

ECONOMIC UPLIFTMENT A STRATEGIC HANDBOOK

**By
Relief & Economic Development of the Secretariat**

A guide to implementing the community's economic upliftment policies by using micro credit



**THE
WORLD
FEDERATION**
OF KHOJA SHIA ITHNA-ASHERI MUSLIM COMMUNITIES

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Vision Statement:

'The World Federation exists to achieve the pleasure of Allah SWT by developing spiritual and vibrant communities serving humanity.'

Mission Statement:

'The World Federation enables its member institutions to promote the values and practices of the Islamic Shia Ithna Asheri Faith for the spiritual and material well being of humanity at large.'

'We Exist to Serve'

BACKGROUND

This Paper has been created by the Secretariat to create a handbook which is of real practical use to Regional Members and agencies when devising economic upliftment schemes.

This document explains the concept of microfinance as a technique which can bring about economic upliftment in the medium and long term and contains criteria to select applicants key documentation in the process as well as information on how to measure success.

This handbook in addition, consolidates the different processes used by our community institutions at present and suggests recommendations for courses of action in the future.

The object of our economic upliftment policies is to provide a capital investment in order to create an income for the deserving. In addition, emphasis must be placed to that individual or family to save. This will allow for them to have capital should they need it in the future, and as such reduce their reliance on community institutions.

In terms of definitions, micro means small.

Microcredit means small scale loans in order to create small scale enterprises.

It is important to note that the scope of this paper is not microfinance but merely micro credit – advancing zero percent loans with the aim of uplifting the individual.

The theory behind provision of such loans and giving the deserving accessibility to save is the idea that financial services are often one of the key reasons behind the lack of economic upliftment for those on low incomes. This can often translate into the idea that the most poor, although able to work on small scale self employment, often cannot do so due to the lack of capital¹. In addition, provision of small loans with low (or no) interest often allows the deserving to purchase the capital they need to begin earning e.g. purchase of Rickshaw, small scale production line or animals for farming. At present ¾ of all microfinance loans are given by NGOs and charitable institutions as a method of supporting individuals out of poverty.²

Studies show that the provision of small scale loans have a great deal of benefits to those on low incomes. A study by a World Bank study revealed: *'Microcredit programmes have produced a greater impact on extreme poverty than at moderate income levels.'*³

In addition, it is important to emphasise that microfinance institutions have concluded that the provision of financial capital should be coupled with relevant training and skills in order to build human capital. Both of these together will lead to sustained levels of economic upliftment.

¹ Muhammed Yunus, Chairman of Grameen Bank (a Microfinance Bank) and a winner of the Noble Peace Prize due to success in upliftment claimed: *'Microfinance works. Our impact assessments show a provision of capital will allow for increased income, better housing, lower child mortality, better healthcare, better access to education and empowerment of women.'*

² Figures from Grameen Bank.

³ World Bank Study by Shahid Khondkar (2003)

Financial Assistance Type	Results	Impact on Poverty
Micro credit from NGOs	Enable the individual to take advantage where the individual does not have the capital outlay, but where income is available after investment. Allows an individual to borrow who would not be able to afford the high costs from banks Allows an individual to borrow who would not be able to borrow from banks	Higher income Increase household consumption Reduction in social exclusion Better education for children Severity of poverty is reduced

PROCESS OVERVIEW

The key fundamental behind this type of economic upliftment scheme is that it will have the provision of zero percent loans.

Advantages of 0% loans	Disadvantages of 0% loans
- Provision of a loan as opposed to a handout from welfare will encourage both the lender and borrower to think through and create a commercially feasible business plan. This will mean the use of the money will be viable and thus the deserving individual will be more likely to have an avenue for long term revenue in order to economically uplift him / her. - A loan would encourage the individual borrower to pay back the loan in the future and as such to use the capital investment appropriately. - A provision of a loan will allow for funds to be recycled, so that funds recouped from one individual could be used to fund another. This can create a long term sustainable fund for economic upliftment from which multiple families and individuals can benefit.	- These will need to be administered with the offices of Regional Members and agencies creating timeframes for repayments and reminding borrowers in case of late payments. In order to provide such economic upliftment programmes there will need to be a clear long term commitment from Regional Members and agencies. - If zero percent loans are used, 100% sustainability will not be possible due to inflation. Therefore if funds are recouped at zero percent, the value of funds received would be less than that given because of inflation. This will mean that funds may be needed to prop up certain economic upliftment schemes. However, as this work is charitable i.e. to bring families out of poverty it is a better alternative to providing solely welfare funds. - Collateral could be taken on larger scale loans although this would create administrative issues, which are best avoided if possible.

