



PRODUCT MANUAL ON SALAM

IBF-408 Designing an Islamic Financial Product on Salam

By-

Nida Khan

(Master Diploma in Islamic Finance, AIMS-UK)

CONTENTS

	Page
1.Executive Summary	3
2.Overview of Salam	7
3.Comparison with Conventional Financial System	14
4.Comparison with:	
1) Murabaha	22
2) Istisna	26
3) Ijarah	30
4) Mudarabah	34
5) Diminishing Musharakah	38
5.Applications	43
6.Operational Flowchart	49
7.Work Instructions for Operators	50
8.Contract	70
9.Product Explanation with Case Studies	82
1. Purchase of Home	84
2. Investment in Business	91
10.Marketing Plan	97
11.Acknowledgements	117

EXECUTIVE SUMMARY

As a result of the contemporary Islamic revival, a group of newly emerging financial and economic institutions have resorted to Islamic Shariah as a potential source of methods and means that could facilitate their smooth functioning. Scientific research and juristic thinking have also developed within the attempts to adapt these methods and means to the needs and conditions of the present era. It could however be noted that concentration, whether in theory or practice, has been on some particular techniques like Murabaha, Mudarabah, and Musharakah in spite of the fact that Islamic Shariah is rich of other methods and means that can be quite useful in this field. One of these methods is *bay' al Salam*. This technique is based on advance payment of the price of a commodity to be supplied in the future. It therefore provides Shariah permissible, instead of interest-based financing, to producers and businessmen and helps them increase sales since settlement of the loan is to be Made in terms of output. Also, the financier will gain some benefits as he will thus become able to invest his capital and to have a return on it besides guaranteeing the satisfaction of his demand for the commodity in question at a desirable future date and a relatively low price. Hence this technique satisfies the needs of both parties of the contract to the extent that it has been named by fiqh scholars as bay'al 'mahaweej (sale practiced by the needy people).

In this paper we shall study the *Salam* contract in order to explore its Shariah, economic and accounting aspects in relation to contemporary application in order to achieve the following objectives:

OBJECTIVES OF THE REPORT

This report has been prepared as a part of the course Master Diploma in Islamic Finance under IBF-408 Designing an Islamic Financial Product on Salam from AIMS, UK.

In this course, students are required to make a Product Manual. Students design this manual as a Product Development Manager of an Islamic Financial Institution. This report is a complete Manual of an Islamic Financial Product/Instrument, which explains that how an Islamic Financial Instrument could be used for Riba free financing.

This manual is designed for any specific mode of finance, and covers in details the product overview, its comparison with conventional/Riba-based system, applications, operational flowchart, work instructions for operators, contract, case studies and marketing plan. This manual caters to the product **SALAM**.

The objective of these studies is to present different points of view on the theoretical aspects of the most important Islamic financing techniques and issues relating to their contemporary applications.

Within the framework of this overall objective the present manual on Salam aims to achieve the following:

1. Presenting, as far as possible, an integrated set of information available on this subject within the sections listed in classical as well as contemporary writings.
2. Thoroughly surveying different issues , and problems relating to contemporary applications of Salam, as well as giving information on Salam contracts.
3. Comparing Salam to other similar Islamic techniques as well as other doctrines of contemporary economic thinking.
4. Presenting an operational flowchart of Salam to aid in comprehension

5. Providing a detailed set of instructions for operators of Salam including providing a Model Agreement which they can use for their transactions
6. Citing two case studies to help explain by examples how a Salam transaction is affected.
7. Light has also been shed upon securitization of Salam or Salam Sukuk.
8. Accounting treatment of the case studies and a general outlook to accounting has also been given.
9. In the end a marketing plan has been shared to help in the accomplishment of business objectives.

The report clearly brings out the following concepts about Salam. Bai` Salam is an ancient form of forward contract wherein the price was paid in advance at the time of making the contract for prescribed goods to be delivered later. The two terms "Salam" and "Salaf" have been used interchangeably in Hadith literature to describe the contract for future delivery of specified goods with up-front payment of the price. The parties stipulate a certain time for supply of goods of specified quantity and quality. This is contrary to Bai` Mu`ajjal, in which goods are delivered to the purchaser in advance and the agreed price is paid at a stipulated date in the future. The word Salaf or Taslif, which literally means payment in advance, referring to a sale by advance payment, was used by jurists of Hijaz, while the jurists based in Baghdad, Iraq mainly used the term Salam for forward sale transactions. As the commodity to be delivered in future against prompt payment becomes a debt on the part of the seller, the transaction is termed Salaf and implies a loan without any benefit. As, in the emerging Islamic finance movement, Salam is normally used to denote a forward transaction of a defined nature, I have used the word "Salam" throughout the report.

Forward sale in the form of Salam has been allowed by the Shariah with such a structure that it becomes free from Riba, Gharar and, therefore, from exploitation of one party by the other. It is rather based on genuine need of the business and, therefore, beneficial to both buyer and seller. The seller gets in advance the money he needs in exchange of obligation to deliver the commodity later. Thus, he benefits from the Salam sale by covering his cash/liquidity needs in respect of personal expenses or for productive or trading activity.

The purchaser gets the commodity he has planned to trade at the time he decides. He will also benefit from cheap prices, because usually the Salam price is cheaper than the cash market price. This way he will also be secured against fluctuations of price.

The Hadith legalizing the practice suggests that it was meant to meet the financial requirement of farmers. From the point of view of the farmers, Bai` Salam might be a preferable way of taking financing as compared to a loan with interest, because first, it did not make an increase in cost as interest did and, second, it saved them from the hardships and the risk involved in marketing their produce. It is not certain whether the institutions of Bai` Salam brought about any change in the role of intermediaries in the rural economy. It is, however, certain that it paved the way for a direct relationship between the grower and the trader in the city, who generally was the supplier of funds.

All efforts have been done to present the report in an easy to understand manner so that the reader derives maximum benefit from it. It is sincerely wished that many benefit from this report to gain an understanding of one of the most important and exclusive contracts in Islamic Finance and economics, and also use the principles outlined to use Salam contracts in their banking transactions.

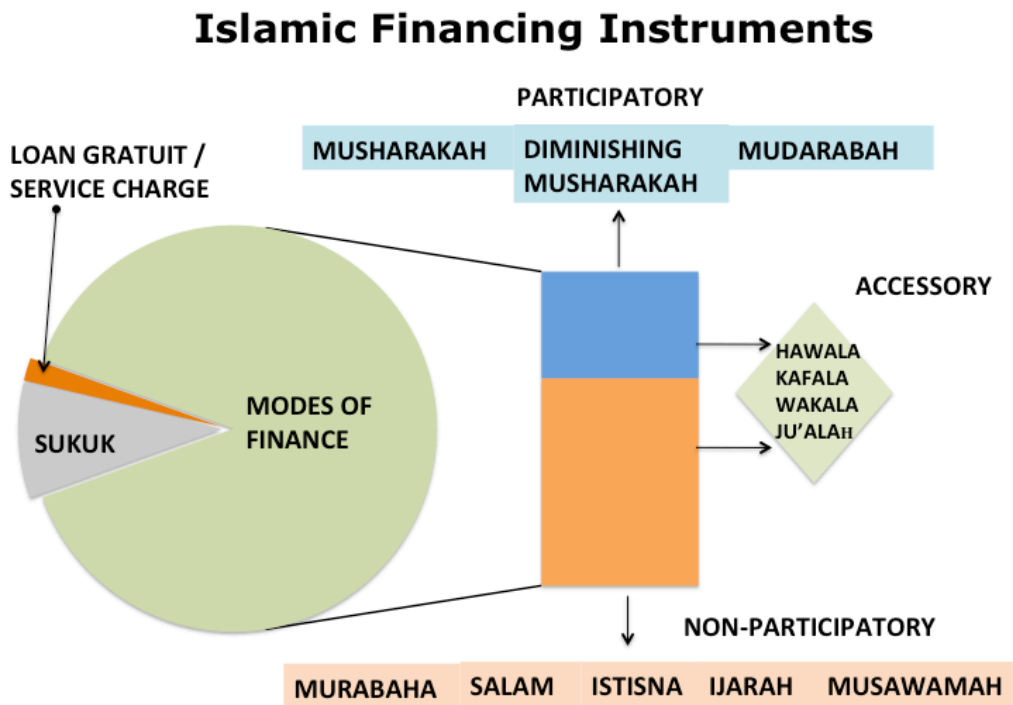
OVERVIEW OF SALAM

Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange for an advance price fully paid on spot. Seller and buyer can agree on any price at their free will. Price in Salam can be lower than the spot sale price.

Only those good scan be sold through a Salam contact in which the quantity and quality can be exactly specified e.g. precious stones cannot be sold through Salam. It can not be affected on a particular commodity or a product of a particular field or farm or the fruit of a particular tree because of uncertainty in delivery.

SALAM-A Trade Based Product

The following picture illustrates where Salam stands in the Islamic Financing Instruments:-



1. Conditions for Salam

- The buyer should pay the price in full to the seller at the time of effecting the sale.
- All details in respect to quality of goods sold must be expressly specified leaving no ambiguity, which may lead to a dispute.
- It is necessary that the quantity of the commodity is agreed upon in absolute terms.
- The exact date and place of delivery must be specified in the contract.
- It cannot be effected in respect of things, which must be delivered at spot.
- The commodity for Salam contract should remain in the market right from the day of contract up to the date of delivery or at least till the date of delivery.
- The time of delivery should be at least 15 days or 1 month from the date of agreement. The period should be long enough to affect prices. Hanafi Fiqh did not specify any minimum period for the validity of Salam.
- The price in Salam is generally lower than the spot sale; the difference serving as a valid profit for the bank.
- A security is may be required to ensure that the seller delivers.

2. Delivery of Salam Goods

- Before delivery, goods will remain at the risk of seller.
- After delivery, risk will be transferred to the purchaser.
- Possession of goods can be constructive or physical.
- Transferring of risk and authority of use and utilisation/consumption are the basic ingredients of a constructive possession.

3.Khiyar (Option)

After taking delivery, the purchaser has the 'option of defect' (Khiyar-e-Aib).
Not 'option of seeing' (Khiyar-e-ruyat).

4.Agency Agreement

- If the bank has no expertise to sell the commodities received under Salam contract, then the bank can appoint the customer as its agent to sell the commodity in the market/third party, subject to Salam agreement and Agency agreement are separate from each other.
- A price must be determined in agency agreement on which the agent will sell the commodity but if the price is increased, the benefit can be given to the agent.

5.Selling in the Market

- If the bank has expertise in the relevant commodity, it can sell the commodity in the market/third party, or hold the commodity to fetch a better market price to maximise its profit.

6.Promise To Purchase

- Before maturity bank can take promise to purchase from a third party, after taking delivery, bank will sell the same commodity to the promise, and he will be bound to purchase the same according to his undertaking, This promise should be unilateral.

7.Revoking the Salam Contract

- After execution of Salam agreement, it cannot be revoked unilaterally without mutual consent of both parties.

8.Penalty for Non Performance

- Seller can undertake in the Salam agreement that in case of late delivery of goods, he shall pay to the charity account maintained by the bank a sum calculated on the basis of ...% per annum for each day of default, bank will spend this amount in charity on behalf of the client.

9.Salam as a Mode of Finance

Salam can be used by financial institutions as a mode of finance using the concept of taking security from the seller and making profit by difference in spot and Salam price of a commodity.

The problem that can agitate modern banks and financial institutions is that ***they will receive certain commodities from their clients, and will not receive money.*** Besides the bank, used to dealing in cash only, also cannot sell the commodities before they are actually delivered to them because of Shariah prohibition.

However the ***concept of dealing in money only is foreign to Islamic Shariah.*** Thus, the banks will have to establish a special cell for dealing in commodities.

The following are the ways of benefitting from the Salam contract:-

- After purchasing a commodity by way of Salam, the bank may sell it through a 'parallel' transaction of Salam for the same date of delivery. The period of Salam in the second transaction being shorter, the price would be higher enabling the bank to make profit.
- If a parallel contract is not possible, the bank can obtain a promise to purchase from a third party. This promise should be unilateral from the expected buyer.
- The commodity can also be sold back to the seller at a higher price but this is not in line with the dictates of the Shariah.

Salam in Currencies

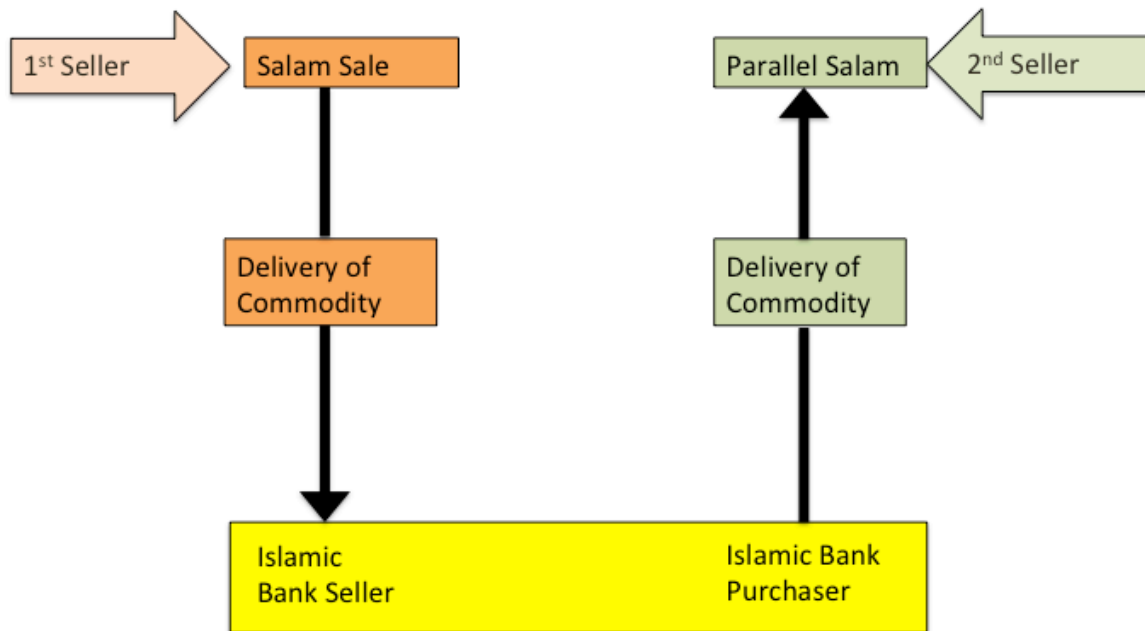
Forward sale or purchase of currencies to take the form of Salam is not a valid contract. Fulus, that were the form of metallic money could be used for trading on the basis of their metal contents. But the currency notes are thaman wanted only for exchange and payments and not for themselves. Allowing exchange of heterogeneous currencies through Salam would open a floodgate of explicit Riba. The objects of Salam sale are commodities of trade and not currencies because these are regarded as monetary values, exchange of which is covered under rules of Bai al Sarf.

PARALLEL SALAM

After execution of Salam agreement with one party, buyer or seller executes another Salam agreement with a third party.

There must be two different and independent contracts, these two contracts cannot be tied up an the performance of one should not be contingent on the other.

Parallel Salam Diagram



Since the modern Islamic Banks and Financial Institutions are using the instrument of parallel Salam, some rules for the validity of this arrangement are necessary to observe:-

1. In an arrangement of parallel Salam there must be two different and independent contracts, one where the bank is the buyer and the other in which it is the seller. The two contracts should not be tied up and the performance of one should not be contingent on the other.

For example, if 'A' has purchased from 'B' 1000 bags of wheat by Salam to deliver on 31 December, 'A' can contract a parallel Salam with 'C' to deliver him 1000 bags of wheat on 31 December. But while contacting parallel Salam with 'C', the delivery of wheat to 'C' cannot be made conditional to taking delivery from 'B'. If 'B' fails to deliver the goods on 31 December, 'A' still has to deliver the 1000 bags of wheat to 'C'. Suppose the bags are delivered by 'B' but they are defective, then 'A' has to deliver the goods to 'C' with the correct specification.

2. A Salam arrangement cannot be used as a buy back facility where the seller in the first contract is also the purchaser in the second. Even if the purchaser in the second contract is a separate legal identity, but owned by the seller in the first contract, it would not tantamount to a valid Salam agreement.

For example 'A' has purchased 1000 bags of wheat by way of Salam from 'B' a joint stock company. 'B' has a subsidiary 'C', which is wholly owned by 'B', 'A' can contract parallel Salam with it, even if some shareholders are common between 'B' and 'C'.

Salam Bonds Issues

It is not permitted to issue tradable bonds based on the debt from a Salam contract.

Comparison with Conventional Financial System

In order to properly understand how Salam is different from the conventional financial system, it is but imperative to first understand how the Islamic Financial System differs from the Conventional Financial System running on Capitalism and Socialism in a few basic ways.

