Practice without theory is blind finance essay

Finance

There is nothing constant in the universe. Allah the creator is eternal. Man the under trial creature on tiny earth appears a short while, acts and disappears from this so vast a stage. And very shortly his acts, good or bad, being recorded very minutely and accurately, judged on the outlines mentioned in the Holy Quran, immune to change or alteration, will reward or punishment on the judgment day, approaching so hastily. Practice without theory is blind. Theory without practice is sterile. It gives an immense pleasure to the researcher, to present the market analysis on the Murabaha and issues to it, as the partial requirement for MBA (Finance) degree. The report is divided into different major parts; each part covers all-important aspects briefly. The aim is to get awareness about Murabaha and discuss its main issues, mistakes and its procedure in bank of Khyber. The researcher has applied his level best to meet the requirements of the report, whatever knowledge the researcher has gained from the whole study of MBA and provided by the esteemed teachers. The researcher hopes that by the blessing of Almighty Allah this report fulfills the requirements of the readers. After conducting my research on Murabaha financing, I have compiled it in a such a way that it will prove be a best source of initial or primary information for the students or individuals who want to get an understanding about Murabaha. It is hope that the readers will find this research Report of immense help in gaining the necessary understanding about Murabaha.

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Acknowledgement

My first thanks to Almighty Allah whose benevolence blessed me and has mercy upon me so I was able to present this study in the coded form.

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Dedication

I dedicate this work exclusively to my beloved parents, who have supported and motivated me on every step. Without their motivation and support, it was impossible for me to complete my study. Also I owe my gratitude towards the highly qualified and knowledgeable teachers of Institute of Management Sciences Hayatabad, who encouraged me to this milestone, and provided me necessary guidance and encouragement to conduct this study.

Executive Summary

The assigned topic for which I have gathered the data from different sources and references to accomplish and to fulfill the requirements of the thesis

titled as " MURABAHA AND ITS CHALLENGES" In chapter first, I have given introduction to thesis which includes background of the study, scope of the study, purpose limitations and methodology of the study. In Second chapter, I have given the literature review of different research papers. In chapter third, I have explained an introduction to Islamic Banks and different modes of finance. It states that among three major economic systems of the world, Islamic economic system is best. This system clear states the permissible and non-permissible economic activities. Islamic banking is a interest free banking system which is totally based on the prohibition of Riba and profit/loss share mechanism. The fourth chapter is about Islamic banking operations and process at the " BANK OF KHYBER". The Islamic banking at the bank of Khyber has been started from 22-11-2004 at Peshawar Murabaha & Ijarah are explained important features deposit schemes of Bank of Khyber. The basic features of these schemes are different from conventional banking deposit schemes and mainly based on profit and loss. In fifth chapter I have explained the main issues and problems in Murabaha. The main issues which are facing by Islamic banking system in Murabaha financing are the modern capitalistic system, using of interest rate as a benchmark, promise to purchase to purchase and so many problems as well, which should be eliminated for the success of Islamic banking system. Chapter six includes analysis of Questionnaires. This questionnaire is designed by the bankers for those customers who are interested in Murabaha financing. This activity is carried out in some Islamic banks. This activity is carried out for the awareness of those who are interested in Murabaha products. The sixth chapter is about conclusion and recommendations. In fact, interest is prohibited in all forms and intent. But

Islamic banks have not achieved their objectives because of inadequate framework of Islamic banks, regulatory and accounting framework, and absence of Shariah audits, ineffective enforcement of contracts, and lack of research of research and development and inadequate training of SBP staff. But by creating awareness in societies, reviewing of all Muslim countries laws and regulations, Islamic banking Research & development centers cooperation among each other, auditors training specialization; central bank cooperation etc. can help us to achieve the Islamic banking objectives hopefully in Pakistan and worldwide.

Chapter 1

Introduction

Background of the study

People want more and more money according to their thirsty nature, but there is some restriction on the acquiring of funds. There is a problem of interest and other variables which are prohibited by Islam because it is harmful for Muslim society in conventional banking system. So the Need arises for a system which is completely free from these nonIslamic transactions. So the system which is developed and established is called Islamic banking system. In this system all the financial transaction will be treated according to sharia.

Purpose of the study

Purpose of the study is that to give knowledge of Islamic mode of financing to the people and their Advantages over the conventional banking system and to aware the people of these methods, that how to use these methods in acquiring funds through this system.

Research Plane

During my research I will check; The processes and procedures adopted by Islamic banks in respect ofMode of financing. Direction of Islam in this regard. Riba and Islam. Murabaha in bank of Khyber. Issues in MurabahaProblems in Murabaha

Scope of the study

Subjective nature of human beings and possible errors may occur. Having a limited knowledge about the topic. Not operating very well in Peshawar. People are not familiar with this system. Relevant data and examples are difficult to find based on Pakistan. Limitation of time to perform extensive data collection and do detail research as we have regular classes , tests, presentations and examinations which were also important that time and time taking activities.

Methodology of study

The data collection method is both primary data and secondary data.

Primary data

The data, which is collected for the first time and have not undergone through statistical tools and treatments, exists in the raw firm, is called as primary data. Personal observation. Discussion with friends and teachers. One interview from a banker

Secondary data

The data which has been gathered before and have passed through statistical treatment and tools is called as secondary data. It is in processed form. The main sources of secondary data will be; Different research papers. WebsitesRelevant booksUnit of analysis is Group and this research is time series.

Scheme of the Report

The report has been divided into seven sections, which are in the following order: Section I: Includes background of the study, purpose, scope, limitations and methodology. Section II: This section of the report includes the available literature on Murabaha. Section III: This section includes the overall view on Islamic banking and Riba. Section IV: This section includes an overview of different modes of financing. Section V: This section includes the chapter " Murabaha at the bank of Khyber". Section VI: This section includes issues of Murabaha. Section VII: This section includes the analysis of questionnaire. Section VIII: In this section conclusion and recommendations discussed.

