

# Prohibition of Riba

Prepared by:

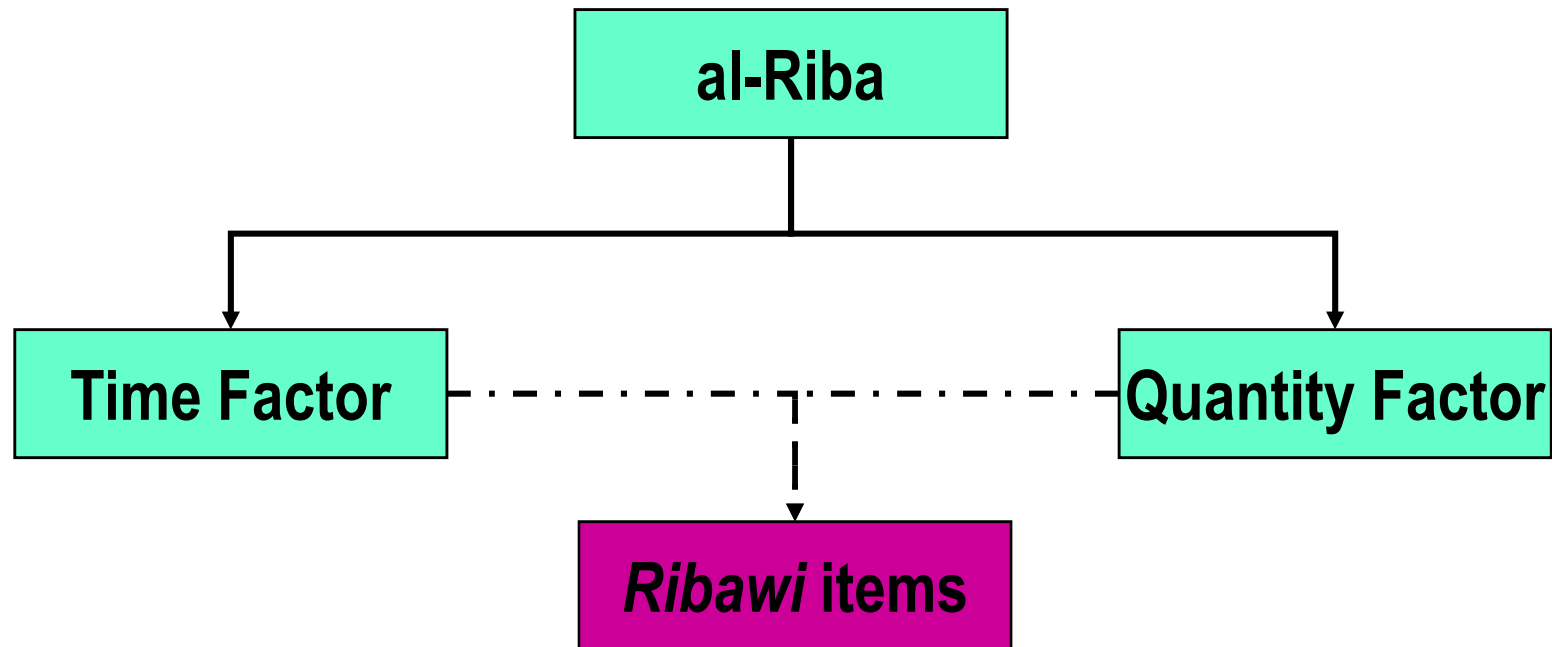
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## Stages of Revelation

- First stage: al-Rum, 39
- Second stage: al-Nisa', 161
- Third stage: Ali 'Imran, 130
- Fourth stage: al-Baqarah, 275-281

## *Al-Riba*: Its Definition

- Riba:
  - Deferment in the time of exchange (*riba al-nasiah*)
  - Quantity of one of the counter values (*riba al-fadhl*)



