

## Summary of Selected Islamic Finance Contracts

Instrument	Mudarabah	Musharakah	Murabahah	Salam	Istisna'a	Ijarah
<b>Equivalent Contract</b>	Direct equity investment.	Direct equity investment.	Deferred/ installment payment sale.	Short-term production finance.	Long-term project finance.	Finance and operational leases.
<b>Type of Contract</b>	Profit and loss sharing partnership (investment financing). Material loss is borne by the capital provider unless negligence is proven.	Profit and loss sharing partnership (joint venture). Partners have unlimited liability.	Sale at cost + profit mark-up.	Contract for production or manufacturing in which the full payment is at spot against delivery of goods at a future date. Buyer is exposed to the asset in the event the client is unable to deliver the goods or the goods do not meet the specification of the contract.	Contract for production or manufacturing in which the payment is made progressively during the project against delivery of goods at a future date.	Leasing in which the lessee pays rental to the lessor.
<b>Parties</b>	Rab al Maal (investor/ capital owner/ bank). Mudarib (business manager).	The business partners, both called Musharik (investor and business manager whether both are active, or one is a sleeping partner).	The principal (seller of goods). The end user (buyer of the goods).	Salam seller (the producer of the goods) receives money in advance. Salam purchaser (the financier) receives the goods at maturity.	The purchaser pays progressively according to a predefined schedule. The manufacturer or contractor manufactures or builds the asset and progressively receives money from the investor.	The lessor (owner of the leased asset). The lessee (beneficiary of the leased asset).
<b>Type of Business in Practice</b>	1. Mudarib, who has a business activity, approaches investors to provide capital. 2. Investors (Arbab Al Maal – plural of Rab al maal) approach a Mudarib to invest their funds in Shari'ah-compliant projects. Can be used to deposit funds with an Islamic bank.	All partners provide capital as well as (business-related) expertise. In practice one of the partners could provide a contribution in kind (e.g., land) which is valued as a capital investment. Another partner provides cash. Both partners invest in a Shari'ah-compliant project.	A buyer requires goods but lacks cash. He then approaches a bank and expresses his wish to buy from the bank at a pre-agreed price once the bank acquires the title/ ownership and possession of the goods. 1. The bank buys goods at spot from a seller (First Sale: spot payment and immediate delivery of the asset). 2. The bank sells the same goods to the end buyer for the principal amount plus a fixed mark-up payable at a later date. (Contract can be used for working capital finance.)	Salam purchaser advances money to the Salam seller to purchase an asset that does not exist at the time of contract. The latter delivers the commodities (goods) at maturity to the Salam purchaser. (Contract can be used in agriculture finance or short-term project finance.)	Investors approach a manufacturer to manufacture an asset which doesn't exist at time of contract. Detailed specifications of the object to be manufactured or constructed must be stated. (Contract is typically used in project finance.)	The lessor (the owner of the leased asset) leases a Shari'ah-compliant asset to the lessee (the beneficiary of the leased asset). The lessee pays a periodic rent to the lessor.
<b>Profit Sharing</b>	Profits are shared between the Mudarib and the Rab al Maal according to a percentage agreed in the Mudarabah agreement.	Profits are shared between the partners according to a percentage agreed in the Musharakah agreement.	Not applicable as there is no partnership between the contracting parties: mark-up/ profit goes to the bank (seller).	Investor's profit usually based on the term of the contract, credit quality of the Salam seller. It is usually benchmarked to LIBOR. There is no partnership between the contracting parties.	Investor's profit agreed at outset covering material, labor, profit margin and project costs. There is no partnership between the contracting parties.	Lessee pays rent to lessor. Rent is either fixed for life of project or adjusted periodically. There is no partnership between the contracting parties.

Instrument	Mudarabah	Musharakah	Murabahah	Salam	Istisna'a	Ijarah
Party that bears risk of loss	Losses are distributed in proportion to the capital provided. Rab al maal as sole provider of capital bears all loss unless the Mudarib has been negligent.	Losses are distributed in proportion to the capital provided.	In theory, there should not be any loss unless the user becomes insolvent (i.e., unable to pay the instalments, in which case the securities held by the bank may be enforced). A penalty for late payment is not allowed.	In theory, there should not be any loss unless the Salam seller is unable to deliver, in which case they should buy the goods from the market. One of the criteria of Salam is that the asset is commonly available in the market to make the delivery possible at any time.	In theory, there should not be any loss unless the manufacturer is unable to complete the work. Actual damages or loss are borne by the purchaser, unless the manufacturer is negligent.	Borne by the lessor unless due to negligence of the lessee. In the event of total loss of the asset, the lessor has no further recourse to rental payments from the lessee, but has recourse to any insurance payments.
Maturity	Termination of the Mudarabah - Rab al maal is entitled to receive his investment. Profit (if any) is distributed among Mudarib and Rab al maal according to the contract. Loss (if any) is borne by Rab al maal.	Termination of the Musharakah - Partners are entitled to receive their investments. Profit (if any) is distributed among partners according to a predefined ratio. Loss (if any) is borne by partners according to their proportionate share in the capital.	End user pays all the Murabahah instalments to the merchant bank (seller).	Salam seller delivers the commodities to the Salam buyer.	Manufacturer delivers the manufactured goods to the purchaser.	Asset reverts to lessor in case of Ijarah (operating lease) or ownership transfers to the lessee in case of Ijarah wa Iqtina (finance lease).
Timing of Sale and Payment	Rab al maal pays spot.	According to the interest of the partnership (spot or deferred).	Delivery of the asset is immediate, payment is usually deferred.	Full payment is immediate, delivery of the asset is deferred.	Payment can be lump sum in advance, progressive payments, at delivery or by instalments post-delivery. Delivery of the asset is deferred. Penalties, agreed in advance for late delivery, can be charged.	Not applicable.
Forms/Variants	Restricted vs. Unrestricted. Two-Tier Mudarabah.	Shirkat al Milk. Shirkat al Aqd. Diminishing Musharakah.	Murabahah to the Purchase Orderer. Commodity Murabahah.	Parallel Salam.	Parallel Istisna'a.	Ijarah wa Iqtina (Finance Lease). Ijarah Mawsoofa Bil Thimma (Forward Lease).

NASHRAH  
CONSULTANCY