

PAPER

# Riba in Islam

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Fiqh of Contemporary Issues

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Riba (رِبَا) is an Arabic term means “to exceed, to grow, to be more”. This term is usually used in context with “interest” charged for lending money. Riba is considered Haram under Islamic Shariah Law. This paper defines Riba, and provides evidence and explanation for its prohibition. It also discusses Riba in light with contemporary issues.

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## Opening Statement

إن الحمد لله نحمده ونستعينه ونستغفره ونتوكله إليه ، ونعوز بالله من شرور أنفسنا و سيئات أعمالنا ، من يهده الله فلا مضل له و من يضل فلا هادي له ،  
Indeed all praises are due to Allah, we praise Him, we seek His help, we ask for His forgiveness, and we rely solely on Him. We seek His refuge from the evil in our souls and from our wicked deeds. Whoever Allah guides, no one can misguide. And whomever Allah misguides, no one can guide. I bear witness that there is no one worthy of worship except Allah, He is One, with no partners, and I testify that Mohammad (pbuh)<sup>1</sup> is His Messenger and His slave.

يَا أَيُّهَا النَّاسُ اتَّقُوا رَبَّكُمُ الَّذِي خَلَقَكُمْ مِنْ نَفْسٍ وَاحِدَةٍ وَخَلَقَ مِنْهَا زَوْجَهَا وَبَثَّ مِنْهُمَا رِجَالًا كَثِيرًا وَنِسَاءً وَاتَّقُوا اللَّهَ الَّذِي تَسَاءَلُونَ بِهِ وَالْأَرْحَامَ إِنَّ اللَّهَ كَانَ  
“O mankind, fear your Lord, who created you from one soul and created from it its mate and dispersed from both of them many men and women. And fear Allah, through whom you ask one another, and the wombs. Indeed Allah is ever, over you, an Observer”<sup>2</sup>.

“O People fear Allah, as he should be feared, and always speak the truth. He will direct you to righteous deeds and He will forgive you for your sins. And whoever obeys Allah and His Messenger has indeed achieved a great achievement.”<sup>3</sup>

The Prophet (pbuh) said: "The best speech is the Book of Allah and the best guidance and example is that of Muhammad (pbuh). - And the worst of all things are the newly invented things (in religion), for every innovation is error and misguidance."<sup>4</sup> and in another narration, "every newly invented matter (in religion) is a bid'ah and every bid'ah is a dalaalah (ضلالة - misguidance) and every dalaalah is in the (hell) Fire."<sup>5</sup>

Whoever introduces into this affair of ours something that we have not commanded, it is to be rejected."<sup>6</sup> The Prophet (pbuh) said: "Whoever commits an act that does not conform with our matter (religion), then it will be rejected of him"<sup>7</sup>.

Hence, Allah (swt) said: "If you (really) love Allah, then follow me, Allah will love you..."<sup>8</sup>.

Allah (swt) further said: "The true religion with Allah is Islam"<sup>9</sup>. And then further explained it by saying: "And whoever desires other than Islam as religion - never will it be accepted from him, and he, in the Hereafter, will be among the losers"<sup>10</sup>.

<sup>1</sup> (pbuh) is commonly used abbreviation for peace and blessings of Allah be upon him.

<sup>2</sup> Quran, Chapter 4:1 An-Nisa (The Women)

<sup>3</sup> Quran, Chapter 33:70-71 Al-Ahzab (The Confederates)

<sup>4</sup> Reported by al-Muslim

<sup>5</sup> Reported by At-Tirmithi

<sup>6</sup> Reported by Al-Bukhari and al-Muslim

<sup>7</sup> Sahih - Tafsir Ibn Khatir

<sup>8</sup> Quran, Chapter 3:31 Al-Imran (The Family of Imran)

<sup>9</sup> Quran, Chapter 3:19 Al-Imran (The Family of Imran)

<sup>10</sup> Quran, Chapter 3:85 Al-Imran (The Family of Imran)

Thus, the Prophet (pbuh) and His followers submitted to this deen, and Allah (swt) commanded: فَقُلْ أَسْلَمْتُ وَجْهِيَ لِلَّهِ - "Say: "I have submitted myself to Allah (in Islam), and (so have) those who follow me""<sup>11</sup>.

Hence, Allah (swt) declared: كُنْتُمْ خَيْرَ أُمَّةٍ أُخْرِجَتْ لِلنَّاسِ - "You are now the best people brought forth for (the guidance and reform of) mankind"<sup>12</sup>.

Allah (swt) said: تَأْمُرُونَ بِالْمَعْرُوفِ وَتَنْهَوْنَ عَنِ الْمُنْكَرِ - "You enjoin what is right and forbid what is wrong and believe in Allah"<sup>13</sup>. The Prophet (pbuh) said: "He among you who witnesses an evil, let him change it with his hand, if he cannot do that, then by his tongue, if he cannot do even that, then with his heart, and this is the weakest faith."<sup>14</sup>. And Allah (swt) said: ...وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَى وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ - "...And cooperate in righteousness and piety, but do not cooperate in sin and aggression..."<sup>15</sup>

And the Prophet (pbuh) said: مَنْ كَذَبَ عَلَيَّ مُتَعَمِّدًا فَلْيَتَّبِعُوا مَقْعَدَهُ مِنَ النَّارِ - "Whoever intentionally lie on me he should find his place in hell fire"<sup>16</sup>. And Allah (swt) said: فَمَنْ أَظْلَمُ مِمَّنِ افْتَرَى عَلَى اللَّهِ كَذِبًا أَوْ كَذَّبَ بِآيَاتِهِ إِنَّهُ لَا يُفْلِحُ الْمُجْرِمُونَ - "So who is more unjust than he who invents a lie about Allah or denies His signs? Indeed, the criminals will not succeed"<sup>17</sup>.

And the Prophet (pbuh) said: - يحمل هذا العلم من كل خلف عدوله، ينفون عنه تحريف الغالين، وانتحال المبطلين، وتأويل الجاهلين - "This knowledge will be carried by the trustworthy ones of every generation - they will expel from it the alterations made by those going beyond bounds, the false claims of the liars, and the false interpretations of the ignorant"<sup>18</sup>.

When Allah (swt) gave prophet hood to Musa (as) and asked him to invite mankind to Tawheed and way of Allah (swt), he prayed to Allah (swt):

قَالَ رَبِّ اشْرَحْ لِي صَدْرِي  
وَيَسِّرْ لِي أَمْرِي  
وَاحْلُلْ عُقْدَةً مِّنْ لِّسَانِي  
يَفْقَهُوا قَوْلِي

20:25 [Moses] said, "My Lord, expand for me my breast [with assurance]. 20:26 And ease for me my task. 20:27 And untie the knot from my tongue. 20:28 That they may understand my speech

And we ask Allah (swt) to grand us same. Amen.

و صلي الله على سيدنا محمد و على آله و أصحابه و سلم - أما بعد :

<sup>11</sup> Quran, Chapter 3:20 Al-Imran (The Family of Imran)

<sup>12</sup> Quran, Chapter 3:110 Al-Imran (The Family of Imran)

<sup>13</sup> Quran, Chapter 3:10 Al-Imran (The Family of Imran)

<sup>14</sup> Reported by Muslim

<sup>15</sup> Quran, Chapter 5:3 Al-Ma'idah (The Table Spread)

<sup>16</sup> Reported by Bukhari and Muslim

<sup>17</sup> Quran, Chapter 10:17 Yunus (Jonah)

<sup>18</sup> Recorded by Ibn 'Adiyy, al-Khatib al-Baghdadi, Ibn Asakir, and others. It is reported from number of sahabah including Abu Hurairah, Ibn Masud, and Anas (ra). All of its reports have various levels of weakness, but they add up collectively to make this hadith hasan, as is indicated by al-Albani in Mishkat ul-Masabih (#248), and as expressed by al-Halabi in al-Hittah (p. 70).

## About this document

This purpose of choosing to write on this topic is four folds:

- i. Prophet's strong commentary on prohibition of Riba
- ii. Contemporary issues relating to Riba, especially in modern global capitalist markets
- iii. Large Muslim population consuming Riba based products
- iv. Lack of Alternatives available to avoid Riba for common Muslims

The paper is divided into five parts:

- i. **Part 1 - Islamic Ruling on Riba:** states the Islamic Ruling on Riba and provides the evidence from Quran, Sunnah and Salaf for its prohibition
- ii. **Part 2 - Background:** sheds lights on other prevailing systems today in contrast to Islamic System of Finance. It also provides brief explanation of how to use one's wealth in light with Quranic teaching.
- iii. **Part 3 - Definition:** describes the meaning and understanding of Riba. It further explains what constitute Riba in Islamic Shariah
- iv. **Part 4 - Why Riba is Haram:** gives Prophetic explanation of reason prohibition. It further provides rational thinking of its prohibition.
- v. **Part 5 - Contemporary Issues:** discusses modern day issues relating to Riba faced with Banking, Mortgages, Loans & Credits. It further examines financing vs leasing options. At the end it discusses if it is allowed to pay Riba in dar-ul-kufr.
- vi. **Conclusion:** gives conclusion of main points in this paper
- vii. **References:**

## Introduction

The basic principle in Shariah is that Quran and Sunnah establishes the framework for our way of living. It establishes the boundaries, the four corners within which we practice all our transactions and interactions. These framework are the Usool (the basic principles) under which all branches of jurisprudences are defined. These Usool (basic principles) serves the objectives of Shariah (مقاصد الشريعة), the reason which Allah swt revealed Islam to mankind.

Islamic Economic System is founded on following key principles, namely:

- i. Restore human's like in every walk of life to its natural behavior (فطرت).
- ii. Tazkiya Nafs (تزكية النفس - purification of inner self) by improving ethics and moral standards in society
- iii. Justice and Equality, by demolishing elite-class system and providing equal opportunity and justice
- iv. Equal distribution of wealth amongst all member of jamaat and prohibition of hoarding money amongst the elite few

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- v. Prohibition of exploitation and Injustice ( ظلم ) by protecting the rights of peasants and ordinary low income members of society
- vi. Balance between Right to own/trade and Right of jamaat in one's wealth

Mawdudi has identified three key objectives of Islamic Economic System<sup>19</sup>:

- i. Freedom for Citizens are utmost priority, and the bounds are implemented only when absolute necessary in the interest of collective benefit of mankind. In the context, it includes his right to own and right to do business with equal opportunity and access. The items that are haram to consume are also considered haram to sell, as they are harmful to the society (e.g. Khamr, Riba)
- ii. Balance between moral values and material accumulation. i.e. Islam highly focus on building a moral sense and responsibility through elm (education), iman (faith) and tazkiya (cleansing of inner self), so that the mindset (of me first and give me more) is replaced with honesty, compassion and need for collective (jamaat first).
- iii. Harmony and cooperation between members of jamaat, because Islam is absolutely against creating "Classes" in a society (e.g. the classes created by Feudal System, or by western capitalist system). And it brings harmony between the natural classes of the society (i.e. between poor and rich, orphans) by enforcing laws to create equality and opportunity between them.

Islam looks at the entire nation as one jamaat (entity)<sup>20</sup> with a notion to establish justice and equality amongst all member of this jamaat. Islamic economic system is built on same principle. It implements these Islamic ethics that binds this jamaat together and at the same time maintain the balance. While it gives rights to people to own wealth, property and do trade, it ensures that people remain in the bound of these ethics by not plundering and exploiting other members of the jamaat; That one person's trade is not another person's loss; That one is not exploiting needs and circumstances of fellow member of jamaat to make money off him.

Islam believes if one person or group is allowed to exploit people's needs and they hoard all the money for themselves, then this not only causes the disruption in the jamaat but it is a source of great injustice that creates imbalance in society and unequal distribution of wealth. This naturally results in greed, selfishness, self centeredness, exploitation which is the source of all ills, resentments, anarchies, crime and corruption. Hence, Islam attacks at the root of this crime and corruption.

Islamic economic system promotes compassion and it discourages self-centeredness. It states that one is free to do trade and make wealth as much as he likes, but the jamaat has the right to portion of his wealth. This right of jamaat is legislated by Allah swt by the way of charity, zakat, hibba, inheritance and baitul Mal (Welfare system of Jamaat). We will discuss some of these elements at later stage. The reason Allah swt claimed that right in our income is that in Islam we believe that Allah swt is the ultimate Razzak<sup>21</sup> (giver of sustenance), and that all skills, intelligence and earning is from Allah swt<sup>22</sup>. That one does the hard work to earn his income, but he wouldn't be able to make that income had Allah swt not given him the skill and ability in the first place. And the justice is that we recognize this right of Allah swt and spend the portion of our wealth on strengthening of the jamaat, as ordained by Allah swt.

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<sup>19</sup> معايشيات اسلام - Abu Ala Al-Mawdudi, Page 143 - Addressing Punjab University 17<sup>th</sup> Dec 1965

<sup>20</sup>

<sup>21</sup> Quran, 51:58 [Az-Zariyat] - الرَّزَّاقُ ذُو الْقُوَّةِ الْمَتِينُ - "51:58 Indeed, it is Allah who is the [continual] Provider, the firm possessor of strength."

<sup>22</sup> Quran, 36:33-36 [Yaseen] "36:35 That they may eat of His fruit. And their hands have not produced it, so will they not be grateful? "

And this right of jamaat on one's wealth doesn't apply to his income; rather it's applied to what excess he has above and beyond his needs<sup>23</sup>. Hence, no penalty is applied towards personal income of people, rather they are only asked to spend what they have in excess to their own needs.

In that context, Islam associate Riba directly to ظلم<sup>24</sup> and considers it an act of injustice. It's criminal and it's illegal in Shariah. This association of ظلم (injustice) goes hand in hand with rest of Islamic Ethics where Islam stands against all kinds of oppression, injustice, inequality and exploitation. Islam has recognized Riba as a tool of oppression that exploits people's need. It creates a mindset of selfishness. In a Riba based society people can't comprehend the notion of giving money to others without asking interest on it. They belief this as their right to claim interest on it, whilst Islam not only encourages to give loan to needy but it also encourages that one must not demand their money if the needy person is facing hardship. In fact, Islam doesn't stop at that, it encourages that if needy person is unable to payback his loan, then show compassion and forgo the loan as charity<sup>25</sup>.

