MURĀBAHAH VERSUS BANK LOAN: CONCEPT OF INTEREST AND PROFIT

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ABSTRACT

The primary objective of this paper is to lucidly explicate on the concept of murābahah and bank loan as well as to clarify the likely ambiguities emanating from the practice of murābahah by Islamic banks and loan by conventional banks. Descriptive content analysis is employed by reviewing classical and modern literatures on the practice of murābahah. The findings indicate that, murābahah is used on sale in attaining profit rather than on sale. It is also shown that, murābahah is grounded by Sharīʿah. Indeed, financial transactions under the explanation of Maqāsid al-Sharīʿah by Ibn Ashur is used theoretical framework which is directly or indirectly linked with the practice of murābahah. The result shows the concept of murābahah from Islamic banking is different from the concept of interest practiced by conventional banks. The finding further indicates that, the extra charge added at the initial time of purchase of a particular product is not prohibited in Islam, but failure to pay the agreed amount on the fixed date by the buyer is undeniably regarded as forbidden usury based on the reference to Q 2:275. It is reiterated that, that Islam is permits the standard sale of a particular product whereby a product is bought with a price and sold with an increased price. In conclusion, the paper has established the viability of the murābahah transaction as a mechanism in promoting Islamic financial system. It is recommended that Islamic banks should device more mechanisms such as interbank benchmark rate in order to practically demonstrate the authenticity of Islamic financial system in the contemporary time specifically in making murābahah compliant with Maqāsid al-Sharīʿah on financial transactions.

Keywords: *Murābahah, Maqāsid al-Sharīʿah*, Bank Loan, Interest and Profit.

INTRODUCTION

Undoubtedly *murābahah* and bank loan are two concepts that can be misconstrued by many non-experts in the field of Islamic economy system. The extent of this has led to hot debate among the promoters of Islamic financial system. The explicit distinction between *murābahah* and bank loan is consequently obscured in the existing body of knowledge in the recent. It is on this basis that this paper attempts to bridge this gap by making clarification in an explicit way. Since Islam promotes sale and prohibits interest, it is essential to elucidate and clarify both concepts especially by establishing its position from Islamic perspective.

Islamic legal system provides or covers all aspects of human endeavors such as socio economic development. There are different economic theories like partnership *(musharakah)* developed from Islamic perspective on financial and economic matters. Also, *murābahah* is another Islamic economic concept which emphatically stresses on sale which *murābahah as* an

Islamic economic concept gives priority to value of time with money (Usmani, 2015). It is an economic paradigm that is distinctive from interest-based finance such as loan in conventional practices. In this regard, Islamic banking and finance has been growing to provide alternatives to conventional system in order to fulfill the prime objectives of the *Sharīʿah* as literature expounds (Khan & Mirakhor, 1987).

Undoubtedly, there is a misconception with respect to the use and application of *murābahah* because it is equated with the practice of interest by conventional banks. However, from the view-lens on *Sharīʿah*, bank can use *murābahah* but some essential conditions of *Sharīʿah* must be fulfilled. It is essential to give justification for the practice of *murābahah* transaction either by Islamic banks or Islamic private institutions which has been demonstrated in the theoretical framework of *murābahah* transaction.

Onwards, Classical and modern discourse on the concept of *murābahah* transaction is explored. In addition, payment in *murābahah* transaction is explicated in this paper. Different arguments with the practice of *murābahah* by Islamic banks are underscored and the practice of interest by conventional banks is also comparatively explored alongside with the explanation of *murābahah*. The paper draws conclusion from various arguments by the promoters of Islamic financial system and recommendations are made.

LITERATURE REVIEW

This paper explores related literature for conceptualization of *murābahah* and the practice of bank loan in the contemporary time. The literature is sectionalized into various sub-headings such as:

1. Theoretical framework of *murābahah* transaction;
2. Classical and modern concept of *murābahah* transaction;
3. Payment in *murābahah* transaction;
4. Practices of *murābahah* by Islamic banks and interest by conventional banks.

Each of these is elaborated in the subsequent sub-headings.

