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EFFECTS OF ISLAMIC BANKING CREDIT PRACTICES IN POVERTY

ALLEVIATION AMONG BAHRAIN CREDIT USERS

**A thesis submitted in partial fulfilment of the requirements for the degree of SBF in
Islamic Banking and Finance**

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The student is awarded a grade B+ in the thesis subject.

☐ Without making any changes to the thesis.

☐ After making the modifications attached with this decision.

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TABLE OF CONTENTS

Table of Contents	2
Abstract	4
CHAPTER 1: INTRODUCTION	5
1.1. Introduction	5
1.2. Research Problem.....	7
1.3 research questions	8
1.4 research objectives	8
1.5. Research Hypothesis	8
1.6. Research Significance	9
1.7. the research study setting	9
1.8. research terminology.....	12
1.9. Dissertation Structure	13
CHAPTER 2: LITERATURE REVIEW	14
2.1. introduction	14
2.2. Microfinance Revolution.....	14
2.3. Islamic Microfinance.....	15
2.4. Islamic Banking and Poverty	16
2.5. Poverty Alleviation and Islamic Banking Practices	18
2.5.1. Islamic Banking and Financial Products for Poverty Alleviation	18
2.4.2. Conventional Banks and Islamic Banking.....	20
2.4.3. View and Concept of Poverty	21
2.4.4. Islamic view of poverty	21
2.4.4. Poverty Alleviation Approaches	23
2.4.6 Poverty alleviation approaches in Islam	23
2.4.5. Poverty Alleviation and Islamic Banks.....	24
2.5. Bahrain and Islamic Banking Practices.....	26

Theoretical Framework	27
2.6. Summary of Chapter	28
Chapter three: research methodology	29
3.1 Chapter Preamble	29
3.2 DELIMITATION OF STUDY	29
3.3. Research Design	30
3.4 THE TARGET POPULATION	31
3.4.1. The Sample population	31
3.4.2 Sampling design and procedures	33
3.5 DATA COLLECTION.....	34
3.5.1 Research instrument: The questionnaire.....	35
3.5.2 Validity	35
3.5.3 Reliability.....	35
3.5.4 Pilot study	36
3.6 DATA ANALYSIS	36
3.9 ETHICAL CONSIDERATIONS	37
3.10 CONCLUSION	38
Chapter Four: Data Analysis.....	39
CHAPTER FIVE: DISCUSSION AND RECOMMENDATIONS	54
5.1 CHAPTER PREAMBLE	54
5.2 DISCUSSION OF THE RESEARCH FINDINGS.....	54
5.3. THE RESEARCH RECOMMENDATIONS	55
5.3.1 The practical benefits of the research process.	55
5.3.2 Future Research	58
References.....	59
APPENDIX I: QUESTIONNAIRE	69

ABSTRACT

The purpose of the research was to examine the effect of credit product knowledge on poverty alleviation among Bahraini Islamic bank credit product users. The research further assessed the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users. A survey questionnaire was used to collect data. The questionnaire had two sections, section 1 of the questionnaire has six questions focusing on the demographic attributes of the households, Section 2 has fifteen questions measuring the impacts of borrowing microcredit on the households, which is pertinent to the data collection of the results of microfinance applications. A sample of 370 clients was chosen to collect information to review the effectiveness of Islamic banks and Sharia credit institutes in the alleviation of poverty in Bahrain. Therefore, the research can conclude that generally when it comes to relieving poverty in Bahrain, both Islamic banking credit practices and microfinance credit initiatives influence clients. However, the Islamic bank has a slight edge over other micro finances. There is a significant statistical difference between before and after the credit is utilized among clients, with business, education, and savings all improving dramatically. Furthermore, more than half of all clients have seen advances in their business, medicine/hospital, and education. Clients profit from Islamic banking and microfinance loan initiatives in poverty reduction by spending more money on business and education, for example. Credit is mostly applied to females, and married persons, but the research found no formal education background to have a bearing. Averagely, the households were found to be small, having dependent persons changing between 0 and 4. Given these findings, the research has theoretical and practical implications for policymakers, academia and practice. The policymakers are encouraged to avail more of these micro finances to the economy and ensure that people have access to them. There is a need to look at the circumstances of people who face challenges in returning the credit finances to develop a tailor-made package for such people. The government can also look at the issue to provide guarantees and security to the banks and Microfinance lenders. The research recommends possible avenues for future research to be explored. Research on the effect of Islamic finance credit and micro finances on the development and growths of Small and Medium Enterprises in Bahraini. Future researchers can look at carrying out a qualitative study which involves this research's recommendations and evaluate the effects of these recommendations on the overall impact of Islamic Finance on poverty eradication using a qualitative approach.

Keywords:

Islamic finance, Poverty reduction, Shari'ah-compliant credit, Musharaka, Mudarabah, Zakat, Ijara

CHAPTER 1: INTRODUCTION

1.1. INTRODUCTION

Financial institutions and the services offered by them have been presented as the central aspect of the development and growth of the economy across the globe (Wajdi Dusuki, 2008). In addition, it has also been identified that financial institutions have also made significant contributions towards the alleviation of poverty while ensuring that the gap between the poor and the rich can be minimised. However, the failure of the conventional banks to do so has resulted in the growth and development of Islamic banks, which are completely based on an interest-free mode of financing (Akhter et al., 2009); however, this eventually led to some criticism due to the lack of interest in Islamic banking. With these aspects into consideration, this research has specifically focused on the effects of Islamic banking credit practices on poverty alleviation among credit users in Bahrain.

Poverty alleviation is one of the major issues which have been a topic of debate for researchers, financial experts, economists and policymakers for a series of decades (Daly & Frikha, 2017). The importance of the topic can be witnessed by its inclusion in the sustainable development agenda of both the UN and Bahrain governments. The concept of poverty alleviation through credits has also been adopted by many countries followed by the development of state-owned NGOs and microfinance institutes which continue to provide credit finances to people for helping them come out of poverty (Ewers et al., 2018). However, the debate regarding the acceptability of interest on religious grounds has also remained a matter of serious concern for Islamic states which remained a major cause for the failure of these institutes in most Islamic countries including Bahrain.

However, the concepts of Musharakah and Mudarabah which were borrowed from Islam indicate the possibility of credit provision to counterparts under an agreement of shared ownership and profits (Islamic Markets, 2021). Banks and financial institutes following these models continued to claim compliance with Islamic rules as these are based on the Islamic concepts of partnership where real profits and losses are assumed to be shared without a predefined interest rate. On the other hand, Bahrain is dealing with a high rate of unemployment as the unemployment rate of the country is around 3.6 % (World, 2017). The unemployment rate indicates the inability of the people to people to find a job to fulfilling their needs. Meanwhile, the number of Sharia's-compliant credit

institutes and banks is increasing significantly in Bahrain which is aimed to provide working capital or capital infrastructure for starting new businesses (Hossain, 2012). Meanwhile, the government is also making efforts to reduce poverty in the country as a goal of sustainable development and the government is making dedicated efforts in this regard to decrease poverty significantly (Committee, 2018; Daly & Frikha, 2017).

As far as the composition of the Sharia's banking industry of Bahrain is comprised of both public and private banks including the national bank of Bahrain (Committee, 2018). However, all of these institutes do not operate as Islamic banks rather some of these maintain Islamic window operations only along with maintenance of other types of financial transactions as well (Ahmad, 2017). The main point of consideration, here, is that these institutes are assumed to work for the alleviation of poverty in Bahrain by providing credit finances to people in easy instalments. The major differences can be witnessed in the case of credit spread, credit costs, collateral requirements and profit-sharing mechanisms. These banks may also be categorised into retail and wholesale banks based on their operations (Metawa & Almossawi, 1998). It is, however, assumed that the effectiveness of Sharia's and conventional banks differ significantly based on their effectiveness to address the issue of poverty alleviation (Ghazali et al., 2015). Moreover, it is also assumed that the willingness to avail of credit facilities by users is also heavily influenced by the Sharia's factor.

People living in both developed and developing countries have consistently faced difficulties in gaining access to financial services to secure their life cycle events and to help them in reducing their vulnerabilities to shock (Abbas et al., 2015). Not just this, it has also been identified that access to financial services are also to take advantage of business opportunities. This implies that financial services can be critically important in making a difference between continued poverty and the ways through which they can move out of poverty. Though poverty alleviation has remained one of the top priorities in Millennium Development Goals (MDGs) (United Nations, 2015), it has been identified that these goals have further shown greater importance in ensuring that these individuals are not excluded from the financial system, especially those who do not have sufficient access to formal financial services (RIWAJANTI, 2013). However, if the case of conventional microfinance services is taken into account, it can be identified that these services have failed to meet the needs and demands of the population in both developed and developing countries (ASLAM, 2014). This can be attributed to the fact that these institutions have charged

the individuals interest rate based on the amount loaned, which Muslims avoid because it is repugnant in Islam (ASLAM, 2014). This has eventually encouraged both Muslims and non-Muslims to show a greater inclination towards Islamic banks since there is no concept of interest rates and the financial services can be accessed by the population (Umar & Ahmad, 2010). However, if the case of Bahrain is specifically taken into account, it has been identified that the poverty rate in the country has continually oscillated within the range of 4 per cent during the last 6 years, which means that there is a need to examine the credit lending practices in the country as well as the behaviour of clients to identify the underlying reasons for differences in outcomes from the credit received.

1.2. RESEARCH PROBLEM

The problem statement of the current study is to review the effectiveness of Islamic banks and Sharia's credit institutes in the alleviation of poverty in Bahrain. Though, conventional banking is also providing credit services to their customers which might also be playing its role in the alleviation of poverty (Ahmad, 2017). However, the current study is focused on the segregation of conventional banks' efforts from Sharia's institutes. It is also important to consider that the role of these institutes may be judged by the responses of the people to these institutes for availing the credit finances along with the consideration of the credit services provided by these institutes (Campus, 2013). It is often claimed that Islamic banks are welcomed by Muslims considering that it is compliant with Sharia's rules which need to be tested. Meanwhile, the effect of the credit practices of these banks on the users in terms of poverty alleviation is also needed to be tested as it will allow an understanding of the importance and usefulness of the Sharia's banking system in the alleviation of poverty. Moreover, the nature of the effect and possible causes of differences between Sharia's banks and conventional banks are also needed to be assessed and interlinked during the assessment of effects on users.

Therefore, the problem statement can be phrased as:

There is no understanding of how effective has been the Islamic banks and Sharia's credit institutes been in the alleviation of poverty in Bahrain.

1.3 RESEARCH QUESTIONS

The research questions of a study are some of the most critical parts of the study which are aimed to provide a comprehensive insight into the direction of the study (Bryman & Bell, 2017). These are the questions that the ongoing study tries to answer through the research process. It provides a broader thrust of the study which may be fulfilled by using an analysis of other sub-factors. The research questions of the current study are given below.

RQ: What are the effects of Islamic banking credit practices in poverty alleviation among Bahrain credit users?

To fulfil the research question the following sub-research questions will be perused:

- a) What is the effect of credit product knowledge on poverty alleviation among Bahraini Islamic bank credit product users?
- b) What is the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users?
- c) How does the knowledge of interest rates affect poverty alleviation among Bahraini Islamic bank credit product users?

1.4 RESEARCH OBJECTIVES

The research objectives of the current study are given below;

- a) To examine the effect of credit product knowledge on poverty alleviation among Bahraini Islamic bank credit product users.
- b) To assess the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users
- c) To find out the effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users

1.5. RESEARCH HYPOTHESIS

Concerning the research question, the hypothesis that has been formulated is as follows;

- ❖ **Null Hypothesis:** Islamic banking credit practices do not have a significant impact on poverty alleviation among credit users in Bahrain
- ❖ **Alternative Hypothesis:** Islamic banking credit practices have a significantly positive impact on poverty alleviation among credit users in Bahrain

1.6. RESEARCH SIGNIFICANCE

The current study has a wide scope regarding the applicability of its research findings. It may be helpful for policymakers for making decisions regarding the use of Sharia's banks and credit institutes in the alleviation of poverty as the findings of the current study have outlined the effects of Sharia's credit institutes on the users of poverty alleviation. Meanwhile, it has helped the credit institutes as well because it highlighted the effects of their services including the effectiveness of their strategies in poverty alleviation which may be used for informing product transformation or addressing the issues through other transformations. Meanwhile, it is also important for the public for identifying the differences in banking systems along with the identification of their efficiency in reducing the poverty in the country which may help them decide to avail of credit facilities. It may also encourage academics to carry out research focusing on poverty alleviation. As far as the international importance of the study is concerned, it may be helpful for other Islamic countries and international organisations as well that have been struggling for poverty alleviation for meeting sustainable development goals. Precisely, the study will provide useful insights to a large number of institutes and individuals helping them make informed decisions.

