

The Concept & Categories of Riba (Interest) and the Rationale for its Prohibition in the Islamic Economic Framework

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Riba literally means excess, increase or addition. It is in fact “any excess paid without due consideration”. Islam prohibits Riba in all its forms and warns the ones who deal in interest in very severe terms. The Holy Quran informs those who involve themselves in interest to take notice of war from Allah and His Messenger (PBUH). [2:279] The Holy Prophet (PBUH) cursed the acceptor of interest and its payer, and one who records it, and the two witnesses, and said: “They are all equal.” [Sahih Muslim 3881]

Riba commonly perceived as Interest or any charge imposed on money is a far broader term in its meaning. Interestingly, Riba not only applies to currency or exchange of money but also to the exchange of commodities or tangible items. Following are the two major categories of Riba or Interest which are thoroughly explained by Shariah and are strictly forbidden in an Islamic economy:

- ✦ Riba An-Nasiyah or Riba Al-Jahiliya or Riba Al-Quran.
- ✦ Riba Al-Fadl or Riba Al-Hadees.

Riba An Nasiyah

Interest which is explicitly forbidden in Holy Quran and therefore also termed as Riba Al-Quran. This is the category of interest that had been practiced for a long time before Islam, in the era of 'jahiliyyah', this is the reason why this is also called Riba-Al-Jahiliyyah. It is the same kind of Riba practiced today in all modern economies and economic structures around the world. It's actually the amount charged on the principal amount of money lent. The basis for the charging of Riba An-Nasiyah in all the modern economic structures is the very principle of 'time value of money'. According to this principle which originates from the concept of opportunity cost, it is purely justified for the lender/bank to receive excess amount over and above the principal because the funds they have lent could have been used for some other profitable purposes, so they are entitled to the interest or Riba, ethically & economically. However, the Islamic viewpoint is that opportunity cost alone cannot entitle the lender to receive extra amount above the principal because the lender is not sharing any risk with the borrower. If the risk is being shared, he will be entitled to charge the excess amount which shall fall in the category of profit rather than interest or Riba.

Riba Al-Fadl

The other type of interest that applies to the exchange of goods and commodities. It is actually an excess charged to homogeneous commodities when these are exchanged unequally. Also called Riba Al-Hadees as it was mentioned in the following hadith of Prophet Muhammad (PBUH): "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, but if a person transacts in excess, it will be Riba." Heterogeneous commodities can be exchanged in unequal proportion provided the sale is on the spot. Same rule applies to the exchange of currencies i.e. 'bai' surf'.

Islam is the religion closest to nature and there is not even a single injunction in the whole Islamic faith that is contradictory to the laws of nature or that is illogical or without any rationality. Same is the case with Riba or interest. Today's global economic and financial system cannot be even imagined without the concept of Interest. Interest plays a pivotal role in the modern economic setup. Despite this bitter reality, not only Islam but all the other major religions consider interest as despicable. Islam strongly rejects any form or facet of Riba in any business and financial transaction. Islam not only prohibits Riba but provides thorough and logical *raison d'être* for its prohibition. Islam considers interest to be the greatest hurdle to achieve its ultimate economic goal of equitable distribution of resources. Interest paves the way for the rich and wealthy to accumulate more and more wealth, which not only adversely affects the whole economy but also lays the foundation for the socio-economic injustice in the society. The rich who already control the lion's share of economic resources in the society are given the opportunity to lend on Riba and pile on more and more money by charging interest. Besides this, they being the wealthy can afford to offer collateral to borrow from banks and other financial institutes where the savings come from all classes of society but only the upper strata of society benefit from it and exploit the lower sections of the social setup. Interest has proved to be the root-cause of problems like vicious circle of poverty, debt-trap for the developing countries, hyper-consumption and many other major economic predicaments. The recent global recession proves this point quite clearly. Interest is the chief reason of escalating money supply within the economies, without taking into consideration any tangible assets to back this increase in the money supply, which triggers inflation and speculation which ultimately results in economic instability. Interest promotes risk-free capital and is against the very principle of risk-sharing. It is unjust for the investor because the amount he gets is not based on the actual amount of profit and he only gets a small amount of fixed interest, and on the other hand, when entrepreneur suffers loss, he must repay the loan as well as the amount of interest which is a gross injustice to him as well. Interest is like a plague for a moral and just society and is the greatest barrier towards the attainment of overall goals of economic justice, socio-economic welfare and economic competitiveness.