27. EXPORT FINANCING

A bank plays two very important roles in exports. It acts as a negotiating bank and charges a fee for this purpose, which is allowed in the Shariah. Secondly it provides an export-financing facility to the exporters and charges interest on this service. These services are of two types:

1. Pre-shipment financing
2. Post-shipment financing

As interest cannot be charged in any case, experts have proposed certain methods for financing exports.

Pre-shipment Financing:

Pre-shipment financing needs can be fulfilled by two methods:

1. Musharakah / Mudarabah
2. Murabaha

Musharakah / Mudarabah:

The most appropriate method for financing exports is Musharakah or Mudarbah. The bank and exporter can make an agreement of Mudarabah provided that the exporter is not investing; otherwise a Musharakah agreement can be made. The agreement in such case will be easy, as cost and expected profit is known.

The exporter will manufacture or purchase goods and the profit obtained by exporting them will be distributed between them according to a predefined ratio.

A problem that can be encountered by the bank is that if the exporter is not able to deliver the goods according to the terms and conditions of the importer, then the importer can refuse to accept the goods and in this case the exporter's bank will ultimately suffer. This problem can be rectified by including a condition in the Mudarabah or Musharakah agreement that, if the exporter violates the terms and conditions of the import agreement then the bank will not be responsible for any loss which arises due to this negligence. This condition is allowed in the Shariah as the Rabb-ul-Maal is not responsible for any loss that arises due to the Mudarib's negligence.

Murabaha

The Murabaha is used in many Islamic banks for export financing. Banks purchase goods that are to be exported at a price that is less than the price agreed between the exporter and the importer. It then exports goods at the original price and thus earns profit.

Murabaha financing requires the bank and exporter to sign at least two agreements separately, one for the purchase of goods and the other for appointing the exporter as the bank's agent (agency agreement). Once these two agreements are signed, the exporter can negotiate and finalize all the terms and conditions with the importer on the bank's behalf.

Post-shipment Financing:

Post-shipment finance is similar to the discounting of the bill of exchange. Its alternate the Shariah-compliant procedure is discussed below:

The exporter with the bill of exchange can appoint the bank as his agent to collect receivables on his behalf. The bank can charge a fee for this service and can provide an interest free loan to the exporter, which is equal to the amount of the bill, and the exporter will give his consent to the bank that it can keep the amount received from the bill as a payment of the loan.

Here two processes are separated, and thus two agreements will be made. One will authorize the bank to collect the loan on his behalf as an agent, for which he will charge a particular fee. The second agreement will provide an interest free loan to the exporter and authorize the bank to keep the amount received through the bill as a payment for the loan.

These agreements are correct and allowed according to the Shariah because collecting fee for services and giving interest free loans is permissible.