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Islamic Development Bank

ECONOMIC EMPOWERMENT

AN INNOVATIVE IsDB APPROACH TO IMPROVE THE MICROFINANCE'S IMPACT IN POVERTY ALLEVIATION

Economic Empowerment: An Innovative IsDB Approach to Improve the Microfinance's Impact in Poverty Alleviation[1]

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Abstract

This study reviews the methodological and practical problems facing the traditional microfinance sector, then explains the methodology of economic empowerment of the Islamic Development Bank, which is based on two main pillars: the use of Islamic financing instruments/tools, in addition to providing financial and non-financial services to the poor. The paper argues that this methodology is a comprehensive developmental approach and it has the potential to overcome the shortcomings of the traditional microfinance sector. The paper also argues that this methodology increases the impact of MFIs in poverty alleviation.

1. (Disclaimer: The views expressed by the authors does not necessarily reflect the views and policies of the Islamic Development Bank)

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1. The Promise of the SDGs: Financial Inclusion as a Driver for Poverty Alleviation

Financial inclusion means access to formal financial services for all people to meet their needs. Financial inclusion plays a major role in the 2030 Agenda for Sustainable Development Goals (SDGs). While the SDGs do not explicitly target financial inclusion, greater access to financial services is a key enabler for many of them. In fact, the SDGs identify financial inclusion as an enabler for 7 of its 17 goals (including eliminating poverty, creating jobs, improving gender equality and good health), and 16 out of 169 specific targets in these SDGs are directly related to expand access to banking, insurance and financial services for all.

For example, Financial inclusion is measured under "SDG 8: Decent Work and Economic Growth". Under indicator 8.10.1(a), the SDG measures "Number of commercial bank branches per 100,000 adults and (b) number of automated teller machines (ATMs) per 100,000 adults. The second indicator is more specific for the poor as the indicator 8.10.2 measures the proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider. In line with achieving the latter indicator, a lot of efforts have been made to strongly incentivize the poor to open bank accounts. Regulations, cost of opening an account and even national ID programs have made it easy for all people to open bank accounts. The underline promise of the SDGs is that financial inclusion, itself, is a driver for poverty alleviation, economic growth and jobs creation.

In this paper, we criticize this promise by, first, arguing that financial inclusion or providing "the access" to financing services itself is not the determine for poverty alleviation, the crucial questions, instead, are: "how" this access happened (i.e. the financialization process)? What are the social and economic impacts on the poor and workers? And how economic benefits are distributed? Second, we argue that the IsDB Economic Empowerment approach that utilizes the Islamic finance modalities to provide financial and non-financial services to the poor is a comprehensive approach that overcome the shortcomings in the conventional microfinance/microcredit institutions and enhance improve the microfinance's impact on poverty alleviation.

In the second section of this paper, we discuss the theory of change in traditional microfinance institutions and the effectiveness of these institutions in alleviating poverty in developing countries and what are the main obstacles that these institutions faced. In the third section, we discuss the change theory in the economic empowerment methodology by reviewing the two main pillars on which the methodology is based. The first is the Islamic finance pillar and its difference from conventional finance, and the second pillar is the comprehensiveness of the vision in the economic empowerment methodology and its pursuit of economic inclusion, unlike the traditional microfinance institutions that aim to just financial inclusion. In the fourth section, we introduce four case studies of applying the economic empowerment methodology and its different business models carried out by the Islamic Development Bank. Finally, the study concludes with a conclusion that summarizes the fundamental differences between traditional microfinance and the economic empowerment methodology of the Islamic Development Bank.

2. The Conventional Microfinance Institutions: Theory of Change and the Impact Debate

Many policymakers are interested in entrepreneurship as a potential pathway out of poverty, and several recent studies show that small-scale entrepreneurs have access to high-return investments. Yet, low-income households have historically had limited access to financial services such as credit, savings, and insurance products that could lead to increased investments. Microcredit was designed to overcome credit market failures and help low-income borrowers take advantage of investment opportunities. It expanded access to credit around the world, typically in the form of small business loans with relatively high interest rates and immediate, biweekly loan repayments. As of 2013, 211 million people around the world had ever borrowed from a microcredit institution, of whom 114 million were living in extreme poverty[2]. In April 2020, a report on the microfinance sector was released stating that the sector was growing at a rate of 15% annually and that the microfinance market is expected to exceed $ 313.7 billion by 2025[3].

2.1 Theory of Change in the Conventional Microfinance:

The above theory of change for the financial inclusion through the conventional microfinance institutions appears to be quite simple, by encouraging people to open bank accounts, the poor will take loans which will ultimately help them to earn more income by taking advantage of business opportunities. While it is true that financial inclusion is not just providing access to credit, the merits of savings, insurance or monetary transfers is not discussed in this paper. In many cases, savings, insurance and money transfers are used by

2. https://www.povertyactionlab.org/policy-insight/microcredit-impacts-and-limitations
3. Report Linker, Global Microfinance Industry, April 2020, available at: https://www.reportlinker.com/p05799111/Global-Microfinance-Industry.html?utm_source=GNW

banks to enable them to provide credit to the poor in lieu of collaterals or guarantees. Compulsory savings and life insurance products are examples how banks protect themselves from the risk of default. Similarly, money transfer activities provide historical data that can be used by microfinance institutions to assess the credit risk of the client.

2.2 Does conventional microcredit alleviate poverty?

There have been many evaluation studies conducted to try to answer this question. The gold standard of impact evaluation- Randomized Control Trials (RCTs) have been conducted on many microfinance institutions. A search on J-PAL website shows that an estimated 77 studies have been conducted on microfinance. To try to make sense of all these data, a study was conducted on 7 RCTs done in Bosnia, Ethiopia, India, Mexico, Mongolia, Morocco and Philippines[4]. Some of the lessons learnt include :

a) The demand for many microcredit products were modest- take up of loans to eligible borrowers ranged between 13 to 31 percent which was much lower than the MFIs had forecasted.
b) Despite some evidence of business expansion, none of the seven studies found a significant impact on household income for borrowers.
c) There is little evidence that microcredit had substantial effects on women's empowerment or investment in children's schooling, but it did not have widespread harmful effects either.

In summary, based on the numerous evaluation studies conducted the evidence is inconclusive and we still are unable to answer whether conventional microcredit alleviate poverty. The report tried to give reasons why this may be the case. The image below is taken directly from the report.

The Problem with Profit

Why was microcredit›s impact on business profit so limited in these contexts? There are many potential reasons. Borrowers may choose to reduce their wage labor when they can earn more from their business, as was the case in Morocco. Many small-scale entrepreneurs may not be good at growing their businesses without additional training or support. In Mexico, women›s business revenues increased with access to credit, but so did their expenses. As several studies found, some borrowers chose to use loans for consumption rather than investment.

There are numerous other potential explanations that the existing studies do not examine. Often low-income households own businesses that are relatively undifferentiated in a saturated market, such as owning a small shop in an outdoor market. Given that many other entrepreneurs are similarly employed, a large increase in profits for any one entrepreneur is unlikely. Furthermore, some entrepreneurs may be entrepreneurs out of necessity rather than choice, given limited job prospects in their economies, and others may simply not be motivated, or have the skills or time to substantially grow their businesses.

