

IS INTEREST PROHIBITED IN ISLAM?

There is no doubt what has been prohibited by both the Qur'an and the sunnah of the Prophet (SAWS) is riba. The Qur'an has prohibited it in 4 different revelations (30:39, 4:161, 3:130-2 and 2:275-81). The last of these revelations came near the end of the Prophet's (SAWS) life and stated that those who took riba were declaring war on Allah (SWT) and the Prophet (SAWS).

The Prophet (SAWS) prohibited riba in the most unambiguous terms, condemning not only the recipient of interest but also the who gives interest and the one who records it and those who act as witnesses to such a transaction(1). To stress the seriousness of the prohibition of riba the Prophet (SAWS) equated the willful taking of interest with committing adultery thirty-six times(2) or committing incest with one's own mother(3).

So what is riba?

Riba literally means increase, addition, expansion or growth. However, not every type of increase or growth is prohibited in Islam. Profit is also an increase in the principal amount yet it is not prohibited in Islam. So what kind of increase, growth or addition is prohibited?

To answer this question we can look at the sunnah of the Prophet (SAWS) who prohibited the taking of even a small gift, service or a favour as a condition for a loan(4). This equates riba with what is commonly understood to be interest.

There is hardly any classical Qur'an commentary or Arabic dictionary which give s different meaning. This is also unanimous verdict of a number of international conferences of Islamic scholars(5) in modern times on the subject of riba.

So what is the confusion?

The reason may lie perhaps because the word riba has been used in Shari'a in two different senses and the difficulty of some people to clearly understand the meaning and implications of both. This is riba al-nasi'ah and riba al-fadl.

The problem of differentiating between usury and interest does not have its origin in the text of the Qur'an itself but rather in the English translations of the Qur'an. It should be noted that both interest and usury are similar on the fact that they are both increases that are paid on the principal by the debtor to the creditor.

Riba al-nasi'ah

The term nasi'ah comes from the root word nasa'a which means to postpone, defer, or wait and refers to the time that is allowed to the borrower to repay the loan in return for the "addition" or the "premium". Hence riba al-nasi'ah is equivalent to the interest charged on loans. This is the sense in which riba is used in the Qur'an ayah 2:275. It is also referred to as riba al-Qur'an or riba al-duyun (riba on loans).

Prohibition of riba al-nasi'ah in Shari'a prohibits the fixing in advance of a positive rate of return on a loan as a reward of waiting. It makes no difference if the return is large or small, fixed or variable, paid in advance or maturity, cash, gift or service as a condition of the loan.

The important point is the predetermined positiveness of the return. According to Shari'a the waiting involved in repayment of a loan does not in itself justify a positive reward. Riba applies to interest both consumption and production (development, business) loans. There is no difference of opinion amongst all schools of Islam jurisprudence that riba al-nasi'ah refers to interest and that it is prohibited (haram).

Riba al-fadl

While Islam has prohibited interest in loans and allowed trade, it has not allowed everything in trade. Dishonest and unjust exchanges in business transactions are prohibited. These include exploitation of a new entrant into a market place, rigging of prices in an action with the help of an agent, accepting reward for making a favour recommendation for an individual and others. Anything that is unjustifiably received as "extra" by one of the two counterparts to a trade transaction is riba al-fadl, which in the words of Ibn al-Arabi as, "all excess over what is justified by the counter-value(6)."

The prohibition of riba al-fadl is intended to ensure justice, to remove all forms of exploitation through "unfair" exchanges and to close all backdoors to riba. Ibn Kahthir in his commentary on ayah 2:275 states that the Prophet (SAWS) said, "Leave what creates doubt in your mind in favour of what does not create doubt."

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A large part of this article has been adapted from an article by Dr. M. Umer Chapra

1. Sahih Muslim, hadith no. 3881

2. Narrated by Ahmad and al-Daraqutuni from Abdullah ibn Hanzalah (Mishkat al-Masabih hadith no. 2825)

3. Narrated by Ibn Majah and al-Bayhaqi (Shu'ab al-Iman) from Ibn 'Abbas (Mishkat al-Masabih hadith no. 2826)

4. Bukhari in his Tarikh; Ibn Taymiyyah in al-Muntaqa; Sunan al-Bayhaqi, kitab al-Buyu, Bab kullu qardin jarra manfa'atan fa huwa riban

5. Mu'tamar al-Fiqh al-Islami, Paris 1951 and Cairo 1965; OIC and Rabitah Fiqh Committee 1985 Cairo and 1986 Makkah

6. Ibn al-arabi, Ahkam al-Qur'an, 1957, p242