Takaful

This is a form of Islamic insurance based on the Quranic principle of Ta'awon or mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of a loss by one of its members. Takaful is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several haram elements including gharar and riba, as mentioned above.

W

Waqf

Lit: detention. Technically appropriation or tying-up of a property in perpetuity so that no propriety rights can be exercised over the usufruct. The Waqf property can neither be sold nor inherited or donated to anyone. Awqaf consists of religious foundations set up for the benefit of the poor.

Z

Zakah/Zakat

A tax which is prescribed by Islam on all persons having wealth above an exemption limit at a rate fixed by the Shariah. According to the Islamic belief Zakah purifies wealth and souls. The objective is to take away a part of the wealth of the well-to-do and to distribute it among the poor and the needy. It is levied on cash, cattle, agricultural produce, minerals, capital invested in industry, and business etc. The distribution of Zakah fund has been laid down in the Qur'an (9:60) and is for the poor, the needy, Zakah collectors, new converts to Islam, travellers in difficulty, captives and debtors etc. It is payable if the owner is a Muslim and sane. Zakah is the third pillar of Islam. It is an obligatory contribution which every well-off Muslim is required to pay to the Islamic state, in the absence of which individuals are required to distribute the Zakah among the poor and the needy as prescribed by the Shariah.

Zakat (Religious Tax)

There are two type of Zakat:

* Zakat al-Fitr which is payable by every Muslim able to pay. at the end of Ramadan (the month of fasting). This is also called Zakat al-Nafs (Poll Tax).

* Zakat al Maal is an annual levy on the wealth of a Muslim (above a certain level). The rate paid, differs according to the type of property owned. This tax is earmarked for amongst others for the poor and needy.

Ruq'a
Banking instrument of the early Muslim period. It was a payment order to draw money from the bank.

S

Sadaqah
Charitable giving.

Shariah / Sharia / Shari'a
Islamic cannon law derived from 3 sources: the Quran; the Hadith (sayings of the Prophet Muhammad); and the Sunnah (practice and traditions of the Prophet Muhammad).

Shirkah
A contract between two or more persons who launch a business or financial enterprise to make profit.
Shirka = musharaka

Suftajal
A type of banking instrument used for the delegation of credit during the Muslim period, especially the Abbasides period. It was used to collect taxes, disburse government dues and transfer funds by merchants. It was the most important banking instrument used by traveller merchants. In some cases suftajahs were payable at a future fixed date and in other cases they were payable on sight. Suftajah is distinct from the modem bill of exchange in some respects. Firstly, a sum of money transferred by suftajah had to keep its identity and payment had to be made in the same currency. Exchange of currencies could not take place in this case. Secondly, Suftajah usually involved three persons. 'A' pays a certain sum of money to 'B' for agreeing to give an order to 'C' to pay back to 'A'. Third, a Suftajahs could be endorsed. The Arabs had been using endorsements (hawala) since the days of the Prophet Muhammad.

T

Takaful
Mutual support which is the basis of the concept of insurance or solidarity among Muslims.

☆من استعجل الشئی قبل اوانه عوقب محرمانه☆

are not qualified to get finance from other sources. The purpose of these loans is to help start them their independent economic life and thus to raise their incomes and standard of living.

Qimer
Lit: gambling. Technically, an agreement in which possession of a property is contingent upon the occurrence of an uncertain event. By implication it applies to those agreements in which there is a definite loss for one party and definite gain for the other without specifying which party will gain and which party will lose.

R

Rab-al-maal
In a mudaraba contract the person who invests the capital.

Riba
This term literally means an increase or addition. Technically it denotes any increase or advantage obtained by the lender as a condition of the loan. Any risk-free or "guaranteed" rate of return on a loan or investment is riba. Riba, in all forms, is prohibited in Islam. In conventional terms, riba and "interest" are used interchangeably.

Riba al Buyu
A sale transaction in which a commodity is exchanged for the same commodity but unequal in amount and the delivery of at least one commodity is postponed. To avoid riba-al-buyu, the exchange of commodities from both sides should be equal and instant. Riba-al-buyu was prohibited by the prophet Mohammad to forestall riba (interest) from creeping into the economy from the back door.

