

Integrated Waqf-Islamic Microfinance Model (IWIMM) for Poverty Reduction: Case Studies of Nigeria, The Sudan and Pakistan

by

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Presentation Outline

- ❖ Research Problem and objectives
- ❖ Research Method and Model Building
- ❖ Case Studies: Nigeria, Sudan and Pakistan
- ❖ Conclusion and Policy Implications
- ❖ Future Research Collaboration



Research Problem

- ❑ High incidence of poverty in Muslim countries.
 - 400 million people (23% of OIC total population) are living below the income poverty line of US\$ 1.25 per day

- ❑ Islamic Microfinance institutions constantly face following problems:
 - Economic viability
 - High dropout rate and non-graduation from poverty
 - Human Resource Development
 - Limited products and lack of Takaful coverage

- ❑ **Hence the proposed IWIMM**



Research Problem

- Facts and figures of selected countries under study

Country	Population (million)	Muslims population	GDP (Current US\$) (billion)	GDP Growth (annual %)	GDP per capita (Current US\$)	Population below 1.25\$ per day (%)
Nigeria	168.8	55%	521.8	5.4	3,005.5	68.8
Sudan	37.96	90.70 %	66.7	-6.0	1,753.4	46.5% (2009) (National PV line)
Pakistan	182.1	96.40 %	232.3	4.4	1,275.3	12.7



General Research Objectives

- ❖ To survey the status of poverty in selected OIC countries.
- ❖ To analyze the existing poverty alleviation programs in the selected countries.
- ❖ To conduct survey of all stakeholders on the existing practices of IMF institutions, their roles towards poverty alleviation in the selected countries and expectations of the proposed integrated model.
- ❖ To review the development of Waqf Institution in OIC member countries under study and its role in socioeconomic development activities in addressing the needs of the poor.



Specific Objectives

- ❖ To develop an Integrated Waqf based Islamic Microfinance Model (IWIMM) that will address the needs of the poor in OIC member countries.
- ❖ To conduct focus group sessions to solicit feedback from the IWIMM and IsMF stakeholders in the selected countries and to verify the model developed above.
- ❖ To offer policy recommendations on the implementation of the IWIMM through relevant institutions/organizations of OIC particularly IDB/IRTI and to other OIC member countries.



