



EXECUTIVE SUMMARY

Microfinance

Market Research Bahrain

Conducted by: PlaNNet Finance Egypt
Survey Period: October– December 2010
Survey Area: 5 governorates - Bahrain
Sample: Total 502 of which 295 active clients and 207 non-clients
Methodology: Impact-Knowledge-Market (IKM)

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Executive Summary

Research objectives and methodologies

The Kingdom of Bahrain, understanding the necessity of economic diversification away from its finite oil resources and suffering from chronic unemployment, was the first GCC country in the region to introduce microfinance. Bahrain did so through the MicroStart program launched in 1998. More than 2,000 low-income entrepreneurs have been able to receive support through this program.

Despite progress since the inception of the MicroStart program, microfinance in the country has yet to realize its potential. The market for microfinance services is underserved in Bahrain with only 3,617 clients. There are currently four institutions which provide microfinance services; two NGOs running microfinance programs and two microfinance banks.

With the goal of enhancing the microfinance sector in Bahrain, the United Nations Development Program has contracted Planet Finance to conduct a market study to assess the microfinance industry.

The study was conducted to establish what microfinance institutions can do to improve their outreach through adapting more appropriate products, developing new ones, targeting new segments, and enhancing delivery systems. It provides qualitative and quantitative information to tailor to help MFI's gain a greater understanding of the Bahraini microfinance market, and better meet the needs of clients.

The major objectives were to 1) define the characteristics of microfinance in Bahrain, 2) assess the demand for microfinance services, 3) assess the supply environment, the policy and regulatory framework and its supporting infrastructure.

The methodology of the market survey consisted of 2 phases:

- Phase 1 included the comprehensive review of all available literature to gain a general understanding of microfinance in the Bahraini context. This was followed by 17 meetings with stakeholders to gain understanding from various perspectives in the sector. Meeting participants consisted of microfinance banks, NGOs, development organizations and governmental agencies. This also allowed the team to gain a more detailed understanding of MSME market segmentation, and paved the way for development of quantitative questionnaire, and fine tuning of the methodology.
- Phase 2 was the quantitative market study conducted in the 5 Bahraini governorates based on the Impact Knowledge Market (IKM) methodology of Planet Finance. A total of 502 structured questionnaires were administered to Bahraini microentrepreneurs: 295 clients and 207 non clients.

Summary of results

Profile of the Bahraini Microfinance clients

The study focused on young (40% under 35 years old) and female entrepreneurs (66%). The majority of respondents has completed their high school education and is married.

The respondents are engaged in various activities that range from general dealing such as handicraft, street vendors to specialized market-based services and commerce. They are experienced traders having been engaged in their business for 8 years. Men run more profitable businesses in services and commerce while women run less profitable activities such as handicraft and street vending.

The study highlighted key differences in the needs of microentrepreneurs according to their business size. Therefore, segments have been defined with the level of the business monthly sales turnover: BD 0-100; BD 101 – 500; BD 501+.

The average monthly sales turnover for microentrepreneurs is BD 535 (median BD 500) from which the net margin after expenses is on average BD 290 (median BD 200). Females run smaller business than males: 80% of small businesses with low sales turnover are females while they represent only 40% of the larger businesses.

The most frequent source of financing for the income generating activities of all respondents is self financing with 68% indicating so. Females and low sales turnover business self financed their activities more than men and high sales turnover business.

Challenges identified by microentrepreneurs

In terms of financial and legal challenges, 42% stated that sourcing money is the greatest challenge for them in their business. The next most prevalent challenge (33%) is the amount of monthly cash flow generated from the activity. Reimbursement of credit, registering the activity and maintaining financial records are the areas respondents find least challenging.

In the business and market challenges, nearly 50% identified the *number of competitors* microentrepreneurs face in their respective markets as a key challenge. Among these respondents females are found to operate in the most competitive business areas: homemade food preparation, tailoring and fashion etc. Among men, hazards in the workplace are considered a challenge by one fifth.

With respect to social issues, health challenges were stated to be a problem for nearly a quarter of respondents. Though, it is noteworthy that a significantly smaller group faced social challenges than those who face the business challenges mentioned above.

Awareness and image of credit providers

Despite Microfinance programs initiated during the last decade, micro -entrepreneurs are not very familiar with the names of Microfinance providers. One third of the non clients are not aware of any MFI and most of those with loans from an institution are unaware of the competitor institutions.

On the whole, Ri,Aya, Family Bank, and Awal are the best recognized MFIs although all three are known only by approximately 20%.

In addition to being two of the best known MFIs, Awal and Ri'Aya also have the best image among respondents based on a satisfaction in 9 areas that includes trustworthiness, prices, and proximity to clients. Overall, the level of satisfaction in all areas was high for both MFI clients and non clients.

Loan history

The survey found 64% of respondents had applied for a loan in the past and 36% had not. The most predominant reasons for not applying for a loan was not having the need, being unable to provide collateral or a guarantor, and apprehension of being unable to reimburse. Nearly one fifth also indicated they had never considered taking a loan or had unstable incomes that deterred them.

The average loan size received by respondents is BD 3290 and the average number of loans is 1.4. Clients have experience in taking loans: 82% have taken only one loan, 11% two loans and 7% three loans and more. These are taken mainly from the one of four main providers; while a handful of non clients are borrow money from family.

Loan history is quite different for the identified segments. Businesses with high sales turnover borrow more than BD 5,000 from specialized MFIs (Family Bank & Idbaa Bank), whereas businesses with lower sales turnover borrow BD 3,000 and less from NGO MFIs (Awal & Ri'Aya).