Chapter 2

Literature Review (Islamic Banking)

Bassam Maali, Peter Casson And Christopher Napier (2006)This paper emphasized on social discloser by Islamic banks. Islamic banks are operating mostly in developing countries, where social concerns are less important, so Islamic banking using different methods to solve this financial problem of the society as zakah, charity, qard hasana, benchmarking and other modes of financing. M. Kabir Hassan & Abdel-Hameed M. Bashir (2003)This paper analysis the effect of banks characteristics and overall financial environment on the performance of Islamic banks and for this purpose both the external and internal characteristics can be used. The analysis shows that controlling the macroeconomic environment, financial market structure and taxation, the profitability will be high. So we can say that there is strong positive co-relation between profitability and overhead. Mohammed Obaidullah (2004)The purpose of this paper is to identify the Islamic system for currency exchange. Such as, spot transactions, options, forwards, futures, swaps and various complex and composite products of financial engineering in terms of the overwhelming need to eliminate any possibility of riba, minimize gharar, jahl and the possibility of speculation of a kind akin toGames of chance. It is obvious that spot settlement of the obligations of both parties would completely prohibit riba and gharar, and minimize the possibility of speculation. However this may involve some problems of techniques. There is also possibility of infinite unearned gain or loss if the obligations are deferred to the future date. That's why riba is prohibited in Islamic banking. Manzoor khaf and Tariqullah khan (1992). The emphasize of this paper is on the prohibition of Riba. For the development of Islamic banking, the Islamic scholars' defined interest, profit, wage, management, modified the mark up principles, renting and sale based principles in term of Islam. They also told that interest and Riba are using interchangeably. So we can say that the diversified nature of the principle of Islamic financing makes it capable of meeting the numerous financial needs of the society. Elie Elhadj (September 2001): The purpose of this study is to examine the Islamic financing contribution to the numerous projects in a country, for this purpose Islamic banks using different strategies, such as motivating religious people to keep their deposit based on demand and PLS basis, using mutual funds, working in low risk countries and so many other strategies for contribution to society. Kjetil Bjorvatn (1998)This paper emphasize on the role of Islamic banking in the economy, which is the prohibition of Riba and the theory and practice of Islamic banking. Experience from different countries indicate that Islamic banking is working very successfully in rural areas instead of cities and the main reason of this successful banking is PLS. Humayon A. Dar and John R. Presley (2000/01)As we know the practice of Islamic banking is different from those of convential practice. Its business is based on PLS and due to this PLS there is imbalance between management and control. Masharaka and Mudarhah which are the important mode of financing having so many problems with PLS and management and control. In simple words management and control is something different from each other. But it is combined by Islamic system on the basis of Authority, Risk, Reward and Responsibility. Due to these problems Islamic banking system should setup private limited companies and mutual organization to hold the risk of financing in Masharaka and Mudarabah. Shibeer Ahmed & Mohammed Asaria (2004)This study emphasize on the rules, regulations and direction of Islam regarding Islamic banking system. Islamic mode of financing as Murabaha (purchasing of goods on behalf of clients on deferred payments), Musharaka (Islamic ode of partnership), ijara, sukus and Mudaraba (Islamic banks provide funds to skillful people) provide funds according to the direction of Islam to the needy people. These methods of financing is according to Shariah and very much convient to the people that is why people give prefer to Islamic methods of financing. Tarik Yousaf &Rk Aggarwal (2000)In fact

Islamic banks are niche providers of capital and working not differently from convential banking practices. Islamic banking providing more facilities to the people in form of deferred payments & profit and loss sharing through Islamic mode of financing and the skipping of interest concept from lending and borrowing. Islamic banking system is not only a banking system but it is a complete network of all things related to business and finance. It is also a fact that Islamic banks are working more efficiently than convential banking practices and the evidence is that most of the Muslim countries converted their convential banking system to Islamic mode and now Islamic banking system is able to compete with convential banking practices and provide more friendly facilities to the people.

Chapter 3

Concepts of Various Islamic Modes of Financing

Islamic banks around the world offer different creative financial products based on risk sharing and profit sharing. For day to day banking activities, a number of financial instruments have been developed that satisfied the acceptable financial returns for investors. The areas in which Islamic financial returns for investors. The areas in which Islamic banks are most active are in trade and financial activities. Major Modes of Islamic Financing: In Islamic financial major modes are.

MusharakaMudarabaMurabahaIjaraSalam

Musharaka

Musharaka is contract between parties for conducting joint business through sharing of profits and losses. It is an agreement under which Islamic banks provide funds. Musharaka financing had the following basic features. Musharaka is a relationship establish by the parties through mutual contract. The proportion of profit to be distributed between the partners must be agreed. The ratio of profit must be from the actual profit and from nothing else. A fix amount is not allowed.

Mudaraba as Islamic mode of Finance

Mudaraba is a special kind of partnership where one partner provides finance (called Rabb-ul-mal) to the skillful and responsible party (Mudarib). The difference between the Musharaka and Mudaraba can be summarized in the following points: The investment in Musharaka comes from all the partners, while in Mudaraba; investment is the sole responsibility of Rabb-ul-mal. In Musharaka all the partners are active, while in Mudaraba only Mudarib is active partner. In Musharaka, the loss is beard by all the partner, while in Mudaraba Rabb-ul-mal is responsible for that.

Murabaha as an Islamic Mode of Finance

Originally, Murabaha is a particular type of sale and not a mode of financing. The ideal mode of financing according to Shariah is Mudaraba and Musharaka, which have been discussed above. However in the perspective of the current economic setup, there is certain economic setup, there are certain practical difficulties in using Mudaraba and Musharaka instrument in some area of financing. Therefore, the Shariah experts have allowed, subject to certain conditions, the use of the Murabaha on deferred payment basis as a mode of financing. But there are two essential points, which must be fully understood in this respect. It should never be over looked that, originally, Murabaha is not a mode of financing. It is only a device to escape from "

Interest" and not an ideal instrument for carrying out the real economic objective of Islam. Therefore, this instrument should be used as a transitory step taken in the process of the Islamization of the economy, and its use should be restricted only to those cases where Mudaraba or Musharaka are not practicable. Then second important point is that the Mudaraba transaction does not come into existence by merely replacing the word interest by the word of " Profit" or " Markup". Actually, the Shariah scholars with some conditions have allowed Murabaha as a mode of finance. Unless these conditions are fully observed, Murabaha as a mode of finance. Unless these conditions are fully observed, Murabaha as a mode of finance. Unless these conditions are fully observed, Murabaha is not permissible. Infect it is the observance of these conditions., which can draws a clear line of distinction between an interest bearing loan and a transaction of Murabaha if these conditions are neglected, the transactions become invalid to Shariah.

Basic Features of Murabaha Financing

Murabaha is not a loan given on interest. It is the sale of a commodity for deferred price, which includes an agreed profit added to the cost. Being a sale, and not a loan, the Murabah should fulfill all the conditions necessary for a valid sale, especially those enumerated earlier in this chapter.