THEORETICAL FRAMEWORK

This section underscores the theoretical framework of this paper. Theoretically, Islamic legal system or Islamic jurisprudential rules provides a framework for the practice of *murābahah* as a distinctive entity different from the practice of interest by conventional banks (Yousef, 2004). This framework considers the justification from both the Qur'ān and Hadīth of the Prophet. Similarly, the viewpoints of promoters of Islamic finance in the contemporary time are lucidly explicated in connection with the *Maqāsid al-Sharīʿah* of Ibn Ashur. The financial transaction under the explanation of *Maqāsid al-Sharīʿah* by a contemporary Muslim scholar known as Ibn Ashur is directly or indirectly linked with the concept of *murābahah* and it is consequently used as a theoretical framework of this paper. Ibn Ashur (2006) offers several Qur'ānic and prophetic injunctions that wealth is considered as a preservation of human social order (Ibn & El-Mesawi, 2006). Ibn Ashur's theory of expanding the scope of *Maqāsid al-*

Sharīʽah is relevant to this paper because *murābahah is* used as a mechanism for fulfilling human needs (Ibn & El-Mesawi, 2006).

In addition, the importance of wealth in Islam is to foster the well-being of the individual; hence, *murābahah* transaction can be instrumental in this regard. In addition, protecting wealth of individuals and fulfilling the needs of individuals are important according to the explication of Ibn Ashur. This is so because; fulfillment of individual needs contribute immensely to the paradigm shift on the discourse of *Maqāsid al-Sharīʽah* according to Ibn Ashur (Ibn & El-Mesawi, 2006). It should be further stressed that *murābahah* may be considered as an individual benefit rather than collective or communal benefit. Nonetheless, it should be posited that, Ibn & El-Mesawi (2006) contends that individual's financial transaction is consequentially considered as useful to the entire community according to Ibn Ashur. Thereby, it is one of objectives of *Sharīʽah* to regulate the management of the wealth distribution or circulation. It is on this note that, the Islamic banks that operate *murābahah* transaction possess guiding principles for purchasing a particular product to the customer through the mechanism of *murābahah.* It not doubtful to say that the main target or purpose of *murābahah* transaction is to indirectly help an individual fulfill or satisfy his/her basic needs that he/she cannot ordinary fulfill with cash at the period of involving in *murābahah* transaction as a result of waiting for payment of one's labour.

It is noteworthy to say that, one of the requisites of *murābahah* is that, Islamic banks that operate *murābahah* should have full possession of a particular product to be purchased. This position is in line with the explanation of Ibn Ashur (2006) that, the paramount principle of owning is an exclusive possession of a particular commodity which is an essential underlining dimension for humans to struggle for in obtaining their needs. It should be reiterated that, transparency and equity are important in *murābahah* transaction specifically the Islamic bank that intends to purchase a particular product to the customer should encourage this since financial activity is being encouraged and promoted according to the objective of *Sharīʽah.* It should be reiterated that there is need for benchmark for Islamic interbank in order to authenticate *Shari'ah* compliance of different concepts of Islamic financial system such as *murābahah* as literature explicates. The subsequent sub-heading provides the detail explanation of classical and modern concept of *murābahah.*

Classical and Modern Concept of *Murābahah* Transaction

The word *murābahah* is of Arabic extraction which literarily refers to profit while technically the term *murābahah* is commonly used in *Shari'ah* to refer to a contractual sale of a particular commodity whereby there would be a clear agreement between the buyer and the seller (Ismail, 1997). Also, the term has been commonly used in modern time ascribed with the Islamic banks because it is regarded as *Shari'ah* compliant. This is due to the fact that, it allows the finance of a product on the request of a customer whereby the customer is permitted to make deferred payment.

It is explicit that, the extra charge added at the initial time of purchase of a particular product is not prohibited in Islam, but failure to pay the agreed amount on the fixed date by the buyer is undeniably regarded as forbidden usury. This has been clearly stated in the Qur'ān that:

> *"Allah has allowed sale and forbidden usury"* (Q 2:275).

Apart from the aforementioned Qur'ānic injunction that permits the sale, it is evidently shown that that Prophetic narration allows transaction of credit sales like *murābahah*. More importantly, literature such as Farooq (2009) contends that, the Prophet (S.A.W.) himself engaged in transactions of credit purchase. Usmani (2015) further buttresses that all scholars of four Sunni schools of thought that expatiated on Islamic law unanimously agreed on the lawfulness of *murābahah* transaction. Onwards, *murābahah* refers to profit and a sale whereby the seller unveil the price or cost of a particular product and the seller discharged the actual amount of profit being charged on such a product.

