

THE TAWHIDIC PARADIGM IN ISLAMIC BANKING

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Abstrak

Artikel ini membicarakan lapan prinsip-prinsip asas falsafah ekonomi perbankan Islam yang berasaskan Tauhid. Para sarjana Islam telah meletakkan dua prinsip yang awal iaitu konsep Allah sebagai pemilik yang mutlak terhadap semua yang ada di alam ini dan konsep manusia selaku khalifah di muka bumi ini dalam hubungannya dengan pemilik sebenar dan alam serta kekayaannya sebagai prinsip asas dan teras dalam amalan perbankan Islam. Enam prinsip yang terakhir yang menjadi asas prinsip falsafah perbankan Islam ialah konsep keadilan, integrasi antara nilai-nilai akhlak dengan kegiatan ekonomi, sikap positif terhadap kegiatan dan pembangunan ekonomi, agihan semula kekayaan berorientasikan nilai, penghapusan amalan riba dan sistem perkongsian untung dan rugi.

INTRODUCTION

This article will briefly discuss the relationship between *Tawhidic* aspects of an Islamic banking system which will show us the identity and distinctions between *riba* banking and Islamic banking to do so. A number of Muslim scholars have contributed ideas on the conceptual aspects of Islamic banking system including Dr. Ahmad al-Najjar, Dr. Sayed al-Hawary, Dr. Muhammad Nejatullah Siddiqi, Dr. Sobri Salamon and Dr. Syed Othman al-Habshi. There is a consensus of agreement among them that the principles mentioned below are the basis of an Islamic banking system.

THE TAWHIDIC PARADIGM

Tawhid is an important concept and a fundamental principle and basis for the Islamic faith. Traditionally and simply expressed, *al-Tawhid* is the conviction and witnessing that "There is no god but Allah (God)". This certainly is *al-Kalimah* (pronouncement) or *al-Shahādah* of Islam, *Lā iLāha illa Allāh Muḥammadur Rasūl Allāh*, (confession of Islamic faith; the witnessing that there is no god but God (Allah) and Muhammad is

His messenger). The literal meaning of *Tawhīd* is a relationship with *the only one* that excludes all similar relationships with anyone else. Its uniqueness negates the remotest possibility of admitting the existence of another being worthy of worship.

The oneness or *tawhīd* is not only confined to number but it also implies oneness or uniqueness in all His subkume qualities or attributes. All other beings have to be different from Allah SWT in every aspect. Any similarity is negated for otherwise it contradicts the very concept of *tawhīd* itself. Such uniqueness in qualities not only makes Him different from all others but also easier for us to logically accept His complete independence from all others. This quality of being completely independent makes it logical to believe that He provides for all and that all His creations depend upon Him. Hence man is expected to worship Allah SWT alone who is the focus of all his reverence and gratitude. Every man has no other choice but to recognise that there is no other authority except His and that there is no other guidance except His.¹

Tawhīd also means the emancipation and restoration of man's essential freedom from human and (man-made) super-human bondages before his commitment to Allah SWT can be genuine and positive.² Any form of bondage to other than Allah SWT is unacceptable. Man is not obliged ultimately to submit to any other authority since "he owes nothing to any being other than Allah SWT to whom he owes everything".³ He must be fully conscious of his freedom and independence vis-a-vis all beings other than Allah SWT before he can enter into the relationship with Allah SWT as required of him. Any deficiency in his consciousness will adversely affect his relationship with Allah SWT.⁴

Furthermore, *Tawhīd* presupposes a consciousness that brings a sense of equality among all men. The moment one feels inferior to another being, his freedom and independence are adversely affected. Similarly is the case when one upholds the opinions of others without question, simply because such opinions belong to someone who is acknowledged for his holy status, power, wealth, colour of skin, etc. These cases run counter to the very spirit of independence and equality. For example, Mughīrah b.

¹ See for example, Syed Othman al-Habshi, "The Role of Ethics in Economics and Business", in Abul Hasan M. Sadeq, et al (eds.), *Development and Finance in Islam*, (Petaling Jaya: 1991) p. 41; S. D. Islahi, *Islam At A Glance*, (Lahore: 1981) pp. 12-18; Mawdudi, *Islamic Way of Life*, (Lahore: 1991) pp. 6-14.

² Muhammad Nejatullah Siddiqi, "*Tawhīd: The Concept and Process*", in K. Ahmad and Zafar Ishaq Ansari (eds.), *Islamic Perspectives: Studies in Honour of Mawlānā S. A. A. Mawdūdī* (Leicester: 1979) p. 18.

