

## **AN OVERVIEW OF THE PROHIBITION OF INTEREST: ALTERNATIVE APPROACH IN ISLAMIC ECONOMY**

**BY**

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### ***Abstract***

*Riba (Interest) has been one of the worst instruments of human exploitation in the history of mankind, the paper is conceptual research that affects every sector in the economy and jeopardizes the socioeconomic well-being of the citizens. It contains the introduction, literature, summary conclusion and policy implication. Interest {Riba} outrightly and unambiguously forbidden in all the three major biblical religions. Islam as the last among them, has not only prohibited interest in all its ramifications, but further trudges to suggest certain alternative mode of finance that can be used as a perfect replacement to {Riba} based transactions. The main aim of this paper therefore, is to explain the concept of {Riba} in Islam and give a detail account of the stock of alternative modes finance used in Islamic economy.*

### **1.0 Introduction**

Riba is an Arabic word which literally means increase, additions, expansion or growth. In Islamic Sharia Riba technically refers to the premium that must be paid by the borrower to the lender along with the principal amount as a condition of the loan or for an extension in its maturity. In this sense, Riba has the same meaning and impart as interest in accordance with the consensus of the Fuqaha (Islamic jurists) without any exception. The term Riba is however used in Sharia in two senses. That is Riba-al-Nasiah and is Riba-al-Fadl.

The term Nasiah is an Arabic word meaning to postpone, defer or wait. It technically refers to the time that is allowed for the borrower to repay the loan in return for the addition or premium. Hence Riba-al-Nasiah refers to the interest on loans. It is in this sense that the term Riba has been used in the Quran in the verse "God has forbidden interest" Q2:275.

The prohibition of Riba al-Nasiah implies that the fixing in advance of a positive rate of return on a loan as a reward of waiting is not permitted by the Sharia. It makes no difference amount to be paid in advance or no maturity or a gift or service to be received as condition for the loan the point in question is the predetermined positive rate of return.

Riba al - Fadl is the second sense in which Riba has been used and encouraged in hand to hand purchase and sale of commodities. It covers all spot transactions involving cash payment on the hand and immediate delivery of the commodity on the other hand. The discussion of Riba Al Fadl has arisen from a Hadith requiring that if gold, silver, wheat, barley dates and salt, are exchanged against themselves they should be exchanged spot and be equal alike. Of the six commodities specified in the Hadith about Riba al - Fadl two unmistakably represent commodity money where as the remaining four represent staple food items. ON the basis of the characteristics of gold and silver as commodity money, it has been generally concluded that all commodity used as money enter the sweep of Riba Al Fadl.

Transaction in *Riba* is not a new phenomenon in human society, from the ancient time it remained a very detestable socio-economic practice, this is because it negates the actual fundamental of justice and fair dealing. The famous Greek philosopher, Plato(482-347bc) condemned *Riba* as a naked perpetration of injustice. His discipline, Aristotle (384-322) as well explained that no piece of money can lawfully beget another piece unless it goes into investment. Similarly, in its early epochs, the roman empire declared *riba* as an abominable act. It was only during the capitalistic period the roman government relaxed the outright prohibition of *riba* to a certain "manageable" level, a ruling that remained with early Mercantilists.

The *riba based transaction* has been ethically unacceptable in Islam. See Qur'an Chapter 2: Verses 275: "Those who eat *Ribâ* (usury) will not stand (on the Day of Resurrection) except like the standing of a person beaten by *Shaitân* (Satan) leading him to insanity. That is because they say: "Trading is only like *Ribâ*(usury)," whereas Allâh has permitted trading and forbidden *Ribâ* (usury). So, whosoever receives an admonition from his Lord and stops eating *Ribâ* (usury) shall not be punished for the past; his case is for Allah (to judge); but whoever returns [to *Ribâ* (usury)], such are the dwellers of the Fire - they will abide therein." Allâh will destroy *Ribâ* (usury) and

will give increase for *Sadaqât* (deeds of charity, alms, etc.) And Allah likes not the disbelievers, sinners."2: 276.

Prior to the advent of Islam, none of the revealed religions was prevalent in the Arabian Peninsula. The Arabs, therefore, were not mindful of the anti-social effect of *riba*, during the period of ignorance (*Jahiliyya period*) were so much involved in *riba* based transaction as Imam Malik {d 119 AH} explained in his *Muwatta'*.

