Islamic Economics 3(3-0)

Definition:

Islamic Economics is the knowledge and application of injunctions and rules of the Shariah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society.

Basic Features/ Characteristics of Islamic Economy:

The features/ characteristics of Islamic Economy can be explained in various ways.

1. Freedom of work and enterprise: Islam has allowed freedom of work and enterprise. This is evident from the Madinitc model of Islamic economy. A reading of the chapter of any Hadith collection in respect of agriculture, gardening, business etc. will establish this. The Quran also clearly states that "Allah has made business lawful for you (Sura Baqara, Ayat-275)" Islam essentially allows economy to operate freely according to the market forces subject to Islamic restrictions and guidelines on production. distribution, marketing, investment trade, exchange, wages etc. The state can also further interfere in this free economy to restore equilibrium and establish justice and other Islamic objectives. In an Islamic economy, there is an "allowability constraint" (a term introduced by Dr. S.N.H Naqvi in his book. (S.N.H. Naqvi: Ethics and Economics. An Islamic Synthesis, First edition, Chapter-5, published by Islamic Foundation, U.K). An entrepreneur can produce only permitted things. Profit should be normal in such an economy after giving proper wages to the labourers in accordance with Islamic principles. Some forms of trade practices, exchange, investment, and land tenancy in agriculture are prohibited in Islam. It also disallows monopoly and hoarding as social evils. The aforesaid restrictions make “free economy “in Islam qualitatively different from capitalism. Islam con not be said to be capitalistic only because it allows forces of demand and supply to operate in the economy. Forces of demand and supply are fundamental economic forces, which were operational even before capitalism.

2. A special concept of ownership: In Islam God is the true owner of all things. The Quran says: "To Allah belongs whatever is in the earth". (Al- Imran). However, Allah in His mercy allows human beings to inherit wealth, own it and use it subject to His laws as evident from the following verses:
i) The land belongs to Allah. He allows it, to be inherited by whomso ever he pleases. (Sura Araf, Ayat: 128).
ii) Do they not see that we have created for them ----- among the things fashioned by us----- cattle of which they become owners? (Sura Yasin, Ayat: 29). Islam, therefore, allows man as Vice-gerant, to inherit from Allah (that is to own) wealth. This is indeed a trust for proper use. We may call it Trust ownership.

3. Kinds of Ownership: In early Islam there were three kinds of ownership: private, communal and state ownership. The books' of Hadith are full of accounts of individual ownership. This was the standard ownership. Some important things like water, canals pastures and graveyards were communal properties. The state owned the mines, rivers and large tracts of land. After the conquest of Syria and Iraq, these lands were made state lands and were not allowed to go into private ownership.
(Tafhimul Quran, Sura Hashr, Syed Abul Ala Maududi)

4. State Ownership: There is no bar on state ownership of enterprise in Islam. The basic economic institutions may be brought under state control, if this is required to establish social justice or protect the interests of the community. Islam protects lawful property and is in favour of confiscation of unlawful property. There are some instances of take over of unlawful property during the period of Hazart Omar and Hazrat Omar bin-Abdul Aziz. Lawful property can be taken over by the state only for valid social reasons after due compensation. During the last Hajj the Prophet (SM) announced the principle of protection of lawful property. The Quran says, "don't eat each other's property wrongfully" (Sura Nisa, Ayat-29).

5. Prohibition of Interest: Islam prohibits interest. This requires a total reorganization of the economy, banking, investment, exchange, business and international trade. Already in the last 30 years hundreds of Islamic banks and financial institutions have been set up and this has become an alternative mode in most Muslim countries and some non- Muslim countries. Its viability and practicability has been accepted by economists and bankers and many consider this system superior in some respects. A body of literature has already come up on this subject.

6. Zakat: Islam has made Zakat compulsory on the wealth of rich Muslims. This is spent for the weaker and distressed sections of the society. Zakat not only distributes wealth between the rich and the poor of the society, it also influences investment, savings and allocation of income and resources. A detailed study has been made in this regard by Dr. Monzer Kahf in his book "Islamic Economy" American Trust Publications, USA, A rich body of literature has come up in recent times on Zakat. The Zakat and Ushr ordinance of Pakistan can be particularly referred to in this connection.

7. Concern for Poor: This is a special feature of Islam. Zakat is one institution which testifies to this. In this connection we may refer to ayat 5-6 of Sura Qasas) We desired to show favour into those who were depressed in the earth, and to make them leaders and to make them inheritors and to establish them on earth (Sura Qasas, Ayat: 5-6). In these verses Allah, the Almighty has expressed His desire to show favour on the depressed people. Islamic economy shall establish all possible institutions to carry out this desire of the Almighty.

8. Distribution of inheritance: Islam has not left the distribution of inheritance on the whims of a person, In Islam a person can not favour one over the other of his relations for temporary or subjective reasons as is the rule in the West. Islam distributes inheritable property among several groups of people: i)Children ii) Husband/Wife iii) Parents iv) Brothers and sisters in certain

situations.

This distribution has taken care of different groups keeping in view their social role, requirements and proximity of kinship relationships. For those who remain outside the list of inheritors. Islam has provided for wasiat (will) for all such relations if they are in a distressed condition. A person can will upto one 3rd of his/her property for distressed relations or others outside the inheritors. As conventional economics is currently in the course of going back to its pre-Enlightenment roots, the Islamic economics actually didn't got entwined in a materialist and secular worldview. Islamic economics is derived from religious worldview that hits at the secularism's bases as well as value neutrality. In order to guarantee the true welfare of all people, regardless of their race, age, sex, wealth or religion, Islamic economics doesn't try to eliminate private property and stop people from having egotism. Islamic economics distinguishes the market's role in the proficient distribution of resources but doesn't find the struggle to be enough in order to maintain social interest. However, it attempts to encourage human brotherhood, the welfare of all people and the socio-economic justice through an incorporated responsibility of moral principles, families, good governance, society and the market mechanism. This is due to the excellent emphasis on socio-economic impartiality and human brotherhood in Islam.

Comparison with other Economics Systems:

Islamic Economic System: Islamic Economic System implies a mood of satisfying the economics needs of the members of organized society in accordance with is injection of Quran and Sunnah. The mood of spending production, distribution and exchange of wealth is determined by the tenor of these injections. In this system the economic activities of the members of the society are regulative by the certain values of which pity, justice, benevolence, cooperation, brotherhood and equality are especially important. The sources and origin of these values are the Holy Quran and the Sunnah of Allah's Apostle (PBUH). They are eternal and immutable. Consumers, producers and traders are must abide these values. At one level, the state can also use the its powers to implements and enforce these values, however, Islam mostly ensure their implementations and daily affairs of life through its system of education and training and by creating a general climate of piety in the society.

Some Fundamental features of Islamic Economics System are written below.

- All the wealth belongs to Allah (SWT):

"And give them of the wealth of Allah which He has given you." **[An-Nur: 33]**

- The community is the trustee of the wealth:

"Believe in Allah and His Messenger, and spend whereof He has made you heirs."**[Al-Hadid: 7]**

- Hoarding of wealth is prohibited:

"And those who hoard up gold and silver and spend not in the way of Allah; announce to them a painful chastisement." **[At-Tauba: 34]**

- . Circulation of wealth is a duty:

"Whatsoever Allah may restore unto His Messenger - is due unto Allah and unto His Messenger - the orphans and the needy. So, that it may not be confined to the rich amongst you." **[Al-Hashr: 7]**

Other Economic System

There are two economic systems

1.Capitalism.

2.Socialism

1. Capitalism: Capitalism is the economic system in which the means of production are distributed to openly competing profit-seeking. Capitalism is not merely an economics system but a peculiar attitude of mind and behaviour. Basically it springs out of the notion of the capitalist that he has earned his wealth by his own ability, skills, knowledge and wisdom.

Some of the features of capitalism are written below.

1. Private persons and where investments, distribution, income, production and pricing of goods and services are predominantly determined through the operation of a market economy
2. Capitalism is originally defined as a mode of production, where it is characterized by the predominant private ownership of the means of production, distribution and exchange in a mainly market economy
3. Capitalism is usually considered to involve the right of individuals and businesses to trade, incorporate, and employ workers, in goods, services (including finance), labor and land.
4. In Capitalism, state action is confined to defining and enforcing the basic rules of the market though the state may provide a few basic public goods and infrastructure.
5. The most laissez-faire capitalist economies, as measured by indices of economic freedom, include countries like Hong Kong and Canada

2. Socialism

Socialism or communism means an economics system in which the mean of production are owned by the state. A central directorate controls the production of goods and services. The directorate decides the nature, quantity, and mood of production of goods. This distribution of goods is also directed by the central body. Socialism refers to a broad set of economic theories of social organization advocating state or collective ownership and administration of the means of production and distribution of goods, and the creation of an egalitarian society. Modern socialism originated in the late nineteenth-century working class political movement. Karl Marx posited that socialism would be achieved via class struggle and a proletarian revolution which represents the transitional stage between capitalism and communism.

Socialists mainly share the belief that capitalism unfairly concentrates power and wealth among a small segment of society that controls capital and creates an unequal society. All socialists advocate the creation of an egalitarian society, in which wealth and power are distributed more evenly, although there is considerable disagreement among socialists over how, and to what extent this could be achieved.

Some features of socialism are written below

1. Socialism is not a discrete philosophy of fixed doctrine and program
2. its branches advocate a degree of social interventionism and economic rationalization, sometimes opposing each other.
3. Another dividing feature of the socialist movement is the split on how a socialist economy should be established between the reformists and the revolutionaries.
4. Some socialists advocate complete nationalization of the means of production, distribution, and exchange;
5. While others advocate state control of capital within the framework of a market economy. Social democrats propose selective nationalization of key national industries in mixed economies combined with tax-funded welfare programs.

