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Murabahah As A Mode Of Islamic Finance

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Abstract: *A strong economy is directly linked to its banking system, because the more banking set-up exists in the country, the more transactions take place. Resultantly, it causes more money circulation and circulation of money in market is one indicator of the stable economy. All this is to avoid 'interest' because interest is not permissible in Islamic Shariah. Interests in known as second major sin after shirk. In order to avoid interest, Islam provides many ways of funding as an adequate substitutes that have laid their foundation on the principle of allocating return and cost.*

There are several ways of funding in Islam and one amongst them is Murabaha. This approach has one distinguishing feature from common transaction. In Murabaha contract, bank has to issue actual price of the goods as well as profit added on it. While in case of general sale, the financial institutes don't follow the same.

Many scholars of Islamic Shariah are agreed that Murabaha is permissible and is a renowned source of sponsoring business transactions which is based on following points:[1]

i. *It is not lending and accepting transaction with bank, but a sale transaction.*
ii. *Islam forbade such money is not permissible which comes charging as penalty on late payment of principle amount where in Murabaha no penalty or extra amount charge to customer but he enjoys grace days for late payment.*
iii. *The risk remains with banks till the possession of goods not handed over to customer, even though customer paid fully to bank.*
iv. *In case, customer denies the transaction bank cannot bind him to buy the product, and loss will be handled by banks*

Keywords: Murabahah, Islamic Finance, Islamic Banking, Islamic Shariah

OBJECTIVE:

Objective of this Research Paper is as following:

- Exploring idea about Islamic banking.
- Growth of economy through murabaha transactions.
- Fundamental structure of murabaha and its funding procedure.
- Murabaha transaction and its elements.
  1. Regulatory principles of financing through murabaha.
- Steps of Murabaha financing

- Issues in Murabaha financing

1. INTRODUCTION:

Murabaha is a popular way of investing in business activities which is followed by many commercial institutes including banking transactions. Therefore, this method is specially associated with economic sector where mostly banks use it as a means of trade dealings or for purpose of purchasing goods through banks.

Islamic Shariah is the initiator of this term, "Murabaha", therefore, it speaks of a special type of transaction which is not directly linked to business or with conventional banking affairs. Murabaha transaction relates to a situation where vendor makes an agreement with buyer so that buyer can purchase some goods on his behalf and deliver it to him in consideration of cost plus a margin of benefit added on it. In murabaha transaction, the distinctive element involves where vendor reveals not only the real price but also the profit margin on the deal. The methods of adding margin of profit can be either in form of money or ratio.[1]

Furthermore, Parties can pay the amount either at the time of deal or on following time which they can mutually decide upon.[2] It is important to note that such dealings are not merely associated with delayed method of paying money but it can be paid instantly at the time of making the contract. Usually, people misperceive and purview it only in reference of banks.

In short, it is a simple form of sale featured in Islamic modes of business financing. If we sum up the definition, main point of difference between simple sale and murabaha transaction is the proclamation of actual cost and addition of profit side by side.

For instance, where a person earns profit on some dealing without mentioning the profit margin and cost separately, such transaction does not fall under the concept of murabaha but only called as "Musawamah".

1.1 MURABAHAH: A PRACTICAL APPROACH

Murabaha agreement contains both actual price and extra proceeds. It has been categorically divided into two kinds. First one relates to the situation where financial institution makes transaction in the absence of any prior undertaking to client for buying goods. Secondly, interested party place an order while bank buys it outside and deliver the goods to such party. In this way, bank has to first enter into a promise with the client and afterwards proceeds.

At present, there is difference of procedure between Shariah compliance mode of transaction and conventional one. In this way, request is made through any concerned forum for purchase of goods on credit and this method is coined as purchase ordered murabaha.[3] These modes are corroborated by Shariah standard of AAOIFI and other particular frameworks exist only for the benefit of public at large.

1.2 MURABAHAH: SHARIAH COMPLIANT MODE OF FINANCE

It is argued that murabaha is a way of financing when bank has to mention clearly the price and profit of any purchased goods. One liner note can be that murabaha involves the course of buying goods on behalf of its clients.

