



FACTORS AFFECTING THE PERFORMANCE OF
COOPERATIVE SOCIETIES IN BAHRAIN, CASE
STUDY OF THREE CONSUMER COOPERATIVE
SOCIETIES

BY:

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requirements for the degree of Master of Science in
Islamic Banking and Finance

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ABSTRACT

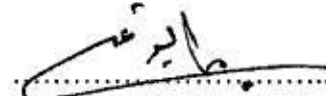
This study gives a general introduction of cooperative societies and their importance in the economic development for countries. The study focused on Bahrain and the performance of cooperative societies since the establishment of the Cooperative Act in 1972. The main problem of this study is that the cooperative societies are not being supported in Bahrain by the government and will not be able to survive in the open market. Thus, this will reduce the people desire to be engaged in the cooperative societies and be a part of it. To achieve the study objectives the researcher used descriptive and analytical approaches. The data used for this study had focused on the secondary data collected from Hidd, Isa town and Sanabis Consumer Cooperative Societies from 1999 to 2012. Then these data were analyzed in E-view. The results of the analyses show that the net profit for Hidd consumer cooperative society and Isa Town consumer cooperative society is affected by the petrol station sales, while Sanabis consumer cooperative society's net profit is not affected by the petrol station sales. The study also shows that consumer cooperative societies is providing welfare for the members based on his purchasing from the society. Finally, to improve the cooperative societies sector the researcher recommended to develop a strategy to have a secure and sustainable income for the consumer cooperative societies and to do a SWOT analysis. Nevertheless, educating the students in schools and universities can be considered a big support from the government to cooperative sector.

ملخص البحث

تعطي هذه الدراسة مقدمة عامة عن الجمعيات التعاونية و أهميتها في التنمية الاقتصادية للدول . و قد ركزت هذه الدراسة على البحرين و دراسة أداء الجمعيات التعاونية فيها منذ تأسيس القانون التعاوني في عام ١٩٧٢م. إن المشكلة الرئيسية لهذه الدراسة هي أن الجمعيات التعاونية لا يتم دعمها في البحرين من قبل الحكومة و بهذا فهي لن تكون قادرة على البقاء و الاستمرار في السوق المفتوحة. وبالتالي ، فإن هذا سوف يقلل من رغبة الناس في المشاركة و الانخراط في الجمعيات التعاونية. لتحقيق أهداف الدراسة استخدم الباحث المنهج الوصفي والمنهج التحليلي. و البيانات المستخدمة في هذه الدراسة ركزت على البيانات الثانوية التي تم جمعها من التقارير السنوية لجمعية الحد التعاونية الاستهلاكية و جمعية مدينة عيسى التعاونية الاستهلاكية و جمعية السنابس التعاونية الاستهلاكية للفترة من ١٩٩٩ إلى ٢٠١٢. ثم تم تحليل هذه البيانات في البرنامج الإحصائي E-view. لقد أظهرت نتائج التحليل أن صافي ربح جمعية الحد التعاونية الاستهلاكية و جمعية مدينة عيسى التعاونية الاستهلاكية يتأثر تأثراً ملحوظاً بمبيعات محطة البترول التابعة للجمعية. أما بالنسبة لجمعية السنابس التعاونية الاستهلاكية فقد أظهرت نتائج التحليل عدم تأثر صافي الربح بمبيعات محطة البترول. و قد أظهرت النتائج أيضاً أن الجمعيات التعاونية تساهم في زيادة الدخل للعضو بحيث كلما زادت مشتريات العضو من الجمعية زادت أرباحه. أخيراً، لتحسين قطاع الجمعيات التعاونية أوصى الباحث إلى وضع استراتيجية للحفاظ على الجمعيات التعاونية الاستهلاكية من الاغلاق وذلك بالعمل على التوجه نحو الاستدامة المالية، و لهذا فإن القيام بتحليل SWOT قد يكون ضرورياً. أما بالنسبة للدعم الحكومي فإن تعليم الطلاب في المدارس و الجامعات و إدراج مناهج دراسية عن التعاونيات في المدارس يمكن اعتباره دعماً كبيراً من الحكومة للقطاع التعاوني.