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|---|--|
| <ul style="list-style-type: none">▪ The zero percent nature of the loan will mean there will not be any conflicts with Islamic Sharia. | |
|---|--|

The handbook is based on the below process, with details on each section.

An application is made for a zero percent loan



The application is assessed and a thorough business plan created



Once the business plan is agreed the application must be accepted by the Regional Member of agency

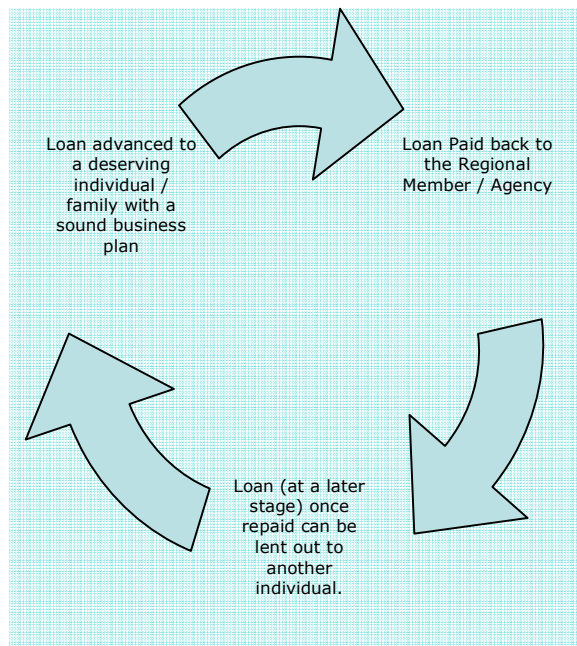


A repayment schedule is agreed between the Regional Member / agency and the individual



Repayments are made, Training Organised if needed and an Impact Assessment is carried out at regular intervals.

Simplified Process Chart



STEP 1: HOW TO ASSESS APPLICANTS

An initial assessment of applicants should take place by using an application form – a sample of which is below. The key of any such application form is to ascertain the background of the individual seeking assistance including any current outstanding debts and the proposed business plan. In addition, the comments of the Regional Member / Jamaat / agency officers is needed to verify whether the proposed plans are feasible.

The application form can be simplified, depending on the value of the individual projects.

Sample Application Form

This scheme has been developed to provide financial aid to those Shia Muslims who meet ALL of the following criteria:

1. Must genuinely be seeking to develop themselves financially
2. Must be a Shia Muslim
3. Have low income and is currently not able to afford the capital outlay to begin earning
4. Must complete and sign this application form and business plan.

1. First name, initial and last name

Mr Mrs Miss MS (circle one)

2. Date of Birth

Month	Day	Year
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3. City & Country of Birth

4. Home Address

Postal Code

Telephone #

5. Occupation

6. Employment: Please check one:

employed
not employed

7. Current Marital Status

Single
Married
Widowed
Other _____

If married, please provide the following information:

First name, initial and last name of your spouse

Month	Day	Year
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Current Employment Status

Employed
Not Employed

8. Please check one:

I am a Seyed/Sadaat
I am not a Seyed/Sadaat

9. Have you ever been declared bankrupt?

Yes
No

10. Do you have any outstanding debts? If so, how much

Yes: _____ (please state value and currency)
No

11. Please provide in the box below a brief description of your business plan together with details of any funding that you need. Please also state any financial capital contribution you shall be making.

12. Family Information:

Do you live with extended family?

Yes

No

Other _____

How many children do you have?

Please provide names & ages of your children:

13. What is your current monthly income?

14. What is your current source(s) of income?

Children

Government

Other _____

15. Do you have any medical conditions?

Yes

No

If "Yes", please describe:

16. Comments of Jamaat / Regional Member / agency

17. Comments from guarantor / referee

Signature

Date

Month

Day

Year

18. Applicant Signature

“I declare that the information on this application is true and complete and that I am able to pay back any funds advanced to me in full.”

Confidentiality: All information will be handled by the Regional Member / Jamaat in confidence; we reserve the right to (1) approach your doctor and any other referring party for further help or information; (2) and to use the information anonymously.

Signature

Date

Month

Day

Year

Office Use Only:

Application Approved

By.....

Application Seconded By

.....

Jamaat / Regional Member

.....

Date.....

Date of Payment

Given.....

Dates of Repayment

.....

