

# SUBJECT INDEX

## **AAOIFI**

- accreditation by scholars of, 27
- as leading standard setting body, 28
- as overwhelming majority qualified to derive rulings, 30, 31
- differences between it and Malaysian standard, 31
- harms of less than 100% standardization to, 28
- industry standard, 6
- on ordering Shariah Standards of, seeking approval of scholars to ensure training consistent with standards, 32
- petition for documentation of products' conformity to, 23
- petition for introducing standards at your bank, 22
- scholars hired by training institutes to ensure conformity of training to standards, 31
- standardized training, 26

## **Agency**

- agent (s) in
  - agent's contravention of instructions, 366
  - and surety, 368
  - as guarantor, 370
  - assigning multiple, 366
  - buyer's is seller's, 368
  - delivery by, 370
  - identifying oneself as, 367
  - liability of, 367
  - not informing buyer, 368

- price for, 368
- processing fee, 367
- concurrent, 367
- contract for Murabaha, 365
- fees for, 367
- for bank, 369, 553
- for portfolio management, 365
- single, 367
- terms of, 369
- types of agreements, 365

## **Agribusiness (Sharecropping), 371-374**

- contracts, 372, 373
- definition of, 371
- distribution of yield in, 372
- landowner qualifications for, 371
- land for , 371, 374
- party as a group of individuals, 374
- rent for, 372
- sharecropper
  - compensation for work, 373
  - liability of, 373
  - renting services, 373

## **Asset (Also see Diminishing Musharakah, Ijarah 'asset', Istisna, Murabaha, Salam 'subject-matter', Sale 'goods')**

- and service backing, 17, 49

## **Bai (See Sale)**

## **Baitul Mal, 188**

## **Benchmarking**

in Ijarah, 147, 315, 466  
in Murabaha, 547  
permissibility of, 42

giving away excess wealth as, 383  
recipients of, 383  
ruling on undistributed, 383  
versus fulfilling financial obligation, 384

## **Bequest, 375-379**

beneficiary in, 378, 379  
cancellation of, 375  
definition of, 375  
executors in, 377, 378  
invalid, 376  
limit of, 376  
made to group, 377  
of property of unascertained value, 375  
paying for financial obligation from, 376  
testator in, 377  
when no heirs, 377

## **Collateral, 385-387**

accounts receivable as, 387  
asking for, 385  
bank account as, 385  
bonus shares as, 386  
current account as, 385  
for credit facilities, 387  
interest-based account as, 385  
investment account as, 386  
land as, 386  
machinery as, 386  
receiving before incurring debt, 387

## **Bills of Exchange, 381**

### **Bonds**

outperformed by stocks, 50, 380

### **Books**

recommended reading for Islamic finance entrepreneurs, 358-361  
recommended reading for Islamic finance practitioners, students, 351-357

### **Bribery, 382**

giving and accepting of, 382  
Shariah on, 382

### **Charity**

accepting of, 383  
as time and effort, 384  
classification of, 420

## **Contract(s)**

artificial, 391  
conditions of, 100, 104, 388  
contractual certainty, uncertainty, 18, 49  
execution of, 388  
invalid conditions in, 392  
Islamic finance samples from the State Bank of Pakistan, 192-297  
    interest-free loan agreement, 296-297  
    model Istisna agreement, 262-275  
    model lease agreement, 231-248  
    model Mudarabah financing agreement, 222-230  
    model Murabaha facility agreement, 276-292  
    model Musawamah facility agreement, 194-211  
    model Musharakah investment agreement, 212-221

- model Salam agreement, 249-261
- model syndication Mudarabah agreement, 293-295
- joining, 388
- of valid sale, 104
- rescission of, 107, 108
- rights, obligations for Islamic, 100
- termination of, 388-389, cancellation of, 389-391
- waiving payments in, 391

### **Contractual Uncertainty (gharar) 393**

- definition of, 393
- in sale, 393

### **Conventional Bank(ing), 13**

- Bangladesh's Grameen, 54
- comparison with Islamic banking, 157
- differences with Islamic banking, 48, 49
- features of, 157
- Islamic banking as viable alternative to, 47
- lending above actual cash reserves, 13
- practical comparison with equity based Islamic banking, 50-52
- sample letter for promoting awareness at, 59
- similarities with Islamic banking, 50

### **Currency (and precious metals), 394-408**

- agreeing to sell at predetermined rate, 400
- (as) gold and silver
  - agency in the sale of, 406
  - buying cash with, 395
  - delivery of, 404
  - gold-based currency, 6
  - guaranteeing, 405

- paying cash for, 404
- promise to purchase, 406
- spot purchase of, 395
- stones set in, 403
- trading, 395, 403-405, 422
- transactions on gold market, 406
- as medium of exchange, 407
- (as) other precious metals
  - deferred payments for, 403
  - promise to purchase, 404
- buying
  - back notes of, 398
  - foreign currency, 400
- commissions on transfers, 402
- deferring receipt of, 402
- delivery of, 407
- exchange, 394-400
  - preferential rates, 401
  - trading foreign at spot, 408
  - rules for, 407
- forward contracts of, 407
- forward trading of, 396
- investment in foreign, 400
- overdrawn accounts, 398
- promise to buy, sell, 398, 399, 400
- purchasing for cash, 400, for credit, 401
- trading in, 402
- transfers
  - deposit, 402
  - to and from abroad, 396
- selling rates for, 396