Research Method

A. Qualitative Method

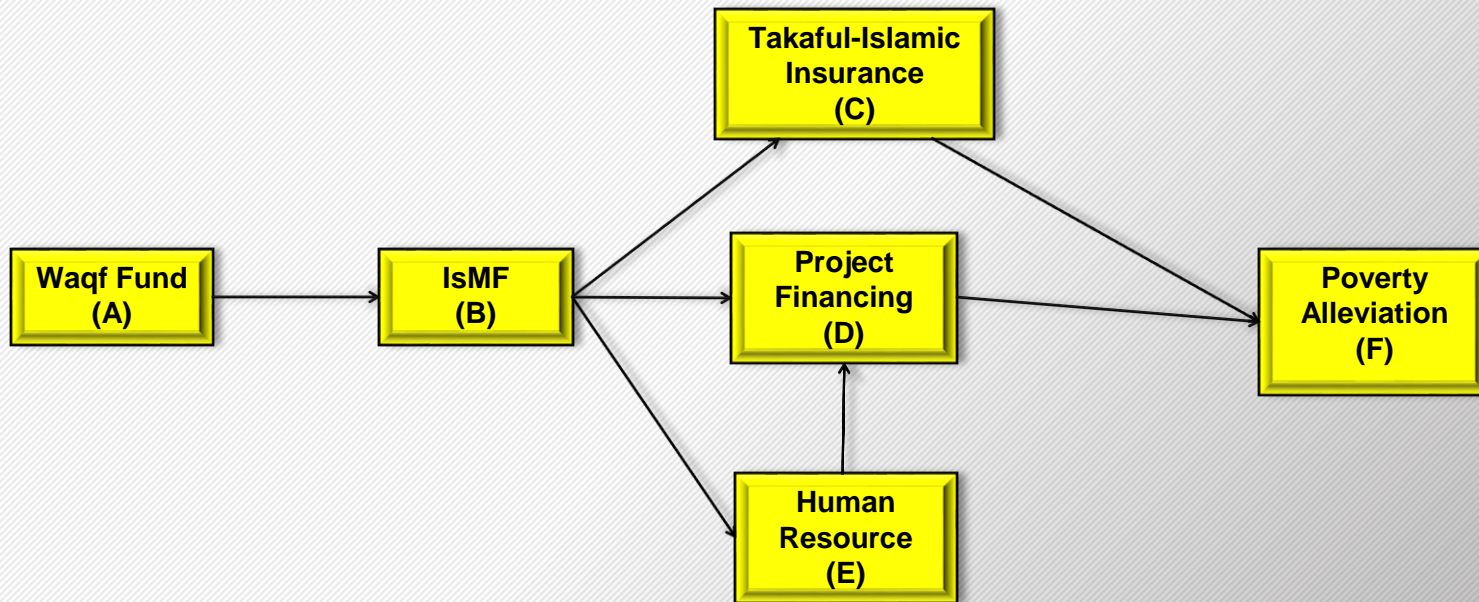
- **Literature Review** -Poverty status/profile, IsMF Programmes, Waqf Institutions and Its role in Socio-economic development, instrument and model development.
- **Focus Group Discussion and Interview** - Relevant Stakeholders (Waqf donors & recipients, Religious bodies, Waqf Managers, IsMF Investors and Managers, Customers/ Clients of IsMF)

B. Quantitative Method: Survey

- Conduct survey of recipients of IsMF on selected practices of IsMF institutions, their roles towards poverty alleviation in the selected countries and expectations of the proposed integrated model.



Structure of IWIMM





Specific Constructs in the IWIMM

- A. Funding Agency: Waqf (but could be Govt, IDB etc.)
- B. Implementing Agency: Islamic Microfinance (but could be others)
- C. Takaful: to be used to cover investment risks as well as individuals and family.
- D. Project financing: i) Individually initiated ii) group initiated iii) project collaboration with IsMF institution (financing modes - Qard Hassan, Murabahah, Partnership)
- E. Human resource Training: To improve skills hence productivity
- F. Poverty alleviation



Case Studies:

Nigeria

The Sudan

Pakistan



Poverty Programs: Nigeria

Nigeria

National Poverty Eradication Program (NAPEP)

National Poverty Eradication Program was established in 1999 with the objective to empower various categories of the population and make them more productive members of the society.

The four categories of NAPEP are

- Youth Empowerment Scheme (YES) which deals with capacity acquisition, productive labor and credit delivery
- Rural Infrastructure Development Scheme (RIDS) which deals with rural and portable as well as irrigation water transport and energy support
- Social Welfare Services (SOWESS) which deals with primary healthcare services, mass transit, food and public facilities.
- Natural Resource Development Conversation (NRDCS). This deals with raising the potential of agriculture, water and solid minerals in the society for effective utilization by small scale operators in the immediate community.

Family Economic Advancement Program

It was initiated in 1997 and was designed to improve the living conditions of the household through business and entrepreneurial development



Poverty Programs: The Sudan

Sudan

- ❑ A poverty unit under the Ministry of Finance and National Economy was established in 1999.
- ❑ A higher council was formed in 2000 to supervise and guide the preparation and the implementation of poverty eradication a strategic paper.
- ❑ Central bank's monetary policies also supported the poor. It has issued the rule that commercial banks will allocate 12% of their capital to finance various microfinance projects (Ministry of Finance and National Economy).
- ❑ Government's fiscal policies have kept special allocation for poverty alleviation, "spending that benefits the poor more than the non poor; spending that actually reaches the poor and spending to have an impact on the welfare of the poor over time" (Ministry of Finance and National Economy).
- ❑ The GOSS Growth Strategy (2010 -2012) was initiated by the government in 2009. It stated that "Broad based economic growth is the only sustainable way to increase living standards and reduce poverty".
- ❑ In the pro-poor expenditure budget, Zakat fund contributed significantly to maintain a steady growth rate over the last decades.