وَإِنْ كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ

2:280 And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew.

Ibn Khatir explains that during the time of Jahiliyyah, when the debt came to term, the creditor would say to the debtor, "Either pay now or interest will be added to the debt." Allah swt encouraged creditors to give debtors respite regarding their debts and promised all that is good, and a great reward from Him for this righteous deed. i.e. وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ - But if you remit it by way of charity, that is better for you if you did but know; meaning, if you forfeit your debts and cancel them completely.

Imam Ahmad recorded that Sulayman bin Buraydah said that his father said, "I heard the Messenger of Allah say, - «مَنْ أَنْظَرَ مُعْسِرًا، فَلَهُ بِكُلِّ يَوْمٍ مِثْلُهُ صَدَقَةٌ» - "Whoever gives time to a debtor facing hard times, will gain charity of equal proportions for each day he gives." I also heard the Prophet say, - «مَنْ أَنْظَرَ مُعْسِرًا، فَلَهُ بِكُلِّ يَوْمٍ مِثْلُهُ صَدَقَةٌ» - "Whoever gives time to a debtor facing hard times, will earn charity multiplied two times for each day he gives." I said, 'O Messenger of Allah! I heard you say, 'Whoever gives time to a debtor facing hard times, will gain charity of equal proportions for each day he gives.' I also heard you say, 'Whoever gives time to a debtor facing hard times, will earn charity multiplied by two times for each day he gives.' He said, - «لَهُ بِكُلِّ يَوْمٍ مِثْلُهُ صَدَقَةٌ قَبْلَ أَنْ يَحِلَّ الدَّيْنُ، فَإِذَا حُلَّ الدَّيْنُ» - "He will earn charity of equal proportions for each day (he gives time) before the term of the debt comes to an end, and when the term comes to an end, he will again acquire charity multiplied by two times for each day if he gives more time."

Ahmad recorded that Muhammad bin Ka'b Al-Qurazi said that Abu Qatadah had a debt on a man, who used to hide from Abu Qatadah when he looked for him to pay what he owed him. One day, Abu Qatadah came looking for the debtor and a young boy came out, and he asked him about the debtor and found out that he was in the house eating. Abu Qatadah said in a loud voice, "O Fellow! Come out, for I was told that you are in the house." The man came out and Abu Qatadah asked him, "Why are you hiding from me" The man said, "I am having a hard time financially, and I do not have any money." Abu Qatadah said, "By Allah, are you truly facing a hard time" He said, "Yes." Abu Qatadah cried and said, "I heard the Messenger of Allah say, - «مَنْ نَفَسَ عَنْ غَرِيمِهِ أَوْ مَحَا»

<sup>23</sup> Quran, 2:219 [al-baqarah] "2:219 And they ask you what they should spend. Say, "The excess [beyond needs]."

<sup>24</sup> Quran, 4:161 [an-Nisa] "4:161 And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly."

<sup>25</sup> Quran, 2:280 [al-Baqarah] "2:280 And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew".

«عَنْهُ، كَانَ فِي ظِلِّ الْعَرْشِ يَوْمَ الْقِيَامَةِ» - "Whoever gives time to his debtor, or forgives the debt, will be in the shade of the Throne (of Allah) on the Day of Resurrection." [Muslim also recorded this Hadith in his Sahih.] <sup>26</sup>

This is a mindset that can only be seen in an Islamic Economic model, and it is certainly very difficult for Riba based society and consumers of Riba to comprehend and understand this model. This is a model of equality, justice and compassion. This was the guidance from Allah swt, the mercy from Him. Unfortunately, Muslims didn't value the right guidance from The Creator, and fell to either communist or capitalist. They disbanded the system of Zakat, charity and Baitul Mal, and replaced it with line or credit, mortgage, and interest. They reinvented the definition of Riba in their capitalist model to an extent that Riba became trivial. They never really understood the pillars of Islamic economic system and its purpose, and why Allah swt enforced prohibition of Riba from society. They interpreted Quran on Riba from the mindset of a capitalist and reached the conclusion that system cannot work without it. Even though that they could never declare it as 'halal' due to the fear of backlash from masses, but in essence they implemented a Riba based economic system.

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<sup>26</sup> Tafsir Ibn Khatir, commentary on verse 2:280



## Part 1: Islamic Ruling on Riba

### Ruling – “There shall be no Riba”

Riba<sup>27</sup> is considered amongst Seven Heinous Sins (Al-Saba al-Mubiqat - السبع الموبقات)<sup>28</sup>, namely, i) Shirk, ii) Magic, iii) Suicide, iv) consuming Riba, v) unlawfully taking orphan's money, vi) fleeing from battlefield and vii) accusing chaste believing women. Allah swt states in Quran:

**يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ**

3:130 O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.

**وَأَكَلَ اللَّهُ الْبَيْعَ وَكَرَّمَ الرِّبَا**

2:175 Allah has permitted trade and has forbidden interest

The Prophet Mohammad, may Allah's mercy and peace be upon him, said in his farewell sermon: "God has forbidden you to take Riba, therefore all riba obligation shall henceforth be waived. Your capital, however, is yours to keep. You will neither inflict nor suffer inequity. God has judged that there shall be no riba and that all the riba due to `Abbas ibn `Abd al Muttalib shall henceforth be waived."<sup>29</sup>

Quran explicitly prohibits Riba, and since Quran is an undisputed source of guidance, all Muslims unanimously agrees on prohibition of Riba. There is no difference of opinion among any school of thought on prohibition of Riba in Islamic Shariah.

Allah swt mentions that the person who deals with Riba (ربا) will stand (on judgment day) as one who is being beaten by Satan into insanity<sup>30</sup>. Here Allah swt made it clear that "trade" and "riba" are not same, and that He forbade "riba" and allowed "trade"<sup>31</sup>. He further stated that whoever accepts guidance of Allah must immediately stop dealing in Riba, and those who return to Riba after Allah's guidance has reached are dwellers of fire, because Allah swt destroys "Riba" and He swt reward those who gives Charity.

<sup>27</sup> For the purpose of this document we will use the word "Riba", which is a Quranic term. One of its applications is "interest" or "usury" on loaned money. Quranic term is not limited to money, it includes all those loan transactions where debtor returns in excess or above the original loan, be it money, gold, silver, eatable or any other item or goods; anything in excess to original is considered "Riba" if items exchanged are of same kind (e.g gold for gold). See Definition.

<sup>28</sup> Al-Saba al-Mubiqat (السبع الموبقات): Narrated Abu Huraira: The Prophet said, "Avoid the seven great destructive sins." The people enquire, "O Allah's Apostle! What are they?" He said, "To join others in worship along with Allah, to practice sorcery, to kill the life which Allah has forbidden except for a just cause, (according to Islamic law), to eat up Riba (usury), to eat up an orphan's wealth, to give back to the enemy and fleeing from the battlefield at the time of fighting, and to accuse, chaste women, who never even think of anything touching chastity and are good believers. [Sahih al-Bukhari, Sahih al-Muslim]

أخرج البخاري ومسلم وأبو داود والنسائي عن أبي هريرة رضي الله عنه أن رسول الله صلى الله عليه وسلم قال: «اجتنبوا السبع الموبقات، قيل يا رسول الله وما هن؟ قال الشرك بالله، والسحر، وقتل النفس التي حرم الله إلا بالحق، وأكل مال اليتيم، وأكل الربا، والتولي يوم الزحف، وقذف المحصنات الغافلات المؤمنات»

<sup>29</sup> Last Sermon of Holy Prophet Mohammad (pbuh) given on 10 Dul-hajj 10 hijra, mentioned in all book of Hadith. Sahih Bukhari mentions parts of it. Musnad Imam Ahmed recorded the longest and complete speech.

أَلَا إِنَّ كُلَّ رِبَا كَانَ فِي الْحَاثِيَةِ، مَوْضُوعٌ عَنْكُمْ كُلُّهُ، لَكُمْ رُؤُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ، وَأَوَّلُ رِبَا مَوْضُوعٌ، رَبَا الْعَنَاسِ بْنِ عَبْدِ الْمُطَّلِبِ مَوْضُوعٌ كُلُّهُ

<sup>30</sup> Quran 2:275.[al-Baqarah]. See Verse in "Nus from Quran.

<sup>31</sup> Quran 2:275 [al-Baqarah]. See Verse in "Nus from Quran.

Prophet Mohammad (pbuh) cursed the one who deals with Riba. From Jabir (ra): The Prophet (pbuh) cursed the receiver and the payer of riba, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." [Sahih al-Muslim, Sahih Al-Bukhari, Tirmidhi, Ibn Majah, Bahiqi and Musnad Ahmad]

Islamic Shariah considers Riba as tool of oppression and a mean to unjustly take others money<sup>32</sup> by exploiting their needs and circumstances. Hence it forbid Riba base system altogether and it promotes Charity as an alternative. Therefore,, Prophet Mohammad (pbuh) said: "God has judged that there shall be no riba" [Last Sermon].

Islamic Shariah also consider Riba as a medium for hoarding money by elite and powerful, and it warns against those who accumulate wealth with this unjust way. Alternatively, Islam on one hand distributes wealth by implementation of Charity, Zakat and Laws of Inheritance, and on other hand, vigorously encourages spending of money to help the needy.

The crimes of dealing in Riba are so serious that Allah swt has declared war against those who deal in Riba<sup>33</sup>. The Prophet (pbuh) has cursed anyone who deals with Riba, the one who takes it, one who pays it and one who records it, they are all "equal"<sup>34</sup>.

Muslims around the world traditionally avoid eating pork and alcohol, whereas, Riba is considered much worse than that. The Prophet (pbuh) declared consumption of Riba worse than adultery: worse than "to a man committing adultery with his own mother"<sup>35</sup>.

## Evidence for its Prohibition

Daleel for Riba are in abundance, as it is one of the most heinous crimes in Islamic Shariah which all Muslims have unanimously prohibited over the centuries.

### (نص) Text from Quran

#### i. Riba is consuming people's wealth unjustly:

وَأَخَذِهِمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ وَأَكْلِهِمْ أَمْوَالَ النَّاسِ بِالْبَاطِلِ وَأَعْتَدْنَا لِلْكَافِرِينَ مِنْهُمْ عَذَابًا أَلِيمًا

4:161 And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment. [an-Nisa]

Ibn Kathir said: Allah forbade them – i.e., the Jews – to engage in riba, but they dealt in it and took it and produced all kinds of tricks and devious methods to support that, and they consumed the people's wealth unlawfully. [Tafsir Ibn Kathir]

#### ii. Prohibition accumulating wealth by consuming Riba:

أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

3:130 O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful. [ale-Imran]

<sup>32</sup> Quran 4:161 [an-Nisa]. See Verse in "Nus from Quran.

<sup>33</sup> Quran 2:278 [al-baqarah]. Verse is mentioned later in the document.

<sup>34</sup> Recorded in Sahih al-Muslim. See Nus later.

<sup>35</sup> Recorded in Sunan Ibn Majah. See Nus later.

- iii. **Riba vs Zakat (one is taking other is giving):** Islam promotes giving out wealth in charity and prohibits accumulating it, especially when it's unjustly accumulated like Riba.

وَمَا آتَيْتُمْ مِّن رَّبًّا لِّيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ وَمَا آتَيْتُمْ مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَٰئِكَ هُمُ الْمُضْعِفُونَ

30:39 And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah – those are the multipliers [ar-Room]

يَمْحَقُ اللَّهُ الرِّبَا وَيُزِيلُ الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ

2:276 Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever.

إِنَّ الَّذِينَ آمَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ وَآتَوُا الزَّكَاةَ لَهُمْ أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ

2:277 Indeed, those who believe and do righteous deeds and establish prayer and give zakah will have their reward with their Lord, and there will be no fear concerning them, nor will they grieve

- iv. **Riba eaters are beaten by Satan into insanity, & Trade vs Riba:**

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَن جَاءَهُ مَوْعِظَةٌ مِّن رَّبِّهِ فَانْتَهَىٰ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

2:275 Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] – those are the companions of the Fire; they will abide eternally therein [al-baqarah]

- v. **Give up Riba as soon as guidance of Allah swt reaches you:**

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُّؤْمِنِينَ

2:278 O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. [al-baqarah]

- vi. **Declaration of War from Allah on Riba dealers:**

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُّؤْمِنِينَ - فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتِغُوا فَلََكُمْ رُوُسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ

2:278 O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers.

2:279 And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal – [thus] you do no wrong, nor are you wronged

## (نص) Text from Sunnah

- i. **Prophet (pbuh) cursed people who deal in Riba:** From Jabir (ra): The Prophet (pbuh) cursed the receiver and the payer of riba, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." [Sahih al-Muslim, Sahih Al-Bukhari, Tirmidhi, Ibn Majah, Bahiqi and Musnad Ahmad]
- ii. **Prophet (pbuh) annulled Riba:** Jabir ibn 'Abdallah, giving a report on the Prophet's Farewell Pilgrimage, said: The Prophet (pbuh) addressed the people and said "All of the riba of Jahiliyyah is annulled. The first riba that I annul is our riba, that accruing to 'Abbas ibn 'Abd al-Muttalib [the Prophet's uncle]; it is being cancelled completely." [Muslim, Kitab al Hajj, Bab Hajjati al-Nabi, Musnad Ahmad]
- iii. **Riba is worse sin then adultery:** From Ibn Masood (ra): The Prophet (pbuh) said: "Riba has seventy three segments, the least serious being equivalent to a man committing adultery with his own mother." [Ibn Majah, Hakim].
- iv. **Punishment of people who deal with riba:** From Abu Hurayrah: The Prophet (pbuh) said: "On the night of Ascension I came upon people whose stomachs were like houses with snakes visible from the outside. I asked Gabriel who they were. He replied that they were people who had received riba." [Ibn Majah, Kitab al-Tijarat, Bab al-taghlizi fi al-riba; also in Musnad Ahmad]

From Abu Hurayrah: The Prophet (pbuh) said: "God would be justified in not allowing four persons to enter paradise or to taste its blessings: he who drinks habitually, he who takes riba, he who usurps an orphan's property without right and he who is undutiful to his parents." [Mustadrak al Hakim, Kitab al-Buyu].