³ *Ibid.*

⁴ Syed Othman al-Habshi, *op.cit.*, p. 42.

Shu'bah explained of Islam to the Persian general Rustam clearly reflected this independence. He explained, "and to emancipate people from its obedience of men to the obedience of Allah".⁵ The case also happened to Rabi' b. 'Amir, the second Muslim emissary to Rustam, when he repeated the same description of Islam thus: "Allah has sent us forward so that we may liberate whomsoever He wills, from following men to the obedience of Allah and pull them out of their narrow world into the broader one, and from under the suppression of various religions into the justice of Islam".⁶

Another aspect of *Tawhīd* is the relationship between man and the universe. The universe is undoubtedly created for man's use and not to be feared or revered. The way he handles or uses the world of nature around him has to be dictated by *tawhīd*. This is necessary because the revealed will of Allah SWT provides him with a vision of a society endowed with a system of values, healthy, well-provisioned, good life in cooperation with fellow men. It is only under the direction of *tawhīd* that man would not create *fasād* or mischief on the earth. Instead, this vision would inspire man to change the world around him according to Allah's will. This is the real mission of a Muslim. This mission is to be undertaken with full commitment to Allah SWT.⁷

It is this commitment that creates a positive attitude towards the world of nature since man requires sufficient resources to fulfil that mission and to stand by that mission. The manner in which man utilises the resources around him should reflect his adherence to *tawhīd*. In other words, *tawhīd* has a very important role to play in any aspects of human life including the practice of Islamic banking and finance.

THE PRINCIPLES OF ISLAMIC BANKING

Besides the main function, the Islamic banking system makes possible checking facilities and renders many other subsidiary services. A number of Muslim Scholars have contributed ideas on conceptual aspects of Islamic banking system.⁸ The following

⁵ Siddiqi, "*Tawhid: The Concept and the Process*", pp. 20-21.

⁶ *Ibid.*

⁷ Syed Othman al-Habshi, *op.cit.*, p. 43.

⁸ See for example, Sobri Salamon, "The Ideological Aspects of Islamic Banking". A working paper presented at the *International Conference on Islam and Technology*, December 1985, Kuala Lumpur, 11pp; *Idem*, *Bank Islam*, Petaling Jaya, 1984, pp. 1-41; Sh. Mahmud Ahmad, "Banking in Islam" in *al-Islam*, Vol. III (2), (Singapore: 1972), pp. 37-46; Ziauddin Ahmad, *Concept and Models of Islamic Banking*, Karachi, 1984; Muazzam Ali, "A Framework of Islamic Banking" in John R. Presley (ed.), *Directory of Islamic Financial Institution*, (Kent: 1988) pp. 3-13; Muhammad Anwar, *Modelling an Interest-Free economy: A study in Macro-Economic and Development*, Herndon, (USA: 1987); Muhammad A. al-'Arabi, "Contemporary Bank Transactions and Islam's Views Thereon", *Islamic Review*, (London: 1966), pp. 10-16;

principles are the basis of an Islamic bank.

- a. True ownership
- b. Vicegerency of man
- c. *Al-'Adālah* (Justice)
- d. Integration of moral values with economic activities
- e. Positive attitudes towards economic activities and development
- f. Distribution of wealth based on social orientation
- g. Abolition of *riba*
- h. Profit-sharing

True Ownership⁹

Every Muslim believes that all creation, tangible or intangible, seen or unseen, is created by Allah SWT. A number of Qur'anic verses clearly mention this, among others are:

*Allah is the sovereignty of the heavens and earth and all that is between them. He createth what He will.*¹⁰

*Allah's is the sovereignty of the heavens and the earth and all that is between them.*¹¹

*To Him belongs what is in the heavens and on earth, and all between them, and all beneath the soil.*¹²

