# Interest in Islam (part 1 of 2)

**Description:** An introduction to the topic of '*riba*' (interest).

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Objectives

· To learn the effects of *riba* on an individual and society.

· To learn the definition of *riba*.

· To identify the two types of *riba.*

· To appreciate that *riba* was forbidden in previous scriptures.

· To learn about the prohibition of *riba* in the Quran.

Arabic Terms

· *Hijrah* - the act of migration from one place to another. In Islam, the *Hijrah* refers to the Muslims migrating from Mecca to Medina and also marks the beginning of the Islamic calendar.

· *Riba* - interest.

· *Riba an-Nasiah* - "*riba* of delay".

· *Riba al-Fadl* - "*riba* of surplus".

· *Shariah* - Islamic Law.

· *Sunnah* - The word *Sunnah* has several meanings depending on the area of study however the meaning is generally accepted to be, whatever was reported that the Prophet said, did, or approved.

· *Surah* – chapter of the Quran.

Interest is all about amassing more money without putting it at risk. That leads to an inequitable distribution of income. Interest puts the poor who fall into debt into a situation where they cannot advance socially or economically. Many times an individual simply cannot keep up with interest payments that one has to pay on his or her debt. *Riba* creates parasites in society and thereby the gap between the rich and poor keeps on widening.

The major purpose of the prohibition of *riba* is to block the means that lead to accumulation of wealth in the hands of a few, whether they are banks or individuals. Take the US for example. The top 1% of Americans control 40% of the nation's wealth.

On an international level, consequences of interest are more devastating. The interest paid by governments of poor countries on debt is so great that they must sacrifice essential health and nutritional needs. Some African governments are forced to spend more on paying interest than they spend on health or education.[1] In simple words, interest kills. Ken Livingston, Mayor of London, 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 unnecessarily due to debt burden "because Third World governments have had to cut back on clean water and health programs to meet their repayments."[2]

Additionally, as a whole, socio-economic and distributive justice, intergenerational equity, economic instability, and ecological destruction are also considered the basis of its prohibition.[3] Prohibition of *riba* prevents hoarding, and leads to broad-based development. For more information, please refer to the following link:

Why we are all in debt?

## Definition of *Riba*

'*Riba*' is the word used by Allah in the Quran and by Prophet Muhammad, may the mercy and blessings of Allah be upon him, in the *Sunnah*. "The literal meaning of '*riba*' is excess and in the terminology of *Shariah*, means an addition, however slight, over and above the principal of a loan or debt."[4]

Common examples involving *riba* are advancing money on interest, keeping deposits in a bank for earning interest, and interest paid on credit-card debt.

The most common application of *riba* is on loans and credits. Example: A lender gives $1000 to a debtor with an agreement that the debtor will return $1200 on a specified date. The extra $200 is *riba* in *Shariah*.

To be precise, *riba* in of two types, one from Quran (*riba an-nasiah*, "*riba* of delay") and the other from *Sunnah* (*riba al-fadl*, "*riba* of surplus").

# Types of *Riba*

**1. *Riba an-Nasiah* (riba of delay):**

It is a delay (*nasiah*) in the settlement of debts or loans involving more money than the principal or in the settlement of one or both countervalues. This is *riba* accumulating over a loan. It is the more prevalent form of *riba* today and what we will discuss in this lesson.

**2. *Riba al-Fadl* (riba of surplus)**

It is a surplus (*fadl*) in the amount of one countervalue over the other in barter transactions of specific commodities (non-monetary fungible items). We will not discuss it in these lessons.

# *Riba* Was Prohibited in Previous Revelations

Islam is not the only religion that banned interest. The prohibition of interest is a well-known law in both the Old and the New Testaments of the Bible. Consider the following passages:

"You shall not charge interest on loans to your brother, interest on money, interest on food, interest on anything that is lent for interest. You may charge a foreigner interest, but you may not charge your brother interest, that the Lord your God may bless you in all that you undertake in the land that you are entering to take possession of it." (Deuteronomy 23:19-20)

Also, see Exodus 22:25, Leviticus 25:37, Jeremiah 15:10, and Ezekiel 18:13. Early church councils forbade interest and Catholics banned it for a long time.

# *Riba* in the Quran

There are several verses in the Quran that explain the prohibition of interest or *riba*. Two verses state that *riba* was prohibited to the People of the Book, in particular the Jews (4:160-161).

Verses on interest were revealed to Prophet Muhammad throughout his mission. The first verse of the Quran on interest is considered to be in *Surah* ar-Room, 30:39 that was revealed in the 6th year of the prophethood in Mecca. Verse 3:130 was revealed in the 3rd year after the migration of Prophet Muhammad to Madina. *Surah* an-Nisa, 4:160-161 were revealed in the 5th year of *Hijrah*. Surah al-Baqarah, 2: 275-276 were revealed in the 9th year of *Hijrah*.

Further explanation on this section is in the continuing lesson.

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Endnotes:

[1] The Debt Threat, Noreena Hertz, p. 3

[2] Globalisation or Reconolisation?  The Muslim World in the 21st Century, Ali Mohammadi and Muhammad Ahsan, p. 38.

[3] Understanding Islamic Finance, Muhammad Ayub, p. 54

[4] Understanding Islamic Finance, Muhammad Ayub, p. 52