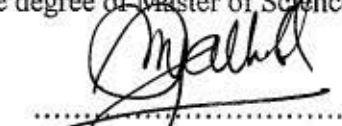
APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science in Islamic Banking and Finance.



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Supervisor

This research paper was submitted to the Institute of Islamic Banking and Finance And is accepted as a fulfillment of the requirement for the degree of Master of Science in Islamic Banking and Finance.

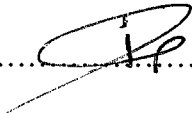


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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Ahmed Abdulrazaq Mohammed Al Mahmood

Signature 

Date ... 20/7/2014 ..

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Signature

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Date

إلى أُمي الغالية.....
إلى أبي الغالي.....
إلى أهلي و أصحابي.....

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TRANSLITERATION

K	ك	ḳ or Ḍ	ض	D	د	'	أ
L	ل	Ṭ or ṭ	ط	Dh	ذ	B	ب
M	م	Ẓ or ẓ	ظ	R	ر	T	ت
N	ن	°	ع	Z	ز	Th	ث
H	هـ	Gh	غ	S	س	J	ج
W	و	F	ف	Sh	ش	ḥ or H	ح
Y	ي	Q	ق	ṣ Ṣ	ص	Kh	خ

Vowels			
Long vowels		Short vowels	
ā	الف	a	فتحة
ī	ياء	i	كسرة
ū	واو	u	ضمة

CHAPTER ONE

INTRODUCTION

All praise is due to Allah, the Lord of all worlds, He who created human in the best picture and preferred him upon all creatures, and may peace and blessings be upon the master of apostles and messengers, and upon his household and all of his companions.

The man (Human) is a social creature in his nature and he cannot live by himself in this world, that is why he forms a group, gets married and have children; the children will grow up and get into groups, gets married, and this cycle will continue, because this is the system Allah put on earth. The man will cooperate with his wife in their married life, where the man will work to sustain the needs for food and clothes by his family, and the woman will prepare the food for the family, take care of the house and the children or she may also work to get additional income.

The co-operative idea had not been invented recently; rather, it existed even in pre historic period where the people at that time used to be in groups and work together to get food by hunting. There were some ancient records and discoveries that point to the existence of cooperative organizations created by early civilizations in the world (like China, Egypt, Greece ...etc.). However, in term of modern records, the earliest cooperative associations movement was created in Europe and North America during the 17th and 18th century. During the 19th century, the pioneers of Rochdale society made a celebration for launching the modern cooperative movement and later the principles they were following became known as Rochdale cooperative principles. Moreover, the early European cooperative thinkers and organizers were the first in codifying a guiding set of principles that helped to guide the development of

cooperatives across the world (Kimberly and Robert, 2004). Recently, the Cooperative activity has developed further and became more organized, and there are almost in every country some laws for the cooperatives that regulate its activities and formation.

1.1 Background of Cooperative Societies

It is said that the cooperative insurance was started in the form of society where its members cooperate among themselves to help each other in reducing the risk upon oneself; such that if one cannot take a certain risk by himself the other will help him to take that risk. Looking into the past, the Greeks had some arrangements in regard of cooperative insurance. They were paying some amount of money for the servants to some societies that had been established for the reason to pay and compensate the master of the servants in case that servant ran away.

No one can ignore the fact that cooperative societies have enhanced and improved the economy of many European and American countries (Kimberly and Robert, 2004). It had played an important role for the people that could not compete with the big corporations. Thus, they formed a cooperative society to reduce the risk and implications of not being able to compete with others or not able to sell goods as it is supposed to be.

