

Innovation in Microentrepreneurship & Islamic microfinance: the Model of Family Bank

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Abstract

Different definitions were given to what we call “Microentrepreneurship”, most of researchs link it with microfinance, self-employment and microenterprises development. However, it is globally admitted that microentrepreneurs are the owners of very small businesses with very low start-up costs such as: home-based businesses, bakeries, beauty shops, repair shops, arts and crafts shops, fishmen, family-owned shops, etc. The experience of the last two decades in many countries has emphasized the importance of supporting such type of entrepreneurs to start and grow is fundamental for the diversity and the social development in emerging economies.

the most challenging needs facing the development of Microentrepreneurship, is the need to develop innovative socially-oriented banks that care about the “unbankable” segment of the society. Family Bank is considered to be one of the “social businesses” which are based entirely upon the partnership as well as social corporate responsibility (CSR) of private sector.

Family Bank is established as the 1st Islamic microfinance bank in Bahrain with the prime objective to contribute to poverty alleviation and socio-economic empowerment through the provision of sustainable Islamic financial services to the underserved. The Family Bank is currently acting as a mechanism to guide and maintain programs aiming at enhancing microentrepreneurs’ capabilities through training, counselling, marketing support as well as finance within a comprehensive approach.

The present paper discusses the main concepts of the Microentrepreneurship as well as different perceptions of microfinance and microenterprise developed and industrialized countries. It provides a brief description of the family bank as an Islamic microfinance social bank aims to support microentrepreneurs to grow and develop their business beyond microenterprise level in order to contribute to the socio-economic development of Bahraini society by creating jobs, economic assets, and spreading the benefits of the economic growth.

Introduction

As described by a recent ILO’s report, the world is now facing one of the most important challenges that has ever had. In the midst of an expanding socio-economic crisis, the likes of which the world has not known since the Great Depression, the ILO’s preliminary estimates are that world unemployment could rise by 20 million reaching over 210 million during of 2009, Juan Somavia, (2008). Furthermore, the already poor are likely to see their very low incomes squeezed further by still high food and fuel prices. As a result of the food and fuel crises, the

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number of “extremely poor” was estimated to have increased by at least 100 million². Informal activities and involved workers will increase. Middle classes throughout the world are also affected and uncertain, concerned particularly about the future of their pension systems, unemployment benefits and access to healthcare. As this situation in the world jeopardizes the efforts done for poverty alleviation, it gives another important dimension for the self-employment and microenterprise development programs.

Already ninety per cent of the world’s self-employed poor – more than a billion people – lack access to basic financial services as explained by Richards (2006). In a country like Indonesia, more than 90% of its 50 million small businessmen have no access to regular bank financing (Soraya Permatasari, 2010). Hassan and Alamgir (2002) maintain that the roots of poverty lie in that the poor are ‘systematically disorganized by economic, social and political relationships within which they are caught. The only long-term solution to the problem of poverty, therefore, lies in assisting the poor to challenge the relationships that improvised them. Microentrepreneurship plays a key role herein allowing the poor to unleash their potential and go beyond their dependence on welfare and social aides investing to create their own employment and/or income generating activities.

Successful programs in many countries demonstrate this fact not only in developed countries but also in industrialized ones. Amy Kays Balir & Joyce Klein (2001) revealed a creative initiative launched in 1998 by the Charles Stewart Mott Foundation, USA, to support ten microenterprise programs serving thousands recipients of their welfare program³, through a program entitled “*Welfare to Work (WTW)*”. Moreover, over the last two decades, the innovative microfinance programs run by Grameen Bank and hundreds of national and international NGOs have contributed to improving the quality of life of millions of people, mostly women. The progress of microfinance worldwide is phenomenal. In 1997 only 7.6 million families were covered; however in 2006 this number has reached 100 millions of families. Professor Muhammad Yunus who has received the “Nobel Prize” in 2006 for his work on Grameen bank in Bangladesh, and other parts of the world, expected that by year 2015 about 175 millions of families around the world will have access to microfinance.

While, conventional microfinance has been effective at supporting and uplifting the living conditions of the poor in many countries, it is not fully satisfying the cultural and spiritual aspirations of others. In some Muslim communities, conventional interest based microfinance has always been rejected due to its non-compliance with the Islamic principles, particularly on the issue of paying of interest or *riba*, which is forbidden. Moreover, Islamic microfinance has one major advantage, namely risks are shared between financial institutions and beneficiaries, which allow entrepreneurs to concentrate on what they do best. At the same time, the disbursement of collateral-free loans in certain instances reflects the sharing of common objective between financiers and enterprises, thus advocating entrepreneurship.

The present paper will try to enlighten the microentrepreneurship and Islamic microfinance development in the world with a special focus on Bahrain as an example of successful Muslim developed countries. Despite Bahrain’s relatively high per capita GDP, a percentage of its population is in need of regular financial assistant. Currently a small portion of Bahrainis live below the national poverty⁴ threshold. The government provides cash assistance to approximately 10,000 needy families, covering around 20,000 individuals in the Kingdom – especially women. The national economic vision 2030 has emphasized the need to enhance the *Social investment services*. These services target the reintegration of beneficiaries into society,

²World Bank Report (2008): “Global Financial Crisis And Implications For Developing Countries”, G-20 Finance Ministers’ Meeting São Paulo, Brazil, November 8, 2008.

³ “Temporary Assistance for Needy Families”

⁴ National poverty threshold in Bahrain is of BD 337 per month for a family of six members

eliminating their dependence on the state. Services provided by the MOSD include empowerment programs for the needy (e.g., the Productive Families program), rehabilitation and training programs for the disabled, and educational programs for women, as well as structural assistance, and capability-building programs to empower NGO's and its role in poverty alleviation. In 2010 the MOSD in partnership with five organizations established an innovative microentrepreneurship development catalyst based entirely upon the social corporate responsibility. Family Bank is established as the 1st Islamic microfinance bank in Bahrain with the prime objective to contribute to poverty alleviation and socio-economic empowerment of the communities it serves through the provision of sustainable Islamic financial services to the underserved. The main objective of the present paper is to evaluate the potential of family bank as a microentrepreneurship development catalyst and its contribution to the Bahraini society by creating wealth, economic assets, and jobs.