Butterworths Editorial Staff (eds.), *Islamic Banking and Finance*, (London: 1986); M. Umer Chapra, *Towards A Just Monetary System*, (Leicester: 1985); Ahmad al-Najjar, *Bunuk bila Fawa'id*, (Jeddah: 1972); Mustafa 'Abd Allah al-Hamshari, *Al-A'mal al-Masrafiyyah wa al-Islam*, (Cairo: 1973); Zubair Iqbal and Abbas Mirakhor, "Islamic Banking", *al-Tawhid*, Vol. IV (3), (Tehran: 1986), pp. 90-145; *Idem*, "The Framework and Practice of Islamic Banking", *Finance and Development*, September 1986, pp. 32-36; S. Rafi Khan, *Profit and Loss Sharing: An Islamic Experiment in Finance and Banking*, (Karachi: 1987); Muhammad Abdul Mannan, "Islam and Trend in Modern Banking", *Islamic Review*, (January: 1969), pp. 28-33; (November - December 1969), pp. 5-10; Mohammad Mohsin, "A Profile of Riba - Free Banking" in Mohamed Ariff (ed.), *Monetary and Fiscal Economics of Islam*, (Jeddah: 1982), pp. 187-203; Muhammad Nejatullah Siddiqi, "Banking in an Islamic Framework", *Islam and the Modern Age*, Vol. VIII (4), 1977, pp. 4-20; Muhammad Uzair, *An Outline of Interestless Banking*, (Karachi: 1955).

⁹ Sobri Salamon, "The Ideological Aspects of Islamic Banking", pp. 3-4.

¹⁰ Surah al-Mā'idah (5): 17.

¹¹ Surah al-Mā'idah (5): 18.

¹² Surah Tāhā (20): 6.

*To Allah belongeth all that is in the heavens and on the earth.*¹³

The above-mentioned verses and others¹⁴ indicate that Allah SWT continuously reminds human beings of the nature of this wealth and economic resources and their creator, and the sense of equality applied to them. He has made it clear that these resources were created by Allah SWT and given to all, and He is the real owner of all that He created, including beings themselves.

Vicegerency of Man (*al-Khilāfah*)

Property in this world is a trust from Allah SWT, the real owner is Allah SWT and man has been appointed by Allah SWT to the status of His vicegerency (*Khalīfah*) on the earth. Allah SWT has granted man certain rights and has prescribed certain responsibilities or *amānah* (trust) for Him. However, man's rights are circumscribed by the limits Allah SWT had prescribed and should be exercised towards the ends He has defined. The right to property is, therefore, not absolute but limited and qualified.¹⁵ In this connection, Allah SWT says:

*".....Your wealth which Allah has made a means of support for you..."*¹⁶

*"And We have given you (mankind) power in the earth and appointed for you therein a livelihood."*¹⁷

*"And strive with your health and your lives in the way of Allah"*¹⁸

*"Spend of that whereof He hath made you trustee; and such of you as believes and spend (alright), theirs wil be a great reward".*¹⁹

***Al-'Adālah* (Justice)**

The concept of vicegerency and universal brotherhood have led to the giving of a place of paramount importance to socio-economics justice in Islamic perspective. One of the indispensable ingredients of socio-economic justice is the social equality of all,

¹³ Surah al-Baqarah (2): 284.

¹⁴ See Surah Āli 'Imrān (3): 26 and 189; Yāsīn (36): 83.

¹⁵ Sobri Salamon, *"The Ideological Aspects of Islamic Banking"*, p. 4: *Idem, Bank Islam*, pp. 5-6.

¹⁶ Surah al-Nisā' (4): 5.

¹⁷ Surah al-A'rāf (7): 10.

¹⁸ Surah al-Hujurāt (49): 15.

¹⁹ Surah al-Hādīd (57): 7.

irrespective of whether they are white or black, rich or poor and so on.²⁰ The only criteria for determining a man's worth are character, ability and service to humanity as the Prophet Muhammad SAW stressed: "*Allah looks not at your faces or your wealth; He looks at your heart and your deeds*" and He also said: "*The noblest of you are the best in character*".

The second ingredient of socio-economic justice is that everyone has an equal right of access to Allah-given resources and no one can claim a monopoly over them or deny others a "fair" share. One of the ways to attain the above mentioned justice is that everyone gets his due for his contribution to society or to the social product and that there is no exploitation of one individual by another.²¹ The Qur'an urges Muslims to "*Withhold not things justly due to others*" (26: 183), implying thereby that every individual must get what is really due to him, and not more by depriving others of their share.

The third ingredient of socio-economic justice is that every human being should be able to fulfill his needs through his own effort. In this case, adequate income from work should be the primary basis of his well-being. Every human being should be able to utilize his time productively and should have a job or an occupation that enables him to do so. An Important goal of the Muslim society is to achieve full employment and sufficient income through this to enable every vicegerent to realize a standard of living adequate for the health and well-being of himself and his family.²²

Integration of Moral Values With Economic Activities

Islam stresses the importance of the integration of morality and economic activities in all spheres of Muslim life including Islamic banking. All Islamic teachings are aimed at the creation of individuals who are morally upright and a boon to society. Allah SWT says in the Qur'an, among others, are:

*Allah created death and life so as to try which of you is best in deeds.*²³

*And if the people of the township had believed and kept will, surely we should have opened for them blessings from the sky and from the earth. But (unto every Messenger) they gave the lie, and so We seived them on account of what they used to earn.*²⁴

²⁰ M. Umer Chapra, "The Economic Problems of Man and Islam" in *Islamic Order*, Vol. VI (4), 1984, pp. 20-21.

