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Enhancing financial inclusion through Shari'a-compliant microfinance: A case study of Al-Amal Microfinance Bank in Yemen

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Abstract

This study explores the role of Shari'a-compliant microfinance in advancing financial inclusion and improving socio-economic conditions, with a particular focus on serving the financial needs of marginalised populations in rural areas. Through a case study of Al-Amal Microfinance Bank in Yemen, the research highlights the bank's effectiveness in expanding access to financial services via tailored solutions and strategic outreach. By deploying a network of financial and non-financial agents in remote areas, alongside digital banking platforms, Al-Amal Bank successfully mitigates barriers such as distance, cost and accessibility. The integration of electronic services further enhances financial access, contributing to more inclusive development across the country.

Keywords

- Shari'a compliant microfinance
- financial inclusion
- financial integration
- electronic banking services

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Introduction

Financial inclusion is widely recognised as a critical driver of economic and social development. In response, many countries have prioritised the promotion of financial integration and the removal of barriers that hinder equitable access to financial services. This emphasis stems from the close linkage between financial inclusion, macroeconomic stability and sustained economic growth. By increasing competition among financial institutions and encouraging product innovation, financial inclusion enhances service quality and broadens customer outreach.

In pursuit of broader societal welfare and sustainable development, many countries have actively designed innovative financial products and services aimed at promoting financial inclusion. These efforts are primarily targeted at extending access to financial services across all segments of society, particularly among economically disadvantaged populations. Microfinance has become a key tool in this effort, empowering individuals in underserved communities and fostering both social and economic autonomy.

Yet traditional microfinance is proving largely ineffective, particularly in the Arab world (Allegret et al., 2018). Numerous micro and small projects are challenged to be financially viable for operational reasons (e.g. the high cost, the scale). These problems are exacerbated by religious considerations; a large part of the population is reluctant to use mainstream interest-based finance institutions.

As a result, there is an urgent need to explore alternative funding mechanisms that are better suited to the specific nature of small-scale and community-based projects. These mechanisms must consider variables such as project size, business activity, income levels and profit potential. In this regard, Islamic finance presents a viable and culturally congruent alternative to conventional financial systems. Rooted in ethical principles that prohibit interest (riba) and emphasise social justice, Islamic finance relies on profit-and-loss sharing arrangements and risk-sharing instruments. This structure aligns closely with the values and preferences of communities that seek financial services consistent with their religious beliefs.

1. Literature review

The literature on the role of Shari'a-compliant microfinance in promoting financial inclusion emphasises its significance as a powerful tool for promoting inclusive economic growth and reducing poverty. Scholars and researchers have explored various dimensions of this topic, providing insights into the mechanisms and impact of Shari'a-compliant microfinance on expanding financial access and fostering inclusive development. Key themes and findings include:

1.1. General concepts about financial inclusion

The term "financial inclusion" was first introduced in 1995 by Leyshon and Thrift in their study of financial services in Southeast England, which examined how the closure of bank branches affected residents' access to formal banking systems (Leyshon & Thrift, 1995; Mazumder & Korhonen, 2019). By 1999, the concept gained wider recognition and was increasingly used to explore the specific factors that determine individuals' access to formal financial services (Bramley & Besemer, 2018).

1.1.1. Financial inclusion definition

Consistent terminology is essential for analytical clarity in financial inclusion research. According to the World Bank (2022), financial inclusion refers to individuals and businesses having access to useful and affordable financial products and services – including payments, savings, credit and insurance – that are delivered responsibly and sustainably. In contrast, financial access refers specifically to the availability of financial services, while financial usage involves the regularity, frequency and depth of use.

The term financial integration is sometimes used to describe the process of incorporating informal or excluded populations into the formal financial system, but this should not be conflated with broader economic integration. Finally, financial sustainability refers to the ability of financial institutions to continue delivering services over the long term without external subsidies. These definitions serve as the framework for evaluating Al-Amal Bank's contributions throughout this study.

A key objective of financial inclusion is to prevent individuals from turning to informal financial channels, which are often costly, poorly regulated and prone to exploitation (Arab Monetary Fund, 2015). By offering access to secure and regulated services, financial inclusion promotes consumer protection and financial stability.

More comprehensively, financial inclusion encompasses the ability of individuals – particularly those with limited incomes – and businesses, including micro and small enterprises, to access and effectively use a broad range of high-quality formal financial services, such as payments, savings, credit, transfers and insurance. These services must be delivered responsibly, affordably and sustainably, within a sound legal and regulatory framework (CGAP, 2004). It also involves regulatory initiatives aimed at expanding financial access equitably across all societal segments, including marginalised populations, while ensuring fairness, transparency and cost-efficiency (Anderloni & Carluccio, 2007; Saber, 2023).

