
Incentivizing Microfinance for Islamic Financial Institutions: Financially Mainstreaming the Microenterprise

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The Roadmap

- Social/Doctrinal and Market Pressures on Islamic Finance
- Contemporary Trends in Microfinance
- Islamic Microfinance Experiences and Challenges
- Exploring a New Transaction Model
- Q&A

Social/Doctrinal and Industry Pressures on Islamic Finance

- Doctrinal Pressures (internal and external)
 - Glorification of poverty alleviation
 - Pro-borrower approach
 - Community welfare
 - Scholarly and consumer criticism

Social/Doctrinal and Industry Pressures on Islamic Finance

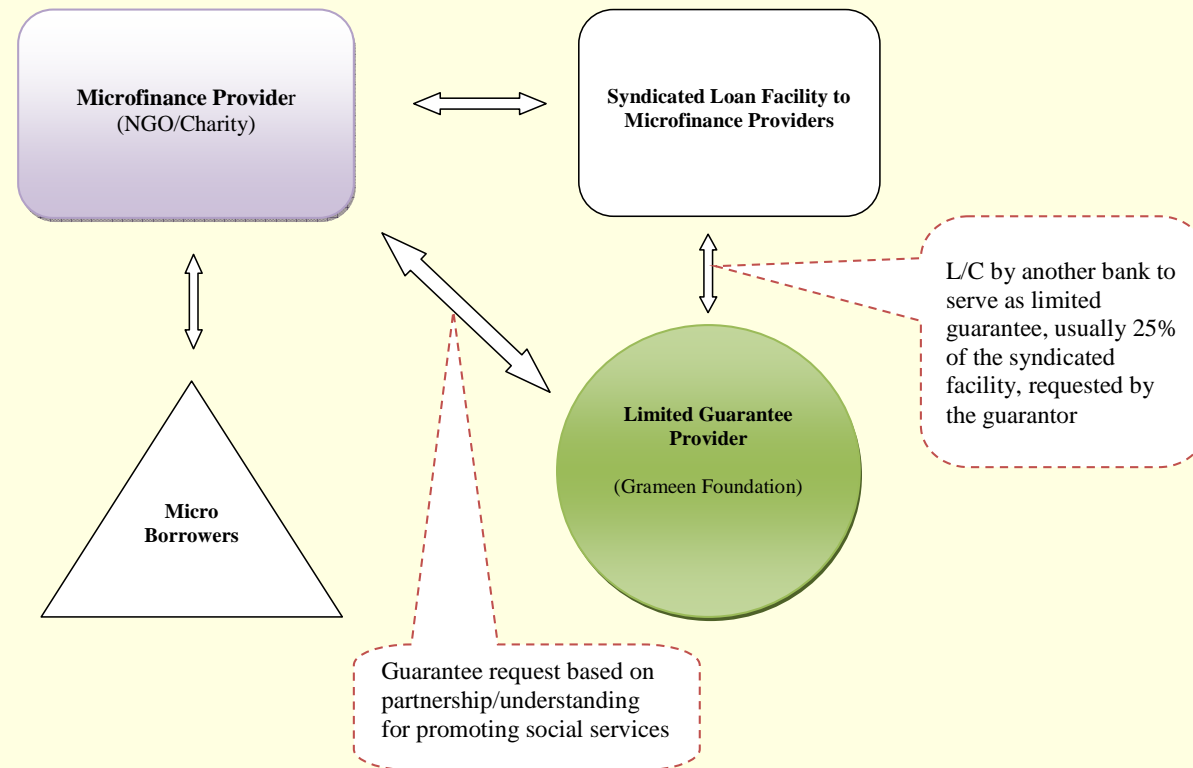
- Market Pressures
 - Financial competitiveness (corporate maximization)
 - International integration (regulatory and governance)
 - *Shariah* compliance (transactional innovation)

Contemporary Trends In Microfinance

- Pursuing Efficiencies of Scale in Islamic Microfinance: Need for a Diverse R&D
- Monitoring and Related Services
- Social Businesses
- Guarantee
- Tax Exemption
- Transparency
- Making Microfinance Less Expensive for the Microentrepreneurs
- Separation of For-Profit and Non-Profit for a Sustainable Islamic Microfinance