Contemporarily, *murābahah* is used as a major technique used by Islamic banks in different part of the world specifically in financing different projects or needs of their customers. It is noteworthy to posit that, some Islamic banks used 80% to 90% of their financial operations on *murābahah* (Usmani, 2015). Undoubtedly, *murābahah* as a financial technique gives an opportunity to the customers of Islamic banks whereby finance is provided for buying goods for customers and consequently selling the needed good to the customers; nonetheless, the payments are made on deferment by the customers.

Thus, in the modern transaction *murābahah* is regarded as:

> *"Default type of Islamic finance*"

Because it is totally different from usury (*riba*) which Islam considers as forbidden. This is so as a result of the fact that, *murābahah* transaction by Islamic banks does not charge interest while conventional banks charge interest on loans. But in the case of *murābahah* transaction, there is a clear understanding between buyer and lender with regard to the commodity to be purchased as well as the charges on such a commodity. This is not the case with respect to usury because it is interest that is charged. Thereby, literature contends that, Islam permits making profit on the sale of products either instant or deferred payment (Farooq, 2009; Usmani, 2015).

Onwards, in *murābahah* transaction, it is expected that the financer take full possession of the commodity before releasing to the buyer (i.e. customer). It is noteworthy to say that, the essence of *murābahah* transaction is totally different from conventional charging of interest on loan because the Islam allows profit on the sale of commodity as literature expounds (Farooq, 2009).

Payment in *Murābahah* Transaction

With respect to the payment of *murābahah* transaction, different opinions are expressed by the scholars. For instance, some scholars are of the view that, it is allowed to add extra charge when agreed payment is late deliberately delayed to be paid while some other scholars are of the opinion that even if such extra charge is added, it should be given out as charity. *Murābahah transaction* or financing is permissible according to *Shar'iah*.

Undoubtedly, Islam permits the credit sale as being practiced in *murābahah transaction*; however, detestable usury whereby charging of extra amount for late payment attached to the payment of loan commonly practiced by conventional banks. Also, Usmani (2015) provides a theory on the transaction of *murābahah* thus:

> *"It (murābahah) 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 a transitory step towards the ideal Islamic system of financing based on musharakah or mudarabah"*

It is not disagreeable to posit that; mode of payment is an integral part of part of *murābahah transaction*. This transaction allows the buyer of a particular product to make the payment on deferment which is termed as *bai-mujjal*. Nonetheless, the essential consideration in the transaction of *murābahah* is that, financer of a particular product should have full possession of such a commodity before selling it to the buyer. However, different opinions are expressed among promoters of Islamic finance with regard to the extra charge when there is lateness in the deferred payment.

It is interesting to note that, Usmani (2015) argues in support of charging extra amount for credit sale to the buyer but such charge can amount to forbidden usury when charges for late payment is made. This is so because the price of commodity to be sold under *murābahah transaction* is charged on the product not on the time to pay the remaining balance of the product. Thus, if the price is made on the time to make the payment; consequently, it is forbidden in Islamic financial system.

For instance, someone may contact a bank operating *murābahah* in order for the customer to purchase a particular product and the bank shows readiness to buy such a product to the customer consequently the bank sells the product to the customer adding its own profit which expectedly is to be paid on installment basis for the spreads of agreed numbers of months or years according to the regulations of the Islamic banks operating *murābahah* transaction (Parker, 2010).

Nonetheless, it can be asserted that the added amount to the actual price of the product could be considered as an interest. However, it can be argued that, the amount added to the actual price of the product is not considered as interest because it is a fixed amount and it does not intermittently increase if the customer fails to comply with the payment. In addition, it can be posited that Islam is concerned about the standard sale of a particular product whereby a product is bought with a price and sold with an increased price. This assertion enables the scholars to position *murābahah* as a profit-making venture as well as a technique for deferred payment of a particular product that is purchased by the Islamic banks for the customers.

Undoubtedly, there are different prices in *murābahah* transaction. For instance, a customer may wish to buy a car at 20,000 Riyal but the seller wants to collect the amount or price in full but the buyer does not have the full amount. As a result, *murābahah* bank is ready to buy the car with the price but adds its own profit for example 5,000 Riyal to it because it is ready to wait for a number of months or years to collect the full amount of money.

