

**UNDP MICROFINANCE
ASSESSMENT REPORT
FOR
Bahrain**

[Prepared as a component of the MicroStart Feasibility Mission]

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A. *Overview*

Located 20 miles off the eastern industrial province of Saudi Arabia, Bahrain's 36 island archipelago lays in the centre of the Arabian Gulf. The three main islands -- Bahrain (on which the capital Manama is located), Sitra, and Muharraq -- are joined by causeways, and make up about 95% of the 707 square kilometres land area. It is one of the most densely populated among the Middle East countries, with 89% of the population living in urban areas.

Bahrain's abundance of fresh water, good fishing, and the lucrative pearl trade made it a valuable stopping point in the Gulf. Prior to the discovery of oil, the people of Bahrain earned their livelihood from three main sources; pearl fishing, agriculture and trade. The first two were large employers of labour. Trade, while it did not employ many people, provided the major source of revenue to the State. There were many other smaller industries with less potential for employment; the most notable of these based on historic records were weaving and embroidery, pottery, copper work and metalsmithing, fishing, boat building, leather works, and minor agro-processing, providing goods such as herbal medicines and cosmetics. Manufacturing industries were limited and met only local demand.

Until the first quarter of the 20th century, Bahrain retained its importance as a distribution centre, helped by its strategic location and its harbour facilities. The growth of foreign trade encouraged expansion of the merchant sector, and by way of duties and tariffs on imports contributed the major part of the national budget. During the 1950s and 1960s Bahrain's economic development progressed rapidly. The boom throughout the Gulf generated by increased oil revenues, coupled with the diversification of Bahrain's economy, brought about a further revival of Bahrain's role as an important trading and finance centre.

Conscious of its limited oil resources and overall limitations as a small island nation, Bahrain was the first country in the Gulf to recognize the need for economic diversification. The government has steadily encouraged development of a diversified private sector industrial and services base, supported by the most modern infrastructure and a healthy, well-educated workforce. Recent government efforts, particularly by the Ministry for Labour and Social Affairs, have focused on increasing Bahraini participation at all levels of the workforce, and improving the growth and options for small and medium-sized business. Despite this, there are persistent pockets of need which deserve attention in order to encourage the growth of micro-enterprise and to increase opportunities for disadvantaged Bahraini citizens. There remain substantial pockets of needy families in the Bahraini economy, estimated at between 15-30% of all households, or adults supporting approximately 10-20,000 families.

The 25 village areas, so-called in Bahrain because traditionally they were rural villages and

still retain that feeling despite their emergence as urban areas in the developed state, are the locales containing the largest concentrations of needy families. The families are supported by combinations of informal sector activities, government assistance, and the traditional alms which form a substantial source of funds. Women also work informally in the production of food, pickles, and sweets. Those interviewed from these groups stated that given minimal resources, they could substantially increase their income and potential to do business. Over 50 types of activities, some traditional and some modern, have been documented. In addition, traditional savings systems exist and could be modified slightly to enable ongoing accumulation of savings, even for very needy families.

B. Political and Administrative Structure

Bahrain is an independent sovereign state which has been ruled by The Amir His Highness Shaikh Isa Bin Salman Al Khalifa since 1960. Independence from Britain occurred in August 1971. After 1973, with the enactment of a constitution, the country is run as an emirate with certain constitutional guidelines. The Amir is assisted by a cabinet of appointed ministers and a Shura Council of appointed members of the community, under the premiership of His Highness Shaikh Khalifa Bin Salman Al Khalifa. The Crown Prince and Commander in Chief of the Bahrain Defense Force is His Highness Shaikh Hamad Bin Aisa Bin Salman Al Khalifa. Bahrain's 12 towns and cities are administered by one central municipal council, with main cities having individual municipalities under the central council.

Bahrain has a long established and clearly defined commercial legal framework, with somewhat looser civil and social legislation. A complex system of courts, based on interweaving of the Sunni and Shi'a Sharia, tribal law, and British-based civil codes and regulations was set up in the early 20th century. These continue to be updated, particularly with regard to commercial legislation. The judiciary reviews laws to ensure their constitutionality, and administers the legal code.

C. Socio-Economic Situation

Bahrain is one of the Gulf's oil-producing nations. As an island nation using up an exhaustible natural resource it has practical limitations on development. From 1967, a policy of economic diversification and liberalization has been vigorously pursued, using a combination of State investment in large projects, and setting up an enabling environment for both large and small private sector companies. After a rocky period of economic performance during the 1980s, GDP has been growing at a respectable 4-plus percent in the early 1990s, falling to about 2 percent over the last two years. Inflation has been held to 3% or less for the last ten years. Current per-capita income is about \$15,500. The current economic structure includes about 12 large multinationals or parastatals, and a large number of largely family-owned and managed small and medium sized firms. The next natural step is structural integration between the two groups. More details on Bahrain's economic management can be found in the section on Host Country Strategy later in this paper.