Apparently, added profit does not make any difference as compared to interest incurred by current system of banking and finance. In one way or the other, it is another version of this term. They have legalized the use of interest through this process. There is no one who can challenge the legitimacy of this mode as it is widely accepted under the rules of Islamic law.[4]

The legal ground for acceptance of murabaha

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[1] Muhammad Ayub. *Understanding Islamic Finance*. John Willey & Sons Ltd Publisher (2007), Chapter #9, p.213

[2] Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI Standard on Murabahah, 2004) ; Shariah Standard No. 8, p.199

[3] Mills, Paul S. and John R. Presley (1999); Islamic Finance: Theory and Practice, London, UK: Macmillan.

[4] http://www.darululoomkhi.edu.pk/fiqh/islamicfinance/murabaha.html#features

under Shariah compliant modes is the illustration that it is a process of resale and not merely an exchange of currency for currency. Firstly, bank purchases the commodity and then secondly, sales it to the customer in consideration of money. During such process, element of risk prevails between the transactions. Supposedly, bank is responsible to face the danger if price goes down and client is no more willing to buy it on already fixed high price. The bank would bear any such consequences. Another aspect of Islamic bank relates to the fact that it provides a wide range of services as compared to modern banking system.

It is high time to have a thoughtful approach in order to comprehend the true nature of this mode and make people aware of its function so they may embrace it wholeheartedly instead of going back to conventional system. Currency and produces have same level of treatment under the archaic system of financing. So, these are treated as per the whims of the parties because they can either sell it or deal over it. Contrary to it, Shariah doctrine has a different approach and do not follow this philosophy.

1.3 APPLICATION OF MURABAHA UNDER SHARIAH

Originally, murabaha doesn't find its root from Holy Quran and the Hadiths. Its existence depends on some other principles. For the purpose of its meaning, compliance with Shariah is essential ingredient for the validity of murabaha contract. It is evident from the following verse of Holy Quran.

It is no crime in you if you seek of the bounty of your Lord.

(2:198)

Trade is made legitimate because Shariah has allowed business.

2. COMMERCIAL STRUCTURE AND ISLAMIZATION IN PAKISTAN

In Pakistan, 1977-78 is an era of Islamization in commerce and it witnessed huge reforms in this sector. In order to implement an interest-free economy, Pakistan strived to enforce these developments throughout the country and stood prominent amongst three Islamic states who were under the same process. It had devised a policy to implement such scheme in step wise.[5] Relevant laws were enacted and Mudaraba companies Ordinance was issued to deal with the matters arising out of it. In addition to it, company laws were also amended and these included different provision for this purpose.

All financial programs are initiated under the authority of State Bank of Pakistan. It also performs supervisory role in matters pertaining to devise a strategy, guidelines for various sources of Islamic banking and its legitimate consequences. With respect to murabaha agreement, it also finds its guiding principles from the policy framework of SBP but there is no separate or distinct piece of legislation as being its legal framework. It is also covered under the existing company law.

3. FUNDAMENTAL PRINCIPLES OF MURABAHAH

Following is a list of guiding principles for murabaha agreement. [6]

- Bank must initiate and follow the process of purchasing goods. Murabaha doesn't apply on such goods which the customers have already owned and also for intangible thing.
- Place of delivery, time of payment and identity of goods should be assured while performing the contract.
- Possession of such commodity is necessary when a bank is in process of sale. Title is more important than mere

[5] The Islamization measures included the elimination of interest from the operations of specialized financial institutions including HBFC, ICP and NIT in July 1979 and that of the commercial banks during January 1981 to June 1985. The Legal framework of Pakistan's financial and corporate system was amended on June, 26 1980 to permit issuance of a new interest-free instrument of corporate financing named Participation Term Certificate (PTC).

[6] Usmani, T.U. (1999). An Introduction to Islamic Finance. Idaratul-Ma'arif, Karachi, Pakistan

actual custody.

