efficient products' attributes, the delivery lead time range from 1 to 15 days depends on collateral

availability with average 7 days. Only 50% of MFIs have savings' products range from 1 to 4 products, and, only 37.5% of MFIs pay interest on savings, they also point out, with medium degree average, that their products are attractive and suitable to clients' backgrounds and demands. The third performance driver is enhancing customer relationship, MFIs have number of strategic alliances range from 1 to 12 with average 3.4 strategic alliances, MFIs also enhance customer relationship by respond highly to complaints, while their campaigns to enhance awareness among targeted clients has a medium effectiveness as well as non-financial co-services that aim to enhance the relationship with clients.

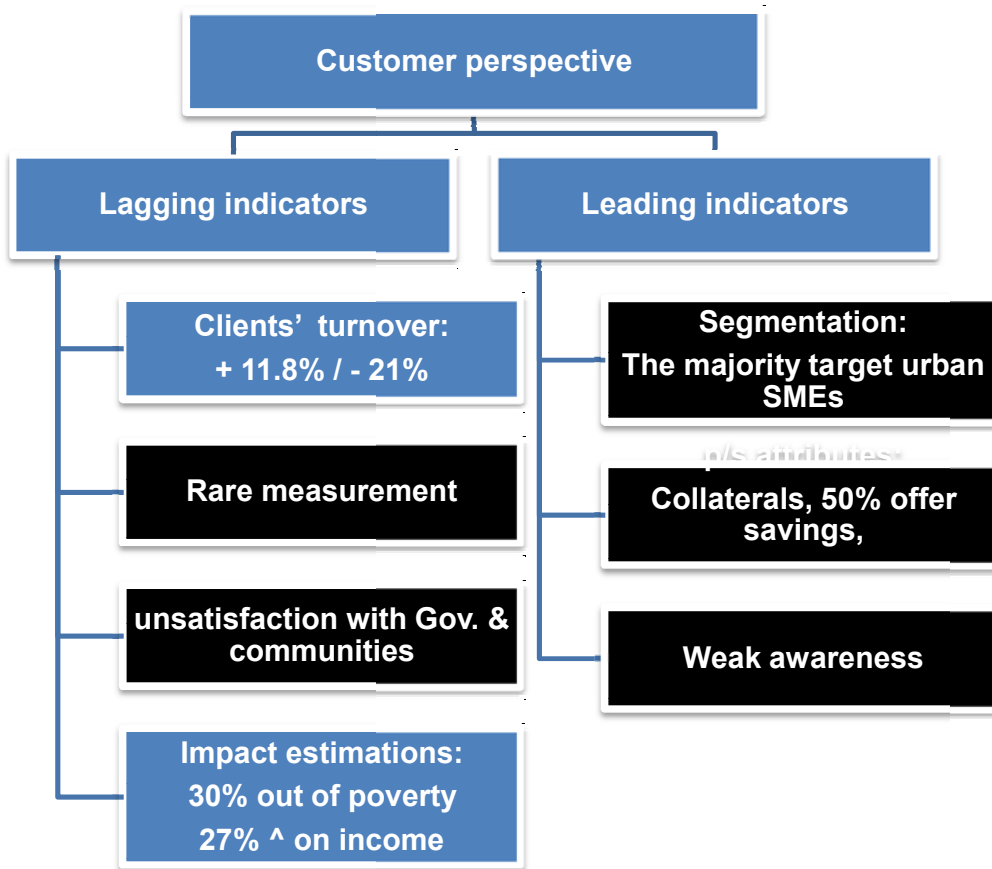


FIGURE 9: FINDINGS OF CUSTOMER PERSPECTIVE

INTERNAL-BUSINESS-PROCESS PERSPECTIVE (IBP)

IBP perspective has five core dimensions: innovation and development management, financial management, operations processes management, risk management, and performance management.

- Innovation and development management

For purpose of innovation and development, data shows that MFIs have built high relationships degree that grow revenues, reduce costs, and enhance knowledge sharing. Also with high degree average, they adjust loan prices to economic changes. But, they emphasize innovative non-financial poverty solutions with medium degree which should be higher to support their mission of poverty elimination.

- Financial management

Data shows that MFIs have very high degree in developing long and short term financial plans, but the degree of implementing those financial plans is lower high. They also have high degree in developing new assets investment policy but they don't have investments other than loans products as data showed. And, they commit to their capital structure policies with high degree.

