

## **RIBA AND ITS DEVASTATING EFFECTS ON THE ECONOMY OF A NATION**

**BY**

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### **ABSTRACT**

Riba has dangerous effect and bad consequences on the economy, it adds to exploitation of the poor and needy as it results in more poverty, these riba loans make the rich creditors richer and add to their future earnings, the poor constitute majority of the society, if the income of the poor decreases then the demand on the consumed and invested commodities decreases also. In the field of investment and production, the Riba banking system allows the outflow of currencies to the wealthy people who are able to pay loans while the poor bear the expenses as the prices of commodities rise up, this results in national economy inflation, this is why Almighty Allah has clearly prohibited Riba in the Holy Quran. And all kinds of riba is forbidden, consumption of Riba is a reason for war from Allah and His Messenger. Riba has crept into the business affairs in so many novel forms that a great majority of Muslims who would otherwise abide by the requirements of Islam, are ignorant of the fact that a certain transaction falls within the ambit of riba and therefore illegitimate. This paper concludes that it is mandatory for all Muslims to seek knowledge concerning Riba and to strive to abstain from every form of it.

### **INTRODUCTION**

The authors of the four commentaries of the Holy Quran have interpreted the word Riba to mean an excess on the principal<sup>1</sup> Riba is also defined as the additional wealth stipulated or conventionally accepted which is collected as proceeds – as an interest in excess of the initial money (capital) at no cost when the usurious wealth is traded with its kind.<sup>2</sup> The word Riba literally means increase or excess. The Holy Quran explicitly and emphatically prohibits Riba and there is a complete consensus among all schools of thought in Islam that the term Riba stands for interest in all manifestations. The prohibition of interest in respect of consumption loans rests mainly on humane considerations while the main rationale for prohibition of interest in respect of loans for production purpose stems from the concept of justice which is the bedrock of the Islamic philosophy of social life. The basis of cooperation between capital and enterprise which Islam treasures is equitable sharing of the risks and gains between them which is possible under a system of profit, loss sharing.<sup>3</sup> The express

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<sup>1</sup> Muhammad Ibn Ali Fath al Qadeer vol 1 p 294, Jalaluddin M Ibn Ahmad and Jalaluddin Abdurrahman Ibn Ab[ Bakar, Jalalayn p 38, Sayyid Qutb, FI Dhilal il Qur' an vol 1 p 325, Ibn Katheer vol 1 p 586

<sup>2</sup> Abdullah bin Saalih Al Qusayyar (Dakwa corner Bookstore) 2009

<sup>3</sup> Atual Huq Pramanik: *Islamic Banking How Far Have We Gone* (3<sup>rd</sup> edn, IIUM Press International Islamic University Malaysia 2009) p 261

prohibition of Riba was imposed on the 2<sup>nd</sup> year of Hijra, Abdullah Ibn Abbas reported that:

“The last verse of the Holy Quran which was revealed on the Holy prophet was the verse on Riba”<sup>4</sup>

### **CLASSIFICATION OF RIBA**

There are two types of Riba, namely Riba An Nasiyah and Riba al Fadl.

#### **RIBA AN NASIYAH**

The prohibition of Riba means that Allah (SWT) has forbidden taking back anything more than the value lent.

Take a note that there are two kinds of Riba: Riba on loans credit and Riba by way of excess in spot transactions. Riba on loans credit is the one which has been in vogue and well known Riba an Nasiyah is defined as excess which results from predetermined interest which a lender receives over and above the principal in any transaction. This is the real and primary form of Riba regarding which verses of the Holy Quran were revealed and which the Ahadiths of the prophet (SAW) explained its evils. The Riba Al Jahiliyyah which has been prohibited by the Quran is that people would lend on the condition of obtaining more than the amount lent. Upon expiry of the agreed term, the tenor would be extended and the interest increased, this is the Riba which the prophet (SAW) declared null and void during his last pilgrimage.<sup>5</sup>

Since the period of ignorance of which the modalities were that one would lend a sum of money with the condition that a fixed sum would be paid (by the borrower) monthly by way of interest and the principal amount would remain intact. When the loan matured, the borrower was asked to return the principal. If the borrower expressed his inability to repay, they (the lenders) would extend the maturity and increase the interest. This kind of riba was in vogue in the period of ignorance. Riba on account of excess of one commodity in spot transactions is, the exchange of one mound of wheat with two mounds of wheat (of inferior quality) and similarly other commodities.<sup>6</sup>

