# FIQH: Islamic Economics

Assessed & Published By;
Shaykaah Shafalia

# Definition

- Economics means; finances/money matters;
  - Wise management of money, material , resources etc.
  - Practical organisation of the material resources of a country, community or establishment.

- Term economics refers to;
  - The science covering the production, distribution & consumption of goods & services
    - Services such as; hired professionals, bus service, rental service etc.
    - & the means of supplying the material needs of humankind

- Most relevant here is; the means by which material needs of humankind are supplied;
  - Production, distribution & consumption of wealth under the proposed system

# Economic Systems

1) The **capitalist** system of countries; generally referred to as the West

The 2 main economic systems in force today; which most countries follow are;

2) The **communist** /socialist system of the East

# Capitalism

Explanation;

- Economic system – in which the means of production & distribution are mostly privately owned & operated for private profit

Make something & sell it for you own benefit i.e. open a food stall & keep the money for yourself

- There are 3 distinctive characteristics of this system;

| 1 | 2 | 3 |
|---|---|---|
| The right of private property | The right of economic freedom & free competition | Economic inequality |

## 1. The right of private property

- Right of every individual to legally own, purchase or sell any property they wish
- Without restrictions
- Legally own the means of production & distribution
- Freely choose the type of work

## 2. The right of economic freedom & free competition

- All individuals can establish & run any business desired
- Earn unlimited profits
- No interference from the government (long as lawful)

## 3. Economic equality

- Individuals earn their own potential
- Hence, will have different incomes - some more & some less

# The Advantages of Capitalism

A. Unrestricted right to earn & own wealth
   - Provides powerful incentive for people to work to their maximum abilities
   - Enables maximum production by the society

B. Free competition between people, keeps goods at reasonable;
   - Prices
   - Profits
   - Wages are moderate
   - Quantity & quality of food & services are high
   - Economic freedom (called natural law of economics) Greatly increases country's productive capacity (& it's overall wealth)

C. Economic equality provides; Personal Incentive for people
   - To improve their status (in society)
   - To compete with others (to get ahead)
   - Theses efforts result in; stimulating economy, keeping it alive & vital to compete successfully with other nations in the world economic market

# The Evils of Capitalism

Along with advantages, Capitalism equally provides evils that threaten any society’s;

Economic Health

Social Growth

# The Evils of Capitalism

A. Unrestricted right of a person
- To own property
- Leading to the concentration of capital in progressively fewer hands
- Consequently; a just distribution of wealth cannot be obtained
- As concentration increases; gap between rich & poor widens

B. Free competition when wealth accumulates in fewer hands leads to;
- Monopolization as smaller independent businesses are brought out & huge multinational conglomerates are formed
- Resulting in vast majority of society turning into wage-earning consumers (who have little or no say in quality & quantity or type of goods produced & distributed

C. Economic inequality produces;
- Social inequality; as capital is the source of rights
- Those who possess more capital – enjoy more rights (to education & other pleasures of life)
- Polarising society into 2 distinct classes (upper ruling class & lower working class)
- Gap between rich & poor widens until it no longer becomes an incentive
- Frustration & hatred lead workers to sabotage products & work below their capacity

D. High moral values like;

- Brotherhood, co-operation, love, kindness, honesty, generosity; loose all their charm & replaced by selfishness, hate jealousy, deception etc.
- Natural consequence when people only work for their personal ends & no motive or power can make them work for the greater good of the society.
- Accumulated riches in only one segment of society also breeds corruption

E. Unrestricted economic freedom also leads to;

- the over production of goods which in turn results in large scale waste of national resources
- It also promotes the production & distribution of socially harmful products such as pornography

# Communism

Explanation;

1. A theory of social change conceived by Karl Marx (1818-1883)

   Directed to the ideal of classless society

2. As developed by Lenin (1870-1924) & others

   It advocated the rule of the proletariat (workers)

3. In which; there is centralised ownership

   Of almost all productive property & sharing of the products of labour

# Socialism

Is

The economic system of communism

defined as;

Public collective ownership

or

Control of the basic means of production, distribution & exchange

Aim is;

To operate for use (rather than profit)

And

To assure each member of society an equitable share of goods, services & welfare benefits

# Fundamental Principles of;

The communist economic system are as follows

a) **Nationalisation of property** - all means of production & sources of income are owned & administered by the state, which doesn't recognize the right of the individual to own property

b) **Economic Equality** – the economic rights of every individual to food, clothing, shelter, medical treatment & transportation are guaranteed according to individual's needs (individuals are not allowed to possess more than others except by virtue of real needs)

c) **Regimentation** – economic freedom & free competition are replaced by a carefully planned economy in which every member of society has a particular role to play & economic rivalry is totally eliminated

# The Merits of Communist Economics

The obvious advantages which are said to;

Result from the socialist economic system (described previously) are:

a) The profits earned by the various means of production & distribution, to which the whole society contributes, re utilized for the benefit of the society & not just a handful of people.

Society is thus spared the harmful effects of class struggle between the "haves" & the "have-nots". No gap can arise between the rich & the poor because the nation's resources cannot become concentrated in the hands of a few of its citizens.

a) All members of society have equal opportunity to education & the pleasures of life since capital is not the basis of rights.

Every individual in such a society is given employment & the weak & sick are looked after by the state.

a) A controlled economy balances production & consumption & thereby avoids problems of overproduction & waste. Goods produced are those beneficial & needed by the community. Thus, natural resources are not diverted into the production of non-essentials.

All citizens are guaranteed an equitable share of the nation's wealth.

# The Evils of Communist Economies

To attain these benefits, huge sacrifices of human rights are made, resulting in the following;

A. With nationalisation of private property
   - Profit making incentive is removed
   - People will prefer to work at minimum capacity (since no material reward for hard work)
   - Results in low levels of productivity (in quantity & quality)
   - Shortages are common feature
   - Lining up to buy basics becomes the norm

B. Forced economic equality
   - Negates the ego & personality of individuals
   - Basic economic needs are provided for - at an inferior level (with little/no variety; to avoid jealousy & rivalry)
   - Dress becomes uniformly drab (in appearances & houses)
   - Monotonously identical in form & colour

C. Due to elimination of free competition;

- Quality of goods produced is inferior
- Prices of luxury items extraordinarily high
- Products of such an economy can't compete with world market
- Only goods that officials consider necessary will be produces & variety will be avoided (as it's only an added expense)

d) Since state owns all means of production

- Power is concentrated in the hands of those who manage the state
- Communism invariably leads to totalitarian states
- Which deny citizens rights of free speech, dissent & organised action

e) Because goods are produced by

- Government orders & not market demand
- Communist economies end up producing goods people don't want
- And not producing goods that people do want
- There's no penalty for inefficiency

f) Privileges that go to the capitalist class (in capitalist systems);

- Go to manager class (in communist system)
- They get best housing, cars & goods
- Their children go to best schools
- And have greatest opportunities the get best jobs

# Islamic Economics

- ❖ Humans' attempt to solve the problem of supplying their material needs has led them to extremes.
- ❖ They have either gone too far in protecting the rights of the individual while ignoring the greater common good of society or have totally undermined the right of the individual for the sake of society.
- ❖ Islamic economics is fundamentally different from both capitalism & communism.
- ❖ Both these systems are based on materialist philosophies in which acquisition of wealth (whether by the individual or for the proletariat) is the ultimate goal of life & the yardstick for success.
- ❖ The philosophy that "what is useful is good" (utilitarianism) is the source of moral values in both capitalism & communism
- ❖ "Honesty is useful because it assures credit; so are punctuality, industry & frugality". (Max Weber, *The protestant Ethic & the Spirit of Capitalism*)

In Islam;

- ➢ Success lies in being virtuous
- ➢ When behavior follows moral standards – success is achieved

Outcome of a choice of action is composed of two parts;

1. Its immediate effect in this life
2. Its later effect in the hereafter

Allah (swa) describes the penalty for certain sinners;

لَهُمْ فِى ٱلدُّنْيَا خِزْىٌ وَلَهُمْ فِى ٱلْـَٔاخِرَةِ عَذَابٌ عَظِيمٌ

"…There is nothing but disgrace for them in this world & in the world to come, a tremendous punishment." (Quran 2;114)

For the devotees He says;

فَـَٔاتَىٰهُمُ ٱللَّهُ ثَوَابَ ٱلدُّنْيَا وَحُسْنَ ثَوَابِ ٱلْـَٔاخِرَةِ ۗ وَٱللَّهُ يُحِبُّ ٱلْمُحْسِنِينَ