Now looking into the 17th, 18th and 19th centuries in Europe, we can see that cooperative movement came across many phases (Kimberly and Robert, 2004). First of all in England, Robert Owen, who was considered as the father of cooperative movement tried to build Utopia with his idea of cooperatives and the ideal societies. Another cooperative visionary was Charles Fourier, a social philosopher in France, and he planned for self-reliant communities; in which both of Owen and Fourier were seeking for an idealist cooperative rather than a realistic one. Then, at the time of

William King, although he took and accepted much of the social philosophy from Owen, he took a different route from Owen to reach the desired goals where he had put his ideas in a more realistic manner which ended with success unlike Owen. The next are the pioneers of Rochdale society. The Rochdale cooperative had been built with the combination of various ideas that were adopted by previous cooperatives, and their business practices were later called as “Rochdale cooperative principles” and became common for any cooperative society. Looking into America, in 18th century (particularly in 1752) there was a mutual insurance company where it was recognized as a cooperative business. Later, some other cooperatives were created such as agriculture cooperatives.

Nowadays, many countries are inspired by the cooperative idea and the success of these cooperative societies, so they adopted the idea of cooperative society. Thus, the cooperative societies can be found in the industrial countries as well as the developing countries.

1.2 Background of Cooperative Societies in the GCC

Before the exploration of oil in the GCC, there was some kind of cooperation between their societies. It was a form of cooperative involving barter trade where some people do fishing, some other farming and work in agriculture, some grazing sheep and because of low use of money at that time they used the barter system (Al Kalīfah, 2012). However, after the discovery of oil, there was a need for regulations and legislations in the GCC in order to organize the daily life as the economic system for them started to change.

According to Al Kalīfah (2012) the cooperative societies can be found in most of the GCC countries and Yemen except Oman where a royal decree has been issued in 2011 that includes encouragements to establish cooperative societies. Also, Qatar has combined the cooperative societies in one joint stock company and this company has the name of “Mīr” (Ilyās, 2012).

First of all, the cooperative movement in Kuwait started in 1941 when a cooperative society had been established in al-Mubārkiyyah school (Al-Kindirī, 2012). In 1955 some consumer cooperative societies were established in different departments like the consumer cooperative society for employees of department of social affairs and the consumer cooperative society for employees of department of knowledge. It is to be noted that those societies were following the regulations of clubs and the social institutions (Al-Kindirī, 2012) until the issuance of the Cooperative Act in 1962. Thus, after the issuance of the Cooperative Act came the establishment of the first consumer cooperative society in “Kifān” (Al Kalīfah, 2012). Today the cooperative societies in Kuwait are the most successful in the GCC due to the government support with laws and regulations that helps the societies to perform better.

In the United Arab Emirates (UAE) the cooperative movement was officially known in 1976 with the issuance of the first cooperative law (Al Kalīfah, 2012). Four consumer cooperative societies were established in 1977 and recently the total number of cooperative societies in UAE was 33 (17 consumer, 12 fishermen, 1 for housing, 2 cooperative unions and 1 for renting cars and boats).

Looking into Saudi Arabia, the first cooperative societies were established in 1959 in “Qurayyāt”. In 1962 a royal decree number 26 had been issued for the establishment and organization of cooperative societies. The number of societies increased when in

2012 the number of cooperative societies in Saudi Arabia were 165 societies (Al Kalifah, 2012).

1.3 Background of Cooperative Societies in Bahrain

The cooperative movement started in Bahrain around 1954. It began with the establishment of “Şundūq al-Ta^cwīdāt al-Ta^cāwunī”, which was a form of cooperative insurance (mutual insurance) for taxis and trucks, but the cooperative type of insurance was new in the Arabic region (Al-Bāker, 1415H). Thus, the founders of “Şundūq al-Ta^cwīdāt al-Ta^cāwunī” faced many obstacles to the extent of being threatened by the British colony¹ at that time. As this cooperative insurance came to an end, later there were some school activities that touched some of the cooperative area to fulfill the students’ needs.