- Signing such document is not prerequisite unless actual sale takes place.
- When a deal is done between the parties, purchaser doesn't have right to re-negotiate the agreement with bank either by way of price or so on.
- Legal sanctity is attached to this agreement and no one can overlook its terms. These are strictly complied in accordance with the actual document.
- In order to secure expense within due timeline, bank can demand to furnish security from the customer.

The basic principle of murabaha outlined above, specifically when bank buy the goods and deliver such title to the client, apply to international as well as domestic trade.

An Example of Murabaha Financing

A textile mill is in need of some chemicals to dye their products and the chemicals are not available in the local market. They approach the Islamic bank and give a complete description of the goods required, along with the particulars of suppliers and some idea of the price. In most cases, the price is already settled between the suppliers and the mill, which needs a financing facility for the period in which these chemicals are used for finishing the product and its sale. The bank quotes an amount which it will charge as its profit, the list of goods is signed and the bank. The bill is drawn on the Islamic bank and the bill of lading is made to the order of the bank. The export bill is negotiated, and the negotiating bank is reimbursed by the Islamic bank. The documents are received by the bank, and after a week the consignment is also received. The client approaches the bank for its purchase.

3.1 FUNDING IN MURABAHA AND ITS CHARACTERISTICS

• Unique feature of murabaha is often described as a transaction where bank agrees that purchase amount can be given after the conclusion of sale along with supplementary proceeds.

• It is important to note that murabaha is a deal rather than credit. Therefore, it is essential to consider constituents of an effective sale.

• Major objective behind concept of murabaha lies in buying certain goods. Let's suppose, a person is in need of raw cotton for manufacturing purpose then bank proceeds with a contract of sale. However, it doesn't include payment of already purchased goods including energy bill or payment of remunerations for the employees.

• Bank should have title of goods prior to its transfer.

• As per Islamic law, the procedure for murabaha transaction should be accompanied as that at first, bank itself ought to buy the product, and then it should deliver the same. Another approach can be in form where bank acquire goods through its representative and supply it to the concerned party. In special circumstances, bank may agree with the client to buy the product himself in a capacity of being an agent. So, the customer buys it on the behalf of bank and afterwards hold its ownership on the basis of deferred payment.

• As mentioned earlier, seller is permitted to make an assurance if he takes the possession of goods. This principle of valid sale is also applied on murabaha. However, if he doesn't own the goods at the time of delivery then he is barred by law not to do so.

• Murabaha does not stand valid on the basis of 'buy back' rule. Because bank has to first buy the product from third party then it delivers the same to its customer.

• In order to satisfy itself, bank can also ask for security to its satisfaction and to ensure the speedy imbursement of amount.

• No extra charges can be imposed if the client does not comply with the due date of payment.

4. PRACTICALITIES OF IMPLEMENTING MURABAHAH

A renowned Islamic scholar, Mufti Taqi Usmani (1999) has list down different rules of murabaha and steps to be followed by a bank when it makes such agreement.[7]

i. In this transaction, bank enters into a sale promise and the client assures to buy the commodities. But this deal adds certain profit percentage along with price of the product. Bank declares such profit margin separately.

ii. A contract of agency is signed when the client demands to buy a specific product. So, bank permits the customer to purchase the goods himself in the capacity of his agency relationship with bank.

iii. When bank allows customer to purchase himself, he buys the products as an agent of the institute. Thereafter, he obtains the possession from the bank.

iv. After the customer has purchased the product on behalf of bank, he makes a proposal of acquisition with the bank.

v. Lastly, bank concludes the deal and accepts the offer of customer. So, buyer takes the control and risk attached to the product.