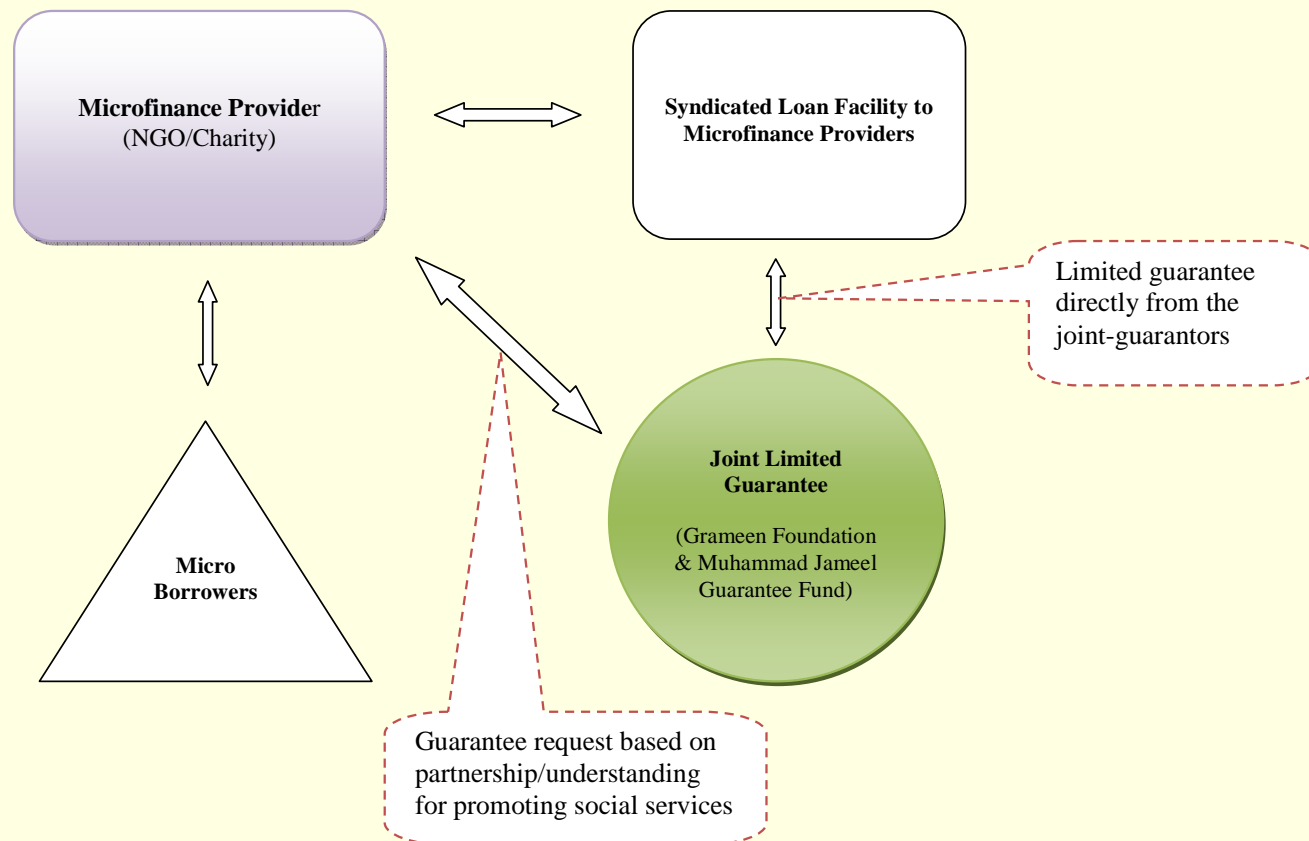
Contemporary Trends in Microfinance

■ Grameen Foundation's Growth Guarantee Program



Contemporary Trends in Microfinance

■ Grameen-Jameel Guarantee Program



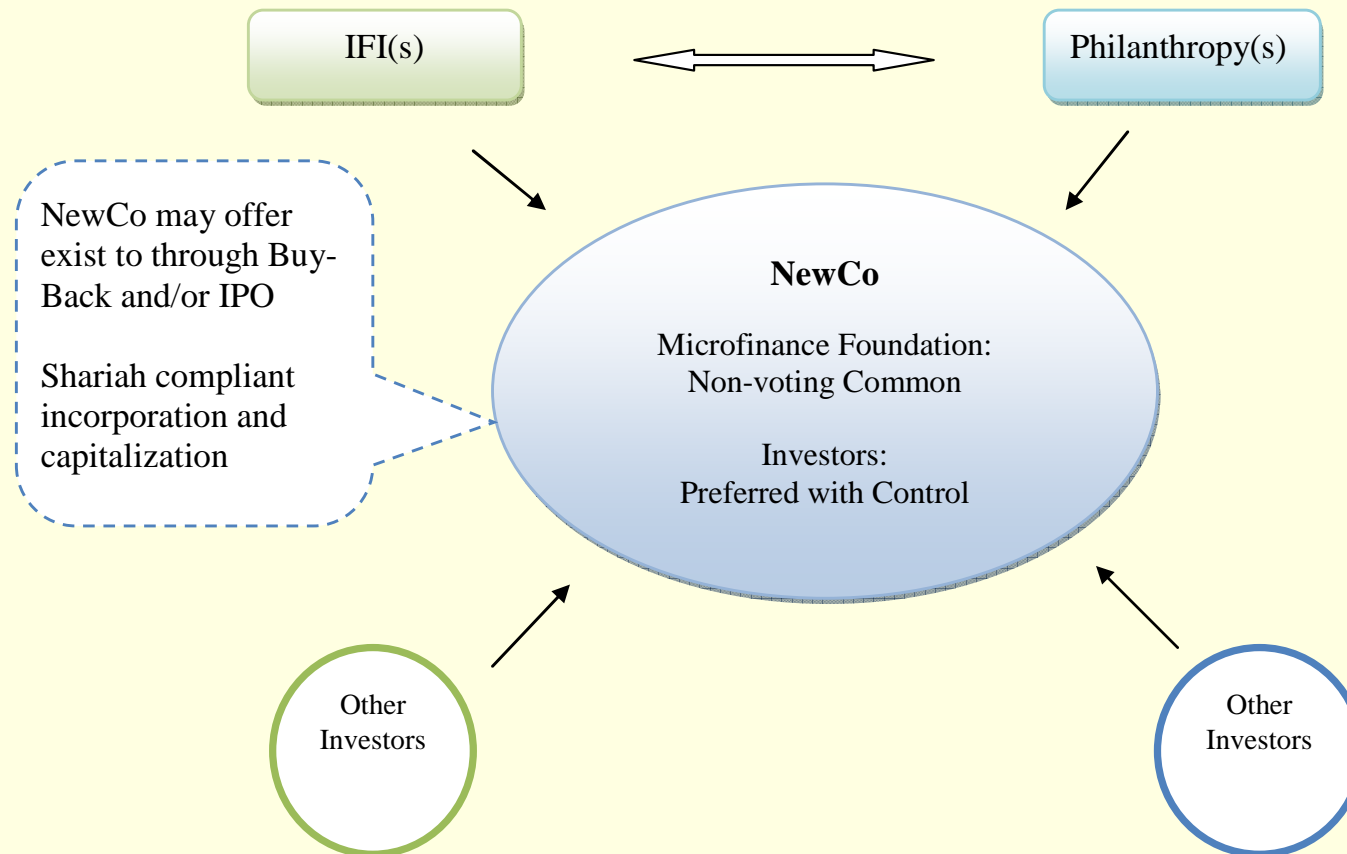
Exploring a New Transaction Model (Lessons Consolidated)

- Achieving efficiency, scale, sustainability and profitability
- Providing capacity building, training and intermediation to microentrepreneurs
- Doing and promoting social business
- Continued reliance upon advanced research
- More efficient handling of the donations
- Devising strategies to make more funds available for microfinance such as risk sharing and leveraging with the guarantees
- Reaching the poorest of the poor
- Making microfinance inexpensive

Exploring a New Transaction Model (Step One)

- NewCo issues preferred stock to investors with control right. Microfinance Foundation acquired the nonvoting preferred stock in NewCo. The common, in relevant cases, may be retained by the sponsoring professionals who also incorporate Microfinance Foundation.
- Microfinance Foundation is set up to allow participation of public and private donors for developing microfinance.

Exploring a New Transaction Model (Step One)