By the year 1972, the first law (Decree-Law No. 8 of 1972 on cooperative societies) for cooperative societies was released in 19th April 1972 and the title was “*al-Jam^cīyyāt al-Ta^cāwuniyyah*”, and this was the starting point for a regulated form of cooperative activity in Bahrain. After this law was released, the first cooperative society registered under this law was “Isa Town Consumer Co-operative Society”, which was registered in November of the same year (Najwā Janāhī, 2012). This was followed by the registration of “Hidd Consumer Co-operative Society” and “Jidhafs Consumer Co-operative Society”. Both had been registered in 1975 and these consumer societies are still operating until today. Other consumer cooperative societies were registered in 1985, 1986 and 1987 respectively.

¹ As the existing insurance companies saw this cooperative insurance as something dangerous to their business, they complained to the British colony, where the latter offered bribe to the founder and when he refused they threatened him by stripping of his citizenship and exiled him.

The total number of cooperative societies in Bahrain by 2012 was 22 cooperative societies of different kinds. As for consumer cooperative societies, there are 8 societies; where 7 of them are active. Another type is an agriculture cooperative society which is the only agriculture society that is active. There is another one for ranching (poultry farming), but it is not active. The last type is saving and lending cooperative societies in which there are 12 societies where two of them are not active.² However, by referring to the latest list issued by the ministry of social affairs of Bahrain in 2013, the total number of cooperative societies was 20, where there are 8 consumer cooperative societies, 10 saving and lending cooperative societies, 1 agriculture and 1 poultry farming.

As mentioned above, the Cooperative Act was released in 1972. This was followed by a resolution in 1977 for the announcement of Bahrain agriculture cooperative society. Then in 2000 there was the issuance of Legislative Decree No. 24 of 2000 promulgating the Law on Cooperative Societies. In 2004, a resolution was issued by the Minister of Labor and Social Affairs about the cooperative societies union. In 2006 the “*al-Markaz al-Waṭanī li Daʿm al-Munazzamāt al-Ahliyyah*” (National Center for NGO Support) was established with the vision of developing and activating the spirit of partnership and self-reliance in non-government organizations (NGOs). This Center evaluates, organizes training programs and workshops and provides technical consultancy for the NGOs in Bahrain (Ḥusayn Janāhī, 2009).

² Ministry of Social Affairs of Bahrain, “*Dalīl al-Jamʿiyyāt al-Taʿāwuniyyah*”, <<http://www.social.gov.bh/sites/default/files/img/files/%D8%A7%D9%84%D8%AC%D9%85%D8%B9%D9%8A%D8%A7%D8%AA%20%D8%A7%D9%84%D8%AA%D8%B9%D8%A7%D9%88%D9%86%D9%8A%D9%87.pdf>> (accessed in 11 April 2013)

1.4 Statement of the Problem

Despite the important role played by the cooperative societies in the economy around the world, according to Jāsim Ḥusayn (2004) some people say that it is not needed anymore. Thus, it has been argued that there is no future for cooperative societies in commercial activity in Bahrain, because we live in the age of globalization; which aims to remove trade restrictions. Hence, it is clear that the commercial competition will have more freedom than ever before in light of the opening of the Bahraini market to foreign competition. Also it is said that the consumer cooperative societies in Bahrain are not fulfilling their roles and deviated from their main objectives that they had been constructed for. In addition, according to Najwā Janāhī (2012) the lack of knowledge of cooperatives can be seen among individuals where the percentage of citizens participating in consumer cooperative societies to total adult population number equals 0.07% at the end of year 2010. Moreover, Al-Asheeri (n.d.) conducted a questionnaire and he found that 79% of the population are not members in cooperative societies, and concluded that the motivation to enroll in cooperative societies is low.

Building on the above statements, the problems are that there is no clear strategy for cooperative societies in Bahrain and there is not enough support from the government as well as the lack of knowledge of cooperatives among individuals.

Although there had been some studies conducted on cooperative societies, as far as the researcher's knowledge there was no research conducted to examine the performance of cooperative societies in Bahrain. Thus, this research will discuss about the performance of cooperative societies for individuals (members) as well as the government, and then the researcher will try to solve the problem of why cooperative

societies in Bahrain have failed to achieve high success. Furthermore, this research also aims to examine whether or not cooperative societies provide socio-economic welfare (profit or income) as it is one of the important objectives of *Sharī'ah* (Maqāsid al-*Sharī'ah*).