#### **RIBA AL FADL**

This is interest by barter. This type of Riba is the excess over and above the principal paid in kind: it lies in the payment of an addition by the debtor to the creditor in the exchange of commodities of the same kind I e money for money, flour for flour, rice for rice etc. the prophet (SAW) explained Riba al fadl in the following words:

“ Exchange of gold with gold, silver with silver, wheat with wheat, barley with barley, dates with dates and salt with salt should be of equal quantities and spot, anyone who varies the quantities or allows one side of the exchange to be deferred, indulges in riba for which both buyer and seller are equally responsible”.

Based on the above hadith of the prophet (SAW), a new kind of Riba was identified, which stipulates that the six commodities mentioned if exchanged against themselves, the quantities should be equal and these should be exchanged

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<sup>4</sup> Sahih Bukhari: Kitab al Tafsir ch 53 Hadith 4544

<sup>5</sup> Al Mujtahid Ibn Rushd MALIKI: *Bidayya*

<sup>6</sup> Imam Razi: *T afsir e kabir*

simultaneously by both parties. Varying the quantity or deferring the exchange (even though the *quantity* may not be varied) is riba.<sup>7</sup>

Considering from a legal point of view, there is a marked difference between Riba Nasiyah and Riba al fadl. While Nasiyah relates to the excess charged on loan transactions, fadl relates to excess charged on sale transactions. Riba Nasiyah is forbidden in the Quran, fadl is prohibited by the sunnah of the prophet (SAW). Riba an Nasiyah was in vogue during the period of jahiliyyah and is forbidden in Islam because of its evil and cruel nature, whereas fadl was prohibited by the prophet (SAW) as a precautionary and preventive measure so that it will not result in Nasiyyah.<sup>8</sup>

All Muslim jurists are unanimous on the point that Islam prohibits interest without any qualification<sup>9</sup>

### **AN OBJECTIVE STUDY OF THE QURANIC VERSES DEALING WITH RIBA**

There are four different sets of verses of the Holy Quran on Riba which were revealed on different occasions. The first Surah is Surah Al Rum (30:39). Where Allah (SWT) Says:

And whatever Riba you give so that it may increase in the wealth of the people, it does not increase with Allah.<sup>10</sup>

The second verse is Surah Al Nisa (4:161) where the term Riba is used in the context of sinful acts of the Jews in the following words:

“And because of their charging Riba while they were prohibited from it”<sup>11</sup>

The third verse is Surah Al Imran in which the prohibition of Riba is laid down in the following words:

“O those who believe do not eat up Riba doubled and redoubled”<sup>12</sup>

The fourth set of verses is found in the Surah Al Baqarah in the following words:

Those who eat Riba will not stand (on the day of Resurrection) except like the standing of a person beaten by shaytan leading him to insanity. That is because they say: Trading is only like Riba, whereas Allah has permitted trading and forbidden Riba. So whosoever receives an admonition from his Lord and stops eating Riba, shall not be punished for the past: his case is for Allah to judge; but whoever returns (to Riba) such are the dwellers of the fire- they will abide therein.

Allah will destroy Riba and will give increase for sadaqat. And Allah likes not the disbelievers, sinners.

O you who believe! Have Taqwa of Allah and give up what remains from Riba, if you are really believers. And if you do not do it, then take a notice of war from Allah and his messenger but if you repent, you shall have your capital sums. Deal not unjustly, and you shall not be dealt unjustly.

And if the debtor is having a hard time, then grant him time till it is easy for him to repay: but if you remit it by way of charity, that is better for you if you did but know. And have Taqwa the day when you shall be brought back to Allah. Then every person shall be paid what he earned, and they shall not be dealt with unjustly.<sup>13</sup>

<sup>7</sup> Muhammad shaf: *The Issue of Interest* (Darul Ishaat Urdu Bazaar Karachi 1997) p16

<sup>8</sup> Ibid (n3) p 28

<sup>9</sup> Ibid p 44

<sup>10</sup> Abdullah Yusuf Ali: *The Translation and commentary of the Holy Quran* (Surah 30: 39)

<sup>11</sup> Ibid, (4:161)

<sup>12</sup> Ibid, (3: 130)