Murabaha cannot be used as a mode of financing except where the client needs fund to actually purchase some commodities. For example if he wants funds to purchase cotton as a rain material for his ginning factory. The bank can sell him the cotton on the basis of Murabaha. But where the funds are required, for some other purposes, like paying the price of commodities already purchased by him, or the bills of electricity or other utilities or for paying the salaries of his staff, Murabaha cannot be affected, because Murabaha requires a real sale of some commodities, and not merely advancing a loan. The financier must have owned the commodity before he sells it to his client. The commodity must come into the possession of the financier, whether physical or constructive, in the sense that the commodity must be in his risk, for a short period of time. The best way for Murabaha, according to Shariah, is the financier himself purchases the commodity and keeps it in his own possession, or purchases the commodity through a third person by him as a agent, before he sells it to the customer. However, in exceptional cases, where direct purchases from the supplier is not practicable for some reasons, it is also allowed that he makes the customer himself as agent to buy the commodity on his behalf. In this case the client first purchases the commodity on behalf of his financier and takes its possession as such. Thereafter, he purchases the commodity on behalf of his financier and takes its possession on such. Thereafter, he purchases the commodity from the financier for a deferred price. His possession over the commodity in the first instance is in the capacity of an agent of his financier. In this capacity he is only a trustee, while the ownership vests in the financier and the risk of the commodity is also borne by him as a logical consequence of the ownership. But when the client purchases the commodity from his financier. The ownership, as well as the risk, is transferred to the client. As mentioned earlier, the sale cannot take place unless the commodity comes into the possession of the seller, but the seller can promise to sell even when the commodity is not in his possession. The same rule is also applicable to Murabaha.

Ijarah as an Islamic Mode of financing

" Ijara" is a term of Islamic Fiqh, means to give something on rent. The term ijara is explained in two different situations. In first situation the employer (Mustajir) hire the service of employee (Ajir) on wage and the transaction is called ijara. The second type of ijarah relates to the usufructs of assets and properties. Ijara in this sense means to transfer the usufruct of a particular property to another person in exchange for a rent claimed for him. In English terminology this is called Leasing. The rule of ijarah is analogous to the rules of sale, but the difference is that in sale the ownership is transferred to the purchaser, but in case of ijarah the ownership in not transferring to the lesser.

Salam as an Islamic Mode of financing

The modern banks and financial institutions especially to finance agriculture can use this mode of financing. Salam is a sale whereby the seller undertakes supply specific goods to the buyer at a future date an exchange of an advanced price fully paid at sport. Here the price is cash, but the supply of the purchased goods is differed. The buyer is called " rab-us-Salam", the seller is " Muslam Ilaih", the cash price is " ras-ul-mal" and the purchased commodity is termed as " Muslam fih", but or the purpose of simplicity, shall use the English synonyms of these term.

Chapter 4

Murabaha at The Bank of Khyber

Murabaha

Introduction

Murabaha is the most common financing instrument used by Islamic Banks all over the world. The purpose of this document is to specify the Shariah rules governing Murabaha transactions. In order to remove ambiguities and to develop a uniform understanding of the functionality of a Murabaha transaction various steps involved and requirements are attached and explained in this paper. The procedures and steps laid down in this document are to be followed strictly in order to ensure Murabaha transaction Shariah compliant.

Definition

The word Murabaha is derived from the Arabic word " Ribh" that means profit. Technically Murabaha is a contract of sale in which the seller discloses his cost to the buyer and adds a certain profit to it to determine the selling price. As an asset is being traded in this transaction hence Murabaha must at all times be considered a trade transaction and not a loan. Using Murabaha as a financing instrument, the Bank purchases certain goods (as required by the client) and sells them to the client on a cost plus profit basis. The Bank's cost can include all expenses incurred in the acquisition of goods such as transportation, LC charges, marine/in transit insurance, sales tax and other Govt. levies etc. Payment of the selling price is mostly deferred but it can also be on spot. The profit may be added on lump sum or as a fixed percentage of the cost. Since Murabaha is a sale transaction, therefore, it is important to understand the rules and requirements of Shariah for a valid sale (Bai-Sahih).

Rules of Sale

In Islamic Shariah a sale is considered valid if the basic elements of sale are present and the conditions of each of the elements are complied with. At the time of execution of sale (signing of declaration in our case) the following basic elements of sale must be kept in mind and fulfilled.

Contract (Aqd)

There must be an offer and acceptance by the parties involved. Sale must be instant and absolute. Future sales are not allowed. Subject Matter/Goods (Mabe'e) must be in existence at the time of sale. Must be clearly specified and quantified as to which goods are being sold at the time of sale. Must be in ownership of the Bank at the time of sale. This ownership can be physical or constructive. Price (Thaman) must be specified and quantified at the time of sale, Possession or delivery (Qabza). The goods being sold must be in the physical and/or constructive possession of the seller (Bank). Constructive possession means a situation where the seller has not taken physical delivery of the goods, yet the goods have come into his control and all the rights and liabilities of the goods are passed on to him, including the risk of damage. A simple Murabaha transaction through use of Agency Agreement comprises of the following steps. The client and the Bank sign an overall agreement whereby the Bank 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. This agreement may specify the limit up-to which the facility may be availed. An Agency Agreement is signed by both parties in which the Bank appoints the client as his agent for purchasing the commodity on its behalf. The client purchases the commodity on behalf of the Bank and takes possession as the agent of the Bank. The client informs the Bank that it has purchased the commodity and simultaneously makes an offer to purchase it from the Bank. The Bank accepts the offer and the sale are concluded whereby ownership as well as risk is transferred to the client. All the above conditions are necessary to affect a valid Murabaha. If the Bank purchases the commodity directly from the supplier, it does not need any Agency Agreement. The most essential element of the transaction is that the commodity must remain at the risk of the Bank during the period between the third and the fifth stage. The above is the only way by which this transaction is distinguished from an ordinary interest-based transaction.

