

Chapter III

Riba in the Qur`an: A Detailed Examination of Relevant Verses

By: Dr. Ahmad Shafaat
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In this chapter we turn to the Qur`anic verses about *riba*. As noted earlier, the Qur`an assumes in the main the pre-Islamic concept of *riba*, which is not identified with interest of every type but with the particular interest charged when a loan cannot be paid at due date except possibly with undue difficulty. In the light of the Qur`an it is possible to make the concept of “undue difficulty” more precise: payment of a loan, in part or in full, is considered to cause undue difficulty to the borrower if after this payment he would become eligible to receive *zakah*. Of course, eligibility for *zakah* itself needs to be made precise. But in view of the obligatory status of *zakah*, we can clearly assume that every Muslim society in every age has worked out a precise definition of this concept (see the Conclusion for one such definition.)

The above conclusion means that interest can be charged on the original loan, unless, of course, the borrower is already in serious financial difficulty at the time the original loan is granted. This would no doubt appear to many as a shocking interpretation but it is not only voiced by other Muslim writers¹ but is also supported by what most *fuqaha* consider to be perfectly permissible: increasing the price of an item in exchange for deferring payment for a specified time. Writers have pointed out differences between charging interest on a loan of money and increasing price of a product for deferment, but these differences are not of any real significance (see Chapter IV).

We now examine the relevant Qur`anic verses to support the above conclusion.

(A)

The Ten Qur`anic Statements about *Riba*

The Qur`an has four passages found in four different surahs in which *riba* is condemned or prohibited. These passages, in probable chronological order, are: 30:39, 4:161, 3:130, 2:275-280 (see Section B where they are reproduced with English translation). Before examining these passages in detail, it needs to be noted that the first passage, 30:39, has been considered by some commentators as not about *riba* as a type of interest. They are of the view that the word *riba* in this verse means a gift offered by someone to a person

with the hope that the latter will give him in return a greater gift. But most commentators have come to hold the view that *riba* in this verse, as elsewhere in the Qur'an refers to a type of interest. In what follows we accept this latter view (see Chapter IV, Section D for a more detailed discussion of this issue), although our main conclusion will remain unchanged if this verse is not considered.

The contents of the four Qur'anic passages mentioned above can be conveniently divided into ten statements about *riba*.

- 1) *Riba* is a type of increase in a loan.
- 2) Taking *riba* is *zulm* on the borrower.
- 3) Depriving the lender of *ra`s al-mal* is *zulm*.
- 4) *Riba* often involved doubling and redoubling of the debt.:
- 5) Charity is an alternative or an opposite to *riba*.
- 6) *Riba* is not like sale.
- 7) *Riba* leads to destruction and *sadaqah* to growth.
- 8) Dealing in *riba* is gaining through the wealth of other people.
- 9) *Riba* was prohibited earlier for the Jews.
- 10) Taking *riba* is a very serious sin.

Let us examine these ten statements in detail.

First, *riba* is a type of increase in a loan.

This is clear from the following verses:

O you who believe! Be mindful of God and give up what remains of *al-riba* if you are believers. If you do not do so, then receive a declaration of war from God and his Messenger. But if you repent, **you shall have your capital sums (*ru`us al-amwal*)**. You do not deal unjustly and you are not dealt with unjustly (2:278-279)

It should be noted, however, that while it is clear from the above verses that *riba* is some type of increase on the capital sum, **they or other Qur'anic verses do not provide basis to say that every increase in the capital sum is *riba*, even if it is pre-determined**. That is, although *riba* is interest, the Qur'an does not provide basis to consider interest in every lending arrangement as *riba*. On the contrary, many of the other statements in the Qur'an about *riba* to be discussed below show that the equation *riba* = interest is not assumed in the Qur'an.

It may also be noted here that there are at least three traditions about the background of the revelation of the verses 2:278-279. Only one of these traditions clarifies the exact concept of *riba* involved and this concept corresponds exactly to what we have proposed here, namely, that *riba* is the increase charged at maturity in case the loan cannot be paid except with undue difficulty. The tradition given by Baghawi reads:

Regarding the word of God: “O believers! Be mindful of God and forego what remains of *riba*”, ‘Aṭa and ‘Ikrimah said that it was revealed concerning al-‘Abbas ibn ‘Abd al-Muṭṭalib and ‘Uthman ibn ‘Affan who bought some dates (not yet harvested). When the time came for harvesting, the owner of the dates said to them: If the two of you took what is owed to you, I would not have enough for my children. So would you take half and delay the delivery of the remaining half and I double it for you? So they acted accordingly and when the agreed time came they asked for the increased amount. This reached the Messenger of God and he prohibited it to them. Then God Most High sent down this *ayah*. So they heard and obeyed and took only the capital amount.

In 2:280 the Qur’an says “if (the debtor) is in time of hardship, then (grant him) respite till time of ease”. The use of “if” here suggests that some debtors may not be in hard times and yet even in their case the increase is being cancelled. But these debtors might have had only the ability to pay the capital sum and not the interest that had been piled up. It should be noted that, as shown by the above tradition about al-‘Abbas ibn ‘Abd al-Muṭṭalib and ‘Uthman ibn ‘Affan, *riba* often involved doubling the debt in case of non-payment, so that payment of capital sum with interest was in many cases much harder than payment of the capital sum alone.

Second, taking *riba* is *zulm* on the borrower.

This is clear from the words, “you do not deal unjustly and you are not dealt with unjustly” in the verse 2:279 quoted above. The statement that taking *riba* is *zulm* clearly fits with the understanding of *riba* proposed in this book, since charging interest on a loan that the borrower has serious difficulty in paying is *zulm* within the Islamic perspective. In that perspective those who are in serious difficulties have a right on the wealth of those who are well off. To deny them this right and then, on top of this, increase their debt by interest is clearly *zulm*. In contrast, the simple definition, *riba* = interest does not allow us to understand how taking *riba* is *zulm*, since there are lending arrangements with interest that clearly do not constitute *zulm* on the borrower; rather they help him to improve his economic situation. Again, an example is a loan to buy a house on mortgage, which, far from being a *zulm* on the borrower, helps him to become a property owner.

Because taking *riba* is a serious case of *zulm*, Qur’an 2:278 cancels all unpaid *riba* accrued before the revelation of that verse. Like the statement that taking *riba* is *zulm*, this cancellation also becomes problematic if *riba* is identified with interest absolutely. For, there is extensive evidence that in Arabia, both before and after Islam, loans were often advanced for trade. It is not clear what were the exact terms under which these loans were granted. If they were granted on a fixed interest and that interest was covered under the definition of *riba*, then in some cases the general Qur’anic cancellation of *riba* would mean that the borrower earned a huge profit – sometimes as much as 100% -- while the lender ended up with nothing. We expect the Qur’an to refine its cancellation of *riba* to differentiate between various cases, especially in view of its concern to avoid *zulm* on both the lender and the borrower. The fact that it does not do so becomes

understandable only if we define *riba* in the limited sense in which it was understood before Islam.

It is significant also that the Qur'an does not condemn or prohibit giving *riba*, but only taking it. This is evidently because a person who takes a loan on *riba* is a victim of *zulm*. He would not get such a loan unless compelled by circumstances to do so. Hence it is not necessary to prohibit giving *riba*. It would be like prohibiting a woman from being raped or prohibiting a man from being robbed.

Unlike the Qur'an, there are some ahadith that do prohibit paying *riba* just as they prohibit taking *riba*. But more than reasonable doubts can be raised about the reliability of these ahadith, on the basis of which we can reject them as falsely attributed to the Holy Prophet (see Chapter IV). These ahadith most probably reflect a later, un-Qur'anic, understanding of *riba*, equating it with interest in all its forms. In this understanding interest becomes an evil in itself regardless of whether or not it causes any *zulm* on the borrower and so giving interest or taking interest or facilitating a deal involving interest are all seen as sinful. But in the Qur'an *riba* is limited to interest that constitutes *zulm* on the borrower, which he is expected to accept only when forced by circumstances to do so. Consequently, the Qur'an does not prohibit giving *riba*, only taking it.

Third, depriving the lender of *ra's al-mal* is *zulm*.

This is clear from the same words in verse 2:279 that make charging *riba* a *zulm* on the borrower. Since many cases of lending involved sale of items on credit, *ra's al-mal* (principal sum) would be naturally the price of the item with any increase added to it for deferment, and not the price for cash sale. By the same token, if the loan was in the form of money, then *ra's al-mal* would be the amount of loan plus any increase for deferment. In other words, *ra's al-mal* is the amount due at the time when loan could not be paid by the borrower for financial difficulties. At that point no increase could be added to the loan.

That depriving the lender *ra's al-mal* is a form of *zulm* is a remarkable statement whose full implications have not been realized by Islamic writers. This statement does not seem to fit well with the view that if a loan is given for use in trading, then the lender must share with the borrower profit as well as loss. For, clearly when both profit as well as loss must be shared, the lender cannot be guaranteed the principal. But the Qur'an without any qualifications guarantees the principal.

Elsewhere in the Qur'an and in the Hadith also we do not find any statement of the principle that profit as well as loss has to be shared in case of a loan for business. Consequently, the Qur'anic guarantee of *ra's al-mal* must be viewed as applicable generally. Those with the common understanding of *riba* say that in the Qur'an *riba* is not qualified in any way and therefore all interest is prohibited. We would say to them: then use your logic consistently. The Qur'an lays no conditions for the return of the principal. So under all loan transactions, the principal remains due.

The general Qur`anic guarantee of *ra`s al-mal* has three possible explanations:

First, in the Qur`an, *ra`s al-mal* refers not to the original amount of the loan but to the amount due at the end of the term. In case of a loan for trade, it equals the original amount plus profit or minus loss. This view, mentioned here only as a theoretical possibility, is never proposed by any scholar and has no support in the Qur`an or in the Arabic understanding of the word *ra`s al-mal*. It should be rejected.

Second, the Qur`an is not talking about loans advanced for trade but only those for purchasing items the borrower needs for his personal use. If we agree with this, then we have to agree that *riba* is not prohibited by the Qur`an for business loans. This possibility is most unlikely, because the Qur`an does not provide any indication at all for excluding loans for business. Moreover, the term *ra`s al-mal* is often applied in the business context. One dictionary², in fact, applies it only in that context, defining it as *jumlah al-mal allati tustathmar fi `aml ma* (the total amount that is invested in some business).

Third, the Qur`an does not accept the principle that in case of a loan for trade, the loss has to be necessarily shared. It is this explanation that is the most reasonable.