1.1.2. Financial inclusion dimensions

In recent years, the concept of financial inclusion has expanded to encompass four core dimensions: (1) ease of access to financial services, (2) compliance with regulatory and supervisory standards, (3) financial sustainability of service providers, and (4) market competition among financial institutions to enhance service quality and affordability (Khan & Siddiqui et al., 2022).

Access to financial services

This dimension refers to individuals' ability to obtain financial services from formal institutions. It involves identifying and overcoming access barriers such as high service costs, lack of documentation or geographic distance from service points. Data on accessibility is typically gathered through institutional records and user surveys.

Financial services usage

This refers to the extent and frequency with which clients utilise financial services offered by banking institutions. Measuring usage requires tracking user behaviour over time, including how often and how regularly individuals engage with services such as savings, credit and digital payments.

Financial services quality

Assessing service quality is particularly challenging due to its subjective and multi-dimensional nature. While financial inclusion initiatives in developing countries have made strides in improving access, disparities in the quality of services remain. Stakeholders must therefore focus on developing reliable indicators to measure, compare and improve service delivery across institutions, based on client satisfaction, responsiveness and efficiency.

1.1.3. The importance of financial inclusion

In recent years, the importance of financial inclusion has become evident, especially for its role in promoting equitable access to financial services and favouring economic actors to participate fully in the formal economy. This is particularly crucial for small and medium enterprises (SMEs), which serve as key contributors to economic growth, employment and export development.

Despite numerous efforts by Arab countries to support SMEs, their contribution to national economies remains uneven. In oil-producing countries, SMEs contribute around 22% to GDP, while in more diversified, oil-importing Arab economies, this figure can reach as high as 80% – significantly above the average of 40% observed in developing countries. This underscores the sector's potential to diversify sources of national income.

Egypt leads the region with SMEs contributing 80% to GDP, followed by Tunisia at 73% and the UAE at 49%. In contrast, the contributions are lower in Morocco (29%), Lebanon (27%) and Saudi Arabia (22.3%) (Nasr & Rostom, 2013). In terms of public sector employment, SMEs account for just 10% to 49%, which falls short of the 60% average in developing economies. These figures highlight the structural and financial challenges limiting the sector's ability to generate employment.

To address these gaps, many Arab nations are implementing strategies aimed at enhancing financial inclusion for SMEs. Studies estimate that narrowing the financial inclusion gap could lead to a 0.3% annual GDP growth in emerging markets, and up to 5% in certain Arab countries, provided that financing access and regulatory barriers are effectively addressed (Dahbia & Soumia, 2020).

1.2. General concepts about Shari'a-compliant microfinance

According to the International Finance Corporation (2017), approximately 70% of micro, small and medium-sized enterprises (MSMEs) in emerging markets face significant barriers to accessing formal financing — a finding further reinforced by the World Bank's MSME finance gap assessment (Bruhn et al., 2017).

The estimated credit gap reaches \$5.2 trillion globally, rising to \$8.1 trillion when informal sector enterprises are included. This substantial shortfall underscores the urgent need for innovative and inclusive financial models tailored to underserved segments.

1.2.1. Definition and principles of Shari'a-compliant microfinance

Islamic microfinance, also known as Shari'a-compliant microfinance, brings together the core values of Islamic finance with the development goals of traditional microfinance. Its primary focus is to support low-income and marginalised communities by providing financial services such as savings accounts, small loans, money transfers and insurance in ways that align with Islamic legal and ethical principles. These services are offered through financial contracts that avoid interest (riba), encourage risk-sharing between lender and borrower, and emphasise fairness, accountability and social equity.

Scholars offer multiple definitions, but they converge on core themes. Messah and Bessachi (2023) describe Islamic microfinance as the provision of cash or in-kind financing to support microenterprises, following Shari'a and national regulations. Ghanem (2010) emphasises the use of structured Islamic financial contracts to enable the poor to access formal financial services, contribute to economic development, and ensure compliance with both religious and technical standards.

In essence, Islamic microfinance is not merely a religious variant of microfinance; it represents a comprehensive framework that aligns economic activity with ethical and social objectives, making it particularly suitable for Muslim-majority societies with low financial inclusion rates.

1.2.2. Comparing Islamic and conventional microfinance models

While both conventional and Islamic microfinance aim to extend financial services to underserved populations, they are grounded in distinct philosophical and operational principles. Conventional microfinance is generally based on interest-bearing loans and market-driven repayment models, often supported by donor funding or social investment. In contrast, Shari'a-compliant microfinance prohibits *riba* (interest), emphasises risk-sharing and embeds social justice principles through non-profit mechanisms such as *Zakat*, *Qard al-Hasan*, and *Waqf* (Karim et al., 2008; Abdul Rahman, 2007).

