

Use of *Istijrar* Contract as Financing Model for Islamic Banks in Türkiye

Safiye Sena Baytan Gürler*

MA Candidate in the Institute of Islamic Economics and Finance, Marmara University, Istanbul, Türkiye
safiyebaytan@gmail.com

Saim Kayadibi

Professor in the Institute of Islamic Economics and Finance, Marmara University, Istanbul, Türkiye
saim.kayadibi@marmara.edu.tr

**Corresponding author*

Received: 19 February 2025

Revised: 8 June 2025

Published: 30 June 2025

Abstract

This research examines the *istijrar* contract as a potential solution to the operational and Shariah compliance challenges commonly encountered in *murabahah*-based financing, particularly in scenarios involving continuous and repeated purchases. Such flexible purchasing arrangements often generate complexities and elevate compliance risks. To address these issues, the study adopts a structured literature review methodology, implemented in three stages. First, it reviews scholarly debates concerning the Shariah compliance of the *istijrar* contract. Second, it assesses existing global practices. Third, it analyzes Turkish practices and legal regulations, critically examining the discussions and models at each stage to identify the most suitable adaptation for implementation in Türkiye. Key findings highlight the absence of standardized frameworks in both global and Turkish contexts, along with the limited practical application of *istijrar* in Türkiye's Islamic banking sector. In response, this research synthesizes these insights to develop a structured and independent *istijrar* model specifically tailored to the Turkish Islamic banking environment. It is anticipated that this model will enable Islamic banks to more effectively finance customers engaged in production and trade activities, thereby supporting the growth of the real economy.

Keywords: Financing Model; *Istijrar*; Islamic Banking; Turkish tradition; *Veresiye*

INTRODUCTION

Murabahah-based financing is one of the most known and used models in the Islamic banking industry (IFSB Stability Report, 2025). If someone wants to buy a house or a car, it is easy and practical for both the customer and the Islamic bank¹ (IB) to use the *murabahah* contract. However, in cases when the customer needs to purchase goods/raw materials continuously and repeatedly, the process may be challenging for both parties in terms of both operation and Shariah compliance (SC), and may result in a situation where the customer benefits from the subject matter

¹ The concept of "Islamic Banks" is not used in Türkiye as it is globally, referring to Shariah-compliant banks. Instead, the concept of "participation banks" has been preferred for different underlying reasons. However, considering the global usage of "Islamic Banks", mentioning Islamic banks in Türkiye in this paper will be referring to participation banks in Türkiye.

before the transfer of the ownership. This would create what Ali and Hassan (2019) explained as Shariah non-compliance risk of “subject matter being not in possession”. The subject matter of *murabahah* must be possessed by the owner, IB, either physically or constructively. If there is no possession in either form, in other words, if the subject matter is used up or consumed, the transaction cannot proceed. (Ali & Hassan, 2019,p.54). For example, in cases where the customer is an importer who purchases from dozens of suppliers at different points of a time period, to pursue the process of *murabahah* might be challenging for both the customer and IB, which can lead to Shariah non-compliance risk. Within the time between the purchase from the first seller and the sale of the product to the customer by IB, the customer has no right to benefit from the product. Therefore, IB cannot finance via the *murabahah* contract because neither the quantity and timing of deliveries can be defined, in fact, there is often flexibility for the buyer to request varying amounts based on need. Until IB sells the goods to the customer, the customer owns the products and can sell or use them however he/she desires.

The solution for this challenge in the *murabahah* financing model can be found in the Turkish tradition. Such purchases on a recurring basis have been made using the method of “*veresiye*” throughout history as a tradition based on mutual trust and solidarity within society before IBs took part in daily life. The tradition of “*veresiye*” can be defined as keeping a credit book in which the seller records the purchased products and writes down the buyers' future debts. Similar to the practice of *istijrar* contract, the payment is assumed to be made on the due date, which can be a pre-determined date or period, or whenever the buyer has money on hand. This tradition has been mainly based on trust among the people who used to be neighbors for a long time. As time passes, trust and reliability among people, even among neighbors, has become subject to debate, and “*veresiye*” has become an old tradition that has not been practiced for years across the country.

To bring this tradition back to life and construct the trust system to ensure that the seller gets the payment on the due date and the buyer can pay as however he/she can afford, the *istijrar* contract might be the perfect mode for a financing model that the Islamic banking system (IBS) in Türkiye needs. To draw a standardized model for *istijrar*, a structured literature review is conducted in the context of SC discussion on the *istijrar* contract, the existing practice in both other countries and Türkiye. While reviewing the literature, the discussions and practices are analyzed to find out the best practice for the Turkish case. In the literature on the discussion of *istijrar* and existing practices both in global and Turkish contexts, it is seen that:

1. Majority of the discussion in the literature is on the permissibility of *istijrar*.
2. The *istijrar* contract is not regulated as a standardized model by the standardization bodies at the global level.
3. In Türkiye, the details about *istijrar* contract is mentioned as one of the financing modes of IBs under regulations and in customer notification forms

used by IBs, in a basic level, which is not enough to build an independent structured model of *istijrar* financing.

4. Existing practices or proposed models in the literature are either as combination with other contracts, which does not present *istijrar* as an independent model, or not suitable to practice in Türkiye.

Therefore, this research contributes by combining different approaches to the *istijrar* contract and divergent practices and consequently offering a detailed model of *istijrar* contract as a financing mode which becomes both independent model and suitable for Turkish practice. In the offered model, IB is added as a party into the classical *istijrar* contract which resembles the *veresiye* tradition. It is important to bring a method that is rooted in Turkish culture into the modern IBS and help facilitate the process for IBs to finance the needs of customers who conduct business in production and trade, and contribute to the real economy.

In the next section, the definition of *istijrar* and SC discussion of the contract will be reviewed. Then, how the challenges of *murabahah* contract can be solved by the *istijrar* contract will be examined in the following section. Afterward, the existing practices of *istijrar* as a financing model will be studied in both global and Turkish contexts. Finally, a standardized model for *istijrar* will be offered for IBS in Türkiye.