<sup>13</sup> Ibid, (2: 275-281)

The severity of the prohibition of Riba has been elaborated in the above quoted verses. The background of the revelation of these verses is that after the conquest of Makkah the Holy prophet had declared as void all the amounts of Riba that were due at that time. He stated that nobody could claim any interest on any loan advanced by him. Then the Holy prophet proceeded to Taif which could not be conquered, but later on the inhabitants of Taif came to him and after embracing Islam surrendered to the Holy prophet and entered into a treaty with him. One of the proposed clauses of the treaty was that banu Thaqif will not forgo the amounts of interest due on the debtors but their creditors will forgo the amount of interest. The Holy prophet instead of signing the treaty simply wrote a sentence on the proposed draft that Banu Thaqif will have the same rights as the Muslims. Banu Thaqif having the impression that their proposed treaty was accepted by the Holy prophet (SAW) claimed the amount of interest from banu Amr Ibn Al Mughirah, but they declined to pay interest on the ground that Riba was prohibited after Islam. The case was related to the governor of Makkah, Attaab Ibn Aseed, Banu Thaqif argued that according to the treaty they are not bound to forgo the amounts of interest. Attaab Ibn Aseed presented the case to the Holy prophet (SAW) on which the above quoted verses of the Holy Quran were revealed. At that point in time the Banu Thaqif surrendered and said we have no power to wage war on Allah and his Messenger.<sup>14</sup> The practice of borrowing and lending money on interest has become so common that today it is considered the base of all commercial and economy activity. Unawareness of the religious teachings has resulted in many Muslims even being ignorant of the fact that interest based transactions are not legitimate in Islam. Interest has crept in to the business affairs in so many novel forms that a great majority of Muslims who would otherwise abide by the requirements of Islam, are ignorant of the fact a certain transaction falls within the ambit of interest and therefore illegitimate. The way in which interests has pervaded into the affairs of today's world, an effective and a complete way of getting rid of it is possible only if government which possesses the necessary authority realizes the adverse effects of Interest from religious as well as economic points of view, decide to eliminate it from the areas which it governs.

However in view of the admonition contained in the Quran and the sayings of the prophet (SAW) which have not been pronounced for any other sin, and the fact that charging or paying interest has been considered waging war against Allah and his Messenger, It is not possible for efforts any Muslim to take the plea that the phenomenon has taken deep roots universally and give up to eradicate this evil. It is obligatory upon every Muslim to endeavor to the maximum of his capability to eradicate this or he should at least strive to reduce its incidence.

It has been reported by Hazrat Abu Hurairah on the authority of the prophet (SAW) that the prophet said "refrain from seven things which are deadly" the companions asked him what they are. He said (1) to associate partners with Allah (2) to cast spell (3) to kill someone without reason (4) to devour Riba (5) to devour property of an orphan, (6) to run away from the battle field (7) to falsely accuse innocent and chaste woman of vulgarity<sup>15</sup>

### **THE DIFFERENCE BETWEEN TRADING AND RIBA**

The major distinction between trade and Riba is the manner in which profit is distributed. If there is just distribution of profit is trade, if there is unjust distribution

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<sup>14</sup>Muhammad T Usmani: *The Historic Judgment On Interest* (Maktaba Ma'ariful Quran 2010) p24

<sup>15</sup> Sahih Bukhari

of profit then is Riba. The entire profit of the enterprise, distributed in a just manner between those who contribute the capital resources and those who contribute the human resources is trading. So that the provider of the capital acquires the profit or whatever agreed between the parties in accordance with accepted norms of Justice. This is not only permitted in Islam but it is one of the accepted norms of justice. On the other hand, if you resort to injustice to the other party who provides capital in that he is offered a fixed return and you pocket the rest of the profit, then this is violation of the principle of justice. This is not trading but a price for credit.<sup>16</sup> This is what the Quran has termed Riba.

“And Allah has permitted trading and forbidden riba”<sup>17</sup> in this verse, trading is permitted is stated before mentioning Riba is forbidden, points to the fact that there is no harm if a person engages in trading by employing capital and physical efforts with the intention of earning profit. The Holy Quran emphasizes the need for justice which is beneficial for both parties involved. Either both of them should profit or none should profit, when there is profit it ought to be distributed in a just manner in accordance with the proportion agreed between the parties.