Poverty Programs: Pakistan

Pakistan

- ❑ PRSP was initiated in 2001 it identifies 17 pro-poor sectors under five broad headings i.e., Market access and community services, Human development, Rural development, Safety nets and Governance
- ❑ PAKISTAN POVERTY ALLEVIATION FUND (PPAF) was established in 2000 as an apex body to reach the poor communities through the NGOs and Community Based Organizations (CBOs).
- ❑ BENAZIR INCOME SUPPORT PROGRAM (BISP) was launched in 2008 to provide cash grant of Rs. 1,000 each month to the families having income of less than Rs. 6,000 per month.
- ❑ The graduation programs including Waseela-e-Rozgar, Waseela-e-Haq, Waseela-e-Sehat and Waseela-e-Taleem have been started to transition poor from the poverty
- ❑ Zakat funds are utilized for the needy, indigent, poor, orphans, widows, handicapped and disabled.
- ❑ PAKISTAN BAIT-UL-MAL (PBM) established in 1991.



Program Effectiveness

Effectiveness

- Few programs started to reduce poverty, but poverty and income inequality still persists.
- Lack of coordination among different implementing agencies.
- Insufficient Funding compared to programme objectives and target populations.

It leads to following:

- ❖ Safety net programmes are fragmented and often duplicative;
- ❖ Limited coverage
- ❖ Policy gaps or poor implementation, weak institutions, poor governance and deteriorating law and order situation,
- ❖ power structures in rural areas and lack of effective targeting.
- ❖ Consequently, these programmes have limited impact on poverty and vulnerability.

Need for Integration



Islamic MFIs in Selected Countries

Nigeria	Sudan	Pakistan
<ul style="list-style-type: none">•745 Micro-Finance Banks.•Grassroot Microfinance Bank Ltd	<ul style="list-style-type: none">❑ “Wholesale Guarantee Microfinance Agency, Kafalat” is controlled by the CBOS and has linked with commercial banks, Sudanese Microfinance Development Company (SMDC) and IDB.❑ Bank of Khartoum,❑ Islamic Co –operative Development Bank,❑ Agricultural Bank of Sudan❑ <u>Microtakaful Operators</u>: Shiekan Insurance & Reinsurance Co., Islamic Insurance Co., Al Tawonia Insurance Co., Al Baraka Insurance Co., Microtakaful Pool etc.	<ul style="list-style-type: none">• Akhuwat, Asasah, Wasil Foundation [previously known as Centre for Women Cooperative Development (CWCD)]• Islamic Relief Pakistan (IRP),• Muslim Aid• Helping Hand• Namet• Khwendo kor,• the Farz Foundation,• Karakoram Cooperative Bank (KCBL), and• National Rural Support Program.



Case Studies:

Nigeria

Sudan

Pakistan



Sampling Distribution: Study Area

Particulars	Nigeria	Sudan	Pakistan
Sample size	248	200	262
Selection of Respondents	148 from Zakah and Hubsu Commission & 100 from Grassroot Microfinance Bank, Kano	Kasala, al-Jazira, and Khartoum	Azm Foundation, Urban Poverty Alleviation project, First Microfinance Bank, National Rural Support Program, Kashf Foundation, Orangi Pilot Project, Apna Microfinance Bank, Saylani Welfare Trust (waqf), Ayesha Microfinance Institution, BRAC, Tameer Microfinance Bank, Helping Hand for Relief and Development (Mudarabah)
Sampling technique	Purposive sampling		
Tools of Analysis	i. Descriptive Analysis, Exploratory Factor Analysis, Confirmatory Analysis and SEM ii. Interview iii. Focus Group Session		