As of 31 March 1997 there were 43,373 total businesses operating in Bahrain. According to the Commercial Registration (C.R.) figures, 38,750 of them are sole proprietorship and 4,623 are companies.

In the process of supporting economic growth, the Bahrain government has been markedly successful in providing a modern infrastructure. There is a complex and well-developed system of roads, ports, and airports, with regular traffic to a variety of destinations. The telephone and power systems are fully reliable and very efficient. This means that any location in the country can be reached easily by telephone or within one hour's drive on good roads. The sewer and water supplies are constant and infrastructure sound. One weakness is a relatively underdeveloped public transportation system.

Bahrain has universal health care and education. It is estimated that illiteracy is 24% among women vs 11% among men (1991 Census); however, there have been clear efforts to provide equal opportunities in recent years, particularly at the primary and secondary levels. The levels of child mortality and lifespan compare with those of mature developed nations.

The 1991 Census revealed that 60% of the workforce and 36% of the total population were non-Bahraini. The Census showed that of the labour force, 78% were actively employed, leaving approximately 13,400 Bahraini and 1,000 non-Bahraini unemployed.

The population growth rate is approximately 3.6%, down from 4.7% during the heyday of foreign worker inflows of the early 1970s. The growth rate reflects an influx of foreign workers, inflating the natural growth figures. Bahraini citizen population growth rates are declining, with the average number of children per woman down from 5.7 in 1989 to 3.5

in 1994. However, the 1991 Census showed that 41% of the population is under the age of 15, and another 28% are under the age of 30. This is a very youthful population, and with a life expectancy of 74 years, *increasing employment pressure on the system can be expected over time.*

Despite the ongoing economic diversification, much of it has been very capital-intensive, not creating many new jobs. The 1980s were particularly difficult, as the economy started a wrenching transition process which only now shows signs of abating. There remain substantial pockets of needy families in the Bahraini economy, estimated at between 15-30% of all households¹, or adults supporting approximately 10-20,000 families. This can be assigned to the following factors:

* Structural dislocation, as the economy's new orientation and needs do not jibe with Bahraini citizens' skills or experience, requiring use of international expatriate staff in some cases, particularly in middle management and strategic planning.

* Personal perspectives on appropriate employment: It has been mentioned both in interviews and the literature that youth will not consider employment outside their perceived area of training or skills, expecting the extended family and society to maintain them instead. This appears to be changing, especially in the last four years;

* Social and cultural restrictions regarding women's education, skills, and mobility. While this is more open in Bahrain than in the rest of its GCC neighbors and much has been done to change these circumstances, there are still demonstrable differentials between women and men with regard to education, employment, wage rates, and access to credit; and

* Existence of vulnerable groups, including the disabled and the aged, who cannot work.

The 25 village areas, so-called in Bahrain because traditionally they were rural villages and still retain that feeling despite their emergence as urban areas in the developed state, are the locales containing the largest concentrations of needy families. The families are supported by combinations of informal sector activities, government assistance, and the traditional alms which form a substantial source of funds. Women also work informally in the production of food, pickles, and sweets.

¹ Lower end sourced from Bakir, Qiyas al-Fuqr fi Duwal Gharbi, Assia, 1995; higher end derived from Fakhro, M.A., Poverty in the Arab World, in Preventing and Eradicating Poverty, Damascus, Syria, February 1996. Data, though collected very effectively and in great detail on each family by both the Bahraini Government and local philanthropic organizations, has never been collated or analyzed to the knowledge of this author. Informal estimates place the poverty line for a family of six at BD 300 per month. In 1996, the Ministry of Labour and Social Affairs provided financial assistance to 10,353 families; they have criteria which could be used to define needy families.

D. Economic Development Strategy

Conscious of its limited oil resources, Bahrain has recognized the need for economic diversification. The government has steadily encouraged development of a diversified private sector industrial and services base, supported by the most modern infrastructure and a healthy, well-educated workforce. Recent government efforts, particularly by the Ministry for Labour and Social Affairs, have focused on increasing Bahraini participation at all levels of the workforce, and improving the growth and options for small and medium-sized business. Despite this, there are persistent pockets of need which deserve attention in order to encourage the growth of micro-enterprise and to increase opportunities for disadvantaged Bahraini citizens.