## *Al-Riba: Its Definition*

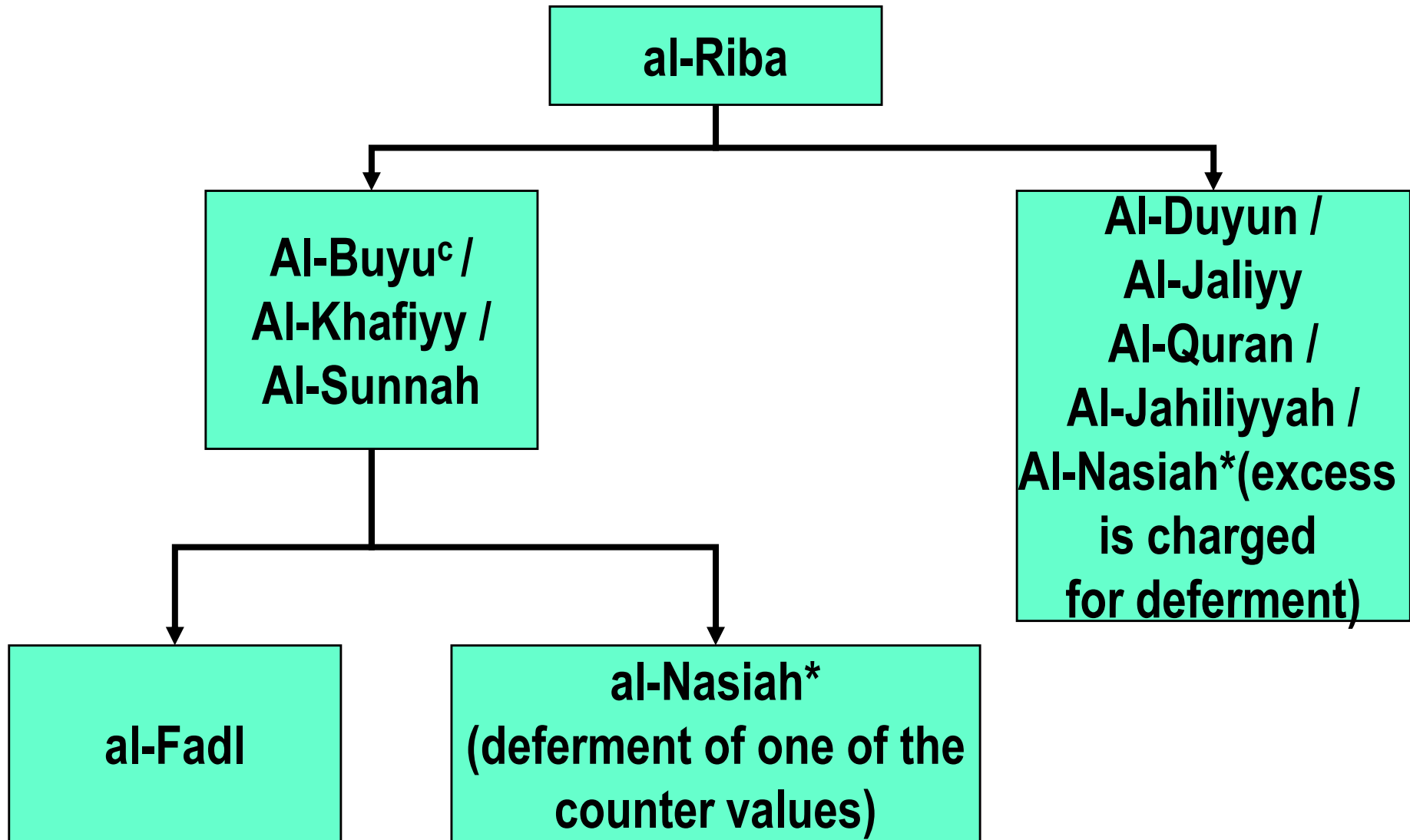
- Nabil Salih's:

*“An unlawful gain derived from the quantitative inequality of the counter values in any transaction purporting to affect the exchange of two or more species which belong to the same genus and are governed by the same legal cause.*

*Deferred completion of the exchange of such species, or even of species which belong to different genera but are governed by the same cillah (legal cause), is also riba, whether or not the deferment is accompanied by an increase in any one of the exchanged counter values.”*

# Types and Classifications of al-Riba

- Riba al-duyun / al-jaliyy / al-Quran / al-Jahiliyyah / al-Nasiah:
  - An increase for the repayment deferment/poseponement in contract of loan
- Riba al-buyu<sup>c</sup> / al-khafiyy / al-Sunnah:
  - Riba al-Fadl: Inequality of quantity between the (ribawi) counter values
  - Riba al-Nasiah: Deferment of one of the (ribawi) counter values which share the common <sup>c</sup>illah



## Riba al-Buyu<sup>c</sup>

<sup>c</sup>Ubadah Ibn al-Samit reported a hadith from the Propehet  
s.a.w:

*“Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, like for like, equal for equal, and hand-to-hand. If the commodities differ, then you (may) sell as you wish provided that (the exchange) is hand-to-hand.”*

*al-Riba in Trade - Barter & al\_Sarf : Al-Shafiiyyah*

Food				Commodity Money		Type	ʿillah (Ratio decidendi)
Salt	Dates	Barley	Wheat	Silver	Gold		
*	*	*	*	1	2	Gold	Commodity Money
*	*	*	*	2	1	Silver	
1	1	1	2	*	*	Wheat	Food
1	1	2	1	*	*	Barley	
1	2	1	1	*	*	Dates	
2	1	1	1	*	*	Salt	

