

Riba (Usury): Its Adverse Impact on Business and Its Place in Islam

S. M. Faridul Islam

*Assistant Professor, Department of Business Administration, Khwaja Yunus Ali University,
Bangladesh*

Corresponding author: faridul@kyau.edu.bd

ABSTRACT

Riba has become the pivotal element of all financial activities and in today's world, it seems unavoidable from an economy. Though some economists argue that Riba is the reward of saving but some other economic scholars, on the other hand, show clearly the adverse impact of it on economic activities including business. This paper is aimed at discussing and sharing knowledge on Riba, its impact on business and its status in Islam. The study shows that Riba acts against smooth business operation seriously as it increases price level and inflation, discourages productive works, causes unemployment, and denies justice and equity and so on. Islam is always in favor of peace and prosperity of human being and does not support any unjust or repulsive thing like Riba. So, Islam is against all forms of Riba. Allah, the Almighty has clearly and strictly prohibited the element of Riba in the 'Holy Quran'. Riba is also strongly rejected by the 'Hadith'. Islam wants to establish justice and equity between financier and entrepreneur in order to ensure smooth business operation as well as for smooth business development.

Keywords: *Riba, Usury, Riba & business, Riba and Islam, Status of Riba*

1. INTRODUCTION

In today's world, *Riba* or *usury* has become a pivotal element of an economy and it is influencing business to a great extent, normally adversely, as business is an integral part of an economy. Though some economists argue that *usury* is the reward for saving; but others, on the contrary, opine that *Riba* or *usury* has an endless adverse impact on business [1]. The study shows that *Riba* has some serious adverse impacts on business operations as well as on smooth business development as it increases price level of the product and service, leads inflation, discourages productive work like business, ignore justice and equity in business and many more like these. And for the adverse impact of *Riba*, Allah almighty has declared it '*Haram*' in his holy book 'Quran' -the complete code of life. Prophet Muhammad, (peace be upon him), has also said many statements, known as 'Hadith', against *Riba* as *Riba* acts against peace and prosperity for the human being.

2. OBJECTIVES OF THE STUDY

The main objectives of this study are discussing and sharing various aspects of *Riba* and understanding the overall impacts of it on business. Especially, the objectives of this article are as follows-

- To know the various aspects of *Riba*.
- To examine the impacts of *Riba* on business.
- To evaluate the status of *Riba* in Islam.

3. METHODOLOGY

This study is descriptive in nature and no quantitative tool has been used for analyzing the data. The study is basically based on secondary data and information which have been gathered from various books, journals, newspapers, research papers, website as well as the researcher's own observation.

4. MEANING OF *RIBA*

The Arabic word *Riba* literally means 'increase' or 'growth'. The term '*Riba*' indicates increment in anything from its original amount. Any extra amount, irrespective less or more, on the principal amount of money or goods lent out is called *Riba* [2]. In *Shariah*, *Riba* refers to the premium that must be paid by the borrower to the lender over and above the principal amount as a condition for the loan or for an extension in its maturity [3]. It is important to mention here that all the increases in the capital will not be considered as *Riba*, as it may be increased through a '*Halal*' business.

5. PROFIT AND *RIBA*

Profit is the reward of risk-taking. Basically, the monetary surplus left to an entrepreneur after deducting all the expenses, e. g., the cost of materials; wages; rent; etc is known as profit. So, profit is a positive gain to businessman which is the excess of the amount remaining after adjusting all the costs associated with a product or service [4]. On the other hand, *Riba* is the excess amount over and above the principal, as a condition of loan for which no exchange value is paid or received; which tends to increase with the passage of time and not related to the business result. During the pre-Islamic period, known as '*Jahiliyyah*' period, Arabs claim that there is no difference between capital increment through a lawful trade and increment through *Riba*. Addressing their misperception Allah Almighty says:

"That is because they say trading is only like *riba*, whereas Allah has permitted trading and forbidden *riba*" Al-Baqarah (2) 275. Some characteristics of *Riba*, as mentioned in the holy Quran, are as follows-

- a. *Riba* is created from a loan.
- b. *Riba* is excess than the principal amount.
- c. *Riba* is related with the passing time.
- d. *Riba* is not related with the result of a business.

The following table outlines some of the fundamental difference between profit and *Riba*:

Profit	<i>Riba/Usury</i>
The settlement of profit between buyer and seller is made on equal footing and terms as both the parties are equally stronger.	The debtor cannot settle the transaction on equal footing and terms with the creditor because of his weaker position.
A trader charges his profit; it may be high, but just once for all.	A money-lender goes on charging <i>Riba</i> over and over again.
To earn profit a businessman spends his time, hard work and expertise and takes the inherent risk associated with a business.	To earn money a money lender does not spend his labor or time. He does not take any risk also to make his financial gain.