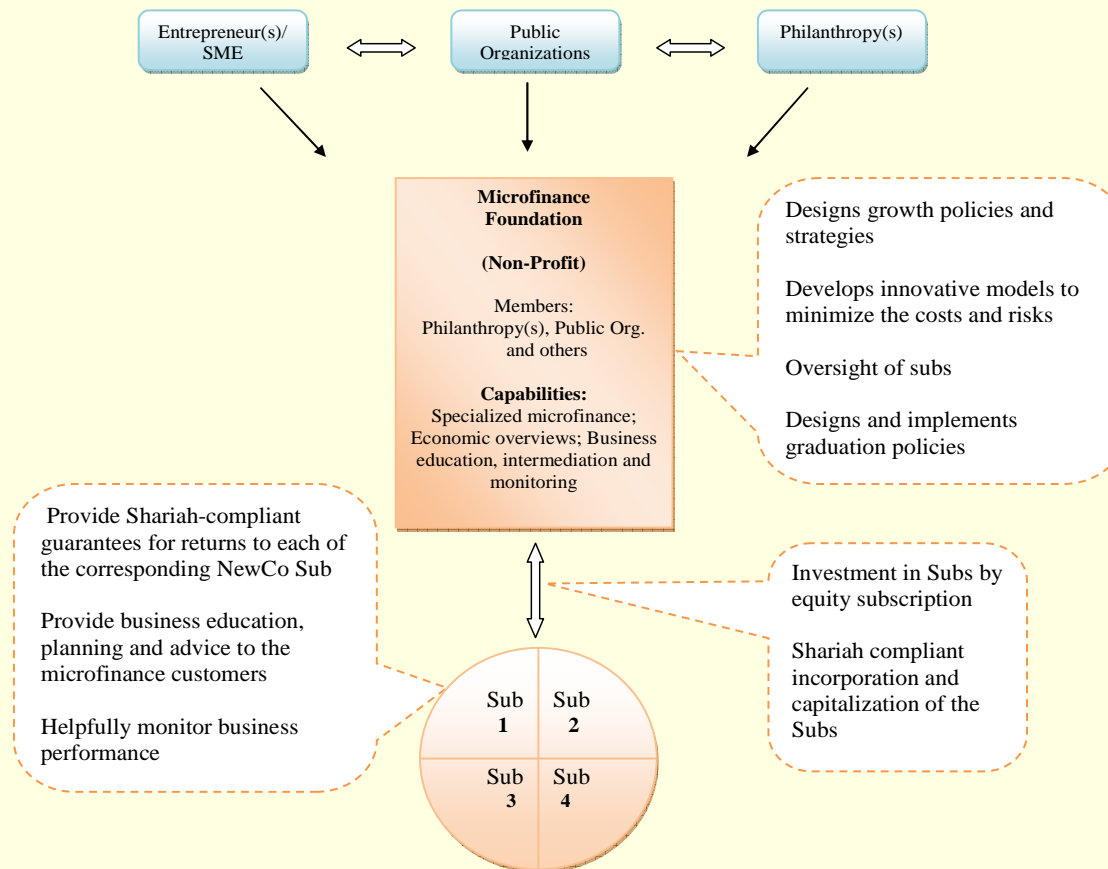


Exploring a New Transaction Model (Step Two)

- Microfinance Foundation is set up to allow participation of public and private donors for developing microfinance.

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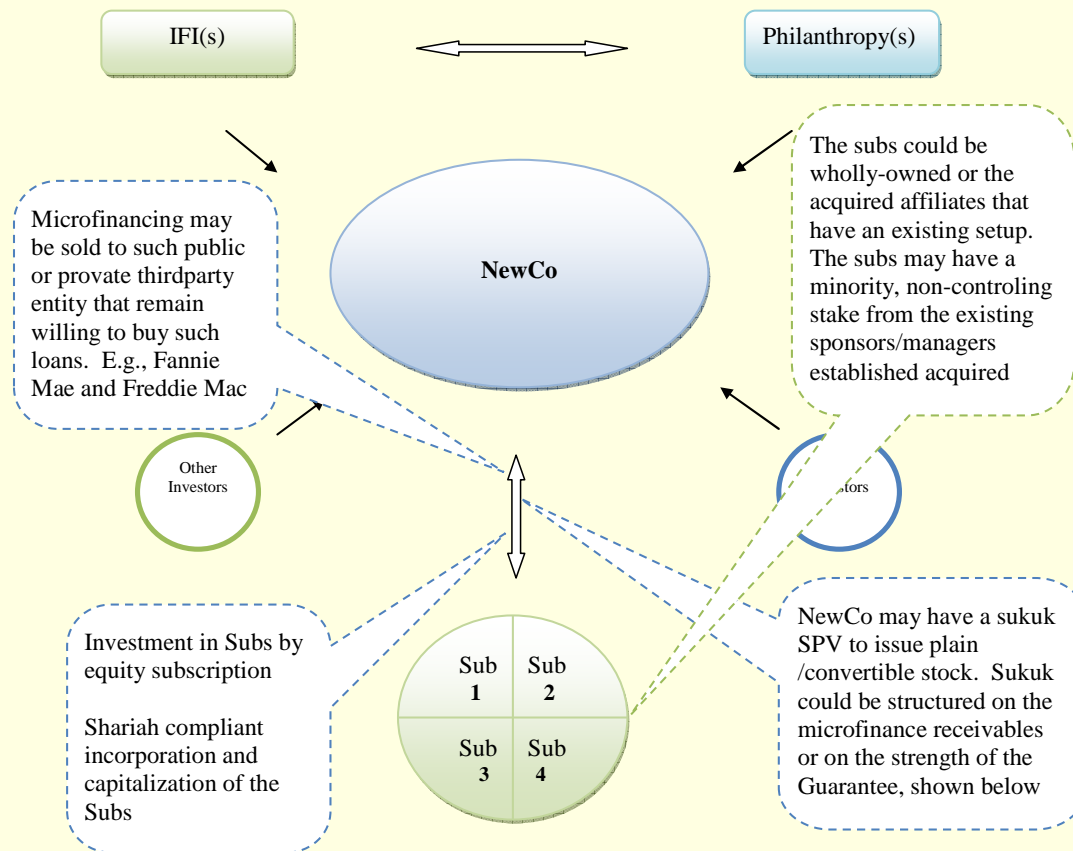
Exploring a New Transaction Model (Step Two)



Exploring a New Transaction Model (Step Three)