"Allah gave them a reward in this world & the excellent reward of the Hereafter. For Allah loves those who do good." (Quran 3:148)

Allah (swa) ordered us to make effort for this life

هُوَ ٱلَّذِى جَعَلَ لَكُمُ ٱلْأَرْضَ ذَلُولًا فَٱمْشُوا۟ فِى مَنَاكِبِهَا وَكُلُوا۟ مِن رِّزْقِهِۦ ۖ وَإِلَيْهِ ٱلنُّشُورُ

"It is He has made the earth manageable for you, so proceed through its regions & eat of His provision & unto Him will be the resurrection." (Quran 67:15)

And He ordered us to make effort for the hereafter

وَسَارِعُوٓا۟ إِلَىٰ مَغْفِرَةٍ مِّن رَّبِّكُمْ وَجَنَّةٍ عَرْضُهَا ٱلسَّمَٰوَٰتُ وَٱلْأَرْضُ أُعِدَّتْ لِلْمُتَّقِينَ

"Be quick in the race for forgiveness from your Lord & for a Paradise whose width is that of (the whole) heavens & the earth, prepared for the righteous". (Quran 3:133)

And He made clear the priority between these two efforts in the following statement:

ۖ وَٱبْتَغِ فِيمَآ ءَاتَىٰكَ ٱللَّهُ ٱلدَّارَ ٱلْـَٔاخِرَةَ ۖ وَلَا تَنسَ نَصِيبَكَ مِنَ ٱلدُّنْيَا

"Seek, with the (wealth) which Allah has bestowed on you, the abode of the hereafter & do not forget your portion in this world…" (Quran 28:77)

In Both
these systems

**Communist**
**&**
**Capitalist**
**Systems**

Only outcome
(of any
consequence)
is for this world

Both systems;
Purley Materialistic

# Impossible to;

Separate any economic system from the social doctrines & philosophies underlying it.

Any attempt to do so would produce a;

Distorted

&

Unrealistic

picture of that system out of its context

- Capitalism assumes individual is an unbreakable being whose freedom shouldn't be restricted
- This led to its permission of unrestricted private ownership
- Other hand, communism holds that the community is the base & the individual has no separate independent existence
- This produced a system in which all properties & modes of production & distribution belong to the state
- The state acts as representative of community

# Islam

Islam maintains that an individual has two simultaneous capacities:

- His capacity as an independent individual

  and

- His capacity as a member of the community.

His response to either capacity may at times be greater than the other but maintaining harmony between them is an essential part of a wholesome life.

- The economic system of Islam is primarily based on the above-mentioned concepts of humankind social reality and the essence of success.
- A third fundamental may be that of Islam's position in regards to wealth.
- It views all existence in the universe as belonging to a law and wealth as a blessing from Allah (swa) over which human beings have been put as trustees.

# Allah (swa) says;

وَلِلَّهِ مَا فِى ٱلسَّمَٰوَٰتِ وَمَا فِى ٱلْأَرْضِ

"To Allah belong all that is in the heavens and the earth…" (Quran 53:31)

He advises charity;

وَءَاتُوهُم مِّن مَّالِ ٱللَّهِ ٱلَّذِىٓ ءَاتَىٰكُمْ ۚ

"Give them something out of the wealth which Allah has provided you." (Quran 24:33)

# Allah (swa) orders humanity in general;

ءَامِنُوا۟ بِٱللَّهِ وَرَسُولِهِۦ وَأَنفِقُوا۟ مِمَّا جَعَلَكُم مُّسْتَخْلَفِينَ فِيهِ ۖ

"Believe in Allah & His messenger (pbuh) & spend from that of which He has made you trustees…." (Quran 57:7)

Therefore, a Muslim should Never forget;

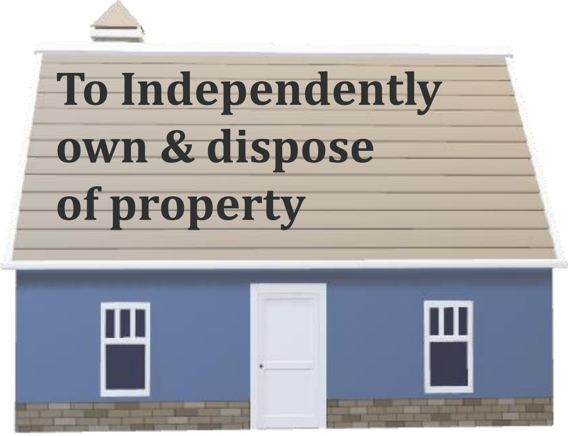
- ✓ What he owns is a Trust from Allah (swa)
- ✓ A test from Allah (swa) to test how he will spend it

# Islamic System

Main characteristics of Islamic system (in light of previously mentioned systems)

- A) Private Ownership
- B) Public Ownership
- C) Economic Freedom
- D) Economic Gradation
- E) Social Justice

A. Private Ownership - Islam recognises individuals right:




**Earn as much wealth as possible**

Allah (swa) says;

...ٓأَيُّهَا ٱلَّذِينَ ءَامَنُوا۟ لَا تَأْكُلُوٓا۟ أَمْوَٰلَكُم بَيْنَكُم بِٱلْبَٰطِلِ إِلَّآ أَن تَكُونَ تِجَٰرَةً عَن تَرَاضٍ مِّنكُمْ

"O' you who believe, do not consume your property among yourselves unjustly; rather (it should be) by trade amongst you...." (Quran 4:29)

The Prophet (pbuh) emphasised this;
*"The property of a Muslim is not lawful except what he willingly agrees to (exchange or give)."* (Irwa al-Ghalil; Vol 5, Hadith no.1459)

He (pbuh) further used farewell Hajj (day of Arafah) to sum up important principles;
*"Verily your blood & your property are as sacred & inviolable as the scaredness of this day of yours, in this town of yours."* (Muslim; Vol 2, Hadith no.2803)

Like most general statements in the Quran & sunnah – there are exceptions to this rule:

- Prophet (pbuh) said that whoever declares that none is worthy of worship but Allah (swa) & Muhammed (pbuh) is HIS Messenger;
  - Has made his blood & property unbreakable (except by the right of Islam) (Ibid, Vol 1, Nos.29-33)
  - So, if someone withholds Zakah that is due upon him; the state has the right & responsibility to take it from him by force
  - Matter agreed amongst the Companions of the Prophet (pbuh)

- Shariah has placed some other limits on private ownership
  - The right to individual ownership is restricted – where it poses a threat to the public interest
  - State is permitted to intervene & appoint a trustee to administer the wealth of one who misuses/wastes it

Allah (swa) says;

وَلَا تُؤْتُوا۟ ٱلسُّفَهَآءَ أَمْوَٰلَكُمُ ٱلَّتِى جَعَلَ ٱللَّهُ لَكُمْ قِيَٰمًا

"And do not turn over to the weak-minded your property, which Allah (swa) has made a means of support for you…" (Quran 4:5)

Although wealth mentioned in the above verse, refers to the weak- minded people, Allah (swa) refers to it as '*amwalakum*' i.e. 'your wealth' in the collective sense. (Ibn Kathir Tasfir al-Quran al-Adhim, Vol 2)

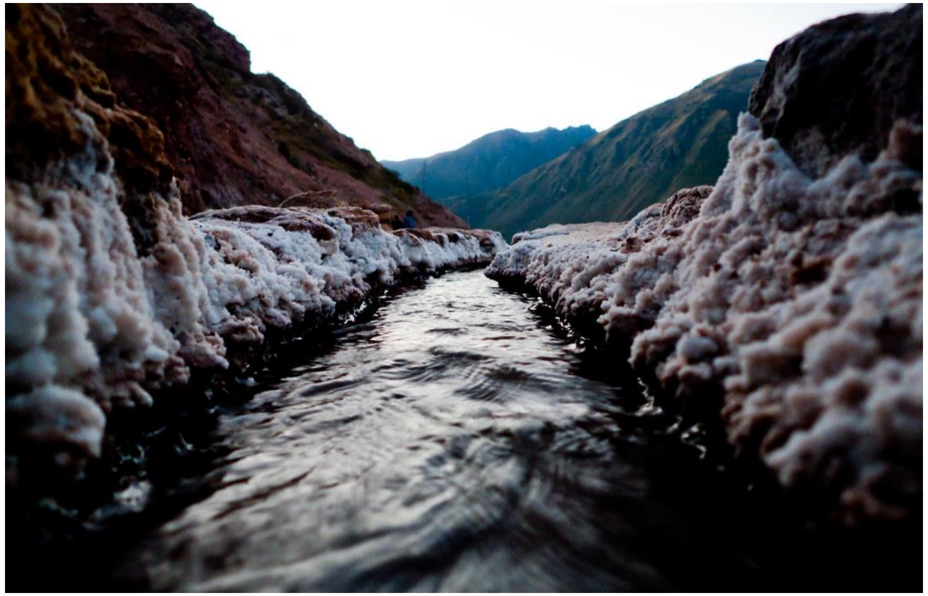
Prophet (pbuh) was reported to have said;
"People jointly share 3 things: grass, water & fire". (Abu Dawud, Vol 2, Hadith no. 3470)




- Grass refers to pasturage for animals in lands that are not privately owned
- Fire refers to fuel from which fires are lit (in Prophet's (pbuh) era that was firewood)

Abyad ibn Hammal reported; he went to the Prophet (pbuh) along with a deputation & requested him to grant him the salt mine of Ma’rib, which he did.

