

Murabaha: (Cost-Plus Financing)

The Sale contract:

A Contract of Sale is an agreement where one person transfers full ownership of an item to another in exchange for money.

Legal Ruling: Sale contract is permissible. Because Allah Said (وأحل الله البيع و حرم الربا) = (Allah has permitted trade and has forbidden interest).

Allah's Messenger (ﷺ) said: "Both parties in a business transaction have the right to annul it as long as they have not separated, or unless it is a sale with a option to cancel." (*Sahih al-Bukhari 2112 / Sahih Muslim 1531*)

Conditions of Sale Contract:

- **Mutual Consent:** Agreement between the two parties.
- **Legal Capacity:** The two parties must be mature and of sound mind and age.
- **Legal Permissibility:** The transacted item must hold recognized value in Islamic law and be lawful for ordinary use outside cases of extreme necessity.
- **Ownership:** The seller must hold legal ownership of the goods at the time of the contract.
- **Deliverability:** The seller must have the physical or legal capability to deliver the goods upon sale.
- **Knowledge:** The goods being sold and its price must be clearly specified and known to both parties to prevent dispute—determined by precise attributes such as type, quantity, weight, or description.
- **Execution:** The contract must be executed immediately without delay or suspension.

Direct Installment Sale

Before discussing Murabaha, it is appropriate to address direct installment sale.

Definition of Direct Installment Sale:

It is selling with an addition (markup) over the initial price in exchange for delayed payment or paying in installments.

Example: A car whose cash price is 50,000 riyals, and a man wants to buy it for a deferred price for a period of one year for 60,000 riyals, or buy it in specified installments where he pays a specific amount of money in each installment. Here, an amount was added to the price of the car in exchange for the extended timeframe.

Legal Ruling: This type of sale is permissible with the **condition** that the price should be fixed.

Legal Evidence: "The Prophet (ﷺ) came to Medina and the people used to pay in advance the price of fruits to be delivered within two or three years. The Prophet (ﷺ) said, 'Whoever pays in advance the price of a thing to be delivered who should pay it for any specified measure and a specified weight for a specified period.'" (Sahih al-Bukhari, 2240)

The Concept of Murabaha (Cost-Plus Financing)

A Murabaha transaction is a cost-plus sale where the seller fully discloses the item's original cost and the markup charged.

Originally Murabaha was a simple trade between the buyer and the seller, it now has become a core financing tool for Islamic banks.

Today, the process involves three parties: **the customer asks the bank to buy a specific item, and the bank purchases it and resells it to the customer with an agreed-upon markup, settled over time through fixed installments.**

Some people have questioned the legality of this financing technique because of its similarity to Reba or interest, but most scholars agree on its permissibility.

The Legitimate Rule of Murabaha: (Cost-Plus Financing)

It consists of the following elements:

- 1- **A promise from the buyer to the bank to purchase the goods. However, the promise is not legally binding before the first contract (between the bank and the seller) but it could be sinful if it is not related with a harm to any party**

In this stage bank is not allowed to take any amount of money from the client according to this hadith (Don't sell what you don't have)

Why?

After the bank buys the commodity, the promise will be legally binding which means that the client either buys it or pays compensation

- 2- **First contract:** sale contract between the bank and the seller (the commodity owner), and it is allowable, by the scholar's accord.

But the bank should own the commodity completely by purchase order and should be checked before signing the second contract with the client.

3- **Second contract:** a profit contract sale between the bank and the purchaser, states that the buyer is going to pay the price in installments, and increase the profit, to make the payment in installment,

The rule of this contract: It is permissible if it has the following conditions:

a- The contract parties **agree** on cashing or postponing, along with specifying the price.

b- The contract should not include the installment interests separated from the basic price; they should be part of the price.

c- The purchaser should not be obliged to pay any extra money rather than the specified installment, if there is lag of payment.

That means the price, in this contract, should not be incremental, in case of the deficit in the price redemption.

d- the sale items should not be one of the usurious items, where the exchange instantly should be required, such as gold, date etc. Because the sale price of Murabaha was delayed either partly or whole.

e- The bank can guarantee its rights through warranty or mortgage