SALAM (FORWARD SALE) AND ISTIØNÄØ (MANUFACTURE CONTRACT) IN MODERN APPLICATIONS: A MAQØØID AL-SHARØÑAH PERSPECTIVE

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ABSTRACT

The modern application of Salam such as parallel Salam and combination of Salam with waÑd (promise) exposes Islamic financial institutions (IFIs) to risks—credit risk, market risk, and operational risk. Modern applications of IstiØnÄø by financing houses and projects in the form of parallel-IstiØnÄø and IstiØnÄø based BOT (buy, operate and transfer) has exposed the IFIs to hazards such as delayed and incomplete projects. This paper explores the extent to which modern applications of Salam and IstiØnÄø support the maqØEdid al-SharØñah. The study suggests new terms and conditions to minimise the risks if not eliminate them. It advises IFIs to become IstiØnÄø contractors in the real economy rather than on paper only. Salam should not be a near-replica of speculative and risky future contracts. If adjustments are not made in modern application of both contracts, the contracts risk jeopardising the very purpose of the SharØñah.

Key words: Salam, IstiØnÄø, maqØEdid al-SharØñah, specific purpose, essential purpose, wasØ’il (means), terms and conditions, option of viewing (khiyØr al-ru’Øyah).

Introduction

Nominal contracts (al-’uqØd al-musammØt) of the SharØñah are one of the backbones of Islamic financial Institutions (IFI’s). The question still remains unanswered when asked why IFI’s rely so much on nominal contracts instead of constructing new contracts from sketch (non-nominal contracts). Is it because nominal contracts will make their financing-products more SharØñah compliant, or because it is more convincing, or because of some other reason? Whether we can answer these questions or not, one point is obvious and i.e. the IFI’s are not applying the nominal contracts for its traditional purposes. This point is the primary objective of this paper. The traditional purpose was to apply those contracts as exchange-trades (mu’ØwalØt). The IFI’s either with or without modifications are applying these contracts for financing purposes. This is a great transition and requires a different type of study to evaluate the SharØñah-value of the new/modern applications of these contracts. Then in this transition, some nominal contracts are utilised more compared to the others. Here again a different type of study is required to explain which type of the contract is suitable for a specific circumstance. Applying one or two nominal contracts for all different circumstances under the heaven will lead to misappropriation of the contracts. The best study which can evaluate the values of the modern applications and which can select a contract for certain circumstance is maqØEdid-study. Having said this, one paper is not capable to do a detailed investigation of all the nominal contracts. Case by case study will be a more logical way to go. Thus this paper concentrates on two contracts namely Salam (forward sale) and IstiØnÄø (manufacture) contracts. Using maqØEdid-study, the paper tries to solve two problems; evaluation of the modern application of the two contracts and explanation of suitable circumstances these contracts can be applied for.

The standard SharØñah-ruling in exchange-contracts is spot delivery—handing over the commodity upon receiving the payment. An exception to this rule is given to Salam (forward sale) and IstiØnÄø (manufacture contract) in which payment is received before delivery. This paper begins by discussing the definitions of the contracts presented by the major legal schools to identify the maqØEdid (purposes) of the SharØñah that secured this special status for these contracts. These purposes are discussed against selected modern applications of the contracts, against the purpose of terms and conditions of the contracts, and against the purposes of sales and transactions.

Modern applications of Salam and IstiØnÄø have surpassed the traditional modes and forms of contracts. This is particularly so where the contracting parties are institutions rather than individuals, and where both contracts are applied for financing rather than treated merely as an exchange trade contract. The drift from the traditional to modern forms of both contracts has produced inconsistency within the substance of the contracts. This is where maqØEdid-studies intervene. It plays the role of yardstick to measure and understand the gulf between form and substance of the contracts in modern applications. The maqØEdid approach offers Islamic financial institutions (IFIs), SharØñah committees, and consultants, better command to improvise or compromise to maintain the SharØñah compliance of modern applications.

SALAM AND ITS MAQØØID AL-SHARØÑAH

(a) Definition of Salam
Salam is defined according to the ShØfiï legal school as, “Sale of a well-defined commodity to be delivered by the seller in the future”. For the Hanbali School, Salam is, “to pay at present a price for a well-defined commodity that remains a liability on its seller until he delivers it at a definite future time”. According to the Hanafi legal school, Salam denotes, “sale of a deferred commodity for a present price or purchase of a deferred commodity for a present price”. The Maliki School defines Salam as,
An exchange contract according to which one of the two parties becomes indebted to the other, while his indebtedness is neither linked to a good that exists at present nor to a usufruct, and the contract involves exchange of two dissimilar commodities” (M. A. Halim Umar, p. 18).

(b) Maqālīd of Salam

These definitions converge on the point that Salam is a contract in which the payment of the price is made in advance, while the delivery of the commodity is deferred. The purpose of all sales is to exchange benefit for an asset in possession. Salam deals with a situation where the buyer and seller can exchange benefit in return for something not in possession. The general purpose of Sharī'ah in sale is realisation of benefits (ma'nī) for the people. This purpose befits the Salam contract, but to understand the specific and essential purposes of Salam, one needs to look into the legal justifications of the contract in question. When the Prophet ﷺ migrated to Medina, the Arab traders used to pay in advance the price of dates to be delivered within two to three years. The Prophet ﷺ refined their contract and said to them, “Whoever signs a Salam contract for something, should sign it for a specified measure, specified weight and specified period” (al-Baghwiy, 2003, hadith no. 2118, p. 328).

