Q: What would be the alternatives in the context of present day economic conditions to carry on domestic and foreign trade efficiently without availing of Banking facilities based on interest?

A: The scholars of Islam have suggested a number of financial instruments to facilitate internal and external trade. The most preferred are based on the principles of profit-loss sharing, like Mudaarabah and Musharkah arrangements. The other less preferred are: bai Muajjal, Ijara, Ijara wa iqtina and Bai-salam. They are defined as below:

Bai Muajjal (Cost plus trade financing): The bank enters into an agreement with his client to purchase merchandise for the client and then the bank sells them to the client on the basis cost plus agreed profit margin, repayable in instalments over a specified period.

Ijara (Lease or hire): The Bank acquires machinery/ equipment/building etc. for his client and charges a certain rental for their use.

Ijara wa Iqtina (Hire-Purchase): The Bank finances the purchase of equipment and the client uses them under a contract. The contract provides that the client will pay the cost of the instrument and a share in the net rental value of the equipment which is proportional to the outstanding shares in the total investment.

Bai Salam: The Bank enters into an agreement with the client for advance purchase of merchandise and makes the payment of the agreed amount at the time of agreement.

It is important to note that above mentioned techniques are less than desired because of their resemblance to the interest. Therefore, minimum use of these techniques will be made in Islamic banking.

Contemporary fatawaa