

Murabaha - Standard Operating Procedure (SOP)

Stage - 1

A member approaches an IFCCS¹ showing his/her interest in purchase of certain goods. S/he shall submit an application in the prescribed requisition form (to be provided by the IFCCS).

Application shall include full descriptions and detailed specification of the item including the source of supply. Preferably the cost (market price) of the goods is also to be mentioned by the Member.

IFCCS should verify or update KYC (Know Your Customer) documents, if needed.

IFCCS shall explain to the Member all the terms and conditions including down payment amount, securities, guarantors (if any), percentage of society's profit and repayment conditions.

Member shall provide down payment amount, securities (cross cheque, promissory note, lien on Murabaha Asset) and guarantees as may be requested by the IFCCS. In-case the member does not complete the Murabaha financing after the purchase order has been issued to the supplier, the Member shall agree to make good the cost incurred on the transportation/cancellation of the goods paid to the supplier from the down payment amount in the application form.

Upon receiving application from the Member, down payment amount and guarantees/securities, IFCCS shall issue a receipt to the member against receiving down payment and guarantees/securities papers or articles to be fully refunded in case no agreement is signed between the IFCCS and the member before the purchase order has been issued.

Application received shall be evaluated for tax implications on the product. Goods and Services Tax (**GST**) and other taxes (if applicable) shall be taken into consideration while calculating cost price and markup.

Required risk analysis (Credit, Market, Technology etc) shall be conducted to ascertain viability and profitability of the financing.

Only those products shall be financed which are allowed by the law of the land and also meets shari'ah stipulations.

Stage – 2

¹ Interest free Cooperative Credit Society

IFCCS shall invite quotation from the genuine suppliers from open market or select a genuine supplier as per the member's product specification.

A detailed study of quotations for selecting a cost effective (best price and quality) and viable proposal to be carried out.

The competent authority shall assess all the documents (quotation/proposal, Member application along with internal evaluation report) and issue a purchase order and subsequently sign Murabaha contract with the Member.

Stage – 3

IFCCS shall inform the member of the availability of goods along with Cost price and Markup. The repayment schedule/Installment should also be clearly explained to the member.

A Murabaha agreement shall be signed between IFCCS and the Member subject to the agreement of the Member with the terms and conditions.

Stage – 4

Purchase order shall be issued to the supplier along with the draft/crossed cheque /NEFT/RTGS or any electronic transfer of the specified amount for delivery of the goods.

Supplier shall issue a receipt of amount which has been received as per purchase order.

IFCCS shall intimate the member of estimated date, time and place of delivery in advance.

The Supplier shall deliver goods as per the delivery date as agreed and the IFCCS shall receive goods from the supplier and store it in its warehouse or directly hand over the goods to the member as the case may be, and make entries into in the book of accounts. All the cost related to carriage shall be borne by the Member her/himself.

Member shall sign an acceptance receipt which shall illustrate the specification of goods and the state in which it has been received and repayment schedule document.

Stage –5

Repayment received as per due date

In case of regular repayment received the prescribed accounting treatment shall be made.

Delayed repayment/default

IFCCS shall ascertain the reason of delay/default in repayment and if there is genuine causes involved for the same it shall treat such delay/default on compassionate ground and provide needed relief.

However in cases where the delay/default is willful or habitual the IFCCS may charge a certain amount as penalty to deter the members from willfully or habitually making

delayed/defaulting the repayments. The penalty charges received shall be given to a charity not in any way connected with the beneficial interest of the IFCCS.

The penalty charges should be decided by the IFCCS keeping in mind that it should have deterrent effect and also not be exorbitant.

Early repayment

In case of early repayment IFCCS will offer a rebate on profit but the amount shall be on its discretion of IFCCS.

Recommendation for Murabaha Profit Rate Determination

Profit may be determined on the total cost of the product which includes but not limited to purchase price paid to the supplier, taxes, transportation cost etc. It is recommended that IFCCS may charge maximum up to 5 percent profit annually on the cost price in addition to average actual mobilization cost of the fund as per TASIS scientific costing method for the previous quarter or year. However in no way the total markup percentage should be overall more than 15 percent.

Determination of Murabaha Amount

Murabaha Financing is to be considered after deduction of down payment amount.