6. In the 1970s and the 1980s, Yugoslavian, Hungarian, Polish and Chinese Communists instituted various forms of market socialism combining co-operative and State ownership models with the free market exchange.
7. This is unlike the earlier theoretical market socialist proposal put forth by Oscar Lange in that it allows market forces, rather than central planners to guide production and exchange.

Conventional mortgages and loans all require the payment of interest and "riba" as interest is called under Islamic law, is forbidden by the Quran. British financial institutions are increasingly catering for Muslims' specialist needs through a number of alternative arrangements that respects the teachings of the Quran. Here are just two of them: Ijara with diminishing Musharaka - the mortgage alternative. Ijara with diminishing Musharaka is an Islamic alternative to a conventional UK mortgage and has been adopted by several British banks and building societies.
In essence, Musharaka means partnership. Under this Islamic financial concept, the bank buys the house and legally becomes its owner. Then throughout the pre-agreed period, say 25 years, a monthly payment is made. Each monthly payment includes a charge for rent and a charge that buys a small proportion of the house itself. It's form of variable shared equity plan with the proportion of the house being owned by the purchaser, steadily increasing as payments are made. Once the final payment has been made, the house is owned out right. Ijara. Here you tell the bank or financial institution what you want, for example a car, and they buy it. In return for a monthly payment that covers the cost of the bank's capital, the bank then allows you to use the asset for an agreed period. In reality, it's a form of leasing. Islamic finance is not widely available in the UK - so where can find it? Here are three suggestions: Over the last few years Lloyds TSB has introduced Islamic products to 33 of its branches. Their spokesperson says, "It's important for our customers to see that we are following the right procedures. We have a panel of four Islamic scholars who over-see the products. They offer guidance on Islamic law and audit the products". Another high street bank, HSBC, is developing a special range of Islamic products under the Amanah brand name. This range includes home finance plans, home insurance, commercial finance, and various current accounts and

pensions. Hussam Sultan, the Amanah product manager says, "As a bank, we are not here to moralise or tell our customers that Amanah finance is the way to please Allah. We're just here to provide them with a choice". The Islamic Bank of Britain has three branches in London, two in Birmingham and one each in Leicester and Manchester. They're the only British bank specifically providing for Muslim customers and claim to be halal throughout their operations. All their financial products are approved by their Sharia'a Supervisory Committee - all Muslim scholars who are experts in all aspects of Islamic finance.

For your interest we show below, definitions of some words used widely in connection with Islamic finance. A Glossary of selected Islamic words used in finance.

Amanah: Means trustworthiness, with associated aspects of faithfulness and honesty. As a central supplementary meaning, amanah also describes a business deal where one party keeps another's funds or property in trust. This actually the most widely used and understood application of the term, having a long history of use in Islamic commercial law. It can also be used to describe different financial activities such as deposit taking, custody or goods on consignment.

Arbun: Means a down payment. It's a non-refundable deposit paid to the seller by the buyer upon agreeing a sale contract together with an undertaking that the sale contract will be completed during a pre arranged period.

Gharar: This means uncertainty. It's one of three essential prohibitions in Islamic finance (the others being riba and maysir). Gharar is a sophisticated concept that encompasses certain types of uncertainty or contingency in a contract. The prohibition on gharar is often used as the grounds for criticism of conventional financial practices such as speculation, derivatives and short selling contracts. Islamic financial services / Islamic banking / Islamic finance : Means financial services that meet the specific requirements of Islamic law or Shariah. Whilst designed to meet specific Muslim religious requirements, Islamic banking is not restricted to Muslims. Both the customers and the service providers can be non-Muslim as well as Muslim.

Ijara: Means an Islamic leasing agreement. Ijarah permits the financial institution to earn a profit by charging leasing rentals instead of lending money and earning interest. The ijarah concept is extended to hire and purchase agreements by Ijarah wa iqtinah.

Maysir: Means gambling. It's another of three fundamental prohibitions in Islamic finance (the other two being riba and gharar). The prohibition of maysir is often used as the basis for criticism of standard financial practices such as conventional insurance, speculation and derivative contracts.

Mudarabah: A Mudarabah is a form of Investment partnership. Here, capital is provided by the investor (the Rab ul Mal) to another party (the Mudarib) in order to undertake a business or investment activity. Profits are then shared according to pre-arranged proportions but any loss on the investment is born exclusively by the investor and the mudarib then loses the expected income share.

Mudarib: The mudarib is the investment manager or entrepreneur in a mudarabah (see above). It is this managers responsibility to invest the investor's money in a project or portfolio in exchange for a share of the profits. A mudarabah is essentially similar to a diversified pool of assets held in a conventional Discretionary Managed Investment Portfolio.

Murabaha: means purchase and resale. As opposed to lending money, the capital provider purchases the required asset or product (for which a loan would otherwise have been taken out) from a third party. The asset is then resold at a higher price to the capital user. By paying this higher price by instalments, the capital user effectively gets credit without paying interest.(Also see tawarruq the opposite of murabaha.).

Musharaka: This means profit and loss sharing. It's a partnership where the profits are shared in pre-arranged proportions and any losses are shared in proportion to each partners' capital or investment. In Musharakah, all the partners to the commercial undertaking contribute funds and have the right, but without the obligation, to exercise executive powers in that undertaking. It's a similar concept to a conventional partnership and the holding of voting stock in a limited company. Musharakah is regarded as the purest form of Islamic financing.

Riba: This means interest. The legal concept extends beyond interest, but in simple terms, riba covers any return of money on money. It does not matter whether the interest is floating or floating, simple or compounded, or what the rate is. Riba is strictly prohibited under Islamic law.

Shariah: This is the Islamic law as disclosed in the Quran and through the example of

Prophet Muhammad (PBUH). A Shariah product must meet all the requirements of Islamic law. To facilitate this, a Shariah board is usually appointed. This board or committee is usually comprised of Islamic scholars available to the organisation for guidance and supervision for the development of Shariah compliant products. Shariah adviser: Means an independent professional, usually a classically trained Islamic legal scholar, appointed to advise an Islamic financial organisation on the compliance of its products and services with Islamic law, the Shariah. While some organisations consult individual Shariah advisers, most establish a committee of Shariah advisers (often known as a Shariah committee or Shariah board).

Shariah compliant: Means the activity that ensures that the requirements of the Shariah, or Islamic law are observed. The term is often used in the Islamic banking industry as a synonym for "Islamic"- for example, Shariah compliant financing or Shariah compliant investment.

Sukuk: This has similar characteristics to a conventional bond. The difference is that that they are asset backed and a sukuk represents the proportionate beneficial ownership in the underlying asset. The asset is then leased to the client to yield the profit on the sukuk.

Takaful: This is Islamic insurance. Takaful plans are designed to avoid the characteristics of conventional insurance (i.e. interest and gambling) that are so problematical for Muslims. They structure the arrangement as a charitable collective pool of funds based on the concept of mutual assistance.

Tawarruq: When used in personal finance, a customer with a cash requirement buys something on credit on a deferred payment basis. That customer then immediately resells the item for cash to a third party. The customer thereby obtains cash without taking an interest-based loan. Tawarruq is the opposite to murabahah.

Comparison of Interest Based (Capitalism, Socialism, Mixed Economy etc) and Interest Free Economy (Islamic Economic System)

S.No	Interest Based Economy	Interest Free Economy
1	Interest leads to saving and investment.	Markup induces people to save and invest.
2	Interest increases the profit rate of depositor	Islamic modes of financing increases the financial position of investor.
3	It induces people to deposit for getting more interest rate.	It induces people and get fair returns
4	Interest leads to increased level of income, productivity, growth and development	If increases in overall income and productivity of people gradually is based on trust, faith and honesty.
5	Rich will be pleased to accumulate more wealth due to large deposits earning higher rate of interest.	Poor take benefit due to cannon of taxation (i.e ability to pay) and pleased to take part in the development of economy.
6	Borrowers will be discouraged t lend loans due to high interest rate.	Borrowers will be encouraged to lend loan to be used for production and get financial gains.
7	Gap between poor and rich become wide and wider	Gap between poor and rich become closer due to equal distribution of wealth and income in all segments of society.
8	General welfare of people ignored altogether	General well beings and welfare is maximized.
9	People will accumulates wealth even by all using illegal means	People will be using legal ways and protect the interest of others.
10	Sometimes individuals are found selfish and work for personal gains, hardly anyone thinks about general welfare or well beings of economy as a whole.	Individuals will joins hands and extends cooperation in meeting their common goals.
11	Under such system, the importance of wealth/ capital is sustained ignoring the human welfare.	Under such system, concept of wealth accumulation in the form of interest is eliminated and converted to human welfare.

Production and Factors Of Production and Pricing of Factors of Production In Islam in comparison with other Economic Systems:

Capitalist view:

In order to understand the Islamic point of view fully, it would be better to have a look at the system of the distribution of wealth that is obtained under the capitalist economy. According to the Capitalistic economics, these factors are four:-

1. Capital: which has been defined as "the produced means of production" - that is to say, a commodity which has already undergone one process of human production, and is again being used as a means of another process of production.

2. Labour: that is to say, any exertion on the part of man.

3. Land: which has been defined as ‘‘natural resources’’ (that is to say, those things which are being used as means of production without having previously undergone any process of human production).

4. Entrepreneur or Organization: The fourth factor that brings together the other three factors exploits them and bears the risk of profit and loss in production.

Under the Capitalist economy, the wealth produced by the co-operation of these four factors is distributed over these very four factors as follows: one share is given to Capital in the shape of interest, the second share to Labor in the shape of wages, the third share to Land in the shape of rent (or revenue), and the fourth share (or the residue) is reserved for the Entrepreneur in the shape of profit.

Socialist View:

On the other hand under the Socialist economy, capital and land instead of being private property are considered to be national or collective property. So, the question of interest or rent (or revenue) does not arise at all under the philosophy of this system. Under the Socialist system, the entrepreneur too is not an individual but the state itself. And labor alone is considered to have a right to wealth under the Socialist system, which it gets in the shape of "Wages".

