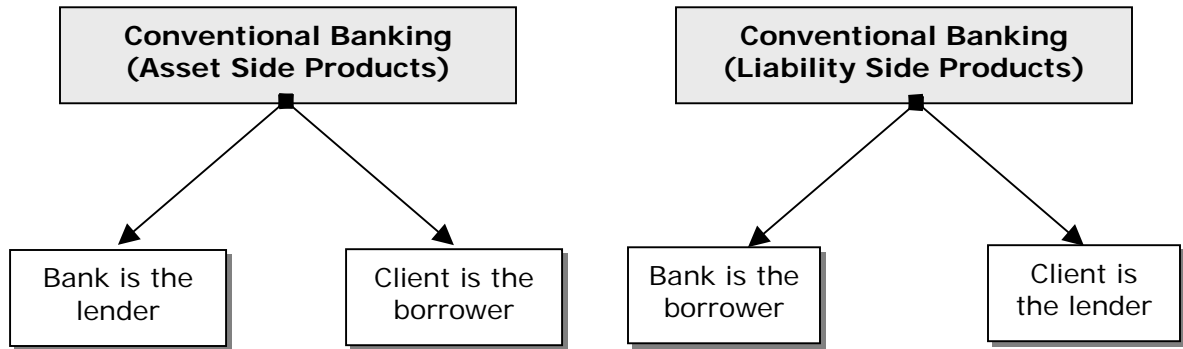
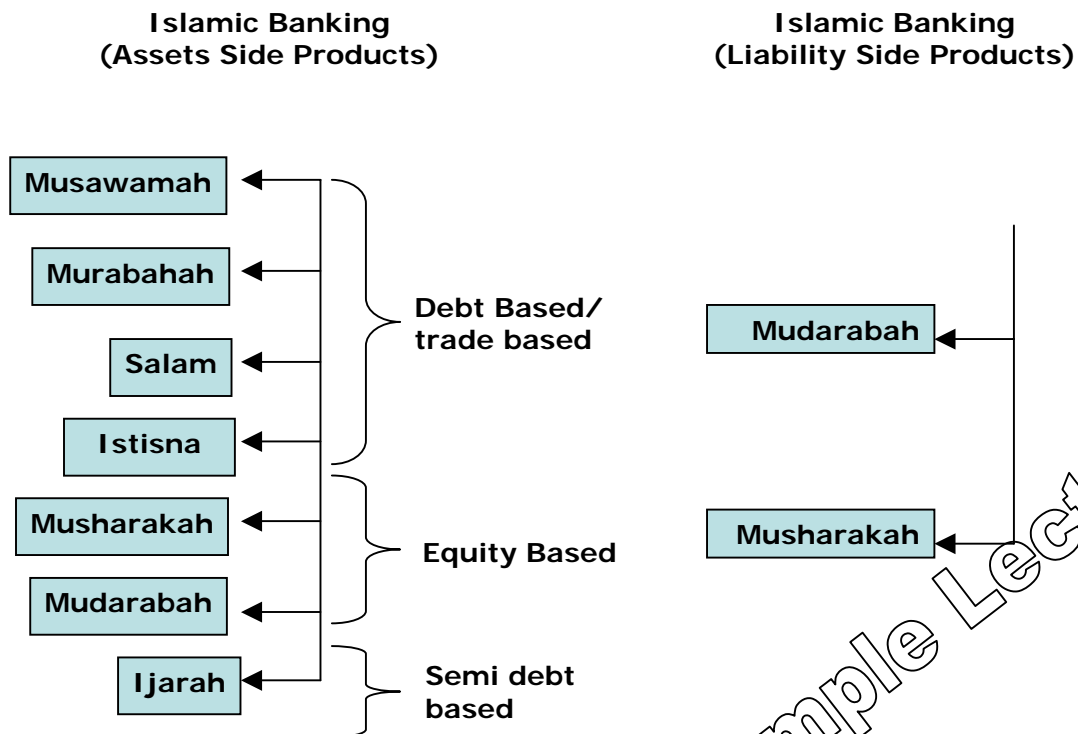


## Chapter-22: Sanctity of Islamic Modes of Finance

### A. INTRODUCTION



### B. CLASSIFICATION



Sample Lecture



## C. RISK SHARING

### a. About

- You can not earn profit from a capital or an asset unless you have taken the risk (liability of ownership) of that capital or asset
- Transformation into Islamic Financing
- Islamic Financing is a transformation from Lending to Asset Based Financing within the Ambit Of Shari'ah compliant business contracts.

### b. Application of Defined Systems in Islamic Financing

- Funds are deployed in the Following capacity:
  - As Partner under Musharakah/Mudarabah.
  - As Seller/ Purchaser in Murabaha And Musawamah.
  - As Owner In Leasing (Ijarah) Transferring Usufruct

### c. Types of Islamic Risk Assets

#### Partnership Modes

##### **Musharaka**

- Means relationship established under a contract by the mutual consent of the parties for sharing of profit and losses arising from a joint enterprise or venture.

##### **Mudaraba**

- is a special kind of partnership where one partner gives money to another for investment in a commercial enterprise. The investment comes from the first partner (rabb-ul-mal), while the management and work is an exclusive responsibility of the other (mudarib).

#### Trade Related Modes.

##### **Murabaha:**

- A contract between buyer and seller under which the seller sells certain specific goods to the buyer at a sale price based on cost plus agreed profit payable in cash or on any fixed future date in lump sum or by instalments.
- The agreed profit may be fixed in lump sum or in percentage of the cost price of the goods. All the expenses incurred by the seller in acquiring the goods are included in the cost price.

##### **Musawamah:**

- In case of Musawamah, the goods are sold for a lump sum price without any reference to the cost. This type of sale is not based on a "cost plus" concept. It may be called a bargain sale.



**Salam:**

- In Salam the seller undertakes to deliver the goods at a future date against spot Payment, suggested by Holy Prophet for farmers as Crops could be traded in advance so that the farmers can have cash in hand for the purchase of seeds, fertilizers and implements etc.

**Istisna:**

- Istisna is a contract based on an order given to the Manufacturer of goods along-with some advance money for purchase after completion of manufacturing process. The remaining balance amount is given at the time of delivery of goods.

## D. USAGE OF ISLAMIC MODES OF FINANCING

### Murabahah

- Major Business of Islamic Banks is based on Murabahah Financing.
- This mode is used in Both for Local and Foreign Trade Transactions.

### Musharaka

- Musharaka is used in Providing Working Capital under Musharaka Running Finance.
- Musharaka Term Finance for Joint venture & equity participation.
- Diminishing Musharakah is used in Asset & House Financing.
- State Bank has developed Islamic Export Refinance Scheme under Musharaka between SBP and Islamic Bank.

### Ijarah

- Leasing (Ijarah) is used in Auto & Machinery / Equipment Financing.

### Istisna

- Istisna Mode can be used In Financing Of Manufacturing Goods

### Salam

- Salam Mode is used in Agriculture Financing

**Note:**

*Most Of The Islamic Banks are Restricting to Murabahah & Leasing (Ijarah) Financing. Diminishing Musharaka Mode in House Financing*

Sample Lecture