There is a general ruling prohibiting a sale due to absence of the goods which is the exact benefit for the purchaser. This ruling is based on a hadith quoted by AlÉ’ al-DÉn al-KasÉnÉ (d. 587 A.H.) that, “The Prophet ﷺ prohibited sale of goods not available with the seller and permitted (rakhkhasa) the Salam” (al-Kasani, vol. 4, p. 430). The word “rakhkhasa” derived from the root-verb tarkhēs means to give concession. Despite the general prohibition due to absence of the goods, the Prophet ﷺ gave concession to the Salam contract, but with conditions. The earlier hadith shows that he stipulated the permission with two conditions. One condition relates to the goods and the other to delivery. The legal interpretation of these conditions unwinds the Sharī'ah purposes and the conditions the Salam serves or is supposed to serve. Hence the jurists opine that not specifying the measurement and the weight of the commodity, and not specifying the delivery date will lead to uncertainty.

Uncertainty opposes clarity (wa'il) and lack of clarity in ownership, contracts, and transactions can lead to loss of life and property (Nizā al-DÉn Ibn Zaghēbah, 2001, Chapter 3). Clarity in transactions is vital for the preservation of property (hiy al-māni) which is one of the essential purposes of the Sharī'ah. Without clarity, conflict will arise amongst the contracting parties leading to confusion in ownership of the goods and conflicting other forms of harm (ma'āsid). The great Yemeni scholar AshurÉ’s (d. 1834) supported this when he said that the reason why the Prophet ﷺ subjected the Salam contract to such conditions was in order to prevent al-gharar (uncertainty) (al-Shawkānī, 2005, vol. 1, pp. 5-6). What should be noted here is that by prohibition of riba, the companions of the Prophet could not borrow usurious loans, but they still needed money in order to trade, grow crops, and feed their family. A complete illegalising of any form of borrowing including Salam would have imposed intolerable hardships, so the Sharī'ah permitted them to sell their goods yet to deliver and use the advance money for their needs (M. T. Usmani, p. 2). This shows that if Salam was not permitted, the essential purpose which is protection of life and property would not have been secured.

Through the Salam contract, the essential purpose is realised, not only by serving the needs of the seller, but also serves the buyer by allowing him to buy the goods for a cheaper rate. The buyer would have had to pay more for the same goods in a spot sale. This purpose can be understood by a quotation from al-Mughni which states:

… and because people need Salam as, for instance, owners of farms, orchards, and trade undertakings need to make personal spending as well as spending on their business, they are permitted to deal in Salam so that they can benefit from the finance while the financier gets a cheaper commodity (M. A. H. Umar, p. 25).

(c) Salam as a Means (wa'salā) for the Preservation of Wealth

Salam as a sale contract is a means by which the end i.e. essential purpose of Sharī'ah can be achieved namely preservation of wealth which caters for marketability, transparency, preservation, durability, equity, and development (tānniyyāt). Basing on Ibn AshurÉ’s (2007) proposition, “the means to the best ends are the best means, the means to the worst ends are the worst means” one needs to see how far these six sub-headings of wealth preservation can be realised by Salam (p. 224). M. A. H. Umar (p. 97) in discussing the economics of Salam writes that Salam has the potential for short-term financing such as financing the agricultural products which has the cycle of “one year production”, long-term financing such as financing fixed assets, “possibility of indirect liquidation of a Salam operation before maturity” where the buyer/IFIs can sell the same commodity purchased on Salam in a separate Salam contract, obtaining reasonable profit because price in a Salam contract is less than the price in a spot sale.

Salam reduces the financial burden compared to the burden the borrower bears in interest-based borrowing such as deduction of predetermined interest from the principle loan and no consideration if unforeseen circumstances befell the borrower (M. A. H. Umar, 2007, p. 97). Salam promotes just distribution because both parties in a Salam contract mutually agree on their rights without exploitation in contra to interest-based financing (Ibid.). Salam financing encounters inflationary effects especially the deterioration of the purchasing power of the cash during the period between lending the loan and its repayment (Ibid., p. 99). It enhances production, because the producer is financed in advance to produce the goods on time. It can also boost “productive units” which will add to the capacity of the national economy, and secures the stability of production, minimises the production costs, and activates the commodity markets (Ibid., p. 100-101). These factors support that Salam is a good means to assist in preserving wealth. And since Salam has its roots in the Qur'ān and the Prophetic traditions, one could say that it is a legal means (al-wa'salā il al-Sharī'ah) by which the purpose of the Sharī'ah can be manifested.

(d) Maqālīd Pertaining to the Terms and Conditions of Salam
Preservation of wealth is the essential purpose of Salam as it is for other sale contracts. Terms and conditions (sharī'ī wa qayyīd) are two mechanisms which protect and realise this purpose and the specific purpose of each contract including Salam. For this reason, the two are also known as the ‘means of the means’ (wasāf ‘il al-wasāf ‘il). Both assist the Salam to sustain its purpose and protect it from opposing elements.