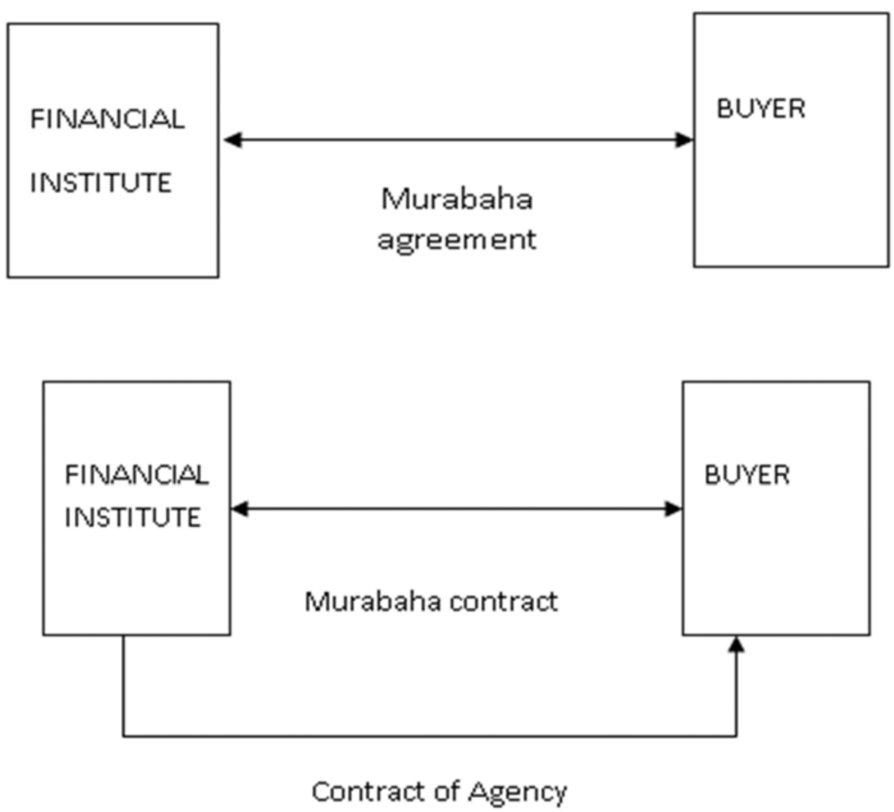
4.1 STEPS BY STEP MURABAHA FINANCING

Certain rules are framed in the process of making an agreement of murabaha.

4.1.1 STEP BY STEP MURABAHA FINANCING: PRACTICAL APPROACH

An agreement is signed between them. Bank enters into a promise to sell and the customer undertakes to purchase the product with fixed percentage of profit. This agreement may specify the limit up to which the facility may be availed. It can also place a bar to the extent of facility that can be available for the parties.

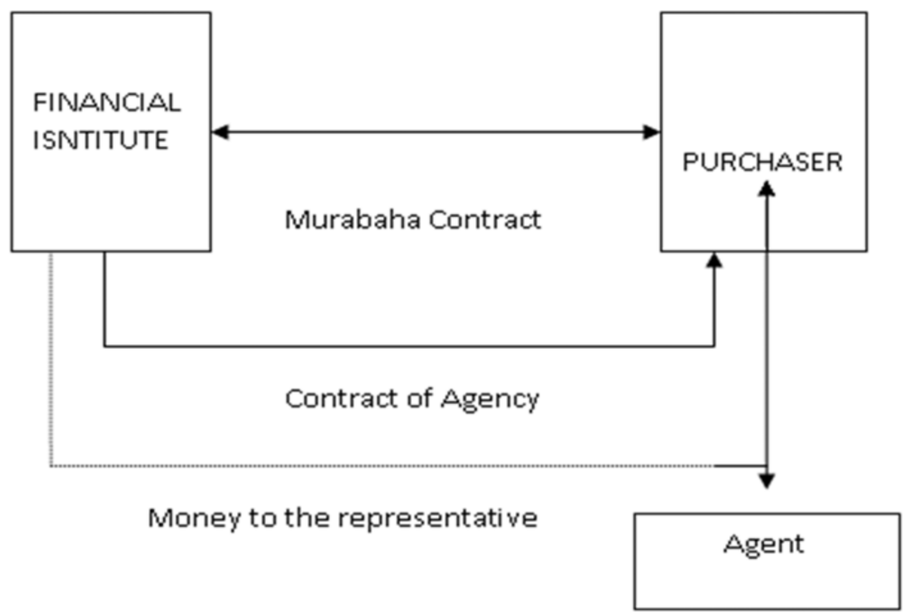
4.1.2 ROLE OF BUYER: AN AGENT OF BANK



[7] Usmani, T.U. (1999). An Introduction to Islamic Finance. Idaratul-Ma'arif, Karachi, Pakistan

On purchase of special kind of product, financial institute assigns the customer role of agent and he buys such goods. So, they enter into an agency relationship.

