

# COMPARATIVE STUDY BETWEEN IJARAH AND CONVENTIONAL LEASING

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**ABSTRACT:** *The purpose of this study is to determine the growth rates of the Ijarah financing and to relate it with the conventional way of the leasing. The core essence of the subject matter is Islamic leasing and conventional leasing. This exploration consists of two variables which are Ijarah and conventional leasing. We have to find out comparative growth rates of Ijarah and conventional leasing and to create a better understanding between them to show which way of financing is more growing and the investor is intended to invest in that specific mode of investment. Data is collected from the state bank of the Pakistan in which consists of 21 years for the both variables. T-test has been applied for data analysis which indicates the growth relationship of Ijarah and conventional leasing in the model for measurement. After the application of statistical model the author has found that in the last 21 years Ijarah is more practiced by investors with the average of 5% that is more than the conventional leasing. We found that investment in the Ijarah is significantly growing which shows the investor's interest in the sharia compliant investment is more. The results also indicating that the investment in the Islamic modes of financing is encouraging the further growth in Islamic capital market.*

**Key words:** Ijarah, conventional leasing, lessee, Lessor.

## INTRODUCTION

The institution that are involve in the financing of money are constantly increasing their wealth and assets by involving themselves in new ways of investment to enhance their customer potential and expand their market to serve their customers at large scale. Now a day's Islamic financing is more growing due to their real investment and the products that they are offering to serve their customers according to sharia laws in the financing there are many financial institutions which working at international level. In this study we are focusing two ways of financing which are in Islamic and commercial that is the conventional way of leasing and Islamic way of leasing [1]. We can issue the Sukuk Ijarah both in the public and private sector to create the economic growth as well as in liberalization of the Islamic finance. This thing also influence the demand factor by the foreign investors specifically from the Middle East countries for the investments in the assets that are mostly equity based specially in form the Ijarah based sukuks [2].[3] explores that if we can apply the Ijarah on the assets based leasing specifically for the vehicle leasing. In this type of the Ijarah Islamic banks should have consider the amount of down payments when they are fulfilling the other requirements of this contract. It is more appropriate for an investor invest in the vehicle based Ijarah then they are depositing the amount below then 40 percent otherwise you have to invest in the demising musharaka. The purpose of conducting the research based on the comparative growth rates of the Ijarah and conventional leasing becoming a bottom line issue as the investment in Islamic financing is now growing in the modern business in terms of making legal profits in legal businesses so that it is effecting on conventional ways of financing that are operated on the conventional banks. We know that the conventional banks are offering their financial products at high rates as compared to Ijarah that provide a legal profit with equal sharing of profit and loss by investing in specific business. A lot of the customer wants to own the assets with legal business but due to high rate and high chances of loss they are unable to do this one. Ijarah provides

ownership of assets to its customers without any extra loss and compounding interest in case of failure or delaying payment [4].

## OBJECTIVES OF THE STUDY

In this study our objective is to find out comparative growth rates of Ijarah and conventional leasing and to create a better understanding which way of financing has more growing and attracted by the investors.

## HYPOTHESIS

According to the nature of the research study the following hypothesis are constructed: H: The average growth rates of Ijarah and conventional leasing are equal.

## METHODOLOGIES

**Data Collection:** Secondary data is collected from state bank of Pakistan available on economic data portal. It contains the data of 20 years of all banks which are offering both Ijarah and conventional leasing. Data contains the growth rates from year 1995 to 2015.

**Variables:** It includes two variables which are ijarah and conventional leasing.

**Statistical Technique used:** T testis applied on our data analysis as a statistical tool to interpret growth relationship among the Ijarah and conventional leasing for the analysis of growth rates of the both products.

## RESULTS

### Interpretation

In the above table we have two modes of financing first is the Ijarah and second is the conventional leasing. We see that value of F test is more than 4 so we assume that variances are not equal in both of the variables. Sig value is 0.029 which is less than 0.05 so we reject the null hypothesis which shows that there is significant difference between the means of the Ijarah and conventional leasing. We can also see the means of Ijarah and conventional leasing in the group statistics (Table 1) which are 17.009524 and 12.438095. This mean difference is 4.5714286. Value of t statistic is 2.284 which also greater than 2. We also see that the mean value of the Ijarah is greater than the leasing which shows that average growth rate of the Ijarah is greater than the leasing in last 20 years.

**Table 1. Independent samples T-test.**

Items	Levine's Test for Equality of Variances		T-test for Equality of Means						
	F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of Difference	
								Lower	Upper
Equal Variances assumed	7.895	0.008	2.284	40	0.028	4.5714286	2.0012838	0.5266832	8.6161739
Equal variances not assumed			2.284	34.409	0.029	4.5714286	2.0012838	0.5061125	8.6367446
Group Statistics									
Finance	Mode	N	Mean		Std. Deviation		Std. Error Mean		
	Ijarah	21	17.00952		7.681465		1.6762331		
	Leasing	21	12.4381		5.010286		1.093334		

## DISCUSSION

In this research it is mention that Ijarah is more growing the then the conventional leasing. Ijarah in form of the sukkuks is creating the growth both in public and the private sector which is creating the demand by more customers for this product [2]. Furthermore according to vehicle based Ijarah is more appropriate for investor in especially when the investor has the investment has below than the 40 percent of total investment [3]. One study explores that the mostly customers wants to invest but due to the chance of loses they are unable to do this [4]. Ijarah financing gives security in their investments to reduce threats of losses. Even after the crises of 2007 and 2008 the reaction of financial market towards the Ijarah is positive [5]. Ijarah is providing an alternative for conventional hire purchase but due to the lack of promotions the investment in the Ijarah product is deviating in the market [6]. There is strong potential in the attractiveness and the customer demand of the Ijarah product but due to the lack of market promotion and product innovation it is still not growing up to required level. As it require high qualified and skilled personal in the financial market of Islamic banking. There is still need of the awareness programs in the financialmarket of Islamic banking to promote the Islamic products and to attract the customers [7].

## CONCLUSION

We have find that the growth rate of the Ijarah is greater than the conventional leasing because the average growth of the Ijarah is greater than the conventional leasing so the thing is that we have to explore products of Islamic financing which especially more flexible investment specifically micro financing of equipment's. Furthermore from the above discussion we can conclude that there is potential for the growth of Ijarah market. It requires an effort to explore the innovations and providing the knowledge about the Islamic financing products to its potential customers. There is a need to introduce the Ijarah in the asset based leasing especially in the industrial equipment as well as in the capital market to generate the capital for service industry. As we know that our market is mostly consists of the micro finance investor and mostly people want to invest in Islamic leasing but due to inappropriate guidance and lack of knowledge about Islamic product and services they unable to invest. So we have to launch the programs to enhance the investor's knowledge

about the Ijarah. By overall conclusion this research gives better understanding to an investor to invest in the Islamic leasing because it is more growing rapidly in the market then the conventional leasing.

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