The following pictures bring out the difference in the two sectors:

	CAPITALISM	SOCIALISM	ISLAMIC FINANCE
Determination of Priorities	Concept of selfish interest, unconditional individual right to any business, supply & demand	Coconcept of collective interest, no individual right to business, State determines the priorities	Right to private property and to maximize profits but with some prohibitions, supply & demand
Allocation of Resources	Market forces decide where to invest resources	Government decides where to invest	Market forces & guiding principles for complete well being in life & hereafter

	CAPITALISM	SOCIALISM	ISLAMIC FINANCE
Development	Market forces will decide	Government will decide	Market forces & govt. both decide as per necessity & times
Distribution of Income	Land-Rent Labor-Wages Capital-Interest Entrepreneur-Profits	Land-Rent fixed by government Labor-Wages fixed by government	Land-Rent Labor-Wages Capital-Profits
Right to Wealth	Rests with the factors of production only	Rests with the govt.-it distributes it to the factors of production	Absolute ownership lies with Allah- one has to spend in the way of Allah

The next picture brings out the difference in the welfare of mankind as brought out by practicing the Conventional Financial System and the Islamic Financial System:



Conventional Finance

It is a myth that it is more profitable as only the rich keep getting richer and the deposits utilized by banks do yield huge profits but the depositors have no share in these profits-the small interest that they get is again consumed by the 'rich' in the mark up of goods sold to the common masses

Islamic Economic System

IES ensures that the banks share in the risks with the depositors, along with profits so an optimum balance is maintained. Further it ensures that each has the basic necessities of life by imposing rules like Zakat -- (charity money) above a certain minimum savings, to save which the rich put their money in business, thereby creating more jobs by increasing the demand for labor



A number of instruments/contracts exist in Islamic finance that could be considered a basis for forward/futures contracts within an Islamic framework.

Salam is similar to a conventional forward contract, however differences exist. To fully understand the difference, let us first understand what a forward contract is.

Forward Contract-A cash market transaction in which delivery of the commodity is deferred until after the contract has been made.

Although the delivery is made in the future, the price is determined on the initial trade date.

Now let us see how Salam differs from the conventional forward contracts:

- Salam is essentially a transaction where two parties agree to carry out a sale/purchase of an underlying asset at a predetermined future date but at a price determined and **fully paid** for today
- This is similar to a conventional forward contract however, the big difference is that in a Salam sale, the buyer pays the entire amount in **full at the time the contract is initiated**. The contract also stipulates that the payment must be in cash form.
- The idea behind such a 'prepayment' requirement has to do with the fact that the objective in a Ba'i Salam contract is to help needy farmers and small businesses with working capital financing.
- Since there is full prepayment, a Salam sale is clearly beneficial to the seller. As such, the predetermined price is normally **lower** than the prevailing spot price.
- This price behavior is certainly different from that of conventional futures contracts where the futures price is typically higher than the spot price by the amount of the carrying cost.
- The lower Salam price compared to spot is the "compensation" by the seller to the buyer for the privilege given him.
- Despite allowing Salam sale, Salam is still an exception within the Islamic financial system which generally discourages forward sales, particularly of foodstuff.
- Thus, Ba'i Salam is subject to several conditions:
 - i) Full payment by buyer at the time of effecting sale.
 - ii) The underlying asset must be capable of being standardized, easily quantifiable and of determinate quality.

iii) Cannot be based on an uniquely identified underlying.

iv) Quantity, Quality, Maturity date and Place of delivery must be clearly enumerated.

- It should be clear that current exchange traded futures would conform to these conditions with the exception of the first, which requires full advance payment by the buyer.
- Given the customized nature of Ba'i Salam, it would more closely resemble forwards rather than futures. Thus, some of the problems of forwards; namely "double-coincidence", negotiated price and counterparty risk can exist in the Salam sale.
- Counterparty risk however would be one sided. Since the buyer has paid in full, it is the buyer who faces the seller's default risk and not both ways as in forwards/futures.
- In order to overcome the potential for default on the part of the seller, ***the Shariah allows for the buyer to require*** security which may be in the form of a guarantee or mortgage.

Reason for the Difference between Salam and Conventional Forward Contracts

1. Paper money is a kind of thaman (unit of account to serve as price of anything). They are wanted only for exchange and payments and not for themselves.

2. Currency notes of different countries are considered monetary units of different species and therefore, can be exchanged without the

condition of equality but subject to the conditions of Bai al Sarf (currency exchange), i.e. hand to hand.

3. Flat money is money for all practical purposes and is taken as a substitute for gold and silver, the real and natural money but the position of copper Fulus is not that of an independent currency.

4. Money in itself is not an actual capital and takes the form of capital only when it is used into productive activities along with other resources.

5. Interest is prohibited because it prevents people from undertaking real economic activities.

6. The supply or growth of money/credit should match with supply of goods and services.

7. Time valuation is possible only in business and trade of goods and not in exchange of monetary values and loans or debts.

8. Anything which cannot be used without consuming, its corpus cannot be leased out like money, eatables, fuel, etc.

9. Two possible reference scales-

1) debt/semi-debt contracts

2) equity contracts

The important point to be noted from the above is that Salam is a sale based financing contract in which time value of money is recognized. The permissibility of Salam was an exception to the general rule that prohibits the forward sales. Therefore it was subjected to some strict conditions as enumerated in the beginning. All the Muslim jurists are unanimous on the principle that Salam will not be valid unless all these

conditions are fully observed, because they are based on the express ahadith of the Prophet (Sallallahu alayhi wa sallam). The most famous hadith in this context is the one in which the Prophet (Sallallahu alayhi wa sallam) 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 it will be available in the markets at the date of the delivery. However, all the other three schools of Fiqh (i.e. Shafi'i, 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, only. This latter view can be acted upon 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, therefore, they should be given enough opportunity to acquire the commodity, and they may not be able to supply the commodity before one month. Moreover, the price in Salam

is normally lower than the price of spot sales. This concession in the price may be justified only when the commodities are delivered after a period that has a reasonable bearing on the prices. A period of less than one month does not normally effect 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.

The view is, however, opposed by some other jurists, like Imam Shafi'i and some Hanafi jurists also. They say that the Prophet (Sallallahu alayhi wa sallam) has not specified a minimum for the validity of Salam. The only condition, according to 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 Prophet Sallallahu alayhi wa sallam has not prescribed a minimum period. The jurists have prescribed different periods that range between one day to one month. It is obvious that they have done so according to the expediency and keeping in view the interest of the poor sellers. But the expediency may differ from time to time and 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 condition 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.

We find no such conditions in the conventional system.

Comparison with other Islamic Modes of Finance

1. Murabaha

To enable a clear understanding of the difference between Salam and Murabaha, an understanding of the concept of Murabaha is necessary.

It is a contract wherein the Islamic bank, upon request by the customer, purchases the asset from a third party supplier/vendor and resells it to the customer either against immediate payment or on a deferred payment basis. It is basically the sale of goods at cost plus an agreed profit mark up where the seller discloses the cost as well as the profit to the buyer.

It cannot be used for running finance facility, which provides cash for fulfilling various needs of the client.

Basic Rules of Murabaha

1. Conditions of Subject Matter

The subject matter must exist at the time of sale, must be in the ownership of the seller, must be in the physical or constructive possession of the seller, must be a property of value, must have a halal utility and must be specifically known and identified to the buyer. The delivery should be certain and it should belong to the category of tangible goods and commodities.

2. Conditional Sale

1. Permissibility of using valid conditions.

2. Price may be spot or deferred but fluctuation is not permissible. Use of benchmark at the time of Master Financing Agreement is permissible.

3.The expenses incurred by the seller directly in acquiring the commodity like freight and custom duty can be included in the cost price.

4.Murabaha, which is used as a mode of financing in Islamic banks is a package of the following contracts:

Master Financing Agreement between bank and customer, Undertaking from client, Agency agreement between bank and customer, Purchase of goods from supplier and Murabaha agreement between bank and client.

Important Issues in Murabaha

1.Actual and fresh purchase is an essential part of Murabaha.

2.Promise to purchase-Though a unilateral promise is not binding in normal conditions but if the promisee has had to incur some expenses or liability because of the promisor, then the promisor can be compelled by court to fulfill his promise.

3.Securities against Murabaha price.

4.In case of late payment, the bank cannot charge additional amount as penalty. In order to cover the risk of default, the defaulter will have to pay the charity account maintained by the bank, a certain sum of money calculated on the basis of ...% per annum for each day of default. The amount from this charity will go to help the needy on behalf of the client. This undertaking is a sort of Yameen/Nazar, which is a self-imposed penalty to keep oneself away from default.

5. In case of earlier payment, the client cannot claim rebate as his right, nor can such a rebate be stipulated in the agreement. However, if the bank gives him a rebate on its own, it is not objectionable.

The following table brings out the difference between Salam and Murabaha very nicely:

	Salam	Murabaha
★	Purchased goods are deferred, price is paid on spot	Purchased goods are delivered on spot, price may be either on spot or deferred
★	Price has to be paid full in advance	Price may be on spot or deferred
★	Salam is not executed in the particular commodity but commodity is specified by specifications	Murabaha can be executed in particular commodity
★	It cannot be affected in respect of things, which must be delivered on spot e.g. Salam between wheat and barley	Murabaha can be executed in those things

There are certain important points worth noting. The bank can sell the Salam commodity to the seller of Salam on Murabaha subject to following terms:

- Salam agreement and Murabaha agreement should be independent, not contingent and with free will of the parties.
- Murabaha will be executed after taking the possession of Salam goods.
- Bank shall assume the risk of loss between taking delivery and execution of Murabaha.
- Bank cannot take undertaking from seller of Salam that he will purchase the Salam commodity from bank on Murabaha basis.
- The possibility of having legally acceptable Murabaha-based Sukuk is only feasible in the primary market.

Salam transaction does not require so much effort to practice it as the danger of it converting into riba is missing as the price is fixed on spot and given there and then, whereas the commodity is delivered later. Salam transaction is not as popular as Murabaha. Salam is mostly used to finance the agricultural sector. However, this can also be used to finance the working capital needs to the customer. It is one of the most popular Islamic Modes of finance used by banks in Islamic countries to promote riba-free transactions. Typically, banks use Bai Salam.

Murabaha is a sensitive transaction and requires extreme care in it's execution. A small mistake at any stage can convert Murabaha into an interest based loan. It is the responsibility of the professionals undertaking it to ensure that Murabaha is executed in the best manner and the income derived from it is Halal (pure) and in true letter and spirit. It is one of the most popular modes used by banks in Islamic countries to promote riba-free transactions. Different banks use this instrument in varying ratios. Typically, banks use Murabaha in asset financing, property, microfinance and commodity import-export.

The seller may not use Murabaha if Mudaraba or Musharaka is practicable. Since those profit-sharing modes of financing involve risks, they cannot guarantee banks any income. Murabaha, with its fixed margin, offers the seller (i.e. the bank) a more predictable income stream.

2.Istisna

In order to clearly understand the difference between Salam and Istisna, the concept of Istisna should be understood clearly.

Istisna is a sale transaction where the commodity is transacted before it comes into existence. It is an order to producer to manufacture a specific commodity for the purchaser.

Conditions of Istisna

- 1.The subject of Istisna is always a thing that needs manufacturing.
- 2.Manufacturer uses his own material.
- 3.Quality and quantity should be agreed in absolute terms.
- 4.Purchase price should be fixed with mutual consent.

Price of Istisna

It may be in the form of money, commodity and usufruct. It can be spot or deferred. The price can be in the form of installments, where the installments may be tied up with different stages of involvement.

Revoking of Istisna

The contract of Istisna can be cancelled unilaterally before the manufacturer starts working.

Security

A security in the form of mortgage, guarantee or hypothecation may be required for Istisna in order to ensure that the manufacturer shall deliver the commodity on the agreed date.

Time of Delivery

It is not necessary that the time of delivery be fixed, However the purchaser may fix a maximum time for delivery, beyond which he will not be bound to accept the goods and pay the price.

Delivery of Goods being Manufactured

If the goods being manufactured are delivered before the agreed date, then the purchaser can refuse to accept them. Before delivery, goods will remain at the risk of seller. After delivery, the risk will be transferred to the purchaser.

Parallel Istisna

After the execution of Istisna agreement with one party, buyer or seller executes another Istisna agreement with a third party.

Potential of Istisna

The client can get finance for raw material, working capital and other overhead expenses by the execution of Istisna agreement.

The following picture in the form of a table brings out the important differences that exist between Salam and Istisna:

	Istisna	Salam
★	The subject is a thing, which needs manufacturing	The subject can be any thing
★	Price need not be paid in full in advance	The price has to be paid in full in advance
★	It is not necessary to fix the time of delivery	Time of delivery is an essential part of the sale
★	The contract can be cancelled before the manufacturer starts working	The contract cannot be cancelled unilaterally
★	The manufacturer either uses his own materials and if not available, obtains it to make the ordered goods	The material is provided by the customer and the manufacturer only uses his labor and skill

From the above information, there are a number of conclusions that can be drawn.

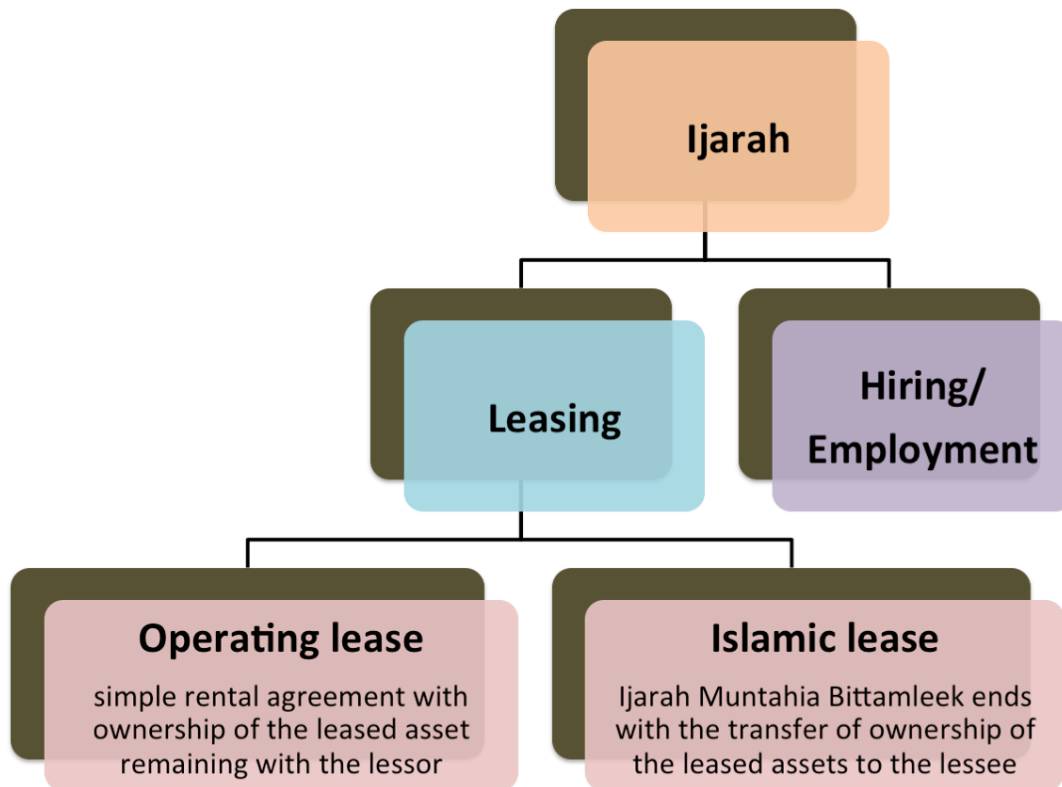
- Istisna is a special case of Salam.
- Both involve the future delivery of a specified object.
- Istisna is mainly used in the fields of manufacturing (both small scale and large scale), construction, Build, Operate and Transfer (BOT), etc.
- Salam is mostly confined to the trading of commodities, particularly those that require from the seller (al-muslim ileihi) no additions or alterations.
- Sukuk al-Istisna: Alternatively referred to as the “Islamic project bond”, the structure of Sukuk al-Istisna has not been that widely used. Although, at first glance, the structure appears ideal for the financing of greenfield development, certain structural drawbacks have proven difficult to overcome and, as a result, Sukuk al-Istisna has not featured as an alternative source of Islamic funding on multi-sourced project financing in the manner once predicted.
- The prevailing view is that Sukuk al-Istisna are not tradable during the construction period.
- Istisna is a particularly useful tool in the Islamic funding of the construction phase of a project – it is often regarded as being similar to a fixed-price ‘turnkey’ contract.
- Salam bonds: In certain circumstances, short-term bond issues can be made using the same mechanism concepts found in Salam transactions. It should be noted, however, that due to the precise nature of the assets/goods that are the subject of a Salam transaction, these types of bond issues are rare and for very short-term periods.

