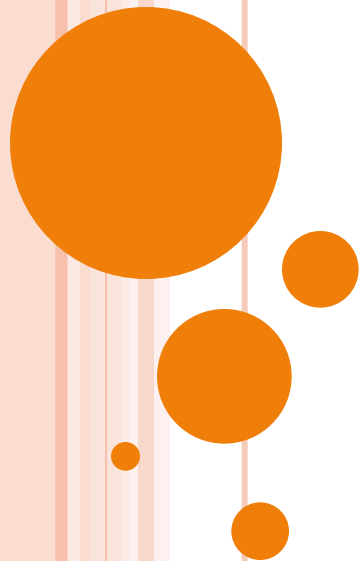


ISLAMIC MICROFINANCE: LESSONS FROM GOOD AND BAD PRACTICES

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ISLAMIC APPROACH TO POVERTY ALLEVIATION

- Charity
- Economic Empowerment
- Transparency & Accountability
- Debt Avoidance
- Cooperation & Solidarity
- Family Cohesiveness
- Contracts Free from Riba & Gharar



INSTRUMENTS OF ISLAMIC MICROFINANCE

- **Not for Profit Modes:** Zakah, Awqaf, Qard Hasan; Kafala; Hawala
- **For-Profit Modes:**
 - Participatory Modes: Mudaraba, Musharaka, Mudara
 - Debt-based Modes: Bai Muajjal/ Murabaha, Ijara, Salam, Istisna, Istijrar
 - Fee-Based Modes: Wakala, Joala



MICROFINANCE MODELS

Models in Both Conventional & Islamic Domains:

- Joint-Liability-Groups (JLG)
- Self-Help-Groups (SHG)
- Village-Banks
- Credit-Unions
- ROSCAs
- Pawning