One of the central conditions in Salam contract is related to price payment (ra’su l-māl). The price has to be paid before the separation of the two contracting parties. This is because the specific purpose of Salam is to fulfill the instant need of the seller (mustālim layhi). If the price is not paid on the spot, the seller’s instant need would not be met. The Hanafi, Shafi‘i, and Hanbali schools hold to this opinion except some Maliki jurists. They allow delaying the payment of the price up to three days or more. However, deferment in the Maliki School has to be within a period counted as part of the contract signing session. A deferment period of the commodity is not accepted (M. A. H. Umar, 2007, 30; M. T. Usmani, p. 3; Securities Commission Malaysia, p. 9; al-Zuhayli, 2007, vol. 5, p. 3608). Non-compliance with this condition will lead to sale of debt in exchange of debt (dayn bi dayn) (al-Kasani, vol. 4, p. 433). Ibrā’īmī al-Nakhaī (d. 96 A.H) commented of a person who was owed money decided to put the amount owed as the price in a Salam contract, “There is no goodness in this contract…” Muhammad b. Hassan al-Shaybāni (d. 189 A.H) while commenting on this said that this is the opinion preferred by our school because such a contract comes under the rubric of debt in exchange of debt (al-Shaybani, report no. 740, p. 173).

Another central condition in a Salam contract, which is clearly taken from a hadith is, “specific measurement and weight (fi kayl ma‘nīm wa wazn ma‘nīm).” This condition has two purposes. The first purpose is to ensure that the Salam contract is not on a commodity which is ambiguous. It should be something that can be specified in terms of quality and quantity—weight, measurement, number, quality, type, etc. If this condition is fulfilled, it will eliminate ignorance arising from the material attributes of the commodity (ma‘nīm wa‘an al-najhī). While answering an inquiry (istīflī) about Salam in olive oil, Ibn Taymiyyah (d. 1328) commented that it is permitted in olive oil and other like goods as long as it can be weighed and measured. I am not aware of any juristic conflict in this matter. If there is any conflict, then it is regarding those goods which cannot be weighed or measured like animals. According to the famous opinion of Ahmad Ibn Hanbal, Imam Malik, and Shafi‘Ni, Salam in such goods is permitted.

In contrast, Imam Abu Hanifah did not permit Salam in goods not measurable or weighable especially when it came to animals (Ibn Taymiyyah, 2005, vol. 5, p. 501). This is because animals change in time along with its specifications. Here the basis of conflict is the possibility of ignorance and ambiguity in the Salam goods. Another point here that should not be ignored is that the word kayl and wazn in the hadith does not advocate that the Salam commodity should only be specified by the latter two measurement units; instead any local mode of measurement used by the contracting parties that can assist in specifying the commodity can be taken into consideration. The second purpose is to prevent the parties from concluding their contract on a particular commodity (al-ān‘īm) sing. al-‘āyn) or product of a particular tree, field, or farm for instance. If the parties are not prevented to do so, the delivery of the commodity will become uncertain. Any unseen circumstances can befal a particular product or its source. The great Yemeni scholar al-Shawkani (d. 1834 CE) reported a hadith that states, “The people of Medina when the Prophet arrived used to sign Salam contracts on dates of particular trees; the Prophet prohibited them from it” (al-Shawkani, vol. 5-6, p. 240).

The third central condition and its purpose is that the Salam contract must be concluded “to a specific time (i‘lī ‘ajal ma‘nīm).” The Hanafi, Maliki, and Hanbali schools base the validity of the date of delivery on this statement of the hadith. They also argue that spot Salam is not permitted and that the main purpose of permitting a Salam contract was clemency (al-rifq) which can only be obtained by deferment (al-‘ajal). In not allowing deferment in delivering the Salam commodity there will be no clemency. In contrast, the Shafi‘Ni legal school argues that when Salam with deferment can be permitted with all possible complications, why can it not be permitted on a spot basis. The meaning of the hadith, Imam Shī‘eNi argues, is the knowledge of the date of delivery, not the deferment itself (al-Shawkani, p. 240; al-Zuhayli, 3611).

The clemency argument presented by the three legal schools can be professed in the opinion of the Shī‘eNi school as well. In a normal sale, the commodity has to be delivered on the spot, while in spot Salam the commodity does not have to be present in the contract session. This is clemency for the contracting parties. The outcome of this juristic difference highlights the purpose of the condition which is to know the date of delivery contracting parties agreed with. The conflict of the scholars in the period of deferment unveils another purpose behind the statement of the hadith “to a specific time (i‘lī ‘ajal ma‘nīm).” It points to a time-frame in which the commodity could be produced or prepared for delivery. The time-frame should not be so short that producing the goods becomes impossible. It should also not be so long that the availability or the price of the commodity is affected (al-Shawkani; al-Zuhayli; M. T. Usmani, p. 5).

(E) Human Purposes (Maqā’īd Al-Mukallaf) and Salam

The intent (qalād) of human beings should be in line with the intent of the Law-giver (Shī‘eN). The Law-giver designed the legal means (wasāf ‘il al-sharī‘iyah) to reach its ends, which are essential purposes (al-Shatibi, 1997, vol. 1-2, p. 494). The individuals or institutions cannot alter or use the means in ways that will disharmonise with the essential purposes of the Law-giver. Returning to Salam, it is a legal mean on the authority of Qur’an and Hadith. Individuals or institutions can either use it in its original form (exchange trade) or they can use it in combination with other methods to permeate their contemporary market needs. For instance, IFIs use Salam as a financing tool after combining Salam with other Sharī‘ah or conventional modes of transactions. Some of the common combinations are parallel Salam i.e. Salam with Salam, Salam with profit (wa‘an), Salam with guarantee, Salam with mortgage, Salam with murā‘ah etc. (M. T. Usmani, p. 6-7; A. H. Umar, p. 92-96).
Contemporary IFIs mostly use Salam in two methods. On top of the Salam contract they signed with the first party as a purchaser, they sign another Salam contract with a third party as a seller. This is known as parallel Salam. The second method is where they take a promise from a third party to purchase the commodity of the first party. In both these methods, as soon as the IFI will receive the commodity, they will sell it to the purchaser. In doing this, the intent of the IFI has to be in line with the intent of Sharî'ah. Combining Salam with Salam or Salam with promise exposes the IFIs to risks such as credit risk, market risk, and operational risk (A. M. El Tiby, 2011, p. 49). The institutions will have to take measures in drawing conditions and stipulations in order to reduce the risks if not eliminating it entirely. Conditions such as both Salam contracts to be signed independently of each other, not to be contingent on each other, and selling the commodity to the third party only after possessing it from the first party are some of the calculations the IFIs have to formulate to have a Salam that meets its essential and specific purposes.

