

### ***Murabaha (cost-plus sale) product***

This product involves the resale of a commodity, after adding a specific profit margin by the lender to the borrower who agrees to buy that commodity for the new offered price. That is Muslim Aid buys and resale a commodity with deferred price to a client who has identified the commodity as a means to generate income generation. Muslim Aid purchases a commodity on behalf of a client and its resale to the latter on cost-plus-profit basis. Under this arrangement Muslim Aid discloses its cost and profit margin to the client.

***How the payment is made?*** The payment for the purchase consists of instalment payments specified in the initial sale agreement.

### ***What are the basic rules for Murabaha?***

1. The subject of sale must exist at the time of the sale. The commodity of sale must be specifically known and identified by both Muslim Aid and the client at the time of the sale. Hence non-existence commodity at the time of sale cannot be sold as it makes the contract void. Murabaha is not possible on things that cannot become the subject of sale. For example, Murabaha is not possible in exchange of currencies.
2. The commodity should be in the ownership of the Muslim Aid at the time of sale. If Muslim Aid sells a commodity that itself has not acquired, then the sale becomes void.
3. The commodity of sale must be in constructive possession of Muslim Aid. This means a situation where Muslim Aid has not taken physical delivery of the commodity yet it has come into its control and all rights and liabilities of the commodity are passed to it including the risk and its damage.
4. Murabaha, like any other sale, requires an offer and acceptance which will include assurance of price, place of delivery, and date on which the price, if deferred, will be paid
  - a. The sale must be instant and absolute. Thus a sale attribute to a future date or a sale contingent on a future event is void.
  - b. The delivery of the sold commodity to the client must be certain and should not depend on a contingency or chance.
  - c. The certainty of the price is a necessary condition for the validity of the sale. If the price uncertain, the sale is void.

***What is the crucial step of Murabaha financing?*** The client and Muslim Aid sign an overall agreement whereby Muslim Aid promises to sell and the client promises to buy the commodity from time to time on an agreed ratio of profit added to the cost. Once the sale transaction has been concluded, the selling price determined cannot be changed.

***What commodities are not allowed to financing?*** The commodities of sale should not be things used for an un-Islamic purpose.

***Can the sell be conditional?*** The sale must be unconditional. A conditional sale is invalid unless the condition is recognized as a part of the transaction according to the usage of the trade.

***When the client is liable of the commodity?*** The client is liable to the commodity immediate after the commodity is transferred to him/her. Once the commodity is sold, its ownership transfers from Muslim Aid to the client and it is therefore no more a property of Muslim Aid.

***Is there any guaranteeing required for a client getting Murabaha for Muslim Aid?*** Muslim Aid can ask the client to furnish a 3<sup>rd</sup> party guarantee. In case of default on payment Muslim Aid may have recourse to the guarantor who will be liable to pay the amount guaranteed to him. The guarantor can handle the issue adhering to the following two ways:

1. The guarantor cannot charge a fee from the original client. The reason being that a person charging a fee for advancing a loan comes under the definition of '*riba*' - *interest*.
2. The guarantor can charge for any documentation expenses.

***Can Murabaha be rolled over after the contract period ends?*** Murabaha transactions cannot be rolled over for a further period as the old contract ends. This is because of that Murabaha is not a loan rather the sale of a commodity, which is deferred to a specific date.

***How can the cost of Murabaha be calculated?*** Murabaha can only be accurate when the Seller can determine the exact cost it has incurred in acquiring the commodity it wants to sell.

***Is 'sale on deferred payment basis' allowed?*** The deferred payment (Bai' Muajjal) becomes a loan payable by the client (buyer) in a lump sum or instalment.

***What are the conditions for 'sale on deferred payment basis'?*** The conditions for such transaction include:

- a. The price to be paid must be agreed and fixed at the time of the deal. It may include any amount of profit without misgivings of *interest*.
- b. Complete possession of the commodity must be given to the client, while the deferred price is to be treated as debt against him/her.
- c. Once the price is fixed, it cannot be decreased in case of earlier payment nor can it be increased in case of default.
- d. In order to secure the payment of price, Muslim Aid may ask the client to furnish a guarantor.