1.7. THE RESEARCH STUDY SETTING

The Kingdom of Bahrain is an archipelago island country whose economy was traditionally affixed on its oil reserves (*Bahrain Business Magazine 2010-2020*, 2020; Initiatives & Division, 2019). As these oil reserves are drying up and as a result of a complex population structure that is characterising this country there have been of late some social disruptions that have been affecting the country (Jones, 2017). These disruptions the world over are synonymous with poverty and the country must come up with poverty mitigation strategies. In order to address poverty in any given society requires that there is first the identification of the main cradles poverty problem (Aldosari, 2016). Historically, in many societies and countries, one of the major factors triggering poverty is

the aspect of unemployment as well as underemployment (Elijah & Ogunlade, 2006). This is because poverty is correlated with the perpetual absence of a stable and constant source of income required to satisfy poverty-stricken people with their basic needs.

Thus, the bulk of the people who are submerged in the murky waters of dire poverty are those who earn very low wages (Scharfenort, 2020) that falls far short of meeting their everyday needs for their sustenance as well as those who are self-employed (Bushe, 2019; Coff et al., 2015; Dhaoui, 2018) whose income is low, irregular and very erratic. Therefore, it is very unfortunate that such people are not bestowed with the humanity veneration and dignity that is usually accorded to other people by the members of society in which the poverty-stricken reside because they live in appalling circumstances which are regarded as very unfit for the human beings to reside in.

Literature on poverty causes and solutions in the history of the world has shown that the other huge influencing factor giving rise to the issue of the poverty problem in the world is poor governance complemented by national policies which are weak to arrest the poverty challenges that will be bedevilling society (Aldosari, 2016; ASLAM, 2014). Thus, poverty from this perspective can therefore be seen as a direct creation of both the international as well as national socio-political systems. However, the Kingdom of Bahrain, over the years, has undertaken many strategies and procedures for bringing significant reduction in the poor distribution of income and poverty within the country (Alawsi, 2020; Government of Bahrain, 2020; Tabash & Dhankar, 2013). Among the important procedures, Zakat and Charity funds have played an instrumental role within the country, where the purpose of the fund has remained on increasing the awareness of the people towards the obligation of Zakat while showing the value and significance of performing it (Tabash & Dhankar, 2013). In this context, Bahrain has been working on numerous sources of alms and Zakat, so that the needs of poor families can be sufficiently met (Ahmed, 2010). Since the establishment of Zakat and charity fund, the country has helped more than 2,000 families, and this has been made possible through the collection of money from the donating bodies like banks, institutions and people, who have shown interest and willingness to pay the amount so that the poor people can be supported and facilitated. On the other hand, the Islamic banks operating within Bahrain have a prominent role in poverty alleviation, which is quite evident from the Islamic banks and their respective market share in Bahrain (Carolina, 2018).

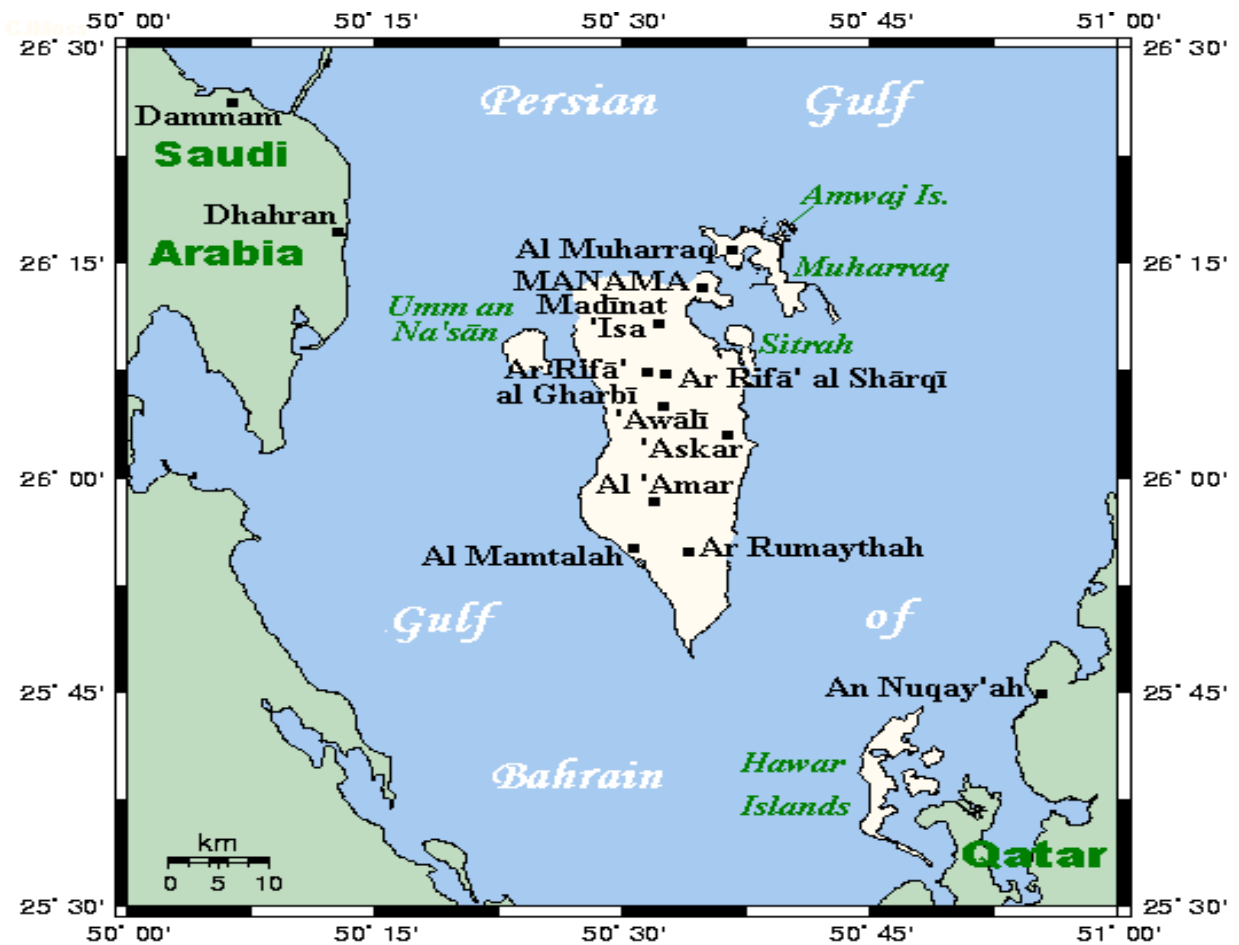


Figure 1.1: The map of the Kingdom of Bahrain.

Therefore this research explores the poverty issues in the Bahrain archipelago dissecting its causes and the proffered solutions both from the private sector and government initiated. The research is embedded in the design being adopted. In this research, quantitative design has been employed, but this design can only offer empirical results, rather than offering critical information that can only be obtained by communicating and interacting with the participants like bankers. However, it can be identified that the design has been selected in accordance with the purpose of this research, and to overcome this limitation, the researcher has ensured that the findings of this research are compared and contrasted with previously available information. This can help in identifying the similarities and differences in the findings; meanwhile, the researcher also intends to compare and contrast the findings concerning conventional banks and their role in poverty alleviation.

1.8. RESEARCH TERMINOLOGY.

- a) **Shari'ah Banks:** These are the banks who are operating in compliance with Islamic Shari'ah/teachings (Karim Ginena & Azhar Hamid, 2015)
- b) **Musharaka:** This is a type of contract in which credit is provided by a partner while expertise is provided by the counterpart on a profit and loss-sharing basis (Bhatti, 2016).
- c) **Mudarabah:** This is a type of contract in which credit, liabilities, assets, and services are provided by both of the partners on a profit and loss-sharing basis (Campus, 2013). It is an Islamic finance transaction classification where there is an agreement between 2 parties. In this agreement, one party supplies the capital while the other party to the agreement will supply the labour. This kind of arrangement tallies with the tenets of Islamic finance ideals and is in tandem with the shariah laws. It is a type of profit sharing one where the laws govern the way the split of the profit is predetermined before the establishment of the contract.
- d) **Zakat** The holy Quran book obliges all Islamic people to make some contributions of Zakat which is then used to assist the poor members of society and others who are disadvantaged in society (Hossain, 2012; Islamic Relief Worldwide, 2019; Tabash & Dhankar, 2013). Zakat is a cornerstone of Islam as it is regarded as one of the five mainstays of Islam. It is regarded as a way of worshipping Allah and it is given to those who are economically disadvantaged Muslims in Islamic societies.
- e) **Charity** The holy Quran advocates for rich Muslims to make voluntary transfers such as Awqaf which is perpetual in nature. It requires that Muslims ought to show charity deeds and munificence to their fellow underprivileged Muslims (Aldosari, 2016; Hossain, 2012).
- f) **Ijara-** This is regarded as a leasing agreement that is universally used for the determination of bankrolling the vehicles, machinery and other equipment (ASLAM, 2014; Ijara Community Development Corp, 2021).

1.9. DISSERTATION STRUCTURE

Introduction: it is the first chapter of the study which will provide an insight into the background, significance, research question and objectives of the current study for providing an insight to the reader into the purpose, direction, and theme of the study.

Literature Review: it will be the second chapter of the study which will present a systematic insight into the previous literature considering the relevance and timeliness of the previous research resources.

Research Methodology: it will be the third chapter of the study which will outline the research methods and techniques being used by the author in the current study. This chapter will enable other researchers and readers to assess the accuracy of the study depending on the methods used.

Data Analysis: it will be the fourth chapter of the study which will present the results and research findings of the current study using tables and figures as appropriate. It will also present the discussion and interpretation of the current study about the results and findings of previous research studies.

Conclusions and Recommendations: it will be the fifth chapter of the study which will outline the conclusion of the current study by summarising the findings of the current study. Moreover, it will also present a set of recommendations based on the conclusions and findings of the current study.

CHAPTER 2: LITERATURE REVIEW

2.1. INTRODUCTION

The chapter presents the literature review of the theoretical and empirical analysis of research published by previous researchers on the subject domain. It provides the theoretical précis of the research subjects separated into numerous thematic areas. It further offers an overview of the theories together with the theoretical models that are relevant to the research problem. The aim is to provide a systematic objective argument of the theoretical framework underpinning this research and successively situate a meticulous literature search strategy to locate and diagnostically condense the significant rational literature on factors contributing to poverty, Microfinance revolution, Islamic Microfinance, Islamic Banking system and poverty, Poverty Alleviation and Islamic Banking Practices and Bahrain and Islamic Banking Practices. The chapter climaxes with a thematic discussion of the research gaps identified in the literature review and the discussion is abridged and enunciated within the set parameters of the review.

2.2. MICROFINANCE REVOLUTION

Microfinance is generally defined based on the provision of financial products and services to people with low economic standing and ensures that these people are excluded from conventional financial programmes (Abdul Khalid & Kamaruddin, 2019). This includes small-scale venture capital, microcredit and savings etc., and access to these services is ensured through the provision of micro-scale services, which allows even people with severely limited financial means to participate (Fianto et al., 2018). The microfinance revolution started in the 1970s primarily in South Asia and Latin America to help poor people and families by ensuring that they would receive small loans and credit without any collateral while allowing them to build their assets and buy insurance. When identifying the purpose of microfinance, the findings of (Dhaoui, 2018) hold significant importance, as the findings identified its promise of eradicating poverty across the globe, while creating opportunities that would facilitate economic growth. On the other hand, the concept of microfinance has been referred to as the practice of offering small loans to poor people, so that they can specifically meet their particular needs and circumstances (Abduh & Jamaludin, 2017; Alam, Mustafa, et al., 2020). This has even been reflected in Islamic finance and credit practices, where it has been demonstrated that the emphasis of Islamic banking remains on risk

sharing, and in some cases offering collateral-free loans and products (S. A. Shaikh, 2018). Islamic banks and their credit practices are especially valuable for people having viable projects and ideas that are generally rejected by conventional banks and institutions because of insufficient collateral, but Islamic banks ensure that credit and loans are offered to these people based on a profit-sharing basis.

The Islamic banking and credit practices have also been presented about social solidarity (Asabiyah) emphasising group efforts in addition to individual loyalty over their self-interest (Hans Visser, 2019). In this context, it has been argued that Islamic banking and its practices have been promoted through group lending, especially for poor people, who are generally denied access to mainstream banking services in a country (Alam et al., 2019). The purpose of microfinance institutions remains on maximising the social benefits in comparison to the motives of profit-seeking. This has eventually allowed microfinance institutions the creation of institutions with sound finances, and the ability to offer efficient and effective financial services at the grassroots levels (Ullah, 2014). On the micro level, numerous services can be accessed by people like credit, savings, insurance, venture capital and remittances, especially those who have been marginalised in the formal financial sector. If the study (Gheeraert, 2014) is critically taken into account, it can be identified that the financial services provisions to the poor people have supported in aggregating the household income, in addition to economic security, while allowing them to participate in other aspects of health care, education and nutrition; thereby resulting in the stimulation of the local economies.

2.3. ISLAMIC MICROFINANCE

Islamic microfinance is based on the four principles derived from the Islamic jurisprudence (Shari'ah laws), which the majority of the scholars have agreed to form the core of modern Islamic banking and other practices (Kamaluddin et al., n.d.; Tamanni & Liu, 2017). The key principles include;

- The prohibition of interest in any banking practice
- The concept of risk sharing, where the lenders are encouraged to share losses and profits funded by the Islamic banks

- The time-value of money's calculation, while helping the people in understanding the wisdom behind 'riba' and why it is banned in Islamic banks
- The uncertainty prohibition in Islamic banks as the lack of control and information can eventually create ambiguity in an economic transaction.