The definition of *riba* in the pre-Islamic time assumed in the Qur`an implies that initially two parties in a transaction involving credit can agree on almost any terms that each of them finds advantageous, including a loan for a specified term with interest, provided the borrower is not compelled by serious financial difficulties to get the loan or ask for an extension in the term. It is significant that just after the verses prohibiting *riba* (2:275-281) the Qur`an gives elaborate rules about writing and witnessing agreements about transactions involving credit but does not give any guidance as to the contents of the agreement. This means that the Qur`an is not too concerned about the terms of a transaction, but concerned mostly about ensuring that those terms are clearly understood, remembered, and respected by the parties. This is because these rules for writing and witnessing together with the rule to fulfill agreements and prohibition of *riba* would normally ensure that no party exploits the other.

In order to get an idea of the diversity of arrangements under which business investments can be made without violating the Qur`an, let us consider two simple but very basic ways one party can give *mal* to another for business:

- 1) The parties become partners in the business in the sense that they have joint ownership of the business and both parties contribute something to the business, one of them possibly contributing only labor or skill. And they run it together. In this case, it is natural that the partners share both profit and loss according to some formula, although nowhere the Qur`an and the ahadith say that they have to: if one partner voluntarily agrees to give all the profit to the other while accepting all the loss himself, there is nothing that prevents him from doing so.
- 2) One person (investor) gives to another (*`amil* or active partner) some *mal* with the understanding that it will be used for a business. The investor in

this case has no ownership rights in the business and does not contribute to the running of the business. In this case there are several possibilities, each of which is permissible:

- i) The investor contributes his *mal* as a loan without interest to be returned on demand or after a fixed term without any increase or decrease. The loan in this case is given to help the *'amil* and not for profit. Or, it is given for safekeeping.
- ii) The investor contributes his *mal* as a loan given on interest for a fixed period. We have argued in this book that this is permissible as long as the *'amil* is solvent and freely accepts the loan with full understanding of its terms.
- iii) The investor and the *'amil* share profit/loss according to some mutually agreed upon percentages, which would naturally take into consideration any assets that the *'amil* is contributing such as factory, employees etc. The maximum loss that the investor can incur is naturally the amount of his investment while in case of the *'amil* it is the total assets of his business and all his time and effort.
- iv) In case of a profit the investor and the *'amil* share the profit according to some mutually agreed upon percentage. In case of a loss, the *'amil* bears the loss. The investor's capital is secure. This is really a loan in which interest is replaced by a percentage of the profit. This is permissible because the Qur'an gives a general guarantee of the principal sum.
- v) In case of a profit the investor and the *'amil* share the profit according to some mutually agreed upon percentages. But in case of a loss, the investor bears the loss upto the amount of his investment. The *'amil* does not incur any losses unless the losses exceed the amount advanced by the investor. And, of course, the *'amil* loses part or whole of the time and effort he put into the business. This arrangement is permissible because it falls under the category of *muqaradah* (or *mudarah* or *qirad*)³, which is permissible⁴ even by the agreement of the scholars⁵, although it is hardly mentioned in the Qur'an and the Hadith⁶.

Erosion of the value of money due to inflation

In connection with preventing injustice to the lender there arises the question of erosion of the value of money over time. Even Usmani recognizes the validity of this point:

[This question] is certainly relevant to the individual loans and unpaid debts. There are many cases where the creditors really face hardships, especially where the value of the currency fell to an unimaginable extent, as happened in Turkey, Syria, Lebanon, and in the States of the former Soviet Union. In our country [Pakistan] too, the value of the rupee today is much less than it was before 1970. The question is whether a person who has advanced a sum of Rs.1000/-before

1970 and the debtor did not pay the principal till today is entitled to get the same Rs.1000/-, while this amount has remained not more than Rs.100/- in real terms? ... But we feel that this question needs a more thorough research which before its final decision in this Court should first be initiated by different study circles of the country, especially, by the Council of Islamic Ideology and the Commission for the Islamization of Economy. (185-187)

But while some⁷ scholars recognize the injustice done to the lender due to inflation, not many are willing to recognize the obvious fact that apart from inflation the lender bears a cost in depriving himself for a period the use of the *mal* loaned. Moreover, he also takes a risk of losing a part or whole amount lent either because the borrower may refuse to pay or may not be able to pay. It is only fair to compensate him for this cost whenever possible without causing severe difficulty to the borrower. The definition of *riba* in pre-Islamic times assumed in the Qur'an easily takes care of this without extensive studies by this or that council or commission. The solution is as follows: In a lending arrangement for a specific period the lender decides how much interest he needs to charge in order to cover the erosion of the value of money due to inflation, the cost of depriving himself the use of the money to be lent for the given period, and the risk of whole or part of the loan not being returned for one reason or another. The borrower on his part needs to decide whether the improvement in his economic situation due to the loan justifies the interest. When both parties find the interest rate agreeable, then the loan is advanced. At the due date if the borrower is willing and able to pay the due amount (loan + interest) well and good. If he is able but not willing to pay, then legal action can be taken to recover the due amount plus such additional costs and interest as are within the means of the borrower. If he is not able to pay, then the interest is forgone and the principal is recovered without causing severe difficulties to the borrower. In case the need of the lender is also severe, then the lender and the borrower may come to an agreement together, either on their own or through a court, as to what portion of the loan is to be returned.

Two scholars' rationalization of the assumed prohibition of all interest on business loans

USMANI

Expressing the customary view, Usmani says:

Another major difference between the secular capitalist system and the Islamic principles is that under the former system, loans are purely commercial transactions meant to yield a fixed income to the lenders. Islam, on the other hand, does not recognize loans as income-generating transactions. They are meant only for those lenders who do not intend to earn a worldly return through them. They, instead, lend their money either on humanitarian grounds to achieve a reward in the hereafter, or merely to save their money through a safer hand. So far as investment is concerned, there are several other modes of investment like partnership etc which may be used for that purpose. The transactions of loan are not meant for earning income. (Para 153)

As noted earlier, the principle assumed above by Usmani -- that the only basis for a party to advance money to another for business is sharing both the profit and the loss -- cannot be derived from the Qur'an or ahadith. Therefore, Usmani supports the principle on the basis of some common-sense reasons. Thus he says:

Conversely, if the intent of sharing the profit of the borrower is designed on the basis of an interest-based loan, it will mean that the financier wants to ensure his own profit, while he leaves the profit of the borrower at the mercy of the actual outcome of the business. There may be a situation where the business of the borrower totally fails. In this situation he will not only bear the whole loss of the business, but he also will have to pay interest to the lender, meaning thereby that the profit or interest of the financier is guaranteed at the price of the destructive loss of the borrower, which is obviously a glaring injustice.

On the other hand, if the business of the borrower earns huge profits, the financier should have shared in the profit in reasonable proportion, but in an interest-based system, the profit of the financier is restricted to a fixed rate of return which is governed by the forces of supply and demand of money and not on the actual profits produced on the ground. This rate of interest may be much less than the reasonable proportion a financier might have deserved, had it been a joint venture. In this case the major part of the profit is secured by the borrower, while the financier gets much less than deserved by his input in the business, which is another form of injustice.

Thus, financing a business on the basis of interest creates an unbalanced atmosphere which has the potential of bringing injustice to either of the two parties in different situations. (Para 156-158)

This type of extra-Islamic rationalization is often presented but closer examination shows it to be fallacious. The interest charged on loan given for business need not be considered a way of sharing the profit that one hopes the business would generate. It is charged for exactly the same reason for which the price of an item is increased when the payment is deferred, that is, because the lender takes the risk of losing part or all of his loan, relinquishes the use of his *mal* for a period of time and some erosion of the value of his *mal* is very likely to take place during the term of the loan. If the loan is used by the borrower for business and he makes more than the interest he has to pay, then this is not injustice to the lender. Similarly, it is not injustice to the borrower if he incurs loss or makes a profit less than the interest. We can understand this point better by thinking of another situation considered perfectly permissible even by those who identify *riba* with all forms of interest:

Suppose you want to keep some money for safe keeping with me. I say to you: if you keep this money in trust with me, I will not be responsible for it if something happens to it. Give it to me as a loan without interest and then I will be responsible for returning it to you, even if it gets lost for some reason or the other. You agree with this suggestion for it is obviously better for you. I invest the money in business and return it to you without

increase or decrease when you require it or when a fixed mutually agreed upon term expires. If I make profit I keep it and if I incur loss I have to bear it. All this is considered perfectly legal in traditional *fiqh* and in fact it is reported that some *sahabah* such as al-Zubayr bin ‘Awwam used to do so (Usmani 88 f (ii); Bukhari 4/358=2897⁸, Muwatta 32/1=1195⁹). Therefore, according to traditional *fiqh*, it is not an injustice to you if I make some profit and I do not share that profit with you just as it is not an injustice to me if I incur some loss and you do not share that loss with me.

Now suppose that it is I who want the loan from you to do business while you have no need to deposit with me for safe keeping. Considering the various risks you are taking you tell me that you can lend the money to me at x% interest and considering my business opportunities I am quite hopeful that I will make a profit no less than x%. Just as in the case mentioned above, so also in this case, there is no reason why it will be injustice to you if I made more than x% or injustice to me if I made less than that rate. When two solvent people freely and in full knowledge agree on a transaction involving credit from which both can benefit, it is not injustice if God benefits one more than the other by the transaction. Only if we from the beginning can reasonably expect that one party will get potentially more benefit than the other party does the transaction become unjust. But in this case the parties would not agree, if they are free, and capable of understanding the implications of the transactions. If any of the parties agrees because he is obliged to do so, then part of the interest will become *riba* and is *haram*. This is, for example, the case if a loan cannot be paid except with undue difficulty. In this case the borrower has the potential of sinking deeper and deeper into debt and getting financially ruined while the lender does not face a similar prospect. Also, the borrower is obliged to renew the loan. Hence interest in this situation is *riba* and therefore prohibited.

Usmani further stresses his point by drawing attention to the following situation:

“There may be a situation where the business of the borrower totally fails. In this situation he will not only bear the whole loss of the business, but he also will have to pay interest to the lender”.

But similar situations can arise in transactions that have always been considered permissible in Islam. Take, for example, the case of someone who buys an item on credit with the price increased for deferment of the payment. The buyer could lose the item through accident, theft or some other reason, but he would still be liable to pay the increased price on the due date. As another example consider a *muqaradah* arrangement, in which one person (investor) gives x dollars to another person (*‘amil*) who uses the capital to build a business, say a shop of some kind, without investing anything of his own money. He works day and night, living on his past savings, and putting all the revenue back into the shop. But the business does not produce any profit. After a year or so all the assets are sold. The money from the sale of these assets and all the cash generated by the business add up to almost the same amount as initially invested. Since there was no profit or loss, the investor would get back his x dollars. He, therefore, did not lose much (assuming that the annual inflation rate is low) while the *‘amil* lost a year’s hard work.