- NewCo and Microfinance Foundation set up their specialized subsidiaries that mirror the sectoral and geographic specializations. NewCo provides microfinancing through its specialized subsidiaries and the relevant subsidiaries of Microfinance Foundation provides R&D and Guidance & Monitoring to the microentrepreneurs, and the agreed repayment guarantee/surety to NewCo subsidiaries

Exploring a New Transaction Model (Step Three)

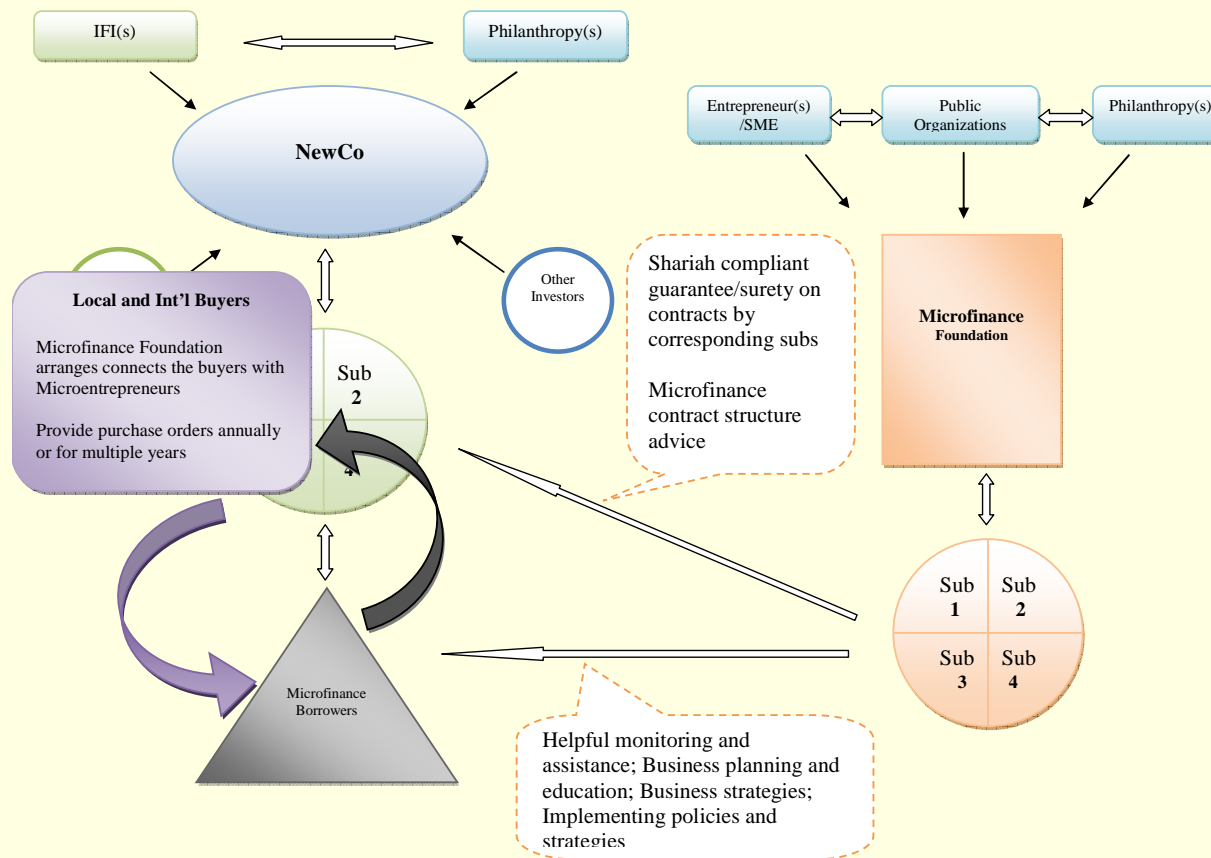


Exploring a New Transaction Model (Step Four)