Credit demand

Overall, a majority of clients (63%) declare a desire to obtain a loan. For business owners with previous loans, the demand for renewing a loan is even higher at 68%.

The average loan size desired to be reimbursed for a duration of 5 years is approximately BD 4,200 ranging from BD 3,000 to BD 7,500 according to the business size.

Loan sizes requested by low sales turnover businesses are largely higher than their reimbursement capacity. The ratio of Reimbursement /Net profit points out that these businesses are likely poor candidates for loans of their desired size. Businesses with higher sales turnover have a greater capacity of credit reimbursement.

The amounts desired by women are significantly smaller than those desired by men. Food industry businesses as well as street and home based vendors request smaller loans than others surveyed.

The level of business, which peaks for many businesses during the month of Ramadan, dictates the amount of cash needed per month. Loans and reimbursements can be made to accommodate this.

Rationally, larger enterprises have considerably more collateral than smaller ones. The same was found for males and those running commerce & services business.

A majority (57%) would like to have a 4 months grace period and 63% of them indicated they are willing to pay for it, on average of BD 40.

Overall, 57% would use funds from a new loan to finance additional working assets; 40% to buy goods; and 29% would start a new project with loan funds, a figure indicating the amount of latent potential in the market.

However, usages of future loans are mainly related to the activity regardless of the credit experience of the business owners. Buying goods comes first for vendors (at home and in the street). Start up a new business is the second usage mentioned for Handicraft and commerce & services activities.

The study has estimated 2, 459 clients renewing their loan and 18,334 potential new clients from the total pool of 41,033 microenterprise owners based of preferences from the representative survey.

Islamic Finance demand

Islamic products are preferred by 57% of the market when prices are equal with that of conventional products. Conventional products are still preferred if there is a major price difference between the two. There is an important market for Islamic microfinance if the gaps in prices as well of the difficulties of procedures are reduced.

Money Transfer and mobile banking demand

Overall only 8% has transferred money in Bahrain and 11% abroad. Also, the use of mobile banking is quite low; circa 12% because a vast majority of respondents do not recognize a need and do not know about. The extremely high penetration of mobile usage should encourage the main providers to explore this field. Mobile banking technology represents a major opportunity for microfinance providers to increase their outreach. This is particularly true when targeting high sales turnover business segment of which 20% uses money transfers and 24% uses mobile banking.

Saving demand

The majority of respondents are active in saving money: 58% save in either formal institutions or in cash. Formal savings methods such as bank accounts (64%) or savings associations (18%) are largely used more than informal savings methods (at home 31%); This is true particularly for business with higher sales turnover. This gives evidence of the substantial potential for more formal place to save.

Primary uses for savings are emergency (63%), family (50%) and investment in the activity (44%).

The majority of business owners (58%), both those who do and do not save, are interested in saving products provided by an institution. Business with middle (63%) and high (59%) sales turnover are more interested in saving products than low sales turnover business (54%).

Safety and freedom of access are the most important factors for saving, especially for business with high sales turnover.

Insurance demand

Two thirds of the micro businesses declare having insurance. However they mainly have a car insurance. Other types of insurance are not prevalent in Bahrain.

Both Bahrainis with or without insurance have a good understanding of insurance mechanisms which is a positive indicator that micro insurance could be further promoted, particularly for health as Medical Insurance and Hospitalization Insurance are the most desired products.

Recommendations

The supply report has highlighted a number of actions that can facilitate further development of the microfinance sector in Bahrain. The focus of these actions can be:

- Developing a national strategy for microfinance and devising a unified definition for microfinance would help lay the foundations of coordinating the sector's development.
- Encouraging the creation of the national network, and linking this network with other regional and international networks.
- Establishing microfinance units within BDB and Tamkeen.
- Encouraging bank whole sale financing to NGOs.
- Providing trainings and capacity building services to the microfinance providers
 - ✓ Training and technical assistance on: product development, delivery schemes, operations, HR policies (incentives for staff), management and communication skills, strategic and business planning, delinquency management, fraud control, training of trainers, MIS, etc;
 - ✓ Study tours for microfinance providers and policy-makers to learn from the experience of other countries;
 - ✓ Build the local expertise in non-financial services and business development services to be delivered on a commercially viable basis.

Recommendations developed from the quantitative market study are as follows:

- The results of the study demonstrated the need for microfinance providers to increase their efforts in reaching out to clients through innovative marketing strategies.
An information campaign should be carried out to:
 - ✓ Increase awareness of microfinance providers to microentrepreneurs;
 - ✓ Emphasize the benefits of mobile banking in order to increase interest in the service;
 - ✓ Encourage microentrepreneurs to move their savings from home to their microfinance provider when possible.
- In order to expand their outreach and to better meet the needs of their potential clients, microfinance providers should design tailored products for these two segments identified in the study:
 - ✓ Microentrepreneurs running a business with less than BD 500 monthly sales turnover;
 - ✓ Microentrepreneurs running a business with BD 500+ monthly sales turnover.
- This survey shows there is a demand from microentrepreneurs for new products such as Islamic products, specific insurance products and savings.
 - ✓ Thus, MFIs should look to develop less costly and procedurally easier Islamic financial products.
 - ✓ MFIs should focus on a possible combination of as hospitalization/medical insurance and loan products;
 - ✓ The microfinance sector should look into effective ways to encourage the government of Bahrain to allow savings in all microfinance institutions;