- v. **Riba will become widespread:** From Abu Hurayrah: The Prophet (pbuh) said: "There will certainly come a time for mankind when everyone will take riba and if he does not do so, its dust will reach him." [Abu Dawud, Kitab al Buyu, Bab fi ijtinabi al shubuhah; Ibn Majah]

## Part 2: Background

### Comparison of three Economic Systems

- i. **Capitalism:** It is an economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals or corporations, esp. as contrasted to cooperatively or state-owned means of wealth. [dictionary.com]

In capitalism everyone is sole owner of his wealth and no one has right in his wealth. He can spend his wealth as he wish with no bounds

Capitalism can't function without Riba based Banking, Insurance, and Stock trading and joined stock companies. The main theme of this system is mass production and mass consumption to generate wealth. The system promotes extensive buying and consumption to keep economic afloat.

- ii. **Communism:** It is complete reverse of Capitalism. It is system of political and economic organization in which property is owned by the state or community and all citizens share in the common wealth, more or less according to their need [Encyclopedia Britannica]

It promotes the establishment of a classless and stateless society where ownership is common. i.e. Ownership is common and individual do not own. Members are paid remuneration for their services, but they don't share in profit. Unlike capitalism, it doesn't need Riba based banking (as people don't own, nor they do business) and other institutes.

Communist model is totally unnatural (غير فطري، غير طبعي), it is against nature of humans, i.e. when people don't own nor has stake then they have no incentive to work hard.

- iii. **Islamic Economic System:** Islamic economic system is a balance between the above two system. It gave right of ownership to individuals (including woman, which was not their right in west until 19<sup>th</sup> century). Islam gave freedom to individual to spend their wealth; however, it provides guidelines and ethical responsibilities in spending. [they are discussed shortly]

Although individuals has right to own their wealth, but a portion of their wealth is shared with others in community and family through system of Charity, Zakat, Hibba and Inheritance. It uses the above laws and ethical responsibilities to ensure distribution of wealth, and discourage hoarding of money within elites.

Even though the people have right to earn, but they are not allowed to disturb the balance of wealth distribution. One man's income can't be other person's loss. Or one group or elites are not allowed to establish system that sucks the blood out of poor or allow them to hoard money or material resources. Hence, it completely prohibit Riba and Riba based system as tools of oppression and injustice, and a medium to hoard money among few elites

Islam recognizes the human nature (فطرة) and restores natural system by allowing people to own or accumulate wealth which gives them incentive to work harder. It then also promotes spending of wealth (with balance) and charity to help needy in community, which provides satisfaction and spiritual healing.

Islamic economic system works on fundamentals of changing the mindset (from being self-centered to more community focus, and helping others) and improves moral and ethical values. Hence, I put lot of focus on Tazkia Nafs (تزكية النفس - purification of inner self).

The reason it works on moral and ethics, that it only empowers government to enforce law when absolutely necessary.

## Key components of Islamic Economic System

- i. **Income is from Allah:** Sustenance (رزق) is only from Allah swt. He gives provisions to whomever he wishes and He stops provisions of whom He wishes ( وَيَقْدِرُ ) ( إِنَّ رَبَّكَ يَبْسُطُ الرِّزْقَ لِمَنْ يَشَاءُ وَيَقْدِرُ ). “Indeed, your Lord extends provision for whom He wills and restricts [it]” [al-Isra 17:30].

The reason given is that entire universe belongs to Allah (swt), who solely controls all affairs of His universe. Hence, it is in his hand that ( وَيَقْدِرُ ) ( لَهُ مَقَالِيدُ السَّمَاوَاتِ وَالْأَرْضِ يَبْسُطُ الرِّزْقَ لِمَنْ يَشَاءُ وَيَقْدِرُ ) “To Him belong the keys of the heavens and the earth. He extends provision for whom He wills and restricts [it].” [as-Shoora 42:12]

- ii. **Earning of Income with Islamic Ethics and Halal business:** that people must not engage in non ethical and unjust businesses to harm the interest of community. E.g. Businesses like gambling, winery, and hoarding are all prohibited. Some of the instructions about business dealing and illegal business are:

- a. **Earn and eat only halal and pure ( طيبة ):** Islam always calls for Tahir ( طاهر ) and Tayyab ( طيبة ) in every transaction, dealings, earning or eating. Allah swt said: ( يَا أَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا ) “O mankind, eat from whatever is on earth [that is] lawful and good and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy.” [al-baqara 2:168].

( وَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلَالًا طَيِّبًا ) “And eat of what Allah has provided for you [which is] lawful and good. And fear Allah, in whom you are believers” [al-maida 5:88].

- b. **Dealings in business to be done on the basis of honesty and justice, and no bribery:** ( لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ ) ( بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ ) “O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another].” [al-Nisa 4:29].

Bribery and is prohibited. It is not allowed to give kickbacks to the government and ministries to get advantage, or pass laws to legalize business proposition that will open doors to further looting of people's wealth. Allah swt said: “And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful].” [al-baqara 2:188]

- c. **Fraudulence is prohibited in strongest terms.** Allah swt cursed the fraud ( لِّلْمُطَفِّفِينَ ) “Woe to Al-Mutaffifin (those who give less in measure and weight (decrease the rights of others)). Those who, when they have to receive by measure from men, demand full measure, And when they have to give by measure or weight to men, give less than due” [al-mutaffifeen 83:1-3]

- d. **Stealing is considered a serious crime:** Allah swt said: “[As for] the thief, the male and the female, amputate their hands in recompense for what they committed as a deterrent [punishment] from Allah” [al-maida 5:38]

- e. **Protection for wealth of weak and orphans:** “And give to the orphans their properties and do not substitute the defective [of your own] for the good [of theirs]. And do not consume their properties into your own. Indeed, that is ever a great sin.” [al-Nisa 4:2]

A strong punishment is for those who rob and steal orphan's wealth. Allah swt said “Indeed, those who devour the property of orphans unjustly are only consuming into their bellies fire. And they will be burned in a Blaze.” [al-Nisa 4:10]

- f. **Discharge the trust (امانة) honestly:** Allah swt said: (فَإِنْ أَمِنَ بَعْضُكُم بَعْضًا فَلْيُؤَدِّ الَّذِي أُؤْتِمِنَ أَمَانَتَهُ وَلْيَتَّقِ اللَّهَ رَبَّهُ) “.. then if one of you entrust the other, let the one who is entrusted discharge his trust (faithfully), and let him be afraid of Allah, his Lord...” [al-baqarah 2:283]

3:161 It is not for any Prophet to take illegally a part of booty (Ghulul), and whosoever deceives his companions as regards the booty, he shall bring forth on the Day of Resurrection that which he took (illegally). Then every person shall be paid in full what he has earned, - and they shall not be dealt with unjustly.

- g. **Prohibition of any Riba based business:** see “ruling” in part 1.
- h. **Prohibition of alcohol and winery:** Production, consumption, buying and selling of intoxicants was absolutely prohibited and considered harmful to society. Allah swt said: (يَا أَيُّهَا الَّذِينَ آمَنُوا إِنَّمَا الْخَمْرُ وَالْمَيْسِرُ (وَالْأَنْصَابُ وَالْأَزْلَامُ رِجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ فَاجْتَنِبُوهُ لَعَلَّكُمْ تُفْلِحُونَ) 5:90 O you who believe! Intoxicants (all kinds of alcoholic drinks), gambling, AlAnsab, and AlAzlam (arrows for seeking luck or decision) are an abomination of Shaitans (Satan) handiwork. So avoid (strictly all) that (abomination) in order that you may be successful” [al-Maida 5:90]

“It is reported by 'Abd Allah Ibn 'Umar that the Prophet (pbuh) said: 'God has cursed khamr (wine) and him who drinks it, him who provides it to others and him who buys or sells it, him who squeezes (the grapes) into wine and him who causes others to squeeze grapes (in order to make wine), him who carries it and him to whom it is carried.'”<sup>36</sup>

- i. **Prohibition of Gambling and kind:** see previous.
- j. **Prohibition of idle selling:** see previous.
- k. **Prohibition of (singing/music, idle talk):** هو الحديث (Similarly all time wasting activities was prohibited. Allah swt said: (وَمِنَ النَّاسِ مَن يَشْتَرِي لَهْوَ الْحَدِيثِ لِيُضِلَّ عَن سَبِيلِ اللَّهِ بِغَيْرِ عِلْمٍ وَيَتَّخِذَهَا هُزُوًا أُولَٰئِكَ لَهُمْ عَذَابٌ مُّهِينٌ) “And of mankind is he who purchases idle talks (i.e. music, singing, etc.) to mislead (men) from the Path of Allah without

<sup>36</sup> [Musnad Ahmed vol. 2, p. 97; vol. 1, p. 316; Abu Da'ud, 'Ashribah', 2 - Ed.). According to another tradition the Prophet (pbuh) instructed not to eat at the table where intoxicating drinks were being taken. (See Abu Da'ud, 'At'imah', 18; Tirmidhi, 'Adab', 43; Darimi, 'Ashribah', 15; Ahmad b. Hanbal, Musnad, vol. 1, p. 20; vol. 3, p. 339 - Ed.) Though the word khamr in Arabic means literally 'the drink made from grapes', it was also used figuratively for intoxicating liquors made from wheat, barley, raisins, dates and honey. The Prophet (pbuh) applied the prohibition of wine to all intoxicants. In this regard we find categorical statements from the Prophet (pbuh) embodied in traditions: 'Every intoxicant is khamr, and every intoxicant is prohibited.' 'Every drink which causes intoxication is prohibited.' 'I forbid everything which intoxicates.' In a Friday sermon 'Umar defined khamr in the following manner: 'Whatever takes hold of the mind is khamr.' (See Bukhari, 'Wudu', 71; 'Maghazi', 60; 'Ashribah', 4,10; 'Adab', 8; 'Ahkam', 22; Muslim, 'Ashribah', 67-9; Abu Da'ud, 'Ashribah', 5, 71; Ibn Majah, 'Ashribah', 9, 13, 14; Darimi, 'Ashribah', 8, 9; Muwatta', 'Dahaya', 8; Ahmad b. Hanbal, Musnad, vol. 1, pp. 274, 289, 350; vol. 2, pp. 16, 158, 171, 185, 429, 501; vol. 3, pp. 63, 66, 112, 119, 361; vol. 4, pp. 41, 416; vol. 6, pp. 36, 71, 72, 97, 131, 190 and 226 - Ed.) [Tafheem Mawdudi 5:90]

knowledge, and takes it (the Path of Allah, the Verses of the Quran) by way of mockery. For such there will be a humiliating torment (in the Hell-fire).” [Luqman 31:6]<sup>37</sup>

1. **Prohibition of فاحشة (obscenity) and illegal sex:** Fahisa ( فاحشة ) is opposite of Tayyab ( طيبة ). Allah swt said: ( إِنَّ الَّذِينَ يُحِبُّونَ أَنْ تَشِيعَ الْفَاحِشَةُ فِي الَّذِينَ آمَنُوا لَهُمْ عَذَابٌ أَلِيمٌ فِي الدُّنْيَا وَالْآخِرَةِ وَاللَّهُ يَعْلَمُ وَأَنْتُمْ لَا تَعْلَمُونَ ) “Verily, those who like that (the crime of) illegal sexual intercourse should be propagated among those who believe, they will have a painful torment in this world and in the Hereafter” - ( أَلَيْسَ الَّذِينَ آمَنُوا لَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ وَمَنْ يَتَّبِعْ خُطُوَاتِ الشَّيْطَانِ فَإِنَّهُ يَأْمُرُ بِالْفَحْشَاءِ وَالْمُنْكَرِ وَلَوْ لَا فَضْلُ اللَّهِ عَلَيْكُمْ وَرَحْمَتُهُ مَا زَكَا مِنْكُمْ مِنْ أَحَدٍ أَبَدًا وَلَكِنَّ اللَّهَ يُزَكِّي مَنِ يَشَاءُ وَاللَّهُ سَمِيعٌ عَلِيمٌ ) “O you who believe! Follow not the footsteps of Shaitan (Satan). And whosoever follows the footsteps of Shaitan (Satan), then, verily he commands Al-Fahsha (i.e. to commit indecency (illegal sexual intercourse, etc.)), and Al-Munkar (disbelief and polytheism (i.e. to do evil and wicked deeds; to speak or to do what is forbidden in Islam, etc.)). And had it not been for the Grace of Allah and His Mercy on you, not one of you would ever have been pure from sins. But Allah purifies (guides to Islam) whom He wills, and Allah is All-Hearer, All-Knower” [al-noor 24:19&21]

Hence, all the businesses or activities that either spread Fahisa ( فاحشة ) or leads to it are prohibited, including فاحش (obscene) movies, music, clubs, bars, books, pictures, animations, khamr, illegal sex, brothels etc and the medium that publish it or publicize, and those who run the medium itself.

- m. **Prohibition of زنا (prostitution), brothels and obscene film industry:** See Previous. Allah swt said: ( وَلَا تَقْرَبُوا الزَّانِيَ إِنَّهُ كَانَ فَاحِشَةً وَسَاءَ سَبِيلًا ) “And come not near to the unlawful sexual intercourse. Verily, it is a Fahishah (i.e. anything that transgresses its limits (a great sin)), and an evil way (that leads one to Hell unless Allah forgives him)” [Al-Isra 17:32]

The stiff punishment was constituted for dealing in Zina. Allah swt said for unmarried man/woman that: ( الزَّانِيَةُ وَالزَّانِي فَاجْلِدُوا كُلَّ وَاحِدٍ مِّنْهُمَا مِئَةَ جَلْدَةٍ ) “... The woman and the man guilty of illegal sexual intercourse, flog each of them with a hundred stripes. Let not pity withhold you in their case, in a punishment prescribed by Allah” [al-noor 2]

### iii. **Prohibition of hoarding wealth and advice on balanced spending:**

- a. **Prohibition of hoarding of wealth and بخل (stingy):** Islam strongly prohibits hoarding of wealth or resources and not use it to help needy. ( وَلَا يَحْسِنَ الَّذِينَ يَنْخَلُوعُونَ بِمَا آتَاهُمُ اللَّهُ مِنْ فَضْلِهِ هُوَ خَيْرٌ لَّهُمْ بَلْ هُوَ شَرٌّ لَّهُمْ ) “And let not those who covetously withhold of that which Allah has bestowed on them of His Bounty (Wealth) (and) think that it is good for them (and so they do not pay the obligatory Zakat). Nay, it will be worse for them; the things which they covetously withheld shall be tied to their necks like a collar on the Day of Resurrection...” [ale-Imran 3:180]. [See 2:268]

Allah swt cursed those who accumulate wealth and do not help others: ( وَيَلْ لَّكُلِّ هُمَزَةٍ لُّمَزَةٍ ) “Who has gathered wealth and counted it. He thinks that his wealth will make him last forever! Nay! Verily, he will be thrown into the crushing Fire” [al-Humazah 104:2-4]. Instead, Allah swt asked to spend wealth: “O you who believe! Spend of the good things which you have (legally) earned, and of that which We have produced from the earth for you...” [al-Baqara 2:267]

<sup>37</sup> Some people tried to make this controversial affair these days. However, it is always considered haram by all Imam and Fuqaha of ummah. Prophet (pbuh) mentioned as one of the activities that people will make halal toward end of time. The nature of this activity can be judge from the output it created; total waste of time and spread of fahisa ( فاحشة ) is prominent. It is beyond any Muslim’s imagination that the Prophet (pbuh) or any of his companions will be attending or sitting in any of these musical nights. Does anyone have any doubt?