In the *jahiliyya*, *riba* was that when a person gave loan for a specified period and that period expired, the creditor would as the debtor weather he would return the debt or increase the amount if he made the payment it will be accepted, otherwise the amount of the loan would be increased and the debtor allowed an extension, *Muwatta* {ch 31 No 83}

## 2. Literature Review

### 2.0 Prohibition of Interest

Allah the highest, emphatically expressed His disapproval to *Riba* based transaction of any kind, through whatever means. Some of these verses are: "Verily those who consume *Riba* will not resurrect except as he who resurrect but has been driven to madness by the touch of *Satan*. That is because they say "Trade is like *Riba*, but Allah has permitted trade and forbidden *Riba*..... Allah will deprive *Riba* of all blessing (Q 2:175-176)'

Allah said "You who believe fear Allah, and give up what remains of your demand for *riba*, if you are indeed believer, and if you do not, then take notice of war from Allah and his messenger, but if you turn back, you should have your capital sum, deal not unjustified, and you shall not be dealt with unjustified. If the debtor is in difficulty, grant him time till it is easy for him to repay, but if you remit by way of charity, that is best for you if only you know" (Q2: 278-280). Allah said "O you who believe devour not *riba*, doubled and multiplied, and fear Allah so that you prosper"(Q 3: 130).

Moreover, the holy messenger {*saw.*} further emphasized this prohibition when he said "Allah has cursed a person that consumes *riba* supplies it, record it, or bears

witness on it" (Sahih Muslim 1598). He also said: "Riba has seventy-three doors of crime, the simplest of which is like a man having sexual intercourse with his mother" (Sunnan Ibn Majah 2274)

## **2.1 Wisdom Behind the Prohibition of Interest**

According to al- Qardawi {1980} *riba* is prohibited to abolish many socio -economic evil in the human society, such as the following:

- I. Stagnation of nation's economy, certainly, a usury- thirsty capitalist who disburses loan prefer to remain productively dormant and economically inactive provided he is guaranteed of a continuous growth of his capital without having ventured into any strenuous energy consuming enterprises like Agriculture, business or manufacturing activities. Undoubtedly, any nation that hold-off investment from economic enhancing ventures, such a country is heading towards an un imaginable crisis.
- II. Interest itself is never assisting production, the higher the rate of interest, the more reluctant firms and businessmen would be to collect loans for investment purposes, because it is expensive. In this situation, structural unemployment and cost push inflation will set in, and thus investment decreases.
- III. Widening avenues of socio-economic injustice in human societies. This is because the well-to-do are blankly sucking the financial blood of the poor unabated under the cover of lawful transaction, like loan, trade and exchange commodities and currencies. Indeed, *sharia* prohibits violating the sanctity of man's life, honor and wealth unjustly.
- IV. Incessant mercilessness and exploitation of the weaker segment of human society, invariably, economic hardship and demand for the essentials of life are the major causative factor of resorting to collecting loans, and embarking on purchasing goods. The capitalist and businessmen, at whose mercy the poor are living, are supposed to shower their benevolence to them, in a bid to alleviate their suffering and hardship, rather than to squeeze them further into more difficulties.

- V. Unfair restriction of nation's property into the hands of few self-centered elements at the expenses of the greater majority of the populace. In fact, one of the evils of *Riba* is to ensure continues concentration of wealth in a few hands, a situation vehemently opposed by the Islamic social security system. Hence, the institution of zakat and inheritance, (*Mirath*) in the Qur'an as part of the obligatory financial duties to be discharged in every Muslim society, as well as philanthropic activities, such as *Sadaqat* (charity) and Waqf (endowment). All these are aimed at maintaining a fair and equitable distribution of wealth amongst the less privilege.

## 2.2 Mode of Finance and their Role in Reducing Poverty.

**BA'I:** Literally means sale, it refers to a process of exchanging variable items between two parties. It signifies a formal contract affecting the exchange of legal valuable commodities base on mutual agreement between the contracting parties (Al- jazari 2004). This is one of the most important economic transactions emphatically encouraged by the glorious Qur'an and the noble sunnah and general consensus of the ulama' the *Ijma'I*. Allah says; "O you who believe do not eat your properties among yourselves in vanities, but let there be amongst you a business dealing" contracted out of mutual agreement from you (Q 4: 29). The holy prophet (saw) was also reported to have said; "in the day of judgement, a truthful, honest businessmen are with prophet, the foremost believers, the martyrs and Righteous" (*Jami'at Timidhi* vol 12, no 4). In fact, all companions of the prophet were reported to have developed strong interest in one type of business or the other, many of whom were famous traders (*Afzal- ur Rahaman,*) 1980). Islam teaches self-dependence through all lawful means and reject laziness, idleness and unnecessary dependance on other for livelihood. The holy Qur'an; said "And struggle to attain by means of what Allah has given you, the above of the hereafter but neglect not your share in this world, and do good to others as Allah has done good to you, and seek not to make mischief in the world. Surely, Allah loves not mischief makers {Q 28;77}