LITERATURE REVIEW

Istijrar is one of the transaction-based contracts, which has been applied in different forms over time, influenced by local practices and socio-economic factors. The word “*istijrar*” literally means “to pull and to drag”, which clearly reflects the practice of the contract. It would be fitting to say that *istijrar* is “a new form of sale practiced by people throughout the ages”. It is absent from any recognized and documented contracts verified in the Shari’ah sources (Rahman & Chowdhury, 2024,p.137), but always has been on the table to debate. Since *istijrar* or transactions made through this method were not as well-known as others and its structure was mostly shaped according to customary practices, they have been classified as an “unnamed contract”. Thereafter, Islamic jurists (*fuqahâ*) have given specific names and provided legal rulings on these types of contracts, after the widespread discussions about them. The main reason for its late inclusion in the literature is that the *istijrar* contract differs from ordinary sales contracts and raises doubts regarding its validity (Okur, 2019,p.1253). Nevertheless, the *istijrar* contract, as a type of transaction commonly used in people's purchases, resembles the *veresiye* tradition, which has similar elements of a transaction.

To draw a clear picture of the resemblance with the *veresiye* tradition and a basic *istijrar* transaction, the figure below (Figure 1) has been developed. As the figure shows, both the *istijrar* contract and the *veresiye* tradition are practices in which a buyer purchases goods at different time intervals. Each transaction does not require a new offer, acceptance, or negotiation. Instead, there is a single master agreement in which all terms and conditions are finalized (Rizvi et al., 2014,p.191).

The master agreement does not have to be necessarily a written formal contract; it can be an accepted traditional way of transactions within the society, as it is in the *veresiye* tradition. The reason for its differentiation is that this type of transaction has become and accepted as a common practice among people as customs.

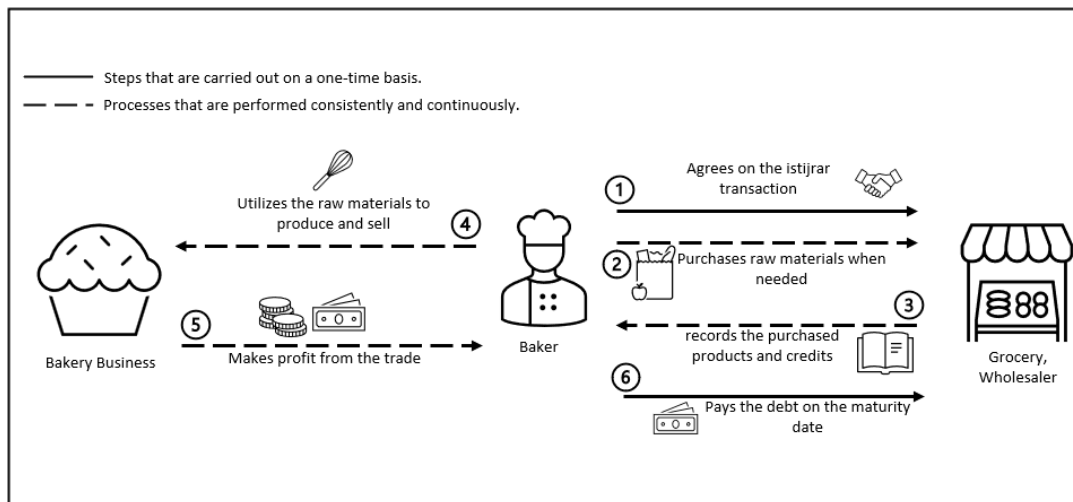


Figure 1. Basic Istijrar Transaction, Veresiye Tradition

Source: Developed by the researchers

The basic istijrar contract follows these steps as well as the veresiye tradition: (1) a baker for example, visits the grocery or the wholesaler to purchase raw materials for the pastry he/she would bake to conduct his/her own business. (2) The grocery records everything that the baker bought and neither mentions pricing nor asks for the payment. (3) The baker utilizes raw materials that he/she purchased, such as flour, sugar etc., to bake in his/her bakery and sell to his/her own customers. (4) Naturally he/she gains profit from the business that he/she conducts. Meanwhile, the payment for the purchased goods has not been made yet. (5) After the baker becomes able to pay his/her debt to the grocery, he/she would pay the debt to the grocery. The payment day could also be decided between the baker and the grocery as end of the month or end of the year.

Regarding the price of the istijrar transaction, it can be calculated and paid on the agreement's date before the supplies, whereas it also can be determined and settled even after reception and consumption of the supplies (Rahman & Chowdhury, 2024,p.135-136). The pricing usually depends on how the tradition set its rules. Usmani (2015) defines these two types of istijrar transactions as first, "whereby the price is determined after all transactions of purchase are complete" and second, "whereby the price is determined in advance, but the purchase is executed from time to time" (p.135).

It is mostly used as the first type, which is the one where the payment due is determined, and the amount is calculated when the due date comes. The codification of this type of istijrar transaction in the *Mecelle-i Ahkâm-i Adliyye*², might be the

² *Mecelle-i Ahkâm-i Adliyye* can be translated as "The Code of Civil Law." It is the first comprehensive legal code in the Ottoman Empire, addressing civil law matters, including contracts, property, and family law.

result of the fact that this type has been commonly used in Türkiye as well. In this regard, Okur (2019) noted, about the question of uncertainty of the pricing, that it is stated by Ali Haydar Efendi that "as long as it is known to both the seller and the buyer, there is no objection to postponing the payment of the product price to a specified date" (p.1254). Despite the fact that Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) mentions this type of *istijrar* transaction in the Shari'ah Standard 31, which is about "Controls on *Gharar* in Financial Transactions", where *gharar* is defined as "a state of uncertainty that exists when the process of concluding a transaction involves an unknown aspect", the *gharar* in the *istijrar* transaction is classified as forgivable *gharar* in the same source, which makes it permitted to a certain point and in certain conditions.

Usmani (2015) mentions three conditions for this type of *istijrar* to be permissible.

1. If the seller discloses the price of the goods for each transaction, the sale is valid only when the buyer takes possession of the goods, with payment made after all transactions are completed.
2. If the seller does not disclose the price each time, but both parties understand that the goods are sold at a market value that is clearly established and agreed upon, the sale can proceed.
3. If the price is unknown at the time of possession or if the parties agree to a flexible pricing arrangement, the sale may still be valid. However, if there is a significant difference between the agreed price and the market price at the time of possession, the sale will not be considered valid until payment is made (p.135-136).