However, when they were about to return, one of the delegation said; “Messenger of Allah! Do you realise that you have granted him flowing water?”.
The Prophet (pbuh) then took it back.
(Abu Dawud, Vol 2, Hadith no.3058)



Based on these & other Hadith, majority Muslim jurists concluded;


- All minerals should be regarded as state property & no individual should be given any right to own & benefit from them.

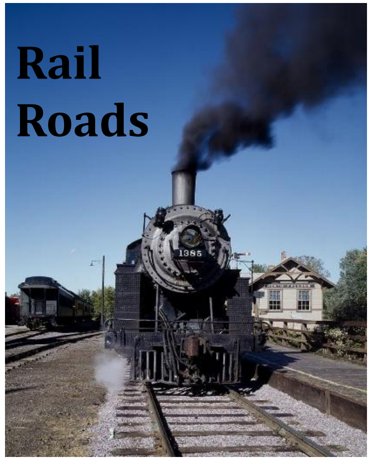
(Wahbah az-Zuhayil, al-Fiqh al-Islami wa Adillatuh (Damascus:Dar al Fikr, 1997) Vol 6)

B. Public Ownership:
- ✓ Things of common utility are kept in custody of community
- ✓ Individuals are not allowed to own them

Az-Zuhayli (Ibid. Vol 6) mentions examples of such properties;

**Public roads**

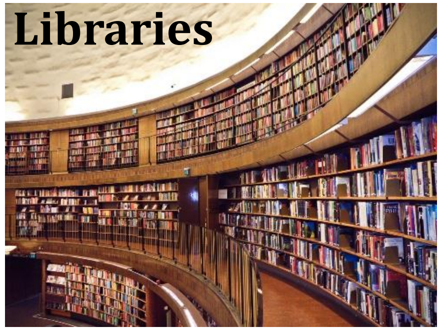








**Public**




Whilst Islam recognises;

- The basic right of individual's owning property
- It has also considered (in certain spheres) individual ownership unnecessary or harmful (to society at large)
- Hence, preferred the principle of; state ownership

All lands which Muslims conquered (without fighting) were declared the property of the caliphate.

The policy was based on the following verse:

مَّآ أَفَآءَ ٱللَّهُ عَلَىٰ رَسُولِهِۦ مِنۡ أَهۡلِ ٱلۡقُرَىٰ فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي ٱلۡقُرۡبَىٰ وَٱلۡيَتَٰمَىٰ وَٱلۡمَسَٰكِينِ وَٱبۡنِ ٱلسَّبِيلِ كَيۡ لَا يَكُونَ دُولَةَۢ بَيۡنَ ٱلۡأَغۡنِيَآءِ مِنكُمۡ

"What Allah has bestowed on His Messenger (& taken away) from the people of the townships, belongs to Allah, to his Messenger & to kindred & orphans, the needy & the wayfarer; in order that it may not (merely) make a circuit between the wealthy among you." (Quran 59:7)

Some of these lands were distributed among the people

Who enjoyed the right of ownership, purchase, sale & inheritance

But in general, they were considered public property

And could be taken from them whenever the common good demanded

C. Economic Freedom:

Like capitalism, Islam also allows free competition

↓

Which keeps the quality of goods high & prices low

When some people complained to Allah's (swa) Messenger (pbuh)

about the rising cost of living & asked him to fix prices he responded;

*"Verily,*
*it is Allah Who sets the prices. He makes things tight & He expands them. And I hope to meet Allah without anyone having a claim against me for unjust treatment."*

(Abu Dawud, Vol 2)

On another occasion he (pbuh) said:

*"Leave the people alone. Allah will give them sustenance through one another."*

(Muslim, Vol 3)

However,
the Shari'ah is hostile
to monopolisation

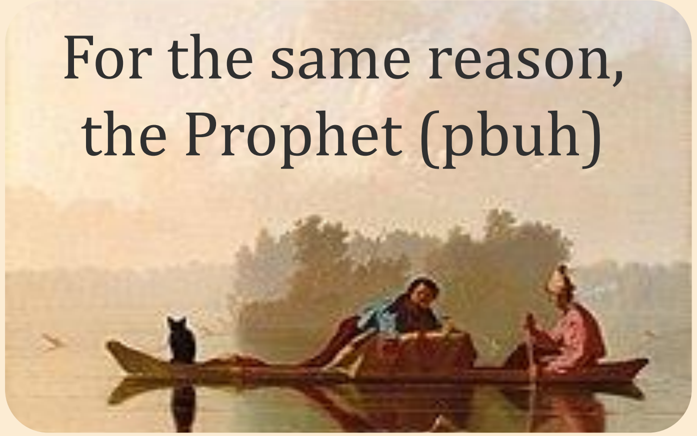
And discourages
the
concentration
of wealth

Prophet (pbuh) stated that
hoarders are sinful.

(Muslim Vol3)

The hoarder
Is similar to a
monopolist

He wants to corner the market
so he can charge
exorbitant prices
for things that people need




Prohibited traders from going out to meet caravans before they reach the market place

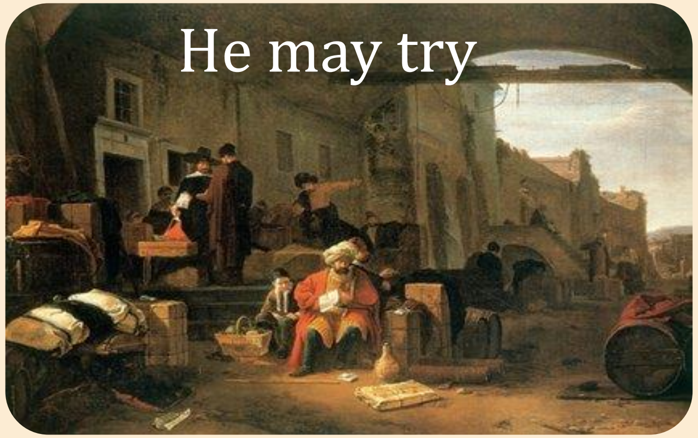
(Bukhari Vol 3)


Is trying

to get an

unfair advantage over the

competition




To buy the entire shipment &

get it a lower price than he would have to pay

if other merchants are also bidding for the goods

Based on that, insider trading on the stock market would be illegal, according to Islam

In the previously mentioned verse (7) of Surah al-Hashr,

Allah (swa) stated that the reason For the command was so

The newly gained wealth would not be

Concentrated in a certain structure of society

People are encouraged to take advantage of the vast opportunities of: productive enterprise available in the vast bounties of Allah (swa).