3.Ijarah

In order to facilitate a clear understanding of the difference between Salam and Ijarah, it is essential to understand the concept of Ijarah. The definition of Ijarah is as follows:

Transferring of usufruct of an asset to another person for an agreed period, at an agreed consideration. The asset should be valuable, identified and quantified. Anything which cannot be used without consuming cannot be leased out e.g. money, wheat etc.

Types of Ijarah



Basic Rules of Ijarah

Rental of Lease

The rental must be determined at the time of contract. It is permissible to have different amounts of rent fixed for different phases of rental period. It is permissible to tie up the rental amount with a variable benchmark, the ceiling and floor must be determined. The lessor cannot increase the rent unilaterally.

Period of Lease

It must be determined in clear terms at the beginning of contract.

Lease for Specific Purpose Only

If no specific purpose is identified in the agreement, then it can be used for any purpose for which it is used in normal practice.

Responsibility of Lessor

If the asset is destroyed during the lease period, the lessor will suffer the loss. If the asset loses its usufruct without any negligence of the lessee, then the lessor cannot claim the rent. Moreover, the lessor is liable to pay all the expenses incurred in the process of its purchase and import of the country of the lessor, if required. Taxes related to ownership and even registration charges, as in the case of a car, will be paid by the lessor. Insurance is also the responsibility of the lessor.

Responsibility of Lessee

The cost of any harm caused due to misuse or negligence will be borne by the lessee, along with the taxes related to the use of the asset. He is also responsible for normal wear and tear.

Rentals

The rent or any part thereof may be payable in advance before the delivery of the asset. It can be determined using aggregate costs as in financial leases.

The following picture in tabular form brings out the basic differences between Salam and Istisna in a very good manner:

	Salam	Ijarah
★	The subject can be any thing	It is a contract that has a service or usufruct as underlying
★	The material is provided by the customer and the manufacturer only uses his labor and skill	Lessor is neither required nor obliged to provide materials
★	The price has to be paid in full in advance	The rent or any part thereof may be payable in advance before the delivery of the asset

Salam Bonds and Ijarah Bonds

Ijarah Sukuk: These are Sukuk that represent ownership of equal shares in a rented real estate or the usufruct of the real estate. These Sukuk give their owners the right to own the real estate, receive the rent and dispose of their Sukuk in a manner that does not affect the right of the lessee, i.e. they are tradable. The holders of such Sukuk bear all cost of maintenance of and damage to the real estate.

Ijarah Sukuk are the securities representing ownership of well defined existing and known assets tied up to a lease contract, rental of which is the return payable to Sukuk holders. Payment of Ijarah rentals can be unrelated to the period of taking usufruct by the lessee. It can be made before beginning of the lease period, during the period or after the period as the parties may mutually decide. This flexibility can be used to evolve different forms of contract and Sukuk that may serve different purposes of issuers and the holders.

Salam Bonds: Although the use of Salam has been, and is, utilized by some institutions for short-term liquidity purposes, its use as the platform for issuing Sukuk, as an alternative to conventional bonds, is rare in comparison to some of the more prevalent structures like Sukuk al-Ijarah. The limited use of this structure can be attributed to a number of factors, namely the non-tradability of the Sukuk and the requirement that the Originator must be able to deliver certain 'standardized' assets to the Issuer at certain future dates which may be difficult where the Originator's business model does not provide for this.

When structuring a Sukuk issuance as a Sukuk al-Salam, the first step will involve analyzing what exactly the business of the Originator entails and what 'standardized' assets (if any) the Originator is able to deliver to support

the issuance of the Sukuk. At the outset, if it is not possible to identify any such assets, it will be necessary to consider other possible structures.

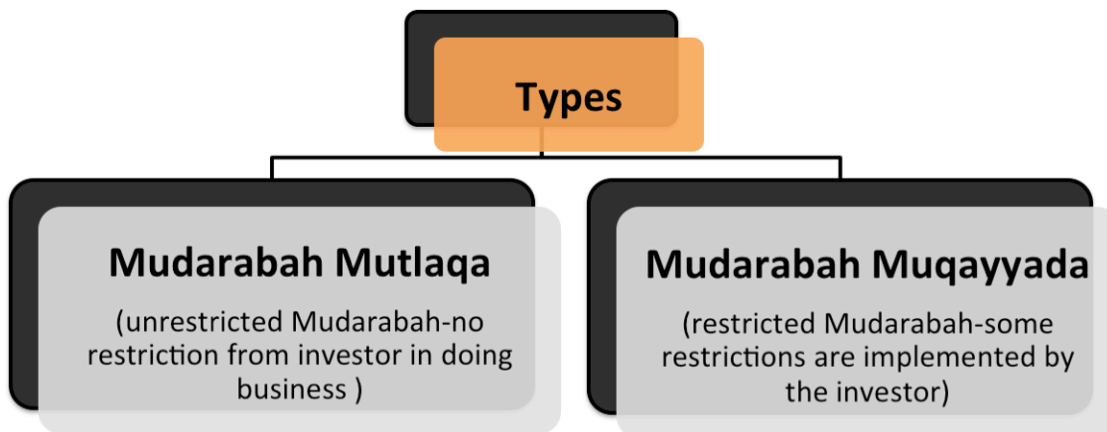
4.Mudarabah

In order to bring out the difference between Salam and Mudarabah, it is essential to first know the concept of Mudarabah. The definition of Mudarabah is as follows:

If an investment is made from one person and services from the other partner, then the partnership is called Mudarabah. Investor is called 'Rabb-ul-Mal' and the working partner is called 'Mudarib' and the investment is called 'Ras-ul-Mal'.

In order to bring about a riba (interest)-free economy, the country's banking system has to be riba-free, it's commercial enterprises have to be financed by equity capital, and it's investments have to be on a profit and loss sharing basis. A Mudarabah based system takes into account present-day realities and it has no parallel in the conventional economy.

Types of Mudarabah



Basic Rules of Mudarabah

Rules of Profit and Loss

Profit may be distributed in any ratio. In case of loss, all loss will be borne by the Rabb-ul-Mal. Mudarib's share of profit will not be given to him in case of loss.

Different capacities of Mudarib

Amin (Trustee)

Wakeel (Agent)

Shareek (Partner)

Zamin (Liable)

Ajeer (Employee)

Requirements related to Capital

In principle, the capital must be provided in the form of cash. However, it may be presented in the form of tangible assets, in which case the market-value of the assets is the contribution to the Mudarabah capital.

Profit Distribution Mechanism

The parties should agree on the ratio of profit distribution when the contract is concluded. It is also permissible for the parties to change this ratio at any time and to define the duration for which the agreement will remain valid

If the parties did not stipulate the ratio of distribution, then referral should be made to customary practice.

The following picture in tabular form brings out some of the differences between Salam and Mudarabah:

Salam	Mudarabah
1. Salam is a trade Based Product	Mudarabah is an equity based product
2. Involves a seller and a buyer	Involves a mudarib and a Rab-ul maal
3. Some specific goods are supplied to the buyer	The investor may or may not restrict the ventures into which money can be invested
4. The buyer's liability comes into effect after physical or constructive possession of the goods	Investor is liable up to the amount of his investment

Mudarabah Sukuk and Sukuk al-Salam

Sukuk Mudarabah: It is a certificates of equal value issued with the aim of using the contribution on the basis of partnership contracts via profit sharing

mechanism. The capital provider 'becomes' the owner of the project or the asset as per their respective shares. The venture will be managed by an entrepreneur (in this case) under the capacity of Mudarib. For Sukuk issuance, it is permissible to combine Sukuk Mudarabah with other contracts/structures such as Ijarah, Istisna as long as the structure fulfills all Shariah requirements.

Although it is a partnership contract that is evidenced by issuance of certificate, Sukuk holders do not enjoy the same rights and benefits as equity Investors do, as they are only entitled to a profit share. In addition, they are not the registered owners, and cannot attend or vote at the annual general meeting. The capital must be in cash and classified as mal al-hadir (ready property). Thus, it is not permitted for the investor to use debt owed by him as his capital contribution.

Sukuk al-Salam: A Salam contract may be construed as being synonymous with the objective of a forward sale contract. Forward sale contracts are generally forbidden under Shariah unless the element of uncertainty (gharar) inherent in such contracts is effectively eradicated. For this reason, certain criteria must be met in order for a Salam contract to be Shariah compliant.

As with the other Sukuk structures, it is possible to structure a Sukuk al-Salam in a manner that provides for regular payments throughout the life of a financing arrangement, together with the flexibility to tailor the payment profile - and method of calculation - in order to generate a profit. The AAOIFI Shariah Standards perceive debt securitization and tradability as non-Shariah compliant. As such, although the characteristics of Salam make it relatively straightforward to adapt for use in the underlying structure for a Sukuk issuance, its use remains rare in practice as the Salam contract creates indebtedness on the part of the seller thereby rendering these Sukuk non-tradable in nature.

5. Diminishing Musharakah

In order to clearly understand the concept of Diminishing Musharakah it is but imperative to understand the concept of Musharakah. The literal meaning of Musharakah is sharing. The root of the word in Arabic is Shirkah, which means being a partner.

Musharakah means a joint enterprise formed for conducting some business in which all the partners share the profit according to a specific ratio, while the loss is shared according to the ratio of contribution.

It is an ideal alternative for the interest based financing with far reaching effects on both production and distribution.

Now let us try to understand what Diminishing Musharakah is.

Diminishing Musharakah is a form of partnership in which one of the partners promises to buy the equity share of the other partner gradually until the title to the equity is completely transferred to him. This transaction starts with the formation of a partnership, after which buying and selling of the equity takes place between the two partners. It is therefore necessary that this buying and selling should not be stipulated in the partnership contract.

In other words, the buying partner is allowed to give only a promise to buy. This promise should be independent of the partnership contract. In addition, the buying and selling agreement must be independent of the partnership contract. It is not permitted that one contract be entered into as a condition for concluding the other.

The general rules for partnerships must be applied to a diminishing partnership, especially the rules for Shirkat al-Ainan.

Basic Rules of Musharakah applicable in Diminishing Musharakah

Distribution of Profit

- 1.The proportion of profit must be agreed upon at the time of affecting the contract.
- 2.The ration of profit for each partner must be determined in proportion to the actual profit accrued to the business, and not in proportion to the capital invested by him.

Ratio of Profit

The ratio of profit may differ from the ratio of investment in normal conditions. In the case of a sleeping partner, the ratio of profit can never be greater than the ratio of his investment.

Sharing of Loss

The loss suffered by each partner should be exactly according to the ratio of his investment.

Basic Rules of Capital

The capital in the agreement should be:

- a) Quantified (Maloom) :meaning how much etc.
- b) Specified (Muta'aiyan) : meaning specified currency etc.

Powers and Rights of the Partners

1.The right to sell the mutually owned property, to buy raw material or other stock on cash or credit using funds, to hire people and the right to deposit money and goods of the business as depositor trust.

2.The right to use Shirkah's funds or goods in Mudarabah, to give the funds as a gift or loan as a loan on one partner becomes a liability on all the partners.

Sukuk

Diminishing Musharakah: Where a Sukuk is structured to be amortizing, a diminishing Musharakah arrangement can be implemented. Pursuant to this arrangement, both the Originator and Trustee must jointly own the asset and on any date on which the amortization is to occur, Trustee would sell some of its units or part of its co-ownership interest in the Musharakah asset(s) to Originator. As a consequence of such sale, Trustee's units or ownership interest (as the case may be) in the Musharakah Asset(s) decreases over the life of the Sukuk.

Sukuk al-Salam: Salam Sukuk are certificates of equal value issued for the purpose of mobilizing Salam capital so that the goods to be delivered on the basis of Salam come to the ownership of the certificate holders. The issuer of the certificates is a seller of the goods of Salam, the subscribers are the

buyers of the goods, while the funds realized from subscription are the purchase price (Salam capital) of the goods. The holders of Salam certificates are the owners of the Salam goods and are entitled to the sale price of the certificates or the sale price of the Salam goods sold through a parallel Salam, if any.

Salam-based securities may be created and sold by an SPV under which the funds mobilized from investors are paid as an advance to the company SPV in return for a promise to deliver a commodity at a future date. SPV can also appoint an agent to market the promised quantity at the time of delivery perhaps at a higher price. The difference between the purchase price and the sale price is the profit to the SPV and hence to the holders of the Sukuk.

All standard Shariah requirements that apply to Salam also apply to Salam Sukuk, such as, full payment by the buyer at the time of effecting the sale, standardized nature of underlying asset, clear enumeration of quantity, quality, date and place of delivery of the asset and the like. One of the Shariah conditions relating to Salam, as well as for creation of Salam Sukuk, is the requirement that the purchased goods are not re-sold before actual possession at maturity. Such transactions amount to selling of debt. This constraint renders the Salam instrument illiquid and hence somewhat less attractive to investors. Thus, an investor will buy a Salam certificate if he expects prices of the underlying commodity to be higher on the maturity date.

The following picture in tabular form lists out the basic differences between Salam and Diminishing Musharakah:

	Diminishing Musharakah	Salam
★	It is a form of partnership in which one of the partners promises to buy the equity share of the other partner	It is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange for an advance price fully paid on spot
★	Price is paid by one partner gradually until the title to the equity is completely transferred to him	The price has to be paid in full in advance
★	There exists only a promise to buy independent of the partnership contract.	The contract cannot be cancelled unilaterally

We can conclude by saying that as we have seen above in Diminishing Musharakah that, this instrument (DM) has originated from Shirkah, and Shirkah agreement is one of the stages on Diminishing Musharakah arrangement, however this agreement stands separate. Diminishing Musharakah is differed from other Islamic financial modes in the structures and some rules but they all are Shariah complaint modes of finance. Some of these modes are working together with Diminishing Musharakah and become the part of overall Diminishing Musharaka arrangement.

APPLICATIONS

Salam was allowed by the Prophet (Peace and blessings be upon him) to fulfill the needs of farmers and traders. Therefore, it is basically a mode of financing for small farmers and traders in agricultural goods. Banks can use this mode to finance the agricultural sector in particular and other trading activities in general. If a parallel contract of Salam is not feasible, banks can also obtain a promise from a third party to purchase the goods. This promise should be unilateral from the prospective buyer. The buyers will not have to pay the price in advance as they are merely making a promise. However, bank can ask for earnest money. As soon as the bank receives the commodity, it will be sold to the third party at a pre-agreed price, according to the terms of the promise.

To meet the need of traders for import and export business. Under Salam, it is allowed for them that they sell the goods in advance so that after receiving their cash price, they can easily undertake the aforesaid business. *Salam* is beneficial to the seller because he received the price in advance and it was beneficial to the buyer also because normally the price in Salam is lower than the price in spot sales.

The permissibility of Salam is an exception to the general rule that prohibits forward sale and therefore it is subject to strict conditions.

Regarding contemporary application of Salam, banks can use it for Agricultural Finance, Export Finance, Working Capital Finance, Inventory Finance, Operational Cost Management, Liquidity Management-Short term financing, etc. Islamic Fiqh Academy (pp.: 185-187) has observed that the wide range of applications of Salam may include the following:

A Salam contract may be used to finance various agricultural operations, in which case an Islamic bank may deal with farmers expected to have the

commodity in the right season, either from their own crop or from that of others, which they may purchase and deliver in case of failure on their part to honor the delivery out of their own crops. The bank would thus have extended to them a benefit of great value and protected them against the failure to achieve their production targets on account of resource constraints.

A Salam contract may be used to finance agricultural or industrial activities particularly for financing the stages before the production and export of the manufactured goods, by means of buying them under Salam and marketing them again at profitable prices.

A Salam contract may be applied in financing handicraftsmen, small manufactures, farmers and industrialists by providing them with the necessary production needs in the form of tools, equipment, or raw material as a forward capital against access to some of their produce and remarketing them.

There are two ways of benefiting from the contract of Salam:

1. After purchasing a commodity by way of Salam, the financial institution can sell it through a parallel contract of Salam for the same date of delivery. The period of Salam in the second parallel contract is shorter and the price is higher than the first contract. The difference between the two prices shall be the profit earned by the institution. The shorter the period of Salam, the higher the price and the greater the profit. In this way institutions can manage their short term financing portfolios.
2. The institution can obtain a promise to purchase from a third party. This promise should be unilateral from the expected buyer. The buyer does not have to pay the price in advance. When the institution receives the commodity, it can sell it at a pre-determined price to a third party according to the terms of the promise.