Documentation of Murabaha

In Islamic Shariah permissibility of any financial transaction is dependent on the fact that whether or not the clauses of the agreement conform to the principles defined in Shariah. The Bank’s Master Murabaha Agreement and other related Agreements have been approved by the Sub-Committee of the Bank’s Shariah Supervisory Board, which are as under: Master Murabaha Facility Agreement (MMFA)Agency AgreementMurabaha Agreement (Declaration)Agreement to MurabahaThe bank cannot enter into an actual sale at the time of disbursement of funds, because the required commodity is not owned by the bank at this stage and, as explained earlier, one cannot sell a commodity not owned nor its forward sale permissible. Therefore, the bank is bound to purchase the commodity from the supplier, and then it can sell it to the client after having its physical or constructive possession. On the other hand, if the client is not bound to purchase the commodity after the bank has purchased it from the supplier, the bank may be faced with a situation where it incurred expenses to acquire the commodity, but the client refuses to purchase it. Occasionally the commodity may be of such a nature that it has no general demand in the market and is difficult to sell in the open market. In this case the bank may suffer loss while undertaking such transactions. Solution to this problem is sought in the Murabaha arrangement by asking the client to sign a promise to purchase the commodity after the bank has acquired the asset. Instead of being a bilateral contract of forward sale, it is a unilateral promise from the client, which is allowed in Shariah (for detailed discussions please refer to " An Introduction to Islamic Finance" by Justice Muhammad Taqi Usmani). Another purpose of this agreement is to define the legal framework within which BoK and the customer will undertake business between each other (just as any other legal document). Agency AgreementA commercial bank has a diverse range of customers which ranges from Textiles to edible oil. A bank does not possess the expertise of dealing in such a wide range of commodities. Secondly, the required commodities may have to be procured from a large number of suppliers, in this case it is not operationally possible for the bank to directly deal with large number of suppliers. The best person to select the commodity with its supplier is the customer himself. For this purpose Agency Agreement is executed between the customer and the Bank. Through this agreement the Bank appoints customer its agent to select and procure specified goods for the Bank. Please note that under this agreement agent is liable to take every possible measures to select and procure genuine goods, any problem arising due to the selection of goods will be the responsibility of the agent. As soon as the agent completes the purchasing process of the specified items/goods, ownership risk of the goods transfers to the Bank.

Description of Asset Form

Under the Agency Agreement customer is required to disclose item(s), which he intends to procure through funds disbursed by the Bank in his capacity as agent. At the time of Agency Agreement customer may define a list of items and commodities that he may procure. This list should be a comprehensive list of raw materials, commodities and items the customer may procure during the course of its business from time to time.

Murabaha Sale Agreement / Declaration

This document is the most important part of the Murabaha process. It is declaration& acceptance that the Bank transfers title of the goods to the customer. As the sale takes place at the time of execution of this agreement, all the ingredients of valid sale should be there. Explanation of each element is discussed below. Contract: Self-explanatory- Part of Declaration documentSubject Matter: Subject matter of sale should be clearly specified in the annexure to the Appendix: Two cases may arise. Client can purchase valuing exactly equal to funds disbursed by BoK (This would be usually applicable when the payment is made directly to supplier). In this case assets purchased by the client will be specifically identified through the purchase receipts. Client will send these receipts along with the declaration. Declaration will specify exact quantity and price of the goods purchased from the bank's funds. It could also refer to a list specifying information on the assets or it could refer to the purchase invoices attached. If client is using the Bank's funds along with his own funds to purchase bulk quantity of raw material then he will be required to disclose the size of the entire lot. Annexure to the declaration must specify the total quantity and price of bulk purchase and the Bank’s proportionate ownership of the said purchase. Price: Murabaha Contract Price (Cost Price + Bank’s Profit) of the asset should be clearly stated. Possession: " Declaration" is designed in such a manner that it requires the customer to confirm that he has purchased the goods on bank’s behalf.

Profit Calculation on a Murabaha Transaction

The profit can be calculated in three ways depending on the repayment of Murabaha Price.

Bullet Repayment

In cases where the Murabaha Price is being paid in one bullet payment (Principal + Profit), the Murabaha price is simply calculated by the following formula: Murabaha Price= Principal + Principal X Profit Rate X No. of days (between disbursement and Maturity)Example: Financing Amount: Rs 100mnProfit Rate: 16% p. a. Tenor: 1 yearPayment of : Bullet paymentMurabaha PriceAmount Due: Rs 116mn at the end of 1st yearContract Price : Rs 116mn(Murabaha Selling Price)

Repayment in Equal Installments

In cases where the Murabaha price is being paid in equal periodic installments, where each payment carries a portion of the principal and profit, the installment will be calculated using an IRR based equal payment formula as follows: Installment = Principal X r[1 – (1/ (1 + r) n]Murabaha Price = Installment X nWhere, n = No. of periodsr = Profit Rate / No. of periodsExample: Financing Amount: Rs 100mnProfit Rate: 16% p. a. Tenor: 1 yearPayment of : Four Equal InstallmentsMurabaha PriceAmount Due: Rs 27. 55 mn at the end of every quarterContract Price : Rs 110. 2 mn(Murabaha Selling Price)

Repayment in Unequal Installment

If the Murabaha price is being paid in unequal periodic installments in such a way that the profit portion of the selling price is paid over the life of the transaction and the principal is paid at maturity, the Murabaha Price is calculated as follows: Murabaha Price= Principal + Principal X Profit Rate X No. of days (between disbursement and Maturity)Interim Installments= Principal X Profit Rate X No. of days (days per period)Example: Financing Amount: Rs 100mnProfit Rate: 16% p. a. Tenor: 1 yearPayment of : Four Unequal InstallmentsMurabaha PriceAmount Due: Rs 4mn (= 0. 16/4*100) at the end of first 3 quartersRs 104mn (= 100+4) at the end of 4th quarter. Contract Price : Rs 116 mn(Murabaha Selling Price)

Profit Recognition

As mentioned earlier Murabaha is a sale transaction, hence the bank is entitled to a profit only when the Murabaha has been executed. In cases where the customer is required to pay Murabaha Price in installments, the installments received prior to the signing of declaration must be recorded as a separate liability known as an " Advance against Future Murabaha". Once the declaration has been signed by both parties (offer & acceptance completed) only then can we take the installment received to our income. In such cases accounts department will pass an entry to reverse the amount booked in " Advance Against Future Murabaha" account and record profit on the transaction.

Murabaha Process Flow:

Murabaha is a sensitive transaction and requires extreme care in the execution of each of its steps. Following is a detailed step-by-step account of how a Murabaha must be executed.

Process Flow:

Step No.

