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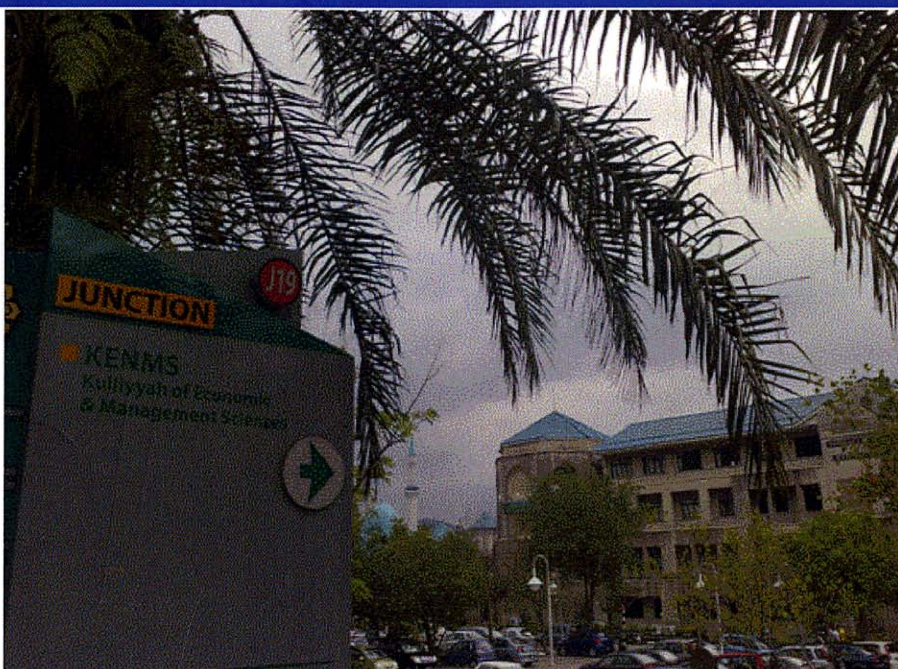

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Chapter 10

Tawarruq in Islamic Finance

M. Farid b. Ramlan, Sen Sopeat[61] and Saim Kayadibi

Introduction

Technically, tawarruq is defined as the purchasing of a commodity on deferred payment by the seeker of cash (mutawarriq) and sell it to 3rd party with lower price on cash basis. In reality, tawarruq is a sale contract where buyer buy asset from 1st party on credit and afterwards sells that assets to the 3rd party for cash but in lesser amount than credit price. This contract is named as tawarruq, primarily because when the purchaser purchases the asset on credit terms, it is not the buyer"s objective to make use of the benefit from the purchased asset, rather to facilitate him to get cash (waraqh maliah). Basically, there are two types of tawarruq. The first one is classical tawarruq and the second one is organized tawarruq. Classical tawarruq is defined as the purchase of a commodity with delayed payment, and then the buyer resells the commodity for cash to other than the original seller in order to obtain cash. The contemporary definition on organized tawarruq is the transaction that a person buys commodity from local or international market at a deferred price. Concurrently, he will ask the financier in his own capacity or through his agent or by special agreement with mustauriq to rearrange the sale transaction usually at a lower spot price.

Classical Tawarruq

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