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ISLAMIC INSIGHT

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Role of Islamic microfinance in the inclusive growth: Acase study of Family Bank in the Kingdom of Bahrain

Sajid Hudawi Puthenpeedikayil*

Abstract: Inclusive growth is a matter of serious concern for most of the under developed and developing nations as they are caught in a structural poverty trap due to unfavourable international environment. It is in this context of addressing poverty, the microfinance system finds its significance and offers the component for a paradigm shift in the development thinking. Nonetheless, the conventional microfinance which functions based on interest has not yet been completely successful in providing a sustainable survival to the economically backward sections due to high interest burden on the poor and the lack of proper guidance to utilize the borrowed money in a productive way. Theoretically, Islamic microfinance system which is totally free of interest appears to be able to overcome these shortcomings. In a profit and loss sharing system, it becomes the concern of both the borrower and the provider of finance to utilize the borrowed money in a productive manner. Hence, simultaneous to providing the loan, Islamic financial institutions provide the poor customers with proper guidance regarding the intelligent use of money. Family Bank in Bahrain is a recent experience in the field of Islamic microfinance. This paper analyses the role of Islamic microfinance in realizing the true form of inclusive growth by throwing light to the achievements of the Family bank in Bahrain in this regard.

Keywords: Islamic social banking, interest-free, inclusive growth, profit and loss sharing, Family Bank.

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Introduction

Microfinance is widely considered as a 'shadow banking' with the prime motive of helping the poor, who are excluded from the formal financial system, either to meet their unexpected life cycle expenses or to start a self-employment programme. The targeted financial services of a Microfinance Institution are not confined to providing the credit but also include insurance, transactional services and, importantly, savings. Easy access to credit without much technical formalities, demanding no material collateral, and use of high but diminishing interest rate are the major distinguishing factors of conventional microfinance system which represents 99% of the existing microfinance throughout the world (AVN Murty, 2013). The revolutionary change brought out by the microfinance is the true empowerment of the poor, who were earlier denied access to the formal credit, by helping them to set up their own business enterprise and get rid of assistance, subsidy and dependence (Segrado, 2005). The major criticism of the existing microfinance systems in different parts of the world is the shift from earlier altruistic motives to a profit-making financial business by charging exorbitant interest rates. A group of scholars and microfinance providers justify it as the means to meet the high amount transaction cost in providing small amount of loan while others see it as the exploitation of the poverty.

Different types of microfinance institutions

Microfinance institutions functioning in different parts of the world have adopted different models for financing the poor. Group-Based Lending/Grameen Model, introduced by Prof. Muhammed Yunus in Bangladesh is the most widely practiced model in different parts of the globe. In this mode of microcredit, group functions as a model of social collateral instead of the material collateral. If a single member of the group defaults in repayments, the whole group is further ineligible to get microcredit from the Institution. It is understood that this positive pressure created by the group does a lot to encourage the members to remain faithful to their commitments to repay the loan(Yunus, 2007).

Some institutions prefer individual lending for the poor than the group based lending. Mostly, this type of financing is preferred by rural banks and cooperative banks as they donot have any group mechanism to extend the loan to the poor. It was found that, in most of the cases, such type of lending was based on material collateral as seen in the Regional Rural Bank of India, Bank Rakyat Indonesia, Basic Bank in Bangladesh and ADEMI in Dominican Republic(AVN Murty, 2013). Hence, these institutions do not qualify one of the basic characteristics of microfinance institution that is to be collateral-free.

Credit Union is another form of microfinance institution. It is basically a Not for Profit financing mechanism based on the idea of mutual help among a group of members who are, in most of the cases, related either by neighbourhood or blood relations. It mobilizes savings and extends loans for productive ventures as well as other life cycle expenses to the members of the Credit Union(Obaidullah, 2008).

Social Business is an innovative mode of microfinancing introduced by Prof. Muhammed Yunus. According to him, it is something different from charity and for profit enterprises. Social business is a company that is cause-driven rather than profit-driven. At the same time, it is not a charity and a business in all the sense. The investors in the social business will not earn any extra profit but will get back the full amount invested by them. The business will recover the full amount, or more, from the beneficiaries and will charge some additional fee or service charges for making the service available to the poor. The remarkable merit of the system is that the organizers of the social business do not have to spend their time and energy to find new donors or financial sources for continuing their service for long time. Hence, the chance of survival for long time is comparatively higher in social business than a charity (Yunus, 2007).

Village Lending is another model of small financing mostly found in Africa and South America. A village bank with limited number of members from the village, in most of the cases the number varies between 30 and 50, is set up and they are provided collateral-free loans using external capital. When the beneficiaries pay back the loan in pre-determined interval, the bank refunds the whole amount to the sponsoring agency. The village banks which pay back to the sponsor on time will be eligible to apply for larger amounts in future from the sponsoring agency. As seen the Grameen model, peer pressure is the key behind the success of the village bank too (Obaidullah, 2008).

Introduction to Islamic microfinance

As per the findings of the Consultative Group to Assist Poor (CGAP) survey, there are an estimated 255 financial service providers offering Sharia-compliant microfinance products around the world (El-Zoghbi, 2013).Economic models of these Islamic microfinance institutions can be broadly classified into two: Charity based Not for Profit model and business based for Profit model. Islamic instruments of inclusive growth like *Zakāt*, *Waqf* and *Qarḍ Ḥasan* (benevolence loan) are distributed in a structured way in the charity based not for profit model of Islamic microfinance (Obaidullah, 2008). As *Zakāt* is fundamentally right of the poor, the providers of this microfinance cannot demand from the beneficiary a specific way to spend the money. The money can be spent by the beneficiary in any way he wishes like investing in productive enterprise or daily expenses or any other life cycle expense. Hence, in most of the cases, it is used by the government or any other socially motivated organizations as a subordinate to any other for-profit microfinance while financing the poorest of the poor. Such a model which synthesizes both charity based and for profit modes of Islamic microfinance will be more practical in the case of the poorest of the poor as they can meet daily expenses from *Zakāt*, *Qarḍ Ḥasan*, etc., while they will be able to run micro or small profit-making enterprises using the loans received through the second channel.

Ideal type of profit-based Islamic microfinance is the hub of a range of services like micro-saving, micro-credit, micro-equity, micro-*takāful* and micro-remittances.

Micro saving

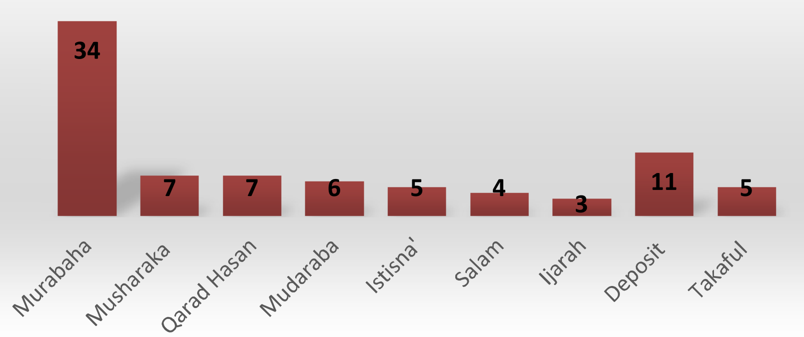
According to Islamic economic principles, products of micro-savings can be designed under *wadī ah, qarḍ ḥasan* and *Muḍāraba* (Obaidullah, 2008). If the savings are made under *wadī ah* and *qarḍ ḥasan* categories, the deposit will be considered as equal to current account deposits in the conventional banking system and hence will not attract any monetary benefit for the investor. Microfinance institutions are free either to keep the saved money in a safe custody or use it for any other *ḥalāl* purposes. However, the full amount has to be refunded to the depositor at any time he wishes to withdraw the money.