4.1.3 GRANTING MONEY FOR BUYING THINGS: ROLE OF BANK

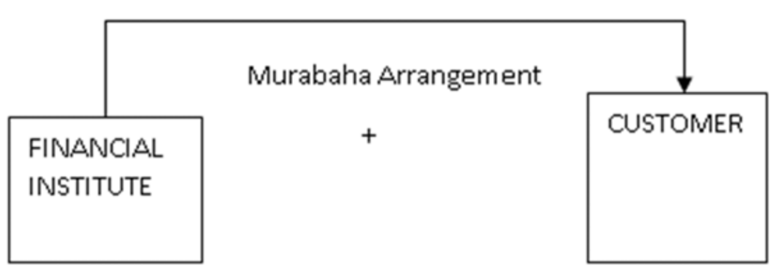


On behalf of institute, the customer buys the product and acquires the control such thing. He acts in the capacity of being an agent of bank.

4.1.4 PURCHASER'S BID FROM BANK TO BUY THINGS

After acquiring the product, bank receives information from its client of such deal. Afterwards, the customer also makes a proposal of purchasing the item from the institute.

4.1.5 APPTOVAL FROM BANK AND CONCLUSION OF CONTRACT



Under murabaha contract, it is requisite that the goods should continue in the risk of the institute between third and fifth step.

5. PRACTICAL EXAMPLES OF MURABAHAH

Under Islamic banking, use of murabaha in everyday activities is helpful to understand the true nature of transaction. Some of these examples are discussed below.

a. Bank loan
b. Liquid assets
c. Loan syndication
d. License in global system for mobile
e. Buying a car

a. Bank Loan:

In trade, murabaha is used as a Shariah compliant method of financing home sales. In gulf, two banks have made collaboration with each other in order to arrange facility for investing money in buying home in the UK. This is related to the purchase financing of residence homes at a certain price that would be returned in terms of installments.

b. Liquid asset

A murabaha contract for Esfahan steel company was made during 2005 between Emirates Islamic bank and ABC Islamic bank. This amount was used for the purpose of buying material in order to complete the projects of ESCO.

c. Loan syndication

Financing a project is the root cause of using murabaha during business transactions. In Pakistan, many Islamic as well as conventional banks are using this approach in order to make available a temporary facility to an autonomous power plan, usually termed as Hub river scheme. Citibank and many others have used murabaha with the intent of forming a consortium so that these can arrange for a period of six month, an amount of worth US$10 million to inject in the Hub scheme.

d. License in global system for mobile

In Saudi Arabia, Emirates telecommunication corporations appeared as a winning bidder in a sale of second GSM license for consortium. At that forum, it opted for the mechanism of Shariah compliant method of funding for the project.

e. Buying a car

Murabaha is operated to finance different goods i.e., cars in order to purchase them. This approach is extensively used in various gulf banks and corporations.

6. ISSUES IN MURABAHA

6.1 ISSUES

Murabaha is a particular transaction of Islamic law. Its scope and application raises certain issues that need to be addressed one by one. Without clear picture of murabaha, the process might stay vague. Furthermore, its real presentation remains at risk to miscalculations besides errors.

Some of the major concerns linked to murabaha contract is late payment of money. Bank has to obtain the goods in terms of money while it transfers the item to the customer by way of deferred payment. In this way, it has to fix the time frame in which payment in due would be returned. Therefore, it rises the payment while considering all those factors and situation. The value of goods would be higher if the time frame extend to its way. In turn, worth of the product becomes increasingly handsome than that of the value in common market. Conversely, if the period of maturity is longer, the price of such commodity would also higher. It raises a question if the worth of a product can be increased during a credit sale as compared to the price of a product in cash sale, then what would be the actual process to measure it. This situation can be interpreted in different ways. On one hand, a few people argue that it ought to be treated as equal to interest because extra money is taken in this transaction where the price is increased on the basis of extension of time for payment. They consider murabaha dealings are in nature same as interest based money granted by other financial institutes.