Salam in Practice for Agricultural Needs

Let us elaborate on the practical mechanism of a Salam transaction. A farmer, who requires finance to grow crop, approaches the Islamic Bank and provides complete details of the crops (name, brand/type, quality etc.), selling price, production cost, production yield, date and place of delivery and etcetera. However, the bank shall also collect all the above details through experts in the field. Then the customer signs a Master Salam Agreement with the Islamic Bank in which all the necessary production related details, terms and conditions are mentioned. The Islamic Bank may also appoint the customer as its agent through an Agency Agreement to sell the crop, once it comes into existence, at a specified future date. However, the Agency Agreement shall be independent to the Master Salam contract. At the start of the transaction, the Islamic Bank must pay the full price (please find below how to reach this price) to the farmer, in advance, by crediting the same in the farmer's account. It should be noted that full payment of price in advance is a must and is the necessary requirement of Salam, while partial payment is tantamount to Riba as per Shariah Law. Now the farmer has the authority to utilize the funds either completely or in tranches to grow the crop. On the date previously agreed when the crop is ready, the farmer will communicate to the Islamic Bank the availability of the crop and the Islamic Bank shall take the physical or constructive possession of the crop. After this, the Salam Leg shall become silent and the Wakala Leg of the transaction shall be operational allowing the farmer to sell the produce as per Agency Agreement. To further clarify please go through the below example.

Salam Sukuk

Salam Sukuk are certificates of equal value issued for the purpose of mobilizing Salam capital so that the goods to be delivered on the basis of Salam come to the ownership of the certificate holders. The issuer of the certificates is a seller of the goods of Salam, the subscribers are the buyers of the goods, while the funds realized from subscription are the purchase price (Salam capital) of the goods. The holders of Salam certificates are the owners of the Salam goods and are entitled to the sale price of the certificates or the sale price of the Salam goods sold through a parallel Salam, if any.

Salam-based securities may be created and sold by an SPV under which the funds mobilized from investors are paid as an advance to the company SPV in return for a promise to deliver a commodity at a future date. SPV can also appoint an agent to market the promised quantity at the time of delivery perhaps at a higher price. The difference between the purchase price and the sale price is the profit to the SPV and hence to the holders of the Sukuk.

All standard Shariah requirements that apply to Salam also apply to Salam Sukuk, such as, full payment by the buyer at the time of effecting the sale, standardized nature of underlying asset, clear enumeration of quantity, quality, date and place of delivery of the asset and the like.

One of the Shariah conditions relating to Salam, as well as for creation of Salam Sukuk, is the requirement that the purchased goods are not re-sold before actual possession at maturity. Such transactions amount to selling of debt. This constraint renders the Salam instrument illiquid and hence somewhat less attractive to investors. Thus, an investor will buy a Salam certificate if he expects prices of the underlying commodity to be higher on the maturity date.

Steps involved in the transaction:

- SPV signs an undertaking with an obligator to source both commodities and buyers. The obligator contracts to buy, on behalf of the end-Sukuk holders, the commodity and then to sell it for the profit of the Sukuk holders.
- Salam certificates are issued to investors and SPV receives Sukuk proceeds.
- The Salam proceeds are passed onto the obligator who sells commodity on forward basis.
- SPV receives the commodities from the obligator.
- Obligator, on behalf of Sukuk holders, sells the commodities for a profit.
- Sukuk holders receive the commodity sale proceeds.

Salam Sukuk in Practice

Aluminum has been designated as the underlying asset of the Bahrain Government al Salam contract, where by it promises to sell aluminum to the buyer at a specified future date in return of a full price payment in advance. The Bahrain Islamic Bank (BIB) has been nominated to represent the other banks wishing to participate in the Al Salam contract. BIB has been delegated to sign the contracts and all other necessary documents on behalf of the other banks in the syndicate. At the same time, the buyer appoints the Government of Bahrain as an agent to market the appropriate quantity at the time of delivery through its channels of distribution. The Government of Bahrain provides an additional undertaking to the representative (BIB) to

market the aluminum at a price, which will provide a return to al Salam security holders equivalent to those available through other conventional short-term money market instruments.

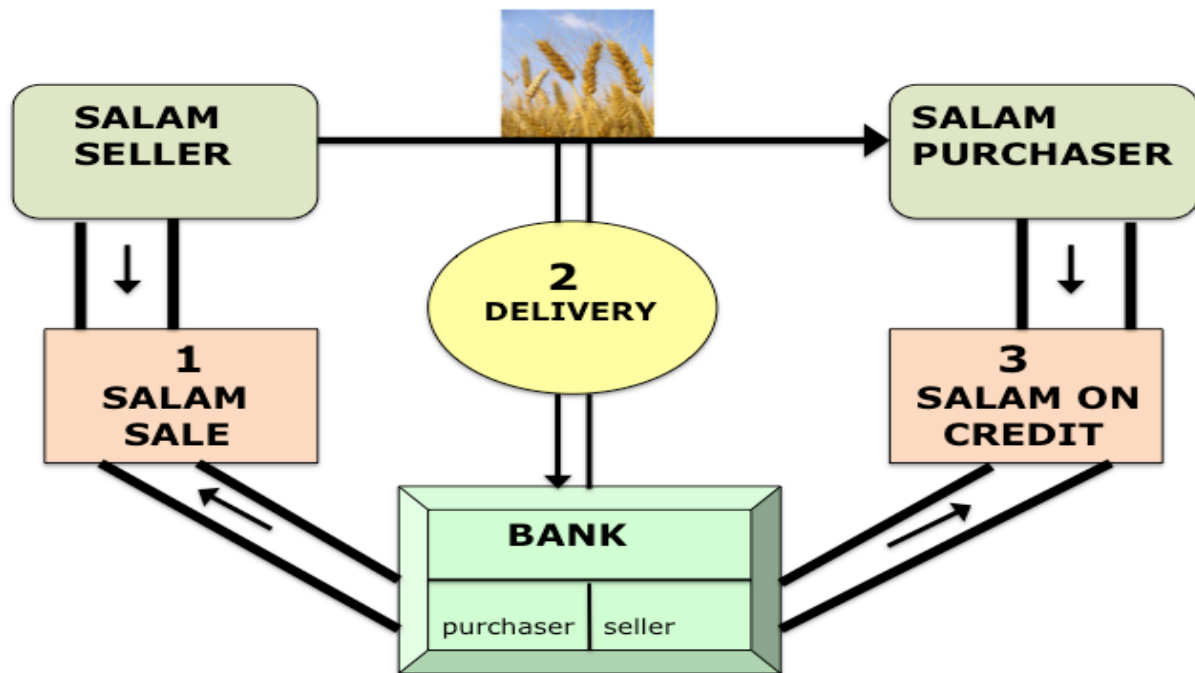
Parallel Salam

In certain cases the bank may enter into a back-to-back contract (Parallel Salam) to sell a commodity with the same specification as the purchased commodity under a Salam contract to a party other than the original seller. The Parallel Salam allows the bank to sell the commodity for future delivery at a predetermined price (thus hedging the price risk on the original Salam contract) and protects the bank from having to take delivery of the commodity and warehousing it.

Salam for Economic Progress

Because the agricultural sector in a lot of countries has lost significant growth momentum largely due to failing interest-based models, this calls for an alternative model that should be interest-free and Shariah-compliant. The model should also be cost efficient, increases productivity and encourages value-added products. In this context, the Salam Model can be adopted to regain the agricultural growth currently lost in those countries. Under the Salam model, it is recommended that Islamic banks employ agricultural experts to monitor and educate the farmers in order to maximize their revenue and protect the capital they invested. An increase in agricultural activity would lead to an increase in national productivity, thereby causing economic progress.

OPERATIONAL FLOWCHART



1- The bank will purchase the item from client A with full prepayment of the price and delivery on an agreed specified date.

2-The customer (seller) will deliver the commodity at the agreed time and place.

3-The bank will sell the commodity to any third party C by way of any of the following alternatives:

A) Parallel Salam with C for receipt of full payment; **B)** get a promise to purchase from C at any agreed price; **C)** appoint A as its agent to sell to any third party; **D)** wait until the goods are received and then sell in the market.

4-After taking delivery from A on the agreed date, the bank may make delivery to C or any other purchaser.

WORK INSTRUCTIONS FOR OPERATORS

The definition of Salam, its purpose and the various conditions under which the transaction takes place has already been explained in the preceding pages.

To properly understand the execution of Salam let us look at a **Model Salam Agreement**. In the discussion of the Model Agreement are incorporated detailed work instructions for operators that they need at various stages of the transaction.

THIS SALAM AGREEMENT

(the "Agreement") is made at _____ on _____ day of _____ by and

BETWEEN

_____, (hereafter referred to as the "**Supplier**" which expression shall where the context permits mean and include its successors in interest and permitted assigns) of the one part

AND

_____, (hereinafter referred to as the "**Institution**" which expression shall where the context so permits mean and include its successors in interest and assigns) of the other part.

IT IS AGREED BY THE PARTIES as follows:

1. PURPOSE AND DEFINITIONS

1.02 This Agreement sets out the term and conditions upon and

subject to which the Institution has agreed to purchase the Goods from the Supplier:

1.03 In this Agreement, unless the context otherwise requires:

“Business Day” means a day on which banks are open for normal business in Canada (we are assuming that the transaction is taking place in Canada to simplify things).

“Contract Price” means \$_____, paid by the Institution to the Supplier or such other sum as may mutually be agreed in writing between the parties hereto as the price of the Goods purchased in accordance with the terms of this Agreement;

“Event of Default” means any of the events or circumstances described in Clause 09 hereto;

“Goods” means the Goods described in Salam Document # ____;

“Goods Receiving Note” means confirmation of receipt of Goods as set out in Salam Document;

“Indebtedness” means any obligation of the Supplier for delivery of the Goods or for payment of any sum of money due or, payable under this Agreement;

“License” means any license, permission, authorization, registration, consent or approval granted to the Supplier for the purpose of or relating to the conduct of its business;

“Lien” shall mean any mortgage, charge, pledge, hypothecation, security interest, lien, right of set-off, contractual restriction (such as negative covenants) and any other encumbrance;

“Parties” means parties to this Agreement;

“Notice of Delivery” means the Notice of Delivery given by the Supplier to the Institution as set out in Salam Document # ____

“Principal Documents” means this Agreement and the Security Documents;

“Prudential Regulations” means Prudential Regulations or other regulations as are notified from time to time by CBC or SECC;

“Secured Assets” means the following assets of the Supplier in respect to which charge/mortgage may be created;

“CBC” means the Central Bank of Canada;

“SECC” means the Securities and Exchange Commission of Canada;

“Taxes” includes all present and future taxes (including central excise duty and sales tax), levies, imposts, duties, stamp duties, penalties, fees or charges of whatever nature together with delayed payment charges thereon and penalties in respect thereof and “Taxation” shall be construed accordingly;

“Written Offer” means the Offer made by the Supplier to the Institution as per Salam Document #

1.04 Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

1.05 The recitals herein above and Appendices to this Agreement shall form an integral part of this Agreement.

2. SUPPLY OF THE GOODS PURCHASED

2.01 The Supplier has agreed to supply the Goods to the Institution pursuant to the Written Offer for the Contract Price. Upon receipt of the Supplier's Notice of Delivery, which shall be date or such other date as may be mutually agreed between the parties hereto, hereinafter referred to as Delivery Date, advising the Institution to take delivery of the Goods, the Institution shall receive or cause to receive the Goods at the designated point of delivery;

2.02 The Goods shall remain at the risk of the Supplier until they are delivered to the point of delivery and have been inspected and accepted by the Institution, immediately after which, all risks in respect of the Goods shall be passed on to the Institution;

3.SECURITY

3.01 As security for the performance of this Agreement by the Supplier under this Agreement, the Supplier shall:

- a) Furnish to the Institution a collateral(s), substantially in the form and substance attached hereto a Salam Document # _____;
- b) Execute such further deeds and documents as may from time to time be required by the Institution for the purpose of more fully securing and or perfecting the security created in favour of the Institution; and
- c) Create such other securities to secure the Supplier's obligations under the Principal Documents as the parties, hereto, may by mutual consent agree from time to time.

The above are referred to collectively as the "Security".

3.02 In addition to above, the Supplier shall execute a demand promissory note in favour of the Institution for the amount of the Contract Price (the "Promissory Note");

The Security and the Promissory Note are hereinafter collectively referred to as the "Security Documents".

4. FEES AND EXPENSES

It is understood that each party shall bear the fees and expenses incurred from its own account in connection with the negotiation, preparation and execution of the Principal Documents and of amendment or extension of or granting of any waiver or consent under the Principal Documents.

5. PAYMENT OF CONTRACT PRICE

Payment to the Supplier under this Agreement has been made of such withholding leaves that the Institution is required to deduct under various laws in force. The Institution shall promptly deliver to the Supplier copies or originals of any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid.

6. REPRESENTATIONS AND WARRANTIES

6.01 The supplier warrants and represents to the institution that:

- a) The execution, delivery and performance of the Principal Documents by the Supplier will not (1) contravene any

existing law, regulation or authorization, which the Supplier is subject to, (2) result in any breach of or default under any agreement or other instrument to which the Supplier is a party or is subject to, or (3) contravene any provision of the constitutive documents of the Supplier or any resolution adopted by the board of directors or members of the Supplier;

- b) The financial statements together with the notes to the accounts and all contingent liabilities and assets that are disclosed therein represent a true and fair financial position of the business of the Supplier and to the best of the knowledge of the Supplier there are no material omissions and or misinterpretations;
- c) All requisite corporate and regulatory approvals required to be obtained by the Supplier in order to enter into the Principal Documents are in full force and effect and such approvals permit the Supplier, inter alia, to obtain the entire sales price in advance under this Agreement and perform its obligations hereunder and that the execution of the Principal Documents by the Supplier and the exercise of its rights and performance of its obligations hereunder, constitute private and commercial acts done for private and commercial purposes;
- d) No material litigation, arbitration or administrative proceedings is pending or threatened against the Supplier or any of its assets;
- e) It shall inform the Institution within _____ Business Days of an event or happening which may have an adverse effect on the financial position of the Supplier, whether such an event is recorded in the financial statements or

not as per applicable International Accounting Standards,
as applicable in Canada.

7. UNDERTAKING

7.01 The Supplier covenants and undertakes that so long as it remains obliged under this Agreement:

- a. It shall inform the Institution of any Event of Default or any event, which with the giving of notice or lapse of time or both would constitute an Event of Default forthwith upon becoming aware thereof;
- b. It shall do all such things and execute all such documents which in the opinion of the Institution may be necessary to-
 - i. Enable the Institution to assign or otherwise transfer the right of the Institution to enable any creditor of the Institution or to any third party to receive the delivery of the Goods as the Institution may deem fit at its entire discretion;
 - ii. Create and perfect the security;
 - iii. Maintain the Security in full force and effect at all times including the priority thereof;
 - iv. Maintain, insure and pay all Taxes assessed in respect of the Secured Assets and protect and enforce its rights and title, and the rights of the Institution in respect of the Secured Assets, and;
 - v. Preserve and protect the Secured Assets. The Supplier shall at its own expense cause to be delivered to the Institution such other documentation and legal opinion(s) as the Institution may reasonably require from time to time in respect of the foregoing;
- c. It will satisfactorily insure all Secured Assets with reputable companies offering protection under the Islamic concept of Takaful. The secured

- Assets shall be comprehensively insured against all insurable risks and to assign all policies of insurance in favour of the Institution to the extent of the amount from time to time due under this Agreement, and to cause the notice of the interest of the Institution to be noted on the policies of insurance, and to punctually pay the premium due for such insurance's and to contemporaneously therewith deliver the premium receipts to the Institution.
- d. Except as required in the normal operation of its business, the Supplier shall not, without the written consent of the Institution, sell, transfer, lease or otherwise dispose of all or a sizeable part of its assets, or undertake or permit any merger, consolidation, dismantling or re-organization which would materially affect the Supplier's ability to perform its obligations under any of the Principal Documents;
 - e. It shall not (and shall not agree to), except with the written consent of the Institution, create, incur, assume or suffer to exist any Lien whatsoever upon or with respect to the Secured Assets and any other assets and properties owned by the Supplier which may rank superior, pari passu or inferior to the security created or to be created in favour of the Institution pursuant to the Principal Documents;
 - f. It shall forthwith inform the Institution of:
 - i. Any event or factor, any litigation or proceedings pending or threatened against the Supplier which could materially and adversely affect or be likely to materially and adversely affect:
 - g. The financial condition of the Supplier;
 - h. Business or operations of the Supplier; and
 - i. The Supplier's ability to meet its obligations when due under any of the Principal Documents,
 - j. Expiry or cancellation of a material patent, copyright or license,
 - k. Loss of a key executive or trade Agreement;
 - ii. Any change in the directors or management of the Supplier;

- iii. Any actual or proposed termination, rescission, discharge (otherwise than by performance), amendment or waiver or indulgence under any material provision of any of the Principal Documents;
- iv. Any material notice or correspondence received or initiated by the Supplier relating to the License, consent or authorization necessary for the performance by the Supplier of its obligations under any of the Principal Documents;
- I. The Supplier shall indemnify and hold the Institution and its officers and employees harmless against any claims on account of quality, merchantability, fitness for use, any latent or patent defects in the Goods and any matters pertaining to intellectual property rights in respect of such Goods.