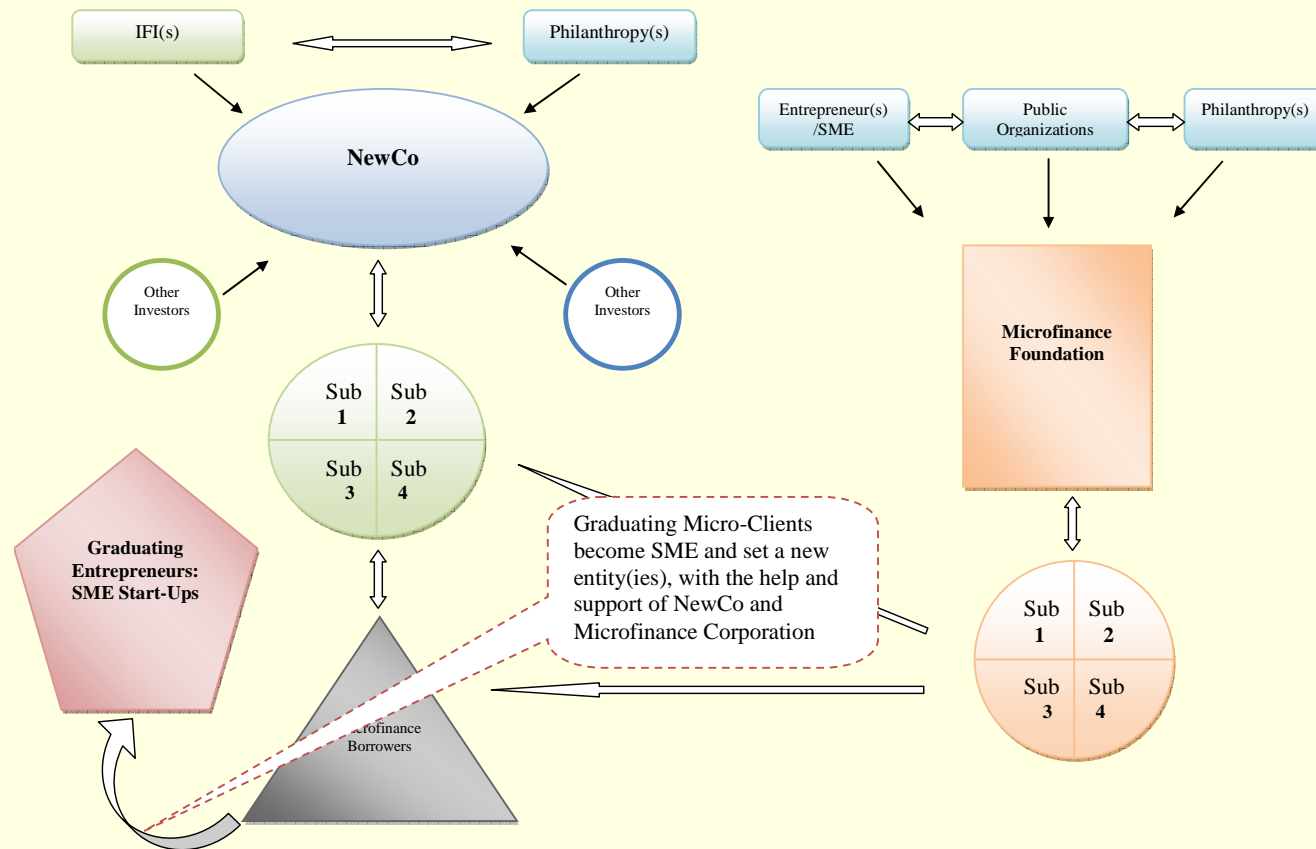
- The microentrepreneurs graduate after repayment, and the profit generated by the NewCo subsidiaries flows to pay the preferred. If declared, the common receive dividend, and the residue stays with NewCo. Microfinance may be compensated by contract, but not necessarily for providing the guarantee

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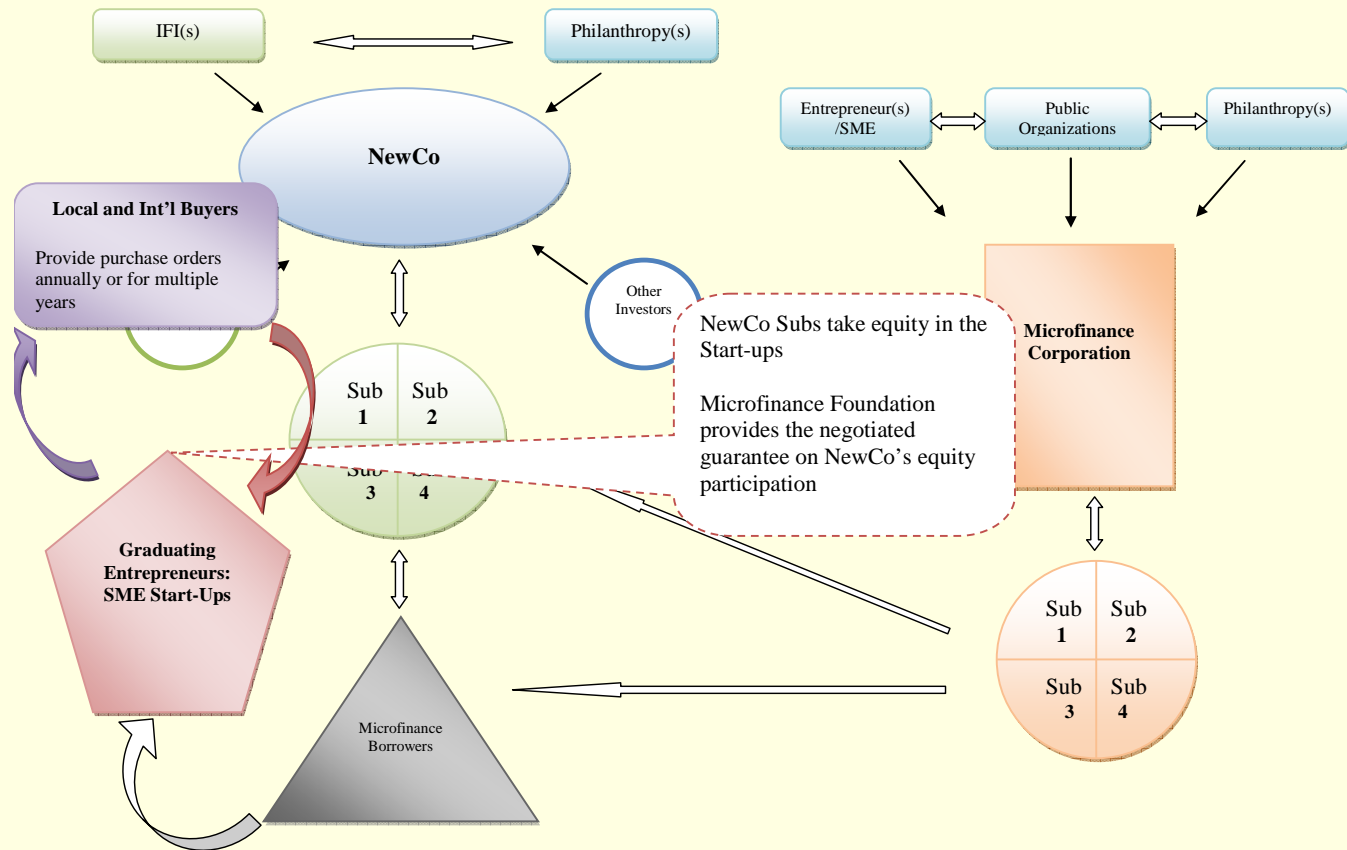
Exploring a New Transaction Model (Step Four)



