Chapter 25: Step by step Murabaha financing

**STEP – 1:**
Client and bank sign an agreement to enter into Murabaha.

**STEP – 2:**
Client appointed as agent to purchase goods on bank’s behalf

**STEP – 3:**
Client purchases goods on bank’s behalf and takes their possession.
**STEP – 4:**
Bank gives money to client for purchase of goods.

**STEP – 5:**
Client makes an offer to purchase the goods from bank.

**STEP – 6:**
Client pays agreed price to bank according to an agreed schedule, usually on a deferred payment basis (Bai Muajjal)
Different capacities at different steps:

- At the 1st step: understanding of sale and purchase
- At the 3rd and 4th steps: Relation of principle and agent.
- At the 3rd step: Relation between the bank and the supplier is that of a buyer and seller.
- At the 5th and 6th steps: Relation of buyer and seller comes into operation between the bank and the client.
- At the 7th step: The relation between bank and client is that of debtor and creditor.

All the capacities must be kept in mind and must come into operation with all there responsibilities.

General Mechanics:

- The customer approaches the Bank with the request for financing
- The Bank purchases and receives title of ownership from the vendor
- The Bank makes payment to the vendor
- The Bank transfers the title over to the customer upon payment
- The customer makes payment up-front or on a deferred basis

Applications of Murabaha:

- Murabaha transaction is the simplest form of an Islamic Financial Transaction. Murabaha can be used to finance the purchase of any assets which is recognized as Mal-e-Mutaqawam (Valuable) under Shariah.
- A wide range of customer needs can be catered through financing purchase of different assets by the customers.
- This is used in: Import finance, Export finance, House financing, Car financing, working capital financing, etc.