²¹ *Ibid.*, p. 21.

²² *Ibid.*

²³ Surah al-Mulk (67): 2

²⁴ Surah al-A'rāf (7): 96

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*Whosoever doeth right, whether male or female, and is a believer, him verily We shall quicken with good life, and We shall pay them a compense in proportion to the best of what they used to do.*²⁵

From the above mentioned Qur'anic verses, it could be said that Islam attaches paramount importance to spiritual and moral values and its economic system is based on a strong ethical foundation.

According to M. A. Mannan, Islam forbids all anti-social economic activities which are of course not conducive to communal welfare. Thus, all monopoly hoarding and speculative businesses are prohibited because all these are opposed to Islamic principles and take the advantage of the need or distress of their fellow-beings.²⁶ In other words, all economic activities permitted by Islam including Islamic banking, there should not be any exploitation or unfair dealing which may ultimately stand in the way of true brotherhood.

Positive Attitude Towards Economic Activities and Development

The first economic principles emphasized by the Qur'an and repeatedly stressed is that all natural means of production and resources which subscribe to man's living have been created by Allah SWT. It is He who made them as they are and set them to follow the laws of nature that make them useful for man.²⁷ It is He who has allowed man to exploit them and placed them at man's disposal.²⁸

Since all resources and means of living are regarded as Allah SWT's gift to mankind, people should be provided with free opportunities to earn to the legal limits of their capacities. Individuals should work and develop the natural resources for the improvement of quality of life. In other words, every individual should be positive toward economic wealth²⁹ as stated in the Qur'an:

*And when the prayer is ended, then disperse in the land and seek of Allah's bounty, and remember Allah much, that you may be successful.*³⁰

Furthermore, it is regarded as a sin for the possessor of wealth to

²⁵ Surah al-Nahl (16): 97.

²⁶ M. A. Mannan, *Islamic Economics: Theory and Practice*, (New Delhi: 1980) p. 67.

²⁷ Sobri Salamon (1985), *op.cit.*, p. 6.

²⁸ See for example, Surah al-Baqarah (2): 29; al-A'raf (7): 10; al-Ra'd (13): 3; Ibrahim (14): 32-34.

²⁹ Sobri Salamon (1985), p. 6; *Idem*, *Bank Islam*, Petaling Jaya, 1984, pp. 9-11.

³⁰ Surah al-Jum'ah (62): 10.

leave his wealth idle which doesn't benefit himself or the Ummah as warned by Allah SWT:

They who hold up gold and silver and spend it not in the way of Allah, unto them give tidings (Muhammad) of a painful doom.³¹

In discussing economic development, some Muslim economists say that a true Muslim looks upon development efforts as striving in the cause of Allah SWT. Economic development has become a necessary condition to be fulfilled to enable the Muslim people to perform their mission with humanity that are declared to be their *raison d'être*. In other words, Islamic principles are seen as a motivating force for development.³²

Economic development is a matter of improving the living conditions of the people rather than just economic growth. It involves the attainment of a number of goals such as a rise in productivity, social and economic equality, acquisition of modern knowledge, improved socio-economic institution and human attitudes in order to maintain justice and tranquility in life.³³

Distribution of Wealth Based on Social Orientation

Islam is concern about the distribution of wealth based on justice and social orientation. Islam was proclaimed to reform peoples shortcomings and prevent injustice on earth, and set up a society of solidarity where the strong stand besides the weak, the rich help the poor in the spirit of love, mercy and cooperation, profound obedience to Allah SWT.³⁴ Muhammad Anas al-Zarqa' explains this concept by saying that distribution includes both distribution and redistribution of wealth and income between individuals irrespective of whether it is by way of exchange (in market) or by any other means (such as inheritance), and whether it is concluded between individuals directly (such as gifts and trusts) or through the state (such as zakat on visible assets), or between the state and individuals (such as the guarantee by the state of a minimum level of living for individuals) and whether it is obligatory (such as *ṣadaqāt al-fitr*) or voluntary (such as supererogatory *ṣadaqāh*).³⁵

³¹ Surah al-Tawbah (9): 34.

