

SALAM (Sale Contract)

It is one of the basic conditions for the validity of a sale in Shariah that the commodity (intended to be sold) must be in the physical or constructive possession of the seller. This condition has three ingredients:

- 1) The commodity must be existing; therefore, a commodity which does not exist at the time of sale cannot be sold.
- 2) The seller should have acquired the ownership of that commodity. Therefore, if the commodity is existing, but the seller does not own it, he cannot sell it to anybody.
- 3) Mere ownership is not enough. It should have come in to the possession of the seller, either physically or constructively. If the seller owns a commodity, but he has not taken its delivery himself or through an agent, he cannot sell it.

There are only two exceptions to this general principle in Shari'ah. One is Salam and the other is Istisna'. Both are sales of a special nature, and in the present chapter the concept of these two kinds of sale and the extent to which they can be used for the purpose of financing will be explained.

Meaning of Salam:

Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot.

Here the price is cash, but the supply of the purchased goods is deferred. The buyer is called "rabb-us-salam", the seller is "muslam ilaih", the cash price is "ra's-ul-mal" and the purchased commodity is termed as "muslam fih", but for the purpose of simplicity, I shall use the English synonyms of these terms.

Salam was allowed by the Holy Prophet 'subject to certain conditions. The basic purpose of this sale was to meet the needs of the small farmers who needed money to grow their crops and to feed their family upto the time of harvest. After the prohibition of riba they could not take usurious loans. Therefore, it was allowed for them to sell the agricultural products in advance.

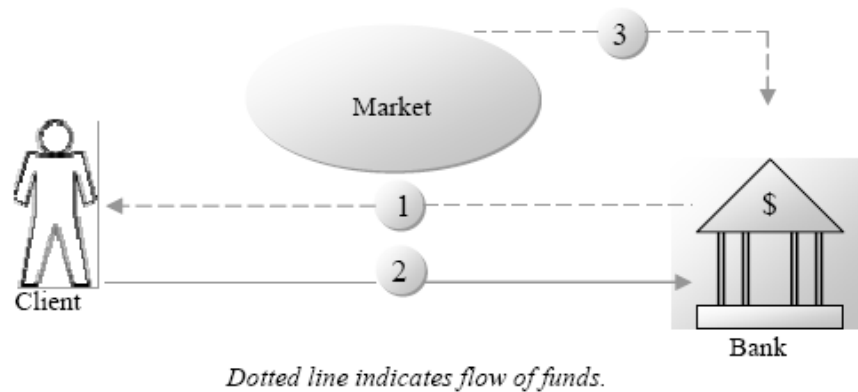
Similarly, the traders of Arabia used to export goods to other places and to import some other goods to their homeland. They needed money to undertake this type of business. They could not borrow from the usurers after the prohibition of riba. It

was, therefore, allowed for them that they sell the goods in advance. After receiving their cash price, they could easily undertake the aforesaid business.

Salam was beneficial to the seller, because he received the price in advance, and it was beneficial to the buyer also, because normally, the price in salam used to be lower than the price in spot sales.

Mechanism:

A salam is deferred delivery contract. A simple bai-salam structure is presented below.



1. Client sells commodity X to Bank on forward basis and receives price P in time period 0;
2. At time period t, Client delivers X to Bank;
3. Bank sells X in the market at time period t or later and realizes S. The amount S-P constitutes profit for the bank.