The Islamic View:

The Islamic system of the distribution wealth is different from both. From the Islamic

point of view, there are two kinds of people who have a right to wealth:

1. Those who have a primary right that is to say, those who have a right to wealth directly in consequence of participation in the process of production. In other words, it is those very "factors of production" which have taken a part in the process of producing some kind of wealth.
2. Those who have a secondary right, that is to say, those who have not taken a direct part in the process of production, but it has been enjoined upon the producers to make them co-sharers in their wealth.

The ruling government does not own the land. They just have to act as a caretaker because all unclaimed land & wealth belongs to ALLAH & is collectively owned by all Muslims living in that territory. This declares illegal all awards (except for some work), award of jahaghir's, favours, high salaries (more than the average income of the common man) to those who served as government functionaries. This also further elaborates that Islam is the true democracy not limiting the role of citizens to vote once every 4-5 years, instead every citizen enjoys the same right & authority over the resources. Every citizen has the right to object lavish use of resources, undue protocols & luxuries. There is no concept of ruler as authority over the resources-be it a parliament or people elected by the parliament. They are all the caretakers which serve men to serve & not to rule.

In the modern age the citizens are to be allowed full access to accounts, expenditure details & benefits enjoyed by the people in the parliament. All the persons involved in government formation should keep there own & family accounts open for public inspection including there other sources of wealth. Any wealth not disclosed by such people & discovered later must be regarded as illegal possession & should become state property.

Islamic Theory: Who have a primary right to wealth: As indicated above, the primary right to wealth is enjoyed by "the factors of production." But "the factors of production are not specified or technically defined, nor is their share in wealth determined in exactly the same way as is done under the Capitalist system of economy. In fact, the two ways

are quite distinct. From the Islamic point of view, the actual factors of production are three instead of being four:-

Capital: That is, those means of production which cannot be used in the process of production until and unless during this process they are either wholly consumed or completely altered in form, and which, therefore, cannot be let or leased (for example, liquid money or food stuff etc.).

Land: That is, those means of production, which are so, used in the process of production that their original and external form remains unaltered, and which can hence be let or leased (for example, lands, houses, machines etc.). If a land is owned by a person then the natural resources discovered from below the soil are to be shared with the state.80% of it belongs to the person & 20% goes to the state(it is known as KHUMS in Islamic terminology). "Khums" literally means "one-fifth or 20%". In Islamic legal terminology, it means "one-fifth of certain items which a person acquires as wealth, and which must be paid as an Islamic tax". The Qur'an mentions it in the following verse: Know that whatever of a thing you acquire, a fifth of it is for Allah, for the Messenger, for the near relative, and the orphans, the needy, and the wayfarer...(8:41) The items which are eligible for khums خمس are seven:

1. The profit or the surplus of the income.
2. The legitimate wealth which is mixed with some illegitimate wealth.
3. Mines and minerals.
4. The precious stones obtained from sea by diving.
5. Treasures.
6. The land which a dhimmi kafir buys from a Muslim.
7. The spoils of war. If the resource is scattered over a vast land underground, then after surveying using modern technology the income must be shared among all land owners ,& not just the one who is tapping it, after deducting the expenses in proportion to the area of land.

3. Labor: That is, human being, whether of the bodily organs or of the mind or of the heart. This exertion thus include organization and planning too. Whatever"wealth" is produced by the combined action of these three factors would be primarily distributed over these three in this manner: one share of it would go to Capital in the form of profit

(and not in the form of interest); the second share would go to Land in the form of rent, and the third share would be given to Labor in the form of wages.

Consumer Behaviour in Islam:

Since 1974, we had been following interest economy due to fact that interest-based economy has been the special feature of capitalist system of economy. Many research work have been conducted and findings have been presented in support of interest by capitalists. But it is Islam which changed the concept of RIBA. Although Pakistan was created in the name of Islam but is painful reality still we are adopting interest based economic system. However, since 1930, little effort had been made to switch over to interest- free economy are entire elimination of interest from economy, payment of zakat by Sahib-e-Nisab and making loans on profit and loss sharing basis and accepting deposits (from banks) on profit and loss sharing basis. It is true that interest-free economy can successfully prosper only in a social welfare state. A symbolic example was set forth by out Prophet Muhammad (P.B.U.H) and the same was maintained by the Khulfa-e-Rashedin. Elements of interest is a hinderance in free circulation of money, whereas in interest free economy bridges the gap between poor and rich. This gap sometimes becomes a major cause of unrest of the community.

The process of eliminating gradually started in 1980 with the introduction of deduction of Zkat from bank deposits, then Usher commenced to be recovered. Deposits on profit and loss sharing basis were started to be accepted since 1st January, 1981. Later on, the entire banking system has been switched over to interest-free basis since 1985. The portfolio of advance has been completely switched over to non-interest basis. There was a time hen it was considered that interest element induced the people to same and it determined income. But this notion was neglected by the Keynes saying that there was some other motives (i.e social welfare etc) which press the economy to make saving and investment. If we look and analyze the 20th century has the period of advanced technological changed environment already admits the social marketing concept (as triangle concept indicates company profits, wants satisfaction and social welfare) instead of marketing concept, which proves that future socio-economic growth, development, stability and efficiency depends on true social welfare economy. Islamic economy is based on the principles as laid down in the Holy Quran and Sunnah. It is completely a social welfare system, free of all sorts of conflicts. As individual enjoys full liberty in his rightful pursuits subject to

certain restrictions/ moral values (Halal and Haram, equality, brotherhood, Justice, consumptions habits, extravagance and requires the individuals and to state honesty. No one is allowed to effect the interest of others and those of the society-adversely. Sahid-e-Nisab is required to pay zakat on his wealth and to spend the residues according the teachings of the Holy Quran and Sunnah. There is no concept of RIBA (interest) in Islamic Welfare Economy, rather it has been described as major sin. It has been realized by our people that Pakistan was demanded and founded in the name of Islam where Muslims could lead their lives according to teachings and commands of Quran and Sunnah.

System of Islamic Welfare Economics:

Islamic welfare economy is very simple and practical code comprising of certain cardinal prohibitions and vital implementation. Stated simply certain comprehensive dos and don'ts have to be observed in Islamic system.

Cardinal Prohibitions include:

i. Abolition of interest.

ii. Prohibition of gambling in all its kinds.

iii. Abolition of unlawful contracts of exchange.

The dos are:

i. Imposition of Zakat.

ii. Imposition of other Quranic sources of Public revenue as Usher, Jizya, Ghanimah, Fay.

iii. Implementation of unlawful contracts of exchange.

Islamic Banking and Finance System, Islamic Modes of Financing:

Following 10 Islamic modes of financing (as dully approved by the State Bank of Pakistan) for implementing the entire transaction of commercial banks from July 1985.

A brief description is as under:

a. Loans financed by lending (It covers 2 modes of Islamic financing).

b. Trade related modes of financing (It covers 5 modes of Islamic financing).

c. Investment modes of financing (It covers 3 modes of Islamic financing).

a. Loans financed by lending: There are two instruments of lending as;

i. **Interest free loans with services charges**: This concept is based on "Ijtehad". The banks are permitted to lend loans free of interest with services charges as permissible. It is used for financing of exports, agriculture inputs to small farmers and to salaries persons getting actual services charges.

ii. **Qarza Hasna**: It is grated to those students by International Banks, who do not have sufficient funds to pursue their education. The students with outstanding caliber, facing financial difficulties, are given interest free loan for carrying on their studies both within or outside Pakistan.

b. Trade related modes of financing: Following five trade related modes of financing are as;

i. **Markup**: Markup or Bank Muajjal is a purchase of goods by banks and their sale to client at an appropriate mark up in price on deferred payment basis.

ii. **Mark down**: It is purchase of moveable or immovable property by the bank with buy back agreement or otherwise.

iii. **Leasing:** It is called Ijara is a medium long term financing instruments. In this trade mode of financing, the lessee (Mustejir) acquires the use of an assent form the leaser (Ajir) for a fixed agreed period of time. Under leasing system, an agreement whereby the lessor (the leasing company) conveys to the lessee (the client) in return for rent the right to use an asset for an agreed period of time. A lease that transfers substantially all risks (losses, theft, fire etc) and reward (profit, accounting depreciation) little to ownership of an asset. Title may or may not be transferred. Leasing is a comparatively new phenomenon in Pakistan. It was after the advent of interest free banking in early 1980's that

leasing gained popularity. The leasing industry has since contributed significantly to Pakistan economic progress.

iv. **Hire Purchase:** State Bank has allowed the commercial banks to provide finance for the purchase of machinery to their clients in trade and industry on the basis of their hire purchase on the payment of periodical installments.

v. **Development charges:** Banks make advance to customers for the development of land or property. It then takes a share in the value added to the property.

c. Investment modes of financing: There are three investment modes of financing as:

i. **Musharika:** It is an agreement between bank and client to participate in business as temporarily partners by providing agreed amount of funds for sharing or losses during a specific period of time. Business is run by client. However, bank examines the feasibility and profit projection so as to monitor and supervise business transactions.

Musharika Process

Step.1	Person (A)	Agreement ↔	Persons (B)
Step .2	Investment	Business operation by A or B or both ↔	Investment
Step .3	Agreed ratio in profit	Profit sharing ↔	Agreed ratio in profit
Step.4	Investment ratio	Loss sharing ↔	Investment ratio

ii. **Mudarba:** Mudarba means the business in which the subscriber participates with money and the manager (Modaraba) with knowledge and skill. It is an

agreement wherein one party invests funds and the other party puts in managerial efforts and or skill to carry on a business. Modaraba must be registered under Mudaraba Ordinance, 1980, governed by Modaraba Company and rules, 1981. As per rule, the partner who puts in managerial skill must have at least 10% share in Modaraba. Profits is shared in agreed rates. Modaraba Certificates as transferable. It may be for specific or multiple purpose. It may be perpetual or for a specified period. The paid up capital of modaraba should be less than Rs. 7.5 million.

iii. **Participation Term certificate (PTC):** It is an instruments of finance issued by a company for meeting its medium and long term capital needs. Profits are shared in agreed ratio, while losses are shared in the ratio of Bank's and company's investment. Only joint stock company can raise funds by issuing PTCs.