³² *Al-Mawsū'ah Li al-Bunūk al-Islāmiyyah*, (Cairo: 1977) p. 103.

³³ Ramawan Abd Rahman, "The Establishment of Islamic Banking and Positive Ethical Values in Islamic Economics" in *Tasawwur Islam*, Vol. III, (Melaka, 1996/97), pp. 188-189; See also Aidit Ghazali, *Development: An Islamic Perspective*, (Petaling Jaya: 1990) pp. 21-38.

³⁴ Sobri Salamon (1985), p. 7.

³⁵ M. A. al-Zarqa', "Islamic Distributive Schemes" in Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, (Leicester: 1988) p. 67.

The Qur'an has stressed on a share in the wealth of the rich which should be taken by virtue of Islamic concepts. Allah SWT stipulates and guides those who have wealth to observe the rights of the needy and to be guardians of Allah's wealth. Allah SWT said:

*Take aims of their wealth, where with thou mayst purify them and mayst make them grow.*³⁶

*The aims are only for the poor and needy, and those who collect them, and those whose hearts are to be reconciled, and to the free captives and the debtors and for the cause of Allah.*³⁷

*Spend you wealth for the cause of Allah, and be not cast by your own hands to ruin; and do good: Lo! Allah loveth the beneficent.*³⁸

*Give the kinsman his due, and the needy, and the wayfarer.*³⁹

In terms of distribution of income, zakat is seen as one of the tools of transferring part of the wealth the haves to the have-nots in order to decrease the inequality in the distribution of income and wealth. Zakat is also a weapon against hoarding, since money whether utilised or not is taxable at the same rate.⁴⁰ Those who keep their money out of circulation and economy, and consequently affect the economic growth of society, would be severely punished by having their wealth reduced annually to the point of extinction. Hence, the Prophet SAW urged the Muslims to invest the wealth of the orphan and he justified his recommendation by the fact that zakat would eat up the wealth if it was not productively invested. By taxing the capital as well as profit, Islam forces the capitalist to put their capital into circulation and thereby keep the economy going.⁴¹

Abolition of Riba

One of the integral parts of an Islamic financial and banking system is the prohibition of riba from the economy. The injunctions regarding the prohibition of riba are contained in the Qur'an and the Hadiths of the Prophet Muhammad SAW. The prohibition

³⁶ Surah al-Tawbah (9): 103.

³⁷ Surah al-Dhāriyyāt (15): 19.

³⁸ Surah al-Baqarah (2): 195

³⁹ Surah al-Isrā' (17): 26

⁴⁰ According to the study conducted by Dr. Monzer Kahf shows that the one who does not utilize his capital and wealth in production and economic activities, and keeps them idle will lose one-fourth of his wealth in less than twelve years. *The Islamic Economy* (Indiana: 1978) p. 62.

⁴¹ Sobri Salamon (1985), p. 8.

of riba appears in the Qur'an in four different revelations (in eight verses); five verses in Surah al-Baqarah,⁴² and the remaining three in Surah Āli 'Imrān,⁴³ al-Nisā'⁴⁴ and al-Rūm⁴⁵ respectively.

The first of these is surah al-Rūm verse 39 revealed in Mecca, emphasised that while interest deprived wealth of Allah's blessings, charity raised it manifold. The second revelation (surah al-Nisā': verse 161), in early Medina period, severely disapproved of it, in line with its prohibition in the previous verse. It placed those who took riba in juxtaposition with those who wrongly appropriated other people's property and threatened both with severe punishment from Allah SWT. The third revelation (surah Āli 'Imrān: verse 130) revealed around the second or third year after Hijrah, enjoined Muslims to keep away from riba if they desired their own welfare. The fourth revelation (surah al-Baqarah: verses 275-279), near the completion of the Prophet's mission, severely censured those who take riba, established a clear distinction between trade and riba, and required Muslims to annul all outstanding riba, instructing them to take only the principal amount, and forego even this in case of borrower's hardship.⁴⁶

The Prophet SAW also condemned, in the most unambiguous words not only those who take riba, but also those who give riba and those who record the transaction or act as witnesses to it.⁴⁷ He even equated the taking of riba to committing adultery thirty-six times or being guilty of incest with one's own mother.⁴⁸

All these verses and Hadiths use the word riba which in Arabic generally signifies increase, excess, growth, addition, expansion, rise or the like.⁴⁹ This increase (*ziyadah*), originates either in the thing itself,⁵⁰ or in an exchange or sale of money as

⁴² Al-Baqarah (2); 275-279.