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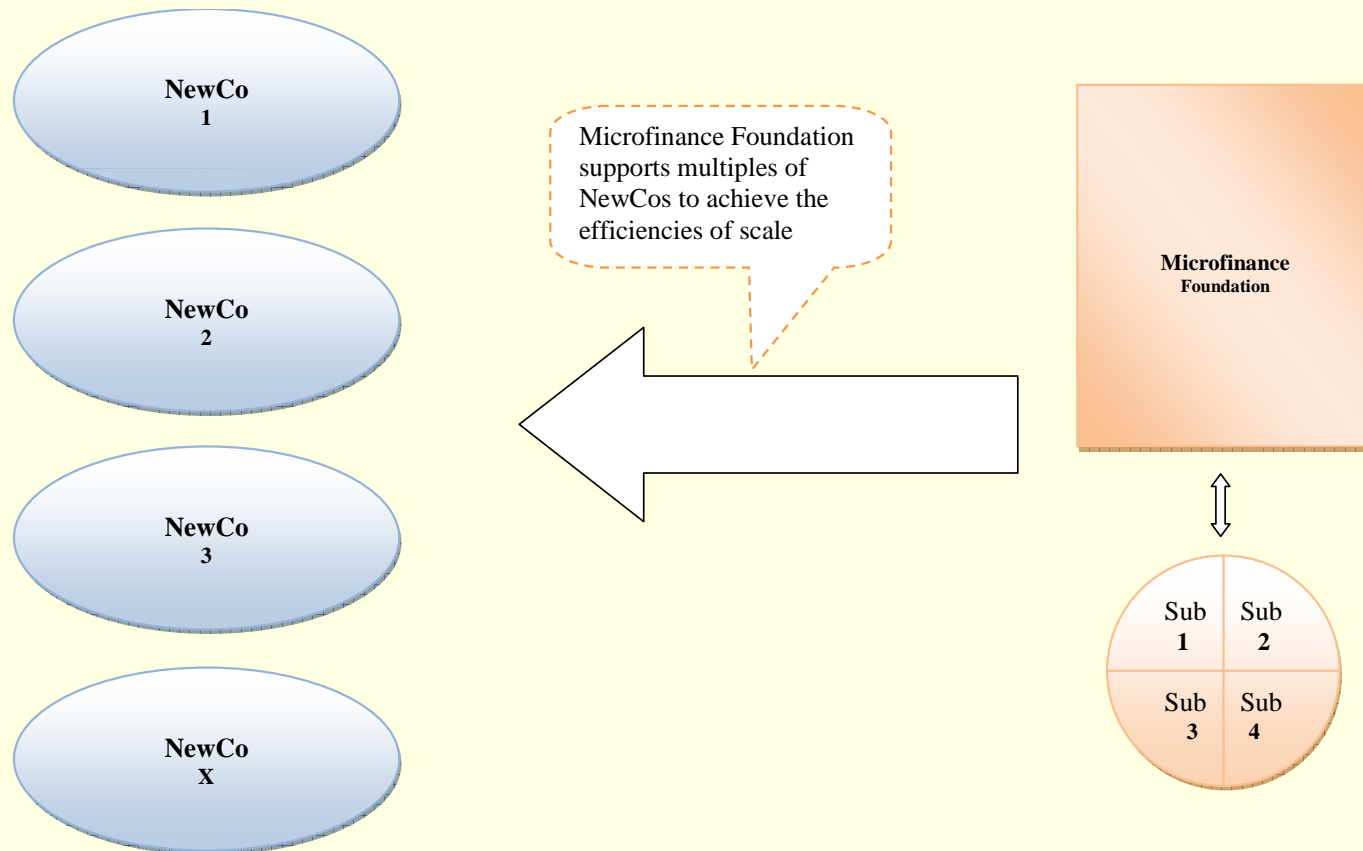
Exploring a New Transaction Model (Step Four)



