***Riba or Interest in Islamic finance: Rationale of its prohibition along with a comparison with other religions and cultures***

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Abstract

This study aims at investigating the concept of Riba in Islam as a prohibited and hated behavior since it affects the harmony of the society and it leads to poverty, unemployment, hatred and crime .it discusses the concept of Riba in Islamic theology in comparison with Christianity and Judaism .Besides, is study makes explanation of rational behind the prohibition of Riba in the divine religions , specially Islam .More importantly , it shed light heavily on the reasons behind prohibition on all religions .More importantly this study assesses critically the notion with perspectives from other religions ,cultures philosophies and modern socio-economic reformers .The finding of the study showed that Riba is prohibited in holy Quran and Sunnah because of exploitation of the borrower and the non-existence risk for the lender . It also concludes that Islamic finance products have replaced interest with the concept of profit sharing where lenders take part in investment activates where they can share profits.

# Introduction

*Riba* is prohibited and hated in all divine religions, especially Islam as it affects the harmony of the society. It also leads to more poverty, unemployment, hatred, crime and instability.

*Riba* is a concept that stands at the centre of Islamic finance. The two main sources of Islamic law include the Quran and Sunnah, and while the Quran simply prohibits the use of interest in finance, the Sunnah has further clarified the scope and concept of interest through the application of interest to monetary or barter exchanges (Siddiqi, 2004). The concept of interest is not just unique in the case of Islam, but other religions have also given perspectives on the ideology of interest, giving the followers of those religions guidelines on how to approach this concept. The purpose of this essay is to shed light on the concept of Riba or interest in all religions and to identify the reasons why it has been prohibited in all religions. The essay will also critically assess the notion with the perspectives from other religions, cultures, philosophies and modern socio-economic reformers to understand what guidelines other religions have given in respect to this.

# Riba in Islam

The term *Riba* has been developed from the similar word 'raba-wa' which has a number of meaning including excess, growth or increase. However, in its English translation this word is thought to imply mainly as interest or usury (Haqqi, 1999). Riba can further be divided into two categories which include the *Riba* paid on the exchange of goods of supervisor quality with goods of poorer quality (Riba al-Fadl) and taking interest on loaned money (*Riba* al-Nasi’ah). Both types of *Riba* have been prohibited in Islam because they both involve paying in excess of what was received in the form of a loan. In the 20th century, a number of scholars started to give their opinions regarding the concept of *Riba* as interest started becoming an important financial concept in modern-day banking. The initial opinion from most of the scholars was based on identifying all types of fixed returns on loans to be considered as *Riba* and hence prohibited. This identification did not take into account the percentage or amount of extra money that was being returned on the original loan.

The scholars presented an argument that because the additional amount charged on the borrowed loan was falling under the scope of *Riba* as identified in the Quran and Sunnah, it was hence prohibited, and so it did not matter whether the extra amount being charged was reasonable or unreasonable. Based on this, the definition of *Riba* took the form of any extra amount that had to be paid along with the principal when paying back a loan (Ahmad, 2007). Therefore, in the classification of *Riba* it does not matter whether the loan is personal or commercial, whether it is used for the purpose of consumption or investment, and whether the rate of interest is low or high. Both *Usury* and *Interest* are *Riba*

An alternative opinion that came out on the concept of *Riba* was that only exploitative *Riba* should be prohibited whereas a reasonable rate of interest should not be prohibited. This was based on the premise that since banks run a business, it is important for them to earn a profit on the lending of money and this is the only way that they can earn a profit. Since earning a profit is allowed in Islam, with the same concept the charging of *Riba* or interest on loans is also allowed as long as it does not exploit the party taking the loan. It was also highlighted that since bank loans are based on the prevailing rates required by investors, it is a just and fair system for creating a system of lending and borrowing (Ingo, 1982).

