

IJARAH (Leasing)

"Ijarah" is a term of Islamic fiqh. Lexically, it means 'to give something on rent'. In the Islamic jurisprudence, the term 'Ijarah' is used for two different situations. In the first place, it means 'to employ the services of a person on wages given to him as a consideration for his hired services.'" The employer is called 'musta'jir' while the employee is called 'ajir'.

Therefore, if A has employed B in his office as a manager or as a clerk on a monthly salary, A is musta'jir, and B is an ajir. Similarly, if A has hired the services of a porter to carry his baggage to the airport, A is a musta'jir while the porter is an ajir, and in both cases the transaction between the parties is termed as Ijarah. This type of Ijarah includes every transaction where the services of a person are hired by someone else. He may be a doctor, a lawyer, a teacher, a laborer or any other person who can render some valuable services. Each one of them may be called an 'ajir' according to the terminology of Islamic law, and the person who hires their services is called a 'musta'jir', while the wages paid to the ajir are called their 'ujrah'. Labor.

The second type of Ijarah relates to the usufructs of assets and properties, and not to the services of human beings. 'Ijarah' in this sense means 'to transfer the usufruct of a particular property to another person in exchange for a rent claimed from him.' In this case, the term 'Ijarah' is analogous to the English term 'leasing'. Here the lessor is called 'Mu'jir', the lessee is called 'musta'jir' and the rent payable to the lessor is called 'ujrah'.

Both these kinds of 'Ijarah' are thoroughly discussed in the literature of Islamic jurisprudence and each one of them has its own set of rules. But for the purpose of the present book, the second type of Ijarah is more relevant, because it is generally used as a form of investment, and as a mode of financing also.

The rules of Ijarah, in the sense of leasing, is very much analogous to the rules of sale, because in both cases something is transferred to another person for a valuable consideration. The only difference between Ijarah and sale is that in the latter case the corpus of the property is transferred to the purchaser, while in the case of Ijarah, the corpus of the property remains in the ownership of the transferor, but only its usufruct i.e. the right to use it, is transferred to the lessee.

Therefore, it can easily be seen that 'Ijarah' is not a mode of financing in its origin. It is a normal business activity like sale. However, due to certain reasons, and in particular, due to some tax concessions it may carry, this transaction is being used in the Western countries for the purpose of financing also. Instead of giving a simple interest - bearing loan, some financial institutions started leasing some equipment's

to their customers. While fixing the rent of these equipment, they calculate the total cost they have incurred in the purchase of these assets and add the stipulated interest they could have claimed on such an amount during the lease period. The aggregate amount so calculated is divided on the total months of the lease period, and the monthly rent is fixed on that basis.

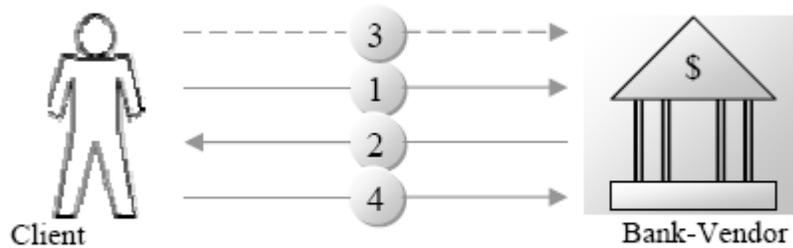
The question whether or not the transaction of leasing can be used as a mode of financing in Shari'ah depends on the terms and conditions of the contract. As mentioned earlier, leasing is a normal business transaction and not a mode of financing. Therefore, the lease transaction is always governed by the rules of Shari'ah prescribed for Ijarah. Let us, therefore, discuss the basic rules governing the lease transactions, as enumerated in the Islamic Fiqh. After the study of these rules, we will be able to understand under what conditions the Ijarah may be used for the purpose of financing.

Although the principles of Ijarah are so numerous that a separate volume is required for their full discussion, we will attempt in this chapter to summarize those basic principles only which are necessary for the proper understanding of the nature of the transaction and are generally needed in the context of modern economic practice. These principles are recorded here in the form of brief notes, so that the readers may use them for quick reference.

Mechanism:

Structure-I:

The simplest form of Ijara is given below:



Dotted line indicates flow of funds.

1. Client approaches Bank-Vendor and identifies asset, collects relevant information that include rental;
2. Bank leases out the asset to Client, allowing it to take possession and put into specified use;
3. Client pays known rentals over future (known) time period(s).
4. Asset reverts back to Bank