Worldwide growth of microentrepreneurship

Different definitions were given to what we call "Microentrepreneurship", most of research link it with microfinance, self-employment and micro-enterprises development. It is globally admitted that micro entrepreneurs are the owners of very small businesses with very low start-up costs. A microenterprise is essentially any business bringing revenue to a family. The term refers to both registered and unregistered businesses, including individuals working informally from the home or elsewhere. There is a significant overlap between micro-entrepreneurs and the poor although some micro-entrepreneurs are not poor and many poor are not micro-entrepreneurs. However, even those micro-entrepreneurs who are not poor tend to be particularly vulnerable to economic shocks and could easily become poor (Ala'a Abbassi et al, 2009). As a matter of fact, *microentrepreneurship development* is considered worldwide to be an income generating strategy that helps poor, low- to moderate-income, and other disadvantaged individuals start or expand *microenterprises*. The importance of supporting such those individuals to start and grow are fundamental for empowering tremendous number of families⁵ and needy people in emerging economies.

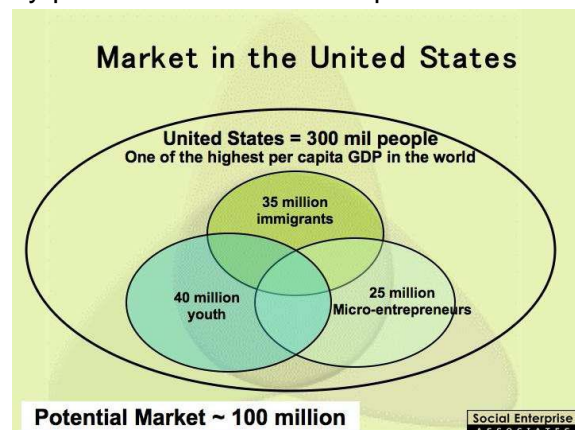


Figure 1 The potential market of microentrepreneurs in USA, Tulchin et al (2009)

Microfinance, where it encompasses the management of small amounts of money through a range of products, and a system of intermediary functions that circulates money in an economy, represents the main pillar of *microentrepreneurship*. It targets the low incomes individuals by providing mainly: loans, savings, insurance, transfer services and other financial products and services. Providers of microfinance include non-government organizations (NGOs), self-help groups, cooperatives, credit unions, commercial and state banks, insurance and credit card companies, wire services, post offices, and other points of sale.

Many successful programs in Asia, Africa and other parts of the world have shown that microenterprise development programs have been also serving welfare recipients with microcredit, training, technical assistance to help them start, formalize or expand very small business. Moreover, the need to have innovative socially oriented financial services that care about these micro businesses and the segment it composes in the society is rather increasing.

⁵ Empowerment as a concept can be interpreted in different ways such as to express self strength, control, self-power, self-reliance, own choice, life of dignity in accordance with one's values, capable of fighting for one's rights, independence, own decision making, being free, capacity building.

Several studies provide great progress of microentrepreneurship worldwide, Drew Tulchin et al (2009), gave an estimate that the potential of microenterpreneur only in the US is about 100 million, see figure no. 1.

Financial challenges facing microentrepreneurs

The lack of access to finance is perceived worldwide as a key reason for the poor to remain poor. As the entire financial system comprising of private commercial and semi private-semi public specialized banks, financial institutions leave a large chunk of population untouched by their activities as “*unbankable*”. In most developing countries, less than half the population has an account with a financial institution. In many countries, the ratio is less than 20%. Less than 20% of small firms use external finance, about half the rate of large firms⁶. These are the poor, poorest of the poor and marginalized people who do not enter into the market at all⁷. In fact, M Obaidullah (2008), pointed out that there are three blocks which hinder the access of poor to banking and financial system: high cost of financing, high cost of processing and the traditional system of collaterals.

In recent years, microfinance has emerged as an important instrument to help a large number of “unbankable” members of society, as a tool to help reduce poverty and encourage economic growth.

Microfinance is became a large industry comprising many sectors: microcredit, micro-housing loans, micro-insurance, micro-education loans, microfinance health protection systems, etc.

Microfinance institutions (MFIs) reached 155 million clients by Dec. 31, 2007 of which 106.6 million were among the poorest affecting 533 million people. The data collected for 1,072 MFIs from 90 countries in 2007 shown: 67 million borrowers, 63 million savers, and gross loan portfolio of \$36 billion and voluntary savings of \$26 billion, R. Meyer (2010). As a result of the increasing professionalization and commercialization of microfinance, the field of microfinance, once dominated by small non-profit organizations, is now lead by formal financial intermediaries. Figure 2 gives a distribution of microfinance programs in the world.

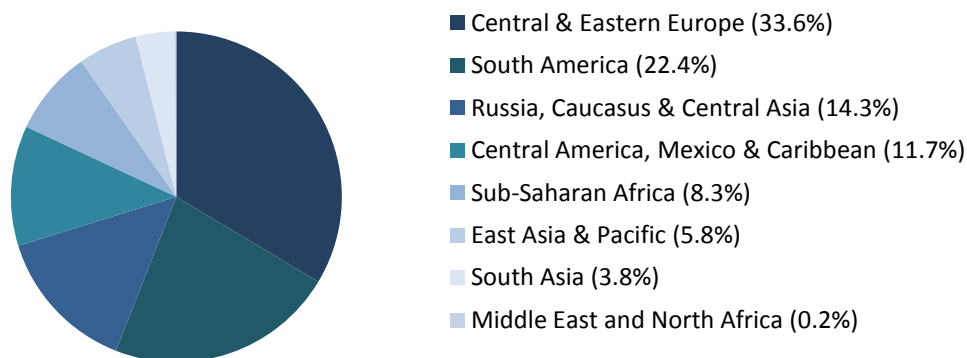


Figure 2 Geographical Distribution of microfinance programs, Cedric Lombard, (2009).

Are microentrepreneurship is only to fight poverty?