Market and Marketing System in Islam:

There is an approximate of 1.61 billion Muslims globally which makes Islamic banking one of the financial industry's quickest rising section. Banks which are serving the Islamic population should conform to some particularly specific principles of the Islamic law. They should be prepared with specialized services and products as well as put programs ready to educate their staff to support these services and products in order to survive in the competitive market. Islamic banking also entails the use of the Sharia principles. Islamic banking is also identical with 'Sharia-compliant banking' and 'full-reserve banking'. The most significant attribute of these laws is the prohibition of collecting or paying interest on funds or usury. The Islamic term for this is ribaa or riba. Sharia also prohibits participation in investments which involves financial unknowns like selling or buying futures and haraam businesses or those that deals with products which are contrary to Islamic values and law such as pornography, pork, alcohol and gossip. These principles pertain to all companies, governments and individuals. Sharia Islamic bank or bank that complies with the Islamic law is prohibited to charge late payment fees or interest that is also considered a type of riba. To reduce risk, banks will often necessitate a huge down payment on properties and goods or insist upon huge collateral. It is legal for the bank to charge a higher price for a product if the payment is delayed or gathered at a later date as it is regarded as a trade for goods instead of collecting interest. The products that Sharia-complaint banking offers include Ijarah (leasing), Wadiah (safekeeping), Mudharabah (profit sharing), Murabahah (cost plus) and Musharakah (joint venture). While every Islamic bank has its individual board that rules on right banking principles, the Islamic banking associations have been setting up the standard policies and rules. As for Muslim banking, it is clear that it is a big industry and continuing to grow each day. However, for an Islamic bank to become competitive with the conventional products and attract customers, the Islamic financial products should meet with the reward or risk profiles of issuers and investors at the same time as accomplishing the tenets of Sharia in addition to remaining adequately cost-effective. In addition, an Islamic bank should also teach their staff to understand Islamic economics and the tenets of the Islamic law which relate to banking as well as train them to comply with Sharia. Learning about the Islamic economy will be a great help to understand more

on Islamic banking. If you want to know more information about the Islamic Economic System, you can search the sites that offer information about the matter.

This analysis shows how comprehensive and extensive significance this fundamental principle has. Just think of a society in which nobody keeps what is beyond his needs in the sense stated above. It discourages amassing of wealth, piling up of valuables, and adding to ones property either for self-aggrandizement or for the sake of some pecuniary advantage. In this system no extra house or building will be allowed to build for renting or leasing out. Islam encourages only that much which fulfils ones genuine needs; e.g., a person who runs his business is entitled to keep as much resources with him as his present business commitments and its further development necessitates. What this system demands is that wealth and other resources should remain in circulation, and what is left to stagnate is illegitimate; Islam condemns stagnation of any means of production which must remain in utilization. Just imagine a society in which each person is ready to give away whatever is beyond his needs, in the sense stated above, and what will be the skein of such a society: will there be anybody deprived of his bread and butter? Will there remain anybody starving on the roadside and finally meeting his painful end simply because of the apathy and callousness of his fellowmen who are far better-off and prospering? Most of the economic disparity which we are witnessing around us today shall vanish and a more equitable economic parity and justice will prevail. Hence, simply following this principle will suffice to remove most of the economic disparity from the society.

Trade and Commerce in Islam:

Islam enjoins investment of money and other resources; it issues clear injunctions on the legitimate ways of investing them. The Jews confused "Riba□" with trade; they would call "Riba□" a kind of trade. The Qur'an emphatically rejected this claim saying: "... That is because they say: 'Trade is like usury', But Allah has permitted trade and forbidden usury..." It adds, "Allah will deprive usury of all blessing, but will give increase for deeds of charity;..." It lays stress on the investment of wealth and property lest 'Zaka□t ' and 'ṣadaqah' should consume it all. In connection with the property of an orphan the Holy Prophet is reported by Amr b. Shu'aib on the authority of his grandfather to have said, "If anyone is guardian of an orphan who owns property, he must trade with it and not leave it till the 'ṣadaqah' consumes it" (Tirmidhi□ transmitted it). Thus, investing ones resources in legitimate directions is obligatory for his own benefit and for that of the whole society, for otherwise property will cease to be in circulation and hence stagnate which has been condemned by Islam. It ensures that all the resources bestowed on man by Allah remain in circulation which is the only way to guarantee well-being of the society. Islam lays down clear-cut rules for investing money in trade, as man is not left free to invest his resources as he pleases; it makes a clear distinction between the legitimate and illegitimate ways of doing trade. The Qur'an lays the following general principles for any legitimate transaction:

1. '... ! When ye deal with each other, in transactions involving future obligations in a fixed period of time. Reduce them to writing ...'

2. '...Let him who incurs the liability dictate, but let him fear his Lord Allah, and not diminish aught of what he owes...'

3. '... But if be a transaction which ye carry out on the spot among yourselves, there is no blame on you if ye reduce it not to writing. But take witnesses whenever ye make a commercial contract; and let neither scribe nor witness suffer harm...'

4. 'If ye are on a journey, and cannot find a scribe, a pledge with possession (may serve the purpose)...'

5. ‘... Conceal not evidence; for whoever conceals it,-- his heart is tainted with sin. And Allah knoweth all that ye do.’

The above are the general principles which a believer is called upon to follow if he fears Allah, his Lord. Beside these principles, other rules for fair transaction have been delineated in the aḥa□di□th (the Sayings of the Holy Prophet which are interpretations of The Qur’an).

6. Ḥaki□m b. Niẓa□m reported the Holy Prophet as saying: ‘The buyer and the seller have the option to cancel or to confirm the deal, as long as they have not parted or till they part, and if they spoke the truth and told each other the defects of the things, then blessings would be in their deal, and if they hid something and told lies, the blessings of the deal would be lost.’

7.The seller should not swear to prevail upon the buyer. Abu□ Huraira reported the Allah’s Messenger as saying: “The swearing (by the seller) may persuade the buyer to purchase the goods but that will be deprived of Allah’s blessing”.

If the above conditions are followed in all transactions, the result will be fair dealing in the society and there will be very little chance for deceiving. These conditions will ensure honest and fair dealing; any community that follows these instructions will be prosperous and peaceful. Thus, Islam has laid down solid principles for business transactions that ensure peace and security to all concerned.

Welfare Economics:

Welfare economics is a branch of economics that uses microeconomic techniques to evaluate economic well-being, especially relative to competitive general equilibrium within an economy as to economic efficiency and the resulting income distribution associated with it. It analyzes *social welfare*, however measured, in terms of economic activities of the individuals that compose the theoretical society considered. Accordingly, individuals, with associated economic activities, are the basic units for aggregating to social welfare, whether of a group, a community, or a society, and there is no "social welfare" apart from the "welfare" associated with its individual units.

Welfare economics typically takes individual preferences as given and stipulates a welfare improvement in Pareto efficiency terms from social state *A* to social state *B* if at least one person prefers *B* and no one else opposes it. There is no requirement of a unique quantitative measure of the welfare improvement implied by this. Another aspect of welfare treats income/goods distribution, including equality, as a further dimension of welfare.

Social welfare refers to the overall welfare of society. With sufficiently strong assumptions, it can be specified as the summation of the welfare of all the individuals in the society. Welfare may be measured either cardinally in terms of "utils" or dollars, or measured ordinally in terms of Pareto efficiency. The cardinal method in "utils" is seldom used in pure theory today because of aggregation problems that make the meaning of the method doubtful, except on widely challenged underlying assumptions. In applied welfare economics, such as in cost-benefit analysis, money-value estimates are often used, particularly where income-distribution effects are factored into the analysis or seem unlikely to undercut the analysis.

Since the early 1980s economists have been interested in a number of new approaches and issues in welfare economics. The capabilities approach to welfare argues that what people are free to do or be should also be included in welfare assessments and the approach has been particularly influential in development policy circles where the

emphasis on multi-dimensionality and freedom has shaped the evolution of the Human Development Index.

There are two mainstream approaches to welfare economics: the early *Neoclassical approach* and the *New welfare economics approach*.

The early *Neoclassical approach* was developed by Edgeworth, Sidgwick, Marshall, and Pigou. It assumes that:

- Utility is cardinal, that is, scale-measurable by observation or judgment.
- Preferences are exogenously given and stable.
- Additional consumption provides smaller and smaller increases in utility (diminishing marginal utility).
- All individuals have interpersonally comparable utility functions (an assumption that Edgeworth avoided in his *Mathematical 'Psychics*).

With these assumptions, it is possible to construct a social welfare function simply by summing all the individual utility functions.

The *New Welfare Economics* approach is based on the work of Pareto, Hicks, and Kaldor and Prof. T Scitovsky. It explicitly recognizes the differences between the efficiency aspect of the discipline and the distribution aspect and treats them differently. Questions of efficiency are assessed with criteria such as Pareto efficiency and the Kaldor-Hicks compensation tests, while questions of income distribution are covered in social welfare function specification. Further, efficiency dispenses with cardinal measures of utility, replacing it with ordinal utility, which merely ranks commodity bundles (with an indifference-curve map, for example). Scitovosky derived a third version to the 'Compensation Principle' in his novel 'A note on the Welfare Proposition in Economics' called the Scitovsky Paradox or Reversal Test.

Efficiency

Situations are considered to have distributive efficiency when goods are distributed to the people who can gain the most utility from them.

