

The Seventh lecture

1. Text:

❖ **Ijara Meaning:**

The literal meaning of Ijara is "to give something on rent". As per Islamic jurisprudence the term connotes two distinct situations:

- The services of human beings for wages – the mustajir (employer) employing the services of an ajir (employee) on wages (ujrah) in lieu of hired services. An ajir for this purpose can be anyone rendering services including plumbers, doctors and lawyers.
- Usufructs of assets and properties for rent – transferring the usufruct of an asset by mujir (lessor) to mustajir (lessee) in lieu of ujrah (rent) payable by the latter.

Ijara is an Islamic form of leasing. In fact it is another form of mark-up structure. Here the bank buys capital equipment or property and leases it out under instalment plans to end users.

As in conventional leasing there may be an option to buy the goods at the end of the Ijara built into the contracts. This would be an Ijara wa Iqtina contract. The instalments consist of rental for use and part repayment of capital.


The customer selects the asset to be financed and the bank then purchases it from the supplier and leases it to the customer for an agreed period. Refinancing of assets owned by the client, in a sale and leaseback arrangement, is allowed under certain circumstances. The bank, as the owner of the asset, is paid rent, fixed or variable as agreed by the parties. The rental amount is often linked to LIBOR. The bank must exercise all the lessor's rights and obligations such as maintenance, insurance and repair.

The lessee gets the use of the asset for the period of the lease subject to payment of rent. The lessee may assume the obligations such as maintenance for a reduced rent. The fact that there is a real tangible good to be financed means that this is the most Sharia'a-compliant of the mark-up products.


Ijara is in high demand and perhaps on its way to becoming the most popular of Islamic financial instruments. It provides the appropriate Islamic financial approach for intermediate or long-term financing of assets. Sharia'a rules permit the levy of rental in lieu of granting the right to use real assets. As the financier undertakes the risk of the ownership he is entitled to receive a return by way of rental under the Sharia'a. Normally the rent is fixed so that the financial institution gets back its original investment plus a profit. Finance leases or Ijara wa Iqtina embodies an option to purchase the asset at the end of the period.

7.2.1 What are the Features of the *Ijara* Contract?

1. How does *Ijara* work



2. In what sense is *Ijara* an asset-based or equity-based source of finance?



3. What is the risk for the *Rab ul Mall* providing the finance?