The Islamic principles are adhered to and complied with in Islamic microfinance, which makes the practices of Islamic banks a socially responsible investment (Yaoyao Fan et al., 2017). In particular, it has been identified that investors are required to use their wealth the halal projects, which are intended to support and facilitate the community, and to increase the benefits in both short-term and long-term. The most prominent project is in the form of Zakat, which is a charity intended to develop the economy of the country (Abdalla, 1999). If the microfinance institutions in Islam are critically taken into account, it can be identified that these institutions are central to the economic development and growth of the majority of the societies in the 21st century, and this can be attributed to how it focuses and emphasises upon the development of human resources (Noman et al., 2015). In addition, there are numerous studies reflecting on the significant contribution of Islamic banking and its underlying practices towards the alleviation of poverty, where the intention remains on bridging the gap between the poor and the rich within the society (Abbas et al., 2015; Ibrahim, 2015; Thambiah et al., 2011). The debates, in this context, mostly centre around the interest charges, and it is commonly believed that the removal of the interest would create an imbalance between the supply and demand in the economies.

2.4. ISLAMIC BANKING AND POVERTY

Islamic banks, unlike conventional banks, offer interest-free services to the customers under which the customers can pay or withdraw the amount without any existence of interest. The interest rate prohibition has been acknowledged to be the major factor distinguishing the Islamic banking system from the conventional banking system (Ibrahim, 2015). In line with this aspect, it has also been identified that the Islamic banking system is gaining recognition across the globe because its largest beneficiary is society, as a whole. On the other hand, the three main interests identified through the development of Islamic banks include; the business interest – Islamic banks ensure that the banking practices are conducted in a competitive, healthy and sustainable manner to achieve earnings following Sharia's rules (Meslier et al., 2020). At the same time, it also takes

account of the financial authorities and the central banks in the achievement of monetary stability, followed by the financial system. The third interest remains on the macro-economic development in the Islamic banks when it comes to society and the economy (Alam, Tabash, et al., 2020). These interests of the Islamic banks and the Islamic financial institutions helped in the achievement of the monetary policy objectives of ensuring full employment concerning economic feasibility, as well as the achievement of broad-based economic growth.

The key concern associated with society and its development has been recognised to be poverty, which has been explained from different perspectives to understand the underlying causes. The first explanation is related to the inequality of the resource ownership patterns leads to the unequal distribution of income (Abdul Khalid & Kamaruddin, 2019) This is sufficiently justifiable in the case of poor people, as they have an extremely limited amount of resources in comparison to others in the society. The second explanation can be presented about the prominent difference in the human resources' quality (S. A. Shaikh, 2018) With low quality of human resources in developing countries, people are unable to make both ends meet because of their quality low; thereby affecting the level of wages being earned by them (Zaied & Maktouf, 2019). This can be further attributed to the lack of education and the discrimination because of being less fortunate. On the other hand, it has also been suggested that poverty is the result of the difficulty among people in accessing capital. Studies conducted over the years have consistently shown a strong correlation between poverty reduction and economic growth, especially in developing countries (Weill, 2019). If the cases of developing countries are specifically taken into consideration, the key reasons for poverty can be acknowledged to be the dualism (dichotomy) between the urban economy and the rural (traditional) economy, in addition to the changing economic structure (Setiawan, 2016). With poverty being a central problem in developing countries, efforts have been introduced to encourage the agricultural sector's growth in addition to the significant attention being given to group dynamics.

Poverty has consistently been acknowledged as a complex phenomenon resulting from increasing inequality and lack of growth (Gabil et al., 2020). However, Islamic banks and their practices have been instrumental in supporting poverty reduction strategies, since Islamic banking practices have not only promoted economic growth but have also ensured that the capital and resources among the people are equitably distributed. For instance, Islamic banks have been acknowledged to have

supported the economy in the creation of jobs, which results in an improved relationship with economic growth because of the reduced levels of productivity (Daly & Frikha, 2017). Not just this, these banks have been working on offering loans and credits to poor people so that they can engage in entrepreneurial ideas and projects, based on which they can socially protect themselves from poverty. This has been sufficiently proved in many studies, where it has been revealed that Islamic banks and their financial products and services have been tackling poverty through the assurance of credit facilities for the poor and businesses (Ahmed, 2010). The expansion of credit, particularly to agriculture, has been of significant importance as this directly contributes to the reduction of poverty. The importance of credit financing by banks has also been revealed to have a major role in overcoming poverty in the countries, where Islamic banks exist.

2.5. POVERTY ALLEVIATION AND ISLAMIC BANKING PRACTICES

This section looks at the varied poverty alleviation strategies and Islamic banking practices. It shall be subdivided and discussed under the subsections Islamic Banking and Financial Products for Poverty Alleviation, Conventional Banks and Islamic Banking, The View and Concept of Poverty, The Islamic view of poverty, The Poverty Alleviation Approaches, The Poverty alleviation approaches in Islam and Poverty Alleviation and Islamic Banks

2.5.1. Islamic Banking and Financial Products for Poverty Alleviation

The poverty mitigation strategies that are practised in Islam are many and one must understand that at the basic epicentre of Islam are the very tenets of emancipation and poverty eradication within the Islamic society. According to Choudhury, (1989), the Islamic perception of poverty obliteration is established on the basic principles and values that are enshrined in the holy Quran. The holy Quran prescribes that Muslims should understand and adhere to the values and keep them at heart. Such values and principles include the belief and understanding of the supremacy of One Good, the family empowerment system, and the Shuratic role among other principles (Papagapitos & Riley, 2009).

Thus, Islam believes in the upholding and preservation of moral and just principles and values that must be observed by all the Islamic people. Such principles include those aligned to the areas of

income growth, the distribution of wealth and opportunities provided to all members of the given society. Bhatti, (2016) postulates that the Islamic religion does not condone bad behaviour and this religion is the chief proponent which advocates that good behaviour must be religiously lived by all sections of society. It highly abhors greediness in the process of creating wealth by members of society. It advocates for the restrained discrete consumption comportment that benefits the personal actor as well as the entire societal economy at large (ASLAM, 2014). The holy Quran highly prescribes the necessity for all Muslims to live a standard life based on the auspices of honest living (Ajeng et al., 2015). This applies to individuals, corporates as well as the government. It states that in the practice of generating riches the country governments and business institutions alike have to try and ensure equitable distribution of resources (Aldosari, 2016).

Islamic banks have a central role in alleviating poverty within a country, which is the reason that there are numerous financial instruments constantly developed and introduced under Islamic finance principles, and adapted to modern banking (Campus, 2013; Echchabi et al., 2018). The key financing instruments have been broadly categorised into 1) profit and loss sharing (PLS) modes like Mudarabah and Musharaka (Abdalla, 1999); 2) sales-based modes like Murabaha (Ahmed, 2010; Bhatti, 2016); 3) Lease based modes like Ijara (Ijara Community Development Corp, 2021), and 4) benevolent loans or Qard-Hassan with service charges (El-Komi & Croson, 2013) In the case of **Mudarabah**, the entrepreneurs are provided with sufficient funds so that they can have the opportunity of investing in the economic activity, but the entrepreneurs are responsible to share a specific sum of profit for the financier (Huda, 2012). However, the factor that differentiates this Islamic financing mode is embedded in the fact that profit is only shared if the entrepreneur can make a profit, but in the case of losses, the capital of the financier is lost; thereby the entrepreneur is no longer responsible for share profits, as he/she has lost the time and efforts. On the other hand, **Musharaka** acts as a classical joint venture, which makes it a hybrid contract entailing the characteristics of partnership as well as Mudarabah (Harper, 1994).

The investors and the entrepreneur invest capital and managerial expertise as agreed by the parties, and they also agree upon the profits and losses of shares (Ahmed, 2010). **Murabaha** has been recognised to be a trade with markup, where the buying and reselling activities are conducted to purchase commodities as well as other related products on credit. This is typically used by banks in cases of property financing, asset financing, microfinancing, and commodity export and import

(Bhatti, 2016). There are numerous other financial instruments in Islamic banking used for transactions, but these contracts have been argued to be analogous in nature; for instance, **Ijara** is a leasing contract commonly used for financing vehicles, equipment and machinery. Similarly, other contracts have been developed for the provision of money for sales (ASLAM, 2014); for instance, the deferred delivery sale is much similar to a forward contract, where the exchange of payment occurs for the delivery of the product, but in the sports market.

2.4.2. Conventional Banks and Islamic Banking

The prohibition of interest remains the foremost factor that differentiates conventional banking practices from Islamic banking practices. Unlike conventional banks, Islamic banks offer interest-free ways of giving small loans and credits to poor people, since they require these credit and loans. In addition, Islamic banks offer investors an opportunity of being involved in products that can directly contribute to targeting poverty within the country, while ensuring that these are alleviated across the globe (Doumpos et al., 2017). From this perspective, it can be confirmed that the provision of financial services to poor people remains the priority of Islamic banks, but these are subjected to certain conditions and principles following Islamic jurisprudence (Johari et al., 2014). From a critical perspective, it can be argued that the Islamic finance industry and microfinance are represented through the practices embraced and adopted by Islamic banks, which not only offer solutions for the increased demand of helping the poor but also ensure an optimal level of combination of the socially responsible principles laid down by Islam to care for the less fortunate (Sadeq, 1997). The prominent differences between Islamic banks and conventional banks have been presented in the following table;

Table 2.1: The prominent differences between Islamic banks and conventional banks

Indicators	Islamic banks	Conventional banks
Source of fund	Zakat, savings of the clients, external and awqaf	Savings of the client, external
Financing	The Islamic mode of financing	Interest-based financing
Transfer of fund	In-kind	In cash
Target audience	Any member of the family	Women are preferred
Objective of targeting	Family empowerment	Women empowerment
Work incentive	Spiritual and material	Material
Social development programme	Religious	secular

2.4.3. View and Concept of Poverty

Poverty in the conventional approach has been defined as any individual that has a daily income less than \$1, but the nutritional aspect elaborates poverty as the ability of an individual to avail approximately 2112 kilo calories of nutrition on daily basis (Bourguignon & Chakravarty, 2019). On the contrary, the concept of poverty is different about Islam, where the poverty line is defined about Nisab (Ajeng et al., 2015). People falling below the Nisab are not responsible to pay Zakat, an amount of income dedicated to the poor. This is a universal definition of poverty in Islam and is applicable across the globe. If both the approaches are compared and contrasted, it can be identified that the concept of poverty under the conventional approach is not universal, which means that the definition and view of poverty have to be revised over time, and may not be applicable, if the case of developed countries are taken into account (Campus, 2013)

2.4.4. Islamic view of poverty

The concepts of richness and poverty have been well explored and covered by the holy Quran. The aspect of poverty is not only confined to the issue of monetary or other material deprivation of the individuals but it also straddles different aspects and extends to cover the non-physical lack although it is very difficult if it's not impossible to characterise and quantify the spiritual want or fulfilment. As a result, the world's eyes are usually focused on the sense of the economics of poverty which is easy to characterised categorise and understand. Hossain, (2012) reflected that the holy Quran prescribes that Allah did not anticipate that there will be any human being or living being that would lack anything that is fundamentally material. Under the Shariah law no single individual is prohibited from going on their errands in their quest for finding their material needs to satisfy their needs (Ghazali et al., 2015; Hossain, 2012; Richard Bishop, 2014). Everybody is empowered to go on their daily routines on the lookout for their day-to-day bread as long as that which is being sought is not forbidden under Shariah.

Islam strongly believes that as the creator of the universe, Allah is Omnipotent and omnipresent (Hossain, 2012) and therefore he has the whole enchilada that every person needs. This then gives rise to the question that many Muslims ask; That is why poverty? What is the root cause of such a traumatising worrisome phenomenon dogging the human race? What is the cause of poverty? This has not found any answers and the Islam religion argues that the phenomenon of poverty is

triggered by a multiplicity of operational features. Most Islamic people believe that poverty in its entirety is caused by sin (ASLAM, 2014; Hossain, 2012). Therefore the sinful nature of men is the chief architecture of poverty in the world and against nature (Hossain, 2012). This belief is being more compounded in this contemporary world where there are various aspects currently bedevilling the global world such as Global warming and climate change.

The aspects of Global warming and climate are a culmination of the considerable levels of destruction of the natural water bodies that have occurred over the years. This is buttressed by the droughts that have stuck it out over the recent decade and have been prompted by the maleficent obliteration of the earth's environment (Campus, 2013). The Islamic people also believe that the other cause of poverty is the high level of greediness and stinginess of humankind particularly the rich (Hossain, 2012). The well-up have been amassing wealth over decades and there are in no indication about receding they are increasingly showing a heightened penchant to amass more and more wealth. In this quest, they are not showing any indication of receding or sharing with the poor members of society the ways of amassing that wealth are getting evil by the day (Yaoyao Fan et al., 2017). Thus, ultimately the result of that is the net effect that those poor members of the society will remain very or even getting more poorer as the rich continue on their trajectory to wealth accumulation.

