

271992 - He is investing money in a company that will give him 3% of his capital for a period of ninety days

the question

I am putting a sum of money – say five thousand dollars – with an investment company which for a period of ninety days will give me a return of 3%. In other words, every day I can withdraw the sum of one hundred and fifty dollars for a period of ninety days, but after ninety days I cannot withdraw the initial capital, which is five thousand dollars. What is the Islamic view concerning that?

Detailed answer

Firstly:

it is not permissible, when forming a partnership, to agree that the owner of the capital will get a certain percentage of his capital, or a set amount. Rather his share should be a percentage of the profit, such as saying: You will get 3% of the profit.

But if it is said to him: You will get 3% of your capital, or you will get one hundred and fifty dollars, this renders the partnership invalid.

If, combined with that, his capital is guaranteed (and he will not lose any of it), as you mentioned, then this transaction is a riba-based loan.

Ibn Qudaamah (may Allah have mercy on him) said:

If the share of one of the partners is set as a specific amount of money, or a sum of money is set along with his share – such as if he stipulates that he will have a percentage plus ten dirhams, the partnership becomes invalid. Ibn al-Mundhir said: All of the scholars from whom I learned are agreed that the mudaarabah partnership is invalidated if one or both of them stipulate that they will have a certain amount of money. Among those from whom we learned that are Maalik, al-Awzaa'i, al-Shaafa'i, Abu Thawr and Ashaab al-ra'y. End quote.

Shaykh al-Islam Ibn Taymiyah said:

If it stipulates in the mudaarabah contract that the owner of the money will get a certain amount of money, this is not permissible, according to scholarly consensus. That is because transactions should be based on fairness, and these transactions are a kind of partnership, and it can only be a partnership if each partner gets a percentage, such as one-third or one-half. If one of them is given a specific amount, that is not fair, rather it is unjust. End quote from Majmoo' al-Fataawa, 38/83

The Standing Committee was asked about two men, one of whom gave the other a sum of money with which to do business for him, and they agreed that he would give him 3% of the capital as a profit each month.

They replied:

Your giving the money to the trader to do business with it and his giving you a set amount, three percent of the money, is not permissible, because it is a kind of guaranteed profit. End quote from Fataawa al-Lajnah al-Daa'imah, 14/318

They were also asked about a company that takes money from people to do business with it, and gives them a share of 30 percent of the capital every year, and claims that it makes a profit of 100 percent.

They replied:

If the company mentioned gives the partners a set, guaranteed amount of profit, this transaction is not permissible, because it is riba. The transaction which is permissible is that in which each partner is given a share such as one-quarter or one-tenth, which increases or decreases according to what happens. End quote from Fataawa al-Lajnah al-Daa'imah, 14/321

Conclusion: it is not permissible to invest money in the manner asked about.

Secondly:

In a valid type of partnership, it is essential to know the nature of the field in which the money will be invested, and that it is permissible. It is not permissible for the money to be invested when it is not known in which field it will be invested; perhaps it will be invested in riba-based banks or gambling operations, or other unlawful things.

It is not permissible for anyone to let his love of wealth make him try to accumulate wealth in any way, even if it is prohibited. The Prophet (blessings and peace of Allah be upon him) said:

“The Holy Spirit (Jibreel) has inspired to me that no soul will die until it has completed its appointed term and received its provision in full, so fear Allah and do not be desperate in seeking provision, and no one of you should be tempted to seek provision by means of committing sin if it is slow in coming to him, for that which is with Allah can only be attained by obeying Him.” Narrated by Abu Na‘eem in al-Hilyah; classed as saheeh by al-Albaani in Saheeh al-Jaami‘, no. 2085.

And Allah knows best.