- Operations processes management

In case of operations processes, the average degree of their costs effectiveness is high as well as their standardization and simplicity, while the average degree of operations processes flexibility is very high. In term of operations' processes efficiency, the loan order lead time ranges from 1 to 15 days with average 6.14 days and St.Dev. equal 4.6 days, while just 37.5% of MFIs respond that percentage of client's complaints average 2.7% in last year.

- Risk management

In term of risk controlling, MFIs point out that there is a high avoiding degree from internal financial corruption and clients' moral hazards too; it might be related to high contribution degree of used procedures in risk controlling as data showed. But, it is not very high! Furthermore, statistics show that average-portfolio-at-risk-more-than-30-days is 4.41% in Yemeni MFIs comparing to 2.84% in MENA region, also Non-earning liquid assets is 29.21% of total assets in

Yemen while it's 19.61% in MENA region. Also, MFIs argue that there are moderate effects of economic changes on client's profitability.

- Performance management.

The performance of this sub-dimension itself could be observed from several angles, data shows that the average using degree of non-financial performance indicators is medium as well as monitoring the impact on clients. But with very high degree, they evaluate their employees' performance. Also, they have a high employing degree of internal audit system. In other hand, data shows that 87.5% of MFIs are subjected to external audit. And, just 62.5% of MFIs respond that they use number of external public performance measurement tools range from 1 to 5 tools with average about 3 tools per MFI. Finally, for purpose of enhancing their performance, they revise their strategies and make corrective actions with high degree.

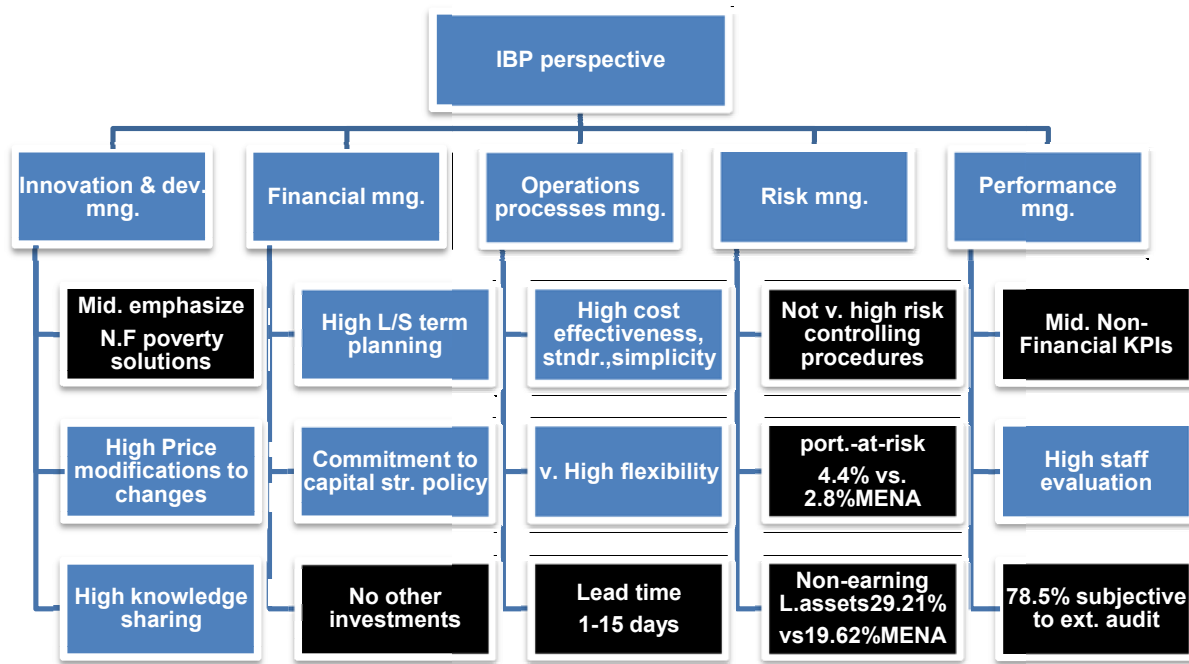


FIGURE 10: FINDINGS OF IBP PERSPECTIVE

LEARNING-AND-GROWTH PERSPECTIVE (LG)

This perspective has four dimensions: human capital, information capital, organization capital, and external capital.

- Human capital

Data shows that average employees turnover in MFIs is 17% with St.Dev. 26.9% while their satisfaction is high as MFIs point out. Number of clients per employee is 166; this indicates higher productivity than MENA benchmark which is 119. The degree of employees' passion toward MFIs' social mission is high. In case of capacity building, MFIs offer training courses range from 3 to 20 courses yearly except for one MFI which offer about 200 courses, so the average is 36 courses with St.Dev. 66.6.

