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## Riba and Real Economy

### Introduction:

Riba, like any unlawful action of wealth acquisition such as Gharar (uncertainty), and Maysir (gambling), is a prohibited transaction.

Riba literally means increase, addition, expansion or growth. In the Shariah, however, the term Riba refers to anything in excess of the principal in a loan that must be paid by the borrower to the lender along with the principal as a condition of the loan or for an extension in its maturity. Riba has the same meaning and import as the contemporary concept of interest. Riba is prohibited by consensus of all scholars "Ulama" as stated clearly in the explicit verses in the Quran: "And for their taking interest even though it was forbidden for them, and their wrongful appropriation of other peoples' property. We have prepared for those among them who reject faith a grievous punishment" (Surah al-Nisa', verse 161)

"Believers! Do not swallow riba, doubled and redoubled, and be mindful of Allah so that you may attain true success" ( Surah Al Imran, Verse 130)

"Those who take riba will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: Trading is but like riba. So, whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. There they remain forever. Allah destroys riba and nourishes charities. And Allah does not like any sinful disbeliever. Surely, those who believe and do good deeds, establish Salah and Zakat have their reward with their Lord, and there is no fear for them, nor shall they grieve. O those who believe fear Allah and give up what still remains of the riba if you are believers. But if you don not, then listen to the declaration of war from Allah and His Messenger. And if you repent, yours is your principal. Neither you wrong, nor be wronged. And if there be one in misery, then deferment till ease. And that you leave it as alms is far better for you, if you really know. And be fearful of a day when you shall be returned to Allah, then everybody shall be paid, in full, what he has earned. And they shall not be wronged" (Surah Al Baqarah, Verses 274-281).

The prohibition of riba is not limited to Islam, but is shared among the two other main religions: Judaism and Christianity. Qur'an mentioned that Riba was prohibited by Jews "And for their taking interest even though it was forbidden for them". Some of the old testaments have

rendered riba as haram also for Christians (See Exodus 22:25, Leviticus 25:35-36, Deuteronomy 23:20, Psalms 15:5, Proverbs 28:8)

Islam has stressed upon the prohibition of riba and urged Muslims to keep away from dealing with usury and accepting the money that emanates from it. It threatened those who deal in usury with a war from Allah and His Messenger (PBUH). The Prophet Mohamed cursed he who "consumes riba, he who pays riba and he who witnesses riba". Thus, Islamic financial transactions are based on keeping away from the different types and forms of riba as well as other unlawful means of wealth acquisition.

Shariah recognizes two forms of riba: riba Al nasi'ah and Riba al-Buyu'.

Al nasi'ah literally means postponement and delaying. Riba Al nasi'ah is the increase in the due amount in return for postponement. It relates to loan contracts and debts and it is the kind of riba common in the markets and spread in our modern times like wildfire. It is also called riba al jahiliyah (ante-Islamic era), the plain riba and the riba of Al Qur'an because it is strictly and explicitly forbidden in the texts of the Qur'an. Riba Al nasi'ah is divided into two types: riba of loans (Riba Ad-duyun) and riba of debts (Riba Al-qurudh).

Riba Ad-duyun is a conditional increase in the amount of money imposed by the creditor on the debtor in return for the postponement of the debt after it becomes due; at the postponement of payment (debt rescheduling); whether the original debt relates to a sale transaction or a loan or to both of them.

Riba Al-qurudh is a conditional increase at the beginning of the loan (a loan that brings a benefit) required by the lender from the borrower, whether the increase is at a fixed amount or variable according to the amount (as it is known today by the interest on loan). It is unanimously forbidden by scholars because the principle of a loan is to be repaid in the same amount and any increase to that amount shall be considered as unlawful gain.