**2** (1) Prompt delivery (time) & (2) with the equivalent quantity

**1** (1) Prompt delivery (time) only

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Riba-un-Nasiyah or Riba-al-Jahiliya
  - Riba-al-Fadl or Riba-al-Bai

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Riba-un-Nasiyah or Riba-al-Jahiliya
    - *“that kind of loan where specified repayment period and an amount in excess of capital is predetermined”*( Imam Abu Bakr Jassas Razi)

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Riba-un-Nasiyah or Riba-al-Jahiliya
    - *“all loans that draw interest is riba”*(Hadith quoted by Ali ibn Talib)
    - *“the loan that draws profit is one of the forms of riba”*(definition from Sahabi Fazala Bin Obaid)

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA

- Riba-un-Nasiyah or Riba-al-Jahiliya

- real and primary form of riba
    - premium paid to the lender in return for his waiting
    - giving or taking of every excess amount in exchange of a loan at an agreed rate irrespective of whether it is low or high

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA

- Riba-al-Fadl

- Definition: Any excess that is without due consideration

For example: excess taken in exchange of specific commodities (Al amwal Ur Ribawiyyah) which are homogeneous

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Hadith prohibiting Riba-al-Fadl
    - ‘sell gold in exchange of equivalent gold
    - sell silver in exchange of equivalent silver
    - sell dates in exchange of equivalent dates
    - sell wheat in exchange of equivalent wheat
    - sell salt in exchange of equivalent salt
    - sell barley in exchange of equivalent barley

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Hadith prohibiting Riba-al-Fadl
    - sell barley in exchange of equivalent barley but if a person transacts in excess, it will be riba.
    - However sell gold for silver anyway you please on the condition it is hand-to-hand(spot sales) and sell barley for date anyway you please on the condition it is hand-to-hand(spot sales)

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Imam Abu Hanifa on Riba-al-Fadl
    - commodities must have two common characteristics
      - Weight
      - Volume
    - includes all commodities having weight or volume and are being exchanged

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Imam Shafi on Riba-al-Fadl
    - commodities must have two common characteristics
      - be a medium of exchange
      - be edible
    - includes all commodities that are edible or can be used as a medium of exchange(currency)

# ISLAMIC BANKING

- CLASSIFICATION OF RIBA
  - Imam Malik on Riba-al-Fadl
    - commodities must have two common characteristics
      - can be preserved
      - be edible
    - includes all commodities that are edible and can be preserved

# ISLAMIC BANKING

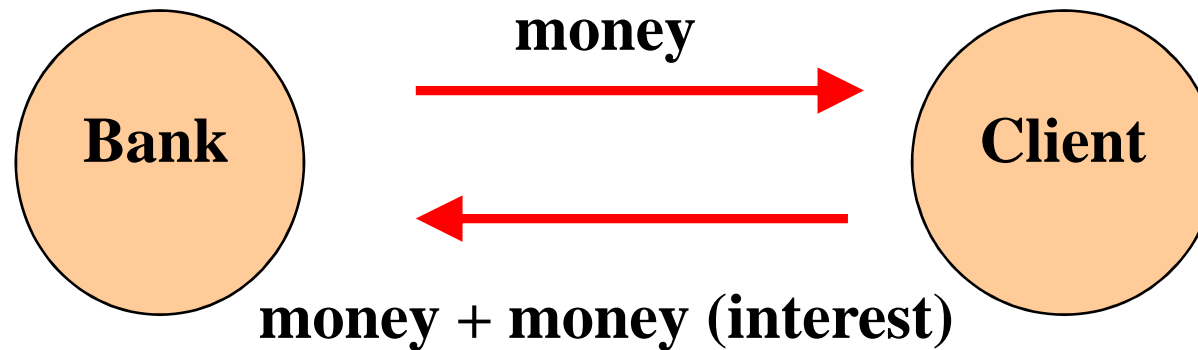
- CLASSIFICATION OF RIBA
  - Imam Ahmad Bin Hanbal on Riba-al-Fadl
    - first citation conforms to the opinion of Imam Abu Hanifa
    - second citation conforms to the opinion of Imam Shafi
    - third citation includes three characteristics at the same time i.e. edible, weight and volume

# RIBA IN BANKING

- On the both sides of the conventional banks Riba exists:
- On the Liabilities Side, through borrowing from depositors on fixed and guaranteed return
- On the Assets side, through lending on Interest basis.