- Information capital

MFIs point out that processes are automated with a high degree, they also point out they benefit from IT in future plans with high degree. But, the average annual failure of information system is about 2 times which might allow for consequence problems.

- Organization capital

MFIs point out that they have a high degree of awareness among staff of MFI social mission, vision, and strategy and higher degree in the role of leadership in MFI. In case of employees' competencies, the percentage of employees who have a bachelor degree is 63.4%. The degree of implementing incentive reward system is high.

In case of the legal structure, there are: 1 MFI works as bank; 3 MFIs are related to associations; 3 MFIs work as social establishments; and 1 as governmental fund. The remarkable thing is that all the 3 social establishments are OSS and 1 of them is FSS too. The bank is still in growth stage with 2 years in service. Just 1 association is OSS while the other 2 associations have less than 65% OSS. The lone governmental fund has 95% OSS and 90% FSS.

- External capital

MFIs point out that the degree of regulations supporting is low. The role of voluntaries is low too, and only 3 MFIs have voluntaries range, so there are average 2 voluntaries per MFI. They also

argue that the degree of strategic alliances' effectiveness is medium in supporting MFI business as well as communities' contribution.

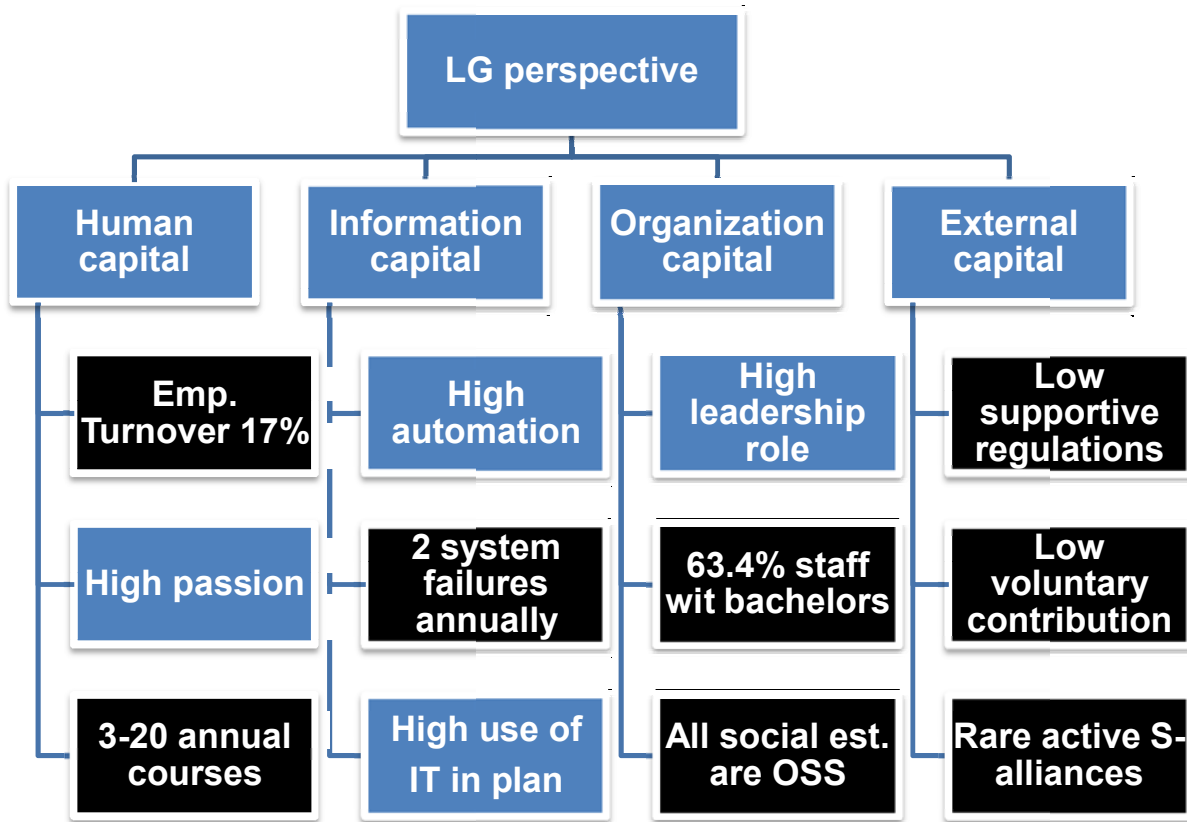


FIGURE 11: FINDINGS OF LG PERSPECTIVE

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

This chapter contains of; general findings, recommendations, general recommendations, and suggested future studies.