Therefore, based on the J-PAL analysis, there are several potential explanations for the limited impact of traditional microcredit on income and long-term consumption:

➢ Not all borrowers may have access to or want to take high-return investment opportunities. Suggesting that there is a lack of business engineering to identify the business opportunities that have high-return investment and have the potential of creating decent sustainable jobs;

4. See:
- https://www.povertyactionlab.org/policy-insight/microcredit-impacts-and-limitations
- https://www.povertyactionlab.org/sites/default/files/publications/where-credit-is-due.pdf

- Many borrowers use loans for consumption rather than investments. Suggesting that there were high non-entrepreneurial returns to credit;
- Microloans also tend to be costly to deliver and expensive for low-income borrowers;
- Lack of soft skills and capacity building in business aspects for the borrowers.

Based on this analysis, some of the J-PAL study recommendations are:

- Innovations to target high-potential entrepreneurs and offer more flexible lending products may lead to more high-return entrepreneurial investments;
- Donors with the goal of supporting poverty reduction should not finance or subsidize traditional microcredit lending, but should instead support innovations in targeting, product design, and consumer protection.

In the next section, we argue that the IsDB Economic Empowerment approach has overcome the shortcomings in the conventional microfinance market by building its business model on two things: Using Islamic Finance instruments to manage the financial services; and Using a comprehensive view that focuses on economic inclusion rather than finical inclusion. Therefore, it is not only providing financial solution, but also all necessary non-financial solutions that aim to provide poor the access to the required inputs/means to enable him/her to contribute to the mainstream economy.

3. IsDB Economic Empowerment Approach: Toward an Innovative Islamic Finance Approach for Poverty Alleviation and Economic Inclusion.

3.1 How Does Islamic microfinance alleviate poverty?

Islamic microfinance is the provision of Islamic finance to the poor. At the minimum, it is about ensuring that the financing complies with Shariah and that is devoid of any form of interest. The ideal application of Islamic finance is that the financing should fulfill the ideals of Maqasid Shariah which is to attain good, provide welfare and avoid evil or loss though protection of the religion, life, intellect and wealth.

Murabaha is often described as the Islamic financial instrument which is the easiest to implement because it closely resembles an interest-based loan. Under a Murabaha transaction, the client would approach the financial institution to help him purchase an asset. After conducting a credit assessment, the financial institution would purchase the asset on behalf of the client and sell it to him at a profit rate which may be like the interest rate charged by a conventional financial institution. On the surface, the Murabaha financing may look like a conventional loan. However, there are three main differences:

a) Murabaha financing can only be used for Shariah compliant activities- This is important as all financing should be applied in ethical sectors. The poor are often victims of sectors that promote social ills such as alcohol, tobacco and gambling. The restriction to prevent any financing from such activities help to reduce social ills that may plague society.

b) Murabaha can only be used in asset based financing- It is very challenging to ensure that the client does not divert the funds they receive for other purposes. By making direct transfers to the suppliers, Islamic financial institutions mitigate such risks. This is even more significant when it comes to female clients which make up the bulk of microfinance clients (about 70 to 80% on average). In many cases, although the borrower is female, the ones utilizing the loans are her husband or male family relative. She is forced to repay the debt as the official debtor of the loan. Often, recovery tactics from microfinance institutions as well as her social circle that make up her guarantors will pressurize her to repay the loan even if she did not use the financing.

c) Since the selling price is clearly stated in a Murabaha contract, the amount due from the client will not increase if there is any delay in the payment. Unlike a conventional loan, if the tenor of a loan is increased from one year to two years, the total amount due does not change as the client is given additional time to repay the loan.

Murabaha like Salam, Ijara and Istisna' are trading contracts where the financial institutions buy and sell assets. Hence, they are very different from conventional loan products which charges rent in the form of interest for the financing provided irrespective of the asset or activity that is being financed. By ensuring that the above features are changed, the Murabaha product helps to mitigate any harm that may be caused by over-indebtedness. Many Islamic financial institutions stop here- they are mainly concerned with being Shariah compliant and do not maximize the potential of Islamic finance.

Successful Islamic microfinance institutions however go beyond Shariah compliance. When conducting Murabaha, these Islamic microfinance institutions negotiate with suppliers to obtain a lower price for the supplies that they purchase on behalf of the clients. Since they often purchase from the same supplier for many of the clients, they can negotiate for good discounts on behalf of the clients. If the financial institution negotiates for a 30% discount and charges 30% profit rate for the asset that is being sold to their clients- the net effect is that the client will receive the asset on credit at zero cost!

The below example simply shows how it is even possible how an Islamic microfinance provider is able to negotiate with the supplier and help the farmer client to obtain the fertilizer and seeds that that they need at USD 910 instead on a one year credit which is even lower than if the farmer were to purchase directly from the supplier (USD 1000) on cash basis. This is the value add that can be achieved by the Islamic microfinance institution which is not possible under the conventional model.

Example from various IsDB funded projects

Murabaha (Cost Plus Profit)

- Client needs **$100**0 to buy fertilizer and seeds. He expects to sell the crop to a buyer at **$1500**.
- MFI negotiates with supplier at retailer or wholesaler level, gets **30% discount**
- Negotiated purchase price $700 (purchase price).
- Borrows from MFI at **30% interest/profit rate** per annum over 1 year
- Pays **$910 (selling price)** after 12 months **($700 principle, $210 profit)**
- If delayed by another 12 month, no additional profit is due
- Penalty payments allowed but must be given to charity

How do we measure?

In the earlier sections of the paper, we established how various RCT evaluations have inconclusive as to whether conventional microfinance has had a positive effect on poverty alleviation. The reason they gave was that measuring profit was problematic as there were too many factors that caused the changes of income. It was just not feasible to narrow down whether the credit provided was the main cause of any changes in profit.

RCTs measure the statistical difference in difference between the experimental group and the control group. Instead of measuring the increase in income as a result of the intervention, they measure changes in the assets or effects during a period. Hence, any increase in income is observed from changes in household assets (eg furniture) or improvement in welfare (children going to school) etc. By doing so they hope through the law of averages to pinpoint the changes due to the experiment. This is an indirect attempt of measuring impact as a result of the credit provided. Can we measure differently?

In this paper, we argue that Islamic microfinance institutions can directly measure impact without requiring Randomized Control Trials (RCTs).

Conventional microfinance institutions do not know how their loan has helped their clients to increase their income. There are two factors that the need to determine. Firstly, any institution that wants to establish this needs to be able to measure whether their client has earned more money from the time of accessing the loan. Secondly, the institution needs to be able to attribute any increase in income to the loan that it has provided to its client. Conventional microfinance institutions are unable to do both but can Islamic microfinance institutions do better?

Islamic financial instruments and products finance real activities in the value chain. It is relatively easy to determine the income earned from one value chain stakeholder to the other based on the value it generates as an actor of the value chain. Profit sharing instruments are the easiest to measure. In the case of a Musharakah financing, if the profit-sharing arrangement is 40:60 where 40% of the profits are due to the financial institution, you can easily calculate the amount earned by the financial institution and the amount earned by the client. If the venture earns $1000, the bank earns $400 and the client earns $600 under the arrangement. An Islamic microfinance institution can easily measure the amount earned by the client and attribute the earnings to the financing provided without requiring any form of household assessment done in a RCT.