In the *Muḍāraba* model of savings, the customers choose the bank as a *Muḍārib* (an agent to do business on behalf of them) (Obaidullah, 2008). If the business grows up in a profitable way, the profit will be shared between the savings account holder and the microfinance institution as per the pre-agreed ratio, and loss, if happens at any time, will be completely born by the customer without any liability on the side of microfinance institution. As there are chances of loss for the poor depositors in the *Muḍāraba* model, most of the Islamic microfinance institutions as well as the customers are not interested in this mode of micro saving.

Micro credit and micro equity

Instead of interest-based conventional model of microfinance, Islam presents a trade-based/ lease-based/ profit and loss sharing model of microfinance where the earnings of the microfinance provider come either in the form of profit or rent. Islamic financial products used by microfinance institutions for providing credit are *Murābaḥa*, *ijāra*, *bai -salam*, *bai -istithnā*, *Muḍāraba* and *mushāraka* (Obaidullah, 2008). Most of the Islamic microfinance institutions are into the *Murābaḥa* model of trade-based microfinance due to the lack of risk associated with the same. Very few microfinance institutions were found using the altruistic model of *Muḍāraba* where the whole financial loss lies with the provider of finance. In the Islamic Micro and Small Medium Enterprise (MSME) Finance Survey conducted by Sanabel Group, it was found that out of the total 36 Islamic microfinance institutions surveyed, 34 were using *Murābaḥa* model of trade-based product of Islamic microfinancing either as a primary product or as a secondary product. Seven microfinance institutions were found using each *mushāraka* and *qarḍ ḥasan*. Only six banks were financing the business enterprise through *Muḍāraba* which is one of the riskiest products for an Islamic microfinance institution. Four banks were using *salam* and only three banks were into *ijāra* model leasing. Out of the total 36 banks studied by Sanabel, 11 banks were providing investment facilities and 5 were providing Islamic *takāful* protection to the customers as explained in Figure 1 (Sanabel, 2012).

Figure 1: Number of ISMFIs using Different Products of Islamic Financing (out of toal 36 IsMIFs in the Arab Region Surveyed by Sanabel)



Sources: calculated and compiled fromSanabel Survey on Islamic Microfinance Institutions in the Arab Countries 2012.

Introduction to the economic situation in Bahrain

Among the Gulf countries, Bahrain has the least oil and gas resources and economic dependence of the kingdom on the energy resources is limited. Consequently, it has more diversified economy and many sectors especially the tertiary have been growing rapidly for last many years. The kingdom has embarked on rapid liberalization of the domestic economy and has built more competitive business environment. Nevertheless, economic growth has bypassed certain sections of the society and poverty prevails among them. To alleviate poverty among certain sections of the society, the government of Bahrain has implemented many programmes including consumption subsidies and social safety nets in the form of cash transfers (Elshabrawy, 2011).

Present status of poverty in Bahrain

The Kingdom of Bahrain has fixed a national poverty threshold to identify and estimate the poverty in the island nation. At present, persons earning less than 337 Bahraini Dinars per month for a family of 6 members are identified as poor. According to this criterion, government of Bahrain presently provides cash assistance to around 10000 families covering an approximate number of 20000 citizens. According to official figures in 2010, 3.8 percent of the Bahrain nationals are unemployed (Elshabrawy, 2011).

Micro enterprises in Bahrain

Micro enterprises have been an important tool of generating self-employment and poverty alleviation in the developing countries. It has been found that around 28% of the nominal Gross Domestic Product of Bahrain is represented by micro, small and medium enterprises. Construction, manufacturing and trade are the three major components of the SMEs in the Kingdom. The sector has a remarkable representation in the employment sector of Bahrain as it provides jobs for nearly 73% of the private employees, most of them are non-Bahrainis (Elshabrawy, 2011). The government aims to provide microfinance to the poor people to enable them to set up micro enterprises.

Case of Family Bank model of Islamic microfinance in Bahrain

Family bank is the lone Islamic ‘social bank’ which provides *sharī a* compliant microfinance services to the needy families in the Kingdom of Bahrain. The bank was established in 2010 with a declared goal of providing Islamic microfinance to the lower income Bahrainis to build a secure livelihood through micro entrepreneurship (Family Bank, 2010). Credit goes to Family Bank for translating the ‘Islamic Microfinance’ from theory to practice in the Gulf Region. The bank stands for the objective of alleviating poverty while empowering the community it serves through the provision of sustainable financial services (Balooshi, 2010). Besides, it has been serving the families at their door-step, making compulsory savings and life insurance schemes for the beneficiaries, and focusing upon women, unemployed youth and disabled individuals (Family Bank, 2010). The targeted group of the bank, including women and unemployed youth, are also the beneficiaries of different welfare schemes of the Bahraini government. Hence, the bank aims to bring the poor section of the society out of ‘welfare dependency’ to ‘self-sustainability’. Bahrain was the leading country in the Gulf to use Islamic microfinance for the empowerment of poor people.

Organisational structure of Family Bank

The overall functioning of the Family bank is under the supreme control of the Board of Directors, which comprises nine members both from public and private sectors. *Sharī a* Supervisory Board, Audit and Risk Committee, Executive Committee and Chief Executive Officer are the four independent organs, which function under the overall control of Board of Directors. All other committees and functions of the bank are under the supervision and control of the Chief Executive Officer (Family Bank, 2012).

Is Family Bank a social business?

Atef Elshebrawy, former Chief Executive Officer of Family Bank introduces the Family Bank as a ‘social business’. The basic idea of social business model of microfinancing was introduced by Prof. Muhammed Yunus as described above in detail. Analyzing the terms and conditions set by Prof. Muhammed Yunus for an ideal social business, it is understood that Family Bank looks much similar to social business but does not qualify all the characteristics of an ideal social business.

First feature of the social business is that it is neither purely charity nor wholly business. Moreover, the social business should be able to recover, at least, the principal amount lent to the beneficiaries (Yunus, 2007). In the case of Family Bank, it is evident that the bank is an institution which stands ‘not for profit’. At the same time, in some aspects it looks like a charity because the bank is running in loss for all the 6 years of functioning and the bank was never able to fully recover the amount extended as loan even in a single year functioning from 2010 to 2015. One of the most important merit of a social business, as explained by Prof. Yunus, is that the organizers of the social business do not have to spend their time and energy to find new donors or financial sources for continuing their service for long time. But in the case of Family Bank this merit is not working. The bank is in loss every year and collects fresh shares from Ministry of Social Development, Royal Charity Organization, Ithmaar Bank, Ahli United Bank and Kuwait Finance House (Family Bank, 2012). Hence, it is concluded that Family does not qualify completely to be a social business as per the conditions put forward by Prof. Muhammed Yunus.