CONCLUSION

1. There are 11 registered MFIs with SFD which still offer microfinance services with average 7 years in service.
2. They focus on low-income clients who can offer physical collaterals.
3. 50% of them did not reach OSS yet, and only 12.5% has reached FSS.
4. There is a weakness in general in the productivity of Yemeni MFIs.
5. There is too weakness in term of using effective and differentiate funding sources.
6. There is a weakness in their financial efficiency and revenue growth strategies generally
7. MFIs are not satisfied with the role of government, community and clients to support MFI's mission
8. There are no statistical studies that detect the impact on clients poverty
9. No focus on rural areas although there are the majority of poor and population as well.
10. The weak sufficiency of the campaigns that aim to enhance awareness of microfinance services among poor.
11. MFIs pay high attention to the evaluation of employees' performance.
12. Weak role of voluntary work and contribution in MFIs.

RECOMMENDATIONS

1. Data shows low cost per borrower but high ratio of operating expenses to assets, MFIs might solve this problem by; increase equity or effective innovative funding sources in order to increase assets and outreach, 2- innovate better solutions to control operating expenses.
2. Enhance the role of strategic alliances in a way that; reduce the capital cost and costs in general. increase outreach and revenues, and
3. Expand both financial and non-financial solutions that balance the dual mission of poverty elimination and FSS.
4. MFI should decrease the clients exit cause of dissatisfaction and increase their exit cause of becoming out poverty.
5. The importance of focus more on: poor women, very poor clients, and rural areas.
6. Enhance the awareness of micro finance mission and services among poor
7. Enhance the role of R&D management.
8. Enhance the implementation of effective financial and business plans.
9. Set effective solutions to avoid operational risks
10. Enhance the role of performance management in order to strengthen the overall organizational performance.
11. The importance of paying attention to all performance perspectives and dimensions as mentioned in the theoretical part of this study.
12. Enhance employees' passion toward the social mission of MFI.
13. Emphasize employees' capacity building by significant trainings.
14. Enhance the role of IT in future planning as well as risk controlling, and, avoid system failures.
15. Enhance the role of voluntary work and attracting voluntaries from all levels such as consultants, trainers, agents, etc.

GENERAL RECOMMENDATIONS

- 1- Communities and clients should support MFIs in their social mission
- 2- Government should take its responsibility by supporting MFIs financially or technically at least to reach FSS and expand outreach, and by eliminating regulation barriers.

SUGGESTED FUTURE STUDIES

1. Statistical study that evaluates the impact of MFIs' services on clients' poverty.
2. Studies that focus on specific factor/s and how to enhance its/their performance.
3. Comparing studies between Yemeni MFIs and successful international MFIs.
4. Case studies on successful MFIs.

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APPENDIXES

APPENDIX 1: MICROFINANCE INITIATIVES IN YEMEN, SOURCE: [HTTP://WWW.SFD-YEMEN.ORG/SMED/ENGLISH/IND_SHOW.PHP](http://www.sfd-yemen.org/smed/english/ind_show.php)

Institutions	Active Clients	Active Savers	Outstanding Portfolio (Million)	Saving Portfolio (Million)	Disbursed Loans(No)	Disbursed Loans (Amount-million)	Female%
1. The National Microfinance Foundation	12132	14856	266	51	52622	1712	99
2. Aden Microfinance Foundation	3500	5731	62	10	22060	24	92
3. Microfinance Development Program (Namaa')	5005	930	170	3	26131	1120	33
4. Sana'a Microfinance Program (Azal	2365	1947	57	2	18516	670	82
5. Wadi Hadramout Credit & Saving Program	1387	1849	50	17	6277	364	30
6. Abyan Credit & Saving Program	3561	3832	74	14	12703	427	100
7. Sana'a Microstart (SOFD)	417	0	6	0	9235	194	76
8. Al-Awael Microfinance Company	3116	0	56	0	30718	656	100
9. Alamal Bank	742	1285	49	8	766	50	35

10. Small Enterprise Development Fund	2118	0	1080	0	8080	5902	4
11. SFSD	2378	0	97	0	8455	463	87
Total	38091	30430	1979697481	105623487	225724	12311	