# Riba in Other Religions, Cultures, Philosophies and Modern Socio-Economic Reformers

While the prohibition of *Riba* in Islamic finance is very clear, there are a number of other religions that also have a stance regarding the use of interest in financial activities. Abou-Zaid and Leonce (2014) present that even though religions such as Judaism, Christianity, Hinduism, Buddhism and Islam differ from each other on a number of foundational elements, the stance of all of them on the use of an interest rate is the same. The authors highlight that the criticism. prohibition and stance on charging interest is very clear not only in Islam but also in all divine religions and in many other religions.

**1. Prohibition of Riba in Hinduism & Buddhism**:

The roots of the prohibition of *Riba* arefound in ancient Indian religious manuscripts in which the ‘usurer ‘was compared with one selling his wife or child (Jain, 1929 ) . Usury was condemned and banned.

**2. Prohibition of Riba in Christianity**:

As both religions have substantial evidence in their religious scriptures against charging interest on lending. Moreover, Abou-Zaid and Leonce (2014) have presented a number of quotations from the religious scriptures of Judaism and Christianity that clearly prohibit the use of interest. Some examples from Christian scriptures of Bible include:

* “Thou Shalt not give him thy money upon usury, nor lend him thy victuals for increase” (Leviticus 25:37)
* “Do not charge your brother interest, whether on money or food or anything else that may earn interest” (Deuteronomy 23:19)
* “If you lend money to any of My people who are poor among you, you shall not be like a moneylender to him; you shall not charge him interest” (Exodus 22:25)

As each of the references from the Bible above indicate, the prohibition of interest in the Holy Bible has been made clear. However, Zarabozo (2007) refutes this by suggesting that the teachings from the New Testament on interest can be considered as vague. The author suggests that the findings of Christianity are not only based on the Old Testament but also on the New Testament, and the teachings of the New Testament can be used to justify interest.

## **3. Prohibition of Riba in Judaism**

*Riba* is considered unethical, unlawful and forbidden. More importantly, The Prophet Ezekiel included *Riba* in a list of abominable things like rape, adultery, murders, robbers and idolatry (Ezekiel 18:8 , 13 ) . Moreover, in Judaism, there is no difference in law between high interest and law or simple interest since all interests are prohibited (Cohn,1991)

Similary, Abou-Zaid and Leonce (2014) also present references from the scriptures of Judaism to identify how interest has been prohibited in Judaism religion as well:

* “He has lent on usury; he has taken interest; he shall surely not live, having done all these abominations.” (Ezekiel 13)
* “If he has exacted usury or taken increase – Shall he then live? He shall not live! If he has done any of these abominations, He shall surely die; His blood shall be upon him” (Ezekiel 18:13)

The references above show that not only has interest been prohibited in Judaism but it is also considered as a major sin in the religion where the takers of interest are cursed with death. This indicates that the stances of Judaism are clear on the prohibition of interest.

## **4. Usury in the Roman Empire.**

The Roman Empire also prohibited charging or interest on money borrowing. But, with the

extensive of the Empire and progress in business, interest charging was allowed with restrictions on the rate of interest. (Usmani, 2000). The Romans did not like Usury because it affects the harmony and the unity of the society.

## **5- Usury in ancient Greek**

In ancient Greek, charging of interest on money transaction was strictly prohibited.

Aristotle believed that the main goal of the use of money was to facilitate exchange and achieve the satisfaction of human needs. (Abelson, 1987). “A piece of money can’t beget another pieces “Aristotle, Politics, Book, Ch.X . Plato also had some views like Aristotle. He believed that changing of the interest is against humanity and unjust as well as unnatural (Usami , 2000 )