Monetary management

Macro-economic competence is particularly apparent in monetary management. The fully convertible currency has been fixed at US\$2.66 to the Bahraini dinar (made up of 1000 fils) since 1986, linking it to fixed exchanges with its GCC partners sharing this practice. The Bahrain Monetary Authority has held the country to an inflation rate of less than 3% for many years, thus encouraging stability and fair spreads in the market-determined interest rates. There have been no bank failures.

Interest rates were partially decontrolled in 1988 and fully decontrolled in 1994. Current weighted average savings rates (Treasury bill rates) are at about 4.95%, and the weighted average lending rate is about 9.9% with a weighted average consumer rate of 12.6%. The former rate disguises a large differential between commercial lending, which is running at close to 9% and forms the vast majority of loan portfolios, and small personal lending, which has been growing very rapidly in volume, and for which interest is running at between 15-17% per annum and rising. The average margin is about 5.2%. Much of the increase in interest rates is due to rising perceptions of risk, as there is no credit bureau system (information sharing on clients between banks is illegal), while market knowledge indicates that many individuals are becoming over-indebted.

Fiscal management, government policy, and the 1997/1998 Budget

The country is a full GCC member and works actively towards economic integration with the other members. Bahrain is a part of OAPEC but not of OPEC. Bahrain imposes no price controls with the exception of a few essential basic foodstuffs and petroleum products.

Bahrain's budget periods span two years to avoid the swings associated with variable revenues from non-direct tax sources.

The dramatic fall in oil prices in 1986 forced the government to seek ways to counter the adverse effect of declining oil prices on government revenues. For this and other reasons, the government's ability to finance economic growth has diminished.

Support to small and micro-enterprises

A 1989 study of enterprises noted that the economy is shaped largely of 10-12 multinationals, and about 400 small, family-dominated businesses in the food, clothing, packaging, household furniture, and building materials areas, with few linkages between them and a critical need for development of smaller business. The local commercial sector is not very strong.

Recognizing the crucial need to increase employment and provide a stronger local economy, the Bahrain government has taken a pro-small business stance. The Ministry of Labor and Social Affairs, has proven to be committed and active in this regard. It has commenced setting up better employment data and skills classification systems, provided a training center for garment workers for that industry, and is establishing competence and market-demand-based skills training services in response to private sector requests. The Hamad Social Center is engaged in internationally-innovative pairing with the private sector to provide training services and market products, after doing market analysis and training women in hairdressing and tailoring, with computer operations training due to start. The Bahrain Development Bank has been set up to provide investment capital to new business starts. Discussions are under way to improve and streamline business licensing.

Work remains to be done in business networking for technology transfer, joint investment, and deal-making nationally and internationally, in subcontracting facilitation, in tying government tenders more closely to local firms where reasonable, in identification of competitive Bahraini trade goods and services and their international promotion, and in training of middle managers, particularly in strategic planning. On the micro-enterprise side, appropriate technical skills training needs to be offered, particularly in basic business operations and accounts, supplemented by easier cottage industry business registration, provision of information on economic trends and options, and ease of rules regarding employee benefits for pieceworkers. Documentation, market assessment, and revival of certain traditional handicrafts, as well as modernizing them using traditional patterns and skills, might well prove profitable. Opening of the social centres for longer hours to increase their contact and work with the private sector is critical.

The Social Centres

These were founded by the Ministry of Labour as centres providing services and developmental programmes to needy Bahraini in their local communities. During the first 5 - year plan (1978 -1982) seven centres were founded in different geographical locations (Manama, Muharraq, Isa Town, Rifaa, Sitra, Hamad Town and Arad). The centres are

open in the mornings, and provide services largely to women and youth from disadvantaged families. They involve community leaders, who are women, in their planning and community involvement. International models of public-private linkages exist in these centres in order to support families to become self-sufficient productive members of their communities, particularly the centre in Hamad. The social centres have a unique role in Bahraini society, and a key responsibility in any delivery of services to needy families. Their objectives are to:

1. Provide social and developmental services to a wider sector of the population.
2. Develop the local community through the study of human resources and the direction of the individuals to the various training programmes to improve capacity and efficiency.
3. Study and improve traditional craftsmanship in the environment.
4. Operate global family enlightenment programmes.
5. Determine training needs and implement qualifying programmes in order to create job opportunities for the local communities.
6. Study the local environment to identify social problems and their causes.
7. Coordinate between the official and local authorities in order to solve social problems.
8. Preserve Bahraini industries and heritage through "Producing Families Project".