The Hanafi scholars consider the *istijrar* contract permissible based on *istihsan* (juristic discretion) and compare it to the *ta'āti* method, where one party pays the price, and the other party provides the goods, where the conditions of a contract, offer and acceptance, are assumed to be implied without any verbal interaction. On the other hand, the majority of scholars believe that, although in the *ta'āti* transactions, offer and acceptance requirements are not necessarily practiced by the parties as well as *istijrar*, it is considered different because the price and the goods are unknown in *istijrar*, and the contract is established on consumed goods since the pricing is made afterward (Okur, 2019,p.1258), when the due date arrives. The uncertainty about the pricing of goods in *istijrar* contracts has been acknowledged by Hanafi scholars to a degree. However, they have concluded that such contracts are valid based on the principle of *istihsan*, or juridical preference. The opposite reasoning is that since the price is determined at the end of the month, the items consumed during that period do not exist (*ma'dûm*) at the time of calculation. Therefore, it can be argued that the transaction involves non-existent goods. Hanafi

scholars justify the practice of istijrar by referencing customary practices, public necessity, and the aim of facilitating daily life (Okur, 2019,p.1267).

Regarding the uncertainty of the price, as Okur (2019) mentions, especially Mālikī jurists considered it as a significant factor preventing the validity of the contract, while the other Islamic jurists accepting istijrar believe that the goods bought and sold under this contract are of those commonly known and the standard type (*misliyyah*), with a price similar to that of other products of the same kind in the market. These types of goods can be grains, sugar, salt, or specific groups of raw materials and so on.

In the Shafi'i school of thought, most scholars do not allow istijrar due to the lack of formal phrases for offer and acceptance. However, scholars such as Nawawi, Ghazali, and al-Mutawalli argue that this type of contract should be considered valid based on customary practices. Additionally, when the qualifications and the price of the goods are obviously known, scholars from the Hanafi and Maliki schools, as well as some Shafi'i scholars who accept the practice, hold that the istijrar contract in these specific cases is valid.

In the Hanbali school of thought, the prevailing opinion is that uncertainty (*gharar*) regarding the product or its price implies a type of ignorance (*jahâla*) that invalidates the istijrar contract. Nonetheless, the founder of the school, Ahmad ibn Hanbal, argued that it is valid only if the price of the product is declared by the seller at each sale and the goods are purchased in installments by the buyer (for example, over the course of a month), with the final payment made at the end of the period based on the market price as agreed upon at the beginning. This also can be viewed from the perspective mentioned before in which if the goods are from standard type (*misliyyah*), it is permissible.

To sum up, it is preferred to recognize the istijrar contract as valid because it has been a common trade practice that people depend on, and practiced for centuries as a tradition. This contract provides benefits (*maslahah*) for society, whereas declaring it invalid creates difficulties for them. Often, people struggle over the lack of cash for immediate payment, leading them to negotiate with suppliers to receive goods on a regular basis, with payments made collectively after an agreed period (Rahman & Chowdhury, 2024,p.139). While it does not pose a problem for goods with a fixed price, it is clearly a source of disadvantage during periods of inflation. In fact, this disadvantage is inevitable for technological products that are rapidly renewed because there is a significant decrease in the value of the product between the delivery day and the payment day. In this case, either the contract price should not apply to goods with volatile prices, or the decision should be made depending on the type of the goods (Kacı, 2017,280). If the price is set on the day when the goods are purchased, the payment is agreed to be made on the due date,

and the due date would not be set too late, thus the effect of the inflation would not be so harsh on the seller or the buyer.

Even though the payment date has not been set, it is seen that the uncertainty of the payment period is not mentioned in the judgments of Islamic jurists. It is argued that the lack of focus on the payment period stems from its connection to the *qard* (loan) contract. This is because the creditor has the right to demand repayment at any time. Considering that *istijrar* contracts can only be conducted with fungible goods, evaluating this as a sales contract related to a loan transaction would be more accurate (Akkuş & Yerlikaya, 2023,p.169). Therefore, it can be said that there is a resemblance between the *istijrar* contract and the *qard* contract as well.

A suggestion about pricing made by Obaidullah (1998), apart from the traditional ways that mentioned above, is that “*Istijrar with Khiyar al-Shart* (option with a condition)” which may be defined as a combination of Asian options and barrier options. To clarify the concept, it has characteristics of both Asian options, which means the price is based on the average of the relevant market, and barrier options, which means the option gets activated when pre-specified price barriers are crossed. According to Obaidullah, this way ensures adherence to Islamic ethics by disallowing speculative profits and emphasizing real, non-speculative transactions. Thus, it is structured to eliminate ambiguity or any noncompliance with the Shariah, as the available options are clearly defined within the contract and are not transferable within themselves. This perspective might be useful for the model that will be offered in the last section, however due to its technical evaluations, it will not be discussed in this paper.

While price negotiations are not part of *istijrar*, both parties are aware of the price and move forward with the agreement. Although *istijrar* may involve *gharar*, this uncertainty is limited by customary practices, mutual consent, and knowledge of the price by both contracting parties. All the schools (*mazahib*) of Islamic law allow *istijrar* with certain conditions. The conditions make the transaction transparent and confirm mutual trust, sellers’ profit, buyers’ benefit and assurance of the payment quality and quantity (Rahman & Chowdhury, 2024,p.143). Three different approaches have been proposed regarding how the price determination should be made: (a) Leaving the price determination to the market, (b) Leaving the price determination to the seller, (c) Leaving the price determination to the agreement between the parties at the time of settlement (Kacı, 2017,p.279). These alternatives will be discussed in detail while examining the *istijrar* contract as a new mode of financing.