One major limitation of conventional microfinance is its tendency to replicate commercial lending logics, which may impose high repayment burdens on low-income borrowers. Studies have shown that interest-bearing loans, even when small, can exacerbate indebtedness if not carefully managed (Dev, 2006). Islamic microfinance attempts to mitigate this risk through *Murabaha* (cost-plus sale), *Mudarabah* (profit-sharing) and *Ijara* (leasing), where financial risk is shared and economic activities must have a productive basis (Iqbal & Mirakhor, 2012).

Despite these ethical and theoretical advantages, Islamic microfinance has its own constraints. These include regulatory ambiguities, lack of standardisation and higher operational costs due to Shari'a compliance requirements (El-Zoghbi & Tarazi, 2013). Moreover, its outreach is often narrower, as many Islamic microfinance providers are relatively small and concentrated in certain regions.

In this context, Al-Amal Bank's model represents a hybrid approach. It combines Islamic financing instruments with digital delivery platforms and donor-backed programs to scale outreach. Unlike many Islamic MFIs that operate in isolation, AMB works in partnership with public and international stakeholders, making it a compelling case of applied Islamic finance in a fragile state environment. This positions it uniquely in the literature and offers practical insights into scaling inclusive finance without compromising religious adherence.

1.3. The importance of Islamic microfinance in achieving financial inclusion

The Islamic finance sector plays a vital role in promoting financial inclusion, particularly among individuals who voluntarily abstain from conventional banking due to religious beliefs. Islamic microfinance is uniquely positioned to bridge this gap by offering ethically aligned, Shari'a-compliant financial products to underserved populations. Its contributions to the financial inclusion agenda are multifaceted, addressing both structural and cultural barriers to access.

1.3.1. The role of Islamic microfinance in promoting financial inclusion

Islamic microfinance adds value to the financial inclusion agenda in several ways, including the following key aspects:

Risk sharing through integration

Profit- and risk-sharing contracts offer a practical and Shari'a-compliant alternative to conventional debt-based financing. These instruments, including *Mudarabah* and *Musharakah*, facilitate equitable financial access while promoting shared responsibility between institutions and clients. They have been applied effectively in microfinance, SME financing and micro-insurance contexts to expand outreach among underserved populations (Walters, 2011).

Islamic integration through redistribution tools

The Islamic financial system integrates distinctive wealth redistribution mechanisms such as Zakat, Sadaqah, Waqf and Qard al-Hasan. These non-profit-based tools complement commercial risk-sharing instruments and are specifically designed to support low-income individuals. Their integration into microfinance strategies fosters a more holistic approach to poverty alleviation and inclusive growth. With deep historical roots, these instruments have long been embedded in Islamic societies as means of social justice and community welfare (Iqbal & Mirakhor, 2012).

Inclusion of segments excluded for religious or cultural reasons

Conventional measures of financial inclusion within an economy typically focus on the coverage of the population by commercial bank branches and ATMs, alongside the aggregate volumes of deposits and loans involving low-income households and SMEs. Nevertheless, it is crucial to recognise that the presence of financial services does not inherently guarantee true financial inclusion. This distinction is particularly evident in numerous Muslim-majority societies, where a considerable portion of the populace voluntarily abstains from engaging with traditional financial services, irrespective of their accessibility and affordability, due to prevailing religious or cultural factors (Sain et al., 2016).

1.3.2. Recent surveys and regional examples of demand for Islamic microfinance

Empirical studies have consistently shown strong demand for Islamic microfinance across a range of Muslim-majority countries. In Jordan, surveys conducted by the U.S. Agency for International Development and the International Finance Corporation revealed that between 25% and 32% of respondents cited religious beliefs as a primary reason for avoiding conventional loans. Similarly, a 2006 study in Algeria found that 20.7% of small business owners refrained from seeking credit due to religious objections (Haneef et al., 2014).

In Yemen, an estimated 40% of poor households express a clear preference for Islamic financial services, even if such services come at a higher cost. Likewise, a 2000 report from Bank Indonesia noted that 49% of rural residents believed interest-based transactions to be prohibited and preferred to bank with Shari'a-compliant institutions.

Globally, the level of self-exclusion from traditional financial systems is striking. According to Honohan (2008), approximately 72% of the population in Islamic countries abstains from using conventional banking services. Many of these individuals – particularly those lacking sufficient guarantees or collateral – remain unserved by existing financial institutions. Despite the growing number of Islamic microfinance providers, the sector still falls short of meeting total demand. It is estimated that more than 650 million people in Muslim-majority countries live on less than two dollars a day, underscoring the urgency of expanding inclusive and Shari'a-compliant financial solutions (El-Zoghbi & Tarazi, 2013; Hersi, 2018).

1.3.3. The importance of Islamic financial services in promoting financial inclusion

Bridging the financial inclusion gap for microenterprises in emerging markets and developing economies offers substantial economic and fiscal benefits. According to Blancher et al. (2019), increased access to finance for micro and small businesses contributes directly to higher employment rates and improved labour productivity, both of which are key drivers of annual GDP growth.