Laws enacted by Allah first take into consideration the welfare of the entire humanity and then deal with individual's profit or loss. Trading is a means of free or unhindered circulation of wealth in the economy which benefits the entire nation. Riba on the other hand confines the circulation of wealth to a few capitalists which renders a large section of the society.

The wealth earned through interest is worthless and is a liability for the person who earned it.

Riba is an odious earning, prohibited, disastrous and ill-gotten property lacking any good and no blessing comes from it. It brings about harm and deficiency in the deen and worldly affairs. It is a transaction which is based on sin and enmity.<sup>18</sup> Laws of enacted by Allah, the sustainer of the entire universe, first take into consideration the welfare of the entire humanity and then deal with individual's profit or loss. In the light of this principle, if one looks at the difference between Riba and trade, it will be seen that while the apparent form is similar and it appears to be a kind of trading as claimed by the ignorant proponent of interest, the truth is that in trading, both the seller and buyer stand to gain reasonably. Trading is based on mutual cooperation and assistance which builds human character and supports the moral fibre. Contrary to this, interest based business breeds selfishness and seeks that the interest of one or more persons be sacrificed for the sake of the interest of a few. Riba is the gain where both parties wish to play it to their advantage regardless of the loss that the party have incurred. Trading entails a just distribution of profit of the business which is based on mutual sympathy, cooperation and assistance, Riba on the other hand is based on selfishness, cruelty, and the lust for money, In trading a person invests his time and money, and uses his labour and intelligence to provide goods which the others need. The buyer pays for the cost of the goods as well as some profit to purchase the goods which he needs and obtain their ownership, after the exchange, nobody owes anything to the other. In the case of Riba, the excess charged is not a compensation for any goods but a charge for giving the borrower the time to repay the loan. Trading is a means of free circulation of wealth in the economy which benefits the entire nation.

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<sup>16</sup> Muhammad T Usman: *The issue of interest*(Darul Ishaat 1997) p39

<sup>17</sup> Ibid (n13)

<sup>18</sup> Imtiaz Ali: *RIBA USURY OR INTEREST* (2<sup>ND</sup> edn International publishing house Riyadh 2006)

Riba confines the circulation of wealth to a few capitalists which renders a large sector of the society poor and destitute.<sup>19</sup>

### **EFFECTS OF RIBA ON THE ECONOMY OF A NATION**

“No other issue has been condemned and denounced so strongly in the Holy Quran as Riba”<sup>20</sup>

Just as an insane person, unconstrained by ordinary reason, resorts to all kinds of immoderate acts, so does one who takes riba. He pursues his craze for money as if he were insane, he is heedless of the fact that Riba cuts the very roots of human love, brotherhood and undermines the welfare and happiness of human society, and that his enrichment is at the expense of the well-being of many other human beings. This is the state of his insanity in this world; since a man will rise in the hereafter in the same state in which he dies in the present world, he will be resurrected as a lunatic<sup>21</sup> Interest leads to an inequitable distribution of income. The disparity in the interest income will lead to a situation where the rich keep getting richer while the poor keep getting poorer as interest continuous to grow, more and more of their overall income is consumed by interest.

Interest has psychological effects on the poor and on the market as a whole. In a Market economy production will be geared towards those who have the money to pay for the output regardless of how necessary other goods may be for the society. As income distribution skewed more resources will be devoted to the demands of the richer classes, furthermore the lesser resources devoted to the goods that the poor consume reduces supply and drives up the prices of these goods, further harming the poor people’s overall economic situation. The burden of interest upon the poor who fall into debt puts them into a situation where they cannot advance socially or economically widening the gap between the rich and the poor.

How the present interest based system works to favour the rich and kill the poor is succinctly explained by James Robertson in the following:

The pervasive role of interest in the economic system results in the systematic transfer Money from those who have less to those who have more. Again, this transfer of Resources from poor to rich has been made shockingly clear by the Third world debt crisis. But it applies universally. It is partly because those who have more money to lend, get more in interest than those who have less: it is partly because those who have less often have to borrow more; and it is partly because the cost of interest repayments now forms a substantial element in the cost of all goods and services looms much larger in the finances of the rich. When we look at the money system that way and when we begin to think about how it should be redesigned to carry out its functions fairly and efficiently as part of an enabling and conserving economy, the arguments for an interest free inflation free money system for the twenty-first century seems to be very strong.<sup>22</sup>

Debts with its increasing amount of interest compounded upon it, is dangerous for any nation because it means loss of sovereignty and control. Simply the removal of interest from such debts would alleviate the position of the world’s poorest.