Misappropriation of good means (wasîd ilî) will inculcate bad results. This happens when a contract is used against its primary purpose, such as acquiring a Salam contract to exploit advance payment and not deliver the commodity on time or at all. This has been seen in the experiences of Sudanese banks. Many of their clients using Salam contracts took money and did not deliver the commodity, not because they could not deliver, but because they wanted the money by any means. To control this type of exploitation, the individuals and institutions furnish a security in the form of a guarantee or in the form of mortgage or hypothecation (M. T. Usmani, (2008), p. 133; Securities Commission Malaysia, p. 12). This is an example of combining Salam with guarantee or Salam with mortgage. Although new, the intent of these combinations is to attain the primary purpose of Salam (Ibid.).

Bearing in mind, despite a certain risk inherent in Salam, the Sharî'ah declared it legal. The Sharî'ah provided space and tolerated the minor risks for the sake of removing hardship (mushaqqaq). On the other hand, major risks will invoke altogether a different response. Major risks disturb the circulation and marketability of wealth (M. H. Kamali, 2002, p. 87). Salam in contemporary markets has to be in forms and modes that should minimise the risk element in order to maintain Sharî'ah legality.

IFIs have shown interest to use Salam as an alternative for futures contracts, some of which are of exceedingly speculative and risky, which is why Salam is proposed as an alternative, as Salam will reduce the exorbitantly risky features of futures contracts. Yet it is not an easy transition due to the Sharî'ah requirement of full payment of the price of the Salam goods in advance. If Salam is used in order to reduce market risk, this is a good purpose and will meet the Sharî'ah goal to protect wealth (mîrâj) against uncertainty and speculations. But if Salam was to be adjusted as to make it a near-replica of futures contracts, this purpose would be jeopardised.

THE MAQÔÔİD OF ISTIÎNÅÑ (MANUFACTURING CONTRACT)

Having earlier discussed the maqā'id of Salam, we now turn to the maqā'id of Istihañ (manufacturing contract), the second type of contract in which the object of sale has yet to come into existence. To this end, we survey (a) the various definitions of Istihañ, (b) how it has been legally justified (in the light of a hadith which seems to preclude it), as well as (c) the conditions attached to the validity of an Istihañ contract. It is from the scholarly deliberations on these points that the maqāsid of Istihañ can be inferred.

(a) Definition of Istihañ

To begin with the definition of Istihañ, according to The Majellah (Art. 124), it is: “To make a contract with a skilled person to make something”. For the Hanafi scholar al-Kasîni (d. 1191), it is “a contract on a commodity on liability with the condition to work/manufacture” (al-Qarrah Daghî, 2010, vol. 5, p. 105-107). Mustafa al-Zaqû’s (d. 1999) definition is perhaps more precise, it is “a contract of selling a thing [which needs manufacturing] with an undertaking by the seller to present it manufactured or guaranteed their production, manufacture, and purchase” (M. al-‐Zarqa’s, 1999). In the scholarly deliberations, the procedures have been seen as the general prohibition of the said hadith. Such commercial practice, he claimed, constitutes custom (‘urf) which can specify or qualify a general (‘umm) legal text by way of the recognised method of takhlî’î al-na‘î (M. Farid Ali, 2006, p. 29).

(b) The Legal Justification for Istihañ

While such a contract appears common enough, its legality seems to be precluded by the Sharî'ah on account of the hadith, “Do not sell what is not with you” (Sunan Abî Dawûd, hadith no. 2187). Consequently, much scholarly ink has been spilled to establish the legality of Istihañ or otherwise circumvent the said hadith. The majority of jurists have legally justified Istihañ by resorting to the juristic methods of consensus (ijmîn), juristic preference (istiêlâm), custom (‘urf) and public interest (mullaâb). By consensus, the general commercial practice of a people (ta’lûm) qualifies as a basis for the legality of a contract (al-Kasîni, p. 444; M. al-Harâwi, vol. 2, p. 383). The same grounds were also invoked by the Hanafi jurist Ibn Ɏīribin (d. 1836) to preclude Istihañ from the general prohibition of the said hadith. Such commercial practice, he claimed, constitutes custom (‘urf) which can specify or qualify a general (‘umm) legal text by way of the recognised method of takhlî’î al-na‘î (M. Farid Ali, 2006, p. 29).

(c) Specific and Human Purposes of Istihañ

The arguments—istiêlâm, ijmîn, custom—reveal the specific purpose of the Istihañ, which is the fulfilment of societal needs. Muslim scholars saw the need for Istihañ because they realised that some goods would never be produced if no one demanded or guaranteed their production, manufacture, and purchase (H. Visser, 2009, p. 83). This explains that social need for a
transaction facilitates the permissibility of *IstihaN* because this contract can generate benefits for the society and contribute to the economic wellbeing of the people.