8. EVENTS OF DEFAULT AND TERMINATION

8.01 There shall be an Event of Default if in the opinion of the Institution:

- a) The Supplier fails to deliver the Goods contracted to be delivered under the Agreement on the Delivery Date at _____;
- b) Any representation or warranty made or deemed to be made or repeated by the Supplier in or pursuant to the Principal Documents or in any document delivered under this Agreement is found to be incorrect;
- c) Any indebtedness of the Supplier in excess of \$_____ only, is not paid when due or becomes due or capable of being declared due in terms of this Agreement;
- d) Any authority of or registration with governmental or public bodies or courts required by the Supplier in connection with the execution, delivery, performance, validity, enforceability or admissibility in

- evidence of the Principal Documents are modified in a manner unacceptable to the Institution or is not granted or is revoked or otherwise ceases to be in full force and effect;
- e) The total interruption or cessation of the business activities of the Supplier;
 - f) Any costs, charges and expenses under the Principal Documents shall remain unpaid for a period of _____ days after notice of demand in that behalf has been received by the Supplier from the Institution;

8.02 Notwithstanding anything contained herein, the Institution may without prejudice to any of its other rights, at any time after the happening of an Event of Default by notice to the Supplier declare that:

- a) The obligation of the Institution to take delivery of the Goods from the Supplier shall be terminated, forthwith; and/or
- b) The entire outstanding amount of the Contract Price and any other amounts paid to the Supplier under this Agreement along with other costs, charges, and expenses incurred or actual loss sustained by the Institution shall forthwith become due and refundable.

9. PENALTY

9.01 Where any amount is required to be paid by the Supplier under the Principal Documents on a specified date and is not paid by that date, or an extension thereof, permitted by the Institution without any decrease in the Contract Price, the Supplier hereby undertakes to pay directly to the Charity Fund, constituted by the Institution, a sum calculated @.....% per annum for the entire period of default, calculated on the total amount of the obligations remaining un-discharged. The Charity Fund shall be used at the absolute discretion of the Institution, exclusively for the purposes of approved charity.

9.02 In case

- i. Any amount(s) referred to in clause 9.01 above, including the amount undertaken to be paid directly to the Charity Fund, by the Supplier, is not paid by him, or
- ii. The Supplier delays the payment of any amount due under the Principal Documents and/or the payment of amount to the Charity Fund as envisaged under Clause 10.01 above, as a result of which any direct or indirect costs are incurred by the Institution, the Institution shall have the right to approach a competent Court.
 - i. For recovery of any amounts remaining unpaid as well as
 - ii. For imposing of a penalty on the Supplier. In this regard the Supplier is aware and acknowledges that notwithstanding the amount paid by the Supplier to the Charity Fund of the Institution, the Court has the power to impose penalty, at its discretion, and from the amount of such penalty, a smaller or bigger part, depending upon the circumstances, can be awarded as solarium to the Institution, determined on the basis of direct and indirect costs incurred, other than the opportunity cost.

10.INDEMNITIES

The Supplier shall indemnify the Institution against any expense, which the Institution shall prove as rightly incurred by it as a consequence of

- i. Any default in performance of any obligations under the Principal Documents,
- ii. The occurrence of any Event of Default, and
- iii. Arising out of any misrepresentation

11.INCREASED COSTS

If any law or regulation or any order of any court, tribunal or authority has the effect of subjecting the Supplier to Taxes or changes the basis or rate of Taxation with respect to any payment or other obligation under this Agreement (other than Taxes or Taxation on the overall income of the Institution), the same shall be borne by the Supplier. No additional amount will be demanded or become payable by Institution.

12.SET-OFF

The Supplier authorizes the Institution to apply any credit balance to which the Supplier is entitled or any amount which is payable by the Institution to the Supplier at any time in or towards partial or total satisfaction of any sum which may be due from or payable by the Supplier to the Institution under this Agreement including the Contract Price upon occurrence of any event of the Supplier failing to meet the delivery.

13.ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of and be enforceable by the Institution, the Supplier and respective successors, assigns and transferees of the parties hereto, provided that the Supplier shall not assign or transfer any of its rights or obligations under this Agreement without the written consent of the Institution. The Institution may assign all or any part of its rights or transfer all or any part of its obligations and/or commitments under this Agreement to any financial institution or other person without any consent of the Supplier. The Supplier shall not be liable for the costs of the assignment and/or transfer of commitments hereunder by

the Institution. If the Institution assigns all or any part of its rights or transfers all or any part of its obligations and commitments as provided in this Clause, all relevant references in this Agreement to the Institution shall thereafter be construed as a reference to the Institution and/or its assignee(s) or transferee(s) (as the case may be) to the extent of their respective interests.

14.FORCE MAJEURE

Any delays in or failure by a Party hereto in the performance hereunder if and to the extent it is caused by the occurrences or circumstances beyond such Party's reasonable control, including but not limited to, acts of God, fire, strikes, or other labour disturbances, riots, civil commotion, war, sabotage, any other causes, similar to those herein specified which cannot be controlled by such Party. The Party affected by such events shall promptly inform the other Party of the occurrence of such events and shall furnish proof of details of the occurrence and the reasons for its non-performance of whole or part of this Agreement. Thereafter the Party shall consult one another to take the best decision.

15.GENERAL

15.01 No failure or delay on the part of the Institution to exercise any power, right or remedy under this Agreement shall operate as a waiver thereof nor shall a partial exercise by the Institution of any power right or remedy preclude any other or further exercise thereof or the exercise of any other power right or remedy. The remedies provided in the Agreement are cumulative and are not exclusive of any remedies provided by law;

15.02 This Agreement represents the entire Agreement and understanding between the parties in relation to the subject matter and no amendment or modification to this Agreement will be effective or binding unless it is in writing, signed by both parties and refers to this Agreement;

15.03 This Agreement is governed by and shall be construed in accordance with the Canadian law. All competent courts at _____ shall have the non-inclusive jurisdiction to hear and determine any action, claim or proceedings arising out of or in connection with this Agreement;

15.04 Nothing contained herein shall prejudice or otherwise affect the rights and remedies that may otherwise be available under law to the parties.

15.05 Any reconstruction, division, reorganization or change in the constitution of the Institution or its absorption in or amalgamation with any other person or the acquisition of all or part of its undertaking by any other person shall not in any way prejudice or affect its rights hereunder.

15.06 The two parties agree that any notice or communication required or permitted by this Agreement shall be deemed to have been given to the other party seven days after the same has been posted by registered mail or the next Business Day if given by a facsimile message to telex or by any other electronic means, or the next Business Day as counted from the date of delivery if delivered by courier mail;

IN WITNESS WHEREOF, the Parties to this Agreement have caused this Agreement to be duly executed on the date and year first aforementioned.

WITNESSES

For and on behalf of [insert name of Institution]

1. _____

2. _____

For and on behalf of

1. _____
2. _____

Now that a clear instruction has been given as to how the Agreement has to be prepared for Salam and the various conditions to be taken care of and the various cases too. The workers need to be aware of the various risks present in a Salam transaction and how to manage them.

RISKS IN SALAM AND THEIR MANAGEMENT

In Salam, Islamic banks may face the following risks:

- Counterparty risk;
- Commodity price risk;
- Delivery risk/settlement risk;
- Quality risk/low investment return or loss;
- Asset holding risk/possibility of extra expenses on storage and Takaful;
- Asset replacement risk (in case the bank has to buy from the market);
- Fiduciary risk in case of Parallel Salam (the original Salam seller might not properly perform with regard to delivery).

Risk Management

1. Counterparty and delivery risk

- Since the price of Salam goods is given in advance, the customer may default after accepting the payment-The bank can liquidate the security and can purchase the same goods from the market.

- In the case of different goods and consignments, there could be disputes regarding price, quantity and quality-In the Salam MoU, time, quality, quantity and the time of each commodity must be given.
- Defective goods could be supplied-Collateral/security and performance bonds can be taken to mitigate the loss.
- Goods may be delivered late-A penalty clause can be embedded in the contract as a deterrent against late delivery. The penalty amount would go to charity.

2. Commodity – price risk

- Since the nature of a Salam contract is the forward purchase of goods, the price of the commodity may be lower than the market price or the price that was originally expected/considered to be in the market at the time of deliver-The bank can undertake Parallel Salam and can also take a “promise to purchase” from a third party.

3. Commodity – marketing risk

- The bank might not be able to market the goods timely, resulting in possible asset loss and locking of funds in goods-The bank should purchase only those goods which have good marketing potential and take binding promises from prospective buyers along with a sufficient amount of Hamish Jiddiyah. Making the Salam seller the bank’s agent to dispose of the goods is also a good risk-mitigating tool.

4. Asset-holding risk

- The Islamic bank has to accept the goods and bear the holding cost up to the point of onward delivery-This cost may be recovered in parallel transactions with proper market survey, feasibility and study of the traders' practice in the relevant area.

5. Early termination chances

- The client may refund the price taken in advance and refuse to supply the goods-Salam is a binding contract; the seller cannot unilaterally terminate the contract. A penalty can be embedded in the contract to discourage this practice; the penalty amount would go to charity.

6. Parallel Salam

- The original seller might not supply the goods at the settled time; the buyer in Parallel Salam may sue the bank for timely supply-The bank may purchase a similar asset from the spot market for supply to the buyer and recover the loss, if any, from the seller in the original Salam.

Salam – Pre-shipment Export Financing

1. Customer A gets a purchase order from abroad for the export of rice costing Rs. 1.1 million.
2. A approaches Islamic bank B to get finance on the basis of Salam.
3. The foreign importer opens an L/C in favor of B to the amount of Rs. 1.1 million and sends it through a negotiating bank to B. (an L/C can also be opened in the name of A under an agency agreement.)

4. The bank enters into a Salam agreement with A; pays Rs. 1 million in advance for purchase of 1000 tons of defined quality rice to be delivered on 1st January, 2007. B also signs an agency agreement with A to export rice as the bank's agent.
5. A supplies 1000 tons of rice to the bank on 1st January, 2007. Henceforth, B is the owner of the risk and reward of the rice.
6. A arranges shipment of the rice, as agent of B under the L/C.
7. The bank gets the proceeds of the L/C as per its terms and conditions.
8. As B is the owner of the rice, it will be responsible if the order is cancelled for any reason, or the consignment is damaged. The Takaful expense, if any, will be borne by B.

Salam and Refinance by the Central Banks (CBs)

The process flow will be as below:

1. The CB and an Islamic bank B will create a Musharakah investment pool; the bank's part of the capital will consist of mutually decided assets of B, like its investment in stocks fulfilling the Shariah compliance criteria, Ijarah assets/contracts and Murabaha receivables (less than 33%), etc.
2. B will provide export finance to exporters under Salam and inform the CB, along with its proof.
3. The CB will invest in the pool the amount equivalent to the export finance given by B.

Accounting Treatment by Islamic Banks in Salam and Parallel Salam

Initial recognition

- Salam financing is recognized when paid to the seller or made available to him.
- Parallel Salam is recognized when the bank receives the price.
- Initial measurement of capital/price will be made at the amount of cash paid or at fair value of the asset if capital is provided in kind.

Measurement at the end of the financial period

- Capital is measured in the same way as in the initial measurement; however, if delivery of the commodity is not probable in full or in part or its value declines, the Islamic bank will make provision for the estimated deficit.
- Salam financing transactions are presented as "Salam Financing" in financial statements.
- Parallel Salam transactions are presented as "Liability" in financial statements.

Receipt of the commodity

1. A commodity received is recorded as an asset at historical cost.
2. For receipt of commodities of different quality:
 - if the market value is equal to the contracted value, the commodity shall be recorded at book value;

- if the market value is lower than the book value, the commodity shall be measured and recorded at market value at the time of delivery and the difference shall be recognized as loss.

3. Failure to receive the commodity on the due date:

- if delivery is extended, the book value shall remain as it is;
- if the Salam contract is cancelled and the client does not repay the capital, the amount shall be recognized as a receivable due from the client.

4. Failure to receive the commodity due to the client's misconduct:

- if the Salam contract is cancelled and the client does not repay the capital, the amount shall be recognized as a receivable due from the client;
- in the case where securities pledged for the commodity are less than its book value, the difference is recognized as a receivable due from the client, or, alternatively, a credit to the client if the proceeds are more than the book value.

Measurement of the value of the commodity at the end of a financial period

- A commodity acquired through Salam shall be measured at the lower of the historical cost or the cash equivalent value, and if the cash equivalent value is lower, the difference shall be recognized as loss.

Recognition of result – delivery of the commodity

- Upon delivery of the commodity in a Parallel Salam transaction, the difference between the amount paid by the client and the cost of the commodity shall be recognized as profit or loss.

CONTRACT

Features of a Valid Salam Contract

A valid Salam contract requires the following conditions (it goes without saying that it should also fulfill the conditions of a normal valid sale).

CONTRACT OF SALAM

General framework for Salam contracts

1. It is permissible to initiate through negotiations several Salam contracts (with different parties). Each operation will end at its due date. It is also permissible to draw up a general framework or a master agreement that consists of an understanding to conclude successive Salam contracts, each of which will take place at an appropriate time. In this latter case, the transaction involved shall be concluded on the basis of a memorandum of understanding in which the contracting parties determine the framework of the contract and the intention of the parties to buy and sell. The parties shall also determine the quantity and specifications of the goods, the manner of their delivery, the basis for determining the price, and the manner of payment. The types of guarantees and other prospective arrangements shall also be specified in the memorandum. The execution of each Salam contract may then take place separately at the appropriate date.

2. If the Salam contract is concluded on the basis of what was initially agreed in the memorandum of understanding, the contents of the memorandum become part and parcel of the contract. This will hold true unless the parties agreed when the contract was concluded to exempt themselves from some of the obligations referred to in the memorandum of understanding.

FORM OF A SALAM CONTRACT

A contract of Salam may be concluded using the word Salam, or Salaf, or Sale, or any term that indicates sale of a prescribed commodity for deferred delivery in exchange for immediate payment of the price.

SUBJECT MATTER OF SALAM

On which items Salam can be conducted is the first important aspect. There is a consensus that everything that can be precisely determined in terms of quality and quantity can be made the subject of Salam sale. There is also unanimity on the point that the commodity should be well-defined but not particularized to a specific unit of farm, tree or garden.

Only those fungible (Mithli) things various units of which do not differ from each other in a significant manner can be contracted under Salam. Salam cannot take place where both items of exchange are identical, e.g. wheat for wheat and potato for potato. Similarly, the commodity to be sold through Salam should, in itself, not be of the nature of money, like gold, silver or any currency.

Differences existed among the traditional jurists regarding the list of commodities that can be sold under Bai` Salam. The advocates of Bai` Salam in animals and their flesh argue that the quality of these items can be defined in terms of their species, kind and quality.

Similarly, controversy existed in respect of items like cane, grass, fodder, bread, honey, milk, vegetables, oils, cheese, birds, fish, trained dogs, leopards, precious stones, heaps of charcoal wood, musk, aloe, perfumes, hide and skin, wool, hair, animal fats, paper, cloth, carpets, rugs, mine dust construction bricks, bowls, bottles, shoes and drugs. The cause of controversy is understandable, because standardization of most of these items was a very difficult job in the days when the jurists compiled their Fiqh (fourth–sixth century Hijrah).

They were generally inclined to approve only the sale of those items where various units did not differ, so as to remove any possibility of Gharar and dispute at the time of delivery.

The contemporary scholars have come to the conclusion that all goods that can be standardized into identical units can become the subject of Salam. For example, wheat, rice, barley, oil, iron and copper or other grains of this type, products of companies which are regularly and commonly available at any time, like carpets, tin packs of various consumption items, etc., can be sold through Salam.⁷ The commodity should be generally available in the market. Jurists of all schools of thought agree that the contracted commodity in Salam should be such that it is normally available in the market at least at the agreed time of delivery.⁸ Thus, it should not be nonexistent or a rare commodity out of supply, or out of season, making it inaccessible to the seller at the time when it has to be delivered.

The buyer must unambiguously define the quality and quantity of the goods and the definition must be applicable to the generally available items of the subject matter. The specifications of goods should particularly cover all such characteristics that could cause variation in price. The jurists have devoted a large portion of discussion on the subject of the specifications and qualities of the subject of Salam which cause variation in value of the same item. The aim is to plug any possible causes of dispute as to the basic spirit of the Islamic law of sale. It is because of the spirit of ensuring mutual consent that the jurists have tried to remove all the possible causes of dissent throughout the deal.

