

POLITECNICO DI TORINO

Master Course in Engineering and Management

Thesis

Islamic Finance



Tutor:

Prof. **Elisa Ughetto**

Candidate:

Zeyad Ahmed Mahmoud Ahmed
Shanbaky

Academic Year 2022/2023

ABSTRACT

This report gives an overview of Islamic finance, its principles, and main practices. Islamic finance is a fast-growing sector of the global finance, with an estimated value of more than \$2 trillion. The report explores the fundamentals of Islamic finance, including the prohibitions and the requirement for investments to be based on ethical and moral principles. It also identifies the various financial instruments used in Islamic finance, such as murabaha, mudaraba, musharaka, and ijarah. And the report includes also a variety of very important concepts in Islamic Finance.

CONTENTS

1 Introduction to Islamic Finance	7
1.1 Belief is the main guidance	
1.2 Islamic principles	
1.3 Halal and Haram meaning	
1.4 Islamic finance architecture	
1.5 Islamic social framework	
1.6 Conclusion	
2 Brief history of Islamic Finance	10
3 What is Shariaa Law	11
3.1 Shariaa Sources	
3.2 Shariaa Objectives	
4 Prohibitions in Islamic Finance	17
4.1 Riba	
4.2 Types of Riba	
4.3 Gharar	
4.4 Types of Gharar	
4.5 Maysir	
5 Islamic Banking	21
5.1 Introduction	
5.2 Wakalah	
5.3 The Start	
5.4 The growth	
5.5 Distinctive features	

6 Islamic Contracts	28
6.1 Muamalat	
6.2 Types of Muamalat	
6.3 Sale vs Lease	
6.4 Main Contracts	
7 Sukuk (Islamic Bonds)	32
7.1 Definition and Origin	
7.2 Principles guiding the use of Sukuk	
7.3 Sukuk vs Conventional Bond	
7.4 Structure of Sukuk	
7.5 Risks of Sukuk	
7.6 Types of Sukuk	
8 Islamic Trading	39
8.1 Definition	
8.2 Structure	
8.3 Disallowed Trading	
8.4 Summary	
9 Murabaha and Musawamah (cost-plus financing)	48
9.1 Murabaha	
9.2 Conditions of Murabaha	
9.3 Issues Involved in Murabahah	
9.4 Musawamah	
10 Mudarabah and Musharakah (Concepts)	52
10.1 Mudarabah	
10.2 Businesses of Mudarabah	
10.3 Distribution of profit	
10.4 Termination of Mudarabah	

10.5 Musharakah	
10.6 The Concepts of Musharakah	
10.7 Basic Rules of Musharakah	
10.8 Sharing of Loss	
10.9 Management of Musharakah	
10.10 Termination of Musharakah	
10.11 Combination of Musharakah and Mudarabah	
11 Waqf and Bait Al Mal (Limited Liability in Islam)	60
11.1 Waqf	
11.2 Bait Al Mal	
12 Zakat (concept)	62
12.1 Definition	
12.2 Qualities	
12.3 How does Zakat Function	
12.4 Zakat vs Taxes	
12.5 Zakat Calculation	
12.6 Nisab	
13 Kharaj	66
13.1 Definition	
13.2 Laws	
14 Ijarah (Leasing in Islamic Finance)	68
14.1 Definition	
14.2 Laws	
14.3 Penalty for late payment	
14.4 Termination of Ijarah	

15 Salam and Istisnaa (Concept)	72
15.1 Salam	
15.2 Conditions of Salam	
15.3 Istisnaa	
15.4 Difference between Salam and Istisnaa	
16 Takaful (Insurance Similar concept)	76
16.1 Definition	
16.2 Prohibition of conventional insurance	
16.3 Shariaa basis of Takaful	
16.4 How does Takaful work	
16.5 How does Takaful solve the problems with conventional insurance	
17 Conclusion	82
18 Bibliography	83
19 References	85

Introduction

Belief is the main guidance

Through decades, Muslims have been trying to build their lives on the basis of Islamic principles, Islam establishes a set of guidelines and guiding principles for all aspects of human life, including the economy.

Islamic Principles

Belief is the primary guide for Muslims in all areas of life, including the economy. For Muslims, adhering to Islamic economic principles is of the utmost importance, whereas for non-Muslims, a conventional economic system may be sufficient. People are encouraged by these principles to look for Halal ways to make money while avoiding illegal activities like fraud, bribery, and interest-based transactions. However, these principles must be adhered to by everyone; Additionally, businesses must ensure that their marketing strategies and product offerings adhere to Islamic teachings. Businesses can ensure that they are not contributing to Haram practices like the sale of alcohol or gambling by promoting only Halal investment and consumption products. In essence, Islamic principles act as a moral compass that direct Muslims toward spiritual and financial prosperity.

Products and services that are permissible are referred to as "Halal," while those that are not are referred to as "Haram," according to Islamic teachings.

The consumer would only be able to select Halal investment products or Halal consumption goods because Islam forbids intoxicants like alcohol and drugs. Additionally, Riba (interest) and Maysir (betting) are prohibited in Islamic financial administration, and anything that is not prohibited is halal.

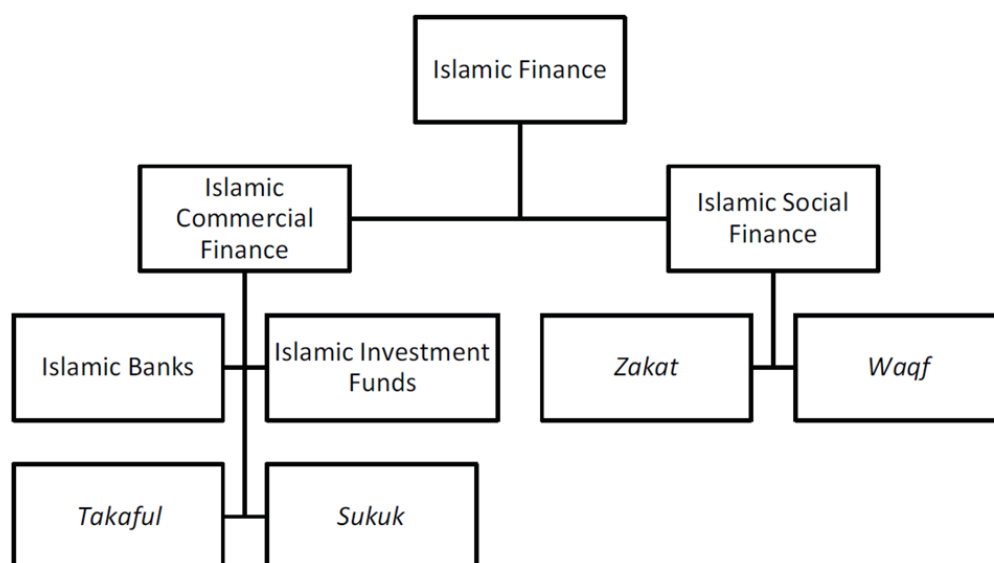


Figure 1.1. Islamic finance architecture.

Islamic finance architecture

By adhering to Islamic economic principles, such as purchasing Halal products for consumption and investments, Muslims can achieve spiritual fulfillment in addition to economic prosperity. Sharia-compliant forms of Islamic banking and finance include profit-sharing, joint venture, cost-plus, and leasing. Despite the worldwide trend toward interest-free financial institutions, Muslims disagree about whether interest is equivalent to *riba* and should be avoided entirely. The ethical and Shariah-compliant financial solutions offered by Islamic banking are built on profit-sharing and risk-sharing agreements. In a similar vein, Islamic Venture Assets are investment vehicles that adhere to Islamic norms by avoiding revenue-based transactions and investing resources in ethical businesses. Islamic insurance known as *takaful* permits insurance while adhering to Islamic principles of fairness and shared responsibility. Participation by both parties is its foundation.

Islamic social framework

One-of-a-kind and practical for Muslims, the Islamic social and financial framework promotes ethical financial practices, economic stability, and social justice. In the Islamic social framework, wealth disparity is not viewed as a sign of superiority but rather as a test of tolerance, gratitude, and fairness. This system values piety and righteousness as true indicators of superiority and acknowledges the inherent dignity and equality of all humans. The Islamic finance architecture, which includes *Takaful*, investment funds, and Islamic banking and is Shariah-compliant, provides ethical financial solutions that prioritize profit and risk-sharing over interest-based transactions. In general, Islamic finance makes a strong case for a financial system that puts moral values, risk-sharing, and social responsibility first.

Sukuk, *zakat*, and *waqf* are three fundamental aspects of Islamic finance that promote financial responsibility, economic equity, and social and economic well-being. These guiding principles offer a novel approach to finance based on moral values, risk-sharing, and social responsibility. *Sukuk*, for instance, is a Shariah-compliant investment vehicle that provides Islamic investors with access to investment opportunities. In the meantime, in order to ensure that those who are less fortunate are not left behind, *Zakat* and *Waqf* emphasize the significance of wealth redistribution and the expansion of social welfare. As a whole, Islamic finance is demonstrating a practical and socially responsible financial system that is gaining increasingly international attention.

To put it succinctly, Islamic banking, investment funds, *Takaful*, *Sukuk* financial instruments, *Zakat*, and *Waqf* are all based on Islamic principles and are utilized to promote economic justice, alleviate poverty, and provide social welfare.

Conclusion

Islamic money adheres to standards of moral honesty, decency, and risk sharing. It promotes fiscal responsibility, civil rights, and mindful spending habits. Fairness, wealth distribution, and social welfare are also emphasized. Due to its emphasis on decency, simplicity, and reasonable financial outcomes, it has gained international acclaim as a practical and socially dependable financial system.

The fundamental standards and monetary incentive of Islamic money have been introduced through the introduction. Islamic money adheres to moral directness, decency, and risk sharing standards. It aims to create a financial system that is in line with Islamic principles and values and to offer options for a financially viable and competitive lifestyle.

A system that encourages monetary dependability, civil rights, and mindful monetary practices is provided by the central standards of Islamic money, such as the prohibition of interest (Riba), the advancement of benefit sharing, and the evasion of prohibited activities (haram).

The social aspect of Islamic finance is also demonstrated by the emphasis on fairness, wealth distribution, and social welfare through concepts like Zakat and Waqf. Islamic money aims to create a fair and comprehensive financial system in which wealth is shared and assets are consistently used to benefit society as a whole.

Overall, Islamic money demonstrates a unique approach to finance that combines social obligation, risk-sharing, and moral standards. It gives individuals and organizations a fantastic opportunity to participate in monetary activities that align with their firm convictions and moral principles. Islamic money has gained international acclaim as a practical and socially dependable monetary system due to its emphasis on decency, simplicity, and reasonable financial outcomes.

Brief history of Islamic Finance

The Prophet Muhammad's reign in the seventh century laid the groundwork for Islamic finance. Based on principles outlined in the Quran and the Hadith (the sayings and deeds of the Prophet Muhammad), Islamic commercial practices emerged during this time. These standards, altogether known as Shariaa, filled in as the moral structure for monetary exercises in the Muslim people group.

One of the essential standards of Islamic money is the forbiddance of Riba, or interest. Islamic jurists and scholars viewed Riba as unethical and harmful to society. Instead, Islamic finance adopted profit-sharing and risk-sharing as central concepts. Contracts and alternative financial instruments that adhered to the principles of Shariaa were developed as a result.

Islamic finance continued to develop over time, being influenced by a variety of social and economic factors. In the middle age period, Islamic shippers and dealers utilized a type of organization known as Mudarabah, where one party gave capital, and the other party dealt with the business. This benefit dividing plan guaranteed arrangement among capital suppliers and business people.

The emergence of the contract known as the Murabaha was another significant development in Islamic finance. This contract made trade easier and made it possible to sell goods with no interest on a deferred payment basis. Murabaha turned out to be broadly utilized in business exchanges and shaped the reason for present day Islamic financial items like Islamic home loans and funding for organizations.

Islamic finance experienced a resurgence in the 20th century as a result of the need for alternative financial systems in Muslim-majority nations and the revival of Islamic principles. The development of Islamic finance was further aided by the establishment of the Islamic Development Bank in 1975 and the introduction of Islamic banking regulations in countries like Sudan and Pakistan.

Islamic finance spread worldwide in the latter half of the 20th century and the beginning of the 21st, with the establishment of Islamic banks and other financial institutions all over the world. Malaysia, Bahrain, and the United Arab Emirates were all significant contributors to the development of a robust regulatory framework and the promotion of Islamic finance.

With a wide range of financial products and services that adhere to the principles of Shariaa, Islamic finance is now a thriving industry. Islamic banks offer different types of supporting, including Musharakah (association), Ijarah (leasing), and Sukuk (Islamic bonds). Beyond banking and capital markets, Islamic finance has also included asset management, microfinance, and insurance (Takaful).

The historical backdrop of Islamic money mirrors a consistent variation to changing monetary circumstances and a guarantee to maintaining moral and impartial monetary practices. It has emerged as a viable alternative to conventional finance, offering financial solutions to individuals and businesses worldwide within a framework that is in line with Islamic values and principles.

What is Shariaa Law

Before we discuss Islamic finance deeper in the light of Islamic Shariaa law we should explain what Islamic Shariaa law is and what its objectives are. This is because all business and financial contracts in the framework of Islamic finance have to conform to the Shariaa law with the objective of helping to achieve

Shariaa law refers to a code of law or divine injunctions that regulate the conduct of human beings in their individual and collective lives. In addition to some general rules there are some specific branches of these injunctions which are: Aqida, or matters of belief and worship; Akhlaq or matters for disciplining one's self; Ahkam, or socio-economic and legal systems; Froot, or obligations; and Nawahi, or prohibitions. Islamic economics directly or indirectly deals with all these disciplines.

Shariaa sources

The primary source of the divine law is the revelation – the Holy Quran and Sunnah of the holy Prophet (pbuh) (Muslims believe in terms of Quranic injunctions that an established Sunnah of the prophet is based on the revelation). Accepting the revelation as the source of tenets and information require complete submission to Shariaa law.

Muslims believe that Quran is last reveled book and that it is a direct word of Allah (God) and that it will be free from any tampering until the hereafter

Allah says in the Quran (Indeed, it is We who sent down the Quran and indeed, We will be its guardian)

And (And this [Quran] is a Book We have revealed [which is] blessed, so follow it and fear Allah that you may receive mercy)

And (And indeed, the Quran is the revelation of the Lord of the worlds; The Trustworthy Spirit has brought it down; Upon your heart, [O Muhammad] - that you may be of the warners)

And (Indeed, We sent the Quran down during the Night of Decree)

And many more verses stating that Quran is a revelation from Allah and then Allah challenged the human being that if it wasn't from Allah then someone could even create a one verse like Quran when Allah said in the Quran few challenging verses like (And if you are in doubt about what We have sent down upon Our Servant [Muhammad], then produce a surah the like thereof and call upon your witnesses other than Allah, if you should be truthful; But if you do not - and you will never be able to - then fear the Fire, whose fuel is men and stones, prepared for the disbelievers.)

And (Say, "If mankind and the jinn gathered in order to produce the like of this Quran, they could not produce the like of it, even if they were to each other assistants.")

And Allah proved that the Quran is not human written and that it was revealed from the creator of everything by including some scientific miracles and numerical miracles in it so people through time discover and believe in him and in the Quran, Introducing some scientific miracles here briefly as examples:

1- Everything is made of water - In Surah Al-Anbya, it was revealed: “We made every living thing from water, will they not believe?” (Quran, 21:30) and it was only after the discovery of the

microscope that it was concluded that all living things consist mostly of water – while in the deserts of Arabia, the last thing a man could guess is that all of life ultimately came from water.

2- The big bang theory - In Surah Al-Anbya, Allah (SWT) also states: “Have those who disbelieved not considered that the heavens and the earth were a joined entity, and We separated them” (Quran, 21:30). In 1929, American astronomer Edwin Hubble proposed the Hubble’s Law according to which all entities in space are moving away from the Earth at speeds proportional to their distance i.e. the greater the distance from earth, the faster they are moving. Soon after this, he discovered that galaxies are moving away from each other as well which means that the universe is expanding overall, This laid the basis for the Big Bang theory which states that around 12-15 billion years ago the universe came into existence from one single extremely hot and dense point. Again, in Surah Al-Anbya, Allah (SWT) says: “The Day when We will fold the heaven like the folding of a [written] sheet for the records. As We began the first creation, We will repeat it. [That is] a promise binding upon Us. Indeed, We will do it” (Quran, 21:104). This fits in with the theory of Big Crunch which talks about how the universe will be pulled back into the black holes and again form a tiny mass

3- Embryology - In Surah Al-Mu’minun, Allah (SWT) says “We created man from an extract of clay. Then We made him as a drop in a place of settlement, firmly fixed. Then We made the drop into an alaqah (leech, suspended thing, and blood clot), then We made the alaqah into a mudghah (chewed substance) then We made the Mudghah into bones, then We clothed the bones with flesh, and then We caused it to grow into another creation. Thus Most Blessed is Allah, the Best of all those that create. Thereafter you are destined to die, and then on the Day of Resurrection you shall certainly be raised up” (Quran 23:12-16).

Science has only proved this with the help of the latest technology. It is Professor Emeritus Keith L. Moore who is one of the world’s most well-known scientists in the fields of anatomy and embryology, who said that “It is clear to me that these statements must have come to Muhammad from God, because almost all of this knowledge was not discovered until many centuries later”

4- Sun Moving in Orbit - In Surah Al-Anbya, it states “And it is He who created the night and the day and the sun and the moon; all [heavenly bodies] in an orbit are swimming” (Quran, 21:33). Although it was only a widespread belief in the 20th century amongst the astronomers, today it is a well-established fact that the Sun, the Moon, and all the other bodies in the Universe are moving in an orbit and constantly moving, not stationary as commonly thought before. And many many more scientific miracles.

- And here are some Numerical Miracles:

Many opposites were mentioned same number for example:

Salihat (good deeds) 167 times Sayya’at” (wrongdoings) 167 times

“Zakat” (taxes Muslims pay for the poor) 32 times. “Barakah” (blessings of one’s wealth) 32 times

life 145 times death 145 time

And many more like month is mentioned 12 and day 365 and so on.

Coming back to Shariaa law obedience to the injunctions contained in it is considered necessary by all Muslims, at least conceptually. The Sunnah, which consists of the sayings of and the actions done and/or approved by the holy Prophet (pbuh), is an equally important source of information in Islamic law. The importance of sticking to the Sunnah is obvious from the following verse of the Holy Quran: Allah says, “Indeed you have in the Messenger

of Allah an excellent example for the one who hopes in Allah and looks to the Last Day”. The Exalted also says: “So if you obey him (i.e. Muhammad, pbuh), only then you will be guided”. Almost all Muslims believe that obedience to the orders of the holy Prophet is necessary for being a Muslim.

Different source of Shariaa precepts are Ijmaa (consensus) and Qiyas (analogy), which depend on Ijtihad. The secondary sources for deriving rules and regulations for any upcoming events or issues are Ijtihad, the mental effort of scholars with legal expertise to find solutions to emerging problems, and Qiyas, or finding solutions through analogy in light of the text of the Quran and Sunnah. The vast majority of Muslims consider the Ijmaa of the holy Prophet's companions to be an important source for the subsequent development of laws.

The rules of Shariaa can be broken down into Dos (orders to do anything) and Don'ts (prohibitions from doing certain things), which can further be broken down into rituals (things of worship) that are regarded as the rights of Allah (SWT) and matters for disciplining human life that are regarded as the rights of humans. While the previous demonstrations customs or matters connecting with conviction and love as Farida (commitments) must achieved stringently accord to the Shariaa precepts, the last option matters that relate to financial privileges and commitments are administered by the standard of "General Admissibility", and that intends that all demonstrations and things which have not been explicitly precluded by the first wellsprings of Shariaa are passable. However, it is important to note that while Allah (SWT) may wish to forgive Muslims for violating His rights (the first category), only the aggrieved party may grant forgiveness for violations of human rights. In addition, Islam holds that each individual is responsible for his or her actions, regardless of whether they are reflected in rituals or socioeconomic contracts.

Shariaa Objectives

The study of objectives is important, as they mirror the soul of the Shariaa and help legal advisers in deciding the disallowance or admissibility of any issues based on Ijtihad and Qiyas.

Taking care of the prosperity of individuals in the common life as well as in the afterlife or on the other hand freeing them from difficulty is the essential target of Shariaa.

Islam takes a positive view of life thinking about man as the emissary of God. Excellence doesn't mean forsaking the wonders of life, however partaking in those while staying inside the system of the qualities through which Islam tries to amplify human welfare.

It necessitates living a morally upright life, earning only fairly, and viewing wealth as a stewardship for which Allah Almighty must be held accountable.

According to conventional economics, livelihood is the fundamental problem of man and economic development is the ultimate goal of human life. According to Islamic economics, livelihood is necessary and indispensable but is not the true and the only purpose of human life; the life hereafter is the real factor to be taken care of. This way, Islam also caters for the welfare of man in the Hereafter. Wealth in all its possible forms is created by Allah, it belongs to Allah; He has delegated the right of property to man for use and He has the right to demand that man subordinates his use of wealth to the commandments of Allah. "He it is who made you vicegerents in the earth" and "does the man think that he will be just left to himself". Wealth has to be used in such a way that it ensures success in this world and the world hereafter.