⁴³ Āli 'Imrān (3): 130.

⁴⁴ Al-Nisā' (4): 161.

⁴⁵ Al-Rūm (30): 39.

⁴⁶ See for example, M. Umer Chapra, "The Nature of Riba in Islam" in *Hamdard Islamicus*, Vol. VII (1), 19, p. 4.; *Idem, Towards A Just Monetary System*, (Leicester: 1985) p. 56, pp. 235-246; A. M. El-Gousi, *Riba Islamic Law and Interest*, Unpublished Ph.D Thesis, Temple University, 1982, pp. 132-143.

⁴⁷ Muslim, *Ṣaḥīḥ Muslim*, Vol. III, p. 1219 (no. 106).

⁴⁸ *Mishkāt al-Maṣābīḥ*, Vol. II, p. 90 (no. 2825) on the authority of Ahmad and Dar al-Qutni. Al-Bayhaqi also reports the above Hadith in *Shu'ab al-Imān*, with the addition that "Hell befits him whose flesh has been nourished by the unlawful". (*Ibid*).

⁴⁹ Ibn Manzur, *Lisān al-'Arab*, (Beirut: 1968) Vol. XIV, pp. 304-307; al-Zabidi, *Tāj al-'Arūs*, (Cairo: 1306H) Vol. X, pp. 142-143; Raghīb al-Isfahāni, *al-Mufradāt fi Gharīb al-Qur'ān*, (Cairo: 1961) pp. 186-187.

⁵⁰ Surah al-Hajj (22): 5.

the sale of one dirham for two dirham,⁵¹ or of commodities as in cases of barter of a measure for more of the same merchandise.⁵² It is, however, not every increase or growth which is prohibited by Islam. Therefore, *riba* may be defined as the premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity.⁵³ In this sense, *riba* has the same meaning of both the words “interest” and “usury” in accordance with the consensus of all the *Fuqahā*’ (jurists)⁵⁴ and Muslim scholars⁵⁵ without any exception,⁵⁶ because both words are interchangeable and are used for the addition or excess paid (or received) over and above the loan capital.⁵⁷ The term *riba* is, however, used in the Shari‘ah in two senses. The first is *riba al-nāsi’ah* and *riba al-fadl*.⁵⁸

The term *nāsi’ah* comes from the root *nasa’a* which means to postpone, defer, or wait, and refers to the time that is allowed to the borrower to repay the loan in return for the “addition” or the “premium”. Hence *riba al-nāsi’ah* refers to the interest on

⁵¹ Al-Shawkānī, *Nayl al-Awīār*, (Beirut: 1973) Vol. V, pp. 29-296.

⁵² El-Gousi, *op. cit.*, pp. 121-122; Chapra, *Towards*, p. 57.

⁵³ Fakhr al-Dīn al-Rāzī, *Al-Tafsīr al-Kabīr*, Tehran, n.d., Vol. VII, p. 85; Abū Bakr al-Jassās, *Ahkām al-Qur‘ān*, (Cairo: 1347) Vol. I, pp. 551-552; Muḥammad b. ‘Abd Alīlah al-‘Arabi, *Ahkām al-Qur‘ān*, (Cairo: 1957) p. 242.

⁵⁴ See for example Muhammad Abū Zahrah, *Buhūth fī al-Riba*, (Dār al-Buhūth al-‘Ilmiyyah: 1980) pp. 52-57.

⁵⁵ S. H. Hasan-uz Zaman, “Islam Vis-a-Vis Interest” in *Islamic Culture*, Vol. XXXX (1), 1966, pp. 1-13; *Idem*, “Conceptual Foundations of Riba in Qur’an, Hadith and Fiqh”, in *Journal of Islamic Banking and Finance*, Vol. II (1), 1994, pp. 7-15; Ziauddin Ahmad, “The Qur’anic Theory of Riba”, in *The Islamic Quarterly*, Vol. XX - XXII (1-2), 1978, pp. 3-14; *Idem*, “The Theory of Riba”, in *Islamic Studies*, Vol. XVII (4), 1978, pp. 171-185; *Idem*, “Thoughts on Riba and Interest” in *Journal of Islamic Banking and Finance*, Vol. VIII (2), 1991, pp. 42-45; Muhammad Abu Sa‘ud, “Islamic View of Riba (Usury and Interest)”, in *The Islamic Review*, February, 1957, pp. 9-16; Muhammad Samī’ullah, “Elimination of Interest From the Economy” in *Islamic Order*, Vol. VI (1), 1984, pp. 103-114; Ziaul Haque, “The Nature of *Riba al-Nasi’ah* and *Riba al-fadl*”, in *Islamic Studies*, Vol. XXI (4), 1982, pp. 19-38.