Many economists use Pareto efficiency as their efficiency goal. According to this measure of social welfare, a situation is optimal only if no individuals can be made better off without making someone else worse off.

This ideal state of affairs can only come about if four criteria are met:

- The marginal rates of substitution in consumption are identical for all consumers. This occurs when no consumer can be made better off without making others worse off.
- The marginal rate of transformation in production is identical for all products. This occurs when it is impossible to increase the production of any good without reducing the production of other goods.
- The marginal resource cost is equal to the marginal revenue product for all production processes. This takes place when marginal physical product of a factor must be the same for all firms producing a good.
- The marginal rates of substitution in consumption are equal to the marginal rates of transformation in production, such as where production processes must match consumer wants.

There are a number of conditions that, most economists agree, may lead to inefficiency. They include:

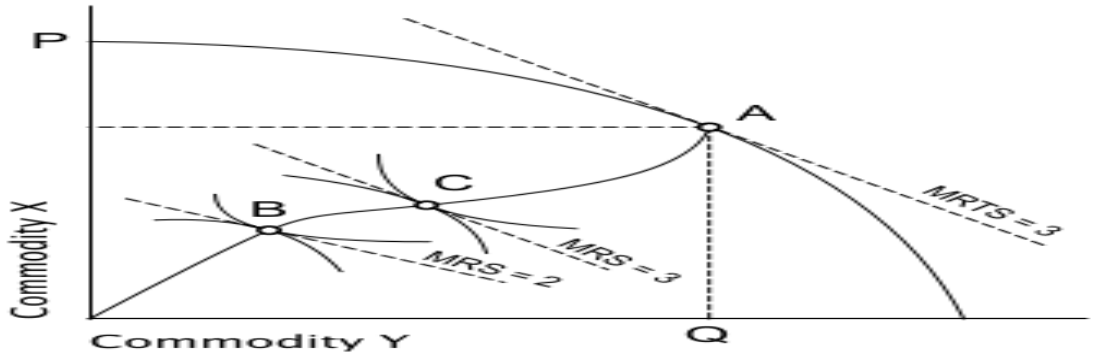
- Imperfect market structures, such as a monopoly, monopsony, oligopoly, oligopsony, and monopolistic competition.
- Factor allocation inefficiencies in production theory basics.
- Market failures and externalities; there is also social cost.
- Price discrimination and price skimming.
- Asymmetric information, principal–agent problems.

- Long run declining average costs in a natural monopoly.
- Certain types of taxes and tariffs.

To determine whether an activity is moving the economy towards Pareto efficiency, two compensation tests have been developed. Any change usually makes some people better off while making others worse off, so these tests ask what would happen if the winners were to compensate the losers. Using the *Kaldor criterion*, an activity will contribute to Pareto optimality if the maximum amount the gainers are prepared to pay is greater than the minimum amount that the losers are prepared to accept. Under the *Hicks criterion*, an activity will contribute to Pareto optimality if the maximum amount the losers are prepared to offer to the gainers in order to prevent the change is less than the minimum amount the gainers are prepared to accept as a bribe to forgo the change. The Hicks compensation test is from the losers' point of view, while the Kaldor compensation test is from the gainers' point of view. If both conditions are satisfied, both gainers and losers will agree that the proposed activity will move the economy toward Pareto optimality. This is referred to as Kaldor-Hicks efficiency or the Scitovsky criterion.

Efficiency between production and consumption

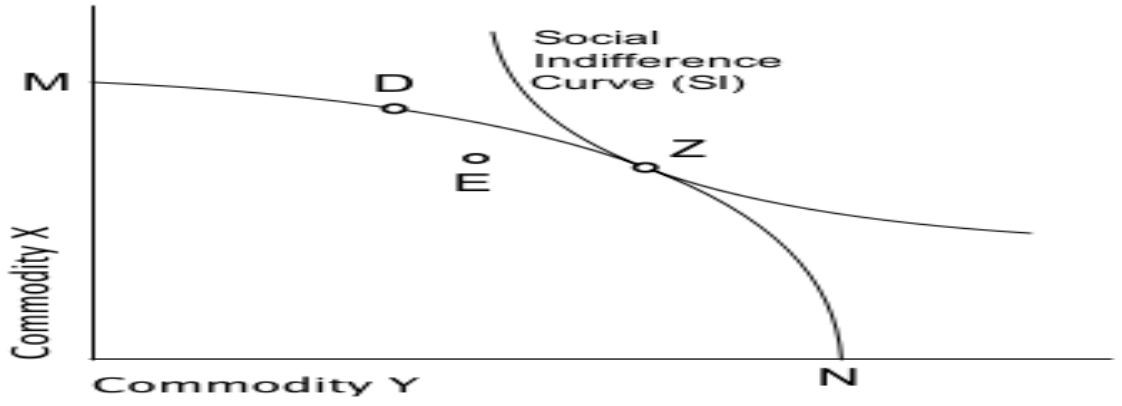
The relation between production and consumption in a simple seven equation model (2x2x2 model) can be shown graphically. In the diagram below, the aggregate production possibility frontier, labeled PQ shows all the points of efficiency in the production of goods X and Y. If the economy produces the mix of good X and Y shown at point A, then the marginal rate of transformation (MRT), X for Y, is equal to 2.



Point A defines the boundaries of an Edgeworth box diagram of consumption. That is, the same mix of products that are produced at point A, can be consumed by the two consumers in this simple economy. The consumers' relative preferences are shown by the indifference curves inside the Edgeworth box. At point B the marginal rate of substitution (MRS) is equal to 2, while at point C the marginal rate of substitution is equal to 3. Only at point B is consumption in balance with production (MRS=MRT). The curve 0BCA (often called the contract curve) inside the Edgeworth box defines the locus of points of efficiency in consumption ($MRS^1=MRS^2$). As we move along the curve, we are changing the mix of goods X and Y that individuals 1 and 2 choose to consume. The utility data associated with each point on this curve can be used to create utility functions.

Social welfare maximization:

Utility functions can be derived from the points on a contract curve. Numerous utility functions can be derived, one for each point on the production possibility frontier (PQ in the diagram above). A social utility frontier (also called a grand utility frontier) can be obtained from the outer envelope of all these utility functions. Each point on a social utility frontier represents an efficient allocation of an economy's resources; that is, it is a Pareto optimum in factor allocation, in production, in consumption, and in the interaction of production and consumption (supply and demand). In the diagram below, the curve MN is a social utility frontier. Point D corresponds with point C from the earlier diagram. Point D is on the social utility frontier because the marginal rate of substitution at point C is equal to the marginal rate of transformation at point A. Point E corresponds with point B in the previous diagram, and lies inside the social utility frontier (indicating inefficiency) because the MRS at point C is not equal to the MRT at point A.



Although all the points on the grand social utility frontier are Pareto efficient, only one point identifies where social welfare is maximized. Such point is called "the point of bliss". This point is Z where the social utility frontier MN is tangent to the highest possible social indifference curve labelled SI.

Concept of Investment in Islam:

An overview of Islamic Investment:

Islamic Investment, Islamic Banking otherwise known as Islamic Law compliant Investment or Shariah Compliant Investment is a growing industry, which is become more and more known in the West and more seriously considered by all the participants in the modern financial world. There is an estimate that this market will become worth over 1 trillion USD dollars in size over the next 5-10 years, fuelled by the wealth from Oil, property and the resurgence of growth in the Middle East. There are many banks looking to get into this space, and Islamic Structured Products (Structured Products and Retail Structured Products which meet the requirements of Shariah Boards to be passed as Shariah Compliant) are at the cutting edge of Islamic Investment. This is a general introduction to some of the background terms and concepts, but the important thing to know before we begin, is that there are many paths to the same outcome, and many views on a subject which has been discussed for hundreds if not thousands of years.

Islamic Banking:

When banking practices are able to meet the requirements to be compliant with Shariah, or Islamic law, they are said to be Islamic Banking practices. These practices are open to all, and not restricted to Muslim only use. It is worth noting therefore that the participants in Islamic Banking, need not be Muslim.

Shariah Boards / Shariah Investment Boards / Shariah Committee:

Because of the complexity of Islamic Law, and the importance for clients to comply, groups of Scholars who are versed in the Law are usually formed into Shariah Boards in order to give advice, guidance and rulings on investments and financial products as to whether they are Shariah Compliant.

Prohibited Concepts:

- Gharar - Uncertainty

- Maysir - Gambling
- Riba - Interest

Concepts of Islamic Investment:

- **Amanah** - Trust - trustworthiness, faithfulness and honesty, also in relation to keeping another party's assets in Trus. It can also include safe custody, deposit taking and safekeeping.
- **Arbun** - A deposit at the start of a contract that is non-refundable if the contract is completed during the alloted period
- **Gharar** - Uncertainty - not allowed in Islamic Finance - often speculation, gambling, and convential financial derivatives are seen as this.
- **Jara** - Islamic lease agreement.
- **Ijarah wa iqtinah** - a hire and purchase agreement.
- **Maysir** - gambling - not allowed in Islamic Finance - often speculation, gambling, and convential financial derivatives are seen as this.
- **Mudaraba** - an Investment partnership, investor (the Rab ul Mal) entrepreneur (the Mudarib). Profits are shared as per the agreement, but any losses of investment are only forthe Rab ul Mal. Also used as Discretionary Asset Management investment.
- **Mudarib** - entrepreneur or investment manager in a mudarabah agreement
- **Murabaha** - Purchase and resale
- **Usharaka**: - a partnership with preagreed profit and loss sharing.
- **Riba -** Interest - Strictly prohibited - the return of money on money itself.
- **Shariah** - Islamic law as in the Quran, and by the Prophet Muhammad
- **Shariah advisor -** independent professional Islamic legal scholar
- **Shariah compliant** - complies with Shariah Law
- **Sukuk** - Asset backed bond
- **Takaful** - Islamic "insurance"
- **Tawarruq** - Reverse murabahah.

