Riba And the Rational Behind Its Prohibition

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Abstract- This paper moves to a great extent in giving an analysis of Riba(Usury) as a phenomenon in the global economic processes, especially as it relates to Islamic financial institution. The prohibition of Riba and the reasons for its prohibition are examined without losing sight of the position of Islam to it and what may actually constitute Riba with its categorizations. In achieving this, a thorough research was done based on existing literatures and discoveries on Riba as it relates to Islamic Finance.

Indexed Terms- Riba (Usury), Islamic Finance, Financial Institutions, Prohibition of Riba, Reasons for Prohibition.

I. INTRODUCTION

Like a plague, Riba is infesting every major part of commercial transactions, mostly in the conventional banking system. Thus, a light at the end of every dark tunnel. Islam, not only a religion but also a total way of life cannot be set aside in this regard and has ultimately frowned against consumption of Riba or interest, and anything of its kind. “We have left nothing undiscussed ...", says Allah in the Magnificent Book.

Mervyn King, Governor of the Bank of England (2003-2013) commented that the most detestable of banking system is that of interest operating one. Similarly, a one-time president of the Federal Republic of Nigeria (1999-2007) lamented on the inherent evils of interest making as a way of injustice in the foreign creditors' interest rates. Pathetically, these are bitter-truth by non-Muslims.

Alternatively, an Islamic financial institution operates by rendering services like local and international commercial transactions, revenue collection for governments and corporate organizations, and other valuable negotiable items without interest.

II. THE CONCEPT OF RIBA

No news that terminologies are described in different ways by different people to mean a thing. In a contextual sense, the word “riba” refers to an extra charge on what is obtained for monetary loans. It is an exorbitant charge on a borrowed money.

According to a writer, it is the additional amount paid by a borrower to his lender as a compensation for parting with his money for a specific period of time. Technically speaking, riba under Islamic law has been defined as any increase in return, of which no equivalent counter value is paid. No matter how little or excessive the return is, it will always amount to Riba.

III. THE PROHIBITION OF RIBA

Unarguably, there are arguments for justification of interest. It is speculated that interest plays economic significant to the growth of a nation and that it should be a reward to the lender because he is denied an opportunity to engage in a profitable venture. Be that as it may, interest does more harm than good and Allah in his limitless knowledge prohibits consumption of interests for whatsoever reason.

In Qur’an 2 V 228, Allah gives an outright prohibition on Riba (Usury) and enjoy legal fair deal in business. Similarly, Quran 2 V 275 provides that:” … And Allah has made trade lawful, while declaring interest as unlawful”. Other Quranic verses prohibiting interest include but not limited to Q30 V 39, Q4 V 161, Q3 V 130-132, Q2 V 276-279.

These Qur’anic provisions and a host of other Islamic legal injunctions are the backgrounds and genesis upon which usury is prohibited.

In addition, Malik bin Aus narrated from `Umar bin Al-Khattab: Allah's Messenger (ﷺ) said, "The bartering of gold for gold is Riba (usury), except if it is from hand to hand and equal in amount, and wheat grain for wheat grain is usury except if it is form hand to hand and equal in amount, and dates for dates is usury except if it is from hand to hand and equal in amount, and barley for barley is usury except if it is from hand to hand and equal in amount." (Sahih al-Bukhari 2134)

The Hadith from the Prophetic tradition clearly shows the position of Islamic Finance as regards exchange. The rules is that when a person is to obtain a particular item from another, the exchange or the return of such must be equal in same to the earlier item obtained.

From the foregoing, two broads and distinct divisions of interest may deductible. These are Riba al-nasia (interest on debt) and Riba al-fadl (interest in trade and commerce).

IV. THE TYPES OF RIBA

Interest on Debt (Riba al-nasia)

Riba al-nasia may be referred to as the kind which stipulates a time allotted to the borrower to repay his loan in return for the addition or premium. In the view of Imam Qurtubi, it is the premium that must be paid by the borrower to the lender along with the principal amount as a condition precedent for the advancement of loan or for an extension on time. This practice can be traced to the Jahiliyah (period before Islam). It appeared in the following phases:

- The Arabs of Jahiliyah used to advance loans in the forms of Dirham or Dinner (Silver/Gold Coins) with an agreed increase.
- A loan without any interest rate at the onset but when the borrower failed to meet up in time, increase occurred on the loans, usually based on the lapses in duration for payment.
- To initially agreed on an interest rate to be subsequently paid for a specific period. This can be on a weekly or monthly basis.