The centres' activities have included the following activities, which support needy households:

Tailoring and Needlework: This activity started in 1975. The duration of this course is 9 months, with an official certificate granted on completion. This qualifies the participant for a job in the ready-made clothes factories or as a tailor. The annual beneficiaries of such programmes are estimated to be 450-500. As of 1995 the number of trainees were 8,815 of whom 6,194 graduated. No follow up on graduate employment has been done.

Craftsmanship: This course started in 1981. The duration is 4 months. Training concentrates on hand work and traditional professions suitable to at-home production. The annual beneficiaries are estimated at 350-400. The number of trainees was 1,840 through 1995.

Production Unit: Graduates of the Tailoring and Needlework course from low income families benefit from this scheme. The objective is to find them suitable jobs in the centres, to supply products to the local market. There are four units in the centres, employing 38 women who supply various clothing to seasonal and foreign exhibitions, as well as to schools.

Local Community Leaders: This is a semi-voluntary activity to promote participation in field work. The graduates of the six month course form the linkage between the centres and the local needy families for both social and health services. They work under the

supervision of the centres' supervisors and specialists. At present there are 28 of them working in the various areas of the country.

The Producing Families: The objective is to train low income families to produce goods, so that they change from needy families relying on monthly financial assistance from the Ministry of Labour to producing families relying on their own resources. The products are marketed in the local exhibitions in which the Ministry participates, or in the Social Centres. The number of families which benefited from this programme between 1978 and 1986 is 737.

Enlightenment and Family Development: In accordance with the achievement of family social development and enlightenment, the centres provide such programmes to their graduates and families in local communities. Training is conducted by the social specialists in coordination with the official authorities and NGOs.

Morning Classes for Adults: This is done in cooperation and coordination with the Adult Education Department at the Ministry of Education. The classes are open in a number of the social centres. The annual beneficiaries are 18 - 30. The total number of graduates since the inception of these classes in 1986 was 812 as of December 1995.

Monthly Assistance Reviews: The social specialists at the Centres study the cases of families applying for monthly financial assistance. The entitlements are distributed once every two months at the Centres. The number of these families is currently 10,353, receiving assistance of up to BD 48 per month on a two-monthly distribution basis.

Skills Training Programmes:

- Summer courses for Government girls' school students
- Hair dressing and make-up
- Physical education (stamina drills)
- Civil defence
- First aid
- Flower handling
- Nutrition and cookery
- Computer training
- Photography

Seasonal Exhibitions and Social Celebrations: This is normally organized during Eids (Feasts) and other occasions. The products are made by the producing families and the hand craftsmanship centres. Various festival markets are also run during national and social occasions.

Childhood Services: The seven social centres have nursery schools. They are under the supervision of the NGOs in Bahrain. They serve the working mothers and some of the limited income families. The annual number of the registered children is 750 - 800.

Operation of these services enables a number of women who otherwise would be unable to work to enter the labour force and help support their households.

E. Cultural Context: Status of Women

The status of women is always a matter for concern, because worldwide they are the most economically marginalized, particularly when they are heads of households. Bahrain's constitution ensures the right to work and to choose their occupational activities for both men and women. Bahraini women participate in the economy, although to a lesser degree than that of men. Women's labor force participation has increased to just over 20%, following improvements in their relative educational status and changes in social values. Bahraini women make just over 77% of a male income in comparable work. They own their own resources, and control them and any income arising from them, both by tradition and religious dictate.

In 1981 45% of working women were married. In 1991 the percentage increased to 60%. This indicates that women's contribution to family income is increasing. The vast majority of women work in the Government sector (82% as of 1991), while 9% work in the banking and insurance sector. Among teachers 56% are women, and in the health sectors they represent 23% of staff. Only 8% of management-related posts are occupied by women, while 31% work in clerical jobs. Only 0.6% of women are in industry, and 2% in engineering. The differentials will persist, if based on educational participation: girls represent the majority in arts and sciences, while they are by far in the minority in vocational education, religion, medicine, engineering, information technology, or hotel services.

F. Finance and Banking

Banking in a formal sense but rudimentary form started in Bahrain when a branch of the Eastern Bank was opened in 1921. This was followed by the appearance of the British Bank of the Middle East in 1944, the National Bank of Bahrain in 1957 and the Arab Bank Limited in 1960. In 1965 the Bahraini dinar was introduced to replace the Gulf rupee. As the tempo of economic activity gathered momentum, the number of banks increased, which led to the creation of the Bahrain Monetary Agency in 1973. The exchange rate has been fixed at US\$2.66 to the Bahraini dinar since 1986.