Allah (swa) said;

فَإِذَا قُضِيَتِ ٱلصَّلَوٰةُ فَٱنتَشِرُواْ فِي ٱلۡأَرۡضِ وَٱبۡتَغُواْ مِن فَضۡلِ ٱللَّهِ

"When the prayer is finished, disperse in the land & seek Allah's bounty…" (Quran 62: 10)

وَإِن تَعُدُّواْ نِعۡمَتَ ٱللَّهِ لَا تُحۡصُوهَآۗ

"And if you were to (try to) count Allah's bounty, you would not be able…" (Quran 14: 34)

At the same time, they are enjoined to cooperate with one another in → Patterning life on Earth → In accordance with the will of Allah

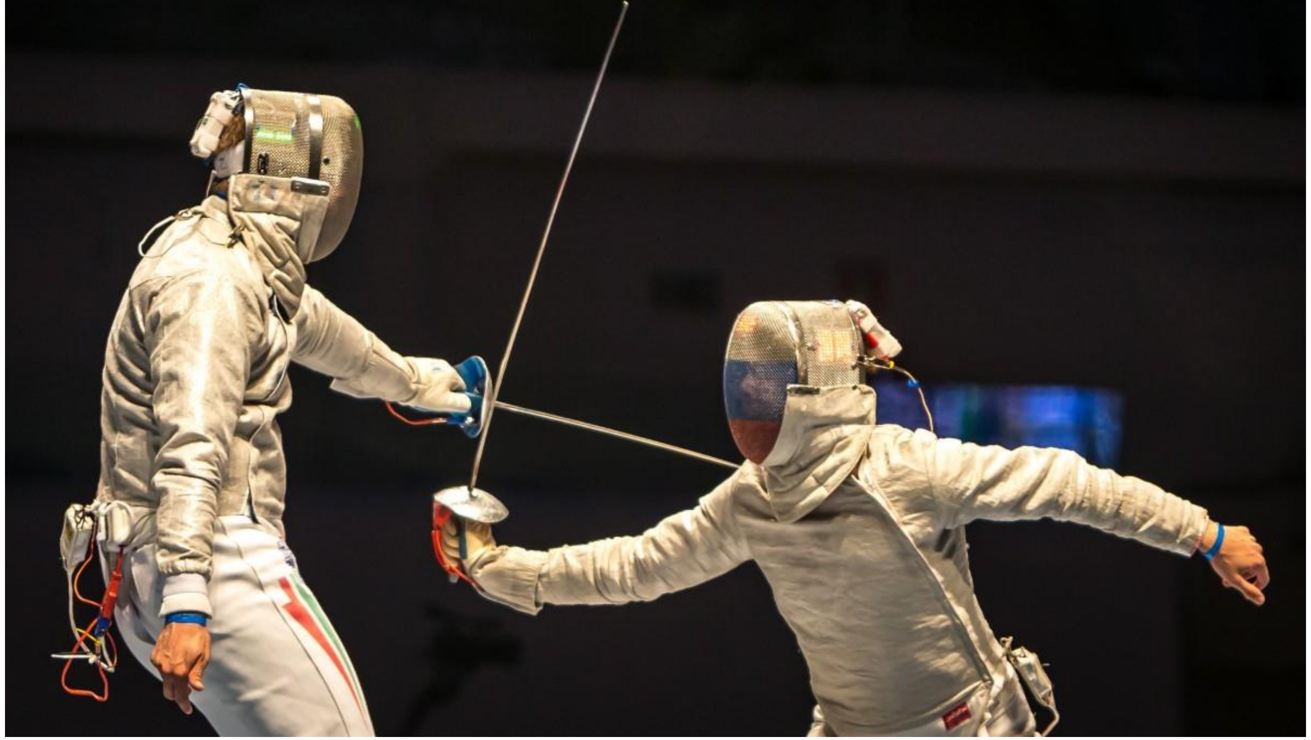

Allah ordered the believers:

وَتَعَاوَنُوا۟ عَلَى ٱلْبِرِّ وَٱلتَّقْوَىٰ ۖ وَلَا تَعَاوَنُوا۟ عَلَى ٱلْإِثْمِ وَٱلْعُدْوَٰنِ ۚ

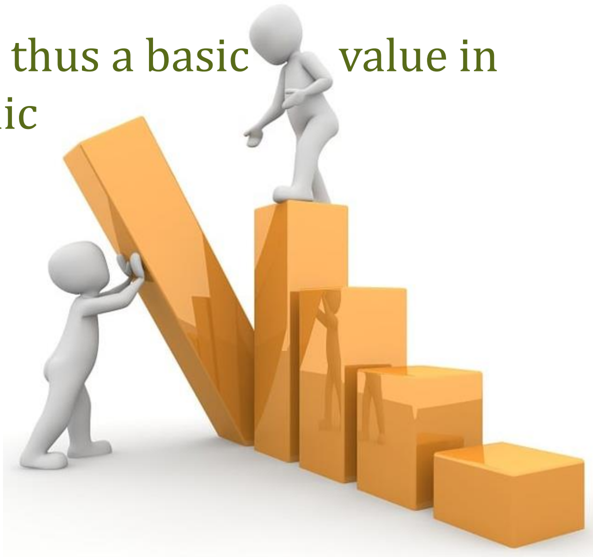
"...Cooperate with one another in righteousness and Piety but do not cooperate in sin and rancor..." (Quran 5:2)

Economic relations,
especially those in production
& exchange of wealth,
should be cooperative in nature.

Rivalry & cut-throat competition make no sense in this context.



Co-operation is thus a basic value in Islam's economic philosophy.



This does not however, rule out free & fair competition in the market, provided Islam's moral codes are adhered to.

Competition is promoted in place of monopoly, whose elimination is a prerequisite to ensure justice.

(Muslim Economic Thinking)

## D. Economic Gradation

- Islam favours equality

- To the extent that wealth should not be confined, to any particular section
- But should be spread in the community
- So, every individual gets equal opportunity to seek employment
- Or do business of their choice

(Economics Doctrines of Islam)

However, strict economic equality is unnatural & counterproductive;

- So, in allowing private ownership, Islam also allows Economic inequality
- Which is essential for the development of human personality
- People are left free to achieve highest possible ideal through others

- Without expecting any other reward; except pleasure of Allah (swa)
- If one's wealth is little, he learns patience & contentment
- If wealth is great; should develop gratitude & generosity

(Ibid, Pp. 85-6)

Allah (swa) referred to this;

نَحۡنُ قَسَمۡنَا بَيۡنَهُم مَّعِيشَتَهُمۡ فِي ٱلۡحَيَوٰةِ ٱلدُّنۡيَاۚ
وَرَفَعۡنَا بَعۡضَهُمۡ فَوۡقَ بَعۡضٖ دَرَجَٰتٖ لِّيَتَّخِذَ
بَعۡضُهُم بَعۡضٗا سُخۡرِيّٗاۗ

"...We distribute their portions in this life, raising some above others in ranks, in order that some of them may take others in service..." (Quran 43:32)

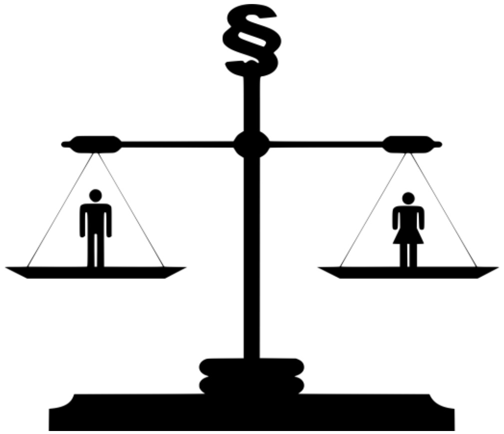
وَهُوَ ٱلَّذِي جَعَلَكُمۡ خَلَٰٓئِفَ ٱلۡأَرۡضِ وَرَفَعَ بَعۡضَكُمۡ
فَوۡقَ بَعۡضٖ دَرَجَٰتٖ لِّيَبۡلُوَكُمۡ فِي مَآ ءَاتَىٰكُمۡۗ

"And it is He who has made you successors in the land & exalted some of you in rank above others, that He may try you by what He has given you..." (Quran 6:165)

## E. Social Justice

The establishment of :

Social Equality is far more important than that of Economic Equality



- For classes can easily develop or linger on from earlier times within a society wherein theoretical equality exists.
  - Social justice forms the cornerstone of the Islamic economic system. (Ethics & Economics)

- Since every human being shares the same relationship with Allah & His universe, the relationship between people is supposed to be one of brotherhood & equality. (Muslim Economic Thinking)

- There can be no real justice if all are not equal before the law.

Allah (swa) enjoins humans to be absolutely even-handed in their dispensation of justice:

كُونُوا۟ قَوَّٰمِينَ بِٱلْقِسْطِ شُهَدَآءَ لِلَّهِ وَلَوْ عَلَىٰٓ أَنفُسِكُمْ أَوِ ٱلْوَٰلِدَيْنِ وَٱلْأَقْرَبِينَ ۚ إِن يَكُنْ غَنِيًّا أَوْ فَقِيرًا فَٱللَّهُ أَوْلَىٰ بِهِمَا ۖ

“...Be staunch in justice, witnesses for Allah, even if it be against yourselves, your parents or your relatives, whether in the case of a rich man or a poor man, for Allah is a better protector to both of them than you are…” (Quran 4:135)

Allah (swa) also tells the believers;

وَلَا تَبْخَسُوا۟ ٱلنَّاسَ أَشْيَآءَهُمْ

“Do not withhold things that are justly due to people…” (Quran 26: 183)

- This implies that every individual must get what is really due to him & not more by depriving other of their share.