## **6. Usury in the views of modern socio-economic reformers.**

From a modern-day cultural and philosophical standpoint, it can be seen that authors such as Barker (2012) have highlighted the thinking of ancient philosophers on interest. The author suggests that ancient philosophers such as Aristotle and Plato have also condemned the use of interest. It is also important to look at the perspectives on this concept from modern reformists of economic thinking. The most renowned philosophers of economics include Adam Smith and John Maynard Keynes, both of whom have contributed to the foundations of economics. Levy (1987) has highlighted that Adam Smith was strong in his support for the control of interest. Keynes on the other hand held a different perspective with the concept of interest. Keynes held the assumption that interest rate is important as being a price that helps bring equilibrium to the act of holding one's wealth in the form of cash, and hence interest acted as the reward to an individual for losing liquidity that came with cash. Keynes was of the view that rational individuals prefer to remain liquid as long as there isn't enough financial motivation to make the wealth illiquid (Appelt, 2016). Therefore, based on this concept it can be seen that interest is a tool that can be used by central banks to control the level of liquidity in monetary markets. Despite this economic reasoning for the concept of interest, it does not take into account the foundations of equity and justice which are the basic reasoning as to why religions such as Islam, Christianity and Judaism prohibit the use of interest rates.

# Explanations of Rational Behind the Prohibition of Riba in the Divine Religions, Specially Islam

*Riba* is prohibited in all divine religions. It is also considered unethical and unlawful by all divine religions in Judaism, for example, the charging of *Riba* is severely forbidden.

The charging of interest is against the spirit of Christianity as well more importantly in Islam Allah made all the resources of earth available to man to make use of them according to his needs with certain limits. People who practice *Riba* are people of hell fire. (Saeed, 1996)

If you have deep interpretation why *Riba* is forbidden in all divine religions, especially Islam, you understand the following justification and reasons.

1. *Riba* is against the teachings of all religions to have equality and harmony among people on each.

2. All religions, cultures and human literatures are against exploitation of Man by his brother Man since it is a kind of enslaving of the poor people.

3. *Riba* is against justice, humanity and welfare of society.

4. *Riba* is a kind of selfishness because *Riba* makes wealth in the hands of the few people.

5. *Riba* leads to using money far away from its functions. Money is created for selling and buying products and goods not for buying and selling money. Therefore, money will not achieve its basics function.

6. *Riba* leads to inflation when the rate of interest increases the rate of inflation rises as well.

7. *Riba* leads to destruction of the morality of the society.

8. *Riba* leads to business collapse, failures and unemployment because of an increase in risk-based equity capital.

9. Pre-decided rate of return in investment is illogical and not justified because there is a possibility of losing.

10. All divine religions, especially Islam do not accept an income without effort or risk.

With respect to the prohibition of *Riba* in Islam, Cummings et al. (1980) have identified three main reasons. The first reason is that *Riba* circulates the concentration of wealth between a selected few wealthy individuals. Secondly, Islam prohibits the financial gain from an activity unless both parties are subjected to some form of risk. Thirdly, the growth of wealth through *Riba* is viewed as selfish in Islam because it involves exploitation of one party by another if it is misused. Ahmad (2007) further explains the economic consequences of *Riba* as hampering employment and investment and bringing some form of instability within the overall economy. Therefore, all of these indicate that *Riba* is prohibited in Islam because of its potential to bring loss to the poor people within an economy, and because of the potential exploitation it can lead to.

Overtime, many other scholars have shed light on the issues of *Riba* and have identified a host of other possible reasons for the prohibition of Riba in Islam. Ahmad (1984) highlighted those transactions that are based on *Riba* lead to the violation of the equity perspective within an organization. Since the borrowing party is required to pay a pre-decided rate of interest on the borrowed amount even in the case where the borrowing party is incurring loss, this shows that the lending party is exposed to no risk and the system of interest becomes unjust for the party that is borrowing the money. Although this argument can be refuted by considering that the lending party is also exposed to risk in the case where the borrowing party becomes bankrupt, but banks normally make use of underlying assets as protection against the loan to cover such risks. This also indicates that the inflexibility on the interest to be paid on borrowed money leads the borrower to experience greater risk since a loss on the borrowed money would not only expose the borrower to the loss experienced on the original loan, but he would also be burdened to pay an interest on the borrowed money.

