

الربا - Ribā

Understanding Ribā:

Definition: Ribā literally means to increase. In Shar'i terminology, it refers to an undeserved excess upon wealth and in English, it is known as interest or usury.

Example: Yūsuf borrowed R10,000 from Qāsim at a rate of 10%. Yūsuf then pays Qāsim R11,000 upon the completion of 1 year. That is R1,000 in excess against the R10,000 loan.

Types of Interest:

1. Ribā al-Nasī'ah

Nasī'ah means credit and in Shar'i terminology, it refers to taking a loan whereby one agrees to pay back the loan at a later date with an excess. The above example is Ribā al-Nasī'ah. The excess amount is paid in lieu of time.

2. Ribā al-Fadl

Fadl means surplus. In Shar'i terminology, it refers to a surplus in one of two items of the same type or species that are sold by either weight or measure.

Example: Zākir has 1kg of good quality dates and he wants to exchange it with Zubayr for 2 kg of lower quality dates. Since both sides of the transaction consists of dates which are sold by weight, the surplus 1kg of lower quality dates will be considered as interest. If the items on either side of the transaction are of different species or they are not sold by weight or volume, the surplus will not be considered as interest.

Example: Mariam gives a Bic pen to Fatimah in exchange of two pencils. The extra pencil will not be considered as interest since both items are not the same. Furthermore, both items are not sold by weight and/or volume. Pens and pencils are sold in units. If both items are the same but not sold by weight and/or volume, the surplus on one side will be permissible on condition that the transaction be a cash deal.

Example: Imrān sold one Bic pen in exchange of two Bic pens. Both sides of the transaction consist of the same commodity but they are not sold by weight and/or volume. Thus, the extra Bic pen is not considered as interest. However, the condition is that the sale be a cash deal and not a credit deal. If both items are different but are sold by weight and/or volume, then the surplus will be permissible on condition that it is a cash deal.

Example: Ismail sold 1kg of barley in exchange of 2kg of wheat. Barley and wheat are two different species. However, both are sold by weight. Hence, the surplus will be permissible on condition that the transaction be a cash deal.

Ayaats on Riba

(Surah al-Nisa', verse 161)

“And for their taking interest even though it was forbidden for them, and their wrongful appropriation of other peoples' property. We have prepared for those among them who reject faith a grievous punishment (4: 161)”

(Surah Al 'Imran, verses 130-2)

“O believers, take not doubled and redoubled interest, and fear God so that you may prosper. Fear the fire which has been prepared for those who reject faith, and obey God and the Prophet salallahu alayhi wasallam so that you may receive mercy.”

(Surah al-Baqarah, verses 275-81)

“Those who benefit from interest shall be raised like those who have been driven to madness by the touch of the Devil; this is because they say: "Trade is like interest" while God has permitted trade and forbidden interest. Hence those who have received the admonition from their Lord and desist, may keep their previous gains, their case being entrusted to God; but those who revert shall be the inhabitants of the fire and abide therein for ever.” (275)

“God deprives interest of all blessing but blesses charity; He loves not the ungrateful sinner.” (276)