Operational framework of Family Bank model

Family bank has been established through the partnership of five different organizations of which the largest two: Royal Charity Organization and the Ministry of Social Development are government entities and the remaining three: Ahli United Bank, Ithmaar bank and

Kuwait Finance house are the private financing firms (Family bank, 2011). The services provided by the bank are both financial and non-financial.

Financial services

Under the financial services, bank provides microcredit to the needy individuals as well as families either to start up a new micro enterprise or to expand the existing one. The microcredit services of the bank are provided through three finance programmes namely the Grameen-based group finance, microenterprise development finance and finance schemes through the Non-Government Organizations and Microfinance Institutions (Elshabrawy, personal communication, January 28, 2012).

Grameen-based programme

It is the Islamized version of the Grameen bank model originated in Bangladesh and replicated in more than 40 countries so far. Under this programme, Family bank provides finances without collateral, guarantee and commercial registration fee requirements to the extremely poor people. The average amount of loan varies from Bahraini Dinar 500 to 3000 to be repaid in 12-24 months with a subsidized rate of return and against no administrative fees (Elshabrawy, 2011). The major advantage of this model is the group-based lending which functions as a social collateral instead of the material collateral as discussed above.

Microenterprise development finance

This financing programme is designed to assist those who aim to start a new business or transform a matured micro enterprise into a medium enterprise. The amount provided under the programme is larger than the Grameen mode of financing. It is also a collateral, guarantee free finance from BHD 2000 to 7000 to be repaid in 36 months (Elshabrawy, 2011).

Finance schemes throughout the NGOs /MFIs

The Family bank enters into collaboration with NGOs, MFIs and charity organisations to spread its services to all geographic areas of the country. Under the collaboration, the above mentioned institutions will get credit from BHD 50000 to 100,000, which is further lent to the people in different nooks and corners of the Kingdom. The collaborating NGOs, MFI and charity organisations also target the disadvantaged categories like women, handicapped and the unemployed youth (Elshabrawy, 2011).

Compulsory savings scheme

As per the rules of Family bank, it is mandatory for each member of group based Grameen credit scheme to open a savings account of BHD 10 and deposit a minimum of BHD 5 every month from the credit given to them by the bank (Family Bank, 2010). It helps to change the culture of poverty and facilitate the families to meet the unexpected expenditure with their own savings.

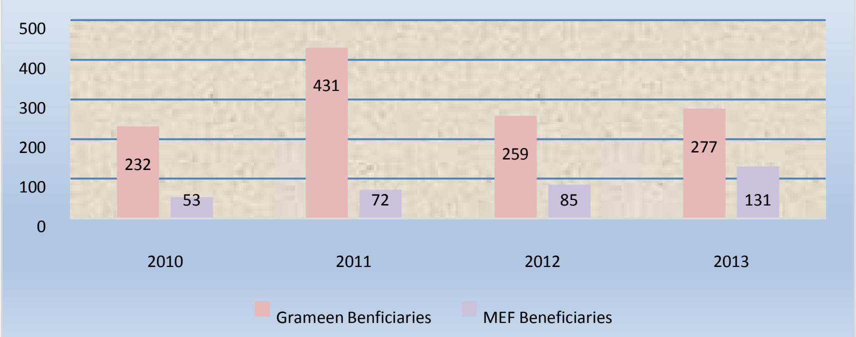
Compulsory life insurance scheme

Based on the Islamic concept of *ta āwun* (mutual protection), Family bank has signed an agreement with one of the largest Islamic insurance companies in Bahrain named Takaful to provide protection for customers in the case of death or 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 activities under Corporate Social Responsibility (Elshabrawy, 2011). This provides a triple benefit of confidence for the customers, security for the bank as well as accomplishment of Corporate Social Responsibility for the Insurance Company.

Number of beneficiaries under Microenterprise Development Finance (MEF) and Grameen model of financing

Analyzing the data on the number of beneficiaries supported by the Family bank for four years between 2010 and 2013, it was found that the number of micro-loans provided under Grameen scheme was comparatively higher than the number of loans extended through MEF programme. However, there was no significant growth in the number of beneficiaries under Grameen model from 2010 to 2013. Number of fresh Grameen beneficiaries added in the year 2013 was 277, a marginal increase from 232 in 2010. At the same time the number of beneficiaries under MEF scheme has marked a huge growth of 147 percent from 53 in 2010 to 131 in 2013 as shown in Figure 2. Hence, it can be concluded that Family Bank is giving more emphasis to individual business enterprises supported thorough MEF programme than the Group based activities supported through Grameen model.

Figure 2: Number of Fresh Grameen and MEF Beneficiaries Added Each Year

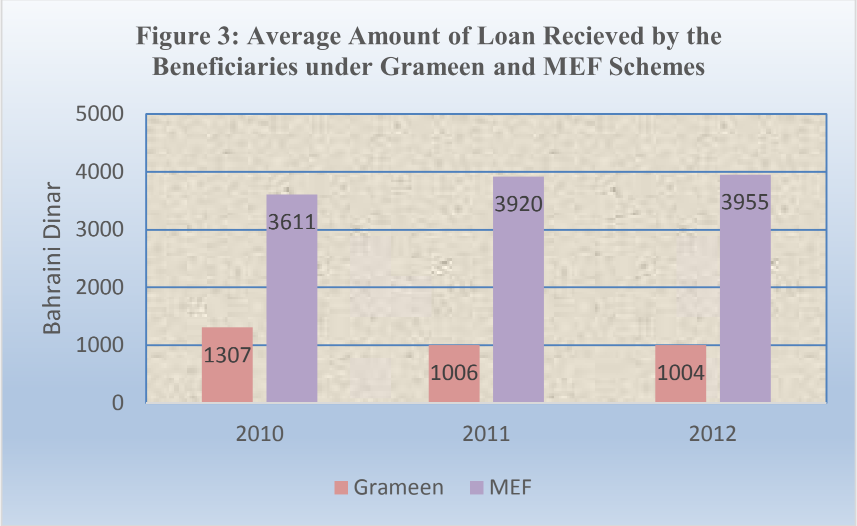


Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012; 2014)

Quality of service under Grameen versus MEF lending programmes

The quality of lending services under these two schemes of the Family Bank can be analysed by looking at the average amount of loan, the growth rate of lending, the efficacy of lending and the target groups. The average amount of micro-loan to a single individual under MEF was considerably higher than the same under Grameen model of financing. In 2010, average amount provided under Grameen scheme was 1307 Bahraini Dinar while the same for MEF was 3611 Bahraini Dirhams (Figure 3). It is also noteworthy that the average amount of financing under Grameen model reduced in the next two years into BD 1006 and BD 1004 in 2011 and 2012 respectively (Figure 3). At the same time, average amount of financing under MEF programme considerably increased to BD 3920 and BD 3955 for the same years (Figure3).