On the international level the situation is much more devastating and dangerous, the debt servicing of lesser developed countries today is so great that they must sacrifice essential health and nutritional needs. Ken Livingston, mayor of London,

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<sup>19</sup> Ibid (n 15) p 45

<sup>20</sup> Sayyid Qutb: *In the Shade of the Quran (markfield Leicester England 1999) vol 1 p355*

<sup>21</sup> Sayyid Abu Ala Maududi: (Leicester,United Kingdom 1988) vol 1 p 213

claimed that global capitalism kills more people each year than were killed by Adolf Hitler, he blamed the IMF and World Bank for deaths of millions due to their refusal to ease the debt burden. Susan George stated that every year since 1981 between 15 and 20 million people died unnecessary due to debt burden because Third world governments have had to cut back on clean water and health programs to meet their repayments. Debt with its increasing amount of interest compounded upon it, is dangerous for any nation because it means loss of sovereignty and control.

When money makes money, it gets accumulated in the hands of a handful of rich people beyond the reach of the majority, this class disparity between two persons is the reason behind every ethical and social corruption. Money is the backbone of life, and when it is owned by few, for beyond the reach of the majority of people, a serious imbalance in the social life style gets established.

The current debt situation with the major role that interest is playing in it, is potentially very devastating for the world as a whole in global trends 2015, the central intelligence Agency CIA recognized.<sup>23</sup>

“He who drinks wine is hurting himself, but he who commits adultery is hurting himself and his partner whereas he who practices usury hurts the entire society” Riba causes money to be scarce, it is concentrated in a few hands only, whereas the poor so short of money, find it impossible to make both ends meet. This is a problem which affects the the entire society and weakens its purchasing power and when the income is not enough to satisfy people’s necessities the society gets afflicted numerous maladies I e brothel houses, crimes, terrorism etc.

Riba is the cause of ruin and bankruptcy; reality has shown that Riba is a cause of the bankruptcy of many nations and societies because the greed for its interests made those who engaged in it to change their accounts and withdraw their currency fluidity from their country to other advanced influential countries, so those countries to which the monies are withdrawn are able to use it in a way that makes it vulnerable from many angles while the countries that originally own the money become prone to null currency fluidity and unexpected economic stagnation.<sup>24</sup>

Riba causes unemployment that is because he who wants to work and start a business needs capital but when money is made through investments rather than projects there is no need to hire employees and this will result in unemployment. Weakness of the nation is the outcome of riba. Each person who invest with banks rather than in economic projects contributes by doing so, to the weakness of his nation, to its backwardness and even destruction, riba weakens nations because of the absence of production and the prevalence of consumption. It obstructs the flow of money and seriously affects social issues and affairs by hindering circulation of money, this is why Allah (SWT) declared war on the person who indulges in Riba. He who eats riba is building his success on wreckage of other people, his wealth on their poverty, and his might on their humiliation and all these facts will be revealed on the day of resurrection, the day of judgment and the day when every soul shall be paid in full for what it has earned and nobody will be dealt with unjustly.

## CONCLUSION

No other issue has been condemned and denounced so strongly by Almighty Allah in the Holy Quran as Riba. Indulging in any kind of Riba is a heinous crime which attracts severe punishment both in this world and the hereafter. It is pertinent to

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<sup>23</sup> Jamal Al Din Zarabozo; *The various ways in which interest has harmed society (2001)*

<sup>24</sup> Abdullah bin Salih Al Qusayyir; *A Reminder of the Evils of RIBAA, its Essence, forms and harms ( Dakwa corner bookstore 2009) p62*

state that two things are mandatory on all Muslims concerning Riba, one, to acquire knowledge about it from Quran and Sunnah, and two, to implement it in one's life. A Muslim may be indulging in a cardinal sin because he is not bothered about seeking knowledge about the issue.

The prohibition of interest in respect consumption loans rests mainly on humane considerations, while the main rationale for prohibition of riba in respect of loans for production purposes stems from the concept of justice, which is the bases of the Islamic philosophy of social life. The basis of cooperation between capital and enterprise which Islam encourages, is equitable sharing of the risks and gains between them.