The overall objective of Shariaa behind these injunctions is the happiness and well-being of human beings in this world and the world hereafter. The concept of happiness from the Islamic perspective is different from the concept of pleasure – the major objective of positive economics. Accordingly, everything which guarantees well-being and fulfils the supreme interests of mankind is included in the objectives of Shariaa. These objectives have been identified by many jurists through a survey of the Holy Quran and Sunnah. The objectives can be divided into primary and secondary objectives

Primary Objectives

The primary objectives that Shariaa tends to realize are the protection and preservation of:

1. Religion.
2. Life.
3. Progeny – family unit.
4. Property.
5. Intellect.
6. Honour.

Protecting the religion is a main purpose as religion is the whole goal and the source of the Shariaa itself.

The protection of human life, as emphasized in the Quran and Sunnah, is the subject of preservation of human life. To punish those who harm human life, there is the Qisas law. The provision of all people with their most fundamental needs is also included in this goal.

The protection of progeny or the family unit is connected to marriage and the family institution, which serves the following purposes: reproduction, assurance against absence of modesty and the

proper upbringing of kids, empowering them to turn out to be great individuals and Muslims and to bring harmony

also, serenity to society. The promotion of the marriage contract, principles pertaining to family life, and the prohibition of adultery are means of achieving this goal.

The protection of all members of society's wealth is referred to as the protection of wealth and property. It places an emphasis on legitimate (Halal) earning and discourages wealth concentration, which causes a wide gap between the rich and the poor and prevents the rich from meeting their basic needs for food, health, and education. A comprehensive law governing Muamalat (transactions) among members of a society is provided by Islam for this purpose.

The acquisition of knowledge that enables individuals to distinguish between the good and the bad and contributes to the improvement of human society as a whole is referred to as the promotion of human intellect.

The protection of human honor and dignity refers to the prohibition of false accusations, the right to privacy and the importance of a private life.

Secondary Objectives

The primary objectives of Shariaa led to some secondary ones:

1. The establishment of justice and equity in society.
2. The promotion of social security, mutual help and solidarity, particularly to help the poor and the needy in meeting their basic needs.
3. The maintenance of peace and security.
4. The promotion of cooperation in matters of goodness and prohibition of evil deeds and actions.
5. The promotion of supreme universal moral values and all actions necessary for the preservation and authority of nature.

Relating the objectives of Shariaa with human welfare, Muhammad Umer Chapra, an economist at the Jeddah-based Islamic Development Bank (IDB), contends:

“However, if well-being were to be defined in a way that rises above the materialist and hedonist sense and incorporates humanitarian and spiritual goals, then economics may not be able to avoid a discussion of what these goals are and how they may be realized. These goals may include not only economic well being, but also human brotherhood and socio-economic justice, mental peace and happiness, and family as well as social harmony. One of the tests for the realization of these goals may be the extent to which social equality, need fulfilment of all, full employment, equitable distribution of income and wealth, and economic stability have been attained without a heavy debt-servicing burden, high rates of inflation, undue depletion of nonrenewable resources, or damage to the ecosystem in a way that endangers life on Earth. Another test may be the realization of family and social solidarity, which would become reflected in the mutual care of members of society for each other, particularly the children, the aged, the sick, and the vulnerable, and absence, or at least minimization, of broken families, juvenile delinquency, crime, and social unrest.”

He adds:

“The spiritual and humanitarian goals stated above are of equal, if not of greater importance... The material and the spiritual aspects of well-being are not, therefore, independent of each other. They are closely interrelated. Greater family harmony may help raise better individuals to operate in the

market, and better social harmony may create a more conducive environment for effective government and accelerated development. If this is true, then the emphasis on serving self-interest and maximizing wealth and consumption may have to be toned down to some extent to serve social interest and optimize human well-being. Some uses of resources that serve self-interest and fit well into the hedonist framework may have to be reduced to fulfil the needs of all individuals in society and thereby promote family and social harmony.”

Hence, from the study of the Quran and Sunnah, some basic socio-economic rights of human beings have been identified. These rights are:

1. The right to safety.
2. The right to be informed.
3. The right to choose.
4. The right to be heard.
5. The right to satisfaction of basic needs.
6. The right to redress.
7. The right to education.
8. The right to a healthy environment.

Islam requires rulers and different controllers in the framework to shield the majority from hurt what's more, difficulty brought about by corrupt variables in the public eye areas of strength for through compelling regulations, what's more, they ought to be regarded in the feeling of satisfaction of all financial privileges. Institutional and other malpractices must also be curtailed by the state.

Prohibitions in Islamic Finance

Riba

The main issue that distinguishes Islamic finance from conventional finance activities is Riba (Interest).

It is the most debatable and the most crucial issue that have widely applicable effects in Islamic banking and finance system.

In the meantime, application of Riba is the main topic to many discussions throughout the world.

Riba means increasing, growing, accessing, adding, or merely prohibited gain. It could also be defined as “earning money without providing an inverse value”.

hence, extra cash is forbidden as per the Holy Quran and Sunnah. The majority of Muslims worldwide hold the belief that the Quran prohibit taking or paying for anything in addition to the primary money. In Islamic terminology, there is a crucial distinction between earning money from lending loans and earning money from commercial activities.

As Allah said in the Holy Quran on the prohibition of Riba:

“Those who consume interest cannot stand {on the Day of Resurrection} except as one stands who is being beaten by Satan into insanity. That is because they say, “Trade is like interest. But Allah has permitted trade and has forbidden interest”. So whoever has received an admonition from his lord and desist may have what is past, and his affair rests with Allah. But whoever return to [dealing in interest]-those are the companions of Fire, they will abide eternally therein.

Moreover, Allah said also in the Holly Quran to those who take and deal with Riba are at war with almighty Allah and Prophet Mohammad.

Riba forestalls the abundance of Allah's favoring and empowers the unlawful assignment of property has a place with others and damages Muslims' government assistance. So that, in getting and loaning just the central cash should be reimbursed with no extra cash like interests.

Allah said “You who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers, And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal-[thus] you do not wrong, nor are you wronged.”

Riba has been prohibited by the God as the fourth sin of the seven heinous sins after Believing of other Gods, Magic and Murder (Seven heinous sins (Al-Saba al-Mubiqat that hadith from Prophet Muhammad)).

Mohammad also said in his farewell sermon: "God has forbidden you to take Riba, therefore all Riba obligation shall henceforth be waived. Your capital, however, is yours to keep. You will neither inflict nor suffer inequity. Mohammad cursed the one who deals with Riba (Receiver, payer, the one who records it, and the two witnesses to the transaction).

In a nutshell, Riba, or usury, refers to the charging or paying of interest on loans. In Islamic finance, it is considered a form of exploitation and is prohibited.

Some of the reasons why it's prohibited are:

1-Ethical issues: Riba is seen as shift and prompts an inconsistent distribution of wealth.

2-Financial stability: Riba has the potential to contribute to economic crises, defaults, and excessive debt loads.

3- Promoting real economic expansion: Without riba finance coordinates assets towards useful speculations, cultivating feasible turn of events.

4-Social welfare: Prohibition of Riba advances shared liability and comprehensive monetary participation.

5-Alternative financial models: Understanding the downsides of Riba can rouse investigation of moral monetary other options.

Types of Riba

Based on Sunnah, there are two types of Riba. Riba Nasiah and Riba Al-Fadl.

Riba Nasiah: The word "defer" or "wait" is riba nasiah. It is connected with "cash to-cash trade"; which refers to the amount of time given to the borrower to repay the loan in exchange for additional funds. Scholars of Shariaa do not consider this accumulated interest over time to be an asset with value. Due to the absence of a reverse value, it is prohibited to use any additional time or additional funds obtained by delaying repayment of loans.

Riba Al-fadl: It refers to all hand-to-hand exchanges. It is required that “commodities are exchanged for barter instead of cash since there may be differences in the quality of the goods” so that an “unfair increase, being Riba” could emerge.

So Riba is not only limited to money while it includes transactions in which the debtor returns a sum of goods above the original transaction, be it money, commodity, any other item or goods or services; anything in excess of the original agreed agreement is considered as Riba.

Gharar

Gharar implies significant uncertainty in any contract regarding the details of the contract, such as specification, quantity, and quality of the subject matter. Gharar is also there when there is ambiguity about price, mode of delivery, and payment terms.

Gharar (uncertainty) in a transaction can potentially lead to significant losses down the road due to misinformation.

So we have 3 main elements in Gharar (uncertainty) which are matter, quantity and price but we can also go into some Gharar examples:

- Gharar Elmolamsa (Touch sale)

It is when a person touches a garment and does not open it, or buys it in the dark and does not know what is in it. This sale is not permissible; For the existence of ignorance and deceit.

- Contrasting sale

It is when each one throws away his garment to the other without contemplation, and each one says this with this, or the seller or the buyer says: Whatever garment you discard, it is for this and that, so this is a forbidden sale; To prevent it, and the existence of ignorance and deceit.

On the authority of Abu Saeed, may God be pleased with him, that the Messenger of God, may God's prayers and peace be upon him, forbade the Munabadhah – which is: a man throws away his garment by selling it to another man before he turns it over or turns it over. He looks at it - and he forbade touching - and touching is not touching a garment.

- Selling pebbles

It is when the seller or the buyer throws a pebble, so any garment that fell on it was the one sold without contemplation, deliberation, or choice, and this sale is invalid; For the existence of ignorance and deceit.

- Selling the baby of a pregnant animal

It is selling the offspring of a she-animal for a deferred price. If the animal gives birth to a newborn, wait until she becomes pregnant and then gives birth, and this sale is invalid; Because it is a non-existent and unknown sale, and it is not owned by the seller, and he is unable to deliver it for an unknown term, and all of this is forbidden deception.

We can go with more examples like selling a fish in the sea or wool on a sheep
Mohamed (Pbuh) said : Don't buy fish in the sea it is a Gharar.

Types of Gharar

Gharar fahish (excess gharar): It is the clear Gharar that is very visible like the examples above and like the dive strike, telling a diver your dive worth an amount of money for whatever you will fish down there it is a clear Gharar because you don't know the amount.

Gharar yaseer (light gharar): It is the permissible little, and that is because it is seldom that a sale is devoid of a small amount of deception, for example:

While selling a house to you, do you know the foundations on which it was built? no.

Do you know what's inside the walls? no.

Therefore, this is deception, but it is an acceptable deception.

Maysir

Maysir (gambling) is transactions that involve gambling or games of chance are prohibited in Islamic finance. Maysir refers to transactions that rely on chance or uncertainty with the expectation of gaining at the expense of others. and it is forbidden due to its negative effects on distributive justice as well as on the moral standards of earning a livelihood. Since Islam forbids Maysir, it implies that most contemporary financial derivatives, convertible securities and the contemporary system of insurance also stand prohibited if they involve an element of Maysir. In contrast, Islam encourages striving to earn a livelihood through labour and if there is surplus wealth, Islam encourages that it is invested in real productive enterprise and the payoffs shared

from the productive enterprise equitably. This ensures distributive justice, employment of idle resources and circulation of wealth through growing real sector economic activities.

Before going further connecting this to the Shriaa law and the main source of Shariaa law which is the Quran Maysir was mentioned many times in Quran for example:

“They ask you about wine and gambling. Say: 'In them both lies grave sin, though some benefit, to mankind. But their sin is graver than their benefit.’”

“O believers, wine and gambling, idols and diving arrows are an abhorrence, the work of Satan. So, keep away from it, that you may prevail. Satan only desires to arouse discord and hatred among you with wine and gambling, and to deter you from the mention of God and from prayer. Will you desist?”

We can also connect Maysir to Gharar as Gambling is a form of Gharar because the gambler is ignorant of the result of the gamble.

A person puts his money at stake wherein the amount being risked might bring huge sums of money or might be lost or damaged. Present-day lotteries are also a kind of gambling.

So, at the end we could it was very clear the Quran mentions gambling and makes it clear that it is not permissible.

Islamic Banking

Introduction

Islamic banks and Islamic financial institutions (IFIs) also act as middlemen between households with a deficit and units with a surplus in savings. However, a number of instruments have taken the place of the instrument of "interest." Islamic financial institutions must avoid interest and use multiple key instruments for their intermediary activities, whereas conventional banks primarily pay and charge interest on their operations. The striking distinction is that dangers in Islamic banking stay with the possession, because of which, Islamic Banks share benefit or loss.

They collect deposits against pre-agreed service charges or agency fees on the basis of profit/loss sharing and, to a lesser extent, Wakalah.

But what is Wakalah?

Wakalah is a concept in Islamic finance that refers to a contract where one party, known as the principal (muwakkil), appoints another party, known as the agent (wakil), to act on their behalf in conducting a specific financial transaction or managing a particular investment. The principal entrusts the agent with the authority to make decisions and take actions within the boundaries set by the agreement.

In a Wakalah contract, the agent acts as a trustee, responsible for carrying out the delegated tasks diligently and in the best interest of the principal. The agent may receive a fee or a predetermined percentage of profits as compensation for their services. The principal retains the ownership of the assets involved and bears any potential losses arising from the agent's actions.

Wakalah is commonly used in various Islamic financial products and services, such as investment accounts, where the bank acts as an agent for the account holders, managing their funds and making investment decisions on their behalf. It provides a mechanism for individuals and institutions to delegate financial matters to experts while ensuring accountability and adherence to Islamic principles.

When it comes to the assets, they are responsible for any losses that may occur in the event of financing based on Musharakah or Mudarabah and bear risk in trading activities as long as the assets remain in their possession. They acquire the assets for lease, rent them out, and bear ownership-related risks and costs. This suggests that Islamic Banks will continue to serve as intermediaries because they collect savings from a large number of savers and investors for the purpose of financing the requirements of industry, agriculture, and business. However, their method of operation will shift. Products and actual business activities will be the topics of their discussion.

The general outline of Islamic banking as we find in mainstream relevant literature and as briefly depicted by M.N. Siddiqi is as follows:

“Commercial banks will be organized with share capital and will accept demand deposits and investment accounts from the public. They will offer all the conventional banking services like safe keeping, transfers, etc. for a fee. Demand deposits may or may not involve any service charges and they will not bring any return to the depositors. In return for the privilege of using

demand deposits in their normal operations, as is the case in the fractional reserve system, the banks will be obliged to earmark part of these deposits for making short-term interest-free loans. Repayment of these loans and safety of the demand deposits will have to be ensured by the Central Bank through special arrangements.

Deposits in investment accounts may be for specific projects, or left to the discretion of the bank for suitable investment. Investment of bank funds may take the form of partnership, the banks actually, participating in the management of the enterprise, or of profit-sharing advances leaving management to the entrepreneur. Banks may also buy stocks or investment certificates to diversify their portfolios. They may also resort to leasing arrangements covering such items as buildings, ships, planes, industrial equipment, etc. Actual practice may bring in other innovations in the field of profit-sharing investments. The depositors will share banks' profits on a pro rata basis according to agreed percentages.

There will be some provision for short-term interest-free loans to businesses, government and consumers. But the dominant form of transaction in the system will be investment and not lending.

Additions to the supply of money will be largely contingent upon investments directed at creating additional wealth. Though the system has a built-in tendency to prevent concentration of wealth and power, the Central Bank as well as the State will guard against such a possibility and take suitable steps to maintain a balance.”

The Start

In the middle of the 20th century, social finance served as the foundation for Islamic banking. El-Naggar established the Mit Ghamr Islamic Savings Bank in Egypt in 1963. In 1963, Tabung Haji, or Pilgrims Fund Corporation, began operations in Malaysia almost simultaneously to assist Muslims in saving for the Hajj.

Then, the Islamic Improvement Bank (IDB) was laid out in 1974 to offer monetary help to part nations for financial and local area advancement. From that point onward, business banking began in 1970s with the foundation of the Dubai Islamic Bank. Since then, Islamic financial institutions have spread to various regions of the world, including Europe, the Middle East, South Asia, Northern Africa, and East Asia.

Thomson Reuters reports that there were upwards of 1,389 Islamic monetary foundations working all around the world toward the finish of 2017 and at any rate nations have guidelines supporting Islamic money tasks.

Growth of Islamic Banking.

Since the start in the 60s Islamic banks could reach 10 banks in the 70s then more than 200 in the 90s with assets worth around 100 billion dollar until now they are more than 600 Institution with assets under management worth more than 3 Trillion dollar.

Based on report Thomson Reuters Global Islamic Finance, Islamic Banks assets are yearly increasing rapidly.

Table 1.1. Growth in Islamic banking and finance (2012–2017).

Year	Islamic Banking Assets (\$ Billion)	Islamic Finance Assets (\$ Billion)
2012	1,305	1,746
2013	1,565	2,050
2014	1,445	1,965
2015	1,604	2,190
2016	1,675	2,290
2017	1,721	2,438
2023	2,441 (Projected)	3,809 (Projected)

Source: Thomson Reuters Global Islamic Finance Report 2018.

As per the Worldwide Islamic Money Report 2019, worldwide Islamic resources came to \$2.6 trillion in 2018, Table 1.1 gives a preview of development in Islamic banking and Islamic money starting around 2012.

Islamic banking institutions, such as full-fledged Islamic banks and Islamic banking windows of conventional banks, hold up to 71% of the global Islamic financial assets. In 2017, there were 505 Islamic banks and Islamic windows operating worldwide.

Among individual nations, the piece of the pie of Islamic banking in public banking in Saudi Arabia, Kuwait, Bahrain, Qatar, Joined Middle Eastern Emirates, Malaysia, Pakistan, and Indonesia stays at 52%, 46%, 30%, 26%, 22%, 26%, 15%, and 6%, separately. The various nations' proportions of the global Islamic banking assets are shown in Table 1.2.

Since 2012, the Islamic finance industry's assets have increased by a compound annual growth rate (CAGR) of 6%, reaching \$2.6 trillion in 2018. Quarterly board information from 2013 to 2018Q1 in Table 1.3

uncover that productivity in Islamic banks has by and large been amazing.

Furthermore, the cost-to-income ratio is below 50% in Brunei, Egypt, Kuwait, Malaysia, Sudan, and Turkey. But in Bahrain, the gross nonperforming finance proportion is lower than 10% in all nations. It demonstrates low infection ratios and high asset quality in Islamic banking. At long last, the capital ampleness proportion on normal is more noteworthy than 13% in all nations.

Table 1.2. Share of countries in global Islamic banking assets.

Country	Share in Global Islamic Banking Assets (%)
Iran	34.40
Saudi Arabia	20.40
UAE	9.30
Malaysia	9.10
Qatar	6.00
Kuwait	6.00
Turkey	2.60
Bangladesh	1.90
Indonesia	1.80
Bahrain	1.70
Sudan	1.60
Pakistan	1.20
Egypt	0.80
Jordan	0.70
Oman	0.60
Brunei	0.50
Others	1.40

Source: Islamic Financial Services Industry Stability Report 2018.

This shows that Islamic banks are dissolvable and can endure monetary shocks.

There is a critical potential for additional development in empowering monetary consideration in Muslim greater part agricultural nations. Muslims are significantly less likely than non-Muslims to have a formal account or to save at a formal financial institution, according to a survey of 65,000 people from 64 countries. The proportion of adults without a bank account in countries like Djibouti, Afghanistan, Morocco, Iraq, and Niger.

Table 1.3. Islamic banking indicators globally.

Country/ Indicators	Capital Adequacy Ratio (%)	Gross Non- Performing Financing (%)	Return on Assets (%)	Return on Equity (%)	Net Profit Margin (%)	Cost to Income (%)	Liquid Assets to Total Assets (%)
Bahrain	19.0	12.1	1.3	9.8	26.5	82.3	17.6
Brunei	21.2	5.7	1.7	12.3	52.4	40.5	49.9
Egypt	13.5	7.6	2.7	47.9	59.2	31.5	68.4
Indonesia	15.7	4.7	0.9	9.4	9.0	91.1	12.9
Jordan	22.3	3.0	1.7	17.9	48.3	51.7	36.7
Kuwait	18.0	3.0	1.2	10.3	21.4	36.7	32.0
Malaysia	15.7	1.3	1.1	15.2	39.4	41.6	11.2
Nigeria	38.3	1.7	0.1	0.7	4.9	89.9	21.1
Oman	40.7	0.1	-2.0	-3.4	-71.0	158.2	20.4
Pakistan	14.1	6.0	1.0	15.9	24.6	74.8	30.7
KSA	20.3	1.2	2.1	14.4	47.7	52.0	26.3
Sudan	18.7	6.0	2.6	25.7	52.9	43.8	37.1
Turkey	15.5	4.3	1.1	12.4	18.7	49.3	48.7
UAE	16.5	7.9	1.5	12.6	33.9	66.2	15.0

Source: Authors' calculations from IFSB Data.