Salam is not allowed for anything identified like "this car" or things for which the seller may not be held responsible, like land, buildings, trees or products of "this field", because that particular field may not ultimately give any produce. Similarly, Salam is not possible for items whose value depends upon subjective assessment, like landscapes, precious gems and antiques.⁹ Hence, the Salam commodity of defined specifications is made the responsibility of the seller, so that he can supply them by taking them from the market. As reported by Imam Bukhari in his Sahih, Abdur Rahman bin Abza and Abdullah bin Abi Afa, Companions of the Prophet (Sallallahu Alayhi Wasallam), upon asking about Salam goods said, " when the peasants of Syria came to us, we used to pay them in advance for wheat, barley and oil to be delivered within a fixed period". They were again asked, "Did the peasants own standing crops or not?" They replied, "We never asked them about it". Therefore, it is not necessary that the Salam seller himself produces the goods to be delivered in the future; rather, such specification has to be avoided to enable the seller to make available the item from where he can arrange.

PAYMENT OF PRICE: SALAM CAPITAL

Price is normally stipulated and paid in the form of any legal tender. However, it can be in terms of goods as well, on the condition that it should not violate the prohibition of Riba in barter transactions as laid down by the Shariah. Usufruct of assets can also be considered as Salam capital, which is regarded, particularly by Maliki jurists, as immediate receipt of the capital on the basis of the legal maxim that says: "Taking possession of a part of a thing is like taking possession of the whole thing". Hence, making usufruct capital of Salam does not mean debt against debt, which is prohibited.

Outstanding loans/debts due on the part of the seller cannot be fully or partially fixed as price, nor can a loan outstanding on a third party be transferred to the seller in future adjustment towards the price, as this amounts to an exchange of obligation for obligation (debt for debt), which is forbidden. This is also to avoid Gharar. This emphasis by the jurists is justified since the equity in Salam contracts depends on the very existence of the Salam capital, otherwise such transactions are invalid. The very term Salam (Salam) means advance payment; if payment is delayed, it cannot be called Salam.

The buyer in Salam should advance the whole price of the commodity at the time of making the contract. However, while the jurists are agreed on immediate payment of the price, they differ on defining the term "immediate". According to the majority of the jurists, the buyer must pay the amount at the time of signing the contract, in that very meeting. Imam Shafi'e emphasizes that the time must be fixed and payment of the price must take place on the spot and before separation of the parties. But some jurists allow delayed payment provided this delay is not prolonged to make it like a debt. Imam Malik allows a delay of up to three days.

Contemporary jurists also allow a delay of two to three days, if it has been stipulated between the parties, provided it is before the delivery period of the commodity involved (in the case of Salam for a short period of a few days).

As regards barter transactions in Bai` Salam, any number or quantity of goods, as the case may be, cannot be advanced for deferred delivery of the same species of goods. As an example, a bank cannot advance ten tons of an improved variety of wheat seed for sowing against twenty-five tons of wheat at harvest. It may advance, for example, a tractor as the price for an agreed amount and quality of cotton or rice. Practically, however, the bank would avoid this and all purchases would be made against money.

It is not permitted that a debt be recognized as the capital of Salam, such as using as the capital of Salam loans and debts owed by the seller to the Institution as a result of previous transactions.

MODE OF PAYMENT

Cash payment is not necessary in Salam; the price can be credited to the seller's account.

Crediting the agreed amount in the seller's account can be termed, in letter, a debt for a debt, but in spirit, it does not fall under the prohibited form of a debt for a debt. Hence, it will not be necessary for banks to pay hard cash for Bai` Salam; they may credit the seller's account or issue a pay order in favor of the seller, which may be cashable on demand. In all such cases, money may remain in the bank but is placed at the disposal of the seller.

AL-MUSLAM FIHI AND ITS CONDITIONS

1. Salam contracts are permitted for fungible goods, like those that may be weighed, measured or counted, the articles of which do not differ in any significant manner.
2. Among the items for which variations in numbers make no difference are the products of companies that manufacture goods in approximate units that are identified by trademarks, standardized specifications and are regularly and commonly available at any time. However, this rule must be read together with 8.
3. Salam is not permitted for anything specific like "this car". Nor is it permitted for anything for which the seller may not be held responsible, like land, buildings or trees; or for articles whose value change according to subjective assessment, like jewelry and antiques. Also, it is not permissible to stipulate that al-Muslam fihi must be from a specific piece of land. However, on the delivery date the seller may present the buyer with whatever items are available (and meet the contract specifications), irrespective of whether such items are from his own fields or factories or elsewhere.
4. It is not permissible for al-Muslam fihi to be an amount of currency or gold or silver, if the capital of the Salam contract was paid in the form of currency or gold or silver.
5. Al-Muslam fihi must be the kind of article for which a specification may be drawn up so that the seller may be held responsible for its conformity to the specification. It will be sufficient if the specification is explained in a manner that removes uncertainty, except for minor discrepancies that are customarily ignored, considered acceptable, and not usually regarded as grounds for dispute.
6. It is a requirement that al-Muslam fihi be clearly known to the contracting parties in a manner that eliminates any possibility of uncertainty or ambiguity. The reference for determining descriptions

- that are used to specify and identify al-Muslam fihi is customary practice and the experience of experts.
7. It is a requirement that the parties know the quantity of al-Muslam fihi. The quantity of each item is determined according to its condition and nature with regard to weight measurement, volume and number.
 8. It is a requirement that al-Muslam fihi be commonly available under normal circumstances at the place where it should be on the delivery date, so that the commodity will be accessible to the seller in order to discharge his obligation by delivering it to the buyer.
 9. It is a requirement that the date of delivery for al-Muslam fihi be known in a manner that eliminates any uncertainty or ambiguity which may lead to a dispute. There is no Shariah objection to the contracting parties setting various dates on which the delivery of al-Muslam fihi will take place, in installments, provided the capital of Salam was paid at the time the contract was originally concluded.
 10. In principle, the parties may designate the place at which al-Muslam fihi is to be delivered. If the parties to the contract do not determine the place of delivery, then the place at which the contract was concluded will be regarded as the place of delivery unless it turns out to be impossible to make delivery to such a place. In that case, the place of delivery should be determined according to customary practice.

SECURITY OF AL-MUSLAM FIHI

Al-Muslam fihi may be secured by a pledge or a guarantee or any other permissible means of securing payment.

CHANGES TO AL-MUSLAM FIHI

1. **Selling al-Muslam fihi before taking possession:** It is not permitted for the buyer to sell al-Muslam fihi before taking possession of it.
2. **Replacement of al-Muslam fihi:** It is permissible for the buyer to exchange al-Muslam fihi for other goods, except currency, after the delivery date falls due, as long as such a substitution was not stipulated in the contract. This rule applies whether or not the substitute is similar in kind to al-Muslam fihi. This is provided that the substitute is suitable for being exchanged as al-Muslam fihi for the capital of the Salam contract, and that the market value of the substitute should not be greater than the market value of al-Muslam fihi at the time of delivery.
3. **Cancellation (Iqala) of a Salam contract:** It is permissible, when both parties agree, to cancel the entire Salam contract in return for repayment in full to the amount of the capital of Salam. Partial cancellation, that is, cancellation of the delivery of part of al-Muslam fihi, in return for repayment of a corresponding part of the capital of Salam, is also permissible.

PERIOD AND PLACE OF DELIVERY

In Salam it is necessary to precisely fix the period/time of delivery of goods. Place of delivery also has to be agreed. As regards the time or the period of delivery in Salam, the early compilations of the Hadith mention the practice of fixing a period of one to three years for delivery of farm products. The later jurists, who expanded the application of Salam, reduced the period to fifteen days, some even to one day, which, as they argued, was the minimum period necessary for the transport of a commodity from one market to another.

Some jurists believed in precise fixation of the date on which delivery was to be made, while some others approved of a rough date but a definite period or occasion of delivery; for example, on harvest.

Contemporary scholars recommend that the due date and place of delivery must be known. The period could be anything from a few days to a number of years, depending upon the nature of the commodity involved. Delivery can also be made in different consignments or installments if mutually agreed. Before delivery, goods will remain at the risk of the seller.

Delivery of goods can be physical or constructive. After delivery, risk will be transferred to the purchaser. Transferring of risk and authority of use and utilization/consumption are the basic ingredients of constructive possession.

If a place of delivery is not stipulated at the time of the Salam agreement, the place at which the contract was executed will be regarded as the place where the goods will be delivered. The parties can also mutually decide about the place, keeping in mind the customary practice.

Putting the relevant information to give a clear picture:

1. It is not permitted for a seller to deliver al-Muslam fihi in the form of a commodity different from the one agreed upon if the commodity is considered to belong to the same genus as al-Muslam fihi. (e.g. al-Muslam fihi is corn and the commodity that the seller wants to deliver is wheat). However, the delivery of al-Muslam fihi in the form of a different type of commodity from that agreed upon may take place only on the basis of the conditions for the replacement of al-Muslam fihi by other goods.
2. If the seller fails to perform his obligation, owing to insolvency he should be granted an extension of time for delivery.

3. It is not permitted to stipulate a penalty clause in respect of delay in the delivery of al-Muslam fihi.
4. Delivery of al-Muslam fihi may take place before the due-date, on condition that the goods conform to the agreed specifications and quantities. If the buyer has a valid reason for rejecting the goods, then he will not be compelled to accept them. Otherwise, the buyer will be forced to accept the goods.

In case of all or part of al-Muslam fihi is not available to the seller on the due date the buyer shall have the following options:

- a) To wait until al-Muslam fihi is available
- b) To cancel the contract and recover the paid capital

It is also permissible for the parties to agree too replacement of al-Muslam fihi by other goods.

5. If the seller delivers goods of a quality that is superior to that required by the contractual specifications the buyer must accept the goods, unless the seller seeks a higher price for the better quality. This may be considered one of the ways in which a contract is ethically fulfilled. However, this will apply only if the (inferior) description specified in the contract is not itself deemed vital.
6. If the quality of the delivered goods is inferior to that required by the contractual specifications, the buyer is entitled either to reject or to accept the goods in that condition. If he accepts the goods, his action is considered as ethical acceptance. It is also permissible for the two parties to agree to a settlement on terms for acceptance of the goods even on a discounted price.
7. The seller is under an obligation to deliver al-Muslam fihi to the buyer on the due date in accordance with the terms of the contract, such as agreed specifications and quantity. The buyer, on the other hand, must

accept the goods if they meet the specifications explained in the contract. If the buyer refuses to accept al-Muslam fihi, he shall be compelled to do so.

CONTRACT FOR PARALLEL SALAM

It is permissible for the seller to enter into a separate, independent Salam contract with a third party in order to acquire goods of a similar specification to those specified in the first Salam contract, so that the first Salam obligation will be discharged by delivering these goods. It is also permissible for the buyer to conclude a separate parallel Salam with a third party for the purpose of selling, on the basis of Salam, a commodity whose description corresponds to the description of the commodity to be acquired through the first Salam contract.

It is not permissible to link the obligations of the two Salam contracts together so that the execution of the obligations of one contract is contingent on the outcome of the other. Hence, it is necessary that both the obligations and the rights under the two contracts stand alone in all respects. Therefore, if one party breaches his obligation under the first Salam contract, the other party (the injured party) has no right to relate this damage or loss to the party with whom he concluded a Parallel Salam. Consequently, he has no right on the basis of his loss or damage under the first Salam contract to terminate the second Salam contract or to delay in performing it.

All the rules of Salam are applicable to Parallel Salam too.

All the above AAOIFI SHARIAH STANDARDS are applicable to Salam and Parallel Salam transactions, whether the Institution is the buyer or the seller, and issuing Salam bonds.

PRODUCT EXPLANATION WITH ACCOUNTING

CASE STUDIES

Because accounting treatment does not solely depend on the operation but also on the type and nature of the project, we shall discuss such treatment under the following assumptions:

1. The Salam Operation takes place in an Islamic bank.
2. The bank purchases commodities through Salam and then sells, what it has purchased or any other commodity, through Salam also. It should be noted here that the bank can also sell the commodity in question through other techniques like spot sale, Murabaha and bay"ajil.
3. No treatment will be attempted with regard to the Seller's accounts.

FIRST : INTRODUCING SALAM ACCOUNTS IN THE ACCOUNTING GUIDE OF THE BANK

Because Salam is an investment technique - a short-term investment technique in most cases - its accounts appear among the assets as follows:

1.0.0 Assets

1.1.0 Cash on hand and Bank balances

1.2.0 Short Term Investment

1.2.1 Murabaha

1.2.2 Musharakah

1.2.3 Salam

1.2.4 Mudarabah

1.2.5 External Investment Operations

SECOND : IDENTIFICATION OF SEPARATE ACCOUNTS OF SALAM

A Salam operation undergoes several stages starting from payment of principal and related expenses, receiving and reselling the commodity, dealing with partial or complete termination of the contract - if any - in addition to other related operations like guarantees. Therefore, the separate accounts that can display this information include the following:

Salam Debtors /Ac.- Which reflects the liability of the borrower with the principal paid.

Salam Goods /Ac. - Reflecting the Commodity received.

Salam Expenses /Ac.- Representing direct expenses of the operation like transportation and repacking expenses, if any.

Salam Sales /Ac. -Represents the revenue generated from sale of the Salam goods.

Salam creditors /Ac- Showing the amounts of money received from those who want to purchase from the bank commodities of the same type purchased by the bank through Salam.

Salam Guarantees /Ac.- Which is a contra account Matched with the "owners of *Salam* guarantees account". These two accounts are used for receiving and reimbursement of guarantees.

P/L Salam /Ac.- Which shows the result of the Salam operations before being transferred to the P/L Investment /Ac.

THIRD : DOCUMENTS AND BOOKS REQUIRED FOR SALAM

OPERATIONS

(A) Documents required for Salam do not differ from those normally used in a bank like receipts for payment of the *Salam* principal, receipts for receiving the goods and documents of storing them. What is new here is that a copy of the *Salam* contract need to be attached to payment and collection documents.

(B) Books. The following books and records should be kept within the general system of the bank's accounts:

Book of original entry for Salam to show entries of the goods purchased in Salam. It should contain two sides, the first for payments of value and the second for receipts of goods.

Subsidiary ledger book for *Salam* debtors: An account in this book should be opened for each client. Transfer of entries from the Salam book of original entry should immediately take place to the clients accounts to make each client indebted with the value he receives and credited with the goods he will provide at delivery time or the cash amounts he pays when the contract is terminated.

An explanatory book for recording information about the client and the whole operation.

CASE STUDY #a: PURCHASE OF HOME

FOURTH : MAKING ACCOUNTING ENTRIES FOR SALAM

In this we will see how the bank purchases homes from three different clients by virtue of Salam. The bank pays the cash on spot to the clients whereas they give the delivery or handover the house purchased after a certain gap in time. The bank can further sell these homes by virtue of Murabaha or Diminishing Musharakah. Here we discuss just the aspect of the bank buying the homes by Salam.

An Islamic bank signed contracts with three clients for purchasing home through Salam. Details are shown below:

House was purchased from the client Monzer at a price of SR2000,000. Delivery after one Month., The client received the money in cheque through a correspondent bank.

House was purchased from the client Hassan at a price of SR1950,000. Delivery after two Months. The client received the Money in cheque payable at one of the bank branches.

House was purchased from the client Muhammad at a price of SR1900,000. Delivery after three Months. The client received the Money in cash.

Hassan provided personal guarantee while Muhammad and Monzer each provided a fiscal guarantee equals three fourths of the total value.

Monzer delivered the total amount of the goods on time, Hassan provided only one half of the amount agreed upon while the contract with him for the rest was terminated and he paid back half the money he had received.

- The homes purchased by the bank were sold by the bank for a price of SR3000,000 .

These entries could be made as follows:

371,000		Dr./Salam Debtors Ac.	Cr./Mentioned
	2000,000	Monzer	Correspondents Ac (Bank)
1950,000	1950,000	Hassan	Branches Ac.(X Branch
1900,000	1900,000	Muhammad	Treasury Ac.
Signing a contract for purchasing home through Salam and payment of value.			
161,250	161,250	Dr. Salam Guarantees Ac.	Cr. Owners of Salam Guarantees Ac.
Receiving guarantees (of such type) from the clients Monzer to the value of 90,000 and Muhammad to the value of 71,250.			
198,000	198,000	Dr. Salam Goods Ac.	Cr./Salam Debtors Ac.
		2000	Monzer
		97500	Hassan
Receiving the whole of the Salam commodity from Monzer and half of it from Hassan			

2,000	2,000	Dr./Salam Expenses Ac. Cr./Treasury Ac.
97500	97500	Dr./Treasury Ac. Cr./Salam Debtors Ac. (Hassan) Termination of the contract for half the amount and receiving the equivalent in cash.
90,000	90,000	Dr./Owners of Salam Guarantees Ac. Cr./Salam Guarantees Ac. Refund of guarantee to Monzer after fulfilling his obligation.
210,000	210,000	Dr./Treasury Ac. Cr./Salam Sales Ac
2,000	2,000	Dr./Salam Goods Ac. Cr./Salam Expenses Ac. Closing Salam expenses in Salam Goods Ac. In order to determine its cost.