6. TYPES OF *RIBA*

In Islamic *Shariah*, there are two types of *Riba* and they are as follows-

6.1 *Riba al-Nasihah* (Delay Usury): The Arabic word *Nasihah* comes from the root Nasa'a that means 'to postpone', 'defer' or 'wait' and indicates to the period allowed for the borrower for repaying the loan with a premium on its maturity. Simply, *Riba al-Nasihah* indicates the monetary return comes from a monetary loan given for a specific period. It makes no difference whether the return is fixed or a variable percentage of principal or a lump-sum amount to be paid in advanced or on maturity, or a gift or any other service will be received as a condition for the given loan [5].

6.2 *Riba al-Fadl (Excess Usury):* *Riba al-Fadl* is the excess compensation without any consideration resulting from a sale of goods. Simply, it indicates the *Riba* of exchange surplus. Any commodity-for-commodity or barter system transaction in which the exchanged commodities are same but in an unequal measure, known as *Riba al-Fadl*. *Riba al-Fadl* emerged, generally, in hand to hand exchange or purchase and sales of commodities [6]. This types of *Riba* covers all the spot transaction under the condition of cash on delivery i.e. payment is on the one hand and immediate delivery of the said goods on the other.

7. IMPACT OF *RIBA* ON BUSINESS

7.1 *Riba* increases price level: A producer charges the amount of *Riba*, he has to pay for using the borrowed money, to the cost of production, i.e. it increases the cost of production which finally increases the price level of the goods and services which is not pleasant for the business as it generally restricts purchasing power of the peoples, brings slump in business and challenges making profit.

7.2 *Riba* discourages productive works: People advance their money on consideration of *Riba* while doing nothing and feel very comfort adopting these types of easy money making process [7]. They sometimes keep their money to banks to get *Riba* and banks also deposit the money with other bank(s) to serve the same purposes or lends it to others for a higher percentage of *Riba* and, actually, real productive activities is been ignored totally. As a result, money for productive investment becomes scarce.

7.3 *Riba* makes a lender lazy and a businessman busy: A lender generally keeps him aloof from the productive work as he gets money easily, without taking any business risk, as collateral on his/her principal. This easy money making process makes him/her very lazy and greedy as well. But the businessman, on the other hand, takes the loan at a fixed rate without knowing the profitability. It means that profit from the business is highly uncertain but cost of borrowing is certain, that makes a businessman very much busy.

7.4 *Riba* causes inflation: Since a producer treats *Riba* as an element of cost of production and finally it increases the price of the goods produced which leads to increase general price level as explained earlier. This increment in general price level, decreases the purchasing power of the currency that finally leads to inflation which is alarming for the business.

7.5 *Riba* causes unemployment: *Riba* makes the business less profitable and even many times brings losses for business as *Riba* is been considered as the cost of production that leads to increase the cost of production that is very much bothering for the business. In such a situation, to reduce the business cost, a business concern takes several cost reducing decisions including firing the employees. That leads to loss efficient manpower from a business firm.

7.7 *Riba* denies justice and equity in businesses: A producer borrows money for producing commodities and pays a fixed rate as collateral, whatever the situation of a business, even at a loss, over the principal amount as *Riba* that is very much injustice to the producer. In a boom situation, on the contrary, a producer enjoys a huge amount of profit but pays the lender a little as settled earlier which is against the law of equity. *Riba* represents, in the Islamic value system, a prominent source of unjustified advantage [8]. Some businessmen borrow money to run their small enterprises and earn a little income just to survive economically and be charged, generally, the same rate of *Riba* as the solvent and wealthy businessmen who earn a huge amount of profit.

7.8 *Riba* concentrates wealth unequally: Peoples who have enough money lend it to others at a predetermined fixed rate. It means that monetary gain of lenders is confirmed and a borrower, on the contrary, has to pay the amount of *Riba* in any circumstances even a business in at stake. Thus, the

guaranteed profit makes a richer rich but poorer a poor and concentrates the poor's as well as general peoples' wealth to a few rich persons [9].

7.9 Riba hinders starting new business and business growth: If there is no *Riba*, people will not provide more loan as it will not bring any financial benefit to the lender. And one must not be interested keeping one's money idle for a long time as everyone wants to maximise his wealth. This leads to a man starting a legal business under *Musharaka*, *Mudaraba* or *Murabaha* moods instead of lending money on the basis of usury.

8. PLACE OF RIBA IN ISLAM

Riba based activities are strictly prohibited in Islam as it is ordered by Allah Almighty in the Holy Quran. In Islam, economic activities should be in accordance with the *Shariah* principles. Businesses are engaged in different economic activities which must have to be usury-free and absolutely as per *Shariah* principles for the welfare of the society [10]. The Holy Quran gives clear instructions that earnings from trade (*Bai*) are '*Halal*' but *Riba* (*usury*) based activities are '*Haram*'. Business operations are the part of economic activities and *Shariah* allows *Riba*-free business activities only.