It is not arguable to posit that, the customer's wish to buy from *murābahah* bank indicates that the customer is willing to pay part of the money and indebted with the *murābahah* bank. It is as a result of the fact *murābahah* bank is ready to be owed by the customer; thus Islam considers the added amount to the main price of the product as amount for the service rendered.

The foregoing explication might appear as interest (*riba*) which is detestable by *Shari'ah*. As a result, the transaction of *murābahah* could not be equated with *riba*. This is so because *riba* is to charge a predetermined amount as a return for using of money (Siddiqui, 2004). An inference could be drawn that there is a fixed amount of money added to the actual amount of money used to purchase a particular product is fixed in *murābahah* because if a customer is delinquent in making the payment as agreed on, there is no increase in payment of interest. This is the major difference between traditional bank loan and *murābahah* contract. However, literature such as Khan and Mirakhor (1987) has argued that both traditional loan and *murābahah* contract add interest on a particular product.

According to a prominent Islamic finance expert, Jamaldeen (2012), he is of the view that, *murābahah* transaction is not tradable as an Islamic financial mechanism because it is a representation of debt which is not commonly used among investors. However, this position does not nullify its soundness and recognition by *Shari'ah* as literature expounds despite the fact the glorious Qur'an considers *riba* as unlawful. In this regard, the Holy Qur'an affirms that:

> *"O you who believe! Observe your duty to Allah and give up what remains [due to you] from interest, if you are [in truth] believers. And if you do not, then be warned of war [against you] from Allah and His Messenger. And if you repent then you have your principal [without interest]. Wrong not, and you shall not be wronged." (2:278-279).*

The above-mentioned verses are lucid with regard to the prohibitive level of interest according to the Glorious Qur'an. More importantly, as long as profit on a particular product is on credit sales, then the concept of *murābahah* is permissible under *Shar'iah*. Nonetheless, it is paramount to assert that return collected on debts or loans is totally prohibited because it is regarded as interest.

Onwards, it can posited that when a customer is given more or prolonged time to pay for a particular commodity that he/she has purchased, thus, in this regard, the extra pay added to the actual price cannot be considered as usury because literature argues that the additional amount is added to the commodity and not added on the money given as in the case of loan. This difference is clear in the sense that, in the case of loan, additional charge is made as interest on the time for deferred payment not on the purchase of a particular product; thereby, the charges of time for deferred payment is regarded as usury according to the *Shari'ah*.

More importantly, the prophetic narration establishes the transaction of the use of credit-sales as in the case of *murābahah*. For instance, Farooq (2009) contends different narrations from the Prophet (S.A.W.) confirmed and supported the credit-purchase transactions whereby the Prophet (S.A.W.) himself paid extra charges for deferred payment.

Contemporarily, many Islamic banks, Islamic investment funds and Islamic bonds utilize the *murābahah* in order to finance the purchase of different products on the request of customers. Literature argues that the major purpose of *murābahah* is mainly to finance the purchase of a particular commodity on the request of a customer without adding interest on the deferred payment (Farooq, 2009; Usmani, 2015).

Usmani (2015) further elaborated that, the buyer under transaction of *murābahah* should not be penalized for lateness of his/her payment because it can subsequently lead to usury; but the price should not be increased if the buyer defaults the payment of the agreed price. It is noted that many Islamic financial institutions have been trying to address the delay in payments or defaults in *murābahah* transaction (Parker, 2010); nonetheless, there is no agreeable consensus in different Muslim countries with regard to this.

However, it is noteworthy to say that, since *murābahah* is a contractual provision, thus, it is important that contractual transaction of *murābahah* between Islamic bank as service provider and customer is written in order to specify terms and arrangement of deferred payment by the customer.

Practices of *Murābahah by* Islamic Banks and Interest by Conventional Banks

Literature makes a distinction between the concept of *murābahah* and bank loan specifically there must be a guiding principle for the operation and practice of *murābahah* under Islamic banking system (Guide to Islamic Banking, 2018). It is also import to assert that, literature posits that, there is need for adequate instruments and markets for proper operation of Islamic financial system as previous research expounds (Bloomsbury, 2010; Kettell, 2011). It is reiterated that interest is not attached with *murābahah* but it is a sale of a particular product where profit is ascribed to it. For instance, Islamic bank may purchase a particular product to the customer and sell it to the customer by adding its own profit (Usmani, 2015). The abovementioned explanation must be in compliance with the principles and practice of Islamic finance as literature expounds (Visser, 2013; Edward, 2016).