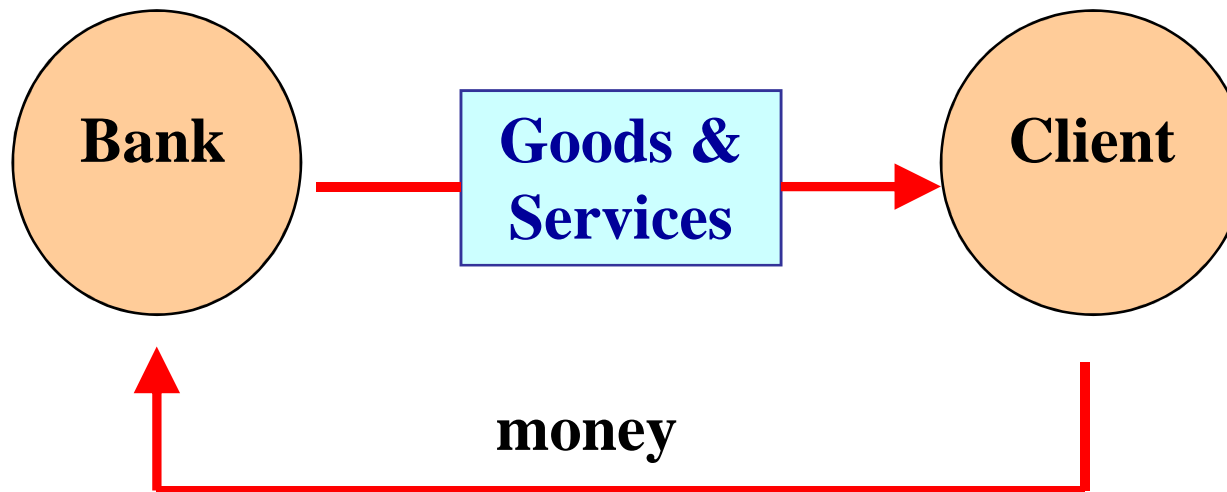
# Basic Difference between Islamic and Conventional Modes of Finance

## Conventional



# Basic Difference between Islamic and Conventional Modes of Finance

## Islamic



# Theoretical Comparison

## CONVENTIONAL BANKING

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- Is based on interest.
- Deals in money or papers.
- Is based on fixed return on both Sides of the balance sheet.
- Does not involve itself in trade and business

## ISLAMIC BANKING

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- Is based on profit or rent
- Deals in assets.
- Is based on profit sharing on deposits side, and on profit on assets side.
- Actively participates in trade, production and valid services through valid contracts.

# The Wisdom and Rationale of the Prohibition of Riba

- Barter system is not so favourable from the Shariah point of view.
- The impact of *riba* is on the society at large compared to other crimes prescribed in *hudud* which impact are restricted to only a few of people.
- It is a clear burden on the borrower. In any circumstances, he is obliged to repay the principal and interest charge (Money renting). Money and time cannot grow by themselves.
- Riba is the main pushing factor for the people with surplus of money to lend their money out to the deficit units in the economy. However, it could render to exploitation of deficit units by the surplus units.

# The Wisdom and Rationale of the Prohibition of Riba

- The inflexibility of interest charge results in loss and unemployment in comparison with the profit-and-loss sharing system.
- Security oriented vs Growth oriented. Interest-based system is not for the poor parties with poor creditworthiness.
- Inequality in loan distribution makes the rich becomes richer and the poor becomes poorer.
- Interest-based system impends the innovations amongst the small-scale enterprises particularly.

# The Wisdom and Rationale of the Prohibition of Riba

- Wealth creation and transfer: Riba activities do not create a new stock of wealth.
- Borrowers are not exposed to any risk (except credit risk - does not commensurate the profit made).
- Money is considered as commodity in an interest-based system and subject to the law of demand and supply (Allowing speculation on money).
- Interest is a component of costs in an interest-based system.

# The Wisdom and Rationale of the Prohibition of Riba

- Long-term debts: Paying debts with new debts.
- Debt-financing and large-scale borrowings expose companies to bigger risk (Islam: Trade-based and equity-based financing).



Deferment of one of the counter values

is unlawful (riba) in a barter trading, but it is permissible in a loan contract. Why?

# Some False Thoughts about al-Riba

- Riba could exist in loan transaction only
- Riba (interest) is an excessive rate (usury) of premium imposed on the borrower in loan transaction. The prohibition of riba is restricted only to doubled and multiplied riba
- Riba is prohibited in consumption loan (dharurah) and allowed in productive loan
- Riba al-duyun is the only type of riba prohibited in Islam