**PROPOSAL #3 – MICROFINANCE FACILITY**

**Proposal**: Creation of an ongoing, reliably-funded facility to provide small loans to entrepreneurs in member states, especially women, to accelerate economic development.

**Background**: Microfinance is a banking service provided to low-income individuals or groups who otherwise would have no other access to financial services.

* Microfinance allows people to take on reasonable small business loans safely, in a manner that is consistent with ethical lending practices.
* The majority of microfinancing operations occur in developing nations.
* Facilities have had success in places like Bangladesh, Cambodia, India, Afghanistan, Democratic Republic of Congo, Indonesia, and Ecuador, among others.
* Like conventional lenders, microfinanciers charge interest on loans and institute specific repayment plans.
* The global microfinance market was valued at an estimated $187 billion in 2022, and is expected to exceed $488 billion by 2030.
* Microfinance loans usually do not require collateral, in large part because such loans are directed toward low-income borrowers who cannot provide collateral.
* Lenders often group borrowers in a sort of co-op, which makes repayment somewhat more likely and creates positive peer pressure among the borrowers.
* Focusing on women borrowers, and generally empowering women to become business owners, tends toward greater economic impact and more extensive family stability
* Small loans, given with assistance in making a small business succeed, can be paid back more easily. Even only a year or two of repayment builds a borrower’s creditworthiness and allows the borrower to “graduate” from the need for loans from this proposed facility
* A facility made up of lending experts who are experienced in the needs of low-income borrowers can make decisions more quickly than a private bank and make funds available more quickly as well.
* Loans to low-income borrowers from private banks may come with high interest rates, harsh repayment terms, demands for substantial collateral, or all of the above.
* Before the disruption caused by the global reaction to COVID-19, microfinance loans had exceptionally high repayment rate – over 90 percent.
* Microfinance institutions must accept high administrative costs and recognize the need for long-term commitment to microfinance.\
* Microfinance cannot solve all the developing world’s economic difficulties, such as gender inequality, lack of infrastructure, poor health services or limited educational opportunities
* One or two successful small businesses can have a disproportionate impact on impoverished communities.
* A microfinance facility created by the IsDB will have to develop extensive procedures for oversight, to prevent accusations of favoritism and corruption. Reporting requirements should be rigorous.

Advantages:

Consistency with Sharia lending:

Winners and losers:

Estimated costs:

Budget:

Oversight system:

Questions to consider as you decide upon funding:

* What nations will contribute? What nations must be included on a governing board?
* How can the facility become self-sustaining after the original subscription?
* What microfinance options already exist in the MENA region?
* What cultural norms might stand in the way of an approach that favors women entrepreneurs?
* What agencies will handle oversight? How will oversight of lenders and borrowers proceed?
* What reporting requirements should be built into the facility’s charter?

Useful Links:

<https://www.isdb.org/>

<https://www.isdb.org/who-we-are/about-isdb>

<https://www.isdb.org/what-we-do/sectors>

<https://www.investopedia.com/terms/m/microfinance.asp>

<https://poonawallafincorp.com/blogs/how-microfinance-works.php>

<https://enterslice.com/learning/advantages-disadvantages-microfinance-companies/>

<https://www.kiva.org/blog/can-microfinance-actually-help-people-new-research-provides-a-definitive-yes>

<https://timespro.com/blog/what-is-microfinance-types-features-and-advantages>

<https://www.fibe.in/blogs/what-is-microfinance-how-does-it-work/>

<https://www.kiva.org/blog/top-10-things-to-know-about-microfinance>

<https://eiexchange.com/content/when-does-microfinance-do-the-most-good>