The same can be done for debt-oriented products like Murabaha. For instance, in the example we provided earlier, we can measure how much the Islamic microfinance institution saved the client by negotiating with clients.

Method	Client's profit	MFI's profit
Conventional Microfinance / Shariah compliant institution (at 30% interest/profit rate)	$1500 – 1300 = $200	$300 (30% of $1000)
Shariah Performing Institution	$1500 - $910 = $590	$210 (30% of $700)

Based on the above example, we can see that the client will earn **$390** more by taking a Murabaha loan compared to a conventional loan. We can also determine that the Islamic microfinance institution has directly helped the client to save **$300** by negotiating directly with the supplier. Here once again, even in the case of Murabaha, we can measure the value add generated by Islamic microfinance and attribute it to the intervention of the financial institution.

Even if we accept the necessity of conducting randomized control experiments (RCTs) to measure the impact of Islamic finance, recent studies, such as the study conducted by two professors from the department of Economics at the University of Oxford with other two professors from the department of Economics and Business Administration at the University of Lahore. This study applied a mechanism Randomized control experiments to measure the developmental impact of the experience of the most popular Islamic microfinance institution in Pakistan, the " Akhuwat" institution, by comparing regular Islamic finance instrument (i.e. Qard Hassan) with the effect of financing instruments that include risk sharing (such as diminishing Musharaka). The preliminary results for this study were released in the year 2020. The study found, after two years of its application, that the application of Islamic financing tools (through Ijarah and Diminishing Musharakah contracts) had a positive impact on the volume of assets owned by clients (valued at $ 380), and also had a positive effect on increasing the income and profits of these clients, which increased by $ 24 and also the percentage of the consumption and spending on the education for children for these clients have increased. Finally, the beneficiaries of this type of financing have increased the percentage of their continuity in a sustainable business by 8%, all of this compared to customers who took out stripped loans (Qard Hassan)[5].

As discussed, using Islamic finance instruments will solve some of the shortcoming that associated with the microfinance intervention, mainly the higher cost of the microloans and the issue of using loans for consumption rather than investments. However, as mentioned in the second section, still there are other shortcoming in the microfinance markets, for example the lack of capacity building and the lack of access to high-return business opportunities. How IsDB Economic Empowerment approach has addressed these shortcomings? This is what we will be discussed in the next section.

3.2 The Theory of Change in the Economic Empowerment: from the Financial Inclusion to the Economic Inclusion

Economic Empowerment approach considers poverty alleviation process as more complex and dynamic in nature, and not only related to access to financial services. One definition of poverty alleviation is to address poverty in all of its social, economic and cultural dimensions simultaneously: income level, housing, access to financial services, health, education and social justice.

In fact, facts indicate that microloans are more beneficial to borrowers living above the poverty line than to borrowers living below the poverty line. Clients with more income are willing to take the risks, such as investing in new technologies that will most likely increase income flows. Poor borrowers, on the other hand, tend to take out conservative loans that protect their subsistence. The vast majority of poor clients are caught in subsistence activities. The poor obtaining a microloan will eventually become a poor in debt with the only concern of protecting the newly created business. Microfinance institution have the ability to offer him this protection with more microcredit. Thus, microfinance falls short of its true objective and addresses the issue partially.

Poverty alleviation is indeed about addressing a much broader set of needs. Amartya Sen, the Nobel Prize-winning economist, eloquently argues that development can be seen as a "process of expanding the real freedoms that people enjoy." In Economic Empowerment approach, these freedoms can be achieved by focusing on the productivity and the economic sustainability of the activities of the vulnerable groups. Therefore, in this approach, poverty alleviation starts with Economic Inclusion. The objective of economic inclusion is to establish a genuine relationship between the recipient of the financing and the economy. The economic inclusion of a person involves a process linking her to the real economy by discovering investment opportunities adapted to his/her skills and needs, opening up communication channels with

5. Muhammad Meki, Simon Quinn, Faisal Bari and Khashif Zaheer, Asset-based Finance for Microenterprises in Pakistan, March 2020, part of the result available at (from 38- 50 mintues):
https://www.youtube.com/watch?v=__g7_wU7sIM&t=3081s&ab_channel=QU_IbnKhaldonCenter

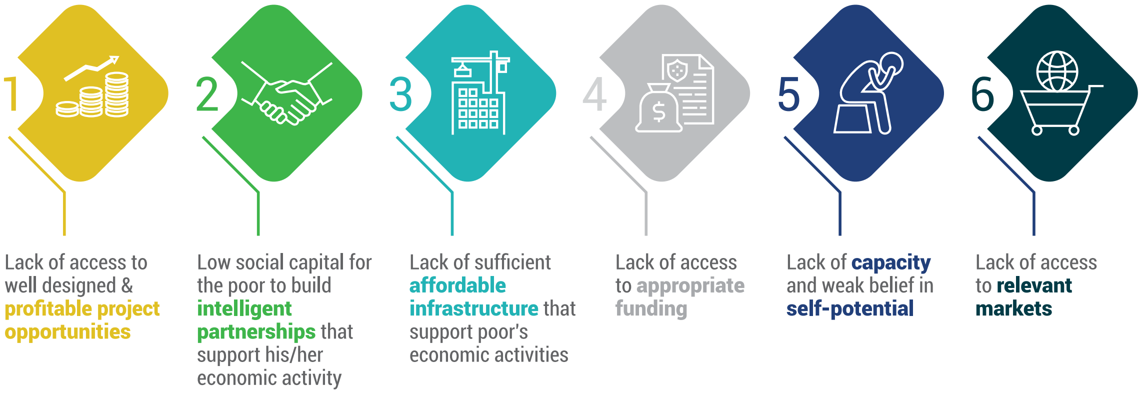
economic players, setting up a technical and managerial capacity building plans, and, of course, funding. Value chain financing plays an important role in developing financial products suited for economic inclusion.

The process of economic inclusion is an innovative approach to reach and finance vulnerable populations. The process is triggered with the identification of the economic and strategic partner (Value Chain Leader) and obtain a firm commitment from its side to absorb the production of the beneficiaries of the financing over a specific period of time. Then, the financial institution should develop and engineer its own development project and expand its scope of services to business development for the benefit of the poor. Once all the variables and components of the project are sealed in a realistic business model, capacity-building modules are developed and beneficiaries are contacted and selected to be part of the project. Ultimately, funding is dispensed and a partnership is concluded between the marginalized populations and the strategic and commercial partner. Finally, assistance and project follow-up is to be done during the lifetime of the contractual agreement.