Process

1

Client Contact:

- IBD’s Marketing Department & Branch Manager meets the customer and explains the Murabaha product.- It is the IBB & IBD responsibility to ensure that the client is aware of the concept and process of Murabaha and the related requirements of assets purchase.- The client and BoK agree on the terms and conditions of the Murabaha facility such as amount, tenor, rate, security etc. 2

Execution of MMFA and Agency :

The client and BoK execute the MMFA and Agency Agreement. The MMFA is an " Agreement to Murabaha" between the client and BoK sanctioning a Master limit to the customer. It is an overall understanding that the client will purchase goods from BoK from time to time on cost plus profit (Murabaha) basis. Under the Agency Agreement the customer is appointed as an agent (wakeel) of BoK to purchase various goods on BoK’s behalf. The Agency Agreement should ideally contain an exhaustive list of assets that may potentially be purchased by the client. 3

Disbursement:

Disbursement can be done in two ways (i) Direct payment to Supplier or (ii) Indirect payment via the agent.(i)Direct Payment to Supplier (preferred mode)- IBB’s Branch Manager contacts the customer and inquires about financing requirement.- In case the client has a financing requirement, IBB will negotiate the amount, profit rate and tenor of the Sub-Murabaha.- Client negotiates the specification, quantity and per unit price with the goods original supplier as BoK’s agent- Client sends a " Draw Down Notice/Order Form" and requests BoK to disburse funds for the purchase of assets. At this stage the client is also required to submit a " Summary Payment Schedule"- BoK credits the requested amount to the customer’s account with BoK. This amount can only be drawn by the customer against cheques, pay order or demand draft in the name of the original supplier.

(ii) Indirect Payment (disbursement to the agent)

- The Branch Manager contacts the customer and inquires about any financing requirement.- In case the client has a financing requirement, IBB will negotiate the amount, profit rate and tenor of the Sub-Murabaha.- IBB inquires about the asset purchase requirements of the client. At this stage it must confirmed with the client whether he will have enough asset purchase requirement within the stipulated time frame to conform to the Murabaha requirements.- The IBB must also make it clear to the client that BoK will be providing them funds to purchase assets.- Funds are disbursed to the client under the " Agency Agreement" whereby the customer is required to use this sum and purchase goods specified in " order form".- The maximum time by which the customer must endeavor to complete its purchasing is 1 Month or 1/4 of the Murabaha tenor whichever comes first. 4

Declaration:

- Immediately upon receipt of goods the client will submit a declaration" Appendix C" to IBB stating that it has acquired the goods acting as BoK’s agent.- Through the same document the client would also offer to purchase the goods from BoK on a deferred payment basis.- Declaration must be submitted by the customer as soon as the goods are purchased. This is because the ownership risk of goods rests with BoK until the customer signs the declaration, offers to purchase these goods and BoK accepts his offer, i. e. the goods are sold to the customer.- As a proof of purchase the client would be required to submit " Purchase Evidence" in the form of bills, sale invoice, sales tax invoice, along with declaration.- The amount to be taken from these purchase evidences must be inclusive of all cost incurred during the purchase of goods including sales tax, transportation and handling etc.- The purchase evidence must confirm that the goods have been acquired after the Agency Agreement and before the declaration date.- An important point to be kept in mind is that the goods must be in existence and in their original form at the time of signing of declaration (execution of sale). IBB must contact the client and obtain verbal confirmation of this. If LC is being used as a purchase evidence then following needs to be checked: Bill of LadingBill of EntryBill of Lading date should be after the Agency Agreement date. Similarly date of endorsement of bill of entry should be before the date of declaration. If shares are being used as a subject matter of the sale then make sure that shares are not sold by the customer before acceptance of declaration by BoK. If all conditions are satisfied, declaration is accepted by the authorized signatory of the bank. (In case of unavailability of the authorized signatory the concerned IBB's officer should accept the declaration by signing the declaration himself and subsequently get it accepted by the authorized signatory.

Chapter 5

Issues in Murabaha

Issues

So far the basic concept of Murabaha has been explained. Now, it is proposed to discuss some relevant issues with reference to the underlying Islamic principles and their practical applicability in Murabaha transaction, because without correct understanding of these issues, the concept may remain ambiguous and its practical application may be susceptible to errors and misconceptions. Different pricing for cash and credit sales. The first and foremost question about Murabaha is that, when used as a mode of financing, it is always affected on the basis of deferred payment. The financier purchases the commodity on cash payment and sells it to the client on credit. While selling the commodity on credit, he takes into account the period in which the price is to be paid by the client and increases the price accordingly. The longer the maturity of the Murabaha payment, the higher the price. Therefore the price in a Murabaha transaction, as practiced by the Islamic banks, is always higher than the market price. If the client is able to purchase the same commodity from the market on cash payment, he will have to pay much less than he has to pay in a Murabaha transaction on differed payment basis. The question arises as to whether the price of a commodity in a credit sale may be increased from the price of a cash sale. Some people argue that the increase of price in a credit sale, being in consideration of the time given to the purchaser, should be treated analogous to the interest charged on a loan, because in both cases an additional amount is charged for the deferment of payment. On this basis they argue that the Murabaha transactions, as practiced in the Islamic banks, are not different in essence from the interest based loans advanced by the conventional banks. This argument, which seems to be logical in appearance, is based on a misunderstanding about the principles of Sharia'h regarding the prohibition of Riba. For the correct comprehension of the concept the following must be kept in mind.

The modern capitalist

The modern capitalist theory does not differentiate between money and commodity in so far as commercial transactions are concerned. In the matter of exchange, money and commodity both are treated at par. Both can be traded in. both can be sold at whatever price the parties agree upon. One can sell one dollar for two dollars on the spot as well as on credit, just as he can sell a commodity valuing one dollar for tow dollars. The only condition is that it should be with mutual consent. The Islamic principles, however, do not subscribe to this theory. According to Islamic principles, money and commodity have different characteristics and therefore, they are treated differently.

The use of Interest Rate as Benchmark

Many institutions financing by way of Murabaha determine their profit or mark-up on the basis of the current interest rate, mostly using LIBOR (inter-bank offered rate in London) as criterion. For example if LIBOR is 6%, they determine their mark-up on Murabaha equal to LIBOR or some percentage above LIBOR. This practice is often criticized on the ground that profit based on a rate of interest should be as prohibited as interest itself. No doubt, the use of the rate of interest for determining a halal profit cannot be considered desirable. It certainly makes the transaction resemble an interest-based financing, at least in appearance, and keeping in view the severity of prohibition of interest, even this apparent resemblance should be avoided as for a possible. But one should not ignore the fact that the most important requirement for validity of Murabaha is that it is a genuine sale with all its ingredients and necessary consequences. If a Murabaha transaction fulfills all the conditions merely using the interest rate as a benchmark for determining the profit of Murabaha does not render the transaction as invalid, Haram or prohibited, because the deal itself does not contain interest. Te rate of interest has been used only as an indicator or as a benchmark.