Apparently, this argument look like a reasonable point but it shows a confused view on Islamic doctrine of interest. This notion is clearly depicted in the following ways.

6.1.1 Theory of contemporary capitalist

During business dealings, currency and goods are treated equally under the modern capitalist theory. It does not make any point of difference between both of these terms. Because both of these can be substituted with each other and used in trade. Parties can sell them in the price of their own choice. If the parties have made a mutual consent, they are entitled to trade one dollar for the worth of two dollars.

On the other hand, Shariah rules don't agree to this concept. Money and products are treated differently under Islamic principles. Accordingly, both of these have different characteristics. [8]

6.1.2 Standard of Interest Ratio

LIBOR is a method of determining a ratio of mark-up in murabaha according to the present rate of interest. A number of financial institutes are using this method. But different experts take it as a prohibited way of measuring rate of interest over the earned profit. Because they consider the interest inconsistent with the rules of Shariah and its measuring scale also comes within the ambit of prohibition. [9]

Apparently, it is similar to the interest-sed method of raising funds. Therefore, it is advisable not to use it for measuring a reasonable proceeds. On the other hand, an essential ingredient of murabaha is that it is a valid sale in its true nature and it comes within the ambit of legitimate ways of financing. So, the scale of measuring interest rate in murabaha contract in order to determine the ratio of profit does not make it invalid or prohibited. Interest rate is only a standard and murabaha transaction itself does not contain interest.

6.1.3 Undertaking to buy

The contemporary Shariah scholars have pointed out one more key issue in murabaha transaction and it is a matter of great debate among them. It is argued that the bank cannot enter into an authentic sale at the time when the customer demands finance. Because the client may refuse to buy the product at any time before the conclusion of contract. In this way, the financial institute has to face an uncertain state of affairs if it has suffered massive expenditures to buy the product and the client rejects the acquisition. The bank may bear an irreparable loss in case where the purchased item is not possible to dispose of due to its low demand in the market.

6.1.4 Securities on murabaha funds

In murabaha transaction, one more issue relates to this fact that the price is mostly in form of deferred payment. For the purpose of securing the amount, the bank wants to ensure that the buyer will pay at a later stage. In this way, the bank may ask the client to provide security to its contentment. This security can be in either form of a mortgage or some kind of duty.

6.1.5 Furnish a guarantee in murabaha

A guarantee is also another precautionary measure in murabaha which the financial institute may seek from the client to provide through third party. Therefore, it has the satisfaction that if the customer doesn't pay the amount and makes default of payment, it should have a way to redeem the money. In this way, guarantor would be responsible for the payment of default price.

6.1.6 Drawback of failure to pay

If the client makes default in due amount, it raises an additional problem in murabaha contract. The price cannot be increased if any default occurs in its payment. The value of loan increases with the course of time under interest-based credits. While in murabaha, once the rate is fixed, it cannot be greater than before. Sometimes, corrupt customers takes unfair advantage of this restriction and intentionally escape from paying the amount within a fixed duration.

6.1.7 Rebate on earlier payment

Occasionally, the customer intends to pay prior

[8] Siddique, M.N. (1983). Issues in Islamic banking, Leicester, UK: The Islamic Foundation.

[9] Kamali, Mohammad Hashim (2000). Principles of Islamic Jurisprudence, Cambridge, UK: The Islamic Texts Society, revised edition.

to the due date. Because he desires to receive a concession on the actual cost. It involves a question to be debatable whether it is permitted to let him a rebate in lieu of his earlier imbursement.