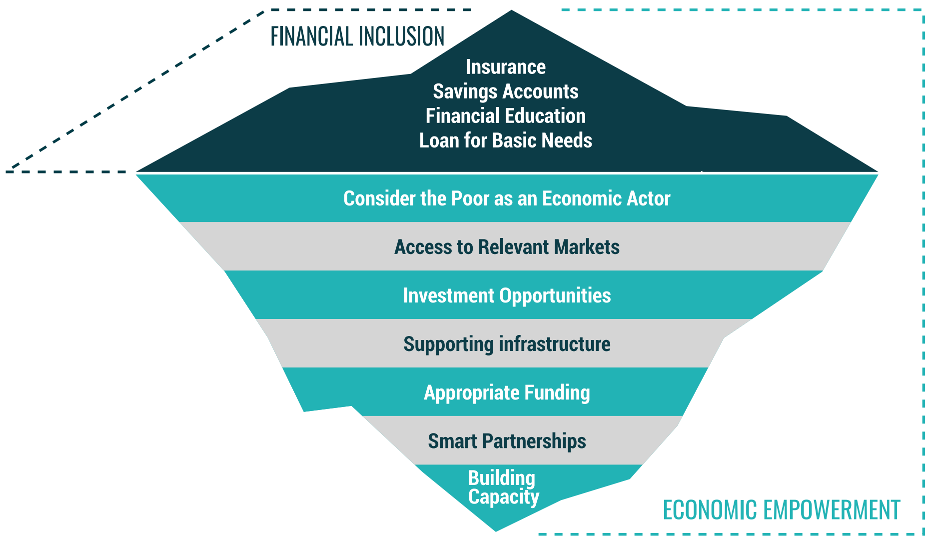
The fruits of these developments' efforts are nonetheless limited to the quality of the infrastructure where the poor populations live. In fact, achieving higher income will undoubtedly make it easier to access health, education, clean water and quality housing. However, executing development projects without taking into consideration the complications related to infrastructure is certainly a flawed approach with punctual results. Hence, a pillar in developing Economic Empowerment projects is to build solid and sustainable partnerships with the public sector, private sector and civil society. The result is to develop effective synergies between all the partners to build a solid ecosystem with a direct impact on healthcare, education, housing, water and sanitation services. This collaboration will eventually lead to a more balanced and broader intervention for a better life quality.

In conclusion, the IsDB Economic Empowerment approach is addressing the following six obstacles to unlock the full potential of the poor:

1. Difficult access to well designed & profitable Project Opportunities;
2. Lack of Intelligent Partnerships, supporting the poor's economic activity;
3. Insufficient affordable & appropriate Supporting Infrastructure;
4. Lack of access to an Appropriate Funding;
5. Lack of Capacity & weak belief in Self-Potential;
6. Difficult access to relevant Markets;



Therefore, the Economic Empowerment methodology represents a paradigm shift from financial inclusion to economic inclusion since it aims to provide economic opportunities to the poor through providing financial and non-financial solutions that aim to help them in their journey towards a better life. It provides the poor with appropriate access to the required inputs/means to not only achieve his/her financial inclusion but to enable him/her to contribute to the economy.



4. The Economic Empowerment Approach in Action: Track records & Successful Interventions

The IsDB Economic Empowerment methodology was developed based on 20 years of IsDB experience supporting the poor through Islamic microfinance. The first Islamic microfinance project of the IsDB was in 2001 for Guinea amounting to US$ 1.45 million. Since then, 56 projects amounting to US$ 548 million have been approved. These interventions include the Microfinance Support Program financed by ISFD and equity investments under the Microfinance Development Program.

Impactful Microfinance Institutions supported by IsDB have been successful in conducting group-oriented value-chain Islamic microfinance. They have also been able to negotiate for better suppliers and buyers in the value chain on behalf of their clients. By developing partner financial institutions' capacity to engage in trade and investment with farmers through actual involvement in the value-chain (instead of being an arm's length lender), IsDB has helped initiate the implementation of the Economic Empowerment Approach. Such institutions have become more competitive and this has helped them have a better prospect of ensuring sustainability while delivering value to their client

IsDB has observed several successful business model where the microfinance or the financial institutions are able to go beyond the role of the financial intermediary and provide 'Smart' Islamic Economic Empowerment which is value adding and contributes to poverty alleviation. Below are some of the business model that highlights how this difference in methodology has contributed to the local poor communities.

A. Case Study 1: Providing a Business Partner a Loan, Capacity Building & Conduct trading through Salam (Advance Purchase) in Palestine

Challenge- Families hard hit with poverty within a struggling economy in a conflict area

Poverty and unemployment rates in Palestine are still imposing a serious challenge; about one out of three individuals (29.2 percent) were living below the poverty level in 2017. Gaza Strip contributes more to national poverty than the West Bank; its share of the poor population is 71.2 percent compared to 28.8 percent of the West Bank.

Economic growth is the most powerful instrument for reducing poverty and improving the quality of life. In the case of Palestine, despite the increase of the Gross Domestic Product, this has not been noticeably reflected on reducing poverty and unemployment rates; on the contrary, there was an inverse relationship between poverty rate and GDP increase.

To address this challenge, the Islamic Development Bank "IsDB" in Jeddah, initiated the creation and design of an innovative initiative in Palestine called DEEP. The Deprived Families Economic Empowerment Program (DEEP) has emerged in 2006 to empower the poor and marginalized Palestinians with the aim of uplifting them from being dependent on humanitarian assistance and charity aid to be a contributing member of society.

Solution- Pilot livelihoods & microfinance program that matured into a national & transformational poverty program

DEEP is a project funded mainly by Arab Funds through the Islamic Development Bank and executed by (UNDP/PAPP) under the leadership of the Palestinian Authority (PA) represented by the Ministry of Social Affairs. DEEP works through intermediary Non-Governmental Organization (NGOs), Microfinance Institution (MFIs), and private sector institutions to provide a comprehensive package of financial and non-financial services to meet the needs of 32,000 poor and extremely poor families in Palestine.

By accessing a package of financial and non-financial services that address their needs, including Islamic micro financial and promotional social safety net activities, the program has successfully maximized the economic potential of the chronic poor and brought them out of the cycle of poverty.

Transformational Change through DEEP

At the National Policy Level:

DEEP is a leading initiative that enhanced social protection with economic empowerment. DEEP has influenced the social protection policy in the State of Palestine by Ministry of Social Development adoption of economic empowerment for the low-income families as a social protection intervention. Economic empowerment is now perceived as the first resort rather than final resort for deprived families in government policies and programs.

DEEP replaces the disempowering effects of humanitarian aid, which not only fails to provide solutions to structural problems but also pacifies people and erodes their collective agency; instead, DEEP aims to promote deprived families as potentially active agents and equal participants in economic development.

Providing a Loan for a Business Partner: Economic Empowerment through Islamic Microfinance

DEEP Microfinance is a customized modality for economic empowerment, development and income generation in compliance with Islamic Financial Principles. It offers a variety of Islamic microfinance tools that respond to the specific financing needs of the poor.

The Principles of DEEP Microfinance encourage risk sharing, individual rights and duties, property rights, and the sanctity of contracts. It enables micro entrepreneurs to increase their income through expanding and developing to their enterprises with the support of the MFIs. DEEP Microfinance provides mainly asset transfer financing to the beneficiary projects. This does not only reduce vulnerability; it also allows poor households to move from day-to-day survival to a solid business plan for their future. Most of the Palestinian people are Muslims and they prefer to receive Islamic financing rather than the conventional financing (about %60 of the Palestinian people prefer Islamic financing approach (IFC study). Thus, DEEP has worked on designing Islamic microfinance tools that fit the needs of the poor and allow them to earn income in a dignified manner.

Several of the microfinance institutions not only receive support from IsDB but also from other donors and in such circumstances, they offer both conventional and Shari'ah-compliant loans to their clients. It was reported that two women borrowed from the same microfinance institution- one under the conventional window while the other under the Islamic window. Both women run small sewing businesses employing 2 to 3 women in their shops. However, due to illness or injury, both women were unable to make their repayments to the microfinance institution. In such a scenario, what did the microfinance institution do?