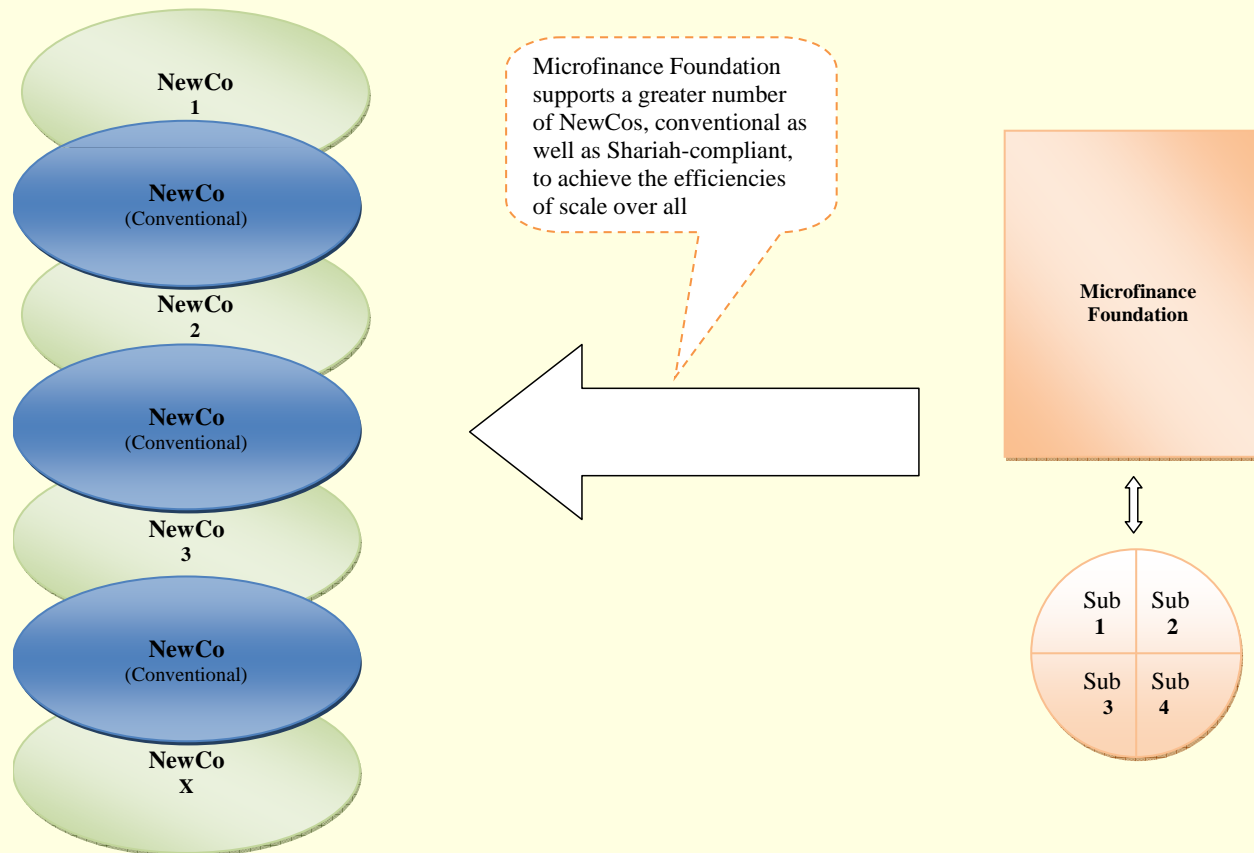
Exploring a New Transaction Model (Step Five)

- Microfinance Foundation supports multiple structures of NewCo that include the NewCos that provide conventional microfinance

Exploring a New Transaction Model (Step Five)



Exploring a New Transaction Model (Step Five)



Exploring a New Transaction Model (Step Six)

- Based on a totally different structure, which is not within the scope of this work and therefore not discussed herein, NewCo and its investors take an equity position in small and medium businesses of the graduating microentrepreneurs

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Thank You