(وَالَّذِينَ يَكْنِزُونَ الذَّهَبَ وَالْفِضَّةَ وَلَا يَنْفِقُونَهَا فِي سَبِيلِ اللَّهِ فَبَشِّرْهُمْ بِعَذَابٍ أَلِيمٍ) (Al-Kanz: the money, the Zakat of which has not been paid), and spend it not in the Way of Allah, - announce unto them a painful torment”[at-Tawba 9:34]

- b. **Balance in spending:** Islam promote moderate path; neither be stingy nor be exuberant.

Allah swt asked Muslims **not to engage in exuberant spending**: “that do not spend money exuberantly. (وَلَا تُبْذِرْ تَبْذِيرًا) exuberance are brothers of Satan (إِنَّ الْمُبْذِرِينَ كَانُوا إِخْوَانَ الشَّيَاطِينِ) “And give the relative his right, and [also] the poor and the traveler, and do not spend wastefully. Indeed, the wasteful are brothers of the devils, and ever has Satan been to his Lord ungrateful.”[al-Isra 17:26-27]

This was echoed in many places (وَلَا تُسْرِفُوا إِنَّهُ لَا يُحِبُّ الْمُسْرِفِينَ) “and waste not by extravagance. Verily, He likes not Al-Musrifoon (those who waste by extravagance),”[al-Inam 5:141]. And Allah swt considered such people devils, He says: (إِنَّ الْمُبْذِرِينَ كَانُوا إِخْوَانَ الشَّيَاطِينِ) “Verily, spendthrifts are brothers of the Shayateen (devils), and the Shaitan (Devil Satan) is ever ungrateful to his Lord”[al-Isra 17:27]

The other extreme of exuberance is being miserly and Allah swt also asked us **not to be miserly**. See Previous.

Instead, Allah swt asked us to find a **balanced path in spending**: “And let not your hand be tied (like a miser) to your neck, nor stretch it forth to its utmost reach (like a spendthrift), so that you become blameworthy and in severe poverty.” [al-Isra 17:29]. And He says: (وَالَّذِينَ إِذَا أَنْفَقُوا لَمْ يُسْرِفُوا وَلَمْ يَقْتُرُوا)

“And those, who, when they spend, are neither extravagant nor niggardly, but hold a medium (way) between those (extremes).”[al-Furqan 25:67]

- iv. **Charity and Spending Money to help community and needy:** Spending in way of Allah swt is promoted and it's a great business deal: “Say, "Indeed, my Lord extends provision for whom He wills of His servants and restricts [it] for him. But whatever thing you spend [in His cause] – He will compensate it; and He is the best of providers.”[Saba 34:39]. Allah swt considered the money spent in helping poor and needs as a loan towards Allah, which He will repay: (إِنْ تُقْرِضُوا اللَّهَ قَرْضًا حَسَنًا يُمْضَاهُ لَكُمْ وَيَغْفِرْ لَكُمْ وَاللَّهُ شَكُورٌ حَلِيمٌ) “If you lend to Allah a goodly loan (i.e. spend in Allahs Cause) He will double it for you, and will forgive you. And Allah is Most Ready to appreciate and to reward, Most Forbearing,”[at-Taghabbun 64:17]. [See 2:272]
- a. **Needy and poor has share in one's wealth**, this is considered right of poor in our wealth. Allah swt said: (وَفِي أَمْوَالِهِمْ حَقٌّ لِّلسَّائِلِ وَالْمَحْرُومِ) “And in their properties there was the right of the beggar, and the Mahroom (the poor who does not ask the others)”[ad-Dhaariyaat 51:19]. [See at-Tauba 9:60]
- b. **Charity purifies our wealth:** Allah swt said (خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيهِمْ بِهَا) “Take Sadaqah (alms) from their wealth in order to purify them and sanctify them with it...”[At-Tauba 9:103]. [See 4:36,
- c. **Charity (Zakat) should be given on Business Income:** [See al-Anaam 6:141-142]
- d. **Charity (Zakat) should be given on Personal Wealth:** [See at-Tauba 9:103&11&60, 73:20]]
- e. **Charity to be given on what is in excess on one's need:** [See al-Baqara, 2:219,]
- v. **Inheritance to be given to** parents, wife, children, brothers, sisters, and portion to be given to needy and common Muslim welfare: [See An-Nisa 4:11-14] 1/3 of person's wealth is distributed upon his discretion which he can give to common Muslim welfare.

## Part 3: Definition

### Definition of Riba

#### Linguistic meaning

Linguistically the word Riba ( رِبَا ) means to increase, to grow, to exceed, to be more than<sup>38</sup>. Allah swt used term “riba” many times in the Quran:

- i. فَإِذَا أَنْزَلْنَا عَلَيْهَا الْمَاءَ اهْتَزَّتْ وَرَبَتْ يُزْهِتُ بِهَا - “22:5.. but when We send down upon it rain, it quivers and swells and grows [something] ..” [al-Hajj]
- ii. أَنْ تَكُونَ أُمَّةٌ هِيَ أَرْبَى مِنْ أُمَّةٍ - “16:92 ... because one community is more plentiful [in number or wealth] than another community” [an-Nahl]
- iii. يَمْحَقُ اللَّهُ الرِّبَا وَيُزْبِتُ الصَّدَقَاتِ - “2:276 Allah destroys interest and gives increase for charities” [al-Baqarah]. Here word “Yurbi” means he increases.
- iv. فَاحْتَمَلَ السَّيْلُ زَبَدًا رَابِيًا - “13:17 and the torrent carries a rising foam.” [ar-Raad]
- v. وَأَوْنَيْنَاهُمْ إِلَى رَبْوَةٍ - “23:50 and sheltered them within a high ground” [al-mominoon]

In context of interest/usury, the word “Riba” is used as increase in wealth:

- i. وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا - “2:278 and give up what remains [due to you] of interest” ---- فَلَكُمْ رُؤُوسُ أَمْوَالِكُمْ “2:279 But if you repent, you may have your principal” [al-baqarah]. Here Riba (interest) is over and above the “principal” amount loaned.
- ii. وَمَا آتَيْتُمْ مِنْ رَّبًّا لِيَرْبُو فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ - “30:39 And whatever you give for interest to increase within the wealth of people will not increase with Allah” [ar-Room]

Here it is clear that “Riba” is what is in excess to original (principal) amount.

### Shara'i meaning & terms

In Shariah meaning “Riba” is a term that is used when two parties exchange item of same kind, and in return one party received extra (or in excess) of what he gave. A simple example is when gives 100 units of Gold and received 120 units of Gold in return. The extra or excess 20 units are considered “Riba”.

The most common application of Riba is on monetary transaction relating to “loans” and “credits”. A simple example of loan is when Lender gives \$1000 to a Debtor with an agreement that Debtor will return \$1200 on specified date. Hence, the Lender will receive extra \$200 (either as his service fee, rent, income, or reward for lending money for stated time period). This extra \$200 is absolute form of Riba in Islamic Shariah.

Similarly, other financial transactions involving Riba, such as advancing money on interest, keeping deposits in a bank for the sake of earning interest, or getting concessions in rates of goods or commodities against advance payments of price, mortgaging and utilizing an income-yielding property against a certain sum, to be returned in full when the property is redeemed and investing money in a trade against a predetermined and fixed rate of profit-are all forbidden transactions because they involve Riba in some form or the other. And the person doing any of these transactions invariably pay X amount of money, but in return gets X+more back (without profit and loss sharing).

<sup>38</sup> Al-Mawrid - Dr Rohi Baalbaki

Islamic Shariah doesn't limit "Riba" application to Loan or financial transaction. In fact the canvas of Riba is spread across larger transactions involving any exchange of items between two parties, as far as the items are of same kind, and one item is exchange for other for either more or less.


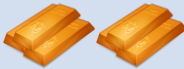





## Types of Riba on transactions

Majority of Fuqaha (jurists) stated two types of Riba in transactions<sup>39</sup>:

### i. Riba on Credit

- ربا الجاهلية (Riba of Jahiliya) as we mentioned earlier in introduction, its additional interest payment to extend the due date of payment.
- ربا النسيئة (Riba an-nasiya): This is the Riba on Credit Transaction, when two items of same kinds are exchanged but one or both parties delays delivery or payment.

- ربا الفضل (Riba al-Fadl): Selling or exchanging same kind of item with more/less. (e.g. 10 lbs gold exchanged for 12 lbs gold). The excess payment when items of same kinds are exchanged is called Riba al-Fadl. The Prophet (pbuh) declared that prohibited.

Examples of Riba	Party A - gives	Party B - returns
(ربا الجاهلية) - Riba of Dark Ages (Interest on Credit, Loan, Mortgage)	Party A gives party B \$500 credit →  \$500	← Party B returns \$600 to Party A after a month. \$100 excess is Riba. This is Absolute form of Riba.  \$600
(ربا الفضل) - Riba on Spot Transaction (Like for Like, when one party receive in excess)	Party A gives Party B Three bullion of GOLD → 	← Party B returns Six Bullion of GOLD. Three Bullion are Riba 
(ربا النسيئة) - Riba on Credit transaction (Like for Like, where one party delays delivery)	Party A gives 3 Bullion of Gold to party B → 	← Party B returns 3 Bullion of GOLD after 2 months. This is HARAM because price of gold may change in 2 months. 
(ربا النسيئة) - Riba on Credit transaction (When items differs and one party delays delivery)	Party A barter 100 tons Wheat to party B who will pay 100 lbs Gold after 6 months → 	← Party B returns 100 lbs Gold after 6 months. This is HARAM because price of gold may change. It is only allowed if both items are exchanged hand on hand 
Trade Transaction	Party A sold 10 tons of Wheat to party B on Credit. Price was set \$500, and money to be paid in 2 months → 	← Party B returns \$500 to Party A after two month. This is a TRADE transaction which is permissible  \$500

<sup>39</sup> - فتحة الحديث Translation & Commentary of Imam Shawkani's "الدرر البهية" with additions from Sh Albani.

Ibn Qayyim said<sup>40</sup> Riba has two types: جلى وخفى.

- i. **جلى (Clear):** This is prohibited to protect (mankind) from great harm. This is same type of loan that existed in Jahiliya (**Riba Jahiliya**), i.e. increase the period for loan payment and take interest for extension (commonly known as interest or usury today). This was levied on poor people who spent their entire live but couldn't repay it as it kept increasing. Hence, it deserved that شارع prohibited it all together. Imam Ahmed said this is the absolute form of Riba that interest is charged to extend the period of payment.
- ii. **خفى (veiled, disguised):** This is prohibited because it leads to the first (so kind of blocking the means - سد ذرائع). This is same as ربا الفضل. i.e. in Hadith it said do not sell one dirham for two dirham. And such sale will occur only when items are of same kind but there is different in their types, e.g. Dates but type is either in quality, quantity or weight. Hence, شارع prohibited it all together (i.e. selling same for same) both as cash or credit.

### (ربا الجاهلية) - Riba of Dark Ages

This was well known form of Riba at the time of Jahiliya. This was prohibited in strong words in Quran:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

3:130 O you who have believed, do not consume Riba, doubled and multiplied, but fear Allah that you may be successful.

Ibn Khatir explains<sup>41</sup> that during the time of Jahiliya, when the debt came to term, the creditor would say to the debtor, "Either pay now or interest will be added to the debt." Ibn Qayyim said when one increase the period for loan payment and take interest for extension (commonly known as interest or usury today). Imam Ahmed said this is Absolute form of Riba. [اعلام المواقين].

This is the most common form of Riba that is spread today in world, where Interest is charged on Credits. This Riba is absolutely haram, and no Scholar ever disputed this. This Riba is explained in Quran:

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُؤْمِنِينَ - فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتُمْ فَلَكُمْ رُؤُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ

2:278 O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers.

2:279 And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal. - [thus] you do no wrong (be unjust), nor are you wronged (unjust)

Mawdudi<sup>42</sup> said, this verse was revealed after the conquest of Makka, although interest was objectionable earlier, but after revelation of this verse interest-bearing transactions became a punishable offence in Islam. The Prophet (pbuh) warned the Arab tribes through his officials that war would be declared against them if they did not give up interest-bearing transactions.

<sup>40</sup> اعلام المواقين, Ibn Qayyim Jawzia, Urdu translation, Maktaba Qudosia. Page 404

<sup>41</sup> Tafsir Ibn Khatir, 2:280

<sup>42</sup> Tafheem, Abu Ala Mawdudi 2:279

Ibn Khatir<sup>43</sup> said, Ali bin Abi Talhah said that Ibn `Abbas said about: [ وَإِنْ لَمْ تَفْعَلُوا فَاذْنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ ] - (And if you do not, then be informed of a war [against you] from Allah and His Messenger), "Whoever kept dealing with Riba and did not refrain from it, then the Muslim Leader should require him to repent. If he still did not refrain from Riba, the Muslim Leader should cut off his head."