**FIFTH : IDENTIFYING SALAM RESULTS AND REFLECTING
THEIR DETAILS IN THE FINAL ACCOUNTS AND THE**

BALANCE SHEET 174

A. Identification of Salam Results

Salam results can be identified by extracting out of the explanatory book a separate list for each *Salam* operation so that its result whether profit or loss can be identified without closing the accounts.

Then, a P/L account for all Salam operations can be prepared indicating in its debit side Salam goods Ac. and in its credit side Salam sales and closing inventory as shown in the following figure (using the data in the previous example).

Salam P/L Ac.

Dr.	Cr.
200,000 Cr./Salam Goods Ac.	210,000 Dr.SalaMSalesAc.
70,000 Cr./Investment P/L Ac.	60,000 Dr .Closing Inventory Ac.
270,000	270,000

1. Salam profit can be subdivided into purchasing profit and selling profit. The former is the difference between purchase price at the time of signing the contract and purchase price at delivery time, while the later is the difference between sale and purchase prices at delivery time. This could be done for the sake of assessing the

relative efficiency of the various stages of processing a Salam transaction within the bank.

B. Presenting Salam Information in Final Accounts and Balance Sheet

1. In the Final Accounts. It is known that the final accounts of Islamic banks comprise a number of "subsidiary result accounts" indicating the results of various banking and investment operations of the bank. A general profit and loss account is prepared including the results of these subsidiary accounts as well as the bank overheads.' Therefore, *Salam* operations, as operations for investment of deposits and bank equity, appear in the investment profit and loss account as the following entry:

70,000,0 Dr./ Salam P/L Ac. 70,000,0 Cr./ InvestMent P/L Ac

The following entry also shows the same result: Investment

P/L Ac: for the Year Ending XYZ.

Dr.	Cr.
	Dr./Musharakah P/L Ac.
	Dr./Murabahah P/L Ac.
70,000,0	Dr./Salam P/L Ac.

The result of this account is transferred to the P/L Ac of the Current year as the following entry.

x x Dr./Investment P/L Ac. x x Cr./ P/L Ac.

2. In the Balance Sheet. The amounts invested in Salam appear in the balance sheet in details as follows:

Balance Sheet as at

	Assets	Liabilities
xx	Cash on Hand and at Bank	
	Short Term	
	Investments	
	Murabaha	
	Musharakah	
15500000	Salam	
	950000Salam Debtors	
	600000Salam Goods	
	++++++	
	++++++	
	Contra Accounts	Contra Accounts
712500	Salam Guarantees	712500
		Owners
		of Salam
		Guarantees

CASE STUDY #b: INVESTMENT IN BUSINESS

COMPANY INTRODUCTION

M/S TEX Master Ltd. Doing business of manufacturing of garments, goods and exports them to different countries. The company has manufactured and exported in a consignment of Men Garments Shirt to USA of US\$ 300,00 and the amount will be received in 3 months from the importer of USA client. The company needs finance to fulfill its current financial requirements since the amount will be received in future date from the importer of USA.

The company approached the bank and the bank decided to participate in the business by financing the company.

FOLLOWING ARE THE SALAM TRANSACTION INFORMATION

- Amount Required 24.6 million
- Tenure 3 months

You have been asked to suggest the accounting entries for the above case.

ACCOUNTING TREATMENT

A. AT BRANCH BOOKS

At the time of disbursement

Dr	Salam Financing-USD	300,000	
Cr	Head Office Treasury-USD		300,000

Dr	Inter Branch Ho-USD	300,000	
Cr	Salam Financing-USD		300,000

B. AT THE TIME OF DISBURSEMENT

Dr	Inter Branch A/C-USD	300,000	
Cr	Exchange Gain/ Loss-USD		300,000
Dr	Exchange Gain/ Loss	24.6 m	
Cr	Inter Branch A/C-PKR		24.6 m

At the time of maturity

Dr	Nostro A/C-USD	300,000	
Cr	Inter Branch A/C-USD		300,000

ACCOUNTING STANDARDS FOR SALAM AND PARALLEL SALAM

This standard aims at setting out accounting rules for recognizing, measuring, presenting and disclosing Salam financing and parallel Salam transactions carried out by the Islamic banks and financial institutions. Attached with the standard are details of the juristic bases for the accounting treatments.

STATEMENT OF THE STANDARD

1. Scope of standard

This standard addresses the accounting rules of Salam financing and parallel Salam transactions. This includes the treatment of rasul-maal paid by the Islamic bank in a Salam transaction or that which it receives in a parallel transaction, the receipt and sale of al-muslam fihi in a Salam transaction or the delivery of its like in a parallel Salam transaction. The standard also includes the treatment of revenues, expenses, gains and losses relating to Salam financing and parallel Salam transactions.

Should the requirements of this standard be in conflict with the Islamic bank's charter or the laws and regulations of the country in which it operates, a disclosure should be made of the point of conflict.

2. Accounting treatments of Salam financing and parallel Salam transactions

- 1) Salam financing shall be recognized when the capital of Salam is paid to al-muslam ileihi or when it is made available to him.
- 2) Parallel Salam transactions shall be recognised when the Islamic bank receives the capital of Salam.
- 3) **At the time of contracting**
 - a) Capital is measured by the amount paid.
 - b) Capital provided in kind or benefit shall be measured at the fair value.
- 4) **At the end of a financial period**
 - a) Capital is measured at the end of a financial period as in item 2/3. However if it is probable that al-muslam ileihi will not deliver al-muslam fihi in full or in part, or it is probable that the value of al-muslam fihi will

decline, the Islamic bank shall make a provision of the amount of the estimated deficit.

- b) Salam financing transactions shall be presented in the Islamic bank's financial statements under the heading of Salam financing.
- c) Parallel Salam transactions shall be presented in the Islamic bank's financial statements as a liability under the heading Parallel Salam.

5) **Receipt of al-muslam fihi**

- 1. Assets constitute of a al-muslam fihi received by the Islamic bank in accordance with the contract are recorded at their historical cost.
- 2. In the case of receipt of a similar kind of al-muslam fihi, but of a different quality:
 - 1) 1. If the market value (or the fair value if the market value is not available) of the received al-muslam fihi is equal to the value of contracted al-muslam fihi, the received al-muslam fihi shall be measured and recorded at book value.
 - 2) If the market value, or the fair value if former is unavailable, of the received al-muslam fihi is lower than the book value of the contracted al-muslam fihi, the recorded al-muslam fihi shall be measured and recorded at market value (or fair value) at the time of delivery and the difference shall be recognized as a loss.
- 3. In the case of failure of the Islamic bank to receive al-muslam fihi or part thereof at the due date of delivery:

1. In case of complete or partial failure, if the delivery date is extended, the book value of al-muslam fihi shall remain as it is.

2. If the Salam financing contract is completely or partially cancelled and the client does not repay the capital of Salam, the amount shall be recognized as a due from the client.

4. Failure of the Islamic bank to receive al-muslam fihi due to client's misconduct or negligence:

1) Complete or partial failure

1. If the Salam financing contract is completely or partially cancelled and the client has failed to repay the capital of Salam or the required portion thereof, the amount due shall be recognized as a receivable due from the client.

2. In case the Islamic bank has securities pledged for al-muslam fihi and the proceeds from the sale of the securities are less than its book value, the difference is recognized as a receivable due from the client. Alternatively, if the proceeds are more than the book value than the difference is credited to the client.

3. The client shall be debited with any additional amounts which are established in favour of the Islamic bank.

6) Substitution of another kind of goods for al-muslam fihi

Items shared above will also apply in case another kind of goods is substituted for al-muslam fihi and the market or fair

value of the substitute is less than the book value of al-muslam fihi.

7) **Measurement of the value of al-muslam fihi at the end of a financial period after it is received**

At the end of a financial period, assets acquired through Salam financing shall be measured at the lower of historical cost and cash equivalent value, and if the cash equivalent value is lower the (difference shall be recognized as loss in the income statement).

8) **Recognition of the result of delivering of al-muslam fihi in a parallel Salam transaction**

Upon delivery of al-muslam fihi by the Islamic bank to the client in a parallel Salam transaction, the difference between the amount paid by the client and the cost of al-muslam fihi be recognized as profit or loss.

3. Disclosure Requirements-The disclosure requirements as stated in financial accounting standards should be observed.

4. Effective date-This standard shall be effective for financial statements for fiscal periods beginning 1 Muharram 1419H or January 1999.

MARKETING PLAN

1.Executive Summary

The mission of the product Salam is to provide instant finance to the needy so that business ventures and projects don't remain tied up because of lack of capital.

The Marketing Plan has identified the target market for Salam products through a Market Analysis. It has described the product 'Salam' in detail to enable the professionals and knowledge seekers to establish a good product through Product Description.

A Competitive Analysis has been done. This is where the competitors have been identified, both the obvious and not so obvious, and the marketing strategies along with their strengths and weaknesses have been determined. This will help one to assess the advantages and identify opportunities to position the product as unique in the target market.

Goals and Objectives provide a direction by outlining the goals, marketing and financial objectives and allow the focus to be on the resources and on a clear measurable target. The goals and objectives are a detailed reflection of the mission statement, spelling out exactly what one intends to accomplish.

The marketing strategy is the culmination of all previous sections of the marketing plan and includes a marketing strategy summary and an action plan.

The marketing plan given will help one's business to do the following:

1. Identify the target market.

2. Understand the industry and the competition.
3. Establish the pricing and product positioning.
4. Establish an effective marketing concept.
5. Identify the most viable, cost-effective means of marketing the product.

2. Product Description

Bai-Salam may be defined as a contract between a Buyer and a Seller under which the Seller sells in advance the certain commodity (ies)/Products(s) permissible under Islamic Shariah and the law of the land to the Buyer at an agreed price payable on execution of the said contract and the commodity (ies)/product(s) is/are delivered as per specification, size, quality, quantity at a future time in a particular place.

In other words, Bai-Salam is a sale whereby the seller undertakes to supply some specific commodity (ies)/Product(s) to the buyer at a future time in exchange of an advanced price fully paid on the spot.

Here the price is paid in cash, but the delivery of the goods is deferred.

1. Bai-Salam is a mode of investment allowed by Islamic Shariah in which commodity (ies)/product(s) can be sold without having the said commodity (ies)/product(s) either in existence or Physical/constructive possession of the seller. If the commodity (ies)/product(s) is/are traded for sale, Bai-Salam is not allowed in Shariah. Then the sale may be done either in Bai-Murabaha or Bai-Muajjal mode of investment.
2. Generally, Industrial and Agricultural Products are purchased / sold in advance under Bai-Salam mode of Investment to infuse

finance so that production is not hindered due to shortage of fund/cash.

3. It is permissible to obtain collateral security from the seller client to secure the investment from any hazards viz. non-supply/partial supply of commodity (ies)/product(s), supply of low quality commodity (ies)/product(s) etc.
4. It is also permissible to obtain Mortgage and / or personal Guarantee from a third party as security before the signing of the Agreement or at the time of signing the Agreement.
 - Bai-Salam on a particular commodity(ies)/product(s) or on a product of a particular field or farm cannot be effected. [for Agricultural Product(s) only]
 - The seller (manufacture) client may be made agent of the Bank to sell the goods delivered to the Bank by him provided a separate agency agreement is executed between the bank and the client(Agent).

3. Market Analysis

There is urgent need to create network of organizations intending to deal in Bai Salam because Micro Finance in general supposed to help farmers. To help farmers Bai Salam is best product, but so far we have no chain of organizations dealing in Bai Salam, thus micro finance institutions hesitate in offering Bai Salam. So, it is urgently required that we should line up parties interested to do Bai Salam. This will help Micro Finance institutions get parties for Bai Salam.

Bai Salam enables the exporters and whole sellers plan their future business with known quantity, quality and prices of agricultural produces. It also empowers the farmers get known return on their agricultural produces to

fight against unforeseen market prices for their harvests as well as get rid of interest bearing loan burdens to do agriculture.

Islamic banks can practice Salam in foreign trade financing according to two perspectives:

1. Islamic Banks can purchase - in Salam - primary products directly from producers or government and sell them in the international Markets against fair prices either in cash or through Salam arrangements in exchange of industrial products. They can also do the reverse by receiving first industrial products as Salam principal and supplying primary products later on.

2. Encouragement of industrialization in Islamic countries in order to transform primary products into industrial goods, and thus increase their export prices. This can be practiced through different Islamic financing techniques including Salam in which finance can be extended to producers in the form of machinery and equipment against deferred delivery of industrial products that can be exported.

The predominant - production pattern in Islamic countries reveals excessive -dependency on primary production in addition to some assembling industries characterized with backward technology and extreme specialization that goes to the extent of complete dependency on only one or two commodities.

In order to resolve these issues, Islamic countries need to diversify their products and attempt processing of their primary commodities instead of exporting them in their present form against low prices. This transformation requires establishing industrial plants with large capacities and thus leads to incurring high costs.

Therefore Islamic banks can help in this process by using Salam as a substitute for lease financing. In this case the bank can finance provision of fixed assets required for establishing a new factory or for replacement of existing old assets. The finance thus extended can be regarded as *Salam* principal paid for receiving part of the products of the factory in installments at predetermined delivery times.

In spite of the need for financing big production units with the aim of accelerating development, small producers are more worthy of support. That is because production in most of the Islamic countries takes place in small units especially in the fields of agriculture and handicrafts. This type of production has a significant contribution to the national products of these countries. Such small units of production usually encounter difficulties in marketing and finance: Hence an Islamic bank could contribute to financing craftsmen and small farmers by providing them with production inputs as Salam principal in exchange of part of their products.

In countries like Japan, similar arrangements were found useful in enhancing industrialization and contributing to development of rural societies and environment. For this purpose, the third arrangement for practicing Salam referred to earlier can be adopted. Agricultural and industrial development banks can be established with branches scattering all over the rural areas and handicrafts groupings in Islamic countries.

4.COMPETITIVE ANALYSIS

Financial Burden-Comparing the financial burden of Salam to that of interest-based borrowing we find that the former is considerably less than the latter. In interest-based borrowing financial burden includes

predetermined interest to be deducted in advance from the principal of the loan in addition to conditions often imposed on the borrower like depriving him the right of borrowing from others throughout the period of the loan, using the loan for asset replacement, or forcing him to use the loan for purchasing from a specific source... etc. In interest-based borrowing, no consideration is given to unforeseen circumstances of the borrower which May force him to delay repayment.

Moreover, besides his right in liquidation of the guarantees, the lender charges more interest for delay if he is to accept delay of repayment.

The financial burden of Salam is confined to the obligation of the borrower to deliver the commodity agreed upon in due time. If unforeseen circumstances prevail, the contract can either be terminated or the two parties wait without any additional obligations - until such circumstances are over.

Just distribution-In Salam contracts, distributive justice is based on the fact that the two parties of the contract mutually, agree on their respective rights without practicing exploitation on each other by imposing a fixed claim that remains fixed under all circumstances. In contrast, interest-based financing guarantees a fixed return (interest) for the lender while the borrower has to count on what may result from investing the borrowed amount. Under the risk thereof, a case could happen where the borrower realizes profits just sufficient to pay interest. Hence his gain from the transaction will turn out to be zero. He May realize no profit at all or May even achieve a negative return (loss) in addition to loss of his effort. Under other circumstances the borrower could realize a profit which considerably exceeds interest and therefore injustice falls on the lender.

In Salam, no predetermined-return is fixed for anyone of the two parties. For the borrower the return depends on the difference between the Salam principal and the cost of providing the good sold while for the financier it is

the difference between the Salam principal and the value of the good purchased at delivery time. In both cases the return depends on ability to make rational economic decision. For the borrower the decision relates to cost minimization while it relates to Marketing so far as the financier is concerned. It is true that under extraordinary circumstances, e.g. crop failure in agriculture, demand may exceed supply resulting in a net price rise. The financier may therefore make more profits than expected when he sells the commodity purchased through Salam. Or the reverse could happen when an abnormal increase in supply may depress price and lead to less profits for the financier. Such risk factors though very crucial in determination of profit, yet they could not violate the general rule that the two parties of a Salam contract do not influence the decisions of each other.

Counter-inflationary effects: One of the Most important contemporary issues is how to achieve justice among the parties of financial operations. Under inflationary conditions that characterize all contemporary economies, the purchasing power of a cash loan tends to deteriorate during the period between providing the loan and its repayment. This is quite obvious in the case of loan financing, as the financier will receive the principal of the loan at the date of repayment, after deterioration of its purchasing power. Interest paid will not cancel the effect of inflation because the former is usually far less than the latter. Moreover interest is paid as a return on capital and if it is to be considered as a compensation for the deterioration of the purchasing power of the loan, capital will be entitled to no return. For this reason some would argue in favor of indexation of loans.