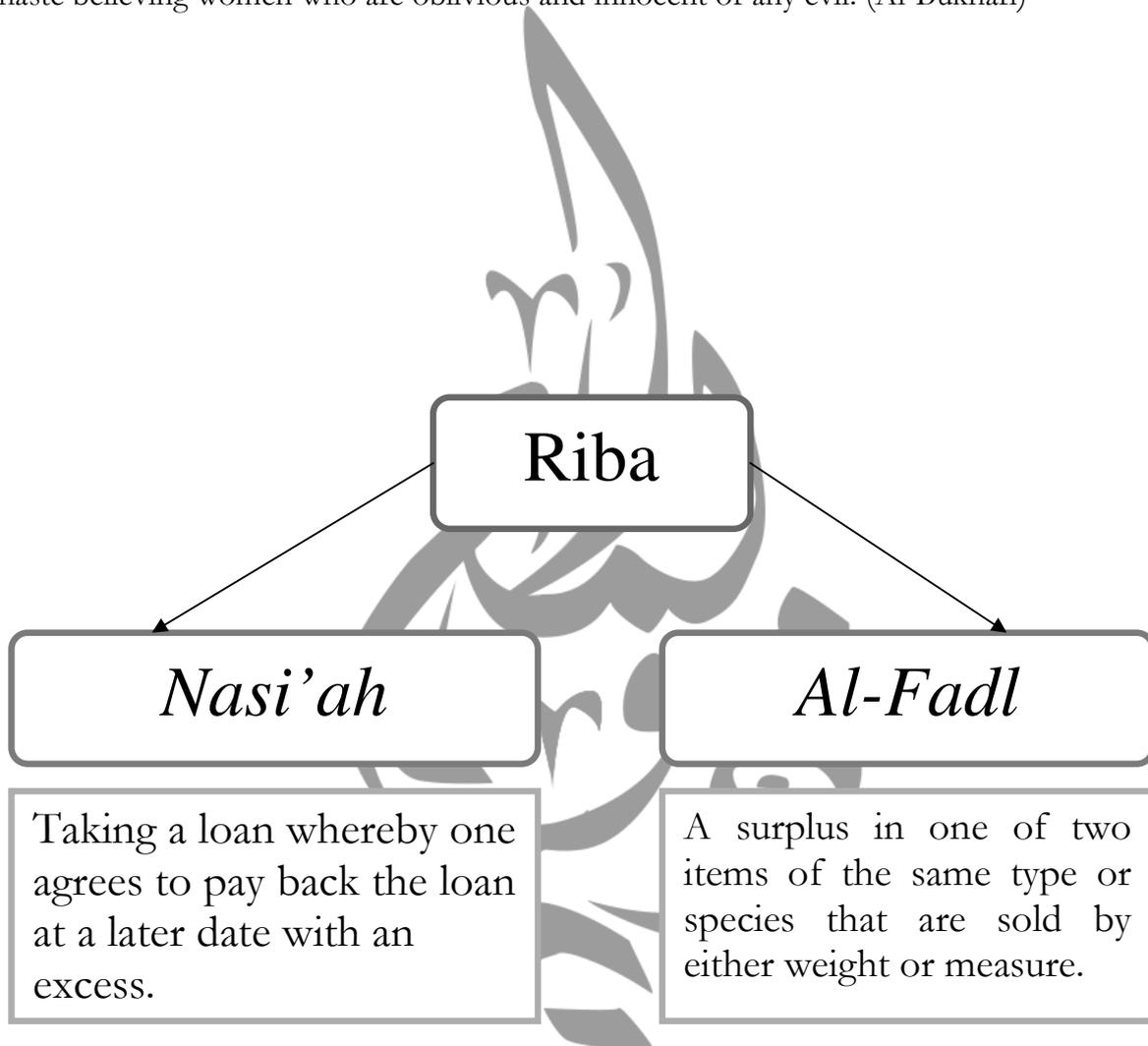
Ahadeeth on Riba

From Jabir radiallahu anhu : The Prophet salallahu alayhi wasallam, , may cursed the receiver and the payer of interest, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." (*Muslim, Tirmidhi and Musnad Ahmad*)

Jabir ibn 'Abdallah radiallahu anhu, giving a report on the Prophet salallahu alayhi wasallam's Farewell Pilgrimage, said: The Prophet salallahu alayhi wasallam, addressed the people and said "All of the *riba* of *Jahiliyyah* is annulled. The first *riba* that I annul is our *riba*, that accruing to 'Abbas ibn 'Abd al-Muttalib [the Prophet salallahu alayhi wasallam's uncle]; it is being cancelled completely." (*Muslim, and Musnad Ahmad*)

From 'Abdallah ibn Hanzalah radiallahu anhu: The Prophet salallahu alayhi wasallam, , said: "A dirham of *riba* which a man receives knowingly is worse than committing adultery thirty-six times" (*Mishkat al-Masabih, Kitab al-Buyu', Bab al-riba*, on the authority of Ahmad and Daraqutni). Bayhaqi has also reported the above *hadith* in *Sbu'ab al-iman* with the addition that "Hell befits him whose flesh has been nourished by the unlawful."

