

Market Research Report - Islamic Microfinance Products in Yemen

Submitted to:



Bridging the Gap

Yemen Microfinance Network – Yemen

Submitted by:



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Acronyms Used:

| | |
|-------------|---|
| BOD | Board of Directors |
| CIBE | Center of Islamic Banking and Economics |
| CBY | Central Bank of Yemen |
| EC | Existing Clients |
| FGD | Focus Group Discussion |
| IF | Islamic Finance |
| IMF | Islamic Micro Finance |
| IMFI | Islamic Micro Finance Institution |
| MFC | Micro Finance Clients |
| MFBs | Micro Finance Banks |
| MF | Micro Finance |
| MFI | Micro Finance Institutions |
| PC | Potential Clients |
| SFD | Social Development Fund |
| SM | Senior Management |
| SOPs | Standard Operating Procedures |
| YMN | Yemen Microfinance Network |
| YER | Yemeni Riyal |

Disclaimer: The research project on preliminary market research for development of Islamic Micro Finance product for Yemen Microfinance Network- Yemen is strictly private and confidential document prepared by AlHuda CIBE and must not be disclosed to any person or organization other than Yemen Microfinance Network. All information has been assimilated from industry sources, published information and the consultant’s knowledge understanding, Primary Survey and FGDs conducted in the four major cities of focused country by AlHuda CIBE. Utmost care has been exercised in preparing the document; hence, the consultants do not express any assurance on the accuracy or completeness of the information provided in this document.



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PART-I



Section 1: Introduction of the Assignment

Yemen Microfinance Network is quite a new institution established in 2009, considering the fact it has the advantage to setup in the modern era and the opportunity to be adaptable to the ever changing global canvas especially in Microfinance sector. Our agenda remains around the specific aspect of Microfinance viz. Islamic Microfinance and the related products and business portfolio which will be the main stream business for the Institutions intending to work under Sharia’ah Supervision and guidance. Sharia’ah Compliance has always been a key success factor and a marketing tool for all Islamic Micro Finance Institutions around the globe.

Objective of the study:

The preliminary market study was conducted in Yemen with an intention to develop a comprehensive understanding on the outlook of Yemen’s market situation and the demography by assessing all the necessary internal and external factors that could help to reach the maximum number of Microfinance clients in the country. The focal aim of this study was to improve and broaden the affordable Sharia’ah compliant microfinance products portfolio for microfinance institutions in order to enhance their outreach by effectively catering to the demand of approximately 1 million potential clients. The research also focused on evaluating the level of satisfaction of existing clients, issues with current products, their compliance with Sharia’ah rules and their effective and efficient utilization which will assist them in enhancing the financial inclusions of people living in the rural and remote areas of Yemen. The research also evaluated the market prospects of Islamic microfinance by interacting with the key players of the banking and finance industry and the potential of existing clientele of Microfinance. Furthermore, to assist the management of Yemen Microfinance Network to achieve their strategic goal of expanding the outreach of microfinance industry, realistic and pragmatic information on Islamic microfinance’s need and requirement was gathered by employing various market research tools.



The market study phases:

The market study on Islamic Microfinance Products in Yemen was based on following steps:

- 1 • Designing of Assignment
- 2 • Internal and External Desk Review
- 3 • Staff Interviews
- 4 • Field Research (Surveys & FGDs)
- 5 • Examination of Regulatory Environment
- 6 • Data analysis and draft report
- 7 • Final Report and Recommendations
- 8 • Formulation of complete guide for disbursement

After designing the assignment, developing the framework and action plan for market research study, desk review was conducted to gather the required information and in-depth knowledge of microfinance industry of Yemen and institutions offering Microfinance and Islamic microfinance products. To obtain first-person account and understanding about Islamic microfinance products, issues with current products and hurdles in obtaining maximum outreach of the products, several interviews were conducted with key professionals of Yemen Microfinance Network’s members. Focus Group Discussions were organized to gather the qualitative information about clients’ stratification and their demand regarding new Islamic Microfinance Products (e.g. Ijarah, Salam, Mudarabah etc). In the field research phase, along with Focus group discussion, surveys from the existing and potential clients were conducted to gain first-hand information on their level of satisfaction, problems, demands, expectations & need assessment of potential clients for Islamic microfinance products. Furthermore, the regulatory environment of Yemen was examined by reviewing Microfinance Banks Law No. 15 of 2009 and interacting with the key stakeholders of the industry to assess the legal environment of the country and its compatibility for Islamic micro finance products. Keeping in view all the findings from the research, a complete guide for disbursement of Islamic micro finance product was formulated. *For Research instruments see Appendix-I.*



Methodology:

In research assignment of Yemen Microfinance Network for market study of Islamic microfinance products, the methodology designed by AlHuda CIBE comprised of these instruments as:

- Desk Review of Microfinance Institution
- Surveys (Questionnaire) with the Potential Clients
- Focus Group Discussion (FGDs) with Existing Islamic Microfinance Clients
- Interview of Key Executives of Microfinance Institutions of Yemen and meeting with Regulatory Authority.

Questionnaires were composed in accordance with the objectives set in this assignment to gather the information which helped in product refinement and Sharia’ah compliant product development. It also ensured that the product refinement and Sharia’ah compliant product development is compatible with the needs and expectations of existing and potential clients in Microfinance sector.

The survey was conducted in the 4 major Microfinance targeted areas in the Yemen which were: Sana’a, Aden, Taiz and Almukalla in order to get the outcomes from potential clients.

Whereas 04 Focus Group Discussions were organized with existing clients to assess the sustainability and expectation of new Islamic microfinance products. Each Focus Group Discussion comprised of 4-8 participants having duration of 60 minutes.

Interviews were conducted with Key Executives of Microfinance institutions of YMN, for which sample size was 13. *For respondents’ details of Surveys, FDGs and Interviews see Appendix-II.*

The segregation has been displayed below in the chart.

| Sr. # | Cities | Surveys | FGDs | Staff Interviews |
|--------------|-----------|------------|----------|------------------|
| 1. | Sana’a | 40 | 2 | 8 |
| 2. | Taiz | 15 | 1 | 1 |
| 3. | Aden | 30 | - | 3 |
| 4. | Almukalla | 15 | 1 | 1 |
| Total | 4 | 100 | 4 | 13 |



Selected sample for the market study:

Surveys:

The sample size of the surveys (questionnaires) was 100 to conduct the market study of Yemeni Microfinance Products. Surveys were conducted with current and potential microfinance clients in four (04) cities of Yemen viz., (Sana’a, Aden, Taiz and Almukalla). The ratio between Current and Potential clients was 40: 60 (40% were existing clients and 60% from Potential Clients). Following areas were taken into consideration in survey for 1st hand information as given below:

| Cities | MF Clients |
|---------------|--|
| Sana’a | 40 Potential clients: 24, , Existing Clients: 16 |
| Aden | 30 Potential clients: 18, , Existing Clients: 12 |
| Taiz | 15 Potential clients: 08, , Existing Clients: 07 |
| Almukalla | 15 Potential clients: 08, Existing Clients: 07 |
| Total | 100 |

Focus Group Discussions:

In order to gather information and evaluate the sustainability of potential Islamic microfinance products, 4 focus group discussions (FGDs) were conducted with existing clients of different age groups and genders to reach at certain result considering their need, demand and expectations for the ideal Islamic microfinance products ensuring its compatibility and sustainability with the requirement of existing and potential clients of microfinance products in Yemen. Each FGD comprised of 4-8 members and duration of 60 minutes/1 hour.



| Cities | FGDs |
|---------------|-------------|
| Sana'a | 2 |
| AlMukalla | 1 |
| Taiz | 1 |
| Total | 4 |

Interviews:

In this study of microfinance products, the key professionals/representatives of members of Yemen Microfinance Network were interviewed as given below:

| Member MFIs | No. of Member MFIs |
|--------------------------|---------------------------|
| Micro Finance Bank | 3 |
| Micro Finance Foundation | 2 |
| Micro Finance Company | 1 |
| Micro Finance Program | 6 |
| YMN | 1 |
| Total | 13 |

Along with that, meetings with the Regulatory Authority were also conducted in Yemen to get the understanding to Regulatory Regime of Yemen.



Section 2: Desk Review

During the desk review, a thorough and comprehensive evaluation of secondary information available on Yemen Microfinance Industry and members of Yemen Microfinance Network was done to gather all the required information and in-depth understanding of the entire system including nature of microfinance industry, clients demographics, performance of the member institutions, their work environment, strategies, tactics, policies and framework employed. Furthermore, the research team was also able to orient themselves with the product portfolios offered, rules and regulations, models employed etc. The fundamental objective of desk review was to ensure the framework of the guide for the disbursement of Islamic microfinance product(s) is pragmatic and compatible with the current structure and operational environment of member institutions so that changes can be implemented smoothly with minimum operational changes.

Yemen Microfinance Industry:

The findings of Yemen microfinance industry extracted through the desk review are as follows:

- Microfinance industry is in its early stage of development as the first microfinance program was introduced only 16 years ago.
- There are 14 Microfinance providers in the industry namely^[1]:
 - Abyan Savings and Credit
 - Aden Microfinance Foundation
 - Al-Amal Microfinance Bank
 - Al-Awa'el Microfinance Company
 - Alkuraimi Islamic Microfinance Bank
 - Altadhamon Bank
 - Nama' Microfinance Development Program
 - Oxfam
 - National Microfinance Foundation
 - Sana'a Microfinance
 - Social Institution for Sustainable Development

¹ Yemen Microfinance Network Business Plan 2013 - 2015



- Small Enterprise Development Fund²
- Wadi Hadramaut
- Yemen Women’s Union.
- The most of the lending activities of these institutions is concentrated in the urban areas of Sana’a, Taiz and Aden. Most of these institutions are not reaching to potential clients in the rural areas. Hence, this has led to limited outreach of Microfinance industry.
- Out of these 14 Microfinance providers, 11 are the members of Yemen Microfinance Network. The network consists of 3 Microfinance banks, 1 company, 5 programs and 2 foundations.
- Microfinance industry consists of few young, non-governmental organizations and government funded programs; these institutions are mostly catering to clients in the urban areas. Low product diversification and limited scope of operations has led to low market penetration of microfinance institutions.
- Alamal Microfinance Bank has the highest number of active borrowers i.e. 36.69% in the microfinance industry. However, Tadhamon Microfinance had the highest outreach in the month of December, 2012 as 362 new clients were added.
- Most of the microfinance providers have managed their risk well as their portfolio at risk ratio range from 0% to 5%. On the other hand, Al-Awa'el Microfinance Company and Wadi Hadramaut Credit & Savings had PAR of 10.73% and 13.5% respectively.^[2]
- Since 2006, the number of borrowers has almost doubled from 33,000 clients to 66,442 clients. The industry experienced the growth rates of 62% in 2010. However, in 2011 the political crisis in the country had a negative impact on microfinance institutions as they faced significant losses and growth rate fell to -4.3%. ^[2]
- The political unrest in Yemen led to the displacement of microfinance clients, disruptions to businesses and the labor market, use of loans for consumption, the need to halt lending and a large increase in operational costs.

² SEEP Matrix Report of YMN's Members for December 2012



Challenges for Microfinance sector ^[3]:

- The economic growth is expected to be low to moderate in the short term in Yemen.
- The linkage with international financial system and under-banked financial sector is weak.
- Lack of Institutional capacity in the area of governance, product diversification, innovation and operations is one of the major issues faced by microfinance providers.
- Acquiring and retaining of trained and qualified staff is a concern for the institutions operating in Microfinance industry as staff turnover is high and availability of experienced staff is limited in the sector. Lack of adequate high level technical and operational training opportunities is one of the causes behind it.
- Low financial literacy and limited knowledge and understanding about microfinance have also limited the financial inclusion of targeted communities.
- Lack of proper infrastructure in also a challenge for MF sector such as Interruption of electric power, Difficult and high-priced transportation, etc.
- Moreover, most microfinance providers are targeting females and they only constitute 50% of the population.
- The political indifference in the northern and southern part of Yemen has created hurdles in the development of Microfinance industry. The political unrest has led to precarious security situation in the country, because of this people refrain from sending their family member, especially women, to work. Many households were displaced by the continuous unrest, and left their houses and businesses in clash-hit areas.

Possible future trends:

- The future trends show a promising picture of the microfinance industry as it is expected to recent to its patterns of growth.
- Along with that, it is anticipated that the issue of limited human resource will be resolved to some extent as average staff growth is expected to increase in next four years.

³ Alathary, A. (2013, May 10). *Islamic Microfinance in Yemen: Challenges and Opportunities*. Retrieved May 2013, from CGAP: <http://www.cgap.org/blog/islamic-microfinance-yemen-challenges-and-opportunities>



Microfinance Banks Law ^[4]:

- Microfinance Banks Law No. 15 of 2009 consists of 6 chapters and 23 articles.
- Under the provision of the law, microfinance bank is established to offer banking services and provide funding facilities for small businesses and small farmers in both urban and rural sectors for social stability and improved living standards by eradicating unemployment and poverty.
- Central bank issues the authorization for the commencement of operations to microfinance bank if they meet the required conditions such as practical experience and capabilities specially in loaning of funds and IT sectors and paid up capital may be less than YER 500,000,000 etc.
- The business regulations set out for microfinance banks in the law restricts their operations only in the field of microfinance so that no macro level banking facility is provided by them. As evident from *Ch III- Article 19(3.19)* “No microfinance bank is entitled to grant any person or institutions affiliated with it loans or credit facilities or financial guarantees exceeding 0.5% in aggregate of the bank's paid capital and reserve.”
- Moreover, microfinance banks are not entitled to receive cash deposits payable through cheques, open Letter of Credit or receive bill of lading, operate as an agent to expand credit services, accept deposits and business operating by its own will and possess shares in projects.
- Central Bank keeps regular check on the activities of microfinance banks as these banks are obliged to provide detailed monthly report to Central Bank on loans, credit facilities and guarantees offered to customers.
- Any bank which is not providing reports on monthly basis to Central Bank, giving more than the credit limit, have paid capital of less than YER. 500,000,000, or opens LC or receive bill of lading, receive cash deposits payable through cheques, and possess shares in any project shall be subject to a fine of YER 10,000 to YER.50, 000 for each violation day until he/she corrects the situation.
- Law has stated taking strict actions in the form of financial penalties against those who failed to abide by the law.
- Matters which are not dealt with microfinance law provisions should be looked upon in Law of the Central Bank of Yemen, Islamic Banks Law, Commercial Firms Law, or any other effective law having relation with this law.

⁴ Microfinance Banks Law No. 15 of 2009



All the provision mentioned in the law facilitates the microfinance industry and keeps microfinance banks operation within the framework of objectives for which they were established. The formulation of law and regulations for microfinance sector has structured and formalized the industry by providing clear guidelines for the operations of microfinance in Yemen. One of the major reasons for 62% growth rate in the number of borrowers in 2010 can be the implementation of microfinance bank law and establishment of Yemen Microfinance Network in 2009. Although, Islamic Banking was implemented 16 years ago in 1996 but no Islamic Microfinance law has been formulated as yet. However, it should be noted that Microfinance bank law is only for banks providing microfinance facilities, it does provide guidelines for microfinance companies, programs and foundations.



Section 3: Surveys

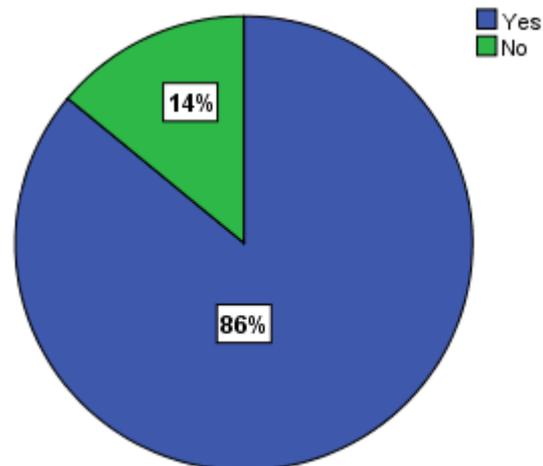
A total of 100 Surveys were conducted with the potential and existing clients of Yemen microfinance industry in Sana’a, Taiz, Aden and Almukalla. 40% of the surveys were conducted in Sana’a, 30% were conducted in Aden; whereas 15% of the sample was chosen from Taiz and Almukalla each. Moreover, the sample was segregated on the pro rata basis of 60:40; where 60% of the respondents were the potential clients of MFIs and 40% of them were the existing Microfinance clients. These surveys aimed to gain first-hand knowledge of level of satisfaction, problems, demand, expectation & need assessment of the respondents. *For Survey respondents’ details see Appendix-I & for Survey questionnaire see Appendix-II.*

Microfinance Need

The survey respondents’ microfinance need is as follows:

| Need Microfinance | No. of Respondents |
|--------------------------|---------------------------|
| Yes | 86 |
| No | 14 |

Figure: 1



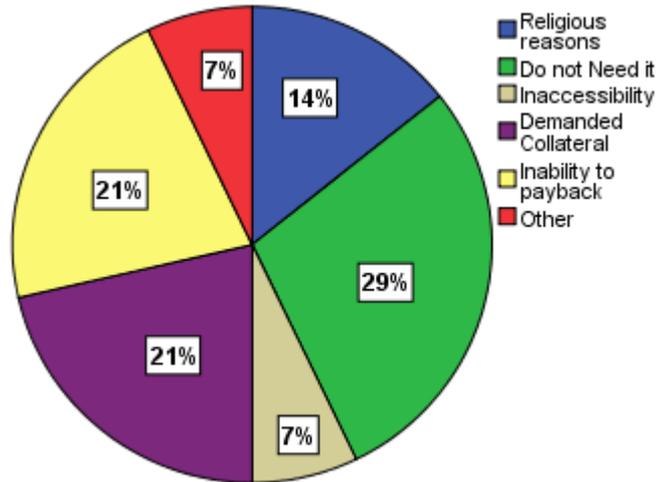
The large majority i.e. 86% of the respondents need microfinance, while only 14% said they don’t need microfinance. Hence, it shows that there is a huge potential to increase the outreach of microfinance in Yemen.



Figure: 2

Reason for not utilizing Microfinance

| Reasons | No. of Respondents |
|----------------------|--------------------|
| Don't need it | 4 |
| Inability to payback | 3 |
| Demanded collateral | 3 |
| Religious reason | 2 |
| Inaccessibility | 1 |
| Other | 1 |

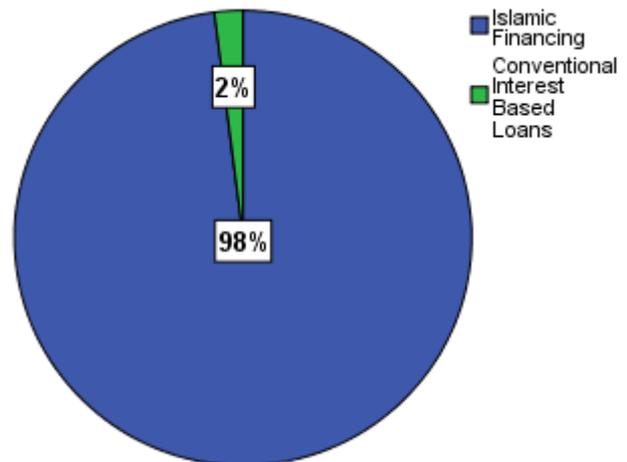


Out of 14 respondents who didn't need microfinance, 4 respondents said that they don't use microfinance because they have ample finance resources at present to cover their financial needs. While approximately 43% of the respondents don't utilize microfinance due to collateral demanded and their inability to pay back the loan. Whereas, 14% of the participants refrain from using microfinance due to religious issue as interest is prohibited in Islam. Only 1 respondent chose the issue of inaccessibility. Hence, this shows that majority of respondents don't avail the services of MFIs either because of collateral demanded or their inability to pay back the loan.

When asked from the respondents that if they were offered microfinance what method will they prefer:

| Method | No. of Respondents |
|-----------------------------------|--------------------|
| Islamic Financing | 98 |
| Conventional Interest Based Loans | 2 |

Figure: 3



Majority i.e. 98 respondents preferred "Islamic Financing" which means 98% respondents are willing to benefit from the financing facility under Islamic mode. While only 2 respondents, i.e.2%, selected the "Conventional Interest Based Method". As the Interest rates are high of conventional interest based loans, people of Yemen preferred Islamic

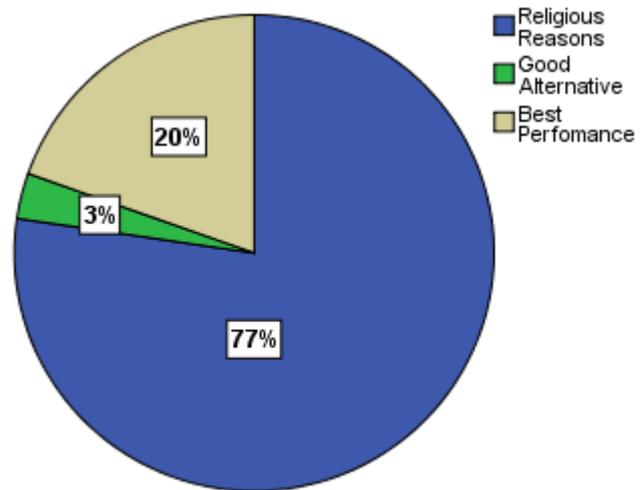


financing. Lack of training and education in Yemen is the major hurdle in the growth of Islamic microfinance.

Figure: 4

Reasons to utilize Islamic microfinance product?

| Reason | No. of Respondents |
|------------------|--------------------|
| Religious Reason | 75 |
| Best Performance | 19 |
| Good Alternative | 3 |

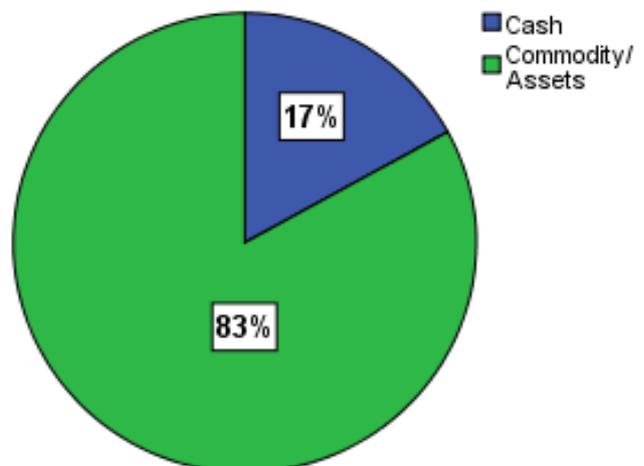


In response of this question, majority i.e. 75 respondents (77%) preferred Shariah Compliant Financing because of "Religious Reason", 19 Respondents (20%) chose the Shariah Compliant Financing because they believe that this system will have "Best Performance" compared to conventional microfinance. Though they lack awareness of Islamic microfinance yet it's the belief of every Muslim that Islam is the best religion and a complete code of life. While only 3 respondents (3%) out of 75 respondents who proposed the Islamic Shariah Compliant Financing in previous question considered Islamic financing as a "Good Alternative". So Yemen Microfinance Network can increase the outreach of microfinance by strengthening the Islamic microfinance system.

Which facility will be preferred in microfinance?

| Options | No. of Respondent |
|-----------------|-------------------|
| Cash Based | 17 |
| Commodity Based | 83 |

Figure: 5



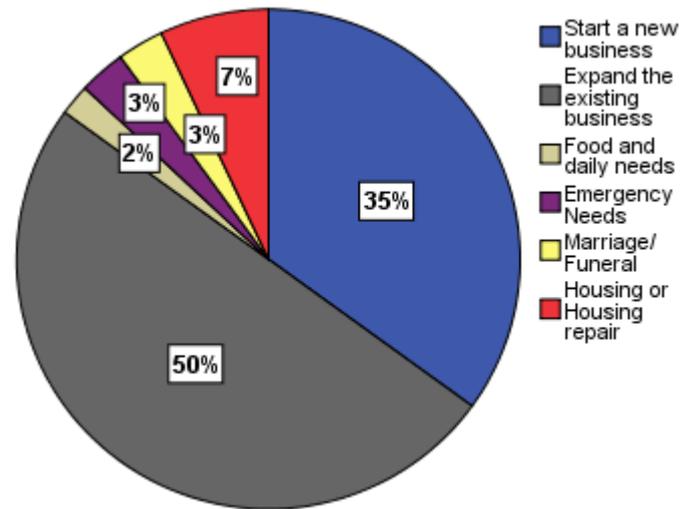
83% respondents preferred the Commodity based Micro Finance facility whereas only 17% respondents preferred the Cash based financing and shows the preference towards the Micro Finance facility is in form of Commodity.



When asked what will respondents do with that microfinance

| Reasons | No of respondents |
|---------------------------|-------------------|
| Food and daily needs | 2 |
| Emergency needs | 3 |
| Marriage and funeral | 3 |
| Housing or housing repair | 7 |
| Start a new business | 35 |
| Expand existing business | 50 |

Figure: 6

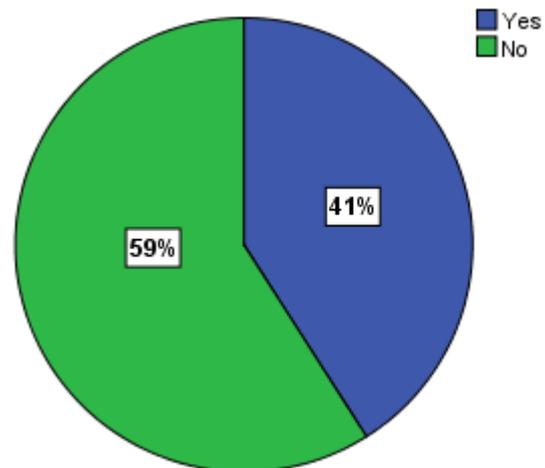


In response of this question majority i.e. 50% respondents want to expand their existing business with micro financing. 35% respondents want to start a new business, 3% respondents want microfinance for emergency needs and 3% respondents want microfinance for marriage or funeral. On the other hand, 7% respondents want it for housing or housing repair. It can be noticed that most of the people either want microfinance to start a new business or expand their existing business. In total 85% people wants to start or expand their current business so it will help the economy of Yemen to grow. Along with that, it will provide employment opportunities to unemployed in Yemen.

Figure: 7

Have respondents ever borrowed before?

| Yes/No | No. of Respondents |
|--------|--------------------|
| Yes | 41 |
| No | 59 |



Majority i.e. 59% respondents said that they never borrowed money before from microfinance

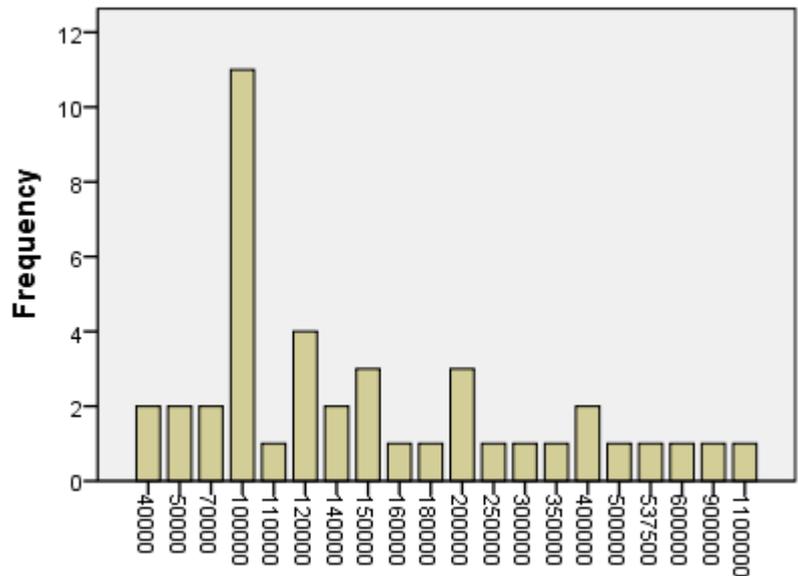


institution and 41% respondents said that yes they have borrowed money before from microfinance institutions. As the figure indicates majority of people had never borrowed money from microfinance institutions.

Figure: 8

Amount of money they borrowed?

| Amount (YER) | No. of Respondents |
|------------------------|---------------------------|
| 0-100000 | 17 |
| 100001-200000 | 15 |
| 200001-300000 | 5 |
| 300001-400000 | 2 |
| 400001- 500000 | 3 |
| 500001- 600000 | 2 |
| 600001 and more | 2 |



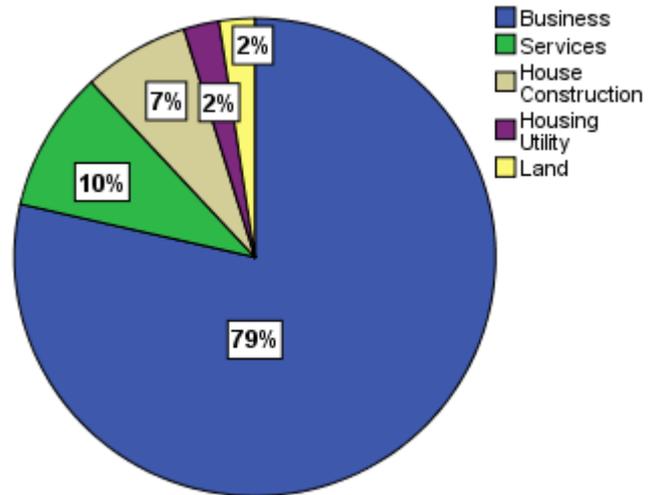
According to the survey majority of the respondents i.e. 17, acquired financing amounted less than or equal to 100000 YER, 15 respondents answered that they have borrowed money between the range of 100001-200000 YER, While the response of other respondents were varied ranging between 300,000 YER - 600,000 YER, According to this survey, most of the people borrowed money up to 200,000 YER. The reason behind this can be high interest/ profit rate and the collateral demanded. This is because as the amount of finance acquired increases, the collateral demanded also increases.



Figure: 9

What will be the purpose of borrowing?

| Purpose | No. of Respondents |
|--------------------|--------------------|
| Business | 33 |
| Services | 4 |
| House construction | 3 |
| Land | 1 |
| Housing Utility | 1 |

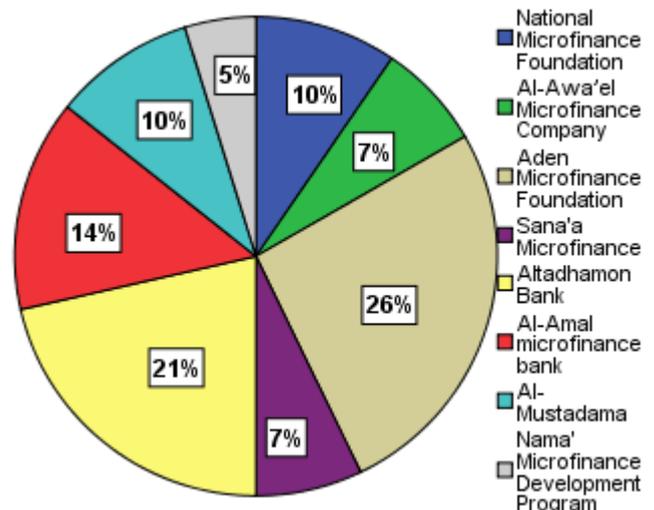


Majority i.e. 79% acquire finance for business purposes, 10% respondents to obtain it to provide services, 7% respondents answered they take money for house construction and 2% respondents borrow for MFIs for land and housing utility. This depicts that microfinance acquired by the clients will be used for developing the business, which will help boost the economic growth in the country.

From which institution respondents borrowed money?

| Institution | No. of Respondents |
|---------------------------------------|--------------------|
| National Microfinance Foundation | 4 |
| Al-awa'el Microfinance Company | 3 |
| Aden Microfinance Foundation | 11 |
| Sana's Microfinance | 3 |
| ALTadamun Bank | 9 |
| Al-Amal Microfinance Bank | 6 |
| Al-Mustadama | 4 |
| Nama Microfinance Development Program | 2 |

Figure: 10





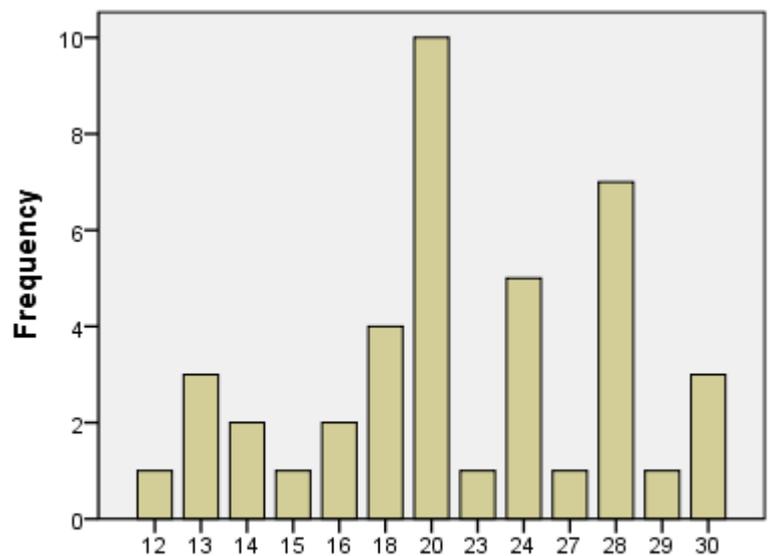
Majority of respondents i.e. 26% were the clients of Aden Microfinance Foundation, 21% have borrowed from Altadamun bank, 14% of respondents were the clients of Al-Amal microfinance bank, 10% respondents were from Al-mustadama and National Microfinance Foundation, 7% respondents have used the services of Sana'a Microfinance and Al-awa'el Microfinance Company and 5% respondents have borrowed from Nama Microfinance Development Program.

What is the profit/ interest rate?