As mentioned earlier microentrepreneurship programs were implemented in many countries to serve microenterprise development, for many reasons: individuals seek additional ways to earn income, labour is become in surplus supply, jobs are hard to come by, wages are low, and

⁶ World Bank Report (2008)

⁷ According to the CGAP, the clients of microfinance—female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs—fall into four poverty levels: destitute, extreme poor, moderate poor, and vulnerable non-poor.

many people are self-employed out of necessity, women with small children seeking greater flexibility, etc.

Meanwhile and precisely microcredit is generally perceived as a tool for poverty reduction via self-employment and income-generating activities. M. Yunus (2008, pp 85) concluded “one of the significant social impacts of microcredit movement has been the realization that the key to alleviating poverty is often *not* the creation of “jobs”- that is, salaried work for large corporate employers- but rather the encouragement of self-employment for all individuals, particularly women, who create goods and services and market them on a local level”. Millions of such small-scale entrepreneurs are now active throughout Bangladesh, lifting themselves, their families and their communities out of poverty- and many owe their start to Grameen bank.

The efficiency of microentrepreneurship development programs in fighting the poverty and giving disadvantaged people second chance is worldwide recognized. A World Bank study dated to 1998 showed that in Bangladesh, Grameen Bank's clients were escaping poverty at the rate of 10,000 per month⁸. Yunus (2008), elaborated on this: *The problem I discovered in Bangladesh-the exclusion of the poor from the benefits of the financial system-is not restricted only to the poorest countries of the world. It exists worldwide. Even in the richest country in the world, many people are not considered credit-worthy and therefore ineligible to participate fully in the economic system, (pp 49).*

From other hand, as the vast majority of poor households live in developing countries, poverty in industrialized countries is often neglected. Several reports focused recently on microfinance as a tool for pulling disadvantaged individuals out of poverty in industrialized countries. In particular, Armendáriz (2009) compared the experiences of two microfinance institutions in Belgium and France. He provided an analysis of microfinance programs in the world pointing out that the characteristics of those programs are fundamentally different. The first characteristic of microfinance in industrialized countries is that it focuses on poverty and social exclusion. The concept of social exclusion, combines factors such as lack of adequate education, deteriorating health conditions, homelessness, loss of family support, non-participation in the regular life of society, and lack of job opportunities (Levitas, 1996). Also Schmittand Zipperer (2006) focuses on the link with poverty in Europe. The second characteristic of microcredit in Europe, relative to developing countries, is that the latter countries review high rates of informal-sector/self-employed individuals. In contrast, industrialized countries tend to associate poverty with long-term unemployment which is often perceived as being positively correlated with the above-mentioned concept of social exclusion, an issue to which we will come back later in this report. Two additional observations deserve to be mentioned here. First, the average size of a microloan in developing countries ranges from about \$200 in South Asia to \$1,600 in Latin America⁹. In comparison, average loan sizes in industrialized countries are considerably larger; with relatively small loan sizes reviewed in countries such as the United States -approximately \$6,500- to roughly \$25,000 in countries such as Belgium. Second, interest rates are considerably higher in developing countries, with low interest rates of about 17 % charged by, for example, Bangladeshi MFIs to approximately 70 % charged by Latin American MFIs. In contrast, average interest rates in industrialized countries range from 5 % – the lowest – in countries such as Belgium to 7.5 % in France¹⁰.

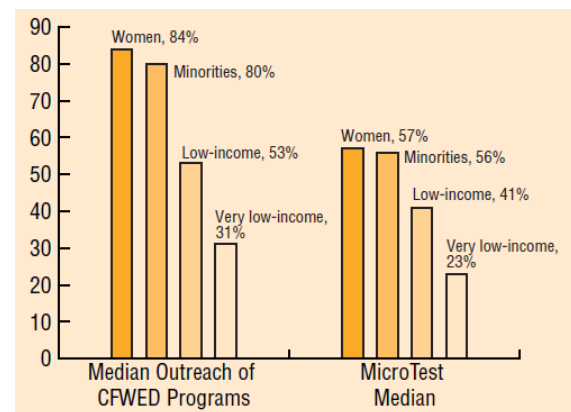


Figure 3 Analysis of 6000 participants in microenterprise development program, Jeremy Black (2004)

⁸ Shahidur R Khandker, (1998) provides an estimate of 5% of the borrowers move out of poverty each year.

⁹ MixMarket data (2008)

¹⁰ ACCION :International, USA, European Microfinance Network and Nantik Lum Foundation (2008).

Also as the Small Business Administration's Office of Advocacy reported; 84 % of women-owned enterprises were sole proprietorships with average annual business revenues of just \$31,000 in 1997 (compared to \$58,000 for all sole proprietorships). Eighty-seven percent of women-owned, sole proprietorships reported receipts less than \$50,000. Sole proprietorships operated by women in the United States increased dramatically from 1990 to 1998 in numbers, gross receipts and net income. The most common types of women-owned businesses are door-to-door sales and child day care. Jeremy Black (2005) provides a very interesting study on microentrepreneurship in USA with a detailed analysis of nine microenterprise development and microfinance programs in nine states.

Another study on developing welfare recipients in USA out of poverty undertaken by Peggy Clark & Amy Kays (1999) provides certain statistics confirming the tight relation between microentrepreneurship and what they called "progress out of poverty". Based on findings from the self-employment learning project which is a five year study of microentrepreneurs, they concluded that:-

- A very large majority — 72% — of poor microentrepreneurs experienced gains in household income over five years. The average change in household income was \$8,484 — rising from \$13,889 to \$22,374 over five years.
- More than half — 53% — of poor entrepreneurs had household gains large enough to move out of poverty. For these individuals, their move over the poverty line was an economic change of huge magnitude: in most households family income nearly doubled over the five year period.
- For most of the individuals who moved their families out of poverty, the micro-business was a major source of earnings for the household. For this group of successful individuals, the business was critical to the family's ability to get out of poverty.

As a conclusion of the analysis of characteristics of microentrepreneurship and microfinance programs worldwide, one can admit that the perception of microentrepreneurship is widely different and its role is accordingly multiple. While marginalized or excluded individuals are forming the main basin of microentrepreneurs in industrialized countries, welfare recipients, poor, unemployed and low income families are the major players of microentrepreneurship in developed and underdeveloped countries. As a result, not only the microfinance stereotype programs will differ but also the training needs, and non-financial services may largely vary from a country to another.