### **Debt (Also see Loan)**

- as interest-based, personal, student loan, 15
- inheritance under, 189-190
- laden developing country, 11

prohibition of transactions based on, 16  
transfer of, 409

### **Diminishing Musharakah**

assets (in)  
    to purchase, 13, 126-127  
    to lease, 569  
concept of, 126, definition of, 572  
uses of, 131  
    for business of services, 129-130  
    for housing finance, 14, 39, 126  
        steps of, 127-129, 569,  
        572  
    transactions for, 127  
in trade, 130

### **Documentary Credit 410-411**

approximation of value for, 411  
client and, 410  
    when unable to pay, 411  
commission from foreign bank for, 543  
repaying, 410

### **Employment, 412-415**

cancellation of contract of, 412  
in lawful, unlawful business, 412  
    dealing in futures, options, 415  
    recording interest-based transactions,  
    413  
    facilitating interest-based transactions,  
    413  
worker/employee  
    accepting wages for work not done,  
    414  
    accountability for loss, 414  
    compensation, 413  
    non-compete clause in contract for, 414

secret monitoring of, 413  
permissibility of 401K plan in, 415

### **Endowment (Waqf)**

assigning to non-beneficiary, 417  
buying, selling within, 417  
classification of, 417, 420  
concept, definition of, 187-188, 416  
of consumable item, 416  
of usufruct, 416  
proceeds of, 416  
returning stolen, 417  
sale of under Murabaha, 556  
ushr on, 418  
using for personal gain, 417

### **Equity (See Mudarabah, Musharakah)**

### **Ethica**

about, 667-668  
    CIFE, 670-674  
contact, 679  
in the news, 676-677  
sample letter for promoting awareness at  
conventional bank, 59  
sample letter for promoting awareness at  
Islamic bank, 60  
selected media coverage of, 678

### **Factors of Production**

capitalist, Islamic, socialist view on, 73-78

### **Fatwa**

when accrediting Islamic finance training,  
25  
harms of 'shopping for', 28  
reliance on, 30

### **Finance (Also see Islamic Finance)**

difference between Islamic and conventional, 9, 10, examples of, 11-16  
conventional micro, 54  
cost differences between Islamic and conventional home finance, 41  
export, 173-174  
import, 172  
project, 167-168  
venture capital, 62  
working capital, 169-171

### **Financial Collapse (global), 10**

### **Gambling**

Maisir, 331, 419

### **Gift, 452-454**

accepting , giving, 452, 454  
of share of undivided property, 453  
restricting usage of, 452  
returnability of, 454  
taking back, 453  
validity of mistakenly given, 454

### **Guarantee, 455-459**

charging for, 455  
demanding, 456  
from purchase pledger, 456  
fees for, 456, 457, 458  
for conventional bank, 455  
for clients payments, 457  
for transfer of value of goods, 458  
from conventional bank, 456  
guarantor in, 455, 457

of one party for principal or profit of another, 459  
permissibility of guaranteed capital, 458  
voluntary in Mudarabah, 456

### **Home Finance (Also see Diminishing Musharakah)**

concept of ownership, 44  
difference between conventional and Islamic, 39  
extricating oneself from interest based loan for, 44  
impermissibility of conventional in Muslim or non-Muslim lands, 40  
impermissibility of conventional to establish Muslim communities in the West, 39, 40  
importance of reading actual contract to ensure Shariah consistency, 43  
permissibility of benchmarking for, 42  
permissibility of conventional in certain situations, 40, 41  
permissibility of conventional insurance, 43  
permissibility of credit scoring for, 43  
rent replacing interest in Islamic, 42  
use of the term 'interest' in documentation of Islamic, 42  
why Islamic is more expensive than conventional, 41

### **Ijarah**

advance for, 464, 471, 472  
asset, 146, 314, 460  
defect in, 467  
gifting of to lessee on completion of payments, 479  
insurance of, 153, 462  
leasing usufruct of jointly owned, 465  
maintenance of, 468