APPENDIX 2: FACTORS CATEGORIZATION ACCORDING TO BSC APPROACH

perspective	objective	sub-objective
financial	cost effectiveness	HR Productivity
		control operational expenses
		improve channel mix
	life cycle	life stage: growth/sustain/mature
	effective resource utilization	mobilize clients savings
	risk management	decrease loan defaults
		decrease payments at risk ratio
		high repayment rate
	funding sources	different funding sources
		percentage of donations
		the self sufficiency of MFIs
	p/s	expanding offered p/s
		expanding innovative p/s
	outreach	growth of clients
		growth in loan size and repeated loans with existing clients
		market share
	pricing strategy	client profitability
	customer	market share
	customer retention	decrease clients exit cause of weak clients experience increase clients exit cause of poverty elimination
	clients acquisition	increase clients acquisition
	customer satisfaction	high customer satisfaction
	customer profitability	activity based costs analysis
		periodic price monitoring
	clients commitment	on time payments
		no defaults
	customer responsibility	community responsibility
		government responsibility
		clients responsibility
	impact on poverty	increase clients welfare

	customer segmentation	targeted clients	
	effective and efficient p/s attributes	delivery efficiency	
		effective loan size	
		diversified p/s	
		suitability to market	
		attractive loan requirements for clients	
	customer relationships	clients awareness	
		co-services	
		responsiveness to complaints	
		# of strategic alliances	
IBP	innovation and development management	enhance pricing strategy adjustment to economic changes	
		enhance effective relationships that grow revenues	
		enhance effective relationships that reduce costs	
		emphasize innovative non-financial poverty solutions	
		effective relationships that enhance knowledge sharing	
	financial management	financial planning	
		implementing financial plans	
		new assets investment policy	
		capital structure policy	
	operations management	processes	operations processes effectiveness
			operations processes standardization
			operations processes simplification
			operations processes flexibility
		operations efficiency	
	risk management	effects of economic changes	
		control clients risks	
		effective internal control system	
	performance management	emphasize non-financial performance indicators	

		evaluate impacts on clients
		evaluate employee performance
		employ external audit
		employ internal audit
		using performance measurement tools developed by mf networks
		strategy revising and corrective actions
LG	human capital	enhance employees retention
		enhance employees satisfaction
		enhance employee productivity
		enhance employees passion toward social mission
		enhance employees competencies
	information capital	processes automation
		low information system failure
		what is the degree of benefit from IT in future plans+D94
	organization capital	awareness among staff of MFI social mission, vision and strategy
		strong leadership
		qualified staff
		what is the degree of implementing incentive reward system
	external capital	regulations supporting
		the effectiveness of strategic alliance
		enhance the role of voluntaries
		enhance the role of communities
		suitable and effective legal structure

APPENDIX 3: THE QUESTIONNAIRE

بسم الله الرحمن الرحيم

عزيزي المدير التنفيذي للمؤسسة:

• هذا الاستبيان يهدف الى قياس واقع مؤسسات التمويل الاصغر باليمن، لذا نرجو التعاون من اجل التوصل الى نتائج وتوصيات سليمة تهدف للصالح العام.

• يتكون الاستبيان من عدد 11 صفحة تشمل الاتي:

- صفحة المقدمة ونبذه عن المؤسسة المستبينة
- قسم اسئلة الاختيار المتعدد او المفرد – على حسب طلب السؤال-
- قسم الاسئلة المغلقة المتدرجة بخمسة مقاييس من منخفض جدا الى عالي جدا
- قسم الاسئلة المفتوحة والتي تتطلب الاجابة بارقام او نسب محددة على حسب طلب السؤال
- افادة من الجهة الاكاديمية التي ينتمي الباحث اليها

• كما نرجو ارفاق نسخة من النتائج المالية للعام المنصرم

• ترسل الاجابات قبل تاريخ 2009/11/8

• يمكنكم استخدام هذا الاستبيان بسهولة والاحتفاظ به على الانترنت على الرابط التالي المرفق بالايمل:

http://www.surveymonkey.com/s.aspx?sm=IhxDG6twPw06NAMQPtuWww_3d_3d

• او فضلا قم بطباعة هذا الاستبيان والاجابة عليه ثم ارساله على فاكس رقم 01472602 او بريد الكتروني

ABOADYB@hotmail.com

• للاستفسار و التواصل مع الباحث : عبدالعزيز الحيدي – موبايل 711730005 - بريد الكتروني

ABOADYB@hotmail.com

❖ نبذة عن المؤسسة

- اسم المؤسسة:
- المناطق التي تخدمها:
- اسم الشخص مستخدم الاستبيان (اختياري) :
- ارقام التواصل او البريد الالكتروني:

❖ اختر ماهو النموذج المطبق لعمل المؤسسة:

- جرامين
- ASA
- BRACS
- SHG
- اخرى – اذكرها-

❖ ماهي المناطق المستهدفة بشكل رئيسي:

- المناطق الريفية
- المناطق الحضرية
- كلاهما

code	question	السؤال	الخيارات Options
4	what is the main delivery methodology	ما هي الطريقة الرئيسية المستخدمة للتوصل الى العميل	<ul style="list-style-type: none"> <input type="radio"/> Receive استقبال المستفيدين <input type="radio"/> Go to client البحث عن المستفيدين
56	choose who are the targeted clients –multiple choice-	اختر من هم المستهدفين المستفيدين من خدمة المؤسسة -اختيار متعدد-	<ul style="list-style-type: none"> <input type="radio"/> all poor الفقراء عموما <input type="radio"/> very poor الاشد فقرا <input type="radio"/> Low income قليلي الدخل <input type="radio"/> SMEs المشاريع الصغيرة و الاصغر <input type="radio"/> only women in term of gender النساء فقط بالنسبة للجنس <input type="radio"/> Special social group مجموعات خاصة كلايتام او العجزة او اطفال الشوارع... <input type="radio"/> Others-name- اخرى اذكرها
57	how do MFI measure the poverty level of new clients	ما هي الاداة المستخدمة لقياس مستوى الفقر للعملاء الجدد	<ul style="list-style-type: none"> <input type="radio"/> National poverty line (NPL) خط الفقر الرسمي الوطني <input type="radio"/> 50% below NPL اقل بـ50% عن المستوى الوطني <input type="radio"/> Int. poverty line-2\$ per household- poor المستوى الدولي المقرر باقل من \$2 لكل عائل فقير <input type="radio"/> Int. poverty line-1\$ per household very poor المستوى الدولي المقرر باقل من \$1 لكل عائل فقير جدا <input type="radio"/> Other -اخر- اذكر-
93	does MFI subjected to external audit	هل تخضع المؤسسة لمراقبة خارجية	<ul style="list-style-type: none"> <input type="radio"/> Yes نعم <input type="radio"/> No لا
115	what is the legal structure of the MFI	ما هو الشكل القانوني للمؤسسة	<ul style="list-style-type: none"> <input type="radio"/> Bank بنك <input type="radio"/> Cooperative جمعية تعاونية <input type="radio"/> Company شركة <input type="radio"/> Social establishment مؤسسة اجتماعية <input type="radio"/> Association جمعية خيرية <input type="radio"/> Other (name) اخرى اذكرها

question	السؤال	منخفضة جدا	منخفضة	متوسطة	عالية	عالية جدا
1. what is the degree of clients satisfaction	ماهي درجة رضى المستفيدين (العملاء)					
2. what is the degree of social donors satisfaction	ماهي درجة رضى المانحين والمتبرعين					
3. what is the degree of government satisfaction	ماهي درجة رضى الجهات الحكومية المعنية					
4. what is the degree of MFI using of ABC analysis	ماهي درجة استخدام المؤسسة لنظام تحليل التكاليف بحسب الأنشطة					
5. to which extent MFI emphasize periodic costs and price monitoring	الى اي حد تقوم المؤسسة دوريا بمراجعة التكاليف واسعار القروض					
6. what is the degree of MFI satisfaction about community responsibility	ماهي درجة رضى المؤسسة عن دور المجتمع في دعم عمل المؤسسة					
7. what is the degree of MFI satisfaction about government responsibility	ماهي درجة رضى المؤسسة عن دور الجهات الحكومية في دعم عمل المؤسسة					
8. what is the degree of MFI satisfaction about clients responsibility	ماهي درجة رضى المؤسسة عن دور المستفيدين في دعم عمل المؤسسة					
9. what is the degree of the impact on enhancing clients health	ماهي درجة الاثر على الاحوال الصحية للمستفيدين					
10. what is the degree of the impact on clients illiteracy	ماهي درجة الاثر على نسبة الامية بين للمستفيدين					
11. what is the degree of the impact on clients food spending	ماهي ما درجة الاثر على مصروفات المستفيدين لزيادة التغذية					
12. what is the degree of MFI contribution in enhancing clients skills	ماهي درجة مشاركة المؤسسة في تنمية مهارات المستفيدين					