Under Islamic philosophy, this issue is commonly termed as "Zawatajal". It literally means giving discount and receiving the due amount almost immediately. This concept was permitted as par some of the former jurists but the widely held opinion of the Muslim jurists and the four recognized schools of thought do not permit it if it is conditional. It is not a legitimate way of granting discount if there lies a condition precedent for earlier payment.[10]

This rebate system cannot be stated in murabaha agreement and the customer is not permitted to claim such rebate as a matter of right. Nevertheless, bank itself can grant him a choice of rebate on its own motion. Then it would not be offensive.

6.1.8 Price control issue

Murabaha refers to cost-plus transaction. In this manner, it deals with controlled price of the product where the seller can determine the particular price of the goods. Murabaha doesn't exist if the exact cost cannot be find out.

It raises another issue that the currency ought to remain the same. Murabaha contract should be established on the same currency in which the seller has bought the goods from the original supplier. For international trade, it may be challenging to base both acquisitions on the identical coins. The worth of the new transaction would be remunerated in foreign cash when matter has been concluded between a foreign country and customer in Pakistan. The price of next sale would be determined in local currency of Pakistan.

6.1.9 Contents in murabaha

Murabaha is a particular kind of deal, therefore, its subject matter is similar to common sale. As a result, the bonds of a legitimate business could be traded or else acquired in murabaha. According to the Islamic principles, the shares of a corporation denote the owner's fair title in the possessions of the company. In order to form a valid transaction, it must fulfill all the essential requirements. Firstly, the seller acquires possession of the shares at that point sells it to the customer. Buyback plan or marketing the shares lacking their possession is not permissible at any cost.

6.1.10 Rearrangement of Deferred payment

Sometimes, the buyer is not able to pay the amount on date fixed in murabaha agreement, he makes application to the bank for extension of due date. In this way, the payment is rescheduled to facilitate the purchaser. In conventional banks, the credits are usually deferred by imposing an extra charges. Murabaha system does not follow this rule of imposing additional amount. Thus, the volume of the murabaha amount continues alike in the equal money.

6.1.11 Safety measures in murabaha transaction

Negotiable instruments does not form part of murabaha transaction. These cannot be created for auction and buying in subordinate marketplace. It has a clear intention for not doing so. In murabaha, any signed document would be considered as an obligation to the bank. Because the instrument will signify a burden of debt on his part. The customer has to pay the due amount reflected in the paper. If he hands over this paper to any third party, it will denote the meaning of transfer of money. Therefore, if money is exchanged for money in the identical money, such allocation ought to be at equal price. The value of money should not be increased or decreased in this transaction.

6.2 FUNDAMENTAL MISTAKES FOUND IN MURABAHA CONTRACT

For purpose of practical implementation of murabaha, it is relevant to highlight some basic mistakes of financial organizations.

6.2.1 Firstly, the most evident mistake is the false assumption of murabaha. Mostly,

[10] Hallaq, Wael B. (ed.) (2003). The Formation of Islamic Law, Aldershot, UK: Ashgate

murabaha is considered as a collective mechanism that can be used for every type of funds accessible through conventional interest-based banks.[11] Some commercial organizations believe in this fabricated theory. They use murabaha for sponsoring above costs of a firm or business e.g., paying staff's remuneration, electricity bills and setting off their arrears owed to other parties. These activities are entirely objectionable in murabaha contract. Murabaha is a specific kind of agreement which can only be used when a product is planned to buy.

6.2.2 Sometimes, the users sign this instrument in order to get funds alone. The party doesn't have intention to materialize this money in buying certain goods. The client has no genuine purpose and only follows the formal procedure of specifying any goods.

Islamic banks must be cautious to avoid these false transactions. They must check the originality of demand and consider only those customers who have a genuine interest. It is their duty to make sure that the client really intends to purchase a product. All precautionary measures must be taken to endorse that the operation is genuine.

6.2.3 Sometimes, the process of sale becomes operational even prior to commence the purchase by the seller. It is a mistake committed in dealings of murabaha. Parties sign the instruments of murabaha all at once and don't take cognizance of different steps involved in it. Often, this transaction involves only one contract that is signed at the time of approval from the authority. Such practice is not according to the rules of murabaha transaction. Murabaha agreement is a full-fledged package of various instruments and these are applicable one by one respectively.

