ON FISCAL LAWS

Q: 25- What is the definition of Riba ('9) according to the Holy Qur'an and Sunnah of the Holy Prophet saw. Does it cover the simple and compound interest existing in the present day financial transactions?

A: The word, Riba as understood from the Holy Qur'an and Sunnah, is any extra payment received over and above the principal amount, regardless of the fact that extra amount is significant or insignificant. Islam, therefore, considers the Riba Haram, in all of its forms.

The Fuqaha have given two interpretations of the word, Riba,: Riba-al-Nasia and Riba al Fadl Riba al-Nasia is defined as,

Which is translated as:

"Any lending arrangement that obligates the borrower to pay a certain extra amount over and above the payment of the principal amount against the specified deferment".

Similarly, Imam Baihaqi reports the interpretation of Riba by Hazrat Fuzalah Ibni Ubaid rdi.:

"Any lending arrangement which results in some benefits to the lender, is one of the kinds of Riba".

It is important to note that the Ayahs of Holy Qur'an prohibiting interest relate to Riba al-Nasia.

"0 Ye who believe, fear Allah and give up what remains of your demand for usury if Ye are indeed believers" (al-Baqara 278).

"If Ye do it not, take notice of war from Allah and his Apostle, but if you desist Ye shall have your capital sum: Deal not unjustly, and Ye shall not be dealt with unjustly". (al- Baqara, 279)

At the time of revelation of the above Ayahs, the prevalent form of Riba was Riba al-Nasia. Therefore, the companions of the Holy Prophet. understood the meaning of these Ayahs in terms of Riba al-Nasia. Thus Riba alNasia was categorically regarded Haram in matters of Qarz. (Loan transactions : QARZ)

Riba al-Fadl occurs in those commodity exchange contracts where a contract provides payment of any extra quantity of the commodity.

For instance, one kilogram of wheat is exchanged for more than one kilogram of wheat, regardless of quality consideration. What matters is, that a given quantity is to be exchanged for the same quantity. In this case, the Hadith of the Prophet saw.

"Sell gold by gold, =silver by silver, dates by dates, wheat by wheat, salt by salt, and barley by

barley like for like and equal for equal so he who made an addition or who accepted an addition, committed the sin of taking interest. But sell gold for silver as you like but hand to hand and sell barley for dates as you like but hand to hand."

Though the above Hadith mentions the incidence of Riba in six things but the Fuqahah have extended the application of this Hadith to all commodity transactions characterized by the same underlying reason. Whenever the same commodity is exchanged for more (Quantity), the Riba al-Fadl will arise.

In the light of above explanation, it is clear that the word 'Interest' as commonly understood in context of banking/financial pertains to the Riba al-Nasia. Therefore, any extra payment specified in Qarz relating contract over and above the principal amount, falls under the definition of Riba al-Nasia, irrespective of the rate/amount of the extra payment. Hence, both the Simple and the compound interest are prohibited as being Riba al-Nasia.

Some people, perhaps have misunderstood the meaning of the verse,

"0 ye who believe, devour not usury doubled and multiplied but fear Allah that Ye may (really) prosper". (3:130)

And have tried to argue the permissibility of the simple interest. This is totally wrong conclusion.

As a matter of fact, the Holy Qur'an wants to root out an interest mentality as appears from verse (2:279). Ibn-e Jareer has reported the interpretation of Hazrat Qatada rdi. in his tafsir.

"That the Holy Qur'an permits the lender to receive the principal amount only and does not allow any addition (however small it may be)".

Contemporary fatawaa