26. IMPORT FINANCING

A Musharakah can be used for import financing as well. There are two types of bank charges on the letter of credit provided to the importer:

1. Service charges for opening a letter of credit
2. Interest charged on letters of credit, which are not opened on full margin.

Collecting service charges for this purpose is allowed but as interest cannot be charged in any case, experts have proposed two methods for financing letters of credit:

1. Based on Musharakah / Mudarabah
2. Based on Murabaha

**Musharakah / Mudarabah:**

This is the best substitute for opening a letter of credit. The bank and the importer can make an agreement of Mudarabah or Musharakah before opening the letter of credit.

If the letter of credit is being created at zero margin then an agreement of Mudarabah can be made, in which the bank will become Rabb-ul-Maal and the importer, the Mudarib. The bank will own the goods that are being imported and the profit will be distributed according to the agreement.

If the letter of credit is being created with a margin then a Musharakah agreement can be made. The bank will pay the remaining amount and the goods that are being imported will be owned by both of them according to their share of investment.

The bank and the importer, with their mutual consent can also include a condition in the agreement, whereby; Musharakah or Mudarabah will end after a certain time period even if the goods are not sold. In such a case, the importer will purchase the bank’s share at the market price.

**Murabaha:**

At present Islamic banks are using Murabaha, to finance letter of credit. These banks themselves import the required goods and then sell these goods to the importer based on the Murabaha agreement.

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