Financial inclusion also enhances job creation across diverse income groups. Macroeconomic analyses show that a 1% increase in credit to small and medium enterprises (SMEs) can reduce the unemployment rate by approximately 0.1% in emerging economies – and by up to 0.2% in regions such as the Middle East, North Africa, Afghanistan, Pakistan and Central Asia (Blancher et al., 2019).

In addition to employment and growth benefits, improved financial inclusion strengthens macro-fiscal policy by broadening the tax base and improving tax collection. The same IMF study highlights that countries with wider financial access tend to report higher revenues and expenditures relative to GDP, indicating a more effective public finance environment.

Moreover, financial inclusion contributes to systemic financial stability – especially when supported by robust risk management frameworks and sound financial oversight. As banks and microfinance institutions diversify their lending portfolios by including microenterprises, their exposure to sector-specific risks is reduced, enhancing overall resilience (Blancher et al., 2019).

1.3.4. Benefits of increased financial inclusion for microenterprises

Bridging the financial inclusion gap for Microenterprises in emerging market and developing economies can bring several benefitss (Blancher et al., 2019):

- increase in annual economic growth by increasing employment and labour force productivity;
- increase in employment across all income groups in different countries. Macroeconomic surveys indicate that a 1% increase in credit to SMEs results in a 0.1% reduction in the unemployment rate in a sample of emerging market and developing economies, and by up to 0.2% in the Middle East, North Africa, Afghanistan, Pakistan, the Caucasus and Central Asia countries;
- increased financial inclusion of microenterprises is accompanied by increased effectiveness of macro fiscal policy, including improved tax collection;
- greater international revenue and expenditure (as a share of GDP), associated with broader financial inclusion, according to IMF findings;
- stronger financial stability, provided that strong risk management and financial control frameworks are in place. Increasing the provision of financing to micro, small and medium-sized enterprises can contribute to financial stability by allowing banks to diversify their credit portfolios and increase their risk exposure.

2. Methodology

Our study employs a qualitative case study methodology to explore how Islamic microfinance contributes to financial inclusion, with a particular emphasis on Al-

Amal Microfinance Bank (AMB) in Yemen. This case study approach is especially well-suited for acquiring deep, context-specific understanding, particularly within challenging settings like Yemen, a nation marked by instability, limited financial access and a strong commitment to Islamic principles.

2.1. Research design and approach

A descriptive and analytical design was employed:

- the descriptive component captures observable patterns in financing, savings and inclusion using institutional data from AMB,
- the analytical component involves interpreting these patterns in relation to the bank's Shari'a-compliant mechanisms, outreach strategies and digital innovations.

2.2. Data sources

The study relies exclusively on secondary data, including:

- Al-Amal Bank's annual and strategic reports (especially for 2021),
- publications from the Central Bank of Yemen and international development institutions (e.g. World Bank, CGAP, IMF),
- peer-reviewed literature on financial inclusion and Islamic finance in fragile contexts.

These sources were selected due to their credibility, accessibility and relevance to the research questions.

2.3. Analytical techniques

1. Content analysis was employed to examine reports and documents for qualitative insights on AMB's strategy, services and outreach.
2. Trend analysis was applied to financing and savings data to assess AMB's impact over time.
3. Comparative figures (2017–2021) were evaluated to track growth rates and operational performance indicators.

2.4. Methodological considerations and study limitations

This study is based solely on secondary data, including institutional reports, academic publications and development agency documents. Due to ongoing conflict, logistical constraints and resource limitations in Yemen, no primary data (e.g. interviews or surveys) were collected. Consequently, empirical testing or econometric modelling was not feasible.

Instead, the study employs basic descriptive statistics – such as growth rates in financing and service coverage – to analyse Al-Amal Bank's performance over time. While this approach does not support causal inference or hypothesis testing, it remains appropriate for exploratory, single-case research. It provides contextual insights into a relatively under-studied area, offering value in theory-building and policy reflection.

Nevertheless, several limitations must be acknowledged:

- the single-case design restricts generalisability to other contexts or institutions;
- informal or recent developments may be missing from the secondary data used;
- some referenced materials lacked verifiable links, limiting reproducibility and transparency.

Future research should consider multi-country comparisons, incorporate primary client-level data or apply quantitative techniques to more robustly evaluate the impact of Shari'a-compliant microfinance on financial inclusion outcomes.

3. Results and discussion

While this study highlights the positive relationship between Al-Amal Bank's initiatives and improved financial inclusion outcomes, it does not claim a direct causal effect. The observed trends may also reflect the influence of external factors, including donor-funded humanitarian programs, the expansion of mobile infrastructure, policy reforms by the Central Bank of Yemen, and broader economic recovery dynamics. Due to the study's reliance on secondary data and its single-institution scope, the findings should be interpreted as indicative rather than conclusive, offering contextual insights rather than generalisable proof.