In the era of industrialisation and developments in technology and finance, *IstihaN* serves a variety of additional purposes. It has acquired wider applications in the creation of industries, business start-ups, manufacturing, and project development. *IstihaN* has consequently become an important tool for economic development and creation of employment opportunities. Whenever house building projects are created on a large scale, contractors and workers are employed to undertake a large variety of construction and manufacturing tasks that need to be completed along the line. The same applies to building roads, bridges, airports, ships, cars, aeroplanes, and to all aspects of industrialisation. *IstihaN* thus fulfils the purpose of creating employment opportunities in the economy.

An even wider purpose of *IstihaN* is economic development in itself which heavily depend on manufacture of a wide range of products where multiple *IstihaN* contracts need to be employed to facilitate timely manufacture and delivery according to specifications. Timely delivery and coordination in a series of chain events often entail a number of *IstihaN* contracts in its course. The wider range of applications of *IstihaN* on a massive scale requires large scale investment and financing. This stimulates creation and well-organised development and flow of business financing and well-managed flow of investment funds. Industrialisation, manufacture, and construction also stimulate training of skilled labour force and creation of facilities to generate branches of specialised knowledge that produce specialists to undertake the necessary tasks for project development, delivery, and completion. Hence *IstihaN* contributes to knowledge and skill development, education, scientific research and training in universities and centres of higher learning. In this capacity, *IstihaN* contributes significantly either as a purpose in itself which is manufacture, but more often as a means or instrument (*wasâ’il*) toward the fulfilment of other purposes.

(d) Hadith: “Do Not Sell What Is Not With You”

Other scholars, however, followed a different line of reasoning from that taken by the majority. The Hanbali jurist Ibn Taymiyah (d. 1327) and his disciple, Ibn al-Qayyim (d. 1349), maintained that nothing in the *Sharâ’E Nâh* can be contrary to *qiwas*, thus *IstihaN* which can be traced back to the Prophet E is a valid sale contract in its own right. The hadith “Do not sell what is not with you” does not apply to *IstihaN* because it does not refer to the lack of physical possession of subject matter, but rather to the risk (*gharar*) involved in such a contract due to the possibility of non-delivery (M. al-Amine, p. 20-25). Similarly, the Sudanese scholar, al-Shaykh al-Darâr argued that the non-availability of a commodity is one thing, while the inability to deliver is another. In the case of *IstihaN*, though the subject matter is non-existent, its availability is nevertheless certain (Ibid., p. 27).

The subject matter of *IstihaN* is always something which can be manufactured such as cars. After its manufacture it is deliverable. In contrast, if someone orders certain types of trees in the offseason for instance, one will be unable to deliver it. This course of argument in no way contradicts the position of the majority.

Notwithstanding variations in the legal regulations adduced by the jurists to validate *IstihaN*, the substance of the contract is still the same. The substance maintains the specific purpose of the contract which is to fulfil the needs of society. However, their differences highlight the weak point of *IstihaN* and that it is vulnerable to high risk. On the one hand, the manufacturer may worry lest the commissioner refuses to purchase the product after it has been manufactured or after so much material and energy has been spent to manufacture it. On the other hand, the commissioner may be concerned that the manufacturer fails to complete the product on time or according to the specifications of the contract. Such risks run counter to the purpose of *IstihaN* for the simple reason that the *IstihaN* contract builds or manufactures products needed by society. Such needs can hardly be fulfilled without the complete commitment of the contracting parties to complete the product.

(e) Conditions for a Valid *IstihaN* Contract

To safeguard the contracting parties against such risks, the *IstihaN* contract comes with certain conditions. Some conditions relate to the product while others relate to the time of delivery. Amongst the former is that the quality, quantity, and particular features of the product sold in *IstihaN* must be clearly specified. Al-Kasani (d. 1196), like other early jurists, said that the product sold should be known (al-maâliEm), i.e. familiar in commercial practice (p. 444), thereby precluding *IstihaN* when the product is not familiar in the market. Such prohibition is not meant to be applicable indefinitely. A product which becomes familiar to the market at any point in time can then be contracted in *IstihaN*.

People’s needs differ according to time and place which means different products will be needed at different times hence becoming customary and familiar to the market. For instance, highways, houses, bridges, machines, factories, etc. are the familiar products of our contemporary time which were not so in the pre-industrial age. The condition that the product be familiar or customary is aimed at achieving two things. Firstly, to ensure that the product one commissions to manufacture is necessary for society or for an individual. Secondly, to familiarise the contracting parties with the details of the product lest any unknown aspects may lead to dispute or risk as mentioned earlier. The condition, however, has its shortcomings. It may stifle creativity, innovation and talent because what is novel and original by definition will not be familiar to the general commercial practice of the people. Shaykh Mustafa Ahmad Al-Zarqa thus claimed that this condition can be dispensed with today, owing to the common place nature of manufacturing contracts in the industrial age (M. al-Amine, p. 50). The risk discussed earlier can be mitigated or eliminated by the application of technologies to visualise the product in all its details even before its production thereby familiarising the contracting parties with the final product.