The prophet (pbuh) aptly warned;
"*Beware of injustice, for it will be veils of darkness on the Day of Judgement*". (Bukhari Vol 3)

The warning

against injustice

& exploitation

Is designed to protect;

- Rights of all in society
  - ✓ Consumers
  - ✓ Producers
  - ✓ Distributors
  - ✓ Employers/employees

**And To Promote**

General welfare

The

Ultimate goal of Islam

# Complete Conformity, With the spirit of Islamic Teachings Includes;

Fixation of minimum wages

Creation of appropriate working conditions

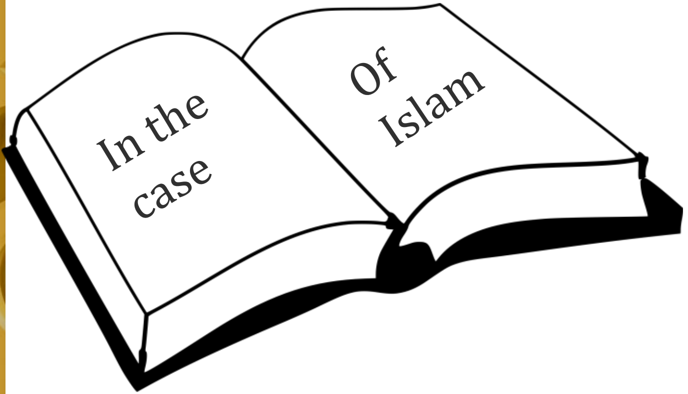
Maximum working hours

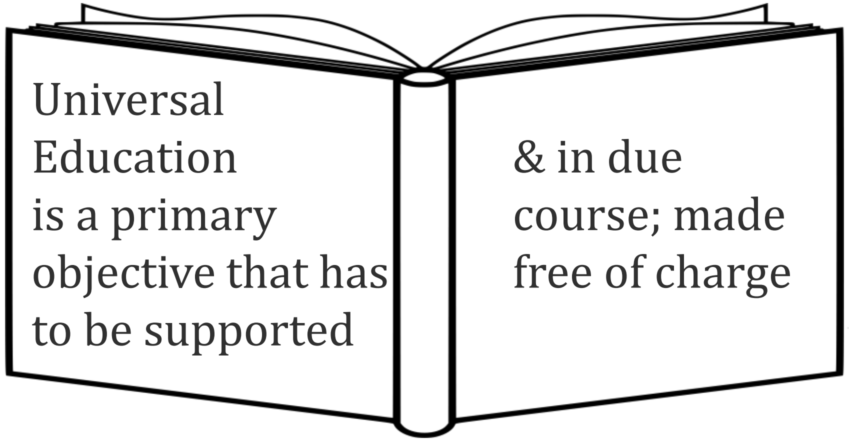
Adoption of technological innovations (to reduce hardship)

(The Islamic Welfare State (UK: The Islamic Foundation, 1979))

The quality of social justice is determined by;

The level of education  available to the society.





- While starting from a position where people are differently endowed with wealth and property, education has a great equalising effect on income distribution.
- In this way, education helps to withdraw the equilibrium.
- It promotes human freedom and brings up the type of people who not only know the worth of their freedom, but are also prepared to take up the corresponding social responsibility.

(Ethics & Economics ]

# Riba (Interest)

The previously mentioned principle of;

Socio-Economic Justice

One of the most indispensable features of an ideal Muslim Society

Must exist in;
All realms of Human Interaction

For Injustice in any area is bound to affect other areas

Important teaching of Islam

For establishing Justice

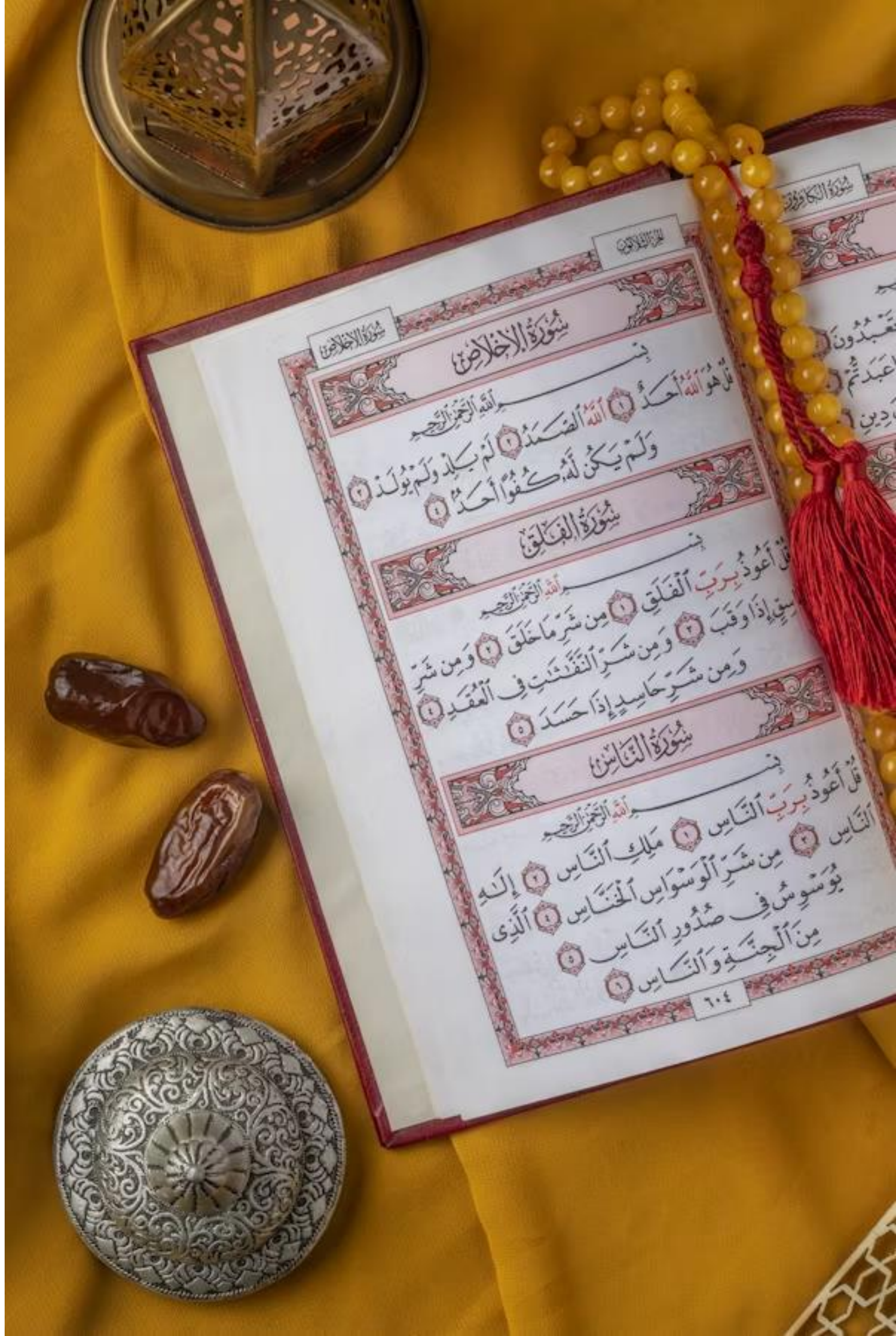
IS

Eliminating exploitation in business transactions

Is the prohibition of all sources of unjustified enrichment

The Quran & Sunnah have provided principles whereby;

- A Muslim society can know (or deduce) what constitutes
  - Rightful or Wrongful
  - Justified or Unjustified - Sources of earnings
- One if the most prominent sources of unjustified earnings is;
  - Receiving monetary advantage in a business transaction (without giving a just countervalue)
- Riba (interest) represents a major source of unjustified advantage according to the Islamic value system.