question	السؤال	منخفضة جدا	منخفضة	متوسطة	عالية	عالية جدا
13. to what extent MFI standardized the selection conditions	الى اي حد تستخدم المؤسسة نظام موحد لاختيار المستفيدين					
14. what is the degree of products suitability to clients background and demands	ما مدى ملائمة المنتجات الى طبيعة المستفيدين ومعتقداتهم وطلباتهم					
15. how do loan terms and requirements attract new clients	ما مدى جذب شروط القرض ومتطلباته لمستفيدين اكثر					
16. how effective is campaigns to build awareness among customers	ما مدى فاعلية حملات التعريف بدور المؤسسة بوسط المجتمع المستهدف					
17. how effective are co-services to enhance relationship with clients	ما مدى فاعلية الخدمات المساندة غير المالية المقدمة في توطيد العلاقة مع المستفيدين					
18. what is the degree of responsiveness to complaints	ما هي درجة استجابة المؤسسة لشكاوي المستفيدين					
19. to what extent MFI adjusts prices to economic changes	الي اي حد تقوم المؤسسة بتكييف اسعار القروض مع التغيرات الاقتصادية					
20. to what extent MFI is building effective relationships that grow revenues	الي اي حد تقوم المؤسسة ببناء علاقات فعالة من اجل زيادة الايرادات					
21. to what extent MFI is building effective relationships that reduce costs	الي اي حد تقوم المؤسسة ببناء علاقات فعالة تتسبب بخفض التكاليف					
22. to what extent MFI is developing innovative non-financial poverty solutions	الي اي حد تقوم المؤسسة بتطوير حلول اخرى غير مالية للفضاء على الفقر					
23. what is the degree of effective relationships that enhance knowledge sharing	ما هي درجة فاعلية علاقات المؤسسة مع الجهات الاخرى في تبادل الخبرات والمعلومات					

question	السؤال	منخفضة جدا	منخفضة	متوسطة	عالية	عالية جدا
24. to what extent MFI is developing long and short term financial plans	الى اي حد تقوم المؤسسة بعمل خطط مالية قريبة وبعيدة المدى					
25. what is the degree of implementing that financial plans	ما هي درجة تنفيذ تلك الخطط					
26. what is the degree of developing new assets investment policy	ما هي درجة امتلاك المؤسسة لسياسة واضحة لاستثمار الواردات في اصول جديده					
27. what is the degree of commitment to a capital structure policy	ما هي درجة الالتزام بسياسة تركيبية راس المال					
28. what is the degree of operations' costs effectiveness	ما هي درجة فاعلية عمليات المؤسسة في تخفيض التكاليف					
29. what is the degree of operations standardization	ما هي درجة توحيد معايير العمليات					
30. what is the degree of processes simplicity	ما هي درجة سهولة العمليات					
31. what is the degree of operations flexibility	ما هي درجة مرونة العمليات					
32. what is the degree of exchange rate changes effects on clients profitability	ما اثر التغير في اسعار الصرف على الربح من المستفيد					
33. what is the degree of avoiding moral hazards	ما هي درجة تفادي المخاطر الاخلاقية من بعض المستفيدين					
34. what is the degree of avoiding fraud risk	ما هي درجة تفادي المخاطر الاخلاقية داخليا					

question	السؤال	منخفضة جدا	منخفضة	متوسطة	عالية	عالية جدا
35. to what extent used procedures contribute in corruption risk controlling	الى اي مدى تساهم الاجراءات المستخدمة حاليا في التحكم بمخاطر الفساد					
36. what is the degree of using non-financial performance indicators	ما هي درجة استخدام المؤسسة لمؤشرات اداء غير المالية					
37. to what extent MFI is monitoring the impacts on clients	الى اي حد تقوم المؤسسة بقياس و مراقبة الاثر على المستفيدين					
38. what is the degree MFI is evaluating employees performance	الى اي درجة تقوم المؤسسة بقياس ومراقبة اداء الموظفين					
39. what is the degree of employing internal audit	ما مدى وجود نظام مراقبة ومراجعة داخلي					
40. what is the degree of strategy revising and corrective actions	ما مدى قيام المؤسسة بمراجعة استراتيجياتها وتصحيحها					
41. what is the degree of employees satisfaction	ما هي درجة رضى الموظفين					
42. what is the degree employees passion toward social mission	ما هي درجة تعاطف وتفاعل الموظفين مع الرسالة الاجتماعية للمؤسسة					
43. what is the degree of processes automation	ما هي درجة امتة عمليات واجراءات المؤسسة					
44. what is the degree of IT contribution in future plans	ما هي درجة استفادة المؤسسة من نظم المعلومات في التخطيط المستقبلي					
45. what is the degree of awareness among staff of MFI social mission, vision and strategy	ما هي درجة وعي الموظفين برسالة المؤسسة واهدافها واستراتيجيتها					

question	السؤال	منخفضة جدا	منخفضة	متوسطة	عالية	عالية جدا
46. what is the degree of leadership role in MFI	ما هي درجة اسهام الدور القيادي في ادارة المؤسسة					
47. what is the degree of implementing incentive reward system	ما هي درجة تفعيل نظام للحوافز بحسب الاداء					
48. what is the degree of regulations supporting to grow profits	ما هي درجة مساهمة القوانين الحكومية النافذه في دعم نمو الايرادات					
49. what is the degree of strategic alliances effectiveness to grow MFI business	ما هي درجة مساهمة التحالفات الاستراتيجية في دعم عمل المؤسسة					
50. what is the degree of community participation to carry out the social mission	ما هي درجة مساهمة المجتمع في دعم وتشجيع عمل المؤسسة					