Offshore banking was approved in 1975, and has been growing ever since. Currently, there are 19 full commercial banks, 45 offshore banks, 23 investment banks, 11 Islamic banks, 2 specialized banks, 38 representative offices, 25 foreign exchanges, and 20 insurance companies. As of end-December 1996, the aggregate assets of the offshore banking units alone were \$66.9 billion. In 1996, fourteen additional banking licences were issued to existing and new institutions, which is indicative of Bahrain's continuing ability to attract a range of high quality banks and other financial institutions and of its standing and reputation internationally as a major financial centre.

In addition to the external banking activities, there is a comprehensive set of financial services available domestically. Most persons have bank accounts of some kind, if only because they are required in order to receive welfare payments. The middle class enjoy a wide variety of modern banking services, from credit cards through consumer or car loans and mortgages. Acceptance of post-dated cheques as financial tender has created interesting options for payments, as well as problems.

Businesses also receive a variety of short, medium, and long-term financial vehicles for lending and investment; overdrafts are nearly universal. Banks require very solid collateral along with letters of financial commitment for almost all debt instruments. The latest evidence of the deepening of the sector is the government-private sector joint venture Bahrain Development Bank, which opened in 1992 with a BD 10 million equity stake, rising by a further BD 4 million per year. Sixty percent of its equity is from the government, and forty percent from the private sector. The BDB provides investment capital of between 10,000 and 1 million Bahraini dinars to qualified formal sector green field small businesses. To date they have 74 clients receiving funds at a government-subsidized five percent per annum, and have a number in the pipeline. In addition there is a financing company, Bahrain Credit, which has provided over BD 180 million in personal loans for mortgages, cars, or consumption and had an outstanding of BD 50.8 million at the end of 1996. A housing bank and pension scheme also operate in Bahrain.

The following table summarizes the number of accounts maintained at the full commercial banks. The figures as of end October 1992 are actual from the books of BMA. The figures

as of October 1996 are estimates, assuming an increase of 3% for the private sector alone while no change is assumed in the Public Sector Accounts. The fund amounts represented are private demand deposits of BD 230.64 million, BD 864.51 million in time deposits, and BD 230.02 million in savings deposits; public sector deposits of BD 423.04 million, and foreign deposits of BD 456.89 million. The assumption enjoys the concurrence of some BMA officials, and demonstrates that many persons hold more than one account.

Banking is held to international standards in Bahrain. There is a deposit insurance scheme which covers both residents and non-residents. Legal protection exists to protect clients from banking negligence and/or fraud.

Credit Facilities

At end-September 1996, total outstanding credit facilities extended by the commercial banks to residents reached BD 941.2 million compared with BD 936.7 million at end-June 1996, an increase of BD 4.5 million or 0.5%. The distribution of outstanding credit shows that 32.2% was in the form of personally-guaranteed lending, 21.0% was directed towards the trade sector, 16.7% to construction and 12.9% to manufacturing. The number of loans or other data is not available, but is believed to indicate a very substantial level of personal indebtedness.

Total No. of Accounts
All Domestic Commercial Banks
Bahrain, as of October 1996

	No. of A/Cs	No. of A/Cs
	Actual as of 31/10/92	Estimate as of 31/10/96
Private Sector Accounts		
(a) BD Deposits		
Current Accounts	49,874	51,370
Call & Savings A/Cs	261,060	268,892
Time Deposit Accounts	11,426	11,769
(b) Foreign Currency Deposits		
Current Accounts	2,225	2,292
Call & Savings A/Cs	6,153	6,338
Time Deposit Accounts	5,371	5,532
TOTAL PRIVATE SECTOR A/Cs	336,109	346,193
Public Sector Accounts		
(a) BD Deposits		
Current Accounts	125	125
Call & Savings A/Cs	14	14
Time Deposit Accounts	19	19
(b) Foreign Currency Deposits		
Current Accounts	24	24
Call & Savings A/Cs	9	9
Time Deposit Accounts	77	77
TOTAL PUBLIC SECTOR	340	340
GRAND TOTAL	336,449	346,533

Source: BMA.

G. *Overview of Microfinance and Traditional Lending Practices*

There are currently no microfinance services available to people in Bahrain. This is possible because a complex web of NGOs and family/community relationships provides welfare services to those who need funds for survival or social obligations. However, the assistance is largely for consumption, and only very rarely are there resources made available for business investment by needy households. Fear of risk -- which is exacerbated because there is no history of activities which can be continued through generations, due to the structural transition of the economy -- is very strong, and more justified than for many micro-enterprise starts in other countries.

There are four historic microfinance service mechanisms which are worthy of note. First, there were traditional Islamic loans (*el khardal hasan*), made to family or community members on face value, payable as agreed but with no interest or penalties, and renegotiable between the two parties.