If we look into financing through Salam, we find that it achieves a direct connection between loans and price index and therefore caters for inflationary effects. The financier receives commodities in exchange of his Money. Since the prices of these commodities increase during inflation, the financier is not going to loose due to deterioration of the purchasing power of

the loan. In addition to that the financier will get profits resulting from the difference between the purchasing and selling prices of the commodity. The borrower also will not be affected by inflation, because he can use the Salam principal- when it is received in cash in financing production by purchasing raw materials. The prices of such materials will also increase during periods of inflation.

Enhancing production- Since the borrower has to repay the *Salam* principal in terms of goods and if he is the producer of such goods, he will spare no effort in producing at least the quantity needed for settlement of the loan. In case of interest-based borrowing the obligation of the borrower will be only repayment of the loan. He may have no incentive to use the loan for production since he can, for instance, make settlement through further borrowing.

Creation of productive units- This could take place through inducement of hired craftsmen to become self-employed businessmen. Many craftsmen accept to be employed by other producers, due to their lack of adequate finance for purchasing equipment, and production inputs. They fail to get loans, which require fiscal guarantees and business name that may not be available to most of them. Salam contracts could be effected with these people so that equipment's and production inputs be made available to them against part of their output. This process will lead to creation of new productive units which will add to the productive capacity of the national economy besides the fact that a self-employed person is supposed to be more productive than a hired person.

Stability of production- There are so many on-going projects that suffer lack of finance for purchasing production inputs or making asset replacement and therefore tend to produce at less than full capacity or irregularly. Such projects may not accept equity participation or riba-based borrowing. Hence

it could be reasonable for them to borrow through Salam against part of their output.

5.Goals and Objectives

Minimizing production costs-Profit in its simplest form reflects the difference between sales revenue and costs. In case of Salam, sales revenue is known before production. In order for the borrower to make profit he could minimize the cost of providing the commodity agreed upon through better use of materials, minimization of waste and damage... etc.

Activating commodity markets-Dealing in Salam leads to creating a stable market for commodities especially seasonal commodities - a fact which results in stability of the prices of these commodities. It will also enable savers to direct their savings to investment outlets without waiting, for instance, until the harvesting time of agricultural products or the time when they actually need industrial goods and without being forced to spend there savings on consumption. Again purchasing production inputs through *Salam* helps avoiding risks of purchasing before the time of actual use and hence eliminates risks of damage or increase in storage and maintenance costs. For the borrower, Salam helps in activating sales and securing pre-known demand which leads to proper planning of production. It should also be noticed that Salam takes place in the form of a real transaction in which one of the two exchanged goods - price - is known and payable at the time of effecting the contract. Moreover, each of the two parties of the transaction, has a real need to acquire what he pays for in the transaction contrary to what happens in stock exchanges where the deal takes place in the absence of price and commodity and to the mere benefit of speculators and brokers and therefore bids up prices and increases gharar which in the final analysis results in serious problems, for both the producer and the consumer.

Establishment of Islamic Economic System- To achieve real development of Islamic Banking and Finance, it should be attempted within the bigger picture of the Islamic economic system. In the early discussions of Islamic economics, banking and finance was presented as part of an Islamic economic system, contrasted to Capitalism and Socialism, and having distinct goals (outlined from Islam's spirit) to be achieved.

Efforts went towards developing the foundations for a new system of finance that would not only address the shortcomings of the mainstream financial system but most importantly would reflect the Islamic worldview, or more specifically its economic visions, in the financial sphere and could be used to achieve Islam's goals in the economy.

The effort, although perhaps viewed as too idealistic in the dominant system of capitalism, is actually timely and is very much anticipated. The recent 2008 financial and economic crisis captured the attention of the world revealing that the current financial system is actually fragile in its foundations and promises only a muddied picture of progress for mankind's future. Economic crisis with inflation, depression and unemployment are a permanent companion of the promise of wealth, growth and profit in a capitalist financial system.

Focusing on Means (Forms)-This is the *second* dimension that needs to be taken into account. Islamic Banking and Finance products should essentially be structured in the spirit of creating an Islamic financial system and in accordance with Islam's visions and goals in the economy. This is natural. Learning from the mainstream financial evolution, the financial products are developed to serve the very purpose of a capitalist economic system.

Instruments are designed to serve the ends.

This issue is interesting as financial engineering of Islamic banking and finance seems to be done by simply modifying the existing conventional products to be in accordance with Islamic legal requirement and maintaining the remaining objectives of the financial capitalist system. There almost no conventional banking and finance products which cannot be found in their Islamic forms. We expect this trend to continue as more sophisticated IBF products taken from conventional financial engineering interplayed with *fiqh* rulings are offered.

With this response Islamic Banking and Finance is largely viewed as part of a mainstream conventional system that responds to trivial issues of current financial practices instead of going deeper and providing a 'breakthrough' in how a just and fair financial system could operate. Any changes offered by IBF will therefore be absorbed in the system which is, despite the crisis and turmoil, still very much solid. The system will continue in its own way of functioning, absorbing the changes in such a way that very soon the effects of the change are undone.

This development also motivates us to inquire whether Islamic Banking and Finance has goals other than providing interest free finance by cleansing the "interest" elements (defined as being part of *riba*) in conventional products. Islamic finance seems to have been loosely viewed as fundamentally sharing the same profile and objective as its mainstream conventional counterpart (of maximizing profit) and only differs in form and structure.

Rethinking the Direction-Reflecting back on the literature on Islamic banking and finance in the early phase of its development, providing interest-free financial contracts is not the primary aim of having a financial system. Instead, its emergence is mainly because of the consciousness to rearrange everyday socio-economic aspects of life in line with Islam's injunctions and within the overall framework and system of Islam. At the same time there is

an awareness that the present dominant financial system is unjust, exploitative, morally unsound, not pro-poor and highly driven by profit motives. Islamic finance is expected to answer those expectations while providing indigenous solutions to the problems of the *ummah* and to achieve the prescribed goals of life.

That spirit should always be borne by the scholars and practitioners as societies nowadays are very critical of the development of IBF and demanding more than legal and compliant financial products. They expect something new in financial practices that would not be merely replicating and modifying the existing practices and labeling them Islamic. The 'Islamic' title essentially carries expectations of having a financial system and practices that are truly based on Islamic principles and serving the noble goals as prescribed by Islam (*maqasid al-shari'ah*).

In this light, the IBF's progress will be monitored by its achievement in realizing the *maqasid*, in producing a good economy marked by the spirit of brotherhood (*ukhuwwah*) and cooperation (*ta'awun*), social equality and social justice (*'adalah*), just and fair allocation of resources, poverty elimination, environmental protection and helping society in realizing wellbeing (*maslahah*). Having *shari'ah* (legal) compliant products is certainly *not the end* in our effort of developing an Islamic financial system. It is the *means* of having proper instruments in our effort of achieving the objective (*maqasid*) of *shari'ah*. The paradigm should be shifted from *shari'ah compliance* to *maqasid realization*. The effort should be put in producing genuine financial instruments that are appropriate with the goals and would serve the goals.

6. Marketing Strategy

In order to ensure that Salam practiced by Islamic banks can fulfill its desired role in providing adequate finance for those who need it, and as a sign of Muslim's adherence to the teachings of the Shariah pertaining to the banking activity, and due to the need for purification of Salam as a *riba*-free financing technique, practicing Salam should be subject to some strict controls. Most important of which are:

- A. In order to reinforce the social objective of Islamic banks, Salam operations should be directed towards those activities which satisfy the basic needs of the society.
- B. In pursuance of the Shariah goals behind enacting Salam which aim at providing finance to those who need it, Salam should remain as a primary financing technique. Hence banks should not approach dealings in Salam, with the mere aim of price speculation. If a bank does so it becomes like an exchange operator and prices of goods will consequently be pushed up due to increase of brokers and speculators who deal in Salam bonds. In addition to that the bank will commit the offence of selling a Salam commodity before receiving it which is strictly prohibited in Shariah. When the bank needs liquidity before the date of receiving the commodity, it may sell through Salam a commodity of the same type contracted upon, as the previously Mentioned *fatwa* permits.
- C. Refraining from financing middlemen and brokers who purchase seasonal products from farmers against low prices and sell them against higher prices. If finance, is extended to such people it is likely to strengthen their financial position and weaken that of actual producers.
- D. The significant financing potential of Salam exhibits itself in the following and efforts should be done to achieve the potential:

1. Usefulness of Salam for short-term financing operations like financing of agricultural products which have less than one year production cycle.
2. Usefulness of Salam for long-term financing operations like financing of fixed assets. It has been mentioned earlier that the period of a Salam contract could be up to 10 years.
3. Possibility of indirect liquidation of a Salam operation before maturity. This could be done indirectly when the bank sells in a separate Salam contract a commodity similar to what it has purchased in Salam as per the *fatwa* referred to earlier.
4. Achievement of reasonable profit as Salam price is usually less than price at delivery time.

Alternatives to marketing of Salam goods

There are a few options for disposing of or marketing the goods purchased through Salam.

The options available to Islamic banks are:

(i) enter into a Parallel Salam contract;

(ii) an agency contract with any third party or with the customer (seller);
and/or

(iii) sale in the open market by the bank itself by entering into a promise with any third party or direct selling upon taking delivery. One thing must be clear, however, that such goods cannot be sold back to the Salam seller. Hence, Parallel Salam cannot be entered into with the original seller – this is prohibited due to being buy-back. Even if the purchaser in the second contract is a separate legal entity but owned by the seller in the first contract, this would not amount to a valid Parallel Salam agreement.

One deviation from the above principle would be that after settlement of the Salam transaction, i.e. transfer of ownership/risk to the bank (buyer), there might be a totally separate Murabaha or Musawamah deal with the same client. The State Bank of Pakistan, while giving the Shariah essentials of Islamic modes of financing, has allowed this option.

Accordingly, one Islamic bank in Pakistan had been selling carpets purchased through Salam, the day after the culmination of Salam, to the Salam seller, who used to export the carpets as per the concerned L/C. However, as the majority of Shariah scholars were not inclined to accept this arrangement, the bank shifted to the alternative of appointing the client as agent to export the goods on behalf of the bank. We give hereunder the procedure of the above options.

A bank may take a promise from any third party that he will purchase the goods of stipulated specification at any stipulated price. This promise would be binding on the promisor, and in case of breach of promise, he would be liable to make up the actual loss to the promisee. The bank also has the option of waiting to receive the commodity and then selling it in the open market for cash or deferred payment. In this case, it may have to create an inventory that could be useful for the bank from a business point of view, subject to proper risk mitigation and the concerned regulatory framework.

SALAM – POST EXECUTION SCENARIOS

After execution of the Salam contract, a number of situations could arise which should be known to enable planning of better marketing strategies.

Supply of Goods as Per Contract

The seller delivers the commodity with the stipulated features at the due time and place of delivery. The bank (buyer) takes delivery and the transaction culminates smoothly; the bank will dispose of the commodity as per its plan.

Failure in Supply of Goods

The seller defaults and does not deliver the goods, saying, for example, that he was unable to produce goods of the agreed quality or the required quantity. The Salam buyer shall have the following options:

- to wait until the commodity is available;
- to cancel the contract and recover the paid price;
- to agree to a replacement with mutual consent and subject to the relevant rules.

The bank will ask the client to acquire the goods, or part thereof, from the market for supply to it as per the contract, and if the customer is unable to do so, the bank will sell the pledge/collateral given by the client in the market, purchase the commodity (the subject of Salam) from the market with the proceeds and give the remainder amount, if any, to the customer. If the proceeds are not sufficient to procure the goods as per the contract, the bank has the right to ask the customer to make good the deficit.

It is pertinent to observe here that the bank has the right to take the goods that it is purchasing from the proceeds of the security, but if it decides to get cash from the customer, it has the right to get only the price given in advance at the time of the contract. The price paid in advance by the bank

amounts to a debt in the hands of the seller for the entire period until the goods are delivered. If the contract stands rescinded, the amount of debt will have to be refunded without any increase or decrease. The same amount of money will be returned without any consideration to the increase or decrease in its relative value.

Supply of Inferior Goods

Another situation may be that the seller supplies goods inferior to what had been agreed upon and thus forces the bank to either accept those inferior goods or to rescind the contract.

This will put the bank in an embarrassing situation. Disputes regarding quality of the goods can be adjudicated by any institution having expertise in the area. A clause to this effect can be inserted in the Salam agreement at the time of the contract. The bank would not be obliged to accept the goods if their quality is judged to be inferior. It may, however, agree to acceptance, may be even at a discounted price. It may also make adjustment for superior quality or additional quantity. There may be a number of solutions to this problem, and some of these are as follows:

1. The bank may refuse to accept the goods and insist on the supply of the agreed goods according to the procedure given in Section 10.7.2, or get the price paid at the time of contract back.
2. If the seller is not able to supply the agreed item, and the item is absolutely out of stock in the accessible market, the bank may ask the seller to supply any other goods.

3. If the seller can only partly supply the agreed goods, the bank may accept the same and revise the purchase order to the extent of the remaining quantity, or it may claim a refund of the balance.

Solution 1 above will be permissible provided it does not involve the return of a price that is different from what the bank had paid. As to solution 2, the substitution is allowed with some conditions.

The rules applicable for substitution are that the new commodity must also be fungible and not non fungible – every unit of which is different in quality and price than the other units – and its value should not be more than the value of the Salam commodity. The new commodity should not be of the same genus as that of the original Salam commodity; for example, if the subject of the Salam was wheat, it can be substituted by cotton but not by corn or other animals owned by the customer. Both parties will mutually decide the present market price of the original Salam goods and enter into a sale agreement for the new commodity.

This will be done only when the agreed item is absolutely out of stock in the accessible market. If the item is available, the seller is obliged to buy it for delivering the same to the bank, whatever the market price may be. It is possible that the seller may require additional finance for purchasing the item to deliver it to the bank. He may approach the same bank for a facility to discharge the liability, but the new facility or advance so made by the bank will have to be treated as a separate transaction. Under no circumstances may the two contracts be tied up.

As regards solution 3 involving part delivery of the item, the bank may resort to any of the solutions given above for the remainder amount of the goods. It has to accept the available quantity of the contracted item; for the remaining amount, it can get back the part of the price it has paid. If the seller

becomes insolvent and absolutely incapable of honoring the commitment at any time in the near future, he will be treated like an insolvent debtor.

Securitization of Salam

Salam certificates representing a sort of forward contract can be issued against the future delivery of a commodity, product or service. In countries with large public sectors or where the governments have substantial deposits of natural resources, such as petroleum, copper, iron, etc., they can issue certificates for the future delivery of such products, which are fully paid for on the spot by investors, who receive certificates of purchase in return. For example, a country that produces oil may want to expand its refining facilities. It may sell oil products through Salam instead of borrowing on the basis of interest and use the price received in advance.

The Salam purchaser can choose to hold onto the Salam contract and receive the shipment on the designated date, or he may elect to sell the goods involved in the contract through Parallel Salam before the date of delivery, at whatever possible market price, to another investor. He could also issue Salam Sukuk or certificates (SC) against the price paid for future delivery of the oil products. An SC may change hands between the beginning of the contract and its date of maturity. Actual delivery and receipt, and not just paper settlement, are binding on the SC issuer or the final holder of the certificate. The essential feature of Salam certificates is the fact that the issuer's obligation towards the investor is not different from what the market in the real sector pays on the due date of payment.

Salam certificates are geared to a specific commodity or project. People who purchase SCs share income from those commodity/projects, and as such their income is not guaranteed, although it can be quasi-fixed. Since the

Salam certificates tie finance, production and sale of the items involved into one contract, the risk of changing prices of the subject of Salam belongs to those who invest in them, i.e. the Salam purchasers.

The investors in Sukuk have to bear counterparty as well as market risks. The counterparty risk would arise with regard to the possibility of the seller being unable to deliver the goods.

The market risk would result from the buyer being unable to market the goods at the time of delivery, or selling them at a sale price lower than the cost to him. These risks can be mitigated by the structure of the deal.

In Bahrain, for example, aluminium has been designated the underlying asset for issuing Salam Sukuk. The Bahrain government sells aluminium to the buyer in the future market. The Bahrain Islamic Bank (BIB) purchases the aluminium and it has been nominated to represent the other banks wishing to participate in the Salam transaction. As consideration for this advance payment, the government of Bahrain issues Salam certificates and undertakes to supply a specified amount of aluminium at a specified date.

In the end it is but imperative that to support the marketing plan, there be appropriate advertising of the product along with development of sales strategies and public relations.

ACKNOWLEDGEMENTS

This product manual on Salam is the result of a careful study of the following:-

- The course manuals provided by Academy for International Modern Studies (AIMS), UK
- The book 'Understanding Islamic Finance' by Muhammad Ayub
- Research Paper '*SHARI'AH, ECONOMIC AND ACCOUNTING 'FRAMEWORK OF BAY' AL SALAM IN THE LIGHT OF CONTEMPORARY APPLICATION*' by Mohammad Abdul Halim Umar (Ummul Qura University, Makkah AI-Mokarramah)