- possession of, 484
- providing no independent utility, 465
- purchasing of
  - at end of lease term, 473
  - by bank, 481
- purchasing of prior to lease termination, 480
- purpose of , 146
- residual value of, 153-154
- restrictions on use of, 462
- reverting part ownership of, 480
- selling at specific time for specific price, 479
- title of ownership of, 473, 475
- transferring ownership of, 317, 462, 476
  - corpus, 477
- transferring usufruct of, 146, 477
- unlawful use of, 467
- as mode of finance, 147
- commencement of, 148, 461, 463
  - upon contract conclusion, 465
- contract, model agreement, 231-248
- default in, 476
- differences with conventional hire purchase, 484
- differences with Murabaha, 149
- for jointly owned property, 147
- fund, 183
  - offering leased properties for investment funds, 482-483
- home financing based on, 39
- Iqtina, (lease and promise to gift)
  - assigning of, 155-156
  - concept of, 155
  - sublease in, 155
- legality of, 464
- lessee (in), 146, 150, 316
  - charging of for asset insurance, 469
  - liability for loss, 464
  - obligations regarding asset use, maintenance, 467, 468
  - multiple, 471
  - right of in case of default in asset repair, 469
  - right of in case of defective asset, 470
  - subleasing, 470
- lessor (in), 149, 315-316
  - absolving of from responsibility, 472
  - obligation of for insurance, 462
  - obligation of for asset delivery, 466
  - recourse of in case of default in payment, 472
  - responsibility of, 473
    - in case of defective asset, 468
    - right of to withhold asset, 463, 469
- liability distribution in, 460
- multiple contracts for, 470, 473
- negligence in, 317
- period of, 146, 460, 461,
  - altering contract to modify, 466
- permissibility of based on contingency, 465
- relationships in, 148
- renewal of, 317
- rent, 147, 315, 465
  - as usufruct, 466
  - at daily increasing rate, 480
  - at rescission, 471, 472
  - benchmarking, 466, variable for long term, 150-152
  - cancelling, 463
  - commencement of, 482
  - deferred, 466

- charged after asset delivery, 148
- obligation of in case usufruct doesn't meet specifications, 469
- penalty for late payment of, 152, 462
- permissibility of charging prior to asset delivery, for non-existent asset, 482
- rules for, 146
- pre-requisites, 314
- subject matter, 146, 314
  - consumable, 460
  - usufruct as, 464, 465
- transferring ownership, 146, 314, 462
- securitization of, 177, sukuk for project financing, 12
- security in, 475
- selling contracts of, 481
- service based for education, 61
- shares in projects, 480
- sublease in, 155, 316, 461
  - at higher rate, 479
  - conditions for, 483
- termination of, 152, 317-318,
  - events resulting in, 461, 463
  - in case of asset damage, defect or theft, 470
  - upon asset return, 478-479
- types of, 313-314
- with conventional bank, companies, 478

## **Import Financing, 172**

## **Inheritance, 485-486**

## **Insurance**

- conventional, 487
- compulsory, 487
  - monetary benefits from, 488
- health-care, 488, 493

- working at company of, 487
- differences between conventional and Islamic, 332
- Islamic, 333, 492
  - concept, overview of, 334
  - benefits
    - based on market value of goods, 490
    - entitlement to policy, 490
  - duration, 334
  - essentials, 333
  - for automobiles, 489
  - for banks, 489
  - for buildings, 489
  - for cash, cheques, trade bills in, 488
  - on returning benefits in excess of expenses, 490, 491
  - permissibility of
    - accepting benefits greater than loss, 490
    - client's right to determine coverage, 491
    - commission for finding clients, 492
    - insuring client's payments, 489
    - insuring for more than value, 491
    - insuring Murabaha goods, 489
    - transferring right to benefits, 492
  - re-insurance, 334
  - types, 333
- prohibition of conventional, 331
- risks for which is taken, 332-333

## **Interest**

- accounts based on, 496
  - conversion of to Shariah-compliant, 498
- as penalty, 495

Bible on, 87

- commercial, 36, 37, 93-97
- compound, simple, 6-9, 98-99
- conventional mortgage based on, 38
- difference between conventional and Islamic home finance, 39
- extricating oneself from financing based on, 44
- free account at conventional bank, 497
- free loan agreement, 296-297
- Islamic home financiers changing labels, 39
- its harm to society, 37-38
- loan (based on), 16, 50-52,
  - to extremely poor, 54
  - fee for, 496
  - receiving as investment for profit payout, 499
- Mufti Taqi Usmani on, 36
- occurrence of,
  - in exchange of goods, 494, 503
  - in transactions, 494
    - direct involvement in, 495, 496
    - liability for counterparty, 495
  - in the form of Mokhabara, 96
- ordinary, 35
- permissibility of
  - bank transfer fees, 501
  - benchmarking against interest, 42
  - interest based capital for investment, 504
  - Islamic bank
    - accepting payments from accounts based on, 501
    - depositing in conventional, 501
    - offering clients assistance in cash or kind, 501
    - purchasing business license of company operating on interest, 502
- prohibition of (interest)
  - as applying to the poor, 500
  - based on Islamic economic philosophy, 68
  - conventional home finance for Muslims in the West based on, 39
  - charging fee for late payment, 502
  - dealing in even with intention of giving it away in charity, 498
  - depositing in a conventional bank, 502
  - even if customary practice, 44, 68
  - even in extreme circumstances, 497
  - in Muslim or non-Muslim lands, 40,499
  - Islamic financing from interest based sources, 504
  - logic for, 499
  - notarizing transactions based on, 500
  - use of credit card based on, 498, 499
  - working in conventional real estate business involving, 43
- Prophet on, 36, 43, 45, 82
  - riba al fadl, 83-85
  - riba an nasiyah, 83, 87
  - compound, simple, 99
- Quran on, 35-36, 44, 81
  - compound, 98, 99
  - simple, 99
  - types of, 86
- rent replacing it in home finance, 42
- transactions free of, 17, 48
- types of, 86-92
  - riba al fadl, 83-85, 88-92, 503
    - Imam Abu Hanifa on, 89
    - Imam Shafi'i, Imam Maalik, Imam Ahmad bin Hanbal on, 90
  - riba an nasiyah, 83, 87-88, 503
- use of (as a term) in documentation, 42
- usury, 37, 93-97