Business loans, or merchant lending, is another tradition. The modern-day version of this allows a lender to buy an asset for a borrower, add profit on top, then resell the asset immediately to the borrower with an agreed repayment rate based on the final price.

Third, the pearl fishing captains traditionally lent money to their divers just before departing on a sea voyage to gather pearls, so the divers could leave money with their families before departing on the months-long journey. The loans were to be repaid by the divers' share of the proceeds from sales of pearls gathered on the journey. Regrettably, the mechanisms for pearl sales and shares were not transparent, and many divers found themselves -- and their sons -- permanently indebted to specific captains. Therefore, loans were associated with economic exploitation in many ways.

Finally, there is a tradition of rotating savings called a *jemaiya*, which is still in common use today. This is a group of 12 persons or less who meet monthly and contribute a set amount (i.e. BD 10), with each member able to collect the entire pot (i.e. BD 120) once based on a rotation established by drawing marked slips from a jar, or they agree on an order unanimously. In an interesting variation, a member can pay two contribution-values (e.g. BD 20 in the example) and take two "turns" over the cycle. Funds are used for social purposes or consumption, although sometimes these are set up for support of an individual purpose, such as helping a friend or relative to pay some cost up-front. This system is still in very regular use even among the poor, and especially in extended family groups and in offices.

H. Development Strategy and Overview

Bahrain's UNDP program, as of 1996, is fully funded by the Bahrain government as per Decision 8516 of the UNDP Governing Council. The agreed Country Cooperation Framework for the 6th cycle which will go forward from 1998 through 2001 is based on human resource development, economic diversification, and environmental protection and regeneration.

Existing programs are in the strengthening of the Ministry of Labour and Social Affairs, the setup of the foundations for a labour and employment policy development and implementation, and labour market information system and services; establish a garment industry training facility at the Bahrain Training Institute; provide assistance to industry on Total Quality Management and ISO 9000 series implementation; and, in fisheries, strengthening the National Mariculture Centre and its abilities in fish/shrimp feed and disease issues, cages, and extension of appropriate aquaculture technologies through the Ministry of Public Works and Agriculture.

Regional projects are being funded for sustainable human development seminars and overall development of strategies; GCC trade and the implications of the WTO and latest GATT agreements; improvement of intellectual property rights; an umbrella regional training and consultancy project to support sustainable human development; gender statistics development; and renewable energy applications.

I. Demand for Microfinance

In Bahrain, the situation creating needy families is structural. Education and experience don't match people to emergent business, and there have been insufficient funds for unsecured credit. This is normal in rapidly growing societies -- it exists throughout the Arab world, and in places like Singapore and Hong Kong as well.

There is currently no official poverty line. However, a good proxy for this is government or NGO determination that a family needs additional funds in order to meet basic household needs. Over 10,000 families are receiving government income assistance, and a 1996 study indicated over 17,500 families are provided with income assistance from NGOs. (There is dual coverage, but the extent is unknown.) In addition, there are families which do not ask for assistance, instead receiving it fully privately or not at all. External estimates are that up to 30% of the population could be needy, or up to 114,000 persons.

Access to funds to start micro-enterprises in Bahrain is virtually non-existent. It cannot be borrowed because the financial system is set up along traditional lines of collateral and guarantees, in addition to which there are largely minimum loan sizes of BD 1,000 on borrowing from banks. It is not socially acceptable to either receive donations or borrow from others to start such an activity. Social contributions are to be used solely for food, clothing, or shelter -- not for enterprise creation.

Despite this, there has been in recent years a re-emergence of home-based activities which fell away during the heyday of oil investment. Micro-enterprises such as corner fish-selling, washing cars, preparing traditional sweets (halwah), and beauty treatments are examples of activities which individuals have started in order to earn income for their households. Reviews determined that the key limitation for these businesses is initial investment capital, followed by working capital. Potential clients interviewed listed handicrafts, ceramics, embroidery, knitting, photography of weddings, construction equipment, carpentry, tourist activities, computer repair, selling of spare parts, production of sweets, beauty salon operation, cold stores, and traditional herbal/cosmetic shops as examples of activities they would undertake if they had sufficient startup capital.

Bahrain is an emergent economy, and it is perceived (and interviews confirmed) that there is substantial unmet demand for a variety of these and additional services, which local micro-entrepreneurs could meet if they had access to investment funds. Traditional artisan skills such as embroidery, metalworking, and ceramics have not yet been lost, and with minor updating and marketing they could provide a significant option for micro-

enterprises. In addition, there is very significant scope for services such as computer inputting in Arabic, garment production, and food production which could be subcontracted to micro-entrepreneurs.