This indicates that the Family Bank prefers individual lending more than the group based lending both in terms of the number of beneficiaries and average amount of financing.



Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012)

Efficacy of the financial services

The Grameen model of financing seems to be more inclusive and can facilitate the development of the poorest of the poor. People who lack the ability to manage a medium business enterprise would largely prefer the Grameen model which supports comparatively micro enterprises. Hence, it will be more suitable for those who are entering into a self-employment programme without any previous experience. Dependence of the large number of clients on Grameen mode of financing shows the positive impact of the programme in facilitating the inclusive growth. Between 2010 and 2012, about 922 out of total 1132 customers of the bank have benefitted out of the Grameen mode of micro financing. The amount provided by the bank is also sufficient to establish a micro enterprise and much higher in comparison to their counterparts in the other parts of the world. The average amount of one microcredit by Family bank in 2015 is BHD 1732 which is equal to 4594 US dollars(Family Bank, 2015)while the same for the beneficiaries of the Self Help Group programme of Government of India is only 1000-1500 Indian rupees which is less than 30 US dollars (Mahajan, 2005).

At the same, the quality of the service in terms of average amount of loan per beneficiary and the number of the beneficiaries under the Grameen mode of financing has been found reducing considerably for the three years since 2010 as explained above and shown in Figure 3.

Family bank's preference for MEF mode of financing over the Grameen–based financing in the last few years signifies a shift of strategy either to provide high quality service to limited number of beneficiaries or to reduce the administrative cost of managing large number of clients.

Non-financial services of Family Bank

Non-financial services of the Family Bank include training, guidance and facilitating participation of the clients in trade fairs, exhibitions, business competitions, career and employment exhibitions and training. The responsibility of providing non-financial services falls on the bank due to the profit and loss sharing model of financing. In a 'profit and loss sharing' model of financing, the provider of the finance will be more concerned about the success of enterprise initiated by the clients than their counterparts in the interest based model of financing. 'Sharing of the risk' makes the bank more active in providing adequate training and guidance to the clients to make their ventures successful. Likewise, the Family Bank has taken many initiatives towards participation of theirbeneficiaries in trade fairs, exhibitions, business competitions, career expos and training and employment exhibitions in collaboration with different organisations like Riffa cultural society, Tamkeen initiative and Coca Cola (Family Bank, 2010).

Among the non-financial services of the bank, the initiative started in 2012 named 'Idea Factory' is noteworthy. It is a unit in the bank that could act as a think tank for the under privileged customers who aspire to do income-generating activity, but do not have a clear idea of any business. The proposed goals of the idea factory are to generate ideas, facilitate training, and liaise between professional networks and effectively market new products and services (Family Bank, 2012). Consequently, 'Idea Factory' provides the under-privileged aspiring entrepreneurs business plans after analysing their interest and level of education, and helps them to excel throughout their business by providing training, guidance and continuous consultation. The initiative seems to improve the chances of success of the micro-enterprises set up by the poor and less educated customers in coordination with the bank. Providing mere finance to a customer, who does not know the basics of the business, not only brings negative returns to the business and the client but also makes them non-performing in the bank's account. The non-profitability of the business increases the loan default rate by reducing the loan repayment capacity of the borrower.

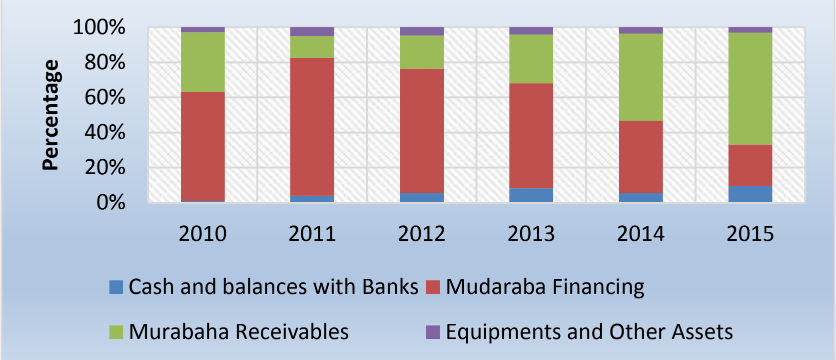
Islamic financing instruments used by Family Bank

At present Family bank provides Islamic microcredit through three different instruments; micro *Muḍāraba*, Micro *Murābaḥa* and Micro *Murābaḥa* by Tawaruq. The theoretical explanation of all these credit instruments has been done above in detail, while describing the unique features of Islamic microfinance.

By analyzing the composition of assets of Family from 2010 to 2015, it can be understood that *Muḍāraba* and *Murābaḥa* are the two major Islamic modes of financing used by Family Bank for extending micro-loans to their customers.

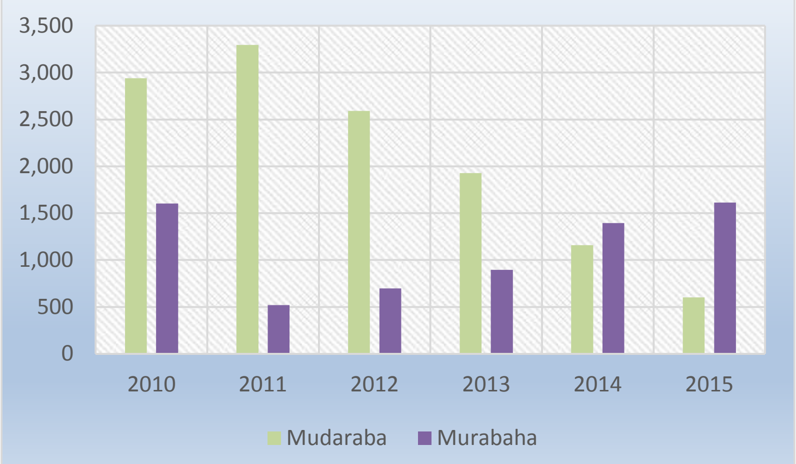
Major components in the total assets of the Family bank are Cash and Balances with Banks, *Muḍāraba* Financing, *Murābaḥa* Receivables and Equipment and Other Assets. Out of these of four sub-divisions, *Muḍāraba* and *Murābaḥa* are the financing components through which Islamic micro-loans are being extended to the needy customers. For all the years from 2010 to 2015, the Cash and Balances and Equipment and Other Assets portion did not make much variation. At the same time, the shares of the financing components (*Muḍāraba* and *Murābaḥa*) have varied significantly during the last 6 years as seen Figure 4 and Figure 5.In the first four years from 2010 to 2014, *Muḍāraba* was the major mode of financing by the Family Bank and the bank shifted towards *Murābaḥa* in the last two years 2014 and 2015. *Muḍāraba* is one of the riskiest modes of financing as the whole risk of financial loss is born by the bank. In the initial years of functioning, family bank preferred *Muḍāraba* due to the customer centric policy of the bank. But there was high loss for the bank in these years and the bank shifted into *Murābaḥa* which is more safe and profitable as there is no risk for the bank except the default from the customers in the repayment. Hence, it can be assessed that Family Bank is shifting towards ‘no loss’ policy from the earlier policy of ‘customer benefit first’ even by making loss. In the initial years, Family Bank concentrated on financing the customers through *Muḍāraba* and motivating them to start up new micro enterprises with no fear of financial loss. In any case if the enterprise becomes unsuccessful, bank will write off the loan and bear the whole financial loss. But, at present, bank is selling the instruments and machines for setting up an enterprise and provides the clients the facility to pay back the price of purchased instruments in differed instalments according to the principles of *Murābaḥa*.