Figure: 11

Profit Rate No. of Respondents

| | |
|-----|----|
| 12% | 1 |
| 13% | 3 |
| 14% | 2 |
| 15% | 1 |
| 16% | 2 |
| 18% | 4 |
| 20% | 10 |
| 23% | 1 |
| 24% | 5 |
| 27% | 1 |
| 28% | 7 |
| 29% | 1 |
| 30% | 3 |



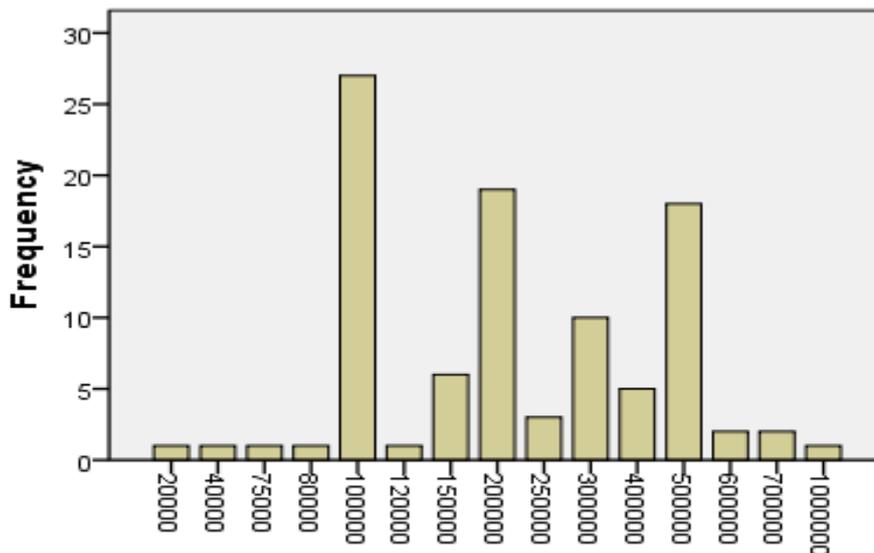
10 Respondents answered that the interest rate they pay on financial is 20%, 7 respondents pay 28% interest rate , 5 respondents are paying 24% interest rate on the financial products they are using. The rate of interest in Yemen is from 12% to 36% and average rate of interest on which respondents have borrowed money is 20%.



When asked how much money will they require, if they are offered microfinance?

| Amount (YER) | No. of Respondents |
|------------------------|---------------------------|
| 0-100000 | 31 |
| 100001-200000 | 26 |
| 200001-300000 | 13 |
| 300001-400000 | 5 |
| 400001- 500000 | 18 |
| 500001- 600000 | 2 |
| 600001 and more | 3 |

Figure: 12



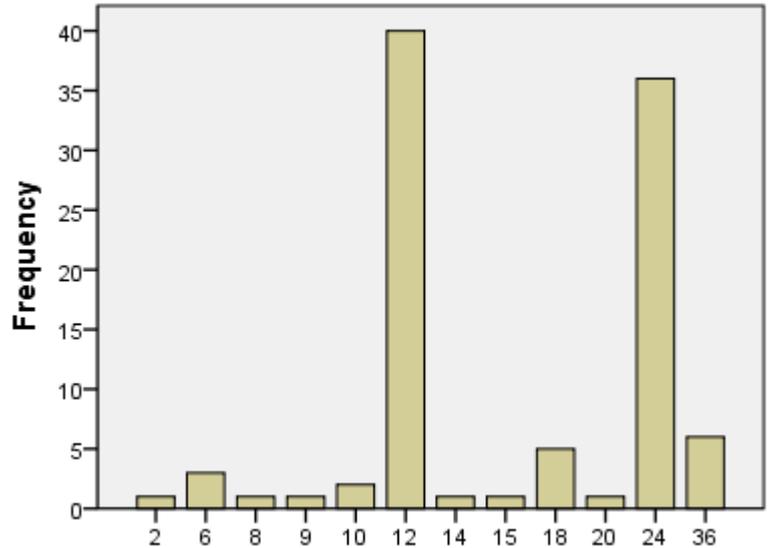
In response to this question majority of the respondents answered that they require less than or equal to 100000 YER of financing from MFIs, 26 of them need microfinance within the range of 100001 - 200000 YER, while in answer of this question 18 respondents answered that they require microfinance maximum 500000 YER. Other respondents response were varied ranging between 300,000 – 600,000 YER.



How long will it take to pay back the loan?

| Period in Months | No of respondents |
|------------------|-------------------|
| 2 Months | 1 |
| 6 Months | 3 |
| 8 Months | 1 |
| 9 Months | 1 |
| 10 Months | 2 |
| 12 Months | 40 |
| 14 Months | 1 |
| 15 Months | 1 |
| 18 Months | 5 |
| 20 months | 1 |
| 24 months | 36 |
| 36 months | 6 |

Figure: 13

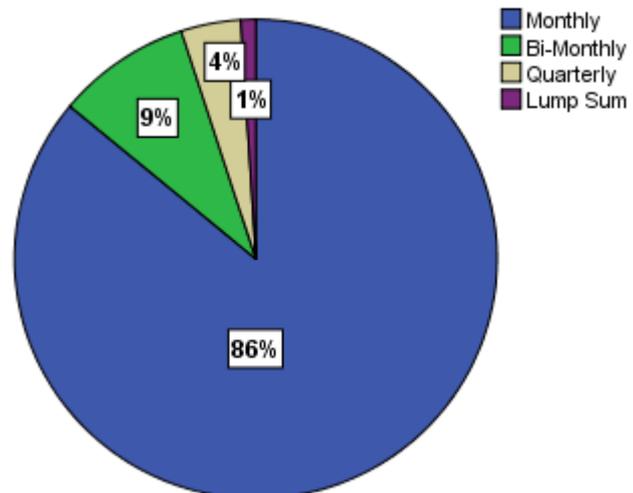


Majority of respondents proposed the repayment time period to be 12 Months or 24 Months. On the other hand, "18 Months" and "36 Months" have been proposed by fewer respondents. In a nut shell, majority proposed the time period for repayment should be up to 1 year or 2 years depending upon the size of the finance which is easy for them to make timely repayment

Figure: 14

Convenient mode of repayment:

| Intervals | No. of Respondents |
|------------|--------------------|
| Monthly | 86 |
| Bi-Monthly | 9 |
| Quarterly | 4 |
| Lump sum | 1 |



Respondents opted for different modes of repayment. 86 respondents 86% selected repayment on "Monthly" basis, and a few 4% selected "Quarterly" repayment, 9% selected "Bi-Monthly"

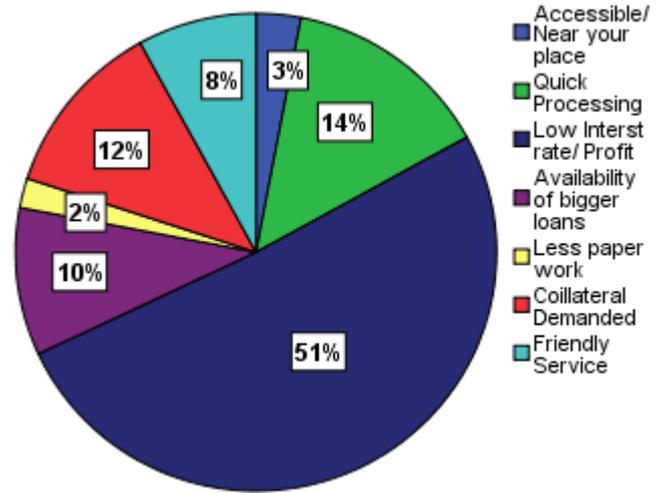


repayment, 1% selected lump sum and proposed 6 to 12 months grace period should be given in case the client is unable to repay the money in time. This survey shows that for majority repaying the finance in instalments in more convenient.

What features you look for while selecting MFIs

Figure: 15

| Features | No of Respondents |
|-------------------------------|-------------------|
| Low Interest Rate | 51 |
| Less paper work | 2 |
| Quick Processing | 14 |
| Friendly services | 8 |
| Availability of bigger loans | 10 |
| Collateral demanded | 12 |
| Accessibility near your place | 3 |



In response to this question, the majority i.e. 51% respondents stated the feature they look for in Micro Finance Institution for Micro Finance facility is "Low Interest Rate", 10 respondents chose the feature of "Availability of bigger loans" whereas 2% respondent look for "Less Paper work" 8% of the respondents preferred "Friendly services" feature 12% respondents preferred "collateral demanded", 14% respondents preferred "Quick processing" and 3% respondents preferred "Accessibility. So it can be said that most of the respondents preferred low interest rate, less collateral demanded and quick processing while selecting the MFI for microfinance facility.

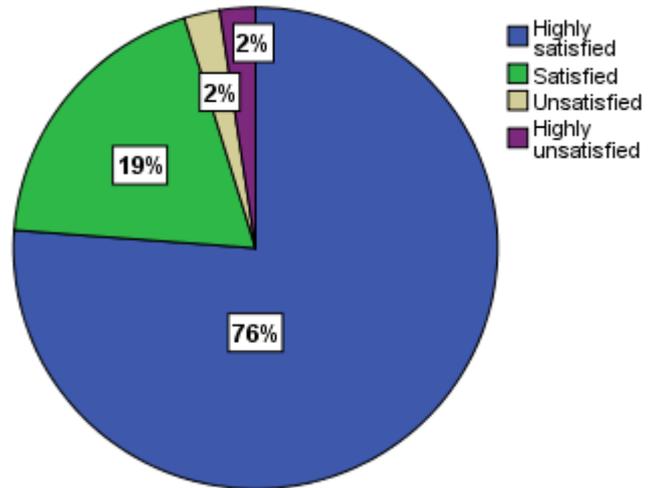


Figure: 16(A)

Satisfaction with product/service

Levels No. of respondents

| | |
|---------------------------|----|
| Highly Satisfied | 76 |
| Satisfied | 19 |
| Unsatisfied | 2 |
| Highly unsatisfied | 2 |



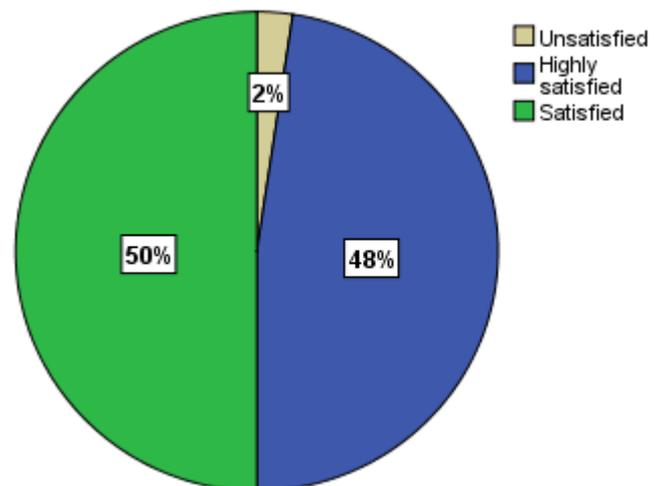
Majority of the respondents i.e. 76% of respondents are highly satisfied with product/service, 19% of respondents are satisfied, 2% of respondents are unsatisfied and 5% of respondents are highly unsatisfied with product/service According to this survey large number of respondents are highly satisfied with the product/service. One of the reasons of this can be lack of knowledge of clients about microfinance products. There might be better products available but they don't know about the better options, so they are satisfied with what they have.

Figure: 16(B)

Satisfaction with payback period

Levels No. of Respondents

| | |
|-------------------------|----|
| Highly satisfied | 48 |
| Satisfied | 50 |
| Unsatisfied | 2 |



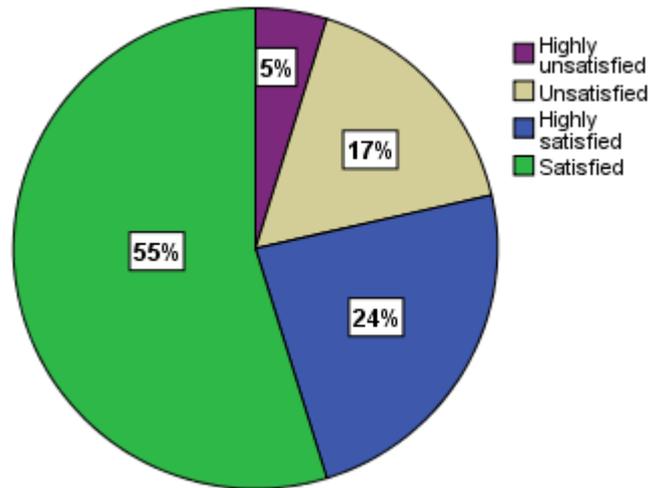
Half of the respondents are satisfied with payback period, 48% of respondents are highly satisfied and 2% of respondents are unsatisfied with payback period. This depicts that the payback period policies of MFIs are satisfactory.



Figure: 16(C)

Satisfaction with Murabaha/ interest rate

| Levels | No. of Respondents |
|--------------------|--------------------|
| Highly satisfied | 24 |
| Satisfied | 55 |
| Unsatisfied | 17 |
| Highly unsatisfied | 5 |

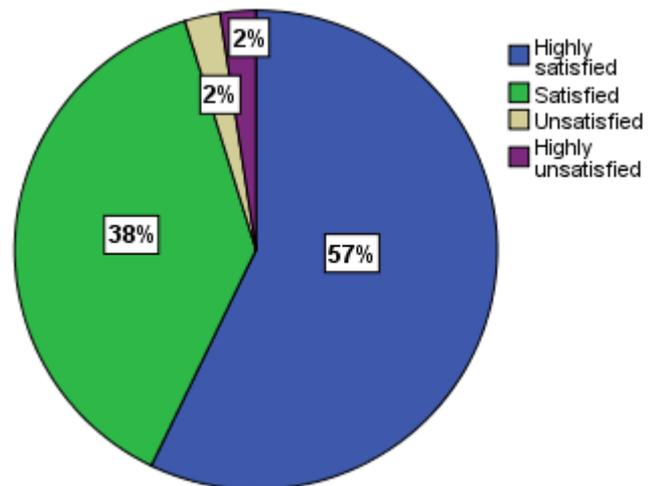


55% of respondents are satisfied with Murabaha/ Interest rate, 24% of respondents are highly satisfied, whereas 17% of respondents are unsatisfied and 5% of respondents are highly unsatisfied with Murabaha/ interest rates

Figure: 16(D)

Satisfaction with accessibility

| Levels | No. of Respondents |
|--------------------|--------------------|
| Highly satisfied | 57 |
| Satisfied | 38 |
| Unsatisfied | 2 |
| Highly unsatisfied | 2 |



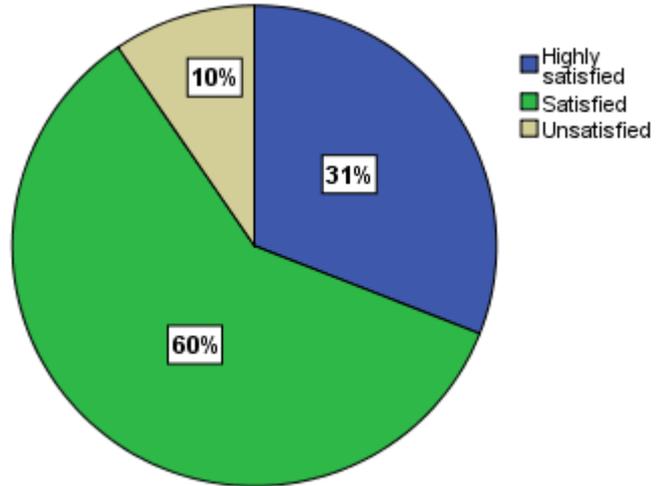
Having a look at the figure it can be assumed that most of the people i.e. 57% are highly satisfied with accessibility to MFI'S, 38% of respondents are satisfied, 2% of respondents are unsatisfied and 2% respondents are highly unsatisfied with accessibility.



Figure: 16(E)

Satisfaction with loan processing

| Levels | No. of Respondents |
|------------------|--------------------|
| Highly satisfied | 31 |
| Satisfied | 60 |
| Unsatisfied | 10 |

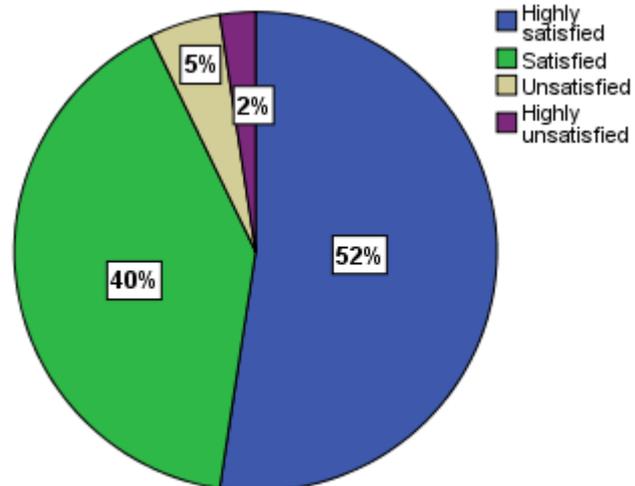


60% of respondents are satisfied with loan processing time, 31% of respondents are highly satisfied, and 10% of respondents are unsatisfied with loan processing time. According to this survey large number of respondents is satisfied with the loan processing time.

Figure: 16(F)

Satisfaction with client support service

| Levels | No. of Respondents |
|--------------------|--------------------|
| Highly satisfied | 52 |
| Satisfied | 40 |
| Unsatisfied | 5 |
| Highly unsatisfied | 2 |



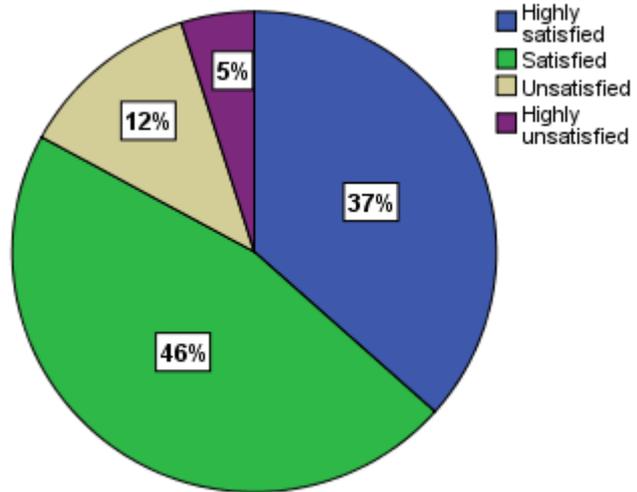
52% of respondents are highly satisfied with client support service, 40% of respondents are satisfied, 5% of respondents are unsatisfied with and 2% of respondents are highly unsatisfied with client support service.



Figure: 16(G)

Satisfaction with service charges

| Levels | No. of Respondents |
|--------------------|--------------------|
| Highly satisfied | 37 |
| Satisfied | 46 |
| Unsatisfied | 12 |
| Highly unsatisfied | 5 |

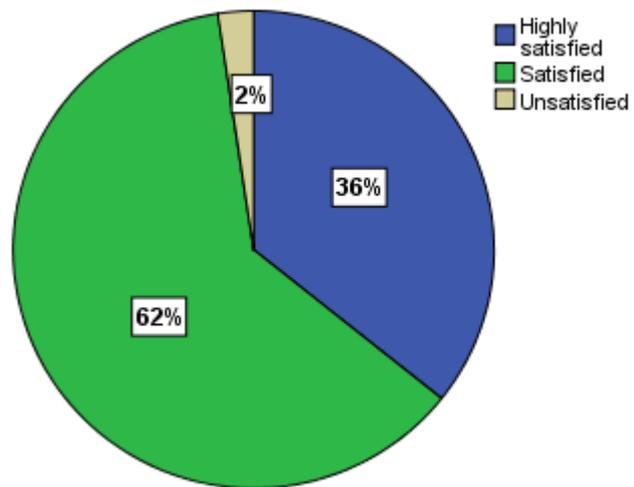


46% of respondents are satisfied with service charges, 37% of respondents are highly satisfied with service charges, 12% of respondents are unsatisfied with service charges while 5% of respondents are highly unsatisfied with service charges.

Figure: 16(H)

Satisfaction with collateral

| Levels | No. of Respondents |
|------------------|--------------------|
| Highly satisfied | 36 |
| Satisfied | 62 |
| Unsatisfied | 2 |



According to this survey, majority of the respondents i.e. 62% of respondents are satisfied with collateral, 36% of respondents are highly satisfied with collateral demanded. However, 2% respondents were unsatisfied with it. The main reason for the high level of satisfaction of the people with collateral demanded by MFIs is that there is no any other option available to them as Murabaha is the only product offered in Yemen.

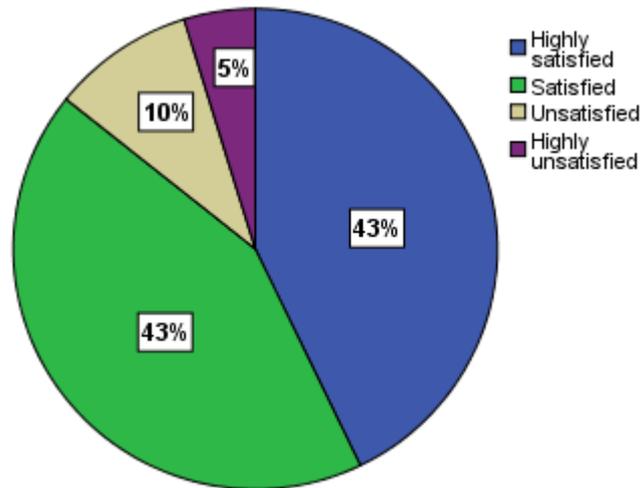


Figure: 16(I)

Satisfaction with terms and conditions

Levels No. of Respondents

| | |
|---------------------------|----|
| Highly satisfied | 43 |
| Satisfied | 43 |
| Unsatisfied | 10 |
| Highly unsatisfied | 5 |



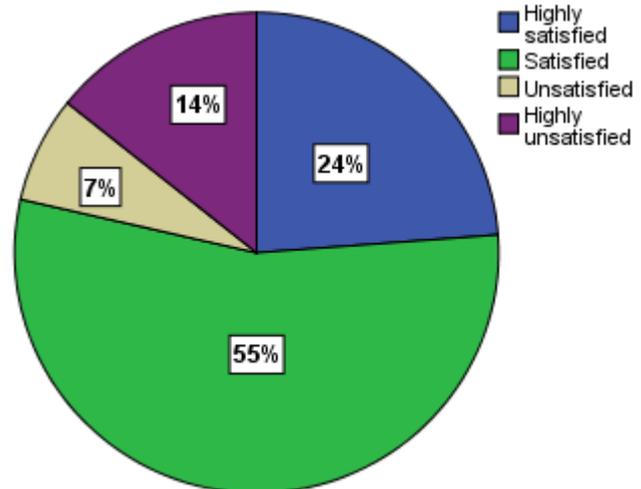
According to this survey, majority of the respondents i.e. 43% are satisfied with the terms and conditions and 43% of respondents are highly satisfied with terms and conditions. On the other hand, 10% were unsatisfied and 5% respondents were highly unsatisfied. This indicates that most of the clients are satisfied with the terms and conditions of MFIs.

Figure: 16(J)

Satisfaction with amount of loan

Levels No. of Respondents

| | |
|---------------------------|----|
| Highly satisfied | 24 |
| Satisfied | 55 |
| Unsatisfied | 7 |
| Highly unsatisfied | 14 |



55% are satisfied with the amount of loan, 24% of respondents are highly satisfied with the amount of loan, 14 % of respondents are highly unsatisfied with the amount of loan and 7% of respondents are unsatisfied with the amount of loan.

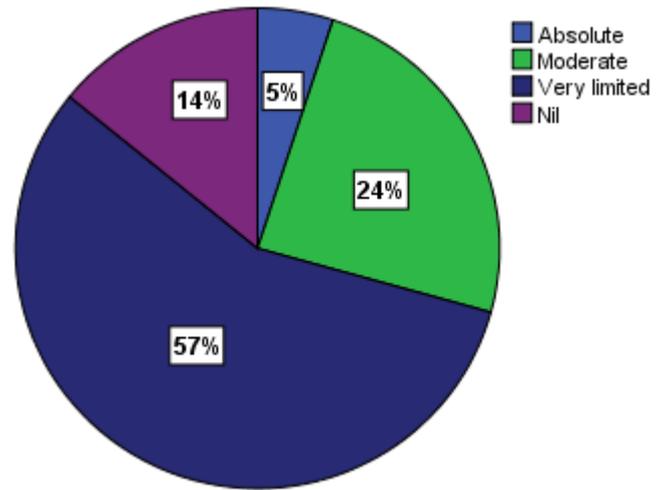


Figure: 17

Knowledge about microfinance and its products

Levels **No. of Respondents**

| | |
|---------------------|-----------|
| Nil | 14 |
| Very limited | 57 |
| Moderate | 24 |
| Absolute | 5 |



Majority of respondents i.e. 57% have very limited knowledge about Islamic microfinance and its products, 24% of respondents have moderate knowledge, and 14% of respondents do not know anything about Islamic Microfinance Products while 5% of respondents have absolute knowledge about Islamic microfinance and its products.

The figure clearly shows that there is a great need to introduce Islamic Microfinance as majority of the people do not know about it and its products.

Number of people living with respondents and number of people dependent on respondents

| | Family members | Dependent members |
|----------------|-----------------------|--------------------------|
| Minimum | 1 | 0 |
| Maximum | 26 | 25 |
| Average | 6 | 5 |

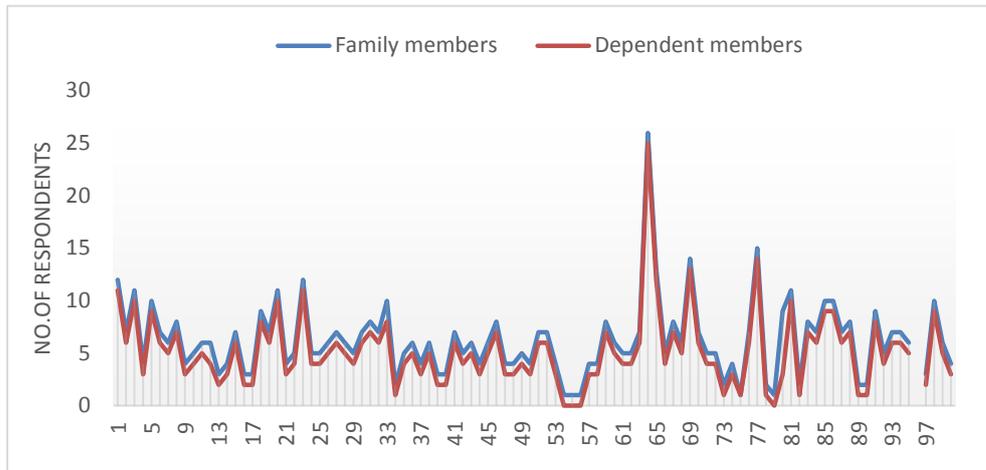


Figure: 18

Interpretation:

According to survey, the team of AlHuda CIBE found that majority of people living with respondents are dependent upon them, which ensure that there is more financial burden on them to support the family. 86% respondents answered that they need microfinance just because to expand their business or to improve their standard of living because there are more dependents on him/her. 14% respondents answered that they don't need microfinance there is a high probability that in future they will need microfinance to support themselves and their families

Monthly income and expenses of respondents:

| | Monthly Income (YER) | Monthly Expense (YER) |
|----------------|-----------------------------|------------------------------|
| Minimum | 15,000 | 2500 |
| Maximum | 500,000 | 300,000 |
| Average | 83,114 | 63,721 |

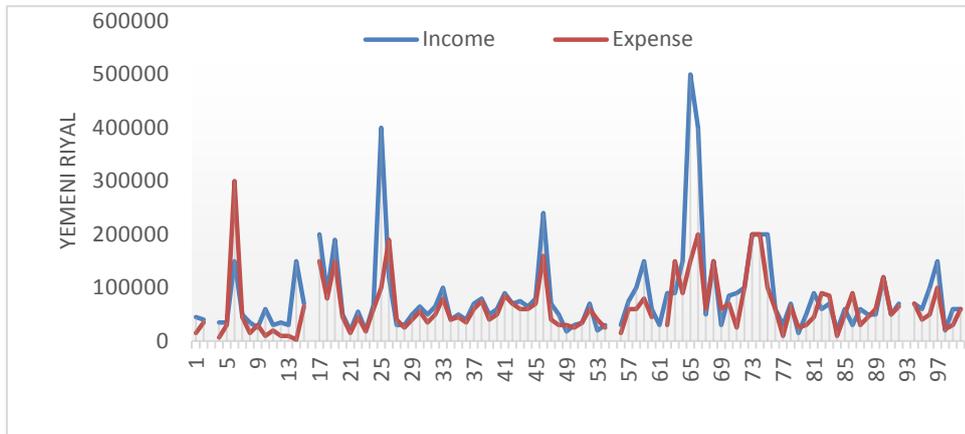


Figure: 19

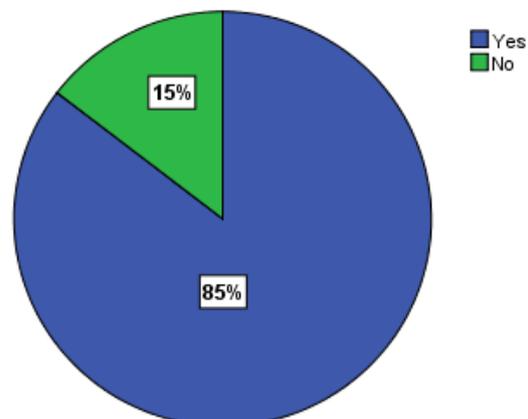
Interpretation:

After obtaining the required information regarding income and expenses of potential clients for MFI’s in Yemen, AlHuda CIBE uncovered a valuable finding. There is a high trend of saving among the respondents of survey as this correlation graph shows that income of majority is higher than the expenses they incur. People are less consumption oriented and are more inclined towards saving. However there are a few cases where expenses of respondents are higher than their Income. Maximum income of respondents is 500,000 Yemeni Riyal (YER) and minimum income is 15,000 YER. Average income of respondents is 83,114 YER. The Maximum expenses of respondents are 300,000 YER and minimum expenses are 2,500 YER. The average expense of respondents is 63,721 YER.

When asked do the respondents want Islamic insurance company to bear the expenses of any unforeseen events

Figure: 20

| Options | No. of Respondents |
|---------|--------------------|
| Yes | 85 |
| No | 15 |



In response of this question, many respondents showed their willingness to welcome the Islamic Insurance Company. The majority i.e. 85% respondents marked “Yes” which means majority

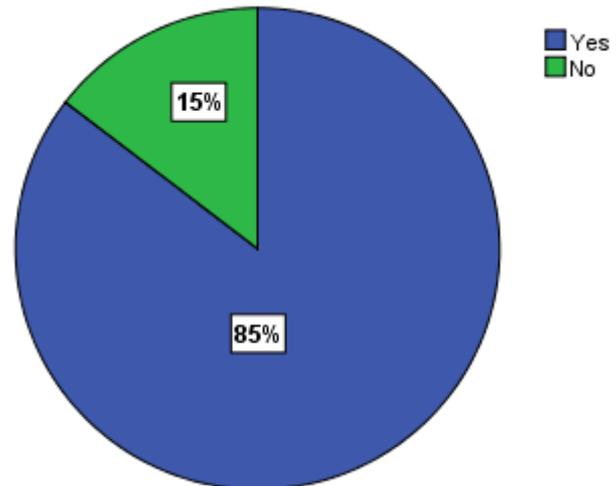


gave an optimistic view which is a hope for Islamic Insurance (Takaful) in Yemen to facilitate the community in different risk sharing factors while 15% respondents marked "No". These figures indicate a green signal for Islamic Insurance in the Yemeni Market.

Figure: 21

Occupation

| Occupation | No. of Respondents |
|-------------|--------------------|
| Trade | 70 |
| Services | 22 |
| Household | 4 |
| Agriculture | 4 |



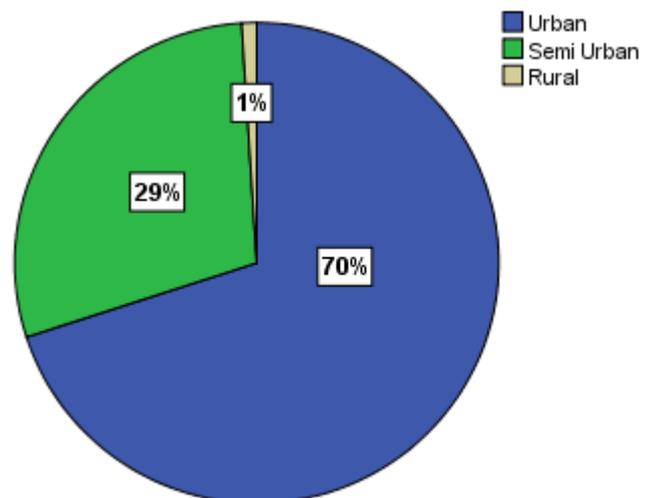
According to this survey, majority i.e. 77% of respondents are engaged in trade, 22% of respondents are providing services, 4% of respondents are households and 4% respondents are in agriculture.

According to this survey, majority of the people of Yemen are engaged in trade.

Locality

| Locality | No. of Respondents |
|------------|--------------------|
| Urban | 70 |
| Semi urban | 29 |
| Rural | 1 |

Figure: 22



According to the respondents in this survey, majority of respondents i.e. 70% of respondents belong to urban areas, 29% of respondents belong to semi urban areas whereas 1% of respondents belong to rural areas.



Section 4: Focus Group Discussion.

Four focus group discussions (FGDs) were conducted in Sana’a, Almukalla and Taiz with the existing clients of member institutions of Yemen Microfinance Network belonging to different age groups and occupations. The discussions were set up specifically to gather the qualitative information about the clients' level of satisfaction towards current products and changes they want in the financial products, their current level of knowledge and perception of Islamic Microfinance and their willingness to accept Shariah compliant financial services and products. First focus group in Sana’a consisted 7 of participants, whereas the second FGD conducted in Sana’a had 6 members and all of them were female. The other two FGDs conducted in Taiz and Almukalla had four members each. The Focus Group Discussions were conducted by Mr. Muhammad Zubair Mughal, Chief Executive Officer of AlHuda CIBE while Mr. Khalil Almikhlaifi and Mr. Ali Abu Talib from YMN provided assistance to him for the smooth conduction of all FGDs. *For FGD respondents’ details see Appendix-I & for FGD questionnaire see Appendix-II.*

For all the discussions a structured questionnaire was prepared to streamline the discussions and members responses were noted for better understanding and analysis. The participants were first given the introduction of research team and YMN. Then they were briefed about the objective and purpose of arranging the discussion. Warm up questions were asked to make the participants at ease and break the ice so that they can share their opinions and take part in the discussion without any hesitation. All the members in the FGDs were very happy to respond to the questions and they participated enthusiastically in the discussion.