# The Prohibition of Riba

Four Quran passages which prohibit Riba,
Emphasise that while;

Interest deprives wealth of Allah’s (swa) blessings,

Charity increases it

1) Allah (swa) says;

وَمَآ ءَاتَيْتُم مِّن رِّبًا لِّيَرْبُوَا۟ فِى
أَمْوَٰلِ ٱلنَّاسِ فَلَا يَرْبُوا۟ عِندَ
ٱللَّهِ ۖ وَمَآ ءَاتَيْتُم مِّن زَكَوٰةٍ
تُرِيدُونَ وَجْهَ ٱللَّهِ فَأُو۟لَٰٓئِكَ
هُمُ ٱلْمُضْعِفُونَ ٣٩

(That which you give in interest for increase through the property of (other) people will have no increase with Allah. But that which you give for charity, seeking the countenance of Allah, (will increase). It is these who will get a recompense multiplied). (Quran 30:39)

2) This verse revealed in early Madinan period, severely condemns interest as prohibited in earlier scriptures & includes people who do so among those who wrongfully gain the wealth of others. Allah (swa) states;

وَأَخْذِهِمُ ٱلرِّبَوٰا۟ وَقَدْ نُهُوا۟ عَنْهُ
وَأَكْلِهِمْ أَمْوَٰلَ ٱلنَّاسِ بِٱلْبَٰطِلِ ۚ
وَأَعْتَدْنَا لِلْكَٰفِرِينَ مِنْهُمْ عَذَابًا
أَلِيمًا ١٦١

(Because they took interest, though they were forbidden & devoured people's wealth wrongfully, We have prepared for those among them who reject faith a grievous chastisement). (Quran 4:161)

3) Third portion of Riba, revealed around 3rd year after the Hijrah, enjoins Muslims to avoid interest for their own sake:

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوا۟ لَا تَأْكُلُوا۟ ٱلرِّبَوٰٓا۟
أَضْعَٰفًا مُّضَٰعَفَةً ۖ وَٱتَّقُوا۟ ٱللَّهَ لَعَلَّكُمْ
تُفْلِحُونَ ١٣٠
وَٱتَّقُوا۟ ٱلنَّارَ ٱلَّتِىٓ أُعِدَّتْ لِلْكَٰفِرِينَ ١٣١
وَأَطِيعُوا۟ ٱللَّهَ وَٱلرَّسُولَ لَعَلَّكُمْ تُرْحَمُونَ
١٣٢

(O' believers! Do not devour interest, doubled & multiplied, but fear Allah so that you may (really) prosper. And fear the fire that is prepared for the disbelievers. And obey Allah & the Messenger so that you may obtain mercy.) (Quran 3:130-132)

4) Final prohibition came in some of the last verses of the Quran to be revealed. In them, those who take interest are severely condemned & trade is distinguished from interest:

ٱلَّذِينَ يَأْكُلُونَ ٱلرِّبَوٰا۟ لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ ٱلَّذِى يَتَخَبَّطُهُ ٱلشَّيْطَٰنُ مِنَ ٱلْمَسِّ ۚ ذَٰلِكَ بِأَنَّهُمْ قَالُوٓا۟ إِنَّمَا ٱلْبَيْعُ مِثْلُ ٱلرِّبَوٰا۟ ۗ
وَأَحَلَّ ٱللَّهُ ٱلْبَيْعَ وَحَرَّمَ ٱلرِّبَوٰا۟ ۚ فَمَن جَآءَهُۥ مَوْعِظَةٌ مِّن رَّبِّهِۦ فَٱنتَهَىٰ فَلَهُۥ مَا سَلَفَ وَأَمْرُهُۥٓ إِلَى ٱللَّهِ ۖ وَمَنْ عَادَ فَأُو۟لَٰٓئِكَ
أَصْحَٰبُ ٱلنَّارِ ۖ هُمْ فِيهَا خَٰلِدُونَ ٢٧٥
يَمْحَقُ ٱللَّهُ ٱلرِّبَوٰا۟ وَيُرْبِى ٱلصَّدَقَٰتِ ۗ وَٱللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ ٢٧٦
يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوا۟ ٱتَّقُوا۟ ٱللَّهَ وَذَرُوا۟ مَا بَقِىَ مِنَ ٱلرِّبَوٰٓا۟ إِن كُنتُم مُّؤْمِنِينَ ٢٧٨
فَإِن لَّمْ تَفْعَلُوا۟ فَأْذَنُوا۟ بِحَرْبٍ مِّنَ ٱللَّهِ وَرَسُولِهِۦ ۖ وَإِن تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَٰلِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ ٢٧٩ فَإِن لَّمْ تَفْعَلُوا۟
فَأْذَنُوا۟ بِحَرْبٍ مِّنَ ٱللَّهِ وَرَسُولِهِۦ ۖ وَإِن تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَٰلِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ ٢٧٩

(Those who benefit from interest will be raised (on the Day Judgement) like those driven mad by Satan's touch. That is because they claim that trade is just like interest, when Allah has permitted trade & forbidden interest. So, whoever receives his Lord's warning & desists may have what has already passed & his case is with Allah. But those who revert (to riba) will be among the inhabitants of Hell. They will abide there…Allah deprives interest of all blessings, but blesses charity. He does not love the ungrateful sinner… . O' believers, fear Allah & give up the remaining interest if you are indeed believers. If you do not, Allah & His Prophet have declared war on you. But if you repent , you can have the principal. You should neither commit injustice nor be submitted to it.) (Quran 2: 275, 276, 278 & 279)

The Prophet (pbuh) elaborated on this issue condemning even those who witness & record the transaction. Jabir reported that,

"The prophet (pbuh) cursed the receiver & payer of interest, the one who records it & the two witnesses to the transaction saying, 'they are all alike (in guilt)'". (Muslim)

To further emphasise the sin of interest, he equated it to adultery and incest saying,

"A dirham Of interest which a man receives knowingly is worse than committing adultery 36 times." (Ahmad)

On another occasion he (pbuh) said,

Interest has 70 levels, the least serious of which is equivalent to a man committing incest with his mother." (Ibn Majah)

At Arafah During the farewell Hajj, shortly before the prophet's (pbuh) death, he cancelled all outstanding interest. Jabir reported that the prophet (pbuh) addressed the people saying,

"All outstanding interest of pre-Islamic times is annulled the first interest which I annul is that due to Abbas ibn Abdul-Muttalib. It is totally cancelled." (Muslim)

# The Meaning of Riba

Riba means

Increase, Addition, Expansion or Growth

(Lisan al-Arab)

However, not every type of increase is prohibited in Islam.

According to *the Shari'ah* (Islamic law):

Riba refers to;
A premium paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension when it comes due.

Hence, riba has the same meaning as interest;

According to the unanimous consensus of Muslim legal scholars without exception.

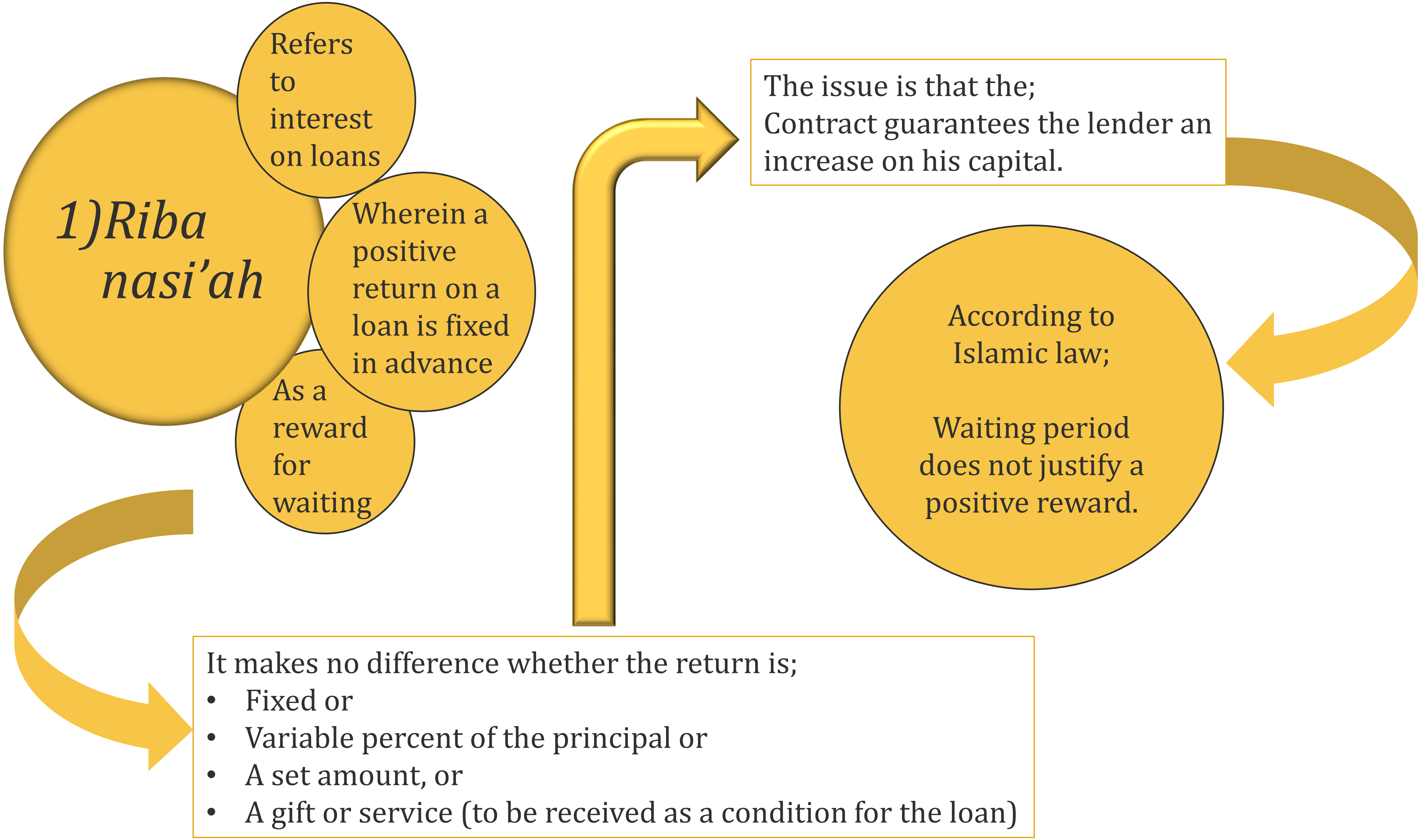
(al-Fiqh Ala al-Madhaib al-Arba'ah)