Britain became the first non-Muslim nation to issue Sukuk, an Islamic bond substitute, in June 2014. Additionally, Singapore and Hong Kong, both of which do not have a Muslim majority, have issued Sukuk in the past. Among the significant organizations, Goldman Sachs what's more, General Electric's GE Capital have additionally sold Islamic bonds before barely any years. The Financial specialist reports that some non-Muslims might be drawn to devout banks for moral reasons since Islamic regulation disallows interests in supplies of organizations which bargain in arms, cocktails, and tobacco.

From here we can mention Islamic Banking in some western countries.

Italy

Italy is perhaps one of the most evolved market in EU. A few fascinating drives have been begun by the Italian government to concentrate on worries and matters corresponding to the presence of Islamic banking and money. In order to promote the possibility of establishing a Shariaa-compliant Mediterranean Partnership Fund, some initiatives have been suspended. Due to the intention of introducing a Shariaa-compliant component, those initiatives, dedicated to promoting small and medium-sized enterprises in the MENA region through equity instruments or semi-equity instruments, may involve the Union of Arab Banks, Arab governments, and Islamic multilateral development banks. Italian banks, on the other hand, have been involved in private-public partnerships in the Gulf Cooperation Council region as well. In addition, Italy and Gulf

Cooperation Council-based institutions have successfully introduced Islamic insurance products through joint trade relations.

UK

The UK's Islamic financial market is regarded as Europe's most advanced, and foreign Shariaa-compliant institutions are quickly making it a primary target. During the 1980s, Islamic banking and funding activities have begun in Britain when the London Metal Trade, which the world place for modern metals exchanging, have offered for the time being store administrations in consistence with Shariaa in view of one critical Islamic banking and money standard which is Murabaha. By the 1990s, institutions from the Gulf Cooperation Council had introduced Islamic mortgages based on the Murabahah principle and provided mortgage financing based on the Ijarah principle, which was the first application and integration of Islamic banking and finance in the UK market. The first Islamic Finance Task Force was created by British authorities in the early 2013s. This task force will boost investment and the UK's economy while also supporting the growth of the Islamic banking and finance sector. On other hand, the team will empower UK to assume significant part in applying Islamic banking in Europe markets.

And here is a list of Islamic Banks and conventional Banks offering Islamic Financing in London, ANZ International, Al Rajhi Banking, Citibank International, Dresdner Kleinwort Benson, Hong Kong & Shanghai Banking Corporation, National Commercial Bank, Riyadh Bank Europe, Standard Chartered Bank, United Bank of Kuwait.

Germany

One of the largest markets for Islamic banking and finance is Germany. Germany has a Muslim population of four million, which ranks second in Europe behind France's 5.5 million. The majority of these Muslims are under the age of forty-nine. Germany is making efforts to make it easier for Islamic banking and finance to operate within its borders. Islamic banking and finance products have the potential to sell for 1.2 billion euros in Germany, according to estimates and a recent consultation. According to a 2010 survey, 72% of Muslims in Germany are interested in products and services related to Islamic banking and finance. Turkey's Kuveyt Turk speculation reserve, which works under the standards of Islamic shariaa regulation, plans to lay out its most memorable branch in Germany.

France

The Islamic Finance Commission was established in December 2007 by Paris EUROPLACE. The French regulator of the financial markets has since issued two placements enabling Shariaa-compliant investment Sukuk listings and funds. Sukuk and four tax rules pertaining to Sukuk, Murabahah, Istisna, and Ijarah have been produced by the Paris stock exchange and announced as a tax treatment comparable to that of conventional financial products. The country's government has taken a number of steps to support and promote Islamic banking. In July 2008, the first initiative to improve and support Islamic banking in France was announced. It included changes to tax laws and regulations. The admission to Sukuk listing on a French-regulated market, the tax

treatment of Islamic financial transactions, and, to a lesser extent, trust reforms are the underlying causes of these modifications. In July 2010, the French specialists made changes and transformations to its regulations to smooth the most common way of giving sukuk. From an existing conventional bank, Islamic banking windows began to be opened in France in June 2011. The fact that the majority of French people are from Algeria, Tunisia, and Morocco is the primary factor behind these successful steps toward opening Islamic branches.

USA

At the consumer level, Islamic banking and financing activities have been included in financing transactions. In 1990, the Office of the Comptroller of the Currency officially recognized the Murabahah and Ijarah models as 33 valid for transactions, making the first attempt to bring Islamic banking and financing to the United States. By 1999 the Dow Jones Islamic Market Index have been created and made for financial backers who look for value Shariaa-agreeable ventures. Islamic banking and money has distinctively filled in the states than in different regions on the planet. The Islamic banking and finance industry in the United States continues to be a small subset of the North American financial sector.

Distinctive features of Islamic Banking

Shariaa Boards

One of the distinctive features of Islamic banking is the existence of a Shariaa board that comprises religious scholars and the influence this board exerts on the operations of the bank. Islamic banks cannot introduce a new product without the prior permission and approval of their Shariaa board and, depending on the affiliation of the religious scholars on the board to any particular school of jurisprudence, this can determine the success or failure of a product with its target clients.

Profit/Loss sharing

The profit-and-loss-sharing arrangements known as mudarabah and musharakah are promoted by Islamic banking. The bank and its customers benefit from a sense of partnership and shared risk thanks to these guiding principles. In order to promote cooperation and fairness, profits and losses are divided according to ratios previously agreed upon.

No Interest

Islamic banking strictly prohibits the charging or paying of interest (riba).

Ethical and Halal investments

Islamic banks place a high value on making investments in sectors and activities that are socially responsible and adhere to Islamic values. They avoid making investments in businesses that are involved in haram-related activities like tobacco, gambling, or alcohol. The development of infrastructure, halal food, healthcare, and renewable energy are all areas that receive investment attention.

Islamic contracts

Muamalat

In general, Islam allows for commerce and trade, and the contracts that apply to it are referred to as Muamalat in the Shariaa. Muamalat are common agreements and all polite agreements can be utilized in Islamic banking and money. Therefore, in the concept of Islamic banking and finance, contracts that are permissible by the Shariaa are used to mobilize deposits, and contracts are also used to apply funds.

Islamic Muamalat (transactions) can be divided into three broad categories as follows:

1. Trading Contracts.
2. Contracts of Profit Sharing.
3. Supporting Contracts.

Types of Muamalat

1- Trading Contracts

Some of the most widely used transactions are;

(A) Cash Sales

1. Normal cash sales
2. Sarf (foreign currency exchanges)
3. Exchanges between ribawi materials of different kinds and of the same basis (gold with money or wheat with palm oil)
4. Bai Al-Dayn (debt trading as in Bills of Exchange)

(B) Deferred payment sales (debt financing)

1. Bai Murabahah (cost plus)
2. Bai Tawliyah (novation)
3. Bai Wadhiah (the deposit of funds or assets by a person with an Islamic bank)
4. Bai Salam (advance purchase and sale)
5. Bai Istisnaa (sale by order)
6. Bai Bithaman Ajil (deferred payment sale)
7. Bai Istijrar (supply or whole sale financing)
8. Bai Inah (a financing facility involves sale and buyback agreement by the seller of an asset with different price)
9. Ijarah (leasing)
10. Kiraa Waqtinaa (leasing then procurement)

2. Contracts of Profit Sharing.

Contracts of participation (equity financing/ profit sharing) are:

1. Musharakah (joint venture profit sharing)
2. Mudharabah (trustee profit sharing)
3. Muzaraah (leasing of land for agriculture)
4. Musaqat (watering of orchard)

3.Supporting Contracts

Contracts that support and facilitate trading as well as the mobilization of capital are also permitted by the Shariaa. These agreements are:

- 1.Rahnu (mortgage)
2. Kafalah (guarantee)
3. Wakalah (agency)
4. Wadiah (safe custody)
5. Qardh Hasan (benevolent loan)
6. Hiwalah (transfer of debt)
7. Tabarru'u (donation)
8. Hibah (gift)
9. Wakf (endowment)
10. Ibraa (rebate)
11. Muqasah (set-off)

Ownership of Assets

Contracts are made with the intention of acquiring asset ownership or benefit ownership.

When there are two contracts, one must be executed immediately after the other in the correct order.

This sequence applies-

- in refinancing (Bai Inah)
- in Ijarah facility where the asset must be purchased for the Ijarah or the asset must be leased for secondary lease.

Real Sale and Purchase

For exchange contracts to be valid, there must be actual buying and selling:

- Assets and mal (assets) must be exchanging hands.

To make contracts genuine and substantial they should have fundamental components with their important conditions.

The Essential Elements of Contracts The Essential Elements of Sale and Ijarah Contracts are as follows:

Sale	Ijarah
seller	lessor
buyer	lessee
asset	asset
price	benefit (use or usufruct)
contract	rental
	contract

Sale VS Lease

1-Contract of Sale

1-1-The contract: Deal and Acknowledgment

- 1- Outright and in unequivocal and conclusive language.
 - either in the past or the present.
 - not in the imperative or future tense.
 - not conditional and not restricted by time.
- 2- The acceptance must accept the offer in full.
- 3- The proposition and acknowledgment should be made at the one and same gathering.

1-2-The Thing Sold

- 1- It must exist
- 2- It must be capable of being delivered.
 - free from encumbrances.
- 3- It must be known
 - by address, description or specifications.
- 4- It must be owned by the seller.
 - or agent, or natural, or appointed guardian of the owner (wali mal).
- 5- It must have some use.
- 6- It must be of pure substance.
 - It must not be of any of the following substances:
 - dogs and pigs
 - any intoxicating liquid
 - carcasses
 - blood, pus and vomit
 - droppings and urine
 - milk of animals not eaten by men.

1-3-The Price

- It must be known in currency and absolute amount.

1-4-The Seller

- 1- He must be capable of taking responsibility.
 - of sound mind (aqil)
 - has attained the age of puberty (baligh)
 - has attained majority (rasheed/ 18 years old)
- 2- He must not be prohibited from dealing with his property.
 - not bankrupt - not reckless
- 3- There is no coercion exerted him.

1-5- The Buyer

Same conditions as for seller.

2. Contract of Leasing (Ijarah)

2-1- Contract: Offer and Acceptance

- 1-In definite and decisive language.
 - in the past or present tense
 - not in the future or imperative tense.
- 2-The acceptance must agree with offer
- 3-The offer and acceptance must be made at the one and same meeting.

2-2- The Asset

- 1-It must be owned by the lessor.
 - or agent, or natural , or appointed guardian of the owner (wali mal).
- 2-It must be specified and known
 - by address description or specifications.
- 3-It must be delivered to lessee
 - in good working condition.

2-3- The Benefit (use or usufruct)

- 1-can be fixed in value
- 2-The lessor has the power and capacity to use and lease the asset
- 3-must be permissible
- 4-must be known
 - the purpose must be known
 - the leasing period must be known.
- 5-It must not be any material part of the asset.

4. The Rental

- currency must be known in and absolute amount

5. The Lessor

6. The Lessee

(same conditions as those for buyer and seller.)

3. Bai Inah

Bai Inah should meet the accompanying prerequisites:

1. Two distinct contracts must be properly executed. First, the bank's sale contract to the customer with deferred payment terms. second the agreement of repurchase by bank from client on cash terms.
2. Due to the fact that all purchases are made in money, the item or asset in question cannot be a ribawi material (gold, silver, or currency).
3. The essential elements must be present in both contracts, and each essential element must satisfy the necessary conditions.

4. Bai Dayn

Shariaa's requirements for Bai Dayn are as follows:

1. A contract for the deferred payment sale of goods or services must have led to the creation of a debt.
2. Either the service or the goods must have been given delivery.
3. The debt must be traded in cash only.

Sukuk

What is Sukuk?

Investment certificates or notes that demonstrate a proportionate interest in the ownership of tangible assets, usufructs, and services, or investments in the assets of specific projects or special investment activities that adhere to the principles of Shariaa are referred to by an Arabic word.

The fundamental rule behind Sukuk, famously known as an Islamic or Shariaa-consistent "Security", is that the holder has a unified proprietorship squarely in a specific resource and is in this manner qualified for the return created by that resource.

Sukuk is an investment and financing instrument that does not pay interest. However, because it adheres to ethical standards and justice, its use is not restricted to Muslims.

What is the origin of Sukuk?

The utilization of Sukuk is definitely not a new peculiarity, it is basically as old as Islam. Sukuk were "papers" used by Islamic communities prior to the modern era to represent financial commitments resulting from trade and other economic transactions. In the 7th century AD, Damascus, Syria, saw the first Sukuk transaction.

Current resurgence of Sukuk has been moved by restored acknowledgment of the idea by the Islamic Fiqh Foundation of the Association of Islamic Nations (OIC) and the Bookkeeping and Examining Association of Islamic Monetary Establishments (AAOIFI). Sukuk structures were made possible by these organizations, which led to the Malaysian government's first successful issuance of Sukuk in 1983. These institutions are standard-setting organizations in the Islamic finance industry.

The creation of Sukuk was motivated by the need to offer a Shariaa-compliant alternative to traditional bonds.

What are the Principles guiding the use of Sukuk?

Sukuk investments and financing must adhere to the following Shariaa principles, which are ethical guidelines derived from Islamic law:

- Sukuk-funded projects must be beneficial and not harmful to society, like dealing with alcohol.
- A valid contract is required for any transfer of property or assets. The activity that the transaction is based on must be permitted by Shariaa and based on mutual consent.
- Exchange should be liberated from unlawful circumstances as trickery, misrepresentation, vulnerability/vagueness that could prompt annihilation or misfortune
- Exchange ought to be liberated from hypothesis and betting
- Interest is taboo/disallowed

- Sukuk should be upheld by or be founded on a few fundamental resources.
- The Sukuk resources should be an obvious (details), physical existing (area) and known property with business esteem (income producing) (for example land, building, apparatus) and claimed by the dealer
- Gets back to Sukuk holders are, however much as could reasonably be expected, created from the income or incomes of the hidden resources like lease , benefit or removal
- Resource can be substantial or theoretical for example advertising freedoms, concession understanding etc.
- A third of a Sukuk's assets must be tangible for it to be tradable.
-

What are the differences between Sukuk and Conventional Bond?

Consideration	Sukuk	Conventional Bonds
Ownership	demonstrates the investors' ownership stake in the underlying Sukuk asset, business, enterprise, or project, which entitles them to a portion of the revenue.	Provide evidence that the issuer owes the bondholders an interest-bearing debt.
Underlying Asset	Sukuks must be backed by a Shariaa-compliant asset.	They can be used to finance any asset, project, or business.
Pricing	Estimated by the worth of the resources backing them.	valuing depends on layaway rating i.e the credit value of the backer with no particular resource for be depended upon.
Returns to investors	When the value of the underlying assets rises, so do the returns on Sukuk.	Bond returns are based on fixed interest.
Sales	When you sell Sukuk, you give up ownership of the assets that support them. In the event of guarantors' default, Sukuk holders will have the resource and they can offer it to different purchasers or keep it as a resource.	The offer of bonds is the offer of obligation.

Guarantee on Returns	Sukuk holders share the risk (loss) of the underlying asset, so the initial investment (principal) is not guaranteed. As a result, the Sukuk holder may or may not receive the entire principal (face value) amount.	Guarantee that the principal will be returned when the loan is redeemed at maturity, regardless of whether the company is profitable or not.
Share of returns	Sukuk holders are qualified for share in the incomes created by the Sukuk resources as well as being qualified for share in the returns of the acknowledgment of the Sukuk resources.	The Investor has no lawful or useful directly over the resource developed from the Bond continues.
Nature of Investment	Sukuk is a mixture instrument in that it consolidates both value (shares in responsibility for resource/venture) and obligation highlights (fixed occasional installments/coupon installments).	It's a tool for debt.

What are the similarities between Sukuk and Conventional Bond?

- Sukuk are issued with specific maturity dates, like conventional bonds.
- They are both tradable protections for example they can be offered to a willing purchaser.
- For the purpose of issuance, both securities can be rated.

What is a Special Purpose Vehicle (SPV) in Sukuk Transaction?

An SPV is a company formed to finance a Sukuk-based project initiated by an obligor, which is a business or government seeking funding.

What are the categories of Sukuk?

Sukuk can be categorized as follows:

- Product-based: 14 distinct types of Sukuk have been established by the AAOIFI, which publishes standards on accounting, auditing, governance, ethics, and Shariaa.

Ijara (Lease), Murabaha (Cost-plus-profit margin sale), Musharaka (Profit & Loss Sharing Partnership), Mudaraba (Profit sharing & Loss bearing Partnership), Istisna (Construction/Manufacturing Financing), Salam (Sale with spot payment but deferred delivery), and Salam are some of the more common types.

- Issuer-based: The issuance of sovereign, sub-national, or corporate sukuk can be used by issuers like companies, financial institutions, and sovereigns to raise money.

What are the Structures of Sukuk?

In most cases, sukuk structuring entails packaging pools of Shariaa-compliant assets or projects, which must be approved by Shariaa advisers before they can be used. The specific contract of exchange of Shariaa-compliant assets is the basis for the structure of sukuk. The leasing of specific assets, participation in joint-venture businesses, or the sale and purchase of an asset with immediate, indefinite, or deferred payment are all examples of such contracts.

The structure to use is determined by the issuer's funding objectives. In accordance with the Sukuk's underlying commercial and contractual foundation, either one structure can be used alone or in conjunction with another.

What is Asset-backed Sukuk?

The investor (the holder of the sukuk) receives a share of a tangible asset or business venture along with a proportionate share of the total risk proportionate to his level of investment in an asset-backed sukuk.

The originator sells the underlying assets to an SPV as trustees in this structure, which holds these assets and issues the backed Sukuk. This is a true sale transaction. In the event of a payment default, Sukuk buyers do not have recourse to the originator. The SPV inherits both ownership's rewards and risks. In the event that Sukuk assets are impaired, holders are required to cover any losses.

Throughout the maturity period, investors retain ownership of the assets, and returns are correlated with asset performance. Sukuk holders have access to assets in the event of default. Sukuk holders suffer losses in the event that returns do not materialize. Musharaka and Mudaraba are two examples of Asset-Backed Sukuk.

what is Asset-based sukuk?

The issuer of an asset-based sukuk acquires the underlying assets and then invests, trades, or leases them on behalf of investors (holders of sukuk) with the funds raised by issuing certificates (sukuk). Most of the time, this structure is a sale-lease to the originator that includes a legally binding promise to repurchase the underlying assets at maturity.

Sukuk holders can only demand that the originator purchase the underlying assets in this structure. As a result, the holders of Sukuk have an unsecured debt claim against the originator that is represented by the payment of the purchase price after the binding purchase promise is fulfilled. This suggests that the underlying assets are not used as collateral and that Sukuk holders do not have full recourse to them.

Asset-based sukuk grant only beneficial ownership to holders, leaving investors with no claim to these assets in the event of default. Because of this, this kind of Sukuk is more like debt or bonds. Murabaha, Salam, and Istisna are all examples of asset-based sukuk.

How is income earned from investing in Sukuk?

The return provided to Sukuk holders by the SPV come in the form of profit from a sale, rental or a combination of both.

Who can invest in Sukuk?

- 1) Families - People and families (neighborhood and unfamiliar inhabitants)
- 2) Private companies - Dealers, Shippers, Experts firms e.t.c
- 3) Affiliations and Associations - Proficient bodies, Agreeable social orders, Understudy Association State run administrations, Worker's organizations, Town Associations, Offices of Trade e.t.c
- 4) Strict Bodies - Holy places, Mosques e.t.c
- 5) Instructive foundations - Essential, Optional and Tertiary
- 6) Corporate substances Banks, Insurance agency, Annuity assets, Assets and Resource Administrators e.t.c
- 7) High organization people
- 8) Legislatures Government organizations, states and nearby legislatures
- 9) Supranational foundations - World Bank, IMF, UN, ADB e.t.c

What are the benefits of Sukuk?

- 1) Sukuk is a tool that domestic issuers (sovereigns and corporations) can use to get funding from a global market with a large investor base and attract direct foreign investment (DFI).
- 2) The issuance of sukuk has the potential to attract capital from domestic investors who invest in accordance with Islamic principles.
- 3) Sukuk, as a venture item, appeal to religious financial backers as well as customary financial backers who are looking for fluid, broadened and alluringly evaluated instruments with stable returns
- 4) Sukuk guarantees that each monetary action is supported by truly monetary movement and consequently advances monetary soundness and genuine financial turn of events.
- 5) Sukuk as investible item fills in as liquidity the board device for banks and other Islamic monetary establishment.
- 6) Sukuk, as an asset class, provides an alternative investment opportunity for the ethically conscious populace and otherwise Sukuk provides an alternative source of funding for developmental and expansion projects When project-based, Sukuk can generate jobs. Sukuk investment is relatively free from default risk Income from Sukuk investment is tax-free in advance markets Sukuk certificate qualify as collateral for interest-free borrowing Sukuk pricing is competitive in relation to other financing modes Sukuk provides an alternative source of funding Sukuk provides an alternative source of
- 7) The issuance of sukuk deepens the domestic bond market to help the economy grow. Sukuk structures require financial institutions to be accountable to lenders, which will help improve

corporate and institutional governance. Investing in sukuk also has a social and ethical benefit for society as a whole beyond the "pure return."

What are the risks of issuing or investing in Sukuk?