Figure 4: Asset Composition of Family Bank 2010-2015



Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012; 2013; 2014; 2015)

Figure 5: Financing Components of Total Assetst of Family Bank 2010-2015 (BD'000)

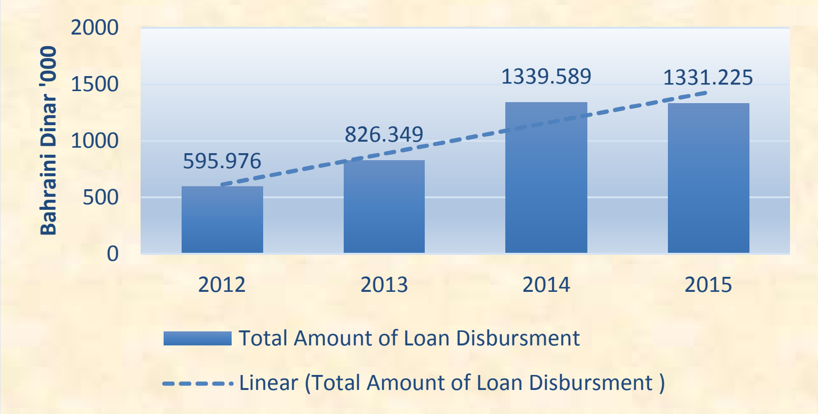


Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012; 2013; 2014; 2015)

Total amount disbursed through micro-loan by Family Bank

The primary objective of any microfinance institution is to make the financing available to the poor who are kept outside the reach of formal credit due to structural as well as social reasons. Hence, the amount of money disbursed by any microfinance institution to the poor is an important indicator of its performance. The Family Bank in the four years between 2012 and 2015 has progressively increased the total loan disbursement every year except in 2015(Figure 6). In 2015, the total loan disbursement marginally decreased to BD 1,331,225 from BD 1,339,598 in 2014. However, the bank has attributed it as a policy change to achieve financial stability before increasing the loan disbursement further (Family Bank , 2015).

Figure 6: Total Amount of Loan Disbursment



Sources: calculated and compiled from (Family Bank, 2012; 2013; 2014; 2015)

Average Loan per Beneficiary

As per the findings of the survey conducted by Sanabel, the microfinance network of Arab countries in association with Consultative Group to Assist Poor (CGAP), Family Bank in Bahrain provides highest average amount of loan among all existing Islamic microfinance institutions in the world (Sanabel, 2012). For the year 2015, average amount of micro-credit by Family Bank is 6673 US Dollar (Table 1), which was adequate for viable business plans. It provided security to the customers from other unauthorized money lenders. One of the major drawbacks of the microfinance institutions in South Asia and Africa is the insufficient amount of loan and the beneficiaries continue to rely on loans from local money lenders and consequently remain trapped in the vicious cycle of debt**.** Therefore, the high average amount of loan provided by the Family Bank is one of the strengths of the Islamic microfinance in Bahrain. Average amount of the loan provided by the Family Bank ranges from US dollar 4594 to 6673 in 2010 and 2015 respectively as seen in Table 1.

Table 1: Average Amount of Loan by Family Bank: 2012-2015

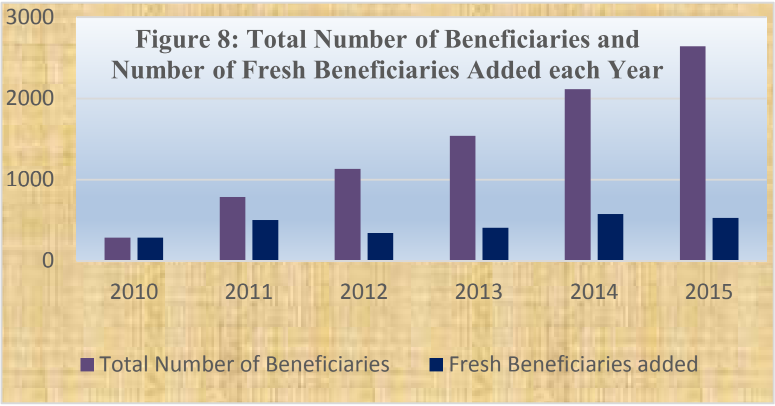
Year	Total Amount of Money Disbursed a Loan (in BD)	Number of fresh customers	Average Amount of a Single Loan in BD	Average Amount of Single Loan in USD
2012	595,976	344	1732	4594
2013	826,349	408	2025	5371
2014	1,339,589	572	2342	6212
2015	1,331,225	529	2516	6673

Sources: calculated and compiled from (Family Bank, 2012; 2013; 2014; 2015)

Number of beneficiaries of the Family Bank

Number of beneficiaries supported by a microfinance institution is an indicator on its social reach. Quality of the service can be measured only by analysing the end use of the money and the change in the economic status of the beneficiaries after getting assistance through microfinancing.

In the last six years of operation from 2010 to 2016, the Family Bank has supported an aggregate number of 2641 needy Bahraini nationals. As per the official records, in the Kingdom, an approximate number of twenty thousand citizens are categorised as poor and receive the welfare measures from the government. This implies that the Family Bank has been able to reach more than 25 percent of the people categorised as poor in Bahrain, which is significant for a single institution. However, constrained by the absence of other Islamic microfinance institutions in the country and the comparatively low number of target population, family bank has still not been able to reach to the large number of needy citizens of Bahrain. At the same time, the number of fresh beneficiaries added in 2015 was less than the number added in 2014 as seen the Figure8. It shows the reluctance of the bank to increase the number of beneficiaries in the interest of achieving financial stability (Family Bank, 2015).



Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012; 2013; 2014; 2015)

Socio-economic profile of the beneficiaries

Youth, women, handicapped individuals and the needy families supported by either government welfare schemes or by charity organizations are the declared target demography of the Family bank (Family Bank, 2010). In this section, the outreach of the bank to the mentioned target groups has been analyzed.