Thus for every type of arrangement there can be individual cases in which one party may gain or lose more than the other. This is even true of partnerships in which profit/loss is shared according to the contributions made by the parties. This is because the value of work, skills, and talent contributed by the parties to the joint enterprise are often difficult to measure, a fact that often leads partnerships to end in fights. It is significant that in Islamic banks by far the most preferred form of financing is *murabahah/bay' bi al-thaman al-'ajil*¹⁰, whereby the bank buys for the client an item and resells it to the client on credit for an increased price. In most Islamic banks about 80% of the total funds invested are advanced under such an arrangement, which is really equivalent to a loan with interest. If business loans on interest are on average as unjust to one or both of the parties as Usmani and many other writers claim, then Islamic banks and/or their clients, being free to choose among a number of available financing alternatives, would shy away from *murabahah/bay' bi al-thaman al-'ajil* instead of preferring it so overwhelmingly over other bank products such as *muqaradah* and *musharakah*.

MAWDUDI

A reasoning similar to the one presented by Usmani but from a somewhat different angle is also given by Mawdudi. Commenting on Qur'an 2:275 he says in his *Tafhim*:

In trade, commerce, industry, agriculture etc one has to spend both labor and capital and at the same time one has to face risks, without any guarantee of fixed profit. Let us for the present leave aside the case of the debtor who borrows money for consumption and not for production, and also the issue of the rate of interest. Let us compare the case of the money lender who lends money at a moderate interest for profitable business with the case of those engaged in other kinds of business. They devote their whole time, labor, talent and invest their own capital etc and work day and night so that their business may become profitable by virtue of their own efforts. But even then they are not guaranteed any fixed profit but have to bear all the risks. On the contrary, the money lender, who lends his capital only, goes on receiving a fixed amount of profit without any risk whatsoever. By what reasoning and on what principle of logic, justice and economics is it right for him to receive a fixed amount of profit?

This reasoning ignores the fact that money does not fall from the sky. The money that an investor lends to a businessman might well have been the result of hard work similar to the one in which the borrower is now engaged. The interest is partly a fruit of that past labor. Moreover, the investor provides to the borrower a chance, often more than 50%, for improving his economic condition. This chance, which would not exist without the contribution of the investor, is also worth something and interest is partly a payment for it. Finally, it is not true that the investor takes no risk at all. The very transfer of control to someone else of one's money involves some risk and of course there is an extremely high risk of some erosion of the value of money over time. Interest is also partly a compensation of these risks.

It should also be noted that Islam nowhere teaches that gain should be always based on or be commensurate with effort and labor. If this were so, it would not have permitted inheritance. For, sometimes through inheritance a youth can get a huge amount of wealth without ever doing anything at all to earn it. And what about the owner of rental buildings who has employees to manage them and who receives a large amount of net income [= rent (paid by working people!) minus expenses] while he sits at home?

No doubt in Islam the best money is that which is acquired by the use of one's own labor, skills or talent, but Islam does not teach that money acquired with little or no use of one's effort is intrinsically bad, which is something that Mawdudi seems to be assuming in his comments.

Fourth, *riba* often involved doubling and redoubling of the debt.:

The relevant verse is:

O you who have believed! Devour not *riba*, doubled and redoubled (*ad'afan muda'afah*). Fear God that you may prosper. (3:130)

The question is: What is the significance of the phrase "doubled and redoubled" in this verse? Some have suggested that the phrase restricts the prohibition of *riba* to the case when the interest rate is excessive. They contend that when the rate is moderate, interest is not the prohibited *riba*. Usmani rightly rejects this interpretation. However, his own explanation of the Qur'anic phrase is also unsatisfactory. He says:

"No verse can be interpreted in isolation from the other relevant material available in other parts of the Holy Qur'an. ... The most detailed treatment of the subject of *riba* is found in Surah al-Baqarah These verses include the following command:

"O you who believe! Fear God and give up whatever remains of *riba*, if you are believers." (2:278)

The words "whatever remains of *riba*" in this verse indicate that every amount over and above the principal has to be given up. This point is further clarified in express terms by the following sentence:

"And if you repent (from the practice of *riba*) then you are entitled to get back your principal." (2:278)

These words do not leave any ambiguity in the fact that repentance from the practice of *riba* is not possible unless any amount exceeding the principal is given up and that a lender is entitled only to the principal he has actually advanced. (Para 92- 94)

No one can disagree with the principle stated here that we must take into account all the verses relevant to a topic under consideration. But often there arises the question of which verses should be interpreted in the light of which others. Here Usmani has chosen to interpret the verse using the phrase “doubled and redoubled” (3:130) in the light of the verses commanding the believers to forego “what remains of *riba*” (2:278-279). But we can proceed in the opposite direction and interpret 2:278-279 in the light of 3:130. That is, we can understand *riba* as excessive rate of interest and interpret “what remains of *riba*” as the remaining interest at this excessive rate. Usmani does not provide any justification why 2:278-279 should be given priority, but we can provide a reason why 3:130 should have priority: 3:130 is the foundational verse for the prohibition of *riba* in the Qur’an. Earlier verses (30:39, 4:161) do not formally prohibit *riba* while later verses (2:275-280) provide further instruction as to how to implement the prohibition, telling us that the *riba* that has already been consumed need not be returned (v. 275) while the *riba* that has not been paid must be forgone (278-280). It is reasonable to give priority to the foundational verse 3:130 over those that provide further details.

Regarding the phrase “doubled and redoubled” in 3:130 Usmani also says:

“These words have rather been used to refer to the worst kind of practice of *riba* rampant at that time.” (Para 94)

He elaborates the point by two examples:

A self-evident example of this style of the Holy Qur’an is the verse which says:

وَلَا تَشْتَرُوا بِآيَاتِي ثَمَنًا قَلِيلًا

"Do not sell my *ayat* for a little price." (2:41)

Nobody can take this verse to mean that selling the verses of the Holy Qur’an is prohibited only because the price claimed is very low and that if the verses are sold for a higher price, the practice can be held as permissible. Every person of common sense can easily understand that the words "for a little price" used in this verse are not of restrictive nature. They are rather meant to indicate the evil practice of some people who used to commit the grave sin of selling the verses of the Holy Qur’an and still did not gain much in financial terms. It never means that the blame is directed towards the "little price" they gain; rather the blame is directed to the selling of verses itself. (95-96)

But in the Qur’an the phrase “*thaman qalil*” (little price) may be more meaningful than Usmani allows. In several verses the Qur’an makes it clear that all that this life has to offer is *mata’ qalil* (3:197, 4:77, 9:38, 16:117, 39:8). So in 2:41 the Qur’an may be saying that any price in exchange for God’s signs is “little”.

The second example given by Usmani is:

Similarly, at another place the Holy Qur'an says:

وَلَا تُكْرِهُوا فَتَيَاتِكُمْ عَلَى الْبِغَاءِ إِنْ أَرَدْنَ تَحَصُّنًا

"And do not force your slave girls to prostitution if they want to remain chaste."
(24:33)

Obviously it does not mean that if the girls do not want to remain chaste, one can force them to prostitution. What the verse means is that although the prostitution in itself is a grave sin, yet it becomes all the more evil if a girl is forced to indulge in this profession while she intends to remain chaste. The words "if they want to remain chaste" are not of restrictive nature meant to qualify the prohibition with their desire to remain chaste. These words have been added only to indicate the increased severity of the crime. It is in the same style that the words "doubled or redoubled" have been used with *riba* in the verse of Surah Al 'Imran. They are not intended to qualify the prohibition of *riba* with doubling or redoubling. They are only meant to emphasize the added severity of the sin if the interest charged is so exorbitant or excessive. (97-98)

Yet, the words "if they want to remain chaste" are not simply added to "indicate the increased severity of the crime". They are more meaningful, being connected on the one hand with the command, "do not force", and on the other hand with the promise of forgiveness. The question of "forcing" others to do something only arises when they themselves do not want to do it. The words "if they want to remain chaste" are meant to make this point more explicit. The same words also stress a presumption behind the hope of forgiveness given later in the verse to those slave-girls who are forced. The verse is saying: if the slave-girls themselves want to be chaste and they are forced by their masters to do prostitution, then they will find God forgiving and merciful. But if they themselves want to lead a corrupt life, they would be punishable.

Thus, although in both examples Usmani is correct in saying that the additional words are not of restrictive nature, they in both cases are more meaningful than he allows. The same is true about the phrase "doubled redoubled" in 3:130.

In ancient times, when a loan could not be paid on due date it was usual to double the debt. Recall the case mentioned above in which al-'Abbas ibn 'Abd al-Muttalib and 'Uthman ibn 'Affan paid cash for some dates not yet harvested. When the farmer could not deliver half of the amount of dates at harvest, he asked 'Abbas and 'Uthman to give him more time in exchange for doubling the amount of undelivered dates. That the farmer himself asked for the doubling of the amount shows that in case of non-payment of a debt it was quite usual to charge an interest of 100%. Such an exorbitant rate was not demanded simply out of greed but had an economic reason: if the loan could not be paid, then the risk of extending the time would be extremely high, which required a very high interest rate. What made the lender to grant the extension despite the risk was the possibility of enslavement of the borrower and/or his family.

When the debt was doubled for a man who could not pay even half of that amount, he was likely to be unable to pay the debt when the new due date arrived. At that time his debt will be doubled again, that is, the original debt would be redoubled. This gives the Qur`anic phrase “doubled redoubled”. The phrase is not restrictive in nature in the sense that if the interest rate is moderate *riba* ceases to be *haram*. But it is descriptive in nature in the sense that it says something about *riba* as understood in the Qur`an. It tells us that *riba* often involved doubling and redoubling of the debt, which almost always, if not always, occurred when the borrower could not pay the loan on the due date because of serious financial difficulties, since no one would willingly and knowingly choose to let his debt increase so rapidly. The phrase “doubled and redoubled” thus tells us once again that the *riba* of which the Qur`an talks is the *riba* of pre-Islamic times, i.e., the increase imposed when the loan could not be paid on the due date.