Among the many potential dangers to sukuk are:

- **Loan fee risk** - sukuk endorsements are presented in a roundabout way to financing cost variances. The majority of sukuk issues have fixed payments, and investment profit is correlated with benchmarked interest rates. As a result, sukuk value decreases when the market interest rate rises.
- **Risk of liquidity**: Sukuk certificates are typically held until maturity due to the absence of a secondary market that is sufficiently structured and liquid.
- **Shariaa negligence risk**: a chance that an asset's value will be lost if the issuer doesn't follow the rules and principles of Shariaa during the issuance of the sukuk.
- **Credit risk**: the issues' creditworthiness will be negatively impacted by adverse changes in market rates.
- **Risk of foreign exchange**: the assets in the Sukuk pool and the currency in which the Sukuk funds are accumulated will always be affected by unfavorable exchange rate fluctuations.
- **Market risk** - chance of fall in resource esteem.
- **Risk of assets**: the underlying asset's loss or damage.
- **Default risk** is a risk that the buyer or debtor will not be able to pay back the debt when it is due. It involves the possibility that a loan or asset will become unrecoverable as a result of a settlement delay or default. It is additionally connected with conveyance of unacceptable merchandise/tasks or defer by the Provider as against the agreement's details.
- **Exit risk**: the SPV's inability to dispose of the asset or business at the end of the contract. SPV specific risks: the SPV's potential failure to reimburse sukuk holders.

What is Sovereign Sukuk?

A certificate evidencing ownership of an asset or its usufructs issued by an SPV backed up by the Sovereign entity.

What is Sub-national Sukuk?

It is a certificate evidencing ownership of an asset or its usufructs issued by an SPV backed up by state government.

What is Corporate Sukuk?

A certificate evidencing ownership of an asset or its usufructs issued by an SPV backed up by a company

What is Supranational Sukuk?

A certificate evidencing ownership of an asset or its usufructs issued by an SPV backed up by a supranational institution

Which Countries have issued Sukuk?

Today, over 20 countries in Europe, Asia, Middle East and Africa have issued either corporate or sovereign Sukuk with Malaysia and United Arab Emirates at the forefront. Other countries include Bahrain, Indonesia, Iran, Qatar, Kuwait, Pakistan, Saudi Arabia, Singapore, Somalia, Turkey, Brunei, UK, Hong kong, Egypt, Ivory Coast, Senegal, Gambia, South Africa and Nigeria.

What is the current state of global Sukuk Market?

Since the global financial crisis of 2008, the Sukuk market worldwide has continued to experience remarkable growth. From \$15 billion in 2008 to nearly \$120 billion in 2014, annual issuances have increased. Oversubscription was recorded for the majority of Sukuk issuances. For instance, effective demand for the UK's £200 million Sovereign Sukuk sale in 2014 reached £2.3 billion, an increase of 11.5 times. From 587 instruments, outstanding volume of Sukuk reached \$290 billion in 2015.

Islamic Trading

What is Islamic Trading

Islamic finance is a set of financial practices that encourage Muslims to practice ethical financial practices, social welfare, and economic justice. It is based on concepts like risk-sharing, social responsibility, and redistribution of wealth. For Muslims, the Quran is the primary source of divine law and offers direction on all facets of life, including commerce.

To conduct legal and permissible business, Muslims must comprehend Islamic principles of trade and commerce. Corrupt sales were punished because the Prophet (PBUH) emphasized the significance of adhering to these principles. He once said, "Whoever deceives is not of us," for instance. It is considered haram to consume wealth fraudulently, and it is the duty of all Muslims to avoid haram sources of income.

Rules and regulations based on shariaa ensure that trade and business are carried out in a legal and moral manner in Islamic finance. Islamic principles like fairness, justice, and transparency serve as the foundation for these regulations. Interest-based transactions, for instance, are prohibited because they are deemed unfair and exploitative. Instead, Islamic finance advocates risk-sharing, in which parties to a transaction share both gains and losses.

Social responsibility is another Islamic finance principle. This indicates that individuals and businesses ought to support charitable causes and give back to the community in order to contribute to the improvement of society. For instance, Islamic banks frequently have a zakat fund that is used to assist the needy and poor.

Another important Islamic finance principle is the redistribution of wealth. This indicates that wealth should not be concentrated in the hands of a few but rather distributed fairly among all members of society. This is encouraged by Islamic finance in a variety of ways, including the prohibition of hoarding and the encouragement of charitable giving.

In conclusion, Islamic finance is a way of managing money that is based on Islamic principles like sharing risk, being socially responsible, and spreading wealth around. For Muslims to conduct business in a manner that is legal and permissible, it is essential to comprehend these principles. Business and trade are conducted in a legal and ethical manner, and Shariaa-based regulations promote justice, fairness, and transparency. Additionally, Islamic finance encourages wealth redistribution and social responsibility, both of which contribute to the overall welfare of society.

Islamic finance is a financial system based on risk-sharing, social responsibility, and redistribution of wealth principles. Islamic law, also known as Shariaa, is deeply rooted in these ideas. This system, which aims to advance economic growth and social justice, is founded on moral and ethical principles.

Risk sharing is one of Islamic finance's fundamental principles. The benefits and risks of a transaction are shared by both parties under this system. This implies that the loan specialist and

borrower share the benefits and misfortunes of a venture. Because both parties are rewarded for prudent investment decisions, this principle encourages responsible and moral behavior.

One more significant rule of Islamic money is social obligation. This indicates that individuals and businesses have a duty to contribute to society's well-being. Donations to charitable organizations, social projects, and other community-beneficial initiatives are all ways to accomplish this. Businesses are encouraged to be socially conscious and to put society's well-being ahead of profit by this principle.

Another important Islamic finance principle is the redistribution of wealth. The fair distribution of wealth and the narrowing of the wealth gap between rich and poor are both guaranteed by this principle. This is accomplished through a variety of means, such as sadaqah (voluntary charity) and zakat (obligatory charity). These mechanisms support economic stability and redistribute wealth to those in need.

Rules and regulations based on the Shariah ensure that Islamic finance is carried out in a legal and moral manner. Contracts, investments, and financial transactions are just a few of the areas in which these rules provide direction. Additionally, they prohibit gambling, speculation, and charging interest.

For Islamic finance to be legal and permissible, these principles must be understood. Individuals and businesses can promote social responsibility, contribute to society's welfare, and encourage economic development while upholding ethical and moral values by adhering to these principles.

(1) A type in which goods are exchanged, such as in all illegal trade and business;
(2) a type in which wealth is obtained free of charge, such as through theft and usurpation, among other activities. The first type will be discussed in the lines that follow because our topic is prohibited trade.

Fundamental Standards for Exchange Restriction

Considering the contentions of the Quran and Sunnah and the colloquialisms and fatwas of the researchers and legal scholars, the accompanying standards can be set down for proclaiming any exchange as haram:

1. It is haram to exchange whatever is messy/najis (in light of the fact that its food is haram like pork, and so forth.).
2. The exchange of any haram thing is haram (like dead and blood, and so on.).
3. Trading anything that results in a loss for either the seller or the buyer (such as the sale of expired medicines, for example) is forbidden.
4. Cheating in any kind of business, including fish trading in water, is forbidden.
5. Any kind of business that takes place without the consent of the parties, like trying to get someone to sell something, is immoral.
6. Any kind of trade in which either the salable item or its price are unknown, such as dealing with cattle's wombs, is immoral.
7. Any form of trade that the Shariaa forbids, such as dealing after touching, is haram.
8. It is haram to exchange through any haram implies (like bringing in cash through infidelity, and so on.).
9. Gambling in any form (lottery, etc.) is prohibited.

10. Any exchange after the Friday Adhan is haram (like selling caps, books, aromas and toothbrushes outside the mosques after the Friday Adhan or proceeding with one's own business, and so forth.).
11. Trading in things that are against the law—like dogs, cats, and so on—is haram.
12. Trading in anything that encourages sin, such as polytheistic religious leaders' statues and images, is forbidden.
13. It is haram to trade in anything that is not fully owned or in full possession of you. Examples of this include selling something repeatedly while it is in the same place.
14. Any kind of drug trading, including hashish and cannabis, is forbidden.
15. Any exchange which interest is engaged with a way (like taking nine rupees for ten rupees, and so on.) is immoral.

Structure

The following three principals have been attempted to be combined by some academics:

1. It is haram to trade everything that is forbidden, including idols, pigs, carcasses, and all impurities.
 2. Trades based on interest are haram (such as buying two rupees for one, for example).
 3. The trade of birds in the air, fish in the water, and everything else that is unknown is all haram.
- Additionally, a few academics have only mentioned two principles of haram trade:

1. The exchange of each haram thing is haram.
2. Any form of haram trade is prohibited.

In short, it is haram to conduct a business, trade, or make a sale that is against Islamic law.

Disallowed Trading

However, the following four considerations can help us gain a deeper comprehension of haram business:

- 1) The Goods for Which Illicit Trade Is Illegal
 - 2) Some Illegal Forms and Methods of Trade
 - 3) Interest-Based Deals
 - 4) Other Various Haram Sources of Income
- Almost all of the aforementioned principles of illicit trade fall under these four categories. In the lines that follow, a few specifics, examples, and examples of these four are mentioned.

(1) The Items of Haram Trade:

Wine: The deal and acquisition of wine/liquor is expressly taboo in the Shariaa, even in a hadith in which the Blessed Prophet (PBUH) prohibited its exchange the same way as the exchange of bodies, pigs and symbols. Anyone involved in this business is cursed and sinful, not just those who consume alcohol or buy, sell, or trade it. “The one who presses it, the one who has it pressed, its drinker, its carrier, and the one it is carried to, its server, its seller, the one who consumes its price, the one who purchases it, and the one it was purchased for,” thus the ten men involved in wine are cursed. Since the disallowance of wine is the reason for inebriation, so all that has the

nature of inebriation, whether fluid or static, and anything its name and variety, will be haram. As a result, it is haram to buy and sell any and all narcotics, including heroin, hashish, opium, and cannabis, no matter how small or large the quantity is. When it is demonstrated that excessive use of these substances causes intoxication, even a small amount is haram, as the Prophet (PBUH) stated: It is forbidden to consume a small amount of something that becomes intoxicating when used excessively.

Dead Meat: Although the Prophet (PBUH) declared fish and locusts to be lawful despite being dead, Allah Almighty also forbids the purchase and sale of dead meat. However, it is important to keep in mind the opinions of some scholars that it is not prohibited to profit from something that is forbidden to purchase and sell. For instance, even though it is forbidden to purchase and sell a dead body, this does not necessarily mean that the body cannot be used to feed another animal or to burn its fat to light a fire; rather, it is permissible to profit from the sale of a dead body.

Pigs: A Hadith has already been mentioned in this regard. The trade of pigs, whether they are alive or dead, is haram in any case because it is haram in and of itself and also unclean or najis. Hafiz Ibn Hajar has cited the agreement in such manner that exchange all pork/pig's fixings is taboo.

Idols: It is against the law to buy or sell idols because they are shirk-inducing tools or the material from which they are made (stone, wood, etc.). is kosher. Therefore, the trade of anything that is a source of shirk in any way, such as the purchase and sale of pictures of religious leaders and saints, as well as the purchase and sale of audio, video cassettes and CDs of polytheistic naats and polytheistic qawwalis, etc.

Dogs: According to the hadith, the Prophet (PBUH) forbade selling dogs for a price. Considering this hadith, most of researchers have taken the view that trading of any canine is totally unlawful. Notwithstanding, another hadith shows that the hunting canine is an exemption for this denial. According to Hazrat Jabir (R.A.), the Prophet (PBUH) forbade the price of dogs other than those used for hunting. This hadith binds other hadiths that explicitly forbade the sale of dogs; consequently, the sale of all dogs, with the exception of hunting dogs, will be haram.

Cats: According to Hazrat Jabir (R.A.), the Prophet (PBUH) prohibited the price of a cat. Even though there is disagreement regarding the trade of cats, the preferred viewpoint is that it is prohibited by the aforementioned sahih hadith of Hazrat Jabir (R.A.).

Blood: Blood is forbidden in the Holy Quran, and the price of blood is clearly forbidden in the Prophetic Hadith. Because of this, scholars have said that buying and selling blood is haram and have also quoted consensus on it. On the other hand, it is permissible to buy and sell blood in times of extreme need and compulsion because "Necessities allow prohibitions." What's more, there are two bloods whose exchange is legitimate on the grounds that the Prophet (PBUH) pronounced them legal and they are "liver and spleen".

CDs of pornographic music and movies, instruments of play and entertainment, and other items:

The Holy Quran promises severe punishment to those who wish to spread immorality among Muslims, which is why things like these are prohibited. The Hadith of the Prophet (PBUH) also forbids the purchase and sale of singers. The most recent form of this practice may be the sale of cassettes or CDs that contain musicians, pornography, and obscenities. Such business and the pay got from it is haram. Newspapers, magazines, journals, and any other source that spreads pornography are subject to the same rule.

Excess water: Buying and selling excess water is also forbidden in some hadith. According to scholars, the term "excess water" in the hadith refers to water that does not belong to any one person, such as water from desert wells, rivers, canals, or springs. In any case, in the event that the water is one's confidential property (whether it is in pots or in confidential land), then it is admissible to trade it, on the grounds that as per the Prophet's order, it is haram to take one's property without one's assent. Second, this fight will result in conflict and strife if it is prohibited to sell privately owned water and others are considered partners. In this way, in the public interest, the suitable assessment is that individual claimed water can be sold.

- In addition, the sacrificial meat and aqeeqah, mosques or property dedicated to mosques, animal pictures, female animal offspring, and all other haram items, such as those that harm or sin, are prohibited. are the prohibited items, but their specifics are being omitted for the sake of clarity?

(2) A few Haram Structures and Techniques for Trade

Every Form of Deception: Trading in deceit was forbidden by the Prophet (PBUH). A slave bargain, a bird bargain in the air, a fish bargain in the water, etc. A trade whose outcome is unknown—such as the sale of a fugitive slave, the trade of birds in the air, the trade of fish in the water, and so on—is referred to as a "trade of deception." According to Imam al-Nawawi (R.A.), "the prohibition of the trade of deception" is one of the most important principles of the Book of Sales and Trades, which covers a wide range of topics and declares that any transaction involving fraud is void.

Due to the deception, the following are just a few of the kinds of trade that are forbidden in the Prophet's (PBUH) ahadith: to expect the pregnancy of a pregnant creature for example to can hope for a youngster that will be brought into the world by a kid that is still in the belly of a female creature, to deal by basically contacting or discarding something, managing something by concealing its deformity, halting the milk of the creature and selling it further so the purchaser will be tricked by considering it as a milch creature and follow through on more cost for it, managing the crude natural products, expecting crude field in return of grains, anticipating crude dates in return of dried dates, managing organic product on trees for over a year, managing heaps of grain without gauging, expecting non-existent thing in return of non-existent thing, selling meat subsequent to filling air in it, selling milk in the wake of blending water in it, selling fish existing in the water and selling milk existing in the nipples, and so forth.

Bargain a thing before taking possession of it: It isn't admissible to sell grain or whatever else prior to claiming it. The Prophet (PBUH) said: " Don't sell grain you buy before you take possession of it. Another hadith states that it is against the law to profit from something before owning it. For instance, if someone buys something and then sells it before owning it (under a guarantee), the sale is null and void, and it is against the law to profit from it. The meaning of this hadith is that it is permissible for man to profit from anything only when his loss is on him (i.e., he has taken possession of it), and it is not permissible for the buyer to profit from it if the loss is still on the seller. Hagglng without possession: It means to can hope for something not in the vender's possession at the hour of offer, then this type of exchange is illegal. The Prophet (PBUH) said: " Sell nothing that you don't have." Additionally, "Do not sell something that is not in your possession" is a hadith. The current situation is that some housing schemes sell files containing 5,000 plots while only owning 3,000 plots and intending to purchase the remaining plots. If excess land that the scheme owners do not own is sold, it is illegal, and so on. Selling the Conflict Riches before Appropriation: Because the war spoils do not yet belong to anyone, it is forbidden to sell them before they are distributed. The R.A. Hazrat Ibn Abbas stated: Before being distributed, war spoils could not be sold, according to Prophet PBUH.

Dealing with caravans carrying goods on the way: The Prophet (PBUH) said: " Don't meet the goods-carrying caravans right away. The scenario involves the citizen meeting a desert dweller on the way to the city market so that he can purchase goods from him at a lower price than the original price and misrepresent the market price. The goal of prohibition is to protect the seller from harm and fraud.

Increasing the price through bidding: The Prophet (PBUH) forbade the sale of Najsh, which means artificially raising prices. In this case, a bidder just wants to raise the price of the deal to get someone else to buy it even though he doesn't want to. If someone does something with the seller's permission, both parties will be guilty of sin. In some instances, this occurs without the seller's knowledge; in such instances, only the bidder will be held accountable. In other instances, the seller will do so in such a way that he displays a purchase price that is higher than the actual purchase price in order to make people appear pompous; in such instances, only the seller will be held accountable.

Bargaining on someone's bargain: This is a deal wherein the purchaser is given the choice to check the thing for a couple of days so he can return it in the event that he could do without it. A different man appears at the appointed time for authorization and demands that the buyer cancel the transaction with him; I will offer you the best item at a lower cost. It is against the law to buy on sale, just as it is against the law to sell on sale. The circumstance of last option case is, on the off chance that an individual tells the vender during the time of power that assuming that you drop the arrangement, I will purchase exactly the same thing from you at a greater cost. The Prophet (PBUH) precluded such exchanges.

Forcing Someone to Deal: Because obtaining the consent and satisfaction of both parties is a requirement for the sale, this method is not permitted. This sale is invalid because the one who is being forced to sell has no genuine desire to do so. Additionally, the following hadith is cited by the scholars as proof that this sale is invalid: My Ummah has, without a doubt, received forgiveness from Allah for my mistakes, forgetfulness, and forced actions. This hadith makes it

abundantly clear that the person from whom something is forcibly sold is not bound in this instance, rendering such dealing illegal.

Selling Things at High Prices through Hoarding: Islam prohibits hoarding with the intention of taking advantage of people's need for an item and selling it at a price of one's choosing when it is not readily available in the market. However, storing something for personal use at home is perfectly acceptable.

Merchandising and Buying in the Masjid: The Prophet (PBUH) precluded trading in the masjid. At one point, he said, At the point when you see somebody trading in the masjid, say: I pray that Allah will not profit from your business. It was discovered that bargaining or buying or selling anything in the masjid is prohibited. This restriction on haram has been imposed by the majority of scholars. Additionally, the masjid was established solely for religious purposes (prayer, Quranic recitation, and remembrance, among other things). and not worldly matters like buying and selling, for example.

Trading after Friday Adhan: In light of the following Quranic command: "O believers! Imam Ibn Kathir and Imam Ibn Rushd cited the consensus of scholars on this issue as saying, "When the call to prayer is made on Friday, then proceed diligently to the remembrance of Allah and leave off (your) business." The scholars have agreed that buying and selling or any kind of trade and business after the adhan of Jum'ah is prohibited.

- In addition, various forms of illicit trade include dealing with a needy person at a low price, buying donated property yourself, dealing with meat in exchange for live animals, dealing with things without weights, dealing with foreclosure, making a deal that would lead to the separation of blood relations (such as selling two slave brothers separately), and so on.

(3) Interest-based Trades and Deals:

Interest (Sood) is a Persian word and is likewise utilized in Urdu. It refers to "profit." It is referred to as "interest" in English, whereas "Riba," which literally translates to "excess" or "increase," is used in Arabic. "It is surplus property which is free from any compensation according to the Shariaa standard and is conditional on compensation for one of the two sellers," is one literary definition of interest. While another definition is as, "It is a contingent increment which is to be gotten in the arrangements' agreement with no remuneration or right." It is important to keep in mind that interest is only the name given to the increase that must be agreed upon at the time of lending. If there is no condition and the debtor voluntarily pays an additional amount when repaying the debt, then this is not interest; rather, it is a good way to repay the debt that is also supported by Islam. A hadith says that the Prophet (PBUH) borrowed a camel from a man, but when it came time to return it, there was a (better The person who does the best job of paying back his debts is the best among you. Furthermore, there are different interest-based exchanges today that are being legitimized for the sake of exchange and business, regardless of the way that there is a major distinction among interest and exchange, and the greatest contrast is that interest is haram and Exchange is halal, as Allah All-powerful has said, "That is on the grounds that they (the usurers) say, Exchange is the same than interest. Even though the fact of the matter is that Allah has permitted trading and prohibited interest. The following hints can also help you differentiate between interest and trade:

- Interest guarantees profits, whereas trade can result in both profits and losses.
- In revenue, just cash is traded for cash and benefit is made for a specific timeframe, while in exchange, an item/item is traded in return of cash for which difficult work is finished and afterward, because of this work, benefit is gotten.
- The interest contracts get longer and longer, while the trade deals usually

As indicated by usurers' view, as it is on the right track to lease things, so is revenue, and in the event that leasing things, why not money is admissible? Understanding the distinction between interest and rent is necessary to know the answer to this question. Mainly, interest is only the benefit of the progression of time while the lease isn't the progression of time yet the utilization of something. Nobody rents anything that can't be used for advantage; the only thing that can be rented is something that can be used for advantage. To put it another way, rent is paid for something usable, like a car, house, etc. what's more, cash isn't usable (on the grounds that it can't be worn, eaten, and so on.) However, money is only used to buy things, which are then used to get benefits. Furthermore, the leased thing is constantly diminished as a result of the utilization like the utilization of hardware, house, vehicle, and so on., causes a flaw in it, but the total amount, including interest—the profit—is recovered while the loan amount remains unchanged. In addition, in the case of rent, the property rights remain with the owner, whereas in the case of interest, the debtor has complete discretion over how to dispose of the property. With these points in mind, it becomes clear that there is a big difference between rent and interest. It also becomes clear why Allah Almighty has said that rent is allowed and interest is not, so it's best to stay away from interest-based trades in any case. In terms of the abomination of interest, suffice it to say that it has been equated in the Holy Quran with war against Allah and His Messenger. In the hadith, not only is the usurer cursed, but the lowest degree of usury or interest is said to be equivalent to adultery with one's mother. The majority of the Ummah agrees that interest is haram because of its ignominy. Subsequently, any type of exchange, business, trading and exchanges which is absolutely or to some degree premium bearing, whether getting from banks at revenue or vehicle renting, protection or prize bonds, money trade with variances or utilize a Mastercard, etc.