Therefore, as a result of this development, in the ensuing result, the poor will never get out of the paucity bracket (Huda, 2012). The Islamic understanding opines that the scourge of poverty bedevilling the human race is caused by the irregular dispersal of the political and economic social order which creates disparity and discrimination amongst those who control the reigns of power and those who have no access to influence (G Dalel, 2013). Poverty is also attributed to be caused by other catastrophes of natural occurrences such as wars. Tragedies of this nature are not selective and historically they have often turned rich people into vagabonds (S Haseeb, 2010). Such tragic events have even in extreme cases left bonafide nationalistic inhabitants of the war countries into evacuees in foreign lands. However, in whatever circumstances the holy Quranic teachings spell out the role that every person in a given society and the government should play to eliminate poverty (Alam, Tabash, et al., 2020; Ebrahimi & Mirbargkar, 2017). Individual members of society are assigned with the obligation of ensuring that they have helped those members of society in needy who are found in their proximity or community (Alam, Tabash, et al., 2020). The state

government is directed by the holy Quran to assist and help citizens of the country who are wallowing in abject destitution.

2.4.4. Poverty Alleviation Approaches

Programmes for anti-poverty have been generally categorised into two strategy areas of direct and indirect strategies. The direct strategies are more concerned with targeting the underprivileged population while ensuring that these people are provided with necessary assistance so that they can gain access to credit facilities, and can improve their health conditions as well as increase literacy rates (Ibrahim, 2015). The focus of direct strategies is ultimately towards the eradication of the poverty from the society. On the other hand, the indirect strategies are formulated about the macro-economic policies, which serve the purpose of achieving sustainable growth, followed by higher per capita income, higher employment and ultimately reducing the poverty (Daly & Frikha, 2017). The application of these strategies is quite evident from the cases of Malaysia, Indonesia and Thailand, which have been able to alleviate poverty through the application of indirect strategies. By pursuing consistent macro-economic policies, these countries experienced growth of 6 per cent and were able to experience a significant increase in the public spending levels on core areas of family planning, education, and health to name a few (Karim Ginena & Azhar Hamid, 2015). On the other hand, Bangladesh has consistently relied on direct policy application, where the collaboration between non-governmental and governmental organisations ensured the provision of numerous services for the poor population. In particular, the application of the strategy in Bangladesh helped in poor population in the country to gain access to health care, credit and educational services (Yaoyao Fan et al., 2017).

2.4.6 Poverty alleviation approaches in Islam

Many Muslim people don't use the traditional financial products and services that are provided by conventional financial institutions because there are Islamic financial institutions which are providing them with various financial products that are Sharia-compliant. Possumah, Ismail, & Shahimi, (2013) posited that the Islamic understanding of poverty extermination is centred on numerous facets pronounced in the holy Quran. The authors outlined the aspects as encompassing the supremacy of doing good things and this is said to override all things that govern one's conduct. They went further to talk about the family empowerment aspect as a critical valuable trait and this

should be regarded as a guiding force for the operations of a given society. The holy Quran prescribes that all humans should behave and spend money responsibly and not lavishly. Individual people and the state are highly encouraged to be charitable in their everyday lives. They should be seen to be practising charity work towards the need of their societies. Whenever possible Muslims are highly encouraged to offer to do voluntary services in their communities. The Holy Quran goes further to state that the Islamic people are not supposed to engage in activities that generate interest for themselves whilst impoverishing the poor. It compels Muslims to engage in the distribution of inheritance as well as engaging and practising Zakat. These aspects are categorized into groups and looked at by various authors. These include positive measures, preventive measures as well as corrective measures (Abbas et al., 2015; Alam, Miah, et al., 2020; Alam, Mustafa, et al., 2020; Bhuiyan et al., 2012; Hossain, 2012; Islamic Relief Worldwide, 2019; Johari et al., 2014; Meslier et al., 2020; I. M. Shaikh et al., 2020; Ullah, 2014).

2.4.5. Poverty Alleviation and Islamic Banks

The Islamic banks and their financial products and services have presented investors with a range of opportunities to be associated with numerous projects, which can play a significant role in not just targeting poverty, but also alleviating it to improve the standards of living and quality of life (Daher et al., 2015). In this context, Islamic financing and credit services have ensured the provision of loans and credit facilities to the poor in developed and developing nations, especially those individuals subjected to certain conditions as mentioned under the Islamic jurisprudence (Ahmed, 2010). This makes Islamic banking more suitable and successful in comparison to the conventional banking system, and the reason that many people from different faith have embraced Islamic banking as a more reliable solution for helping the poor. The key measures that are taken by Islamic banks for the alleviation of poverty are as follows;

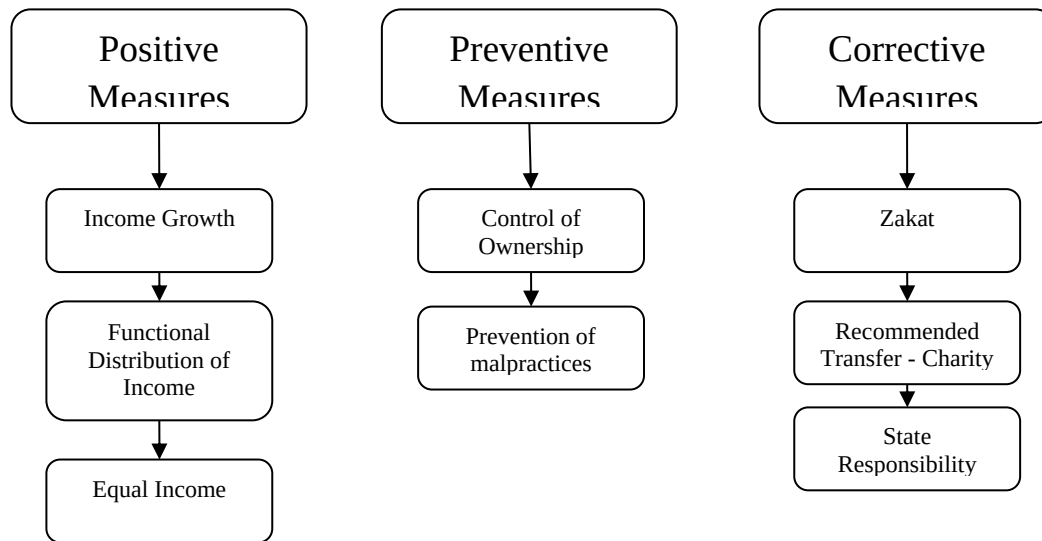


Fig 2.1:Poverty alleviation measures

2.4.5.1. Islamic Banks and Reduced Exploitation

Islamic banks operate following the Sharia's, which not only guides the practices, but also the laws about the prohibition of interest payments. It even ensures that the banks are fundamentally required to protect the less fortunate and the poor, as these banks are explicitly organised along with religious lines, which makes these banks technically respond to considering the principles of justice, during the decision-making process (Abbas et al., 2015) Even when the people running and managing the Islamic financing institutions and financial services are not saints, and that they make decisions that can benefit their institutions much similar to what western banks are interested in, but there are numerous systems in place ensuring that these banks offering justice-oriented lending (Alam, Tabash, et al., 2020). There are numerous Islamic finance institutions interested in sharing risks with the clients, where the priority remains on ensuring that the borrower succeeds (Ullah, 2014) This is achieved by having a Sharia's board that consists of scholars, who ensure that the institutions and the people working within the banks are operating in compliance with the Sharia's law (Naqvi et al., 2018). On the contrary, some Islamic banks have adopted a more direct approach to alleviating poverty, while helping people to improve their lives. One of the most prominent examples is Khazanah Nasional in Malaysia which has invested approximately \$280 million to support the people directly through renewable energy, affordable housing and other initiatives (Abidin et al., 2019; Menon, 2017).

2.4.5.2. Islamic Banks and Stability

Excessive uncertainty has been forbidden in Sharia's, which has been believed to have a central role in the resistance to mismanagement of assets and funds – the prominent factors that caused the Financial Crisis in 2008. Islamic banks and financial institutions have even been acknowledged to have outperformed conventional banks, especially during the global economic crisis, simply because of the safer investment (Thambiah et al., 2011). The relative stability of the Islamic financial institutions is the reason for stronger and greater appeal among the non-Muslims, especially after 2008 (Amin, 2013) Since riskier investments are discouraged in Islamic banks, it has resulted in greater stability, while ensuring that the most vulnerable people across the globe are protected from the predatory lending practices, as well as from the practices that resulted in the economic crisis in the first place.

Islamic banks operating across the globe have undertaken practices and policies through which poverty can be alleviated, be it in a developed or developing country. The policies of Islamic banks have potentially helped these banks in overcoming poverty by ensuring that productive sectors are invested in the rural areas (Alam, Mustafa, et al., 2020). This not only empowers the community members but also supports and facilitates them in ensuring that they have sufficient resources and interest-free capital through which they can engage in practices that can reduce poverty (Alam, Miah, et al., 2020). This may be acknowledged as the reason that Islamic finance has gained significant attention across the globe, which is evident from the asset-based bonds' value in non-Muslim countries that reached approximately \$2.25 billion in 2017. The largest Islamic finance institution – Al Rayan Bank – acknowledged that approximately a third of its customers are non-Muslim, which can be attributed to the realisation among the people that Islamic banks have the potential of reducing poverty across the globe while ensuring increased equality (Dabiri & Yusof, 2017). Since 2008, 72 per cent of Muslims in Islamic countries have relied on Islamic banks, instead of conventional banks, and approximately 40 per cent of the population agreed that conventional banks have been avoided because of the interest, which is prohibited in Islam (S. A. Shaikh, 2018)

2.5. BAHRAIN AND ISLAMIC BANKING PRACTICES

Bahrain, over the years, has undertaken many strategies and procedures for bringing significant reduction in the poor distribution of income and poverty within the country. Among the important procedures, Zakat and Charity funds have played an instrumental role within the country, where the purpose of the fund has remained on increasing the awareness of the people towards the obligation of Zakat (Bhuiyan et al., 2012) while showing the value and significance of performing it. In this context, Bahrain has been working on numerous sources of alms and Zakat, so that the needs of poor families can be sufficiently met. Since the establishment of Zakat and charity fund, the country has helped more than 2,000 families, and this has been made possible through the collection of money from the donating bodies like banks, institutions and people, who have shown interest and willingness to pay the amount so that the poor people can be supported and facilitated. On the other hand, the Islamic banks operating within Bahrain have a prominent role in poverty alleviation, which is quite evident from the Islamic banks and their respective market share in Bahrain (Islamic Relief Worldwide, 2019).

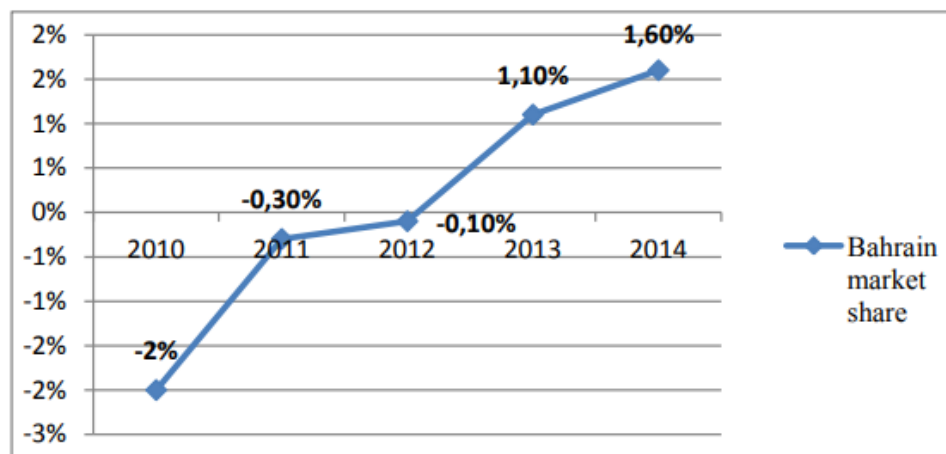


Figure 2.2: Islamic Banks and their Respective Market Share in Bahrain

THEORETICAL FRAMEWORK

The majority of the literature studied has helped in decisively explaining the emergence of microfinance institutions. This can be attributed to the micro-credits' unlawful diversion to consumption smoothing, which has been identified to be among the critical sources of credit default, especially when conventional microfinance is taken into account (Tamanni & Besar, 2019). Similarly, it has been identified that conventional banks charge generalise unreasonably

higher interest rates; thereby acting against poverty alleviation. Furthermore, it has also been identified that the higher interest rate on credit products has resulted in consistently increasing poor people into their untimely graves, which can be attributed as the result of several factors like financial incapability and greater pressure from the conventional banks to recover the amount loaned to the people (Tamanni & Besar, 2019). This has been presented as a shortcoming of a conventional bank, which made the Islamic bank to be more commonly preferred since it incorporates Islamic principles of '*Waqf*' and '*Zakat*' (Abdalla, 1999; Johari et al., 2014). With these factors included in the operational processes and practices of Islamic banks, these banks have been able to ensure that the basic consumption needs of poor people can be more effectively fulfilled while removing the pressure of repaying the loaned amount (Bitar et al., 2017). In particular, Zakat is not a repayable amount that has been integrated into the operations of Islamic banks, while being applied as a source of capital investment, in which there are no expectations related to return (Alam et al., 2019; Hossain, 2012). This can be of critical importance when poverty alleviation is taken into account, and this makes Islamic banks different from conventional banks, especially when credit products are taken into account.