Microfinance in Muslim countries: the need to fostering Islamic microfinance

Despite being able to demonstrate successes, conventional microfinance is criticized to not fully reaching the poorest of the poor and loans are going to activities unrelated to entrepreneurs. In some Muslim communities, conventional interest based microfinance has always been rejected, principally of its non-compliance with the Islamic principles, particularly on the issue of paying of interest or *riba*, which is forbidden. Meanwhile, conventional microfinance institutions have often been criticized for charging the poor exorbitant interest rates and fees. This is largely due to the higher transaction costs incurred, including the provision of services such as monitoring, advice and health insurance.

Although the number of Islamic microfinance initiatives remains limited, less than 1% of total global microfinance outreach, there is an increasing interest in developing microfinance programs based on Islamic financing principles. Generally speaking, Islamic microfinance represents the confluence of two rapidly growing industries: microfinance and Islamic finance.

Many argued that Islamic finance could help correct the shortcomings as it focuses on achieving social justice, prohibits exploitation and battles poverty. This is further strengthened by the fact

that the philosophical basis of Islamic financial system lies in ‘adl’ (social justice) and ‘ihsan’ (benevolence). During the past decade or so, the value of total assets held by banks complying with Sharia has grown more than 12 times. Having reached nearly \$ 1 trillion in value worldwide at the last count, the industry is set to continue growing strongly over the next ten years, (Abdulkarim Bucheery, 2010)

The involvement of Islamic banks can also help to increase the scope of Islamic microfinance, that can provide microfinance at lower operating and financing costs compared with MFIs as it can operate from existing branches and do not require a whole range of professionals/staffs and not incur extra fixed costs. Currently, there are not many Islamic microfinance institutions but their number is incessantly increasing. They largely use the lending format of the conventional MFIs and adapted Islamic principles and values. The table below illustrates full data collected by Nimrah Karimet al (2008) to evaluate the number, seize and types of Islamic microfinance programs working worldwide. The situation is certainly evolved since, as this table is dated to 2008. One can add different 100% shari’a compliant programs came up in Yemen, Sudan, Palestine and Bahrain.

Institution Type	# of Institutions	Total # of Clients		Total Outstanding Loan Portfolio (Islamic)		Avg. Loan Size (Islamic)
		#	% of Total	US\$	% of Total	US\$
Cooperative	1	6,671	2	926,251	<1	132
Village Bank (Syria)	1	2,298	1	1,838,047	<1	800
NGO	14	125,793	42	41,421,580	21	303
Rural Bank (Indonesia)	105	74,698	25	122,475,158	62	1,640
NBFI	3	4,293	1	1,893,207	<1	595
Commercial Bank	2	87,569	29	29,030,997	15	305
TOTAL	126	305,237	100	198,090,268	100	629

Table 1: Islamic Microfinance by Institution Type, Nimrah Karimet al (2008)

As a matter of fact, the major products developed in almost the majority of these institutions working in Islamic microfinance programs are three. C. Segrado (2005) described these instruments of Islamic finance as three: mudaraba, musharaka and murabaha, which are used to trying to use them as tools to design a successful microfinance program.

A mudaraba model: the microfinance program and the microenterprise are partners, with the program investing money and the microentrepreneur investing in labor. The microentrepreneur is rewarded for his/her work and shares the profit while the program only shares the profit. Of course the model presents a series of difficulties, given most of all by the fact that microentrepreneurs usually do not keep accurate accountability which makes it more difficult to establish the exact share of profit. As stated before, these models are complicated to understand, manage and handle which implies that those who are involved, includes entrepreneurs, need specific training on many issues particularly accounting. For this reason, and for an easier management of the profit sharing scheme, the mudaraba model might be more straightforward for businesses with a longer profit cycle.



Figure 4 Map of Bahrain

A murabaha model: under such contract, the microfinance program buys goods and resells them to the microenterprises for the cost of the goods plus a mark-up for administrative costs. The borrower often pays for the goods in equal installments, and the microfinance program owns the goods until the last installment is paid.

The procedure is as follows: upon receipt of the finance application, the credit officer investigates the group and prepares a feasibility study for their activities so the officer can estimate the precise finance amount. If the feasibility study is positive, the client should identify items (commodities/equipment) needed from the wholesaler and negotiate a price. The credit officer then purchases items from that source and resells them immediately at that price to the client. HMFP has two elements of accounting/finance, which differ from most microfinance organizations. Both have implications for content of financial statements. The first is capitalization of the service charge expected upon disbursement, which affects the balance sheet. The second is the absence of the "principle of interest" on outstanding finance balances affecting yield on the portfolio and thus income earned.

More instruments for Islamic microfinance are recently developed like: Ijarah (leasing), Estissna (industrialize), Musharakah (partnership), etc, but their employment yet not generalized as the first three mentioned earlier.

Microentrepreneurship in Bahrain

Bahrain is a country in transition, where the economic reforms have resulted in the rapid liberalization of domestic economy and improvement in the business environment. Many economic sectors especially the service sector has been growing rapidly. But as evidenced in many countries, economic growth can bypass the poor whereas poverty can continue to coexist in certain social categories with the high growth of salaries and improving standard of living. That is why Bahrain has a strong social protection net that assists the poor and vulnerable groups. These programs include consumption subsidies and social safety nets in the form of cash transfers. The current research will discuss the major initiatives establish to develop the needy families' living standards through microentrepreneurship.

1- The Microenterprises and SME's

Since two decades, Bahrain is focusing on fighting unemployment, developing a competitive SME sector, delivering international quality products & services and contributing to quality employment opportunities. During 2010, official figures state that unemployment among Bahrainis is estimated at 3.8%, although other estimates suggest that the figure is closer to 15% for youth. Statistics show also that micro, small and medium enterprises represent a significant part of the Bahraini economy. As the Central Informatics Organization estimates, these enterprises contribute nearly 28% of total nominal GDP. Construction, manufacturing and trading are the three main industries within this sector. Figure 6 illustrates the distribution of MSME's in Bahrain as per the first quarter of 2010¹¹.

