CERTIFIED EXPERT IN ISLAMIC MICROFINANCE

Course Overview

According to CGAP an overwhelming proportion of people without access to finance are from Muslim-majority countries, as formal financial markets often fail to provide access to credit or savings that are compliant with the Muslim faith. Islamic microfinance has the potential to fill that gap through the provision of Sharia-compliant microfinance products, already reaching millions with an estimated USD 1 billion global industry loan portfolio. Professionals in this field are motivated and at times challenged by the dual nature of the required skillset, combining proven microfinance practice with the principles of Islamic finance.

These wide-ranging technical competencies are addressed in this unique course which combines our renowned "Certified Expert in Microfinance" with key knowledge in Islamic finance to the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Unit 1: Overview of Islamic Economics & Microfinance System

Islamic finance is a term that reflects the financial transaction that is not contradictory to the principles of Sharia. The underlying principles are different from conventional finance. It is against this backdrop that all Islamic financial transactions involve a form of trading, leasing and investment activities. These Islamic financial transactions are primarily based on instruments that are agreed upon by the majority of scholars.

The opening unit for the course is critical in establishing the overall parameters of the CEIM qualification. It seeks to provide a high-level overview of the philosophy/ontology underpinning Islamic economics & finance and the key constituent elements such as legal principles, institutions and products. Course participants will learn to: -

1. Examine the principles and history of Islamic economics and finance, evaluate the concepts of Sharia-based and Sharia-compliant finance and reflect about its critiques
2. Distinguish between conventional debt-financing and the key Islamic financing mechanisms
3. Recognize the fundamentals of Islamic Commercial/Contract Law
4. Identify the key Islamic Financial Products
5. Explain the strengths and weaknesses of the Islamic finance industry, its key actors, stakeholders, and the role of the Islamic microfinance sector

Unit 2: The Microfinance Contracts & Transaction Agreements (Part 1)

Building on the opening unit, the units 2 and 3 will introduce the main financing contracts used in the industry. In unit 2, the concepts and Islamic financial instruments of Qard (loan), trade based debt instruments such as Murabaha, Salam, Istisna'a, and lease based instruments such as Ijarah are covered. These instruments are defined and further elaborated with their concrete application as modern microfinance tools. Course participants will learn to:

1. Assess the difference between Islamic loan, trade, lease based transactions and interest-bearing instruments
2. Examine the Sharia rules for Qard Hassan, Murabaha, Salam, Istisna'a and Ijarah based on the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
3. Evaluate and apply the key contractual elements for a valid transaction as microfinancing tools
4. Recognize the practicalities and limitations of application within the sector

Unit 3: The Microfinance Contracts & Transaction Agreements (Part 2)

The Islamic transaction law provides “Equity-based Financing” as a mode of financing in Islamic finance and banking. For the majority of the scholars, equity-based financing or Partnership-based financing is the preferred Islamic finance instrument. This is based on the fundamental principle of interest-free banking.

Unit 3 will demonstrate how profit & loss sharing, equity investments and venture capital instruments are used in the Islamic microfinance sector. Course participants will learn to: -

1. Explain the concept of Musharaka in Islamic transactions and understand the different types of Partnership
2. Examine the Sharia rules for Musharaka & Mudaraba based on the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
3. Explain the use of Musharaka contracts in modern corporations
4. Explain how Musharaka & Mudaraba are used in modern Islamic banking
5. Evaluate and apply the key contractual elements for a valid transaction as microfinancing tools
6. Recognize the practicalities and limitations of application within the sector

Unit 4: Managing Islamic Microfinancing

Whilst many aspects of managing Islamic microfinance operations are likely to be comparable or very similar to conventional counterparts, this unit introduces the whole financing cycle from appraisal, disbursement to recovery within an Islamic financing framework. Course participants will learn to: -

1. Analyze the difference between individual and group financing models and identify the operational and Sharia challenges
2. Explain the financing cycle from appraisal, disbursement to recovery
3. Apply key client appraisal techniques, carry out critical client financial analysis and calculate repayment/profit sharing ratios and schedules
4. Identify key characteristics of and employ best practice processes for financing decision-making
5. Identify the efficacy of financing management techniques within an Islamic economic framework, including different approaches to collateralization, monitoring and the handling of delinquency

Unit 5: Risk Management in Islamic Microfinance Institutions

Risk management is at the heart of any financial intermediation process and of enormous importance for the financier/ Islamic MFI within an Islamic financial framework where returns are not guaranteed. This unit will introduce the idea of risk management and mitigation and discuss in particular key operational, financial and Sharia risks. It will further discuss the concept of portfolio management and introduce a number of key metrics to assess the riskiness of various Islamic financing tools and how they are mitigated operationally. Course participants will learn to: -

1. Distinguish between operational and financial risks and to explain the concept of risk governance
2. Examine different operational risks and identify appropriate mitigation strategies including internal controls
3. Examine different financial risks and identify appropriate mitigation strategies
4. Appraise portfolio risks and calculate metrics for risk measurement
5. Identify appropriate portfolio risk mitigation strategies including loan loss provisioning

Unit 6: Regulatory, Governance and Sharia Compliance Framework for Islamic Microfinance

This unit will focus on the definitions, components, and the criteria for regulatory, governance and Sharia compliance frameworks as applicable to different legal structures that Islamic MFIs usually take. A general overview of regulatory dimensions for microfinance, although these vary from jurisdiction to jurisdiction, will be provided, with specific attention to I-MFIs operating outside regulatory frameworks that recognize Islamic financing.

The concept of Sharia compliance will be discussed and the implications for management and governance in line with the industry best practices and according to the Standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) will be outlined. Course participants will learn to:

1. Differentiate between different corporate governance requirements for the different types of Islamic MFIs
2. Identify the particular regulatory dimensions of relevance to Islamic MFIs (subject to in-country jurisdiction) and recognize their implications for corporate governance
3. Outline the role and importance of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB)
4. Identify Shariah non-compliance risks, the pillars of Shariah Governance and technicalities of Shariah audit in the Islamic microfinance arena.
5. Differentiate between various types of Shariah audits, reviews, and compliance tests with the aim of enabling participants to gain a better understanding of the nature and the operations of how Shariah non-compliance risks can be managed.

Unit 7: Financial and Social Performance Management

The objective of microfinancing is to overcome financial exclusion through the building of sustainable financial institutions. For Islamic MFIs whilst cost-coverage or even profitability cannot be achieved through sustainable interest-rates, it is nevertheless important to measure and manage their financial performance. Moreover, since Islamic MFIs work with financially excluded and economically vulnerable groups and often have avowed poverty-reduction objectives, socially responsible lending is imperative for their long-term economic viability and impact. Therefore, the concept of social performance and measurements for social performance management are introduced. Course participants will learn to: -

1. Examine institutional financial reports such as balance sheets & income statements and apply financial ratios to measure various financial performance indicators
2. Examine portfolio reports and evaluate the efficacy of certain indicators to measure financial performance
3. Identify key social performance indicators and appraise some of the key social performance standards
4. Describe the salient features of ethical, social responsibility and impact investment and its potential for the Islamic microfinance sector
5. Apply tools to manage financial and social performance