Promise to Purchase

Another important issue in Murabaha financing which has been subject of debate between the contemporary Sharia'h scholars is that the bank/financier cannot enter in t an actual sale at the time when the client seeks Murabaha financing from him, if the client is not bound to purchase the commodity after the financier may be confronted with a situation where he has incurred huge expenses to acquire the commodity, but the client refuses to purchase it. The commodity may be of such a nature that it has no common demand in the market and is very difficult to dispose of. In this case the financier may suffer unbearable loss.

Securities against Murabaha Price

Another issue regarding Murabaha financing is that the Murabaha price is payable at a later date. The seller/financier naturally wants to make sure that the price will be paid at the due date. For this purpose, he may ask the client to furnish a security to his satisfaction. The security may be in the form of a mortgage of a hypothecation or some kind of lien or charge.

Guarantee the Murabaha

The seller in a Murabaha financing can also ask the purchaser/client to furnish a guarantee from a third party. In case of default in the payment of price at the due date, the seller may have recourse to the guarantor, who will be liable to pay the amount guaranteed by him. The rules of Shariah regarding guarantee are fully discussed in the books of Islamic Fiqh.

Penalty of Default

Another problem in Murabaha financing is that if the client defaults in payment of the price at the due date, the price cannot be increased. In interested-based loans, the amount of loan keeps on increasing according to the period of default. But in Murabaha financing, one the price is fixed, it cannot be increased. This restriction is sometimes exploited by dishonest clients who deliberately avoid paying the price at its due date, because they know that they will not have to pay any additional amount on account of default. This characteristic of Murabaha should not create a big problem in a country where all the banks and financial institutions are run on Islamic principles, because the government or the central bank may develop a system where all the banks and financial institutions are run on Islamic principles, because the government or the central bank may develop a system where such defaulters may be penalized by depriving them from obtaining any facility from any financial institution. This system may serve a deterrent against deliberate defaults. However, in the countries where the Islamic banks and financial institutions are working in isolation from the majority of financial institutions run on the basis of interest, this system can hardly work, because even if the client is deprived to avail of a facility from an Islamic bank, he can approach the conventional institutions. The defaulter should be given a grace period of at least one month after the maturity date during which he must be given weekly notices warning him that he should pay the price, otherwise he will have to pay compensation. It is proved beyond doubt that the client is defaulting is due to poverty, no compensation can be claimed from him. The compensation is allowed only if the investment account of the Islamic bank has earned some profit to be distributed to the depositors. If the investment account of the bank has not earned profit during the period of default, no compensation shall be claimed from the client. This concept of compensation, however, is not accepted by the majority of the present day scholars. (Including the author). It is the considered opinion of such scholars that this suggestion neither conforms to the principles of Shariah nor is it able to solve the problem of default. So far as grace period is concerned, it is a minor concession which is sometimes given by the conventional banks as well. Once again, in practical terms, there is no material difference between interest and the late payment charged as compensation.

Rebate on earlier payment

Sometimes the debtor wants to pay earlier than the specified date. In this case he wants to earn a discount on the agreed deferred price. Is it permissible to allow him a rebate for his earlier payment? The issue is known in the Islamic legal literature as " za wa tajal" (give discount and receive soon). Some earlier jurists have held this arrangements as permissible, but the majority of the Muslim jurists, including the four recognized schools of Islamic jurisprudence do not allow it, if the discount is held to be a condition for earlier payment. The majority of the jurists hold that if the earlier payment is condition with discount, it is not permissible. However, if this is not taken to be a condition for earlier payment, and the creditor gives a rebate voluntarily on his own, it is permissible. The same view is taken by the Islamic Fiqh academy in its annual session. It means that in a Murabaha transaction effected by an Islamic bank or financial institutions, no such rebate can be stipulated in the neither agreement, nor can the client claim it as his right. However if the bank of a financial institution gives him a rebate on its own, it is not objectionable.

Calculation of cost in Murabaha

It is already mentioned that the transaction of Murabaha contemplates the concept of cost-plus sale; therefore, it can be affected only where the seller can ascertain the exact cost he has incurred in acquiring the commodity he wants to sell. If the exact cost cannot be ascertained, no Murabaha can be possible. In this case, the sale must be affected on the basis of musawamah

(i. e. sale without reference to cost). The principle lead to another rule: the Murabaha transaction should be based on the same currency in which the seller has purchased the commodity from the original supplier. if the seller has purchased it for Pakistani rupees, the onward sale to the ultimate purchaser should also be based on Pakistani rupees, and if the first purchase has occurred in U. S. dollars, the price of Murabaha should be based on dollars as well, so that the exact cost may be ascertained. However, in the case of international trade, it may be difficult to base both purchases on the same currency. If the commodity intended to be sold to the customer is imported from a foreign country, while the ultimate purchaser is in Pakistan, the price of the original sale has to be paid in a foreign currency and the price of the second sale will be determined in Pak. Rupees.

Subject-matter of Murabaha

All commodities which may be subject matter of sale with profit can be subject matter of Murabaha, because it is a particular kind of sale. Therefore, the shares of a lawful company may be sold or purchased on Murabaha basis, because according to the Islamic principles, the shares of a company represent the holder’s proportionate ownership in the assets of the company. If the assets of a company can be sold with profit, its shares can also be sold by way of Murabaha. But it goes without saying that the transaction must fulfill all the basic conditions, for the validity of a Murabaha transaction. Therefore, the seller must first acquire the possession of the shares with all their rights and obligations, then sell them to his client. A buy back arrangement or selling without taking their possession is not allowed at all.

Rescheduling of payments in Murabaha

If the purchaser/client in Murabaha financing is not able to pay according to the dates agreed upon in the Murabaha agreement, he sometimes requests the seller/ the bank for rescheduling the installments. In conventional banks, the loans are normally rescheduled on the basis of additional interest. This is not possible in Murabaha payments. It the installments are rescheduled, no additional amount can be charged for rescheduling. The amount of the Murabaha price will remain the same in the same currency. Rescheduling must always be on the basis of the same amount in the same currency. At the time of payment however, the purchaser may pay with the consent of the seller, in a different currency on the basis of the exchange rate of that day (i. e. the day of payment) and not the rate of the date of transaction.