Allah swt then said, [وَإِنْ تُبْتِمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ] (But if you repent, you shall have your capital sums. Deal not unjustly) by taking the Riba, meaning, your original capital will not diminish. Rather, you will receive only what you lent without increase or decrease. Ibn Abi Hatim recorded that `Amr bin Al-Ahwas said, "The Messenger of Allah gave a speech during the Farewell Hajj saying: « أَلَا إِنَّ كُلَّ رِبَا كَانَ فِي الْجَاهِلِيَّةِ، مَوْضُوعٌ عَنْكُمْ كُلُّهُ، لَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ، وَأَوَّلُ رِبَا مَوْضُوعٌ، رِبَا الْعَبَّاسِ بْنِ عَبْدِ الْمُطَّلِبِ مَوْضُوعٌ كُلُّهُ » (Verily, every case of Riba from the Jahiliyyah is completely annulled. You will only take back your capital, without increase or decrease. The first Riba that I annul is the Riba of Al-`Abbas bin `Abdul-Muttalib, all of it is annulled.)

### (رِبَا الْفَضْلِ) - Riba on Cash Sales or Spot Transaction

If two items are exchanged (or sold) of same kind, and buy pays more than seller or vice versa, then any excess payment is considered Riba al-Fadl. (e.g 100 lbs gold vs 120 lbs gold, extra 20 lbs is Riba).

The Nus (text) from Prophet (pbuh) on this are far too many, and we may not quote all of them here. The following is the famous hadith that is related by many and present in various books of Hadith including Bukhari, Muslim, Ahmed, Nisai, Ibn Maja, Abi Dawood. This hadith has wealth of knowledge and fiqh inside it.

The Prophet (pbuh) said, "Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, salt by salt, like for like and equal for equal, payment being made hand to hand. If these classes differ, then sell as you wish if payment is made hand to hand"<sup>44</sup> [Sahih al-Muslim]

The hadith involves two parts, i.e. exchange<sup>45</sup> in transaction involves:

- i. when classes items are of same kind (e.g. gold for gold)
- ii. when classes of items differ (e.g. wheat for barley, gold for dollar)

The basic explanation of this hadith is that if the classes of items differ (e.g. buy gold for dollar), then sell as you wish, provided that payment is made on the spot ----- But if the items being exchanged are of same kind, then rule of "equal for equal" will apply, i.e. for 100 unit of gold, return 100 unit of gold, nothing more and nothing less. (This essentially prohibit exchanging/selling same item for same item, see details below).

- iii. **What is "Like for Like":** This means when exchanging or selling items with same kind. i.e. Giving Gold and taking exact same Gold in return. Giving Silver and taking exact same Silver in Return.

Here Prophet (pbuh) mentioned Gold, Silver, Wheat, Barley, Dates, Salt as an example, but extended the meaning by saying "Like for Like" i.e. any items that are of same kind. There is different of opinion on what is included in Riba al-Fadl, which we will discuss later.

<sup>43</sup> Tafsir Ibn Khatir, 2:278-279

<sup>44</sup> Sahih al-Muslim, in Kitab al-Musaqah. Hadith # 1587

<sup>45</sup> Note that Sales transactions have various dimensions that often create complication to understand Riba i.e.

- i) Objects being sold (absolute sale like property or asset, financial exchange, bartering)
- ii) When determining the price (bargaining sales, trust sale like sale at loss or profit, auction sale)
- iii) Based on method of payment (cash sales, credit sales, advance sale when payment is taken and delivery is later, payment on delivery)

- iv. **What is “Equal for Equal”:** meaning when one party gives 100 units of gold, then other party must return exact 100 units of gold. Anything in excess will be considered Riba, as we explained in example earlier. This hadith is explained further by another hadith:

“Narrated Ibn 'Umar: The Prophet said, "The selling of wheat for wheat is Riba except if it is handed from hand to hand and equal in amount. Similarly the selling of barley for barley is Riba except if it is from hand to hand and equal in amount, and dates for dates is usury/interest except if it is from hand to hand and equal in amount.”<sup>46</sup> [Sahih al-Bukhari]

“Narrated Abu Said: (Concerning exchange) that he heard Allah's Apostle saying, "Do not sell gold for gold unless equal in weight, and do not sell silver unless equal in weight.”<sup>47</sup> [Sahih al-Bukhari]

- v. **What is “payment made Hand to Hand”:** this implies spot transaction, meaning postponement of payment is prohibited, and in spot transaction rate is decided on the spot based on market value.

“Narrated Abu Al-Minhal: I asked Al-Bara' bin 'Azib and Zaid bin Arqam about money exchanges. Each of them said, "This is better than I," and both of them said, "Allah's Apostle forbade the selling of silver for gold on credit.”<sup>48</sup> [Sahih al-Bukhari]

The reason for forbidding it on credit is obvious, because the price of gold and silver may fluctuate if they price is not set on spot transaction.

- vi. **What is “if classes differ, then sell as you wish”:** meaning if the two items exchanged are not of same kind, then it's considered a trade, provided payment is made without postponement. Example, if Gold is sold for Dollar, wheat is sold for dates etc.

However, the condition is that payment is made hand-to-hand without postponement, i.e. spot transaction. This also prohibit any future sales (i.e. can't sell gold today on price in future).

- vii. **Why will anyone exchange/sell “Like for Like”:** In context to our scenario of spot transactions with immediate payments, the like for like will only occur in situation when even though item is of same kind, but it may have further types to it. i.e. why will anyone exchange gold for gold?

**Example 1:** Rice has grading, so one might want to exchange higher grade rice with lower grade. This type of transaction is bound to create Riba where seller of higher grade rice will take much higher quantity with lower grade rice. Hence, the Prophet (pbuh) prohibited it and there are many hadith to explain it.

“Narrated Ibn 'Umar: Allah's Apostle forbade Muzabana; and Muzabana is the selling of fresh dates for dried old dates by measure, and the selling of fresh grapes for dried grapes by measure.”<sup>49</sup> [Sahih al-Bukhari]

**Example 2:** Mentioned by Mawdudi<sup>50</sup>, that in olden days people exchanged coins (gold or silver) where they exchanged gold coin from one country with gold coin of other, and asked more for less, (even though the gold weight was same). Hence, the Prophet (pbuh) prohibited this kind of exchange. Following hadith can provide examples:

<sup>46</sup> Sahih al-Bukhari, in book Sales & Trade, Volume 3, Book 34, Hadith # 379

<sup>47</sup> Sahih al-Bukhari, in book Sales & Trade, Volume 3, Book 34, Hadith # 384

<sup>48</sup> Sahih al-Bukhari, in book Sales & Trade, Volume 3, Book 34, Hadith # 387

<sup>49</sup> Sahih al-Bukhari, in Book Sales & Trade, Volume 3, Book 34, Hadith # 380

<sup>50</sup> (ریا) سمود Abu Ala Al-Mawdudi, Islamic Publications, page126

“Narrated Abu Bakra: Allah's Apostle said, "Don't sell gold for gold unless equal in weight, nor silver for silver unless equal in weight, but you could sell gold for silver or silver for gold as you like.”<sup>51</sup> [Sahih al-Bukhari]

“Uthman b. 'Affan reported Allah's Messenger (pbuh) as saying: Do not sell a dinar for two dinars and one dirham for two dirhams.”<sup>52</sup> [Sahih al-Muslim]

“Narrated Abu Said: We used to be given mixed dates (from the booty) and used to sell (barter) two Sas of those dates) for one Sa (of good dates). The Prophet said (to us), "No (bartering of) two Sas for one Sa nor two Dirhams for one Dirham is permissible", (as that is a kind of usury).”<sup>53</sup> [Sahih al-Bukhari]

**Example 3:** Mentioned by Ibn Qayyim<sup>54</sup> and also by Mawdudi, if a raw material is exchanged with finished good. Here we need to see how much change appeared in finish good from its raw form. Example, iron or steel is raw but a finished good could be a container, or cotton is raw but clothes are finished product. Such exchange is permissible because the items are transformed so much that they are not same class. However, if transformation of item is minor, then this transaction is forbidden (e.g. case of gold jewelry when diamonds or stones are added to it). Evidence is present for both cases.

"Fadala b. Ubaid al-Ansari reported: A necklace having gold and gems in it was brought to Allah's Messenger (pbuh) in Khaibar and it was one of the spoils of war and was put to sale. Allah's Messenger (pbuh) said: The gold used in it should be separated, and then Allah's Messenger (pbuh) further said: (Sell) gold for gold with equal weight."<sup>55</sup> [Sahih al-Muslim]

**Example 4:** If one insists on exchanging items of sale kind (but different types or grade), e.g. exchange low grade dates with higher grade dates. Then he must first sell low grade dates in the market with cash, and then use this cash to buy high grade dates. This is stated both by Ibn Qayyim and Mawdudi, and quoted the hadiths we mentioned in this example.

"Abu Huraira and Abu Sa'id al-Khudri (ra) reported that Allah's Messenger (pbuh) deputed a person from Banu 'Adi al-Ansari to collect revenue from Khaibar. He came with a fine quality of dates, whereupon Allah's Messenger (pbuh) said to him: Are all the dates of Khaibar like this? He said: Allah's Messenger, it is not so. We buy one sa' of (fine quality of dates) for two sa's out of total output (including even the inferior quality of dates), whereupon Allah's Messenger (pbuh) said: Don't do that, but like for like, or sell this (the inferior quality and receive the price) and then buy with the price of that, and that would make up the measure."<sup>56</sup> [Sahih al-Muslim. Bukhari has same, and many hadith like these]

**رباّ النسبة) - Riba on Credit transaction or deferred payment**

Sale on Credit is allowed in Shariah, provided price is set at the time of Sale. Allah swt said: **إِذَا تَدَايَيْتُمْ بِذَيْنَ إِلَى أَجَلٍ** 2:282 when you contract a debt for a specified term, write it down.” Prophet (pbuh) also purchased food grain from a Jew on credit and advanced his iron armor to him<sup>57</sup>.

<sup>51</sup> Sahih al-Bukhari, in Book Sales & Trade, Volume 3, Book 34, Hadith # 383

<sup>52</sup> Sahih al-Muslim, in Book Riba, Book 010, # 3849

<sup>53</sup> Sahih al-Bukhari, in Book Sales & Trade, Volume 3, Book 34, Hadith # 294

<sup>54</sup> اعلام المواقين, Ibn Qayyim Jawzia, Urdu translation, Maktaba Qudusia. Page 405

<sup>55</sup> Sahih al-Muslim, in Book Riba, Book 010, #3866

<sup>56</sup> Sahih al-Muslim, in Book al-Buyu, Book 010, #3869:

<sup>57</sup> Sahih al-Bukhari, in Book Sales & Trade, #2068. Also in Sahih al-Muslim, in Book al-Musaqah, #1603.

Transactions relating to credit sale or deferred payment can also be of two types:

- i. **when classes items are of same kind** (e.g. loan where money is returned with money or gold for gold)
- ii. **when classes of items differ** (e.g. wheat for barley, gold for dollar)

In both cases payment is deferred (or not paid on the spot).

There can be further controversies in these transactions depending on nature of sales:

- i. **Deferred Payment by increasing price** (i.e. Cash is \$100, on Installment \$120). This is permissible, provided price is set at sales, and only payment is deferred.
- ii. **Deferred Payment and deferred delivery:** (i.e. Cash on delivery. I will pay when you deliver, but price is set on sale). This is permissible and there is text from Prophet (pbuh) "Jabir bin Abdullah stipulated that camel would be delivered to Prophet in medina..."<sup>58</sup>
- iii. **Deferred Payment and deferred delivery of commodity that is unknown.** (i.e. advance sale<sup>59</sup>. Buy 1 ton of rice and delivery in 2 months). This is permissible if price is set at sale and immediate payment is made and only delivery is deferred. But if payment is not made, then it is not permissible.

**Please note**, when there is deferred transaction where both payment and delivery is deferred, then there is hadith that prohibits it. "Prophet (pbuh) forbade the sale of a postponed thing with another postponed (thing)<sup>60</sup>. [Da'ef Hadith]. However, there are number of scenario in this transaction where lawful can be confused with unlawful.

There could be many such examples, and purpose of our document is not to define all sale transactions. The main essence is that price should be set at the time of sale. If price is not set at the time of sale then it outright prohibited. Once the price is set, the permissibility of this transaction then further depends on many factors, i.e. "like for like", "buying in exchange of currency", "exchange of items when classes differs".

- i. **Deferred payment on "like for like":** Here, if the transaction is of first type i.e. if items exchanged are of same class and payment is deferred, then this type of transaction has two states:
  - a. **Loans or borrowing currency:** Then if it involves currency the rule "Equal for Equal" applies. E.g. if one party give \$100 Dollars to another for 6 months, then other party must return \$100 Dollars, no more or no less. Anything more will be considered Riba, anything less is still due. This is more of a loan transaction.
  - b. **Currency exchange:** permissible if the payment is made on the spot and price is set at the time of sale. If payment is not made on spot than this is considered haram. E.g. selling Dollars for Euro, but making sale and payment on the spot. Like of like doesn't apply, as even though Currency is same kind, but "Dollar" and "Euro" are considered different types. See Example 3 in Riba al-Fadl.
  - c. **Buy a commodity with currency:** permissible if price is set at sale. Both payment and delivery can be deferred.
    - i. If payment is deferred then it can be Instalment or credit.
    - ii. If delivery is deferred then it can be like Advance Sale.
    - iii. if delivery and payment is deferred then it can be Cash on Delivery.

<sup>58</sup> Sahih al-Bukhari, in Book Sales & Trade, #2097. Also in Sahih al-Muslim, in Book al-Musaqah ("she camels with the stipulation..")

<sup>59</sup> Known as "Salam". It is special sale allowed by Prophet (pbuh) with certain conditions. Salam is sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. [Islamic Finance, Taqi Uthmani, Page 186]

<sup>60</sup> Recorded by At-Tahawi in Sharh Al-Maani, also by ad-Daraqutni, al-Hakim, al-Bayhaqi. Its chain is weak. Imam Ahmed said there is no authentic hadith with that meaning, it is only by the people's consensus that the sale of debt with another is impermissible". [Financial Contracts 1, Dr Salah Sawi, Page 97]



In all circumstance, no additional money, interest or gift is taken after the sale is close, which will make it Riba.