Understanding about Microfinance and Islamic Microfinance:

- Participants of all four group discussions had an understanding about microfinance that it is financial mechanism used to help the poor and underprivileged people of the society who have limited financial resources. Microfinance helps in the generation of more jobs and improves the living standard of people living in the community.
- The members of the focus group discussions knew the very basic concepts about Islamic Microfinance that it is Halal whereas conventional microfinance is haram or prohibited in Islam because of interest charges in conventional facility. As Murabaha is the only popular Islamic Microfinance product available in Yemen, Most of the participants were of the view that Murabaha is the only Islamic Microfinance product. They are not aware of other Islamic Microfinance products available under this system.
- Through these discussions, it was found that participants believe that Murabaha is not 100% Sharia’ah compliant source of Islamic finance. *“I needed cash to fulfill some financial obligations,*



so I went to **Tadhamon Microfinance** to borrow the money. They provided the loan amount through a fake product receipt, showing that product was given to me instead of cash. In reality, they lend me the cash, not the product against which the receipt was produced.” Afrah Ali Noaman, a participant of Taiz FGD, shared her experience of utilizing Islamic Microfinance product “Murabaha”. Experiences like these have affected the credibility of Islamic Microfinance among the clients.

- Both formal and informal sources of finance are used by the participants. The formal sources they avail are Microfinance institutions and banks, whereas the informal sources available to them are savings, selling assets like gold jewelry, borrowing from friends and family. The respondents in Taiz focus group discussion said that they prefer to borrow from their family and friends as loan provided is without the date of repayment and interest.

Issues with current microfinance:

- According to the participants, more people can benefit from microfinance services if the microfinance institutions change their collateral/guarantee system against which loan is given to the clients. As most of the MFI’s demand gold as collateral and it is difficult for poor to meet this requirement.
- Moreover, the amount of loan should not be significantly affected by the amount of collateral available. As the needy people usually have very limited asset to be given as guarantee against the loan.
- Participants also raised the issue of profit rates. The rate charged by these MFIs for providing finance to clients is high. Hence, some participants feel that MFI’s don’t serve their objective of helping the poor and creating sustainable social development as they are trying to maximize their profits on expense of needy and underprivileged people.
- Another issue raised by the participants is that Business Development Services are not offered to the clients by the institutions which can help in capacity building and effectively operating their businesses. The respondents of Almukalla group informed the team that they can’t run their business due to the current law and order situation.

Desired Islamic financial products feature:

In order to make the modifications in the existing Islamic microfinance product available in Yemen and for the development of new Islamic Microfinance product(s), the feedback and suggestions of the participants of focus group discussion was taken. This will help in the development of the financial product(s).



- People don't have much awareness about modes of finance in IMF. They have a very limited knowledge about it. They are aware of Salam and Musharakah while some of them also know the terms Mudaraba and Ijarah but were unaware of their details.
- Some respondents of FGD preferred asset based Islamic Microfinance while others preferred cash. Whereas the people of Al-Mukalla would like cash based Islamic Microfinance and they will prefer Qarz-e-Hasana model of finance.
- Most of the member of FGD understood that Murabahah is only mode which is available for Islamic Microfinance; one of the major reasons of this misunderstanding is that only Murabahah Product is available for Islamic Microfinance in Yemen Microfinance Sector.
- As per the respondents of FGD's the minimum size of the loan offer should be 100,000 YER, while the maximum financing size should be at least 30,000.000YER (3 million YER).
- According to the respondents of FGD, Microfinance Institutes demand various types of guarantees against financing. As Islamic Microfinance caters poor and needy people, so gold guarantee, real-estate guarantee is not suitable for them. Therefore, group guarantee, employee guarantee, home guarantee, local representative guarantee are more suitable options which MFI's can demand from its clients.
- As the interest and profit rate of Microfinance products is high from the perspective of underprivileged people, who are going to avail IMF, therefore, they demand that the processing fee should be waved off as they cannot pay both high interest rate and processing fee. On the other hand, the participants of FGD conducted in Al-Mukalla are willing to pay minimal processing fee.
- All the participants of FGD demanded monthly payback mechanism. The payback period should be 6 – 18 months but it also depends on the amount of money borrowed. They also suggested that if a client has some genuine reason, then he/she should be given some grace period for loan payment and some incentive should also be given to the clients who make prompt payments for their appreciation and encouragement as it will motivate them to make timely payments in the future.
- All the respondents of FGD have shown a positive response towards Islamic Microfinance Insurance (Micro Takaful). If it is offered then they will utilize it in order to mitigate their risks.
- Being a very religious society, it is concluded from the FGD that the people of Yemen will prefer Islamic Microfinance as interest is prohibited in Islam and they think that it is better mode of financing.



- Members of FGD’s have general expression that Islamic Microfinance is only name of Asset based financing, they aren’t aware about other Islamic financial products from which clients can be facilitated by cash e.g. Mudaraba, Musharaka, Salam, Intisn’a etc.



Section 5: Interviews

Interviews were conducted with the senior management of Yemen Microfinance Network and its member institutions to obtain first-person account and understanding about Islamic microfinance products, issues with current Islamic financial product and hurdles in obtaining maximum outreach of the Islamic Micro Finance services. Furthermore, the operational policies, strategies, profitability, future outlook of the microfinance industry players were evaluated through these interviews. Along with this, their perception and opinions about Islamic Micro Finance and its prospect and potential was also assessed. These interviews were conducted in Head offices of the YMN member institutions located in Sana'a, Taiz, Aden and Almukalla. *For interviewees' details see Appendix-I & for interview questionnaire see Appendix-II.*

Microfinance in Yemen:

Poverty rate in Yemen is high and economic situation has worsened in the recent years due to political unrest in the country. The senior management of the microfinance institutions believes that microfinance is an important tool to improve the living standards of the Yemeni people and to create sustainable social development in the country. Commercial banks provide very limited facilities to the poor and people living in the rural areas. Moreover, microfinance industry is also in its initial stage and has limited outreach. On average approximately only 16% of microfinance institutions' clients belong to rural areas, whereas most of the activities of these institutions are focused in urban areas, especially in Sana'a, Taiz and Aden. Majority of their clients are clustered in urban areas and few institutions have no outreach in rural areas. This is one of the major causes of low financial inclusion of Yemeni people. Hence, there is a need to strengthen microfinance as it has the potential to reach the un-bankable people of the country and empower businesses along with creating employment opportunities.

Microfinance Institutes in Yemen play a vital role in the lives of their clients. People are getting benefits from small loans by starting new businesses and by extending their existing businesses. There are a lot of success stories in different areas where people got financing from microfinance institutions. According to the senior management, their institutions have helped their clients to improve their living standards. Microfinance Institutes do not have impact assessment reports and one of the reasons for this is lack of proper I.T system. These institutions assess the impact of their funding through feedbacks, suggestions and surveys.

The upper management of MFIs has a promising vision about the outlook of Islamic Microfinance in Yemen. It is widely accepted that Islamic modes of financing are a better alternative of alleviating



poverty by serving different clients and projects in Yemen and creating socio-economic development. There is a high demand for Islamic financial products as Yemen is a Muslim majority country and people refrain from using interest based financial products, as interest is prohibited in Islam. However, currently there is a huge room for improvement in the Islamic microfinance system employed in the country. Only one Islamic financial product "Murabaha" is available in the market and there are some issues with it as well. Single Islamic financial product is unable to fulfill the requirements of all the clients' need. Along with that, there is shortage of human capital in Yemen's microfinance industry. Professional, qualified and skilled labor is deficient, especially in rural areas. Moreover, the industry is growing and the competition to acquire the best talent from the labor pool is high. Apart from this, people lack the knowledge, understanding and awareness about Islamic Microfinance products and services. They show their concern that Murabaha is not 100% Shariah compliant and have operational and structural deficiencies. Hence, there is a need for diverse Islamic microfinance product portfolio which can cater to the demand and needs of clients belonging to different areas and occupations.

Lending Methodology:

Microfinance providers in Yemen are utilizing individual and group lending methodology to provide financial assistance to their clients. Some are using Association for Social Advancement (ASA) model with few amendments while some are employing Grameen Model with focus on group lending methodology for women.

Loyal client incentives:

Around 14 MFI's are working in the microfinance. In order to sustain in the competitive market, it is necessary for the organizations to retain their existing clients and attract the potential clients in order to increase their market share. Different MFI's are employing different tactics for this purpose. Some of the institutions offer gifts to their loyal clients, while other give them training facilities, organize client fairs and also promote their business by marketing their products.

Financial products and services and their main characteristics:

- The profit rates of Murabaha and interest rates charged for conventional microfinance products by the microfinance institutions are high which have led to limited outreach of the MF products, this is because many poor people are unable to pay high rates. On average, the interest/profit rates charged by MFIs in Yemen are between 12- 24% based on the financial product utilized. Recently, Altadhamon Microfinance Bank has lowered their profit rate to 12%, after receiving community development fund from their shareholder to generate socio-economic development.



- The total processing time of application varies from institution to institution. However, majority of MFIs takes approximately 3 to 4 days to process the application of their clients. Whereas the repayment periods for finance provided depends on the amount of financing. However, this period usually range from 4 months to 36 months.
- The loan size offered to the clients is small and this is because of the lack of sufficient source of funds available to microfinance institutions. As they don't have small pool of funds, they cannot cater to all of the clients' demand.
- The minimum finance size available to client ranges from 10,000/- YER to 60,000 YER except for Alkuraimi Islamic Microfinance Bank where minimum finance of 500,000 YER is available to the clients. The maximum finance size available to client ranges from 2 million YER to 10 million YER. It varies from one MFI to another and the size of the finance also depends on the financial product.
- Different microfinance institutions have different criteria of service charges. Some microfinance providers charge a certain percentage of finance (loan) as service charges to their client, whereas others have fixed service charges for processing the application and disbursing the finance. Al-Awa'el Microfinance Company doesn't charge any service fee for Murabaha.
- Microfinance institutions face difficulties in reaching out to the people living in the rural areas of Yemen due to lack of proper infrastructure. Future growth prospects exist for these microfinance institutions if timely efforts are made to get rid of this obstacle.
- Moreover, loan processing is another issue faced sometimes by these MFIs. At times the processing of application and verification of information provided by the clients in the application is problematic.
- Lack of awareness among clients and staff is also an issue which is affecting the efficiency and effectiveness of MFIs in Yemen.

Non- financial services:

- Apart from financial products and services, most of the organizations also provide non-financial services to serve their clients. They provide training to their clients so that they can utilize this microfinance facility in a better manner. Trainings provide knowledge to clients which can help them grow their business from this microfinance and allow them earn more profit and increase their savings as well. Trainings are usually provided to group of people about the best utilization of microfinance products and services. Apart from trainings, most of organizations also provide consultancy services to their clients. These services deal with the problems they are facing in their business operations or how they can utilize microfinance in a best and



efficient way. MFIs also help their clients by assisting them in creating linkages e.g. marketing their product, opportunity to do networking with other clients and advertisement of their products or services. Most organizations also provide other financial services e.g. money exchange and remittances.

MFIs' Sources of Funds:

Source of fund is a very necessary for Microfinance Institution. Unfortunately, in Yemen there are only few organizations which provide funds to all MFIs. This not only affects the clients' percentage of borrowing loans from MFIs but also there is a very less chance of development as there is a very limited budget specified for this research and innovations due to lack of funds. If more sources of funds are available to MFIs then they will be able to offer large amount of loans to their clients. This will increase their budget for research and development and will also assist in increase the outreach of MFIs.

As most of the MFIs get funds from SFD, so the cost of fund for most of MFIs is 10%. On the other hand, some of the MFIs in Yemen like Azal Foundation etc. are securing funds on the basis of Mudarabah from Islamic Banks (e.g. Tadhamon International Islamic Bank, Saba Islamic Bank). This practice is at initial stages in Yemen's Microfinance industry. However if this practice becomes successful, MF industry of Yemen will be able to explore new avenues of commercial sources of fund through Islamic ways. Their operational cost ranges from 20% to 40%.

Sustainability Problem

Sustainability is one of the major issues with the Micro Finance Institution of Yemen. Most of the Microfinance Institution does not have sustainable operation, even their operations cost touches to 55%, which is one of the biggest hurdles for the development of Microfinance sector in Yemen. It is also one of the causes of high profit or Murabaha rates

Major Operational Problems:

Being a country with political and economical problems, it is very difficult to operate effectively and efficiently in the market. A number of operational problems faced by MFI's are as following:

- The culture of Yemen is not very feasible for Microfinance. The people prefer to take loans from friends and family instead of MFI's, so it is very difficult to convince the people to borrow loan from MFI's, especially conventional MFIs due to interest issue. Moreover, they can borrow from their friends and family without any due date of repayment.



- Sometimes it very difficult to convince the people to provide the collateral. This is mainly because they are apprehensive about losing their personal possession being provided as collateral if they are unable to pay back the loan.
- Limited sources of funds are available to microfinance institutions. Majority of institutions have their line of funding from Social Fund Development.
- Threats from Islamic extremists to conventional microfinance institution are also the major problem in Yemen. These institutions are being warned to stop providing interest based financing to Muslims. These threats also discourage people to utilize the services of microfinance banks even when they are willing to do so.
- Over-indebtedness of clients is a critical challenge that MFIs have to evade by employing strategies and policies which are specifically engineered to eliminate this threat.

Islamic Microfinance operations:

- When question asked to microfinance institutes that “Do you have a Shariah advisor?” Majority of the microfinance institutes answered that ‘NO’ they don’t have a Shariah advisor while only few microfinance institutes answered that they have a Shariah advisor who guides them about whether the products provided to their clients are according to laws of Islam or not. Few microfinance institutes answered that they have Shariah advisor but he/she is not their permanent employee thus they only consult with on few occasions when a specific issue comes up. On the other hand, Most of the microfinance institutes do not have Shariah vetted product. Few microfinance institutes have vetted their product from network of Shariah advisors or from different scholars.
- Majority of microfinance institutes confirmed that they did not have qualified and trained Islamic microfinance staff or had very limited trained staff about Islamic microfinance. If Islamic Microfinance institutes do not have trained staff with clear understanding of Islamic microfinance concept, they will be unable to guide their clients properly and will not be able to tell true difference to clients about Islamic financing and conventional financing and the benefits pertaining to Islamic banking. Few microfinance institutes in Yemen have trained and qualified Islamic microfinance staff and they are able to guide their clients about Islamic financing properly. Approximately 60% of microfinance institutes in Yemen are already following Islamic financing. The other 40% microfinance institutes have both Islamic and conventional microfinance operations but they are willing to convert their operations to 100% Islamic finance.



Factors in designing financial services:

- The main focus of microfinance institutions while designing financial services for clients is customer needs. What customer wants, what kind of financial product or services customer demands from organizations will help the organization to mold their products and services accordingly. Another factor taken into consideration while developing products and services is the price they wish to charge for financial product. They usually aim to find out the price which is affordable for clients or what they are willing to pay for a product or service. Organizations also focus on competitors i.e. who their main competitors are, the total number of competitors present, the price of competitors' financial product and services. Thus along with competitors' analysis, organizations design their financial product and services after taking into account all other main factors mentioned. Few organizations also focus on risk assessment while designing financial services, to determine the extent of risk that will be involved in designing and marketing this financial product or service. Majority of the organizations assess the risk before designing any financial product and service.

Outreach Maximization:

Outreach of microfinance institutions in Yemen is very low mainly because of limited structure of branches especially in rural area, high interest rates and collateral demanded. The future steps that organizations will take to maximize the outreach include focusing upon structure of branches. Almost all organizations emphasize that an increase in the number of branches in urban and rural areas to provide microfinance facilities will not only assist the people of urban areas but the people living in rural areas as well which will, in return, help them to improve their living standards. Almost all microfinance institutions will also focus on promotion and marketing campaigns to make people aware of the product and its benefits which will help increase the outreach among customers. Very few organizations will focus on decreasing the interest rate which will help clients. Some organizations will also focus on the need to recruit new loan officials to increase outreach to people. Furthermore, new products are also likely to be developed for their clients to increase their outreach.

Guarantee and collateral:

Microfinance institutes take guarantees against financial assistance they give. Most of the microfinance institutes take gold as guarantee from microfinance clients. Some microfinance institutes also take job guarantee from their microfinance clients and clients give guarantee about his/her job that he/she is doing job in any organization or bank. Some microfinance institutes take salary slip as collateral to find out whether their client has the ability to pay back the loan or not. Another way to check the ability of



clients to pay back loans is through group guarantee where a group of people take guarantee of the client that he will pay back the loan otherwise the group will be responsible to pay back.

Micro insurance and mobile banking facility:

Mostly microfinance institutes provide either mobile banking or micro insurance facilities to their clients. In Yemen only 3 microfinance institutes provide mobile banking to their clients whereas very few organizations provide micro insurance and health insurance to their clients. It's a clear indication that microfinance institutes in Yemen lack technological expertise needed to provide mobile banking services and micro insurance to their clients.

Suggestions by the senior management of MFIs for launch of new Islamic microfinance product or modify the existing ones.

- Develop pure Islamic Microfinance products as poor people are very religious so there is a need to develop products according to Islamic principles
- Provide training services
- There is a need to develop financial products related to education and health
- Develop products that facilitate poor people in a better way
- Yemen microfinance industry in a dire need of new and innovation Islamic microfinance products, hence products other than Murabaha e.g. Salam, Ijara and Mudarabah should be developed. Rural finance products also have high demand in the market.
- The operation of MFIs should be assessed on regular basis, so that deficiencies and issue can be resolved before it becomes a major issue.

Meeting with Regulatory Authority

For the purpose of in-depth understanding and knowledge of the banking and microfinance regulatory environment of Yemen and to assess the feasibility of introducing new Islamic microfinance products within the current conventional microfinance legal framework, meetings with key players of banking and finance industry were conducted. The key professionals who gave their valuable input were from:

1. Central Bank of Yemen
 - *Noura Yahya H. Al Adhi, General Manager Banking Supervision*
 - *Nabil M. Al-Montaser, Deputy Sub-Governor, Banking Supervision Sector*
2. Social Fund for Development
 - *Osama Al-Shami, Unit Head Small & Micro Enterprise Development*



The information provided by above mentioned experts was very helpful for this report. The main aim of these meetings was to get a deep insight about Regulatory Regime as no Islamic Microfinance law exists in the country. Along with this, the funding opportunities for microfinance institutions were also discussed in the meeting.



Section 6: Recommendations

After analyzing and thoroughly assessing the information gathered through desk review, surveys, focus group discussion, regularity framework, interviews and meetings with the senior management of microfinance institutions following strategies and changes are recommended to be employed in order to achieve objectives of expanding the outreach of microfinance in Yemen and increase the financial inclusion of underprivileged people of Yemen. These recommendations will also be beneficial for the sustainable and Shariah compliant growth of Microfinance Sector with broader scope of operation.

- Currently Approximately 90% Microfinance Institution of Yemen are utilizing Islamic Microfinance products in their operations, it is expected that all the Microfinance Industry will be Shariah compliant within two years as there is huge demand of Islamic Microfinance from the general public and the conventional Microfinance industry is being criticized from the society at large. So, it is necessary for Yemen Microfinance Network (YMN) to design a solid strategy/Road map for Islamic Microfinance to fulfill demand and requirement of the Industry.
- Yemen is the country with majority Muslim population (99%) and a small numbers of Jewish, Christian, and Hindu. (CIA, 2013)⁵. There is a huge demand for Islamic Microfinance products in the country, as shown in *Figure 3-Pg 12*, 98% of the respondents preferred Shariah compliant products over conventional products. So, YMN must take the initiative of developing New Islamic micro financing product other than Murabaha in Yemen by convincing the existing MFI's to start Islamic Micro financing and by supplementing those MFI's who already have Islamic Microfinance Operation.
- The majority of respondents belong to the occupation of trade and service (See *Figure 21-Pg 32*). The quite compatible and suitable products for trade and business are “Ijarah” and “Salam” & “Instisna”; these products can also be utilized for livestock and Agricultural inputs, while Ijarah is ideal for vehicle financing. “Salam” can be utilized for Agricultural & Production/Manufacturing purposes respectively. MFI's can also utilize cash based products Mudaraba or, Musharakah, which is based on the mechanism of Partnership. MFI's should incorporate one or two best compatible Islamic microfinance in the microfinance industry and add other products gradually.

⁵The World Factbook. (2013). Retrieved May 2013, from CIA:

<https://www.cia.gov/library/publications/the-world-factbook/fields/2122.html#ym>



- MFI's have very limited funding opportunities, Social Fund for Development (SFD) is the main source of funding for Microfinance Institution, and it is an immediate need to attract funding /donor agencies to strengthen the Microfinance sector. YMN also attract the Shariah compliant funds from Islamic Banking/Financial Institution, Islamic Charities, IDB etc. for the development of Islamic Microfinance Industry.
- Micro Takaful (Islamic Micro Insurance) can also supplement the Islamic Microfinance operations of MFI's in Yemen to mitigate the risk and to increase social protection, as most of the respondents are willing to utilize the services of Takaful. An Internal pool of Takaful fund can also be devised within the MFI's current structure for the clients.
- Though there is a high demand for Islamic Microfinance products in the market but the existing and potential clients and have very limited, moderate or absolutely no knowledge about Islamic Microfinance products, features etc (refer to *Figure 17- pg29*). The literacy rate in the community is only 63.9 % (Wikipedia) but people are willing to experience the Islamic Microfinance products. Hence, in order to maximize the outreach of the Islamic microfinance products, YMN will have to organize conferences, road show, Islamic financial literacy programs trainings and workshops to develop understanding and awareness about Islamic Microfinance. We also found that there are some misconceptions that are pertaining related to Shariah authenticity of Islamic Microfinance, so such programs will not only eradicate misconceptions but also promote the Islamic Microfinance industry in better way.
- To deal with the issue of shortage of Human Capital, YMN should collaborate with IRTI – IDB and other Human Capital organizations to organize conferences and workshops for the professional working in Microfinance industry.
- In most of the cases the women use their personal jewelry and gold to be submitted as collateral with MFI for purpose of taking loan which is sometimes very difficult for them. According to the surveys 21% respondents don't to acquire microfinance because of the collateral demanded. Hence, alternative option for collateral should be utilized in order to attract more potential clients.
- Furthermore, for the promotion, advancement and sustainable operation of Islamic microfinance, grants and funds can be generated from Muslims donor agencies and institutions which are working for the promoting and supporting Islamic financial institutions to eradicate poverty such as IDB, IFAD, Islamic charities (e.g. Islamic Relief, Dubai Cares, Kuwait fund, WCMP etc.).
- Operational cost should be minimized in order to maximize their sustainability. It will not only help to minimize financial product profit rates but also MFIs will be able to grant bigger amount



of loans. For this purpose, sound initiative should be taken to strengthen the MIS and IT system in MFI's. This will help to overcome the deficiencies in the loan processing system. It will also help in reducing the operation cost and the organization will be able to operate more effectively and efficiently.

- Although, Yemen have very low Microfinance penetration but in some Areas/regions Microfinance Industry is facing the over indebtedness issue, so it is recommended to establish a Centralized Credit Information Bureau (CIB) to facilitate the industry.
- During the field study, it was observed that, the Yemeni people do not have the culture to take loans from Banks & MFI's. They prefer to take loans from friends and family which is without interest. So soft loans such as (Qarz-e-Hassan) can also be offered to them, it will be more convenient for them and they will accept it.
- Most of MFI's do not have sustainable operations even their operational cost reaches upto 50% annually which is one of the reasons for high interest or Murabaha rates, it is recommended to introduce prudential techniques to the MFI's so that they may be able to coop with sustainability issue.
- Murabaha rates can also be reduced by appointing the client as agent for purchase of the asset for Murabaha transaction on MFI's behalf, through this mechanism; client will also purchase the exact item/product according to their need and demand with minimum processing time and operational Expenses.
- During the Survey it was evaluated that 93.64% Microfinance clients of MFI's are resided in urban area and 6.36% clients are resided in rural areas, so Bai Salam will be the ideal approach to facilitate/improve outreach in rural areas through Shariah Compliant Solution.
- The level of Shariah compliance is very low in the Islamic Microfinance industry in Yemen **55% MFI's do not have Shariah Scholars, 55% do not have Shariah Vetted Products**. It is highly recommended to constitute a Shariah board or appoint a Shariah advisor at YMN level to provide the Shariah Advisory/Assistance to the YMN members. YMN can also introduce “Shariah Audit” to the YMN members to ensure the Shariah compliance of IMF products and operations.
- Islamic Microfinance can increase the outreach of Microfinance in Yemen as it is highly demanded from the General Public, but Murabahah alone cannot fulfill the 100% need of Microfinance clients due to some limitation e.g. Emergency cash/loan, Education Loan, Medical loan etc, so it is recommended to introduce 3 to 4 more Islamic Microfinance products into the Islamic Microfinance product line.



- Islamic Microfinance has a vast range of products with a sensitive mechanism to utilize them. It will be ideal to choose accurate Islamic Microfinance product by accessing the level of poverty of the poor. Qarz-e-Hassan, Sadqa, Grant can be utilized for chronic or extreme poor, Murabaha and Ijarah will be ideal financial products for Poor while Salam and Istisna can address the financial need of Transitory poor in a better way. An initiative by YMN to conduct Poverty Score card/Poverty survey will be highly appreciated to address this issue.
- Mobile banking or branch-less banking products are rarely being utilized in Yemen’s Microfinance Industry, YMN can also increase the outreach of Microfinance industry through Mobile Banking. It is also observed that a handsome number of Yemeni nationals are working in other countries, so YMN can channelize the fast delivery of remittances through Mobile Banking/Technological Remittance products.



Section 7: Annexure

Annexure- I

7.1: Survey

Serial No: _____

Preliminary Study - Survey "Islamic Microfinance Products in Yemen" Survey with Existing & Potential Clients

This is a general research whose objective is to identify and evaluate Islamic microfinance products and increase the outreach Microfinance in Yemen

Enumerator Name: _____ City: _____ Date: _____

Please tick in the most appropriate response box which best depicts your opinion:

1. Do you need Microfinance?
 - Yes
 - No
2. If answer of Q # 1 is "No" then what is the reason for not utilizing microfinance?

| | |
|---|---|
| <input type="checkbox"/> Religious Reasons | <input type="checkbox"/> Demanded collateral |
| <input type="checkbox"/> Cultural/ Social Reasons | <input type="checkbox"/> Inability to payback |
| <input type="checkbox"/> Don't need it | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Inaccessibility | |
3. If you are offered microfinance, which method will you prefer?
 - Islamic Financing
 - Conventional interest based loans
4. If your answer is "Islamic Shari'ah compliant financing", then what is the reason to utilize the Islamic Microfinance Product?

| | |
|---|---|
| <input type="checkbox"/> Religious Reason | <input type="checkbox"/> Best Performance |
| <input type="checkbox"/> Good Alternative | <input type="checkbox"/> Other _____ |
5. What will you prefer in Microfinance facility?
 - Cash
 - Commodity/ Assets
6. What will you do with that microfinance?

| | |
|---|--|
| <input type="checkbox"/> Start new business | <input type="checkbox"/> Education |
| <input type="checkbox"/> Expand the existing business | <input type="checkbox"/> Marriage/ Funeral |
| <input type="checkbox"/> Repay the old loan | <input type="checkbox"/> Housing or housing repair |
| <input type="checkbox"/> Food and daily needs | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Emergency needs | |
7. Have you borrowed money before from Microfinance Institution (MFI)?
 - Yes
 - No
8. If yes, what is the amount of borrowed money: _____



9. The purpose of borrowing: _____
10. Name of the institution(s) from where you borrowed money? _____
11. What is the total payback amount? Profit/interest rates? _____
12. How much money will you require, if you are offered Micro finance? _____
13. How long will it take you to pay back? _____
14. Which mode of repayment is convenient for you?
- Monthly Quarterly
- Bi-Monthly Lump sum
- Any other: _____

15. Which features you look for or will look for while selecting the MFI for Microfinance facility?
- Accessible/ near your place Less paper work
- Quick processing of loan Collateral demanded
- Low interest rate / Profit Friendly service
- Availability of bigger loans Others:_____

16. If you are a existing MFI client, Rate your level of satisfaction on the following :

1= highly satisfied, 2= satisfied, 3= unsatisfied, 4= highly unsatisfied

- | | | | | |
|---------------------------------|---|---|---|---|
| a. Product/ service | 1 | 2 | 3 | 4 |
| b. Payback period | 1 | 2 | 3 | 4 |
| c. Interest rate/ Murabaha rate | 1 | 2 | 3 | 4 |
| d. Accessibility | 1 | 2 | 3 | 4 |
| e. Loan Processing time | 1 | 2 | 3 | 4 |
| f. Client support Service | 1 | 2 | 3 | 4 |
| g. Service charges | 1 | 2 | 3 | 4 |
| h. Collateral | 1 | 2 | 3 | 4 |
| i. Term & Conditions | 1 | 2 | 3 | 4 |
| j. Amount of loan | 1 | 2 | 3 | 4 |

17. Level of your knowledge about Islamic Microfinance and its Products.

- Absolute
- Moderate
- Very limited
- Nil

18. Number of people living with you and people dependent on you? No. of Households No. of dependents

19. What are your monthly income and expenses? _____ _____
- Expense Monthly Income Monthly

20. Do you want an Islamic insurance company (Takaful) to bear the expenses of any unforeseen events or happenings to you or your households?

- Yes
- No



Respondent's Profile:

I. Occupation:

- Agriculture
- Production
- Household

- Trade
- Service
- Others_____

II. Locality:

- Urban
- Semi Urban
- Rural

| | |
|-------------------------|--|
| Name | |
| Address | |
| Phone No | |
| Gender & Age | |
| Education | |
| Signature | |



7.2: Interviews.

Interviews

"Islamic Microfinance Products in Yemen"

This is a general research, its objective is to evaluate Islamic microfinance products, identify the issues & concern and increase the outreach of Microfinance in Yemen

Enumerator: _____ City: _____ Date: _____

1) What is the importance of microfinance in Yemen?

2) What is the model of microfinance methodology practiced in your institution?

3) What is your vision and observation about Islamic Microfinance?

Vision: _____

_____ Observation: _____

4) What is the Impact of your program in the lives of your clients? Do you have any impact assessment report?

Impact Assessment Report:

5) What are the main operational problems for micro financing in your institution's operated regions?



- 6) What incentives does your organization provide to Loyal/Repeating clients?

- 7) Have you identified any weakness in financial products or services you offer? If yes, please describe?

- 8) What is the average cost of funds and operation costs of the MF program? What are the Sources of Funds?
Cost of Fund:

Operation Cost:

Source of Funds:

- 9) How many microfinance product do you have e.g. Emergency Loan, Murabaha, Education Loan etc?

- 10) How much interest/Profit you charged from your clients? Do you have any services charges apart from the Interest/profit rates? If yes, then how much those are?

Service charges

- 11) What is the total processing time of application? What is the ranges repayment period?
Processing time: _____ Days.
Repayment Periods: _____ Months
- 12) What is the average finance size available for clients? What is the minimum and maximum range?
Average Loan Size:



Minimum and Maximum Range:

13) What steps does your organization take to maximize the outreach of its services?

14) What factors do you consider in designing financial services for your clients?

15) What non-financial services do you currently offer or plan to add to serve your clients?

16) What sort of surety, Guarantee & collateral you take from the clients for Microfinance?

17) Do you have any integrated Micro Insurance or Mobile Banking facility for your clients?

18) Any other problems which is faced by institution during Micro financing process?

19) What is locality/geographical spread of your clients in percentage e.g. urban, rural etc.?

Urban _____%, Rural _____%

20) If you have Islamic Microfinance operation, please respond the following:

1. Do you have Shariah Advisor for Islamic MF

: _____

2. Do you have Shariah vetted Product: _____ From whom:

3. Do you have qualified and Trained Islamic Microfinance Staff:

4. Do you wish to convert your 100% MF portfolio into Islamic

MF: _____



21) Please feel free to give any suggestions for successful launch of new Islamic Microfinance Product or modifying the existing ones:

Thank you for your valuable time.

Respondent's Profile:

| | |
|---|--|
| Name | |
| Organization Name & Designation. | |
| Contact details | |
| Education | |
| Nature of MFI | |



7.3: Focus Group Discussions.

FGD No: _____

**Preliminary Study – Focus Group Discussion
"Islamic Microfinance Products in Yemen"
Survey with Existing Clients**

This is a general research whose objective is to identify and evaluate Islamic microfinance products and increase the outreach Microfinance in Yemen

City: _____ Date: _____

a) Introduction:

- Introduction of Yemen Microfinance Network and Assignment.
- Introduction of the team
- Introduction of participants
- Objectives/Purpose of FGDs

b) Warm-up Questions:

- What is your understanding about microfinance in general?
- What is your understanding about Islamic microfinance
- What are the sources of finance available in your area? Formal and informal?

c) General Questions:

- Microfinance Institutions provides for your business/domestic needs, what are your views about it?
 - How can this be improved so more people can benefit from this?
 - What do people/community would feel about such Islamic finance arrangement?
 - Have you faced any of operation issues and what are your concerns regarding the Microfinance product used?
 - What improvements you want in the Microfinance as a whole and the products you availing to better to utilize.
 - Do you intend to re-borrow after repaying current Microfinance loan? If yes then why and on which terms and conditions you look for

d) Potential Islamic products:

- What do you think for what purposes Islamic finance should be given?
- Will you be willing to use new Islamic microfinance products or modified existing product?
- What other modes of finance come into your mind? i.e. Morabaha, Ijarah, Salam etc.
- What should be the terms and conditions for Islamic Micro finance Product?



