Evaluation synthesis for evidence-based decision-making and practice – the example of Islamic financial services in IsDB

Lessons learned from Evaluations of Islamic Microfinance Projects

Adamou Sanda Mayaki

Islamic Development Bank
Takeaway from the session

IsDB and Islamic Microfinance

Main Challenges of Islamic Microfinance

Lessons Learned
AEW 2019

Quality Evaluation for Better Results: Local, National & Regional Perspectives

- Learning
- Accountability
- Performance Assessment
- Enhance the efficiency
- Results
1. Takeaway from the session
2. Link to AEW 2019
3. Background on IsDB
4. IsDB Group Engagement in Islamic Micro Finance
5. Challenges of the Islamic Microfinance Sector
6. Findings & Lessons Learned
7. Way Forward
Key Facts about IsDB

Established in 1975 with HQ in Jeddah, KSA

1,200 + staff distributed across different Entities & regional hubs

A Unique Model of South-South Cooperation

Global MDB: Membership 57 Countries Spreading over 4 Continents

7 Regional Hubs

AFRICA
- Rabat, Morocco
- Dakar, Senegal
- Jakarta, Indonesia

LATIN AMERICA

EUROPE
- Almaty, Kazakhstan
- Ankara, Turkey

ASIA
- Dhaka, Bangladesh
- Abuja, Nigeria

4 new Regional Hubs being Established
- Egypt, Suriname, UAE, and Uganda
Evolution of the IsDB Group

ICIEC – 1994

ISFD- 2005

IRTI – 1981

ICD – 1999

ITFC -2008
IsDB Mission

Mission Statement

Promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.”
IsDB and Islamic microfinance

IDBG 10-YEAR STRATEGIC FRAMEWORK

IDBG Vision
A Vision for Human Dignity

Strategic Objectives

Inclusiveness:
Become a preferred partner for MCs’ economic and social development

Connectivity:
A strong catalyst for South-South cooperation

IFS Growth:
Leading authority in Islamic Finance

Strategic Pillars

Economic and social infrastructure
Private sector development
Inclusive social development
Cooperation between member countries

Capacity Development

Islamic finance sector development

Guiding Principles

Resource mobilization
Manage for results
Selectivity

Financial sustainability
Group synergy and governance
Build capabilities in strategic pillars
Link strategy to budget and resources

www.isbd.org
There is strong need to provide support to the underserved...

- Over 200 Million Microfinance Clients Globally (SCR)
- Only 1% of the Global Microfinance Outreach. (GIFR, 2016)
- Nearly half of the 650 million living in IsDB MCs living with less than US$ 2 a day will not accept interest based financing (CGAP)
- 1.2 million clients, with the majority being in Indonesia, Bangladesh and Sudan.
- 300 Islamic microfinance institutions in 32 countries
IsDB Group Engagement in Micro Finance

Since 2001, IsDB approved a total of US$ 596 million for microfinance interventions in 74 full-fledged microfinance projects or projects with microfinance components.

<table>
<thead>
<tr>
<th>Microfinance Support Program (MFSP)</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth Employment Support (YES)</td>
<td>2</td>
</tr>
<tr>
<td>Microfinance Development Program (equity investment)</td>
<td>3</td>
</tr>
<tr>
<td>Islamic Microfinance for Poverty Alleviation and Capacity Transfer Program (IMPACT)</td>
<td>4</td>
</tr>
<tr>
<td>Vocational Literacy Program for Poverty Reduction (VOLIP)</td>
<td>5</td>
</tr>
<tr>
<td>Technical Assistance in Islamic Finance</td>
<td>6</td>
</tr>
</tbody>
</table>
Models of Islamic Micro Finance

1. The Akhuwat Islamic Microfinance model (Pakistan): Sources donations from more affluent members of society and provides interest-free loans to the less privileged members.

2. The Wasil Foundation model (Pakistan): Uses a combination of ijara, salam and murabaha to provide land to farmers, procure crops from them and sell to vendors.

3. The Economic Empowerment model (Yunisa, Sudan): Provides a package of solutions to entrepreneurs in the form of access to finance, markets, know-how and resources.
Models of Islamic Micro Finance

4. The Bait Ul Maal wa Tamwil (BMT) model (Indonesia): A cooperative based model with the Maal division managing social funds and the Tamwil division collecting deposits from members and providing funds to the needy through murabaha, musharaka and mudaraba for productive uses.

5. The Group Solidarity model (Malaysia, Bangladesh): Operates on group based lending where members of the group act as collateral by guaranteeing each other.
Challenges of the Islamic Microfinance Sector

- Effective international Shari’ah compliant money and capital markets
- Product innovation
- Quality issuers of Islamic financial paper
- Size of Islamic banks vs conventional banks
Four (4) projects in Benin, Kazakhstan, Kyrgyz Republic and Tajikistan Evaluated under the Microfinance Support Program (MSFP)

One (1) Project evaluated under the Youth Employment Support (YES) in Tunisia.

One (1) Project evaluated under the Vocational Literacy Program for Poverty Reduction (VOLIP) in Senegal

Eleven (11) Islamic Finance TA evaluated
Findings

Legislative framework on Islamic Finance (IF) needs to be in place before starting of microfinance projects to ensure compliance with IF principles.
Findings

Flexibility

Flexible repayment structure and financial awareness raising boosts financial inclusion of people.
Lessons Learned

Inclusiveness

Islamic Microfinance contributed to financial inclusion in the beneficiary countries as most of the clients were borrowing for the first time in their lives.
Lessons Learned

Women’s Engagement

Effect of microfinance on households’ poverty and well-being is more likely to be significant if women were engaged.
Tailor-made terms of provided financing to match the production cycle of the beneficiaries increase the effectiveness and attractiveness of the program.
Principles of risk sharing in Islamic finance make financing more attractive to potential clients.
Potential for Growth

Lessons Learned

The growth of Islamic Finance will depend on the adoption of the standards set by the main standard-setting organizations.
The Way Forward -1

More comprehensive approach from microfinance to economic empowerment through smart microfinance (Have access to the resources that create economic growth and to act on and make economic decisions):

1. From financial inclusion to economic inclusion (From access to finance to access to investment opportunities and development)
2. Focus on causes of economic disempowerment
The Way Forward -2

More comprehensive approach from microfinance to economic empowerment through smart microfinance (Have access to the resources that create economic growth and to act on and make economic decisions):

1. Value Chain development approach: Linking the underserved people with the market and economic system, vertical and horizontal linkages
2. Multidimensional change process evolving along different pathways: material/financial, perceptual, cognitive and relational
The Way Forward - 3

1. Scale up and replication of successful pilots in Sudan and Tunisia by creating EE institutions in other MCs
2. Establishment of Economic Empowerment Wakf (Endowment)
Thank you so much for your attention