Sayyiduna Abu Hurayrah رضي الله عنه narrates that the Allāh's Messenger صلى الله عليه وسلم said, "Avoid the seven great destructive sins." The people enquired, "O Allāh's Messenger, what are they?" He said, "To join others in worship along with Allāh صلى الله عليه وسلم, to practice sorcery, to take a life which Allāh صلى الله عليه وسلم has forbidden except for a just cause (according to Islāmic law), to earn Ribā, to eat up an orphan's wealth, to flee from the battlefield at the time of fighting, and to falsely accuse chaste believing women who are oblivious and innocent of any evil. (Al-Bukhārī)



NOT GOOD	<p>Example</p> <p>2kg dates == 1kg dates Bad Good</p>	GOOD	<p>Example</p> <p>2 Bic == 1 clutch Pens Pencil</p>
<p><u>Characteristics</u></p> <ul style="list-style-type: none"> • Same <u>Species</u> • Sold by <u>weight and measure</u> • Surplus on one side • The surplus is RIBA 		<p><u>Characteristics</u></p> <ul style="list-style-type: none"> • Different <u>Species</u> • Sold by <u>units</u> • Surplus on one side • The surplus is NOT RIBA 	
CASH	<p>Example</p> <p>1 kg == 2 kg Barley Wheat</p>	CASH	<p>Example</p> <p>1 Bic == 2 Bic Pen Pens</p>
<p><u>Characteristics</u></p> <ul style="list-style-type: none"> • Different <u>Species</u> • Sold by <u>weight and measure</u> • Surplus on one side • The surplus is NOT RIBA as long as deal is CASH 		<p><u>Characteristics</u></p> <ul style="list-style-type: none"> • Same <u>Species</u> • Sold by <u>units</u> • Surplus on one side • The surplus is NOT RIBA as long as deal is CASH 	

A small discussion on the Example #1

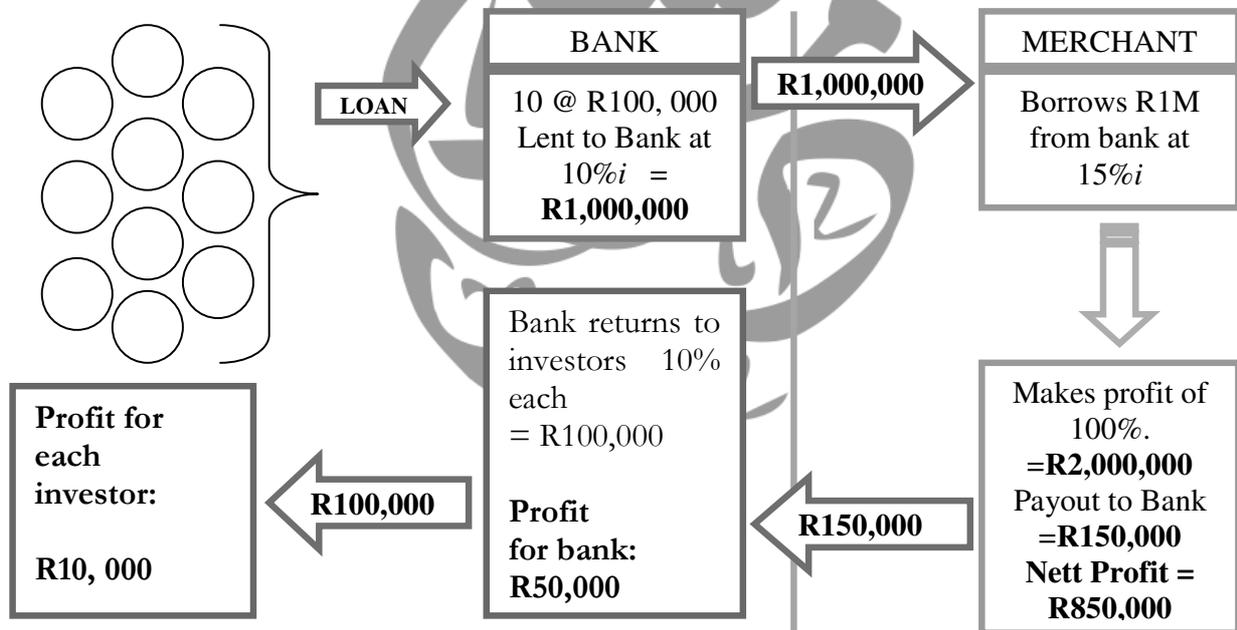
It is narrated by Sayyiduna Abu Sa'īd al Khudrī ؓ that once Bilāl ؓ brought expensive dates known as Barni dates to Allāh's Messenger ﷺ and Allāh's Messenger ﷺ asked him, "From where have you brought these?" Bilāl ؓ replied, "I had some inferior type of dates and