3.1. The role of Al-Amal Bank in promoting financial inclusion in Yemen. The establishment of Al-Amal Bank

Al-Amal Microfinance Bank (AMB) is the first institution of its kind in both Yemen and the broader Middle East and North Africa (MENA) region, dedicated exclusively to microfinance. It was founded under Law No. 23 of 2002 and officially commenced operations in January 2009, operating under the supervision of the Central Bank of Yemen (Al-Amal Microfinance Bank, n.d.).

As a non-profit financial institution, AMB aims to deliver sustainable financial services to low-income individuals and marginalised groups. Its primary beneficiaries include micro- and small-scale entrepreneurs who often face barriers to accessing conventional credit. The bank provides a comprehensive suite of Shari'a-compliant services – including financing, savings, insurance, domestic and international transfers, currency exchange and digital payments – all tailored to the needs of underserved communities (Al-Amal Bank, 2021).

Al-Amal Bank was established as a result of joint cooperation between the Government of Yemen, the Arab Gulf Program for Development and the private sector, with contribution rates distributed as follows: 45% Social Fund for Development, 34% Arab Gulf Program for Development, 20% Private Sector.

3.2. The role of Al-Amal Bank in enhancing the inclusion of financing services

This subsection includes discussion of financing indicators, guarantee letters and the new "Al-Amal Education" product.

3.2.1. Financing indicators

During the year 2021, Al-Amal Bank achieved growth in the financing portfolio, which is shown in Figure 1.

The data illustrates that between 2017 and 2021, Al-Amal Bank significantly expanded its financing portfolio. The number of loans disbursed increased steadily over this period, reflecting the institution's strategic focus on productive financing, particularly for micro and small enterprises. In 2021 alone, the financing portfolio grew by 50%, more than doubling the 20% growth rate recorded in the previous year – a testament to the bank's growing outreach and operational efficiency.

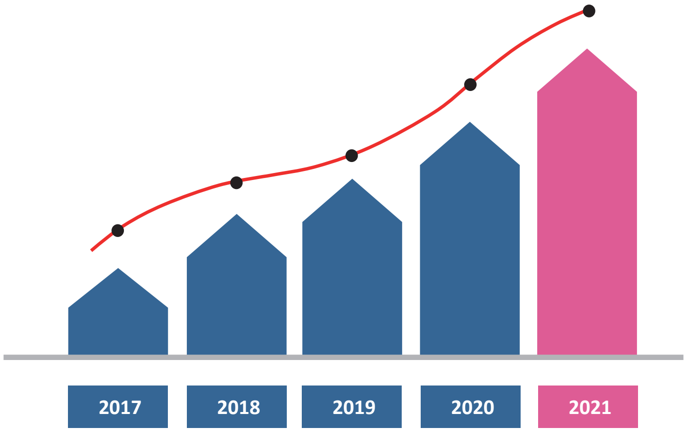

Figure 1. Number of financings granted by Al-Amal Bank during the period 2017–2021

Source: (Al-Amal Bank, 2021, p. 18).

3.2.2. The letters of guarantee

The bank also strengthened its guarantee services, which play a vital role in improving clients' access to credit by offering assurances to third parties. In 2021, both the number and total value of letters of guarantee issued increased markedly across several currencies, including the Yemeni rial, US dollar, euro and pound sterling. This growth signals growing confidence in the bank among international partners and business stakeholders (Al-Amal Bank, 2021).

Letters of guarantee offered by Al-Amal play a critical role in expanding access for microentrepreneurs who lack traditional forms of collateral. In Yemen, where formal property documentation and asset registration are often inaccessible, these instruments allow clients to engage in contractual business activities without risking their limited assets. This innovation reflects a context-sensitive adaptation of Islamic finance principles, making enterprise participation viable for informal-sector entrepreneurs.

Table 1. Guarantee letters provided by Al-Amal Bank during 2020–2021

Letters of guarantee	2020 Indicators		2021 Indicators		Growth rate %	
	Number	Value	Number	Value	Number	Value
Yemeni rial (YR)	10	14,168,300	27	105,036,632	170	641
US dollar	9	50,148.15	67	203,469	644	306
Pound sterling	0	0	9	16,211	100	100
Euro	0	0	7	21,209	100	100

Source: (Al-Amal Bank, 2021, p. 19).

Through the Table 1, it is clear that Al-Amal Bank is achieving a growth in the number and value of letters of guarantee granted during 2021 compared to the previous year and in various currencies, which proves the confidence of international dealers in it.