Glossary:

Al-Ajr Refers to commission, fees or wages charged for services.

Al-fard al-kifa'i Socially obligatory duties. Literally, a collective duty of Muslims, the discharge of which by some of them absolves the rest of its performance, such as funeral prayers. Technically it covers such functions which the community fails to or cannot perform and hence are taken over by the state, such as the provision of utilities, building of roads, bridges and canals etc.

Al-Hisbah This is a system of state inspection to ensure fair practices in markets. The term is also used in a more general sense to include checking minor crimes on streets.

Amana/Amanah In trust

Al-wadia Resale of goods with a discount on the original stated cost.

Al-wakala Absolute power of attorney

Al-Rahn Al An arrangement whereby a valuable asset is places as a collateral for a debt. The collateral may be disposed off in the event of a default.

Al-wadiah Safe keeping

Ata Simply refers to a donation or a grant.

Awkaf/Awqaf A religious foundation set up for the benefit of the poor. This is plural of the word Waqf (see below). It refers to property that has been transferred to a charity or a trust on a voluntary and permanent basis. The purpose is so that its usfruct may benefit other people.

Bai mu'ajjal Lit: a credit sale. Technically, a financing technique adopted by Islamic banks. It is a contract in which the seller allows the buyer to pay the price of a commodity at a future date in a lump sum or in instalments. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price.

Bai Muajjal (Deferred Payment Contract) A contract involving the sale of goods on a deferred payment basis. The bank or provider of capital buys the goods(assets) on behalf of the business owner. The bank then sells the goods to the client at an agreed price, which will include a mark-up since the bank needs to make a profit. The business owner can pay the total balance at an agreed future date or make instalments over a pre-agreed period. This is similar to a *Murabaha* contract since it is also a credit sale. There is a

financial institution in Malaysia that offers an Islamic Visa card based on this type of contract.

Bai'muajjal Deferred-payment sale

Bai al-Dayn Debt financing: the provision of financial resources required for production, commerce and services by way of sale/purchase of trade documents and papers. Bai al-Dayn is a short-term facility with a maturity of not more than a year. Only documents evidencing debts arising from bona fide commercial transactions can be traded.

Bai al-salam This term refers to advance payment for goods which are to be delivered later. Normally, no sale can be effected unless the goods are in existence at the time of the bargain. But this type of sale forms an exception to the general rule provided the goods are defined and the date of delivery is fixed. The objects of this type of sale are mainly tangible things but exclude gold or silver as these are regarded as monetary values. Barring these, bai 'salam covers almost all things which are capable of being definitely described as to quantity, quality and workmanship. One of the conditions of this type of contract is advance payment; the parties cannot reserve their option of rescinding it but the option of revoking it on account of a defect in the subject matter is allowed. It is also applied to a mode of financing adopted by Islamic banks. It is usually applied in the agricultural sector where the bank advances money for various inputs to receive a share in the crop, which the bank sells in the market.

Bai Salam A sales contract where the buyer pays in advance for the goods, which are delivered in the future. This type of financing is most often used when a manufacturer needs capital to manufacture a final product for the buyer. In return for paying in advance, the buyer receives a more favourable price (i.e. splits the profit margin with the manufacturer).

Bai al Salam Contract of sale of goods where the price is paid in advance and the goods are delivered in the future.

Bai'salam pre-paid purchase

Bai Bithaman Ajil This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by the client are bought by the bank which subsequently sells the goods to the client an agreed price which includes the bank's mark-up (profit). The client may be allowed to settle payment by instalments within a pre-agreed period, or

in a lump sum. Similar to a Murabaha contract, but with payment on a deferred basis.

Baitul mal The Islamic state treasury.

Dirham currency

Fatwah A religious decree.

Fiqh This refers to Islamic jurisprudence. In addition to issues like the five pillars of Islam, it covers family law, inheritance and commerce, to name just a few areas. Fiqh is based primarily on Quran and Sunnah. It is an important source of Islamic economics.

Fiqh Islamic jurisprudence

Gharar Lit: uncertainty, hazard, chance or risk. Technically, sale of a thing which is not present at hand; or the sale of a thing whose consequence or outcome is not known; or a sale involving risk or hazard in which one does not know whether it will come to be or not, such as fish in water or a bird in the air.

Gharar Deception through ignorance by one or more parties to a contract. Gambling is a form of *gharar* because the gambler is ignorant of the result of the gamble. There are several types of *gharar*, all of which are *haram*. The following are some examples:

- Selling goods that the seller is unable to deliver
- Selling known or unknown goods against an unknown price, such as selling the contents of a sealed box
- Selling goods without proper description, such as shop owner selling clothes with unspecified sizes
- Selling goods without specifying the price, such as selling at the 'going price'
- Making a contract conditional on an unknown event, such as when my friend arrives if the time is not specified
- Selling goods on the basis of false description
- Selling goods without allowing the buyer the properly examine the goods

Gharar The root Gharar denotes deception. Bay' al-Gharar is an exchange in which there is an element of deception either through ignorance of the goods, the price, or through faulty description of the goods. Bay' al-Gharar is an exchange in which one or both parties stand to be deceived through ignorance of an essential element of exchange. Gambling is a form of Gharar because the gambler is ignorant of the result of his gamble.

Gharim A person who is in debt and cannot pay the debt from his wealth.

Hadith Prophet's commentary on Qur'an

Halal That which is permissible. The concept of halal has spiritual overtones. In Islam there are activities, professions, contracts and transactions which are explicitly prohibited *(haram)* by the *Qur'an* or the *Sunnah.* Barring them, all other activities, professions, contracts, and transactions etc. are *halal.* This is one of the distinctive features of Islamic economics vis-a-vis Western economics where no such concept exists. In Westem economics, all activities are judged on the touchstone of economic utility. In Islamic economics, other factors, mostly spiritual and moral are also involved. An activity may be economically sound but may not be allowed in the Islamic society if it is not permitted by *the Shari'ah.*

Hajj Hajj means pilgrimage to Mecca and other holy places. *Hajj,* the fifth pillar of Islam, is a duty on every Muslim who is financially and physically able to carry it out, at least once in his lifetime. There is a specific period for *Hajj,* namely one week from the 8th day of the Islamic month of *Dhul Hijjah* to the 13th day of that month in the Islamic lunar calendar.

Hanifite laws Islamic school of law founded by Imam Abu Hanifa. Followers of this school are known as Hanafis.

Hawala Lit: bill of exchange, promissory note, cheque or draft. Technically, a debtor passes on the responsibility of payment of his debt to a third party who owes the former a debt. Thus the responsibility of payment is ultimately shifted to a third party. *Hawala* is a mechanism for settling international accounts, by book transfers. This obviates, to a large extent, the necessity of physical transfer of cash. The term was also used historically in public finance during the Abbaside period to refer to cases where the state treasury could not meet the claims presented to it and it directed the claimants to occupy a certain region for a specified period of time and procure their claims themselves by taxing the people. This method was also known as *'Tasabbub'.* The taxes collected and transmitted to the central treasury were known as *'Mahmul',* while those assigned to the claimants were known as *'Musabbub'.*

Haram unlawful, that which is against Islamic law.

Hima This refers to a public land which is reserved for the use of a person or a group,

excluding other members of society.

Ijara Lit: letting on lease. Technically, sale of a definite usufruct in exchange for a definite reward. Commonly used for wages, it also refers to a contract of land lease at a fixed rent payable in cash. It is contrary to *"Muzarah"* when rent is fixed as a certain percentage of the produce of land. It also refers to a mode of financing adopted by Islamic banks. It is an arrangement under which an Islamic bank leases equipment, a building or other facility to a client against an agreed rental. The rent is so fixed that the bank gets back its original investment plus a profit on it.

Ijara (Leasing) Leasing is also a lawful method of earning income, according to Islamic law. In this method, a real assets such a machine, a car, a ship, a house, can be leased by one person (lessor) to the other (lessee) for a specific period against a specific price. The benefit and cost of the each party are to be clearly spelled out in the contract so as any ambiguity (Gharar) may be avoided.

Leasing is emerging as a popular technique of financing among the Islamic banks. Some of the Islamic banks that use this technique include Islamic Development Bank, Bank Islam Malaysia and many commercial banks in Pakistan.

Under this scheme of financing an Islamic bank purchases an asset as per specification provided by the client. The period of lease may be determined by mutual agreement according to nature of the asset. During the period of the lease, the asset remains in the ownership of the lessor (the bank) but its right to use is transferred to the lessee. After the expiry of the lease agreement, this right reverts back again to the lessor.

Leasing as a technique of Islamic finance holds a lot of promise and potential to develop into a viable and power tool of financing. At present many Islamic banks are experimenting with various forms of leasing one of which is the lease purchase agreement. In this scheme, the lessee can purchase the equipment at the end of the lease period at a price that is agreed in advance. In most cases, the payment may constitute of the two components: rent and a portion of the price to be paid in the instalments. In another variant of lease purchase agreement, the rent may itself constitute the part payment of the price.

Ijara(Leasing) A contract under which a bank purchases and leases out equipment required by its client for a rental fee. The duration of the lease and rental fees are agreed in advance. Ownership of the equipment remains in the hands of the bank.

Ijara wa Iqtina (Lease to Purchase) The same as *ijara* except the business owner is committed to buying the equipment at the end of the lease period. Fees previously paid constitute part of the purchase price. This type of lease to purchase agreement is commonly used for home financing.

Ijara-Wa-Iktina (Lease Purchase) Like Ijara, except that the client is committed to purchase the equipment at the end of the rental period. It is pre-agreed that at the end of the lease period the client will purchase the equipment at an agreed price from the bank, with rental fees paid to date, forming part of the price.

Ijtehad Lit: effort, exertion, industry, diligence. Technically, endeavour of a jurist to derive or formulate a rule of law on the basis of evidence found in the sources.

