642024 - Ruling on investing when the return is fixed or the investor receives free accommodation

the question

If someone invests money and receives a fixed monthly return (for example 10,000 tk from 4 lakh or 2,000 tk from 1 lakh), is this considered riba even if it is called an “investment”? Or, If the investor receives benefits like free accommodation in a flat because of the money given, does that also fall under riba? What would be the correct Shariah-compliant structure for such an arrangement—should it be mudarabah, musharakah, or ijarah?

Summary of answer

It is not permissible for the return on investment to be fixed, whether it is a specific amount of money or a percentage of the capital. If, in addition to that, there is the guarantee that the capital will be preserved, then in reality the contract is a riba-based loan.

Detailed answer

Praise be to Allah.

I.

There are three conditions for investment to be valid according to Islamic teachings:

1. The field of investment must be permissible.
2. There must be agreement on a percentage of the profit, such as 10% for example, not a fixed amount or a percentage of the capital.
3. There should be no guaranteed preservation of the capital.

If these conditions are not met, then the partnership is invalid and it is prohibited to enter into it.

If the agreement is that there will be a fixed monthly return of a specific amount, or a percentage of the capital, then the partnership is invalid.

Ibn Qudamah (may Allah be pleased with him) said: If the return of one of the partners is a specific amount of money, or a specific amount of money is added to his return – such as if he stipulates that he will have a percentage plus ten dirhams – then the partnership is invalid.

Ibn al-Mundhir said: All the scholars from whom we acquired knowledge are agreed that the investment (Mudarabah) becomes invalid if one or both parties stipulate that he will get a certain amount of money. Those from whom we learned that include: Malik, al-Awza`i, ash-Shafa`i, Abu Thawr and as-hab ar-ra'y.

End quote from *Al-Mughni*, 5/23.

It says in *Al-Ma`ayir ash-Shar`iyyah*, p. 198:

It is not permissible to stipulate that one of the partners will receive a specific amount of the profit, or a specific percentage of the capital. End quote.

If, added to that fixed return, there is a guarantee that the capital will be preserved, then in reality the contract is a riba-based loan, which is prohibited. So if he pays 1000 and stipulates that he wants 10 every month, meaning that in one year he will get back 1120, that is riba and calling it an investment does not change its true nature.

II.

If the investor receives specific benefits, such as free accommodation in a flat in return for the capital he invested, and his capital is guaranteed to be preserved, then in reality that is a riba-based loan, because he loaned money in return for free accommodation, or in return for accommodation and a fixed monthly return.

III.

The correct way to invest is through Mudarabah (profit-sharing partnership) or sharikah

(partnership).

Mudarabah means that one party supplies the capital and the other party supplies the labour.

Sharikah means that the capital may be supplied by both parties, and the labour may be supplied by both or one of them.

In order for Mudarabah or Sharikah to be valid, the same conditions are stipulated as mentioned above, which are required for any investment to be valid.

And Allah knows best.