In discussion on riba, 2 types are usually mentioned:

*1) Riba nasi'ah*, in which payment of the premium is deferred

*2) Riba fadil*, in which a premium is paid immediately

(*Riba fadil* is only possible in barter transactions of the same type of commodity)




(Interest rate on some loans is pegged to the rate of inflation & goes up/down accordingly)

If the debtor chooses to repay a loan with higher value than borrowed;

that is lawful.

Long as the increase is not stipulated (by contract)

Once the prophet (pbuh) took a camel (of a certain age) on loan. When it came time to repay loan; the prophet (pbuh) sent one of his companions to purchase an animal of the same age. He informed the prophet (pbuh) he found nothing of same value. Prophet (pbuh) instructed him to buy an animal of greater value. (Bukhari)

However, if such increases are the norm in a given society,

so that they are not written in the contract but are still expected, they should be avoided.

This principle is based on the statements of some of the companions. Abu Burdah related; that when he came to live in Madinah the Sahabi Abdullah ibn Salam said to him:
*"You live in a country where interest is rampant, so if anyone owes you something & presents you with a load of hay or barley, or even a straw rope, do not accept it, for it is riba."* (Bukhari)

Similar statements were collected from Umar & Ali.

(al-Musannuf)

*2) Riba fadl*

Prohibited because;

A fair exchange rate is difficult to determine,

When 2 grades of the same product are bartered for

To discourage the practise the prophet (pbuh) said;

*"(Exchange) like for like, equal for equal."* (Muslim)

Even if;

- Wheat of high quality were to be exchanged for a lower quality
- The transaction would have to be of equal quantities

To promote justice, the prophet (pbuh) discouraged barter transactions.

Preferring that goods be exchanged for cash & the cash be used to buy desired goods.

(Towards a just momentary system)

Abu Sa'id reported that Bilal brought some *Barni* (good quality) dates to the prophet (pbuh).

When asked where he got them, Bilal replied; *"I had some inferior dates which I exchanged for these: two for one sa."*

The prophet (pbuh) said;
*"O' no, this is the essence of riba, so do not do so. When you wish to buy, sell the inferior dates & buy the better dates with the price you receive."*
(Muslim)

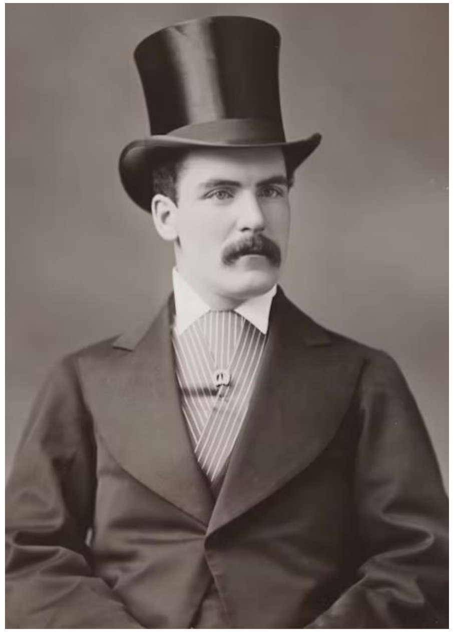
(A *sa* is equal to 2.75 litres; al-Fiqh al Islami Wa Adillatu)

# Islamic Banking

When Islamic banking was first proposed in the early 70’s

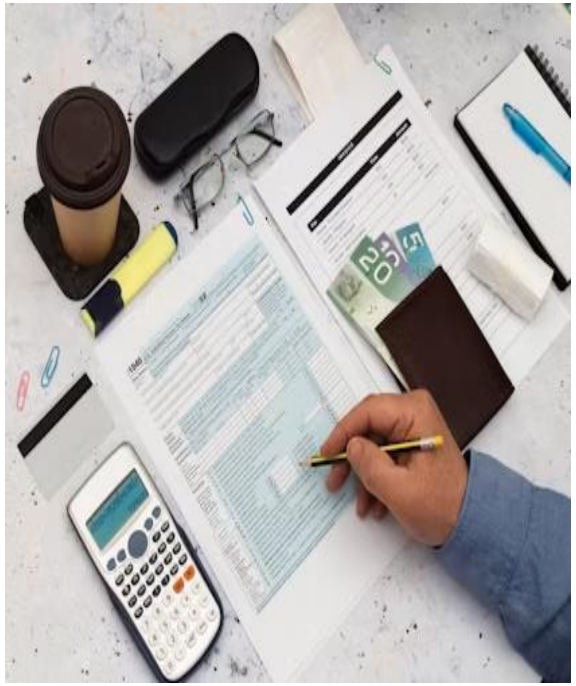

- Idea of banking without interest was inconceivable to them
- Even though it was well known to economists that the lower the interest rates, the healthier the economy
- But zero interest was never considered

Western financial world sneered at the idea



Today Islamic banking is recognised as a thriving financial institution


& the vast majority of leading international banks (e.g. Citicorp, Deutsche Bank) have Islamic investment accounts & portfolios.



These were not merely introduced to maintain their Muslim customers.

If such accounts meant financial loss, the banks would not entertain them. On the contrary, they have been found to be very profitable.

Over 200 Islamic financial institutions worldwide are managing funds of over USD 150 billion.

Even with its strict codes, Islamic banking is growing at a fast rate of 15% annually over the past decade.

In recent years, Iran, Sudan & Pakistan have banned traditional commercial banking & adopted Islamic banking models.

# Production Loans

People borrow money for two reasons;

Production

&

Consumption

Production loans are taken in order to invest in projects that will return a profit.

The two essential ingredients of any enterprise are:

Capital (money) → and → Labour

The capital is used to buy raw materials, machinery, etc. And to pay for labour.

Labour is of two types:
1) Production
and
2) Management.

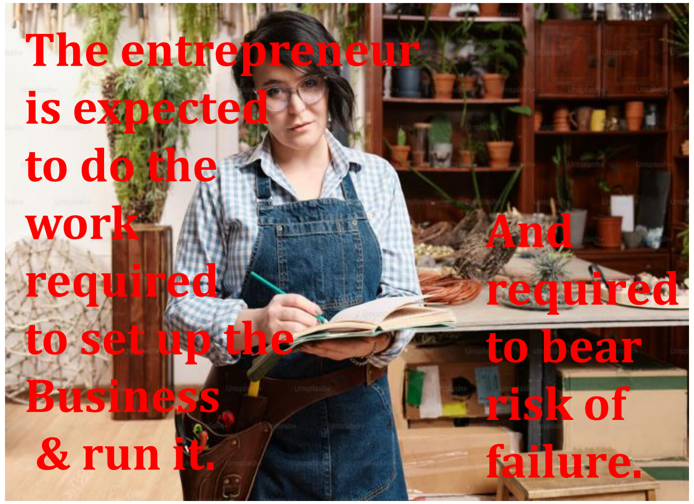
Every business enterprise is exposed to risk.

The venture might make a profit or it might lose money.