6.2.4 In most of the banks, the customers buy the goods themselves through third parties and bank pays the expenses. This practice is not protected under the rules of Islamic law. Because a product cannot be purchased again if it has already been bought from the identical seller. This method is called as a buyback technique. In Shariah, this process is not a legitimate way of funding particularly in murabaha. Murabaha is a mechanism that can only be applicable to certain goods which the customer has not already purchased.

7. RECOMMENDATIONS

Islamic banks and other institutes should make determination to step by step increase their funds by way of profit and loss sharing basis. In addition to it, they should also decrease the share in murabaha or other existing methods of revenue.

This reshuffle in Shariah compliant modes can be exemplified through social and economic sector of finance. Consequently, it could also attain additional and adequate functioning consequences. In this way, its collaboration can also reach out the European, American and other financial institutes. The conventional banks can be influenced to start using Islamic modes of financing in their subsidiaries and partners by way functioning under Shariah compliant banking.

Islamic system of banking would prevail justice in the society. The public at large could benefit from the opportunities available under this sector. Consequently, its positive impacts would be spread all over the social fabric and economic well-being could be ensured.

The following arguments are important to note which provides a comprehensive object of murabaha transaction.

1. Originally, murabaha itself is not a distinct and full-fledged approach of funding. In simple words, it is considered as a sale on cost-plus base. It is a situation when a party is going to buy a product and bank adopts the method of deferred payment on such transaction. It is neither a comprehensive contract that may provide funds for all sorts of deals nor it is recognized as an ultimate mechanism of Islamic finance. It can only be used as a short-lived stage. On the other hand, Musharkah and

[11] El-Gamal, M.A. (2003). A Basic Guide to Contemporary Islamic Banking and Finance, elgamal@rice.edu http://www.ruf.rice.edu/~elgamal

Mudarabah are recognized as the perfect approaches of Shariah. It can only be used as an alternative of those contracts if other methods cannot get employed.

2. It is the duty of relevant authority to ensure the transparency of murabaha transaction. When the concerned authority approves the contract, it should examine whether the client has a genuine cause or not. No such agreement be set in motion where they only execute the plan for purpose otherwise than purchase of commodity.

3. Murabaha cannot be operated for compensating the additional expenditures. These includes payment of bills, slowing down the arrears of the customer and acquisition of moneys.

4. The prerequisite for a valid murabaha is the condition that the bank must make sure control and possession of the product, before he sells it to the customer on murabaha basis. The bank should be limited of bearing the risk of the product.

5. The financier should purchase the product directly from the supplier and after taking its delivery sells it to the client. This is the best way of concluding a murabaha contract. The contract becomes skeptical when the customer becomes agent to acquire on behalf of the bank. This approach is prohibited by different experts of Shariah law and is only available where it is not directly executable. The contract of agency is not appreciated in genuine transactions.

6. The capacity of the purchaser should be clearly distinguishable when the bank appoints him as the agent. It is made only in matters of urgent need. He informs the bank after buying the product under his capacity of being an agent. Afterwards, he makes an offer of purchase to the bank. In response to this offer, the banker expresses his approval to this offer and the sale is deemed to be complete. At this point, he will become a debtor and the consequences of obligation will continue.

Murabaha is a border-line contract and a minor digress from the procedure falls the step in the illegal part of interest-based funding. Therefore, this transaction must be taken with due diligence. The requirements of Shariah should not be taken carelessly.

7. Once the price is fixed, it can neither be increased nor decreased on any ground. Two different prices for both cash, and credit sales are allowed on a certain condition. The customer has to clearly choose one option amongst the two.

8. The customer can make promise that the he will pay the price at the appointed time. In order to fulfill his resolve, he will pay a certain amount to charitable fund of the bank as a compensation to his default in payment. This amount may be based on annual percentage ground and it must regularly be meant for only altruistic devotions. However, this amount can no longer form part of the revenue of the organization.

9. The Customer is not entitled to claim rebate in case of earlier payment. But the bank itself can waive some portion of the amount. There should not exist any condition precedent to forgo the amount in the murabaha contract.

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