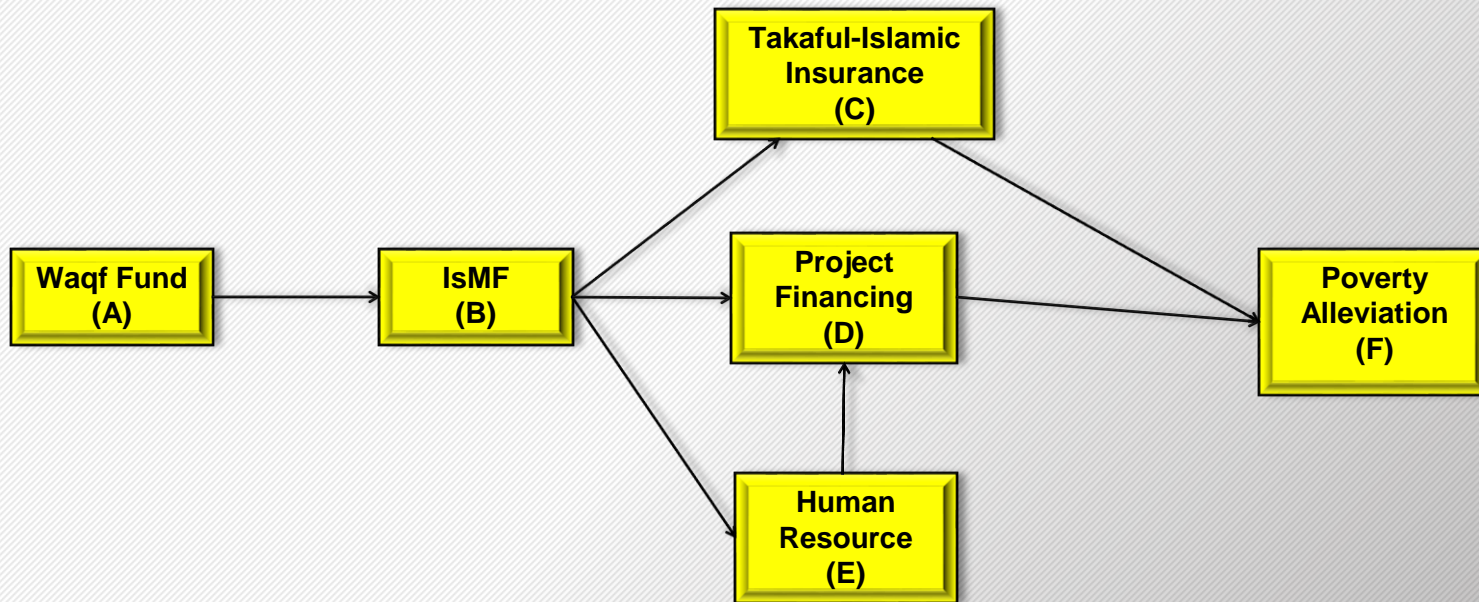
Case Studies: Nigeria, Sudan & Pakistan

- Respondents' Profile

Variable	Category	Nigeria		Sudan		Pakistan	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Gender	Male	63	25.4	107	53.5	145	55.77
	Female	185	74.6	90	45.0	115	44.23
Marital status	Single	25	10.1	28	14.0	23	8.91
	Married	157	63.3	154	77.0	206	79.84
	Widow	49	19.8	9	4.5	18	6.98
	Divorced	16	6.5	4	2.0	4	1.55
	Single Parent	1	0.4	0	0	7	2.71
Age	15-29 years	63	25.4	29	14.5	45	17.79
	30-44 years	110	44.4	92	46.0	122	48.22
	45-59 years	59	23.8	40	20.0	65	25.69
	60-64 years	16	6.5	34	17.0	21	8.30
	65 and Above	-	-	1	0.5	-	-
Family Size	Below 5	102	41.1	54	27.0	57	21.8
	5-7	71	28.6	64	32.0	136	51.9
	8-10	48	19.4	34	17.0	46	17.6
	Above 10	27	10.9	42	21.0	23	8.8
Years of Schooling	5 and Below	56	22.6	41	20.5	82	31.3
	6-10	38	15.3	84	42.0	95	36.3
	10 and Above	154	62.1	55	27.5	20	7.6
Vocational Training	Yes	46	18.5	54	27.0	23	8.8
	No	202	81.5	138	69.0	239	91.2



