



# Ijarah

**Islamic Economics Project**

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# IJARAH

- Ijarah means to sell usufruct of an asset on rent.
- The term is also used for hiring someone to do a job or service.
- In Ijarah, right of use of a property is transferred to another person for a consideration.
- It is an Islamic alternative for leasing a tangible asset.

# IJARAH IN ISLAMIC FINANCE

- The lease period starts when the asset has been delivered by the lessor in a usable condition.
- The bank (Lessor) bears the ownership related costs and the customer (Lessee) bears the usage related costs.
- Insurance, installation, import duty, delivery charges are paid by the bank and are added in its cost and are taken into account when quoting rentals to the customer at the time of entering into the Ijarah agreement.

# IJARAH IN ISLAMIC FINANCE

- If the asset is destroyed or becomes unusable, the bank stops taking rent and does not charge rent for that period.
- Penalty for late payment is charged for maintaining financial discipline and is paid to charity.
- The asset/property remains in the ownership of the bank until the bank sells the asset to the customer in a separate agreement.
- The client is not obliged to buy the asset at the end of the lease period. However, in some countries, banks give an undertaking to the client to sell the asset to the client (if desired by the client) when the lease period expires.

# PROCESS FLOW OF AN IJARAH TRANSACTION

The process flow is as follows:

1. The customer approaches the bank for obtaining an asset on lease.
2. The customer undertakes to make periodic lease payments for the lease period.
3. Lease agreement and agency agreement is signed.
4. The customer as an agent to the bank buys the asset. Bank receives the title of the asset and pays the vendor.

## PROCESS FLOW OF AN IJARAH TRANSACTION

5. The bank leases the asset and the customer starts using the asset and pays rent for each period.
6. In the end, the customer can purchase the asset from the bank by way of a separate purchase agreement.

# APPLICATION OF IJARAH IN ISLAMIC FINANCE

- Consumer Financing
  - Vehicle Financing
    - Car, Motorcycle, Rickshaw, Truck etc.
  - Consumer Appliance Financing
    - Fridge, Refrigerator, Microwave, UPS etc.
- Corporate Financing
  - Industrial Machinery – Local and Imported
  - Plant & Equipment – Local and Imported



# Thank You

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