(f) The ‘Option of Viewing’ (*khiyÉr al-ru’yah*) in Sale Contract

In a normal sale contract the buyer can exercise his ‘option of viewing’ (*khiyÉr al-ru’yah*) if he bought something without seeing it. The option gives him the right to either conclude or cancel the contract. Imam Abu Hanifah extended this right to both the commissioner and the manufacturer in *IstihaN*, which means that the commissioner is not bound to buy the product until he sees
it and the manufacturer is not bound to sell the product to the commissioner until the latter confirms his intention to buy it. The manufacturer has the freedom to sell the product to anyone he wants before the commissioner confirms the purchase. The Imam’s companion Abu Yusuf disagreed with this opinion, claiming that neither party has the right to ‘option of viewing’ if the manufactured product conforms to the specifications. Thus both parties are bound to carry out their contractual obligations. Had the ruling been otherwise, there is harm for the manufacturer if the contract is cancelled after he has committed his energy and resources as there is no guarantee that he will find a buyer for the manufactured product (al-Kasani, p. 444; al-Marghinani, vol. 5, 242). Abu Yusuf’s fatwa is thus meant to protect the manufacturer (The Mejelle, Art. 392; M. T. Usmani, 2008, 197), and his fatwa is the prevalent opinion of the Hanafi school in this matter.

Commenting on this fatwa, al-Zarqa held that an important point still remains, which is the liability for defects. Abu Yusuf’s opinion is only applicable as long as the product follows the specifications. If it does not, then it is not binding on either party to sell and buy. Al-Zarqa said this was possible during the classical age, where the products were commissioned and meant for individual needs. In this age, however, products are manufactured in bulk or large quantities for markets where various parties invest large sums. Liability for defect should be imposed on the manufacturers if they do not follow the specifications. They should not be allowed to escape by waiving their liability for defect by using his ‘option to view’. Liability for defect helps maintain market stability which is one of the objectives of Islamic transactions (M. A. al-Zarqa, p. 27 & 35).

The condition in relation to time of delivery is that it cannot be deferred in IstihaN. This was the position of the earlier scholars (Ibn NObamaN, vol. 7, p. 501). Their concern was to draw a line of distinction between Salam and IstihaN. Mentioning a deferred time of delivery would change the IstihaN contract to Salam thus requiring it to follow the terms and conditions of the latter. However, it was acceptable to the jurists to specify a future time to expatiate (istiNidi) the completion of the product instead of deferring the delivery. The famous hadith and fiqh scholar, MalMesaIbn AlMadin al-NayN (d. 1451) elaborated that expatiating time is acceptable in IstihaN because it is meant for the completion of the product and not for deferment (al-NayN, vol. 7, p. 481).

Looking at present industrial practices, if the manufacturer does not complete the product on time, he can jeopardise the possible agreements of the commissioner with third-parties. The purpose of the condition of timely delivery is due to fulfilment of contract in affirmative sense and prevention of harm (darar) in the negative sense. Specifying the time of delivery will help achieve its specific purpose and maintain market stability. The former chief justice of Pakistan Taqi Usmani proposed that to ensure delivery on time a daily penalty can be implemented starting from the due date – an idea taken from the Ijarah contract. Like in Ijarah when someone is hired to do a job, the amount of the payment for the job depends on the job completion—completion on time deserves higher payment while delayed job deserves reduced payment. Similarly, in IstihaN the manufacturer can be penalised with the reduction of the product price on a daily basis if he did not deliver on the specified date (M. T. Usmani, 2008, p. 198). Stipulation with such conditions is legal as far as these conditions accomplish the purpose of the SharéEnah. Such conditions are not contrary to the hadith which says, “All those conditions which are not mentioned in the SharéEnah of Allah are void.” Al-Zarqa in his interpretation of this hadith said that it is only prohibiting those conditions which violate the maqÉÎid al-SharéEnah (M. A. al-Zarqa, 1998, p. 543).

(g) Contemporary IstihaN

Upholding the maqÉÎid of IstihaN is also challenging when looking at its application as a financing tool by IFIs. IstihaN is used for house and project financing. An IFI can be a commissioner in ordering a manufacturer/builder to build projects such as a road, bridge, building, etc. Or the IFI can be a manufacturer/builder in accepting the order from a commissioner. In the latter case, the IFI after accepting the order from a customer, conclude a contract with a third party (the contractor) who will undertake the project (M. T. Usmani, 2008, p. 198–200; S. A. al-Dunya, p. 44–45). This is known as parallel IstihaN. Another application is the conventional BOT (Buy, Operate and Transfer) on the basis of IstihaN formalised to serve as an Islamic financing tool. A government commissions a concessionaire/private company to build a project, for example. The concessionaire/private company will build and operate the project in order to redeem its price (profit + cost). After the concession period, the ownership of the project asset is transferred to the concessionaire (private company) to operate the project (R. Marom, E. Rabinah, A. Hasan, 2012, p. 73–85). These applications of IstihaN are different from past application wherein IstihaN contracts typically involved only two parties (the manufacturer and the commissioner), with the commissioner paying for the product. Today, IstihaN contracts can involve multiple parties and are financed, not necessarily by the commissioner, but also by the IFIs (or in the case of BOT, by the concessionaires).

The changing nature of social needs plays an important role demanding the IstihaN to evolve. Projects for the construction of modern infrastructures for developments such as airports, railways, roads, and bridges invariably require different types of expertise and hefty sums of money, which are generally beyond the capacity of individuals. Thus unlike in the past, IstihaN contracts are today commonly entered into by organisations and companies. From the standpoint of the maqÉÎid, the present form of IstihaN fulfils societal needs in a more organised manner, but by involving many parties and massive financial ventures. It is also exposed to risks such as missing deadlines and incomplete projects. To protect the contracting parties against such risks, conditions can be stipulated, e.g. agreement on the details and specifications, including time for delivery and liability for defects. In addition, new security measures have been added to IstihaN. For instance, IFIs require the commissioner/customer to comply with the condition of pledging a conventional bond as collateral to secure their financing. The Shariah Advisory Council (SAC) of Bank Negara Malaysia in their resolution declared that, “project financing based on IstihaN with pledging of conventional bond” is permissible (Bank Negara Malaysia, 2010, p. 21–23). Other IFIs also use mortgages and guarantee for security purposes.