In this regard, as part of agreement between the Islamic bank and customer, the bank is expected to unveil the cost of requested product as well as expected profit to the customer. It should be stressed that, most of *murābahah* banks such as Jaiz bank which is operation is some Muslim countries do not give cash to the customers but they rather purchase goods from the seller and sell the goods to the customers by adding their own profits (Yousef, 2004).

In other words, it should be lucidly explained that, with the practice of *murābahah* by Islamic banks, for instance, the bank purchases a commodity and sells to customer and consequently adds its own profit. This inferably is regarded as business activity which is permissible under the *Shari'ah*. Nonetheless, giving loan by the conventional bank has nothing to do with commodity and consequently is regarded transaction of interest which is forbidden in *Shari'ah*.

However, there is need for efficient practices of Islamic banks in order to prove the effectiveness, performance and prospects of Islamic banking system in the Muslim world (Kabir, 2005; Iqbal & Philip, 2005; Ali, 2015). Similarly, there is introduction of commodity *murābahah* programme in some notable Muslim countries which literature considers as innovative approach to liquidity management (Dusuki, 2007).

Nonetheless, some traditionalist scholars strongly believe in viability of Islamic finance but *murābahah* is considered a hindrance to viability of profit and loss sharing as an integral part of Islamic financial system. It is further reiterated that, profit and loss sharing is not explicit in the *murābahah* transaction. In other words, profit and loss sharing is not expressly shown in *murābahah* transaction. It is further contended by Usmani (2015) in presenting the argument some antagonists of *murābahah* that, in reality, there is nothing like purchase and sell of a product but there is flow of monetary cash between the lenders and borrowers.

Thus, it does not make much difference with conventional interest associated with loan but the only difference is the usage of terminology between Islamic and conventional banks. However, a renowned Muslim scholar, Usmani (2015) contends that some people may equate sale with usury and more importantly, high amount on the deferred payment may be considered as payment of interest on a loan. This notion has been sternly denounced as incorrect by Usmani (2015).

Nonetheless, literature posits that for the viability of Islamic financial system in the modern time, it is essential to have interbank benchmark rate which should be considered as a step to practically demonstrate the authenticity of Islamic financial system in the contemporary time (Lewis & Al-Gaud, 2001).

It is noteworthy to posit that, there is a difference between *murābahah* concept by Islamic bank and interest by conventional banks especially with regard to the charging of interest. It can be argued that, the motive of both is the same; however, the structure of the commodity to be sold is not the same under the practices of Islamic and conventional banks. This argument is in line with the position of Arabian Business (2008) which posits that; *murābahah* has been misconstrued in the modern time.

Thereby, it should be asserted that *murābahah* practice by Islamic banks could be regarded as a contractual sale of a particular commodity while loan by conventional banks is an interest ascribed with overdraft provided by the conventional banks. Literature expounds that bank interest is considered as forbidden (Siddiqui, 2004) because both the traditional and modern Muslim scholars do not equate *riba* with the practice of *murābahah* (Usmani, 1999; Farooq, 2009). Nonetheless, there is need for open-mindedness and intellectual dialogue among the promoters of Islamic financial system in order to make the practice *murābahah* compliant with *Shari'ah* as literature clamors for dialogue in Islamic economy system of the contemporary Muslim world (Siddiqui, 2002).

METHODOLOGY

Qualitative descriptive and analytical content analysis is employed by reviewing classical and modern literatures on the practice of *murābahah*. Similarly, System Dynamic Method (SDM) is used to conceptualize *murābahah* with the framework of Maqāsid al-Sharīʿah by utilizing available human and monetary resources for harmonious distributions of *murābahah* resources. In addition, critical analysis of the extant studies are done in order to examine the concept of *murābahah* and loan with specific focus on *murābahah* transaction by Islamic banks and loan by conventional banks. Majorly, secondary data were used by examining divergent opinions of scholars and experts on *murābahah* and loan in the field of Islamic banking and finance (Farooq, 2009; Usmani, 2015). The researcher ascertains of content validity by avoiding ambiguities of issues relating to *murābahah* and loan and consequently clarifications and distinctions were made between the two. The conceptual framework is developed from the relevant existing body of knowledge (Ibn, 2006) to examine the relevant of *murābahah* transaction as one of financial instrument for distribution of wealth distribution as well as fulfillment of individual needs rather than communal needs. In addition, to certain extent, the research ensures that there is consistency in content analysis of the paper especially by connecting the ideas on various segments of the paper. The segment of the paper covers four major themes namely: theoretical framework; classical and modern concept of *murābahah* transaction; payment in *murābahah* transaction and practices of *murābahah* by Islamic banks & interest by conventional banks. These themes were analyzed critically. For the purpose of understandability and clarity of the paper, opinions of the experts in the field of Islamic banking and finance were sought and necessary suggestions were made on different generated themes of this paper for better improvement.

