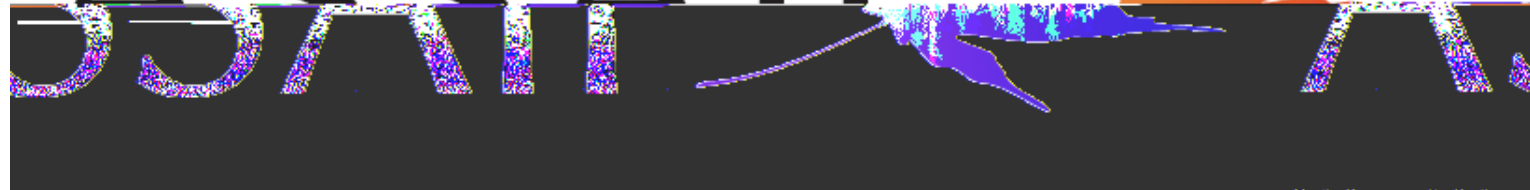


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Kuala Lumpur

**Creating an Islamic Microfinance Model
- The Missing Dimension**

Alberto G. Brugnoni

Summary

- **a gap between MF and Islamic MF**
- challenges in reaching a sustainable scale
- the missing dimension: a parting of the ways
- how to unlock a huge potential

A gap between MF and Islamic MF

The 2007 CGAP/MiEX data show strong imbalances:

- 44% of estimated pool of 77 million conventional MF clients around the world reside in Muslim countries
- one-half of one percent of total microfinance outreach is Shariah compliant: 380.000 v. 77 million
- tiny percentages (1-3%) and low average outreach (2.400 clients) even in the three top IMF countries

but IFC commissioned market studies tell us another story:

- a vital pent-up demand in Jordan, Algeria, Yemen, Syria, West Bank/Gaza, Indonesia with percentages running in the high thirties. No data available for the Gulf but ...
- further research needed above all for micro-entrepreneurs

Summary

- a gap between MF and Islamic MF
- **challenges in reaching a sustainable scale**
- the missing dimension: a parting of the ways
- how to unlock a huge potential

Challenges in reaching a sustainable scale

- the not-for-profit culture nature of the IMF providers:
 - NGOs rural, village and cooperatives banks; 2 commercial !
 - multi-donor Gulf institutions (AFESD, AGFUND, ALJCSP, SCB)
 - Islamic commercial banks are only now downscaling
- want of a business model:
 - lack of operational efficiency: who should bear the costs?
Loan to-deposit ratio over 110%, average operational efficiency ratio at 20%, high portfolio delinquency with 30-day PAR over 9%, low RoA at 1.5%
 - risk management
- products diversification: the *murabahah/tawarruq* issue
- the question of authenticity

Summary

- a gap between MF and Islamic MF
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- **the missing dimension: a parting of the ways**
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The missing dimension: a parting of the ways

- sustainability: from a charity-based donor-dependent approach to a market-based for-profits approach
- two different roles:
 - donors: temporary start-up and capacity building. Non-secular social development programmes. The asymmetric information issue: collective guarantees. Governments' role
 - private funding: the creation of an alternative asset class
- tapping the existing pools: the intermediation between microsavings and microfinancing
- moving away from:
 - the creation of debt (pros and cons) and move to:
 - equity participation (pros and cons)

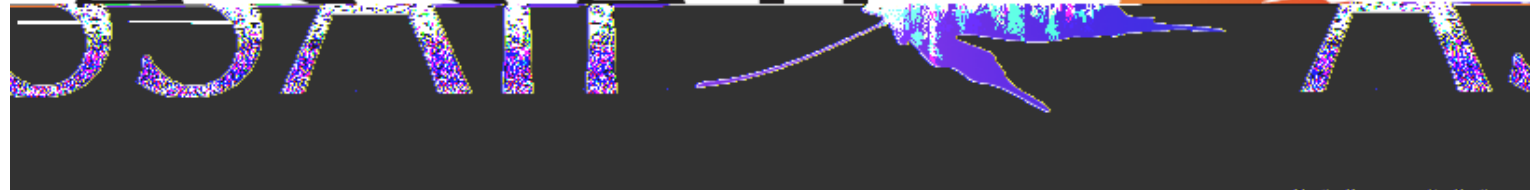
Summary

- a gap between MF and Islamic MF
- challenges in reaching a sustainable scale
- the missing dimension: a parting of the ways
- **how to unlock a huge potential**

How to unlock a huge potential

- stop the confusion in roles: the emphasis should be on *access not cost*
- make the use of Islamic financing independent from other available instruments such as *waqf, kafalah, qard hasan, zakat, sadaqa*
- conventional microfinance is already structurally aligned to Islamic finance
- conventional microfinance's USD21 billion goal to give sustainable financial access to 1bn people is within reach of Islamic finance

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