**Student ID:**

**COURSEWORK 1**

**HOW DOES THE BAN ON RIBA INFORM THE DESIGN OF FINANCIAL PRODUCTS IN ISLAMIC FINANCE?**

Riba is derived from the derivative word ‘ribawa’ meaning ‘to increase, to grow; to grow up, to exceed, be more than.’ riba is generally translated into English is usury or interest but in fact it has much broader sense under Shari’ah.[[1]](#footnote-0)

Riba is a concept in Islam that refers broadly to the concept of growth in, increasing or exceeding. The term “riba” has also been roughly translated as the pursuit of illegal, exploitative gains made in business or trade under Islamic law.2 Adam Hayes, ‘Riba’ (2020) Investopedia <www.investopedia.com/terms/r/riba.asp> accessed November 25, 2020.[[2]](#footnote-1)

Technically or legally riba has been defined as an increase of capital whether in loans or in an exchange of a commodity accrues to the owner [lender] without giving in return any equivalent counter-value or recompense [‘iwad] to the other party. *Iwad* is the basic trait or the condition of a halal or lawful sale because sale or exchange is necessary an exchange of value, against an equivalent value, an equitable return and compensation for the goods or services exchanged.[[3]](#footnote-2)

Riba was largely taken as law and formed the basis of the Islamic banking industry.[[4]](#footnote-3)

Riba was classified into two categories:

1. Riba al-fadi: The excess over and above the loan paid in kind. It lies in the payment of an addition by the debtor to the creditor in exchange of commodities of the the same kind.

Riba al-nasi’ah refers to the interest on loans; its prohibition essentially implies that the fixing in advance of a positive returns on a loan as a reward for waiting is not permitted in Islam.[[5]](#footnote-4)

Riba is prohibited under Shari’ah law for a couple of reasons:

1. It is meant to ensure equity in exchange
2. It is meant to ensure that people can protect their wealth by making unjust and unequal exchanges illegal.

‘The principal reason why Islam prohibits riba is that Islam wishes to establish an economic and social systems where all forms of exploitations are eliminated’.[[6]](#footnote-5)

Malik b. Anas wrote:

In pre-islamic days, riba became due when a man owed another a debt; at the time of its maturity, the creditor would ask the debtor: “will you repay or will you increase? If the debtor paid up, the amount was received. On the other hand, the debtor increased the amount and the creditor extended a further term”.[[7]](#footnote-6)

In trade, an entrepreneur has the prospect of making a profit , he also faces the risk of incurring a loss. Whereas, interest is predetermined to be positive irrespective of the ultimate outcome of the business which may be positive or negative depending to a great extent of factors beyond control of the entrepreneur.[[8]](#footnote-7)

While the earning of profit is uncertain, the payment of interest is predetermined and certain. This profit may or may not be realised. Hence, there can be no doubt that the payment of something definite in return for something uncertain inflicts a harm.[[9]](#footnote-8) The prohibition of riba alnasi’ah essentially implies that the fixing in advance of a positive return on a loan as reward for waiting is not permitted by the shari’ah. The waiting involved in the repayment of a loan does not in itself justify a positive reward.[[10]](#footnote-9)

Also, Islam prohibits interest due to the fact to reduce the concentration of wealth in the hand of few[[11]](#footnote-10) and to ensure fair and legitimate profit-making business activities.[[12]](#footnote-11)

Though Muslims agree that riba is prohibited but there is much debate over whether or not it should be punished by people or by Allah.[[13]](#footnote-12)

However, the prohibition of riba also means that it was replaced with risk-sharing scheme where the lender and the borrower share the profit and loss of an endeavour in an agreed formula.

The prohibition has led to the growth of islamic finance loan.[[14]](#footnote-13) The global footprint of this industry has become even larger and It has led to the development of some financial products which are quite doing well in the financial world. In 2019, the total assets of global Islamic banking amounted to about $1.99 trillion (US Dollars). It was projected to continue to increase.[[15]](#footnote-14)

On the other hand, Mushtaq S. et al, assess the effects of riba-prohibition on the financial decisions and on saving and investment using the random-effect and system generalised method of moments (GMM) model separately to data of 17 non-Islamic and 17 Islamic countries from 2005-2017, it was found out that people in islamic countries are not concerned about interest rate on saving and as such other indices like remittances received and national expenditure have negative impacts on savings.[[16]](#footnote-15)

Also, many politicians see the idea of incorporating Shari’ah even if only technically, is a dangerous breach of secular principles. Some Islamic scholars fear that a more open attitude could also make it easier for radical Islamists to gain a foothold.[[17]](#footnote-16)

**BIBLIOGRAPHY**

Adam Hayes, Riba (2020) Investopedia <www.investopedia.com/terms/r/riba.asp> accessed 25 November, 2020.