- املئ الفراغات التالية بحسب المطلوب واترك السؤال الذي لا تتوفر لديكم اجابته فارغا

question	السؤال	answer
51. what is the total number of employees	كم يبلغ العدد الاجمالي للموظفين	
52. how much is the total donations and social equity	كم يبلغ اجمالي الهبات والتبرعات المستلمة بالريال	
53. how much is working capital	كم يبلغ راس المال العامل بالريال	
54. How much is revenues from commercial investments such as trading, insurance...	كم يبلغ العائد من الاستثمارات التجارية للعام المنصرم	
55. how many p/s that MFI innovate	كم عدد المنتجات والخدمات التي قامت المؤسسة بابتكارها	
56. how much is growth of loans with existing clients	ماهي نسبة الزيادة في القرض للمستفيد الواحد سنويا	
57. What is the size of targeted segments	كم حجم المستهدفين للاستفادة من خدمات المؤسسة	
58. How much is the interest rate payed on borrowed funds	كم تبلغ نسبة الفائدة المدفوعة للديون المقترضة على المؤسسة	
59. How much is the interest rate payed on savings	كم تبلغ نسبة الفائده الممنوح لايداعات المستفيدين	

question	السؤال	answer
60. what is the percentage price premium (IR)	كم نسبة الربح المستهدف او معدل الفائدة في القرض الواحد	
61. what is the total number of new clients (in year)	كم يبلغ معدل عدد العملاء الجدد للعام المنصرم	
62. How much is total loans to new clients	كم يبلغ اجمالي القروض بالريال مع العملاء الجدد للعام المنصرم	
63. what is the percentage increase in clients income	كم نسبة نمو دخل المستفيدين سنويا	
64. what is the percentage of clients who moved above the relevant poverty line	كم نسبة العملاء الذين تخطوا خط الفقر	
65. how long does it take to complete order	كم يستغرق انهاء طلب القرض الى حين تسليمه للمستفيد	
66. what is the total number of saving products	كم عدد منتجات الايداع المتوفرة	
67. what is the total number of strategic alliances	كم عدد التحالفات الاستراتيجية مع المؤسسة	
68. What is the total number of clients' complaints?	كم عدد شكاوي المستفيدين للعام المنصرم	
69. What is the percentage of clients exit cause of bad clients experience	كم تقدر نسبة تسرب المستفيدين نتيجة عدم الرضى	

question	السؤال	answer
70. What is the percentage of clients exit cause of becoming out of poverty	كم تقدر نسبة تسرب المستفيدين نتيجة تحسن احوالهم	
71. What is the total number of used performance measurement tools?	كم عدد الاستبيانات الرسمية الخارجية التي تستخدمها المؤسسة لقياس اداها	
72. What is the percentage of staff turnover	كم تبلغ نسبة تسرب الموظفين	
73. What is the total number of clients per loan officer?	كم عدد المستفيدين المقابل لكل مسؤول قرض	
74. what is the total number of trainings that MFI attain or establish	كم اجمالي عدد الدورات التدريبية التي اقامتها المؤسسة او الخارجية التي تم الالتحاق بها	
75. what is the total number of information system failures	كم عدد المرات التي تعطل فيها النظام الالي عن العمل	
76. How long is loan order lead time	كم يستغرق انتهاء طلب القرض الى حين تسليمه للمستفيد	
77. what is the percentage of employees that have bachelor degree	كم تقدر نسبة الموظفين الحاصلين على الباكلوريوس	
78. what is the total number of voluntaries	كم يبلغ عدد المتطوعين في اعمال المؤسسة	
79. what is the percentage of operational self sufficiency OSS	كم نسبة الكفاءة التشغيلية الذاتية OSS *مهم	
80. what is the percentage of financial self sufficiency FSS	كم نسبة الكفاءة المالية الذاتية FSS *مهم	

نشكركم على حسن تعاونكم

للاستفسار والتواصل مع الباحث

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