For this case, the Islamic microfinance institution hired a replacement on her behalf in order to ensure that her business continues despite her absence. The women's employees were able to continue with their work since the shop remained open while the woman recovers at home. The woman's repayment schedule was frozen until the woman returned to work 3 months later. On the other hand, the conventional microfinance institution continued to request payments from her despite her condition. She had to close her business and lay off her employees. Her repayment obligations continued to increase with compound interest and late payment fees. As she was unable to make her repayments, the microfinance institution took her to court to liquidate her collateral.

Linking of Poor to the Market Systems: Conduct trading through Salam (Advance Purchase)

DEEP has been exerting tremendous efforts to shift the focus of finance providers from just providing credit to clients to offering integrated business development services that increases the sustainability of projects and prevent low-income families from falling into more debt because of failing businesses. This approach implied working on the local market systems to improve the livelihood for the poor through partnerships with the private sector in the form of collective group projects.

For example, Maftoul (Couscous) is commonly made by Palestinian women and is of high demand in Europe. Microfinance institutions supported under the Deprived Families Economic Empowerment Project (DEEP) provide Salam (Advance Purchase) financing to a women cooperative part of which is in the form of raw materials while the remaining is given in cash. The cooperative in exchange for the promise of delivering a certain amount of Maftoul. The women cooperative sub-contracts this with their members. Once the women delivery the Maftoul to the cooperative, the cooperative will deliver the Maftoul to the Microfinance institution, which will package the Maftoul and export them to Europe. The Microfinance institution ensures that the quality of Maftoul and the quality of packaging meets the required standards to export to Europe.

Business Development Services (BDS)

In addition to support income generating activities, DEEP through specialized service providers provides parallel business development support to the families to enable them to develop their services and products, expand business operations, access new markets, and build partnerships at local, national and regional levels.

Business development support enables beneficiaries to sustain and expand their projects. Selected target groups undergo an intensive and comprehensive practical training program on Competency-based Economies and the Formation of Enterprise modality to acquire the necessary skills needed to run a micro-enterprise.

In addition, during this training participants are able to further polish and refine their business ideas through a participatory process between the project owner and the trainers to check for economic feasibility, marketing and identify other gaps at an early stage before implementation.

Moreover, in order to ensure that the beneficiaries are running their businesses in the best manner, and to ensure the sustainability of the businesses, follow up and business coaching is conducted to help beneficiaries deal with the various issues they face in marketing, production, finance, etc.

Management Information System (MIS)

This MIS is the main pillar for operational efficiency of DEEP, especially in light of the extensive quality assurance and monitoring functions. This system was gradually developed and customized based on needs. The MIS was built in alignment with the different programmatic service lines and related business processes to be able to facilitate the capture, storage, and exchange of information between all stakeholders. The system is web based and can be accessed by all partners with different functions and levels of authorities.

This was another breakthrough in the program where different NGOs and MFIs built synergies in the field, by providing technical assistance such as training, consultation, psychosocial support, referrals, and networking with other specialized service providers that can offer medical, mental health or social services.

Impact and Results- Sustainable Economic Impact

DEEP has been largely responsible for creating a transformative change in attitudes towards poor households. Traditionally, poor people tended to be perceived as social and economic burdens that needed to be maintained. The project demonstrates that poor households are valuable assets that if their potentials are realized, can lead to socio-economic development. These results provide concrete reasons for preserving and maintaining DEEP. The positive contribution of the project towards economic sustainability is clearly demonstrated. DEEP managed to support more than 15,000 poor households by establishing income generating projects for them, enabling 37% to graduate from poverty. More than 85% of the supported businesses are still functioning, creating about US$ 22 million of economic value added annually. The program has attracted about US$ 80 million of new financing to MSMEs of to its portfolio. Equally important is the project's contribution towards a better understanding of how DEEP has helped eradicate poverty through various innovative Economic Empowerment business models. External evaluation presented hard data on its direct role of DEEP in creating employment opportunities, providing sustainable sources of income to poor households that might have otherwise been left out.

DEEP has expanded from a small-scale (pilot) innovation, to a program that eventually gained international and national support. It has been scaled up to have a stronger impact on the country's poverty alleviation, serving as an important complementary measure to the government provision of social safety network services.

The success of the DEEP program is a case of dedication, commitment and innovation by the Islamic Development Bank, Government, UNDP, civil society institutions, and poor households to enhance their standard of life. The success of the program was accomplished through a unique partnership model. For this project to be scaled up at the national level a number of considerations and associated risks should be addressed; The "vision for scale" was reflected in the original design of the initiative, and) being responsive to the demands in a timely manner and had close linkages to the national priorities. Taking into consideration the above lessons has helped to ensure the program sustainability and created an enabling policy environment for its eventual scaling up to become a national scheme.

One of the most attractive features of DEEP has been its transferability and sustainability. Having established the basic methodology, and following several training sessions, the project has been successfully implemented in different local contexts (a: different regions within Palestine: West Bank, East Jerusalem, and Gaza, b: different localities: rural, urban and refugee camps, c: different NGOs and MFIs, d: different economic activities – agriculture, services and manufacturing), and adapted to a national scale. The ease and success of these adaptations can be attributed to the simple but ingenuous methodology that allows for efficient standardized training while remaining flexible and responsive to varied contexts.

The Economic Empowerment Department is expanding the model in the country. A US$ 500 million Economic Empowerment Fund for Palestine has been created to promote the model nationally. Besides expending the model in Palestine, the Economic Empowerment Department of the Islamic Development Bank is also replicating the Economic Empowerment model practiced by the DEEP program in various other member countries. The DEEP program which started as a pilot has been demonstrated itself to be successful to be not only mainstreamed nationally but also internationally across IsDB member countries.

Palestine - Deprived families Economic Empowerment Program (DEEP)

Winner of the "Palestine International Award for Excellence and Creativity", 2011

- Started with $10 million and reached **$131 million** coming from **other donors;**
- **16,042** projects created for **families;**
- **52,000** direct and indirect **job opportunities** created;

B. Case Study 2: Conducting Venture Capital Investment through Diminishing Musharaka (Wad Balal Cattle Fattening Project in Sudan)

The Challenge: How to Realize the Strong Potential of Beef Production Through Exports to the Middle East

In February 2008, Bank of Khartoum (BOK) and Emirates and Sudan Bank merged to form the largest bank in Sudan under the name Bank of Khartoum with SDG 860 million of equity. Bank of Khartoum operates under Islamic Banking Standards and has a comprehensive suite of retail services including a network of 58 branches, 137 ATM and 10 Cash Deposit Machines services, auto finance, home finance, education finance, Takaful, internet banking, SMS alerts, discount and supplementary cards and the first and only call center. At that moment all the microfinance operations of the Bank of Khartoum were under the Microfinance Unit under the Department of Retail, SME and Microfinance. The Unit was established in 2009 with the support and assistance from the Islamic Development Bank. Later, the Microfinance Unit was named IRADA Microfinance Company, having BOK (75%) and Islamic Development Bank (25%) as main shareholders.