Riba al Fadl
Usury of trade. It is an alternative term for riba al-buyu.

Riba al Diyun Usury of debt.

Riba al Nasia
Increment on the principal of a loan payable by the borrower. It refers to the practice of lending money for any length of time on the understanding that the borrower would return to the lender at the end of this period the amount originally lent together with an increment in consideration of the lender having granted him time to pay. The increment was known as riba al-nasia. It was in vogue in Arabia in the days of the Prophet Muhammad.

☆جس نے قبل از وقت کسی شی کے حصول کی کوشش کی اسے اس سے محرومی کی سزا دی جائے گی☆

progressively reduced. After a certain time the equity held by the bank shall come to zero and it shall cease to be a partner. Musharaka form of financing is being increasingly used by the Islamic banks to finance domestic trade, imports and to issue letters of credit. It could also be applied in agriculture and Industry.

Musaqah
A contract in which the owner of the garden shares its produce with another person in return for his services in irrigating the garden.

Muzara'a
It is a contract in which one person agrees to till the land of the other person in return for a part of the produce of the land.

N

Nisab
Exemption limit for the payment of zakah. It is different for different types of wealth.

Q

Qard Hasan (Interest free loans)
Most of the Islamic banks also provide interest free loans (Qard Hasan) to their customers. If this practice is not possible on a significant scale, even then, it is adopted at least to cover some needy people. Islamic view about loan (Qard) is that it should be given to borrower free of charge.

A person is seeking a loan only if he is in need of it. Hence, it is a moral duty of the lender to help his brother who may be in need. The borrower should not make an effort to take advantage of somebody needs. He should help the needy by lending him money without any charge. The reward of this act is with the God. Hence, it is referred as Qard Hasan (benevolent loan) which signifies the benevolent nature of the act of lending.

The practices of various Islamic banks in this respect differ. Some Islamic banks provide the privilege of interest free loans only to the holders of investment account with them. Some extend to all bank clients. Some restrict it to needy students and other economically weaker sections of the society. Yet some other Islamic banks provide interest free loans to small producers, farmers and entrepreneurs who material etc. However. probably the most common and the most popular application of Murabaha is in financing the short-term trade for which it is eminently suitable. Murabaha contracts are also used to issue letters of credit and to provide financing to import trade.

(Cost-plus financing) This is a contract sale between the bank and its client for the sale of goods at a price which includes a profit margin agreed by both parties. As a financing technique, it involves the purchase of goods by the bank as requested by its client. The goods are sold to the client with a mark-up. Repayment, usually in instalments is specified in the contract.

Musharaka (Venture Capital)
Musharaka is another popular techniques of financing used by Islamic banks. It could roughly be translated as partnership. In this technique two or more financiers provide finance for a project. All partners are entitled to a share in the profits resulting from the project in a ratio which is mutually agreed upon. However, the losses, if any, are to be shared exactly in the proportion of capital proportion.

All partners have a right to participate in the management of the project. However, the partners also have a rig ht to waive the right of participation in favour of any specific partner or person. There are two main forms of Musharaka: Permanent Musharaka and Diminishing Musharaka. These are briefly explained below:

*** Permanent Musharaka**
In this form of Musharaka an Islamic bank participates in the equity of a project and receives a share of profit on a pro rata basis. The period of contract is not specified. So it can continue so long as the parties concerned wish it to continue. This technique is suitable for financing projects of a longer life where funds are committed over a long period and gestation period of the project may also be long.

*** Diminishing Musharaka**
Diminishing Musharaka allows equity participation and sharing of profit on a pro rata basis but also provides a method through which the equity of the bank keeps on reducing its equity in the project and ultimately transfers the ownership of the asset on of the participants. The contract provides for a payment over and above the bank share in the profit for the equity of the project held by the bank. That is the bank gets a dividend on its equity. At the same time the entrepreneur purchases some of its equity. Thus. the equity held by the bank is

In its modern form Murabaha has become the single most popular technique of financing amongst the Islamic banks all over the world. It has been estimated that 80 to 90 percent of financial operations of some Islamic banks belong to this category. The Murabaha mode of finance operates in the following way: The client approaches an Islamic bank to get finance in order to purchase a specific commodity. An interest-based bank would lend the money on interest to this customer. The customer would go and buy the required commodity from the market. This option is not available to the Islamic bank, as it does not operate on the basis of interest. It can not lend the money on interest. It can not lend money with zero interest rate, as it has to make some money to stay in the business.