- Profit on commodity sales basis?
 - What should be finance size and why?
 - Collateral, Group guarantee, etc.
 - Payback mechanism – installment basis.
 - Processing fee payment.
 - Islamic Micro Insurance (Micro Takaful)
- What will be the preference of community, Conventional Microfinance or Islamic Microfinance?
-



Annexure- II

2.1 Survey's

Preliminary Study –Surveys

Islamic Microfinance Products in Yemen

Survey With Existing and Potential Clients (Sana'a, Taiz, Aden & AlMukalla)

| S.No | Code | Locality | Name | City | Gender | Age | Occupation | Education |
|------|----------|------------|----------------------------|--------|--------|-----|------------|--------------------|
| 1 | S -P-001 | Semi Urban | Ismael Ahmed Mohamed | Sana'a | Male | 30 | Trade | Secondary |
| 2 | S -P-002 | Semi Urban | Khalid Ali Ali Aljalal | Sana'a | Male | 27 | Trade | Intermediate |
| 3 | S -P-003 | Urban | Bashish Badidi | Sana'a | Male | 21 | Trade | Secondary |
| 4 | S -P-004 | Semi Urban | Shaif Nafigh Sabit | Sana'a | Male | 24 | Trade | Intermediate |
| 5 | S -P-005 | Semi Urban | Fatima Mohammed Ahmed | Sana'a | Female | 26 | Trade | Nil |
| 6 | S -P-006 | Semi Urban | Mahmood Ali Ahmed Usman | Sana'a | Male | 31 | Trade | Intermediate |
| 7 | S -P-007 | Urban | Tariq Abdullah Dawood | Sana'a | Male | 25 | Trade | Intermediate |
| 8 | S -P-008 | Semi Urban | Nadir Mohamed Al-Kabodi | Sana'a | Male | 20 | Services | Academy |
| 9 | S -P-009 | Semi Urban | Al-Haye Ali Ahmed Al-Haye | Sana'a | Male | 22 | Trade | Intermediate |
| 10 | S -P-010 | Urban | Mohammed Hamood Anajar | Sana'a | Male | 45 | Trade | Primary |
| 11 | S -P-011 | Urban | zayed Abdullah Mohamed | Sana'a | Male | 27 | Services | University Student |
| 12 | S -P-012 | Urban | Suffyan Aziz Abdullah | Sana'a | Male | 28 | Trade | Intermediate |
| 13 | S -P-013 | Urban | Abdul Aziz Mohamed Ali | Sana'a | Male | 22 | Trade | Intermediate |
| 14 | S -P-014 | Urban | Sadiq Salah | Sana'a | Male | 23 | Trade | Secondary |
| 15 | S -P-015 | Urban | Aamir Muhammad Abdul Saeed | Sana'a | Male | 44 | Trade | Nil |
| 16 | S -P-016 | Urban | Abdussalalm Ahmed Usman | Sana'a | Male | 30 | Trade | Intermediate |



| | | | | | | | | |
|----|-----------|------------|-----------------------------|--------|--------|----|-----------|--------------------|
| 17 | S -P-017 | Urban | Mohamed Saeed Al-Ghariki | Sana'a | Male | 21 | Trade | Intermediate |
| 18 | S -P-018 | Urban | Abdul Malik Ahmed Al-Hamami | Sana'a | Male | 22 | Trade | Bachelor |
| 19 | S -P-019 | Urban | Wajidi Naji Mohamed | Sana'a | Male | 25 | Trade | Secondary |
| 20 | S -P-020 | Urban | Waheed mohamed Saeed | Sana'a | Male | 25 | Trade | Master |
| 21 | S -P-021 | Urban | Majid Abdul Qavi Ahmed | Sana'a | Male | 34 | Services | Bachelor |
| 22 | S -P-022 | Urban | Karima Mohsin Mohamed | Sana'a | Female | 25 | Services | Secondary |
| 23 | S -P-023 | Urban | Anas Mohamed | Sana'a | Male | 27 | Services | Intermediate |
| 24 | S -P-024 | Urban | Wazagh Mohamed | Sana'a | Male | 23 | Trade | Secondary |
| 25 | S -E -001 | Urban | Aish Ahmed Nasir | Sana'a | Male | 33 | Trade | Intermediate |
| 26 | S -E -002 | Urban | Mohamed Nasir Al-Maqdash | Sana'a | Male | 28 | Trade | University Student |
| 27 | S -E -003 | Urban | Khairia Abdullah | Sana'a | Female | 40 | Services | Primary |
| 28 | S -E -004 | Semi Urban | Taqwa Hussain Al-Habaabi | Sana'a | Female | 49 | Trade | Nil |
| 29 | S -E -005 | Urban | Nida Yahya Al -Hababi | Sana'a | Female | 23 | Services | Intermediate |
| 30 | S -E -006 | Semi Urban | Aasia Ahmed Nasir Saleh | Sana'a | Female | 50 | Trade | Primary |
| 31 | S -E -007 | Semi Urban | Saliha Ahmed Mohamed | Sana'a | Female | 48 | Trade | Primary |
| 32 | S -E -008 | Urban | Mohamed Abdullah Salih | Sana'a | Male | 27 | Trade | Master |
| 33 | S -E -009 | Semi Urban | Jamal Abdullah Ahmed | Sana'a | Male | 20 | Services | Intermediate |
| 34 | S -E -010 | Urban | Saif Ali | Sana'a | Male | 28 | Services | Primary |
| 35 | S -E -011 | Urban | Waddah Abdul | Sana'a | Male | 25 | Trade | Bachelor |
| 36 | S -E -012 | Urban | Mohamed Ali Al- Maqhf | Sana'a | Male | 22 | Services | Secondary |
| 37 | S -E -013 | Urban | Riyad Ahmed Hassan | Sana'a | Male | 28 | Trade | Intermediate |
| 38 | S -E -014 | Urban | Mohamed Sheif Ali | Sana'a | Male | 30 | Trade | Primary |
| 39 | S -E -015 | Semi Urban | Ibrahim Ahmed Farigh Asrari | Sana'a | Male | 28 | Trade | Secondary |
| 40 | S -E -016 | Urban | Ali Mohamed Al - Asghari | Sana'a | Male | 23 | Trade | Master |
| 41 | T -P -001 | Semi Urban | Zohra Hassan Muhammed | Taiz | Female | 25 | Household | Nil |

| | | | | | | | | |
|----|---------------|---------------|----------------------------|------|--------|----|-------------|-----------------------|
| 42 | T -P - 002 | Semi Urban | Ravia Yousuf | Taiz | Female | 25 | Services | Nil |
| 43 | T -P - 003 | Semi Urban | Nabiha Bin Ahmed Farhan | Taiz | Female | 30 | Agriculture | Nil |
| 44 | T -P - 004 | Semi Urban | Salma Al - Quaid | Taiz | Female | 45 | Trade | Nil |
| 45 | T -P - 005 | Semi Urban | Saood Muttanna Mohamed | Taiz | Female | 25 | Trade | Nil |
| 46 | T -P - 006 | Semi Urban | Zahra Mohamed Ahmed | Taiz | Female | 26 | Trade | Nil |
| 47 | T -P - 007 | Semi Urban | Fatima Mottanna Mohamed | Taiz | Female | 30 | Trade | Nil |
| 48 | T -P - 008 | Semi Urban | Abdul Salih | Taiz | Male | 24 | Trade | Secondary |
| 49 | T -E - 001 | Semi Urban | Wafa Muhammad Sarhan | Taiz | Female | 18 | Services | Secondary |
| 50 | T -E - 002 | Semi Urban | Khawala Muhammad Usman | Taiz | Female | 19 | Trade | Nil |
| 51 | T -E - 003 | Semi Urban | Saada Ahmed Salih | Taiz | Female | 54 | Trade | Nil |
| 52 | T -E - 004 | Semi Urban | Fatima Muhammad Ali | Taiz | Female | 25 | Trade | Nil |
| 53 | T -E - 005 | Semi Urban | Mohsin Saeed | Taiz | Male | 30 | Services | Primary |
| 54 | T -E - 006 | Semi Urban | Muhammed Saeed | Taiz | Male | 25 | Trade | Secondary |
| 55 | T -E - 007 | Semi Urban | Abdul Karim Ahmed Umar | Taiz | Male | 24 | Trade | Primary |
| 56 | AD-P- 001 | Urban | Arsalan Ahmed Ali | Aden | Male | 41 | Services | Secondary |
| 57 | AD-P- 002 | Urban | Muharram Fouad | Aden | Male | 27 | Trade | Primary |
| 58 | AD-P- 003 | Urban | Abdullah Salih | Aden | Male | 35 | Trade | Intermediate |
| 59 | AD-P- 004 | Urban | Manthaqi Saeed Ubaid | Aden | Female | 35 | Services | Bachelor |
| 60 | AD-P- 005 | Rural | Muhammad Uthman Ali | Aden | Male | 30 | Agriculture | Secondary |
| 61 | AD-P- 006 | Urban | Salah Ahmed Mujahid | Aden | Male | 20 | Trade | University Student |
| 62 | AD-P- 007 | Urban | Saeed Muhammed | Aden | Male | 30 | Household | Primary |
| 63 | AD-P- 008 | Urban | Salwa Mohamed | Aden | Female | 30 | Agriculture | Primary |
| 64 | AD-P- 009 | Urban | Fatima Ahmed | Aden | Female | 20 | Trade | Primary |
| 65 | AD-P- 010 | Urban | Mohamed Anwar | Aden | Male | 21 | Other | Bachelor |
| 66 | AD-P- 011 | Urban | Saeed Ahmed Ali | Aden | Male | 32 | Trade | Primary |

| | | | | | | | | |
|----|-----------|------------|------------------------|-----------|--------|----|-------------|--------------------|
| 67 | AD-P-012 | Urban | Khadija Saleh | Aden | Female | 24 | Trade | Primary |
| 68 | AD-P-013 | Urban | Nudsia Ibadi | Aden | Female | 30 | Trade | Bachelor |
| 69 | AD-P-014 | Urban | Saeeda Ahmed | Aden | Female | 25 | Trade | Primary |
| 70 | AD-P-015 | Urban | Aamil Ahmed | Aden | Male | 20 | Services | Intermediate |
| 71 | AD-P-016 | Urban | Saleha Ubaid | Aden | Female | 25 | Trade | Nil |
| 72 | AD-P-017 | Urban | Ubaid Salehi | Aden | Male | 25 | Trade | Nil |
| 73 | AD-P-018 | Urban | Maryam Muhammad Umar | Aden | Female | 25 | Trade | Secondary |
| 74 | AD-E-001 | Urban | Abeer Gamat Mohamed | Aden | Female | 23 | Household | Primary |
| 75 | AD-E-002 | Semi Urban | Nada Ibrahim | Aden | Female | 30 | Agriculture | Nil |
| 76 | AD-E-003 | Semi Urban | Noor Saeed Ahmed | Aden | Female | 50 | Trade | Nil |
| 77 | AD-E-004 | Semi Urban | Abdullah Mohamed Salih | Aden | Male | 27 | Trade | Secondary |
| 78 | AD-E-005 | Urban | Mayyada Mehdi Nasir | Aden | Female | 30 | Household | Nil |
| 79 | AD-E-006 | Urban | Sana Umar Ahmed | Aden | Female | 25 | Trade | Primary |
| 80 | AD-E-007 | Urban | Mohamed Faisal Waris | Aden | Male | 24 | Trade | Intermediate |
| 81 | AD-E-008 | Urban | Nadra Mohamed Sulaiman | Aden | Female | 23 | Trade | Primary |
| 82 | AD-E-009 | Urban | Fareeda Mohamed | Aden | Female | 50 | Trade | Primary |
| 83 | AD-E-010 | Urban | Amar Adil Abdullah | Aden | Male | 28 | Trade | Bachelor |
| 84 | AD-E-011 | Urban | Huda Ahmed Salem | Aden | Female | 25 | Trade | Secondary |
| 85 | AD-E-012 | Urban | Zahoor Ali Ibrahim | Aden | Female | 28 | Trade | Primary |
| 86 | AM -P-001 | Urban | Mohamed Mansour | AlMukalla | Male | 47 | Services | Secondary |
| 87 | AM -P-002 | Urban | Ahmed Abdullah | AlMukalla | Male | 20 | Other | Secondary |
| 88 | AM -P-003 | Urban | Abdullah Mohamed | AlMukalla | Male | 22 | Services | University Student |
| 89 | AM -P-004 | Urban | Ahmed Wadigh | AlMukalla | Male | 21 | Services | Bachelor |
| 90 | AM -P-005 | Urban | Mohamed Saeed | AlMukalla | Male | 32 | Services | Bachelor |
| 91 | AM -P-006 | Urban | Abdul Malik Ahmed | AlMukalla | Male | 37 | Trade | Secondary |

| | | | | | | | | |
|-----|-----------|-------|---------------------------|-----------|--------|----|-------|-----------|
| 92 | AM -P-007 | Urban | Mohamed Mansiur AlHashidi | AlMukalla | Male | 40 | Trade | Secondary |
| 93 | AM -P-008 | Urban | Saeed Mohamed Ali | AlMukalla | Male | 30 | Trade | Secondary |
| 94 | AM-E-001 | Urban | Hussain Haroon Al Attas | AlMukalla | Male | 30 | Trade | Bachelor |
| 95 | AM-E-002 | Urban | Abdul Aziz Saeed | AlMukalla | Male | 30 | Other | Bachelor |
| 96 | AM-E-003 | Urban | Wasam Abdullah | AlMukalla | Female | 28 | Trade | Primary |
| 97 | AM-E-004 | Urban | Nasrah Abdullah Saeed | AlMukalla | Female | 35 | Trade | Nil |
| 98 | AM-E-005 | Urban | Zohra Mohamed | AlMukalla | Female | 25 | Trade | Diploma |
| 99 | AM-E-006 | Urban | Ghania Salih | AlMukalla | Female | 38 | Trade | Primary |
| 100 | AM-E-007 | Urban | Mohamed Mahyob Qaid | AlMukalla | Male | 30 | Trade | Primary |



2.2 Focus Group Discussions

| Preliminary Study -Focus Group Discussion | | | | |
|--|---------|-------------------------|--------|------------|
| Islamic Microfinance Products in Yemen | | | | |
| Survey With Existing Clients (Sana'a, Taiz & AlMukalla) | | | | |
| Focus Group Discussion-1 (Sana'a) | | | | |
| S.No | Code | Name | Gender | Occupation |
| 1 | FGD-001 | Abdulahakim Alshubani | Male | Services |
| 2 | FGD-001 | Bemdah Ail | Male | Services |
| 3 | FGD-001 | Bushra Hassan | Female | Services |
| 4 | FGD-001 | Hamad Abdulah Alqisi | Male | Trade |
| Focus Group Discussion-2 (Sana'a) | | | | |
| 1 | FGD-002 | Katibul Musleh Saleh | Female | Trade |
| 2 | FGD-002 | Aisha Ahmed | Female | Trade |
| 3 | FGD-002 | Soad Abdullah Alhumari | Female | Trade |
| 4 | FGD-002 | Qumria Alsafani | Female | Trade |
| 5 | FGD-002 | Fatima Saleh Albalali | Female | Trade |
| 6 | FGD-002 | Nawal Saleh Alyarimi | Female | Trade |
| Focus Group Discussion-3 (Taiz) | | | | |
| 1 | FGD-003 | Afrah Mehyub | Female | Trade |
| 2 | FGD-003 | Afrah Ali Noaman | Female | Services |
| 3 | FGD-003 | Mona Mohammad Mahfood | Female | Trade |
| 4 | FGD-003 | Ammena Abduljaled | Female | Trade |
| Focus Group Discussion-4 (Al-Mukalla) | | | | |
| 1 | FGD-004 | Fahd Mohammad Alkamal | Male | Trade |
| 2 | FGD-004 | Ahmed Basharahail | Male | Services |
| 3 | FGD-004 | Ahmed Abdullah Baattiah | Male | Trade |
| 4 | FGD-004 | Saleh Faraj | Male | Trade |



2.3 Interviews

| Interviews | | | | | |
|--|--------|------------------------------|------------|----------------------------|---|
| Islamic Microfinance Products in Yemen | | | | | |
| Survey With Existing Clients (Sana'a, Taiz, Aden & AlMukalla) | | | | | |
| S.No | Code | Name | City | Designation | Organization |
| 1 | Sr-001 | Abbas Ahmed Albasha | Sana'a | CEO | Tadhamon Microfinance |
| 2 | Sr-002 | Ms. Mona Al Labani | Sana'a | Operation Manager | National Microfinance Foundation |
| 3 | Sr-003 | Bortqalah Al-Shatebi | Sana'a | CEO | Sana'a Microfinance |
| 4 | Sr-004 | Ali Al-Hamadi | Sana'a | CEO | Nama Microfinace Program |
| 5 | Sr-005 | Saleh Al Murisi | Sana'a | CEO | Social Foundation for susustainable development |
| 6 | Sr-006 | Amro yahya Alkuraimi | Sana'a | Finance & Savings Director | Alkuraimi Islamic Microfinance |
| 7 | Sr-007 | Ms. Najah Al-Mugahed | Sana'a | Managing Director | Yemen Microfinance Network |
| 8 | Sr-008 | Muhammad Sallah All Lai | Sana'a | CEO | Al Amal Microfinance Bank |
| 9 | Sr-009 | Ms. Ahlam Al Rafai | Taiz | Branch Manager | National Microfinance Foundation |
| 10 | Sr-010 | Somia Ezzaldi Nashar | Taiz | CEO | Al-Awael Microfinance company |
| 11 | Sr.011 | Awatit Abdullah | Aden | Branch Manager | Union Program for Islamic microfinance |
| 12 | Sr-012 | Naqwa Fadil | Aden | CEO | Aden Microfinance Program |
| 13 | Sr-013 | Bador Omar Muhammad Badawoof | Al-Mukalla | Branch Manager | Tadhamon Microfinance |



Annexure-III

| Research Team | | | |
|-------------------------------|---|--|---|
| Name of Staff | Area of Expertise | Position Assigned | Task Assigned |
| Muhammad Zubair Mughal | Microfinance model placement/institutional transformation/Islamic product development | Team Leader & Islamic finance expert | Inception reporting, plan of assignment; development of Islamic Microfinance product, risk analysis, and post-launch review |
| Hamad Rasool | Auditing, Shariah Accountings, Coordination, Research Manipulation and Measure the outcomes | Coordinator and Back office Management | Execution and Control of the Assignment, task briefings, delivery and operational discussions, Report Writing |
| Abdul Samad | Shariah expert, Trainings, Shariah supervision. | Coordinator & Shariah specialist, Incharge Trainings | Shariah coordination, Shariah Monitoring during product development, Design the Manuals & Designing of Training Modules, Implementation of Training |
| Maria Riaz | Generating Reports, Evaluation daily working plans, Back office management during assignment. | Assistant Manager Research & Communication | Write-ups and reviews on procedures and Documents, liaison between the client and Consultants |
| Asif Mehmood | Research Work, Field Visits, interactions with the clients & Staff | Field Officer | Field visits, interaction with client, gathering data. Focuss Group Discussions etc. |

Note: Along with the above mentioned research team, Mr. Khalil Almikhlafla -Research and Development Executive from Yemen Microfinance Network played a vital role in the smooth and timely completion of the research assignment.



PART-II

Product Manuals



Product One: Salam



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| | | | |
|----------------------|----------------------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 1 |
| Function | SALAM | Version | 1 |
| Sub-Function | BASIC CONCEPT AND FEATURES | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

Basic Concept

- Salam sale refers to advance payment for goods which are to be delivered later. The seller undertakes to deliver goods to the buyer at a later date in exchange of an advance payment.
- One of the basic conditions for the validation of a sale transaction in Shariah is that the commodity (intended to be sold) must be in the physical or constructive possession of the seller. Salam sale is an exclusion from this general rule subject to certain specific provision.
- In Salam sale, the seller obtains advance payment against an obligation to deliver the commodity later and accordingly, he gets the benefits through covering his financial needs whether these are personal expenses or expenses for productive or trading activity. On the contrary, the purchaser gets the discounted prices for the commodity and gets the commodity according to the time of his desire.
- Salam is beneficial to the seller as well as buyer, as one receives the price in advance and other is charged lower than spot sale price.
- Salam sale is suitable for a number of trading and business operations including as an alternate to traditional finance of agricultural operation.



Essential Features

Subject to specific Shariah rules, following are the essential features for Salam sale transaction:

1. Goods specifications

In a Salam sale, the goods shall be defined with due specifications making it clear and understandable and their description shall not be left to be decided on some future date.

Goods quantity and quality both should be measurable or may be adequately estimated. It shall be conducted in only such goods or commodities, each unit of which have similar characteristics e.g. grains of a particular type etc. These types of commodities are called Zawat-ul-Amthal (homogenous goods).

Salam sale is not allowable for any existing commodity because in such case the title immediately transfers and accordingly, the provisions of normal sale apply instead of those of Salam sale.

2. Delivery of goods

The date of delivery of goods should be fixed and preferably the place of delivery should also be fixed.

The commodity for Salam contract shall be expected to be in market and should further be expected to be in possession of the seller on the agreed date of delivery.

Any decline or increase in the market price at the time of delivery of goods might result in a loss or gain. Such loss or gain pertains to the buyer and both, the seller and the buyer, have no recourse on sale.

3. Payment

Payment against Salam purchase must be fully advanced at the time of commencement of Salam transaction. Salam transaction is irrevocable by either party. However, in case the goods do not match with the agreed description or if some defects are found such transaction may be reversed.

In case of identification of inferior quality of goods at the time of delivery, price may be changed with mutual consent.

4. Cancellation of Salam contract

It is permissible, when both parties agree due to any practical impediment, to cancel the entire Salam contract in return for repayment in full of the amount of the purchase price advanced earlier at the time of commencement of contract. Partial cancellation, that is, cancellation of the delivery of part of goods, in return for repayment of a corresponding part of the purchase price, is also permissible. However, the contract cannot be cancelled unilaterally.



5. Selling of goods

It is impermissible for the buyer of goods on Salam basis to sell these before actually receiving the same, particularly in case of grains and edible items as it has been explicitly prohibited in a Hadith.

In case of other than grains and edible items, a few jurists allow to sell the same. However, as a general rule these still should be avoided.

The goods sold on Salam basis are considered a liability debt in form of goods (i.e. in exact quantity and quality of the goods agreed) and not in form of cash (i.e. the cash value of such goods).

The seller is obliged to deliver the same when it is due, according to the specifications stipulated in the contract. In case, due to any reason he could not produce or grow the same, he shall buy the same from market and deliver to the buyer instead of returning the advance money.

6. Buy-back transaction

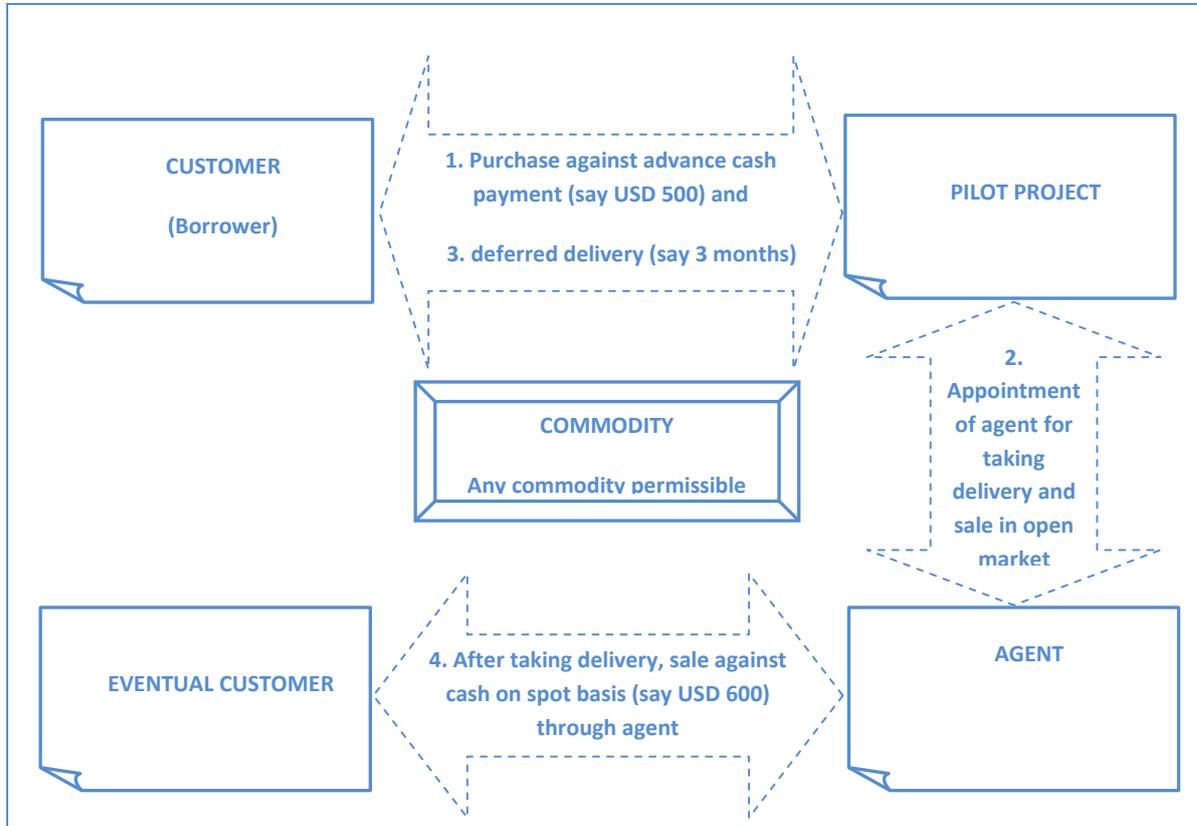
Salam sale should not be accompanied with a buy-back transaction i.e. the goods purchased on Salam should generally not be sold back to the same customer, either under a contract, or under a business norm. It is not permissible to link the obligations under the two Salam contracts together such that the execution of the obligations of one contract is contingent on the outcome of the other.

7. Delay in the delivery of goods

No additional amount can be charged or levied on the seller if he delays in the delivery of goods. However, in such case, the sale may be cancelled and the advance amount shall be returned to the buyer.



PROCESS FLOW OF TRANSACTION



Pilot project purchased the goods on the basis of Salam and made advance cash payment.

Pilot project may appoint an agent to take delivery of goods on behalf of the pilot project and to sell those goods in the open market on behalf of the pilot project, customer may become agent himself, but it is not preferred.

In order to fulfill the purpose of Salam delivery of the Salam goods is deferred on future date.

Agent after taking delivery of Salam goods on behalf of pilot project can sell those goods in open market against cash on spot basis.



| | | | |
|------------------------------------|--|------------------------------|---|
| Cycle Function Sub-Function | MICRO-CREDIT | SOP Reference Version | 1.2 |
| | SALAM | | 1 |
| Process Owner | CUSTOMER IDENTIFICATION / CUSTOMER'S REQUEST / CREDIT EVALUATION | Date of Issue | |
| | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project is under no obligation to provide any facility to any member of the public and is at liberty to decline to enter into a customer relationship with any applicant considered to be unsuitable as a customer without giving any reason.

The field workers will approach the prospective customers and people, who, they know, require financing or have the capability to expand their business / skills if provided appropriate opportunity. Such customer will subsequently make a request to enter in to a Salam agreement.

After receiving the customer's request, a credit evaluation process will be performed.

| Sr. No. | PROCEDURE OF SALAM WITH/WITHOUT WAKAL | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 1. | Field worker / volunteers will visit the local community in the nearby villages making them aware of the financing facility available under the Islamic modes. | Field workers / volunteers |
| 2. | Field workers may also visit people about whom the field workers are aware that they need financing or people who can improve their businesses / skill if provided appropriate fund and training. | Field workers / volunteers |
| 3. | However, there can be walk in customers as well, who visit the pilot project's office themselves and request for financing. | PM |
| 4. | The customer will formally request the pilot project to enter into a Salam agreement. The agreement generally covers the following: <ul style="list-style-type: none"> a) Total limit approved for Salam financing in favor of customer; b) Signed by the pilot project and customer; c) Prepared on stamp paper; and d) Formalize and dated before allowing the facility. Terms once agreed are not changed, however if necessary, amendments can be made after Shariah Advisor's approval. | PM |



| Sr. No. | PROCEDURE OF SALAM WITH/WITHOUT WAKAL | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 5. | After receiving the request by the customer to sell the goods on Salam basis the application will be forwarded to the PSC for the credit evaluation process. | PM |
| 6. | Credit evaluation process will include filling of credit evaluation form. For purpose of understanding the said process, refer to SOP Reference 2 “Credit evaluation process” of this manual. | PM |
| 7. | The pilot project is under no obligation to provide any facility to any member of the public and is at liberty to decline to enter into a customer relationship with any applicant considered to be unsuitable as a customer without giving any reason. | PM |
| 8. | It is not permissible for the pilot project to carry out Salam transaction for commodities or activities not permitted by Shariah. Accordingly, the PM should ensure at the time of Salam contract that the subject goods are not amongst those considered impermissible. Following are examples of goods which are not permissible for this purpose: <ul style="list-style-type: none"> a) Alcohol; b) Tobacco; c) Pork, Ham etc. and; d) Casinos or machines used in it. | PM |
| 9. | Salam is not allowed for goods which are not commonly traded in the market. | PM |
| 10. | The pilot project official shall explain the Salam process to the customer and both shall agree the initial terms and conditions of the transaction. Before proceeding, customer’s credit approval should be adequately performed. | PM |



| | | | |
|----------------------|-----------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 1.3 |
| Function | SALAM | Version | 1 |
| Sub-Function | SALAM AGREEMENT | Date of Issue | |
| Process Owner | | Written By | AlHuda Centre of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project shall not enter into a Salam transaction for goods etc. that are not permissible in Shariah.

The pilot project does not enter into a Salam transaction where goods to be supplied are restricted to a particular resource. For example, a supplier undertakes to supply fruit from a particular tree and that tree gets destroyed before the delivery, it will be uncertain to provide the fruit. Such transaction is not a valid Salam transaction.

The goods which are to be supplied under the Salam should be measurable, identifiable and quantifiable.

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 1. | The pilot project and the customer shall sign an agreement to enter into a Salam transaction, which shall contain all the terms and condition. The format of the agreement shall be as per standard Salam agreement – refer to Appendix III. | PM |
| 2. | The date of delivery, place of delivery and exact quantity and specifications shall be finalized by the parties. | PM |
| 3. | The pilot project shall pay the customer the agreed price and take a receiving form from the customer for the amount received by him. When the customer has purchased the goods, it is recorded at historical cost including all the costs incurred in bringing the goods in its present location and condition. Advance against Salam (B/S – asset side) Dr Cash (B/S – liability side) Cr | PM |
| 4. | The customer shall primarily utilize the amount received for the purpose he had obtained the amount. | PM |

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 5. | Once the commodity is ready, the customer shall deliver the commodity to the pilot project on the specified date. Purchases (P/L) / Inventory (B/S – asset side) Dr Advance against Salam (B/S) Cr | PM |
| 6. | On receipt of the goods the pilot project will sell the goods in the market | PM |
| 7. | If the pilot project does not possess the required expertise to sell the commodity, received in a Salam contract, to any third party, the pilot project shall appoint the customer as its agent to sell the commodity in the market. Cash / Receivable (B/S) Dr Salam sales (P/L) Cr | PM |
| 8. | The Salam agreement and the agency agreement are independent of each other. | PM |
| 9. | The agency agreement must specify the price at which the agent must sell the commodity. If the price is increased, the benefit may be given to the agent. | PM |



| | | | |
|----------------------|--------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 1.5 |
| Function | SALAM | Version | 1 |
| Sub-Function | DEFAULT | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The time and place of delivery of goods is specified in Offer to Sale.

| Sr. No. | Process Description | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 1. | No penalty can be stipulated in the contract. If the seller fails to perform his obligation due to insolvency or genuine reason, he should be given an extension in the delivery time. | PM |
| 2. | In case of default the project may ask the customer to return the cash received earlier on Salam contract. | PM |



| Sr. No. | PROCEDURE OF SALAM AND PARALLEL SALAM | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 1 | Field worker / volunteers will visit the local community in the nearby villages making them aware of the financing facility available under the Islamic modes. | Field workers / volunteers |
| 2 | Field workers may also visit people about whom the field workers are aware that they need financing or people who can improve their businesses / skill if provided appropriate fund and training. | Field workers / volunteers |
| 3 | However, there can be walk in customers as well, who visit the pilot project's office themselves and request for financing. | PM |
| 4. | The customer will formally request the pilot project to enter into a Salam agreement. The agreement generally covers the following: <ul style="list-style-type: none"> e) Total limit approved for Salam financing in favor of customer; f) Signed by the pilot project and customer; g) Prepared on stamp paper; and h) Formalize and dated before allowing the facility. Terms once agreed are not changed, however if necessary, amendments can be made after Shariah Advisor's approval. | PM |
| 5 | After receiving the request by the customer to buy the goods on Salam basis the application will be forwarded to the PSC for the credit evaluation process. | PM |
| 6 | Credit evaluation process will include filling of credit evaluation form. For purpose of understanding the said process, refer to SOP Reference 2 “Credit evaluation process” of this manual. | PM |
| 7 | The pilot project is under no obligation to provide any facility to any member of the public and is at liberty to decline to enter into a customer relationship with any applicant considered to be unsuitable as a customer without giving any reason. | PM |
| 8 | It is not permissible for the pilot project to carry out Salam transaction for commodities or activities not permitted by Shariah. Accordingly, the PM should ensure at the time of Salam contract that the subject goods are not amongst those considered impermissible. Following are examples of | PM |

| Sr. No. | PROCEDURE OF SALAM AND PARALLEL SALAM | Responsibility / Authority |
|---------|--|----------------------------|
| | goods which are not permissible for this purpose: e) Alcohol; f) Tobacco; g) Pork, Ham etc. and; h) Casinos or machines used in it. | |
| 9 | Salam is not allowed for goods which are not commonly traded in the market. | PM |
| 10. | The pilot project official shall explain the Salam process to the customer and both shall agree the initial terms and conditions of the transaction. Before proceeding, customer’s credit approval should be adequately performed. | PM |

| | | | |
|----------------------|-----------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 1.6 |
| Function | SALAM | Version | 1 |
| Sub-Function | SALAM AGREEMENT | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project shall not enter into a Salam transaction for goods etc. that are not permissible in Shariah.

The pilot project does not enter into a Salam transaction where goods to be supplied are restricted to a particular resource. For example, a supplier undertakes to supply fruit from a particular tree and that tree gets destroyed before the delivery, it will be uncertain to provide the fruit. Such transaction is not a valid Salam transaction.