Bank of Khartoum and IRADA Microfinance Company were given the trust to implement the SDG 200 million Al-Aman fund for Microfinance. The fund was formed by a strategic partnership of the Zakah Chambers and 32 Sudanese Commercial Banks, following regulation of the Central Bank of Sudan to have all commercial banks invest not less than 12% of their portfolio in Microfinance. The Zakah Chambers contributed SDG 50 million while the remaining SDG 150 million was contributed by commercial banks. As the fund is made up of a mix of social and commercial resources, it targets the economic active poor segments in every state of the country.

To achieve the objectives of Al-Aman fund, it was necessary for Bank of Khartoum to shift its microfinance business model from "Individual Microfinance using Murabahah" that focuses on financing Survival Income Generating Activities (SIGA) - the Islamic "Microfinance" in tight- jacket definition- through Qardh Hasan and low yielding murabahah, to "Value Chain Project Group Financing" which finance large projects run by the poor, where the MFI has majority control of the business, and thus justify heavier investment in the client as well as using profit sharing mechanism. The MFI will identify and invest in potential businesses and will work with the poor as business executors and promotors. How can Bank of Khartoum achieve this shift? The next case provide one example of the new business models that can achieve this shift.

The Solution: Conducting Venture Capital Investment through Diminishing Musharaka

The Wad Balal Cattle Fattening Project was initially conceived by a group of established Sudanese businessmen living and working abroad. Instead of just providing aid through cash transfers, the businessmen wanted to contribute to the improvement of their village which was mainly in the livestock industry. The businessmen wanted to use their connections to supply the Middle East with livestock

from Wad Balal. However, to successfully meet the export market standards, they needed to help their suppliers (livestock herders) with the necessary infrastructure. With this idea, they developed a business plan and approached the Bank of Khartoum for assistance. The business plan was refined and the board subsequently approved SDG 9.30 million (including SDG 4.27 million for purchasing calves) for the project based on the feasibility study's recommendation.

The group of businessmen registered the Wad Balal Company with the mandate of investing in livestock production assets for the community as well as to purchase the livestock from the community for export to the Middle East. In addition, they also helped the herders to register the Wad Balal Association with the aim of supplying livestock to their company. In this project, the Bank of Khartoum has two main contracts: a) Murabaha Financing to purchase calves for the Wad Balal Association; and b) Diminishing Musharaka Financing to purchase livestock production assets for the Wad Balal Company. Due to the low education and capacity of the members of the Wad Balal Association, the Wad Balal Company is expected to help the association maintain production standards for export. In the first contract, BOK will provide the financing to purchase of calves for Wad Balal Association. By purchasing in bulk, the bank will be able to help the association to acquire calves at a lower price. The mark-up of the Murabaha is 15% per annum. No collateral is provided in the transaction, but the Wad Balal Company agreed to provide 55% guarantee for the repayment of the cattle.

In the second contract, the businessmen invested about SDG 321,000 amounting to 6% of the capital while BOK invested SDG 5.03 million (94% of the capital). The capital is used to purchase fixed assets and Alfalfa as well as for other operating expenses. These assets and services will be leased to the Wad Balal Association at 18% leasing profit, which is also estimated at 21% of the export sales and 19% of local sales. This leasing profit will be used to purchase the shares of BOK over a period of 5 years including a 2- year grace period. When the Wad Balal Company's share increases over time, their share of profits will also increase. True to its social objectives, the Wad Balal Company has given an irrevocable guarantee to utilize their gained profits in the following manner: a) 40% to purchase more calves for the poor to enable more poor to join the association; b) 40% for social development projects (e.g. education, medical etc.); and c) 20% for the management of the company. Under the Diminishing Musharaka Agreement, the businessmen agreed to mortgage their land as collateral against negligence and mismanagement.

Impact and Results- Sustainable Economic Impact

The work done by Bank of Khartoum embodies the spirit of Islamic Finance in its operations. While doing so, they have developed an innovative methodology of conducting Economic Empowerment initiatives (Solidarity and Value Chain Project Group Financing). Instead of providing small loans which defines the Microfinance industry, Bank of Khartoum ventured far in empowering the poor by doing business with them. By sharing risks and profits with the poor, Bank of Khartoum was able to help thousands of vulnerable people in Sudan to earn a better living by generating jobs. It managed to build a portfolio of more than 100,000 business partners/clients. Large projects were developed involving hundreds and in some cases thousands of poor beneficiaries with each investment amounting up to USD 3 million. This methodology was found to be more sustainable (IRR about 20% per annum) and more effective in alleviating poverty (each beneficiary received more income by sharing the venture's profits and being co-owners of the venture). By being a real partner of operating these businesses, Bank of Khartoum has developed its expertise in the area of Agriculture and Livestock development. Like any large professionally run business, the Bank of Khartoum helps poor farmers to run the business, while developing their capacity to assume the ownership of the business after a period of time.

In addition, the innovation of the Value Chain Project Group Financing improved the Microfinance portfolio quality of the BOK. At the end of 2013, the default rate (Financing at Risk) was around 12% for individual Murabahah financing, while in the project financing the figure was 3% (actual yield lower than target ROI). This rate is much better than the country PAR>90 average of 22.94% or PAR>30 average of 28.63% but is relatively high compared to the average in the African region (2.34% and 1.71%). According to the BOK, this is mostly due to the deteriorating economy after the South Sudan separation. However, the overall default rate/PAR of 6% is still within generally acceptable level in Microfinance practices.

Similarly, Project Financing's weighted average Return on Investment was 18%, above the ROI of individual Murabahah financing of 14% in local currency. Sudan as a whole is currently experiencing extra ordinary inflation regime after the South Sudan separation (more than 30%), and a mere 18% ROI may be considered thin to cover the inflation abrasion. Finally, the implications for donors especially IsDB are very significant. As a shareholder of the Bank of Khartoum, IsDB has been successful in creating a mini-development bank in the process.

Sudan – IRADA (BOK) Projects

Winners of the "Ethical Finance Innovation Challenge and Awards", 2014

- IsDB's investee's, IRADA, has developed EE programs with **$65 million.**
- Started with $65 million from IRADA, then reached **$189 million**: $104 million from local banks, and $20 million from Zakat authority.
- Impacting **172,000 poor every year** (directly and indirectly).
- Utilizes **13 financing methods** whereby Murabaha represents 10% only.

C. Case Study 3: Developed an Incubator through Partnership (Ard El Khair cattle fattening Incubator in Egypt)

The Challenge- Creating sustainable self-employment especially for the female youth at the bottom of the pyramid

Unemployment among Egyptian youth is one of the most important challenges facing Egypt with 650,000 new entrants into the labor force every year. Over 25% of youth between the ages 20-29 are unemployed. The Arab Spring revolution which was driven by the youth in 2011 further worsened the economic situation.

Many of the youth have difficulty in getting a job, and starting a new business is just as challenging, with difficulties in registering property, taxes and other regulatory issues. Micro and Small Enterprises (MSEs) account for approximately 85% of non-agricultural private sector employment. However, despite its importance in generating employment, they only receive one percent of bank credit according to the Central Bank of Egypt. In addition, most of the credit provided are done on conventional terms which are not suitable for 90% of the population which professes to be Muslim. For young women, this disadvantage is intensified by the difficulties faced by all new labor market entrants, including delayed school-to-work transition and low-quality jobs (Assaad 2008). In other words, female youth face challenges in finding decent work both as women and as young people.