What Factors Should an Officer use in Assessing the Business Plan?

Factors	Viability				
	High	Good	Satisfactory	Poor	Don't Know
Applicant has a skill / opportunity in the area identified in the business plan					
Applicant is able to achieve competitive advantage in the selected market segment					
Demand for product or service in local market					
Profit available in short term					
Profit available in medium term					
Profit available in long term					
Possibility of paying running costs					
Business is likely to uplift the individual and his / her family					
Training is necessary and can be organised					
Further training would be beneficial and lead to increased income					

These are some of the factors that a loan officer would need to consider, although more factors are available. However, we must make sure that the factors used are consistent for all applicants and scored in an objective manner. The judgment of the loan officer would also need to be included in making the final decision; and it is recommended that two individuals sign off every application.

STEP 2: GIVING THE LOAN

In terms of giving the loan to the applicant, two documents will need to be signed off:

- 1 Loan Agreement (sample below)
- 2 Letter to the applicant with the conditions

Both documents are samples that have been created to be as simple and user friendly as possible.

Sample Loan Agreement

THIS AGREEMENT is dated [] and made between:

- (1) [Name of Regional Member, Charity Number and Address]
(2) [Name of individual, address]

IT IS AGREED as follows:

1 DEFINITIONS AND INTERPRETATION

‘Application Form’ means the application form submitted by the applicant for a microfinance loan for economic upliftment.

'Available Amount' means that amount under this agreement given by the [Name of Regional Member] to [Name of Individual] for the purposes of economic upliftment.

2 THE FACILITY

- 2.1 Subject to the terms of this Agreement, the [Name of Regional Member] will advance the sum of [], the sums to be used only for the business plan identified in the Application Form as agreed by the parties.
- 2.2 The Loan period will start on [Insert Date] and continue for a period of [x months e.g 36 months] until [Insert Date].

3 CONDITIONS OF UTILISATION

- 3.1 The [Name of Individual] agrees to verify his identification and sources of current income prior to the advancement of the loan.
- 3.2 The [Name of Individual] does not have [any outstanding loans at present] or [any outstanding loans at present which the lender is not aware of]

4 REPAYMENT

- 4.1 The borrower shall repay the loan in equal instalments every [month] for [x number of months.]
- 4.2 [A repayment schedule can be found in Appendix x]

5 REPRESENTATIONS AND UNDERTAKINGS

- 5.1 The borrower represents that the entire sum borrowed under this Agreement shall be for the purposes of purchasing capital for identified under the Application and shall not be used for any other purposes.
- 5.2 The borrower undertakes not to sell any of the [machinery] or [stock] or [items purchased by way of this loan agreement] without the prior written consent of the lender.
- 5.3 The borrower undertakes to provide the lender financial statements and figures as agreed between the Parties [every quarter] or [every month] or [every six months.]
- 5.4 The borrower represents that no Event of Default is continuing or might reasonably be expected.
- 5.5 Any factual information provided by the borrower is true and accurate in all material respects as at the date it was provided.

6 EVENTS OF DEFAULT

Each of the events or circumstances set out below in Clause 6 below is an Event of Default.

- 6.1 Non-Payment. The borrower does not pay on the due date any amount payable unless the failure to pay is caused by administrative or technical error, or payment is made within 5 days of the due date.
- 6.2 Any requirement under Clause 5 is not met.
- 6.3 Misrepresentation. Any representation or statement made by the borrower is incorrect or misleading in any material aspect when made or deemed to be made.
- 6.4 Insolvency. The borrower is unable to admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.
- 6.5 Unlawfulness. It is or becomes unlawful for a borrower or lender to perform any of its obligations under the Agreement.
- 6.6 Acceleration. On and at any time after the occurrence of an Event of Default the lender may:
 - (a) Declare some of all of the loan immediately due
 - (b) Declare the amounts outstanding payable on demand.

7 GOVERNING LAW AND ENFORCEMENT

- 7.1 This Agreement is governed by [English law] [Indian law] [Kenyan Law]
- 7.2 The courts of [England] or [] have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement.