The Istijrar Contract as Solution

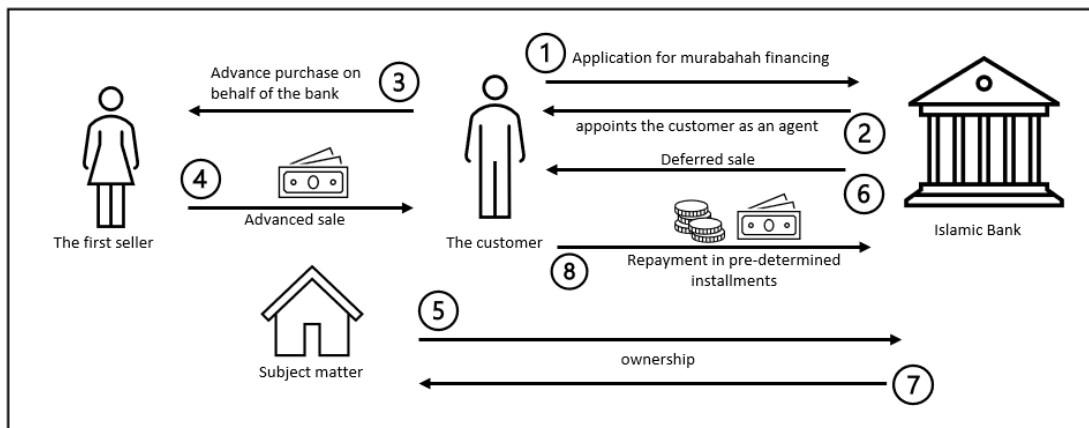


Figure 2. Istijrar Contract

Source: Developed by the researchers

Before beginning to draw the picture of the istijrar contract as a solution, to make it obvious, the reason why the murabahah contract is not preferred as usual will be explained (Figure 2). (1) The usual financing process with a murabahah contract is initiated by the customer's statement. (2) IB appoints the customer as an agent, (3) the customer buys the subject matter in advance on behalf of IB, (4) from the first seller in advance, and (5) at this point IB owns the subject matter. Then, (6) IB sells the products to the customer by adding a certain profit to the purchase price in deferred payments, so that (7) the ownership of the subject matter transfers to the customer. Therefore, the customer becomes the debtor against IB and (8) pays the debt according to the installment plan. The problem emerges in this contract if the product has already been consumed by the customer because "the commodities subject to murabahah must have been purchased by the participation bank and received in real terms or by default." (Murabahah Standard, 2021) However, in some cases the customer desires to buy products recurrently for a period of time while he/she may not necessarily know or cannot predict how much and when he/she would need and buy the products. In this case, IB would not finance an acquisition of an asset as in the usual financing model with the murabahah contract, but rather a recurring working capital requirement.

Using the *murabahah* contract in such a situation requires establishing an individual contract for each consignment sold to the customer, which would not be practical for both the customer and IB due to the frequency of the deliveries. For IBs, this requirement leads to the accumulation of extensive documentation. During the Shari'ah audit, it is investigated whether contracts used for financing are correctly executed, prices are pre-determined, and profit rate is declared at the beginning of the sale or not. Consequently, IBs struggle to manage numerous documents, resulting in increased complexity. In contrast, istijrar simplifies this by allowing multiple transactions under a single master contract; thus, the documentation gets minimized. If well-structured, istijrar can offer a more customer-friendly experience.

(Rahman & Chowdhury, 2024,p.147). Additionally, the cost of the financing process might be reduced by using a single master istijrar agreement.

According to the Murabahah Standard (2021), IBs must possess ownership of the goods when selling them through murabahah, while the ownership requirements in istijrar are less strict as it is seen from the discussions about the validity of the istijrar contract. For instance, due to the absence of an independent Islamic banking act in Bangladesh, IBs are unable to buy and sell products to clients directly. In practice, murabahah financing consists of several stages: “promise to purchase, purchase and get possession of the product and selling the product to the customer and making the delivery” (Rahman & Chowdhury, 2024,p.151). The situation is similar in Türkiye, where the banks are not allowed to engage in trade for commercial purposes³, the possession of the products does not necessarily need to be physical. Therefore, the integration of the istijrar mode into the system in Türkiye might be considered possible to arrange if not easy.

Existing Global Practice

Until recently, just a few IBs around the world have offered the istijrar contract as a mode of financing. The Islamic Bank Bangladesh Limited (IBBL) has outlined potential areas for istijrar implementation on its website, though it is not available as a product in practice. As the IBBL draws the lines, while murabahah requires ownership of goods, delays or remote locations can complicate the physical ownership of the goods. Constructive ownership through an istijrar contract between IB and the customer can resolve this. Istijrar suits cases with multiple purchases from the supplier or goods delivered in installments, with payment made post-delivery.

The Islamic banking guidebook of the Meezan Bank of Pakistan offers guidelines for applying istijrar transactions within the murabahah contract. The istijrar contract, as defined before, allows recurrent sales under a master agreement without needing to repeat offers. The price can be determined before or after all purchases. The goods remain under the ownership and risk of IB until they are sold to the customer, which ensures the permissibility of the istijrar contract. However, the guidebook argues that appointing the customer as the bank’s purchasing agent invalidates this contract because it makes the transfer of ownership unclear (Rahman & Chowdhury, 2024,p.140). The response to this argument should be that the time period for ownership of the goods that the customer bought as an agent of IB is not mentioned anywhere. In other words, IB can own the products for a very short period and then sell them to the customer, even if it does not physically own the products. Therefore, the process can flow like this: IB appoints the customer as an agent, the customer buys the products on behalf of IB and informs about the purchase, and IB

³ According to Article 57 of the Banking Law No. 5411, in Türkiye, banks, with the exception of contracts based on real estate and commodities under the Capital Markets Law No. 2499 and the purchase and sale of precious metals deemed appropriate by the Board, cannot engage in the purchase and sale of real estate and commodities for commercial purposes. (5411 Banking Law, 2005)

sells the product to the customer at that moment when it attains the ownership of the product even by default. As it is applied in the process of financing using the *murabahah* contract. Moreover, the sale can be made via technological means such as telephone, message, and so on, which is an issue that will be discussed in the next chapter, where the *istijrar* contract as a new structured mode of financing will be on the table.