Iktinaz This refers to hoarding wealth without fulfilling one's legal obligations on it.

Iman Faith

Infaq This refers to spending in Allah's way, especially to assist the poor and needy.

Iqta This is when the state gives individuals ownership or usufruct rights over state land.

Ifqar This means lending any animal for riding or carrying a load, free of cost.

Irtifaq This means giving concessions that relate to real estate (i.e. giving the right to place a beam on a neighbor's wall).

Istisna (Progressive Financing) A contract of acquisition of goods by specification or order where the price is paid progressively in accordance with the progress of a job. An example would be for the purchase of a house to be constructed, payments are made to the developer or builder according to the stage of work completed. This type of financing along with *bai salam* are used as purchasing mechanisms, and *murabaha* and *bai muajjal* are for financing sales.

Istisna A contract of acquisition of goods by specification or order, where the price is paid in advance, but the goods are manufactured and delivered at a later date.

Ju'alal Lit: stipulated price for performing any service. Technically applied in the model of Islamic banking by some. Bank charges and commission have been interpreted to be *ju'ala* by the jurists and thus considered lawful.

Some Islamic Banks give loans with service charge. The Council of the Islamic Fiqh Academy established by the Organisation of Islamic Conference in its third session held in Amman, Jordan from 8 to 13 Safar 1407 H (11-16 October 1986), in response to a query from the Islamic Development Bank has resolved that it is permitted to charge a fee for loan related service offered by an Islamic Bank. However, this fee should be within actual expenditures and any fee in excess to actual service related expenses is forbidden because it is considered usurious. The service charge may be calculated accurately only after a certain period when all administrative expenditure has already been incurred e.g. at the end of the year. Hence, it is permissible to levy an approximate charge on the client, then, reimburse or claim the difference at the end of the accounting period when actual expenses on administration become precisely known.

Kharaj This is tax on land.

Khums This refers to a levy of 20 percent which is imposed on some kinds of wealth (i.e. mines and wealth buried in land that has no owner).

Mudaraba The term refers to a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. The financier is known *as 'rabal-maal'* and the entrepreneur as *'mudarib'*. As a financing technique adopted by Islamic banks, it is a contract in which all the capital is provided by the Islamic bank while the business is managed by the other party. The profit is shared in pre-agreed ratios, and loss, if any, unless caused by negligence or violation of terms of the contract by the *'mudarib'* is borne by the Islamic bank. The bank passes on this loss to the depositors.

Mudaraba (Trust Financing) We may act as managing trustee ('Modareb') while you are the beneficial owner (Rab El-Maal). It is our responsibility to invest the funds that you provide. Alternatively, our roles may be reversed, when you, as managing trustee, are responsible for investing our funds. In each case, we shall agree on our relative share of any profits.

Mudaraba In the theoretical model of Islamic banking Mudaraba has been suggested a

technique which shall provide the basis for the Islamic re-organisation of commercial banking sector. In actual practice of Islamic banking, Mudaraba has not made much progress on t he asset side of the balance sheet, although on the liability side the Islamic banks on Mudaraba accept the funds in investment accounts. Mudaraba is mostly translated in English as profit and loss sharing.

There is no loss sharing in a Mudaraba contract. Profit and loss sharing is more accurate description of the Musharaka contract. The Mudaraba contract may better be represented by the expression profit sharing Mudaraba is an Islamic contract in which one party supplies the money and the other provides management in order to do a specific trade. The party supplying the capital is called owner of the capital. The other party is referred to as worker or agent who actually runs the business. In the Islamic Jurisprudence, different duties and responsibilities have been assigned to each of these two.

As a matter of principle the owner of the capital does not have a right to interfere in to the management of the business enterprise which is the sole responsibility of the Agent x. However, he has every right to specify such conditions that would ensure better management of his money. That is why sometime Mudaraba is referred as sleeping partnership. An important characteristic of Mudaraba is the arrangement of profit sharing. The profits in a Mudaraba agreement may be shared in any proportion agreed between the parties before hand. However, the loss is to be completely borne by the owner of the capital. In case of loss, the capital owner shall bear the monetary loss and agent shall lose the reward of his effort. Mudaraba could be individual or joint.

Islamic banks practice Mudaraba in its both forms. In case of individual Mudaraba an Islamic bank provides finance to a commercial venture run by a person or a company on the basis of profit sharing. The joint Mudaraba may be between the investors and the bank on a continuing basis. The investors keep their funds in a special fund and share the profits without even the liquidation of those financing operations that have not reached the stage of final settlement. Many Islamic Investment Funds operate on the basis of joint Mudaraba.

Mudaraba This is an agreement made between two parties: one which provides '100 percent of the capital' for the project and another party known as a 'Mudarib' who using his entrepreneurial skills, manages the project. Profits arising from the project are distributed according to a predetermined ratio. Any losses accruing are borne by the provider of capital. The provider of capital has no control over the management of the project.

Mudarib In a *mudaraba* contract, the person or party who acts as entrepreneur.

Mu'amalah (t) Lit: economic transaction. Technically, lease of land or of fruit trees for money, or for a share of the crop.

Murabaha Lit: sale on profit. Technically a contract of sale in which the seller declares his cost and profit. This has been adopted as a mode of financing by a number of Islamic banks. As a financing technique, it involves a request by the client to the bank to purchase a certain item for him. The bank does that for a definite profit over the cost which is settled in advance. Some people have questioned the legality of this financing technique because of its similarity to *riba* or interest.

Murabaha (Cost-Plus Financing) A contract of sale between the bank and its client for the sale of goods at a price plus an agreed profit margin for the bank. The contract involves the purchase of goods by the bank which then sells them to the client at an agreed mark-up. Repayment is usually in instalments.

Morabaha (Cost-Plus Financing) Used if you wish to purchase equipment or goods. We will purchase these items, and then sell them to you at cost - plus a reasonable profit.

Murabaha Murabaha is the most popular and most common mode of Islamic inancing. It is also known as Mark up or Cost plus financing. The word Murabaha is derived from the Arabic word Ribh that means profit. Originally, Murabaha was a contract of sale in which a ommodity is sold on profit. The seller is obliged to tell the buyer his ost price and the profit he is making. This contract has been modified a little for application in the financial sectoIn its modern form Murabaha has become the single most popular technique of financing amongst the Islamic banks all over the world. It has been estimated that 80 to 90 percent of financial operations of some Islamic banks belong to this category. The Murabaha mode of finance operates in the following way: The client approaches an Islamic bank to get finance in order to purchase a specific commodity. An

interest-based bank would lend the money on interest to this customer. The customer would go and buy the required commodity from the market. This option is not available to the Islamic bank, as it does not operate on the basis of interest. It can not lend the money on interest. It can not lend money with zero interest rate, as it has to make some money to stay in the business.

Some portion of total finance may be offered as an interest free loan, however, the banking institutions have to make profit in order to stay in business. Hence, what course of action is open to the bank? The Murabaha model offers a solution. The bank purchases the commodity on cash and sells it to the customer on a profit. Since the client has no money, he buys the commodity on deferred payment basis. Thus, the client got the commodity for which he wanted the finance and the Islamic bank made some profit on the amount it had spent in acquiring the commodity.

There are a number of requirements f or this transaction to be a real transaction to meet the Islamic standards of a legal sale. The whole of Murabaha transaction is to be completed in two stages. In the first stage, the client requests the bank to undertake a Murabaha transaction and promises to buy the commodity specified by him, if the bank acquires the same commodity. Of course, the promise is not a legal binding. The client may go back on his promise and the bank risks the loss of the amount it has spent. In the second stage, the client purchases the good acquired by the bank on a deferred payments basis and agrees to a payment schedule. Another important requirement of Murabaha sale is that two sale contracts, one through which the bank acquires the commodity and the other through which it sells it to the client should be separate and real transactions.

The Murabaha form of financing is being widely used by the Islamic banks to satisfy various kinds of financing requirements. It is used to provide finance in various and diverse sectors e. g. in consumer finance for purchase of consumer durable such as cars and household appliances, in real estate to provide housing finance, in the production sector to finance the purchase of machinery, equipment and raw material etc. However, probably the most common and the most popular application of Murabaha is in financing

the short-term trade for which it is eminently suitable. Murabaha contracts are also used to issue letters of credit and to provide financing to import trade.

Murabaha (Cost-plus financing) This is a contract sale between the bank and its client for the sale of goods at a price which includes a profit margin agreed by both parties. As a financing technique, it involves the purchase of goods by the bank as requested by its client. The goods are sold to the client with a mark-up. Repayment, usually in instalments is specified in the contract.

Musharaka The term refers to a financing technique adopted by Islamic banks. It is an agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so. The profit is distributed among the partners in predetermined ratios, while the loss is borne by each partner in proportion to his contribution.

Musharaka (Partnership Financing) This is a classical partnership agreement. All parties involved contribute to towards the financing of a venture. The parties share profits on a pre-agreed ratio while losses are shared according to each parties equity participation. Here again the reason is because in Islam, one cannot loose what they did not contribute. Management of the venture is carried out by all, some, or just one party member.

Musharaka (Joint Venture) We add our funds to your funds, and participate in the equity of the project. We share profits and losses in direct proportion to our contributions.

Musharaka Musharaka is another popular techniques of financing used by Islamic banks. It could roughly be translated as partnership. In this technique two or more financiers provide finance for a project. All partners are entitled to a share in the profits resulting from the project in a ratio which is mutually agreed upon. However, the losses, if any, are to be shared exactly in the proportion of capital proportion. All partners have a right to participate in the management of the project. However, the partners also have a rig ht to waive the right of participation in favour of any specific partner or person. There are two main forms of Musharaka: Permanent Musharaka and Diminishing Musharaka. These are briefly explained below:

Permanent Musharaka In this form of Musharaka an Islamic bank participates in the equity of a project and receives a share of profit on a pro rata basis. The period of contract is not specified. So it can continue so long as the parties concerned wish it to continue. This technique is suitable for financing projects of a longer life where funds are committed over a long period and gestation period of the project may also be long.