2.6. SUMMARY OF THE CHAPTER

In summary, this chapter has clarified the prominent role played by Islamic microfinance institutions in alleviating poverty through broad categories of 1) profit and loss sharing (PLS) modes like Mudarabah and Musharaka; 2) sales based modes like Murabaha; 3) Lease based modes like Ijara, and 4) benevolent loans or Qard-Hassan with service charges. In addition, this chapter has also established the direct and indirect strategies, where the direct strategies were found to be more concerned with the targeting of the underprivileged population while ensuring that these people are provided with necessary assistance so that they can gain access to credit facilities, and can improve their health conditions as well as increased literacy rates. The focus of direct strategies is ultimately towards the eradication of poverty from society. On the other hand, the indirect strategies are formulated about the macro-economic policies, which serve the purpose of achieving sustainable growth, followed by higher per capita income, higher employment and ultimately reducing the poverty.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 CHAPTER PREAMBLE

The purpose of this research study is to investigate the effects of Islamic banking credit practices in poverty alleviation among Bahrain credit users. The research intends to achieve the following research objectives that are outlined below:

- a) To examine the effect of credit product knowledge on poverty alleviation among Bahraini Islamic banks' credit product users.
- b) To assess the effect of financial budgeting on poverty alleviation among Bahraini Islamic banks' credit product users
- c) To find out the effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users

Therefore this chapter describes the research methodology that underlies this research. It covers such aspects as the delineation of the study and the geographical setting of the area. It encompasses the research design approach and identifies the research target population and sampling design and procedures (Burns & The, 1998). The chapter climaxes with the data collection procedures its subsequent analysis processes and the ethical considerations. Research methodology is the glue that holds together the research design approach, the research population, the research instruments that are used to gather data as well as the data analysis and its subsequent interpretation and the ethical considerations (Kothari, 2004b). Thus, it affords both the producer and the consumer of the research to comprehend the research process enabling it to have scientific merit.

3.2 DELIMITATION OF THE STUDY

This research study will be conducted in the Kingdom of Bahrain and the research study subjects are going to be the customers of the top 5 Islamic banks offering credit loan facilities. The research will apply systematic sampling to select the participants in the research. The criteria for inclusion be those customers who are seasoned clients of the Islamic financial credit system. The research design will be a descriptive cross-sectional study design which will seek some empirical historical aspects of the Islamic financial credit system. The type of these studies can usually be conducted

comparatively faster and are economic. Research on this type of design will provide information about the prevalence of outcomes or exposures.

3.3. RESEARCH DESIGN

According to von Naso & von Naso, (2018), the research design is an intentional and deliberate process of situating the conditions for data gathering, and its analysis in a manner that intends to tie the significance of the research resolve and the frugality of the procedure. Thus, research design can be viewed as offering a comprehensive set of procedures to be trailed in the process of data collection (Annum, 2014). The purpose of developing a research design is to lay a foundation which provides the premise for answering the research questions (Pamela J. Brink & Marilyn J. Wood, 1998). Thus, it is sometimes called the blueprint for action. It is the overarching framework which lays down the strategies and procedures that are supposed to be followed by the researcher to validate the research.

There are mainly three types of research designs that are usually used by different scholars across disciplines and these comprise amongst others, explanatory research, descriptive research and casual research (Perumal, 2014; Thomas, Nelson, & Silverman, 2011; Yin, 2006). It is authoritative to have a well-structured research strategy because this augments the probabilities of attainment of valid, reliable and accurate data (Brink, 1993; Kumar, 2011). The research is based on a quantitative design, where a questionnaire has been used to gather relevant data. This data is to be obtained from bankers, which includes both conventional and Islamic banks. The use of a self-administered questionnaire can provide the researcher with data that could be used to conduct statistical tests over STATA software. The application of quantitative design is more suitable for this research, as well as for the achievement of the predefined objectives. For instance, the application of this design can help in examining the credit products' knowledge effect on poverty alleviation, which may further allow the researcher to compare and contrast the products' characteristics of Islamic banks with conventional banks regarding credit cost, speed of credit, collateral and guarantor requirements, the limit of credit relative to collateral value, and platform of availing as well as credit tenure. Similarly, the application of quantitative design can help in identifying the financial budgeting impact on poverty alleviation among the credit product users of Bahraini Islamic banks. This may not be achieved through the application of qualitative design,

since it focuses on offering in-depth insights, instead of empirical findings that are critical in this research; therefore, justifying the application of quantitative design in this research.

3.4 THE TARGET POPULATION

Burns, N ; Grove, (2001) opines that the target population is the whole total sum of the research respondents that tally with the chosen set of benchmarks for the given research. The target population of this research are all the credit consumers of the Islamic banks of Bahrain who took credit from the bank to improve themselves.

3.4.1. The Sample Population

In research, the investigators are required to select a group among the target population that is representative of that population to gather the essential information about the target population group (Gogtay, 2010; Krejcie & Morgan, 1970). That select group among the research respondents is called the research sample. Therefore the research sample is defined as a small fraction of a target population that is selected for a particular research study (Okul et al., 2010; Smith, 2015). When populating the sample from the target population due care must be taken to ensure that the sample need indubitably embodies the characteristics of the research target population that it is representing. Thus, this research study intends to collect survey data from a research sample that is representative of the target population. This research study will sample the Islamic banks in Bahrain that are credit consumers and select the research respondents from this pool.

Table 3.1: The sample size for research.

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331

65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

This was adapted from Krejcie & Morgan, (1970b) where N represent the population number and S represents the sample size.

The computation of this research sample size was done in tandem with the work of Krejcie & Morgan, (1970). The scholars designed, populated and made available a research sample table which provides a range of almost all possible samples that one can think of in terms of carrying out standard research. Thus, based on that table the researchers can merely pick a research sample size for their research based on the research population suitable for their research.

Table 3.1 which is presented hereunder was adapted from (Krejcie & Morgan, 1970) provides the actual data concerning the sample size and it is the one which was used as guidance for this research. According to Sekaran, U. and Bougie, (2010) sample sizes that are larger than 30 research respondents but less than 500 research respondents are normally used in most standard research and most cases it is a very fitting standard measure that is appropriate for most research. Hair, (1998) postulated that the research rough rule of thumb which prescribes that 200 respondents are a satisfactory sample to be able to deliver a rational and accurate survey that is usually truthful under most assumptions and parameters on which most of the research survey projects are erected. Therefore, based on table 3.1 and the literature review the sample size for this research has been chosen to be 370.

After the sample size has been determined the next stage is to propose the criteria that have to be used in the inclusion and exclusion criteria of the respondents in the research sample. The inclusion criteria specify the characteristics that the research sample members are required to possess as proposed by Fraenkel, Wallen, & Hyun, (2012). Therefore, in line with these canons, the research will include in the research only those Islamic Bank of Bahrain clients who have gotten credit finance from the bank on at least 3 occasions. The elimination characteristics for the research participants are those that characterize the research participants to the effect that if such people participate in research, the research outcome may be heavily compromised such that the research will lose integrity. The other clients of the Islamic bank will be disqualified centred on the exclusion criteria of them not having taken any credit finance at all or not having taken credit finance long enough to be able to reflect the impact if there is an on their poverty levels (Alkrajji & Eidaroos, 2016).

3.4.2 Sampling design and procedures

Researchers use the technique of sampling to carefully choose a smaller group of representative objects or people (a subset) out of a pre-defined cohort to act as participants (data source) for research or experimentation following the goals of the study (Lammers & Babbie, 2005). The majority of the time, sampling is used by researchers since it is not possible to assess the entire population. Despite being a subset, it serves as a good sample for study because it is affordable, convenient, and readily available (Etikan, 2017). However, each investigator must remember that testing every participant is the ideal situation for obtaining trustworthy, valid, and reliable data. We only ever use sampling approaches when testing every single person is not practicable. According to the principles of data and research, sampling strategies must be decided to carry out while taking into account several significant factors, including such issues as (i) the population variance, (ii) population size, (iii) research aim and objectives, (iv) the intended degree of accuracy in the outcomes, (v) the nature of the universe in the research realm, such as homogeneity or heterogeneity in the various components, (vi) the study's budgetary ramifications, among others (Singh & Masuku, 2014).

There are two different kinds of sampling procedures available for use by researchers which are the probability sampling techniques and the non-probability sampling techniques. Subsequently, the sampling category that is chosen by a researcher highly impacts the process that is supposed to be followed by the research in question. Therefore, this research will be guided by a non-probability sampling approach (Lavrakas, 2013). This is a sampling technique that by its very nature does not entail that a designated sample of the research participants of any given research is a true representative of the targeted research population or random. It however requires that there should be a clear fundamental principle that should be provided such that there will be a justification as to why certain research participants are included and why others are excluded from the research. (Taherdoost, 2018).

By its very nature non-probability sampling approach is often interrelated to the case study research design approach, thus this research will implement it because it is case study related (Lavrakas, 2013). The research is a case study of the credit clients of Islamic banks in Bahrain customers who have borrowed money from the bank on at least more than 2 occasions. Probability sampling is a technique that comprises five varied techniques of sampling and these are namely; quota sampling technique, snowball sampling, judgemental sampling or purposive sampling, modal instant sampling, accidental sampling, and expert sampling (Lammers & Babbie, 2005). Out of these five listed techniques, this research intends to adopt the convenience sampling technique, mainly because it is suitable by nature for this research (Galloway, 2004). So opportune is convenience sampling that it simply makes use of those research subjects who are the most liberally alacritous as well as easy to get to. Apart from that, convenience sampling is also frugal when compared to the other techniques hence it is highly favoured in this case (Etikan et al., 2016; Lavrakas, 2013). It enables the research to circumvent almost all of the limitations that are characteristically associated with any research process.

3.5 DATA COLLECTION

Kumar, (2011) posits that the data collection process is a universal technique of assembling research information in tandem with the purposes of the research or the research questions. This is echoed in Burns, N ; Grove, (2001) who postulated that data collection is a systematic way in which the research data is gathered in line with the research objectives or the research questions. Therefore, the data for this research is intended to be collected during the period spanning 20 to

30 March 2021. The data will be gathered by way of a structured survey questionnaire. The prospective research respondents for the research study will be sampled from the Sharia-compliant Islamic Banks in Bahrain. The research detailed information will be availed to the research respondents using the language that they are comfortable with before obtaining consent from them to participate in the research study.

3.5.1 Research instrument: The questionnaire.

Saunders, Lewis, & Thornhill, (2009) postulate that a questionnaire is a paramount technique for collecting research data specifically in cases where the survey strategy is applied and the literacy levels of the research participants are not known. The researcher designed an interview schedule with both open-ended and closed questions. The questionnaire is divided into 4 parts.

3.5.2 Validity

Rolfe, (2006) posits that research validity is the level of degree to which the research instruments are correctly aligned with what they are supposed to be measuring. Therefore in this research, the prime focus was on content validity. Kihn & Ihantola, (2015), affirms that the validity of content hinges on the level of precision of the research instruments in measuring the factors under investigation. Thus, the content validity in this research is mainly concerned with how truthfully the questionnaire is going to elicit the information being sought by the research. Thus to ensure face and content validity in this research the researcher initially gave the peers the questionnaire to examine it subjectively and objectively to gauge if the questionnaire is appropriate and clear for the research participants to answer and not ambiguous. The research instrument will also be checked by the supervisor of the research for further scrutiny and critical evaluation.

3.5.3 Reliability

The research reliability of any research is highly connected to the fastidiousness and precision of the research instrument that is used to gather the data. Kanis, (2014) opines that if the research instrument is to be applied to a similar group of research respondents in a comparable contextual setting that very instrument should yield similar results. Subject to confirmation from the research supervisor this research did carefully phrasing the questions contained therein in the questionnaire to try and avoid ambiguity issues and interfering with the research respondents' process of

answering the questions. The intention is to ensure that there is research tool reliability. The research will inform the research respondents about the purpose of the research and the need for them to respond truthfully.

3.5.4 Pilot study

Hassan, Schattner, & Mazza, (2006) opines that a pilot study is a mini-version of full-scale research. In other words, it is the trial run that is conducted before the carrying out of the actual full-scale study. According to Malmqvist, Hellberg, Möllås, Rose, & Shevlin, (2019) although a pilot study is a neglected part of the research, a judiciously prepared and well-managed pilot study usually has the prospective of raising the quality of the research as result. It enables the researcher to gauge the time to be taken to complete the questionnaire as well as check the clarity of the questionnaire items to eliminate any ambiguities or difficulties in wording (Lowe, 2019). A pilot study will be conducted to check the questionnaire for reliability and ten research respondents (N=10) will be sampled. These will have to possess comparable features to the research sample and they will not be part of the research sample.