**Example of deferred payment:** in case where gold is bought for cash, but payment is deferred. Then the increase in price is permissible, whether due to difference in commodity or in time. However, the price must be set at the time of sale. The reason is that when price is set at sale, it's sold on market value.

- d. **Exchanging Gold, silver or other commodities (without currency):** If it involves gold, silver and other commodities (i.e. gold for gold, silver for silver), then any deferred payment is prohibited because it makes the two objects not equal. i.e. one party takes 100 units of gold (when price of gold unit was \$100) and returned it when gold price increased (say \$120 a unit). Then first party made Riba of \$20. Here, gold is considered a commodity. The Hadith mentioned earlier "gold for gold, equal for equal, payment made hand-in-hand" applies. If the payment is made on the spot then it is allowed.

There can be a question why we have difference in currency and commodities, especially when currency is always backed by gold securities (I hope so!). Ibn Qayyim has done detailed discussion on it in. He stated that Dirham/Dinar (i.e. Currency) are the price of commodity (e.g. price of gold) that is a benchmark to establish market value. And necessity dictates that these remain (separate from commodity) to assess value<sup>61</sup>.

Hence, it is permissible to deferred payment if purchased with currency. But any other commodities were forbidden on deferred payment (e.g. when gold is exchanged with silver payment is immediate).

Contemporary scholars argued that "currency" can also be devalued, and what compensation be given for differences in value due to inflation, economic depression, or currency devaluation. i.e. if currency goes through a state of economic depression then should the loan be repaid in revalued currency?. They have varying opinion. Some noted that we pay back loan on revalued currency, other disagreed. Notably The Fiqh Academy of OIC declared that "loans should be repaid in the same currency and at the exact same amount that was borrowed, regardless of the fluctuations in the currency markets"<sup>62</sup>

- ii. **Deferred payment on "if classes differ":** This is case when two items are exchanged (gold for silver) and payment is deferred. This is completely prohibited.

**Example:** if someone buys 100 units of Gold for 200 units of Silver, and payment be made at future date. Then this opens door for Riba, because it's not known what will be silver to gold when payment has to be made. If silver price goes up, then the party that sold gold will get more than what they sold for. Hence, the Prophet (pbuh) prohibited selling gold for silver or vice versa on credit. That's why Shareh constituted that transaction is done on spot (i.e. payment made on spot). But if the payment has to be deferred then i) either item is return with same exact item, i.e. gold return with gold, or ii) commodity is exchanged with currency. i.e. 100 units of Gold for \$100 are paid after 6 month, and price decided at sales but payment is deferred to one month<sup>63</sup>.

"Habib reported that he heard Abu Minhal as saying: I asked al-Bara' b. Azib about the exchange of (gold for silver or vice versa), whereupon he said: you better ask Zaid b. Arqam for he knows more than I. So I

<sup>61</sup> اعلام الموقعين, Ibn Qayyim Jawzia, Urdu translation, Maktaba Qudusia. Page 405-406

<sup>62</sup> Fiqh Academy of OIC, 5<sup>th</sup> session, 1409 ah/1988 - Contemporary fiqh (AOU)

<sup>63</sup> مسود (ربا) - Abu Ala Al-Mawdudi, Islamic Publications, Page 128.

asked Zaid but he said: You better ask al-Bara' for he knows more than I. Then both of them said: Allah's Messenger (pbuh) forbade the sale of silver for gold when payment is to be made in future."<sup>64</sup> [Sahih al-Muslim]

"Abd al-Rabman b. Abia Bakra reported on the authority of his father that Allah's Messenger (pbuh) forbade the sale of gold for gold, and silver for silver except equal for equal, and commanded us to buy silver for gold as we desired and buy gold for silver as we desired. A person asked him (about the nature of payment), whereupon he said: It is to be made on the spot. This is what I heard (from Allah's Messenger (pbuh))."<sup>65</sup> [Sahih al-Muslim]

## What constitute Riba

The prohibition of Riba in Islamic Shariah is so vocal and direct that none really succeeded in convincing Muslim jamat to undo that prohibition. The Prophet (pbuh) said in his last sermon "God has judged that there shall be no riba". However, people played with the word "Riba" itself in an attempt to confuse the ummah on "What constitute Riba". They argued that despite all the Nus (text) prohibiting Riba, there is none that explains what "Riba" actually is. The purpose and intentions of this argument usually is to make the Hukm of Riba look trivial or at least create enough doubt in minds of common Muslims who are not aware of details, and then claim that there is different of opinion amongst scholar.

Their arguments themselves are trivial, and remind us of mindset of Bani Isreal when they asked questions to Moses (as) when they were asked to sacrifice the cow. Instead of sacrificing the cow they laughed at the Commandment and kept asking "what color should it be?", "what age should it be?" and ask Allah to give us more details, until Allah swt specified all details and they sacrificed, but even then they did it unwillingly<sup>66</sup>.

Now, if someone does not really want to understand Riba and refrain from it, then even if Allah swt discusses with the person directly, it will not be enough for him. Everything else is mentioned in the Quran and explained to us by the Prophet (pbuh).

We will not be discussing the details of their argument, but will summarize various arguments that exist in terms of what constitute Riba.

- i. Foremost and the most common, Riba is applied to personal or individual loan, it doesn't apply to loans given for business, as they are not same type of loans at existed in Prophet's time and it doesn't seem to be under principle of ظلم (injustice). So in essence, Riba that is taken from individual for their personal needs should be prohibited but if loan is used for further Business to generate revenue then taking Riba from it is justified.
- ii. The Qur'an does not explicitly define riba as one type of transaction or another.
- iii. At the time of the revelation of the verses about riba, the only type of riba known was riba al-jahiliyyah i.e. usury (exploitative, exorbitant rate of interest). Usury would be prohibited, but interest as it exists in modern economy and finance and especially in all its forms can't be necessarily categorized as prohibited.
- iv. Detailed definition of Riba is based on "Hadith" (traditions and saying of Prophet Mohammad (pbuh)). Even though they are in Sahih al-Bukhari/Muslim etc, but not all Muslim agrees with the Hadith.
- v. A specific hadiths identify six specific commodities: barley, date, wheat, salt, gold and silver. Issue is raised whether the prohibited riba covers only these six commodities or more?
- vi. Fixed or guaranteed rate of return, at least for public debt, is not un-Islamic any more
- vii. Consumption of Riba is haram, but paying it (e.g. in Mortgage) is allowed

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<sup>64</sup> Sahih al-Muslim, in Book Riba, Book 010, #3860

<sup>65</sup> Sahih al-Muslim, in Book Riba, Book 010, #3861:

<sup>66</sup> Story in Quran, 2:67-71 [al-baqarah]

## Basic Usool for Riba

- i. **General Def:** Riba exist if two items of same kind are exchanged, and one party give more (or less) to other party. The excess amount/unit is considered Riba. E.g. 100 lbs gold returned with 120 lbs of gold
- ii. **Items that can incur Riba:**
  - a. Prophet (pbuh) gave name of six items, that if they are exchanged for same for same, and one party give extra to other, then excess is Riba. These include gold, silver, wheat, barley, dates, salt.
  - b. Prophet (pbuh) also gave name of other items at different times. Such as: grapes for old grapes, animal for meat.
  - c. Prophet (pbuh) also prohibited exchange of same items, even if their sub types or grading differs. E.g. grapes for dried grapes, dates for low grade dates, animal for meat, jewelry for gold.
  - d. Fuqha (jurist) made Qayas (قياس) of these six items on other commodities if illah (علة) is same. E.g. items that have weight (e.g. gold), or those eaten (e.g. dates), or those stocked (e.g. wheat) etc. Some scholars (like of Zahiris) did not allow Qayas.
- iii. **Transactions that can incur Riba:**
  - a. When two items of same kind is sold. [i.e. # i]
  - b. When two items of different kind are exchanged (e.g. wheat for gold), and one item is delivered (e.g. wheat) and other is deferred (gold). This is a Credit Sales. Prophet (pbuh) prohibited it. [Please note this exclude Credit transaction where e.g. Wheat is purchased with Currency]
  - c. When two items of same kind but different grades are exchanged: Prophet (pbuh) also prohibited exchange of same items, even if their sub types or grading differs. E.g. grapes for dried grapes, dates for low grade dates, animal for meat, jewelry for gold.
- iv. **Generally Transaction that DON'T incur Riba:**
  - a. Items that are purchased with Currency, rate is set on sale. Payment and delivery can be deferred.
  - b. When two items of different kind are exchanged, rate is set on sale, and payment is made on spot. (e.g. 100 kg of wheat exchanged for 10 lbs of gold)
  - c. Fruit and Vegetable don't incur Riba. Reason is that they can't be stocked for long as they expire [Abu Bakr Jazairi – minhaj muslim]
- v. **Currency Exchange:**
  - a. All transaction must be spot transactions. And Rate must be set at sale.
  - b. Gold can be exchanged for silver or vice versa. Rate must be set at sale.
  - c. Gold/silver can be purchase with Currency. Rate must be set at sale.
  - d. One currency can be exchanged with other country currency. Rate must be set at sale. Payment must be made on the spot.
  - e. Gold can be exchanged with Gold, silver for silver. Rate must be set at sale. Payment must be made on the spot.

## Some disputes and Difference of Opinions

We have already discussed Riba and Riba based transactions and provided detailed evidence to answer most of these. Let's discussed few items where فقهاء (jurists) differed:

- i. **ربا النسيئة (Riba an-nasiya):** We have given explanation of this earlier. Here is few hadiths:
  - a. Narrated Abu Salih Az-Zaiyat: "The Prophet (pbuh) had said, 'There is no Riba (in money exchange) except when it is not done from hand to hand (i.e. when there is delay in payment).'"<sup>67</sup> [Sahih al-Bukhari, V3, B34, #386]

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<sup>67</sup> Sahih al-Bukhari, V3, B34, #386

- b. From Usamah ibn Zayd: The Prophet (pbuh) said: "There is no riba except in nasi'ah [waiting]." (Bukhari, Kitab al-Buyu,; also Muslim and Musnad Ahmad) "There is no riba in hand-to-hand [spot] transactions." [Muslim, Kitab al-Musaqat,; also in Nasa'i]

Question was raised, if "riba" is only in النسيئة (Credit Sales when payment is deferred), then this hadith contradict other hadith of Riba al-Fadl (e.g. "like for like").

- Mawdudi: This was earlier hadith. Hadith of Riba al-Fadl came later as Prophet (pbuh) announced further laws around Riba based transaction. [Sood, page 119]
- Ibn Qayyim: This is Riba of Jahiliya. (but Riba al-Fadl is to block means, see earlier "Types of Riba")

- ii. **Riba is limited to six items mentioned in Riba al-Fadl:** Prophet (pbuh) mentioned gold, silver, wheat, barley, dates, salt. Riba al-fadl is only applied to these six. There are four opinions about the prohibition and Illah (علة) of Riba:

- Applied to other if Illah (علة) is same.** i.e. if items are of same kind, then any excess is Riba. (like for like then equal for equal): **Majority**, Abu Hanifa, Ahmed
- Only applied to these six:** Ibn Hazm, Qatada (ra), Zahiris, Ibn Aqeel
- Only applied with eatables (food) or on Gold and silver, or items that can be weighed:** Saeed Bin Musaib, Imam Ahmed and Shafai also has a tradition.
- Only applied with eatables (food) items:** Malik
- Shah Wali Allah: Fuqaha considered Riba for other commodities other than these six.
- Shawkani: others commodities can't be mixed with these six []

**First Riba Jahiliya:** There is complete consensus on Riba Jahiliya, which is the Riba on Loan (commonly called interest on credit today) that it is absolute form of Riba and prohibited. Imam Ahmed said its absolute form of Riba [Alaam Muwaqeen, Tafseer Ibn Khatir]

**Opinion 1:** Those who said that Riba is limited to these six, said that Qayas (قياس) is not allowed because illah is unclear. i.e. between gold, silver, wheat, barley, dates, salt it is unclear what is the illah - علة (e.g. Imam Ahmed/Abu Hanifa considered "weight" is the Illah, while Shafai/malik said "price" is Illah). They said if illah (علة) is unclear, then Qayas (قياس) is disallowed. Hence, they limit Riba to these six.

**Opinion 2:** Those who said that other commodities are also included with these six, they present other hadiths of Prophet (pbuh), i.e. hadith of Ibn Umar etc.

"Narrated Ibn 'Umar: Allah's Apostle forbade Muzabana; and Muzabana is the selling of fresh dates for dried old dates by measure, and the selling of fresh grapes for dried grapes by measure"<sup>68</sup> [Sahih al-Bukhari]

Here, grapes are also added. There are many other hadith for same. There is another hasan hadith where Prohibited exchanging meat with animal (live stock) [Malik]. Then animal is also added to list.

However, Zahiris didn't agree to this. Although these differences doesn't affect the Riba that is directly prohibits by the various Nus (text) from the Prophet (pbuh) as we mentioned earlier. It created differences on secondary elements, such as what is Illah (علة). E.g. Imam Ahmed/Abu Hanifa considered "weight" is the Illah, while Shafai/malik said "price" is Illah.

<sup>68</sup> Sahih al-Bukhari, Volume 3, Book 34, # 380:

**My opinion:** In my opinion, if we think about it, the Riba will still apply, despite that if illah (علة) is "weight" or "price". i.e. take example of gold. If someone took gold by weight (100 lbs), he will have to return same gold with same weight (100 lbs). If someone took gold by price (\$1000), he will have to return gold of equivalent price (\$1000). Either way, Riba is inherent if same kind is exchanged and payment is deferred. Hence, our Prophet wins!

Secondly, the Prophet (pbuh) gave us at least eight examples (i.e. gold, silver, wheat, barley, dates, salt, grapes, meat/animal). Each of these has its own illah (علة) that can cover all other commodities sold or exchanged. Basic rule is very clear, "if two items of same kind are exchange, then like for like, equal for equal". If we met that, then there is no dispute. We should note that Prophet (pbuh) added "like for like" in addition to mentioning the six items. That suggest that "like for like" include any other commodities, as Prophet (pbuh) could not have listed \*all\* commodities that exists. So he said "like for like".

Also, we can deduce that illah (علة) can be in both weight and price. So, if commodity is by weight, then illah (علة) is weight, if it's by price, then illah (علة) is price. Hence, qayas (قياس) can be extended to other commodities either by weight or price.