Contrary to what some Muslim writers have suggested, the phrase “doubled redoubled” does not mean that the Qur`an prohibits **compound interest** but not **simple interest**. For, it is easy to see that if we accept simple interest, then we must also accept compound interest. This is because accepting simple interest means accepting the principle that the lender is entitled to some increase. Such an increase, if not paid on the due date is, by the same principle, also subject to some increase just as the principal amount is subject to increase. For example, suppose that A borrows from B \$10000 for a year at an interest of 10%. One year later A owes \$11000 to B. A is able to pay the loan with interest but decides that it is better for him to have the loan extended for another year. One possibility is that A pays B the interest of \$1000 and keeps \$10000 for one more year. In this case, he pays \$11000 at the end of the second year. Another possibility is that A keeps the whole amount (\$11000) for one more year. In this case, it is clear that if charging 10% on 10000 is justified, then it is also justified to charge 10% on the interest of 1000 piled up during the first year. That is, at the end of the second year A should pay a total of $11000 + 11000(0.1) = 12100$. This is compound interest and our argument shows that it is justified if the simple interest is justified..

Fifth, charity is an alternative or an opposite to *riba*.

Two of the passages about *riba* – 30:39 and 2:275-281 -- follow immediately after exhortation to spend in charity. The first actually puts *riba* over against *zakah*:

That which you give for *riba* in order to increase through the property of (other) people, will have no increase with God. But that which you give as charity (*zakah*), seeking the Countenance of God (will increase); it is these who will get a recompense multiplied.

Even if in this verse *riba* is not understood as some type of interest, the contrast between *riba* and *sadaqah* is found in another verse:

God brings *riba* to destruction, but gives increase (*yurbi*) to *sadaqah*. God loves not anyone ungrateful and wicked. (2:276)

Now such contrast between *riba* and *sadaqah/zakah* is perfectly understandable if we bring to mind a man who cannot pay his debt except with great hardship. Such a man needs charity, not doubling of his debt. But if we bring to mind a man who is living in a house bought on mortgage or a businessman who borrowed money on interest to expand his profitable business, then the contrast between *riba* and *sadaqah* is not meaningful. A man who has enough income to pay monthly mortgage payments and who after some years will become owner of a house does not need charity just as a businessman who is generating some profit with the money he has borrowed on interest does not need charity. Only when the house owner or the businessman becomes unable to meet his obligations except with undue difficulty interest will become *riba* and the question of charity as an alternative or contrast will arise.

The fact that the Qur'an considers *sadaqah/zakah* as an alternative to or an opposite of *riba* can be used to more precisely define the meaning of phrases like "undue hardship" or "serious financial difficulty" that we have been using in connection with the definition of *riba*. Thus we can say a person is in "serious financial difficulties" if he or she is eligible for *zakah*. Similarly, payment of a loan may be said to cause "undue hardship" if it will make the borrower eligible for *zakah*. Hence *riba* is interest taken from a person who is eligible for *zakah* or who is likely to become eligible for *zakah* if the interest is charged.

Sixth, (from a moral point of view) *riba* is not like sale.

This is stated in the following verse:

Those who eat *riba* do not stand (*yaqumun*) except as stands one whom Shaytan has thrown by the touch into confusion (*yatakhabbatu*). That is because they say: "Sale is like *riba*". God has permitted sale and forbidden *riba*. Those who receive admonition from their Lord and desist (from taking *riba*) shall have what is past; their case being for God (to judge). But those who repeat (the offence) are companions of the fire. They will abide therein. (2:275)

It is generally thought that the Qur'an here assumes the statement of the *riba* eaters – sale is like *riba* – to be wrong from an economic point of view and as a result some Muslim writers try to show its error using economic arguments, usually very weak. This understanding of the verse has also contributed to the insistence by writers that there is a real distinction between interest and sale of an item with price increased for deferment of the payment. But careful reflection shows that the Qur'an is not objecting to the statement of the *riba* eaters from an economic point of view but from a moral point of view. From an economic point of view it is possible to agree with the *riba* eaters without violating the Qur'an.

It is clear that the *riba* eaters did not say that sale is like *riba* in order to make an economic statement. They did so to draw a moral conclusion: *riba* is justified. And it is this moral conclusion that the Qur'an is rejecting. That is why it does not make any economic observations against the statement. It simply attributes it to the influence of the

Shaytan. Had the Qur'an considered the statement as the result of an erroneous economic thinking, it would have said, as it often says, that "they are a people who do not think or use their reason." The reference to the influence of Shaytan alone as an explanation of the *riba* eaters' statement shows that the Qur'an looks at the statement in terms of the moral categories of good and evil and not from an economic point of view. The Qur'an also sets aside the economic point of view when it later says: God has permitted sale and forbidden *riba*.

It is evident that the moral difference between sale and *riba* is not related to their difference as financial transactions. In other words, their similarity as financial transactions does not mean that they are both comparably justified from a moral point of view. For, we can easily think of two transactions that are very similar in economic terms but very different from a moral point of view. Take, for example, two sales – sale of salt and sale of cocaine. As sales they are at least as similar in economic terms as are sale and *riba*, and yet morally the two are poles apart. One is permissible in any system while the other is almost universally considered immoral.

Thus it is possible to read the verse as agreeing with the statement of the *riba* eaters and objecting only to the moral conclusion they draw from it. This reading of the verse is supported by other instances in which the Qur'an attributes a perfectly true statement to disbelievers and yet condemns them for saying it, no doubt because of the way they use it. Thus in 16:35 we read:

And those who practice say: "If God had so willed, we would not have worshipped anything besides him - neither we nor our fathers, - nor would we have prohibited anything disregarding him." So did those before them. Then do the Messengers have any obligation except clear communication?

Here what the *mushrikun* say is perfectly true, since the Qur'an also states it in 6:107:

Had God willed, they would not have committed *shirk*. We have not made you (O Prophet) watcher over them, nor are you a disposer of their affairs.

Yet despite the fact that the Qur'an agrees with what the *mushrikun* say in 16:35, it is obvious that the Qur'an assumes them to be in error. Clearly their error does not lie in what they are saying but the pervert and frivolous way in which they are using it to justify their practice of *shirk*¹¹. Consequently, the Qur'an does not answer them by a philosophical discussion concerning determinism. It rather addresses the purpose behind the words of the *mushrikun*, which is to keep resisting the message of the Prophet and sticking to *shirk*. Therefore the answer given is that the Messengers are not responsible except to convey the message. If people want to reject that message, the Messengers are not responsible for it.

Similarly, in 2:275 the error of *riba* eaters is not in saying that sale is like *riba* but in the perverted use of this fact to justify their practice of *riba*. Therefore the Qur'an does not enter into any economic arguments but tells the *riba* eaters that they are in the grip of

their evil inclinations and at the same time gives the simple message to anyone willing to pay heed that in moral terms sale and *riba* are poles apart: one is basically good and the other is basically evil.

It is also significant that the Qur'an does not tell us why *riba* is morally evil. In 2:279 it simply assumes that *riba* is *zulm* on the borrower and therefore evil. This means that the Qur'an views the moral evil in *riba* to be obvious. If the *riba* eaters cannot see this, then that is because they have been thrown into moral confusion by the touch of Shaytan.

Now there arises the important question: what kind of understanding of *riba* makes it an obvious moral evil?

If *riba* is identified with interest absolutely, then it is impossible to consider the statement of the *riba* eaters to be false, either from economic or moral point of view. From an economic point of view, there is indeed no difference between sale of an item with price increased for deferment and interest. And there are cases in which it is far from obvious why interest is moral evil. However, if *riba* is identified with the interest charged when the loan cannot be paid, then it becomes obvious that it is a moral evil. To see this let us take an example that was common in ancient times: Consider a farmer with a small piece of land who borrowed some money to buy seed. He planted the seed but the crop failed. The farmer could not fully feed his family much less return the loan with interest. Since the loan could not be paid, it was doubled. In the next season he had to borrow more money for seed. But the crop was not sufficient to pay back most of what he had borrowed along with the interest. Since the interest kept piling up, after a few seasons he lost his land and he became virtual slave of the lender. In this case the price of seed turned out to be man's whole property and his freedom. From an economic point of view, this *riba* may be like sale, but it is clear that from a moral point of view it is evil. This is an extreme case but a similar conclusion would apply for any loan transaction in which only one party has the potential of gaining.

Some of the points mentioned above are also recognized by Usmani. Thus, regarding the statement of the *riba* eaters that "sale is like *riba*", Usmani makes the following comments:

“Their objection was that when we increase the price of commodity in the original transaction of sale because of its being based on deferred payment, it is treated as a valid sale. But when we want to increase the due amount after the maturity date, when the debtor is not able to pay, it is termed as *riba* while the increase in both cases seems to be similar. This objection of the non-believers of Makkah has been specifically mentioned by the famous commentator Ibn Abi Hatim [d. 327] on the authority of Sa‘id ibn Jubayr:

قالوا: سواء علينا إن زدنا في أول البيع، أو عند محل المال فهما سواء فذلك
قوله: قالوا إنما البيع مثل الربوا.

"They used to say that it is all equal whether we increase the price in the beginning of the sale, or we increase it at the time of maturity. Both are equal. It is this objection which has been referred to in the verse by saying 'They say that the sale is very similar to *riba*.'"

The same explanation is given in al-Bahr al-Muhit by Abu Hayyan [d. 745] and several other original commentators of the Holy Qur'an." (51-52)

This explanation of the verse recognizes that *riba* is interest charged at maturity of a loan when it cannot be paid. Usmani also recognizes that the Qur'an does not look at the *riba* eaters' statement from an economic point of view:

[When the disbelievers argue, 'sale is nothing but similar to *riba*', the Holy Qur'an] "could have mentioned the difference between interest and profit in pure logical manner, and could have explained how the profit in a sale is justified while the interest is not. The Holy Qur'an could have also spelled out the evil consequences of *riba* on the economy. But this line of argument was intentionally avoided, and the brief and simple answer given by the Holy Qur'an was: God has allowed the sale and has prohibited *riba*."

But Usmani incorrectly draws from this the following conclusion:

"The hint given in this verse is that the question whether these transactions have an element of injustice is not left to be decided by human reason alone, because the reason of different individuals may come up with different answers and no absolute conclusion of universal application may be arrived at on the basis of pure rational arguments. The correct principle, therefore, is that once a particular transaction is held by Allah to be *haram*, there is no room for disputing it on the basis of pure rational argumentation because Allah's knowledge and wisdom encompasses all those points which are not accessible to ordinary reason. If the human reason was fully competent to reach the correct decision unanimously in each and every issue, no divine revelation would be called for. There is a wide area of human conduct in which the Creator did not give a specific command. It is this area where human reason can well play its role, but it should not be burdened to play the role of a rival to the express divine injunctions.