Structure of IWIMM



Case Studies: Nigeria, The Sudan & Pakistan

	Relationship/ Hypothesized Paths	Pakistan			Nigeria			Sudan		
		Std. Beta	P-Values	Decision	Std. Beta	P-Values	Decision	Std. Beta	P-Values	Decision
H1	Waqf Resources → Islamic Microfinance	-0.12	.003	Supported	0.315	0.001	Supported	0.44	0.00	Supported
H2	Islamic Microfinance → Project Financing	.18	.11	Not Supported	0.324	0.001	Supported	-0.09	0.52	Not Supported
H3	Islamic Microfinance → Takaful Financing	-0.11	.00	Supported	0.202	0.001	Supported	0.42	0.00	Supported
H4	Islamic Microfinance → Human Resource Development	-0.17	.00	Supported	0.527	0.001	Supported	0.60	0.00	Supported
H5	Human Resource Development → Project Financing	0.41	.01	Supported	-	-	Not Established	-0.13	0.19	Not Supported
H6	Takaful Financing → Poverty Reduction	-1.09	.00	Supported	0.373	0.001	Supported	0.41	0.00	Supported
H7	Project Financing → Poverty Reduction	0.03	.44	Not Supported	-0.231	0.035	Supported	0.24	0.03	Supported

Note: **p < 0.01, *p < 0.05, Results generated by using SEM and SmartPLS.3 Software



Some Selected Observations

1. Waqf can be utilised as a source of funds for IsMF
2. IsMF can provide HRD and Takaful services
3. Takaful financing can help in poverty reduction
4. IsMF - Project Financing link as well as HRD-Project Financing link not supported (need for mind set change and education)
5. Project Financing can reduce poverty (2 of 3 countries)



Focus Group: Pakistan

No.	Name	Position	Suggestions
1	Mr. Fahad Liaquat	CEO	<ul style="list-style-type: none">• IDB's Waqf fund should be used instead of relying only on domestic sources.• Project financing is appreciated where long term investments based on partnerships would bring significantly better results.
2	Mr.Arshad Mahmood	Program Manager, Essar Microfinance	<ul style="list-style-type: none">• The model could enlarge existing portfolio of Essar Microfinance Program without any additional financial cost of raising funds. This can effectively supplement their efforts in partnership financing.
3	Mr.Safdar Abdul Qayyum	Program Manager Islamic Microfinance	<ul style="list-style-type: none">• Concerned about the lack of insight of the people and MFIs.• The model can be instrumental in lowering the cost of funds• It can be seen as a business model seeking sustainability of operations through modest profits.• Combining Waqf with profit motive may have some Shariah constraints and be against the true spirit of welfare
4	Dr. Muhammad Tahir Mansoori	Chairman Shariah Board	<ul style="list-style-type: none">• Combining Waqf with profit motive may have some Shariah constraints and be against the true spirit of welfare



Focus Group: Pakistan

No.	Name	Position	Suggestions
5	Dr. Atiquzzafar Khan	Faculty in Islamic Finance and Takaful Expert	<ul style="list-style-type: none">• Diagrammatic presentation of IWIMM exhibited flow of funds in one way e.g. funds disbursed for Qarz Hassan have not been shown returned to MFI.• Takaful should be used only in necessity otherwise it will add to the cost of the model.• The enterprising poor should get priority in assistance over the raw and economically inactive clientele.
6	Mr. Amer Khalil ur Rehman	Ex-Islamic Banker	<ul style="list-style-type: none">• Relying on charities or waqf alone may not always be enough and feasible.• It is essential to ensure self-sustainability of most micro finance projects in the long run.• The raising money through stock markets on an institutionalized basis (for a listed public limited company) for which details can be set.• The involvement of stock exchange will be helpful in formalizing the Waqf initiative.