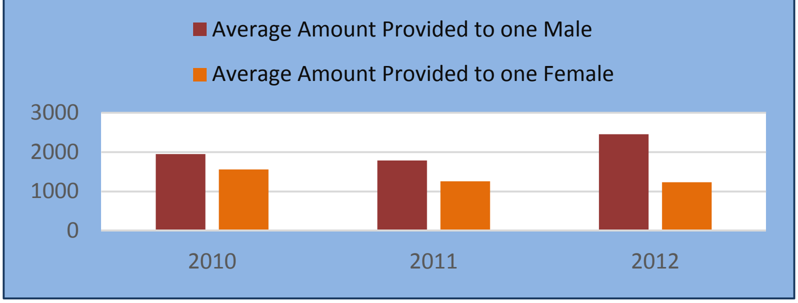
In different reports and booklets published by the Family Bank to highlight the stories of most successful beneficiaries, many successful women entrepreneurs were found running self-established perfume company, dates brand, sweets and cafeteria, tailoring and embroidery, fashion designing, female beauty-parlour, pickle brand, silver jewellery, ethnic wear for ladies, education accessories for kids, handicrafts and marketing and advertising company (Family Bank, 2010; 2011; 2012; 2014).

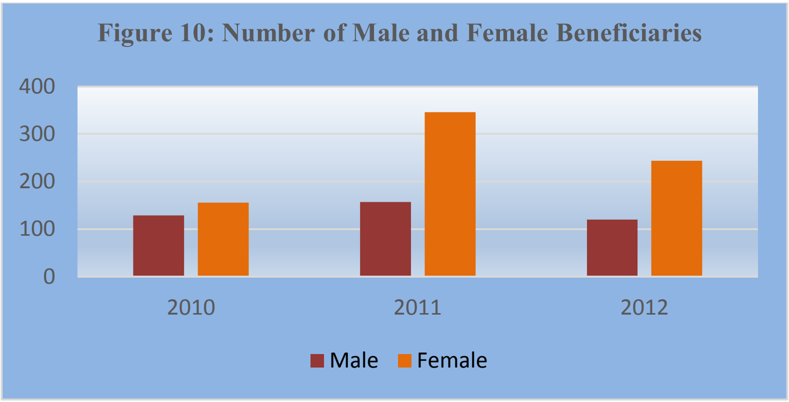
Data on the classification of Family Bank beneficiaries by gender was available only for years 2010, 2011 and 2012. It was found that in all the three years, number of female beneficiaries was more than the number of their male counterparts. In all of these years, the share of the female beneficiaries progressively increased. In 2010, out of the 285 fresh beneficiaries added, 156 were female and 129 were male. Similarly, in 2011, out of the 503 fresh beneficiaries of Family Bank, 346 were female and 157 were male. Same trend of more female beneficiaries than male continued in 2013 also. The total number of 344 fresh beneficiaries was added in 2013 of which 244 were females and 120 males (Figure 10).

However, the average amount of micro-loans provided to a single male beneficiary was much higher than the average amount of loan received by female counterpart in all the years from 2010 to 2013. It was found that in 2010, average amount of loan per capita male beneficiary was BD 1949 while the same for a female beneficiary was only BD1559. In 2011, the average amount of loan for both male and female decreased but the relative disparity remained. It was 1786 BD and 1258 BD for the male and female beneficiary respectively. There was a huge increase in the average amount of loan for a single male beneficiary in 2012 and a minor decrease in the same lent to a female counterpart. In 2012, the average amount of loan for a male increased to 2456BD from 1786 BD in 2011, while the same for the female decreased to 1235 BD from 1258BD in 2012 (Figure 10). Hence, it can be inferred that women are being served better by Family Bank in terms of number of beneficiaries, but the lesser amount of loan disbursed made a qualitative difference to their enterprises. The men were supported with bigger amount of loans for introducing comparatively larger enterprises while the women could establish micro or small enterprises. There may be different reasons for higher amount of loans for male beneficiaries. In most cases, amount of loan fixed is demand driven. It is probable that the female beneficiaries may have applied for smaller amount of loans than their male counterparts and provided accordingly.

Gender performance of Family Bank

Figure 9: Average Amount of Loan for Male and Female

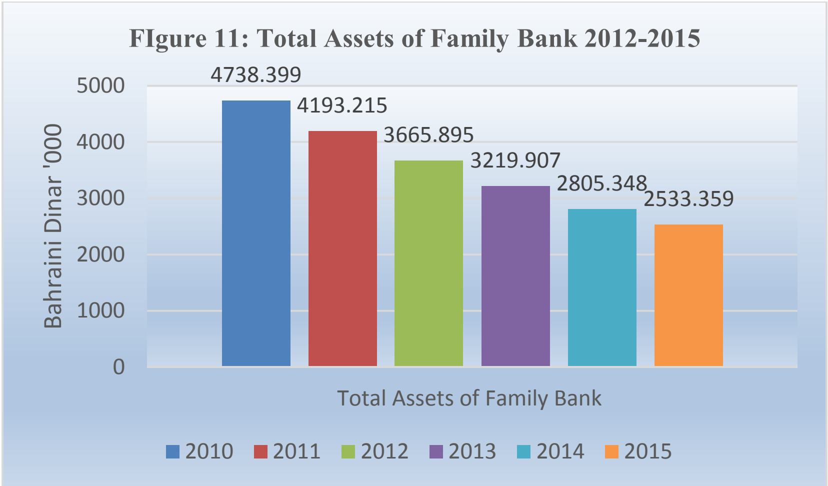




Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012)

Asset growth of Family Bank

Growth in total assets is one of the key indicators of economic performance in any profit driven financial institution. Positive growth of assets gives an impression that the financing institution has a good repayment rate along with high income from the loans provided either in the form of interest in the case of conventional financing or in the form of profit when it comes to Islamic loans. However, total assets of the Family Bank in Bahrain have marked negative growth in all the 6 years of functioning from the 2010 to 2015. When Family Bank started functioning in 2010, the total assets were4, 738,399 Bahraini Dinars and it has been drastically reduced by about46 percent to 2,533,359 in 2015. Hence, it is clear that Family Bank was unable to achieve self-sustainability or, at least, to maintain the business without making neither loss nor profit. However, family bank does not have a declared goal of making profit. The policy framework of the bank introduces the institution as an institution which stands for social development and inclusive growth and never ‘for profit’. Hence, success or failure of the institution has to be evaluated looking into the social goals achieved by the bank instead of merely analyzing the profit or loss factors.



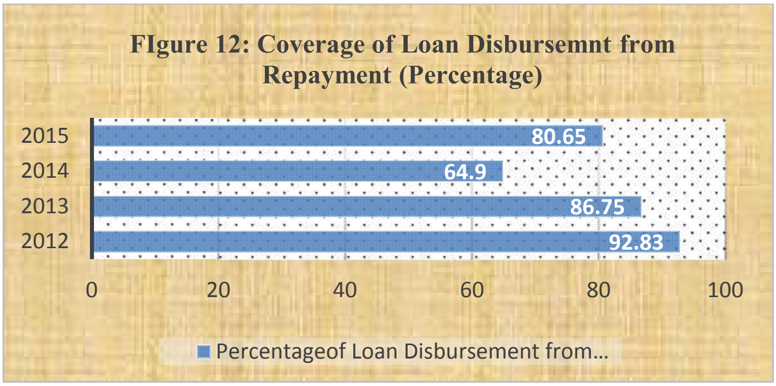
Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012; 2013; 2014; 2015)

Loan repayment of the Family Bank

Repayment of the loan is one of the most important factors while analyzing the performance of the bank as well as its financial viability. Non-repayment of loan reduces the lending capacity of the bank. As microfinance institutions are providing loan to the poor, there is a problem of ethics in using coercive method for re-collecting the loans provided. Hence, there should be a mechanism which inspires the beneficiaries to re-pay loans, voluntarily or through persuasion. Grameen Bank model of Prof. Muhammed Yunus in Bangladesh uses the group lending mechanism to generate peer-pressure for ensuring that the amount disbursed is paid back on time. If any member of the group defaults in paying back the loan, all members of the group will never get any further loan from the institution. Family bank in Bahrain has also tried to replicate the same method in the Grameen programme of the bank, but the rules of losing membership was not so rigid as the Grameen model of Bangladesh. At the same time, Family Bank provides an offer to the customer that if they pay back the loan on time, they will be eligible for more loans with higher amount than the previous one to expand and develop the existing business.