RESULTS AND DISCUSSION

This part presents the results and discussion of this paper which are sub-divided into four namely:

1. Theoretical framework;
2. Classical and modern concept of *murābahah* transaction;
3. Payment in *murābahah* transaction;
4. Practices of *murābahah* by Islamic banks & interest by conventional banks.

Each of these is presented in the subsequent paragraphs.

First, Pertaining To Theoretical Framework

The result indicates that wealth is used as a way of preserving social order of human being. This position is in consonance with the position of Ibn Ashur (2006) while elaborating the scope of Maqāsid al-Sharīʿah where *murābahah* is also relevant as a result of the fact that it is being utilized as fulfilment of human needs as literature posits (El-Mesawi, 2006). It further shows that, *murābahah* is of individual benefit rather than communal benefit. However, it is not doubtful that, individual benefit of *murābahah* could be beneficial to the entire society. It is found out that transparency and equity are required by Islamic banks for successful transaction of *murābahah* in order to achieve the objective of Sharīʿah as previous study explains. It should be reiterated that, there are principles guiding the activities of Islamic banking with regard to the transaction of *murābahah* especially when purchasing a particular product to the customer. Inferably, it has been demonstrated that, *murābahah* helps individual to attain basic needs which ordinarily cannot be attained when one is waiting for his/her monthly salary.

Second, Concerning Classical and Modern Concept of *Murābahah* Transaction

The result shows that that *murābahah* from Islamic banking is different from the concept of interest practiced by conventional banks. The justification for this assertion has been found in the literature that, credit transaction such as *murābahah* transaction is permissible in Islam because the Prophet (S.A.W.) was reported to have practiced it and scholars have agreed on the permissibility of *murābahah* (Farooq, 2009; Usmani, 2015). Hence, the finding of Usmani (2015) further indicates Islamic banks used between 80% and 90% of their financial operation in fulfilling the needs or various projects of their customers.

Third, Pertaining to Payment in *Murābahah* Transaction

The result indicates that, there is a distinction between payment in *murābahah* transaction and interest on loans. As far as Islam is concerned, it is allowed in *Sharīʿah* to gain on sale of a particular product and the payment can be made instantly or on deferment. This position is in line with the findings of previous studies (Farooq, 2009; Usmani, 2015). Nevertheless, credit sale of *murābahah* transaction is allowed; however, it is important that commodity to be sold must be known to both buyer and lender. Nonetheless, extra charge added at the initial time of purchase of a particular product is not prohibited in Islam, but failure to pay the agreed amount on the fixed date by the buyer is undeniably regarded as forbidden usury based on the reference to Q 2:275. Nonetheless, literature contends that, the buyer in *murābahah* transaction should not be sanctioned for late payment due to the fact that if extra care is not taking, it can lead usury (Usmani, 2015). It is not disputable the literature such as Parker (2010) has advocated for addressing the default of *murābahah* transaction by Islamic banks in Muslim countries. It is reiterated that that Islam permits the standard sale of a particular product whereby a product is bought with a price and sold with an increased price as being discussed by scholar under deferred payment (*bai-muajjal*). Thus, the transaction of *murābahah* is not considered as usury. Though, *Shari'ah* confirms the authenticity of *murābahah* but literature argues that *murābahah* is considered as a representation of debt and it is not usually utilized among most of investors (Jamaldeen, 2012).