The Solution- To partner with Ard El Khair to develop an incubator program for supporting female youth in Cattle Fattening

IsDB provided Restricted Mudaraba financing under a special program dedicated to creating employment for youth. The Youth Employment Support (YES) program provided US$ 50 million to Egypt through Micro Small and Medium Enterprise Development Agency or MSMEDA (formerly known as Social Fund for Development. The program provided Unemployed Potentially Active Youth (UPAY), particularly heads of households (men and women) opportunities to be more self-sufficient by establishing income generating activities. Although the YES program was focused on Youth Employment, the challenge was to ensure that the most vulnerable segments of the population were not left out. The Ard El Khair which was financed by the YES program in Egypt aimed to address that challenge by helping female youth in rural areas.

Ard El Khair is an Egyptian joint stock company that focuses its activities on animal livestock production and has gained extensive experience to the point that they established an academy to transfer its expertise to smallholders in livestock production. Ard El Khair locates its farms in the poorest governates of the country and provides job opportunities to the people in those regions. The Micro Small and Medium Enterprise Development Agency (MSMEDA) as the Executing Agency of the YES program approached Ard El Khair and informed them about the Islamic microfinance program and the Murabaha product that they have developed. Instead of creating standalone farms and hiring staff to run those farms, a feasibility study was developed to create an incubator based on the expertise of Ard El Khair. The company will run the incubator program for the poor, young women for a period of about 9 months to develop their capacity in cattle fattening.

There had been several rounds of financing so far with an average of 150 poor youths incubated (90% of whom were women). These youths were selected from an average of 2000 applicants for each round. The selection process is done jointly between Ard El Khair and MSMEDA. Under this arrangement, MSMEDA focuses on the legal and financial arrangements and needs while Ard El Khair engages the young women on providing technical expertise in cattle fattening:

1. The actual sourcing of the young calves would be done by Ard El Khair and in bulk to ensure a low price;
2. Ard El Khair would provide the technical know-how on fattening the cattle to the client;
3. Ard El Khair would arrange for the sale of the end beneficiary's fattened cattle to the market;
4. Ard El khair would also enter into a partnership agreement with the end beneficiary;
5. Ard El Khair would facilitate in the process of getting a loan for the beneficiary by acting as the guarantor while the end beneficiary would commit to the incubation program and work in the farm for 12 hours per week during the incubation period of 9 months.

Once the beneficiaries were selected for the financing round, a Tripartite Agreement was signed between Ard El Khair, MSMEDA and the beneficiaries reiterating the main articles of the MOU as well as the technical and guarantee scheme agreements that would govern the various aspects of the project implementation including the procurement of cattle for fattening, production, training and marketing processes.

The last step involves the actual loan agreement between MSMEDA and the beneficiary. Following the screening process, MSMEDA would approve a loan of EGP 500,000 for each of the 150 beneficiaries totaling EGY 75 million (US$ 4.28 million) under each round of financing. These Murabaha loans with a 5% mark-up would be used to purchase 20 cattle heads for each young woman. Ard El Khair will provide animal feed and vet services as well as a small allowance which will later be deducted from the proceeds from selling the cows. The financing would be channeled directly to Ard El Khair for the purchase of the cattle. The company would purchase 3000 cattle heads at the lowest cost through an international bidding process for each financing round.

The young women were required to put in 3 hours per day for 4 days a week. Their presence was monitored through a punch-in punch-out system. During this incubation period, the young women would receive an allowance from Ard El Khair. By the end of the training, Ard El Khair would sell the fattened cattle to their clients including hotels, schools and wholesalers and distribute the residual income to the young women after deducting the cost of production and marketing. Post-incubation, the women could still rely on Ard El Khair for advice and services (eg. Veterinary). In addition, they could seek assistance from Ard El Khair to purchase the cattle on their behalf for fattening. The young women also had the option to get Ard El Khair to sell the fattened cattle on their behalf to markets that would otherwise not be accessible to them.

Impact and Results- Economic empowerment through Incubation

The economic empowerment model of Ard El Khair facilitates partnership between private and public-sector entities with underprivilege segments of society. The young women who were incubated were treated as partners and not as debtors. About 600 poor young women living in rural areas have been given a source of income on a sustainable basis from 4 rounds of incubation of about 9 months each in just one farm. This pilot has proven to be very successful that it is set to be replicated in Ard El Khair's other farms. By doing this, Ard El Khair will be able to gradually expand their business without requiring to physically expand.

Ard El Khair will also be able to create many more jobs in the process. Instead of hiring only 150 people on a long-term employment contract, they can effectively create 150 jobs a year for each farm (since the graduating batch remains self-employed by starting a small cattle fattening business at home and is replaced with new young women partners).

As for the women businesses who were incubated, they received a good income of US$ 166 per month in addition to receiving training on cattle fattening. After graduation, they received certification which made them eligible for a loan to set up their own small farm near their home. The commitment required to work at the training farm is reasonable as the women could still balance their work with their family commitments. In addition, the skills that they learnt will enable them to develop a small productive business at home to earn a better income for themselves and their families. Due to the success of the pilot, the Ard El Khair incubator has been expanded to several locations in rural Egypt with more than US$26 million financed through this initiative.

Egypt - "Ard El-Kheir Incubator" of the "Youth Employment Support Project"

Selected among 850 projects to be featured in the Paris Peace forum, 2020

- US$ 29 million financing provided to support mostly young women (80%).
- **1000 rural** youth accessed technical-know how, adequate financing and markets in a **sustainable manner** and continuing to benefit new **160 rural youth** yearly;

D. Case Study 4: Partnership with a Lead firm (Dairy partnership with Danone in Tunisia)

The Challenge: Providing financing to dairy farmers while ensuring that they have a market to sell their milk