V. THE WISDOM BEHIND PROHIBITION OF RIBA

The wisdom behind this ugly trend is laid down in the Sharia (Islamic Law). According to Islamic Jurisprudence (Fiqh), any command of Allah or that of the Prophet is to be followed without any question for the rationale behind the command as contained in Quran 33 V 36.

By the style of Quran, it can give an injunction in the form of prohibition which requires performance and further explain the rationale while in some circumstance, the rationale behind a legislation remains unknown.

Importantly, Q2 V 279 while prohibiting interest states that, "… neither should you commit injustice nor should you be subjected to it". Hence, Sharia is to establish justice and eliminate exploitation in human dealings. In this regard, there is a Prophetic tradition which has been incorporated into a legal maxim, "no one has a licence neither for harming himself nor for inflicting hardship on others".

Interest in Trade and Commerce (Riba al-fadl)
This is the case when there is an increase in the counter value of an exchange commodity or delay in delivery of an exchanged commodity or goods. A prominent Islamic scholar, Ibn Qudama expressed that an exchange of a date for two or more dates, one grain for more, or selling of one unit of a good against different units all fall in this category of Riba.

Ubada b. al-Samit (may Allaah be pleased with him) reported Allah's Messenger (Peace be upon him) as saying: "Gold is to be paid for gold, silver for silver..., like for like and equal for equal, payment being made hand to hand. If these classes differ, then sell as you wish if payment is made hand to hand."

It is worthy of notes here that when the goods in questions are of different family, there is no harm if quantity exchanged are not of equal weight. As an illustration, a bag of rice can be exchanged for two bags of cassava flake (garri).

- It results in exploitation

Amount payable on interest-based loans doubles and redoubles after specific periods and this geometric multiplication continues. Suppose, if the rate of interest on a loan is 10.41% p. a., then the total amount payable doubles after every 7 years. In 50 years, it becomes 140 times and after 100 and 150 years it becomes 19,991 and 28, 26,581times respectively. The amount that is returned by previous borrowers can again lent on interest to new borrowers and therefore this process of doubling the dues continue despite the fact that many borrowers are unable to repay their loans within specific period of time. Debts created on interest usually cannot decay or write-off. According to the recent IMF reports numbers of people below poverty line are increasing and many poor countries have already been trapped into the interest-based debt trap. It is being believed that Interest is mechanism to enslave the people and any law that enforces its payment is unjust and inhuman. Since it is not assured that GDP of a country will grow equals to the rate of interest of that country, if the growth rate is less

- Bad effects on human behaviour and society

Interest exerts disastrous effects on the moral and humanity of the society by reinforcing the tendency wealth accumulation in fewer hands. It leads to ever increase in the risk-free capital vis- à -vis risk-based equity capital, resulting in business failures, unemployment and ultimately to gross inequalities of income and wealth that are bound to end-up in social strife and economic chaos. All divine religions, especially Islam, are opposed to exploitation in every form and stands for fair and equitable dealings among all human beings. It is a ground reality that the interest-based system, irrespective to the rate, is creating “idlers” and “cruel bloodsuckers” in the society.

CONCLUSION AND RECOMMENDATION

It is crystal clear, based on the above that interest making is one of the plights of Shaytan in which every righteous Muslim specifically, must abstain from and generally for the conventional world to detest to achieve economic growth and financial stability in our respective countries. Thus, it is recommended that when the Islamic financial institution is followed, financial injustice in every form will be avoided.

So, everyone will be called for accounts on the day of judgement on how and where he accumulated his wealth. We must therefore be interest-free in our affairs to be free from wraths of Allah.

It is worthy of close with the Hadith of the Prophet, (PBUH) where Ibn Mas'ud narrated that he (PBUH) said:

"The feet of son of Adam shall not move before his Lord on the Day of Judgement, until he is asked about five things: about his life and what he did with it, about his youth and what he wore it out in, about his wealth and how he earned it and spent it upon, and what he did with what he knew." (Narrated by Trimidhi).

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