The government has stated its commitment to strengthen small business activity in Bahrain in order to encourage increased Bahraini employment, create linkages throughout the economy, and largely eradicate need. They have followed this up by working on the improvement of training services at all levels, continued opening and deepening of the overall economy, and development of employment information, connecting this with education priorities. The Ministry of Labour and Social Services in particular has led the way in improving the employment and welfare situations of the country.

J. Donor Interventions in Micro Finance Sector

Due to Bahrain's status, the only active donor is UNDP. The UNDP program is, as of 1996, fully funded by the Bahraini Government, with the sole exception of participation in regional Arab UNDP programs, for which UNDP funds are provided. Occasional grants assistance is provided from various specialized agencies of the UN, for example UNESCO, WHO, and UNFPA.

Funds might be able to be made available for this purpose later from sources such as the the Arab Gulf Programme for United Nations Development Organisations (AGFUND), a Saudi-based development fund which provides grants to programs supporting training, and benefiting women and children.

K. Non-Government Organizations (NGOs)

NGOs in Bahrain are governed by the Amiri Decree 21/1989. They involve a number of different types of groups: 5 women's societies, 12 social and philanthropic societies, 24 professional societies, 3 Islamic societies, 51 foreign social societies and clubs, 20 buying cooperative societies, 41 philanthropic funds, and 8 non-Islamic churches/temple societies. Those societies most relevant to micro finance in terms of their support to the needy families and/or capacity to implement such services include women's societies, social and philanthropic societies, and Islamic societies. Philanthropic funds may be able to implement, but they are smaller and much more localized.

Women's Societies

The oldest of the five was founded in 1955, and the five operate with a fairly active membership and serve over 1000 families each year with a variety of activities.

The women's societies' objectives are to improve the social and cultural standards of Bahraini women to merge them into the global development process; to fight illiteracy, ignorance and backwardness; to spread cultural, health and social enlightenment among the families of the society. They are involved with provision of financial support to some needy families.

Social and Philanthropic Societies

There are 12 social societies including the Red Crescent (1970), and Family Planning (1975). There is only one philanthropic society (Bahrain Philanthropic Society). It was first registered in 1979 and later re-registered on 2/1/91.

The objectives of social service societies include:

1. Provide social, health, in-kind and financial services to needy families and special groups
2. Spread cultural, health and social enlightenment
3. Protect motherhood and upgrade its status

Islamic Societies

The three societies are Al-Islah (Reform) which was registered in 1941, Islamic Education (1979) and the Islamic Society (1979). Their objectives include enlightenment with the traditions and laws of Islam, urging preservation of science and faith among the youth; upgrading of the educational, cultural, manners and social standards of the Muslims in general; and performing voluntary philanthropic activities to help the needy inside and outside Bahrain. The societies achieve their objectives through debates, workshops and specialized conferences; studies, researches on society, economy and health; raising money through various philanthropic activities; and family and population programmes.

Philanthropic Funds

Most of these are in the small towns and the remote villages. Their objectives are to help the needy families and upgrade their economic status; provide urgent assistance in case of emergency, catastrophe, setback or medication; support, construct and maintain mosques and enlightenment centres. The funds achieve their goals through contributions (money and in-kind) and the return on the establishment's fund investments; philanthropic fairs and exhibitions; and investment projects.

Government regulations on NGOs are clear and unambiguous, defined in the Amiri Decree of 1991. All organizations are registered under the Ministry of Labour and Social Affairs. All non-profit activities are acceptable if under the registered objectives, and such organizations can have stocks or other investments if the proceeds are used for non-profit purposes. NGOs may not accept any donations from outside Bahrain without explicit permission of the government. Independent audits and published accounts are required annually. NGOs can provide savings and lending services to their clients by approval of the Ministry with information to the BMA, provided they are non-profit in nature.

By and large, due to the emphasis of the government on accountability and the high profile of the members who financially and voluntarily support these NGOs, they are professionally run and transparent in their operations by world standards. Most of them have paid professional accounting staff, and all of them have annually audited accounts which are published. The members, who are in fact persons who provide funds and volunteer time to serve the societies' objectives and clients, provide a pool of potential talent to assist in upliftment of needy families. In addition, due to the extensive work done to review family status before they are paid grants, there is within the NGO community a wealth of knowledge about needy families, their condition and status, and hints about what is needed to assist their upliftment.

Given the Islamic basis of such charitable activities, the funding for the NGOs is secure for their long-term operation. They are completely community-based, and already have a service approach. Operations of NGOs have traditionally been fully independent of government (including financially), although the government does provide small grants to many of the NGOs. The project will enable the movement to graduate beyond traditional charity approaches to more full self-help support, and to enter into a new, first-time partnership with the government.