We find the conclusion expressed in the above quotation incorrect for the following reasons:

First, not all Muslims who reject the absolute identification of *riba* with interest use rational argumentation to dispute what God has made *haram*. Some of them, hopefully including myself, use rational arguments in order to understand the sources of Islam (exactly as the Qur'an invites us to do) and to determine exactly what is it that God has made *haram*.

Second, when the Qur'an says that God has permitted sale and prohibited *riba* this does not mean the prohibition of *riba* is largely beyond human understanding. It is like saying that God sends down rain, which does not mean that falling of rain is largely beyond human understanding. It is true that because of some evil inclinations human beings cannot arrive at the permissibility of all that is beneficial and prohibition of all that is harmful: they will prohibit some beneficial things and permit some harmful things. But once revelation has given expression to what is good and what is bad, human beings can understand it. Thus when the Qur'an strongly condemns the deliberate killing of a Muslim, or adultery, stealing, or cheating or other such acts, we can all understand it. Why is it only the alleged prohibition of every form of interest that we have difficulty in understanding?

Third, as argued above, the reason the Qur'an does not answer the statement of the *riba* eaters by economic observations is that it does not view their statement wrong from an economic point of view. It only condemns their use of it in justifying *riba*.

Fourth, we may also mention, although this is not the strongest reason, some commentators have suggested that the words "God has permitted sale and prohibited *riba*" are a part of the *riba* eaters' statement, that is, they say: "Sale is like *riba* (and yet you say) God has permitted sale and prohibited *riba*."

Seventh, *riba* leads to destruction and *sadaqah* to growth.

This is stated in 2:276 and clearly implied in 30:39. The word used in 2:276 to describe the effect of *riba* is *mahaqa*, which is used in one of its forms for the waning of the moon till it vanishes. The word used to describe the increase given to *sadaqah* is *yurbi*, which is related to *riba*. Likewise, in 30:39 it is said that those who deal in *riba* do not increase (*yarbu*) in the sight of God, whereas those who give *zakah*, they would grow many fold, for which the word used is *mud'ifun*, the same word that is elsewhere used for increasing the debt by doubling or redoubling. Thus the Qur'an is saying that while by practicing *riba* we may appear to grow manifold in wealth and by giving in charity we apparently lose wealth, in reality it is the opposite. We grow manifold with the practice of charity even though we give some of our wealth to others, while we move to destruction with the practice of *riba*, even though we take from other people their wealth.

This principle becomes perfectly understandable if we define *riba* as interest charged when a loan cannot be paid or when one party has the potential of getting worse economically. It is not difficult to see that in this sense *riba* would have harmful effect on the economy of the society. It will create a class of deprived people whose children would not be able to get education and advance in life. (See below for the effects of such

riba on the Jewish society in the past and Chapter V for other similar examples). The spirit of meanness implied in such *riba* would bring the worst from the people creating not only economic problems but also other social problems. As a result the whole society including many of those who practice *riba* will suffer. In contrast a society in which the relatively well-off people help by charity those who are less fortunate will prosper. For, the money given to the poor is not lost but is put back into the economy, making it grow. Also, the spirit of magnanimity implied in charitable actions would bring the best in most people who will contribute positively not only to economy but also in many other ways, making everyone happier and more prosperous, including many of those who gave their money in charity.

But if we identity *riba* with every and any type of interest, then the principle that *riba* leads to destruction is not convincing, since it is clear that some interest-based arrangements do have a positive effect on economy and help in the realization of the Islamic goal of equitable distribution of wealth. Such lending arrangements distribute the wealth more widely and generate economic activity and prosperity. Ordinary workers can become home owners and people with limited capital can build businesses.

The principle that charity leads to growth and *riba* to destruction has a spiritual and supernatural dimension arising from the fact that the avoiding of *riba* and practice of *sadaqah* becomes much easier and much more beneficial if we have a perspective on life that is based on belief in God and the hereafter. There is no doubt that because of the nature of economics, avoiding of *riba* and practice of charity will benefit society as a whole but this benefit may not be reaped by all individuals during their lifetime. It is possible that some of those who practice *riba* may amass a lot of wealth and stay rich for the rest of their life just as some of those who practice *sadaqah* may not have all that they give returned to them manifold. This fact would make it difficult for most people to practice *sadaqah* and avoid *riba* if they do not believe in God and the hereafter.

On the basis of Islamic teachings we can go further and state that spiritual outlook created by the belief in God and the hereafter results in some benefits, even in this world, beyond those created by economic processes. If we simply practice charity and avoid exploitative interest for economic reasons only, then the good effects would be less than if we do so with belief in God and the hereafter. This excess of benefits in this world is how we can understand the concept of *barakah*.

Eighth, dealing in *riba* is gaining through the wealth of other people.

That which you give for *riba* so that it may increase through the property of (other) people, will have no increase with God but that which give as charity (30:39) [See Chapter IV, Section D for the basis for this translation.]

It is understood here that this gain is one-sided, that is, “(other) people” do not gain in a lending arrangement based on *riba*. This is exactly what happens in *riba* as we have defined it. But if we define *riba* as interest in all its forms, then the statement will not be

true generally, since in many lending arrangements with interest, e.g. sale of houses on mortgage “(other) people” also gain as do the lenders.

The idea that *riba* is a gain through the wealth of other people is also present in 4:161.

Ninth, *riba* was prohibited earlier for the Jews.

This is stated clearly in 4:161, where talking about the Jews the Most High says:

And their taking of *riba*, though they were forbidden from it, and their devouring of men’s wealth wrongfully.

Referring to this verse Usmani says:

“Here this practice is termed as *riba* in the same manner as it is termed in Surah Al ‘Imran or Surah al-Baqarah. It means that the practice of *riba* prohibited for Muslims was the same as was prohibited for the Jews.”

This is not quite true. The Qur`an may use a word employed in earlier traditions but give it somewhat different meaning. Thus it tells us that earlier people were enjoined *ṣalah*, *zakah* and *ṣawm* but that does not mean that their forms of *ṣalah*, *zakah* and *ṣawm* are exactly the same as those of Islam. We can say only that the *ṣalah*, *zakah* and *ṣawm* in Islam and in the earlier religions had essentially the same purpose. Similarly, even if the Holy Qur`an uses the same word *riba* to refer to what was prohibited to the Jews, it is more than possible that in some way the *riba* of the Qur`an may be different from the one prohibited in the Jewish scriptures. We can only assume that the two are identical in their essential purpose. This is confirmed when we turn to the Jewish scriptures. We find that the prohibition of usury or interest in the Old Testament is almost always found in the context of protecting the poor from injustice. In Section B we have given all the relevant passages from the Old Testament in full. Let us briefly review them here.

The Hebrew word “neshek” used in the Old Testament for usury is derived from 'nashak' which literally means "bite", almost always of a serpent. In addition, some passages use the words “marbit” or “tarbit” derived from “raba”, meaning “increase”. But these words are used in parallel to “neshek” so that the sense is “usury, a biting increase” an apt reflection of the injustice to the weak and poor that the prohibition of usury is meant to fight. But this concern for injustice does not come through only in the use of the word “neshek”. It is very explicit in most relevant passages in the Old Testament. Thus Exodus 22:25 prohibits usury with explicit reference to the poor:

If you lend money to my people, to the poor among you, you shall not deal with them as a creditor; you shall not exact interest from them.

Likewise Leviticus 25:35-37 talks of interest only to those who fall in difficulty:

If any of your kin fall into difficulty and become dependent on you, you shall support them; they shall live with you as though resident aliens. Do not take interest in advance or otherwise make a profit from them, but fear your God; let them live with you. You shall not lend them your money at interest taken in advance, or provide them food at a profit.

In Deuteronomy 15:1-11 it is commanded that “every seventh year you shall grant a remission of debts.” Then it is said:

There will, however, be no one in need among you ...

An alternative translation of the Hebrew is interesting:

Except when there shall be no poor among you;

That is, the law about remitting debt would be in force until such time as there will be no poor in the community. The connection between the prohibition of usury and poverty is very close here.

In Nehemiah 5:1-13 we find a graphic expression of the conditions that led people to borrow on usury and the effects it had on those who borrowed. The reasons for borrowing were famine and/or paying king’s tax (verses 3-4). Some said, “We are having to pledge our fields, vineyards and houses, that we might buy grain during the famine”. Others said, “We are having to borrow money to pay the kings tribute”. As a result, “we are forcing our sons and daughters to be slaves, and some of our daughters have been ravished; we are powerless and our fields and vineyards now belong to others.” These complaints led Nehemiah to convince the rich and the powerful to stop taking interest and to “restore to them, this very day, their fields, their vineyards, their olive orchards, and their houses, and the interest on money.” (verses 10-11).

In Proverbs 28:8 taking usury is put in opposition to being kind to the poor:

One who augments wealth by exorbitant usury gathers it for another who is kind to the poor.

In Isaiah 58:3 taking usury is put in parallel to oppressing workers:

Look, you serve your own usury on your fast day, and oppress all your workers.

In Ezekiel (18:5-13; 22:6-12) the connection between usury and injustice to the weak and poor is not too direct. But it seems to be implicit:

18:⁵If a man is righteous and does what is lawful and right ... ⁷does not oppress anyone, but restores to the debtor his pledge, commits no robbery, gives his bread to the hungry and covers the naked with a garment, ⁸does not take advance or

accrued interest, withholds his hand from iniquity, executes true justice between contending parties

22:6 The princes of Israel in you, everyone according to his power, have been bent on shedding blood. .. ¹²In you, they take bribes to shed blood; you take both advance interest and accrued interest, and make gain of your neighbors by extortion; and you have forgotten me, says the Lord GOD.

Although the New Testament is not recognized by the Jews, many traditions in the Christian scriptures reveal the understanding of the Jews about their laws, especially around the time of Jesus. In Matthew 25:14-30 = Luke 19:12-23 we have a parable about a man, going on a journey, who summoned his slaves and entrusted his property to them; to one he gave five talents, to another two, to another one, to each according to his ability.” While two of the slaves use the money in trade and make some profit for the master, “the one who had received the one talent went off and dug a hole in the ground and hid his master’s money.” When the master returned from his journey he praised the first two slaves but to the third one he said, “You wicked and lazy slave! You ought to have invested my money with the bankers, and on my return I would have received what was my own with interest.” This parable suggests that the Prophet Jesus and other Jews of his time might not have considered all interest as sinful.

Tenth, taking *riba* is a very serious sin.