## **Investment (Also see Mudarabah, Musharakah)**

- funds , 178-185
  - commodity, 183-184
  - concept of, 178
  - equity, 178-182
  - Ijarah, 183
  - mixed, 185
  - Murabaha , 184
  - mutual, 579
- in Islamic microfinance, 55-57
- Islamic
  - in actual assets, services, 10
  - three ways of, 76
- of capital in money lending business, 77

## **Investment Funds (See Investment)**

## **Islamic Banking (See Islamic bank)**

### **Islamic Bank (ing)**

- accepting payments from interest based accounts, 501
- as advisor, 159-160
- as agent, 159
- as guarantor, 159
- asset, service backing, 49
- competitiveness of, 41
- cost differences between Islamic and conventional home finance, 41
- deposits in, 157-159
  - conventional bank, 501
- guiding principles, 17-18
- importance of reading actual contract of to ensure Shariah consistency, 43
- Islamic banking as viable alternative to conventional, 47
- liquidity management at (See Liquidity Management)

- Meezan bank guide to Islamic banking, 63-191
- permissibility of offering clients assistance in cash or kind, 501
- permissibility of benchmarking, 42
- permissibility of credit scoring, 43
- permissible products, services at, 160
- practical comparison with interest based commercial banking, 50-52
- sample letter for promoting awareness at, 60
- using their own paid for Shariah-boards, 42
- what it is, Islamic, conventional banking differences, similarities, 48-50

## **Islamic Economic System**

- general overview, 68-72
- objectives of wealth distribution in, 79-80

## **Islamic Finance**

- actual home ownership in, 44
- as a viable alternative to conventional finance, 47
- asset, service backing in, 13, 49
- competitiveness of, 41
- contractual certainty in, 49 (Also see Contractual Uncertainty)
- differences, similarities with conventional banking/finance 48-50
- differences with conventional finance, 9,10, 300, examples of 11-16, 300-301
- equity-based, 47,
- equity based structures: Mudarabah, Musharakah, 6 (See Mudarabah, Musharakah)
- export finance in, 173-174
- import finance in, 172
- importance of reading actual contract to ensure Shariah consistency, 43

investment funds in, 178-185  
lease based products: Ijarah, 17 (Also see Ijarah)  
Meezan bank guide to Islamic banking, 63-191  
microfinance in, 55-57  
on limited liability, 186-191  
on permissibility of benchmarking, 42 (See Benchmarking)  
on permissibility of conventional property insurance, 43 (See Insurance)  
on permissibility of credit scoring, 43  
on permissibility of charge card, 444  
on permissibility of credit card, 444  
on permissibility of debit card, 443  
on rent replacing interest in home finance, 42  
on use of the term 'interest' in Islamic home finance documentation, 42  
permissible products, services in, 160  
petition for introducing it at your bank, 20  
petition for introducing it in your country, 21  
principles of, 16, 301-302  
project finance in, 167-168  
recommended reading for entrepreneurs of, 358-361  
recommended reading for practitioners, students of, 351-357  
trade based products: Istisna, Murabaha, Salam, 17 (See Istisna, Murabaha, Salam)  
training (in)  
    accredited and standardized, 26-32  
    Ethica's CIFE, 670-674  
    primacy of a fatwa for accrediting program for, 25,  
    Shariah harmonization of, role of academic, professional bodies in, 32  
venture capital in, 62

working capital finance in, 169-171

## **Islamic Finance Standards (See AAOIFI)**

### **Istijrar**

concept, definition, 144  
types of, 144  
use of, 144

### **Istisna**

agency (in)  
    permissibility of bank establishing third-party to manage, 506  
cancellation of, 141  
concept, definition of, 141, 328  
    as mode of finance, 142-143  
construction  
    landowner handing over land for, until project completion, 506  
    of natural gas pipeline, 12  
    supervising work for, 507  
contract, model agreement for, 262-275  
cost  
    changes to asset, 510  
    post contract regulation creating additional, 509  
default in, 329  
deferred  
    delivery of published works, 508  
    sale under, 506  
delivery (in), 142, 329-330, 505  
    penalty for delay of/shart al jazai, 330, 346  
differences with Ijarah, Salam, 141  
discounts  
    permissibility of bank obtaining, 509  
duration of, 329  
Islamic bank (in)

contracting with previous defaulter,  
509

permissibility of obtaining discounts,  
509

manufacturer (in)

- advanced payment to, 510
- financier as, 505
- requestor as, 508

parallel Istisna, 329

price (in), 328

- impermissibility of profit as percentage  
of cost for, 508
- permissibility of lower spot, higher  
deferred, 508
- receiving share of manufactured  
product as, 506
- reducing

