

FAST

ISLAMIC & RELIGIOUS STUDIES

LECTURE NO 14
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RIBA AND ITS TYPES

Definition of Riba

- Literal meaning of Riba is growth or increase;
- The Holy Qur'an did not give any definition for the term since it was well known to its immediate audience like the prohibition of pork, liquor, gambling, adultery etc, which were imposed without giving any definition;
- However, Fuqahaa (Jurists of Islam) have described Riba as an effortless profit or a profit which is without due consideration or the extra earning that is free of exchange;



Riba

➤ According to a definition:

“it is any excess compensation over and above the principal which is without due consideration. Its a premium paid to the lender in return for his waiting as a condition for the loan”

➤ Shah Waliullah Dehlvi, has given a very concise and precise definition of interest. He says:

"Riba` is a loan with the condition that the borrower will return to the lender more than or better than the quantity borrowed."



- Riba literally means 'increase' or 'excess';
- Classical and contemporary Islamic scholars define Riba as:
The conditional or customary increase which a creditor (owner of the loan) receives from his debtor (user of the loan) for giving him time to repay his debt;

- The increase in principle may be in form of cash or kind or services;
- The increase is counted Riba if it is stipulated or becomes customary in
- the society;
- Unconditional increase in principal as gesture of thank and without
- predetermination is not Riba;
- **Riba** in Arabic or '**Sood**' in Urdu or **Interest** or **Usuary** in English give similar meanings



Explaining Riba

- In modern financial system, interest or the excess (increase) in loan is a legitimate consideration or compensation for the period of re-payment of loan;
- The theory is not acceptable to Islam as Arabs and others used to give money with a condition that they will charge a particular amount monthly or at maturity and the principal will remain due as it was. Then on the maturity date they demand the debtor whether to pay the principal or they would increase the term and the payable amount both;
- Islam has declared it Haram;
- Therefore, any increase in principal loan amount is not allowed;



Riba in Quran

➤ There are four different sets of verses which were revealed on different occasions.

▶ First, in Surah Ar-Rum, in the following words:

"And whatever Riba you give so that it may increase in the wealth of the people, it does not increase with Allah." [Ar-Rum 30:39]

▶ The second verse is of Surah Al-Nisaa in the following words:

"And because of their charging Riba while they were prohibited from it." [An-Nisaa 4:161];

▶ The third verse of Surah Al-i-'Imran is with these words:

"O those who believe do not eat up Riba doubled and redoubled." [Al-i-'Imran 3:130];



Riba in Quran

➤ In the Surah Al-Baqarah the following set of verses has been revealed:

"Those who take interest will not stand but as stands whom the demon has driven crazy by his touch. That is because they have said: 'Trading is but like Riba. And Allah has permitted trading and prohibited 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 for ever.

Allah destroys Riba and nourishes charities. And Allah does not like any sinful disbeliever;

O those who believe, fear Allah and give up what still remains of the riba if you are believers. But if you do 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."

[Al-Baqarah 2:275, 275, 276, 278, 279, 280 and 281]



Riba in Sunnah

➤ Zaid Bin Aslam reported that interest in pagan times was of this nature: When a person owed money to another man for a certain period and the period expired, the creditor would say: You pay me the amount or pay the interest. If he paid the amount, it was well and good, otherwise the creditor increased the loan amount and extended the period for payment again'.

(Al-Muwatta, Imam Malik);

➤ 'The Prophet during his last sermon addressed his companions,

"Every form of riba (interest) is cancelled; capital indeed is yours which you shall have; wrong not and you shall not be wronged. Allah has given His Commandment totally prohibiting riba. I start with the amount of interest, which people owe to Abbas and declare it all cancelled. He then, on behalf of his uncle, Abbas, cancelled the total amount of interest due on his loan capital from his debtor'. (Tafsir Al- Khazin, vol.1, p.301);



Riba in Sunnah

The Prophet is reported to have said:

"Sell gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, in same quantities on the spot; and when the commodities are different, sell as it suits you, but on the spot'. (Muslim);

'Bilal visited the Messenger of Allah with some high quality dates, and the Prophet inquired about their source. Bilal explained that he traded two volumes of lower quality dates for one volume of higher quality. The Messenger of Allah said:

“this is precisely the forbidden Riba! Do not do this. Instead, sell the first type of dates, and use the proceeds to buy the other.’ (Muslim)



Types of Riba

➤ Riba which is prohibited by Islam is of two types; First type of Riba:

1. Riba al-Jahiliyya or Riba an-Nasee'ah or Riba al-Qura'n (pre-Islamic Riba, Riba in loans or Riba that is mentioned in Qura'n);

This is the primary type of Riba which was common in Arabs and other nations at the time of revelation of Quran;

Riba An-Nasiah or Riba al-Jahiliyyah was a transaction well-known and recognized in the days of Jahiliyya;