The goods which are to be supplied under the Salam should be measurable, identifiable and quantifiable.

| Sr. No. | PROCEDURE | Responsibility / Authority | |
|----------------|--|-----------------------------------|-------------|
| 1. | The pilot project and the customer shall sign an agreement to enter into a Salam transaction, which shall contain all the terms and condition. The format of the agreement shall be as per standard Salam agreement – refer to Appendix III . | PM | First Salam |
| 2. | The date of delivery, place of delivery and exact quantity and specifications shall be finalized by the parties. | PM | First Salam |
| 3. | Customer shall pay the pilot project the agreed price and take a receiving form from the pilot project for the amount received by him. Customer account (B/S – liability side) Dr Cash (B/S – asset side) Cr | PM | First Salam |
| 4. | The pilot project shall primarily utilize the amount received for the purpose he had obtained the amount. | PM | First Salam |
| 5. | Now the pilot project has to purchase the goods according to agreed terms conditions to deliver to the customer on specified date as per first Salam Agreement. For this pilot project can enter into Parallel Salam with any | | |

| Sr. No. | PROCEDURE | | | Responsibility / Authority |
|----------------------|--------------|------------------------------|---|----------------------------|
| <i>Cycle</i> | MICRO-CREDIT | <i>SOP Reference Version</i> | 1.7 | |
| | SALAM | | 1 | |
| | DELIVERY | | | |
| | | | | |
| <i>Function</i> | | <i>Date of Issue</i> | AlHuda Center of Islamic Banking & Economics (CIBE) | |
| <i>Sub-Function</i> | | <i>Written By</i> | | |
| <i>Process Owner</i> | | <i>Approved By</i> | Qazi Abdul Samad | |

FUNCTION DESCRIPTION AND POLICY

The exact specification, of goods to be delivered, regarding the quantity, quality, date of supply and place of delivery is determined.

| Sr. No. | Process Description | Responsibility / Authority |
|---------|---|----------------------------|
| 1. | Receipt of commodity of different quality – If market value to the contracted value is received, commodity shall be recorded at book value. Otherwise, the commodity shall be measured and recorded at market value at the time of delivery and the difference shall be recognized as loss. | PM |
| 2. | Failure to receive commodity on due date – If delivery is extended, the book value shall remain as it is. If Salam contract is cancelled, the amount shall be recognized as a receivable due from the client. | PM |
| 3. | Failure to receive commodity due to client's misconduct – If Salam contract is cancelled and client does not repay the capital, the amount shall be recognized as a receivable due from the client. Securities pledged will be realized to recover the receivables and any excess will be refunded. Receivable from customer (B/S) Dr Advance against Salam (B/S) Cr | PM |



| | | | |
|--|--------------|----------------------------------|---|
| Cycle Function Sub-Function Process Owner | MICRO-CREDIT | SOP Reference Version | 1.8 |
| | SALAM | | 1 |
| | DEFAULT | Date of Issue | |
| | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The time and place of delivery of goods is specified in Offer to Sale.

| Sr. No. | Process Description | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 1. | No penalty can be stipulated in the contract. If the seller fails to perform his obligation due to insolvency or genuine reason, he should be given an extension in the delivery time. | PM |
| 2. | In case of default the project may ask the customer to return the cash received earlier on Salam contract. | PM |



Appendix I

CREDIT EVALUATION FORM

ISLAMIC MICROFINANCE PROJECT - YEMEN

1. THE CUSTOMER

CUSTOMER NAME: _____

| | |
|---|---------------------------|
| CUSTOMER REQUEST DATE: _____ | FIRST APPROVAL: _____ |
| REFERRED TO PROJECT STEERING COMMITTEE: _____ | FIRST RENEWAL: _____ |
| _____ | SUBSEQUENT RENEWAL: _____ |
| NAME OF MICRO-ENTERPRISE (IF ANY) : _____ | |
| DATE OF ESTABLISHMENT : _____ | |

2. BUSINESS CONTACT

| | |
|------------------|----------------|
| BUSINESS ADDRESS | PHONE/CELL No. |
| _____ | _____ |

**3. BRIEF DESCRIPTION & NATURE OF CURRENT BUSINESS
Trading/Manufacturing/Services/Others**

| |
|---|
| _____ |
| _____ |
| Nature of training required (If any): _____ |
| _____ |
| What could improve? _____ |
| _____ |

4. SECURITY(IES) / IF ANY

| NATURE OF SECURITY | LOCATION | VALUE (USD) | SECURITY AGAINST THE FACILITY |
|--------------------|----------|-------------|-------------------------------|
| | | | |
| | | | |

5. GUARANTEE(S)

| |
|---------------------|
| Guarantor 1: |
| NAME: _____ |
| ADDRESS: _____ |
| _____ |
| SIGNATURE: _____ |

| |
|---------------------|
| Guarantor 2: |
| NAME: _____ |
| ADDRESS: _____ |
| _____ |
| SIGNATURE: _____ |

6. TYPES OF FINANCING FACILITIES

| S.NO | TYPE OF FACILITY | Please Tick | Amount in YER |
|------|---|-------------|---------------|
| 1 | SALAM WITH AGENCY | | |
| 2 | SALAM WITHOUT AGENCY | | |
| 3 | SALAM AND PARALLEL SALAM | | |
| 3 | MURABAHA WITH AGENCY | | |
| 4 | MURABAHA WITHOUT AGENCY | | |
| 5 | IJARAH WITH AGENCY | | |
| 6 | SALE AND LEASE BACK | | |
| 5 | OTHERS (MUSHARAKA, MUDARABA, ISTISNA, WAKALA) | | |
| | | | TOTAL: |

7. COMMENTS ON PRODUCT PREFERENCE

| |
|--|
| |
| |
| |
| |

8. PERIODIC PAYMENT CAPACITY

| | PERIOD | AMOUNT |
|-----------------------|--------|--------|
| EXISTING | | |
| | | |
| INCREASED BY TRAINING | | |
| | | |

9. PILOT PROJECT OFFICIALS RECOMMENDATIONS

| NAME & DESIGNATION | SIGNATURE | DATE |
|----------------------------|-----------|-------|
| Project Manager: _____ | | |
| Project In charge: _____ | | |
| Project Steering Committee | | |
| Name of Member: _____ | _____ | _____ |
| Name of Member: _____ | _____ | _____ |

10. COMMENTS

| | | | | |
|---------------------|----------|--|-----------|--|
| PROJECT MANAGER | APPROVED | | SIGNATURE | |
| | REJECTED | | | |
| | COMMENT: | | | |
| PROJECT INCHARGE | APPROVED | | SIGNATURE | |
| | REJECTED | | | |
| | COMMENT: | | | |

**Market Research Report on
“Islamic Microfinance Products in Yemen”**



Issue No: 1

Issue Date: 22-05-2013

Revision:

| | | | | | |
|---|----------|----------|--|-----------|------|
| PROJECT STEERING COMMITTEE | Member 1 | APPROVED | | SIGNATURE | DATE |
| | | REJECTED | | | |
| | | COMMENT: | | | |
| | Member 2 | APPROVED | | SIGNATURE | DATE |
| | | REJECTED | | | |
| | | COMMENT: | | | |



Salam Agreement

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

Made an agreement to _____ on the basis of Salam, to sell goods in accordance with the attached offer to sell hereinafter, I also made an agreement that, I will make certain that, I will supply goods on timely basis as agreed.

I understand that, Salam agreement is subject to necessary terms and conditions, which have to be followed.

Terms and conditions of Salam are as follows:

1. Salam is an Islamic way of trading, in which 100% immediate / spot / advance payment for the goods which are to be delivered later on agreed time period.
2. Only those goods are tradable in Salam which is permissible by Shariah.
3. Salam is not permissible in those goods which requires on spot / immediate delivery e.g. according to Shariah, when trading in gold and silver, on spot / immediate delivery of both is necessary.
4. The goods related to Salam agreement should remain in the market right from day of agreement up to the date of delivery or should be available at least at the date of delivery.
5. Salam contract is permissible only in fungible goods; it can be weighted, measured or counted.
6. It is the responsibility of seller to protect the Salam goods until they are in the possession of seller and he did not deliver those goods to institution. Seller will be responsible for any damage, caused by any negligence before the delivery; however, buyer will be responsible of goods after taking delivery.
7. MFI can ask to provide security or guarantee from seller in order to ensure that the seller will fulfill the agreement according to the terms and conditions.
8. In Salam agreement, it is necessary to fixed place and date of delivery of goods.



9. It is agreed in the Salam agreement; if the expenses of Salam increased due to the negligence of any of the contracting parties then the same party shall bear the expenses from its own account.
10. If the delivery of goods is not in accordance with the agreement, then the MFI reserve rights to terminate the agreement and can recover its payment or to continue the agreement by amending the price of goods through mutual consent.
11. If any party to the agreement cannot fulfill their responsibilities or having difficulties that are beyond its control, in this context it is important to inform and also have to provide the evidence of the incident to the aggrieved party, then both the parties will decide, either terminate or to amend the agreement.
12. This agreement confirms that, any change in the subject matter shall not be applicable unless such changes have been documented, mutually agreed and signed by the parties to the agreement.

Parties to the agreement have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, place thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

| | | |
|------------------------|--|---------------------------------|
| Name of first witness | | |
| CNIC | | Signature / Thumb impression |
| Address | | |
| Name of second witness | | |
| CNIC | | Signature / Thumb impression |
| Address | | |

Agency Agreement

Today _____ Place _____

Name of MFI _____ Appoints _____

Mr. / Mrs. _____ S / o, D / o, W / o _____

Address _____

having CNIC _____ as an agent for the sale of goods.

Following are the details of goods.

1. Details of goods

| S.No. | Details and nature of goods | Quantity of goods | Minimum selling price |
|-------|-----------------------------|-------------------|-----------------------|
| | | | |
| | | | |
| | | | |

As an agent of the MFI, you have following responsibilities:

1. Sell the above items, using the best of his / her capabilities.
2. For this purpose agent can only sell the goods in the market on cash basis.
3. Agent cannot sell goods less than the aforementioned minimum selling price. However, agent needs to take prior written approval from the MFI, if he / she forced to sell the goods on credit or less than the minimum selling price, and also try that the buyer will take delivery of goods your place.
4. Inform the MFI immediately after selling the goods.
5. Agent is required to provide, all the original receipts and other documentary evidence of expenses, to the MFI in order to deliver the goods to the ultimate buyer.
6. Agent cannot use the goods nor can he sell the goods without the permission of the MFI, as the goods are in the ownership of the MFI and the goods are held by agent in the capacity of trust, otherwise it will be considered as breach of trust which is impermissible by Shariah.



7. As an agent of the MFI, it is your responsibility to protect the goods till the time they are in your possession and you did not deliver those goods to ultimate buyer. Agent will be responsible to compensate for any damage, caused by any negligence.
8. MFI has the option to inspect the quantity and nature of goods at any point of time.
9. It is expected that you will perform your responsibilities in line with Islamic principles and integrity.

Parties to the agreement have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, place thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

Name of first witness

CNIC

Address

Signature / Thumb impression

Name of second witness

CNIC

Address

Signature / Thumb impression

Name of agent

Address

Signature / Thumb impression

Signature
(For and on behalf
of institution)

Stamp



Declaration

This declaration is regarding the agency agreement for the sale of goods, which was made on _____ at _____ between _____ (Name of MFI) and _____ (Name of agent) _____ S/o, D/o, W/o _____.

I thereby acknowledge that as an agent of the MFI, I have sold the goods stated below on behalf of MFI:

| S.No. | Nature of goods | Selling price and expenses (USD.) |
|-------|-----------------|-----------------------------------|
| | | |
| | | |
| | Total | |

I am affixing all the documentary evidence of expenditures relating to sale of goods, these include invoices, receipts, bills, delivery note, copy of cheques or pay orders. For those expenses and payments not having any documentary evidence, I acknowledge that there is no documentary evidence available as per market best practice, and I have sold these goods with complete responsibility. I tried that every receipt or bill should be produced in the name of client; therefore in such situations where it is not possible, for that, I acknowledge that, I have sold these goods completely as an agent of the MFI.

I have received total amount of _____ USD. in the form of cash / cheque / pay order / demand draft number _____ from the ultimate purchaser of goods in against aforementioned sale of goods. Under the agency agreement, I have received my service charges _____ USD. and _____ USD against the expenses incurred on it for the sale of goods. In this respect, I have amount of _____ USD of MFI in against sale of Salam goods, that amount, I am paying to the MFI.

On date _____ Place _____

Name and address of MFI _____

and I, _____ S / o, D / o, W / o _____



Signature of appointed agent for the sale of goods:

Name

Signature / Thumb
impression

Date

Time



Salam Agreement (Notice of delivery)

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

with reference to the Salam agreement dated _____, offer dated _____ and acceptance dated _____, wants to inform _____ pilot project _____ that, I am ready to deliver the goods given below. This delivery will take place according to the terms stated below at _____ on dated _____.

Terms of delivery _____

Signature / Thumb impression _____



Goods Received Note

Date: _____

Number: _____

To: _____ Name of seller _____

Dear Sir / Madam,

Reference to the Delivery notice dated _____, we acknowledge that we have received the goods in accordance with agreed specification.

1. Date of delivery _____
2. Time _____
3. Place of delivery _____
4. Details of goods _____

| S.No. | Nature of goods and description | Quantity of goods | Amount |
|-------|---------------------------------|-------------------|--------|
| | | | |
| | | | |
| | | | |

Signature (for and on behalf of MFI) _____

Stamp _____



Salam Offer

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

Offering _____ pilot project _____, for the sale of goods stated below in accordance with the agreed terms and conditions of Salam agreement dated _____, and request the MFI to purchase the referred goods on the basis of Salam.

1. Description of goods

| S.No. | Details and nature of goods | Quantity of goods | Amount |
|-------|-----------------------------|-------------------|--------|
| | | | |
| | | | |
| | | | |

2.

Place of delivery _____

3.

Date of delivery _____

4.

Terms of delivery _____

Signature / Thumb
impression _____



Salam Request

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

Request _____, to enter into an agreement on the basis of Salam.

In this regard, I want to sell you the given below goods on the basis of Salam:

| S.No. | Nature of goods | Amount |
|-------|-----------------|--------|
| | | |
| | | |
| | | |

I will make certain that, I will supply the goods in accordance to the agreement.

Applicant's signature / Thumb impression _____

Name of the applicant _____

Address of applicant _____



Salam Agreement (Acceptance)

Date: _____

To: _____ Name of seller _____

Dear Sir / Madam,

We are pleased to inform you that, the MFI has accepted your offer dated _____ with reference to the Salam agreement.

1. Details of goods

| S.No. | Details and nature of goods | Quantity of goods | Amount |
|-------|-----------------------------|-------------------|--------|
| | | | |
| | | | |
| | | | |

2.

Place of delivery _____

3.

Date of delivery _____

4.

Terms of delivery _____

Signature (For and on behalf of MFI)

Name of authorized officer

Stamp



Salam Agreement – without agency

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

Made an agreement to _____ on the basis of Salam, to sell goods in accordance with the attached offer to sell hereinafter, I also made an agreement that, I will make certain that, I will supply goods on timely basis as agreed.

I understand that, Salam agreement is subject to necessary terms and conditions, which have to be followed.

Terms and conditions of Salam are as follows:

1. Salam is an Islamic way of trading, in which 100% immediate / spot / advance payment for the goods which are to be delivered later on agreed time period.
2. Only those goods are tradable in Salam which is permissible by Shariah.
3. Salam is not permissible in those goods which requires on spot / immediate delivery e.g. According to Shariah, when trading in gold and silver, on spot / immediate delivery of both is necessary.
4. The goods related to Salam agreement should remain in the market right from day of agreement up to the date of delivery or should be available at least at the date of delivery.
5. Salam agreement is permissible only in fungible goods; it can be weighted, measured or counted.
6. It is the responsibility of seller to protect the Salam goods until they are in the possession of seller and he did not deliver those goods to institution. Seller will be responsible for any damage, caused by any negligence before the delivery; however, buyer will be responsible of goods after taking delivery.
7. MFI can ask to provide security or guarantee from seller in order to ensure that the seller will fulfill the agreement according to the terms and conditions.
8. In Salam agreement, it is necessary to fixed place and date of delivery of goods.



9. It is agreed in the Salam agreement; if the expenses of Salam increased due to the negligence of any of the contracting parties then the same party shall bear the expenses from its own account.
10. If the delivery of goods is not in accordance with the agreement, then the MFI reserve rights to terminate the agreement and can recover its payment or to continue the agreement by amending the price of goods through mutual consent.
11. If any party to the agreement cannot fulfill their responsibilities or having difficulties that are beyond its control, in this context it is important to inform and also have to provide the evidence of the incident to the aggrieved party, then both the parties will decide, either terminate or to amend the agreement.
12. This agreement confirms that, any change in the subject matter shall not be applicable unless such changes have been documented, mutually agreed and signed by the parties to the agreement.

Parties to the agreement have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, place thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

| | | |
|------------------------|--|---------------------------------|
| Name of first witness | | |
| CNIC | | Signature / Thumb impression |
| Address | | |
| Name of second witness | | |
| CNIC | | Signature / Thumb impression |
| Address | | |



Salam Agreement (Notice of delivery)

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

with reference to the Salam agreement dated _____, offer dated _____ and acceptance dated _____, would like to inform _____ pilot project that , I am ready to deliver the goods given below. This delivery will take place according to the terms stated below at _____ on dated _____.

Terms of delivery _____

Signature / Thumb impression _____



Goods Received Note

Date: _____

Number: _____

To: _____ Name of seller _____

Dear Sir / Madam,

Reference to the Notice of delivery dated _____, we acknowledge that we have received the goods in accordance with agreed specification.

1. Date of delivery _____
2. Time _____
3. Place of delivery _____
4. Details of goods _____

| S.No. | Details and nature of goods | Quantity of goods | Amount |
|-------|-----------------------------|-------------------|--------|
| | | | |
| | | | |
| | | | |

Signature (for and on behalf of MFI) _____

Authorized officer signature _____

Stamp _____



Salam Agreement (Offer)

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

Offer _____ pilot project _____, for the sale of goods stated below in accordance with the agreed terms and conditions of Salam agreement dated _____, and request the MFI to purchase the referred goods on the basis of Salam.

1. Description of goods

| S.No. | Details and nature of goods | Quantity of goods | Amount |
|-------|-----------------------------|-------------------|--------|
| | | | |
| | | | |
| | | | |

- 2. Place of delivery _____
- 3. Date of delivery _____
- 4. Terms of delivery _____

Signature / Thumb impression _____



Salam Request

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

request _____, to enter into sale agreement on the basis of Salam.

In this regard, I wish to sell you the goods stated below on the basis of Salam:

| S.No. | Nature of goods | Amount |
|-------|-----------------|--------|
| | | |
| | | |
| | | |

I will make certain that, I will supply the goods in accordance to the agreement.

Applicant's signature / Thumb impression _____

Name of the applicant _____

Address of applicant _____



Product two: Murabaha



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| | | | |
|----------------------|----------------------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 2 |
| Function | MURABAHA | Version | 1 |
| Sub-Function | BASIC CONCEPT AND FEATURES | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

Basic Concept

- In modern Islamic banking and financial system, Murabaha has been adopted (with certain engineered forms) as an alternate to the conventional interest-based financing. Murabaha is one of the most widely used modes of finance by the Islamic banks and Islamic financial institutions (IFIs).
- In literary terms, Ba'y Murabaha means the sale on profit.
- In Fiqh, Murabaha is a sale where seller expressly mentions the cost incurred on the commodities and sells it to another person by adding some profit or mark-up thereon which is known to the buyer.
- It should be kept in mind that Murabaha sale is a transaction of trade (generally at credit) and not a financing transaction, and it is an alternate to, but not a type of financing. However, since this transaction is based on the fixed rate of profit, which may easily be comparable with the prevailing market interest rates, Murabaha is mostly used by a large number of IFIs as an easy way out from the interest based system.
- Shariah allows this type of transaction with certain conditions which need to be strictly adhered to.



Essential features

Following are the basic Shariah provision in applicability of such transaction:

1. Offer and acceptance

Murabaha, like any other sale, requires an offer and acceptance which shall include certainty of price, place of delivery and date. For offer and acceptance of Murabaha contract, it is not necessary that both the parties must meet and decide. Any modern means of communication can be used for the purpose of offer and acceptance.

2. Price, seller's profit and expenses

Both the price of the item and the seller's profit on the Murabaha shall be fixed and known to both parties at the time of signature of the contract of sale (i.e. offer and acceptance) and shall not be contingent on any future event. Seller's expenses incurred shall also be known as a part of Murabaha price and shall be on the actual or nearest approximation basis.

Once entered into a Murabaha transaction the price and other conditions cannot be changed.

3. Applicability

Murabaha is applicable only on tangible assets and is not permissible against expenses and services. Sale and repurchase of goods (buy-back) on Murabaha basis is not permissible.

4. Benefit to the customer

If seller gets some discount on Murabaha goods, he should transfer such benefit to the customer as a reduction in price.

5. Sale transaction

Being a sale transaction, it is essential that the goods which are the subject matter in Murabaha transaction must exist and be owned by the seller in his physical or constructive possession before selling goods on Murabaha basis.

It implies that firstly the seller's purchase transaction must have been consummated and he must have obtained possession of the goods either directly or through an agent. In this respect the buyer may also be an agent if a separate agency agreement has been entered into by the parties although this is less preferred.

6. Security

The seller may obtain promissory notes or other guarantee from the buyer as a security, however, the former one cannot be taken before the Murabaha sale contract is consummated. Moreover, the same must be refunded to the buyer and not adjusted directly with the selling price. Similarly, he may take earnest money after concluding the Murabaha sale with the customer.



Essential features

7. Risks and rewards

For the time being when the seller is the owner of the goods, i.e. after purchasing from the source supplier and before selling to the buyer, the seller shall absorb all the risks and rewards of the goods including any losses and Takaful (insurance) for losses even if the goods are in the custody of the customer, as agent, during such time.

8. Commitment fee

Any commitment fee or similar charge or a fee for providing a credit facility is not permissible.

9. Roll over

Roll over in Murabaha or to charge any markup after due date is not allowable. However, rescheduling the remaining amount in installments is permissible provided that the total amount due remains the same, with no further increase.

10. Default

If the buyer defaults in timely payment of dues against Murabaha sale, the price cannot be changed nor may any surcharge, service charges or penalty be charged.

Note:

[The conditions mentioned above shall not be construed all inclusive.]

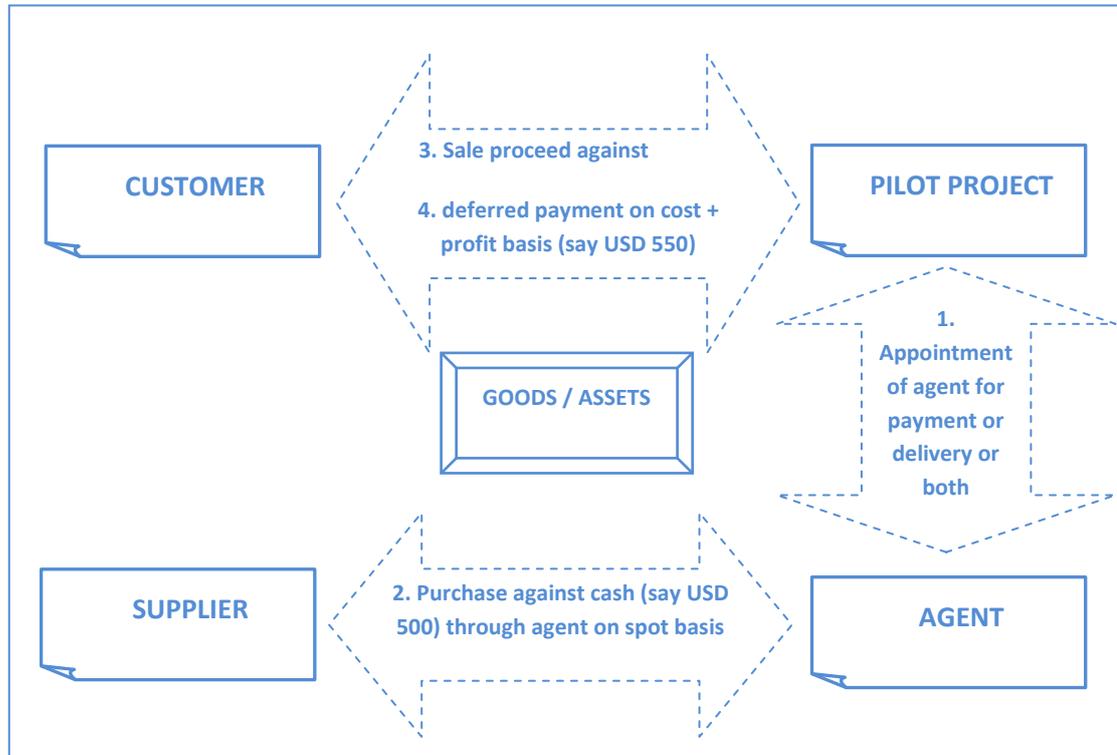
11. Documents in Murabaha

There are number of documents involved in Murabaha transaction. The most essential of these documents are:

- a) Promise to Murabaha
- b) Agency agreement (if required)
- c) Purchase requisition / order form;
- d) Offer & acceptance / declaration;
- e) Demand promissory note; and
- f) Payment schedule.



PROCESS FLOW OF TRANSACTION



Pilot project may appoint an agent for payment and delivery of goods or both. Customer may become agent himself, but it is not preferred.

In the second stage the pilot project purchased the goods against cash through an agent on spot basis from supplier.

At the third and fourth stage, commodity sold to the ultimate customer on deferred payment basis i.e. cost plus profit.

| | | | |
|----------------------|--|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 2.2 |
| Function | MURABAHA | Version | 1 |
| Sub-Function | CUSTOMER IDENTIFICATION / CUSTOMER REQUEST / CREDIT EVALUATION | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project is at liberty to decline to enter into a Murabaha agreement with any applicant considered to be unsuitable as a customer without giving any reason.

The field workers will approach the prospective customers and people, who, they know, require financing or have the capability to expand their business / skills if provided appropriate opportunity. Such customer will subsequently make a request to enter in to a Murabaha agreement.

After receiving the customer’s request, a credit evaluation process will be performed (refer to SOP Reference 2 of this manual).

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 1. | Field worker / volunteers will visit the local community in the nearby villages making them aware of the financing facility available under the Islamic modes. | Field workers / volunteers |
| 2. | Field workers may also visit people about whom the field workers are aware that they need financing or people who can improve their businesses / skills if provided appropriate fund and training. | Field workers / volunteers |
| 3. | However, there can be walk in customers as well, who visit the pilot project’s office themselves and request for financing. | PM |
| 4. | The customer requiring financing will formally request the pilot project that he / she wishes to purchase the stated goods on the basis of Murabaha. The request should normally include: <ul style="list-style-type: none"> a) Name of the party; b) The terms of the Murabaha arrangement; and c) Description of the goods. | PM |

| Sr. No. | PROCEDURE | Responsibility / Authority |
|---------|--|----------------------------|
| | (Refer to Request to enter in to Murabaha in Appendix II) | |
| 5. | After receiving the request by the customer to purchase the goods on Murabaha basis, the application will be forwarded to the committee for the credit evaluation process. | PM |
| 6. | Credit evaluation process will include filling of credit evaluation form. For purpose of understanding the said process, refer to SOP Reference 2 “Credit evaluation process” of this manual. | PM |
| 7. | The pilot project roject is under no obligation to provide any facility to any member of the public and is at liberty to decline to enter into a customer relationship with any applicant considered to be unsuitable as a customer without giving any reason. | PM |

| | | | |
|----------------------|----------------------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 2.3 |
| Function | MURABAHA | Version | 1 |
| Sub-Function | SALE: OFFER AND ACCEPTANCE | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

At this stage offer and acceptance will be performed, the Murabaha price will be determined and the goods will be sold to the customer on Murabaha basis. The goods are sold when the declaration and acceptance is signed by the pilot project and the customer.

Murabaha is valid only where the exact cost of a commodity can be ascertained. If the exact cost of a commodity cannot be ascertained, the commodity cannot be sold on Murabaha basis.

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 1. | There should be a fresh offer and acceptance. | PM |
| 2. | If the goods have been acquired by the pilot project itself then it shall intimate the customer once the goods are in the ownership of the pilot project. | PM |
| 3. | As soon as the goods are under the ownership of the pilot project and the customer has been intimated thereof, the customer will make an offer to the project to purchase the goods on the basis of Murabaha. For offer and acceptance refer: "offer" (Appendix II – document No. 3) "acceptance" (Appendix II – document No. 4) | |
| 4. | If the customer is appointed as an agent and he takes the possession of the goods, the PM should ensure that he obtains physical or constructive possession of the same. During the period from the time the customer acting as an agent and the pilot project offering to sell, all the risk and rewards relating to the goods shall be borne by the pilot project and accordingly, PM shall ensure that such risks are adequately insured under Takaful / or any other mode of Insurance, but preferably Shariah compliant. | PM |



| Sr. No. | PROCEDURE | Responsibility / Authority |
|---------|---|----------------------------|
| 5. | <p>In case of agency, as soon as the goods are acquired by the customer, as an agent, he shall intimate the pilot project about the possession of the goods. The customer shall do so by delivering a declaration to the pilot project stating that the goods have been purchased but the goods are in the possession of the customer (as agent).</p> <p>For declaration (Appendix II – document No. 4)</p> | PM |
| 6. | <p>Soon after declaration of the goods possessed by the customer, the customer shall make an offer to purchase the goods from the pilot project, hence an offer and acceptance will take place and the goods will be sold on the basis of Murabaha.</p> <p>For offer and acceptance refer: “offer” (Appendix II – document No. 5) “acceptance” (Appendix II – document No. 6)</p> | PM |
| 7. | <p>The PM shall ensure that Murabaha transactions are accounted for as soon as the goods have arrived and the client (as agent) has taken possession of the same on behalf of the pilot project, and once the full price has been determined, including all costs and expenses. For this purpose the customer shall be contacted to provide declaration and offer on a prompt basis. No delay in the same shall be allowed, as the same will cost to the pilot project.</p> | PM |
| 8. | <p>The pricing of the asset under Murabaha shall be done as prescribed in the sample working below.</p> | PM |
| 9. | <p>The pilot project shall accept the offer thereby, concluding the sale under Murabaha.</p> | PM |
| 10. | <p>All these stages are necessary for a valid Murabaha under the Islamic Shariah principles.</p> | PM |
| 11. | <p>The pilot project may ask the customer to furnish a security to its satisfaction for the prompt payment of the deferred price, for the same the pilot project may require the customer to provide promissory note.</p> <p>For promissory note (Appendix II – document No. 7) For promissory note (Appendix II – document No. 5 - without agency)</p> | PM |

Murabaha Pricing Mechanism – Sample Working

Example

| | |
|--|---------------------|
| Cost of the asset | Rs 1,000,000/- |
| Murabaha tenure | 90 Days |
| Profit | 15% per annum |
| Date of disbursement at cost price of funds to supplier / agent (value date) | Jan-01-2011 |
| Date of delivery of goods by the supplier / agent | Jan-15-2011 |
| Date of sale of goods by the Project to the customer at contract price | Jan-15-2011 |
| Maturity date | Mar-31-2011 |
| Murabaha Price | 1,036,986.30 |

Profit calculation starts form January 01, 2011

(Rs 1,000,000 X 15% p.a. X 90 days / 365 =36,986.3)

Note: In accounting, No profit shall be accounted for the period from 01 January 2011 to 14 January 2011. According to IFAS – 1, the profit shall be recognized over the period from date of sale on Murabaha, to from date of maturity. Accordingly accounting profit shall be spread over a period from 15 January 2011 to 30 March 2011.



| | | | |
|----------------------|---------------------------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 2.4 |
| Function | MURABAHA | Version | 1 |
| Sub-Function | PROCUREMENT OF GOODS / DELIVERY | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project shall purchase the item only in response to its customer’s request, application and promise to purchase, as long as this practice is compatible with the Shariah precepts for the contract sale.

The pilot project shall not enter into a Murabaha transaction for goods etc. that are not permissible in Shariah. The pilot project shall not purchase merchandise from a client and then to sell it to the same client by means of a Murabaha sale.

The goods are either delivered directly to the pilot project or the agent appointed by the pilot project to receive goods on its behalf (generally the customer himself).

It is important to note that the pilot project bears all the risk and rewards incidental to ownership until the goods are sold to the customer. The pilot project must have owned the commodity before it sells it to the client. The commodity must come into possession of the pilot project, whether physical or constructive, in the sense that the commodity must be in the pilot project’s possession, though only for a short period.

| Sr. No. | Process Description | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 1. | The customer shall state in the request to purchase under Murabaha the complete description and nature of the goods to be purchased. Refer to Purchase requisition (Appendix II – document No. 1) Refer to Purchase requisition (Appendix II – document No. 1 - without agency) | Customer |
| 2. | It is not permissible for the pilot project to carry out Murabaha transaction for commodities or activities not permitted by Shariah. Accordingly, the PM should ensure at the time of Murabaha contract that the subject goods are not amongst those considered impermissible. Following are examples of goods which are not permissible for this purpose: | PM |

| Sr. No. | Process Description | Responsibility / Authority |
|---------|--|----------------------------|
| | <ul style="list-style-type: none"> a) Alcohol; b) Tobacco; c) Pork, Ham etc. and; d) Casinos or machines used in it. | |
| 3. | Murabaha is also not allowed for services or immediately consumable goods e.g. gas in pipeline or electricity etc | PM |
| 4. | <p>Once the Shariah permissibility of the goods has been confirmed the pilot project will ask the customer to enter into a Promise to Murabaha. This will be a promise by the customer with the pilot project that he / she will purchase the requested goods on the basis of Murabaha from the pilot project once they have been acquired.</p> <p>Refer to promise to purchase (Appendix II – document No. 2)</p> <p>Refer to promise to purchase (Appendix II – document No. 2 - without agency)</p> | PM |
| 5. | The PM shall determine by evaluating the nature of the goods that whether the pilot project has the expertise to procure the requested good itself or will it have to appoint an agent possessing appropriate expertise to procure the goods as requested. | PM |
| 6. | If the PM establishes that the nature of good, as stated in the customer’s purchase requisition, are such that can be purchased by the pilot project using its own expertise then the pilot project will issue a purchase order to the supplier to acquire the goods. | |
| 7. | However, as an alternative, the project manager may establish that the pilot project does not possess sufficient expertise to purchase the goods, as stated in the customer’s purchase requisition in this case the pilot project or when the customer needs a specific commodity, the pilot project may appoints the same customer as its agent for purchasing the commodity on | PM |



| Sr. No. | Process Description | Responsibility / Authority |
|----------------|--|-----------------------------------|
| | its behalf, and an ‘Agency Agreement’ is signed by both the parties. | |
| 8. | In case where the pilot project has authorized the customer for acquiring the goods, there must be a specific authorization in a separate contract of agency. Refer to agency agreement (Appendix II – document No. 3) | PM |
| 9. | If the pilot project purchases the commodity directly from the supplier (which is preferable) it does not need any agency agreement. | PM |
| 10. | The PM shall prefer to obtain prices from other suppliers to confirm the prices quoted by the supplier to the customer (in case of agency). This is primarily necessary whereby there exists a doubt with regard to the correct price of goods being purchased because the pilot project’s interest must be safeguarded. | PM |
| 11. | The customer shall obtain, in case of agency, statement of prices from the supplier whether these are addressed to the customer by name, or with no reference to any named customer. | Customer |
| 12. | In the process of disbursement, the pilot project shall pay the amount to the supplier directly which is preferable, instead of paying the amount through the agent. In some cases, the pilot project shall pay / transfer the amount to the agent (customer) in customer’s bank account, or if no bank account is operated by the customer, the amount shall be paid in cash. | PM |
| 13. | Payments of goods purchased, if made directly to the supplier through pay order, demand draft etc, reduces the risk: Of deferment of Murabaha by delaying in shipment by the manufacturer because he will get payment on receipt of goods by the customer; and Of funds disbursed direct to the customer being used for purposes other than those mentioned in the agency agreement. | PM |



| | | | |
|----------------------|--------------|----------------------|---|
| Cycle | MICRO-CREDIT | SOP Reference | 2.6 |
| Function | MURABAHA | Version | 1 |
| Sub-Function | DEFAULTS | Date of Issue | |
| Process Owner | | Written By | AlHuda Center of Islamic Banking & Economics (CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project is entitled to receive compensation for any actual damage it has incurred as a result of the customer’s breach of a binding promise. The compensation consists of the customer reimbursing the pilot project for any loss due to a difference between the price received by the institution in selling the asset to a third party and the original cost price paid by the pilot project to the supplier.