Since the Qur`an commands the believers not to eat *riba* (3:130), taking *riba* would be disobedience of God and hence a sin. The following two Qur`anic statements add to the seriousness of the sin of *riba*:

Those who eat *riba* do not stand except as stands one whom Shaytan has by the touch thrown into confusion. (2:275)

O you who believe! Fear God, and give up what remains (due to you) from *riba*, if you are believers. If you do not do it, then take a notice of war from God and his Messenger. (2:278-279)

This seriousness of the sin of taking *riba* is not understandable in case of many lending arrangements with interest. But it is quite understandable in case of interest charged when a borrower cannot pay the loan on due date, especially if we keep in mind some extreme cases to which it can lead.

We have already noted that in ancient times the money lenders could enslave the debtor and/or his family in case the loan could not be paid at the due time. In our times also similar enslavement can take place, although it is not legal any more. Thus in some countries poor families starving for cash are offered a loan on the condition that one of their girls will work to pay off the loan. The work involved is prostitution, of which the family may or may not know. The debt is usually doubled through interest and in most

cases the wages of the girl, always very low, are not sufficient to pay off the debt. As a result she remains a virtual slave of the lending party. According to a report of Asia Watch Women's Rights Project once a girl is inside a brothel, escape is, if at all possible, very dangerous. Most of the girls work 10-14 hours a day, with a typical allowance of \$1.20 a day.

In addition to the debt bondage of women who are used for prostitution, there are other tragic cases of *riba* in our times. Some lenders, called loan sharks, advance loans to people desperate for cash at an exorbitant interest of about 100% per year. For late payment the fee can be as high as 1 to 1.5% per day. When it becomes clear that the debt will not be paid, the debtor is sometimes killed.

When *riba* is understood as interest charged from those who are in serious financial difficulties or are desperate for cash to support some addiction and when we also keep in mind cases like those mentioned above, a saying attributed to the Prophet becomes understandable: taking *riba* is worse than committing adultery with one's mother. But neither such sayings nor the Qur'anic verses become understandable if we think of interest charged for a loan borrowed by a solvent man to buy a property or to expand his business.

Conclusion

We conclude our examination of the Qur'anic verses about *riba* by stating the main rules governing loan transactions that they suggest. This requires defining some terms.

An item/service is considered **necessary** if it belongs to the following categories:

- a) Food, clothes, accommodation, health, and education -- each of average quality according to standards prevalent in one's country -- for oneself and for one's dependents.
- b) Items/services needed for the maintenance or growth of one's business or profession.

A person is **eligible for zakah** if he or she does not have enough income or savings to pay for the necessary items/services described under a).

A person is **solvent** if he/she has enough wealth and/or expected income to meet his/her financial obligations in all of his/her loan transactions, without becoming eligible for *zakah*.

Riba is interest charged when the borrower is no longer solvent.

A loan transaction is **viable for the borrower** if it is realistically expected to increase the marketable assets of the borrower by an amount equal to or greater than the amount of the loan plus any interest. For example, if you borrow money to buy materials and labor for renovating your house, but the expected increase in the value of the house is less than the

amount borrowed plus interest, then this is not a viable transaction. A loan transaction is **viable for the lender** if the interest rate covers the risk of non-payment of the loan and the expected erosion over time of the value of the loan due to inflation.

In the following rules no distinction is made between interest on a loan and increase in the price of an item for deferment of the payment. When one is prohibited, so is the other. And when one is permissible, so is the other.

A) The following are **permissible** when the transaction is freely agreed to by parties, when the parties are solvent, when they or their trusted agents are capable of understanding the transaction in all its implications, and when the transaction does not involve any forbidden act such as buying or selling drugs:

- a) Sale of a necessary item/service with deferred payment, with price increased for deferment.
- b) Loan with interest for the purchase of a necessary item/service.
- c) A business partnership in which investment is without interest and profit/loss as well as ownership of the business is shared.
- d) Loan with interest for use in a business.
- e) Loan for use in a business with no interest and with both the profit and loss shared according to agreed proportions.
- f) Loan for use in a business with no interest. In case of profit, the profit is shared according to agreed proportions, but the loss is not shared by the lender. That is, the principal sum is secure.
- g) Loan for use in a business with no interest. The profit is shared according to agreed proportions, but the loss is not shared by the borrower.

B) The following are **prohibited**:

- 1) Charging interest when the borrower is not solvent or charging interest after the borrower, who was once solvent, has ceased to be so.
- 2) Increasing the price of a necessary item/service for deferment of the payment in case of a person who is not solvent.

C) The following is to be **encouraged**:

Helping a man in financial difficulty either with interest-free loan or with sadaqah. Such help is *fard kifayah* (collective obligation) for the Muslims.

D) The following is to be **discouraged**:

Giving or taking loan with or without interest for the purchase of items/services that are not necessary, unless the transaction is considered viable for the borrower. Similarly, we need to discourage buying or selling on credit items/services that

are not necessary, with or without increase in the price for deferment of payment, unless the transaction is considered viable for the borrower.

This last rule follows from the Qur`anic prohibition of *israf* and from those ahadith that discourage incurring unnecessary debt.

E) **Interest rate.** The Qur`an's prohibition of *riba* proceeds from a deep concern for justice. In *riba* one party in the transaction has the potential of sinking deeper into economic difficulties while the other party has the potential of growing in wealth and power, which is clearly unjust. From the same concern for justice we can derive the following general restriction on the rate of interest: the rate should be such that parties in the loan transaction have approximately the same potential to grow in real economic terms, unless one party willingly and without being constrained by circumstances accepts a markedly lower potential of growth. The prohibition of *riba* can be considered a particular case of this general principle: when the borrower has no potential of growth the interest rate must reduce to 0%.

The potential for growth can be assessed by the parties for the particular loan transaction they are entering into. Or, the parties may use evaluation by economists of the average profit that 100 units of money are expected to generate in a particular economy.

One of the parties may agree to less advantageous interest rate because he does not care or because he feels constrained by some circumstances. In the first case there is no harm. In the latter case, constraining circumstances may be real financial difficulties or some emotional compulsion such as vanity or the need to satisfy some addictions like gambling or drugs etc. In case of compulsion by real financial difficulties any interest knowingly charged over and above the expected potential of growth for the borrower will be tantamount to *riba*. In case of emotional compulsions such as vanity¹², disadvantageous terms are a form of punishment that the party inflicts on himself by accepting those terms. It is sinful to knowingly exploit such emotional compulsions. And in case of addictions any loan transaction is *haram* except when if it is clearly helpful as a step towards cure, e.g., when suddenly depriving the addict of drugs may cause death and gradual deprivation along with punishment and psychological treatment is judged to be the best.

In case of a business investment, one may argue that the best way to ensure that none of the parties has an advantage over another is that they become partners in business and share both profit and loss. But while this is true, we cannot restrict all investment to partnership. For the sake of economic health it is important to give people, as does the Qur`an, maximum freedom to come to arrangements that they find convenient and advantageous and to which they freely and in full knowledge agree. Interest-based investment gives people many more choices and much greater freedom. As noted earlier, when given a choice, both the borrower and the lender would usually prefer interest-based investment over partnership.

Finally, we note that it is permissible for an Islamic government to place such restrictions on the interest rate as are considered beneficial for the people by a majority of experts.

(B)

Relevant Texts from the Qur'an and the Bible

THE QUR'AN

30:38-39

فَآتِ ذَا الْقُرْبَىٰ حَقَّهُ وَالْمِسْكِينَ وَابْنَ السَّبِيلِ ذَلِكَ خَيْرٌ لِلَّذِينَ يُرِيدُونَ وَجْهَ اللَّهِ وَأُولَٰئِكَ هُمُ الْمُفْلِحُونَ ﴿٣٨﴾

وَمَا آتَيْتُم مِّن رِّبَا لِّيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُوا عِنْدَ اللَّهِ
وَمَا آتَيْتُم مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَٰئِكَ هُمُ الْمُضْعِفُونَ

﴿٣٩﴾

So give what is due to kindred, the needy, and the wayfarer. That is best for those who seek the Countenance of God, and it is they who will prosper.

That which you give for *riba* so that it may increase through the property of (other) people, will have no increase with God but that which you give as charity, seeking the Countenance of God, it is those who (do that) will get a recompense multiplied.

4:161

وَأَخْذِهِمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ وَأَكْلِهِمْ أَمْوَالَ النَّاسِ
بِالْبَطْلِ وَأَعْتَدْنَا لِلْكَافِرِينَ مِنْهُمْ عَذَابًا أَلِيمًا ﴿١١١﴾

And their taking of *riba* though they were forbidden from it and their devouring of men's wealth wrongfully. And We have prepared for those among them who reject faith a painful punishment.

3:130

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً
وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ ﴿١٣٠﴾

O you who believe! Devour not usury, doubled and multiplied; but fear God that you may prosper.

2:274-281

الَّذِينَ يُنْفِقُونَ أَمْوَالَهُمْ بِاللَّيْلِ وَالنَّهَارِ سِرًّا وَعَلَانِيَةً فَلَهُمْ أَجْرُهُمْ
عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ ﴿٢٧٤﴾

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 فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ
 إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ ﴿٢٧٥﴾ يَمْحَقُ
 اللَّهُ الرِّبَا وَيُرْبِي الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ ﴿٢٧٦﴾
 إِنَّ الَّذِينَ ءَامَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ وَءَاتَوْا الزَّكَاةَ لَهُمْ
 أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ ﴿٢٧٧﴾ يَتَأَيَّهَا
 الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ
 ﴿٢٧٨﴾ فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتُمْ فَلَكُمْ
 رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ ﴿٢٧٩﴾ وَإِن كَانَ ذُو عُسْرَةٍ
 فَنظِرَةٌ إِلَى مَيْسَرَةٍ وَأَن تَصَدَّقُوا خَيْرٌ لَّكُمْ إِن كُنْتُمْ تَعْلَمُونَ ﴿٢٨٠﴾
 وَاتَّقُوا يَوْمًا تُرْجَعُونَ فِيهِ إِلَى اللَّهِ ثُمَّ تُوَفَّى كُلُّ نَفْسٍ مَّا كَسَبَتْ
 وَهُمْ لَا يُظْلَمُونَ ﴿٢٨١﴾

2:274 Those who spend of their wealth (in charity) by night and by day, in secret and in public, have their reward with their Lord: on them shall be no fear, nor shall they grieve.

275 Those who eat *riba* do not stand except as stands one whom Shaytan has by the touch thrown into confusion. That is because they say: "Sale is like *riba*". God has permitted trade and forbidden *riba*. Those who after receiving admonition from their Lord, desist, shall have what is past; their case being for God (to judge). But those who repeat (the offence) are companions of the fire: They will stay therein.

