



# **Salam**

**ISLAMIC ECONOMICS PROJECT**

[www.islamiceconomicsproject.com](http://www.islamiceconomicsproject.com)

# SALAM

- Salam is a sale transaction.
- It is regarded as an exceptional sale as it does not follow all the basic rules of Sale from Islamic point of view.
- In a Salam transaction, delivery of the subject matter is deferred.
- While payment in a Salam transaction for the subject matter is immediate.

# SALAM

- It is used in working capital finance by allowing the client needing finance to sell goods that are not ready for spot sale and will have to be delivered later.
- In Salam, payment is spot, but the delivery is deferred. It is used in special cases to facilitate transactions.
- In Islamic Finance practice, it is commonly used in agriculture financing and working capital financing.

# PROCESS FLOW OF A SALAM TRANSACTION

The process flow is as follows:

1. Islamic bank and the client sign a Salam Agreement whereby the Islamic bank purchases certain goods from the client by paying in full at spot.
2. Client gets the payment for the sale of subject matter which does not exist now and will be delivered later at a specified date.
3. Islamic bank may sign a parallel Salam contract with another client and whereby the Islamic bank sells the same goods to the client.



# PROCESS FLOW OF A SALAM TRANSACTION

4. The client who purchases goods in parallel Salam contract purchases the goods from the Islamic bank by paying in full at spot.
5. Period in Salam contract with client where Islamic bank is the buyer is longer than the contract period of parallel Salam where Islamic bank is the seller.
6. Islamic bank gets delivery from the client of the first Salam contract as a buyer and delivers the goods to the client of the parallel Salam contract.
7. Difference in price in both Salam contract is the profit for the bank.

# ISSUES IN SALAM TRANSACTION

- Salam contract can only be done of commodities whose characteristics can be specified.
- It is necessary that the Salam contract does not involve partial payment.
- Full immediate payment is necessary for the validity of the Salam contract.
- Goods which are traded using Salam contract must be specified and quantified in a manner that no ambiguity or uncertainty is left.

# ISSUES IN SALAM TRANSACTION

- It is necessary that goods sold in the Salam contract exist and are available in the market from the date of Salam contract to the date of delivery.
- In a parallel Salam contract, it is necessary that the client in the parallel Salam contract must not be the same client or his associates as in the first Salam contract.



# APPLICATION OF SALAM IN ISLAMIC FINANCE

- Corporate Financing
  - Working Capital Finance
  - Alternate for Running Finance
  - Agricultural Crop Financing





# Thank You

Feel Free to Contact Us

[www.islamiceconomicsproject.com](http://www.islamiceconomicsproject.com)