1.5 Significance of the study

By considering the key role of the cooperative societies in the economy on the one hand, the researcher found that this field needs deep research since Bahrain has started early in implementing the cooperative idea (as it has been introduced in 1954), but lacks adequate studies to examine its feasibility after all these years.

On the other hand, many individuals in the Bahraini society do not know about the importance of cooperative society in the economy as it is seen as a supermarket (in the case of consumer cooperative societies). This study will attempt to look at cooperative societies in an evaluative manner. Through this evaluative study of cooperative societies, it is possible to identify the weak points, short comings and then attempt to solve them, which would have a positive impact on the progress of cooperative societies in Bahrain.

1.6 Research Questions

Given the above discussion, the research came up with these questions:

1. What are cooperatives, their types in Bahrain, and the theory and concept behind them?
2. Are cooperative societies functional and performing well in Bahrain?
3. What is the impact of consumer cooperative societies on Bahrain's economy?

4. How compatible are the cooperative societies with the view of Islam in term of fulfilling the role to provide socio-economic well-being as it is one of the objectives of *Sharī'ah* (*Maqāsid al-Sharī'ah*)?

1.7 Objectives of the study

Given the above questions, the objectives of this study are as follows:

1. To emphasize the role of cooperative societies in filling the gap in the economic system; i.e. not all individuals can benefit from banking products.
2. To look into the performance of cooperative societies in Bahrain.
3. To evaluate and examine the practice of cooperative societies in Bahrain and its impact on the economy.
4. To study the cooperative societies from an Islamic point of view, i.e. to examine the role of cooperative societies in relation to the *Maqsad*³ *al-Sharī'ah* of providing socio-economic welfare.

1.8 Scope/Limitation of study

This study will focus on the cooperative societies in Bahrain and to what extent it is contributing towards improving the economy of Bahrain. Moreover, the researcher will limit his study to consumer cooperative societies as a case study in Bahrain. Because of the limited number of literatures written in English about cooperative societies in Bahrain, the researcher will use literatures⁴ written in Arabic language to study the cooperative societies in Bahrain.

1.9 Hypotheses

³ Maqsad is the single form of Maqāsid (plural)

⁴ This includes reports, Cooperative Acts, researches and studies, newspaper articles, websites and articles in online forums.

As far as this research is concerned the researcher puts two hypotheses and they are as follows:

H1: Cooperative Societies are not fulfilling their roles in providing socio-economic welfare.

H2: Cooperative societies need government support in order to survive and improve.

1.10 Research Structure

The research paper will be organized into five chapters and these five chapters will be structured as follows:

Chapter One:

This chapter would be the introductory chapter. It mainly consists of a brief introduction to the research, background of cooperative societies in the world. The chapter then discussed the background of cooperative societies in GCC and Bahrain. The researcher then mentioned the problem statement of the research followed by the significance and the expected contribution of the study, research questions, objectives of the study, the scope and limitation for this study and finally the research structure.

Chapter Two:

This chapter would be the literature review where the researcher will review the literature on cooperatives, its definition and different types of cooperative societies, the framework and the structure of cooperatives, its benefits to society and economy, and will discuss the regulations of cooperative societies in Bahrain. In addition, the researcher will talk and discuss about *Maqāsid al-Sharī'ah* and relate them to the

cooperative societies. At the end of this chapter the researcher will try to discuss cooperative societies' role vis-à-vis that of Islamic Financial Institutions (IFI).

Chapter Three:

Third chapter would be the research methodology. In this chapter the researcher will mention the hypotheses and then will discuss his methods and procedures in conducting this research. Hence, the researcher will mention his models and how he will conduct the empirical approach to those models.

Chapter Four:

This chapter would be for discussion and analysis of the results or findings from chapter three.

Chapter Five:

This would be the final chapter of the research. In this chapter the researcher will discuss the findings, the conclusion and propose some recommendations for future researches.