3.2.3. New Product

The same year, Al-Amal launched the "Al-Amal Education" financing product, designed to support school and university students by covering tuition costs at partnered institutions. Within just three months of its launch, the product financed 69 students, disbursing a total of YR15 million. This initiative reflects the bank's broader mission to promote human capital development through targeted financial inclusion tools.

3.2.4. Youth Entrepreneurship and Financial Inclusion Initiative (PSYEFI)

It is a project funded by the European Union, and the indicators of the project during the year 2021 were as follows in Table 2.

Table 2. PSYEFI indicators for 2021

Description	Completed	Amount (YR)	New job opportunities created	Number of male beneficiaries	Number of female beneficiaries
In-kind grants	4,341	1,067,642,500	18,347	2,162	2,178
Training grants	1,157	–		650	507

Source: (Al-Amal Bank, 2021, p. 19).

In 2021, Al-Amal Bank implemented the Project to Support Youth Entrepreneurship and Financial Inclusion (PSYEFI), funded by the European Union. The initiative was designed to empower young Yemenis – particularly those whose businesses were disrupted by conflict – by offering both financial and non-financial support.

The project disbursed in-kind grants totalling over YR1.06 billion to 4,341 young entrepreneurs, generating approximately 18,347 job opportunities. In addition, 1,157 youth participants benefited from training grants designed to enhance their entrepreneurial and financial skills. Notably, the program demonstrated strong gender inclusion, reaching nearly equal numbers of male (2,162) and female (2,178) beneficiaries.

Al-Amal Bank's support extended beyond funding: it encouraged savings practices by offering no-fee deposit accounts and promoting a culture of financial planning among the youth. Through this initiative, the bank not only contributed to post-conflict economic recovery but also reinforced its broader mandate of inclusive development.

3.2.5. The role of Al-Amal Bank in promoting the inclusivity of savings products

The savings portfolio is one of the most important sources of funding for the bank's various activities, as shown in Figure 2.

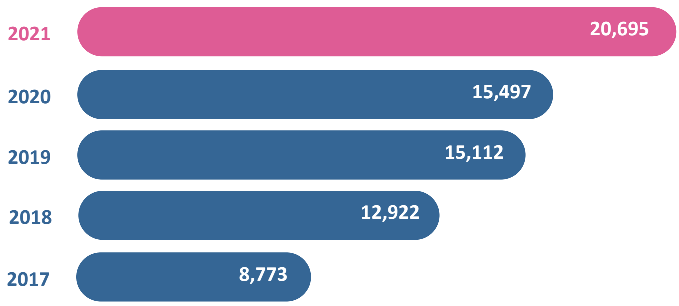

Figure 2. Saving portfolio growth for the period 2017 through 2021 (YR million)

Source: (Al-Amal Bank, 2021, p. 22).

Al-Amal Bank has achieved notable growth in its savings portfolio between 2017 and 2021. By the end of 2021, total savings deposits reached YR20.6 billion – representing a 34% increase over the previous year. This steady growth reflects the bank's ongoing commitment to fostering a savings culture among underserved populations.

To increase financial participation, the bank launched targeted marketing campaigns and introduced simplified, Shari'a-compliant savings products. These services were designed to be user-friendly and fee-free, removing common barriers that discourage low-income individuals from saving through formal channels.

Importantly, the bank invested in inclusive digital design by ensuring its mobile banking services functioned not only on smartphones but also on basic mobile phones. This step reduced the cost of access for clients who might otherwise view mobile compatibility as an unaffordable entry cost. The absence of transaction restrictions and reduced service charges further encouraged saving behaviours, contributing to the bank's financial sustainability and client retention.

3.3. The role of Al-Amal Bank in promoting inclusion using financial Technology

This section covers digital platforms, cost reduction and service quality improvements.

3.3.1. Leveraging financial technology for inclusive access

Al-Amal Bank has made significant strides in expanding financial inclusion through digital innovation. Central to this effort is the PYES mobile application, which enables customers to access a wide range of Islamic financial services – including digital financing, savings accounts, domestic and international transfers, bill payments and e-commerce integration. The bank supports these services through an extensive network of over 5,400 agents and 3,300 service points, ensuring nationwide coverage, even in remote rural areas.

In 2021, digital service usage increased substantially. The number of active accounts rose by over 50%, while transaction volumes reached YR72 billion, marking a 34% growth over 2020. The number of points of sale expanded more than sixteenfold, from 256 in 2020 to 4,383 in 2021 – a direct reflection of the bank's commitment to technological inclusion (Al-Amal Bank, 2021).

Al-Amal Bank's deployment of digital tools – particularly the PYES application and mobile-compatible services – directly addresses structural barriers such as geographic isolation, low infrastructure and cost constraints. By eliminating the need to visit physical branches, the bank reduces the exclusion of rural populations, especially women and youth, who may face additional mobility limitations. In fragile contexts like Yemen, where security and travel are unpredictable, digital inclusion becomes not only a convenience but a resilience mechanism that ensures continuity of service delivery despite conflict disruptions.