⁵⁶ See for example, ‘Abd al-Rahman al-Jazīrī, *Al-Fiqh ‘Ala al-Madhāhib al-Arba‘ah*, Cairo, Vol. II, p. 245.

⁵⁷ See for example, Gamal Moursi Badr, “Interest on Capital in Islamic Law”, in *American-Arab Affairs*, (Summer: 1989), pp. 86-95; Anwar Iqbal Qureshi, “Views of Islam on Interest”, in *The Islamic Review*, July 1957, pp. 5-12; Mahmud Ahmad, “Semantics of the Theory of Interest” in *Islamic Studies*, Vol. VI (2), 1967, pp. 171-196; Ghulam Sarwar, “Islam, Usury and Interest”, *The Islamic Review*, January, 1925, pp. 12-29.

⁵⁸ *Riba al-Nāsi’ah* is also called *riba al-duyūn* or *riba al-mubāshir* or *riba al-jalī*, while *riba al-fadl* is also called *riba al-buyū’* or *riba ghayr al-mubāshir* or *riba al-khafī*.

loans. It is in the sense that the term *riba* is used in the Qur'an in the verse: "Allah has forbidden interest".⁵⁹ The prohibition of *riba al-nāsi'ah* essentially implies that the fixing in advance of a positive return on a loan as a reward for waiting is not permitted by the Shari'ah. It makes no difference whether the return is a fixed or a variable per cent of the principal, or an absolute amount to be paid in advance or on maturity, or a gift or service to be received as a condition for the loan. The point in question is the predetermined positiveness of the return. It is important to note that according to Shari'ah, the waiting involved in the repayment of a loan does not by itself justify a positive reward.⁶⁰ All jurists and Muslim scholars are in agreement that *riba al-nāsi'ah* is prohibited (*ḥarām*).⁶¹ Furthermore, there is no room for arguing that *riba* refers to usury and not interest, because the Prophet SAW prohibited the taking of even a small gift, service or favour as a condition for the loan, in addition to the principal.⁶² In another words, in this case the return of the investment or principal invested is either positive or negative depend on the final outcome of the business, which is not known in advance. It is allowed provided that it is shared in accordance with the principles of justice as laid down by the Shari'ah.

The discussion of *riba al-faḍl* has arisen from the Hadiths requiring that if gold, silver, wheat, barley, date and salt is exchanged against itself it should be exchanged spot and be equal and alike.⁶³ There is disagreement among jurists as to whether the injunction applies only to the six commodities mentioned above or whether there is some general principle which emerges covering a whole class commodities. Since this type of *riba* is not our concern, it will not be discussed these differences here.

Thus *riba al-Nāsi'ah* and *riba al-faḍl* are both essential counterparts of the verse "Allah has allowed trade and prohibited *riba*."⁶⁴ While *riba al-nāsi'ah* relates to loans and is prohibited in the second part of the above verse, *riba al-faḍl* relates to trade and

⁵⁹ Surah al-Baqarah (2): 275.

⁶⁰ Chapra, "The Nature of Riba in Islam", p. 5.

⁶¹ See El-Gousi, *op. cit.*, pp. 131-190.

⁶² "The Muslims are agreed on the authority of their Prophet that the condition for an increase over the amount lent is *riba*, irrespective of whether it is a handful of fodder, as indicated by Ibn Mas'ud, or a particle of grain". Muḥammad b. Aḥmad al-Qurtubī, *Al-Jāmi' li Aḥkām al-Qur'an* popularly known as *Tafsīr al-Qurtubī*, (Cairo: 1967) Vol. III, p. 241.

⁶³ From Abū Sa'īd al-Khudrī (r.a.): The Prophet SAW said: "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, and hand to hand. Whoever pays more or takes more has indulged in *riba*. The taker and the giver are alike (in guilt)". See Muslim, *Ṣaḥīḥ Muslim*, Vol. III, p. 1211 (no. 82).

⁶⁴ Surah al-Baqarah (2): 275.

is implied in the first part.⁶⁵ Because trade is allowed in principle, it does not mean that everything is allowed in trade. Since the injustice inflicted through *riba* may also be perpetuated through business transactions, *riba al-fadl* refers to all such injustices or exploitations.