(4) A Few Other Miscellaneous Haram Sources of Income:

Earnings from Adultery: Profit from infidelity are illegal in Islam. As a result, one hadith claims that the Prophet (PBUH) forbade prostitutes from receiving wages. As a result, it is forbidden to conduct pornographic, adultery, prostitution, or nudity-related businesses.

Gambling Earnings: Gambling is regarded as an evil act that people are prohibited from engaging in because it is haram, as stated in the Holy Quran. According to the hadith of the Prophet (PBUH), Verily, Allah All-powerful has illegal for my ummah drinking liquor and including in betting." Therefore, it is forbidden to run a business that involves gambling. As a result, multi-level marketing, lottery tickets, puzzles, raffle tickets, and their profits are all prohibited.

Earnings related to divination, soothsaying and other matters related to the knowledge of the unseen: The Holy Quran also forbids divination, or drawing lots to make decisions. Soothsaying is the practice of predicting unforeseeable future events, and those who do so are known as soothsayers. According to the hadith of the Prophet (PBUH), this practice is also haram: Whoever came to a diviner and affirmed his platitudes, he distrusted in every one of the lessons that have been uncovered to Muhammad (PBUH)." In addition, when Hazrat Abu Bakr (R.A.)

discovered that his slave had given him food in exchange for his soothsaying, he put his finger in his mouth and vomited it all out.⁵⁸ As a result, astrologers, people who tell the location of things that have been lost, etc., are culprits of haram and their profit are haram.

Earnings from begging: According to Hazrat Abdullah bin Umar (R.A.), God's messenger said, "When a man is always begging from people, the result will be that he will come on the day of resurrection with no flesh on his face." The Prophet (PBUH) strongly condemned making begging a profession. This hadith makes it abundantly clear that, with the exception of extreme compulsion, it is not permissible to beg for food.

Bribery: It is also forbidden to take a bribe. Since, from one perspective, it includes eating individuals' abundance in a misleading manner, which Allah has illegal, and on the other, Allah and His Courier have reviled the payoff taker. As a result, taking bribes from others, whether in the form of wealth or something else, is haram. As it is haram to accept hush money, so it is haram to give a payoff. Due to the prohibition against shaving, scholars have also declared that it is haram to shave. In a similar vein, it has been asserted that practicing photography is illegal due to the strict prohibition against taking pictures of living souls.

Summary

Exchange and business are an essential piece of human existence, so knowing its Islamic standards and laws is significant. Since the rule of things (such as deals and business) is that everything is halal except if there is proof of its disallowance. Therefore, it is simple to adopt halal sources of income in accordance with the requirements of Shariaa if the principles and rules that cause a business to fall into the category of haram are known. Taking into account the arguments of the Shariaa and the words of jurists and Imams, the rules and regulations that make any trade haram say that the trade of anything that the Shariaa forbids is haram; the trade of everything that is najis and haram is haram; the trade of anything that is a source of sin is haram; and any kind of trade in which there is dishonesty and cheating, dissatisfaction. Additionally, it is haram to buy and sell in masajids and other places where trade is prohibited by Shariaa, such as after the call to prayer on Fridays. It is haram to exchange any intoxicant, and it is haram to exchange whatever includes usury in any capacity.

Murabaha and Musawamah

Murabaha

Murabaha, a “cost-plus sale”, in which parties bargain on the margin of profit over the known cost price. The seller has to reveal the cost-incurred by him for acquisition of the goods and provide all cost-related information to the buyer.

So in other words it is a Islamic type of sale where the seller makes it clear to the buyer the price and the profit margin and they make a contract upon the deal.

The profit in murabahah can be decided by a mutual agreeing, either in one lump sum or by agreeing on a profit-to-cost ratio.

And everything the seller spends on getting the product, like shipping, customs, and other costs, will be remembered for the expense cost and the increase can be applied on the total expense. Because that as it may, repeating costs of the systematic compensations of the staff, the lease of the premises and so on, cannot be included in the price of each transaction individually. In fact, these costs are covered by the profit claimed above the cost.

Murabahah is valid just when the specific expense of a ware can be found out. On the off chance that the specific expense can't be discovered, the item can't be sold on murabahah premise. For this situation the item should be sold on musawamah (bargaining) premise which we will explain later in this chapter.

Case study:

1. A purchased pair of shoes for 50 Euros. He wants to sell it on murabahah with 10% mark-up. The exact cost is known. The murabahah sale is valid.
2. A purchased a ready - made suit with a pair of shoes in a single transaction, for a lump sum price of 200 Euros. A can sell the suit including shoes on murabahah. But he cannot sell the shoes separately on murabahah, because the individual cost of the shoes is unknown. If he wants to sell the shoes separately, he must sell it at a lump sum price without reference to the cost or to the mark-up.

The best method of supporting as per Shariaa is Mudarabah or musharakah which we will talk about in the next chapter. However, using mudarabah and musharakah instruments in certain areas of financing presents some practical challenges in light of the current economic environment.

Subsequently, the contemporary Shariaa specialists have permitted, dependent upon specific circumstances, the utilization of the murabahah on conceded installment premise as a method of funding. In this regard, however, there are two essential points that must be fully understood:

1. It should never be overlooked that, originally, murabahah is not a mode of financing. It is only a device to escape from “interest” and not an ideal instrument for carrying out the real economic objectives of Islam. Therefore, this instrument should be used as a transitory step taken in the process of the Islamization of the economy, and its use should be restricted only to those cases where mudarabah or musharakah are not practicable.

The second important point is that the murabahah transaction does not come into existence by merely replacing the word of “interest” by the words of “profit” or “mark-up”. Actually, murabahah as a mode of finance, has been allowed by the Shariaa scholars with some conditions. Unless these conditions are fully observed, murabahah is not permissible. In fact, it is the observance of these conditions which can draw a clear line of distinction between an interest-

bearing loan and a transaction of murabahah. If these conditions are neglected, the transaction becomes invalid according to Shariaa.

These conditions are:

1. Murabahah is not a loan given on interest. It is the sale of a commodity for a deferred price which includes an agreed profit added to the cost.
2. Being a sale, and not a loan, the murabahah should fulfil all the conditions necessary for a valid sale, So the commodity ownership must be moved to the buyer immediately not after paying the installments or whatever.
3. Murabahah cannot be used as a mode of financing except where the client needs funds to actually purchase some commodities. For example, if he wants funds to purchase cotton as a raw material for his ginning factory, the Bank can sell him the cotton on the basis of murabahah. But where the funds are required for some other purposes, like paying the price of commodities already purchased by him, or the bills of electricity or other utilities or for paying the salaries of his staff, murabahah cannot be effected, because murabahah requires a real sale of some commodities, and not merely advancing a loan.
4. The financier must have owned the commodity before he sells it to his client.
5. The commodity must come into the possession of the financier, whether physical or constructive, in the sense that the commodity must be in his risk, though for a short period.
6. The best way for murabahah, according to Shariaa, is that the financier himself purchases the commodity and keeps it in his own possession, or purchases the commodity through a third person appointed by him as agent, before he sells it to the customer. However, in exceptional cases, where direct purchase from the supplier is not practicable for some reason, it is also allowed that he makes the customer himself his agent to buy the commodity on his behalf. In this case the client first purchases the commodity on behalf of his financier and takes its possession as such. Thereafter, he purchases the commodity from the financier for a deferred price. His possession over the commodity in the first instance is in the capacity of an agent of his financier. In this capacity he is only a trustee, while the ownership vests in the financier and the risk of the commodity is also borne by him as a logical consequence of the ownership. But when the client purchases the commodity from his financier, the ownership, as well as the risk, is transferred to the client.
7. As mentioned earlier, the sale cannot take place unless the commodity comes into the possession of the seller, but the seller can promise to sell even when the commodity is not in his possession. The same rule is applicable to murabahah.
8. In the light of the aforementioned principles, a financial institution can use the murabahah as a mode of finance by adopting the following procedure:

Firstly: The client and the institution sign an over-all agreement whereby the institution promises to sell and the client promises to buy the commodities from time to time on an agreed ratio of profit added to the cost. This agreement may specify the limit upto which the facility may be availed.

Secondly: When a specific commodity is required by the customer, the institution appoints the client as his agent for purchasing the commodity on its behalf, and an agreement of agency is signed by both the parties.

Thirdly: The client purchases the commodity on behalf of the institution and takes its possession as an agent of the institution.

Fourthly: The client informs the institution that he has purchased the commodity on his behalf, and at the same time, makes an offer to purchase it from the institution.

Fifthly: The institution accepts the offer and the sale is concluded whereby the ownership as well as the risk of the commodity is transferred to the client.

All these five stages are necessary to effect a valid murabahah.

But the most essential element of the transaction is that the commodity must remain in the risk of the institution during the period between the third and the fifth stage.

If the institution purchases the commodity directly from the supplier (which is preferable) it does not need any agency agreement. In this case, the second phase will be dropped and at the third stage the institution itself will purchase the commodity from the supplier and the fourth phase will be restricted to making an offer by the client.

Some Issues Involved in Murabahah

Despite its popularity, Murabaha has faced criticism from some scholars and experts who argue that:

1) It may sometimes resemble conventional interest-based lending too closely, leading to concerns of legal circumvention and exploitation. Some also raise concerns about potential abuses or improper implementations.

2) It lacks the risk sharing

3) Similarity to Interest-based Lending: Murabaha has been criticized for resembling conventional interest-based lending too closely.

Experts in Islamic economics and finance generally advise the use of profit/loss sharing modes and discourage extensive use of Murabaha or other trading modes. But, as its permissibility is beyond doubt and all Islamic banks operating in the world are using this technique excessively as an alternative to the conventional modes of credit, studying Murabaha from the point of view of Islamic banking is crucial, and hence is the subject of the present chapter.

Musawamah

Musawamah is a common type of sale in which the seller and the buyer negotiate the price of the commodity to be traded without considering the price paid or costs incurred by the seller. Hence, it is not the same as Murabaha in regard of the evaluating recipe. In contrast to Murabaha, the seller in Musawamah is not required to disclose his price. The price is up for debate between the parties.

Musawamah also satisfies all other Murabaha-related conditions. When the seller is unable to precisely determine the prices of the goods he is offering to sell, musawamah can be used.

From a juristic perspective, Musawamah can be a cash or credit sale; however, when banks use it, it is typically a deferred payment sale in which they negotiate the price of goods or assets with clients. They won't be required to disclose to their customers the specifics of their profit and cost price in any transaction, but they will add their profit margin to their costs.

In the case of retail goods, a few Islamic financial institutions practice obtaining a discount from the supplier. In such a case, since genuine benefit isn't brought to the notification of the client, it is important that such a deal ought to be led through Musawamah and not Murabaha.

Organizations ordinarily use Musawamah, in that they are intrigued exclusively in benefit, which they acquire through evaluating, while Islamic banks generally use Murabaha. This is because Murabaha makes it easier to use any benchmark directly than Musawamah does. It is simpler for the bank the executives and the controllers to deal with the return rate structure in Murabaha. In addition, corruption is unlikely in Murabaha because the bank will charge a profit margin proportional to the asset's cost, regardless of the asset's price.

Musawamah is more reasonable for single immense exchanges, wherein choices are made regularly at the high level and the cost is haggled between the gatherings. For instance, an aircraft in the Center East might require credit acquisition of a plane costing about 500 Million Euros. An Islamic bank might buy the plane for 450 million Euros, for instance, and offer it to the aircraft subsequent to adding its benefit of 50 million Euros, remembering the credit time frame furthermore, the installment plan. The airline will only be interested in the final price, and the bank will not require details of the cost price. In a similar vein, Musawamah could be utilized for the financing of any and all of these purchases when banks are unable to disclose a number of minute details, as required by Murabaha.

In Musawamah, the agency structure can also be used, but the bank should always buy the assets directly, especially expensive ones. Nonetheless, the bank may include the clients in determination of the provider and the resources for guarantee that the resources being bought by the bank have every one of the determinations mentioned by the client. Banks will use a Musawamah-to-Purchase Orderer structure for assets that have a high price. On the other hand, banks or their specially created subsidiaries can keep inventory for sale to customers on a Musawamah basis as and when the customers demand it for less expensive goods that are generally desired by businesses and the general public.

In Musawamah as in Murabaha, the terms of taking ownership, possession, and the risk to the business of the asset are the same. Before the sale contract with the customer is signed, the bank must take on the risk of the goods that need to be sold later. Likewise, all conditions with respect to topic, installment of the specified cost and the treatment in the event of default, and so on. will be the same as in Murabaha's case. The only difference is that the bank is not required to disclose information about its cost price or profit margin, and the final price of the goods will be the subject of negotiation.

Mudarabah and Musharkah

Mudarabah

In Mudarabah transaction, the owner (Rab Al Mal) provide surplus funds to another party (Mudarib) to be invested in a productive economic action for agreed percentage (Predetermined in the contractual agreement) of the earned profits. During the project cycle, the lender is the only owner (Rab Al Mal) of the project while the borrower is the manager (Mudarib).

Profits will be shared between both Rab Al Mal and Mudarib, but in case of losing, Rab Al Mal is the only party who take the whole risk of any financial losses while Mudarib only loses the effort and time spent in the project. In Mudarabah rules, financial institutions and banks would offer loans to projects, but instead of charging interest, they share profit earned by Mudarib. Banks can indirectly provide loans via firms set up specifically to involve in Mudarabah financing activities. Using Mudarabah financing form, however, the banks provide all the capital needed to fund it, either through loans or in direct equity form. As a result, the bank on the other hand will receive a written document as an agreement contract showing the face value of the commodities of Mudarabah mentioning the details of the financial transactions, those contract can also be traded between banks. The Mudarabah can either finance a single firm with a specific purpose, or a multipurpose firm including various activities, is required and permitted under the Islamic law which is referred as Shariaa. In addition, however, Mudarabah can also have an effect in non-financial activities and projects.

Business of the Mudarabah

The mudarib may be given a specific business by the rab al mal, in which case he must only invest the money in that business. Al-mudarabah almuqayyadah, or restricted mudarabah, is the name for this. However, the mudarib shall be authorized to invest the money in any business he deems appropriate if he has left it open for the mudarib to undertake any business he wishes. “al-mudarabah al-mutlaqah” (unrestricted mudarabah) refers to this kind of mudarabah. A rab al mal can contract mudarabah with more than one person through a single transaction. It means that he can offer his money to both A and B so that each of them can act as mudarib for him. The capital of the mudarabah will be used by both of them together, and the share of the mudarib will be divided between them in the proportion that has been agreed upon. In this scenario, both of the mudaribs will operate the business as if they were partners in and of themselves.

Whatever the case may be, the mudarib or mudaribs are authorized to conduct any business-like activity. Be that as it may, to accomplish an exceptional work, which is past the ordinary everyday practice of the dealers, they can't do as such without express authorization from the rab al mal.

Distribution of the Profit

The parties must agree on a specific percentage of the actual profit to which each is entitled prior to the beginning of the mudarabah for it to be valid. The Shariaa does not specify any particular proportion; rather, it has been passed on to their shared assent. They can divide the profit equally,

but they can also divide it differently between the mudarib and the rabbi. However, they are unable to allocate a single lump sum of profit to any party, nor can they determine which party's share is tied to the capital at a specific rate.

In any case, they can settle on that 40% of the real benefit will go to the mudarib and 60% to the rab al mal or the other way around.

Different proportions can also be agreed upon in different circumstances. "If you trade in wheat, you will get 50% of the profit, and if you trade in flour, you will have 33% of the profit," for instance, the rab al mal could tell mudarib. Likewise, he can say "On the off chance that you do the business in your town, you will be qualified for 30% of the benefit, and assuming you do it in another town, your portion will be half of the benefit."

The mudarib is not entitled to any periodic salary, fee, or remuneration for the work he has performed for the mudarabah other than the agreed-upon portion of the profit that has been determined in the above manner.

Every one of the schools of Islamic Fiqh are consistent on this point. Be that as it may, Imam Ahmad has considered the mudarib to draw his day to day costs of food just from the Mudarabah account.

The mudarib only has this right when he is on a business trip outside of his home city, according to Hanafi jurists. In this scenario, he can claim reimbursement for his own living and food costs, however, he isn't qualified for get anything as day to day remittances when he is in his own city. If the company has made money in some transactions but lost money in others, the profit must be used to make up the lost money first, and any remaining money must be divided between the parties in accordance with the agreed-upon ratio.

Termination of Mudarabah

Any one of the parties to the mudarabah contract has the right to end it at any time. The main condition is to give a notification to the next party. The mudarabah's cash assets will be divided between the parties in accordance with the agreed-upon ratio if, at the time of termination, some profit has been made on the principal amount. However, the mudarib must be given the opportunity to sell and liquidate the mudarabah's assets if they are not in cash, so that the actual profit can be determined. Muslim jurists differ on whether the mudarabah contract can be effected for a predetermined amount of time before automatically ending. The Hanafi and Hanbali schools are of the view that the mudarabah can be confined to a specific term, similar to one year, a half year, and so forth, after which it will reach a conclusion without a notification. In actuality, Shafii and Maliki schools are of the assessment that the mudarabah can't be limited to a specific time.

Be that as it may, this distinction of assessment relates just to the most extreme time-cutoff of the mudarabah. Can the parties also stipulate a minimum period of time within which mudarabah cannot be terminated? The books of Islamic fiqh do not provide an explicit response to this question; however, the general principles that are outlined in them suggest that there is no limit to this, and that either party is free to terminate the contract at any time.

Due to the fact that the majority of commercial enterprises today require time to produce results, this unrestricted power of the parties to terminate the mudarabah at their discretion may present some challenges in the current setting. Additionally, they require complex and ongoing efforts. As a result, terminating the mudarabah at the beginning of the project could be disastrous for the project. Particularly, it may result in a significant setback for the mudarib, who will not be able to

earn anything despite his efforts. In this way, on the off chance that the gatherings concur, while going into the mudarabah, that no party will end it during a predetermined period, besides in determined conditions, it doesn't appear to disregard any guideline of Shariaa, especially in the radiance of the popular hadith, currently cited, which says:

All the conditions agreed upon by the Muslims are upheld, except a condition which allows what is prohibited or prohibits what is lawful.

Musharakah

Islamic finance is a system that encourages social responsibility, equitable wealth distribution, and ethical financial transaction behavior. It is based on concepts like risk-sharing, social responsibility, and redistribution of wealth. Islamic finance is an excellent alternative to interest-based financing because of these principles. In today's capitalist economy, interest is the only instrument that can be used for any kind of financing. However, it is against Islamic law. Musharakah, a type of joint venture in which all partners share in the venture's profits or losses in the context of commerce, may be a significant component of an Islamic-based economy.

Regardless of the debtor's profit or loss, interest predetermines a fixed rate of return on a loan provided by the financier. The debtor will be harmed by this. If the debtor suffers a loss, a creditor's claim to a fixed rate of return is unfair. Additionally, it would be unfair to deprive the creditor of all but a small portion of the profit if the debtor generates a high rate of profit. Musharakah returns, on the other hand, are tied to the actual profits of the business. The greater the profits of the business, the higher the rate of return that the financier will receive on their investment.

In the current economic system, depositors' funds are loaned to traders and industrialists by banks. Wealth is distributed unevenly as a result of this. Industrialists who own only a small portion of the investment receive all of the company's profits, whereas those who own the majority of the investment only receive the fixed interest rate. However, in the event of an industrialist's bankruptcy, the bank and depositors bear the entire loss, while the industrialist only bears a small portion of the investment.

In contrast, Islamic finance favors the common people over the wealthy. The financier must decide whether to share in the debtor's profits or give the debtor a loan for humanitarian reasons. The financier must share in the losses as well if they want to share in the profits. Thus, the financier's musharakah returns have been linked to the actual profits of the business. As bank contributors, the general public shares in the venture's profits. In addition to upholding moral and ethical standards, this encourages social consciousness, equitable wealth distribution, and ethical financial dealings.