Number of MSMEs in Bahrian Q1 2010

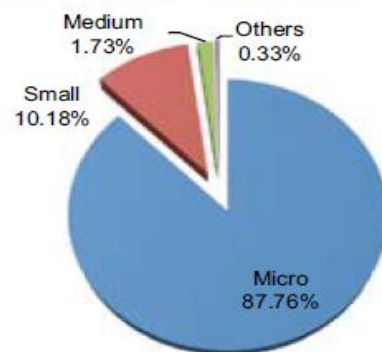


Figure 5 The MSME's in Bahrain, EDB 2010

¹¹ Report on micro, small and medium enterprises in Bahrain economy, EDB-Bahrain, 2010.

Micro, small and medium enterprises also provide jobs for nearly 73% of private sector employees, only 14% of which are Bahraini employees, however, and 86% are non-Bahrainis, as illustrated on figure 7. Broken down by gender, 90% of these employees are male, and only 10% are female. These male employees tend to have higher wages than their female counterparts.

According to Husain Al Rabeii (2008) there are number of challenges affecting entrepreneurship in Bahrain, among them the development of specific policies and strategies, development of infrastructure and industrial areas, creating an encouraging economic and business environment, bringing a change in the socio-cultural attitudes at the macro level, having enlightened approach to entrepreneurial financial services and development of training for existing SME's, etc.. To face such challenges, the government has taken several great steps like: enlarging the financial support, providing enhancement development programs, training of national workers and recently elaborate a national definition and classification of Micro, small and medium enterprises. The MSME's in the Kingdom of Bahrain will be defined as per the following (MOIC, 2006)

- Micro Enterprises –would involve Full time employment up to 10 persons and capital investment up to BD 20,000.
- Small Enterprises –would involve Full time employment more than 10 and up to 50 persons; capital investment more than BD 20,000 and up to BD 500,000.
- Medium Enterprise – Full time employment more than 50 and up to 150 persons (up to 300 persons for textile & garment sector as a special case); capital investment more than BD 500,000 and up to BD 2 million.

The elaborated definition will have certainly an important impact on the development of the microenterprise sector as the classes of companies will allow the government and other national assistance organizations to better target their support programs.

2- The Microfinance in Bahrain

The government in Bahrain provides the welfare support (*Social Assistances*) which have been delivered through since 1972. The annual welfare budget was doubled in 2006 to reach of BD 8,400,000¹². The number of families benefited from the social grants until April, 2007 was 9827 families (e.g.: elderly, widows, divorced, etc.)¹³. A detailed study elaborated in 2007 shown that over 93 per cent of families have been recipients for more than five years, moreover, it estimated that 4,623 households belong to the category “poor” despite they are all valid and in working age (between 18 and 45 years). This study presumed that: if proper economic empowering programs are provided to them, these households have a high probability to be good candidates for graduating out of poverty. The strategic objective of the MOSD then was to establish the suitable development instrument to design and implement such empowering programs.

Meanwhile, the microfinance in Bahrain was initiated in 1999 by both of the United Nations Development Program (UNDP) and the Ministry of Labour and Social Affairs through a program entitled: MicroStart. This program was a highly successful microcredit instrument that providing small, short-term loans to low-income individuals, including women, while at the same time creating a system of sustainable credit delivery and management capacity in three national

Employees In the MSMEs Q1 2010

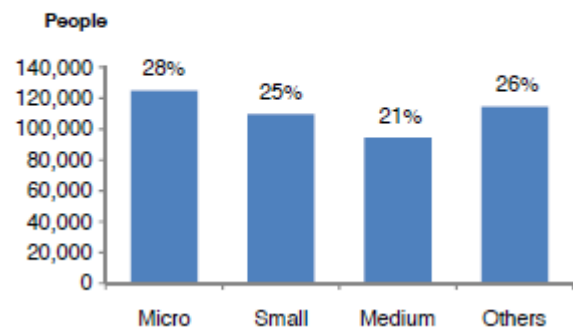


Figure 6 The working force distribution in MSME's, EDB 2010.

¹² Source: www.MOSD.gov.bh

¹³ Improving Services Rendered to the Families in the Fields of Social Assistances, MOSD, April 2007.

welfare non-governmental organizations, namely: Awal Women Society, Child and Mother Welfare Society and Al Islah Welfare Society. The total budget of the program amounted to US \$1.5 million, with US \$1 million contributed by the government and US \$500,000 provided by UNDP in the form of technical assistance. In addressing poverty and unemployment in the country, the program provided 7,637 short-term loans to 4,347 low-income individuals for a total value of US \$2,532,713. The number of beneficiaries (4,347 loan recipients) was equal to about 40% of the number of needy individuals on the social assistance rolls, or to almost 30% of the estimated numbers of unemployed nationals. Furthermore, the size of the individual loans ranged from US \$130 to US \$1,600, while the portfolio at risk was below the 3% acceptable level as set by the program. In fact, over 99% of all the loans paid out are on their prescribed schedule for repayment, which, in turn, has served to instill a discipline of loan repayment among recipients, thus encouraging attitudes of self-reliance rather than a habit of dependency (UNDP, 2008). As it will be discussed later, despite the success of the MicroStart, its ability to grow in term of provided loan sizes and tenure was limited. The very small amount of money provided by the program was great for some “very needy” but failed to fulfil the diverted needs of microenterprises particularly in the development stage where more money is needed to for the growth of microenterprises.

3 the informal microenterprises (productive families)

The efforts to develop welfare recipients in Bahrain dated to early eight's when the Ministry of Labour and Social Affairs launched the microenterprise and self-employment development program entitled “productive families” program. Recently, the establishment of the Ministry of Social Development in 2005 provides a new momentum to the program of microenterprises and self-employment development. In 2006 the MOSD has launched a national project aiming at achieve a radical change in the culture, quantity and quality of microenterprise particularly home-based businesses. The project has a general goal of creating a successful comprehensive model of support to productive families which not only stimulating a bigger number of families recipients of welfare to integrate income generating activity but also to grow the “matured ones” to become SME's. Figure 8 provides the conceptual Framework for MoSD National Support System for Productive Families, which is based on best practices in training, finance, technical support, legal framework and rewarding of micro-entrepreneurs. It has several strategic goals as follows, A El Shabrawy (2008):-

- Shifting the charity spirit to focus on support the work done by needy,
- Shifting the involvement of sponsors/partners from donation to partnership,
- Shifting supporting development services to focus on value-added services,
- Shifting the microcredit NGO's-based to create Microfinance Bank for “unbankabal”.
- Shifting charity associations from exclusive charity works to turn into service providers to microentrepreneurs.