3.6 DATA ANALYSIS

According to Cr Kothari, (2004), data analysis is a systematic process of applying statistical and/or logical techniques to the data. It involves the description and illustration as well as the abridging and summing up of the research data and evaluating it. It is an indispensable piece of guaranteeing the integrity of data is the accurate and appropriate analysis of research findings H. I. L. Brink, (1993). It involves methodically organising and synthesising the research data as well as applying the collected data to test the sanctity of the research hypotheses generated for the research. Therefore, the researcher will analyze the data from the completed surveys using the SPSS Statistical Application package to compute the data.

With its cutting-edge toolkit, Stata is a comprehensive data and analytics application programme that offers in-depth and current data analysis. (King et al., 2000). Its entire toolkit is entirely customizable and automatable as a result it is perfect for businesses and organisations that focus on statistical analysis and data. It is very useful and straddles all research in various domains like data science, social sciences, economics, biostatistics, education, finance, marketing, research, medicine, public policy, and sociology are among the other subjects for which it has specific tools (Lancsar et al., 2017). The capabilities for data exploration, manipulation, and visualisation

provided by Stata are reliable and secure. It provides practically all of the statistical models, functions, techniques, and analytics currently available, enabling users to thoroughly explore the breadths, limits, and potential of the data acquired (Cypress, 2019). Even more, users can readily share data online and create new commands.

Stata is frequently praised by scholars for being the most approachable data analysis system. In the social sciences, specifically in finance and economics, Stata is widely used and can perform almost any analytical activity you need it to, including visualisations, because it is a comprehensive, unified statistical software programme (Freeman et al., 2019). It has both a point-and-click graphical interface and an easy-to-use command prompt functionality. Additionally, it has a variant mechanism in place, allowing one to capture the syntax from several jobs into a "do-file" for subsequent use.

The two most popular techniques to use when trying to determine the mean of two or more population groupings are the ANOVA (Analysis of Variance) and the t-test (Yu et al., 2022). Even though, there exists a slight distinction between the two of these. When comparing the population averages of two categories, the t-test is used. The ANOVA test is used whenever there are 3 or so more groups, respectively and these are the analysis tools that are employed for assessing a premise that is the t-test and ANOVA. This is because they both have the following presumptions the population sample is consistently distributed uniform variation data sampling at random (Rojewski et al., 2012). The findings are distinct relative or interval levels used to evaluate the dependent variable. Because of this, the majority of people appear to interpret t-tests and Analysis of Variance incompatibly.

3.9 ETHICAL CONSIDERATIONS

Research ethics is a code of behaviour that is considered to be upright and correct (Oliver, 2010) and therefore every research must be conducted in tandem with the canons of research ethical requirements as prescribed by the research code of ethics (Lizbeth A. Adams and Timothy Callahan, 2014). In research, the domain of ethics relates to the two groups of people that are involved in research. They are those who are responsible for conducting research. The researchers are obliged to be aware of their responsibilities while the research participants have basic rights which must be observed, respected and protected (Nijhawan et al., 2013). Therefore, this research

will be conducted in sync with a high level of objectivity and integrity by ensuring that all the potential risks have been eliminated. Thus, this research intends to observe the following ethical issues right to anonymity and confidentiality, the right to privacy, justice, informed consent, beneficence and respect for persons

3.10 CONCLUSION

This chapter provided a detailed description of the research methodology, design, sampling processes and procedures to be followed by this research. It climaxed with the description of the ethical considerations.

Next is Chapter 4 which shall present the research data its analysis and interpretation of findings.

CHAPTER FOUR: DATA ANALYSIS

CHAPTER PREAMBLE

In this research, the effectiveness of Islamic banks, Sharia credit institutes, and microfinance credit implementations in the alleviation of poverty among households living in Bahrain have been investigated. A questionnaire having two sections is distributed to households to collect the data. While Section 1 of the questionnaire has six questions focusing on the demographic attributes of the households, Section 2 has fifteen questions measuring the impacts of borrowing microcredit realized by the households, which is pertinent to the data collection of the results of microfinance implementations. A sample size of 370 participants is used to collect the data. Three research questions and one hypothesis is constructed and are stated as follows:

1. To examine the impact of credit product knowledge on poverty alleviation among Bahraini Islamic bank credit product users.
2. To assess the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users.
3. To find out the effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users.

Besides, a hypothesis is constructed to examine whether Islamic banking credit practices have an impact on poverty reduction among the credit clients in Bahrain, which is articulated as

Null Hypothesis: Islamic banking credit practices do not have a significant impact on poverty alleviation among credit users in Bahrain.

Alternative Hypothesis: Islamic banking credit practices do have a significant positive impact on poverty alleviation among credit users in Bahrain.

4.1 . ANALYSIS OF DEMOGRAPHIC DATA

We first investigate the demographic variables of the clients, which are called age, gender, marital status, educational background, how many dependents a head of a household takes care of, and occupation. The frequency and percentage figures of each demographic attribute are presented in Tables 1 through 7. Table 1 presents the results of the age attribute. While the age group of 18-30 is composed of 57.6 percent of the clients, the age group of 31-50 consists of 41.1 percent of the clients.

The smallest group is the clients who are older than 50 with 1.4 percent. Table 2 depicts the results of the gender attribute. While the largest group consists of females at 54.3 percent, the males compose 45.7 percent. Table 3 summarizes the results of the marital status of the clients. While married persons consist of 64.9 percent, single persons compose 35.1 percent. Table 4 depicts the educational background of the clients. While the largest group is the one called others with 57.6 percent, the smallest group composes of clients having primary education with 5.1 percent. The group following the largest group is the clients having tertiary education with 37.3 percent.

Table 5 summarizes the results of the frequency and percentage of dependent person groups that the head of a household should take care of. While the largest group is the households in which the number of dependent persons alters between 0 and 4 with 88.8 percent, the smallest group is the households in which the number of dependent persons is equal to or greater than 15 with 4.8 percent. On the other hand, the group that follows the largest group has dependent persons whose number changes between 5 through 9 with 6.5 percent. Table 6 denotes the occupational group frequency and percentage of the clients. While the working group is the largest with 52.7 percent, the teaching group composes of 5.7 percent. The group that follows the working group is called the other with 20.3 percent.

Table 1: The age distribution of the clients

Age Groups	Frequency	Percent
18-30	213	57.6
31-50	152	41.1
50+	5	1.4
Total	370	100

Table 2: The gender distribution of the clients

Gender	Frequency	Percent
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Female	201	54.3
Male	169	45.7
Total	370	100

Table 3: The marital status distribution of the clients

Marital Status	Frequency	Percent
Married	240	64.9
Single	130	35.1
Total	370	100

Table 4: The educational background distribution of the clients

Educational Background	Frequency	Percent
Other	213	57.6
Primary	19	5.1
Tertiary	138	37.3
Total	370	100

Table 5: The distribution of the number of dependent persons that the clients take care of

The Number of Dependent Persons	Frequency	Percent
0-4	328	88.6
5-9	24	6.5

15+	18	4.9
Total	370	100

Table 6: The distribution of occupational groups of the clients

Occupations of The Clients	Frequency	Percent
Farming	28	7.6
Other	75	20.3
Teaching	21	5.7
Trading	51	13.8
Working	195	52.7
Total	370	100

4.2. THE ANALYSIS OF MICROFINANCE DATA

We examine some descriptive properties of the clients concerning microfinance applications among the clients living in Bahrain. Tables 7 through 11 present them. Table 7 depicts the number and percentage of clients concerning whether the respondents are beneficiaries of this program. While 43.8 percent of them are beneficiaries of this program, 56.2 does not use it. Table 8 presents how much income is earned by the household. More than 56 percent, 56.4, declare the income of the household as greater than 500 BHD. Table 9 depicts the results of the households' purpose to apply for credit. The most underlined reasons why households apply for credit are "covering basic needs" and "expanding business activities". The third reason is mentioned as others. The least frequent reason is called "improving housing and shelter". Table 10 presents whether paying credit back is a problematic issue or not. More than 82 percent, 82.4, state that they do not have any issue with paying credit back.

However, almost 18 percent have difficulties in paying credit back. Table 11 summarizes the reasons why households have excessive difficulties in paying credit back. The most underlined issue is called “no source of income to pay the credit back with 80 percent. Table 12 presents the evaluation of whether the accession to credit is beneficial. The majority of clients declare that it is beneficial 81.1 percent. Table 13 summarizes the reasons why households find credit beneficial. The most frequent reasons are called “improving business” with 33.5 percent and “developing better housing” with 29.2 percent. On the other hand, the group that has the least frequency belongs to the reason called “improving sanitation”. Table 14 presents the frequency and percentage of the income levels of the respondents concerning before and after usage of credit.

While the number and frequency of the households whose income level, is less than BHD 300, have 74 and 20 per cent before usage of the credit, respectively, the number and frequency of the households whose income level, is 300-500 BHD, have 87 and 23.5 per cent after usage of the credit. This result implies that the income level of households in BHD 300-500 has increased to one level upper and the percentage of them has decreased considerably. Similarly, the income level of households, more than BHD 500, increases in both frequency and percentage since a large portion of households with Less than BHD 300 moved to the upper-income level after usage of credit. On the other hand, the income level of households, more than 300, remains unchanged at both frequency and percentage values. Table 15 depicts the results of the clients on whether they run a business before the uptake of microfinance credit. More than 40 per cent of the clients are engaged in business or running a business before the uptake of microfinance credit. Besides, why microfinance credit is borrowed based on the purposes, namely, increment of the number of employees with 47 per cent, others with 44.3 per cent, and expansion of business with 8.6 percent. Table 16 summarizes the descriptive statistics of the facilities that are improved concerning the uptake of microfinance credit. The attributes found highly extent is called housing and shelter, education and medicine/hospital with median values of 4, which means that at least half of the clients have improved outcomes assessed at the most extent level.

Table 17 depicts the descriptive statistics, namely, mean, median, standard deviation, and range of attributes called business, housing and shelter, savings, and education. Both mean and median values of all variables are greater than those available before except for the median of savings. Thus, there exists a difference between before and after credit used by a household. Table 18

summarizes the statistics, namely mean, median, standard deviation, and range of households that borrow the average amount of credit from banks and other microfinance institutions working under the sharia Islamic banking credit mechanism between 2016 through 2020. Table 18 denotes that the average amount of credit borrowed by households reached the highest amount in 2016. Then the average amount decreased sharply to around 500 BHD. However, the average amount increased in 2020 but did not excel the amount in 2016.

Table 7 Income distribution of the households

Income of Households	Frequency	Percent
Less than BHD 300	74	20.0
BHD 300-500	87	23.5
More Than BHD 500	209	56.5
Total	370	100

Table 8 The purpose of applying for the credit

The Purpose of Applying to Credit	Frequency	Percent
Covering basic needs	102	27.6
Developing sanitation	20	5.4
Expanding business activities	104	28.1
Improving housing and shelter	15	4.1
Increasing savings	28	7.6

Other	61	16.5
Paying for education	40	10.8
Total	370	100

Table 9 Payback problem

The Issue of Paying Credit Back	Frequency	Percent
No	305	82.4
Yes	65	17.6
Total	370	100

Table 10 Reasons for not paying credit back

Reasons	Frequency	Percent
Diversion of income	15	20
No source of income	62	80
Total	65	100

Table 11 The benefit assessment of accession to a credit

Beneficial issue	Frequency	Percent
No	70	18.9
Yes	300	81.1

Total	370	100
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Table 12 The reason why microcredit is found beneficial among clients

The Reason to Find Credit Beneficial	Frequency	Percent
Developing better house	108	0.36
Facilitating quality education	40	0.14
Improving business	124	0.41
Improving sanitation	28	0.09
Total	300	100

Table 13 Comparison of income before and after credit

Income Levels	Income Before Credit		Income After Credit	
	Frequency	Percentage	Frequency	Percentage
Less than BHD 300	74	20.0	47	12.7
BHD 300-500	87	23.5	114	30.8
More Than BHD 500	209	56.5	209	56.5
Total	370	100	370	100

Table 14 Business background and how credit is utilized by clients

Clients	Engagement in Business		Running Business		Purpose of using credit		
	Yes	No	Yes	No	Expansion of Business	Increase the Number of Employees	Other
Frequency	153	257	153	257	32	174	164
Percentage	41.4	58.6	41.4	58.6	8.6	47.0	44.3

Table 15 Descriptive statistics of the facilities improved by microfinance credit

Facilities	Mean	Median	Std. Deviation	Range
Housing and Shelter	3.82	4.0	0.719	2
Savings	3.19	3.0	0.711	2
Education	3.95	4.0	0.807	2
Medicine/Hospital	3.69	4.0	0.803	3

Table 16 Descriptive statistics of credit use before and after

Facilities	Mean		Median		Std.Deviation		Range	
Business	Before	451.82	Before	300	Before	589.59	Before	2500
	After	539.12	After	400	After	690.21	After	3000
Housing and Shelter	Before	162.32	Before	180	Before	127.30	Before	400
	After	194.74	After	190	After	153.41	After	450
Savings	Before	415.60	Before	200	Before	1733.99	Before	5500

	After	943.88	After	200	After	3285.37	After	15000
Education	Before	1042.39	Before	100	Before	3285.37	Before	15000
	After	2336.64	After	150	After	5477.13	After	23000

Table 17 The average amount of credit borrowed by microfinance institutes

Statistics	2020	2019	2018	2017	2016
Mean	3592.20	634.70	517.59	409.78	5605.89
Median	1000	600	400	150	500
Standard Deviation	7803.83	601.29	499.86	473.13	19625.06
Range	30000	2000	1500	1500	80000

4.3. STATISTICAL ANALYSIS AND HYPOTHESIS TESTING

To derive insights regarding the difference between before and after when credit is borrowed by households, the paired samples t-test is used to determine whether there exists a difference. We used Five attributes, namely, business, housing, saving, and education. Table 19 summarizes them at a 0.05 significance level. When credit is obtained by a household, there is found a statistical significance between before and after concerning all attributes. When business is a concern, businesses run by household improve and generate more money than before since credit spent on business help household make business well. The average difference is 87.31 BHD after the credit is borrowed. A similar situation is observed when housing and shelter are a concern.