Roll over in Murabaha is not possible. Each time, a new contract shall be entered into by the pilot project and the customer for new Murabaha against a genuine need for purchase of permissible commodity.

The project shall not impose any additional payment on the customer for the pilot project’s benefit and only the unpaid selling price regarding the installment of selling price can be claimed by the pilot project.

| Sr. No. | Process Description | Responsibility/ Authority |
|----------------|--|----------------------------------|
| 1. | The accounts department shall prepare a monthly report of the repayments due and the amount of repayments received by the pilot project. | PM |
| 2. | The repayment report shall be prepared on a periodic basis. | PM |
| 3. | If an installment due is not received within a month from the due date it shall be noted. | PM |
| 4. | If the installment due noted earlier has not been received within a period of three months it shall be marked as “Default”. | PM |
| 5. | The PM will follow up with the customer sending him reminder in respect of the installment due. | PM |



| Sr. No. | Process Description | Responsibility/ Authority |
|---------|---|---------------------------|
| 6. | <p>In case the customer fails to pay the dues after the reminder the PM will conduct a situational analysis considering the following:</p> <ul style="list-style-type: none"> a) The reasons due to which the customer is unable to pay the dues. b) Is the customer willing to pay the dues but is unable to do so because of his / her financial instability? c) Is the customer requesting for rescheduling of the payment cycle. d) Does the customer need further financing to conduct his / her business. e) Is the reason of non-payment a social constraint? | PM |
| 7. | <p>After conducting this analysis we will obtain the view of the guarantor. The guarantor may agree to discharge the dues of the customer or if the customer requires more financing, does the guarantor agree to provide further guarantee?</p> | PM |
| 8. | <p>In case the customer requests for rescheduling then following options are available:</p> <ul style="list-style-type: none"> a) The rescheduling of the installments; or b) Enter in to another separate Murabaha agreement. | PM |
| 9. | <p>Rescheduling of the remaining installments can be performed, provided that the amount receivable remains the same, with no further increase.</p> | PM |
| 10. | <p>The Murabaha contract shall consist of an undertaking from the customer to pay on demand the pilot project an amount of money or a percentage of the debt, in the event of a delay on his part in paying installments on their due dates.</p> | PM |
| 11. | <p>The PM shall ensure that no roll over is allowed where the customer cannot pay the debt in time as it will result in interest, because it will result in charging an additional amount on the debt created by the</p> | PM |

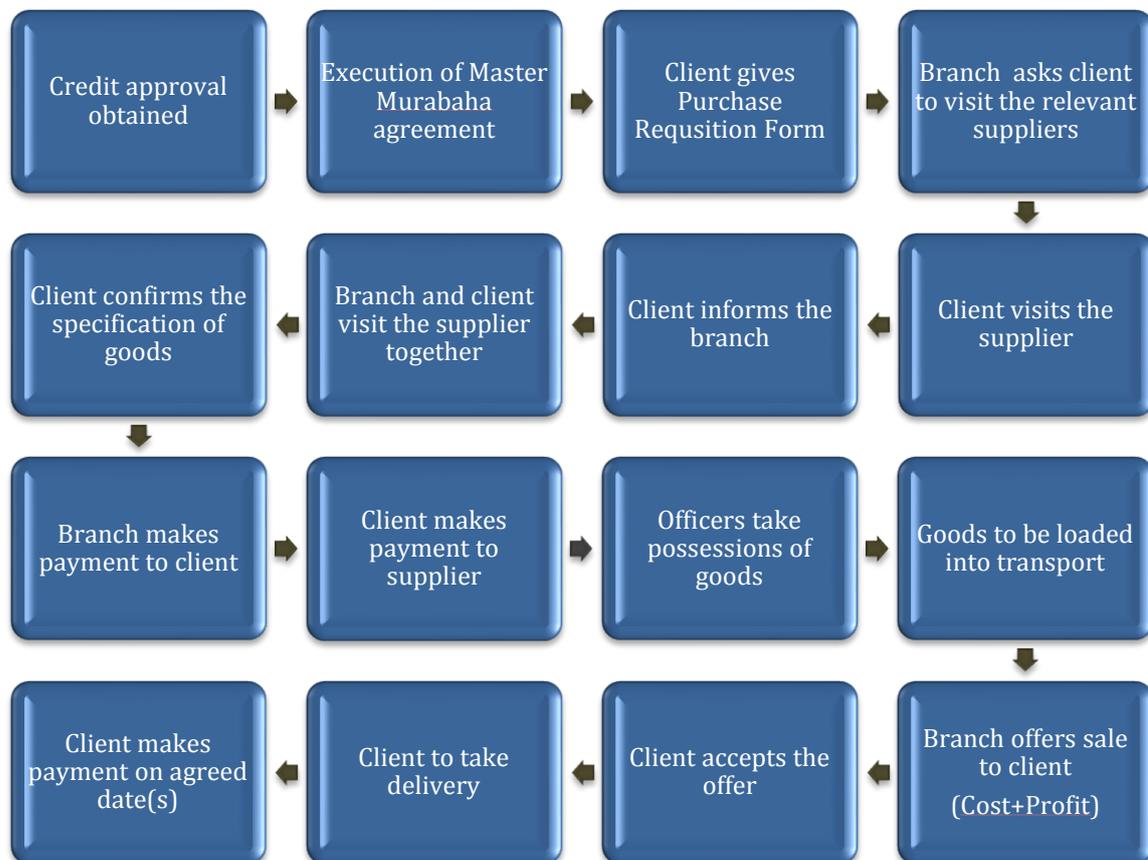
| Sr. No. | Process Description | Responsibility/ Authority |
|---------|---|---------------------------|
| | Murabaha sale. | |
| 12. | The final decision shall be of PSC which shall analyze as to whether there is any need to recover the amount, as it is not expected that the customer will be able to pay the dues. If it is certain that the customer will not be able to pay the dues, the PM will then decide to take delivery of the asset held as security at the prescribed time through legal proceedings. The Project can sell the asset to a third party on behalf of the customer to recover the overdue amounts through legal proceedings. | PSC |



| | | | | |
|-----------------|--------------------------------|------------------------------|----------------------|-------------------|
| Function | MURABAHA POLICY | SOP Reference Version | 2.7 | |
| | PRODUCT PROCESS FLOW AND STEPS | | 1 | |
| | Sub-Function | PRODUCT PROCESS FLOW | Date of Issue | |
| | Process Owner | | | Written By |
| | | Approved By | Qazi Abdul Samad | |

PRODUCT PROCESS FLOW

6.1.1. Murabaha transaction process flow is as follows.



Appendix I

CREDIT EVALUATION FORM

ISLAMIC MICROFINANCE PROJECT - Yemen

1. THE CUSTOMER

CUSTOMER NAME: _____

| | |
|---|---------------------------|
| CUSTOMER REQUEST DATE: _____ | FIRST APPROVAL: _____ |
| REFERRED TO PROJECT STEERING COMMITTEE: _____ | FIRST RENEWAL: _____ |
| _____ | SUBSEQUENT RENEWAL: _____ |
| NAME OF MICRO-ENTERPRISE (IF ANY) : _____ | |
| DATE OF ESTABLISHMENT : _____ | |

2. BUSINESS CONTACT

| | |
|------------------|----------------|
| BUSINESS ADDRESS | PHONE/CELL No. |
| _____ | _____ |

**3. BRIEF DESCRIPTION & NATURE OF CURRENT BUSINESS
Trading/Manufacturing/Services/Others**

| |
|---|
| _____ |
| _____ |
| Nature of training required (If any): _____ |
| _____ |
| What could improve? _____ |
| _____ |

4. SECURITY(IES) / IF ANY

| NATURE OF SECURITY | LOCATION | VALUE (USD) | SECURITY AGAINST THE FACILITY |
|--------------------|----------|-------------|-------------------------------|
| | | | |
| | | | |

5. GUARANTEE(S)

| |
|---------------------|
| Guarantor 1: |
| NAME: _____ |
| ADDRESS: _____ |
| _____ |
| SIGNATURE: _____ |

| |
|---------------------|
| Guarantor 2: |
| NAME: _____ |
| ADDRESS: _____ |
| _____ |
| SIGNATURE: _____ |

6. TYPES OF FINANCING FACILITIES

| S.NO | TYPE OF FACILITY | Please Tick | Amount in YER |
|------|---|-------------|---------------|
| 1 | SALAM WITH AGENCY | | |
| 2 | SALAM WITHOUT AGENCY | | |
| 3 | SALAM & PARALLEL SALAM | | |
| 4 | MURABAHA WITH AGENCY | | |
| 5 | MURABAHA WITHOUT AGENCY | | |
| 6 | IJARAH WITH AGENCY | | |
| 7 | SALE AND LEASE BACK | | |
| 8 | OTHERS (MUSHARAKA, MUDARABA, ISTISNA, WAKALA) | | |
| | | | TOTAL: |

7. COMMENTS ON PRODUCT PREFERENCE

| |
|--|
| |
| |
| |
| |

8. PERIODIC PAYMENT CAPACITY

| | PERIOD | AMOUNT |
|-----------------------|--------|--------|
| EXISTING | | |
| INCREASED BY TRAINING | | |

9. PILOT PROJECT OFFICIALS RECOMMENDATIONS

| NAME & DESIGNATION | SIGNATURE | DATE |
|----------------------------|-----------|-------|
| Project Manager: _____ | | |
| Project In charge: _____ | | |
| Project Steering Committee | | |
| Name of Member: _____ | _____ | _____ |
| Name of Member: _____ | _____ | _____ |

10. COMMENTS

| | | | | |
|------------------|----------|--|-----------|--|
| PROJECT MANAGER | APPROVED | | SIGNATURE | |
| | REJECTED | | | |
| | COMMENT: | | | |
| PROJECT INCHARGE | APPROVED | | SIGNATURE | |
| | REJECTED | | | |
| | COMMENT: | | | |

**Market Research Report on
“Islamic Microfinance Products in Yemen”**



Issue No: 1

Issue Date: 22-05-2013

Revision:

| | | | | | |
|---|----------|----------|--|-----------|------|
| PROJECT STEERING COMMITTEE | Member 1 | APPROVED | | SIGNATURE | DATE |
| | | REJECTED | | | |
| | | COMMENT: | | | |
| | Member 2 | APPROVED | | SIGNATURE | DATE |
| | | REJECTED | | | |
| | | COMMENT: | | | |



Appendix II

Murabaha Agreement (Acceptance)

I, _____ authorized officer of the MFI (name of the MFI)

have sold the goods on Murabaha basis at agreed price (total amount of USD _____) by accepting the above mentioned offer on behalf of the institution. This amount shall be paid to the institution as per Promise to Murabaha and payment schedule dated _____.

Signature (For and on behalf of MFI)

Name of authorized officer

Stamp

Name of first witness

Name of second witness

CNIC

CNIC

Address

Address

Signature / Thumb impression

Signature / Thumb impression



Agency Agreement

Today _____ Place _____

Name of MFI _____ appoints

Mr. / Mrs. _____ S / o, D / o, W / o _____

Address _____

having CNIC _____, as an agent for the purchase of goods.

the details of which are mentioned in purchase requisition dated _____.

For this purpose, you have been disbursed by an amount of USD _____ through cash / cheque / pay order / demand draft number _____ issued through _____ along with this agreement.

As an agent of the institution, you are required to perform following duties:

1. By using best of your expertise, purchase the above mentioned goods of the highest quality.
2. To purchase, collect and take possession of the goods of the same nature, quantity and price as agreed.
3. To intimate the MFI immediately after taking the possession of the goods.
4. To provide the MFI the original slips of purchase price of the goods and other expenses including transportation charge and other related documents.
5. Before purchasing and taking possession of goods you cannot give any intimation of purchasing to the MFI.
6. Before taking possession of goods as an agent, offer and acceptance of Murabaha agreement cannot be made.
7. Be it clear that in the capacity of an agent, after the purchase of the goods, neither can he use the goods nor can he sell them, since they are in the ownership of the seller. Otherwise, it would be taking benefit of the seller's goods, which is Haram.
8. As an agent of the MFI, the protection of the amount and goods are your responsibility till the time they are in your possession and till you have not bought them from the MFI. During this time, you will be held responsible for any damage due to negligence on your part.



9. The MFI reserves the right to inspect the quantity and nature of the goods and verify the purchase price of the goods at any point of time.
10. In case, if you failed to purchase good within a prescribed period i.e. within _____ days, you shall be liable to repay the received cash or cheque or pay order or demand draft of the full amount without any deductions.
11. It is expected that you will perform your duties with a sense of responsibility and honesty as suggested by Islamic teachings.
12. For performing these duties you will be paid USD_____ as service charges.

Parties to the agreement have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, place thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

| | |
|---|---|
| <p>Name of first witness _____</p> <p>CNIC _____</p> <p>Address _____</p> <p>_____</p> <p>_____</p> <p>Signature / Thumb impression _____</p> <p>Name of agent _____</p> <p>Address _____</p> <p>_____</p> <p>Signature / Thumb impression _____</p> <p>Signature (For and on behalf of MFI) _____</p> | <p>Name of second witness _____</p> <p>CNIC _____</p> <p>Address _____</p> <p>_____</p> <p>_____</p> <p>Signature / Thumb impression _____</p> |
|---|---|



Stamp _____

Declaration

This declaration is regarding the agency agreement for the purchase of goods, which was made on _____ at _____ between ____ (Name of MFI) _____ and _____ (Name of agent) _____ S / o, D / o, W / o _____ .

I thereby acknowledge that as an agent of the MFI, I have purchased the goods stated below on behalf of institution:

| S.No. | Nature of goods | Purchase price and expenses (USD) |
|-------|-----------------|-----------------------------------|
| | | |
| | | |
| | Total | |

I am affixing all the documentary evidence of expenditures relating to purchase of goods, these include invoices, receipts, bills, delivery note, copy of cheques or pay orders. For those expenses and payments not having any documentary evidence, I acknowledge that there is no documentary evidence available as per market best practice, and I have made payment in respect of these goods with complete responsibility. I tried that every receipt or bill should be produced in the name of client; therefore, in such situations where it is not possible, for that, I acknowledge that, I have purchased these goods completely as an agent of the MFI.

I have paid total amount of USD _____ in the form of cash / cheque / pay order / demand draft number _____ to the seller of goods in against aforementioned purchase of goods and related expenses. Under the agency agreement, I have received my service charges USD _____ in this respect. I have amount of USD _____ of MFI, that amount, I am paying back to the MFI.



On date _____ Place _____

Name and address of institution _____

and I, _____ S / o, D / o, W / o _____



Signature of appointed agent for the purchase of goods:

Name

Signature / Thumb
impression

Date

Time



Murabaha Agreement (Offer)

I,

Mr / Ms _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____

Date _____ Place _____

Wish to purchase the goods stated below in accordance with the terms agreed in promise to Murahaba and payment schedule on ___date___, and request to the MFI to sell these goods to me.

| S.No. | Nature of goods | Expected cost of purchase and expense (USD) | Profit (USD) | Murabaha Price (USD) |
|-------|-----------------|---|--------------|----------------------|
| | | | | |
| | | | | |
| | | | | |
| | Total amount | | | |

Purchaser have signed after reading and understanding the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, place thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

Signature / Thumb impression _____

Name and address of the customer _____



Promise to Murabaha

I,

Mr / Ms _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____ Promise with,

Name and address of MFI _____

Date _____ at (location) _____

to purchase goods on Murabaha basis as per attached request to purchase, and I promise to pay agreed price as per the agreed schedule. I understand that Murabaha agreement is subject to certain terms and conditions and among them following are some important terms and conditions which I shall comply with.

Terms and conditions of Murabaha agreement:

1. Murabaha is an Islamic mode of sale and purchase in which a seller sells goods by declaring actual cost of goods (including cost of goods and other related expenses) and reasonable amount of profit charged by him, to the buyer.
2. Sale of goods under Murabaha agreement is valid only for those goods which are permissible under Shariah. Therefore, promissor also promises to utilize those goods only for permissible business purposes and not for any purpose which is impermissible under Shariah.
3. It is not allowed to enter into Murabaha agreement only to meet cash requirements without any intention of actually entering into sale and purchase of goods.
4. If at the time of execution of Murabaha contract, goods are in ownership of buyer then Murabaha agreement for those goods cannot be executed.
5. Before executing Murabaha agreement, goods must be in ownership of the MFI and all the risks and rewards of those goods shall also pertain to the MFI.
6. Once the Murabaha agreement is executed, buyer shall be responsible for all the risks and rewards of those goods.
7. At the time of entering into promise to Murabaha, the buyer shall provide two (2) guarantors, which shall either be the part of MFI or be acceptable to the MFI.



8. In case if buyer defaults in executing his / her promise to Murabaha, he / she shall be liable to compensate the institution for actual loss which it may have suffered on purchase of those goods. If he / she will not be able to compensate to the MFI for the loss, then the guarantor shall be liable to compensate for the same.
9. At the time of execution of Murabaha agreement, it is essential to ascertain the nature, price, quantity, profit and payment schedule for the goods to be purchased.
10. Seller, for any valid reason or where direct purchase is not possible, may appoint buyer or any third person (including guarantors) as its agent. However, before the purchase of goods, an agency agreement shall be executed between the MFI and an agent. Therefore, Murabaha agreement cannot be executed unless the agent obtains the possession of goods.
11. Once the price, quantity, reasonable profit and payment schedule have been ascertained and sale has been executed by Offer and Acceptance, it would not be lawful for either the buyer or seller to change price, quantity, reasonable profit or payment schedule.
12. In case of default of buyer in making payment(s) to the MFI, then guarantors would be responsible for making payment(s) to the MFI.
13. As promise to Murabaha is a unilateral agreement, therefore, at this stage seller reserves a right either to enter into Murabaha agreement or not, after taking account of social and technical matters.
14. If any party to the agreement cannot fulfill their responsibilities or having difficulties that are beyond its control, in this context it is important to inform and also have to provide the evidence of the incident to the aggrieved party, then both the parties will decide, either terminate or to amend the agreement.
15. This agreement confirms that, any change in the subject matter shall not be applicable unless such changes have been documented, mutually agreed and signed by the parties to the agreement.

Parties to the agreement have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, placed thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

Name of promissor _____

Signature /
Thumb
impression _____



Issue No: 1

Issue Date: 22-05-2013

Revision:

Name of first guarantor

S / o, D / o, W / o

Address

National Identity Card No.

Signature / Thumb impression

Name of second guarantor

S / o, D / o, W / o

Address

National Identity Card No.

Signature / Thumb impression

Name of first witness

Name of second witness

CNIC

CNIC

Address

Address

Signature / Thumb impression

Signature / Thumb impression

Payment Schedule

Purpose of Murabaha _____

Nature of goods to be purchased _____

Estimated price of goods to be purchased _____

USD.

Profit Percentage _____

Per annum

Expected Profit _____

USD.

Expected total amount _____

USD.

Expected date of payment _____

Months

Expected amount of installment _____

USD.

Frequency of Payment

Monthly

Quarterly

Semi-annual

Annual

Lump Sum

Payment schedule is an integral part of Murabaha Agreement.

(Nature and description of the goods shall be attached to the request to purchase the goods)



Promissory note

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____ Place _____

have purchased the goods on the basis of Murabaha agreement dated _____

for and amount of USD _____

(amount in words: _____),

from _____ Name address and of the pilot project _____.

I promise that I shall pay the above mentioned price of the goods in accordance with the agreed payment schedule or in case of default, pay on demand either to the MFI or at its instruction. Therefore, I, in my all senses, make this promissory note as a written evidence of this transaction.

Signature / Thumb impression _____

Buyer have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, placed thumb impression. Witnesses agree that, in their presence, the text of promissory note read and explained to the buyer and translated into his / her native language, if necessary).

Name of first witness

Name of second witness

S / o, D / o, W / o _____

S / o, D / o, W / o _____

CNIC _____

CNIC _____

Address _____

Address _____

Signature/Thumb impression _____

Signature / Thumb impression _____



Murabaha Agreement (Purchase requisition)

Date _____

To, Name of officer / Designation _____

Name and address of Institution _____

This purchase requisition is the reference of Murabaha agreement that was made on the date of _____ between _____ Name of pilot project _____ and _____ Name of customer _____ S / o, D / o, W / o _____.

In this respect, I am requesting you that I want to purchase the goods stated below on the basis of Murabaha from you.

| S.No. | Nature of goods | Expected cost of purchase and expense (USD) |
|-------|-----------------|---|
| | | |
| | | |
| | | |
| | Total amount | |

Determination of profit on this and payment will be in accordance with the promise to Murabaha and payment schedule.

Signature / Thumb impression _____

Name and address of the customer _____



Murabaha Agreement – without agency (Acceptance)

I, _____ authorized officer of the institution (name of the institution)

have sold the goods on Murabaha basis at agreed price (total amount of USD _____) by accepting the above mentioned offer on behalf of the MFI. This amount shall be paid to the MFI as per Promise to Murabaha and payment schedule dated _____.

Signature (For and on behalf of MFI)

Name of authorized officer

Stamp

Name of first witness

Name of second witness

CNIC

CNIC

Address

Address

Signature / Thumb impression

Signature / Thumb impression



Promise to Murabaha

I,

Mr / Ms _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____ Promise with,

Name and address of institution _____

Date _____ at (location) _____

to purchase goods on Murabaha basis as per attached request to purchase, and I promise to pay agreed price as per the agreed schedule. I understand that Murabaha agreement is subject to certain terms and conditions and among them following are some important terms and conditions which I shall comply with:

Terms and conditions of Murabaha agreement:

1. Murabaha is an Islamic mode of sale and purchase in which a seller sells goods by declaring actual cost of goods (including cost of goods and other related expenses) and reasonable amount of profit charged by him, to the buyer.
2. Sale of goods under Murabaha agreement is valid only for those goods which are permissible under Shariah. Therefore, promissor also promises to utilize those goods only for permissible business purposes and not for any purpose which is impermissible under Shariah.
3. It is not allowed to enter into Murabaha agreement only to meet cash requirements without any intention of actually entering into sale and purchase of goods.
4. If at the time of execution of Murabaha contract, goods are in ownership of buyer then Murabaha agreement for those goods cannot be executed.
5. Before executing Murabaha agreement, goods must be in ownership of the MFI and all the risks and rewards of those goods shall also pertain to the MFI.
6. Once the Murabaha agreement is executed, buyer shall be responsible for all the risks and rewards of those goods.
7. At the time of entering into promise to Murabaha, the buyer shall provide two (2) guarantors, which shall either be the part of MFI or be acceptable to the MFI.



8. In case if buyer defaults in executing his / her promise to Murabaha, he / she shall be liable to compensate the MFI for actual loss which it may have suffered on purchase of those goods. If he / she will not be able to compensate to the MFI for the loss, then the guarantor shall be liable to compensate for the same.
9. At the time of execution of Murabaha agreement, it is essential to ascertain the nature, price, quantity, profit and payment schedule for the goods to be purchased.
10. Once the price, quantity, reasonable profit and payment schedule have been ascertained and sale has been executed by Offer and Acceptance, it would not be lawful for either the buyer or seller to change price, quantity, reasonable profit or payment schedule.
11. In case of default of buyer in making payment(s) to the MFI, then guarantors would be responsible for making payment(s) to the MFI.
12. As promise to Murabaha is a unilateral agreement, therefore, at this stage seller reserves a right either to enter into Murabaha agreement or not, after taking account of social and technical matters.
13. If any party to the agreement cannot fulfill their responsibilities or having difficulties that are beyond its control, in this context it is important to inform and also have to provide the evidence of the incident to the aggrieved party, then both the parties will decide, either terminate or to amend the agreement.
14. This agreement confirms that, any change in the subject matter shall not be applicable unless such changes have been documented, mutually agreed and signed by the parties to the agreement.

Parties to the agreement have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, place thumb impression. Witnesses agree that, in their presence, the text of the agreement read and explained to the parties of agreement and translated into his / her native language, if necessary).

| | | |
|----------------------------|------------------------------------|-------|
| | Signature / Thumb impression | |
| Name of promissor | _____ | _____ |
| Name of first guarantor | S / o, D / o, W / o | _____ |
| | _____ | _____ |



Issue No: 1

Issue Date: 22-05-2013

Revision:

Address

National Identity
Card No.

Signature /
Thumb
impression

Name of second
guarantor

S / o, D / o, W / o

Address

National Identity
Card No.

Signature /
Thumb
impression

**Name of first
witness**

**Name of second
witness**

CNIC

CNIC

Address

Address

Signature / Thumb
impression

Signature / Thumb
impression

Payment Schedule

Purpose of Murabaha

Nature of goods to be purchased

Estimated price of goods to be purchased

USD.

Profit percentage

Per annum

Expected profit

USD.

Expected total amount

USD.

Expected date of payment

Months

Expected amount of installment

USD.

Frequency of Payment

Monthly

Quarterly

Semi-annual

Annual

Lump Sum

Payment schedule is an integral part of Murabaha Agreement.

(Nature and description of the goods shall be attached to the request to purchase the goods)



Promissory note

I,

Mr. / Ms. _____ S / o, D / o, W / o _____

Address _____

CNIC No. _____ Place _____

have purchased the goods on the basis of Murabaha agreement dated _____

for and amount of USD _____

(amount in words: _____), from

_____ Name address and of the pilot project _____.

I promise that I shall pay the above mentioned price of the goods in accordance with the agreed payment schedule or in case of default, pay on demand either to the MFI or at its instruction.

Therefore, I, in my all senses, make this promissory note as a written evidence of this transaction.

Signature / Thumb impression _____

Buyer have signed after reading the above mentioned terms in the presence of their senses and witnesses (Individual who is not capable of reading and signing, placed thumb impression.

Witnesses agree that, in their presence, the text of promissory note read and explained to the buyer and translated into his / her native language, if necessary).

Name of first witness

Name of second witness

S / o, D / o, W / o

S / o, D / o, W / o

CNIC

CNIC

Address

Address

Signature / Thumb impression

Signature / Thumb impression



Murabaha Agreement (Purchase requisition)

Date _____

To, Name of officer / Designation _____

Name and address of Institution _____

This purchase requisition is the reference of Murabaha agreement that was made on the date of _____ between _____ Name of MFI _____ and _____ Name of customer _____ S / o, D / o, W / o _____.

In this respect, I am requesting you that I want to purchase the goods stated below on the basis of Murabaha from you.

| S.No. | Nature of goods | Expected cost of purchase and expense (USD.) |
|-------|-----------------|--|
| | | |
| | | |
| | | |
| | Total amount | |

Determination of profit on this and payment will be in accordance with the promise to Murabaha and payment schedule.

Signature / Thumb impression

Name and address of the customer



Product 3: Ijarah



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| | | | |
|----------------------|----------------------------|----------------------|--|
| Cycle | MICRO-CREDIT | SOP Reference | 3 |
| Function | IJARAH | Version | 1 |
| Sub-Function | BASIC CONCEPT AND FEATURES | Date of Issue | |
| Process Owner | | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

Introduction & Concept of Ijarah

Introduction

Ijarah (Islamic Leasing) is the second most common financing instrument used by **Islamic Microfinance** all over the world. The purpose of this document is to specify the Shariah rules governing Ijarah transactions. In order to remove ambiguities and develop a uniform understating of the functionality of an Ijarah transaction a detailed Ijarah process is being produced here. The procedures and steps laid down in this document are to be followed strictly.

Concept of Ijarah

"Ijarah" is a term of Islamic fiqh. Lexically, it means 'to give something on rent'. In the Islamic jurisprudence, the term 'Ijarah' is used for two different situations. In the first place, it means 'to employ the services of a person on wages given to him as a consideration for his hired services.' The employer is called 'mustajir' while the employee is called 'ajir', while the wages paid to the ajir are called their 'ujrah'.

Therefore, if A has employed B in his office as a manager on a monthly salary, A is mustajir, and B is an ajir. Similarly, if A has hired the services of a porter to carry his baggage to the airport, A is a mustajir while the porter is an ajir, and in both cases the transaction between the parties is termed as Ijarah-tul-Ashkhas.

The second type of Ijarah relates to the usufructs of assets and properties, and not to the services of human beings. 'Ijarah' in this sense means 'to transfer the usufruct of a particular property to another person in exchange for a rent claimed from him.' In this case, the term 'Ijarah' is analogous to the English term 'leasing'. Here the lessor is called 'Mujir', the lessee is called 'mustajir' and the rent payable to the lessor is called 'ujrah'.

For the purpose of the manual, the second type of Ijarah is relevant.

The rules of Ijarah are very much analogous to the rules of sale, because in both cases something is transferred to another person for a valuable consideration. The only difference between Ijarah and sale is that in the latter case the corpus of the property is transferred to the purchaser, while in the case of Ijarah, the corpus of the property remains in the ownership of the transferor, but only its usufruct i.e. the right to use it, is transferred to the lessee.



Basic Rules of Ijarah

1. Leasing is a contract whereby the owner of something transfers its usufruct to another person for an agreed period, at an agreed consideration.
2. The subject of lease must have a valuable use (which is recognized as Mal-e-Mutaqawwam in Shariah. Therefore, things having no usufruct at all or whose usufruct is not permissible according to Shariah cannot be leased.
3. It is necessary for a valid contract of lease that the corpus of the leased property remains in the ownership of the seller, and only its usufruct is transferred to the lessee. Thus, anything which cannot be used without consuming cannot be leased out. Therefore, the lease cannot be affected in respect of money, eatables, fuel and ammunition etc. because their use is not possible unless they are consumed. If anything of this nature is leased out, it will be deemed to be a loan and all the rules concerning the transaction of loan shall accordingly apply. Any rent charged on this invalid lease shall be an interest charged on a loan.
4. As the corpus of the leased property remains in the ownership of the lessor, all the liabilities emerging from the ownership shall be borne by the lessor, but the liabilities referable to the use of the property shall be borne by the lessee.

Example: A has leased his house to B. The taxes referable to the property shall be borne by A, while the water tax, electricity bills and all expenses referable to the use of the house shall be borne by B, the lessee.

5. The period of lease must be determined in clear terms.
6. The lessee cannot use the leased asset for any purpose other than the purpose specified in the lease agreement. If no such purpose is specified in the agreement, the lessee can use it for whatever purpose it is used in the normal course. However if he wishes to use it for an abnormal purpose, he cannot do so unless the lessor allows him in express terms.
7. The lessee is liable to compensate the lessor for any damage to the leased asset caused by any misuse or negligence on the part of the lessee.
8. The leased asset shall remain in the risk of the lessor throughout the lease period in the sense that any harm or loss caused by the factors beyond the control of the lessee shall be borne by the lessor.



9. A property jointly owned by two or more persons can be leased out, and the rental shall be distributed between all the joint owners according to the proportion of their respective shares in the property.

10. A joint owner of a property can lease his proportionate share to his co-sharer only, and not to any other person.

11. It is necessary for a valid lease that the leased asset is fully identified by the parties.

Example: A said to B. "I lease you one of my two shops." B agreed. The lease is void, unless the leased shop is clearly determined and identified.

12. The rental must be determined at the time of contract for the whole period of lease.

13. In the long term lease agreements it is mostly not in the benefit of the lessor to fix one amount of rent for the whole period of lease, because the market conditions change from time to time. For this purpose it is allowed to use discount rate as to determine the rental amounts. However, rental for the month will be fixed at the start of the month, any change in discount rate during the month will be used to calculate rental for the next month. It is also necessary to define a floor and ceiling.

14. The lessor cannot increase the rent unilaterally, and any agreement to this effect is void.

15. The rent or any part thereof may be payable in advance before the delivery of the asset to the lessee, but the amount so collected by the lessor shall remain with him as 'on account' payment and shall be adjusted towards the rent after its being due.

16. The lease period shall commence from the date on which the leased asset has been delivered to the lessee, no matter whether the lessee has started using it or not.

17. If the leased asset has totally lost the function for which it was leased, and no repair is possible, the lease shall terminate on the day on which such loss has been caused. However, if the loss is caused by the misuse or by the negligence of the lessee, he will be liable to compensate the lessor for the depreciated value of the asset as; it was immediately before the loss.



Documentation of Ijarah

The **Micro Finance Institution’s (MFI)** Shariah approved Ijarah documentation shall consist of the following Agreement

- Undertaking to Lease
- Letter of Agency
- Lease Agreement
- Insurance Agency Agreement

Undertaking to Lease

Undertaking to Lease is executed in order to obtain confirmation from the customer that after the completion of procurement process of the asset by the MFI it will get the asset leased from the MFI.

Letter of Agency

In direct leases letter of agency is executed with the customer. Under the letter customer is appointed as agent to procure the asset on behalf of the MFI.

Lease Agreement

Agreements explaining the terms and conditions of the rental arrangements between the parties.

Insurance Agency Agreement

Sometimes customer wishes to obtain Insurance from its designated insurance company. In such cases the MFI may appoint the customer its agent to procure insurance from the company of its choice.

Under taking to Purchas

An undertaking by the customer in which it undertake to purchase the asset from the MFI in case of premature termination at the specified price.



Rental Calculation

Rent can be calculated by using the following formula.

$$\text{Rent} = \frac{\text{Asset Cost Paid by the MFI} \times r}{[1 - (1 / (1 + r))^n]}$$

Where,

n = No. of periods

r = Profit Rate / No. of periods

However, it is advised to use the excel sheet provided with the manual for calculating the rent. In special cases the concerned Credits Officer can calculate rent.

Profit Recognition

As mentioned earlier rent can be charged when the asset is delivered to the customer in usable conditions. Hence the MFI is entitled to a profit only when the asset is delivered to the customer.

In cases where the customer is required to pay rent in advance it must be recorded as a separate liability known as an “Advance Against Future Rent” or “Advance Rent”. Once the asset is delivered to the customer and lease agreement is executed only then can we take the rents received to our income through an agreed schedule.

| | | | |
|----------------------|--|----------------------|--|
| Cycle | MICRO-CREDIT | SOP Reference | 3.2 |
| Function | IJARAH | Version | 1 |
| Sub-Function | CUSTOMER IDENTIFICATION / CUSTOMER REQUEST / CREDIT EVALUATION | Date of Issue | |
| Process Owner | | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

The pilot project is at liberty to decline to enter into Ijarah agreement with any applicant considered to be unsuitable as a customer without giving any reason.

The field workers will approach the prospective customers and people, who, they know, require financing or have the capability to expand their business / skills if provided appropriate opportunity. Such customer will subsequently make a request to enter in to an Ijarah agreement.