A creative implementation strategy was also elaborated in view of maximizing the outcomes of the project different elements. This strategy has the following targets:-

- Provide a legal umbrella for home-based micro-enterprises,
- Establish strong partnership between the program and private sector & NGO's,
- Establish a modern & attractive infrastructure,
- Establish several specialized entities as service providers
- Provide training, technical & marketing support,
- Provide diversified financial services for different stages and requirements of microentrepreneurs.

As a result of this drastic shift, the number of registered productive families has drastically increased from 120 to about 600 families since the beginning of the project in March 2006.

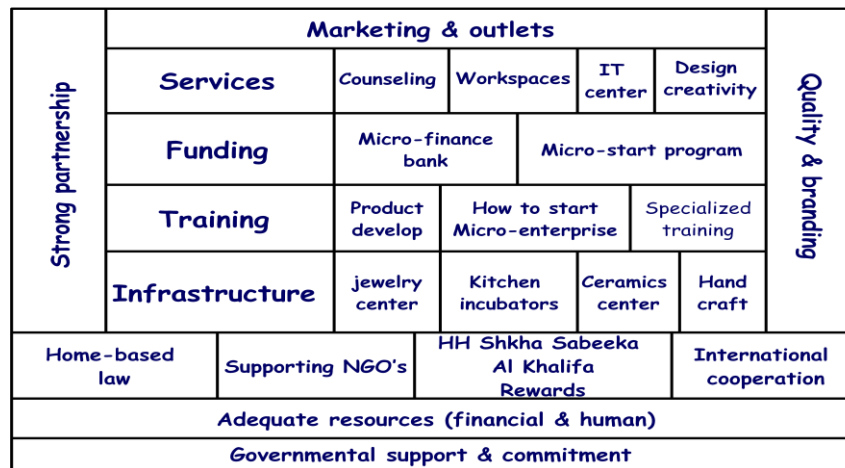


Figure 7 Framework of National productive families' project, MOSD- A. Elshabrawy 2006.

The Establishment of Family Bank

The significance of microfinance services in a society is accentuated by several features affecting the socioeconomic context and spirit of microentrepreneurship in this society. Bahrain has the required ingredients to make it an example of entrepreneurship development in the Middle East. It has business incubator, SME's financial and technical support, UNIDO programs, MOSD productive families programs, industrial zones, etc. Only microenterprise sector is still needs more development. This is one of factors that were behind the establishment of a microfinance bank which are mainly: the continuous increase in numbers of welfare recipients, and the gap in financial services for microentrepreneurs. Despite the successful implementation of the MicroStart project that is introducing the concepts and practice of microfinance to Bahrain by providing capacity building to participating NGOs serving as Microfinance providers, it does give micro loans up to only BD1000. Microentrepreneurs coming from home-based businesses and other microenterprises (most informal) are unable to obtain financial services particularly during their transformation into formal sector. Added to the complication raised by the need to have collateral and guarantee to cover the loans, there is a need to enhance the role of various agencies particularly NGO's in microfinance in Bahrain. Until the end of 2008, there was no formal microfinance institution/bank in Bahrain, except for the UNDP MicroStart program, that leaves a large gap in financial services.

The establishment of Family bank supposed to face challenges cited earlier by provide financial support between BD500 up to BD7000, and by engaging private sector and NGO's together with government as well as international agencies *directly* and *in-directly* in delivery of microfinance services. Family bank is established mainly to develop the microentrepreneurship in Bahrain. The Bank's underlying principles are broad community service outreach, maximal impact on the target clientele, and long term sustainability. The major strength of the plan of the MOSD to establish the bank was to make sure that the Bank will be licensed by the Central Bank of Bahrain as Islamic microfinance bank in order to ensure the highest level of professionalism in all its operations. The paid up capital of the Bank is fixed to be BB5m but the allowed one is BD15m.

As a result of the several meetings, discussion, modifications the Bank was established thought the partnership between the following stakeholders:-

- 1- Royal Charity Organization
- 2- Bank of Bahrain & Kuwait

- 3- Ahli United Bank
- 4- Ethmar Bank
- 5- Kuwait Finance House
- 6- Ministry of social development

An agreement was signed with one of the pioneering microfinance organizations recognized worldwide, Grameen Trust, to implement a microfinance Grameen model-based program as one of the future bank programs. At present Grameen has replicated its model in 42 countries and more than 8 million borrowers only in Bangladesh are getting finance from Grameen bank. The Family bank was officially launched the Islamic microfinance program on January 14th 2010.

The proposed business model of Family Banks

Family Banks is to be considered as development non-for-profit organization based on solid collaboration with different partners to achieve the following strategic goals:-

- Providing a better eco-system for microentrepreneurship, with focuses on very small businesses that may not be bankable, but are feasible,”
- Providing innovative banking services for “unbankable” such as:-
 - Shari’a compliant microfinance services
 - Collateral Free finance
 - No legal or formal entity required
 - Target the Financially Disadvantaged
 - The Bank will go to the poor
- Targeting Youth. In order to have a real and sustainable impact on unemployment, family bank will target the youth, as a large proportion of the youth are suffering from unemployment.
- Focus on Women. International experience has demonstrated that a high degree of female participation as borrowers in micro finance programs serves as a basement for the strong performance of the overall lending process. Moreover, women have proven in all cultures to be more responsive than men to the opportunities gained through micro-finance schemes, as well as more reliable regarding finance repayment.
- Focus on handicapped. A special program is to be arranged between the bank and MOSD to empower the disabled individuals who are currently listed and supported by the MOSD.
- Involve a sufficient number of NGOs in the lending process. In order to expand the positive impact of the bank services in reducing unemployment and developing the capacity of NGO’s in Bahrain, the total number of NGOs involving in the project will be gradually increased to cover the whole areas of Bahrain.

