42579 - Fatwa from the Standing Committee on the “Business and “Hibbat al-Jazeerah” companies and pyramid marketing schemes

the question

The Standing Committee for Academic Research and Issuing Fatwas has received many questions about pyramid marketing companies such as the “Business” and “Hibbat al-Jazeerah” companies, whose work may be summed up as being the attempt to convince a person to buy a product on the basis that he will also convince others to buy; they in turn will convince others, and so on. The more levels of participants there are, the more the first person will gain in commission, reaching thousands of riyals. Every participant convinces others to join in return for a large commission, if he is successful in getting new customers to join his list of members. This is what is called pyramid marketing or network marketing.

Detailed answer

The Committee replied: This kind of dealing is haraam, because the purpose of this dealing is to earn commission, not to buy the product. The commission may reach tens of thousands, whilst the product is not worth more than a few hundred. Any smart person who is offered a choice between the two will choose the commission. Hence these companies rely on marketing and advertising of their product which emphasizes the size of the large commission which the participant can earn, and offers the incentive of a large profit in return for a small sum, which is the price of the product. The product marketed by such companies is merely a screen or a means of earning these commissions and profits. Because this commission is really the point of the transaction, it is haraam according to sharee’ah for several reasons:

1 – It involves riba of two types, riba al-fadl (involving exchange of goods of the same type but of different quantity) and riba al-nasi’ah (involving deferred payment of a larger amount than would be paid if it were paid immediately). The participant pays a small amount of money in order to gain a lot of money, in other words he pays cash for cash of a different amount and with deferred payment. This is the kind of riba that is forbidden according to the texts and to

scholarly consensus. The product which the company sells to the agent is simply a screen for this transaction; it is not what the participant is seeking and it makes no difference to the ruling.

2 – It is a kind of gharar (ambiguous transaction) that is forbidden in sharee'ah, because the participant does not know whether he will be successful in finding the number of purchasers (participants) required or not. No matter how long pyramid or network marketing lasts, it must inevitably reach an end, and when a person joins the pyramid he does not know whether he will be in a higher level and thus make a profit, or in the lower levels and thus make a loss. The fact of the matter is that most of the members of the pyramid lose out, except for the few at the top. So what usually happens is loss, which is the case of all ambiguous transactions. One of two things may happen, and it is usually the one that is most feared. The Prophet (peace and blessings of Allaah be upon him) forbade ambiguous transactions, as was narrated by Muslim in his Saheeh.

3 – These transactions involve consuming people's wealth unlawfully, because these contracts benefit no one but the companies and some participants whom the company encourages with the aim of tricking others. This is what is forbidden in the Qur'aan, where Allaah says (interpretation of the meaning):

"O you who believe! Eat not up your property among yourselves unjustly"

[al-Nisa' 4:29]

4 – This transaction involves cheating, deceiving and tricking people, by showing the product as if that is the purpose of this transaction, when that is not the case, and by enticing them with the idea of large commission which people do not usually earn. This is the kind of deceit that is forbidden in sharee'ah. The Prophet (peace and blessings of Allaah be upon him) said: "Whoever deceives us is not one of us." Narrated by Muslim in his Saheeh. And the Prophet (peace and blessings of Allaah be upon him) said: "The two parties to a transaction have the choice, so long as they have not parted. If they are sincere and open in their dealings, the transaction will be blessed for them, but if they lie and conceal anything, the blessing of their transaction will be erased." Agreed upon.

With regard to the view that this transaction is a kind of brokerage, this is not true. Brokerage is a transaction whereby the broker receives payment in return for selling the product, whereas in network marketing the participant pays a fee in order to market the product. Brokerage means marketing the product in a real sense, unlike network marketing where the real aim is to market the transaction, not the product, so the participant markets to others who will market to others who will market to others and so on, unlike brokerage in which the broker markets the product to those who really want the product. The difference between the two is quite clear.

With regard to the view that the transaction is a kind of gift, this is also not true. Even if we accept that, not every gift is permissible according to sharee'ah. A gift given in return for a loan is riba. Hence 'Abd-Allaah ibn Salaam said to Abu Burdah (may Allaah be pleased with them both): "You are in a land where riba is widespread among them. If you have some right over a man and he gives you a load of straw or a load of barley or a load of fodder, this is riba." Narrated by al-Bukhaari in his Saheeh.

Gifts are subject to the rulings on the reason for which they are given. Hence the Prophet (peace and blessings of Allaah be upon him) said, concerning the zakaat-collector who came and said: "This is for you and this is what was given to me as a gift": "Why don't you sit in the house of your father and mother and see whether you are given any gifts or not?" Agreed upon.

These commissions are only paid for the purpose of joining the network marketing scheme, no matter what names are given to them, whether they are called gifts or anything else. That does not change their nature or the ruling on them in the slightest.

It is worth mentioning that there are companies that have appeared in the market which follow the practices of network marketing or pyramid marketing, such as "Smartest Way", "Gold Quest" and "Seven Diamonds". The ruling on these companies is no different from the ruling on the companies mentioned above, even though the products they offer may vary.

And Allaah is the Source of strength. May Allaah send blessings and peace upon our Prophet Muhammad and his family and companions.