3.3.2. Electronic services provision

Al-Amal Bank provides all its banking services through the PYES application, including electronic Islamic financing, savings accounts, money transfers, rural area services, expatriate transfers at competitive rates, electronic payment and bill settlement services free of charge, as well as integration with e-commerce platforms. In addition to using the application on their mobile phones to perform most operations, Al-Amal Bank offers PYES service through 3,300 service points spread across all Yemeni governorates and directorates to cover all urban and rural areas. Al-Amal Bank also provides a service for dispensing humanitarian aid from donor organisations through electronic accounts without the need to stand in queues at aid distribution centres. The electronic service indicators have evolved during the year 2021, as shown in Table 3.

Table 3 shows that Al-Amal Bank achieved growth in electronic service indicators during the year 2021 compared to 2020. The COVID-19 pandemic contributed to an increased reliance on electronic means in delivering services and achieving financial inclusion goals by enabling customers to access all the bank's services electronically.

Table 3. Electronic service indicators for 2021

Indicator	2020	2021	Growth rate
Number of accounts	66,684	100,362	50.5%
The value of the operations (YR billion)	53	72	34%
Number of agents	3,040	5,434	78.75%
Number of Points of Sale (POS)	256	4,383	1,612%

Source: (Al-Amal Bank, 2021, p. 27).

3.3.3. Reducing cost barriers

Al-Amal's digital services are designed to minimise financial burdens on clients. All basic financial operations – including transfers, savings and bill payments – are offered free of charge. Transfer commissions through the PYES system are 40% lower than traditional market rates, and expatriate remittances benefit from internal currency exchange rates rather than costly third-party fees.

3.3.4. Enhancing service quality

The bank's electronic platforms significantly improve service efficiency, reducing the time and effort required to conduct transactions. With mobile-based access, clients can manage their finances without visiting a branch. The bank also uses a Customer Relationship Management (CRM) system to address client feedback and enhance responsiveness. By the end of 2021, Al-Amal had established 333 branches and supported clients through 5,434 agents – a testament to its operational scale and client outreach strategy.

3.4. The role of Al-Amal Bank in promoting the inclusion of social transfers

Al-Amal Bank plays a leading role in the delivery of social cash transfer programs in Yemen. As one of the most trusted and financially integrated institutions operating in conflict-affected areas, the bank has built a strong capacity to reach low-income households with efficiency and transparency.

By integrating humanitarian aid disbursement with formal financial accounts, Al-Amal Bank is not merely transferring funds but onboarding new users into the financial system. This linkage between social protection and financial inclusion creates a pathway for sustained engagement, encouraging savings behaviour and future credit eligibility. The bank's growing client base across diverse regions may reflect a combination of trust-building strategies, cultural alignment and supportive ecosystem factors, including donor collaboration and digital outreach.

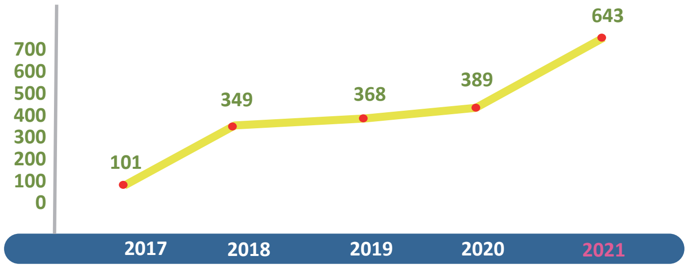

Figure 3. Evolution of social transfers distributed during the period 2017–2021 (USD million)

Source: (Al-Amal Bank, 2021, p. 24).

As shown in Figure 3, between 2017 and 2021, the value of social transfers facilitated by Al-Amal Bank increased significantly. In 2021 alone, the bank disbursed YR161 billion (equivalent to USD 643 million) to over 3.7 million beneficiaries across the country. These funds were distributed in collaboration with 37 international and local humanitarian and development organizations (Al-Amal Bank, 2021).

The bank's digital infrastructure – particularly its mobile account system and wide agent network – enables it to disburse aid securely without requiring beneficiaries to visit distribution centres. This system is especially valuable in rural or conflict-affected areas, where physical access to financial institutions is limited.

By streamlining the delivery of social aid and integrating it into its formal financial services framework, Al-Amal Bank not only contributes to immediate poverty relief but also helps bring marginalised populations into the formal financial ecosystem. Its leadership in this domain demonstrates how Islamic microfinance institutions can effectively bridge humanitarian assistance and long-term financial inclusion.