However, its improvement coverage is the smallest among all attributes and is relatively limited. The average amount of difference between before and after the usage of credit is 32.37 BHD. When saving is a concern, credit borrowed by households succeed a tremendous impact with an average difference amount of 528.29 BHD, which means that the household increases the amount of savings after the credit is used. Moreover, the most striking improvement is observed when

education is a concern since the average difference in the amount of money increases sharply with an average difference of 1294.25 BHD. ANOVA test is conducted to determine whether there exists between the average amount of credit obtained per household.

Table 20 presents results on whether there exists a difference between the average amount of money obtained from Islamic finance and microfinance institutions between 2016 through 2020. The ANOVA result suggests that 2016 and 2020 are more statistically significant than the years 2017, 2018, and 2019 concerning the average amount of credit borrowed from Islamic microfinance credit. Besides, the Chi-square test is conducted whether there exists a statistical difference between the levels of income groups. Table 21 presents the results of the chi-square test at a 0.05 significance level indicating that there is found a statistical difference between levels of income groups before and after the credit is used, which implies that after the usage of credit, the number of households increases in the upper level of the income groups.

Table 18 The results of the paired-sample t-test

Attributes	Mean Difference	Significance
Business	-87.31	0.000*
Housing	-32.37	0.000*
Saving	-528.29	0.000*
Education	-1294.25	0.000*

***: Denoting significance between before and after when credit is borrowed by household**

Table 19 The ANOVA results of the average amount of credit lent by Islamic finance institutions

Variables	Group1	Group2
Years	2020	2016
	2016	2017
		2019

Significance	0.003*	0.043*
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*: Denoting significance between years

Table 20 The result of the Chi-square test

Test Statistics	Significance
Likelihood ratio=581.09	0.000*

*: Denoting significance among income groups between before and after when credit is borrowed by household

To answer the first research questions: 1. To examine the impact of credit product knowledge on poverty alleviation among Bahraini Islamic bank credit product users, we compare the income levels group based on before and after usage of credit using the Chi-Square test at a 0.05 significance level implying that a statistical significance is found between the levels of income group. While the number of households Less than BHD 300 decreases, the number of households BHD 300-500 increases. Thus, the impact of credit product knowledge on poverty alleviation among Bahrainis using Islamic bank credit products is observed.

To answer the second question: 2. To assess the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users, we compare households based on five attributes, namely, business, housing, saving, and education using paired samples t-test at a 0.05 significance level implying that all attributes are found to be statistically significant, which means that the effect of financial budgeting on poverty alleviations among Bahraini Islamic bank credit product users is observed.

To answer the third question 3. To find out the effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users, we compare the five years between 2016 through 2020 to determine how interest rate affects by conducting an ANOVA test at a 0.05 significance level implying that the effect of interest rate knowledge on poverty alleviations among Bahraini Islamic bank credit product users is observed.

The constructed hypothesis based on those three research questions is expressed as follows:

Null Hypothesis: Islamic banking credit practices do not have a significant impact on poverty alleviation among credit users in Bahrain.

Alternative Hypothesis: Islamic banking credit practices do have a significant positive impact on poverty alleviation among credit users in Bahrain.

Since all research questions are found statistically significant at a 0.05 significance level, we can conclude that Islamic banking credit practices do have a significant positive impact on poverty alleviation among credit users in Bahrain.

4.4. THE SUMMARY OF THE ANALYSIS

What has been researched is summarized as follows: the research sample of 370 clients is chosen to collect information to review the effectiveness of Islamic banks and Sharia credit institutes in the alleviation of poverty in Bahrain. A questionnaire is utilized to collect data. The questionnaire has two sections. While Section 1 of the questionnaire has six questions focusing on the demographic attributes of the households, Section 2 has fifteen questions measuring the impacts of borrowing microcredit realized by the households, which is pertinent to the data collection of the results of microfinance applications. SPSS 26.0 version is utilized for all data analysis. Paired samples t-test and ANOVA are employed to investigate research questions and conduct the given hypothesis testing.

The demographic characteristics of the clients are summarized as follows: the clients who responded to questionnaires were composed of females with 54.3 per cent. Females are more engaged in using microcredit finance than males. Of the clients are married almost 65 percent. The age group between 18 through 30 is the leading group that uses microfinance, then is followed by a group whose ages between 31 through 50. The education level of the clients is indicated as the others with 57.6 per cent, then is followed by the education level indicated by tertiary with 37.3 per cent. The largest group of clients have dependent persons whose numbers change between 0 through 4 with 88.6 per cent. The largest group of clients who has occupation indicated working with 52.7 per cent. On the other hand, other motivations such as "developing sanitation, improving

housing and shelter and, "increasing savings" have less than 10 per cent, except for the other motivation called the others with almost 16 per cent.

Why clients use credit and what purposes the motivations for them to borrow credit can be expressed as follows: the findings suggest that 56.2 per cent of the respondent are credit clients. The largest group who borrows credit from the Islamic microfinance program with 56.2 per cent has an income greater than 500 BHD. Another group that borrows credit from the Islamic microfinance program with 43.8 per cent has an income of less than 300. The motivation of the clients is called "covering basic needs" and "expanding their business with 27.6 and 28.1 per cent, respectively. While a large portion of clients 82.4 per cent have no paying back issue, just almost 18 percent have to pay back issues. The clients find Islamic microfinance programs to be beneficial to use credit with 81 per cent. The most declared purposes to use Islamic microfinance programs are "developing better houses" with 36 percent and "improving business" with 41 percent. The clients whose income is greater than 500 BHD with 56.5 percent use the Islamic microfinance program mostly, while other income groups such as those Less than BHD 300 and BHD 300-500 collectively use the Islamic microfinance program

With 43.5 percent. While the clients who have business backgrounds 41.4 percent use the Islamic microfinance program, 58.6 percent of the clients do not have a business background. The clients who have a business background use the Islamic microfinance program to increase the number of employees by 4.7 percent and use the Islamic microfinance program to expand the business by 8 percent. On the other hand, when the Islamic microfinance program credit is used, the clients indicate that housing and shelter, education, and medicine/hospital facilities improve with median values of 4 and their average values are that are close to 4 and between 3.6 and 4. However, saving has not improved as much as the others, but its median value is 3 and the average is 3.19, which is assessed as neutral. Also, when the mean values of housing and shelter, education, saving, and medicine/hospital facilities are numerically compared concerning before and after the usage of credit, all mean values, after the credit is used, are greater than before.

To decide whether the constructed hypothesis is accepted or rejected, we investigate each research question by running statistical methods. What we find could be summarized as follows: 1. Chi-Square test at a 0.05 significance is conducted to determine whether there exists a difference

between income levels group. The finding suggests that a statistically significant difference is found between the levels of the income group. While the number of households Less than BHD 300 BHD decreases, the number of households BHD 300-500 increases.

Thus, the impact of credit product knowledge on poverty alleviation among Bahrainis using Islamic bank credit products is observed. 2. Paired samples t-test at a 0.05 significance level is run to determine whether there exists a difference between before and after the credit is used concerning variables of housing, saving, education, and business. The results imply that a statistically significant relationship is found between before and after the credit is used. Therefore, the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users is observed. 3. ANOVA test at a 0.05 significance level is conducted covering the five years between 2016 through 2020 to determine whether the interest rate has an impact on poverty reduction. Thus, the effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users is observed.

In conclusion, when it comes to reducing poverty, both Islamic banking credit practises and microfinance credit implementations affect clients in Bahrain. Clients' business, education, and savings significantly improve before and after using credit, according to statistical analysis. Even though the statistical difference is apparent, housing and shelter do differ marginally. Additionally, more than 50% of clients have made advances in business, healthcare/hospitals, and education to the greatest extent possible. Savings are, however, only evaluated to a limited extent. Credit is used by clients to grow their businesses and hire more people. However, even though there are not many homes, the underlying problem of repaying credit arises from not having enough money to pay back the main reason by clients.

As a result, by investing more money in business and education, clients gain from the adoption of Islamic banking credit and microfinance credit in the fight against poverty. The main reason people take out credit is to grow their businesses. They also reportedly use other amenities that have greatly improved. Most recipients of credit are women who are married, have no formal education background and have between 0 and 4 dependent family members. They are typically found in a business ecosystem and are members of the working class.

CHAPTER FIVE: DISCUSSION AND RECOMMENDATIONS

5.1 CHAPTER PREAMBLE

This chapter discusses the results in light of the research questions or to answer the study's hypotheses, the researcher examines the study's findings. The researcher worked hard to make sure that the debate was tied to earlier research, whether it proved or disproved the study's findings.

5.2 DISCUSSION OF THE RESEARCH FINDINGS

While the number and frequency of families with an income level of less than 300 BHD had 74 and 20 per cent before using the credit, the number and frequency of households with an income level of BHD 300-500 had 87 and 23.5 per cent after using the credit, respectively. The findings of the chi-square test at a 0.05 significance level indicate that there is a statistical difference between income categories before and after the credit is utilized, implying that the number of families in the upper-income groups grows after the credit is used. Similarly, the income level of households, BHD 300-500, increases in both frequency and percentage since a large portion of households in more than BHD 500 moved to the upper-income level after the usage of credit.

In terms of the average amount of credit taken through Islamic microfinance loans, the ANOVA result reveals that 2016 and 2020 are statistically significant years compared to 2017, 2018, and 2019. When it comes to saving, family credit has a considerable impact, with an average difference of 528.29 BHD, suggesting that the household saves more after taking out the loan. When it comes to business, home businesses improved and generated more revenue than previously, because credit spent on business helps families manage their businesses successfully. Before using loans, families with a BHD 300-500 income level utilize them at a rate of 87 and 23.5 per cent, respectively. This means that the household income level in the less than BHD 300 zone has improved by one level, but the percentage of them has declined significantly. The ANOVA test is used to see if there is a relationship between the average amount of credit borrowed and the average amount of debt owed. While Section 1 of the questionnaire asks six questions about the households' demographic characteristics, Section 2 asks fifteen questions on the effects of borrowing microcredit on the households, which is relevant to the data collection of microfinance application outcomes.

The average amount of credit taken out by families reached a new high in 2016. On the other hand, the income level of households, more than 500, remains unchanged at both frequency and percentage values. To see if there is a difference between before and after households borrow credit, a paired samples t-test is performed. Housing and shelter, education, and medicine/hospital are the features that were found to be highly extended, with median values of 4, indicating that at least half of the clients had better outcomes at the most extent level. The average difference after borrowing the credit is 87.31 BHD.

Before taking out microfinance credit, more than 40% of clients were involved in or running a business of some sort. Before and after credit use, the average difference in value is 32.37 BHD. In terms of all attributes, there is a statistical significance difference before and after a household borrows credit. Furthermore, the Chi-square test is used to determine whether there is a statistical difference across income categories. Furthermore, the reasons for borrowing microfinance loans are based on the goals, which include an increase in the number of workers (47%), others (44.3%), and company expansion (8.6%). "Meeting basics" and "growing business activity" are the two most common reasons for families seeking loans. "Meeting basic requirements" and "growing commercial activity" are the two most common reasons for households seeking financing. Based on the research findings the research recommends the increase in the rolling out of more Islamic banking products to fight poverty in Bahraini.

5.3. THE RESEARCH RECOMMENDATIONS

In this section, the researcher illuminates the most important practical recommendations or ideas that are deemed appropriate in the context of this research. The recommendations are presented in the form of brief procedural points and should contain the following:

5.3.1 The practical benefits of the research process.

The practical benefits of the research are presented in harmony with the research objectives presented hereunder.

To examine the impact of credit product knowledge on poverty alleviation among Bahraini Islamic bank credit product users.

As a result, the influence of credit product knowledge on poverty reduction among Bahrainis who use Islamic bank credit products has been seen declining owing to the credit taking. The

comparison of income levels of groups of households based on pre-credit and post-credit usage helps to achieve this goal. When it comes to saving, credit borrowed by families has a significant influence, with an average difference of 528.29 BHD, indicating that the household improved its savings after using the loan. This points to the impact the Islamic finance credit scheme is having on the poverty alleviation of Bahraini Islamic bank credit product users. When it comes to business, the results show that home-based enterprises improved and created more money than before, because credit borrowing hence helps households operate their businesses better.