Other aspects of the contract are also important and have to be taken into consideration. For instance, in parallel IstihaN the IFIs have to make sure that their contract with the customer and the contract with the manufacturer are entered into independently.
IFIs have to play an active role in facilitating the manufacture and delivery of the product to their customers. They should share any possible loss and profit with other contracting parties. This means that IFIs have to diversify their business to include manufacturing or at least consultancy in relation to the project ordered by the customer (M. al-Amine, p. 95). IFIs should not ask the customers to contract directly with the manufacturers as this is likely to lead to the same problems as that encountered in Murābaha financing (Ibid., p. 96). Previously we saw while discussing the maqāṣid of Murābaha that IFIs’ frequent application of Murābaha as a mode of financing suppressed its primary purpose as a trading tool. The IFIs minimised their active role in Murābaha to the extent that they ignore the actual or constructive possession of an item which is an important Sharī‘ah requirement. They shifted the risks which they themselves should assume to the purchase orderer, yet they markup over the original price of the item. Their profit in this manner resembles the conventional interest which is made without any risk-liability. Similar problems will arise if IFIs will sit back and order the customer to deal directly with the manufacturer in an ‘Istīnaß contract.

The above discussion shows that the classical ‘Istīnaß contract has evolved into a new type of ‘Istīnaß. Accordingly, the terms and conditions attached to the ‘Istīnaß contracts which were once relevant to address the needs of the people, if applied to the contemporary setting without necessary amendments, may compromise the very essence of ‘Istīnaß, as the maqāṣid approach ably demonstrates. The form of transactions may vary at different times but to ensure that ‘Istīnaß achieves its maqāṣid, a new set of conditions (wasà’il) needs to be formulated. The discussion also shows that IFIs’ involvement in ‘Istīnaß financing requires them to become contractors and consultants in the real economy instead of contractors on paper only.

Conclusion

This research is limited to some common modern applications of the two contracts. If the IFI’s apply the two contracts in any other application not discussed in the paper, then those applications will have to be investigated in the light of maqāṣid-study as well. Similarly the study of the Sharī‘ah purposes of the two contracts and the purposes of the terms and conditions of the latter two are undertaken succinctly. There is a need to read through the fiqh literature of various legal schools comprehensively in order to search for other purposes of the two contracts. Different legal schools, beside common terms and conditions suggested surplus conditions, which can altogether give a different insight. An important factor in reading the fiqh literature is to relook at the arguments (Qur‘an and Sunnah) made by the various schools. This is because; the jurists not only derived the legality of the contracts from the Qur‘an and Sunnah, but they also derived terms and conditions for the contracts from the latter two. We have shown some instances of this in the discussion. This approach is essential for uncovering the Sharī‘ah purposes embedded in the two principle sources of the Sharī‘ah.

We did not limit the maqāṣid-study of the modern applications of the contracts to one specific country. General practices of the IFI’s in various countries are taken into consideration. This means this work is beneficial for all those countries where Muslims are operating IFI’s or any other equivalent institutions such as cooperation, trading businesses, etc. Scholars, consultants, advisors all can work in this line to relook at their practices in the light of maqāṣid Sharī‘ah. One of the major obstacles of running IFI’s irrespective of whether Muslims are majority or minority is the conflict arising out of people’s inclination to a certain legal school (madhab). The maqāṣid-study approach shows that maqāṣid Sharī‘ah is superior to a madhab. The concern in this approach is the holistic message of Islam which supersedes any school or individual’s opinion. The maqāṣid-study of fiqh issues can reconcile the conflicts and allow the Muslims to work together from any corner of the world. These are some of the general remarks based on this study. Now we would like to present an exhaustive summary of the two contracts:

Summary and Conclusion of Salam and Its Sharī‘ah Purposes

In this research, we discovered that the Salam contract technically should be void due to absence of the goods. Despite this, the Sharī‘ah legalised this contract to meet certain Sharī‘ah purposes. The purposes are:

1. Realisation of benefits (masā‘ilah) for the people.
2. Exchanging benefits for something not in possession.
3. Clemency (rifq) through deferment of the goods delivery.
4. Tolerating minor risks for the sake of removing hardship.
5. Cheaper price for the buyer compared to price in spot sale.

Salam through these purposes also serves the higher essential purposes of the Sharī‘ah especially the protection of life and the protection of property. The Salam successfully manages to serve the latter purposes by securing its self within the fortifications of terms and conditions. Thus Salam is a means (wasà’il) in itself when it is serving the essential purposes, and the terms and conditions are means of the Salam when serving the purposes of its own (wasà’il al-wasà’il).

Terms and conditions of Salam are two, each serving a set of purposes. One is pertaining to the goods (subject of the contract) and the other is the time of delivery. Goods in Salam contract have to be with specific measurement or weight. The purpose of this condition is:

1. To avoid uncertainty in specifications of the goods purchased, yet to be delivered. Ambiguous and ignorance in specs of the goods sold or bought is in contra to clarity (wadÈh)—a crucial constituent of protection of wealth.
2. Risks control: Already Salam is standing on risky grounds by allowing spot payment and delayed delivery of goods. The condition of specified specs of the goods controls the risks such as delivery of goods against the agreement in terms of quantity and quality.