- iii. **Riba is only in individual loan and not on Business Loan:** Mawdudi has discussed it in length in his book. No Faqhi ever disagreed that Riba is Riba regardless of how the money is used (personal, house, business, car, chocolate). We don't need to go into these arguments. We need to understand that Riba is the excess if two items are exchanged of same kind. Some people do not wish to understand this despite all the evidence. If anyone is interested then read lengthy discussions in Mawdudi's book.
- iv. **Quran doesn't explicitly define Riba:** This is argument of deniers of Hadith. The Prophet (pbuh) explained us our Deen. He explained us what Quran teaches. If they deny hadith, they can also deny Quran (as Quran is also hadith). Quran cannot be understood without the Prophet Mohammad (pbuh), otherwise Allah swt could have put Quran on Toor Seena and asked people to come and make Xerox copies. Quran doesn't tell us how to do Salah, Hajj, Zakat, Sawm, Tahara, Wudu, i.e. most of our Deen. These people only wishes to redefine Shariah according to their whims and desire, and without removing Hadith they cannot redefine Shariah.

There is so much said and written on this topic, that I can't add anything more. Read "Authority of Sunnah" [Zarabozo], سنت کی اُتھینی حیثیت [Mawdudi], فتنہ انکار حدیث [Mubarakpuri] are some recent books.

Fortunately, the Kuffar has made our life lot easier. They used term "interest", and all "interest" based transactions are haram (unless if interest is 0%!!!). The dictionary says interest is:

- A charge for a loan, usually a percentage of the amount loaned.
- A sum paid or charged for the use of money or for borrowing money.
- Such a sum expressed as a percentage of money borrowed to be paid over a given period
- An excess or bonus beyond what is expected or due.
- A fixed charge for borrowing money; usually a percentage of the amount borrowed; "how much interest do you pay on your mortgage?"

This is exactly what our Quran said (لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً), and our Prophet said (You will only take back your capital, without increase or decrease)<sup>[See Page 20]</sup>.

- v. **Prophet Mohammad (pbuh) paid Riba on Mortgage!!!** They quote the hadith where Prophet (pbuh) mortgaged his زره بكثر (iron armor) to a Jew. This is well known event. The Prophet (pbuh) put his armor as collateral to get the food grain on credit. However, he did not pay Riba. Armor was collateral, and Prophet (pbuh) took 30 Sa's of barley. There was no Riba involved there.

"Narrated Aisha: The Prophet purchased food grains from a Jew on credit and mortgaged his iron armor to him."<sup>69</sup> [Sahih al-Bukhari, also in Sahih al-Muslim]

"Narrated Qatada: Anas went to the Prophet with barley bread having some dissolved fat on it. The Prophet had mortgaged his armor to a Jew in Medina and took from him some barley for his family. Anas heard him saying, "The household of Muhammad did not possess even a single Sa of wheat or food grains for the evening meal, although he has nine wives to look after."<sup>70</sup> [Sahih al-Bukhari]

"Narrated Aisha: The Prophet died while his armor was mortgaged to a Jew for thirty Sa's of barley."<sup>71</sup> [Sahih al-Bukhari]

Mortgage (رهن) is well known in fiqh. It's a collateral or security for a debt. It is proven by Quran 2:283. The Prophet (pbuh) said: A pledge (collateral) does not become the property of the mortgagee; it remains property of its owner...<sup>72</sup> Collateral is امانة (trust, deposit). It is Legal for a person to borrow something which he can pledge (put collateral) for period and amount of pledge. If the at the time of payment mortgagee pays his debt, then collateral is returned to the owner. If he fails to pay in full on due date then mortgager can liquidate the collateral to pay off the debt<sup>73</sup>.

## Difference between trade and riba

Allah swt said:

**قَالُوا إِنَّا الْبَيْعُ مِثْلُ الرِّبَا وَأَكَلُ اللَّهِ الْبَيْعَ وَكَرَّمَ الرِّبَا**

2:275 That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. [al-Baqarah]

The term "Riba" was common amongst Arabs long before the advent of Islam. They knew what it meant. They considered it a legal and practiced it. It was well known and popular. Hence, Quran stated to them that Allah had forbidden Riba and they must leave it. They made similarities between Riba and Trade, whereas, Allah swt made strong statement that Riba and trade are not same, and Allah forbids Riba and allows trade.

**Trade** is defined as "the act or process of buying, selling, or exchanging commodities, at either wholesale or retail". In context, trade is process which starts when the Seller brings his goods, either produced by him or by acquiring them to sell in the market by adding his profit. The Seller puts a price offer for his produce and Buyer accepts the price to close the sale. Seller in turn makes profit on the sales price. Here the Seller earns his profit as he either produce to goods or acquire them, in either case, he spend him money, time and effort to bring the goods to market for trade. Hence, the profit he receives in return in justified income for his efforts. Some of the items that are always present in trade are:

<sup>69</sup> Sahih al-Bukhari, Volume 3, Book 34, #282

<sup>70</sup> Sahih al-Bukhari, Volume 3, Book 34, #283

<sup>71</sup> Sahih al-Bukhari, in book (Al-Maghaazi), Volume 5, Book 59, #743:

<sup>72</sup> Al-Moghni, Transaction in Islamic law, Prof Ala Eddin Kharofa

<sup>73</sup> منهج المسلم - Minhaj Muslim, Abu Bakar Jazairi

- i. Goods are either produced by Seller or he acquires them. Either case, he is the real owner of these goods.
- ii. Once the sale is complete, the transfer of ownership is passed on to the Buyer.
- iii. The Seller received his sale price which includes his manufacturing cost + profit for his efforts

**Riba: Usury** is defined as “the lending or practice of lending money at an exorbitant interest”, or **Interest** as “A charge for a loan, usually a percentage of the amount loaned”. In Riba transaction, a person lends his money to another person as a loan on the condition that he will return it in certain timeframe with addition. So the deal is that Lender is giving his “money” and “timeframe for return”, but when the debtor returns the money, he returns original “money” back, and additional money in lieu of “timeframe”. This additional money is “Usury” or “Interest”. Some of the items that are present in Riba are following:

- i. Usury or Interest always presents in this transaction
- ii. Timeframe of return is always present, and the Interest (additional money to be returned) is linked to timeframe.
- iii. Ownership of good (i.e. money in this case) is never transferred.

Now, we can see the different between the two is clear as crystal:

#	Trade	Riba
1	<b>Transfer of ownership:</b> In trade, ownership of produce is transferred to Buyer.	<b>No Transfer of ownership:</b> In Riba, ownership is not transferred at all, and the debtor returns the produce to the owner. In fact, in addition to returning his produce, the debtor ends up returning twice as much as he took as loan.
2	<b>Profit taking is only once</b> In trade, the Seller only makes his profit once, i.e. during the sale.	<b>Profit taking is recurring</b> In Riba, the lender continues to make profit until the money is return, and interest rate is tied to the length. In addition, further interest is taken on unpaid interest. Hence, the interest compounds (or as Quran states double and multiplied)
3	<b>Profit is earned</b> In trade, the Seller either produces his goods or acquires them. Either case, he spend his time, money, efforts and also to mention his skills to bring these goods to the market.	<b>Interest is not earned</b> In Riba, the lender doesn't take any risk, neither put his time and effort or skills to create income from the money [as we explained previously]. He only takes his 'guaranteed' profit without putting any effort.  On other hand, if debtor is taking loan to fulfill his personal or family basic needs, then he is not even earning any money on this lend amount. This amount to total injustice and plundering families those are already in crises.

## Part 4: Why is Riba Haram?

### Prophetic Explanation

The impact of Riba on the lives of people and its oppressiveness can not be denied. In the name of profit taking people have been pushed into corner to continuously earn money for “lenders” and pay them monthly interest on top of interest. This has created the culture and environment that promotes certain behaviours in to people that includes selfishness, stinginess, mercilessness and hardness of the heart. It takes the helping gesture out of human’s heart and it promotes a ‘status’ race where every one is competing to make more money then other person. And in the process, he doesn’t care how much harm he inflict to other fellow humans. Riba is a mindset that creates self centeredness, that instead of helping out fellow being by giving him money in need, I can made money of his needs.

Riba creates a society and culture that is completely in opposition to everything Islam teaches. Hence, Allah swt said in the Quran: **لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ** – “O you who have believed, do not consume usury, doubled and multiplied, but fear Allah”<sup>74</sup> and absolutely prohibit usury by taking interest, and interest on top of interest. As this is unarguably a tool of oppression on people.

Islam prohibits eating people’s money unjustly and considers Riba as one way of stealing people’s money unjustly. Allah swt states: **وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتُدْخُلُوا بِهَا إِلَى الْحُكَّامِ لِيَأْكُلُوا فَرِيقًا مِّنْ أَمْوَالِ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ** – “And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful].”<sup>75</sup>

Instead, Islam promotes giving out. As the Prophet (pbuh) use to say that giving hand is better<sup>76</sup>. Hence, Islam always promotes charity and helping hands. That’s why Allah swt repeatedly said: **يَمْحَقُ اللَّهُ الرِّبَا وَيُزِيلُ الصَّدَقَاتِ** – “Allah destroys interest and gives increase for charities”<sup>77</sup>. And that: **وَمَا آتَيْتُم مِّن رِّبَا لِّيَرْبُو فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ وَمَا** – “And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah – those are the multipliers”<sup>78</sup>.

The difference between Islam and Riba based system can be understood with following verse. Allah swt said in Quran: **وَيَسْأَلُونَكَ مَاذَا يُنفِقُونَ قُلِ الْعَفْوَ** – “And they ask you what they should spend. Say, "The excess [beyond needs].”<sup>79</sup>. That is, spend the excess money in welfare of people to help the needy. Infact, Allah swt further explained where this “excess” money should be spent by stating: **وَأَتَى الْمَالَ عَلَى حُبِّهِ ذَوِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسَاكِينَ وَابْنَ السَّبِيلِ وَالسَّائِلِينَ** – “and gives wealth, in spite of love for it, to relatives, orphans, the needy, the traveler, those who ask [for help], and for freeing slaves;”<sup>80</sup>, and there are many verses to that effect.

Hence, we can understand now that in Islam the society is based on giving out charity and help people with their loans with the excess money, and if they can’t repay the loan then forgive it, if they deserve and are needy. Whilst the Riba based society is based on plundering people’s hard earned income by taking it in interest, double and

<sup>74</sup> Quran 3:130 [ale-Imran]

<sup>75</sup> Quran 2:188 [al-Baqarah]

<sup>76</sup> Sahih Al-Bukhari: Narrated Hakim bin Hizam, The Prophet said, "The upper hand is better than the lower hand (i.e. he who gives in charity is better than him who takes it)...” [Volume 2, Book 24, # 508]. Here one who take is a beggar as explained in other similar hadiths.

<sup>77</sup> Quran 2:276 [al-Baqarah]

<sup>78</sup> Quran 30:39 [ar-Room]

<sup>79</sup> Quran 2:219 [al-Baqarah]

<sup>80</sup> Quran 2:177 [al-Baqarah]



multiplied. And exploit the needs of people by making money of their needs. Infact, in recent times, the Riba based system on one hand creates a desire by smart marketing to stir people to buy products (that they don't really need), and on other hand readily offer a "credit" to buy these product.

The purpose for prohibiting Riba was to completely abolish the culture and mindset it brings to the society. Hence, Riba is replaced with Zakkat; Selfishness to make money of other's need is replaced with compassion to help people with our money; Bank and insurance is replaced with Baitul Mal a system of welfare; This to restore the socio-economic justice and equal distribution of wealth among all people.

## Rational Explanation

One of the main reasons in all of Sharai' order is to test the Abd (عبد) to see if he is going to obey Allah swt or not? As Allah swt said:

"2:155 And We will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient, "

"3:186 You will surely be tested in your possessions and in yourselves."

- i. Protect the wealth of people so that no one takes it away by illegal or in just means (as today Riba is legalized, even when it is inherently unjust and illegal!)
- ii. Islam is pure (طيبة), and it promotes purity (طيبة) in food, in life, in spending, in earning, in thoughts. Its purpose is to purify us inwardly (تزكية النفس) and outwardly. Hence it ask people to find pure and just ways to earn money where is no injustice or disguise. "One man earning should not be other man's loss".
- iii. Riba create environment of selfishness, self centeredness, and heavy heartedness. "Money must be earned at all cost, even if I have to suck it out of other person's blood". This attitude is prohibited in Islam as it create aversion, repugnance, antipathy in society, and destroys mutual trust, benevolence, charitableness, charity, goodwill, kind heartedness, kindness, philanthropy.
- iv. Islam promotes charity and helping other with kindness. Prohibiting Riba gives opportunity to people to help the needy in their tough times by given them loans (without interest), and further help them by not extending terms if they are unable to pay. And if they can not pay, then forgive that loan as charity. This is just being human and act like one.

## Rational Response to those who legalize Riba

Following are common rational given to legalize Riba<sup>81</sup>:

- i. **Person who gives loans takes a risk, hence he deserve to take interest on his loan:** One of the rational given for usury is that the person who gives his money not only makes sacrifice but also takes a significant amount of risk. Hence it is his right that he takes interest of it.

Thought it is correct that the person who gives loan takes risk, however, that doesn't mean that he ask for interest to avoid that risk. In fact, taking interest on it doesn't really secure his money in any way. If the creditor wants some security for the money he is lending, he can simply ask for collateral, or a security or a guarantor.

- ii. **Interest is kind of a Rent:** When one rents his house or rent his car, he gets money in return. Hence, usury is similar to Rent, which is taken as rent on lend money.

<sup>81</sup> Based on work of Abu Ala al- Mawdudi. For detailed understanding read his book "Sood" (Usuary).

But rent is for things on which the Lender has to invest his time and money to maintain them, and to keep them in good order, such as house or car, when the tenant use them they need repair and maintenance. By lending his money what maintenance and repair he has to do on it? It was extra money lying in his bank account, which was over and above his own needs. When he receives his money back from the debtor he does not have to do any repair on it?!

Hence, the definition of Rent extends to items that are used physically by rentee (i.e. house, or car), but not the items people consume (ie.. Fruits or food etc). This can not be extended to money which is mere mean to purchase items or services.