Profit Sharing

It is reported that the operations of Islamic banking and financial institutions should be on the basis of profit and loss-sharing in accordance with the Islamic legal concept of *al-sharikah* and *al-mudārabah*, and also *qard al-hasan*.⁶⁶ *Qard al-Hasan* is a loan extended without any additional charge over and above the principal amount.⁶⁷ Under this system, the amount of return on the funds invested is neither fixed nor predetermined. The ratio of profit depends on the operational results of the economic undertaking. When capital is provided by one party and the enterprise or labour entirely by another party as in the case of *al-mudārabah*, the proportion of profit are to be agreed proportionately at the time of the contract, while loss is to be borne by the supplier (provider) of the capital unless it is due to the negligence of the entrepreneur. If there is more than one supplier of capital as in the case of *al-mushārahah*, profit is to be distributed among them in an agreed proportions, while loss is to be shared by them strictly in the proportion to their capital contributions.⁶⁸

⁶⁵ See the commentary of verse 2: 275 in *Tafsīr ibn Kathīr*, (Abū al-Fidā' Ismā'il b. Kathīr, *Tafsīr al-Qur'ān al-Karīm*, Cairo, n.d., Vol. I, p. 326).

⁶⁶ For a discussion see the CII report which contains a detailed blueprint for reorganisation of the operations of Islamic banking and finance entitled "Elimination of Interest from the Economy" in Ziauddin Ahmed, et al(eds.), *Money and Banking in Islam*, (Islamabad: 1983) pp. 103-257; Chapra, *Towards*, pp. 166-173; Ingo Karsten, "Islam and Financial Intermediation", in *IMF Staff Papers*, Vol. XXIX (1), March, 1982, pp. 108-142.

⁶⁷ *Al-Mawsū'ah al-'Ilmiyyah wa al-'Amaliyyah li al-Burūk al-Islamiyyah* Vol. V, Cairo, n.d., pp. 206-211; Cf. Nabil A. Salleh, *Unlawful Gain and Legitimate Profit in Islamic Law*, (Cambridge University Press: 1986) pp. 99-100.

⁶⁸ See M. Mohsin, "A Profile of Riba-Free Banking" in Mohamed Ariff (ed.), *Monetary and Fiscal Economics of Islam*, (Jeddah: 1982) pp. 188ff; Mohamed Ariff, "Introduction" in *Ibid.*, pp. 6-9; Muhammad Abdul Mannan, "Allocative Efficiency, Decision and Welfare Criterion in an Interest-Free Economy" in *Ibid.*, pp. 52-63; Abul Hasan Muhammad Sadeq, "Economic Growth in an Islamic Economic" in Abul Hasan Muhammad Sadeq, et al (eds.), *Development and Finance in Islam*, (Petaling Jaya: 1991) pp. 60-61; M. U. Chapra, "Towards an Islamic Financial System" in Sadeq, et al (eds.), *Ibid.*, pp. 130-137; *Idem*, "Money and Banking in an Islamic Economy" in Mohamed Ariff (ed.), *Islamic Banking in Southeast Asia*, (Singapore: 1988) pp. 51-57; Munawar Iqbal and M. Fahim Khan, *A Survey of Issues and a programme for Research in Monetary and Fiscal Economics of Islam*, (Jeddah and Islamabad: 1981) pp. 75-76; Zubair Hasan, "Distributive Equity in Islam" in Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, (Leicester and Islamabad: 1986) pp. 45-59.

Besides *al-mudārabah* and *al-mushārah*, there are a number of other alternative financing arrangements within the general framework of Islamic values have been suggested in the literature of Islamic banking. The major alternatives recommended are: *al-ijārah* (leasing), hire-purchase, *al-bay' bithaman ājil* (a sale against deferred payment), *al-murābahah* (a resale of goods or merchandise at a specified rate of profit on the stated original cost) and *bay' al-sālam*.⁶⁹

CONCLUSION

In this article, we have seen that *Tawhīd* is the basis in the framework of an Islamic banking system which differentiates it with the interest-based commercial banks. Furthermore. The superiority of the Islamic banking system over modern banking lies in the fact that Islam has eliminated the tyranny of *riba*, stressed the integration of morality and economic activities, positive attitude towards economic development, distribution of wealth based on social orientation, profit and loss sharing contracts and the implimentation of the concept of *al-'adl* in the banking activities and services.

⁶⁹ See for example, Report of the Council of Islamic Ideology of Pakistan on the "Elimination of Interest from the Economy" in Ziauddin Ahmed, et al (eds.), *Money and Banking in Islam*, (Islamabad: 1983) p. 13.