Focus Group: Pakistan

No.	Name	Position	Suggestions
7	Muhammad Sarim Ghazi	Training Head North Region	<ul style="list-style-type: none">• Instead of giving finance to the groups or individual clients out of Waqf, the industrial homes and professional schools may be established and skilled people be produced.
8	Muhammad Khaleequz Aman	Chairman Islamic Banking Deptt.	<ul style="list-style-type: none">• Waqf assets can be utilized efficiently• The Government of Punjab may issue sukuk of these assets and cash flows be used for microfinance especially project financing.• The groups can be organized around projects where venture capital model can be introduced for long term financing.



Focus Group: Nigeria

S/N	Name	Designation	Suggestion
1	Alhj. Baffa Saleh	Director Operations, Zakah and Hubsu Commission Kano State	<ul style="list-style-type: none">•The idea of microfinance with waqf is really a welcome idea. It will really alleviate the sufferings of the needy and develop people.•The idea of subsidized loan is not effective since it will make someone to be idle and lazy.•Training must be provided before providing the fund.•The wealthy individuals and the government, need to be motivated and to be attached to the integrated model



Focus Group: Nigeria

S/N	Name	Designation	Suggestion
2	Farida Tahir	CEO, Grassroot Microfinance Bank, Kano	<ul style="list-style-type: none">• <i>Waqf based IsMF will reduce the high cost of fund.</i>• The subsidized loan may encourage laziness as evident from the clients' dealing.• Partnership base contract will work if clients are given adequate training on financial literacy.• Pre-disbursement training is important.• <i>Takaful is compulsory for clients to have common saving in terms of social welfare</i>• <i>Need for an approved legal framework for the model.</i>



Focus Group: Nigeria

S/N	Name	Designation	Suggestion
3	AbdulRahman Wacchiko	Deputy Director Social Safety Nets, NAPEP	<ul style="list-style-type: none">•It may not work with IsMF and Waqf fund.•There exists already a partnership between the cooperative and microfinance banks.• Training is beneficial for learning book keeping and improving the quality and quantity of their produced goods.•People have to be educated to avoid seen the model/fund as a national cake
4	Alh. Amusa Bhadmus	Chairman, Al Barakah Multi-purpose Co-operative Society Limited	<ul style="list-style-type: none">•Project financing requires support of social fund such as waqf.•Combining Waqf with IsMF is possible but need to conduct assessment analysis for the selection of partners/clients.•Training is important to improve clients' skills.•Encouraging the attitude of giving via spiritual training.



Focus Group: Nigeria

S/N	Name	Designation	Suggestion
5	Ibrahim Kantudu	Director, Zamfara Zakat and Endowment Board	<ul style="list-style-type: none">•The endowment can be channeled to finance capital building, technical assistance and to provide support for stakeholders of the model.•Resources can be mobilized for people to insure their businesses, assets, and their life using the takaful.•There is no legal framework for Islamic microfinance yet.
6	Sani Muhammad	Director, Zamfara Zakat and Endowment Board	<ul style="list-style-type: none">•Waqf can uplift the people as the agent of challenge through training.•Need for awareness programs



Focus Group (Nigeria): Summary

S/N	Issue	Remarks
1	Waqf to subsidize microfinance	Desirable
2	Attitudinal Problem due to subsidy	Most likely not
3	Project Financing as a preference	Generally not preferred; loans more commonly used
4	Musharakah Mudharabah, Ijaraah etc	Possible with caution
5	Human Resource Training	Various types of training as a must
6	Pre-Disbursement Training	Compulsory
7	Takaful and supporting others	Highly desirable and humanly
8	Challenges of the Proposed Model	Awareness, training, attitude, funds availability, Regulation