In comparison to the system of interest, Islamic scholars suggest the use of a profit-sharing basis in order to distribute the risk between the lender and the borrower. Since a pre-decided rate of interest adds to the investment cost, a profit-sharing basis may be considered as a fairer option since it allows the borrower to share profits only in the case where a profit is made. Mannan (1970) sums up the argument explaining the prohibition of *Riba* in Islam by suggesting that interest does not influence the level of savings, it worsens the problem of unemployment, and lastly it leads to an unfair distribution of wealth within the economic system. Based on this discussion, it can be seen that although the Quran and Sunnah only prohibit the use of *Riba* in Islamic financial system and explain its scope, Islamic scholars have made use of reasoning and the principles of justice and equity to explain the reasons as to why there is no place for *Riba* in Islamic finance.

The problem associated with interest or *Riba* has been raised many times in different countries practicing the faith of Islam. In order to address this matter in a more professional forum, this topic was raised in an Islamic conference carried out in Saudi Arabia in the year 1973, and many scholars discussed the issue of interest and aimed to provide a universal definition for interest for the purpose of Islamic finance. Iqbal and Mirakhor (1999) have identified the four key aspects of interest that are now used to explain the prohibition of interest and these include that it is a fixed percentage, it is based on the amount of time and the principal amount, the payment of the interest is assured by the borrower even in the case where the borrower does not have the resources to pay it back, and the collection of debt and the interest is enforced. Since each of these characteristics are evident in the interest rates being charges in modern-day banking systems, it can be established that they do not fall within the boundaries set by Islam. . However, the enforcement of financial transactions without the use of interest are mostly only evident in the case of Islamic countries, and this is because of the prominence that Islamic finance has developed over the last century. The advent of modern banking systems led Islamic scholars to identify the differences that arose between the conventional and Islamic systems and it then led to the development of Islamic finance which provides Islamic alternatives to conventional banking systems by ensuring compliance to the teachings of Quran and Sunnah.

Finally, Islam asks with unbreakable voice and surprise “ How it can be regarded rationale if the lender’s money should get a fixed amount of return without doing any physical work or having any risk?”

# Conclusion

As the discussion carried out in this essay has shown, the concept of interest or *Riba* is very broad and over the last century it has taken the efforts of many Islamic scholars to narrow down the definition of interest based on a set of characteristics. While the Quran and Sunnah have identified the scope of *Riba* and have mandated its prohibition, they do not provide depth into the discussion of why it is prohibited. Authors such as Cummings et al. (1980), Ahmad (1984) and Ahmad (2007) have gone on to explain the multiple reasons which explain the prohibition of interest in Islam. Islamic scholars have made use of Islamic teachings of justice, fairness and equity to explain the ills that can be caused through the use of a conventional finance system that depends on interest rates. Among the reasons highlighted by the authors are the exploitation of the borrower and the non-existence of risk for the lender, which is necessary for business activities to be considered lawful in Islam. The essay also shed light on the views on interest in other religions such as Christianity and Judaism, and references from the religious scriptures of both religions showed that interest is not only prohibited in those religions, but it is highly condemned. Moreover, perspectives from ancient philosophers such as Plato and Aristotle also showed that the concept of interest was condemned.

Despite the different reasons behind the prohibition of interest in Islam, modern-day Islamic financial systems have come to the conclusion that it is important for some form of gain to be tied to loans so as to protect lenders from the potential loss that may occur from inflationary pressures in the economy. Moreover, some upside to lending is also required to motivate lenders to part with their liquidity as identified in the theory by Keynes (Appelt, 2016). Based on these, Islamic finance products have replaced interest with the concept of profit-sharing where lenders are able to take part in investment activities where they can share profits. To limit the risks for lenders, Islamic banks allow them to opt for low risk and return investment opportunities that can give them some form of economic profit while keeping the risks low (Siddiqi, 2000). This concept of economic profit in Islamic banking does not fall within the characteristics of *Riba* because it does not designate a fixed return, and it exposes the lender to the inherent risks of the business where their money is invested.

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