Some portion of total finance may be offered as an interest free loan, however, the banking institutions have to make profit in order to stay in business. Hence, what course of action is open to the bank? The Murabaha model offers a solution. The bank purchases the commodity on cash and sells it to the customer on a profit. Since the client has no money, he buys the commodity on deferred payment basis. Thus, the client got the commodity for which he wanted the finance and the Islamic bank made some profit on the amount it had spent in acquiring the commodity.

There are a number of requirements f or this transaction to be a real transaction to meet the Islamic standards of a legal sale. The whole of Murabaha transaction is to be completed in two stages. In the first stage, the client requests the bank to undertake a Murabaha transaction and promises to buy the commodity specified by him, if the bank acquires the same commodity. Of course, the promise is not a legal binding. The client may go back on his promise and the bank risks the loss of the amount it has spent. In the second stage, the client purchases the good acquired by the bank on a deferred payments basis and agrees to a payment schedule. Another important requirement of Murabaha sale is that two sale contracts, one through which the bank acquires the commodity and the other through which it sells it to the client should be separate and real transactions.

The Murabaha form of financing is being widely used by the Islamic banks to satisfy various kinds of financing requirements. It is used to provide finance in various and diverse sectors e. g. in consumer finance for purchase of consumer durable such as cars and household appliances, in real estate to provide housing finance, in the production sector to finance the purchase of machinery, equipment and raw actually runs the business. In the Islamic Jurisprudence, different duties and responsibilities have been assigned to each of these two.

As a matter of principle the owner of the capital does not have a right to interfere in to the management of the business enterprise which is the sole responsibility of the Agent x. However, he has every right to specify such conditions that would ensure better management of his money. That is why sometime Mudaraba is referred as sleeping partnership. An important characteristic of Mudaraba is the arrangement of profit sharing.

The profits in a Mudaraba agreement may be shared in any proportion agreed between the parties before hand. However, the loss is to be completely borne by the owner of the capital. In case of loss, the capital owner shall bear the monetary loss and agent shall lose the reward of his effort. Mudaraba could be individual or joint.

Islamic banks practice Mudaraba in its both forms. In case of individual Mudaraba an Islamic bank provides finance to a commercial venture run by a person or a company on the basis of profit sharing. The joint Mudaraba may be between the investors and the bank on a continuing basis. The investors keep their funds in a special fund and share the profits without even the liquidation of those financing operations that have not reached the stage of final settlement. Many Islamic Investment Funds operate on the basis of joint Mudaraba.

Mudarib
In a mudaraba contract, the person or party who acts as entrepreneur.

Mu'amalah (t)
Lit: economic transaction. Technically, lease of land or of fruit trees for money, or for a share of the crop.

Murabaha / Morabaha (Cost-Plus Financing)
Lit: sale on profit. Technically a contract of sale in which the seller declares his cost and profit. This has been adopted as a mode of financing by a number of Islamic banks. As a financing technique, it involves a request by the client to the bank to purchase a certain item for him. The bank does that for a definite profit over the cost which is settled in advance. Some people have questioned the legality of this financing technique because of its similarity to riba or interest.

L

Loans (with Service Charge)

Some Islamic Banks give loans with service charge. The Council of the Islamic Fiqh Academy established by the Organisation of Islamic Conference in its third session held in Amman, Jordan from 8 to 13 Safar 1407 H (11-16 October 1986), in response to a query from the Islamic Development Bank has resolved that it is permitted to charge a fee for loan related service offered by an Islamic Bank. However, this fee should be within actual expenditures and any fee in excess to actual service related expenses is forbidden because it is considered usurious.

The service charge may be calculated accurately only after a certain period when all administrative expenditure has already been incurred e.g. at the end of the year. Hence, it is permissible to levy an approximate charge on the client, then, reimburse or claim the difference at the end of the accounting period when actual expenses on administration become precisely known.