276 God will destroy *riba*, but will give increase for deeds of charity. God does not like those ungrateful and wicked.

277 Those who believe, and do deeds of righteousness, and establish regular prayer and regular charity, will surely have their reward with their Lord. On them shall be no fear, nor shall they grieve.

278 O you who believe! Fear God, and give up what remains (due to you) from *riba*, if you are believers.

279 If you do not do it, then take a notice of war from God and his Messenger. But if you repent, you shall have your capital sums: Deal not unjustly, and you shall not be dealt with unjustly.

280 And if the debtor is in a difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity, that is best for you if you only knew.

281 And fear the day when you shall be brought back to God. Then every person shall be paid back what he earned, and [people] shall not be dealt with unjustly.

THE OLD TESTAMENT

In the following quotations we have used New Revised Standard Version of the Bible except that the word “interest” has been replaced by “usury” which is more reflective of the Hebrew word “neshek” derived from “nashak”, to bite.

Exodus 22:25 – 27

22:25 If you lend money to my people, to the poor among you, you shall not deal with them as a creditor; you shall not exact usury from them. ²⁶If you take your neighbor’s cloak in pawn, you shall restore it before the sun goes down; ²⁷for it may be your neighbor’s only clothing to use as cover; in what else shall that person sleep? And if your neighbor cries out to me, I will listen, for I am compassionate.

Leviticus 25:35 - 37

25:³⁵ If any of your kin fall into difficulty and become dependent on you, you shall support them; they shall live with you as though resident aliens. ³⁶Do not take usury in advance or otherwise make a profit from them, but fear your God; let them live with you. ³⁷You shall not lend them your money at usury taken in advance, or provide them food at a profit.

Deuteronomy 15: 1-11; 23:19 – 20

15:1 Every seventh year you shall grant a remission of debts. ²And this is the manner of the remission: every creditor shall remit the claim that is held against a neighbor, not exacting it of a neighbor who is a member of the community, because the Lord's remission has been proclaimed. ³Of a foreigner you may exact it, but you must remit your claim on whatever any member of your community owes you. ⁴There will, however, be no one in need among you, because the LORD is sure to bless you in the land that the LORD your God is giving you as a possession to occupy, ⁵if only you will obey the LORD your God by diligently observing this entire commandment that I command you today. ⁶When the LORD your God has blessed you, as he promised you, you will lend to many nations, but you will not borrow; you will rule over many nations, but they will not rule over you. ⁷If there is among you anyone in need, a member of your community in any of your towns within the land that the LORD your God is giving you, do not be hard-hearted or tight-fisted toward your needy neighbor. ⁸You should rather open your hand, willingly lending enough to meet the need, whatever it may be. ⁹Be careful that you do not entertain a mean thought, thinking, "The seventh year, the year of remission, is near," and therefore view your needy neighbor with hostility and give nothing; your neighbor might cry to the LORD against you, and you would incur guilt. ¹⁰Give liberally and be ungrudging when you do so, for on this account the LORD your God will bless you in all your work and in all that you undertake. ¹¹Since there will never cease to be some in need on the earth, I therefore command you, "Open your hand to the poor and needy neighbor in your land."

23:19 You shall not charge usury on loans to another Israelite, usury on money, usury on provisions, usury on anything that is lent. 20 On loans to a foreigner you may charge usury, but on loans to another Israelite you may not charge usury, so that the Lord your God may bless you in all your undertakings in the land that you are about to enter and possess.

Nehemiah 5:1-13

5:1 Now there was a great outcry of the people and of their wives against their Jewish kin. ²For there were those who said, "With our sons and our daughters, we are many; we must get grain, so that we may eat and stay alive." ³There were also those who said, "We are having to pledge our fields, our vineyards, and our houses in order to get grain during the famine." ⁴And there were those who said, "We are having to borrow money on our fields and vineyards to pay the king's tax. ⁵Now our flesh is the same as that of our kindred; our children are the same as their children; and yet we are forcing our sons and daughters to be slaves, and some of our daughters have been ravished; we are powerless, and our fields and vineyards now belong to others."

⁶ I was very angry when I heard their outcry and these complaints. After thinking it over, I brought charges against the nobles and the officials; I said to them, "You

are all taking usury from your own people." And I called a great assembly to deal with them,⁸ and said to them, "As far as we were able, we have bought back our Jewish kindred who had been sold to other nations; but now you are selling your own kin, who must then be bought back by us!" They were silent, and could not find a word to say.⁹ So I said, "The thing that you are doing is not good. Should you not walk in the fear of our God, to prevent the taunts of the nations our enemies?"¹⁰ Moreover I and my brothers and my servants are lending them money and grain. Let us stop this taking of usury.¹¹ Restore to them, this very day, their fields, their vineyards, their olive orchards, and their houses, and the usury on money, grain, wine, and oil that you have been exacting from them."¹² Then they said, "We will restore everything and demand nothing more from them. We will do as you say." And I called the priests, and made them take an oath to do as they had promised.¹³ I also shook out the fold of my garment and said, "So may God shake out everyone from house and from property who does not perform this promise. Thus may they be shaken out and emptied." And all the assembly said, "Amen," and praised the LORD. And the people did as they had promised.

Psalms 15:1, 5

15:1 O LORD, who may abide in your tent? Who may dwell on your holy hill? [Those] ...who do not lend money at usury, and do not take a bribe against the innocent. Those who do these things shall never be moved.

Proverbs 28:8

One who augments wealth by exorbitant usury gathers it for another who is kind to the poor.

Isaiah 58:3

"Why do we fast, but you do not see? Why humble ourselves, but you do not notice?" Look, you serve your own usury on your fast day, and oppress all your workers.

Ezekiel 18:5-13, 16-17; 22:6-12

18:⁵If a man is righteous and does what is lawful and right--⁶if he does not eat upon the mountains or lift up his eyes to the idols of the house of Israel, does not defile his neighbor's wife or approach a woman during her menstrual period,⁷ does not oppress anyone, but restores to the debtor his pledge, commits no robbery, gives his bread to the hungry and covers the naked with a garment,⁸ does not take advance or accrued usury, withholds his hand from iniquity, executes true justice between contending parties,⁹ follows my statutes, and is careful to observe my ordinances, acting faithfully--such a one is righteous; he shall surely live, says the Lord GOD. 10 If he has a son who is violent, a shedder of blood,¹¹ who does

any of these things (though his father does none of them), who eats upon the mountains, defiles his neighbor's wife, ¹²oppresses the poor and needy, commits robbery, does not restore the pledge, lifts up his eyes to the idols, commits abomination, ¹³takes advance or accrued usury; shall he then live? He shall not. He has done all these abominable things; he shall surely die; his blood shall be upon himself. ¹⁴But if this man has a son who sees all the sins that his father has done, considers, and does not do likewise, ¹⁵who does not eat upon the mountains or lift up his eyes to the idols of the house of Israel, does not defile his neighbor's wife, ¹⁶does not wrong anyone, exacts no pledge, commits no robbery, but gives his bread to the hungry and covers the naked with a garment, ¹⁷withholds his hand from iniquity, takes no advance or accrued usury, observes my ordinances, and follows my statutes; he shall not die for his father's iniquity; he shall surely live.

22:6 The princes of Israel in you, everyone according to his power, have been bent on shedding blood. ⁷Father and mother are treated with contempt in you; the alien residing within you suffers extortion; the orphan and the widow are wronged in you. ⁸You have despised my holy things, and profaned my sabbaths. ⁹In you are those who slander to shed blood, those in you who eat upon the mountains, who commit lewdness in your midst. ¹⁰In you they uncover their fathers' nakedness; in you they violate women in their menstrual periods. ¹¹One commits abomination with his neighbor's wife; another lewdly defiles his daughter-in-law; another in you defiles his sister, his father's daughter. ¹²In you, they take bribes to shed blood; you take both advance usury and accrued usury, and make gain of your neighbors by extortion; and you have forgotten me, says the Lord GOD.

NEW TESTAMENT

Matthew 25:14-30

25:14 'For it is as if a man, going on a journey, summoned his slaves and entrusted his property to them; ¹⁵to one he gave five talents, to another two, to another one, to each according to his ability. Then he went away. ¹⁶The one who had received the five talents went off at once and traded with them, and made five more talents. ¹⁷In the same way, the one who had the two talents made two more talents. ¹⁸But the one who had received the one talent went off and dug a hole in the ground and hid his master's money. ¹⁹After a long time the master of those slaves came and settled accounts with them. ²⁰Then the one who had received the five talents came forward, bringing five more talents, saying, "Master, you handed over to me five talents; see, I have made five more talents." ²¹His master said to him, "Well done, good and trustworthy slave; you have been trustworthy in a few things, I will put you in charge of many things; enter into the joy of your master." ²²And the one with the two talents also came forward, saying, "Master, you handed over to me two talents; see, I have made two more talents." ²³His master said to him, "Well done, good and trustworthy slave; you have been trustworthy in a few things, I will put you in charge of many things; enter into the

joy of your master.”²⁴ Then the one who had received the one talent also came forward, saying, “Master, I knew that you were a harsh man, reaping where you did not sow, and gathering where you did not scatter seed;²⁵ so I was afraid, and I went and hid your talent in the ground. Here you have what is yours.”²⁶ But his master replied, “You wicked and lazy slave! You knew, did you, that I reap where I did not sow, and gather where I did not scatter?”²⁷ **Then you ought to have invested my money with the bankers, and on my return I would have received what was my own with interest.**²⁸ So take the talent from him, and give it to the one with the ten talents.²⁹ For to all those who have, more will be given, and they will have an abundance; but from those who have nothing, even what they have will be taken away.³⁰ As for this worthless slave, throw him into the outer darkness, where there will be weeping and gnashing of teeth.”

Luke 19:12-23

19:¹² So he said, ‘A nobleman went to a distant country to get royal power for himself and then return.¹³ He summoned ten of his slaves, and gave them ten pounds, and said to them, “Do business with these until I come back.”¹⁴ But the citizens of his country hated him and sent a delegation after him, saying, “We do not want this man to rule over us.”¹⁵ When he returned, having received royal power, he ordered these slaves, to whom he had given the money, to be summoned so that he might find out what they had gained by trading.¹⁶ The first came forward and said, “Lord, your pound has made ten more pounds.”¹⁷ He said to him, “Well done, good slave! Because you have been trustworthy in a very small thing, take charge of ten cities.”¹⁸ Then the second came, saying, “Lord, your pound has made five pounds.”¹⁹ He said to him, “And you, rule over five cities.”²⁰ Then the other came, saying, “Lord, here is your pound. I wrapped it up in a piece of cloth,²¹ for I was afraid of you, because you are a harsh man; you take what you did not deposit, and reap what you did not sow.”²² He said to him, “I will judge you by your own words, you wicked slave! You knew, did you, that I was a harsh man, taking what I did not deposit and reaping what I did not sow?”²³ **Why then did you not put my money into the bank? Then when I returned, I could have collected it with interest.**²⁴ He said to the bystanders, “Take the pound from him and give it to the one who has ten pounds.”²⁵ (And they said to him, “Lord, he has ten pounds!”)²⁶ “I tell you, to all those who have, more will be given; but from those who have nothing, even what they have will be taken away.²⁷ But as for these enemies of mine who did not want me to be king over them—bring them here and slaughter them in my presence.”