Interview Findings: Sudan

S/N	Name	Designation	Suggestion
1	Nawal Majzob Abdallah	Deputy General Manager, EBDAA Bank for MF	<p>1. The fastest and most efficient way to allow microfinance institutions to maximize the socio economic role of the society is to subsidize their cost, say through Waqf</p> <p>2. However, subsidizing should be on exceptional cases, and do not let it look like charity because charity is not productive in the long run, taking in consideration the moral “Give me a fish and I eat for a day, teach me how to fish and I eat for a life time”</p> <p>3. Partnership financing mentioned in the model is good but is difficult to implement due to lack of awareness among the clients, lack of trust. It is difficult to manage especially that we have over 3000 clients. There will be problem of transparency and disclosure.</p>



Interview Findings: Sudan

S/N	Name	Designation	Suggestion
1	Nawal Majzob Abdallah	Deputy General Manager, EBDAA Bank for MF	<p>4. Most of the clients if not all have only basic education so the concept of microfinance might be a little sophisticated to them so the duty of NGOs like microfinance is to educate, train and draw awareness to the concept. NGO's usually take the trouble of organizing the necessary documents of the client making sure everything is in order.</p> <p>5. It is a good idea to ensure that a certain percentage of the waqf is used strictly for the purpose of Takaful but the direct involvement of NGOs in handling the related financial matters should be avoided because Waqf and Takaful are sensitive concepts and NGO's are not fully acquainted or oriented with and how they function.</p>



Interview Findings: Sudan

S/N	Name	Designation	Suggestion
2	Mr. Mohamed Ibrahim al-Duma	Finance Control Officer, Waqf, Federal Territory	<ol style="list-style-type: none">1. Using Waqf for financing microfinance and the use of Musharakah or Mudarabah would require a detail and strict regulatory framework to control any misuse of fund.2. Training the clients is a necessity, but this must be accompanied by job or investment opportunities in the system. Otherwise the client is forced to spend the fund for his livelihood.3. If by Takaful we mean social security, Waqf can also contribute directly by establishing community clinics, schools and recreation centres for the clients.
3.	Mr. Yasir al-Shik Monzer	Waqf Admin Supervisor, Khartoum	<ol style="list-style-type: none">1. Takaful is a must because losses do occur. They could fall on the client such as fatal sickness or on the fund due wrong choices of investment, risky investment due to low level of education and forces of nature.2. Training is good. But with low level of education, the quality of training is compromised. Besides, when the client is complacent, lacks commitment and motivation, training has little effect.



Interview Findings: Sudan

S/N	Name	Designation	Suggestion
4.	Mr. Al-Zaki Hashim al-Zaki	Head, Investment Dept, ISMF, A-Nelain Bank, Khartoum	<ol style="list-style-type: none">1. The model is a very brilliant idea. today, ISMF has limited fund and ceiling of 1000 Sudanese pound set for individual amount of loan is not sufficient taking into consideration the high level of inflation. Hence our outreach is limited due to financial constrain.2. Partnership financing may not be suitable for microfinance because of the size of the fund and the activities, which are mostly basic and limited. However, Musharakah or Mudarabah can be offered as special cases under strict conditions.
5.	Iman Abdelrahman Osman	Manager, Microfinance Unit, Central Bank of Sudan	<ol style="list-style-type: none">1. Microfinance should provide multidimensional, both financial such loan, savings, insurance and transfers, and non financial such as training and consultancy. The model largely represents this multidimensional feature of ISMF.2. The biggest challenge ISMF face in Sudan is the problem of financing. The costs of organizing the clients in groups, their training, reaching out to them are extremely high. ISMF resort to Zakat, and Waqf institutions for help in the form of Waqf deposits.