exchanged two Sā's (1 Sā' = 3.12 kg) of it for one Sā' of Barni dates in order to give it to Allāh's Messenger ﷺ to eat." Thereupon Allāh's Messenger ﷺ said, "Beware! Beware! This is definitely Ribā! This is definitely Ribā! Don't do so, but if you want to buy superior dates then sell the inferior dates for money and then buy the superior dates with that money."(Al-Bukhārī)

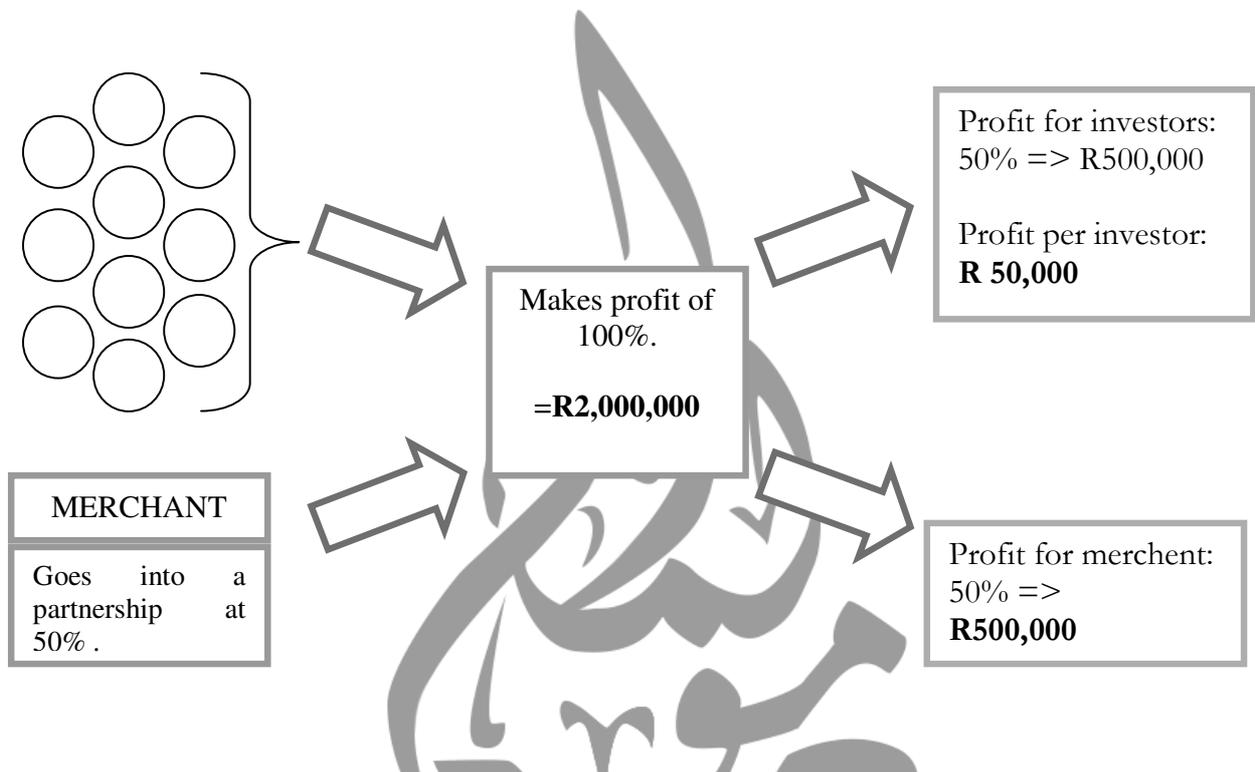
Here Rasulullah salallahu 'alayhi wasallam not only cautioned against the incorrect sale, rather showed a way to make the dealing Shariah Compliant. This hadith forms the core basis for the need for the entire field of Islamic Finance.