M

Mudaraba / Modaraba (Trust Financing)

The term refers to a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. The financier is known as 'rab-al-maal' and the entrepreneur as 'mudarib'. As a financing technique adopted by Islamic banks, it is a contract in which all the capital is provided by the Islamic bank while the business is managed by the other party.

The profit is shared in pre-agreed ratios, and loss, if any, unless caused by negligence or violation of terms of the contract by the 'mudarib' is borne by the Islamic bank. The bank passes on this loss to the depositors. There is no loss sharing in a Mudaraba contract.

Profit and loss sharing is more accurate description of the Musharaka contract. The Mudaraba contract may better be represented by the expression profit sharing Mudaraba is an Islamic contract in which one party supplies the money and the other provides management in order to do a specific trade. The party supplying the capital is called owner of the capital. The other party is referred to as worker or agent who

Under this scheme of financing an Islamic bank purchases an asset as per specification provided by the client. The period of lease may be determined by mutual agreement according to nature of the asset. During the period of the lease, the asset remains in the ownership of the lessor (the bank) but its right to use is transferred to the lessee. After the expiry of the lease agreement, this right reverts back again to the lessor.

Leasing as a technique of Islamic finance holds a lot of promise and potential to develop into a viable and power tool of financing. At present many Islamic banks are experimenting with various forms of leasing one of which is the lease purchase agreement. In this scheme, the lessee can purchase the equipment at the end of the lease period at a price that is agreed in advance. In most cases, the payment may constitute of the two components: rent and a portion of the price to be paid in the instalments. In another variant of lease purchase agreement, the rent may itself constitute the part payment of the price.

Ijarah wa Iqtina (Lease to Purchase)
This term refers to a mode of financing adopted by Islamic banks. It is a contract under which the Islamic bank finances equipment, a building or other facility for the client against an agreed rental together with an undertaking from the client to purchase the equipment or the facility. The rental as well as the purchase price is fixed in such a manner that the bank gets back its principal sum along with some profit which is usually determined in advance.

Istisna (Progressive Financing)
A contract of acquisition of goods by specification or order where the price is paid progressively in accordance with the progress of a job. An example would be for the purchase of a house to be constructed, payments are made to the developer or builder according to the stage of work completed. This type of financing along with bai salam are used as purchasing mechanisms, and murabaha and bai muajjal are for financing sales.

J

Ju'alal
Lit: stipulated price for performing any service. Technically applied in the model of Islamic banking by some. Bank charges and commission have been interpreted to be ju'ala by the jurists and thus considered lawful.

☆التاسیس خیر من التاکید ☆ تاسیس تاکید کی نسبت بہتر ہوتی ہے☆

Glossary of Islamic Banking

Hawala

Lit: bill of exchange, promissory note, cheque or draft. Technically, a debtor passes on the responsibility of payment of his debt to a third party who owes the former a debt. Thus the responsibility of payment is ultimately shifted to a third party. Hawala is a mechanism for settling international accounts, by book transfers.

This obviates, to a large extent, the necessity of physical transfer of cash. The term was also used historically in public finance during the Abbaside period to refer to cases where the state treasury could not meet the claims presented to it and it directed the claimants to occupy a certain region for a specified period of time and procure their claims themselves by taxing the people. This method was also known as 'Tasabbub'. The taxes collected and transmitted to the central treasury were known as 'Mahmul', while those assigned to the claimants were known as 'Musabbub'.

Ijara (Leasing)
A contract where the bank or financier buys and leases equipment or other assets to the business owner for a fee. The duration of the lease as well as the fee are set in advance. The bank remains the owner of the assets. This type of contract is a classical Islamic financial product.
Used if you request us to acquire equipment, buildings or other facilities with a view to renting them to you against agreed rental payments.

Leasing is also a lawful method of earning income, according to Islamic law. In this method, a real assets such a machine, a car, a ship, a house, can be leased by one person (lessor) to the other (lessee) for a specific period against a specific price. The benefit and cost of the each party are to be clearly spelled out in the contract so as any ambiguity (Gharar) may be avoided.

Leasing is emerging as a popular technique of financing among the Islamic banks. Some of the Islamic banks that use this technique include Islamic Development Bank, Bank Islam Malaysia and many commercial banks in Pakistan.

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