133504 - Investing in the Emirati National Bonds Company

the question

I want to ask a question about investing in the United Arab Emirates National bond program (http://www.nationalbonds.ae/eng/home/aspx), as they have bonds and they have draws. What is the ruling on investing in both?

Detailed answer

Praise be to Allah.

Having looked at the website for the National Bonds Company, and read the fatwa of its Sharia Committee, it is clear that it is permissible to deal in these bonds, if the transaction is done in accordance with what was stated by the Sharia Committee, but from looking at the website it appears that the actual conduct of the company is not in accordance with the fatwa. Hence Dr Saami Ibraaheem as-Suwaylim (may Allah preserve him) issued a fatwa stating that it is haraam to deal in these bonds.

He was asked: We would like to know the ruling on the National Bonds that are in harmony with Islamic sharia; are they permissible or not?

National Bonds is a private share company with its headquarters located in Dubai, and the list of its shareholders includes national companies, namely Dubai al-Qaabidah, and a real estate company called I'maar, in addition to the Bank of Dubai. The company's capital is 150 million dirhams, which is distributed equally between the three partners. National Bonds are purchased in notes worth 10 dirhams, with the minimum purchase being 100 dirhams, i.e., 10 bonds. Each bond has a serial number which is entered into a monthly draw for prizes varying between 100 dirhams and one million dirhams, which is the largest monthly prize. The sharia committee supervises the work of the company and its compliance with Islamic sharia, and has issued a fatwa stating that

what it does is permissible!

He replied:

Praise be to Allah, and blessings and peace be upon the Messenger of Allah. To proceed:

The program offered by the National Bonds Company in Dubai is a kind of lottery, concerning which there is scholarly consensus that it is prohibited according to sharia. The one who purchases the so-called bonds pays 100 dirhams, which is the minimum purchase amount, and he is allowed to withdraw this money after one month. Every month he enters a draw for prizes varying between 100 and one million dirhams, as is clearly explained on the company's website (nationalbonds.ae). This is an exchange of money for money, of unequal amounts, and there is delay and ambiguity, so it involves both riba (usury) and gambling.

As for the fatwa issued by the sharia committee concerning this, it is in fact different from the company's work as explained on its website. This is clear from the following points:

1.

The fatwa states that the contract between the bondholder and the company is a mudaarabah (profit-sharing) contract, whereas the website does not mention anything about a mudaarabah contract or about the nature of the projects in which the money is invested, or about the actual rate of profit. There is nothing on the website that defines or explains the nature of the company's investments; rather it clearly announces the prizes that may reach as much as one million dirhams, and encourages everyone to participate in the draw in the hope of winning prizes, but it does not say anything about profits on investments. So what kind of mudaarabah contract is it then?

2.

The fatwa states that the prizes are distributed from the company's share of the mudaarabah profits by means of a draw, but the fact that the prizes are stated to be between 100 and one million dirhams means that they cannot be from investment profits, which cannot be defined

beforehand.

This means that the company is committing itself to offering prizes of specific amounts at the time when the draw is made, regardless of the outcome of investment. So the transaction is a pure exchange of money for money, and has nothing to do with mudaarabah.

Furthermore, the company announces that the first draw will be made in May, whereas it does not announce its profits until the end of the year. So how can the prizes come from the profits when the profits have not been determined or are not known yet?

3.

The fatwa states that it is not permissible to stipulate the prize draw in the mudaarabah contract, whereas the company's website states that these prizes are the most important advantage of subscribing, and lists the dates of the draws on the homepage and on all the pages of the website, and it encourages the visitor to subscribe, because he may become a millionaire. This makes the prize draw the aim of subscribing, and it is obvious that this is one of the most important conditions, because it is the reason for which people buy these bonds.

4.

The fatwa states that the contract is a mudaarabah contract, whereas the website states that the subscriber has the right to withdraw the value of the bonds after a minimum of one month has passed. This means that the price of the bond is like a loan that the company is obliged to repay. If we add to that the possibility of winning a prize, then it is a loan that brings a benefit, which constitutes riba, according to scholarly consensus.

Conclusion: the contents of the fatwa are one thing and the real nature of the company is something else altogether. What one should do is use this money to invest in projects that are based on real work and production so as to earn profit on added value, instead of using it for games of chance and prizes that kill work and do not add anything of value to the economy.

And Allah is the Guide to the straight path.

End quote from Islam Today website.

And Allah knows best.