Conclusions

In conclusion, this study has shown that Shari'a-compliant microfinance constitutes a powerful and inclusive model for enhancing financial inclusion in developing and predominantly Muslim societies. The case of Al-Amal Microfinance Bank (AMB) in Yemen illustrates the capacity of Islamic microfinance to effectively address the financial needs of underserved populations, particularly in fragile and conflict-affected states. AMB's integration of Islamic financial principles with modern technology and community engagement initiatives has enabled it to provide equitable access to finance for poor, rural and marginalised groups.

Islamic microfinance, when structured according to Shari'a principles, offers ethical and interest-free financial services that appeal to individuals who abstain from conventional banking for religious reasons. Its use of diverse financing tools – such as *Murabaha*, *Mudarabah*, *Salam* and *Qard al-Hasan* – ensures flexibility in addressing the varied needs of clients, including microentrepreneurs, small farmers, students and informal workers. These instruments also allow institutions to support a wide range of economic activities while maintaining Shari'a compliance.

The findings highlight that Al-Amal Bank has made significant contributions in multiple dimensions of financial inclusion. It has expanded its outreach geographically by utilising mobile applications and digital platforms, minimising traditional banking barriers such as branch access and service costs. The development of new financial products like education finance and youth entrepreneurship support shows the institution's commitment to designing client-centred solutions. Moreover, its role in facilitating savings mobilisation, social transfer disbursement and financial training for youth and women underscores its broader social and developmental impact.

Importantly, the introduction of e-financial services by the bank – including the PYES application and its network of agents and service points – highlights how Islamic microfinance could adapt to technological developments in enhancing access, efficiency and service provision. The diversity of the institution's clientele from a wide range of local communities is evidence that they have succeeded in building trust and are seamlessly integrating into communities.

Still, there are some challenges. These include limited financial resources, infrastructure deficiencies, regulatory constraints and the nonexistence of comprehensive national strategies supporting Islamic financial inclusion. This case study also reveals the need for further integration of Islamic microfinance into broader financial ecosystems, including formal support structures and government policies.

To maximise the developmental potential of Islamic microfinance, policymakers and financial institutions must enhance collaboration, invest in capacity building, and adopt a proactive approach to product innovation and digital transformation. Furthermore, financial literacy campaigns and supportive regulatory environments are essential to build public trust and ensure responsible usage of financial services.

Overall, Islamic microfinance is not merely a religious alternative; it is a practical, scalable and socially aligned mechanism for addressing structural financial exclusion. The experience of Al-Amal Bank provides valuable insights for other institutions and countries aiming to achieve inclusive growth, reduce poverty and promote financial justice through ethically guided finance.

Recommendations: Based on the findings of this study, several targeted recommendations are proposed to strengthen the role of Islamic microfinance in advancing financial inclusion, particularly in fragile and low-income settings such as Yemen:

1. Institutional expansion – encourage more Islamic financial institutions to create dedicated microfinance windows or subsidiaries targeting underserved populations. Special incentives should be considered for outreach in rural and conflict-affected areas.
2. Shari'a-compliant product diversification – expand the portfolio of Islamic microfinance instruments, including Shari'a-compliant venture capital models and agricultural financing tools like Salam and Istisna'a to meet the unique needs of small-scale farmers and microenterprises.
3. Strengthening public-private partnerships – facilitate coordination between governments, regulators, NGOs and Islamic microfinance institutions to align inclusion efforts with broader national financial strategies.
4. Digital innovation and infrastructure – invest in mobile infrastructure and digital financial solutions to expand low-cost delivery channels. Technology must be tailored for fragile environments, including offline-compatible tools and low-bandwidth solutions.
5. Financial literacy and inclusion campaigns – launch national awareness programs to promote understanding of Islamic financial tools, especially among women, youth and displaced populations.
6. Regulatory framework reform – develop clear regulatory standards for Islamic microfinance to reduce ambiguity in product design and supervision. Coordination between Shari'a boards and central banks is essential for scaling operations without compromising compliance.
7. Addressing operational risks – recognise the complexity of Islamic contracts, which often require specialised legal and accounting structures. Risk-sharing models must be accompanied by strong client screening and monitoring systems to maintain institutional sustainability.
8. Mitigating dependency on donor funding – many Islamic MFIs rely heavily on donor or philanthropic funding. Long-term sustainability requires creating revenue-generating models and blended finance strategies that combine ethical principles with financial viability.
9. Impact evaluation and data systems – introduce standardised performance metrics to assess social and financial impact. Reliable data is necessary not only for strategic decision-making but also for securing investor and donor confidence.

Together, these actions can amplify the developmental impact of Islamic microfinance and deepen its contribution to inclusive economic growth.

Future research directions: Future studies could explore the impact of Islamic microfinance through comparative case analyses across different countries or institutional models. Incorporating primary data from clients and practitioners would provide deeper insight into user experiences and long-term outcomes. Additionally, research on the role of regulatory frameworks and digital innovations in shaping the effectiveness of Shari'a-compliant microfinance would be valuable.

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