Fourth, Regarding the Practices of *Murābahah* by ISLAMIC Banks & Interest by Conventional Banks

Islamic banks promote financial system in line with the principles of *Sharīʿah*, however, it must expand its scope to fulfill the needs of Muslims (Visser, 2013; Edward, 2016). Since Islamic banks are evolving in predominant Muslim countries, studies have advocated for diversification of operations by Islamic banks that could foster the viability of Islamic banking system in the Muslim countries (Bloomsbury, 2010; Kettel, 2011). It is important to stress that, the transactions such as *murābahah* is an integral part of Islamic banks in Muslim countries. For instance, Jaiz bank wherever it is operating tends to provide *murābahah* transaction with specific focus on the purchase of a needed commodity by the customer, nonetheless, the charges for service rendered is added to the purchased commodity. As part of innovation, some Muslim countries have introduced commodity *murābahah* in order to provide financial service to customers as part of viability, innovation and efficiency of Islamic financial system in Muslim nations (Dusuki, 2007). This transaction is quietly different from transaction of loan by conventional banks because loan is not focused on commodity but focuses on interest which is prohibited by Islamic legal system (Usmani, 2015).

The theoretical framework of this paper has been elucidated in line with an expanded scope of *Maqāsid al-Sharīʿah* by a prominent Muslim scholar Ibn Ashur as explained in the study of El-Misawi. Also, classical and modern concept of *murābahah* transaction has been elaborated in accordance with extant literature. Various positions are advanced with regard to the payment in *murābahah* transaction. Lastly, practices of *murābahah* by Islamic banks & interest by conventional banks have been explicated.

IMPLICATIONS AND LIMITATIONS

Various scholarly researches have explored the social relevance of *murābahah* and its distinctiveness from conventional loan in the contemporary time. The conceptualization of *murābahah* is within the framework of *Sharī'ah*. Thus theoretical and practical implications of this paper are explicated. On one hand, theoretically, the paper has confirmed the relevance and expansion of the scope of *Maqāsid* al-*Sharī*ʿah from the perspective of ibn Ashur. On the other hand, practically, this paper has explore *murābahah* as an alternative to prevalent bank loans offered by conventional banks whereby the evolvement of *murābahah* can be develop further into a policy framework in order to judiciously utilize the income generated for efficient distributions among the participants. In so doing, public finance system such a Zakat and *murābahah* should be made consistent with framework of Islamic legal system which should add efficiency to its utility in various Muslim countries that practice *murābahah*. As an integral part of policy implication of this paper, it is noteworthy to say that, *murābahah* should be utilize to enhance the condition of less-privilege citizens by enabling them to invest which will subsequently be helpful to them to improve them earnings and condition of living. In doing, it requires strong political will because this policy implication is strongly related with political economy of a particular Muslim nation. Hence, in so doing, this trend will provide an analytical framework for distributions of incomes earn from *murābahah* to the participants.

This paper is limited in its scope because it does not provide concrete empirical modeling of various conceptualized dimensions explored in this paper. Also, governance mechanism and policy influence of government is not directly explored in connection with *murābahah* in some Muslim countries like Malaysia, Saudi Arabia among others. Similarly, structural changes are not elaborated in relation with explanation of *murābahah*. Therefore, the central focus of this paper may be developed into an empirical research investigating the opinions of stakeholders pertaining to viability of *murābahah* as an alternative to conventional practice to bank loans that involve uncertainty and usury.

CONCLUSIONS

This paper has explicitly assessed classical and modern viewpoints among Islamic finance promoters with regard to the practice of *murābahah*. Some scholars sternly warn that, Islamic banks practicing *murābahah* is indirectly involving in interest-based transaction. Nevertheless, this paper has explicated that credit transaction is justifiably permissible in Islam; however, interest-based finance is detestable. The paper has further elucidated that the value of time in business transaction could not be underestimated. It is noted that Islam does not go contrary to debt mode of *murābahah*, nonetheless, it is argued that all essential requirements should be fulfilled. Hence, it is uncontestable to posit that any charge on credit sales as being practiced in *murābahah* is allowed; nonetheless, interest ascribed to loan is forbidden and being regarded as usury. It is recommended that Islamic banks should device more mechanisms such as interbank benchmark rate in order to practically demonstrate the authenticity of Islamic financial system in the contemporary time specifically in making *murābahah* compliant with *Maqāsid al-Sharīʿah* on financial transactions. Also, an empirical research should be conducted on the viability of *Maqāsid al-Sharīʿah* grounded with Qur'an and Hadith in establishing *murābahah* as an Islamic financial mechanism whereby Islamic banks that operate it can establish interbank benchmark rating for its authentic operation in different parts of Muslim world.

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