Islam, on the other hand, has a clear policy regarding the financier. A financier must decide, in accordance with Islamic principles, whether he is providing the debtor with a loan for humanitarian reasons or to share in the profits. Since his goal is to assist the debtor, he should refrain from claiming any excess on the principal of his loan. However, in order for him to share in his debtor's profits, he must also share in his debtor's losses. As a result, the financier's musharakah returns have been linked to the company's actual profits. The financier will receive a higher rate of return on their investment the greater the company's profits. On the off chance that the undertaking procures tremendous benefits, every last bit of it can't be gotten by the industrialist solely, yet they will be shared by the average folks as contributors in the bank. As a result, musharakah tends to favor the common people over the wealthy.

Islam has advocated musharakah as an alternative to interest-based financing based on this fundamental philosophy. Presumably, musharakah encapsulates various pragmatic issues in its full execution as a general method of funding. There is a common misconception that the musharakah is an outdated instrument that cannot keep up with the ever-increasing demand for swift transactions. Nonetheless, this assumption is because of the absence of legitimate information concerning the standards of musharakah. In point of fact, Islam does not specify a particular format or method for musharakah. Instead, it has established some broad principles that can be adapted to a variety of forms and procedures. A new musharakah form or procedure cannot be rejected simply because there is no precedent for it in the past. As a matter of fact, each new structure can be satisfactory to the Shariaa to the extent that it disregards no fundamental guideline set somewhere near the Sacred Quran, the Sunnah or the agreement of the Muslim legal scholars. Thusly, it isn't required that musharakah be executed exclusively in its customary old structure. The fundamental tenets of musharakah and how they can be applied to contemporary commerce and business are the subject of the current chapter. This conversation is pointed toward presenting musharakah as a cutting edge method of funding without disregarding its essential standards in any capacity. Musharakah has been explained in light of Islamic jurisprudence and the fundamental difficulties that can arise when putting it into practice in today's world. It is hoped that this brief discussion will provide Muslim jurists and economists with new perspectives and aid in the implementation of an authentic Islamic economy.

The Concepts of Musharakah

Social responsibility, wealth redistribution, and adherence to Shariaa-based regulations are the foundations of Islamic finance. It is a method of financing that is moral and good for society. It encourages fair wealth distribution and moral behavior in financial transactions. It is predicated on the idea that the financier must decide whether to lend money for humanitarian purposes or to share in the profits and losses.

"musharakah," which has been introduced in contemporary Islamic financing literature as a type of "Shirkah" and encompasses all forms of partnership and joint ownership, is one of the key concepts in Islamic finance. In today's context, however, it is essential to concentrate on "musharakah" in relation to financing.

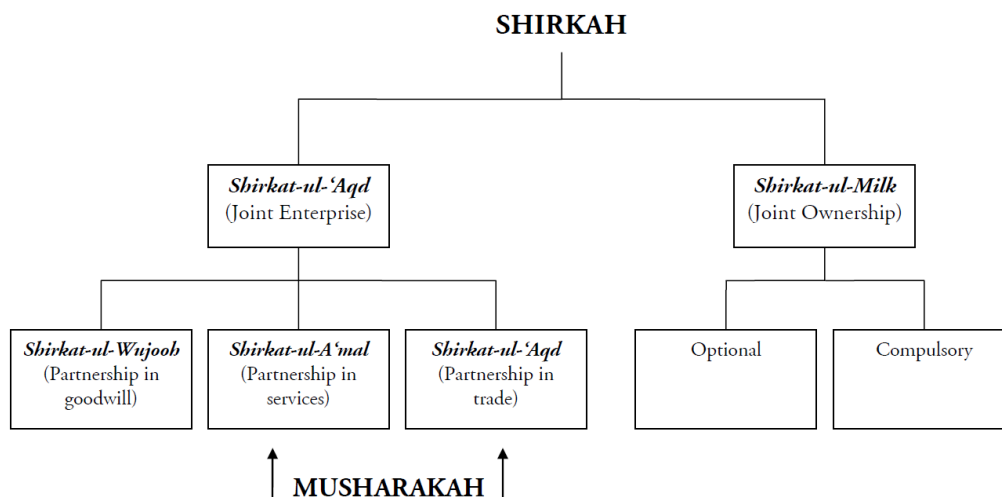
A "Musharakah" partnership is one in which two or more people each contribute capital to a business venture. The partners split the company's profits and losses in proportion to their individual contributions. This is in contrast to conventional financing, in which the borrower repays the loan with interest while the lender provides all of the capital.

In "musharakah," the accomplices have a joint responsibility for business and offer in the dynamic cycle. Since each partner is invested in the venture's success, this fosters a sense of accountability among them. Additionally, it encourages financial transactions to be fair and transparent.

However, there are difficulties associated with "musharakah." Finding partners who share the same vision and goals is difficult, which is one of the main obstacles. Because Islamic finance is governed by Shariaa-based regulations that necessitate specialized knowledge and expertise, the complexity of the legal framework is another obstacle.

Despite these obstacles, "musharakah" has become increasingly popular as a viable alternative to conventional financing in recent years. It is thought to be a more moral and socially responsible method of financing that encourages entrepreneurship and innovation as well as fair wealth distribution.

In conclusion, "musharakah" is a partnership-based method of financing that upholds Shariah-based regulations, redistribution of wealth, and social responsibility. It is a more moral and socially responsible alternative to conventional financing that encourages entrepreneurship and innovation as well as fair wealth distribution.



Basic Rules of Musharakah

Musharakah or Shirkat al amwal is a relationship laid out by the gatherings through a shared agreement. As a result, it goes without saying that this contract must also contain all of the necessary elements. For instance, the parties ought to be able to make a contract; The parties must freely consent to the contract without coercion, fraud, misrepresentation, etc. etc. However, the "musharakah" contract is unique in a number of ways. Here is a summary of them:

1. The extent of benefit to be conveyed between the accomplices should be settled upon at the hour of affecting the agreement. In accordance with Shariaa, the contract is invalid if no such proportion has been established.

2. Each partner's profit share must be calculated in relation to the actual profit earned by the company, not the amount of capital invested by him. It is against the rules to set a one-time sum for any partner or a rate of profit tied to his investment.

As a result, a partnership between A and B that stipulates that A will receive 10,000 per month as his share of the profit and B will receive the remainder is null and void. Essentially, in the event that it is concurred between them that A will get 15% of his venture, the agreement isn't legitimate. The right reason for dispersion would be a concurred level of the genuine benefit accumulated to the business.

Any agreed-upon lump sum or percentage of the investment must explicitly state that it will be subject to the final settlement at the end of the term. This means that any money taken out by any partner will be treated as an "on account payment" and will be adjusted to reflect the partner's actual profit at the end of the term. Be that as it may, assuming no benefit is really procured or is not exactly expected, the sum drawn by the accomplice will must be returned.

3. Is it necessary for each partner's profit to be proportional to his investment in capital? Regarding this issue, Muslim jurists hold divergent viewpoints.

In the perspective on Imam Malik and Imam Shafii, it is essential for the legitimacy of musharakah that each accomplice gets the benefit precisely in the extent of his speculation. In this way, if A has contributed 40% of the all out capital, he should get 40% of the benefit. In accordance with Shariaa, the musharakah is null and void if he agrees to receive more or less than forty percent.

Going against the norm, the perspective on Imam Ahmad is that the proportion of benefit might contrast from the proportion of venture assuming it is concurred between the accomplices with their free assent. As a result, it is permissible for one partner to receive 60% or 70% of the profit while the other partner, who invested 60%, receives only 40% or 30%.

The third view is introduced by Imam Abu Hanifah which can be taken as a through media between the two suppositions referenced previously. He says that the proportion of benefit might vary from the proportion of interest in ordinary circumstances. However, a partner's share of profit cannot exceed his investment if he has expressly stipulated that he will never work for the musharakah and will remain a sleeping partner throughout the period of the musharakah.

Sharing of Loss

But in the case of loss, all the Muslim jurists are unanimous on the point that each partner shall suffer the loss exactly according to the ratio of his investment. Therefore, if a partner has invested 40% of the capital, he must suffer 40% of the loss, not more, not less, and any condition to the contrary shall render the contract invalid. There is a complete consensus of jurists on this principle.

Therefore, according to Imam Shafii, the ratio of the share of a partner in profit and loss both must conform to the ratio of his investment. But according to Imam Abu Hanifah and Imam Ahmad, the ratio of the profit may differ from the ratio of investment according to the agreement of the partners, but the loss must be divided between them exactly in accordance with the ratio of capital invested by each one of them. It is this principle that has been mentioned in the famous maxim: Profit is based on the agreement of the parties, but loss is always subject to the ratio of investment.

Management of Musharakah

The normal principle of musharakah is that every partner has a right to take part in its management and to work for it. However, the partners may agree upon a condition that the management shall be carried out by one of them, and no other partner shall work for the musharakah. But in this case the sleeping partner shall be entitled to the profit only to the extent of his investment, and the ratio of profit allocated to him should not exceed the ratio of his investment, as discussed earlier.

However, if all the partners agree to work for the joint venture, each one of them shall be treated as the agent of the other in all the matters of the business and any work done by one of them in the normal course of business shall be deemed to be authorized by all the partners.

Termination of Musharakah

In any one of the following circumstances, Musharakah is deemed to have ended:

(1) Each accomplice has a privilege to end the musharakah whenever subsequent to giving his accomplice a notification with this impact, by which the musharakah will reach a conclusion. If the musharakah's assets are in cash, all of them will be divided equally among the partners in this scenario. Yet, on the off chance that the resources are not exchanged, the accomplices might concur either on the liquidation of the resources, or on their dispersion or parcel between the accomplices as they are. Because all assets are in the joint ownership of the partners after the termination of musharakah, a co-owner has the right to seek partition or separation, and no one can compel him on liquidation, the latter shall be preferred in the event of a dispute between the partners in this matter, i.e., one partner seeks liquidation while the other partner wants partition or distribution of the non-liquid assets themselves. However, if the assets, like machinery, are so interconnected that they cannot be divided, they will be sold and the proceeds will be distributed.

(2) The musharakah contract with any partner will end if that partner dies during the currency of musharakah. In this instance, his heirs will have the option of continuing with the musharakah contract or taking the deceased's share of the business.

(3) Assuming any of the accomplices becomes crazy or in any case becomes unequipped for affecting business exchanges, the musharakah stands ended.

Combination of Musharakah and Mudarabah

It is typically assumed in a mudarabah contract that the mudarib has not contributed anything to the mudarabah. While rab al mal makes all of the investments, he is only in charge of management. But there might come a time when Mudarib also wants to put some of his money into Mudabah's business. Musharakah and mudarabah are combined in such instances. For instance, A provided for B 100000 Euro in an agreement of Mudarabah. With A's permission, B contributed 50.000 Euros out of his own pocket. This kind of partnership will be considered a combination of mudarabah and musharakah. Here, the mudarib can set aside a certain percentage of the profit from his investment as a sharik for himself, and another percentage can be set aside for his management and work as a mudarib. In the preceding example, the typical method for allocating the profit would be for B to receive one third of the actual profit as a result of his investment, and the remaining two thirds of the profit would be divided equally between them. Notwithstanding, the gatherings might settle on some other extent. The only requirement is that neither partner should receive more than his share of the investment.

Because he has not invested more than two thirds of the total capital, A cannot allocate for himself more than two thirds of the total profit in the preceding example. They can agree on any proportion in the absence of that. One third of the profit will go to B as an investor, and one fourth of the remaining two thirds will go to him as a mudarib, if they have agreed that the total profit will be split equally. A will receive the remainder as "rab al mal.".

Waqf and Bait Al Mal

Waqf

Waqf is a legitimate and strict establishment wherein an individual devotes a portion of his properties for a strict or a beneficent reason. The donor is no longer the owner of the properties after they are declared Waqf. The beneficiaries of a Waqf may profit from the dedicated property's proceeds or corpus, but they are not the Waqf's owners. Allah the All-Powerful alone owns it. The Waqf appears to have been regarded by Muslim jurists as a distinct legal entity with characteristics resembling those of a natural person. This will be obvious from two decisions given by the fuqahaa (Muslim law specialists) in regard of Waqf.

To begin, if a Waqf's income is used to purchase a property, the property cannot automatically join the Waqf. Instead, according to the jurists, the purchased property will be considered Waqf property. It is abundantly clear that, like a natural person, a Waqf can own property.

Furthermore, the legal scholars have plainly referenced that the cash given to a mosque as gift doesn't frame part of the Waqf, however it passes to the responsibility for mosque.

Again, it is accepted that the mosque owns money. This principle has also been explicitly mentioned by some Maliki-school jurists. They have stated that something can be owned by a mosque. They claim that the mosque's capability is constructive, in contrast to a person's physical capability.

Ahmad Al-Dardir, another well-known Maliki jurist, explains why a mosque can own properties and supports a bequest made in its favor. In addition, he applies the principle to a bridge and an inn as long as they are Waqf.

It is obvious from these models that the Muslim legal scholars have acknowledged that a Waqf can possess properties. Clearly, a Waqf is certainly not a person, yet they have regarded it as a person in the question of proprietorship. All of the characteristics of a "juridical person" can be attributed to it once its ownership is established, as it follows that it can sell and buy, become a debtor and creditor, and sue and be sued.

Bait Al Mal

Bait al mal is a public property, all the citizens of an Islamic state have some beneficial right over the Bait al mal, yet, nobody can claim to be its owner. Still, the Bait al mal has some rights and obligations. Imam Al-Sarakhsi, the well-known Hanafi jurist, says in his work "Al-Mabsut": The Bait al mal has some rights and obligations which may possibly be undetermined.

At another place the same author says:

If the head of an Islamic state needs money to give salaries to his army, but he finds no money in the Kharaj department of the Bait al mal (wherefrom the salaries are generally given) he can give salaries from the sadaqah (Zakah) department, but the amount so taken from the sadaqah department shall be deemed to be a debt on the Kharaj department.

It follows from this that not only the Baitul-mal, but also the different departments therein can borrow and advance loans to each other. The liability of these loans does not lie on the head of state, but on the concerned department of Baitul-mal. It means that each department of Bait al mal is a separate entity and in that capacity it can advance and borrow money, may be treated a debtor or a creditor, and thus can sue and be sued in the same manner as a juridical person does. It means that the Fuqaha of Islam have accepted the concept of juridical person in respect of Bait al mal.

Zakat

What Does the Word Zakat Mean?

"increase," as in growth, is the literal or denotative definition of the word "zakat," which is sometimes spelled "zakah." The word likewise implies "endowments" (barakah), "sanitization" (tahârah), or "tribute" (mad^).

Zakat Qialities

Why is Zakat used to refer to charitable giving?

Zakat gets its name from three spiritual motives that are reflected in the Arabic word:

- 1) Those who give their money and property to God's charity are promised a blessing of "growth" in wealth
- 2) The Zakat-Charity "purifies" the person who gives it
- 3) Zaka might mean "sweetening," which means that wealth that Zakat hasn't paid is still bitter in this life and in the afterlife.

When Was Zakat Required? In what Form?

Within the first few years of the Prophet's arrival in Makkah, God instructed believers to contribute to the Zakat-Charity in order to assist those in need. At first, the sorts of abundance it applied to and the sums were not determined. Nearly a decade later, in the second year following the Hijrah (Hegira), just prior to the divine command to fast during Ramadan, Islam's Fourth Pillar of Worship, God described its kind and rates.

What is Zak's unique quality?

It is abundantly clear in the Quran, as well as in the statements, practices, and approvals of the Prophet, that no individual or society can thrive without the implementation of Zakat. On the one hand, it removes sins from the believer's soul, bringing them closer to God and allowing them to experience His pleasure. On the other, it channels a country's thriving to more prominent uniformity between individuals, which considerably decreases their disdain and alienation with each other.

According to Abu Hurayrah, a well-known companion of the Prophet, a Bedouin once asked the Prophet to give him instructions on how to enter Paradise. The Prophet's response was, You should worship God alone and not with anyone else! Unflinchingly lay out the Balat-Petition (in your life). Contribute annually to the Zakat-Charity. And observe the fast during the Ramadan month” (Bukhari, No. 480).

The Quran addresses Zakat in what way?

The Zakat-Good cause goes with the notice of the Balat Prayer in 82 stanzas of the Quran. As a result, it almost always appears alongside the Prayer, Islam's Second (and Most Important) Pillar, which bears witness to the Oneness of God. In the Quran, God's decree is emphasized repeatedly and arranged in this order:

→ You shall [duly] establish the Prayer. And you shall give the Zakat-Charity. And you shall bow [to God in Prayer] along with those who bow [to Him]. (Al-Baqarah, 2:43)

→ Rather, [duly] establish the Prayer. And give the Zakat Charity. And obey [the commandments of] God and His Messenger. (Al-Ahzab, 33:33)

→ Yet you shall [duly] establish the Prayer. And you shall give the Zakat-Charity, and [thereby] lend God a most goodly loan. For whatever good you advance for your souls, you shall find [its reward] with God [in the Hereafter; yet] it shall be far better and much greater in reward. (Al-Muzzammil, 73:20)

Is Paying Zakat Required to Faith?

Making fun of the first pillar of Islam - the testimony of faith (shahada) - is disbelief. Neglecting any of the other four basic pillars of Islam when one is able to do them - including zakat - is a major sin.

If this neglect rises to the point of denial or defiance, many scholars consider it disbelief.

But shouldn't our own wealth be ours as well?

According to Islam, a person's wealth is a loan from God, the true owner of everything. We are merely His trustees, tasked with utilizing and managing God's resources for a specific period of time. As a result, charity is a right that comes from the wealth that we temporarily manage on God's behalf. Also, keep in mind that charity is a debt of worship that men and women owe to God that purges their remaining possessions. The Quran declares:

→ Moreover, give them of the wealth of God that He has given you. (Al-Nur, 24:33)

→ You shall believe in God [alone] and His Messenger! And you shall spend [charitably] out of that [wealth] over which He has made you trustees. Then [as to] those of you who have thus believed and spent, [know that] for them there is a great reward [awaiting in the Hereafter]. (Al-hadid, 57:7)

What distinguishes Zakat from taxes or tithes?

For instance, the government in the United States of America imposes an (increasingly contested) income tax on individual earnings before the earner or his or her family is paid out of those wages.

The totals can stumble, as much as 50%. Numerous perceptive Christians are expected to pay a "tithe" (a word that implies in a real sense a "10th"), consequently at least 10% of their general yearly pay. The Zakat-Good cause is, for the most section, a 2.5 percent installment just on one's "expendable" pay and property — after one satisfies all another's monetary commitments in a solitary lunar year. (Zakat can reach 20% on some types of wealth, but this is a rare exception). The fact is that Zakat is paid on one's "remaining abundance, not "complete" pay or property. Wealth used for necessities like housing, transportation, and food is excluded. That is, Zakat is paid only on the wealth that is left over to you after you have satisfied your own needs and those

of your dependents for a full lunar year, whereas taxes in the United States are paid on your entire income before you even meet your essential needs.

In a nutshell, Zakat is a religious duty of worship that God has ordained to meet the requirements of deserving recipients who fall into one or more of eight categories that God has identified.

When someone gives Zakat, they fulfill their religious obligation to give to the Zakat-Charity. The Zakat recipients will not give them anything in return, not even a thank you. Only God is worthy of reward. On the other hand, the majority of the time, a tax is paid to enable state functions. Consequently, a taxpayer is obligated, at least theoretically, to pay governments for received direct and indirect services.

Therefore, whereas the Zakat-Charity increases, blesses, and purifies one's wealth as worship in this world, for which God alone offers eternal divine commendation to the believer in the Hereafter, taxes reduce one's wealth in exchange for eligibility in certain systems.

How does Zakat Function?

There are Five Mainstays of Islam: the zakat, prayer, fasting during Ramadan, the Hajj pilgrimage, and a declaration of faith. Muslims with incomes above a certain threshold are required to perform the zakat ceremony. It is not to be confused with Sadaqah, which is the act of giving charitable gifts on one's own free will out of kindness or generosity.

Strict texts offer extensive depictions of the base measure of zakat that ought to be circulated to those less lucky. It usually varies, depending on whether wealth came from cattle, farm produce, business ventures, paper currency, or precious metals like gold and silver.

Income and the value of one's possessions are used to calculate zakat. A Muslim's total savings and wealth, or 2.5%, is the common minimum amount for those who qualify.

The people who receive zakat are:

Poor people and penniless

Battling Muslim Converts

Enslaved Muslims

People in Debt

Soldiers who protect Muslim communities

People who were stranded while traveling

Fact: -

Each year, between \$200 billion and \$1 trillion is spent on mandatory alms and voluntary charity across the Muslim world, according to Islamic financial analysts.

How is Zakat calculated?

Muslims ought to take stock of their wealth and possessions. They are required to pay zakat when they reach nisab, or the threshold, which is 87.48 grams of gold or 612.36 grams of silver. The total amount due is 2.5 percent, or 1/40 of their wealth and savings. To figure out their obligations, Muslims can use any number of online zakat calculators.

