299171 - Islamic Guidelines for Permissible Investment

the question

In India, we have companies which ask people to invest money in them, and every month the company will pay back some money. It has become clear that these companies own businesses in the diamond trade, gold trade, schools and so on. A few days ago, the owner of one of these companies, Heera Gold, was arrested, and many people who invested in Heera Gold are now in trouble. There is another company, called IMA Bangalore which has been mentioned in news broadcasts. Some scholars have said many times that investing in this type of company is free of interest, and Deobandi scholars have given the green light to invest in one of the companies owned by IMA, after extensive investigation. Is investing in this type of company permissible or prohibited according to Islam? Please explain in detail, in the light of the Quran and hadith.

Summary of answer

Islamic guidelines for permissible investment in companies:
1- The company invests in permissible ventures;
2- There should be no guarantee of the capital;
3- The profit should be known and agreed upon.

Detailed answer

Praise be to Allah.

We do not know anything about these particular companies, how trustworthy they are or to what extent they adhere to Shari`ah guidelines in their transactions.

But in general terms, it is permissible to invest capital in profit sharing ventures, and to invest with companies that work in this field, if they meet the following conditions:

1. The company will invest in permissible ventures , which include selling gold , if the conditions of exchange on the spot are met when selling it for cash or silver, and the condition that the exchange will be done on the spot in equal amounts, when selling gold for gold, is met.
2. The capital should not be guaranteed, so the company should not commit to returning the capital in the event of loss, unless the company has overstepped the mark or been negligent. That is because if the capital is guaranteed in all cases, then this transaction is in fact a loan, and whatever it brings of benefits is regarded as Riba.
3. The profit should be known and agreed upon , but it should be defined as a percentage of the profits and not of the capital . So, for example, one of the partners may receive one third, or half, or 20% of the profits, and the rest will go to the other partner.

The contract is not valid if the profit is defined as a certain amount, or as a percentage of the capital, or if it is not known and not defined. Islamic jurists have stated that this type of partnership is invalid in these cases.

Ibn Al-Mundhir (may Allah have mercy on him) said:

“All of the scholars from whom we acquired knowledge have agreed that a (profit-sharing) partnership becomes invalid if one or both parties stipulate that he will receive a specific amount of money . Among those from whom we learned that are Malik, Al-Awza`i, Ash-Shafa`i, Abu Thawr and Ashab Ar-ra’y." (Al-Mughni 5/23).

It says in Matalib Uli’n-Nuha (3/517):

“If he says: Take this (money) and do business with it, and you will have a portion of the profit, or you will be a partner in the profit, or you will have something of the profit, or a share of the profit, that is not valid, because it is unknown, and a profit-sharing partnership is not valid if the shares of profit are unknown.”

If these conditions are met, then it is permissible to invest.

For more details, please see this category: Investment.

And Allah knows best.