The average tenure of the loan in the Family Bank ranges from one year to three years. Repayment starts in easy instalments after one year (Elshabrawy, 2011). The gap between loan repayment and the total loan disbursement of the family bank is indicative of its financial viability. The percentage of the amount repaid to the total amount of loan disbursed in a year is indicative of the coverage of disbursement from the loan repaid. For example, in the year 2015, Family Bank has disbursed a total amount of 1,331,225 BD as micro-loan to the poor customers. In the same year the total amount of money received by the bank as repayment from the customers is 1,073,595 BD. The loan repayment has covered 80.65% of the total money disbursed in the same year (Figure 12).

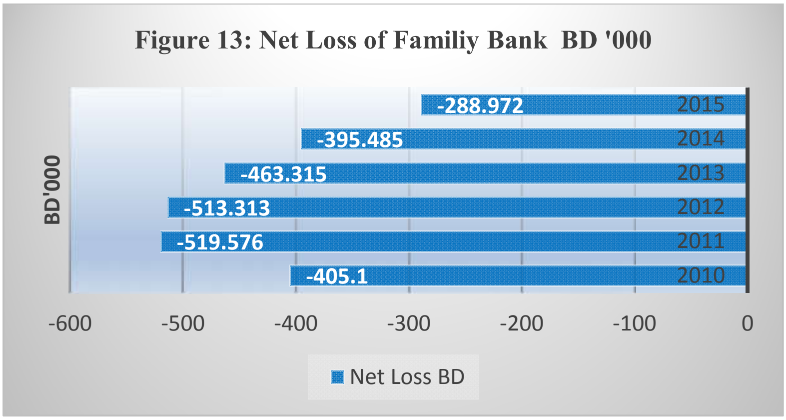
The loan repayment capacity of the borrower for his micro-enterprises varies and usually increases as his venture attains the threshold break-even point. Hence the bank's ability and willingness to lend also varies accordingly. The family bank since its operation in 2010 started recovering its loans after 2012. Therefore, the loan repayment covered 92.83% of the disbursement in 2012 due to the cumulative recovery of two preceding years (Figure 12). The dip in loan coverage in 2013 and 2014 could be understood from the best available evidences as big jump in credit lending as well as almost near repayment of past loans (Family Bank, 2014; 2015). In 2015, the bank has performed well in repayment and financed 80.65 percent of its loan disbursement from it (Figure 12).



Sources: calculated and compiled from (Family Bank, 2012; 2013; 2014; 2015)

Balance sheet of Family Bank

In all the six years of functioning from 2010 to 2016, family bank has recorded net loss in its balance sheet. In 2010, the first year of functioning, the bank made a loss of 405,100 Bahraini Dinars. The loss was the highest in 2011 of about 519,576 Bahraini Dinars. After 2011, the bank was able to manage the loss, which started decreasing progressively as seen in the Figure13.It is appreciable that the bank has reduced the gravity of the loss into 288,972 BD by the end of the financial year 2015. Loss for the Family Bank is mainly due to the high managing cost and partly due to delays in repayment by the customers. As the bank is functioning on the policy of 'not for profit', it is not much concerned about the loss.



Sources: calculated and compiled from (Family Bank, 2010; 2011; 2012; 2013; 2014; 2015)

Role of Family Bank in poverty alleviation

The Family Bank is functioning directly under the Ministry of Labour and Social Welfare with the declared aim of reducing the unemployment level among the youth and women, and consequently reducing the number of people depending on different welfare schemes of the government. Hence there is 'not profit motive' for the organization. Lack of profit motive and high concentration on the welfare of the customers have led to the financial loss for the institution in all the previous years of functioning. However, recently the bank has started shifting from the earlier method of helping the poor even by making loss into, at least, to reducing the gravity of the loss as much as possible as seen in the Figure. For this purpose, bank has adopted different methods like shifting from *Muḍāraba* to more secure *Murābaḥa* and not increasing the annual loan disbursement.

However, it was found that the rate of unemployment in Bahrain has marked a marginal improvement from 4 percent in 2011 to 3.9 percent in 2014 (World Bank, 2016). In the same way Human Development Index value of Bahrain has marked progress from earlier 0.817 in 2011 to 0.824 in 2014(United Nations Development Programme, 2015). Gross National Per capita Income of the Kingdom has also considerably improved to 98599 USD from the earlier 34888 USD (United Nations Development Programme, 2015). However, the female participation in the employment was found remaining static in 39 percent in all the years since 2011(Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate), 2016). Improvement in these indicators can be attributed to different factors like overall economic development in Bahrain. At the same time, it also facilitates a trend analysis that Family Bank in Bahrain has been facilitating poverty reduction by generating micro entrepreneurship and consequently facilitating self-employment opportunities.

Findings and Conclusion

The study has reached into the general conclusion that, by and large, the role of Family bank in promoting 'real inclusive growth' was positive and the bank has made some innovative steps in the poverty eradication. This argument is supported with the following findings.

First, the Islamic model of microfinance has the potential to support the inclusive growth by closing the avenues of exploitation and implanting confidence among the debt seekers. Exorbitant interest rates which is believed to be the worst tragedy of microfinance in the modern era, as discussed above, is absent in the Islamic system. Moreover, the profit and loss sharing model provides confidence and courage to the clients to enter into innovative business fields as the bank will share the financial risk as well as provide enough guidance and technical support. In the case of Family bank, the extensive use of *Muḍāraba* model, in which the total financial loss is born by the bank, is a remarkable aspect. The compulsory life insurance for the clients adds their confidence level and functions as a security for the bank.

Second, the bank has taken care, so far, in providing sufficient amount to each and every customer to start a micro enterprise. Sufficient financing is more important for the sustainable development of a business. Sub-standard amount of financing may enforce the clients to borrow the remaining amount from informal money lenders for high rate of interest and ultimately fall in the debt trap as witnessed in many developing countries. The average amount of one microcredit by Family bank in 2015 is BHD 1732 which is equal to 4594 US dollars (Family Bank, 2015). It has been found that even some female clients of the bank have grown enough to export their products to neighbouring countries owing to the sufficient financing by the bank (Family Bank, 2010).