The second condition of Salam is specific time of delivery. The purposes of this condition are as follows:

1. To avoid uncertainty in terms of time of delivery. This uncertainty is an anti-matter of clarity.
2. To impart clemency through specified time for deferred delivery.
To allow production or preparation of the goods by providing specified time for deferred delivery.

4. To maintain the risks at a minimal level by offering specified time of deferred delivery.

The third condition in Salam pertains to the price (ra’sul al-māri). The price has to be paid within the session of the contract-conclusion. The purpose of this condition looks simple but does not mean that it is trivial. The purpose is to prevent the Salam contract from becoming debt sale (sale of debt for debt (bay’ al-dayn bi al-dayn)).

Up to here, the discussion of Salam with its purposes is according to its original form—an exchange trade prescribed by the Sharīʿah. When we look at the human purposes in modern application of Salam, we find that Salam is applied as a financing tool with various combinations rather than traditional exchange trade. Some combinations are purely for financing purposes such as parallel Salam. While some combinations are meant for security purposes such as Salam with guarantee or mortgage. These contemporary human purposes are proposed and designed by IFIs based on the needs of their clients and the market. Islam as a dynamic religion does not condemn innovation in contracts because of economic development. So the challenge is not to create new forms of Salam with new set of terms and conditions, but to cultivate new forms of contracts while maintaining the permanent values of Islam. In other words, the innovative Salam is supposed to serve the same purposes of the original Salam.

In this innovation, the purposes of the Sharīʿah and the conditions we discussed can provide solid guidelines to IFIs. We also saw that there is a level of inherent risk in Salam contracts. The Sharīʿah permitted the contract by controlling the risks through terms and conditions. Some of these conditions, especially those supported by legal text (nāsīʿ), cannot be compromised while applying Salam as a financing tool. By the same token, new conditions can be introduced in order to control and prevent risks from arising.

### Summary and Conclusion of Istiḥnaṣ (Manufacturing Contract) and its Shariʿah Purposes

As far as Istiḥnaṣ is concerned, our study found that the Sharīʿah legalised Istiḥnaṣ based on the following general and specific purposes. Were it not for these purposes, the Istiḥnaṣ would have been long declared illegal. The purposes are:

1. Realisation of benefits for the people.
2. It fulfils the societal and individual needs through manufacturing.
3. Economic wellbeing and development.
4. Creation of industries.
5. Creation of employment opportunities.
7. Creation of facilities to generate branches of specialised knowledge.
8. Means to other purposes of the Sharīʿah.

The Istiḥnaṣ since it is legalised by the Sharīʿah, it is a legal means to essential purposes of the Sharīʿah. It protects life because through Istiḥnaṣ materials of food, clothing, and shelter are produced. Similarly, it protects property by realising the six sub-elements namely marketability, transparency, preservation, durability, equity, and growth. Like the Salam, Istiḥnaṣ effectively serves the essential and its own purposes through terms and conditions. There are two sets of conditions, one pertaining to the product and the other to the time of delivery. Condition pertaining to the product is the product ordered in Istiḥnaṣ should be specified in terms of quality, quantity, and particular features. The purpose behind this condition is:

1. To assure that the product is present in the market (maḥālūm).
2. To assure that the product is necessary for the market and the consumers.
3. To assure familiarity with the specs of the product to avoid dispute and risks.

Another condition in relation to the product is the liability of defect if the product did not follow the specifications. If the liability of defect is not provided, the right of the commissioner will not be protected. He will be forced to buy the defected products. On the other hand, there will be no “option to viewing” if the product followed the specifications. This is to protect the manufacturer’s right; otherwise the commissioners would not buy the product resulting loss of resource and energy of the manufacturer. In both cases, the purpose of these conditions is to protect the rights of both the commissioner and the manufacturer. The protection of these rights is an important element in maintaining market stability the constituent of essential purpose of the Shariʿah (protection of property).

The condition in relation to delivery of the product/project is specified time of the delivery. This condition is also meant to serve market stability, for the latter is not possible without timely delivery of the products. Some scholars suggested retribution in order to secure delivery on time, such as reduction of price if the product/project is delayed. The Istiḥnaṣ we discussed up to here is according to its original application as an exchange contract, a sort of contract in which a consumer commissioned an individual with skills for a personal product. A common example found in fiqh books and relevant in our time is commissioning a tailor to stitch a pair of garment for one’s self.

Looking at the human purposes of Istiḥnaṣ in our contemporary market, the contract has taken on a totally different garb. Some of the new applications of Istiḥnaṣ with changes in its traditional characteristics are:

1. A financing tool such as parallel Istiḥnaṣ or Istiḥnaṣ applied as BOT contract.
2. Organisations and companies as commissioners and manufacturers.
3. Bigger projects due to changing nature of the human needs.
4. Securing risks in contemporary Istiḥnaṣ with bonds, mortgages, and guaranties.

The challenge of IFIs is to maintain the purposes served by the traditional Istiḥnaṣ and develop it into a contract which can cater the contemporary market and consumer needs. Another challenge for IFIs is to become real manufacturers meaning to become owners and dealers of real assets (factories etc.). To be facilitators on paper will not realise the real purposes of the contract.
We also saw that in traditional Istiḥnaḡ, the risks are controlled by the terms and conditions stipulated with the product and the time of delivery. In the case of products, the conditions are meant to assure that a product is really needed and producible. Contemporary organisations or IFIs can add a new condition or modify the previous conditions as far as these conditions can serve the same purpose. Modern technology is capable to visualise or stimulate a product before its real production. It can assure that a product is not speculative. Similarly, new conditions can be designed to secure timely delivery.

References