The holy prophet (s,a,w) further explained, thus " Work to attain the worldly affluence as if you are living in it forever and work for the attainment of the endless

bliss of the hereafter as if you are sure of dying tomorrow. (reported by ibn *asakar* in *al hashimi's* (Nd) Mukhtar al- *Ahadeeth al Nabawiyyah*).

The holy prophet {s.a.w} specifically emphasized the significance of *sharikah* in a Hadeeth *qudsee* Saying: "Allah the highest, says 'I am the third of the two partners involved *sharikah* so long as they do not cheat other, and if they do I get out of their company,'" (*sunnan Abudawud* 3383). From the light of these noble statements, it is clearly understood that for *sharikah* to be blessed and prosperous as a team work its stakeholder most demonstrate the sense of sincerity, piety, accountability and transparency. Similarly, a Hadith was reported as "Traders are criminals! He was asked? O messenger of Allah is trading not permitted by Allah? He responded: ofcourse it is permitted but they swear unnecessarily and also offer false description" (*musnad ibn Hanbal*).

**Musharakah: (Partnership) *sharikah*** is a profit and loss sharing partnership consisting two or more person who join together under a mutual agreement to invest their collective capital in a profitable business, thereby sharing the acquired profit, incurred loss amongst themselves in proportion to their respective shares in the capital. (*Aleeshn.d*). *Sharikah* is one of the cooperative ventures that are strongly encouraged by the Almighty Allah in many Qur'anic verses, such as where he says: "....." And assist one another in righteousness and piety, but do not assist one another in criminal and transgression, and fear Allah, verily, Allah is severe in punishment."

I} ***Sharikah Al- mulk***: this applies to where two or more person are joined as partners in the ownership of one thing, this partnership is viewed from two different dimension: optional and compulsive.

li} ***Sharikah Al-aqad***: this refers to partnership deliberately from through a formal contract by a number of persons, the contract may be formalized with a verbal or written agreement witnessed. Or signed, by the people involved in the contract.

**Murabahah** (Cost- plus make up), the term *Murabahah* literally means the sale of profit giving, is where a sale is contracted by giving the purchaser the details of all what has been expended on a commodity together with the profit demanded from

him. In fact, holy Prophet (saw) said: "Whoever is able to give his brother some profit in a sale should do so" (Sahih Muslim)' However, these types of business or sale is not always preferred by the noble sharia, because its normally characterized by exaggeration, deceitful account, false and unnecessary swearing in other to win over a contracting partner. To this effect, the holy prophet (saw) was reported to have said "Whoever swears falsely to acquire undue benefit will met Allah very angry with him. (then he recited the Qur'an verses)" Verily, those who purchase a small gain at the cost of Allah's convenient and their oath, they shall have no portion in the hereafter {paradise}. Neither will Allah speak to them, nor look at them on the day of Resurrection, no will he purify them, and they shall have a painful tournament" (Q 3; 77).

### 3. Summary, Conclusion and Recommendation

When Islam condemned interest in any form, it comes out with alternative mode. These modes of finance include, Partnership {*Musharakah*}, *Murabaha* {markup}, *Mudaraba* others are Hire purchase, *Ijarah* Leasing, *Iqtina*. The paper explains some of these modes of finance. By applying the above Islamic mode of finance, the economy of the society will change, enhance business activities, justify wealth distribution among the citizens, accumulating wealth, and justify income through labour activities by transforming an idle wealth into the circulating economy, this will increase employment, saving, and investments in the economy.

Mode of finance are the alternative of (Riba) interest which is prohibition in Islam, the almighty Allah has condemned usury, and curse any one interacts with it in the Qur'an and noble Tradition of the Prophet (s,a.w). The two sources of *shari'a* have totally condemned the interest and the types of interest in any form. The policy implication is if the Islamic mode of finance can be applying very well the Islamic economy of the society will develop the economy sector, by applying the Islamic mode of finance transaction which is usually go with the profit loss sharing method between the two or three parties, the social, economical and political aspect will be justify.

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