



# Murabaha

**ISLAMIC ECONOMICS PROJECT**

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# MURABAHA

- Murabaha is a sale transaction.
- Technically, Murabaha Muajjal is a deferred payment sale.
- Murabaha is used in working capital financing, SME financing and trade financing.

# MURABAHA

- Murabaha is the most widely used alternative for short term trade financing involving sale of an asset.
- Murabaha is used in working capital financing, SME financing and trade financing.
- The customer is asked to buy the asset acting as an agent to the bank because he has more knowledge about the product and better relationships with the supplier to obtain the goods at a competitive price and in a timely and appropriate manner.

# PROCESS FLOW OF MURABAHA TRANSACTION

The process flow is as follows:

1. Islamic bank and the client sign a Master Murabaha Finance Agreement (MMFA) and an Agency Agreement (AA).
2. According to the Agency Agreement, the customer purchases goods from the supplier on bank's behalf.
3. The customer submits order form which the bank signs after scrutiny and thereby give the client (its agent) the permission to buy the asset from the supplier by submitting this signed order form to the supplier.

## PROCESS FLOW OF MURABAHA TRANSACTION

4. The customer undertakes to purchase the asset from the bank. It is a one-sided promise and undertaking.
5. The bank pays the supplier preferably directly and obtains title and physical/constructive possession of the asset.
6. The customer in most cases obtains constructive possession for the bank on bank's behalf at its own premises.
7. Authorized person of the bank authenticates delivery at client's warehouse and ensure that bank's asset remains distinct and does not mix up with other similar assets of the client.

## **PROCESS FLOW OF MURABAHA TRANSACTION**

8. The customer signs a declaration that he has purchased the goods on bank's behalf and now he is willing to purchase the asset.
9. Bank accepts the offer and the sale is executed.
10. Now, the customer is able to use or sell the asset as he becomes the owner of the asset irrespective of the fact that he has fully paid the bank or will do so with deferred payment.
11. The customer pays the agreed price to the bank either in installments or in lump sum now or in future.

# ISSUES IN MURABAHA

- It is necessary that the client does not consume the asset before the signing of declaration.
- It is compulsory that subject matter of sale must be Halal.
- It is required that the client does not sell the subject matter of sale prior to signing declaration.
- Signing order form must always precede declaration.
- Date on order form must be earlier than date on declaration form when they are signed.

# APPLICATION OF MURABAHA IN ISLAMIC FINANCE

- Consumer Financing
  - Using Reverse Murabaha as an alternative to Credit Cards
- Corporate Financing
  - Industrial Raw Material – Local and Imported
  - Industrial Machinery – Local and Imported
  - Plant & Equipment – Local and Imported
  - Agricultural Output – Local and Imported
  - Industrial Output – Local and Imported



# Thank You

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