- iii. **Person who gives loan should get his share in the profit:** That he is lending the money to some one and that some one will make profit on this loan. Hence, the creditor who gave loans must also be given his share in the profit.

This argument can be considered strong if the person lending the money is willing to take the risk in the business of debtor. (i.e. on profit/loss basis). The money itself doesn't generate profit, but requires other person's skill and effort to make profit from it (i.e. he spend time and effort doing trade with it, and takes the risk). But if the Creditor doesn't really partner in the time/effort/risk, and only wants to have partnership in profit, and he disown any losses from such business, then what kind of justice is that? What right the Creditor has to ask for sharing profit?

And to further that, if the person is taking loan to feed his hungry children, then taking interest on it become much bigger injustice, as the debtor is not making any profit on that money.

## Part 5: Few Contemporary Issues

### Credit Cards<sup>82</sup>

Credit card is a card issued by a bank or otherwise and grants its carrier the advantage of meeting his needs whether for goods or services on credit<sup>83</sup>. In Arabic it's called "بطاقة الائتمان" bitaqah (means card) I'timan (means credit).

#### Types of Credit Cards

Credit Card has various types:

- i. **Credit Cards:** These cards are transaction cards.
  - a. **Charge Card:** Charge here means buying on credit. These cards usually allow the amount to be settled with a grace period (without penalty) usually in 30 days or some time up to 2 months. If the cardholder delays the payment after due date, he should pay a late penalty or fine. If he still doesn't pay his card can be cancelled or withdrawn, or he faces legal proceedings.
  - b. **Revolving Credit Cards:** These are most common cards used today. Cardholder has choice to pay for his transaction within grace period (hence incur no interest), or make partial minimum payments every month. In case of delayed payment he can be charged late payment fees for delays, and is also with further interest payment for balance of unpaid amount.

Credit card may incur Riba (interest) transaction if the cardholder doesn't settle the account within grace period. Discussion follows.

- ii. **Debit Cards:** These cards do not grant credit; instead amount is deducted from their bank account with which they are associated.
  - a. **Instant reduction card:** They value of transaction is instantly deducted from card holder's bank account.
  - b. **Current account card:** This card is usually issued free by the bank to account holder for opening an account. They can use it to withdraw money or do banking transaction that they would typically do at the bank cashier/teller. Account holder can use these in various ATM machines.

Debit cards are usually Riba (interest) free, unless it's specified. Bank typically charge "bank fee" for transactions done via check or debit cards.

#### Fiqh interpretations of Credit Card

Credit Card has three type of relationship:

- i. **Relationship between the Card issuer and the Card holder:** Depending on nature of the card relationship may differ. For the "Credit Card" where loan facility is used, the relationship is termed as

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<sup>82</sup> Based on research conducted in Book Contemporary Fiqh – AOU

<sup>83</sup> Oxford Dictionary states: "It is the card issued by a bank or other business firms enabling its holder to obtain goods and services on credit". Islamic Fiqh Academy defines it as "A document given to a real or a hypothetical person (e.g organization) on account of mutual contract signed between them, that enables an individual to buy goods or services from those who acknowledges the document, without having to pay the price instantly, as the contract includes a statement that says "the source of the card has to pay (for the bills)" The journal of the Islamic Fiqh Academy ed 7, vol 1

loaning. When loan facility is not used, such as the “Charge Card” or “Debit Card” the relationship is of agent, i.e. when the card is actually used Bank act as an agent of card holder in paying his financial obligation to others.

Card issuer (bank) granted loan to card holder based on contract or promise that he will pay. The card holder entrusted the Bank for fulfilling the payment of his financial obligations to merchants.

Riba (interest) is involved if the payment is not made within grace period allowed by the Bank.

- ii. **Relationship between the Card issuer and The Merchant:** It is looked at various ways by scholars:
- a. The Bank is agent who settle the payment for transactions done by the card holder
  - b. This can be further looked into as follows:
    - iv. Bank charge certain percentage on all transactions from merchant<sup>84</sup>.
    - v. It's a form of sponsorship or brokerage. The sponsor (the bank) gives guarantee to merchant for remuneration advantage of this card.
    - vi. Bank is who buys the goods and resells it to the card holder. So it is more like Murabahah<sup>85</sup>.

So, in context of (i) and (iii) the transaction is considered permissible. However, in context of sponsorship, any advantage that merchant has for sponsorship from the bank (the sponsor) is considered forbidden.

- iii. **Relationship between the Card holder and The Merchant:** Here relationship is similar to “bill of exchange”, where the card holder is referring the merchant to the bank, where merchant can exchange the bill with money.

Since the payment is made to merchant by the buyer (card holder) immediately, the Prophetic condition: “if the calluses differ, sell as you wish if payment is immediately and directly” [Sahih Muslim] is fulfilled.

Hence, the closes interpretation of credit cards is that they are compound contracts i.e. that they consist of several contracts, as we mentioned in above three relationships.

## Legal issues & judgments (ahkam) on Credit Cards

Credit Card has several legal issues, some are discussed here:

- i. **The Riba (interest) related issues:** All Credit Cards usually includes a condition that is considered Riba (interest). Usually, Riba (interest) is charged in two situations i) either for delay in payment as a late payment fine, or ii) daily interest on balance amount of deferred payments.

Either way, the Riba (interest) paid over and above original amount is considered prohibited (haram).

**Are these transactions (contracts) valid if Riba (interest) is mentioned in Terms/Conditions?** There are two opinions with this respect.

- a. **The first opinion** believes that this contract is valid, even though that condition in the contract includes payment of Riba (interest) for late payment or deferred payment. They make this

<sup>84</sup> More like “Discounting commercial papers” that allow a % to be taken from each transaction on part of card issuer (bank)

<sup>85</sup> Murabaha means resale of an item for a stated profit, it is a legal term for selling an item for a profit, when the seller distinctly states that he purchased it for certain price and then sells it for another price [Dictionary of Islamic Terms]. Taqi Uthmani adds that term used in economic circles today as an “Islamic mode of financing” where payment is usually deferred is different from its original meaning and context [An into to Islamic Finance, pg 95]

permissible on premises that Card holder believes that he can avoid later payment charges by paying it within grace period. They use hadith of Aisha's buying of Barirah (a slave)<sup>86</sup> as evidence where Prophet (pbuh) allowed her to buy Barirah (slave) even when the owner was asking for illegal term.

- b. **Second opinion** believes that entire contract is invalid, they mostly subscribe to opinion of Shafii and Maliki School. They refute that the case of Aisha's buying of Barirah was done in Islamic state where non-Shariah compliant terms were invalid and can not be enforced in the state; hence, Prophet (pbuh) allowed her buying with illegal terms as they could never have imposed this term<sup>87</sup>.
- c. **The most favoured opinion** is that it is permissible to use the Credit Card, for those who strongly believe that they will be able to make their full payment without incurring any penalty or interest payment. However, they should avoid this facility as much as they can, to avoid falling into any Riba (interest).
- ii. **Late payment fee and interest:** Card issuers (Banks) charges late payment fee for delays in payment, or interest for deferred payment. Both of these fees are without a doubt pure form of Riba (interest). It's an amount over and above what was borrowed. There is no difference of opinion in any School of thought in declaring this amount as Riba. These are absolutely prohibited in Quran/Sunnah (and are haram)

**Alternative for late payments fees:** Banks (those who follow Shariah) can use one of the following methods for late payments.

- a. Grant the card holder extra time to pay his debt if the debtor is in financial troubles (recommended in Shariah)
  - b. Cancel his card and/or withdraw the card if he doesn't pay after extension of grace period
  - c. Litigation and enforce payment using the legal means (of course Shariah court should deal swiftly and without incurring legal cost as we today in west)
  - d. Blacklist the client for non-payments or in case of bankruptcy
- iii. **Currency Exchange using Credit Card:** Card holder can without cash in foreign currency. The Bank pays for transaction in foreign currency and deducts the money in local currency from account holder using the exchange rate for that date (based on contract terms).

It is permissible to do this transaction provided the settlement is done with the exchange rate of that date. The evidence to support this is from Hadith of ibn Umar who said "I used to buy (and sell) camels in Baqi market. I would buy with gold and pay in silver, or buy in silver and pay in gold. So I asked the Prophet (pbuh) about this, he said to me: "There is no objection if the price you use is today's price (the day of the fulfillment of the debt) and if you part with all your debts settled" [ref?].

Last part of hadith refer to the condition that payment is made on the spot, as the Prophet (pbuh) said: "Should these classes differ, sell as you wish if payment is made on the spot" [Sahih al-Muslim]

- iv. **Fee on Cash Advance:** Card holder can withdraw cash at any location using their card. However, Bank charges them fee for these operations.

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<sup>86</sup> When Aisha (raa) went to buy Barirah (a slave), her owners refused to sell her except with the condition that her loyalty (wala) should remain for them. This condition is against Shariah as legally the loyalty of the slave should be for on who freed him. The Prophet (pbuh) said to Aisha "buy her and stipulate that the wala should be for them as wala (legally) is for the manumitter" [Sahih al-Bukhari]. In another place He (pbuh) said to her: "Buy her (and manumit her) and stipulate that her wala is yours" [Sahih al-Bukhari]

<sup>87</sup> The Prophet (pbuh) said: "What is wrong with people who stipulate things which are not in Allah's book? Whoever stipulates a condition which is not in the book of Allah then this condition will be invalid even if he imposed a hundred such conditions" [Sahih al-Bukhari]

Contemporary fuqaha differ on opinion for such transaction depending of their understanding of nature of this transaction. Some view it as “loan”, other view it as a just “service fee”

- a. **Those view it as loan** considered it prohibited as the fee is then considered Riba (interest) over and above what was loaned.
- b. **Those view it as just service fee** considered it permissible, as it's a fee in return for conveying the client's money from his account to the location of withdrawal, as such service will incur expense for the bank.
- c. **The preferred opinion** in our view is that they are two separate cases. **Case 1)** when it's simply a withdrawal of cash from client account, then the service fee is justified and permissible. **Case 2)** when it's a loan, then what is taken in return is prohibited and is Riba (interest).

## Riba FAQ

### Working in Riba-based Banking Institutes

The hadith of Jaabir (ra) who said: "The Messenger of Allah cursed the one who consumes riba (interest or usury), the one who gives it, the one who writes it down and the one who witnesses it. He said: 'All of them are equal in sin.'" [Sahih al- Muslim]

Commenting on this hadith, al-Nawawi said: This is clearly a prohibition of the writing down or witnessing of a contract between the two parties involved in a riba-based deal. It also includes a prohibition of helping others to commit wrong acts.

It is inevitable that working in Bank, an employee will come in contact with recording and witnessing Riba based transaction. And Allah knows best.

**Alternatives:** A good Muslim should try his level best find alternative opportunities to advance his career. If he can't find an alternative job immediately, he should try to move to a department that doesn't deal with Riba directly. If a Muslim has spend time learning Banking Systems, he may find it beneficial to use his skill set to join efforts to bring Islamic Products in Banking Systems, and help advance Shariah compliant banking.

... And whosoever fears Allah and keeps his duty to Him, He will make a way for him to get out (from every difficulty)." [al-Talaaq 65:2]

### Is Riba based on inflation permissible?

If any one borrows some money, following which currency undergoes an economic depression that devalue its currency, the should the amount repaid is a) same as borrows, or b) equivalent value of the loan?.

The quick answer is that it amount repaid should be exactly same as the one borrowed. This is ruling of The Fiqh Academy of OIC declared that “loans should be repaid in the same currency and at the exact same amount that was borrowed, regardless of the fluctuations in the currency markets”<sup>88</sup>

Contemporary scholars argued that “currency” can also be devalued, and what compensation be given for differences in value due to inflation, economic depression, or currency devaluation. i.e. if currency goes through a state of economic depression then should the loan be repaid in revalued currency?. They have varying opinion.

<sup>88</sup> Fiqh Academy of OIC, 5<sup>th</sup> session, 1409 ah/1988 - Contemporary fiqh (AOU)

Some noted that we pay back loan on revalued currency, other disagreed. Majority maintained that “the debts are to be repaid in exactly the same amount as was borrowed”, anything extra will be considered Riba. The exception can be if the currency become of little or no value (e.g. after wars currency usually crashes) debtor should payback a fair equivalent of value<sup>89</sup>. However, there is difference of opinion on this, as the significant decrease in country will affect both debtor and creditor, and to identify what is fair value may not be acceptable to other.

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<sup>89</sup> Contemporary Fiqh, AOU. Page 53.

## Conclusion

- i. Islamic Shariah prohibit Riba in all its form.
- ii. Riba is a tool of oppression that allows elites and rich to suck the block of poor and needy.
- iii. Riba consumer are at war with Allah (swt) and his Messenger Prophet Mohammad (pbuh)
- iv. Linguistically the word Riba (رِبَا) means to increase, to grow, to exceed, to be more.
- v. The basic example of Riba is in monetary credit transaction, where borrower has to pay “interest” on loaned amount.
- vi. In Shariah meaning “Riba” is a term that is used when two parties exchange item of same kind, and in return one party received extra (or in excess) of what he gave. A simple example is when gives 100 units of Gold and received 120 units of Gold in return. The extra or excess 20 units are considered “Riba”.
- vii. Riba is opposite of Charity (Zakat). While it seems to riba-consumer that their money increase with Riba, but in reality money decrease with Riba, and money increase with Charity (Zakat). This is testified by Allah (swt) in Quran. However, a riba-eating brain can not comprehend such noble thought.  
  
2:276 Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever.
- viii. Islamic Shariah promotes Charity and forgiveness. If a needy person can't repay loan, it is considered Kamal (كمال) to forgive his loan.  
  
2:280 And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew.
- ix. Riba cannot be justified by any reason. It is neither like “trade”, nor like “rent”, nor like “profit”. In fact, it's a reward of laziness where lender wants to make money without working.
- x. Prophet (pbuh) prohibited giving Riba, taking Riba, consuming Riba, recording of Riba, and witnessing Riba, and considers them all alike.
- xi. Whoever live in Riba will have his eternal abode in hellfire.  
  
2:275 But whoever returns to [dealing in interest or usury] – those are the companions of the Fire; they will abide eternally therein



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