The Shari'ah Advisory Council of the Central Bank of Malaysia examined an import financing product grounded in the *istijrar* contract, aiming to provide an alternative to existing methods that rely on *murabahah* and *tawarruq*⁴ contracts. The Council has determined that such import financing products utilizing the *istijrar* contract are permissible. However, to mitigate the uncertainty of pricing, a formula that is mutually agreed upon by IB and the importer must be employed. This practice will be combined with *wakalah* (agency) and *wa'd* (promise) contracts. The Council anticipates that this *istijrar*-based financing mode for imports will resolve the issues of selling non-existent items typically seen in *murabahah*, while also lowering operational costs associated with *tawarruq*.

In 2020, the International Shari'ah Research Academy for Islamic Finance in Malaysia collaborated with MUFG Bank Malaysia to study the implementation of the *istijrar* contract as an alternative to *murabahah*-based import financing. The research highlighted that in *murabahah* financing for imports, an importer might make a change in the forms of goods and sell them to a third party before finalizing the *murabahah* contract with IB. This situation could potentially result in Shari'ah violations regarding the necessity of existence and ownership of the goods when the sale contract is completed. Therefore, adopting *istijrar* is proposed as a means to address this issue (Rahman & Chowdhury, 2024,p.140-141). This argument has corresponded to the problem with *murabahah* in some cases of financing in Türkiye as well.

RHB Islamic Bank (2021), based in Malaysia, introduced an innovative Islamic trade financing product utilizing the *istijrar* contract. This was Malaysia's first Islamic trade financing solution for sales and purchases, merging the contracts of *wakalah* (agency) and *istijrar*. According to RHB Islamic Bank, the process and duties of IB will be streamlined, necessitating fewer documents after the facility is approved and implemented. Ultimately, this product aims to minimize costs, time, effort, and paperwork. Similarly, the resemblance of the problem is so clear that it sounds as if the problem in Türkiye is mentioned here, not in Malaysia.

Existing Turkish Practice

In Türkiye, IBs have permission to utilize the *istijrar* contract as a sale-based financing method coded in the "Regulation on Credit Transactions of Banks"(2023),

⁴ *Tawarruq* refers to "the sale of a commodity purchased on a deferred basis to a third party in cash and generally for a lower price to obtain cash" as The Participation Banks Association of Türkiye defines in "Tawarruq Standard" (2021).

as mentioned before. Almost all IBs have their own customer notification forms for each contract, such as *murabahah*, *mudarabah*, *istijrar*, *qard*, and so forth. The text of the notification forms for each contract has almost the same content for every IB, due to the requirement of the approval of The Participation Banks Association of Türkiye. The notification form about the *istijrar* contract generally mentions as follows; “basic features of the contract, compliance of the product or service with the principles and standards of interest-free banking, the capacity of the customer under the scope of the contract, process and functioning, contractual rights and obligations of the parties, rights and obligations arising from the agency contract (*wakalah*), delivery of the documents subject to purchase & selling to the participation bank, bank practice in case of late payment” (Türkiye Ziraat Katılım Bank).

Although these notification forms appear on the websites of IBs in Türkiye, the *istijrar* contract has been actively used as a financing mode in none of them. Practically, the *istijrar* contract is utilized for some products, such as the Direct Debiting System, which is a cash management service, or the projects committed before effectuation. However, they are not marketed as an *istijrar* product; rather, the *istijrar* contract is the background means of these marketed products. This may be because of the absence of a regulation on the *istijrar* contract, unlike the other contracts that are commonly used, such as *murabahah*, *mudarabah*, etc. The *istijrar* contract is regulated neither as an independent contract nor as a sub-category of another contract in the standards published by The Participation Banks Association of Türkiye or in the Shari’ah Standards declared by AAOIFI.

The details about the *istijrar* contract are only mentioned in the notification forms of IBs, however, the *modus operandi* told in these forms is not enough to conduct the *istijrar* contract as a new mode of financing. The process is narrated as follows: the customer submits his/her request for financing to IB. IB assigns a credit limit to the customer. The *istijrar* contract is signed between IB and the customer. The customer then purchases goods from the suppliers on behalf of IB. From this point onward, the customer can dispose of the goods in accordance with the contract. When the payment due date arrives for the supplier, the customer informs IB. IB, in line with the terms specified in the *istijrar* contract, comes to an agreement on the pricing with the customer and makes the payment to the supplier, thereby indebting the customer (Türkiye Emlak Katılım Bank). There are no details of the process stated in the texts, but only the main steps.

The use of the *istijrar* contract for raw materials is declared permissible with a ruling declared by the High Council of Religious Affairs. According to the ruling (The 10th Ruling of The High Council of Religious Affairs, 2022), the fundamental principle in sales contracts is that the price of the goods must be clearly and explicitly determined by the parties at the time of the contract. However, it is also known that, since ancient times, people have engaged in transactions where the price was not predetermined, but the goods were bought to be paid for, based on the market price

at the time of payment, as per custom. The impact of not setting a price on such transactions has been debated by Islamic scholars.

The ruling also summarizes the views of the Islamic scholars. In Hanafi sources, in order to alleviate hardship, it is considered permissible, based on custom, for a person to purchase goods from a store gradually, without setting a price in advance, and to pay for them after the goods are consumed, under a contract called *istijrar*. In Hanbali texts, it is stated that the price for goods bought and consumed daily can be paid in bulk according to the market price at the time of payment, such as at the end of the month or year.

In this regard, both some Hanafi and Hanbali scholars' *ijtihad*s (juridical opinions) are based on the public's needs, the customs that have developed over time to meet those needs, and the principle that such transactions should not lead to disputes between the parties. These rulings rely on reasoning like *istihsan* (juridical preference), which avoids causing discord.

In modern times, especially during periods of price instability, if a custom arises in society under such circumstances, it is permissible to carry out transactions involving standard goods like iron, cement, diesel, or flour without setting a price in advance, but instead by recording only the quantity. In this case, the price for the goods taken without prior determination is paid according to the market price at the time of payment, as customarily agreed upon between the parties, without causing any disputes, and based on mutual consent.