How does Islamic System fare with conventional system?

Ten people deposit their money of R100,000 each with a 10% interest rate. The Bank collectively has a million rands. A rich merchant requests the Bank for a million Rand loan payable at 15%. The rich merchant has the million rands at his disposal and uses his business skill and influence and earns 100% profit on the million rands. He has to pay the Bank the million rands and R150,000 in interest. He earns for himself R850,000. The Bank will give its depositors R10,000 each and keep for itself R50,000. This is total injustice as the rich person uses the wealth of the poor and makes R850,000, whereas the poor only get R10,000 each.



Consider the Islāmic system of the above example. The ten people would enter into a partnership of 1 million rands with the rich merchant at an agreed ratio of 50% profit sharing. The million Rand profit will be divided between the two parties at R500,000. Each partner will earn R50,000 profit as opposed to the meagre R10,000 interest.



When Allāh's Messenger ﷺ declared interest as Haram, he also declared that the first interest to be wiped out is the interest of his uncle, 'Abbās bin Abdul Muttalib رضي الله عنه. Hadrat 'Abbās رضي الله عنه was a very wealthy person. At that time, the interest due to him was **10,000 Dinars**. A Dinar is a gold coin of 4.4 grams.

10,000 gold coins will be approximately 44 kg of gold.

1 kg of gold is presently approximately R1 million thus 44 kg will be R44million (**i.e. \$6.3 Million**)

Sarf - الصرف

Definition: Sarf literally means “to change”. In Shar’i terminology, it means the exchange of one form of money with another. Previously, gold and silver were regarded as money.

Conditions of Bay’ al-Sarf:

1. If both of the exchanges are of the same type or species, then:
 - a. There must be equality in the amount.
 - b. Both contracting parties must take immediate possession of the exchanged items.

Example: Ahmad sells 1 oz of gold in exchange of 1 oz of gold to Muhammad. Both Ahmad and Muhammad have to take immediate possession of each other’s gold. Furthermore, Ahmad and Muhammad cannot add anything over and above the 1 oz of gold from either side as that will not be in lieu of anything and thus be considered as Ribā.

2. If the exchanged items on both sides are of different species as in the case of gold being exchanged for silver, both parties must still take immediate possession of the exchanged items. However, equality in the amount of the exchanged items is not necessary.

Example: Zakariyya sold 1 oz of gold to Yahya in exchange of 5 oz of silver. This is permissible on condition that Zakariyya takes possession of the silver and Yahya takes possession of the gold. Zakariyya or Yahya may not say, “I will give my gold or silver tomorrow.”

Currency Trading: Trading in currencies falls under Bay’ al-Sarf. If rands are exchanged for rands, then both amounts must be equal and both parties must take cash possession of the rands.

Example: Yahya exchanges a R10 note for R10 change (loose money) with Muhammad. This is permissible on condition both take immediate possession of the exchanged items. If rands are exchanged for dollars, then both are of different currencies. It is permissible to trade in unequal amounts such as having more of one currency on one side and less on the other side. However, this will only be permissible on condition it is a cash deal.

Example: Nāsif sells \$100 to Yahya for R700. This is permissible. However, Nāsif must take possession of the R700 from Yahya immediately and Yahya must take the \$100 from Nāsif immediately.

Note: There is a difference between gold and silver and present-day currencies. The contemporary Muftis have permitted the exchange of two currencies whereby one side of the deal is credit and the other is cash. For example, if Nāsif gives Yahya the \$100 now, Yahya can give Nāsif the R700 later. However, this has to be on the spot rate.

Rahn - الرهن

Definition: Rahn means to withhold.

In Shar'ī terminology, it means to place an item as collateral against a loan or a debt.