  - conditions for, 510
  - due to delay in delivery, 510

tying with delivery, 505

prohibition in, 330

rebate in, 330

requestor (in)

- as contractor, 509

seller (in)

- responsibility of, 506

subject-matter (in), 328

- as natural products, 505
- delivery of, 505
- rejection of, 505

termination of, 330

uses of, 143, 330

### **Khayars (See Options)**

### **Lease (See Ijarah)**

### **Liquidity Management**

tools, 339

agency, 341-342

Mudarabah, 339-340

Murabaha

- foreign currency commodity, 342
- Shariah-board approval for, 423
- local currency commodity, 343

Musharakah investment pools,  
341

Shariah-compliant equities,  
341

Sukuk, 340

### **Loan (Also see Debt)**

borrower in

- duties of, 514
- guidelines for, 514
- liability of, 515

conditions for contract of, 511, 512

conventional, 9

creditor

- benefitting from loan, 511,  
516
- guarantee against loss for, 515

default

- respite in case of, 512

discounts (on)

- for early repayment, 512

extricating oneself from interest based, 45

government, 516

intention for, 513

interest-based, 16

mutual, 517

personal, student, 15

property (as)

- payment for damage to, 513
- permissibility of lending rent free, 513

repayment (of)  
    agreeing, 511  
    delaying without valid excuse, 514, 516  
    fixed schedule for, 513  
    in kind, 512  
    of principal with extra, 511  
    to lender's heirs, 516  
transfer (of),  
    being absolute and final, 517  
    to third party, 516  
usage of,  
    restriction on, 513, 515  
    suspicion of unlawful, 512

**Maisir (see Gambling)**

**Microfinance, 53-57**

    conventional, 54  
    Islamic, 55-57

**Mortgage (See Home finance)**

**Mudarabah**

    capital, 310-311  
        form of investment, 521, 526  
    contract,  
        alteration of, 529  
        converting Mudarabah to Musharakah,  
        530  
        invalid, 521  
        model financing agreement, 222-230  
        model syndication agreement, 293-295  
    definition of, 120, 308  
        as form of investment, 76  
        as mode of finance, 519  
    differences with Musharakah, 121,  
    309-310, 531

    differences with Wakalah, 310  
    duration of, 310, 523  
    equity stake in a highway project, 12  
    expenses of, 122, 526, 531  
        deduction of salary, 528  
    export finance based on, 173  
    for Islamic microfinance, 55, 56  
    import finance based on, 172  
    investment in, 121, 309  
    loss  
        before capital distribution,  
        521  
        liability for, 520  
        prohibition of spreading, 520  
    management of, 311  
    mudarib(s) (in), 124  
        appointing agent, 524  
        authority of, 521  
        combining multiple operations, 527  
        entitled only to profit, not salary, 519  
        fixed payment to bank by, 530  
        guarantee from, 523  
        multiple, 528  
            acting on each other's behalf, 520  
        prohibition of expanding portfolio  
        without informing investors, 524  
        prohibition of responsibility for loss,  
        529  
        permissibility of creating reserve fund,  
        525  
        responsibility of, 520  
    profit (in)  
        categorization of rates, 525  
        different margins for different areas, 522  
        different ratios for different partners,  
        522  
        distribution of

- early, 529
- in long term contracts, 530
- not commensurate to invested capital, 528
- prior to expense allocation, 528
- not any for providing intangible benefits, 521
- prohibition of pooling, 520
- shares, 519
- profit and loss distribution in, 123, 311
  - dos and don'ts of, 522
- project financing using, 167
- rabb al maal (in), 120-121, 123-124
  - as mudarib/working partner, 524
  - prohibition of receiving fixed payment, 529
  - prohibition of demanding percentage from each investment, 523
  - promising additional profits to mudarib/working partner, 530
  - restrictions on investment by, 525
  - withdrawal of investment by, 526
    - forfeiture of profit for early, 526
- similarities with Musharakah, 310
- similarities with Wakalah, 310
- termination of, 124, 312, 531
  - disposal of assets after, 527
- types of, 120, 309, 523
- uses of, 125, 312
- zakah on, 527

## **Murabaha**

- agency (Also see Agency)
  - agreements, 321
  - establishment of bank's, 553
  - remuneration for, 559

- arguments against, 132
- buyer (in)
  - ambiguity in identity of, 547
  - appointment of agent by, 536
  - collusion of with owner of goods, 555
  - title deed in name of, 553
  - who had previously contracted with owner of goods, 554
- contract
  - amendment of, 541
  - down-payment for, 537
  - Master Murabaha Facility Agreement (MMFA), 561
  - model facility agreement, 276-292
- costs, 536, 542
  - adding bank's interdepartmental commission to, 543
  - including insurance charges in, 544
  - storage charges of goods as part of, 547
- default in, 322, 549
  - confiscating earnest money for, 550
- definition of, 132, 319, 532
- delivery of goods (in)
  - in installments, 538
  - mode of, 537
  - without shipping documents, 538
- differences with ordinary sale, 132
- documentary credit (for), 410 (Also see Documentary Credit)
  - commission from foreign bank for, 543
- duration, 541
- export finance based on, 173-174
- fund, 184
- financing (based on), 534
  - concluded deal between client and owner of goods, 554
  - home, 39