Arabs and others used to give money with a condition that they will charge a particular amount monthly if the borrower does not return the amount and the principal will remain due as it is;

Since Riba al-Jahiliyyah was interest on loans and because of its common nature it was easy to understand, therefore it was named “Riba al-jahiliyyah;



Riba al jahiliyyah

➤ Riba al jahiliyyah is classified in two types:

1. **Simple Interest:** Interest calculated only on the initial investment;
2. **Compound Interest:** Reinvestment of each interest payment on money invested to earn more interest;



Second type of Riba

➤ **Riba al-Fadl (Riba in trade, Riba in exchange):**

➤ This type of Riba was concluded from famous Hadees in which Holy Prophet said:

'Sell gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, in same quantities on the spot; and when the commodities are different, sell as it suits you, but on the spot'. (Saheeh Muslim);

➤ According to this Hadees Riba al-Fadl has been explained about six defined commodities;



Riba al-Fadl

➤ Exchange of these things (barter system of trade) should be with two conditions:

➤ If the transacted commodities are of same nature then

(1) Spot delivery – immediate delivery of both commodities and

(2) Same quantity on both sides, is essential;

exchange of 1kg wheat with 1kg wheat;

➤ If the transacted commodities are of different nature, then

(1) Spot delivery – immediate delivery of both commodities is essential

(2) the quantity may differ;

exchange of 1kg wheat with 2kg barley;



Riba Al Fadl – business application

- Riba al-Fadl was not famous in Arabs before Islam. Islam has introduced this type of Riba in the world;
- Riba Al Fadl was mentioned in six commodities only by Holy Prophet (Sallallah u Alayhi wa Sallam).

Is this prohibition limited to these six commodities or the prohibition is general?

- The rule of Riba al-Fadl is not limited to these six commodities, and it is applicable to some other commodities as well. But Fuqahaa have different point of view in its generality;



First viewpoint:

The common feature of these six commodities is that they can either be **weighed or measured**, therefore, any commodity which is sold by weighing or measuring falls within this category and is subject to the same rule, if it is bartered with a similar commodity;

Second viewpoint:

The common feature of these six commodities is that they are either eatables or they are used as a universal legal tender. Wheat, barley, date, salt represent eatables while gold and silver represent universal legal tenders. Therefore, all eatables and universal legal tenders are subject to the rule mentioned in the hadith;



Third viewpoint:

The common feature among these six commodities is that they are either food items or they can be stored. Therefore, every thing that is a food item or can be stored is included in the same category, hence, subject to the same rule.

Forth viewpoint:

The major characteristic on the basis of which the rules of Riba are applicable to other commodities by is 'their being in the nature of money'. Therefore, rules of Riba would apply to anything that serves the functions of money, such as, paper currency;



Rules for exchange of commodities that attract ruling of Riba:

- When the commodities are similar, “**excess/shortfall in quantity**” and “**delay in payment**” both are prohibited, e.g., gold for gold or wheat for wheat;
- When the commodities are different but belong to a same group (the effective cause of prohibition is the same for both), then excess/shortfall in quantity is allowed while the delay in payment is not allowed; Like the case of sale of gold for silver (the common reason being their use as medium of exchange) or of wheat for rice (the common reason being edibility);
- When groups are different then both “excess/ shortfall in quantity “ as well as “delay in payment” are allowed



Modern forms of Riba

➤ Interest on loans:

- This is the main type of interest which is clear and easy to understand for everyone;
- Lending and borrowing on interest is an example of Banking interest;

➤ Interest on debts:

- Debt originates with a loan and also with a sale and other transactions wherever the payment of money is deferred to a future date. The Quranic prohibition of Riba in debt, no increment is permissible when the debt is repaid or settled;
- The settlement of debt sometimes involved its replacement with a new increased debt, and this has been condemned as the worst form of Riba or Riba al-jahiliyya;



The Rationale for Prohibition of Riba

➤ Imam Al-Ghazali pointed evil effects of Riba in the following words:

"Riba (interest), is prohibited because it prevents people from undertaking real economic activities. This is because when a person having money is allowed to earn more money on the basis of interest, either in spot or in deferred transactions, it becomes easy for him to earn without bothering himself to take pains in real economic activities. This leads to hampering the real interests of the humanity, because the interests of the humanity cannot be safeguarded without real trade skills, industry and construction”;



The Rationale for Prohibition of Riba

1. Injustice:

- In a transaction of loan, and it is not necessary that everybody finds out all the elements of injustice in a Riba transaction, yet the evil consequences of interest were never so evident in the past than they are today;
- Injustice in a personal consumption loan was restricted to a debtor only, while the injustice brought by the modern interest affects the economy as a whole.

2. Effects of interest on production;

3. Effects of interest on distribution of wealth;

4. Lenders are secured all the time;