All Answers Ltd :Literature Review on the Prohibition of Riba <ukduss.com April 2021>.

Amna Puri-Mirza, Worldwide Growth of Islamic Bankind Assets, (January 29, 2021) <statista.com/statistics/1090891/worldwide-growth-of-islamic-banking-assets/>

Haqqi ARA, The Philosophy of Islamic Law of Transactions (CERT Publication 2009).

J.T.B Borhan; Che Zarrina binti Sa’ari, An Analysis of the Prohibition of Riba in the Qur’an.

Uddi, Md Akhtar, Principle of Islamic Finance Prohibition of Riba, Gharar and Maysir (MPRA Paper No 67711, Nov, 2015).

Muhammad Umer Chapra, Towards A Just Monetary System (1986).

CEO Abdul Rahim Mohd Zin (New Straits Times, 14th January, 2002).

Mushtaq, S., Siddiqui, D.A. Effect of Interest Rate on Economic Performance: Evidence from Islamic and Non-Islamic Economies. Finance Inno 29 (2016). <https: //doi.org/10.1186/s40854-016-0028-7>.

The Economist: Islamic Finance in France Sharia Calling, a Political Row About Muslim Law (Nov. 12th 2009)

1. Haqqi ARA, The Philosophy of Islamic Law of Transactions (CERT Publication 2009) 123-124. [↑](#footnote-ref-0)
2. Adam Hayes, Riba (2020) Investopedia <www.investopedia.com/terms/r/riba.asp> accessed 25 November, 2020. [↑](#footnote-ref-1)
3. J.T.B Borhan; Che Zarrina binti Sa’ari, An Analysis of the Prohibition of Riba in the Qur’an 45. [↑](#footnote-ref-2)
4. Adam Hayes, Riba (2020) Investopedia <www.investopedia.com/terms/r/riba.asp> accessed 25 November, 2020. [↑](#footnote-ref-3)
5. Uddi, Md Akhtar, Principle of Islamic Finance Prohibition of Riba, Gharar and Maysir (MPRA Paper No 67711, Nov, 2015) 3 [↑](#footnote-ref-4)
6. All Answers Ltd :Literature Review on the Prohibition of Riba <ukduss.com April 2021> [↑](#footnote-ref-5)
7. Malik b. Anas, Al-Muwatts’, Kitab al-Buyu’, Bab al-Riba; J.T.B Borhan; Che Zarrina binti Sa’ari, An Analysis of the Prohibition of Riba in the Qur’an 50. [↑](#footnote-ref-6)
8. Muhammad Umer Chapra, Towards A Just Monetary System (1986) 63 [↑](#footnote-ref-7)
9. Al-Imam Al-Razi, Vol. 7, p. 87; J.T.B Borhan; Che Zarrina binti Sa’ari, An Analysis of the Prohibition of Riba in the Qur’an 51. [↑](#footnote-ref-8)
10. Muhammad Umer Chapra, Towards A Just Monetary System (1986) 57-58 [↑](#footnote-ref-9)
11. Khir et al, [2007]; Ahmad [2000] [↑](#footnote-ref-10)
12. Jurnal Usuluddin Bil 19[2004] 45-60 [↑](#footnote-ref-11)
13. [↑](#footnote-ref-12)
14. CEO Abdul Rahim Mohd Zin (New Straits Times, 14th January, 2002) [↑](#footnote-ref-13)
15. Amna Puri-Mirza, Worldwide Growth of Islamic Bankind Assets, (January 29, 2021) <statista.com/statistics/1090891/worldwide-growth-of-islamic-banking-assets/> [↑](#footnote-ref-14)
16. Mushtaq, S., Siddiqui, D.A. Effect of Interest Rate on Economic Performance: Evidence from Islamic and Non-Islamic Economies. Finance Inno 29 (2016). <https: //doi.org/10.1186/s40854-016-0028-7> [↑](#footnote-ref-15)
17. The Economist: Islamic Finance in France Sharia Calling, a Political Row About Muslim Law (Nov. 12th 2009) [↑](#footnote-ref-16)