116968 - The difference between muraabahah and riba-based loans

the question

There is a man who is looking for financing. He has a company that has ten million in its account, and I found a second man who says, “I will give him financing ten times the amount in the company’s account, and he can pay it back over ten years, with an annual profit of 4%,” and he describes it as muraabahah. I am an intermediary or agent. I put the first man in touch with the other, and I took my commission. Is this work of mine permissible?

Detailed answer

Praise be to Allah.

Permissible muraabahah is where the financer (the one who has the money) buys something for one hundred million – as in the question – then when he has acquired it and taken possession of it, he sells it to your friend for payment in instalments over ten years, with a profit of 4%, for example; then your friend can keep the product or sell it in the marketplace for cash at a lower price, in order to obtain the cash.

This is muraabahah which is valid according to Islam. For more information, please see the answer to question no. 36408.

But if the financer gives this money (one hundred million) to your friend on the basis that he will take it back from him in instalments, with an increase of 4%, then this is a riba-based loan, which is haram, whether it is called financing or muraabahah. In fact calling it by this name is a kind of confusing and misleading trickery, which is also haram.

The scholars are unanimously agreed that riba-based loans are haram.

Ibn Qudaamah (may Allah have mercy on him) said: Any loan in which it is stipulated that more

(than the original amount) be paid back is haram, and there is no difference of scholarly opinion concerning that. Ibn al-Mundhir said: They are unanimously agreed that if the lender stipulates that the borrower must pay back more or give a gift, and he gives the loan on that basis, if he takes anything additional to that, it is riba. It was narrated from Ubayy ibn Ka‘b, Ibn ‘Abbaas and Ibn Mas‘ood that they forbade loans that bring benefits. End quote from al-Mughni, 6/436

What appears to be the case from your question is that this transaction is not of the first type. You did not mention any product that the financer bought then sold to your friend.

If the transaction is a riba-based loan, then your involvement in it is haram, and what you must do is two things:

1.repent to Allah, may He be exalted, and do not do that again; and do not go ahead with any transaction before you find out the Islamic ruling on it

2.get rid of the money that you still have, because it came from haram work; as for that which you spent before you found out that it is haram, you do not have to do anything about it.

And Allah knows best.