The suggested target client group for this program is those households who receive social assistance from either the Government or philanthropic and women's societies, or those who would be eligible but have refused or not applied for such assistance. The estimated size of this group, based on both government statistics from 1996 and the study of philanthropic societies in the same year is 10,000-20,000 families.

The government is not perceived to be a direct implementing body for microfinance.

Bahrain's government has long left provision of financial services to the private sector. However, the government's social centres, by providing non-financial services for micro-enterprise, will supply a valuable connection and support system.

L. Specific Issues

Role of the social centres. Bahrain is rightly refocusing attention on the training issues. The work going on in the Hamad centre is an example of how training can be put to good use in public-private sector partnerships. Judicious improvement of the skills training programs to meet the markets, along with provision of very basic business record keeping and management training, will be vital to expand the potential of these businesses to be successful. This means using the social centres in afternoons and making them generally more supportive of self-help. This may mean reviewing, revising, and reinforcing the Ministry's commitment to the centres and their operations. It may also mean allowing them to generate income and retain it for programme development purposes. In addition, the social centres may have a key role to play as providers of non-financial services, and their relationships with the NGOs should be close.

Business licenses. Many businesses are operating informally in homes now. The current official stance of the government is that all businesses must operate in an independent commercial site, and have a commercial license (which costs BD 400 per year.) The government may, as a part of this project, provide a new form of license, called a "cottage industry licence", available to these loanees and only if they are Bahraini citizens operating businesses from home with a capital base of under BD 10,000. This would greatly facilitate the development of these micro-enterprises, and be more culturally acceptable for women entrepreneurs.

Islamic lending. In this country it may be most appropriate to ensure that micro credit programs are acceptable from an Islamic precept.

NGO role and grants. The implementation is being placed in NGOs, and they will both hire staff for this purpose and be very involved in both startup and implementation. The financial support under the micro-capital grants component will be provided by the Government of Bahrain, and will provide the recipient organizations with additional capital finance for on-lending purposes to their clients under the program by early 1998. In practice, it means that these become revolving capital bases for the NGO programs. The BMA assures us that since this is non-profit, they will just need to be informed of the program by the Minister for Labour and Social Affairs.

The NGOs from the beginning will be intensively trained and supported by a combination of international technical assistance and locally-developed technical support, which will be funded in full by UNDP.

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N. Abbreviations and Acronyms, Currency Equivs, Government Fiscal Year

A/C	Accounts
AGFUND	.....	Arab and Gulf Fund
BCFC	.....	Bahrain Credit and Finance Company
BD	.....	Bahraini Dinars
BDB	.....	Bahrain Development Bank
BFA	.....	Bureau for Finance and Administration (of UNDP)
BMA	.....	Bahrain Monetary Authority
bpd	.....	Barrels per day
BPPS	.....	Bureau for Policy and Programme Support (of UNDP)
BRI	.....	Bank Rakyat Indonesia
cf	.....	cubic feet per day
CGAP	.....	Consultative Group to Assist the Poorest
CR	.....	Commercial Registration
GATT	.....	General Agreement on Tariffs and Trade
GCC	.....	Gulf Cooperation Council
GDP	.....	Gross Domestic Product
GOB	.....	Government of Bahrain
GOSI	.....	General Organization for Social Insurance
HRD	.....	Human Resource Development
NGO	.....	Non-Government Organization
OA	.....	Office of the Administrator (of UNDP)
OAPEC	.....	Organization of Arab Petroleum Exporting Countries
OPEC	.....	Organization of Petroleum Exporting Countries
PMOC	.....	Programme Management and Oversight Committee (of UNDP)
PSDP	.....	Private Sector Development Programme (of UNDP)
RBAS	.....	Regional Bureau for Arab States (of UNDP)
SCF	.....	Save the Children Fund
TRAC	.....	Target for resource assignments from the core (UNDP funding term)
UNESCO	.....	United Nations Education, Science, and Culture Organization (part of UN)
UNCDF	.....	United Nations Capital Development Fund (part of the UN system)
UNDP	.....	United Nations Development Programme (multi-lateral agency)
UNIFEM	.....	United Nations gender agency (part of the UN system)
US	.....	United States
WHO	.....	World Health Organization (part of UN system)
WTO	.....	World Trade Organization

Currency Equivalent: US\$2.66 = 1 Bahraini Dinar, fixed since 1986. There is no official poverty line or poverty indicators in Bahrain. The Government Fiscal Year is January 1 through December 31.