After receiving the customer’s request, a credit evaluation process will be performed (refer to SOP Reference 2 of this manual).

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 1. | Field worker / volunteers will visit the local community in the nearby villages making them aware of the financing facility available under the Islamic modes. | Field workers / volunteers |
| 2. | Field workers may also visit people about whom the field workers are aware that they need financing or people who can improve their businesses / skills if provided appropriate fund and training. | Field workers / volunteers |
| 3. | However, there can be walk in customers as well, who visit the pilot project’s office themselves and request for financing. | PM |
| 4. | The customer requiring financing will formally request the pilot project that he / she wishes to lease the stated goods of Ijarah. The request should normally include: d) Name of the party; e) The terms of the Ijarah arrangement; and f) Description of the goods. (Refer to Request to enter in to Ijarah in Appendix II) | PM |

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 5. | After receiving the request by the customer to lease the goods on Ijarah basis, the application will be forwarded to the committee for the credit evaluation process. | PM |
| 6. | Credit evaluation process will include filling of credit evaluation form. For purpose of understanding the said process, refer to SOP Reference 2 “Credit evaluation process”. | PM |
| 7. | The pilot project reject is under no obligation to provide any facility to any member of the public and is at liberty to decline to enter into a customer relationship with any applicant considered to be unsuitable as a customer without giving any reason. | PM |



| | | | |
|----------------------|----------------|----------------------|--|
| Cycle | MICRO-CREDIT | SOP Reference | 3.4 |
| Function | IJARAH | Version | 1 |
| Sub-Function | IJARAH BOOKING | Date of Issue | |
| Process Owner | | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

| Sr. No. | PROCEDURE | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 12. | <p>Execution of Agency Agreement, Undertaking to Lease and Insurance Agency Agreement.</p> <ul style="list-style-type: none"> - The client and MFI execute agency agreement for the purchase of the asset. - Under the agency agreement the customer is appointed as an agent (wakeel) of MFI to purchase asset on MFI’s behalf. - The client will execute Undertaking to Lease as a promise to lease the asset after acquiring them. - After the finalization of cost of the asset client will request disbursement from MFI in writing along with a cheque of security deposit. - Insurance Agency Agreement will be executed between the customer and the MFI. - MFI will issue a pay order in the name of the supplier of the asset. - Client will take possession of the asset on behalf of MFI. - Client will obtain Insurance of the asset from an insurance company acceptable to the MFI. | PM |
| 13. | <p>Execution of Lease Agreement.</p> <ul style="list-style-type: none"> - Immediately after taking possession of the asset on behalf of MFI, client would inform the MFI in writing along with the insurance policy. - MFI will confirm the insurance payments of the asset. - Rental schedule will be prepared keeping in view the insurance cost. - Lease agreement will be executed between the MFI and the customer. - MFI’s representative will visit the site of the customer to affix seal of MFI on the asset | PM |



| Sr. No. | PROCEDURE | Responsibility / Authority |
|---------|---|----------------------------|
| 14. | <p>Completion of Lease Agreement</p> <ul style="list-style-type: none"> - Upon completion of lease period and payment of all dues, MFI shall offer the asset for sale at the pre-agreed lease terminal value to the customer. - If the customer agrees to purchase the asset: <ul style="list-style-type: none"> ➤ MFI shall raise an invoice to customer ➤ Customer shall either pay through a cheque in which case MFI shall return his security deposit through a cheque. ➤ Or customer shall give instructions to adjust the security deposit against purchase price of the asset. ➤ Customer shall sign an acceptance letter to confirm receipt of asset | |
| 15. | <p>Premature Termination</p> <ul style="list-style-type: none"> - If the Customer wants to terminate the Lease pre-maturely, he shall contact Branch with a request for premature termination. - Branch Manager shall intimate the pre-mature termination sale price to the Customer after checking the same from the Lease Termination schedule. - If the customer wishes to continue with the pre-mature termination, Branch shall forward the Customer’s application to the concern department for processing of pre-mature termination. - Customer shall pay the termination amount through cross cheque - If the cheque is realized, then Branch shall process the termination. Branch shall raise sale invoice of the asset in the name of the Customer. - Customer shall sign an acceptance letter to confirm receipt of the asset. | PM |



| | | | |
|----------------------|---------------------------------|----------------------|--|
| Cycle | MICRO-CREDIT | SOP Reference | 3.3 |
| Function | SALE AND LEASE BACK | Version | 1 |
| Sub-Function | PROCUREMENT OF GOODS / DELIVERY | Date of Issue | |
| Process Owner | | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

Where the equipment has already been imported and acquired by the customer, it is permissible to use the mechanism of Sale & Lease Back with the following condition:

- a. Sale Deed should be unconditional to the future lease and without any reference to it.
- b. Lease agreement is signed after the sale.
- c. If it is contemplated between the parties that, at the end of the lease period the equipment would be transferred to the customer, there must be at least a period of one year between the original purchase from the customer and the final sale to the customer.
- d. There may be a unilateral promise/undertaking from MFI to sell the equipment to the customer at the end of the lease period subject to sr. no. ‘c’ above at an agreed price.

Preferably the mechanism of Sale and Lease Back should not be used for camouflage financing. However, if a customer involved in conventional financing approaches MFI to switch over to Islamic Financing and wants to be relieved of his earlier obligation towards conventional Financial Institutions, in this case this mechanism can be used. Also if the client has genuine needs for cash and MFI cannot facilitate him by any means, then this procedure can be adopted.

| Sr. No. | Process Description | Responsibility / Authority |
|----------------|---|-----------------------------------|
| 18. | <p>Client Contact:</p> <ul style="list-style-type: none"> - Marketing Department Personnel/Branch Manager meets the customer and explains the Ijarah product. - It is the Marketing Department/Branch Manager responsibility to ensure that the client is aware of the concept and process of Ijarah (Sale and Lease Back) and the related requirements. - Branch should ensure that the assets are owned by the client. Relevant Documents should be obtained from the customer. - The client and MFI agree on the terms and conditions of the Ijarah | |



| Sr. No. | Process Description | Responsibility / Authority |
|---------|--|----------------------------|
| | such as asset cost, tenor, rate, security etc. | |
| 19. | <p>Execution of Sale Deed:</p> <ul style="list-style-type: none"> - The client and MFI execute sale deed. Under the deed MFI will procure asset from the customer. - Client will issue an invoice to MFI. <p>It is not permissible for the pilot project to carry out Ijarah transaction for commodities or activities not permitted by Shariah. Accordingly, the PM should ensure at the time of Ijarah contract that the subject goods are not amongst those considered impermissible and non-leasable.</p> | PM |
| 20. | <p>Execution of Lease Agreement and Insurance Agency Agreement (To be done one day after the Sale Deed)</p> <ul style="list-style-type: none"> - MFI will confirm the insurance payments of the asset. - Rental schedule will be prepared keeping in view the insurance cost. - Lease agreement will be executed between the MFI and the customer. - Insurance Agency Agreement will be executed between the customer and the MFI. - Client will obtain Insurance of the asset from an insurance company acceptable to the MFI. - MFI’s representative will visit the site of the customer to affix seal of MFI on the asset. | PM |
| 21. | <p>Completion of Lease Agreement</p> <ul style="list-style-type: none"> - Upon completion of lease period and payment of all dues, MFI shall offer the asset for sale at the pre-agreed lease terminal value to the customer. - If the customer agrees to purchase the asset: <ul style="list-style-type: none"> o MFI shall raise an invoice to customer o Customer shall either pay through a cheque in which case MFI shall return his security deposit through a cheque. o Or customer shall give instructions to adjust the security deposit against purchase price of the asset. o Customer shall sign an acceptance letter to confirm receipt | PM |



| Sr. No. | Process Description | Responsibility / Authority |
|---------|--|----------------------------|
| | of the asset | |
| 22. | <p>Premature Termination</p> <ul style="list-style-type: none"> - The customer cannot prematurely terminate lease agreement before the completion of one year from the date of purchase of asset by MFI. - If the Customer wants to terminate the Lease pre-maturely after one year, he shall contact Branch with a request for premature termination. - Branch shall intimate the pre-mature termination sale price to the Customer after checking the same from the Lease Termination schedule. - If the customer wishes to continue with the pre-mature termination, Branch shall forward the Customer’s application to concern department for processing of pre-mature termination. - Customer shall pay the termination amount through cross cheque. - If the cheque is realized the Branch, shall process the termination & shall raise sale invoice of the asset in the name of the Customer | PM |

| | | | |
|--|--------------|------------------------------|--|
| Cycle Function Sub-Function Process Owner | MICRO-CREDIT | SOP Reference Version | 3.5 |
| | IJARAH | | |
| | Process Flow | Date of Issue | |
| | | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

| Sr. No. | Steps of the Process | Responsible Department |
|---------|--|------------------------|
| | Application and Approval Process | |
| 1. | <ul style="list-style-type: none"> Customers shall submit the application form and other documents at MFI Branch. | CD |
| 2. | <ul style="list-style-type: none"> The Credits Department shall process the application to determine if the applicant qualifies on the credit approval criteria established by MFI. Credit Officer shall enter customer’s record in the system and generate the proposal. A credit summary shall be generated to check the customer’s eligibility and shall be signed off by Incharge Credit Department. If the customer fails to pass any of these criteria MFI shall inform the customer through a letter or on the phone and file the rejected application. | CD |
| 3 | <ul style="list-style-type: none"> If the customer passes the criteria of MFI a credit cum disbursement report is generated through the system for approval the case. Branch shall verify the customer’s address and provide the relevant information for this purpose. For all cases of Rs. 500,000/- & above Credit Officer shall also send a CIB report request to MFI along with the information required to obtain the CIB. (if CIB system is in the country) Address verification is expected to take two days However; the approval process shall continue based on the clause that disbursement shall be subject to address verification. The Branch shall coordinate with the customer’s designated asset dealers for obtaining quotation/invoice of the goods. The quotation | CD |



| | | |
|--|---|--|
| | shall form part of the documents to be submitted to MFI branch. | |
|--|---|--|



| | | |
|---|--|--------------------|
| 3. a | <p>Following steps shall be involved in the credit approval process:</p> <ol style="list-style-type: none"> 1. Branch shall pass a credit summary and disbursement schedule, along with all the necessary documents, to concern department for approval. 2. The approval of each individual case shall be sanctioned through a competent committee. 3. Disbursement shall be subject to complete documentation by Credits Department at Branch. | Branch/head office |
| 4. | <p>In case of disapproval at this stage the customer shall be informed of the decision through letter and the rejected application shall be filed. If the application is approved, Branch shall proceed to the next step in the process.</p> | Branch |
| 5 | <p>Branch shall deliver the approval sheet and other documents to Credit Officer for preparation of “Agreement to Lease”. (Other documents include Application form, attachments and a document checklist.) Branch shall prepare and keep the documents in safe custody.</p> | Branch |
| <u>Process after preparation of Agreement to Lease</u> | | |
| 6 | <ul style="list-style-type: none"> • The Branch shall contact the customer and inform him of the availability of the agreement to lease for his execution. The documents to be given to the customer shall also contain a sample draft of the “Lease Agreement” just for his review. The “Lease Agreement” shall actually be signed upon delivery of the assets. • The Branch shall request the customer for the following cheques: <ul style="list-style-type: none"> Security deposit Non-refundable processing charges covering MFI’s <ol style="list-style-type: none"> a) Cost of legal documents, b) Cost of CIB report, c) Cost of address verification Documentation / Registration Charges • The cheque for the documentation/registration charges shall be obtained at this stage; However an exception for receipt of this upon delivery is also acceptable. • Receipt of the above cheques shall be a pre-requisite for handing over of legal documents to the customer. | Branch |

| | | |
|----|---|--------------------|
| | <ul style="list-style-type: none"> Branch shall give a cheque receipt to the customer. | |
| 7 | <ul style="list-style-type: none"> Customer shall submit the executed documents to the Branch. Credit officer shall coordinate with the client for proper execution of documents. <p>Any NOC or legal Advisor opinion (if required) shall be obtained on the documentation.</p> | Branch |
| 7a | <ul style="list-style-type: none"> In case there are any discrepancies in documentation, the Credit officer shall coordinate with the client for removal of the discrepancies identified by Internal Audit/Shariah Advisor. Branch shall inform Head Office of the fate of the customer’s cheque. MFI reserves the right to reject the application if the cheque has bounced due to insufficient funds. In case of such a rejection, the costs incurred by MFI on account of address verification and documentation charges shall have to be absorbed by MFI since it would not be realistic to attempt recovery of these costs from the client at this stage. | Branch/Head Office |
| 8 | <ul style="list-style-type: none"> Subsequent to completion of documentation and clearance of customer’s cheque Branch shall prepare and move the disbursement sheet to the Operations Department for preparation of pay-order. | Branch |
| 9 | <p>3. A pay-order shall be issued under a covering letter (Purchase Order) to the dealer mentioning that the goods are MFI’s asset and should not be handed over to the customer without express written permission of MFI.</p> | Branch |

| Termination of Transaction Prior to Delivery | | |
|--|--|----|
| 10 | <ul style="list-style-type: none"> In case the customer decides to cancel the lease prior to delivery of the assets, MFI shall return the customer’s deposit margin and advance rentals after deducting a penalty. Branch shall arrange for the disposal of goods in the open market. | |
| <u>Process for Execution of Lease Agreement</u> | | |
| 11. | Upon delivery of the goods (to the dealer’s showroom) The cheque for documentation charges received from the customer in step 6 shall be deposited. | |
| 12. | <ul style="list-style-type: none"> MFI shall send the goods’ particulars to the insurance company, which shall immediately fax a confirmation that the asset is insured along with the premium bill. The Premium bill or stamped fax confirming insurance shall subsequently be attached with the documents forming support of the disbursement authority. At this stage MFI shall hand over the premium cheque, prepared at the time of approval of disbursement to the Insurance Company. Insurance company shall forward the original Insurance policy along with the Premium Payment Receipt to MFI. | CD |
| 13 | <ul style="list-style-type: none"> Credit Officer shall prepare the “Lease Agreement” to be accepted and signed by the customer. Credit Officer shall contact the customer and request him to come over and sign the lease agreement or shall send the agreement documentation to the concerned branch or dealer. Customer shall sign the lease agreement | CD |

| | | |
|--|--|------------|
| 13a | <ul style="list-style-type: none"> As per the lease agreement the first rental of the lease shall be of a higher amount comprising of the advance accumulated till that date and normal rental for that month. Rest of the rentals till the life of the lease shall remain the same. | CD |
| 13b | <ul style="list-style-type: none"> Upon receipt of a Delivery order from MFI, the dealer shall deliver the goods to customer and get an acceptance letter signed by the customer. | CD |
| <u>Post Delivery Activities</u> | | |
| 14. | <ul style="list-style-type: none"> Credit administration officer shall deposit post dated cheques on due dates in bank account. | CD |
| 15. | <ul style="list-style-type: none"> In case the cheque is bounced Branch shall inform Head Office for necessary action through an email. | Branch/IBD |
| 16. | <ul style="list-style-type: none"> Credit administration officer shall follow up with the customer for recovery of rentals and late payment charges. Late payment charges shall be recovered either: <ol style="list-style-type: none"> Along with the lease rental. or Accumulated and recovered at the time of maturity of the facility. Penalty shall be calculated at 24% p.a. based on the number of days delayed subject to a three-day grace period from the due date. All penalties recovered shall be given in charity. | CD |
| 17. | If the customer consecutively fails to pay two rentals i.e. comes into an overdue of 60 days and the third rental becomes due, an event of default shall be enforced and process for repossession shall start. | CD |
| <u>Event of Default</u> | | |
| 18. | <ul style="list-style-type: none"> CD shall contact the repossession agency and provide copies of Repossession Agreement and other customer information to them. | CD |
| 19. | <ul style="list-style-type: none"> Repossession agency shall repossess the leased goods and deliver it to MFI. MFI shall pay the repossession charges on the lines approved in this scheme to the agency through cross cheque upon submission of bill. | CD/Account |
| 20. | <ul style="list-style-type: none"> MFI shall sell the repossessed assets in the market and realize the sale | CD |

| | | |
|------|---|----|
| | proceeds. It is estimated that the market value of the goods declines by 15% in the first year and by 5% p.a. subsequently. | |
| 20a. | If a customer requests to continue the lease after repossession, MFI shall ask him to pay overdue rentals, late payment charges and repossession charges after which the lease shall continue as per the original terms and conditions. | CD |

| | <u>Premature Termination</u> | |
|------|--|--------------------|
| 21. | <ul style="list-style-type: none"> • If the Customer wants to terminate the Lease pre-maturely, he shall contact Branch with a request for premature termination. • Branch shall intimate the pre-mature termination sale price to the Customer after checking the same from the Lease Termination schedule and the System both. • If the customer wishes to continue with the pre-mature termination, Branch shall forward the Customer’s application to concern department for processing of pre-mature termination. • Customer shall pay the termination amount to Branch through cross cheque. • CAO shall forward the cheque to Operations Department under intimation to CD. • Operation Department shall intimate CD of the fate of the cheque. • When the cheque is cleared, Branch shall process the termination in the system and ask the insurance company to refund the unexpired portion of the insurance premium (if applicable). Branch shall raise sale invoice of the goods in the name of the Customer and hand over the goods’ documents to the Customer. • Customer shall sign an acceptance letter to confirm receipt of the goods. | Branch/Head Office |
| 21a. | <p>In case of Customer’s death, his/her heirs shall be given option to:</p> <p>(a) Continue with the Lease, in which case the old agreement shall have to be terminated and a new lease shall have to be booked.</p> <p>(b) Terminate the Lease by purchasing the goods.</p> <p>(c) If they intend to return the goods, MFI shall terminate the lease and</p> | CD/Head Office |

| | | |
|------|---|--|
| | sell the goods in the market. Sale proceeds in this case shall be retained by MFI. | |
| | <u>Normal Termination</u> | |
| 22. | <ul style="list-style-type: none"> Upon completion of lease period and payment of all dues MFI shall offer the goods for sale at the pre-agreed lease terminal value to the customer. | CD |
| 22a | <ul style="list-style-type: none"> If the customer agrees to purchase the goods: <ol style="list-style-type: none"> The MFI shall raise an invoice to customer Customer shall either pay through a cheque in which case MFI shall return his security deposit through a cheque. Or customer shall give instructions to adjust the security deposit against purchase price of the asset. <p>Customer shall sign an acceptance letter to confirm receipt of goods.</p> | |
| 22b. | <ul style="list-style-type: none"> If the customer wishes to return the goods, a surveyor of the insurance company shall be appointed to inspect the assets and inform MFI on the current condition and value of the assets and cost required for repair and maintenance. The MFI shall deduct the cost of repair and maintenance work, for which the customer is liable, from the Customer’s Security deposit and pay the balance amount to the customer. <p>The goods shall then be sold by MFI in the open market.</p> | CD/Account |
| | <u>Insurance Process</u> | |
| 23. | <p>Partial Loss:</p> <p>In case of partial loss, customer shall contact MFI with a written request upon which the Insurance company shall be intimidated.</p> | CD |
| 24. | <p>Complete Loss:</p> <ul style="list-style-type: none"> Customer shall be required to submit following documents with MFI for full settlement in case of theft or total loss: <ol style="list-style-type: none"> Original or Stamped copy of FIR Transfer Letter Letter of Subrogation | Customer interaction CD Ins. Co. interaction CD |



| | | |
|--|---|--|
| | <p>4. Original Excise File</p> <p>5. Claim Form</p> <ul style="list-style-type: none">• The MFI shall forward these documents to the insurance company along with a claim form. | |
|--|---|--|



Appendix I

CREDIT EVALUATION FORM

ISLAMIC MICROFINANCE PROJECT - Yemen

1. THE CUSTOMER

CUSTOMER NAME: _____

| | |
|---|---------------------------|
| CUSTOMER REQUEST DATE: _____ | FIRST APPROVAL: _____ |
| REFERRED TO PROJECT STEERING COMMITTEE: _____ | FIRST RENEWAL: _____ |
| _____ | SUBSEQUENT RENEWAL: _____ |
| NAME OF MICRO-ENTERPRISE (IF ANY) : _____ | |
| DATE OF ESTABLISHMENT : _____ | |

2. BUSINESS CONTACT

| | |
|------------------|----------------|
| BUSINESS ADDRESS | PHONE/CELL No. |
| _____ | _____ |

**3. BRIEF DESCRIPTION & NATURE OF CURRENT BUSINESS
Trading/Manufacturing/Services/Others**

| |
|---|
| _____ |
| _____ |
| Nature of training required (If any): _____ |
| _____ |
| What could improve? _____ |
| _____ |

4. SECURITY(IES) / IF ANY

| NATURE OF SECURITY | LOCATION | VALUE (USD) | SECURITY AGAINST THE FACILITY |
|--------------------|----------|-------------|-------------------------------|
| | | | |
| | | | |

5. GUARANTEE(S)

| |
|---------------------|
| Guarantor 1: |
| NAME: _____ |
| ADDRESS: _____ |
| _____ |
| SIGNATURE: _____ |

| |
|---------------------|
| Guarantor 2: |
| NAME: _____ |
| ADDRESS: _____ |
| _____ |
| SIGNATURE: _____ |

6. TYPES OF FINANCING FACILITIES

| S.NO | TYPE OF FACILITY | Please Tick | Amount in YER |
|------|---|-------------|---------------|
| 1 | SALAM WITH AGENCY | | |
| 2 | SALAM WITHOUT AGENCY | | |
| 3 | SALAM WITH PARALLEL SALAM | | |
| 4 | MURABAHA WITH AGENCY | | |
| 5 | MURABAHA WITHOUT AGENCY | | |
| 6 | IJARAH | | |
| 7 | SALE AND LEASE BAC | | |
| 8 | OTHERS (MUSHARAKA, MUDARABA, ISTISNA, WAKALA) | | |
| | | | TOTAL: |

7. COMMENTS ON PRODUCT PREFERENCE

| |
|--|
| |
| |
| |
| |

8. PERIODIC PAYMENT CAPACITY

| | PERIOD | AMOUNT |
|-----------------------|--------|--------|
| EXISTING | | |
| INCREASED BY TRAINING | | |

9. PILOT PROJECT OFFICIALS RECOMMENDATIONS

| NAME & DESIGNATION | SIGNATURE | DATE |
|----------------------------|-----------|-------|
| Project Manager: _____ | | |
| Project In charge: _____ | | |
| Project Steering Committee | | |
| Name of Member: _____ | _____ | _____ |
| Name of Member: _____ | _____ | _____ |

10. COMMENTS

| | | | | |
|------------------|----------|--|-----------|--|
| PROJECT MANAGER | APPROVED | | SIGNATURE | |
| | REJECTED | | | |
| | COMMENT: | | | |
| PROJECT INCHARGE | APPROVED | | SIGNATURE | |
| | REJECTED | | | |
| | COMMENT: | | | |

Market Research Report on “Islamic Microfinance Products in Yemen”



Issue No: 1

Issue Date: 22-05-2013

Revision:

| | | | | | |
|---|----------|----------|--|-----------|------|
| PROJECT STEERING COMMITTEE | Member 1 | APPROVED | | SIGNATURE | DATE |
| | | REJECTED | | | |
| | | COMMENT: | | | |
| | Member 2 | APPROVED | | SIGNATURE | DATE |
| | | REJECTED | | | |
| | | COMMENT: | | | |



THIS IJARAH (LEASE) AGREEMENT

(The "Agreement") is made at _____ on _____ day of _____ by and

BETWEEN

_____,(hereinafter referred to as the "Lessee" which expression shall where the context so permits mean and include its successors in interest and permitted assigns) of the one part

AND

_____,(hereinafter referred to as the "Lessor" which expression shall where the context so permits mean and include its successors in interest and assigns) of the other part.

IT IS AGREED BY THE PARTIES as follows:

1. PURPOSE AND DEFINITIONS

1.01 This Agreement sets out the terms and conditions upon and subject to which the Lessor has, acting on the Written Request of the Lessee which is attached as Lease Document # ___ of this Agreement, acquired/beneficially acquired the requested assets and have agreed to Lease the same to the Lessee;

1.02 In this Agreement, unless the context otherwise requires:

"Business Day" means a day on which the offices of the MFI are open for normal business in Yemen;

"Due Date(s)" means the respective dates for the payment of the lease rentals as stated in the Appendices or if such respective due date is not a Business Day, the next Business Day;

"Event of Default" means any of the events or circumstances described in Clause 14 hereto;

"Indebtedness" means any obligation of the Lessee for the payment or any sum of money due or, payable under this Agreement;

"Leased Assets" means Assets that are subject to Lease under this Agreement, more particularly described in Lease Document # ___;

"Lessee" means the Client;

"Lessor" means the Institution and is defined in the preamble;

"License" means any license, permission, authorization, registration, consent or approval granted to the Lessee for the purpose of or relating to the conduct of its business;



"Lien" shall mean any mortgage, charge, pledge, hypothecation, security interest, lien, right of set-off, contractual restriction (such as negative covenants) and any other encumbrance;;

"Security Documents" and **"Security"** is defined in Clause 4.01;

"Secured Assets" means all the Lessee's [insert description of assets in respect of which charge/mortgage may be created];

"Specified Location" shall mean _____ or such other location as the Lessor may agree in writing;

"Supplier" means the Supplier from whom the Lessor acquires Title of the Assets for onward lease to the Lessee;

"Taxes" includes all present and future taxes (including central excise duty and sales tax), levies, imposts, duties, stamp duties, penalties, fees or charges of whatever nature together with delayed payment charges thereon and penalties in respect thereof and "Taxation" shall be construed accordingly;

"Title" means such title or other interest in the Assets subject to Lease under this Agreement;

"Total Loss" shall have the same meaning assigned to it in the policy of insurance where under the Leased Assets are insured and shall include such other terms in such policy that have a meaning analogous to the term Total Loss as generally understood;

"Value Date" means the date on which the Lease commences under this Agreement and is given in the Lease Document # ___;

2. LEASE

2.01 The Lessor hereby leases to the Lessee and the Lessee hereby agrees to take on lease from the Lessor, the Leased Assets for the period stated herein upon the terms and conditions herein set forth.

2.02 The Lessee covenants and agrees to pay the amount of Riyal[-----] to the Lessor on execution of this Agreement as a security deposit to be applied in the absolute discretion of the Lessor in respect of any rent in default under this Lease at any time or from time to time. The Lessee shall have no right of set off against such security deposit, but shall be entitled to the return of the said deposit after deduction of any costs, charges or expenses at the end of the term of this Lease.

3. SECURITY

3.01 As security for the payment of the lease rentals as well as any other amount due under this Agreement and use of the Leased Assets as per conditions set out in this Agreement, the Lessee shall:

(a) Furnish to the Lessor a collateral(s), substantially in the form and substance attached hereto as Lease Document #
___ (the "_____");



(b) Execute such further deeds and documents as may from time to time be required by the Lessor for the purpose of more fully securing and or perfecting the security created in favor of the Lessor; and

(c) Create such other securities to secure the Lessee's obligations under the Principal Documents as the parties, hereto, may by mutual consent agree from time to time.

(The above are hereinafter collectively referred to as the "Security").

- 3.02 In addition to above, the Lessee shall execute a demand promissory note in favour of the Lessor for the entire amount of the lease rentals (the "Promissory Note");
(The Security and the Promissory Note are hereinafter collectively referred to as the "Security Documents").

4. FEES AND EXPENSES

The Lessee shall pay to the Lessor on demand within 15 days of such demand being made, legal and other ancillary expenses incurred by the Lessor in connection with the negotiation, preparation and execution of the Principal Documents and of amendment or extension of or the granting of any waiver or consent under the Principal Documents.

5. RENTAL

- 5.01 All payments to be made by the Lessee under this Agreement shall be made in full, without any set-off or counter claim whatsoever, on the due date and when the due date is not a Business Day, the next Business Day and save as provided in Clause 6.02, free and clear of any deductions or withholdings, to an account of the Lessor as may be notified from time to time, and the Lessee will only be released from its payment obligations hereunder by paying sums due into the aforementioned account;
- 5.02 If at any time the Lessee is required to make any non refundable and non-adjustable deduction or withholding in respect of Taxes from any payment due to the Lessor under this Agreement, the sum due from the Lessee in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Lessor receives on the Payment Date, a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made and the Lessee shall indemnify the Lessor against any losses or costs incurred by the Lessor by reason of any failure of the Lessee to make any such deduction or withholding. The Lessee shall promptly deliver to the Lessor original or copies of any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid.

6. DELIVERY

- 6.01 The Leased Assets as set out in the Lease Document # __ attached hereto shall be delivered by the Lessor to the place stated in the Lease Document # __. All costs incurred in connection with delivery of the Leased Assets up to the point of delivery as stated in the Lease Document # __ shall be borne by the Lessor. Further, the Lessee shall notify the Lessor in writing of the place at which such Leased Assets are to be installed,



located, used or operated and thereafter the Lessee shall not remove or shift the Leased Assets to any other place without the prior written consent of the Lessor.

- 6.02 Upon delivery of the Leased Assets to the Lessee, the Lessee shall execute and deliver to the Lessor a receipt or acceptance thereof in the form annexed hereto as Lease Document # __. By such acceptance, the Lessee agrees and covenants that such Leased Assets are in good working order, condition and appearance and in all respects satisfactory to the Lessee and complete in all respects.

7. USE OF LEASED ASSETS

7.01 The Lessee hereby agrees and undertakes that:

a) Lessee shall at all times store, house, use and operate the Leased Assets carefully and strictly in conformity with the instructions and directions of the manufacturers and/or Suppliers thereof (including those relating to the environmental conditions, if any, under which the Leased Assets is to be transported, stored, housed, used or operated), whether such instructions and directions are contained in the operational manuals or are otherwise provided with or before or after the delivery of the Leased Assets by the manufacturer and/or Suppliers thereof:

b) The Leased Assets shall be handled, used and operated by authorized and suitably trained persons and shall not be handled, used or operated by unauthorized or untrained persons;

c) The Lessee shall not do or omit to do any act or thing by which the warranties and performance guarantees given by the Suppliers and/or manufacturers of the Leased Assets would or could become invalidated or unenforceable, whether wholly or in part;

d) Each item of Leased Assets shall be used for the normal and usual purpose of the business of the Lessee for the time being, and, except with the prior permissions of the Lessor, for no other purpose whatsoever;

e) The Lessee shall store, house, install, use and operate the Leased Assets in compliance with all relevant laws, rules, regulations, orders and direction, whether of the Federal or any Provincial government or of any Municipal or Local Authority or of any court, tribunal or other competent authority or officer;

f) The Lessee shall not sell, transfer, assign or otherwise dispose off, loan, give on license, or part with the possession of, or in any way mortgage, hypothecate, pledge, charge or otherwise encumber, the Leased Assets and except with the permission of the Lessor in writing, sublease or let for hire.

g) In the event the Leased Assets have been acquired by the Lessor from the Lessee prior to or simultaneous with the execution of this Lease, the Lessee represents and warrants, as of the date of such acquisition, that (i) the Leased Assets are free and clear of all liens, encumbrances or other charges of whatsoever nature; (ii) the transfer of Lease Assets to the Lessor does not violate any contract to which the Lessee is a party or by which it may be bound and (iii) the Lessee has the necessary corporate power and authority to transfer or sell the Leased Assets to the Lessor.



- 7.02 The Lessee shall not, without the prior written consent of the Lessor, make any alteration, addition, or improvement to the Leased Assets or change the condition thereof; In the event of any component or accessory being affixed or added to the leased asset in the process of alteration or improvement of any kind, such component or accessory shall and be deemed to be the property of the Lessee. Accordingly, the Lessee shall have the right to retrieve by detachment or removal such accessories or components from the Leased Assets, upon termination of lease (or earlier) provided that such detachment or removal shall neither tend to damage the appearance nor impair the working of Leased Assets.

8. INSURANCE, ACCIDENTS, INJURIES AND INDEMNIFICATION

- 8.01 The Lessor shall procure insurance coverage from reputable companies offering protection under the Islamic concept of Takaful. Until the Islamic insurance concept of Takaful is available the Leased Assets shall be comprehensively insured (with a reputable insurance company) against all insurable risks, which shall include, but not limited to fire, theft, accidents, collision, body and engine damage, vandalism, riots and acts of terrorism.
- 8.02 The Lessee, its agents and employees shall comply with all the terms and conditions of the said insurance policy, including the immediate reporting of accidents or damage to the Lessor and the insurance company and shall do all the things necessary or proper to protect or preserve the Leased Assets in accordance with the appropriate clause as mentioned in the Insurance policy. The Lessee shall also provide all assistance to the insurance company and the Lessor for a prompt settlement of any claim and shall take all such actions and steps as may be necessary in that regard;

9. REGISTRATION AND TITLE

- 9.01 The Leased Assets shall, where applicable, be registered in the name of Lessor under the Federal/ Provincial/Municipal laws pertaining to registration of such assets. Title, ownership and right of property in and to the Leased Assets leased hereunder shall at all times remain vested in Lessor and the Lessee covenants and agrees not to do or perform any act prejudicial thereto. Notwithstanding such registration, it is understood and agreed between the parties hereto that Lessor shall not be liable or responsible for the infraction of or noncompliance with any Federal/Provincial/Municipal statute, law, ordinance, rule or regulation whatsoever relating to the operation or use of Leased Assets;

10. RETURN OF LEASED ASSETS

- 10.01 Return of the Leased Assets shall be at the Lessor’s place of business or as specified in Lease Document # _ hereto attached. Any structural alteration, special equipment or material alteration hereinafter required by the Lessee shall be added only with approval of the Lessor and shall, subject to the provisions of Clause 8.02, be removed at the Lessee’s expense prior to the end of the term of the lease hereby granted. The Lessor shall be entitled to label the Leased Assets as having been leased from the Lessor;
- 10.02 The Lessee agrees to return the Leased Assets at the end of the term of the lease hereby granted or any extension thereof or earlier upon termination of the lease, in good



operating condition and working order, free from any physical damage. In general, normal wear and tear proportionate to the usage is to be expected. The Lessee and the Lessor or their respective Agents shall inspect and provide a jointly signed report on the condition of the Leased Assets. However, any condition as a result of neglect or abuse is the sole responsibility of the Lessee;

11. DEFAULT AND TERMINATION

11.01 This lease shall be terminated by the Lessor prior to expiration of its maximum terms in the event of default by the Lessee in either of the following manners;

(a) Any representation or warranty made or deemed to be made or repeated by the Lessee in or pursuant to the Principal Documents or in any document delivered under this Agreement is found to be incorrect;

(b) The lease rentals payable under this Agreement remain outstanding for a period of more than [Insert period];

(c) Any Indebtedness, including lease rentals outstanding under this Agreement, of the Lessee in excess of Riyal_____ (Riyals _____only) is not paid when due or becomes due or capable of being declared due prior to its stated maturity;

(d) In the event of the Lessee making an assignment for the benefit of its creditors;

(e) In the event of the Lessee (A) voluntarily or involuntarily becoming the subject of proceedings under the Bankruptcy or insolvency law, or procedure for the relief of financially distressed debtors. (B) Has been unable or has admitted in writing its inability to pay his debts as they mature to the Lessor or to another party or the financial Lessor, (C) taken or suffered any action for its reorganization, liquidation or dissolution, or (D) had a receiver or liquidator appointed for all or any part of its assets or business

12. FORCE MAJEURE

Any delays in or failure by a Party hereto in the performance hereunder if and to the extent it is caused by the occurrences or circumstances beyond such Party's reasonable control, including but not limited to, acts of God, fire, strikes or other labor disturbances, riots, civil commotion, war (declared or not) sabotage, any other causes, similar to those herein specified which cannot be controlled by such Party. The Party affected by such events shall promptly inform the other Party of the occurrence of such events and shall furnish proof of details of the occurrence and reasons for its non-performance of whole or part of this Agreement. The parties shall consult each other to decide whether to terminate this Agreement or to discharge part of the obligations of the affected Party or extend its obligations on a best effort and on an arm's length basis.