Furthermore, when it comes to schooling, the most noticeable improvement is shown, as the average difference in money climbs dramatically, with an average difference of 1294.25 BHD. The research established that when credit is borrowed for household purposes, there is statistical significance between before and after in terms of all characteristics. The research established that after the credit is borrowed, the average difference is 87.31 BHD. According to the findings, the number of families in the income band range of less than 300 BHD is decreasing, while the number of households in the income band range of 300-500 BHD is increasing. The ANOVA test is used to see if there is a relationship between the average amount of credit borrowed by each household. The average difference in value between before and after credit utilization is 32.37 BHD. The Chi-Square test was used to assess the data, with a 0.05 significance threshold indicating statistical significance between the income groups. This is supported by research finding by Lone & Ahmad, (2017), who postulated that Islamic finance is characterized by more expectations and fewer disappointments in terms of poverty alleviation. This tallies with the findings by Tohirin & Husaini, (2019), who investigated whether Islamic banking finance helps the poor and establishes that it does help the poor get out of poverty.

To assess the effect of financial budgeting on poverty alleviation among Bahraini Islamic bank credit product users

When the Islamic microfinance program credit is employed, on the other hand, the clients report that housing and shelter, education, and medicine/hospital facilities increase with median values of 4 and average values close to 4 and between 3.6 and 4. Clients with incomes more than 500 BHD use the Islamic microfinance program the most (56.5%), while those with incomes less than 300 BHD and 300-500 BHD utilize the Islamic microfinance program collectively 43.5 percent. The Islamic microfinance program is used by 41.4 percent of clients having a business history,

whereas 58.6 percent of clients do not have a business background. In addition, when the mean values of housing and shelter, education, saving, and medicine/hospital facilities are statistically compared before and after credit use, all mean values after credit use are higher. Clients with business experience utilize the Islamic microfinance program to boost staff numbers by 4.7 percent and expand their businesses by 8%.

Only 82.4 percent of clients have a problem paying back their loans, while over 18 percent have a problem paying back their loans. With 81 percent of clients, Islamic microfinance programs are advantageous for using credit. The most common reasons for using an Islamic microfinance program are "building a nicer dwelling" (36%) and "improving business" (41%).

To find out the effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users

To achieve this goal, the study compared the five years from 2016 to 2020 to see how interest rate affects poverty alleviation efforts among Bahraini Islamic bank credit product users. This was done using an ANOVA test with a 0.05 significance level, implying that there is an effect of interest rate knowledge on poverty alleviation among Bahraini Islamic bank credit product users.

Therefore, the research can conclude that generally when it comes to relieving poverty in Bahrain, both Islamic banking credit practices and microfinance credit initiatives influence clients. As a result, the impact of financial planning on poverty reduction is observed among Bahraini Islamic bank credit product customers. As a result, the impact of interest rate awareness on poverty reduction among Bahraini Islamic bank loan product customers has been observed. Credit is usually given to women, married people with no formal education, and households with dependent people ranging from zero to four people.

On the other hand, even though the number of people in a family is relatively modest, repaying credit is a basic issue that originates from clients' inability to pay back the debt due to a lack of funds. An ANOVA test with a 0.05 significance level is used to examine if the interest rate has an influence on poverty reduction throughout the five years from 2016 to 2020. Clients profit from Islamic banking and microfinance loan initiatives in poverty reduction by spending more money on business and education, for example. There is a significant statistical difference between before and after the credit is utilized among clients, with business, education, and savings all improving dramatically. These findings are in tandem with research findings by Daly & Frikha, (2016) who

investigated and reported on the role of Islamic finance in the economic growth of developing countries. According to the findings, there is a statistically significant relationship between before and after the credit is spent. Borrowing credit is mostly motivated by the desire to develop one's business. Furthermore, more than half of all clients have seen advances in their business, medicine/hospital, and education. Housing and shelter, on the other hand, differ slightly, notwithstanding the statistical difference.

5.3.2 Future research

This is the first research in Bahrain, according to the author, to look at the impact of Islamic finance credit and microfinance on Islamic bank credit customers. As a result, there are additional viable directions for future study in this field to pursue. As a result, the following future study directions are possible:

Study of the impact of Islamic finance credit and microfinance on Islamic bank female or male credit customers.

Another possibility is to do a study on the impact of Islamic financing credit and microfinance on the development and expansion of Bahraini SMEs.

The study looked at the impact of Islamic finance credit and microfinance on Islamic bank credit users from the perspective of credit consumers; another option is to research from the perspective of the creditors.

Finally, other researchers can consider conducting a qualitative study involving the recommendations from this study and evaluating the impact of these recommendations on the overall impact of Islamic Finance on poverty eradication using a qualitative approach.

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APPENDIX I: QUESTIONNAIRE

Dear respondent,

My name is Zuhair Almodaweb I am currently studying for SBF with University for Graduate Studies. My research topic is titled: ***Effects of Islamic banking credit practices in poverty alleviation among Bahrain credit users***. I need your assistance to conduct my research project. The main focus of this project is to: ***To investigate how effective has been the Islamic banks and Sharia credit institutes in the alleviation of poverty in Bahrain***. Participation in this survey is voluntary and all replies will remain confidential to safeguard the integrity of all individual respondents. Recorded data will be aggregated when reporting findings. The researcher understands that you are busy and thus the survey may consume some part of your time, however, the results and recommendations of this study will and should benefit you and your family and the community at large.

Please read each statement carefully and answer them as frankly as you can. Your responses will be accorded the utmost confidentiality they need. Your maximum cooperation is highly solicited.

Please tick where appropriate and supply information where necessary.

SECTION 1

PERSONAL DATA

1. Age

18-30 years ()

31-50 years ()

51 and above ()

2. Gender

Male ()

Female ()

3. Marital Status

Married ()

Single ()

Divorced ()

4. Educational Background

A. No Formal Education ()

B. Primary/Middle Level ()

C. Secondary ()

D. Tertiary ()

E. Others (please specify) ()

5. How many people depend on you for their daily bread? (No. of dependants)

A. 0-4 ()

B. 5- 9 ()

C. 10- 14 ()

D. 15 and above ()

6. What do you do for a living?

A. Farming ()

B. Trading (e.g. selling vegetables and clothes) ()

C. Working ()

D. Teaching ()

E. Others (Please specify below)

.....

SECTION 2

DATA RELATED TO MICROFINANCE

1. Are you a beneficiary of any Islamic microfinance programme? **Yes** () **No** ()
2. **What is your salary/ income range per month?**
 - A. Below BHD 300 ()
 - B. BHD 300- BHD 500 ()
 - C. Above BHD 500 ()
3. **What is the purpose of your credit?**
 - A. Expand Business activities ()
 - B. Cover the basic needs (housing, food, clothing) ()
 - C. Improve housing and shelter ()
 - D. Increase savings ()
 - E. Pay for education ()
 - F. Develop sanitation ()
 - G. Other, Please specify below.
.....
4. **Do you have problems paying back your loans?**
 - Yes ()
 - No ()

5. If your response is yes above, can you indicate the reason why?

- A. No source of income to pay ()
- B. Credit is mainly used for non-income-generating activity ()
- C. Diversion of funds from its intended purpose ()
- D. The poor market for produce ()
- E. Natural/Accidental disaster ()
- F. Other, Please specify below.

.....

6. Has access to credit been beneficial?

- Yes ()
- No ()

7. If yes to the above question why?

- A. Credit has helped improve my business ()
- B. Credit has facilitated access to quality education ()
- C. Credit has enabled the development of better housing ()
- D. Credit has helped improve the sanitation system ()
- E. Other, Please specify below. ()

8. What was your income before the uptake of Sharia Islamic microfinance credit (BHD)?

- A. Below BHD 300 ()
- B. BHD 300- BHD 500 ()

C. More than BHD 500 ()

9. What is your household income after the uptake of microfinance credit?

A. Below BHD 300 ()

B. BHD 300 – BHD 500 ()

C. More than BHD 500 ()

10. Are you engaged in any form of business?

Yes ()

No ()

11. If yes to the above question, were you running the business before the uptake of credit?

Yes ()

No ()

12. If yes to the above question how has your business changed after the uptake of microfinance credit?

A. Increase in stock levels ()

B. Increase in products and services offered ()

C. Expansion of business to more than one shop ()

D. Increased number of employees ()

E. Other, Please specify below.

.....

13. Kindly indicate to what extent the following has improved as a result of Sharia Islamic Banking credit programs. (Rating is in the range of 1-5 where 1 is the least extent and 5 most extents)

ITEM	1	2		3 4	5	
Housing and Shelter						
Savings						
Education						
Medicine/ Hospital						

14. Kindly indicate how much money you spent on the following before and after the uptake of Sharia Islamic Banking credit finances (monthly)

Item	Before (BHD)	After (BHD)
Business		
Housing rent		
Savings		
Education		

15. Kindly indicate the average amount of credit money that you received from Sharia Islamic Banking credit finances that you received from Banks and other Microfinance institutions for the last five years

Year	2020	2019	2018	2017	2016

Thank you for taking the time to fill out this questionnaire.

آثار ممارسات الائتمان المصرفي الإسلامي في التخفيف من حدة الفقر بين مستخدمي ائتمان البحرين.

خلاصة:

الغرض الأساسي من البحث هو دراسة مدى تأثير المعرفة بمنتجات الائتمان على التخفيف من حدة الفقر بين مستخدمي المنتجات الائتمانية من البنوك الإسلامية البحرينية. كما قام البحث بتقييم مدى تأثير الميزانية المالية في التخفيف من حدة الفقر بين مستخدمي المنتجات الائتمانية للبنك الإسلامي البحريني. كما تم استخدام استبيان المسح لجمع البيانات و الذي بدوره ينقسم الى قسمين، والقسم الأول من الاستبيان يحتوي على ستة أسئلة تركز على الخصائص الديموغرافية للأسر، بينما القسم الثاني يحتوي على خمسة عشر سؤالاً يقيس آثار اقتراض الائتمان الأصغر على الأسر، وهي ذات صلة بجمع بيانات نتائج التمويل الأصغر.

وتطبيقاً لذلك جرى اختيار عينة مكونة من 370 عميلاً لجمع المعلومات لمراجعة فعالية البنوك الإسلامية ومؤسسات الائتمان الشرعية في التخفيف من حدة الفقر في مملكة البحرين. لذلك، فإن البحث اسفر و بشكل عام عن استنتاج عام يتعلق بالتخفيف من حدة الفقر في مملكة البحرين، وإن ممارسات الائتمان المصرفي الإسلامي ومبادرات الائتمان للتمويل الأصغر تؤثر على العملاء فعلاً، إلا أنه ومع ذلك فإن البنك الإسلامي لديه ميزة طفيفة على التمويلات الصغيرة الأخرى فيما أنه يظهر لدينا فرق إحصائي كبير بين قبل وبعد استخدام الائتمان بين العملاء مع تحسن الأعمال والتعليم والمدخرات بشكل كبير.

وعلاوة على ذلك، شهد أكثر من نصف العملاء تقدماً في التجارة، الطب / المستشفيات، والتعليم، إذ يستفيد العملاء من المبادرات المصرفية الإسلامية والتمويل الأصغر في الحد من الفقر من خلال إنفاق المزيد من الأموال على الأعمال والتعليم، على سبيل المثال؛ يتم تطبيق الائتمان في الغالب على الإناث والأشخاص المتزوجين، لكن البحث لم يجد أي خلفية تعليمية رسمية لها تأثير على ذلك، و على مستوى متوسط من ذلك فالأسر الصغيرة، مع وجود أشخاص معالين يتغيرون بين 0 و 4. بالنظر إلى هذه النتائج، فإن البحث له آثار نظرية وعملية على صانعي السياسات والأوساط الأكاديمية والممارسة إذ يتم تشجيع صانعي السياسات على الاستفادة من المزيد من هذه الأموال الصغيرة للاقتصاد وضمان وصول الناس إليها، إذ هناك حاجة للنظر في ظروف الأشخاص الذين يواجهون تحديات في إعادة التمويل الائتماني لتطوير حزمة مصممة خصيصاً لمثل هؤلاء الأشخاص و بجانب ذلك فإنه يمكن للحكومة أيضاً أن تنظر في القضية لتوفير الضمانات والأمن للبنوك ومقرضي التمويل الأصغر.

وأخيراً يوصي البحث باستكشاف السبل الممكنة للبحث المستقبلي و هو البحث حول تأثير التمويل الإسلامي والائتمان الأصغر على تنمية ونمو المشاريع الصغيرة والمتوسطة في مملكة البحرين، كما يمكن للباحثين المستقبليين إجراء دراسة نوعية تتضمن توصيات هذا البحث وتقييم آثار هذه التوصيات على التأثير الكلي للتمويل الإسلامي على القضاء على الفقر باستخدام النهج النوعي.

جامعة البحرين



قسم المالية والصيرفة الإسلامية

كلية إدارة الأعمال

**آثار ممارسات الائتمان المصرفي الإسلامي في التخفيف من
حدة الفقر بين مستخدمي ائتمان البحرين.**

أطروحة مقدمة كجزء من متطلبات الحصول على درجة الماجستير
في المالية والصيرفة الإسلامية

إعداد

الطالب زهير علي عبدالله المدوب

20091111

إشراف

دكتور فريد هادي

أستاذ مساعد

جامعة البحرين

مملكة البحرين

يناير 2023