The Innovation in Family Bank

Facing the dilemma of self-employment and micro-entrepreneurship in a welfare-state like Bahrain where different SME’s players are providing competitive supporting schemes and where the needy families have mostly a previous banking experience (either for personal loans, housing loans, auto loans, etc.) is not an easy task. These factors forced the family bank applying an innovative philosophy focuses on provide poor and micro-entrepreneurs with a comprehensive adopted financial and non-financial services to start and expand their very small businesses, at the same time working with all the instruments of professional banks operating under the supervision of the central bank. Several process and operations from banking side together form MFI’s and entrepreneurship development side are married together to nurture a specialized Islamic microfinance bank. The main characteristics of the bank are as follows:-

1- Provide full fledged Programs & Services

The principal activities of bank are divided into four main programs as follows:

- 1- A group finance through Grameen-based program: A collateral, guarantee and commercial registration free finances from BHD 500 to 3,000 to be repaid in 12-24 months with a subsidized rate of return and against no administrative fees. Repayment to be made in equated monthly installment.
- 2- Microenterprise development finance: A collateral, guarantee free finances from BHD 2,000 to 7,000 to be repaid in 36 months with a subsidized rate of return and against no administrative fees with a grace period of 3 months. Repayment to be made in equated monthly installment.
- 3- Finance schemes throughout the Non-Government Organizations (NGOs)/ Micro-Finance Institutions as well as Charity organizations in order to work as MFI, from BHD 50,000 to BD100,000. This program is designed to work in partnership with the bank to cover geographically the whole country. The program targets also certain disadvantaged categories like women, handicapped and youth.
- 4- Comprehensive non-financial services for all clients (training on money management, how to start a business, counseling, marketing support, providing new business ideas).

As results of this range of services, family bank has a net advantage on other MFI's and microfinance organizations, and applying the philosophy that it's not distributing small amount of money agency, it's a full empowering organization.

2- Provide max supporting for first steps

As microenterprise development has proven to be an effective method for fighting poverty and rising up entrepreneurs in the society, Family Bank is trying to maximize its efforts to be a real catalyst for Bahraini self-employment and microentrepreneurs who are entering the "business" world for the first time. Some of those individuals are already recipients of welfare support, undergoing a special program for "graduation out of poverty". Many clients are working currently in very small scale as home-based businesses; they are willing to get finance to shift to formal. For these reasons Family Bank ensures that the microentrepreneurs and their communities benefit now and in the future. Beside the major strengths to provide collateral, guarantee and commercial registration free finances, the bank provides also training on basic financial principles and general business training before providing finance.

3- Develop Islamic microfinance services

Islamic Finance has grown tremendously over the past 3 decades whereas an opportunity and need of Islamic Microfinance has been spotted. Hence, Family Bank has combined *Grameen method* and combined it with expertise in Islamic finance to re-structure the products to become 100% Shari'a compliant. The Islamic product development team worked on structuring under the supervision of the Shari'a Supervisory Board shown a real understanding for microfinance models specificity and elaborated a suitable instrument to finance needy. After implementing these products and proven its success, more microfinance models will be introduced to serve Family Bank's clients in different life improvement and empowering aspects. Currently, the developed Islamic microfinance products in family bank are:-

1- Micro-Mudharaba

Mudharaba is a trust based financing agreement whereby an investor (Family bank) entrusts capital to an agent (Mudarib) for a project. Profits are based on a pre-arranged and agreed on a ratio. This agreement is akin to the Western style limited partnership (or venture capital), with one party contributing capital while the other runs the business and profit is distributed based on a negotiated percentage of ownership. In case of a loss, the bank earns no return or negative return on its investment and the agent receives no compensation for his/her effort. Family bank is the first microfinance bank who designed a new type of Micro-Mudharaba. Basically the

Islamic banks are not interested to provide finance thorough Mudarabah instrument where the bank is not generally the entrepreneur “Mudarib”, as it is very risks (the banks are used to be “Mudarib”). However after several interactive sessions with the clients, their main request was that the family bank should provide cash funds to them within the shortest time and clients can utilize the funds as per their choice in any income generating activity.

2- Micro-Murabaha

A particular kind of sale, compliant with Shari’a, where the seller expressly mentions the cost he has incurred on the commodities to be sold and sells it to another person by adding some profit or mark-up thereon which is known to the buyer. As an Islamic Microfinance bank, Family Bank adds a mark-up that is very low, allowing citizens to have access to these commodities without needing to pay large amounts of mark-ups, and will ease the process for them through deferred payment. The bank doesn’t incur any administrative fees on this process.

3- Micro-Murabaha by Tawaraq

As many clients are purchasing the items required for their micro-business outside Bahrain, the classical Micro-Murabaha is not suitable for them. Added to the fact that several businesses are required finance beyond the ceiling limits the bank fixed for Micro-Mudharaba. Accordingly, the Micro-Murabaha by Tawaraq product is particularly designed to suit the clients who have very special financial needs, small amount of money, various purchases, mostly buying form foreign markets, etc. the development of Micro-Murabaha by Tawaraq is very rare in the Islamic microfinance as it needs various arrangements with shari’a complaint financial agencies and commodities traders who execute the Tawaraq process.

4- Adjusting a Grameen –based 100% Islamic finance

Grameen Foundation helps the world’s poorest, especially women, improve their lives and escape poverty through access to microfinance and technology. By making very small finances to every determined people, we’ve seen millions of the world’s poor pull themselves out of poverty. An agreement for implementing Grameen program is signed between Family Bank and the Grameen Trust, and two professional experts are employed as full time employee in the bank for the first years of operations. Grameen family bank program conducted a general feasibility study to check the suitability to the program to local culture. A detailed marketing plan was elaborated to identify the targeted customers & areas. A comprehensive survey is commissioned to have detailed and concrete idea on the proposed area where bank intends to work. As socioeconomic, demographic, political, marketing information are essential for the feasibility study, Grameen team worked to enable family bank department to analyze the local socioeconomic texture as well as getting familiar with the local communities. Once the customers indentified and recognized the program immediately starts to educate them by offering training in how to utilize the amount of money which they are asking and any amount that they would to raise in order to improve their living conditions. Since the launch of this financial instrument in the Kingdom of Bahrain it shows a great improvement and high responsibility in terms of the payments. To date more than 70 groups are formed and working in different sectors as it will be discussed.