Third, the good number of participants in the microfinance project is also a positive sign of extensive participation by the poor and their willingness to come out of the poverty cycle. It has been found that some of the participants have voluntarily discontinued their welfare benefits from the government due to the microfinance from the bank and their eagerness to set up self-business. However, it has to be noted that a large number of poor in Bahrain are still out of the reach to the services of Family bank. It was discussed earlier that only 25% of the officially identified poor was supported by Family Bank so far. It becomes a concern that there is no second Islamic microfinance bank in Bahrain. Hence, there is a large need for the expansion of the social reach by Family Bank.

Fourth, the large number of women's participation, especially from the Arab society which is believed to be more traditional, is a creative step in the social transformation. It will automatically lead to the increased savings of the household as the women are wiser in saving money than their male counterpart. Coupled with the compulsory savings scheme of family bank for the clients, the increased participation of the women will lead to more inclusive growth and nourishment in the local economy. Still, the researcher has criticism towards the comparatively low quality of financing to women as explained above.

Fifth, importance of providing proper guidance and sharing best business practices with the clients has been understood well by the Family bank. The innovative initiative of setting up a think tank for this purpose is analyzed as a true step towards achieving the goal of real inclusive growth. 'Idea Factory' of family bank is supposed to be a motivating institution for the poorest of the poor to come closer to the bank and start up a new enterprise suitable to their taste, skills, managerial capacity as well as level of education.

Sixth, the contribution of Family bank to the national economy, though negligible, has to be considered. The transformation of the welfare recipients of the government into the owners of a business brings in positive cultural changes among the people and double benefit to the national economic growth. Hence, it adds more fuel to the public exchequer as well as the cultural capital of the society.

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Note for contributors

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1. Articles submitted to *Islamic Insight* should not have been published elsewhere and should not be under consideration by other publication.
2. Articles must be in English and should not exceed 10,000 words. Book reviews should be around 1,000-1,500 words.
3. All submissions must be typed double spaced and should be 12-point Times New Roman font.
4. All articles must include a 200-250 word abstract. Five to seven keywords may be provided at the end of the abstract.
5. Full name(s) of the author(s), along with their affiliation and email address, may be typed at the beginning of the article.
6. Headings and sub-headings of different sections should be clearly indicated.
7. Submissions must be uploaded to **http://islamicinsight.in** as Word document.

Style of referencing:

1. Papers should follow the in-text parenthetical citation style of the *Publication Manual of the American Psychological Association* (APA).
2. Endnotes may be given along with in-text citation to supplement the paper with extra information.
3. References should be alphabetically ordered.

APA citation examples:

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a) Single author(in-text):Fakhry (1983)

Single author (parenthetical format): (Fakhry, 1983) (Fakhry, 1983, p. 13) (Fakhry, 1983, pp. 13-18)

Reference: Fakhry, Majid. (1983). *A history of Islamic philosophy*. New York: Columbia University Press.

Multiple authors (first citation in-text): Hair, Black, Babin, and Anderson (2010)

Multiple authors (first citation in parenthetical): (Hair, Black, Babin, & Anderson, 2010)

Multiple authors in-text and parenthetical formats in subsequent citations: Hair et al. (2010) (Hair et al., 2010)

Reference: Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariatedata analysis: A global perspective* (7th Ed.). Upper Saddle River, N.J.: Pearson Education.

Journal:

In-text: Jacoby (1994)

Reference: Jacoby, W.G. (1994). Public attitudes toward government spending. *American Journal of Political Science*, *38*(2), 336-361.

Chapter in a book:

In-text: Dar (1963)

Reference:Dar, B.A. (1963). Ethical teachings of the *Qur'an*. In M.M.Sharif (Ed.), *A history of Muslim philosophy*. Weisbaden: Otto Harrassowitz.

Qur an:

In-text :(i) direct quotation, write as 114:5

(ii) Indirect quotation, write as *Qur'an*, 114:5

Reference: *The glorious Qur'an*. Translation and commentary by A. Yusuf Ali (1977). US: American Trust Publications.

Arabic transliteration guideline

Transliteration of Arabic letters

ب =	**B**	ذ=	**dh**	ط=	**ṭ**	ل=	**l**
ت=	**T**	ر=	**r**	ظ=	**ẓ**	م=	**m**
ث=	**TH**	ز=	**z**	ع=		ن=	**n**
ج=	**J**	س=	**s**	غ=	**gh**	و=	**w**
ح=	**ḥ**	ش=	**sh**	ف=	**f**	ه=	**h**
خ=	**KH**	ص=	**ṣ**	ق=	**q**	ي=	**y**
د=	**D**	ض=	**ḍ**	ك=	**k**	ء=	
Arabic Short Vowel		اَ=	**a**	إ=	**I**	أُ=	**U**
Arabic Long Vowel		آ=	**ā**	إي=	**ī**	أو=	**ū**
Arabic Double Vowel				أو =	**aw**	أي =	**ai**

Note on transliteration

a) Transliteration refers to the representation of Arabic writing by using the Roman alphabet. Some Arabic letters have direct equivalent. Therefore, they need not to be transliterated. For instance, 'ب' is represented by 'b'. But some other letters have no direct equivalents in the normal Roman alphabet. Therefore, a number of special characters have been created for the purposes of transliterating such letters, such as 'Ṣ' for the Arabic letter 'ص'.

b) Transliteration has to be done with Unicode system. Unicode is a system provided in Microsoft word to facilitate transliteration system. In this system, each such letter is represented by an alpha numeric character which helps the writer to select and insert the letter from '*symbols*' in '*insert*' to the word file. For more details: *http://islamicinsight.in.*

c) Some examples of transliteration are given below:

كَتَبَ	*Kataba*	Verb is italicised
كَوَّنَ	*kawwana*	Verb is italicised
أَخَّرَ	*akhkhara*	Verb is italicised
كَاتِبٌ	*Kātib*	Agent noun is italicised
مَرْءَةٌ	*mar ah*	Common noun is italicised
القَاهِرَة	Al-Qāhirah	Place is not italicised
المدينة المنورة	Al-Madīnah al-Munawwarah	Place is not italicised
إحياء علوم الدين	*Iḥyā Ulūm al-Dīn*	Book's name italicised
محمد بن إدريس الشافعيّ	Muḥammad ibn Idrīs al-Shāfi ī	Person's name not italicised
من يرد الله به خيرا يفقهه في الدين	*Man yurid Allāhu bihi khairan yufaqqihhu fī al-Dīn*	Phrase is italicised
الْعِلْمُ بِلَا عَمَلٍ كَالشَّجَرِ بِلَا ثَمَرٍ	*Al- ilmu bilā amalin ka al-shajari bilā thamarin*	Phrase is italicised
بسم الله/لله/والله	*Bismillāh/lillāh/wallāh*	Such combinations with Allah are written as single words
عبد الله/كلام الله/ خشية الله	Abd Allāh/*kalām Allāh*/*khashyat Allāh*	Such combinations with Allah are written separately

Managing Editor

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