¹ For example, commenting on Qur`an 2:275, Yusuf `Ali says : “Usury is condemned and prohibited in the strongest possible terms. There can be no question about the prohibition. When we come to the definition of Usury there is room for difference of opinion. Hadhrat 'Umar, according to Ibn Kathir, felt some difficulty in the matter, as the Apostle left this world before the details of the question were settled. This was one of the three questions on which he wished he had more light from the Prophet. Our 'Ulama, ancient and modern, have worked out a great body of literature on Usury, based mainly on economic conditions as they existed at the rise of Islam. I

agree with them on the main principles, but respectfully differ from them on the definition of Usury. As this subject is highly controversial, I shall discuss it, not in the Commentary, but on a suitable occasion elsewhere. The definition I would accept would be: undue profit made, not in the way of legitimate trade, out of loans of gold and silver, and necessary articles of food, such as wheat, barley, dates and salt (according to the list mentioned by the Holy Apostle himself). My definition would include profiteering of all kinds, but exclude economic credit, the creature of modern banking and finance."

² Ibrahim Anis and others, *Al-Ma'jam al-Wasit*, al-Qahirah, 1972.

³ Here are some texts defining *muqaradah*:

"Malik related to me from al-'Ala` ibn 'Abd al-Rahman from his father from his grandfather that 'Uthman bin 'Affan gave him some money as *qirad* to work with on the condition that the profit would be divided among them." (Muwatta 32/2 = 1196)

Mudarabah or *Qirad* is: "to give somebody out of your capital a part to trade in with the condition that the profit is shared equally by both of you , or a determined share of the profit is allocated to him ... The active partner is called *darib* as he is the one who travels and trades. One can call the investor as well as the active partner *mudarib* or *muqarid* as both share the profit between them." (Ibn Hazm, *al-Muhalla*)

The term *mudarabah* is derived from "*darb* on earth" [Qur`an]. It has been so named because *mudarib* (user of the loaned funds) is entitled to a share in the profit on account of his effort and work. He thus shares in the profit and uses capital in trade (*darb* on earth) according to his discretion. People of Madinah call this contract *muqaradah* and that is according to what is reported from 'Uthman ibn 'Affan who advanced to a man an amount as *muqaradah* [Muwatta 32/2=1196, quoted above]. This is derived from the word *qard*, meaning "severing" (*qat*): the owner of capital severs a portion of his capital from his use and puts it under the use of the *'amil* (one engaged in commercial activity). (Sarakhsi, *al-Mabsut*)

[Muslims agree on the definition of *qirad*] that a person gives capital to a person for use in trade with a specified portion of the profit taken by the *'amil*, any portion on which the two had agreed be it one-third, one-fourth or half." (Muhammad Ahmad bin Rusd al-Qurtubi, *Bidayat al-Mujtahid wa Nihayat al-Muqtasid*)

It is interesting that all these texts talk only of sharing profit and say nothing of sharing loss. This could be for one or both of the following two reasons: a) *Muqaradah* was generally used for buying and selling under conditions that made some profit fairly certain. b) The terms of *muqaradah* were originally variable, not always stipulating the sharing of the loss.

⁴ It is very likely that *qirad* or *muqaradah* was practiced before Islam, not only in Arabia, but also elsewhere. We do not know the exact conditions that governed it, which probably means that the conditions were variable and depended on the parties. It is also very likely that the Holy Prophet knew about *muqaradah* and the fact that nothing against it has been reported from him shows that he approved it.

⁵ "There is no difference of opinion among Muslims about the legality of *qirad*. It was found in *jahiliyyah* and confirmed by Islam." (Muhammad Ahmad bin Rushd al-Qurtubi, *Bidayat al-Mujtahid wa Nihayat al-Muqtasid*).

Although scholars agree on the permissibility of *qirad* or *muqaradah*, they have imposed different conditions under which it is to be practiced. Thus most of them say that the investment must be in the form of cash money. According to most, even investment in the form of unminted gold and silver is not allowed, while some Hanbali and Maliki scholars allow investment in the form of any goods when their price is well determined. There is also difference of view as to whether the *'amil* can also contribute capital. Much more agreement, if not a complete consensus is found on the condition that the investment must be disposable at the time of transaction. One cannot, for example, invest money or goods one is expecting from somewhere at a future time or even designate as his investment a debt that the *'amil* owes to him, unless the debt is first paid. There is also consensus on that the *'amil* must have complete freedom as to how to use the capital invested, except that Shafi'ites allow the investor to determine the type of business for which the *'amil* may use the investment. Scholars also agree almost universally that the duration of *muqaradah* must not be limited in advance. Each party can terminate the arrangement at any time by providing a notice to the other. Finally, some scholars restrict *muqaradah* to buying and selling and do not allow the *'amil* to use the capital for manufacturing.

In the absence of any clear verbal instruction of the Prophet about *muqaradah*, the above rules formulated by our past *fuqaha* have no binding force. In my view the absence from the Qur`an and authentic ahadith of any restrictions on the terms of a transaction involving credit beyond that they should be written, well understood, respected and not involve *riba* or deal in *haram* things is more significant than the actual way *muqaradah* was practiced in the time of the Prophet. This absence means that God and his Messenger want to give the parties maximum flexibility as to what type of business associations and partnerships they want to form.

⁶ There is only one hadith that refers to *muqaradah*:

Al-Hasan bin 'Ali al-Khallal related to us: Bishr bin Thabit al-Bazzar related to us: Naṣr bin al-Qasim related to us from 'Abd al-Raḥim bin Da`ud from Salih bin Suhayb from his father who said: The Messenger of God said: "Three things have blessing: sale (with payment deferred) to a term, *al-muqaradah*, and mixing wheat and barley for home (use) but not for sale." (Ibn Majah 2280)

But the *isnad* of this hadith is weak. Concerning three narrators in the *isnad* nothing positive has been said by anyone. About Naṣr bin al-Qaṣim, Bukhari said that his hadith is fabricated; about `Abd al-Raḥim bin Da`ud, al-`Uqayli said that his hadith is *ghayr maḥfuz*; and Ṣalih bin Suhayb is *majhul* (unknown). In any case, the hadith does not tell us anything about *muqaradah* other than that the Prophet approved it, a fact not in doubt. The hadith says nothing about the necessity of sharing both profit and loss and imposes no other conditions for *muqaradah* to satisfy.

⁷ It has been suggested by some others that in an interest-free economy there will be no inflation in the long run. This is doubtful. Inflation can be the result of many factors including the natural and permissible tendency among traders to increase their profits.

⁸ This tradition is about al-Zubayr bin `Awwam who died with a huge debt and a lot of real estate. Bukhari reports: "The source of the debt that al-Zubayr owed was that if somebody brought some money to deposit with him, he would say, "No, (I won't keep it as a trust), but I take it as a debt, for I am afraid it might be lost." It is understood that al-Zubayr invested this money in real estate and possibly other businesses.

⁹ This tradition reads:

Malik related to me from Zayd ibn Aslam that his father said: `Abd Allah and `Ubayd Allah, the sons of `Umar ibn al-Khattab went out with the army to Iraq. On the way home, they passed by Abu Musa al-Ash`ari who was the *amir* of Baṣrah. He greeted them and made them welcome, and told them that if there was anything he could do to help them, he would do it. Then he said, "There is some of the property of Allah which I want to send to the *amir al-mu`minin*, so I will lend it to you, and you can buy goods from Iraq and sell them in Madinah. Then give the principal to the *amir al-mu`minin*, and you keep the profit." They said that they would like to do it, and so he gave them the money and wrote to `Umar ibn al-Khattab to take the money from them. When they came to sell they made a profit, and when they paid the principal to `Umar he asked, "Did he lend to everyone in the army the like of what he lent to you?" They said, "No." `Umar ibn al-Khattab said, "He made you the loan, because you are the sons of the *amir al-mu`minin*, so pay the principal and the profit." `Abd Allah was silent. `Ubayd Allah said: "You do not need to do this, *amir al-mu`minin*. Had the principal decreased or been destroyed, we would have guaranteed it." `Umar said: "Pay it." `Abd Allah was silent, and `Ubayd Allah repeated it. A man who was sitting with `Umar said, "*Amir al-mu`minin*, better that you make it a *qirad*." `Umar said, "I have made it *qirad*." `Umar then took the principal and half of the profit, and `Abd Allah and `Ubayd Allah, the sons of `Umar ibn al-Khattab took the other half."

In this tradition Sayyidna `Umar does not object to taking a loan, investing it in business, and keeping the whole profit and returning the principal to the lender. His objection was only based on the possibility of favoritism in the granting of the loan.

¹⁰ *Murabahah* and *bay' bi al-thaman al-'ajil* are essentially sales on credit with price increased for deferment of payment. In the context of Islamic banking *murabahah* is considered a short term financing. The customer asks the bank to provide financing to purchase stock and inventories, spares and replacements, or semi-finished goods and raw materials. The bank will buy the items and subsequently sell them to the customer at its purchase price plus a profit margin. The customer pays this increased price after a few months in lump sum..

Bay' bi al-thaman al-'ajil is used particularly in Malaysia for financing the acquisition of assets and the payment is usually done, possibly by instalments, over a longer period compared to *murabahah*. It has been utilized by the banks to provide the customers medium and long term financing to acquire items which may include landed property, houses, motor vehicles, furniture, stock and shares, etc.

¹¹ If we examine the statement of the *mushrikun* in a serious way, we will find that it applies determinism (the belief that everything without exception happens according to the will of God) selectively. The *mushrikun* do not see or do not want to see that God may not have only willed that they would do *shirk* but also that they will as a consequence of their *shirk* abide in hell for ever. And they also do not see that God may have willed that they will do *shirk* for a certain period of time and then with the coming of the Prophet they will repent from it.

¹² Vanity may, for example, make some people buy unnecessary items/services only to impress others with credit cards, paying very high interest rate.