5- Competitive Pricing philosophy:

Family Bank aims to enhance and improve the living standard of needy Bahraini by employing them in different areas of business within very socially oriented terms. Under the pricing methodology adopted by the Family Bank, the bank is charging the lowest cost on money available in Bahrain and may be in the region with a profit rate ranging around 1% per month. Since the launch of the Bank in January the bank has reach more than 350 investors with a different area of investments and other number is under the process of disbursing as the number is getting increase every day.

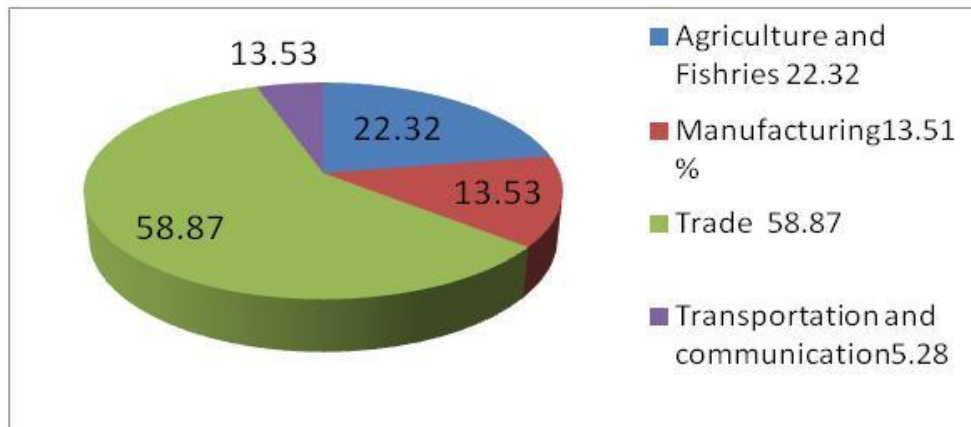


Figure 8 Sectors of investment of family bank customers

6- Provide a Takaful life Insurance for clients

As the mutual sharing of risk is based on the concept of Taawun (Mutual Protection), Family Bank has signed an agreement with one of the biggest Takaful insurance company to provide a protection for clients in term of the death and the disability. The insurance company will have the full responsibility to repay the finance amount to the Bank in case of death and the disability of the customer. The cost of this operation was agreed to be with nominal fees as the Takaful Insurance Company considered the agreement as part of its CSR activities.

1. The diversity of financed microenterprises

Within an open economy like Bahrain economy, microentrepreneurs have a real opening to start microenterprise in much diversified business activities, more than the agricultural and rural activities based economies. Family bank is trying to guide microentrepreneurs to develop their ideas according to market potential and their experiences. The results of operations during the first three quarters reflected this policy. Some examples of the financed microenterprises are:- Engine for Fishing Boat, Foodstuff (Food Processing), Clothing & Fabrics, Aluminum Workshop Motor, Vehicle & Parts (Buying& Selling Scrubs), Used Cars Spare parts& Accessories of cars, Departmental Store (Cold Store) ,Boutique, Cloths &Baby Wears, Gift Shops, Perfume, Beauty Saloon, DJ Equipment, Welding machine, Hijab & Jalabiah, Stationary tools, Transportation & Communication, as shown on figure 9.

Conclusion

We should admit that issues of social exclusion, social justice, poverty and wealth redistribution are matters of great concern to the world; however, reasons for poverty in society are complex. A significant dimension of these reasons is that many of the poor, who have the potential to work and get eventually better life, do not have the access to any financial services (neither the finance for their income generating activities nor the channels to mobilize their savings). As a result, access to funding has been identified as a major problem facing their empowering through self-employment and microenterprise development. Various studies showed that small and micro-enterprises are restricted in their ability to source funds from the "traditional" organized financial sector, arising from the perceived high risk of default and high administrative cost. Consequently, they resort to private moneylenders who charge substantially higher interest rates.

As a conclusion of the analysis of characteristics of microentrepreneurship and microfinance programs worldwide, one can admit that as the perception of microentrepreneurship is widely

different and accordingly its role is multiple. While marginalized or excluded individuals are forming the main basin of microentrepreneurs in industrialized countries, welfare recipients, poor, unemployed and low income families are the major players of microentrepreneurship in developed and underdeveloped countries. As a result, not only the microfinance stereotype programs will differ by also the training needs, and non-financial services may largely vary from a country to another.

To a significant extent, conventional microfinance has been effective at supporting the development of very small and small enterprises and consequently uplifting the living conditions of the poor in many countries. However, this convention microfinance is not fully satisfying the cultural and spiritual aspirations of all needy. Potentially, Islamic microfinance can chart a rapid growth given the prevailing high proportion of poor population (particularly in Muslim dominant countries) involved in small and micro-enterprises that are not having access to formal banking system. Islamic finance and conventional style interest-based finance should not be viewed as competitors. Instead, the application of Islamic finance should be seen as a supplement to interest rate credit financing to help microentrepreneurs. The application of Islamic financing formula by Family Bank to small enterprises has not been without problems. These include difficulties in designing suitable Shari'a compliant finance instruments to satisfy client's needs, the mark-up rates, the competition with other banks, as well as the nature of microenterprise within an open economy like Bahrain. The bank is yet in its first year of operation so one can't undertake a serious evaluation. More time is needed to get deep evidences on the 'appropriateness of its program and innovative approach. But generally the involvement of Islamic international financial institutions and Islamic commercial banks potentially is seen as a help widen the reach and scope of Islamic microfinance. Extensive research is also needed in the application of Islamic financing formula to small and microenterprises, if Islamic microfinance is to become more widely accepted and successful.

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