Interview Findings: Sudan

S/N	Name	Designation	Suggestion
5.	Iman Abdelrahman Osman	Manager, Microfinance Unit, Central Bank of Sudan	<p>3. The participation of Zakat and Waqf institutions in ISMF usually give the wrong signals to the clients that what they receive is not financing but charity. This affects the level of loan repayment. Therefore, the role of these institutions should be confined to non financial activities such as training.</p> <p>4. Group project should be given priority by IsMF because already microfinance is operating in groups. Such arrangement reduces cost and provides social guarantee to the loan. However, the success of group project will depend on the nature of the societies; either it is individualistic or it has sense of community.</p>



Interview Findings (Sudan): Summary

S/N	Issue	Remarks
1	Waqf to subsidize microfinance	It should be on exceptional cases, because charity is not productive in the long run
2	Attitudinal Problem due to subsidy	It will give wrong signals to the clients that what they receive is not financing but charity. This affects the level of loan repayment.
3	Project Financing as a preference	Difficult to implement due to lack of awareness among the clients, lack of trust. If implemented, it may reduce cost and provide social guarantee to the loan.
4	Musharakah Mudharabah, Ijaraah etc	These can be offered as special cases and required a detail and strict regulatory framework to control any misuse of fund.
5	Human Resource Training	Prerequisite of training should be basic education, awareness, commitment and motivation.
6	Takaful and supporting others	Direct involvement of NGOs with Waqf and Takaful should be avoided.
7	Challenges of the Proposed Model	Although the model largely represents this multidimensional feature of IsMF, it requires to ensure awareness, training, attitude, funds availability, Regulation etc.



Research Output

Articles and Books

- i) Targeting three country based articles
- ii) One combined article
- iii) A couple of conference papers
- iv) One report to be published jointly by IUM and IRTI
- v) Jointly published book tentatively entitled *“Political Economy of Poverty Eradication in Muslim World- The Role of Waqf and Islamic Microfinance”*

Human Resource

- i. One PhD
- ii. One Post-Doctoral Researcher



Conclusion and Policy Implications

- Fund inadequacy and high lending costs of Islamic microfinance institutions can be resolved via philanthropist activism, better market linkages of beneficiaries for their products, and regulatory authorities' contribution.
- IWIMM is a viable model
- For the sustainability of waqf in longer term, the investment modes like ijara and diminishing musharakah can be practiced for project financing.
- Instilling proper education regarding loan usage and wide range of products such as qard al hasan, musharka and waqf.



Conclusion and Policy Implications

- Waqf fund when dealing directly with the borrowers,
 - the management challenges include weak relationship with clients
 - operational challenges include recovery issues and
 - organizational challenges include lack of expertise on the part of employees and beneficiaries.

- A balance must be maintained between the apparent conflicting goals to preserve the irreversibility and inalienability of waqf assets while developing them with private return-seeking capital investment or exchanging them for the purpose of expanding the benefits/ cash flows.



Conclusion and Policy Implications

- ▶ Waqf Based Islamic Microfinance model is applicable in Nigeria as some elements are already on ground such as waqf (GRMB has RM260,000 to disburse from 2 philanthropists)
- ▶ Comprehensive Regulatory framework is needed for effective application of IWIMM
- ▶ Awareness constitute a major area of emphasis for stakeholders particularly on partnership issue
- ▶ For the implementing institutions, screening and pre-disbursement training become very important
- ▶ For the funding agencies, collaborations with other agencies is very crucial to achieve the goal of poverty reduction



Future Research Collaboration:

Since the Model CAN WORK.....

- Next Phase of research
 - Extension of the current research to at least three other countries with differing demographics including Muslim minority countries
- Implement the IWIMM Pilot project.
 - It is proposed that the project could start in Indonesia, Nigeria and Vietnam
 - Minimal Funding - USD 5k per country for 8-12 months

For detailed list of references, see 'Integration of Waqf and Islamic Microfinance for Poverty Reduction: Case Studies of Malaysia, Indonesia and Bangladesh' at

<http://www.sesric.org/publications-detail.php?id=328>

Questions and Comments Welcome.

Thank you

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