- labour cost, 556
- stage, 558
- import finance (based on), 172, 535, 540
  - appointing shipping company as agent to receive goods in, 552
  - based on quotation in client's name, 539
  - based on special permission, 545
  - constructive possession in, 557
  - currency conversion rate in, 539
  - documentary/letter of credit in client's name in, 539
  - guarantee by buyer for goods in, 546
  - shipment of goods in buyer's name, 555
- investment stage, 558
- issues in, 134-135
- mistakes in, 135
- prerequisites, 319-320, 534
  - ensuring validity, 541
  - price, 320
    - accepting payment of at time of promise, 550
    - advance payments of installments of, 548, 549
    - charging before delivery of goods, 540
    - decreasing, 544
    - determining, 543
    - down-payment for, 559
    - floating installments of, 547
    - installments of in foreign currency, 549
    - post-dated cheques for installments of, 552
- subject-matter, 319, 320
  - as security, 560
  - bank's liability for, 538
  - buying from lessee, 553
  - client's rejection of, 537
  - consumption of, 533
  - damage to, 537, 557 defect in, 548
  - default in purchasing of, 549
  - deferring payment for, 546
  - delivery of, 537
  - insurance for, 545
  - ownership of, 545, 561
  - possession of, 535
  - prerequisites, 556
  - purchasing, 561
  - return, replacement of, 554
  - seller's ignorance of specifications of, 547
- profit
  - calculation of, 322-323
  - deferring determination of, 551
  - distribution of, 533, 556
  - increasing rate of, 543, 550, 551
  - linked to time, 551
  - rate contingent on repayment term, 556
  - recognition, 551
  - sharing, 551
- prohibitions in, 322
  - limitations of rebate, 558
- promise to purchase goods of
  - accepting payment at the time of, 550
  - breach in, 533
- purchase (of goods in)
  - and sale of commodities at a premium, 12
  - bank's responsibility for, 538
  - before agency, 536
  - before contract execution, 536
  - invoice, 540
  - requisition in, 532
  - risk mitigation in, 322

rules for, 132-133  
sale (of goods in)  
    appointing guarantor in, 552  
    bank's liabilities before, 558  
    for goods not bought by seller, 544  
    in foreign currency, 542  
    of air tickets, 547  
    of commodity owned by buyer, 545  
    of damaged goods, 548  
    of endowments (waqf), 556  
    of goods bought for personal use, 548  
    of unregistered property, 554  
    tax, 559  
    to insolvent client, 550  
    with interest based bank, 552  
security in, 559, 560  
    arbun, haamish, jiddiah, 561  
securitization of, 176-177  
steps of, 133-134, 320-321  
uses of, 136, 559

### **Musawamah**

contract, model facility agreement,  
194-211  
definition of, 101, 563

### **Musharakah**

capital, 112, 305  
    bank's contribution of, 570  
    debt as, 570  
    division of, 567  
    goods/services as, 568  
    investment of, 567, 576, 577  
    letters of surety as, 570  
    liquidity of, 116  
    mixing of, 117, 567

Murabaha as, 570  
classification, definition of, 109, 303, 564  
contract  
    as going concern, 568  
    model facility agreement, 212-221  
    with conventional bank, 571  
differences with interest-based financing,  
116  
differences with Mudarabah, 577  
duration (of), 118-119  
    ongoing, 304  
    temporary, 305  
expenses  
    liability for, 571, 574  
guarantee in, 574  
loss (in),  
    distribution of, 113  
    liability for, 566, 571  
management of, 112, 305  
    accounting for, 573  
negligence in, 307  
partner (in),  
    bank's contribution of capital as, 570  
    death of, 568  
    engaged in interest-based transactions,  
569  
    purchased property registered in name  
of, 571  
    rights of, 113  
    role of, 577  
profit (in), 306  
    calculation, 306  
    distribution (of), 112, 162, 566  
        fixed amount for, 575  
        in proportion to capital investment,  
575

ratios as compared to Mudarabah ,  
578

shares need not be proportionate to  
investment ratios, 565

silent partner's share of, 575, 578

property (in)

- as machinery, 575
- construction of, 573
- expenses for , 571
- insurance of, 572

rules of, 111, 112

security in, 115

securitization of, 175-176

termination of, 114-115, 307

- events that cause, 568
- of invalid partnership, 566

types of, 304

- diminishing. (See Diminishing  
Musharakah)
- early termination of, 576
- shirkat al aqd, 76, 565

  - conditions, rules for, 111, 566
  - types of 110-111

shirkat al milk, 565

- early termination of, 576
- types of, 109

uses of, 119, 306-307

- at the bank, 161-162, 578

  - minimum account balance, 574
  - running account based on daily  
products, 163-166

equity stake in a highway project,  
12

export finance based on, 173

import finance based on, 172

project financing using, 167

working capital financing based on,  
169-171

## **Options, 107, 346, 600**

## **Partnership (See Musharakah)**

### **Pledge**

- differences with guarantee, 580
- liability of asset of, 580
- permissibility of as security, 602
- redemption of, 580