Terms: Rahn, Rāhin, Murtahin, Marhūn

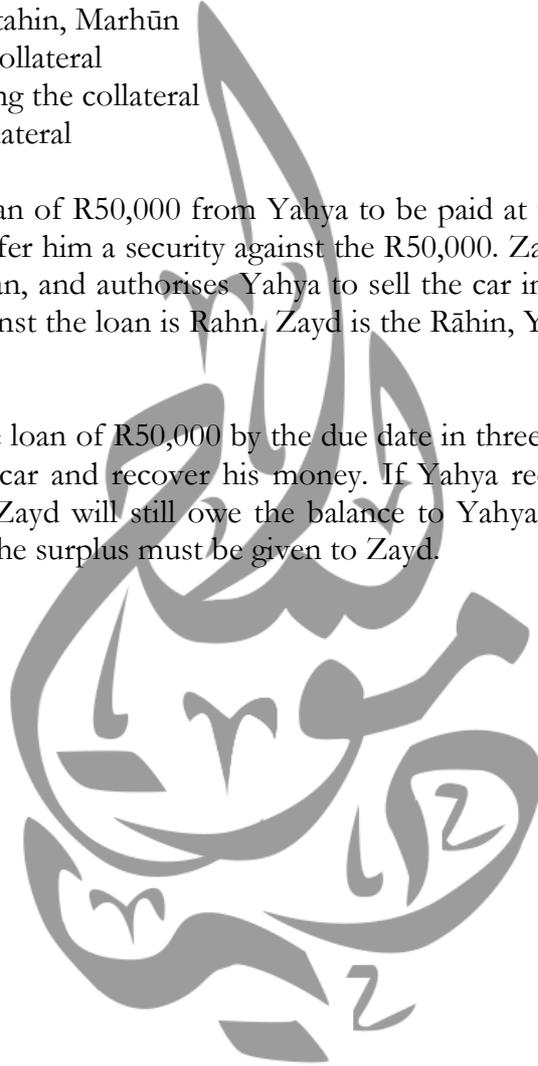
Rāhin: Debtor giving the collateral

Murtahin: Creditor receiving the collateral

Marhūn: Item given as collateral

Example: Zayd took a loan of R50,000 from Yahya to be paid at the end of three months. Yahya requests Zayd to offer him a security against the R50,000. Zayd gives his car to Yahya as collateral against the loan, and authorises Yahya to sell the car in order to settle the debt. The placing of the car against the loan is Rahn. Zayd is the Rāhin, Yahya is the Murtahin and the car is the Marhūn.

If Zayd does not repay the loan of R50,000 by the due date in three months time, Yahya will have the right to sell the car and recover his money. If Yahya received less than R50,000 from the sale of the car, Zayd will still owe the balance to Yahya. If Yahya receives more than R50,000 for the car, the surplus must be given to Zayd.



Salam - السلم

Definition: To purchase an item with a cash (immediate) payment in return for deferred delivery of the purchased item.

Terms:

Salam,
Rabb al-Māl (purchaser),
Muslam Ilayh (seller),
Ra's-ul-Māl (capital),
Muslam Fih (purchased item)

Example: 'Umar wants to purchase 100 bags of potatoes. He pays Bakr R1,000 now in exchange of the potatoes to be delivered in two month's time.

In the above example, 'Umar is the Rabb al-Māl, Bakr is the Muslam Ilayh, the R1,000 is the Ra's al-Māl and the 100 bags of potatoes make up the Muslam Fih.

The Practical Need for Salam:

Zayd is a farmer and he is very skilful in agriculture. However, he lacks the finances to start farming. He approaches some businessmen and presents a proposal of Salam before them. They are all prepared to place orders with him and pay him the cash for the ordered items. Zayd then uses the newly acquired finances to farm and deliver the ordered crops to his financiers. These financiers will also benefit from such a transaction since Zayd will charge them a lesser price for the crops as opposed to purchasing crops for cash.

Conditions for the Validity of Salam:

Salam can only be conducted in items that can be weighed, measured or in items of similar units that are sold by units. Therefore, Salam will be permissible in items such as wheat, barley, dates etc. Salam will not be permissible in animals. It is also imperative that the ordered item be specified in every possible way. For example, the purchased item must be specified, the quality and classification of the item must be specified, the amount must be specified and the time of the delivery must be specified. An example of this will be that the Muslam Ilayh stipulates that he will deliver 100 kg of Grade-A Indonesian coffee beans in two months in exchange of R5,000.