

DOING BUSINESS WITH COMPANIES/CORPORATIONS FROM ISLAMIC COUNTRIES

Islamic laws have their distinctive value-based ethical system for business dealings. they prescribe certain guidelines for governing business ethics. They summate the general ethical rules of business conduct and behaviors, identifying ethically desirable forms of business and stipulating the undesirable modes of transactions.

In-order to do business corporations/companies of Islamic backgrounds, core principles require prohibition from charging interest, refraining from uncertainty and the sharing of profit and loss as business partners. The following are the most common contractual modes in Islamic financing/trading.

Partnership (Mudaraba):

It is a form of partnership which involves a financier who provides the capital required for a project and a borrower who assumes the responsibility for investing it.

Equity Partnership (Musharaka):

Similar to Mudaraba, except that the borrower takes part in equity. Profits are shared on a pre-agreed ratio, but losses are shared in exact proportion to capital invested.

Cost-plus Financing (Murabaha):

In this, usually a corporation (usually a Bank), at a client's request, finances the purchase of and takes title to equipment or goods from a third-party supplier and then conveys the asset to its client at a pre-agreed profit. The profit covers the bank's services, which serves as replacement for conventional interest.

Lease Financing (Ijara):

It covers lease and rentals of equipments, premises, buildings and other objects. The bank or special purpose corporation, buys and leases out an asset by its client, for a rental fee, with a provision to purchase at the end of the lease term.

Corporate Bound (Sukuk):

Sukuk is the Arabic name for financial certificate. Among the available products, the most popular is the one, based on Islamic leasing and resulting in a tradable certificate with constant returns based on rent instead of interest.