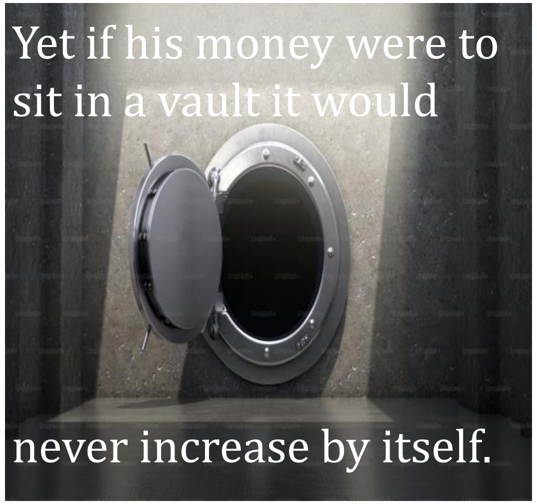

In the *riba* financing system
ATM

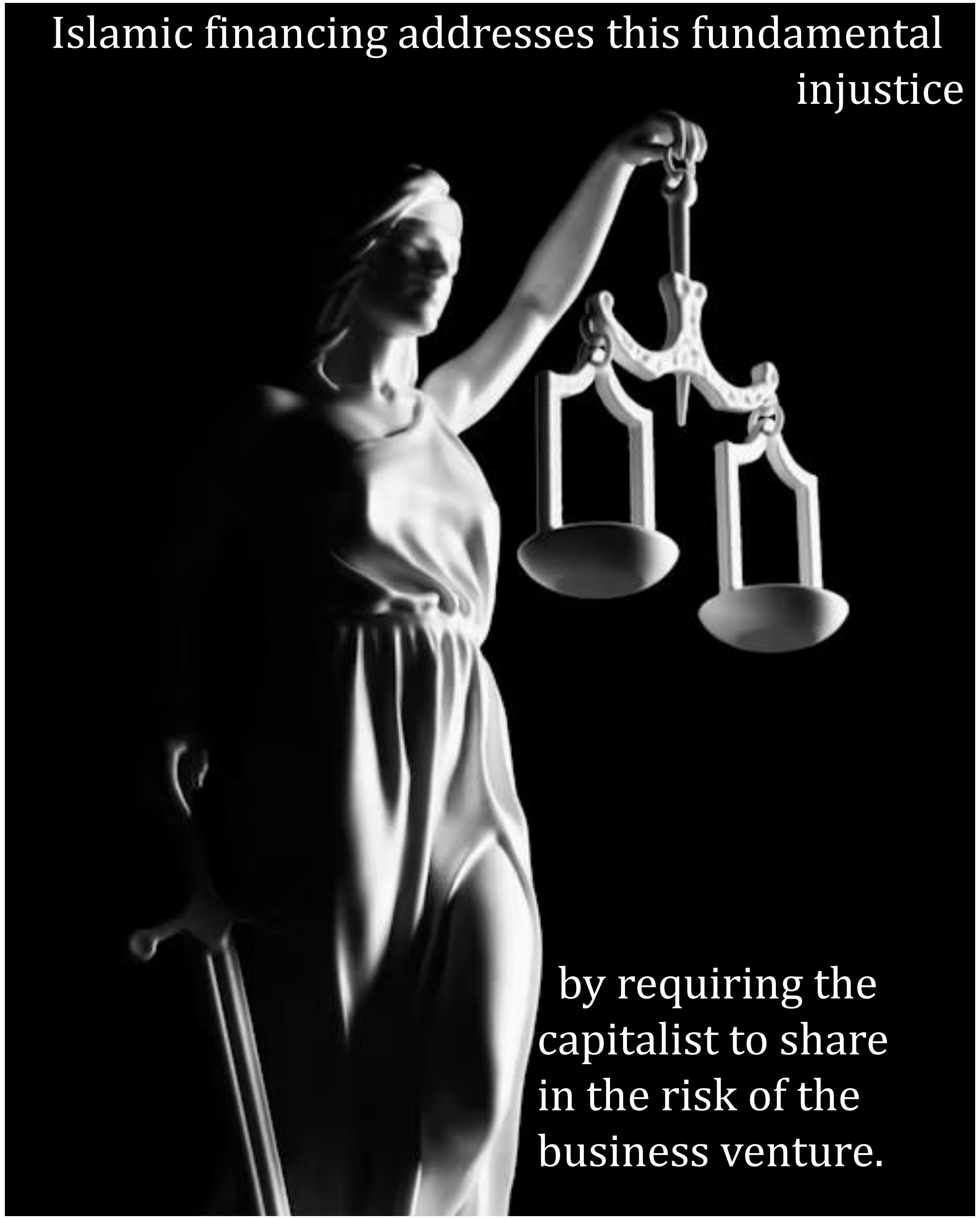

The capitalist who
provides the money
is guaranteed a profit,


whether the business
makes money or loses it.


The entrepreneur
is expected
to do the
work
required
to set up the
Business
& run it.
And
required
to bear
risk of
failure.


The capitalist does no work
& bears no risk.


Yet if his money were to
sit in a vault it would
never increase by itself.



Islamic financing addresses this fundamental injustice

by requiring the capitalist to share in the risk of the business venture.

The main form of investment enterprise

is known as *Mudarabah* (profit sharing).

- One party supplies money
- The other provides management
- In order to do a specific trade

The profits in such an agreement may be shared in any proportion agreed between the owner of the capital and the agent beforehand. If there is a loss, the financial loss is borne by the capitalist because the agent has lost his time and effort.

- Another investment form is *musharakah* (partnership).
- Two or more financiers provide finance for a Project.
- All partners are entitled to a share in the profits or share in the losses resulting from the project in a mutually agreed upon ratio.

# Consumption Loans

Very Few consumers have the cash on hand to pay up front for expensive items like; Houses & Cars

In the *riba* financing system

- ❖ The consumer takes a loan from the bank (at a mutually agreed rate of interest)
- ❖ Payment schedule is made up for 3 years/20 years, etc, (depending on cost of item)
- ❖ At the end of the period; consumer has paid 2/3 times more for the item than if he had purchased it with cash
- ❖ Virtually all payments during the first half of the payment, are counted as interest payments
- ❖ If house owner decides to sell a house after 10 years; they would get almost no money out of the sale
- ❖ Since very little of the money that was paid, was considered to have purchased equity in the house

Islamic financiers have proposed two alternatives to this arrangement:

*1. Murabahah* → (mark-up cost or cost-plus financing): → client goes to the Islamic Bank to get Finance → in order to purchase a specific commodity. → The Bank purchases the commodity on cash → & sells it to the customer on a profit.

- Since the client has their money, he buys the commodity on a deferred payment basis
- The two sale contracts should be separate & real transactions
- Many scholars have criticised this contract as;
  - being in practise not very different from a *riba* arrangement
- Its defenders say that the difference between the two is that;
  - There can be no penalty for a late payment in the *Murabahah* contract

2. Joint – Purchase/Leasing → is a scheme by which the Islamic bank → & the consumer buy an item together. → They are co-owners but the consumer gets → the added benefit of using the purchased item, → so, he must pay rent to the Co-owner (the bank) for that privilege.

- The rent he pays is calculated according to the growing market rate (for a similar item)
  - But is adjusted according to the banks actual share of the ownership.

FOR EXAMPLE:

A house is purchased for $100,000.

The consumer pays $100,000

And

The bank pay $90,000.

The rent for a similar house in that neighbourhood is $800 a month.

- The consumer would pay 90% of that rent to the bank (i.e. $720)
- Consumer would pay something extra each month (in addition to rental payment)
- In order to slowly buy out the bank.

- Say the consumer makes a total monthly payment of a $1000.
- $280 of the first payment would be considered to go to purchase of house.
- Next month payment would reflect the small shift in the ownership shares of the consumer and the bank.
- The bank now owns 89.72% of the house, rather than 90%.
- Hence, rent paid to bank for second month would be $717 .76.
- That change, in turn, would slightly increase the portion of the payment that goes to the purchase of the house to $282.24.
- Each month total payment stays the same, but rent proportion decreases with each payment, while equity proportion increases.
- A precise & fair instrument for facilitating consumer purchases & protecting rights of both consumer & financier.

- ✓ An Islamic bank is also allowed to levy a service charge on a loan if the fee is the actual expenditure
- ✓ Any access to actual self related expenses would be interest
- ✓ The service charge can only be calculated accurately after all administrative expenses have already been incurred (e.g. at the end of the year)
- ✓ It is permissible to levy an approximate charge, then reimburse or claim the difference at the end of the accounting

- ❑ A small proportion of an Islamic bank's lending is done as *qard hasan* (interest-free loans)
- ❑ As a service provider to the community in recognition of the responsibility of those with money to those without
- ❑ The banks vary in their policies on these loans
- ❑ Some provide them only to holders of investment accounts with them
- ❑ Some to all bank clients
- ❑ Others to needy students & their destitute
- ❑ Yet others to small producers, farmers & entrepreneurs who are not qualified to get finance from other sources.

# Thank You