The Participation Banks Association of Türkiye (2022) has ruled that a *murabahah* transaction, including an *istijrar* contract, is not allowed for purchasing goods like electricity, water, and gas, as these cannot be financed through the *murabahah* contract. This ruling at least sheds light on what cannot be financed through an *istijrar* contract. Due to the general discussions about the validity of the *istijrar* contract and the lack of regulations about the detailed process, the practice of it as a mode of financing has not improved but rather remained as a traditional means of transaction. The method of the *istijrar* contract should be revived in practice as well as in theory.

RESEARCH METHOD

The study employs a structured literature review methodology, comprising three stages: firstly, the *istijrar* contract has been analyzed through the literature on the issues such as what *istijrar* is, whether it is Shariah-compliant or not, how it is a way to overcome the challenges which has been faced through *murabahah* processes; secondly, assessing existing global practices; and thirdly examining the Turkish practices and legal regulations. An analysis was conducted using legal documents and the literature that has been built upon the views of Islamic scholars. While reviewing the literature and existing practices, these various aspects of the *istijrar* contract were analyzed and compared. This comparative analysis has shaped the offered version of the *istijrar* as a financing model for IBS in Türkiye. In the next

chapter, the final version of the model will be explained and discussed, resulting from the analysis presented in the previous sections.

RESULTS AND DISCUSSION

While reviewing the existing literature on istijrar contracts and evaluating current global and Turkish practices, several key observations emerged. Firstly, the majority of discussions focus on the permissibility and SC aspects of the istijrar contract. Secondly, at the global level, the istijrar contract remains underdeveloped in terms of regulatory standards. There are no clearly defined guidelines or structured frameworks provided by standardization bodies. Furthermore, in the Turkish context specifically, references to istijrar contracts exist, but only superficially within official regulatory documents without providing sufficient depth or clarity. Moreover, existing practical implementations or academic proposals concerning istijrar either combine it with other financial contracts, diluting the clarity and independence of istijrar as a distinct financing method or do not fit well into Turkish legal context.

In the proposed version of istijrar, due to the fact that Hanafis being the majority in Türkiye (Nişancı, 2023, p.35), the view of the Hanafi scholars has been followed. Therefore, the use of istijrar contract is justified regarding the customary practices such as *veresiye* tradition; public necessity and the aim of facilitating daily life such as the challenges faced by the customers in their businesses. To support the people who conduct business in production and trade and help facilitate the process for IBs to contribute to the real economy.

For the payment method of the model, three different approaches proposed by Kacı (2017) are taken into consideration since his work is specific and more suitable for Türkiye, regarding how the price determination should be made: (a) Leaving the price determination to the market, (b) Leaving the price determination to the seller, (c) Leaving the price determination to the agreement between the parties at the time of settlement. The first one would not be practical due to the volatility of the market prices and the high rate of inflation. In the purpose of creating a new model that will facilitate commercial practices in society, it would not be a solution since it inevitably paves the way for where one-party benefits more while the other suffers. The second approach would not be practical as well as the first one. Leaving the determination of the price to the seller, especially in these inflationist modern times, would not be the best way to find a solution for the concern of people regarding reliability. The main reason for the fact that the *veresiye* tradition is not alive today, is that trust within the society is now vulnerable and inflation has a harsh impact on deferred sales. Therefore, the main objective is to bring the *veresiye* tradition back to life through a new mode of financing in IBS. The third approach will be the one on the table to discuss. According to this approach, the price is agreed upon by the parties at the time of settlement. However, this proposal raises the issue

of the non-existence of subject matter. In other words, the principle of the existence of the subject matter at the contract moment would not be fulfilled.

Various solutions have been suggested for resolving this issue, depending on whether the transaction is considered a sale contract or not. The first is acknowledging the transaction as a sale contract, and the second is rejecting the transaction as a sale contract. According to Kacir (2017), it appears that the solution which does not accept this transaction as a sale contract involves many problems and contradicts itself. The suggestion that accepts it as a sale contract, however, varies depending on the interpretation of the relevant texts. Jurists who consider the literal meaning of the texts have proposed solutions through the method of *istihsan* (juristic discretion), while those who focus on the purpose of the texts do not even view the *istijrar* contract as the sale of the non-existing subject matter. This is because the goods have been delivered to the customer before the settlement, and the customer has fully benefited from them. Therefore, in the *istijrar* contract, there is no *gharar* (uncertainty) related to the delivery of the goods.

The reason for the prohibition of the sale of non-existing subject matter in the texts is the "*gharar*" (uncertainty) that prevents the goods from being delivered to the customer. However, in the *istijrar* contract, the goods have been delivered to the customer, and the customer has fully benefited from the goods. Thus, at the time of settlement, the goods are considered as if they exist. There is no obstacle for the customer to benefit from the goods before the settlement, as there is no barrier to using the goods before the settlement. This is because, with the contract made at the time of settlement, the transfer of ownership is considered valid from the moment the customer has received the goods (Kacir, 2017,p.282). Even though the price would be determined later, the sale is considered as completed.

To draw the picture clearly about the *istijrar* contract in practice as a financing mode for IBs, Figure 3 has been created to make it visually explained while narrating the process of financing by using the *istijrar* contract. The process begins as the customer submits their request for the financing using the *istijrar* contract to IB for the product groups they have initially determined and specified. In their application, the customer confirms that: prior to receiving the conditional agency (*wakalah al-muqayyadah*) from IB, he/she have not reached and will not reach a final agreement with the first seller regarding the goods subject to financing; no payment has been made and will not be made to the first seller; and the goods subject to financing are still owned by the first seller. The customer affirms that the purchases of goods subject to the financing will be Shariah-compliant and bought from the sellers in Shariah-compliant ways. The customer accepts that if the goods subject to financing are purchased by IB from the first seller and paid for on the due date, he/she will buy the goods from IB with the profit-added price and pay the debt in deferred payments.