Diminishing Musharaka Diminishing Musharaka allows equity participation and sharing of profit on a pro rata basis but also provides a method through which the equity of the bank keeps on reducing its equity in the project and ultimately transfers the ownership of the asset on of the participants. The contract provides for a payment over and above the bank share in the profit for the equity of the project held by the bank. That is the bank gets a dividend on its equity. At the same time the entrepreneur purchases some of its equity. Thus, the equity held by the bank is progressively reduced. After a certain time the equity held b y the bank shall come to zero and it shall cease to be a partner. Musharaka form of financing is being increasingly used by the Islamic banks to finance domestic trade, imports and to issue letters of credit. It could also be applied in agriculture and Industry.

Manihah This is a productive asset given to a needy person for a certain period or time. The person uses it freely and enjoys its usufruct.

Maun This means lending items of ordinary use (i.e. domestic utensils) free of cost.

Mudarabah (also called Qirad) This is a profit and loss sharing contract. In it, one party provides capital and the other manages the enterprise. If there is loss, the provider of capital bears the financial loss while the worker loses his labor. If there is profit, both parties share it in proportions agreed upon at the time of the contract.

Muhaqalah This refers to the sale of wheat while it is still growing. It also refers to the sale of unharvested crop.This kind of sale contract is not allowed in Islam.

Mukhabarah This is a share-cropping contract whereby the land owner reserves the crop of a certain area for himself. The share-cropping contract of this nature is not permitted in Islam.

Murabaha One of the most controversial type of transaction, it is a contract of sale in which payment is made some time after delivery of the goods transacted. Used as the basis of modern Islamic banking since the amount charged for deferred payment is in

excess of the current market price (usually by an amount approximately equivalent to the prevailing rate of interest).

Musharaka (Venture Capital) This Islamic financing technique refers to a partnership between two parties, who both provide capital towards the financing of a project. Both parties share profits on a pre- agreed ratio, but losses are shared on the basis of equity participation. Management of the project is carried out by both the parties.

Musaqah A contract in which the owner of the garden shares its produce with another person in return for his services in irrigating the garden.

Muzara'a It is a contract in which one person agrees to till the land of the other person in return for a part of the produce of the land.

Nisab Exemption limit for the payment of *zakah.* It is different for different types of wealth.

Qard al hasana A virtuous loan. A loan with the stipulation to return the principal sum in the future without any increase.

Qard Hassan An interest-free loan given for either welfare purposes or for fulfilling short-term funding requirements. The borrower is only obligated to repay back the principal amount of the loan.

Qard Hasan (Interest free loans) Most of the Islamic banks also provide interest free loans (Qard Hasan) to their customers. If this practice is not possible on a significant scale, even then, it is adopted at least to cover some needy people. Islamic view about loan (Qard) is that it should be given to borrower free of charge. A person is seeking a loan only if he is in need of it. Hence, it is a moral duty of the lender to help his brother who may be in need. The borrower should not make an effort to take advantage of somebody needs. He should help the needy by lending him money without any charge. The reward of this act is with the God. Hence, it is referred as Qard Hasan (benevolent loan) which signifies the benevolent nature of the act of lending.

The practices of various Islamic banks in this respect differ. Some Islamic banks provide the privilege of interest free loans only to the holders of investment account with them. Some extend to all bank clients. Some restrict it to needy students and other economically weaker sections of the society. Yet some other Islamic banks provide interest free loans

to small producers, farmers and entrepreneurs who are not qualified to get finance from other sources. The purpose of these loans is to help start them their independent economic life and thus to raise their incomes and standard of living.

Qard Hasan An interest-free loan given mainly for welfare purposes. The borrower is only required to pay back the amount borrowed.

Qimer Lit: gambling. Technically, an agreement in which possession of a property is contingent upon the occurrence of an uncertain event. By implication it applies to those agreements in which there is a definite loss for one party and definite gain for the other without specifying which party will gain and which party will lose.

Qirad mudaraba

Rab-al-maal In a *mudaraba* contract the person who invests the capital.

Rabbul-mal owner of capital

Riba Lit: an excess or increase. Technically, an increase, which in a loan transaction or in exchange of a commodity, accrues to the owner (lender) without giving an equivalent counter value or recompense in return to the other party. It covers interest both on commercial and consumer loans.

Riba This term literally means an increase or addition. Technically it denotes any increase or advantage obtained by the lender as a condition of the loan. Any risk-free or "guaranteed" rate of return on a loan or investment is *riba*. *Riba*, in all forms, is prohibited in Islam. In conventional terms, *riba* and "interest" are used interchangeably.

Riba Literally, an increase or addition. Technically it denotes in a loan transaction any increase or advantage obtained by the lender as a condition of the loan. In a commodity exchange it denotes any disparity in the quantity or time of delivery.

Riba al-buyu A sale transaction in which a commodity is exchanged for the same commodity but unequal in amount and the delivery of at least one commodity is postponed. To avoid *riba-al-buyu,* the exchange of commodities from both sides should be equal and instant. *Riba-al-buyu* was prohibited by the prophet Mohammad to forestall *riba* (interest) from creeping into the economy from the back door.

Riba al-fadl Usury of trade. It is an alternative term for *riba al-buyu.*

Riba al-diyun Usury of debt.

Riba al-nasia Increment on the principal of a loan payable by the borrower. It refers to the practice of lending money for any length of time on the understanding that the borrower would return to the lender at the end of this period the amount originally lent together with an increment in consideration of the lender having granted him time to pay. The increment was known as *riba al-nasia. It* was in vogue in Arabia in the days of the Prophet Muhammad.

Rikaz This is ancient wealth found buried in land whose owner is unknown

Ruq'a Banking instrument of the early Muslim period. It was a payment order to draw money from the bank.

Sadaqah This means anything which is given or help offered to others to seek Allah's Pleasure. It also refers to a good act. If it involves spending income, this must have been earned in an Islamically permissible way.

Sadaqah al-Fitr This is an Islamic levy paid in the month of Ramadan.

Shari'a The way of Allah as shown by the Qur'an and the *Sunnah* of the Prophet Muhammad. The term is used to refer to the Islamic law.

Sharia Islamic law derived from three sources - the Quran, the Hadith, and the Sunnah.

Shariah Islamic cannon law derived from 3 sources: the Quran; the Hadith (sayings of the Prophet Muhammad); and the Sunnah (practice and traditions of the Prophet Muhammad).

Shirkah A contract between two or more persons who launch a business or financial enterprise to make profit.

Shirka musharaka

Suftajal A type of banking instrument used for the delegation of credit during the Muslim period, especially the Abbasides period. It was used to collect taxes, disburse government dues and transfer funds by merchants. It was the most important banking instrument used by traveller merchants. In some cases *suftajahs* were payable at a future fixed date and in other cases they were payable on sight. *Suftajah* is distinct from the modem bill of exchange in some respects. Firstly, a sum of money transferred by *suftajah* had to keep its identity and payment had to be made in the same currency. Exchange of currencies could not take place in this case. Secondly, *Suftajah* usually involved three persons. 'A' pays a certain sum of money to 'B' for agreeing to give an

order to 'C' to pay back to 'A'. Third, a *Suftajahs* could be endorsed. The Arabs had been using endorsements *(hawala)* since the days of the Prophet Muhammad.

Sallallahu alaihi wassallam (SAW) This is a salutation used by Muslims whenever referring to the Prophet Muhammad. It is abbreviated as 'SAW'. It means 'peace and blessings of God be upon him'.

Takaful Mutual support which is the basis of the concept of insurance or solidarity among Muslims.

Takaful This is a form of Islamic insurance based on the Quranic principle of *Ta'awon* or mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of a loss by one of its members. *Takaful* is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several *haram* elements including *gharar* and *riba*, as mentioned above.

Ushr This refers to the ten percent (in some cases five percent) of agricultural produce payable by a Muslim as a part of his religious obligation, like Zakat (see below) mainly for the benefit of the poor and the needy.

Waqf Lit: detention. Technically appropriation or tying-up of a property in perpetuity so that no propriety rights can be exercised over the usufruct. The Waqf property can neither be sold nor inherited or donated to anyone. *Awqaf* consists of religious foundations set up for the benefit of the poor.

Wasiyyah This is the Arabic word for a will. Under Islamic law, a person cannot bequeath over one-thrid of his total inheritance, nor can he make a bequest in favor of any of his heirs in addition to his or her share which is fixed by Islamic law.

Zakah/Zakat A tax which is prescribed by Islam on all persons having wealth above an exemption limit at a rate fixed by the *Shariah.* According to the Islamic belief *Zakah* purifies wealth and souls. The objective is to take away a part of the wealth of the well-to-do and to distribute it among the poor and the needy. It is levied on cash, cattle, agricultural produce, minerals, capital invested in industry, and business etc. The distribution of *Zakah* fund has been laid down in the Qur'an (9:60) and is for the poor, the needy, Zakah collectors, new converts to Islam, travellers in difficulty, captives and debtors etc. It is payable if the owner is a Muslim and sane. *Zakah* is the third pillar of

Islam. It is an obligatory contribution which every well-off Muslim is required to pay to the Islamic state, in the absence of which individuals are required to distribute the *Zakah* among the poor and the needy as prescribed by the *Shariah.*

Zakat (Religious Tax) There are two type of Zakat:

Zakat al-Fitr which is payable by every Muslim able to pay, at the end of Ramadan (the month of fasting). This is also called Zakat al-Nafs (Poll Tax).

Zakat al Maal is an annual levy on the wealth of a Muslim (above a certain level). The rate paid, differs according to the type of property owned. This tax is earmarked for amongst others for the poor and needy.