## **Precious Metals (See Currency)**

## **Profit (Also see 'profit' in Mudarabah, Murabaha, Musharakah)**

- comparing the profitability of equity and  
debt, 50
- commercial banks objective of increasing  
by extending loans, 50, 51
- no return without risk, (al ghum bil  
ghurm), 17
- in Islamic microfinance, 53, 55, 56

## **Project Financing**

- based on Musharakah and Mudarabah,  
167-168

## **Prophet**

- general hadith on riba , 36, 43, 45, 82
- hadith on agreements, 165
- hadith on assets, 189
- hadith on fatwa, 25
- hadith on ignorance of loose opinion, 30
- hadith on jama'ah/majority of Muslim  
collectivity, 30
- hadith on riba al fadl, 83-85
- hadith on riba an nasiyah, 83, 87
- hadith on compound interest, 99
- hadith on significant amount, 180

## Quran

- on forgiveness, 44
- on gambling, wine, 51
- on riba, 35-36, 81
  - prohibited irrespective of profit or loss to capital, 77
- on types of riba, 86
  - compound, 98, 99
  - simple, 99

## Riba (See Interest)

## Risk

- credit scoring as assessment measure for, 43
- definition of, 344
- forms of, 344
- management,
  - definition of, 344
- mitigating tools,
  - advance payment (arbun), 345, 581
  - agency agreements, 345
  - charity clause, 346
  - earnest money (haamish jiddiah), 345, 581
  - options, 107, 346, 600
  - personal guarantees, 345
  - pledges, 345
  - promises, 345
  - shart al jazai, 346, 581
  - Takaful, 346 (Also see Insurance)
- in Ijarah, 348
- in Istisna, 347-348
- in Mudarabah, 348-349
- in Murabaha, 346-347
- in Musharakah, 348-349
- in Salam, 347
- no return without, (al ghum bil ghum), 17

sharing of, 17,49

## Salam

- benefits of, 139
- buy-back in, 582
- concept, definition of, 138, 324, 582
- conditions of (prerequisites), 138-139, 325
- contract, model agreement, 249-261
- default in, 327, 583, 586
- delivery (in), 326, 584
  - delay of, 327, 585
  - price hike at time of, 583
- duration of, 326
- parallel, 140, 325
- price in, 325
  - previous loan as, 583
- security in, 326, 582
- subject-matter (in), 326, 584
  - as spot sale item, 583
  - precious metals, 586
- change in, 585
- quality of, 585
- replacement of, 327
- sale of before delivery, 584
- termination of, 326
- uses of, 327

## Sale

- buyer (in)
  - compensation for
    - defective good damaged by, 601
    - returned item, 597, 598
  - trade without consent of, 591
- contracts (for),
  - dispute resolution in, 596
  - forced renegotiation of, 591

- forward sale, 249-275
    - model Istisna agreement, 262-275
    - model Salam agreement, 249-261
  - impermissibility to cancel, 598
  - integrals of, 594
  - model Murabaha facility agreement, 276-292
  - model Musawamah facility agreement, 194-211
  - multiple agreements in, 588
  - ownership transfer in, 596
  - types of offer in, 594
  - conditions of, 588
  - forward (See Salam and Istisna)
  - goods (of),
    - buying without seeing, 592
    - by measurement, 421, 422
    - by weight, 420, 421, 422
    - damage to, 588, 595
    - defective, 590
      - discount on, 587
    - filthy, 590
    - impermissible, 589
    - naturally connected to origin, 589
    - non-existent, 589
    - of no value, 592
    - ownership, possession of, 597
    - prohibited in Shariah, 593
    - repair of, 587
    - return, 587, 597, 598
    - unusable, 593
    - visible but unquantifiable, 592
    - without ownership, 589, 593
    - yet to clear customs, 601
  - invalid, 592
  - Istisna (See Istisna)
  - Murabaha (See Murabaha)
  - of debt (bai al dain), 184-185
  - options in, 600 (Also see Options)
  - payment (in)
    - deferred, 102, 136-137, 599
    - delay of, 599
    - higher price for, 599
    - indefinite, 588
    - rules of, 595
  - price (of),
    - ambiguity in, 593
    - permissibility of underbidding, 590
    - rules of, 587
  - Salam (See Salam)
  - seller (in)
    - disclosure on part of, 595
    - trade without consent of, 591
  - types of, 101-102
  - valid, 101, 104-106
    - essentials of, 591
    - illustration for, 103
  - void, existing but void, valid but disliked, 101
- Scholar(s)**
- certification and training approved by, 29, 31
  - Mufti Taqi Usmani on riba, 36
  - standards for scholarship in Islamic finance, 29,30
- Securitization (Sukuk)**
- assets (for),
    - guaranteeing, 609
  - concept, definition of, 175, 335, 607
  - issuance of Sukuk for, 336