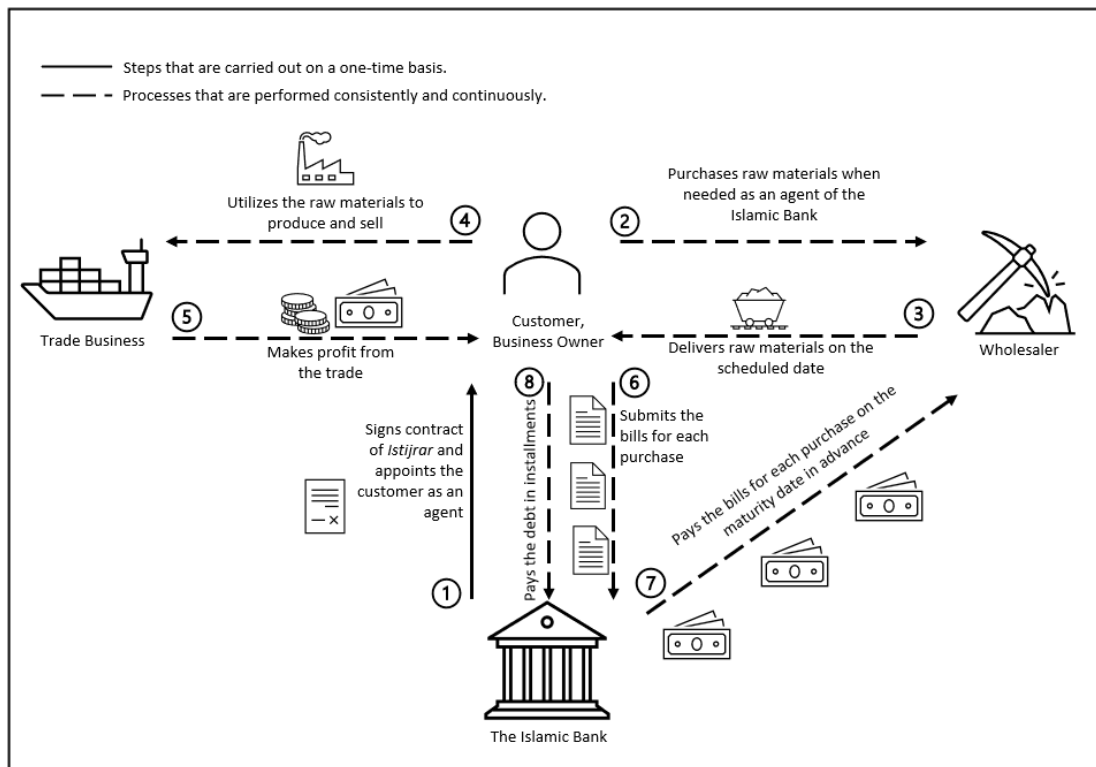


Figure 3. Istijrar Mechanism

Source: Developed by the researchers

After conducting a regular evaluation of the customer, IB determines an appropriate credit limit for the customer, (1) signs an istijrar contract with the customer, and appoints him/her as a *wakeel* (an agent) within *wakalah al-muqayyadah* (conditional agency) for all matters related to the selection, purchase, loading, transportation, delivery, and other issues concerning the goods within the scope of the istijrar contract and will remain valid throughout the duration of the contract.

Next, (2) under the signed istijrar contract and within the scope of the *wakalah al-muqayyadah*, the customer makes purchases of goods from the first seller or sellers on behalf of IB, either in a single transaction or multiple transactions at different times. Since the *wakalah* is *muqayyadah* (conditional), the goods purchased by the customer as the *wakeel* on behalf of IB must be Shariah-compliant.

(3) The purchased or ordered goods can be delivered on the spot or on the scheduled date. (4) At this point, the customer can use or consume the goods purchased from the first seller. For instance, he/she can conduct his/her business, such as producing goods in a factory with the raw material that is provided through the financing using the istijrar contract, and (5) can make a profit out of his/her business, such as trading the produced goods.

In order to initiate these transactions, the customer submits a relevant document that is related to the goods purchased from the first seller to IB, such as a contract or proforma invoice issued by the first seller. After the purchases are made, (6) the customer submits the invoice to IB for each purchase of goods. If an invoice

cannot be issued during the purchase of goods, the customer notifies IB with another document which verifies that the purchase has been made. The actual invoice can be submitted later within the time frame specified in the regulations.

The customer should ensure that the invoices submitted overlap with the documents submitted initially (a contract or pro forma invoice, etc.) and prove that they are consistent with the information on those documents. (7) IB, after receiving the invoice submitted by the customer, pays the required amount to the first seller, when the due date of the payment for the purchased goods subject to the invoice has come.

For each submission of an invoice, the parties determine the profit margin to be applied, the repayment plan, and any potential actual costs, through an additional document which will be added to the contract. With this additional document, IB completes the deferred sale of the goods to the customer. This sale transaction can also be carried out electronically (via SMS, e-mail, etc.) as in the Murabahah contract (Murabahah Standard, 2021). After the deferred sale transaction is completed, the customer becomes indebted to IB for the total amount calculated by adding the determined profit, commission, costs, taxes, and any other financial and contractual obligations to the amount initially paid to the first seller. (8) The customer makes payments according to the agreed repayment plan, which includes both the number of installments and the total amount.

CONCLUSION

In summary, this study has provided a comprehensive overview of the definition and Shariah validity of the istijrar contract, concluding that under certain conditions, istijrar is deemed a valid contract. The operational practice of istijrar has also been outlined. Furthermore, the research asserts that many of the challenges faced by Islamic banks (IBs) and their customers when using murabahah financing—particularly in cases requiring flexible and repeated purchases—can be addressed through the adoption of the istijrar contract. Specific problem areas have been identified and analyzed to demonstrate why istijrar presents a more suitable solution for certain financing processes. The study also examined current interpretations and implementations of istijrar as a financing model within IBs in Türkiye. To gain a clearer understanding of the varying perspectives on the use of istijrar and to highlight deficiencies in its current practice, comparative analysis was conducted across different scholarly discussions and institutional approaches. Drawing from both the traditional practice of veresiye and contemporary applications of istijrar within Turkish IBs, this research proposes a standardized istijrar model tailored for Türkiye's Islamic banking sector. Reviving the veresiye tradition through a well-structured istijrar model could help Islamic banks rebuild trust-based transactional systems. This would ensure that sellers receive payments on agreed dates while allowing buyers flexible payment terms according to their financial capacities. Overall, the istijrar contract offers a highly suitable and much-needed financing alternative for IBs in

Türkiye. Although currently lacking a standardized implementation, this study presents a practical framework that synthesizes diverse interpretations of istijrar into a coherent financing model for the Turkish context.