Riba al-Buyu' is the second form of riba that results from the exchange of certain kinds of moneys or goods. It relates to the transactions of change (Sarf) and to the contracts of bartering of goods. These moneys and goods are divided into two types:

- An-Nuqud (Moneys) such as Gold and silver and the like such as currencies in our modern times.
- The Foods stated in the Prophet's Hadiths such as wheat, barley, dates, salt ... and any other similar foods. There are rules for the exchange between these moneys.

If the exchanged goods are similar such as gold for gold, dates for dates or barley for barley... or dollars for dollars, this necessitates two conditions: they should be similar in amount and be delivered immediately (hand in hand and equal in value and amount)

If the exchanged goods are of proximate nature like gold for silver, barley for wheat, and riyals for dinars, they can be of different amounts relative to their respective values, however; they have to be exchanged immediately (hand in hand).

If the exchanged goods are different such as gold for barley or dollars for wheat ..., there are no limitations in this case and the matter shall be subject to the general rules of sale, whether to be delivered immediately or later.

However, it is forbidden to postpone the delivery of both goods together and the transaction cannot be valid if the delivery of the goods sold and the price are postponed. In this way it can be understood that riba al-Buyu' can be itself divided into two kinds: Riba al-Fadhl (increase in the amount without delay in delivery) and Riba al-nasa' (postponement of delivery without increase in the amount).

Riba prohibition and how it encourages real investment

The essence of Riba is exploitation of the needy, which emphasizes the inequality and widens the gap between the rich, who exploit and remain rich, and the needy that are exploited and remain poor. Such a fact affects negatively the wheel of the economy and does not foster investment.

Money is a unit of measure and shall remain so by neutralizing it and not using it as a commodity. This is mainly the cause of many world financial crises. It is stated that the real global wealth equals 60 trillion USD, according to a report issued by CIBAFI (The General Council for Islamic Banks and Financial Institutions). However, the traded wealth in circulation in the world economy is ten times the real wealth which equals 600 trillion USD. This phenomenon is due to debt sale and transfer, and riba.

It shall be noted that benevolent loan or Qard -Hassan whereby the lender does not charge any interest or additional amount over the money lent is permissible and highly rewarded even more than Sadaqah charity. It is considered as Sadaqah and is a way of growing one's wealth through Al Baraka (blessings) of God: "ALLAH Will Deprive usury from all blessings and He Will Give increase for the deeds of charity, and ALLAH Does not Love every ungrateful wicked." (Surat Al Baqara, verse 276)

So, transactions based on interest only violate the equity of a business and result in loss of productive potential for the whole society as well as causing unemployment for many people. Therefore, as stated above, only through PLS sharing contracts shall such equity be guaranteed.

The economy is highly affected by a riba-based system. Riba discourages innovation in small businesses. Borrowers become more preoccupied on how and when to pay back the loan plus the interest more than how to grow their business.

Conclusion

Islam suggests partnership either in profit such as in Mudarabah, or in profit and loss sharing such as in Musharaka instead of dealing with interest. Partnership increases loyalty and fosters real investment in the economy. Saving Surplus Units (SSUs) enter into partnerships with Savings Deficit Units (SDUs) in the society (one with capital and the other with work and labor) and this is a good warrant for fair circulation and distribution of wealth. This emphasizes the fiqh maxim in Islam "profit accompanies liability for loss" Al Ghunm Bilghurm.

Thus, Islam provides a good alternate whole financial interest-free system that encourages the earning of profits and forbids the charging of interest. Profit in Islam is acquired through trade, partnerships and successful entrepreneurship. Additional wealth is created through the utilization of productive assets, whereas interest is deemed as a cost accrued irrespective of the outcome of business operations which may not create wealth if there are business losses. Riba causes social injustice and widens the social class gap and destroys the economy.

In fact, prohibition of riba in the economy encourages real investment. Riba blocks any prosperity, emphasizes social injustice and deepens the unfair distribution of wealth. "That which you give as interest to increase the peoples' wealth increases not with God; but that which you give in charity, seeking the goodwill of God, multiplies manifold." (Surah Rome, Verse 39).