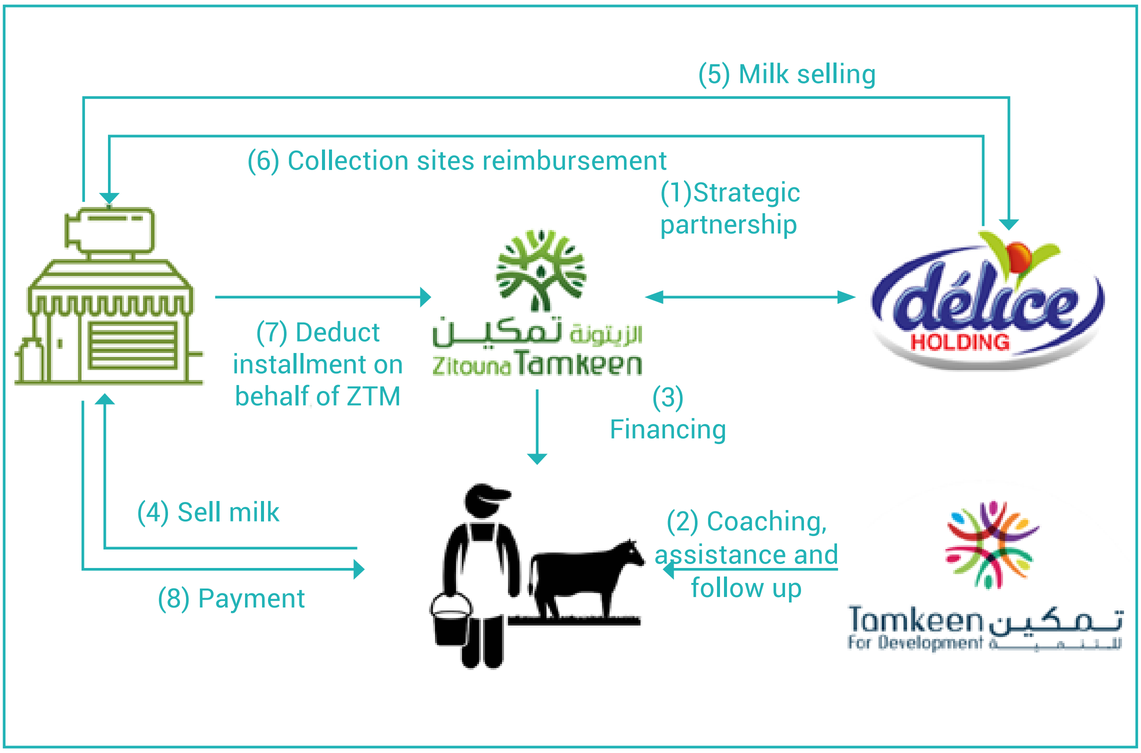
There is a strong dairy farming sector which is dominated by smallholders. These smallholders are unable to gain access to good markets. The milk produced by the dairy farmers do not meet the standards of large companies such as Danone. Zitouna Tamkeen decided to take this challenge to close this gap. It developed a business model to address this challenges under an initiative called Hlib El Khir "Milk for Good".

Solution: Partnership with a Lead firm

Hlib El Khir "Milk for Good" is ZTM's first EE project in the dairy Value Chain. It is a unique strategic partnership with Danone-Delice Group Holding and ZTM. "Milk for Good" aims to increase the production and productivity of small dairy farmers and improve their socio-economic conditions.

Delice Holding is the "off-taker" of this project and leader of the Dairy VC in Tunisia with more than 65% of market share. The key actors that will pull the Dairy VC are milk collection centers and small farmers that will produce the milk. This project will include as a first step over five years, 5500 farmers in the North-western region of Tunisia, covering four provinces. It has the potential to impact 125000 farmers across Tunisia.

Business Model of Hlib Elkhir Project



Each flow represents a transfer of commodities (milk) or cash (repayment of credit, financing). The scheme is initiated following a partnership between Zitouna Tamkeen and Délice Holding. This is the conclusion of discussions between the two parties regarding the setup of a joint project bringing together their objectives for the sector and society.

The partnership is triggered after the signature of a framework agreement and a concept note with Délice Holding. Then, the project goes to the technical and financial assessment stage carried out by ZTM's Business Engineering Department. Once this step is completed, the project is transferred to Operations Department for execution. In the meantime, ZTM will launch a communication campaign to target the future beneficiaries of the Hlib Elkhir project. Beneficiaries will be selected based on specific criteria, and once selected, they will advance to the funding stage.

Farmers will start milk production as soon as they get the heifers and production equipment bought at a reduced price following ZTM's negotiations with the suppliers. The milk will be collected by the collection centers which will be transported to Délice Holding. Délice Holding will pay the collection centers once every month an amount corresponding to the quantity of liters received. ZTM negotiated a selling price with a premium for the benefit of the farmers. Then, the collection center deducts the amount of the credit's monthly payment, and reimburses the credit of each farmer directly, before transferring the remaining amount to them. Thus, the farmers receive the net amounts after payment of their monthly obligations. The collection center will then transfer the sum of the collected dues to ZTM in one transaction at the end of each month.

In this case, the circuit is defined as closed; the flows of goods and money circulate periodically and systematically with the aim of minimizing ZTM's operational costs and securing a constant flow of milk to DH.

The farmers will benefit from, in addition to securing an off-taker for the whole production for a period of 5 years, 3 years of close monitoring and follow up (twice a month) as well as technical trainings.

The project is having a significant impact on the lives of the small milk producers in the north-western regions of Tunisia. In fact, it allowed them to increase by three times the size of their herd, and by 200% their monthly income. "Hlib Elkhir" project is a successful mixture of appropriate financing, adequate training, constant monitoring, guaranteed off-take as well as protection thorough an insurance scheme covering cases of herd mortality.

Zitouna Tamkeen - Impact & Achievements

Zitouna Tamkeen has taken giant strides and quickly positioned itself in the microfinance and economic empowerment sector in Tunisia, gaining national and international acclaim despite its young age.

Just one year after commencing its activities, the institution has ventured to double the objectives it announced at inception in terms of the volume of financing, number of branches and the number of beneficiaries, given the huge demand for its products and services. Today, around three years after operations began, the institution has succeeded in financing more than 12,000 income-generating projects. These have led to the provision or sustainability of more than 40,000 direct and indirect jobs with a total finance portfolio of about 70 million Dinars through a network of 19 branches, most of them in the hinterland and least developed regions. This is in clear harmony with the vision and mission of the institutions and three regional managements and two mobile branches to access the outlying and difficult regions.

It is noteworthy that the institution attaches considerable attention to women empowerment. This has been translated into 40 percent of the its financing going to women, a proportion that will be more than half by the year 2021. The institutions interventions cover all productive sectors without exception and places marked emphasis on the farming sector, agro-allied industries and services, various commercial activities and small industries. This blends with the comparative advantages of the Tunisian economy and the map of the country's economic fabric.

The institution has offered a package of products that have been designed in accordance with the needs of the beneficiaries and/or the target regions. Zitouna Tamkeen also entered into partnerships with hundreds of suppliers from various fields and negotiated with them in the context of framework contracts to give preferential prices to customers that could be 20 percent of what is on offer in the market. This is what gives the institution significant competitive advantage over its competitors.

Tunisia - Zitouna Tamkeen institution

Winner of the "Best Agricultural and Rural Finance Product", 2017

- **Reputable local and international** shareholders participated in its capital;
- **14,000** income-generating projects are financed so far;
- **40,000** direct and indirect jobs are so far created.
- **20 value chains projects engineered for poor people**

5. conclusion

As shown in the table below Economic Empowerment approach has overcome most of the shortcomings that are associated with the conventional micro-credit. Finally, IsDB Economic Empowerment approach is about engineering the relevant business opportunities, then providing the necessary financial and non-financial services to help the poor in their journey towards a better life. To do this, there needs to be a **paradigm shift in the microfinance sector. Their focus should go beyond the promotion of financial services to ensure the economic inclusion of their clients into** the mainstream economy.

Shortcomings in the Conventional Microfinance	How IsDB Economic Comportment has addressed them
Only focuses on Access to finance	Provides support to access to financial and non-financial support
Risk adverse. Mitigates through collaterals and guarantees	Risk mitigating approach through knowledge and capacity building
Arm's length financing	Value chain financing
General loan terms and conditions	Customized financing approach
Is not attached to assets- leads to diversion of funds	Is backed by assets. Prevents diversion of funds
Focuses on client's ability to repay	Focuses on client business ability to share its profits as repayment
Client is a debtor	Client is a business partner

IsDB

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