For future research, further analysis of other Shariah compliance factors is essential to clarify and advance the development of istijrar-based financial products. At first glance, istijrar appears to be a viable alternative—or at least a complement—to murabahah. However, for successful implementation, product developers in IBs must fully understand the contract's rules, associated risks, benefits, Shariah requirements, and regulatory considerations. In this regard, enhancing the financial literacy of Islamic banking professionals is crucial, especially given the prevailing dominance of murabahah in most Islamic financing transactions. A significant challenge lies in overcoming practitioner hesitation, as many remain reluctant to adopt unfamiliar products. Therefore, it is imperative that the istijrar contract be carefully structured as an alternative financing mode, especially for cases where murabahah is not practically feasible.

REFERENCES

- 5411 Banking Law, The Presidency of the Republic of Türkiye. Retrieved February 4, 2025, from <https://www.mevzuat.gov.tr/mevzuat?MevzuatNo=5411&MevzuatTur=1&MevzuatTertip=5>
- Akkuş, M., & Yerlikaya, Ü. (2023). Bazı Tarım Ürünlerinin “Emanet” Adıyla Satılması ve Bunun İsticrâr Akdi ile İlişkisi. *Tevilat*, 4(1), 149–178. <https://doi.org/10.53352/tevilat.1298335>
- Ali, M. Y., & Hassan, F. (2019). The Study of Potential Shariah Non-Compliance Risks in Murabahah Along with their Risk Management. *Journal of Finance & Economics Research*, 4(1), 44–58. <https://doi.org/10.20547/jfer1904104>
- IFSB Stability Report. (2025). <https://www.ifsb.org/wp-content/uploads/2025/05/IFSI-Stability-Report-May-2025.pdf>
- Kacı, T. (2017). Bir Finansman Yöntemi Olarak İsticrar Akdi. *İslam Hukuku Araştırmaları Dergisi*, 30, 273–297. <http://www.qaradaghi.com/chapterDetails.aspx?ID=294>.
- Nişancı, Z. (2023). *Sayılarla Türkiye’de İnanç ve Dindarlık*. https://nsp.marmara.edu.tr/dosya/nsp/Raporlar/Say%C4%B1larla%20Tu%CC%88rkiye'de%20I%CC%87nanc%CC%A7%20ve%20Dindarl%C4%B1k_ebook.pdf
- Obaidullah, M. (1998). *FINANCIAL ENGINEERING WITH ISLAMIC OPTIONS*. *Islamic Economic Studies*, 6(1). <https://ssrn.com/abstract=3164812>
- Okur, H. (2019). İslam Borçlar Hukukunda İsticrâr Akdi ve Mezheplerin Konuyla İlgili Mülâhazaları. *Tasavvur: Tekirdağ İlahiyat Dergisi*, 5(2). <http://dergipark.gov.tr/tasavvur>
- Participation Finance Standards Standard No: 2 Tawarruq Standard, The Participation Banks Association of Türkiye (2021). tkbb.org.tr/upload/TAWARRUQ.pdf

- Participation Finance Standards Standard No: 3 Murabahah Standard, The Participation Banks Association of Türkiye (2021). tkbb.org.tr/upload/3ec3c37c40436e88a5cf834d8adf3a74-2.pdf
- Rahman, M. H., & Chowdhury, N. M. S. I. (2024). The prospects of istijrar financing in Islamic banking: an exploratory study in Bangladesh. *Qualitative Research in Financial Markets*, 16(1), 135–158. <https://doi.org/10.1108/QRFM-10-2022-0173>
- Regulation on Credit Transactions of Banks, The Presidency of Republic of Türkiye (2023).
- RHB Islamic Bank Launches Malaysia's First Islamic Trade Financing Solution Based on Wakalah and Istijrar. (n.d.). Retrieved February 4, 2025, from <https://www.rhbgroup.com/search-results/index.html?q=istijrar>
- Rizvi, S. A. R., Arshad, S., & Lahsasna, A. (2014). Derivatives in Islamic finance: the need and mechanisms available. *International Journal of Financial Services Management*, 7(3/4), 177. <https://doi.org/10.1504/ijfsm.2014.065572>
- Shari'ah Standards 31: Controls on Gharar in Financial Transactions. (n.d.). In Shari'ah Standards. AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) . Retrieved February 4, 2025, from <https://aaoifi.com/ss-31-controls-on-gharar-in-financial-transactions/?lang=en>
- The 10th Ruling of The High Council of Religious Affairs. (2022). In The High Council of Religious Affairs of Türkiye. <https://kurul.diyenet.gov.tr/Cevap-Ara/1143/demir-cimento-mazot-ve-un-gibi-misli-standart-bir-malin-fiyati-belirlenmeden-sadece-miktari-kaydedilerek-veresiye-satisi-isticrar-caiz-midir>
- The Ruling 58 of The Participation Banks Association of Türkiye. , The Participation Banks Association of Türkiye (2022). - https://tkbb.org.tr/danisma-kurulu/kararlar/Murabaha_Finansmanina_Konu_Edilemeyen_Bazi_Mallar_icin_Isticrar_Akdini_de_Iceren_bir_Murabaha_Islemi_Yapilmasi
- Türkiye Emlak Katılım Bank. (n.d.). Isticrar Akdi Müşteri Bilgilendirme Formu (Customer Notification Form on Istijrar Contract). In Türkiye Emlak Katılım Bank. Retrieved February 4, 2025, from asset.emlakkatilim.com.tr/documents/hakkimizda/faizsiz-bankacilik/isticrarakdimusteribilgilendirmeformu.pdf
- Türkiye Ziraat Katılım Bank. (n.d.). Customer Information Form on Istijrar Contract. In Türkiye Ziraat Katılım Bank. Retrieved February 4, 2025, from https://www.ziraatkatilim.com.tr/sites/default/files/2024-08/14-fon-kullandirim-isticrar_0.pdf
- Usmani, M. I. A. (2002). *Meezan Bank's Guide to Islamic Banking*. Darul - Ishaat Karachi.