- liquid assets, 607
- of Ijarah, 177, 183, 336-337
  - different forms of, 607
- of Istisna, 338
- of Mudarabah, 337
- of Murabaha, 176-177, 338, 608
- (of) Musharakah, 175-176, 337, 608
  - diminishing, 608
- of Salam, 338, 609

### **Stocks**

- (and) shares, 603
  - investment in, 603
  - trade on stock exchange, 603
    - permissibility of ETF GLD (gold), 606
- outperforming bonds, 50

### **Sukuk (See Securitization)**

### **Takaful (See Insurance)**

### **Ushr**

- calculation of, 615
- definition of, 611
- give or take stolen property as, 613
- payers of, 614
- rate of, 612
- obligation of, 611
  - in cash, kind, 615
  - in non-Muslim lands, 611
  - on crops, 612
  - on destroyed property, 613
  - on endowment property (waqf), 612
  - on minerals, precious stones, 613
  - on non-tradable/tradable crop, 612

- on unusable crop, 614
- recipients of, 614, 615
- time of payment of, 613, 614

### **Usury (See interest)**

### **Waqf (See Endowment)**

### **Working Capital Financing 169 -171**

### **Zakat**

- al fitr, 638
  - measurement of nisab for, 638
  - obligation of, 639
  - payment time of, 639
  - rate for, 638
  - recipients of, 638
    - multiple, 640
    - non-Muslim, 640
    - Prophet's family, 640
- collectors (of), 628
  - authorizing, 636
  - legitimacy of, 629
  - zakat paid when given to, 629
- concept, definition, 616
- deduction
  - from deceased's estate, 618
  - from taxable income, 636
- distribution of,
  - authorizing third party for, 636, 637
  - in one's area, 617
  - (by) zakah distributor,
    - inability to disburse, 638
    - keeping for himself, 637
    - paying to family and friends, 637
- forms of,

- as debt relief for students, 61
- as gift, 628
- in kind, 632
- obligation, 616
  - benefit of delivering, 628
  - intention for, 632
  - on behalf of insane, minor, 618
  - on children, 618
  - on non-Muslims, 617
  - on someone unable to pay in person, 617
- property on which to pay (or not to pay), 618, 619
  - animals for personal use, 623
  - business in debt, 640
  - charity items, 620
  - corporate equity, 641
  - destroyed property, 623
  - disbursed loans, 621
  - gifts, 622
  - hobby items, 623
  - household items, 622
  - investment income, 620
  - lost and found items, 625
  - means of production, 620
  - property charged with ushr, 624
  - property held less than one year, 625
  - rented property, 623
  - revenue generating livestock, 622
  - savings, 641
  - stolen property, 623
  - tradable goods, 620, 624
    - assessing value of, 625
  - uninvested cash, 620
  - unlawful wealth, 622
  - unrecoverable loans, 623
  - waived loans, 621
- recipients (of), 626, 627, 628
  - amount per, 633
  - charitable institution as, 630
  - dependent family members as, 631
  - eligibility of, 635, 642
  - former zakat, 631
  - individuals exceeding nisab as, 630
  - informing, 634
  - non-Muslims as, 630, 635
  - single person as, 617
  - students of sacred law as, 629
  - undeserving, 635
  - women denied marriage payment, 630
- role of in Islamic economy, 640
- rules for
  - assessing value of non-cash zakatable items, 633
  - calculation of, 642
  - nisab, 619
    - fluctuations during year, 621
    - of business, 621
    - zakat amount in relation to, 621
  - time of payment, 624, 626
    - delay in, 624, 625
  - zakatable property, zakat rates, 618
- validity of,
  - advance payment of, 626, 634, 641
    - valuation in case of, 633
  - allocation to salaries, other expenses, 632
  - contingent zakah payment, 635
  - converting loan to zakah, 641
  - in installments, 634
  - in lieu of other obligation, 630
  - in lieu of wages, 630
  - intending zakah when ostensibly making loan, 634

payment by another on one's behalf  
without one's permission, 637

payment to Prophet's family, 631

payment to projects, institutions, 632

sale of property just before zakat is due,  
625

setting off losses with zakat, 636

payment to someone who may use  
money unlawfully, 631

stolen property as zakat, 629

subtracting debts owed from zakatable  
wealth, 633

waiving unpaid debt in lieu of, 634

# CONTACT ETHICA

Ethica Institute of Islamic Finance  
Level 14, Boulevard Plaza - Tower One  
Emaar Boulevard, Downtown Dubai  
PO Box 127150, Dubai, UAE

**Emails are responded to within the same working day, usually in a few hours.**

**New inquiries about Ethica's training and certification:**

[contact@ethicainstitute.com](mailto:contact@ethicainstitute.com)

**Technical help:**

[support@ethicainstitute.com](mailto:support@ethicainstitute.com)

**Islamic finance questions:**

[questions@ethicainstitute.com](mailto:questions@ethicainstitute.com)

**We take calls Sunday to Thursday from 9am to 5pm Dubai time:**

+9714 455 8690

**Fax? If you insist:**

+9714 455 8556



Click [here](#) to receive regular updates and the 2014 edition of Ethica's Handbook of Islamic Finance.