What are the Zakat regulations?

Every lunar year, individuals are eligible for zakat if they meet a certain threshold known as nisab. This is set at 612.36 grams of silver or 87.48 grams of gold. Zakat is a tax that must be paid by people whose wealth is greater than these amounts. People who don't go over this limit don't have to pay.

What is the minimum amount of wealth that a Muslim must own to Pay Zakat?

If a Muslim reaches nisab, they are required to pay zakat equal to 2.5% of their wealth. A few Muslim nations make zakat required, very much like charges. However, citizens of other nations are not required to do so.

What is Nisab?

Nisab is a term that is frequently used along with zakat. It is the minimum amount of wealth that a person must have to pay zakat, so if you have less wealth than this minimum (in one lunar year) you won't pay zakat for this year. The nisab is set at 612.36 grams of silver or 87.48 grams of gold.

Zakat is not paid by everyone at the same time. That is where nisab becomes possibly the most important factor. When an individual reaches the Nisab during the entire lunar year, they are eligible to pay zakat. Therefore, one person may owe it earlier than another.

There is no set installment date for zakat. However, it is frequently distributed at the conclusion of the year after any remaining wealth has been calculated. A few Muslims accept that paying zakat during Ramadan brings favorable luck.

People must regularly take stock of their wealth and possessions in order to achieve this. This can be done once a week or once a month.

Kharaj

What does the term Kharaj means?

In the early Islamic period, kharaj referred broadly to taxes levied by the Muslim government on certain categories of agricultural produce. By the end of the first century of Islam, most conquered lands outside Arabia were subject to kharaj. The history of kharaj during the first two centuries of Islam is hidden by later reconstructions by Muslim jurists and historians, who tried to portray a consistent system of land tax based on the tradition of the Prophet Muhammad. The term al-kharaj was often confused with jizya (poll tax), a form of tribute imposed on non-Muslims who had a pact of protection with the Muslim state.

Kharaj Laws

What was the Kharaj law based on?

The law of kharaj drew upon several prophetic precedents, such as the defeat of the Jewish inhabitants of the oasis of Khaybar in 7/629. The Prophet treated Khaybar as a booty and opted to distribute four-fifths of it among Muslims who contributed to the conquest of the oasis. However, the Prophet Muhammad and the Jews agreed that the latter stay on their lands and pay half of their produce to Muslims on the grounds that they could work the land more effectively. The conquest of Wadi al-Qura in the same year set the second prophetic precedent used to levy taxes on conquered peoples and their lands. The system underwent continuous change and modification as the Prophet's successors faced varied conditions that defied uniform laws and rules of collection.

What is the most important part in developing El-Kharaj law?

The conquest of al-Sawad during the reign of Umar b. al-Khattab (r. 634–644) is considered the most important episode in the early development of Islamic laws of taxation. The Arab warriors who participated in the capturing of al-Sawad expected to receive landed property as their share of the booty (ghanima). However, Umar decided to treat the lands as common property (fay'), granting the native people the right to cultivate the land and pay taxes to the government. This decision was justified by the belief that the conquered lands belonged to the entire Muslim community and that the revenues generated by taxes would provide a steady source of sustenance for the community, including future generations.

To what was the Kharaj directed for?

The money generated by kharaj and other forms of taxation was directed to the state treasury and used to pay stipends to Muslims in accordance with a pay scale that relied on several criteria, including the degree to which the recipients had contributed to the triumph of Islam. This decision seems to have been informed by the likely consequence that the Arab settlers would lose interest

in the ongoing conquests while being incapable of cultivating the land to the fullest, which would have an adverse effect on the state tax revenues.

To produce accurate accounts of taxpayers and their landed properties, a cadastral survey of the conquered Iraq lands was conducted, and the government issued a ban on the selling and buying of al-Sawad kharaj lands that remained occupied by non-Arabs. The ban was intended to maximize tax revenues from kharaj lands, which would have been subject to a 'ushr (tithe), whose rate was significantly lower than kharaj rates.

How was the Kharaj law evolved?

Kharaj, a mandatory tax for lands categorized as such regardless of ownership, has evolved over time. Muslim jurists and historians have used Umar's decision in al-Sawad as a crucial precedent to rationalize Islamic taxation rules. The method of determining proper taxation relied on a two-pronged approach, considering the method of acquisition and the ethnic/religious background of the original inhabitants. The Islamic categorization of kharaj continued in pre-Islamic regimes, with al-Sawad communities paying the land tax in terms of the total surface area under cultivation (muqasama). In the early Abbasid era, the method underwent a drastic change to determine taxes based on a proportion of the produce (muqasama), leading to a major shift in the Islamic government's economic policy. Different methods of levying land taxes, including a fixed amount (muqataa), were used in different parts of Muslim lands.

Muslim governments in conquered territories relied on the service of former Sassanian and Byzantine tax collectors, who had access to reliable information about their area's demographics, tax rates, and crop yields. With the gradual conversion to Islam, Muslim governments lost most of their revenues from jizya, increasing the significance of kharaj as a major source of government revenues. A loose consensus among Sunni jurisconsults gave the government jurisdiction over kharaj, with rates varying according to locality and practices prevalent in different parts of Muslim majority lands before being replaced by modern laws of taxation. Shia jurists, while sharing certain traditions and definitions with Sunni counterparts, subscribed to methods and rules of kharaj that diverged from those articulated by Sunni jurists.

Ijarah

Ijarah (Leasing) in Islamic fiqh means "to give something on rent" in a lexical sense. The Islamic legal system uses the term "ijarah" in two different contexts. "to employ the services of a person on wages given to him as a consideration for his hired services" is the first definition. The worker is referred to as *ajir*, while the employer is referred to as *mustaajir*.

Therefore, A is *mustaajir* and B is an *ajir* if A has employed B in his office as a manager or clerk on a monthly salary. Similarly, A is a *mustaajir* if he has hired a porter to carry his luggage to the airport; the porter is an *ajir*, and the transaction between the two parties is called *ijarah*. Every transaction in which a person's services are hired by another person falls under this category of *ijarah*. He could be a lawyer, a doctor, a teacher, a laborer, or anyone else who can help in some important way. According to Islamic law, each of them may be referred to as an "*ajir*." The person who hires their services is referred to as a "*mustaajir*," and the wages paid to the *ajir* are referred to as their "*ujrah*."

The second kind of *ijarah* is not related to human services but rather the use of assets and properties. In this sense, "to transfer the usufruct of a specific property to another person in exchange for a rent claimed from him" is the definition of "*ijarah*." In this instance, "*ijarah*" is equivalent to "leasing" in English. The lessee is referred to as "*mustaajir*," the lessor is referred to as "*mujir*," and the rent that is due to the lessor is referred to as "*ujrah*."

Both of these types of "*ijarah*" are extensively discussed in Islamic jurisprudence literature, and each has its own set of guidelines. The second kind of *ijarah*, on the other hand, is more relevant for the purposes of this book because it can be used for both financing and investing.

In the sense of leasing, the rules of *ijarah* are very similar to those of sale because both involve the transfer of something to another person for a valuable consideration. The only difference between *ijarah* and sale is that in the latter, the corpus of the property is given to the buyer; in *ijarah*, the corpus of the property remains in the ownership of the transferor, but only its usufruct, or the right to use it, is given to the lessee. This is the only difference between the two.

As a result, it is clear that "*ijarah*" does not originate as a method of financing. Like a sale, it is a typical business activity. However, this transaction is also being used for financing in Western nations for a variety of reasons, including the possibility of receiving tax breaks. Some financial institutions began leasing equipment to their customers rather than providing simple interest-bearing loans. They add the stipulated interest they could have claimed on such an amount during the lease period to the total cost they have incurred in purchasing these assets in order to determine the equipment's rent. The resulting total is divided by the total number of lease months, and the resulting fixed monthly rent is paid.

The terms and conditions of the contract determine whether leasing can be used as a form of financing in accordance with Shariaa. Leasing, unlike other forms of financing, is a typical business transaction. As a result, the *ijarah*-specific Shariaa rules always apply to the lease transaction. Therefore, let us talk about the Islamic Fiqh's basic guidelines for leasing transactions. We will be able to comprehend the circumstances under which the *ijarah* may be used for

financing after studying these rules.

We will attempt in this chapter to summarize only those fundamental principles that are necessary for the proper understanding of the nature of the transaction and are generally required in the context of modern economic practice, despite the fact that the principles of ijarah are so numerous that a separate volume is required to discuss them in detail. In order for readers to quickly refer to these tenets, they are enumerated here in brief notes.

Basic Rules of Ijarah

1. A lease is a contract in which one party transfers ownership of something to another for a set amount of time and for a set price.
2. The lease must have a useful purpose. As a result, items with no usufruct cannot be leased.
3. Only the usufruct of the leased property is given to the lessee, and the corpus of the property remains in the seller's ownership for a lease contract to be valid. Accordingly, anything which can't be utilized without consuming can't be rented out. As a result, the lease cannot be executed for money, food, fuel, ammunition, and other items. because their consumption is the only way they can be used. Anything of this kind that is leased out will be considered a loan, and as such, all loan transaction rules will apply to it. Any lease charged on this invalid rent will be an interest charged on a credit.
4. Since the lessor still owns the leased property's corpus, the lessor is responsible for all ownership-related obligations, but the lessee is responsible for any obligations related to the property's use.

Example:

A has leased his house to B. B, the lessee, is responsible for all costs associated with the house's use, including water, electricity, and property taxes. A is responsible for property taxes.

5. It is necessary to clearly define the lease period.
6. The leased asset can only be used for the purpose stated in the lease agreement by the lessee. The lessee is free to use it for any purpose they see fit, even if the agreement doesn't specify one. However, unless the lessor specifically authorizes it, he cannot use it for an unusual purpose.
7. Any damage to the leased asset caused by the lessee's misuse or carelessness must be covered by the lessee's payment to the lessor.
8. During the lease period, the leased asset remains at the lessor's risk, meaning that the lessor is responsible for any damage or loss caused by circumstances beyond the lessee's control.
9. A property that is jointly owned by two or more people can be leased out, and the rent will be split among all of the joint owners based on how much each one owns.

10. Only the co-sharer, and not anyone else, can lease a joint owner's proportionate share of a property. The parties must fully identify the leased asset for a lease to be valid.

Example:

"I lease you one of my two shops," A said to B. B approved. Unless the leased shop is clearly identified, the lease is null and void.

12. For the duration of the lease, the rental amount must be determined at the time of contract. As long as the rent for each phase is specifically agreed upon at the time a lease is signed, it is acceptable to set different amounts for each phase throughout the lease period.

13. Any agreement to the contrary is null and void, and the lessor is unable to unilaterally raise rent.

14. Before the lessee receives the asset, the lessor may collect rent in full or in part in advance. However, the rent will be deducted from the lessor's "on account" balance once the asset has been delivered.

15. Regardless of whether the lessee has begun using the leased asset, the lease period begins on the day the asset is delivered to the lessee.

16. The lease will end on the day that the loss occurs if the leased asset has completely lost the function for which it was leased and cannot be repaired. However, the lessee is responsible for paying the lessor the asset's depreciated value as it was prior to the loss if the loss was caused by misuse or negligence on the part of the lessee.

Penalty for late payment

In some agreements of financial leases, a penalty is imposed on the lessee in case he delays the payment of rent after the due date. This penalty, if meant to add to the income of the lessor, is not warranted by the Shariaa. The reason is that the rent after it becomes due, is a debt payable by the lessee, and is subject to all the rules prescribed for a debt. A monetary charge from a debtor for his late payment is exactly the *riba* prohibited by the Holy Quran. Therefore, the lessor cannot charge an additional amount in case the lessee delays payment of the rent.

However, in order to avoid the adverse consequences resulting from the misuse of this prohibition, another alternative may be resorted to. The lessee may be asked to undertake that, if he fails to pay rent on its due date, he will pay certain amount to a charity. For this purpose the financier / lessor may maintain a charity fund where such amounts may be credited and disbursed for charitable purposes, including advancing interest-free loans to the needy persons. The amount payable for charitable purposes by the lessee may vary according to the period of default and may be calculated at per cent, per annum basis. The agreement of the lease may contain the following clause for this purpose:

The Lessee hereby undertakes that, if he fails to pay rent at its due date, he shall pay an amount calculated at ...% p.a. to the charity Fund maintained by the Lessor which will be used by the

Lessor exclusively for charitable purposes approved by the Shariaa and shall in no case form part of the income of the Lessor.

This arrangement, though does not compensate the lessor for his opportunity cost of the period of default, yet it may serve as a strong deterrent for the lessee to pay the rent promptly.

The justification for such undertaking of the lessee, and inability of any penalty or compensation claimed by the lessor for his own benefit is discussed in full in the chapter of murabahah in the present book which may be consulted for details.

Termination of Ijarah

If the lessee contravenes any term of the agreement, the lessor has a right to terminate the lease contract unilaterally. However, if there is no contravention on the part of the lessee, the lease cannot be terminated without mutual consent. In some agreements of the 'financial lease' it has been noticed that the lessor has been given an unrestricted power to terminate the lease unilaterally whenever he wishes, according to his sole judgment. This is again contrary to the principles of Shariaa.

In some agreements of the 'financial lease' a condition has been found to the effect that in case of the termination of lease, even at the option of the lessor, the rent of the remaining lease period shall be paid by the lessee. This condition is obviously against Shariaa and the principles of equity and justice. The basic reason for inserting such conditions in the agreement of lease is that the main concept behind the agreement is to give an interest-bearing loan under the ostensible cover of lease. That is why every effort is made to avoid the logical consequences of the lease contract.

Naturally, such a condition cannot be acceptable to Shariaa. The logical consequence of the termination of lease is that the asset should be taken back by the lessor. The lessee should be asked to pay the rent as due up to the date of termination. If the termination has been effected due to the misuse or negligence on the part of the lessee, he can also be asked to compensate the lessor for the loss caused by such misuse or negligence. But he cannot be compelled to pay the rent of the remaining period.

Salam and Istisnaa

Salam

Salam is a type of sale in which the seller promises to provide the buyer with particular goods at a later date in exchange for an advance payment of the full spot price.

Here, the cost is paid in cash, but the goods that were purchased won't be available immediately. The term "rab al salam" refers to the buyer, "muslam ilaih" refers to the seller, "raas al mal" refers to the cash price, and "muslam fih" refers to the purchased item. However, for the sake of simplicity, I will use the English equivalents of these terms.

The Holy Prophet granted permission for salaam, but only under certain conditions. The primary objective of this sale was to supply the small farmers with the funds they required to cultivate their crops and provide for their families until harvest. They were unable to obtain usury loans following the riba ban. As a result, they were permitted to sell the agricultural products ahead of time.

In a similar vein, Arabian traders utilized to both import and export goods to their homeland. For this kind of business, they needed money. After the riba ban, they were unable to borrow from usurers. As a result, they were permitted to sell the goods ahead of time. They would have no trouble starting the aforementioned business once they received their cash price.

The seller benefited from salam because he received the price in advance, and the buyer benefited as well because salam typically offered lower prices than spot sales. The permissibility of salam was subject to some stringent conditions because it was an exception to the general rule that forecloses on forward sales. The following is a summary of these conditions:

Terms of the Salam:

1. To begin, in order for salam to be valid, the buyer must pay the seller the full amount at the time of the transaction. It is necessary because the Holy Prophet explicitly forbids the sale of a debt against a debt in the event that the buyer does not make full payment. Furthermore, salam is generally accepted because it serves the seller's immediate needs. The primary objective of the transaction will be defeated if the price is not paid in full to him. As a result, all Muslim jurists agree that salam necessitates complete payment of the price. However, Imam Malik is of the opinion that although the seller may grant the buyers a concession of two to three days, this concession should not be incorporated into the agreement.

2. Only goods whose quality and quantity can be precisely specified are eligible for salam. The salam contract cannot be used to sell goods whose quality or quantity cannot be specified. For instance, precious stones cannot be sold on the basis of salam because each piece is typically unique in terms of its quality, size, or weight, and it is typically impossible to precisely specify them.

3. Salam cannot be performed on a specific commodity or product from a specific farm or field. For instance, the salam will not be valid if the seller promises to supply wheat from a particular field or fruit from a particular tree. This is because there is a possibility that the crop from that particular field or fruit from that tree will be destroyed prior to delivery, making the delivery uncertain. A similar rule is pertinent to each ware the stock of which isn't certain.

4. It is essential that the product's quality which is intended to be purchased through salam be fully specified, eliminating any ambiguity that could result in a dispute. In this regard, every possible detail must be explicitly mentioned.

5. The quantity of the product must also be agreed upon in unambiguous terms. The commodity's weight must be determined if it is measured, and if it is measured, the exact measurement should be known if it is measured in weights as used by traders. What is normally weighed cannot be measured, and the opposite is also true.

6. The contract must specify the precise delivery date and location.

7. Items that must be delivered on-site are not eligible for salam. For instance, according to Shariaa, if gold is purchased in exchange for silver, both must be delivered simultaneously. Salam doesn't work here. In a similar vein, for a trade to be valid, wheat and barley must be delivered simultaneously. As a result, the salam contract is not valid in this instance. Because they are based on the explicit ahadith of the Holy, all Muslim jurists agree that salam will not be valid unless all of these conditions are met in full.

- The most famous hadith in this context is the one in which the Holy Prophet Muhammed has said:

Whoever wishes to enter into a contract of salam, he must effect the salam according to the specified measure and the specified weight and the specified date of delivery.

However, there are certain other conditions which have been a point of difference between the different schools of the Islamic jurisprudence. Some of these conditions are discussed below:

(1) It is necessary, according to the Hanafi school, that the commodity (for which salam is effected) remains available in the market right from the day of contract up to the date of delivery.

Therefore, if a commodity is not available in the market at the time of the contract, salam cannot be effected in respect of that commodity, even though it is expected that it will be available in the markets at the date of delivery.

However, the other three schools of Fiqh (i.e. Shafii, Maliki, and Hanbali) are of the view that the availability of the commodity at the time of the contract is not a condition for the validity of salam. What is necessary, according to them, is that it should be available at the time of delivery. This view can be adopted in the present circumstances.

(2) It is necessary, according to the Hanafi and Hanbali schools that the time of delivery is, at least, one month from the date of agreement. If the time of delivery is fixed earlier than one month, salam is not valid. Their argument is that salam has been allowed for the needs of small farmers and traders and therefore, they should be given enough opportunity to acquire the commodity. They may not be able to supply the commodity before one month. Moreover, the price in salam is normally lower than the price in spot sales. This concession in the price may be justified only when the commodities are delivered after a period which has a reasonable bearing on the prices. A period of less than one month does not normally affect the prices. Therefore, the minimum time of delivery should not be less than one month.

Imam Malik supports the view that there should be a minimum period for the contract of salam. However, he is of the opinion that it should not be less than fifteen days, because the rates of the market may change within a fortnight.

This view is, however, opposed by some other jurists, like Imam Shafii and some Hanafi jurists also. They say that the Holy Prophet has not specified a minimum period for the validity of salam. The only condition, according to the Hadith, is that the time of delivery must be clearly defined. Therefore, no minimum period can be prescribed. The parties may fix any date for delivery with mutual consent.

This view seems to be preferable in the present circumstances, because the Holy Prophet has not prescribed a minimum period.

The jurists have prescribed different periods which range between one day to one month. It is obvious that they have done so on the basis of expedience and keeping in view the interest of the poor sellers. But the expediency may differ from time to time and from place to place. Likewise, sometimes it is more in the interest of the seller to fix an earlier date. As far as the price is concerned, it is not a necessary ingredient of salam that the price is always lower than the market price on that day. The seller himself is the best judge of his interest, and if he accepts an earlier date of delivery with his free will and consent, there is no reason why he should be forbidden from doing so.

Certain contemporary jurists have adopted this view being more suitable for the modern transactions.

Istisnaa

Istisnaa is the second type of sale in which a product is bought or sold before it even exists. It refers to placing an order with a manufacturer to produce a particular item for the customer. The istisnaa transaction takes place if the manufacturer promises to produce the goods for him using materials from the manufacturer. However, in order for the istisnaa to be valid, both parties must agree on the price and fully settle the necessary specification of the commodity (intended to be manufactured).

The manufacturer is morally obligated to produce the goods under the terms of the istisnaa contract; however, prior to commencing production, either party may terminate the agreement by giving notice to the other. However, the contract cannot be terminated unilaterally after the manufacturer has begun the work.

Difference between Salam and Istisnaa

Keeping in view this nature of istisnaa there are several points of difference between istisnaa and salam which are summarized below:

- 1- The subject of istisnaa is always a thing which needs manufacturing, while salam can be effected on anything, no matter whether it needs manufacturing or not.
- 2- It is necessary for salam that the price is paid in full in advance, while it is not necessary in istisnaa.
- 3- The contract of salam, once effected, cannot be cancelled unilaterally, while the contract of istisnaa can be cancelled before the manufacturer starts the work.
- 4- The time of delivery is an essential part of the sale in salam while it is not necessary in istisnaa that the time of delivery is fixed.