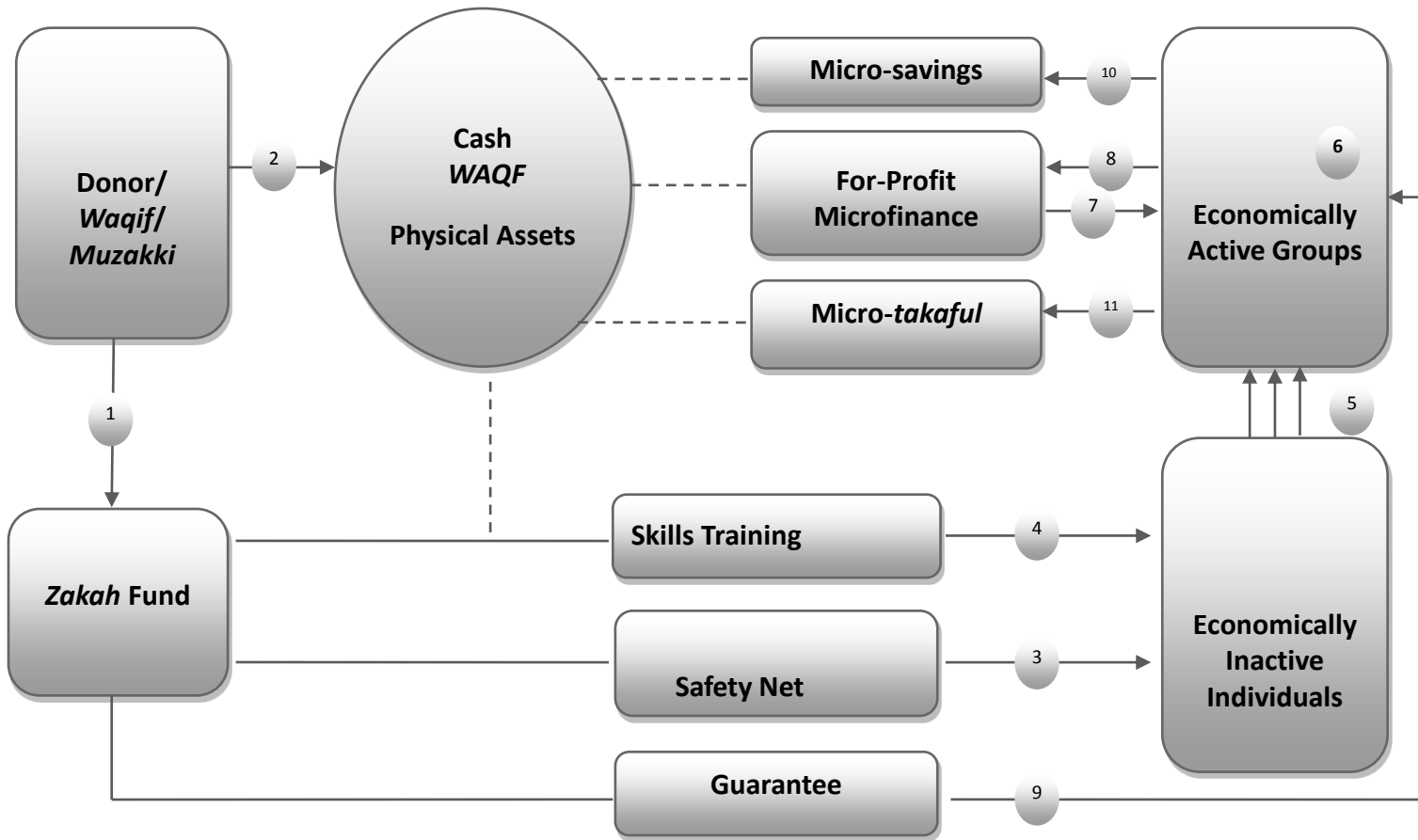
MICROFINANCE MODELS

Indigenous Islamic Models:

- Qard Hasan Funds
- Baitul-Mal-wa-al-Tamweels (BMTs)
- Zakah Funds
- Awqaf-Based Institutions
- Composite Models



COMPOSITE MODEL OF ISLAMIC MF



GOOD & BAD PRACTICES: MODELS IN BOTH CONVENTIONAL & ISLAMIC DOMAINS:

- Simplicity
- Transparency
- Standardized procedures & documentation
- Higher staff efficiency and professionalism
- Replication of best practices from conventional microfinance



GOOD & BAD PRACTICES: MODELS IN BOTH CONVENTIONAL & ISLAMIC DOMAINS:

- Break-down of hiyal-based mechanisms in micro economies
- Less emphasis on project viability
- Not for the poorest of the poor
- High cost of finance
- “Women only” approach
- Perpetuation of debt
- Low financial literacy precludes partnership-based modes



GOOD & BAD PRACTICES: INDIGENOUS ISLAMIC MODELS:

- Institutionalization of charity and good-giving
- Institutionalization of voluntarism
- Low/ zero/ negative cost of finance
- Safety net + skill enhancement + business development services
- Family empowerment



GOOD & BAD PRACTICES: INDIGENOUS ISLAMIC MODELS:

- Lack of transparency
- Poor accountability and governance structures
- Low operational efficiency and high operational costs
- Encouragement to continued dependency on charity
- Poor linkage with formal financial system



GOOD & BAD PRACTICES: COMPOSITE MODELS:

- Combine access, sustainability and affordability considerations
- Combine mission-based approach with market-based instruments
- Use best-fit instruments and modes
- Flexible pricing and product design



GOOD & BAD PRACTICES: COMPOSITE MODELS:

- Conflicting organizational culture
- Conflicting policy and regulatory framework
- Lack of transparency
- Poor accountability and governance
- Unresolved Shariah issues



MESO-LEVEL CHALLENGES:

ABSENCE OF SUPPORTING INFRASTRUCTURE

- Accounting Systems
- Payment Platforms
- Rating Agencies
- Training & Consultancy Providers
- Advocacy



MACRO-LEVEL CHALLENGES:

ABSENCE OF ENABLING ENVIRONMENT

- Policies and regulations on zakah management
- Policies and regulations on awqaf development
- Policies to link indigenous institutions with formal financial system
- Policies and regulations on Islamic finance in general and Islamic microfinance in particular



THANK YOU