Name of Lender [Regional Member / agency]

Signed by [x]

[Office Bearer]

Signed by [x]

[Office Bearer]

Signed by [Name of Individual]

Witness

[Name of Witness]

Sample Letter of Acceptance

[Letterhead of Regional Member, agency]

Bismihi Ta'ala

Dear [Name of Individual]

Assalamun Alaykum,

Re: Economic Upliftment Loan

Thank you for your application. We have agreed to provide you the below subject to the terms of the Loan Agreement:

Sum Granted: [x]

Business to be set up [x]

Capital to purchased for: [machine / goods / rickshaw]

Repayment: [every month] / [every quarter]

Repayment amount: [x]

Interest 0%

Please note that the sums must be repaid by you as agreed under the Loan Agreement. We shall also contact you in the next [six months] or [one year] to do a full impact assessment to assess whether the loan has helped uplift you. In addition as per the Agreement please provide us with financial information as agreed [every quarter] or [every six months.]

With Salaams & Du'as

STEP 3: MEASURING SUCCESS

It is important that for each loan, the officers of either the Regional Member or agency continue to ensure that all the individuals on the scheme are earning and are uplifting themselves out of poverty.

Some of the techniques to do this include:

- Progress reports
- Impact Assessment

Progress Reports

In order to keep up to date with the individual's circumstances, Regional Members and agencies must work to gain regular and consistent progress reports. It may be an idea to keep these every quarter (i.e. every 3 months) or every six months.

The information within these progress reports must include:

- a) Financial state of the individual including part income e.g. past 3 months
- b) A commentary on this with an explanation for the profit or loss. It will be important to include the levels of demand for the product / service
- c) Future projections for the next 3 or 6 months.

Where large amounts have been forwarded to the individual it may be an idea to ask for accounts including a profit and loss statement with greater details.

The form and nature of the progress reports should be agreed prior to the advancement of the loan and should be a term of Agreement.

These progress reports can be edited and forwarded onto the respective donors of the scheme and generalised into reports for the web and for conferences / Executive Council meetings to update the community worldwide on progress.

In addition Regional Members / agencies should compare the income of the individual before the financial assistance, and after the loan advancement.

Impact Assessment⁴

Impact Assessment is an innovative method used by many NGOs and is defined as being the anticipated or actual impacts of a development intervention, on those social, economic and environmental factors which the intervention is designed to affect or may inadvertently affect.

There are two levels of Impact Assessment:

- a) Internal monitoring through the use of specific indicators
- b) External Impact Assessment can be done by using external assessors.

Benefits of using this technique for economic upliftment:

- Accountability: to provide evidence about the achievements in economic upliftment and their costs
- Improving programme effectiveness: providing recommendations about the means by which present / future programmes could be improved.
- Policy Development: to provide guidance to improve policy.

⁴ Guidance in this paper taken from an Impact Assessment paper published by the Department for International Development, UK.

In addition it is important to note that the affect of financial assistance will have an impact further than the merely the individual or even the family. Finding methods to assess that impact would be appropriate.

Step by step guide to creating an impact assessment for economic upliftment:

Step	Action	Applying it to Economic Upliftment
1. Assess the Scope of the assessment	Determine which impacts should be investigated in the assessment	Investigate whether there has been economic upliftment of the individual and the family.
2. Define indicators that will be used in the assessment	What should we measure impact by?	Compare income of the individual prior to receiving financial assistance with the income of the person after receiving financial assistance. Therefore measure whether the income of the individual has increased. Assess how the change has benefited the family in terms of education, medical costs and housing and empowerment.
3. Corrective Action (how to improve)	Define what steps can be taken to eliminate or reduce any adverse impacts	Assess what downsides there are and how to correct them. E.g. the repayment amount may be too high, so a rescheduling needs to be agreed.
4. Policy Learning	Identify lessons for the planning of future financial assistance.	

RECOMMENDATIONS:

Action	Institution to implement	Timeframe
Feedback on the Handbook from Regional Members and agencies together with comments and signing off from The Executive Council.	Regional Members and agencies to provide feedback. Presentation to Executive Council Relief & Economic Development of the Secretariat to amend as per feedback.	June 2008 to October 2008
Implementation of Handbook and its key documents	Regional Members and agencies Integration of the Handbook as part of the African Economic Upliftment Plan	December 2008

Action	Institution to implement	Timeframe
Further assistance by The World Federation in tailor making the Handbook for specific regions (if required)	Relief & Economic Development of the Secretariat upon the request of the Regional Members / agencies	November 2008 onwards
Identifying and creating suitable training courses that will increase the skills community members so as to increase their income.	Regional Members / agencies	November 2008 onwards
Further guidance on the Impact Assessment technique	Secretariat	November 2008 onwards
Regional Members and The World Federation to report to the Triennial Conference 2009 on the collective work conducted under the header of economic upliftment.	Regional Members & Secretariat	Presentation to Triennial Conference in October 2009