All schedules annexed hereto are and shall form an integral part of this agreement;

IN WITNESS WHEREOF, the Parties to this Agreement have caused this Agreement to be duly executed on the date and year first aforementioned.



For and on behalf of the Lessee

For and on behalf of [insert name of the Lessor]

WITNESSES:

WITNESSES:

1. _____

1. _____

2. _____

2. _____



WRITTEN REQUEST

[Date] _____

To: _____
[Insert name and address of the Lessor]

Dear Sirs,

WRITTEN REQUEST FOR PURCHASE OF ASSETS

(1) We request you to kindly procure the Assets described below to be leased to us under a separate Agreement:

| Sr. No. | Specification of Assets | Amount |
|---------|-------------------------|--------|
| | | |

(2) We further request you to deliver the Assets as follows:-

- (a) Assets:
- (b) Terms of delivery:
- (c) Place of delivery:

(3) We hereby certify that the Lease of the Assets by you to us shall not result in a breach of our organizational documents, any provision of any document to which we are a party or by which we are bound, or any applicable law, rule or regulation, whether directly or indirectly.

Yours faithfully,

For and on behalf of [Insert name of the Lessee]



SCHEDULE

This Schedule shall be attached to and form an integral part of the Lease Agreement Between M/s (Lessor) _____ and (Lessee) _____.

The Lessee authorizes the Lessor to procure the under noted asset(s), to be leased in terms of the Agreement between the parties, and at the rate and for the term herein specified.

| Sr. No. | Specification of Assets | Amount | Term of Lease |
|---------|-------------------------|--------|---------------|
| | | | |

The Lessor shall maintain comprehensive insurance during entire period of lease.



RECEIPT OF LEASED ASSETS

AGREEMENT NO[-----] DATED [-----]

Description of the Assets: -----

The Assets described above are received complete in all respect and in perfect working order and condition.

Delivery dated _____

1. Signature _____

Full Name _____

S/o.D/o.W/o. _____

Res.Address _____

NIC No. _____

Designation _____

Stamp _____

SIGNED for and on behalf of the Lessor by:

Dated: _____



UNDERTAKING

[Name & Address of the Lessor]

Dear Sirs

In consideration of your entering into the Lease Agreement dated (Lease Agreement), we hereby agree and undertake that if you desire to terminate this Lease on account of any of the grounds mentioned in the Lease Agreement during the currency of the Lease, we shall be obliged to purchase the Leased Assets at the Purchase Price mentioned below against the date immediately preceding the date of termination of the Lease (Purchase Date). In any such event, all our rights under the Lease Agreement and in the Leased Assets covered by this Lease Agreement shall forthwith terminate and, if we fail to pay the Purchase Price on or before the date specified by you, you shall have the right to take immediate possession of the Leased Assets and we shall immediately deliver to you the Leased Assets together with the registration certificate, permit or other documents pertaining thereto;

Purchase Date

Purchase Price

Yours faithfully,



DEMAND PROMISSORY NOTE

Rial. _____

On demand we, The Client promise to pay MFI, or order the sum Of Rial. _____/-
(_____ Only) for value consideration
received.

Dated: ____ Day Of _____ ,

The Client
NIC No.

Witnesses:

1.

Name

Address

2.

Name

Address



Appendix I: Credit Evaluation



| | | | |
|----------------------|--|----------------------|--|
| Cycle | MICROFINANCE | SOP Reference | 1 |
| Function | CREDIT EVALUATION PROCESS | Version | 1 |
| Sub-Function | | Date of Issue | |
| Process Owner | CREDIT ADMINISTRATION AND RISK MANAGEMENT ⁴ | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

Introduction to the project

- 1.1 This project is intended to provide, in reasonable detail, about the proposed Islamic financial products to be offered by the **pilot project**. The manual we present here is divided into two parts. In part 1, Salam and Murabaha will be discussed in detail. In the second part, Ijarah will be discussed in detail. The said products are, so chosen keeping in mind the financing needs requirement of the people of target area. Initially the pilot project will offer Murabaha and Salam and for emergency needs only, Ijarah may be provided.
- 1.2 The objective for the establishment of the pilot project is to cater to the financial needs of the deprived and poor people of the target area, while adhering to Shariah rules and principles. The business model focuses on the reasonably priced financial products which not only caters to the needs of the people, but also ensures sustainability of the pilot project in the long run.
- 1.3 A pilot project will be launched, to provide Shariah compliant financial products to the under-privileged people in Yemen, by **Yemen Microfinance Network (YMN)** in coordination with the donor agencies.
- 1.4 The marketing strategy for the project need to be designed as such, so as the people of Yemen have easy access to the services offered simultaneously, increasing the awareness about the Islamic microfinance, in general and about the pilot project in particular.
- 1.5 The project will initially offer three Islamic financial products i.e.
 - a) Murabaha;
 - b) Salam; and
 - c) Ijarah (emergency needs only).
- 1.6 The aforementioned products will be introduced, initially, to provide micro-credit facilities for various short-term and medium-term businesses and domestic needs.
- 1.7 At the later stage, other Islamic financial products can be offered after considering the success factors of the initial products.



Examples of the financial products and services

1.8 Following are examples of the financial products and services planned to be offered initially by the pilot project:

| Product / business activity | Average financing amount (USD) | Back-end Islamic financial product(s) | Target gender |
|--|---------------------------------------|--|----------------------|
| For small scale farming / agricultural products | XXX | Salam / Murabaha | Male |
| For cattle / dairy farming, poultry farming or fish farming – small scale / domestic | XXX | Salam / Murabaha | Male / Female |
| For small businesses e.g. supply of retail items or shop of fruit and vegetables | XXX | Murabaha | Male |
| For small shops | XXX | Murabaha/Ijarah | Male |
| For purchase of inventory for small business | XXX | Murabaha | Male / Female |
| For the small business like garments / dress designing, embroidery, handicraft | XXX | Murabaha/Ijarah | Male / Female |
| For purchase and sale of vegetables / fruit on daily basis | XXX | Murabaha | Male |
| For the small business of pot making | XXX | Salam / Murabaha | Male |
| For recycling of scrap | XXX | Murabaha | Male |
| For installation of hand / motor pumps / small tube wells | XXX | Murabaha/Ijarah | Male |

1.9 The above list may vary according to the need analysis and product suitability surveys in respect of specific project or area where the pilot project plans to offer services.

1.10 Practically, these products are offered as credits with majority being unsecured except any social guarantee.

1.11 The process flow of these transactions may vary according to circumstances. Thus, for better Shariah compliance and to ensure genuine economic activity which is beneficial to customer, as well as, society, a third party like a middleman, the pilot project's own employees or even



the group members be appointed as agent rather than the same customer.

Proposed modes of finance

- 1.12 Detail about the products i.e. basic concept, essential features, process flow, procedures, accounting treatment and the documentation is covered in this product manual.
- 1.13 The per person financing limit chosen are proposed to be in the range of USD XXX to USD XXX.
- 1.14 Process flows for different transactions may be different in various situations e.g. a Murabaha for agricultural business or a small shop may be undertaken under different process flows.

Project’s other aspects

- 1.1 The pilot project will serve as a major factor in expanding the outreach of microfinance throughout Yemen.
- 1.2 It will provide opportunity to local population to work as volunteers and employees for the pilot project hence, improving their living standard.
- 1.3 Pilot project will help in enhancing the awareness about microfinance services in general, and Islamic financial products, in particular.
- 1.4 Collaboration may be formed with the vocational training centers in Yemen to provide training to the micro-credit customers.



| | | | |
|----------------------|--|----------------------|--|
| Cycle | MICROFINANCE | SOP Reference | 2 |
| Function | CREDIT EVALUATION PROCESS | Version | 1 |
| Sub-Function | | Date of Issue | |
| Process Owner | CREDIT ADMINISTRATION AND RISK MANAGEMENT ⁵ | Written By | AlHuda Centre of Islamic Banking & Economics(CIBE) |
| | | Approved By | Qazi Abdul Samad |

FUNCTION DESCRIPTION AND POLICY

Before proceeding / entering in to the transaction, customer’s credit evaluation and approval should be adequately performed. It will be necessary for the **Micro Finance Institution** to undertake the credit evaluation process when evaluating a request for credit.

The objective of credit evaluation is to:

- (a) Ensure compliance with the **Micro Finance Institution’s** policy;
- (b) Check the goodwill of the customer;
- (c) Ensure availability of suitable guarantee (as per the policy of the **Micro Finance Institution’s**); and
- (d) Ensure that the level of risk is acceptable for the **Micro Finance Institution**.

Micro Finance Institution is at liberty to decline to enter into a Salam agreement with any applicant considered to be unsuitable as a customer without giving any reason.

The Islamic Financial Service Officer (IFSO) and Islamic Financial Service Manager (IFSM) will approach the prospective customers and people, who, they know, require financing or have the capability to expand their business / skills if provided appropriate opportunity. Such customer will subsequently make a request to enter into a Salam agreement. After receiving the customer’s request, a credit evaluation process will be performed.

Stated below is the procedure describing in detail the manner in which the credit evaluation process is to be performed; explaining the fields and the required input of the Comprehensive Financial Services Form (CFSF).

Monitoring and Compliance Officer (M&CO) will be responsible to manage the credit limits, acceptable levels of risk and terms of payment. The management of **Micro Finance Institution** will be responsible for driving and implementing the lending strategy of the pilot project whilst considering industry analysis to maintain a secured credit portfolio. M&CO will report the Area Manager (AM).



| Sr. No. | Process Description | Responsibility / Authority |
|----------------|--|-----------------------------------|
| 1. | Islamic Finance Service Officer (IFSO) will visit the local community including nearby villages making them aware of the financing facility available under the Islamic modes. | IFSO |
| 2. | IFSO may also visit people about whom the IFSO and Islamic Finance Service Manager (IFSM) are aware that they need financing or people who can improve their businesses / skills if provided appropriate fund and training. | IFSO |
| 3. | However, there can be walk in customers as well, who visit the Company's office themselves and request for financing. | CSO |
| 4. | The Customer Services Officer (CSO) will welcome the client and fill the initial sections of CFSF. The initial section comprises of the following: a) Referencing and Tracking; b) Customer relationship information; c) Enterprise information and financial position; d) Financial services requested; and e) Undertaking by the client. | CSO |
| 5. | After completion the above mentioned section, CSO will sign-off CFSF. The CSO will then forward / submit it to Monitoring and Compliance Officer (M&CO) for further process. | CSO and M&CO |
| 6. | M&CO will review the client history. If the client is new M&CO will forward CFSF to IFSO of the relevant area. If the client has a history with the consolidated MFIs, then M&CO will review all business history. Based on the history M&CO assessed the client financing requirement and recommends the eligible financing. If the client qualifies for further process then M&CO will forward CFSF to IFSO of the relevant area. | M&CO |
| 7. | IFSO will then perform the eligibility criteria of the client by fulfillment of appraisal checklist. If the customer qualify the eligibility criteria, FSO recommend the approval for financing and Financial Services Manager (FSM) verified the recommendation. IFSO will mentioned the approved financing limit and he can reduce the limit as recommended by M&CO. IFSO and IFSM then forward the CFSF to M&CO for further process | IFSM |

| | | |
|-----|---|--------------|
| 8. | M&CO will perform the compliance review of the client CFSF and communicate the Internal Audit Officer of Area Officer (IAO) that the CFSF is ready for the disbursement. IAO will inform M&CO regarding the selection of CFSF for internal audit review or not. If the file select for internal audit review the IAO will document result as satisfactory or unsatisfactory along with the observation on the file in a separate report. The IAO will forward the CFSF to M&CO for further process. | M&CO and IAO |
| 9. | M&CO will arrange meeting of client with the Area Manager (AM) for the finalization of CFSF and disbursement. M&CO will inform both AM and client regarding the meeting and forward CFSF to AM. | M&CO |
| 10. | AM will review CFSF with focus towards the appraisal notes, if any, along with the IAO's separate report. AM will also meet client and will verify identification and his financial services need. AM will explain in detail financing terms and conditions noted in the financing contract. | AM |
| 11. | The client and Company will execute the financing agreements. AM on behalf of Company will sign the financing agreements. | AM |
| 12. | AM will then forward the CFSF file to M&CO. M&CO will acknowledge it and review CFSF file again and put it into the records. M&CO will authorize IFSM and IFSO for disbursement process according to the financing requirement of the client and approved process flow. | AM and M&CO |



ELIGIBILITY CRITERIA

c)

4.1.1. The eligibility criteria for Salam financing are as follows:

| Sr. No. | Eligibility criteria |
|---------|--|
| 01 | Client is not Micro Finance Institution employee |
| 02 | Client agrees to approved amount if reduced |
| 03 | Client has no outstanding amount due |
| 04 | Client has own/relative Tazkara |
| 05 | Financing request is for own enterprise only |
| 06 | Age is within 18-60 years and is healthy |
| 07 | If group, group has 3-6 clients |
| 09 | If group, 33% group members are above 30 |
| 10 | If group, members will guarantee each other |
| 11 | Disclosed relation with Micro Finance Institution staff |
| 12 | Client enterprise is not in exclusion list |
| 14 | Client residence and enterprise verified |
| 15 | Residence check (electricity/cleaning bill) |
| 16 | 1 Guarantor having fixed enterprise premises |
| 17 | Enterprise/Guarantor is capable to repay |
| 18 | Guarantor has Tazkara |
| 19 | Guarantor residence and enterprise verified |
| 20 | Guarantor is not client's relative or Micro Finance Institution staff |



Appendix II: Salam Agreement



Salam Agreement

THIS SALAM AGREEMENT

(the "Agreement") is made at _____ on _____ day of _____ by and

BETWEEN

_____, (hereinafter referred to as the "**Supplier**") which expression shall where the context so permits mean and include its successors in interest and permitted assigns) of the one part

AND

_____, (hereinafter referred to as the "**Institution**") which expression shall where the context so permits mean and include its successors in interest and assigns) of the other part.

IT IS AGREED BY THE PARTIES as follows:

1. PURPOSE AND DEFINITIONS

1.02 This Agreement sets out the terms and conditions upon and subject to which the Institution has agreed to purchase the Goods from the Supplier:

1.03 In this Agreement, unless the context otherwise requires:

"Business Day" means a day on which banks are open for normal business in Pakistan;

"Contract Price" means Riyal _____, paid by the Institution to the Supplier or such other sum as may mutually be agreed in writing between the parties hereto as the price of the Goods purchased in accordance with the terms of this Agreement;

"Event of Default" means any of the events or circumstances described in Clause 09 hereto;

"Goods" means the Goods described in Salam Document # __;

"Goods Receiving Note" means confirmation of receipt of Goods as set out in Salam Document # ;

"Indebtedness" means any obligation of the Supplier for delivery of the Goods or for payment of any sum of money due or, payable under this Agreement;

"License" means any license, permission, authorization, registration, consent or approval granted to the Supplier for the purpose of or relating to the conduct of its business;

"Lien" shall mean any mortgage, charge, pledge, hypothecation, security interest, lien, right of set-off, contractual restriction (such as negative covenants) and any other encumbrance;

"Parties" means parties to this Agreement;



"Notice of Delivery" means the Notice of Delivery given by the Supplier to the Institution as set out in Salam Document # __

"Security Documents"
and **"Security"** is defined in Clause 3.01;

"Taxes" includes all present and future taxes (including central excise duty and sales tax), levies, imposts, duties, stamp duties, penalties, fees or charges of whatever nature together with delayed payment charges thereon and penalties in respect thereof and **"Taxation"** shall be construed accordingly;

"Written Offer" means the Offer made by the Supplier to the Institution as per Salam Document # __.

1.04 Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement. In this Agreement, unless the context otherwise requires, references to Clauses and Appendices are to be construed as references to the clauses of, and Appendices to, this Agreement and references to this Agreement include its appendices; words importing the plural shall include the singular and vice versa and reference to a person shall be construed as including references to an individual, firm, institution, corporation, unincorporated body of persons or any state or any agency thereof.

1.05 The recitals herein above and Appendices to this Agreement shall form an integral part of this Agreement.

2. SUPPLY OF THE GOODS PURCHASED

2.01 The Supplier has agreed to supply the Goods to the Institution pursuant to the Written Offer for the Contract Price. Upon receipt by the Institution of the Supplier's Notice of Delivery, which shall be date] or such other date as may be mutually agreed between the parties hereto, hereinafter referred to as Delivery Date, advising the Institution to take delivery of the Goods, the Institution shall receive or cause to receive the Goods at the designated point of delivery.;

2.02 The Goods shall remain at the risk of the Supplier until they are delivered to the point of delivery and have been inspected and accepted by the Institution, immediately after which, all risks in respect of the Goods shall be passed on to the Institution;

3. SECURITY

3.01 As security for the performance of this Agreement by the Supplier under this Agreement, the Supplier shall furnish to the Institution collateral(s), substantially as per YMN policy.

3.02 In addition to above, the Supplier shall execute a demand promissory note in favor of the Institution for the amount of the Contract Price (the "Promissory Note"); (The Security and the Promissory Note are hereinafter collectively referred to as the "Security Documents").

4. FEES AND EXPENSES

It is understood that each party shall bear the fees and expenses incurred from its own account in connection with the negotiation, preparation and execution of the Principal Documents and of amendment or extension of or the granting of any waiver or consent under the Principal



Documents.

5. PAYMENT OF CONTRACT PRICE

Payment to the Supplier under this Agreement has been made of such withholding taxes that the institutions are required to deduct under various laws in force. The Institution shall promptly deliver to the Supplier copies or originals of any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid.

6. REPRESENTATIONS AND WARRANTIES

6.01 The Supplier warrants and represents to the Institution that:

a. The execution, delivery and performance of the Principal Documents by the Supplier will not (i) contravene any existing law, regulation or authorization, which the supplier is subject to, (ii) result in any breach of or default under any agreement or other instrument to which the Supplier is a party or is subject to, or (iii) contravene any provision of the constitutive documents of the Supplier or any resolution adopted by the board of directors or members of the Supplier;

b. The financial statements together with the notes to the accounts and all contingent liabilities and assets that are disclosed therein represent a true and fair financial position of the business of the Supplier and to the best of the knowledge of the Supplier there are no material omissions and or misrepresentations.

c. All requisite corporate and regulatory approvals required to be obtained by the Supplier in order to enter into the Principal Documents are in full force and effect and such approvals permit the Supplier, inter alia, to obtain the entire sales price in advance under this Agreement and perform its obligations hereunder and that the execution of the Principal Documents by the Supplier and the exercise of its rights and performance of its obligations hereunder, constitute private and commercial acts done for private and commercial purposes;

d. No material litigation, arbitration or administrative proceedings is pending or threatened against the Supplier or any of its assets;

e. It shall inform the Institution within ----- Business Days of an event or happening which may have an adverse effect on the financial position of the Supplier, whether such an event is recorded in the financial statements or not as per applicable International Accounting Standards, as applicable in Pakistan.

7. UNDERTAKING

7.01 The Supplier covenants and undertakes that so long as it remains obliged under this Agreement:

a. It shall inform the Institution of any Event of Default or any event, which with the giving of notice or lapse of time or both would constitute an Event of Default forthwith upon becoming aware thereof;

b. It shall do all such things and execute all such documents which in the opinion of the Institution may be necessary to;

(i) enable the Institution to assign or otherwise transfer the right of the Institution to enable any creditor of the Institution or to any third party to receive the delivery of the Goods as the Institution may deem fit at its entire discretion;



8. EVENTS OF DEFAULT AND TERMINATION

8.1 There shall be an Event of Default if in the opinion of the Institution:

(a) The Supplier fails to deliver the Goods contracted to be delivered under this Agreement on the Delivery Date at [insert Place of Delivery];

(b) Any representation or warranty made or deemed to be made or repeated by the Supplier in or pursuant to the principal Documents or in any document delivered under this Agreement is found to be incorrect;

(c) Any Indebtedness of the Supplier in excess of YER. _____ (Riyal _____ only) is not paid when due or becomes due or capable of being declared due in terms of this Agreement;

(f) Any costs, charges and expenses under the Principal Documents shall remain unpaid for a period of _____ days after notice of demand in that behalf has been received by the Supplier from the Institution;

8.02 Notwithstanding anything contained herein, the Institution may without prejudice to any of its other rights, at any time after the happening of an Event of Default by notice to the Supplier declare that:::

(a) The obligation of the Institution to take delivery of the Goods from the Supplier shall be terminated, forthwith; and/or

(b) The entire outstanding amount of the Contract Price and any other amounts paid to the Supplier under this Agreement along with all other costs, charges, and expenses incurred or actual loss sustained by the Institution shall forthwith become due and refundable.

9. PENALTY

9.01 Where any amount is required to be paid by the Supplier under the Principal Documents on a specified date and is not paid by that date, or an extension thereof, permitted by the Institution without any decrease in the Contract Price, the Supplier hereby undertakes to pay directly to the Charity Fund, constituted by the Institution, a sum calculated @ -----% per annum for the entire period of default, calculated on the total amount of the obligations remaining un-discharged. The Charity Fund shall be used at the absolute discretion of the Institution, exclusively for the purposes of approved charity.

10. SET-OFF

The Supplier authorizes the Institution to apply any credit balance to which the Supplier is entitled or any amount which is payable by the Institution to the Supplier at any time in or towards partial or total satisfaction of any sum which may be due from or payable by the Supplier to the Institution under this Agreement including the Contract Price upon occurrence of any event of the Supplier failing to meet the delivery.

11. FORCE MAJEURE

Any delays in or failure by a Party hereto in the performance hereunder if and to the extent it is caused by the occurrences or circumstances beyond such Party's reasonable control, including but

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“Islamic Microfinance Products in Yemen”**



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not limited to, acts of God, fire, strikes or other labor disturbances, riots, civil commotion, war (declared or not) sabotage, any other causes, similar to those herein specified which cannot be controlled by such Party. The Party affected by such events shall promptly inform the other Party of the occurrence of such events and shall furnish proof of details of the occurrence and reasons for its non-performance of whole or part of this Agreement. The parties shall consult each other to decide whether to terminate this Agreement or to discharge part of the obligations of the affected Party or extend its obligations on a best efforts and an on arm’s length basis.

IN WITNESS WHEREOF, the Parties to this Agreement have caused this Agreement to be duly executed on the date and year first aforementioned.

| | |
|-------------------|---|
| WITNESSES: | For and on behalf of [insert name of the Institution] |
| 1. _____ | _____ |
| 2. _____ | _____ |
| | For and on behalf of |
| 1. _____ | _____ |
| 2. _____ | _____ |



Appendix III: Murabaha Facility Agreement



MURABAHA FACILITY AGREEMENT

(This "Agreement") is made at ___ on ___ day of ___ by and

BETWEEN

_____, (hereinafter referred to as the "Client" which expression shall where the context so permits mean and include its successors in interest and permitted assigns) of the one part

AND

_____, (hereinafter referred to as the "Institution" which expression shall where the context so permits mean and include its successors in interest and assigns) of the other part.

IT IS AGREED BY THE PARTIES as follows:

1. PURPOSE AND DEFINITIONS

1.01 This Agreement sets out the terms and conditions upon and subject to which the Institution has agreed to purchase the Goods from time to time from the Suppliers and upon which the Institution has agreed to sell the same to the Client from time to time by way of Murabaha facility.

1.02 In this Agreement, unless the context otherwise requires:

"Agent" means the person appointed under the terms of the Agency Agreement;

"Agency Agreement" means the Agency Agreement between the Institution and the Client as provided in the Murabaha Document # 2;

"Business Day" means a day on which banks are open for normal business in Yemen;

"Cost Price" means the amount which may be incurred by and/or on behalf of the Institution for the acquisition of Goods plus all costs, duties, taxes and charges incidental to and connected with acquisition of Goods;

"Contract Price" means aggregate of Cost Price and a Profit of ___ per cent.

"Declaration" means Declaration as set out in Murabaha Document # 5;

"Event of Default" means any of the events or circumstances described in Clause 9 hereto;

"Indebtedness" means any obligation of the Client for the payment or any sum of money due or, payable under this Agreement;

"Lien" shall mean any mortgage, charge, pledge, hypothecation, security interest, lien, right of set-off, contractual restriction (such as negative covenants) and any other encumbrance;

"Payment Date" or **"Payment Dates"** means the respective dates for the payment of the installments of the Contract Price or part thereof by the Client to the Institution.

"Profit" means any part of the Contract Price which is not a part of the Cost Price;

"Parties" mean the parties to this Agreement;



"Principal Documents" means this Agreement, the Agency Agreement; and the Security Documents;

"Promissory Note" is defined in Clause 3.02 and is negotiable only at the face value, if required;

"Receipt" means a confirmation by the Client (as Agent of the Institution) of receipt of funds by the Supplier for the supply of Goods.

"Supplier" means the supplier from whom the Institution acquires Title to the Goods;

"Title" means such title or other interest in the Goods as the Institution receives from the Supplier;

"Taxes" includes all present and future taxes (including central excise duty and sales tax), levies, imposts, duties, stamp duties, penalties, fees or charges of whatever nature together with delayed payment charges thereon and penalties in respect thereof and **"Taxation"** shall be construed accordingly;

1.01 Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement. In this Agreement, unless the context otherwise requires, references to Clauses and Murabaha Documents are to be construed as references to the clauses of, and Murabaha Documents to, this Agreement and references to this Agreement include its Murabaha Documents; words importing the plural shall include the singular and vice versa and reference to a person shall be construed as including references to an individual, firm, Institution, corporation, unincorporated body of persons or any state or any Agency thereof.

1.02 The recitals herein above and Murabaha Documents to this Agreement shall form an integral part of this Agreement.

2. SALE AND PURCHASE OF THE GOODS

2.01 The Institution agrees to sell the Goods to the Client to a maximum amount of Riyal_____ and the Client agrees to purchase the Goods from the Institution from time to time at the Contract Price. Upon receipt by the Institution of the Client's Purchase Requisition advising the Institution to purchase the Goods and making payment therefore, the Institution shall acquire the Goods either directly or through the Agent. The payment for such goods shall be made by the institution directly to the Supplier on submission of Purchase Advice by the client/agent. The said Receipt shall be substantially in a form given in Murabaha Document # 4. (For making payment to the Supplier the bank should prepare a Pay Order/Cross cheque, etc in the name of Supplier that should be handed over to him through client/agent. The supplier should issue invoice in the name of Bank Account Client e.g. '1st Islamic Bank – ABC Company'. This way, the problem of claiming Sales or other Taxes Refund could be solved easily).

2.02 Upon receipt of purchase of Goods by the Institution, directly or through an Agent, from the Supplier, the Goods shall be at the risk and cost of the Institution until such time that these Goods are sold to the Client, to be evidenced by the acceptance, duly signed and endorsed by the Institution in Part-III of the Declaration.

2.03 After the purchase of Goods by the Institution, the Client shall offer to purchase the Goods from the Institution at the Contract Price in the manner provided in the Part-II of the Declaration.

2.04 The Client's purchase of Goods from the Institution shall be effected by the exchange of an offer and acceptance between the Client and the Institution as stipulated in the Declaration.

3. SECURITY

3.01 As security for the indebtedness of the Client under this Agreement, the Client shall furnish to the Institution collateral(s)/security(ies), as per YMN policy.



(The above are hereinafter collectively referred to as the "**Security**").

3.02 In addition to above, the Client shall execute a demand promissory note in favour of the Institution for the amount of the Contract Price (the "Promissory Note");

(The **Security** and the Promissory Note are hereinafter collectively referred to as the "**Security Documents**").

4. PAYMENT OF CONTRACT PRICE

4.01 All payments to be made by the Client under this Agreement shall be made in full, without any set-off, roll over or counterclaim whatsoever, on the due date and when the due date is not a Business Day, the following Business Day and save as provided in Clause 5.02, free and clear of any deductions or withholdings, to a current account of the Institution as may be notified from time to time, and the Client will only be released from its payment obligations hereunder by paying sums due into the aforementioned account.

5. UNDERTAKING

The Client covenants to and undertakes with the Institution that so long as the Client is indebted to the Institution in terms of this Agreement:

(a) It shall inform the Institution of any Event of Default or any event, which with the giving of notice or lapse of time or both would constitute an Event of Default forthwith upon becoming aware thereof;

(b) It shall provide to the Institution, upon written request, copies of all contracts, agreements and documentation relating to the purchase of the Goods;

(c) The Client shall do all such things and execute all such documents which in the judgment of the Institution may be necessary to; (i) enable the Institution to assign or otherwise transfer the liability of the Client in respect of the Contract Price to any creditor of the Institution or to any third party as the Institution may deem fit at its absolute discretion; (ii) create and perfect the Security; (iii) maintain the Security in full force and effect at all times including the priority thereof; (iv) maintain, insure and pay all Taxes assessed in respect of the Secured Assets and protect and enforce its rights and title, and the rights of the Institution in respect of the Secured Assets, and; (v) preserve and protect the Secured Assets. The Client shall at its own expense cause to be delivered to the Institution such other documentation and legal opinion(s) as the Institution may reasonably require from time to time in respect of the foregoing;

(d) It will satisfactorily insure all its insurable assets with reputable companies offering protection under the Islamic concept of Takaful. The Secured Assets shall be comprehensively insured (with a reputable insurance company to the satisfaction of the Institution) against all insurable risks, which may include fire, arson, theft, accidents, collision, body and engine damage, vandalism, riots and acts of terrorism, and to assign all policies of insurance in favour of the Institution to the extent of the amount from time to time due under this Agreement, and to cause the notice of the interest of the Institution to be noted on the policies of insurance, and to punctually pay the premium due for such insurances and to contemporaneously therewith deliver the premium receipts to the Institution. Should the Client fail to insure or keep insured the Secured Assets and/or to deliver such policies and premium receipts to the Institution, then it shall be lawful for the Institution, but not obligatory, to pay such premia and to keep the Secured Assets so insured and all cost charges and expenses incurred by it for the purpose shall be charged to and paid by the Client as if the same were part of the Indebtedness. The Client expressly agrees that the Institution shall be entitled to adjust, settle or compromise any dispute with the insurance company(ies) and the insurance arising under or in connection with the policies of insurance and such adjustments/compromises or settlements shall be binding on the Client and the Institution shall be entitled to appropriate and adjust the amount, if any received, under the aforesaid policy or policies



towards part or full satisfaction of the Client's indebtedness arising out of the above arrangements and the Client shall not raise any question or objection that larger sums might or should have been received under the aforesaid policy nor the Client shall dispute its liability(ies) for the balance remaining due after such payment/adjustment;

(e) Except as required in the normal operation of its business, the Client shall not, without the written consent of the Institution, sell, transfer, lease or otherwise dispose of all or a sizeable part of its assets, or undertake or permit any merger, consolidation, dismantling or re organization which would materially affect the Client's ability to perform its obligations under any of the Principal Documents;

(f) The Client shall not (and shall not agree to), except with the written consent of the Institution, create, incur, assume or suffer to exist any Lien whatsoever upon or with respect to the Secured Assets and any other assets and properties owned by the Client which may rank superior, pari passu or inferior to the security created or to be created in favour of the Institution pursuant to the Principal Documents;

6. EVENTS OF DEFAULT

6.01 There shall be an Event of Default if in the opinion of the Institution

(a) Any representation or warranty made or deemed to be made or repeated by the Client in or pursuant to the Principal Documents or in any document delivered under this Agreement is found to be incorrect;

(b) Any Indebtedness of the Client to the Institution in excess of Riyal _____ (Riyal _____ only) is not paid when due or becomes due or capable of being declared due prior to its stated maturity;

6.02 Notwithstanding anything contained herein, the Institution may without prejudice to any of its other rights, at any time after the happening of an Event of Default by notice to the Client declare that entire amount by which the Client is indebted to the Institution shall forthwith become due and payable.

7. PENALTY

7.1. Where any amount is required to be paid by the Client under the Principal Documents on a specified date and is not paid by that date, or an extension thereof, permitted by the Institution without any increase in the Contract Price, the Client hereby undertakes to pay directly to the Charity Fund, constituted by the Institution, a sum calculated @ -----% per annum for the entire period of default, calculated on the total amount of the obligations remaining un-discharged. The Charity Fund shall be used at the absolute discretion of the Institution, exclusively for the purposes of approved charity.

8. SET-OFF

The Client authorizes the Institution to apply any credit balance to which the Client is entitled or any amount which is payable by the Institution to the Client at any time in or towards partial or total satisfaction of any sum which may be due or payable from the Client to the Institution under this Agreement.

9. FORCE MAJEURE

Any delays in or failure by a Party hereto in the performance hereunder if and to the extent it is caused by the occurrences or circumstances beyond such Party's reasonable control, including but not limited to, acts of God, fire, strikes or other labor disturbances, riots, civil commotion, war (declared or not) sabotage, any other causes, similar to those herein specified which cannot be controlled by such Party. The Party affected by such events shall promptly inform the other Party of the occurrence of such events and shall furnish proof of details of the occurrence and reasons for its non-performance of whole or part of this Agreement. The parties shall consult each other to decide whether to terminate this Agreement or to discharge part of the obligations of the affected Party or extend its obligations on a best effort and on an arm's length basis.



IN WITNESS WHEREOF, the Parties to this Agreement have caused this Agreement to be duly executed on the date and year first aforementioned.

| WITNESSES: | For and on behalf of [insert name of the Institution] |
|-------------------|---|
| 1. _____ | _____ |
| 2. _____ | _____ |
| | For and on behalf of |
| 1. _____ | _____ |
| 2. _____ | _____ |