Takaful

Takaful is form of Islamic insurance based on the tenets of solidarity, shared responsibility, and mutual cooperation among its participants. Its purpose is to safeguard individuals or groups from risks and losses by providing financial assistance.

The Arabic word "kafala," which means to guarantee or care for one another, is the root of the word "takaful." Participants in takaful pool their resources by regularly making donations or premium contributions to a common fund known as the "takaful fund." A company or operator of takaful oversees this fund.

The takaful operator is in charge of risk and claims management and serves as the fund's trustee and administrator. In accordance with the terms of the takaful contract, the fund is used to compensate any participant who suffers a loss or experiences a covered event.

Participants in Takaful contribute to a donation pool that is used to assist those in need, following the "Tabarru" (voluntary contribution) concept. In accordance with Shariaa principles, the surplus from the takaful fund may be distributed to participants in the form of "surplus sharing" or "cash dividends" after meeting all claims and expenses.

Takaful is fundamentally based on adhering to Shariaa. It necessitates adherence to Islamic principles and abstaining from prohibited behaviors like interest (riba), gambling (maysir), and uncertainty (gharar). Contracts and Takaful products are designed to comply with these principles, and Shariaa scholars or boards oversee them to ensure ethical practices.

Takaful covers a wide range of risks, including general liability, life and health, and property. It offers financial security and tranquility within the framework of Islamic principles, protecting individuals and businesses from unforeseen events.

Why Conventional Insurance is Prohibited?

Islam forbids conventional insurance due to a number of fundamental tenets and concerns regarding the moral and financial aspects of insurance contracts:

Riba's interest in: The Islamic prohibition of interest payments and receipts is common in conventional insurance contracts. The insurance company invests the policyholders' premiums, and any returns on those investments typically involve interest-bearing instruments. Interest-based financial transactions are against the law in Islam.

Vulnerability (Gharar): Transactions that involve excessive ambiguity or uncertainty are against Islamic law. Uncertainty about the insured event's occurrence and the amount of compensation to be paid are common features of conventional insurance contracts. The idea of a fair and open transaction is seen as incompatible with this uncertainty.

(Maysir) Gaming: Gambling and speculative activities in any form are strictly forbidden in Islam. Because policyholders pay premiums in the hope of avoiding losses, conventional insurance is sometimes compared to gambling because the insurance company collects premiums from many policyholders and only pays out to those who lose money. It is thought that this element of chance and uncertainty is similar to gambling.

Lack of Solidarity with Others: Conventional insurance is based on the idea of risk transfer, in which people give the insurance company their risks in exchange for paying premiums. The Islamic values of solidarity and mutual aid are seen as at odds with this individualistic approach. In contrast, Takaful promotes a sense of community and social cohesion by emphasizing the pooling of resources and mutual support among participants.

Islamic scholars have concluded, based on these tenets, that the current practice of conventional insurance does not conform to Islam's financial and ethical guidelines. Takaful was developed as an alternative model that adheres to Shariaa principles and provides insurance coverage in a manner that is permitted by Islamic teachings in order to address these concerns.

Shariaa basis of Takaful

In Arabic, the word "Taamein," which means "to reassure, safeguard, and guarantee through indemnity to losses," roughly translates to "insurance." It also means fidelity, loyalty, confidence, and trust, and it more often means guarantee than it does about a group sharing losses together.

Scholars continued to debate this idea for roughly a century. The Takaful idea, on the other hand, is the one that Shariaa scholars finally accepted on a large scale. Takaful requires that the main insurance contract be changed into a contributory arrangement so that losses to members can be covered from the Takaful pool through mutual help and sacrifice.

The Islamic Fiqh Council of the OIC approved the Takaful system, which is based on mutual cooperation, as an alternative to conventional insurance in 1985. Shaikh Abu Zahra, a prominent 20th-century jurist, deliberated on the subject in depth and came to the conclusion that noncooperative insurance is unacceptable because it contains the characteristics of gambling, temptation, and usury that invalidate the contract.⁴

In Islamic commercial law, the concept of takaful is not new. Humans have the right to defend their religion (belief), life, dignity, honor, property, and talent, according to Islam. In the early Islamic Arab society, similar practices such as "A qilah" (kinship; further described below), Qasamah (an oath taken from the murdered's relatives; Mawaalat (a contract in which one party agreed to bequeath his property to the other on the understanding that the benefactor would pay any blood money that may eventually be due by the latter) and the holy Prophet paid blood money of one hundred camels of Sadaqah⁵ in one of these instances.

Modern jurists acknowledge that Takaful was founded on the shared responsibility principle of the "Aqilah" (kin or people in a relationship) system. It was practiced by the ancient Arab tribes and was approved by the Prophet (pbuh). Everybody used to contribute something in the event of a natural disaster until it was over. In a similar vein, the Takaful concept, in which the entire tribe distributed the financial burden of a troubled family through payments, served as the foundation for the concept of 'Aqilah in relation to blood money. Islam accepted this principle of joint responsibility and compensation.

In addition, in the early second century of the Islamic era, a similar institution of mutual aid was established when the Arabs expanding their trade into Asia mutually agreed to contribute to a fund to assist anyone in the group who experienced mishaps or robberies while traveling by sea.

The Takaful system, as an alternative to conventional insurance, embodies the elements of shared responsibility, common benefit, and mutual solidarity on the basis of the preceding principles.

Each policyholder contributes to the support of those in need by paying his subscription. Gharar and excessive uncertainty regarding the rights and responsibilities of the parties to a commercial contract are not accepted by the Islamic finance theory. As a result, the arrangement has included the concept of Tabarru, or donation, as the primary component of the contract. As a Tabarru, a Takaful policy holder agrees to forego all or a portion of the Takaful contributions he has committed to making in order to meet his obligation to assist fellow participants in the event of a specified loss.

Waqf (endowment) is yet another idea and institution that supports the concept of mutual aid. In Islamic Shariaa, the term "waqf" means to keep a property for the benefit of a charitable or humanitarian cause, or for a particular group of people, like family members of the donor. In Islamic law, there are three kinds of waqf:

family Waqf, charitable Waqf, and religious Waqf: Waqf evolves into a distinct entity capable of accepting or transferring ownership. The person who makes the Waqf retains permanent ownership of the Waqf property. The Waqf cannot be sold; The beneficiaries only receive the usufruct. As per the Waqf standards, a part (contributor) can likewise profit from the Waqf. In Takaful arrangements, the Waqf's creator and the group whose members contribute to help each other and compensate for losses are the Waqf's beneficiaries.

In light of the foregoing, jurists have developed a system of cooperative risk-sharing over the course of two or three decades in such a way that, on the one hand, Shariaa's fundamental prohibitions are met and, on the other, the requirements of the socioeconomic and financial framework are met. On a cooperative risk-sharing basis, the contributions of the fortunate many who are exposed to the same risk share in the losses of the unfortunate few. The manager or trustee uses the money in any Shariaa-compliant way to pay claims and run the business. The members of the group are the owners of the underwriting surplus or deficit. The "investment profit," which is distinct from the "UWS/UWL" discussed earlier, provides the pool manager with a return in the form of a fee and/or a share of the profit from the funds' investments in Shariaa-compliant avenues.

How Takaful system works

Based on Wakalah or Mudarabah, a Takaful company runs the business as a trustee or manager. Any insurance policy's operator and partners contribute to the Takaful fund. The Takaful fund pays claims, and the participants share the underwriting surplus or deficit. A portion of the investment fund is also kept in life insurance policies. Wakalah or Mudarabah is the basis upon which the business operator applies the funds. The endorsing excess or shortage has a place with the policyholders/accomplices, while circulation of benefits emerging from the business relies based on Wakalah or Mudarabah.

There are mainly two types of Takaful methods of operation: general Takaful as well as family Takaful or life policies. The life policyholders' contributions are split between a "protection part" (for the Takaful fund and claim payment) and a "savings" or "investment" part if the company is Mudarib; Contributions are divided into three parts if the business operates on a Wakalah basis: a portion for investment, a portion for protection, and a portion for management fees. Individual rights are sacrificed in favor of the Waqf in the protection section, which operates on the donation principle. Individual rights are protected by the Mudarabah principle in the investment and savings portion, and policyholders receive their contributions and profit (less any expenses) at the end of the policy term or earlier if they so choose. In the general Takaful, the participants give up their ownership rights in favor of the Takaful fund, and the UWS/UWL belongs to the participants. The entire contribution is considered a donation for protection. If any claims exceed the fund's available funds and the reserves are insufficient to meet the shortfall, the company will contribute Qard al Hasan to the fund.

Takaful companies can arrange re-Takaful on the same basis as Tabarru, Waqf, and Mudarabah. For this, they pay a predetermined contribution from the Takaful fund to a re-Takaful operator, who in turn aids the Takaful companies in the event of losses.

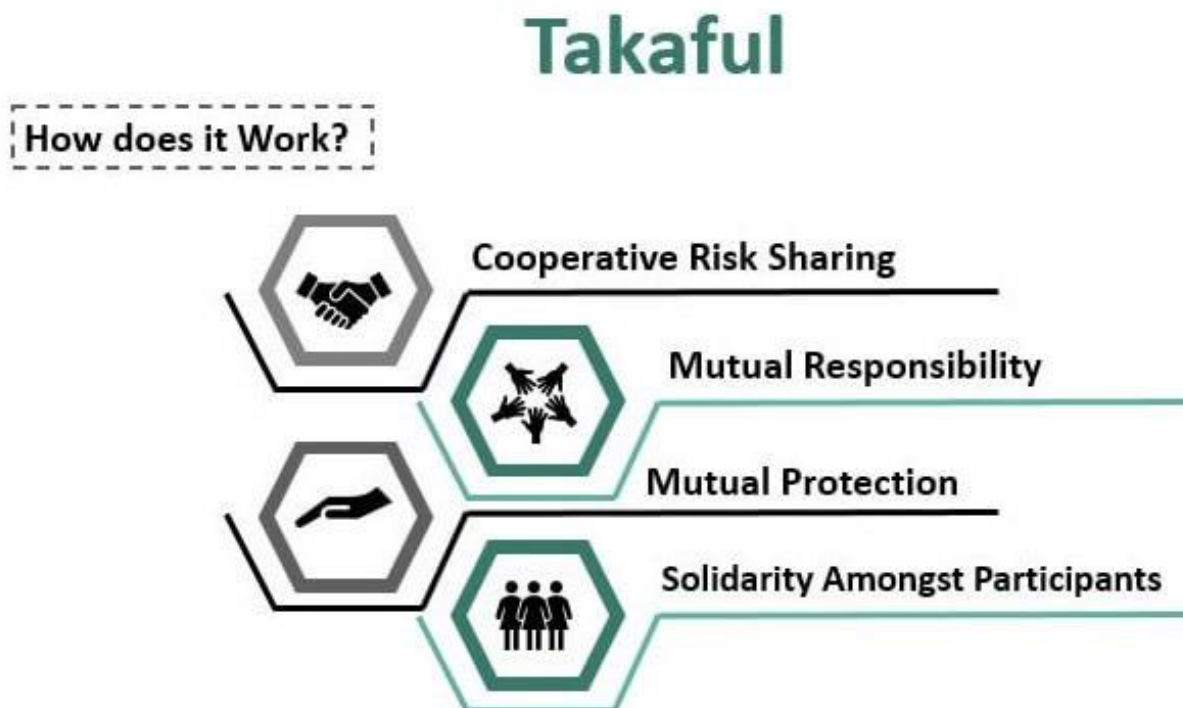
Here, a question regarding Tabarru's treatment or donation arises: However, this is not the case; contrary to popular belief, it is distinct from charity, which, once given, cannot be recouped or benefited from.⁸ Sadaqah is not necessarily present in each donation. The Mudarabah model's operators believe that the Takaful fund becomes a separate legal entity and that the policyholders' protection portion of their contributions is considered it is part in the event of a claim; it is contingent on being utilized to pay the cases and there is a component of excess, which might be given back to the members. Insofar as the funds are not used to pay the claims, the participants retain proportionate ownership of the contribution.

Donations to Waqf are used for the beneficiaries for whom the Waqf was established, even if the amount is considered Tabarru from the beginning. The individual who contributes to the Waqf gives up his right to personal ownership, just like in Sadaqah; However, in contrast to Sadaqah, he is eligible to receive benefits from the fund. Since the Takaful industry has recently adopted a model that incorporates the idea of Waqf, this model is regarded as superior to those that do not. The policyholders' entire or a portion of their contribution is regarded as a contribution to the Waqf fund.

The donation portion that is utilized for the payment of claims is unclaimed by policyholders. The operator invests the funds in the company and distributes the profits to the Waqf fund. As beneficiaries of the fund, policyholders receive any portion of the profits.

The Takaful operators did not differentiate between the "investment profit" and the "underwriting surplus" during the early stages of the system's development. Even now, in many instances, the obligation to assist other participants is fulfilled before the sharing of profit or surplus that may result from Takaful's overall operations.

However, during the ongoing research and discussion, the scholars believed that the participants or policyholders should own the entire UWS/UWL, and the Takaful operator should receive a Takaful fee and/or a portion of the "investment profit."



How takaful solved conventional insurance problems

So, from the above we can see how Takaful incorporates the following key features to address the issues with conventional insurance:

1. Interest Elimination (Riba): Investments that pay interest are avoided by Takaful models. The assets contributed by members are overseen in a way that consents to Shariaa standards, for example, putting resources into reasonable and moral resources, staying away from interest-based exchanges, and complying to Islamic monetary rules.
2. Transparency and Certainty (Gharar): The structure of Takaful contracts is designed to reduce uncertainty. Transparency and fairness for all participants are guaranteed by clearly defining the terms of coverage, contributions, and claims. Participants can make well-informed decisions thanks to the takaful operator's detailed explanations of the fund's operations, finances, and investments.
3. Maysir's Gambling Avoidance: By emphasizing shared responsibility and cooperation, Takaful eliminates aspects of gambling and chance. Instead of paying premiums, participants contribute to a common pool based on tabarru, or voluntary donation. Participants receive assistance from the takaful fund in times of need, and any surplus is distributed fairly among them in accordance with predetermined guidelines.
4. Emphasis on Solidarity with Others: By fostering a sense of community and mutual support among participants, Takaful encourages social solidarity. It is in line with the values of working together, offering assistance to one another, and taking collective responsibility. In order to offer one another financial support and protection during difficult times, participants share risks and benefits together.

Additionally, Shariaa scholars or boards ensure that takaful operations adhere to Islamic principles. In order to guarantee that the takaful contracts, investment strategies, and operational procedures adhere to Shariaa guidelines, they examine and approve them.

Takaful is an alternative Islamic insurance model that meets the need for risk mitigation and financial protection in a Shariaa-compliant manner while also addressing the issues that are associated with conventional insurance.

Conclusion

In conclusion, this comprehensive study has provided a comprehensive comprehension of the principles, practices, and significance of Islamic finance. We have examined various aspects of Islamic finance throughout the study, beginning with a brief history and introduction to the field.

The fundamental role that Shariaa law plays in shaping Islamic finance has been the focus of the research. Financial transactions are guided by Shariaa law, the ethical and legal framework that upholds principles like fairness, justice, and social responsibility. It is essential to comprehend the distinctive nature of Islamic finance to comprehend the principles and goals of Shariaa law.

We have likewise analyzed the disallowances in Islamic money, which depend on the standards of keeping away from revenue (Riba), vulnerability (Gharar), and betting (Maysir). Transparency, ethical conduct, and risk-sharing among participants are the goals of these restrictions.

Sukuk (Islamic bonds), cost-plus financing (Murabaha and Musawamah), partnership-based concepts (Musharakah and Mudarabah), limited liability arrangements (Waqf), the concept of Zakat, leasing (Ijarah), and contract-based arrangements (Salam and Istisnaa) are all examples of financial instruments and practices that fall under the umbrella of Islamic finance.

One critical perspective investigated in this exploration is Takaful, which presents an option Islamic model for protection. While adhering to the ethical guidelines of Islamic finance, Takaful embodies the principles of shared responsibility, cooperation, and solidarity among participants.

Individuals, academics, practitioners, and policymakers who are interested in comprehending and engaging with Islamic finance can use this study as a comprehensive guide. It provides a valuable resource for promoting ethical and inclusive financial systems by highlighting the distinctive characteristics and principles that set Islamic finance apart from conventional finance.

This study emphasizes the significance of incorporating Islamic finance's principles into the mainstream financial landscape, as Islamic finance continues to expand globally. It sheds light on the potential advantages of incorporating social solidarity, risk-sharing mechanisms, and ethical considerations into financial practices, all of which contribute to economic development that is both more sustainable and inclusive.

All in all, this examination develops our insight into Islamic money as well as welcomes further investigation and exploration to keep propelling this powerful field. We can cultivate financial systems that are in line with ethical values and contribute to the well-being of individuals as well as societies as a whole by embracing the principles of Islamic finance and innovatively applying them.

Bibliography

Aamal: Actions or deeds
Aqeeqah: Islamic tradition of sacrificing an animal after the birth of a child
Aqida: Creed
Aqd: Contract or agreement
Akhlaq: Ethics
Ajir: Employer or contractor
Allah: God (the Islamic term for God)
Amwal: Wealth or assets
Anbya: Messengers
Bai Al-Dayn: Sale of debt
Bai Bithaman Ajil: Deferred payment sale or sale with a fixed deferred price
Bai Inah: Sale and buyback agreement with different prices
Bai Istijrar: Supply or wholesale financing
Bai Istisnaa: Sale by order or contract for manufacturing
Bai Salam: Advance purchase and sale
Bai Tawliyah: Novation or substitution of a contract party
Balat: Default or breach of contract
Barakah: Blessings of one's wealth
Bait al mal: Treasury
Ghanima: Spoils of war
Gharar: Uncertainty
Gharar Elmolamsa: Touch sale or sale of unspecified items
Gharar Fahish: Excessive uncertainty or excessive ambiguity
Gharar Yaseer: Minor or acceptable level of uncertainty
Hadith: Recorded sayings and actions of Prophet Muhammad (PBUH)
Hazrat: Title of respect for revered figures
Hiwalah: Transfer of debt or assignment of liability
Hibah: Gift
Ibn: Son of
Ijarah: Leasing
Imam: Prayer leader or religious leader
Ibraa: Rebate or discount
Istisnaa: A type of contract for future delivery
Jummuah: Friday congregational prayer
Kafalah: Guarantee or suretyship
Kharaj: Land tax
Kiraa Waqtinaa: Leasing followed by procurement
Maysir: Gambling
Mal: Money or wealth
Masjid: Mosque or place of worship
Mudaraba: Partnership-based contract
Musharaka: Partnership
Musawamah: Cost-plus financing

Muqasah: Set-off or offsetting of debts
 Muqasama: Equal sharing or division
 Muqayyadah: Restricted or limited
 Muwakkil: Principal (the one who delegates authority)
 Muzaraah: Leasing of land for agriculture
 Najis: Impure or filthy
 Najsh: Slander or false accusation
 Naats: Devotional poems in praise of Prophet Muhammad
 Nawahi: Prohibitions
 Nisab: Minimum threshold for Zakat payment
 PBUH: Peace Be Upon Him (used after mentioning the name of Prophet Muhammad)
 Qasas: Retribution or equal punishment
 Qawwalis: Musical compositions or songs
 Qiyas: Analogy
 Quran: Holy book of Islam
 Rab: Investor or financier
 Rab Al Mal: Capital provider or financier
 Rahn: Mortgage or pawn
 Riba: Interest
 Riba Al-Fadl: Excess in a transaction involving exchange of goods of the same kind
 Riba Nasiah: Usury or interest charged on loans
 Sadaqah: Voluntary charity or alms-giving
 Salah: Prayer
 Salam: Advance payment for future delivery
 Sayyaat: Wrongdoings
 Shariaa: Islamic law
 Shirkah: Partnership or joint venture
 Sukuk: Islamic bonds
 Sunnah: Traditions and practices of Prophet Muhammad (PBUH)
 Surah: Chapter of the Quran
 Tabarru: Donation or contribution
 Ujrah: Fee or compensation
 Ummah: Muslim community or nation
 Wakf: Endowment
 Wadiah: Safe custody or safekeeping
 Wakalah: Agency
 Waqf: Endowment
 Zakat: Obligatory charity

References

Iqbal, Z., & Mirakhor, A. (2011). *An Introduction to Islamic Finance: Theory and Practice*. John Wiley & Sons.

Godlewski, C., R. Turk, and L. Weill, (2013), "Sukuk vs. Conventional Bonds: A Stock Market Perspective,"

Maziad, S., and AlSaeed, K., (2015), "Sukuk Market: Overview and Financial Stability Aspects,"

Siddiqi, M. N. (2006), "Islamic Banking and Finance in Theory and Practice: A Survey of State of the Art,"

UKIFS (2013), *Islamic Finance Report* (October 2013).

Obaidullah, M. (2005). *Islamic Financial Services*.

Usmani, M. T. (2000). *An Introduction to Islamic Finance*.

Wilson, R. (2017). *Introduction to Islamic Banking & Finance: Principles and Practice*. Pearson UK.