Securitization of Murabaha

Murabaha is a transaction which cannot be securitized for creating a negotiable instrument to be sold and purchased in secondary market. The reason is obvious, if the purchaser in a Murabaha transaction signs a paper to evidence his indebtedness towards the seller/financier, the paper will represent a monetary debt receivable from him. In other words, it represents money payable by him. Therefore transfer of this paper to a third party will mean transfer of money. It has already been explained that where money is exchanged for money (in the same currency) the transfer must be at par value. It cannot be sold or purchased at a lower or a higher price. Therefore, the paper representing a monetary obligation arising out of a Murabaha transaction cannot create a negotiable instrument.

Some Basic Problems in Murabaha Financing

After explaining the concept of Murabaha and its relevant issues, it will be pertinent to highlight some basic mistakes often committed by the financial institutions in the practical implementation. The first and the most glaring mistake is to assume that Murabaha is a universal instrument which can be used for every type of financing offered by conventional interest-based banks under this false assumption, some financial institutions are found using Murabaha for financing overhead expenses of a firm or company ike paying salaries of their staff, paying the bills of electricity etc. and setting of f their debts payable to other parties. This practice is totally unacceptable, because Murabaha can be used only where a commodity is intended to be purchased be the customer. It funds are required for some other purpose, Murabaha cannot work. In such cases, some other suitable modes of financing, like Musharaka, leasing etc. can be used according to the nature of the requirement. In some cases, the clients sign the Murabaha documents merely to obtain funds. They never intend to employ these funds to purchase a specific commodity. They just want funds for unspecified purpose, but to satisfy the requirement of the formal document, they name a fictitiously commodity. After receiving money, they use it for whatever purpose they wish. Obviously this is a fictitious deal, and the Islamic financiers must be very careful abut it. It is their duty to make sure that the client really intends to purchase a commodity which may be subject to Murabaha. This assurance must be obtained by the authorities sanctioning the facility to the customer. Then, all necessary steps must be taken to confirm that the transaction is genuine. In some cases, sale of commodity to the client is affected before the commodity is acquired from the supplier. This mistake is invariably committed in transactions where all the documents of Murabaha are signed at one time without taking in to account various stages of the Murabaha. Some institutions have only one Murabaha agreement which is signed at the time of disbursement of money, or in some cases at the time of approving the facility. This is totally against the basic principles of Murabaha. It has already been explained that the Murabaha arrangement practiced by the banks is a package of different contracts which some into play one after another at their respective stages. These stages have been fully highlighted earlier while discussing the concept of ‘ Murabaha financing’. Without observing this basic feature of Murabaha financing, the whole transaction turns in to an interest-bearing loan. Merely changing the nomenclature does not make it lawful in the eyes of Shariah. It is observed in some financial institutions that they effect Murabaha on commodities already purchased by their clients from a third party. This is again a practice never warranted by the Shariah. Once the commodity is purchased by the client himself, it cannot be purchased again from the same supplier. If it is purchased by the bank from the client himself and is sold to him, it is a buy-back technique which is not allowed in Shariah, especially in Murabaha. In fact, if the client has already purchased a commodity, and he approaches the bank for funds, he either wants to set-off his liability towards his supplier, of he wants to use the funds for some other purpose. In both cases an Islamic bank cannot finance him on the basis of Murabaha. Murabaha can be effected only on commodities not yet purchased by the client.

Chapter 6

Analysis of Questionnaires

This questionnaire is designed for the customers who are interested in Murabaha financing. This activity is carried out in some Islamic Banks from most of the bankers. Total number of questionnaires was 15 out of which 10 were being fit for the analysis. These questionnaires given me the idea about Murabaha financing and to know its challenges in the market each graph shows the contents of Murabaha financing.

Are the Islamic banking products satisfying the needs of the market?

No. Of respondentsAgreeDisagreeHighly agreeNeither agree nor disagree207112

-

Percentage60%15%25%

-

Explanation and Reasons

According to market survey 60% are agree with the statement, while 15% those who are disagree they say that there are lots of challenges to Islamic banks to survive in interest based economy, because they are working in isolation and without the complete support of the government.

Are the Islamic banks facing practical problems in Murabaha financing?

Especially in the present atmosphere where Islamic banks are working in isolation, and mostly without the support of their respective government. No. of respondentsAgreeDisagreeHighly agreeNeither agree nor disagree201064

-

Percentage50%30%20%

-

Explanation and Reasons

According to survey 70% people are strongly agree with this statement. There are lots of challenges for Islamic banking. Which include unawareness? Conventional banks. Legal framework etc.

The bank and its depositors face high risk when the bank invests in Murabaha financing?

No. of respondents

Agree

Disagree

Highly agree

Neither agree nor disagree

200314102Percentage15%70%5%10%

Explanation and Reasons

This answer is doubtful because 70% are disagreeing with the statement that Murabaha financing is secure mode of financing. But 20% agree thinks that there lots of risk involved because banks must share profit as well as losses. In our view Murabaha financing is a very secure financing, because there is no Burdon on the murabahee.

In your opinion is the business community in general aware of Murabaha financing product?

No. of respondents

Agree

Disagree

Highly agree

Neither agree nor disagree

200512003Percentage20%60%0%15%

Explanation and Reasons

Some of the bankers say that the business community is not aware of the Islamic banking evolution, because its operation is limited as compared to conventional banking and very new. The unawareness of business community from the Murabaha products can be avoided by the Islamic banking system through different methods. But most of the bankers say that business community having the full awareness, but the bankers are not interested because of high risk involved in Murabaha financing.

By availing Murabaha financing the customer has to disclose all his business inside info, the business community is willing to disclose it?

No. of respondents

Agree

Disagree

Highly agree

Neither agree nor disagree

2041510percentage20%75%5%0%

Explanation and Reasons

Bankers are agreeing with the statement, but some of them say that there is no such costumer who wants to disclose his business info. They give us fake balance sheet just for the sake of tax exemption. , and that is why it is creating problems for the bankers.

Do the Islamic banks have sufficient and well trained staff to deal with Murabaha?

No. of respondents

Agree

Disagree

Highly agree

Neither agree nor disagree

2071300Percentage35%65%0%0%

Explanation and Reasons

With this survey we came to know that banks don't have enough well trained staff to deal the Islamic modes of financing, because in Islamic bank is new in market and people that they have mainly belong to conventional back ground.

Is there proper monitoring system available with the banks so as to manage the Murabaha transactions?

no of respondents

Agree

Disagree

Highly agree

Neither agree nor disagree

2010370percentage50%15%35%0%

Explanation and Reasons

This survey shows that banks don't want to disclose there secrets that is why they say that they have proper monitoring system. But in reality proper monitoring system is a big problem for Islamic banks.

The core purpose and aim of the bank is to make profit on its invested money. Keeping this in mind if the business were to make a genuine loss, will the bank equally shares in its losses?

No. of respondentsAgreeDisagreeHighly agreeNeither agree nor disagree2020153Percentage10%0%75%15%

Explanation and Reasons

With this question all concerned people said that Islamic banking is a name of profit and loss. And they always share profit as well as loss. But again some of them said that still Islamic banks haven’t seen a loss case, because Banks invest its money where the chance of loss is almost zero or round about zero, that is why the banks always announcing profit to its account holders.

Especially in Pakistan the customers have a general destructive and default trend. Will the Islamic banks be able to manage this risk while still remaining true to the Sharia'h principles?

No. of respondentsAgreeDisagreeHighly agreeNeither agree nor disagree2041006Percentage20%50%0%30%

Explanation and Reasons

All concerned people are agreeing with this statement that it is very difficult to survive in this kind of costumer trend. But that said that with the introduction of privatization the default trend percentage is now very low.

The future of Murabaha financing is bright in Pakistan and will it have a positive impact on the profitability and management of the businesses in particular and the economy as a whole.

No of respondentsAgreeDisagreeHighly agreeNeither agree nor disagree2053102Percentage25%15%50%10%

Explanation and Reasons

All of the bankers said that we see a very bright future of Islamic banks and as well as Murabaha financing. And it the economy of Pakistan will change and it will have a positive impact on our economy.

Chapter 7

Conclusion and Recommendations

Conclusion

Prohibition of Riba or interest is the main thing in Islamic banking. This prohibition is strict, absolute and unambiguous. In simple words we can say that there is no compromise on interest in Islamic banking. Islamic banking offers financing modes (i. e. Musharaka, Mudaraba, and Murabaha). Originally, Murabaha is a particular type of sale and not a mode of financing. Murabaha financing is a very technical mode of Islamic finance. Although it might look to be a simple transaction at the first glance, but in fact there are a lot of complexities involved at a little deviation from the basics can lead to the factor of Riba and thus the financing would no longer remain Islamic in the eyes of the Shariah. Murabaha is not a mode of finance in its origin. It is a simple sale on cost plus basis. However, after adding the concept of the differed payment it has been devised to be used as a mode of financing only on causes where the client indents to purchase a commodity. Therefore, it should neither be taken as an ideal Islamic mode of financing, nor a universal instrument for all sorts of financing. It should be taken as transitory steps towards the ideal Islamic financing system of financing based on Musharaka and Mudaraba cannot work. While approving a Murabaha facility, the sanctioning authority must make sure that the client really intends to purchase commodities, which may be subject matter of Murabaha. It should never be taken as merely a paper work having no genuine work. No Murabaha can be affected for overhead expenses, paying the bills or settling the debts of the clients, not can it be affected for purchase of currencies. It is the foremost condition for the validity of Murabaha that the commodity comes in the ownership and physical or constructive possession of the financier before he sells it to the customer on Murabaha basis. There should be a time in which the Risk of commodity is born by the financier with out having ownership or assuming the Risk of commodity, though for a short while, the transaction is not acceptable to Shariah and the profit accruing there from is not Halal. The best way to affect Murabaha is that the financier himself purchases the commodity directly from the supplier and after taking its delivery sells it to the client on Murabaha basis. Making the client agent to purchase on behalf of the financier renders the agent to purchase on behalf of the financier renders the arrangement dubious. For this very reason some Shariah boards had forbidden this technique, except in cases where direct purchase is not possible at all. Therefore the agency concept should be avoided as possible. Beside that on the other hand Murabaha financing play a very important role in the economy and society of a country. The main thing is of the importance is Riba free concept. There are merits and demerits of Murabaha as a mode of finance, but the merits of Murabaha is more than the demerits, that's why its is acceptable and appreciated in Pakistani society. Through the Research I conclude that the misconception regarding the Islamic banking as a whole and the products like Murabaha specifically are baseless because in true essence the Islamic banking system can be very beneficial to the society at large, by dealing in goods and not in money. The Islamic banking makes it sure that the transactions are pure.

Recommendations

It is now time that Islamic banks and financial institutions resolve to gradually enhance their share of financing on PLS basis and reduce the share of financing on the basis of Murabaha and other modes of financing. All Murabaha financing arrangements is a trust sale financing arrangement. In this financing arrangement, the customer will first identify to goods to be financed. The bank will then secure goods, add the mark up profit, deliver the goods and collect the payment from the customers usually in differed terms. In Murabaha transaction, the cost price paid by the bank must be transparent to the customer. From the forgoing discussion on different aspects of Murabaha financing, the following Recommendations should be kept in mind. The Murabaha financial instruments should be properly and fully developed, accommodating all relevant factors. The government should set economic and Sharia parameters for providing bank financing and then recovery of the bank finance simpler and hurdle free. Bank officials at the branch level should be given fully freedom for making routine Murabaha financing decision, of course in the light of the set parameters. There should be both random and regulation, either biannual or annual Shariah audit of all financing decisions. The prospectus of Shariah compliance should be enhanced through introduction of penalties for the bank staff and Shariah rating of the bank. The best way to effect Murabaha is that the financier himself purchases the commodity directly from the supplier and after taking its delivery sells it to the client on Murabaha basis. Making the client agent to purchase on behalf of the financier renders the arrangement dubious. fr this very reason some Shariah board have forbidden this technique, except in cases where direct purchase is not possible at all. Therefore, the agency concept should be avoided as for as possible. No Murabaha can be affected for overhead expenses, paying bills or settling the debts of the client, nor can it be affected for purchase of currencies. While approving a Murabaha facility, the sanctioning authority must make sure that the client really intends to purchase commodities which may be subject matter of Murabaha. It should never be taken as merely a paper- work having no genuine basis.