8.1 RIBA IN THE HOLY QURAN

The Holy Quran mentions about *Riba* in its many verses where it forbids giving or taking *Riba*. The Injunctions of Quran reminds people that *Riba* or *usury* does not add anything to wealth but, on the contrary, decrease it. In the Holy Quran, there are 10 (ten) verses regarding *Riba* and these verses are in 4 (four) *suras*. The revelations of those verses are as follows:

Sl. No	Sura No.	Name of the Sura	Verse No.	Number of verses
1	2	Sura Al- Bakarah	275-280	6
2	3	Sura Al- Imran	130-131	2
3	4	Sura An- Nisa	161	1
4	30	Sura Ar- Rum	39	1

8.1.1 First Revelation: Sura Ar-Rum, verse 39

"That which you give as *riba* to increase the peoples' wealth has no increase with Allah; but that which you give in charity, seeking Allah's countenance, then those, they shall have manifold increase."

8.1.2 Second Revelation: Surah An-Nisa', verse 161

"And their taking of *riba*, though they were forbidden from taking it; and their devouring of men's substance wrongfully we have prepared for the disbelievers among them a grievous punishment"

8.1.3 Third Revelation: Surah Al -Imran, verses 130-131

"O you who believe! Eat not *riba* doubled and multiplied; but fear Allah that you may (really) prosper and fear the fire, which is prepared for the disbelievers."

8.1.4 Fourth Revelation: Surah al-Baqarah, verses 275-280

"Those who eat *riba* will not stand (on the day of Resurrection) except like the standing of a person beaten by *satan*; this is because they say: "Trade is like *riba*" while Allah has permitted trade and forbidden *riba*. Hence, those who have received the admonition from their Lord and desist may have what has already passed, their case being entrusted to Allah; but those who revert shall be the inhabitants of the fire and abide therein forever." (275)

"Allah deprives *Riba* of all blessing but blesses charity; He loves not the ungrateful sinner." (276)

"Those who believe, perform good deeds, establish prayer and pay the *zakat*, their reward is with their Lord; neither should they have nay fear, nor shall they grieve." (277)

"O believers, fear Allah, and give up the *riba* that remains outstanding if you are believers." (278)

"If you do not do so, then be sure of being at war with Allah and His Messenger. But, if you repent, you can have your principal. Neither should you commit injustice nor should you be subjected to it." (279)

"If the debtor is in difficulty, let him have respite until it is easier, but if you forego out of charity, it is better for you if you realize." (280)

8.2 RIBA IN HADITH

8.2.1 Hadith in general related to Riba

- a) From 'Abdallah ibn Hanzalah: The Prophet, (peace be upon him), said: "A dirham of riba which a man receives knowingly is worse than committing adultery thirty-six times" (Mishkat al-Masabih, Kittab al-Buyu', Bab al-riba, on the authority of Ahmad and Daraqutni).
- b) Jabir ibn 'Abdallah, giving a report on the Prophet's Farewell Pilgrimage, said: The Prophet, (peace be upon him), 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's uncle]; it is being cancelled completely." (Muslim, Kitab al Hajj, Bab Hajjati al-Nabi, may peace be on him; also in Musnad Ahmad).
- c) From Abu Hurayrah: The Prophet, (peace be upon him), said: "On the night of Ascension I came upon people whose stomachs were like houses with snakes visible from the outside. I asked Gabriel who they were. He replied that they were people who had received *riba*." (Ibn Majah, Kitab al-Tijarat, Bab al-taghlizi fi al-riba; also in Musnad Ahmad).
- d) From Jabir: The Prophet, may peace be on him, cursed the receiver and the payer of riba, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." (Muslim, Kitab al-Musaqat, Bab la'ni akili al-riba wa mu'kilihi; also in Tirmidhi and Musnad Ahmad).
- e) From Abu Hurayrah: The Prophet, (peace be upon him), said: "*Riba* has seventy segments, the least serious being equivalent to a man committing adultery with his own mother." (Ibn Majah, *ibid*).
- f) From Abu Hurayrah: The Prophet, peace upon on him, said: "Allah would be justified in not allowing four persons to enter paradise or to taste its blessings: he who drinks habitually, he who takes riba, he who usurps an orphan's property without right and he who is undutiful to his parents." (Mustadrak al Hakim, Kitab al-Buyu').
- g) From Abu Hurayrah: The Prophet, (peace be upon him), said: "There will certainly come a time for mankind when everyone will take *riba* and if he does not do so, its dust will reach him." (Abu Dawud, Kitab al Buyu, Bab fi ijtinabi al shubuhah; also in Ibn Majah).

8.2.2 Hadith related to Riba al-Nasi'ah

- a) From Usamah ibn Zayd: The Prophet, (peace be upon him), said: "There is no riba except in nasi'ah [waiting]." (Bukhari, Kitab al-Buyu, Bab Bay al-dinari bi al-dinar nasa'an; also Muslim and Musnad Ahmad) "There is no riba in hand-to-hand [spot] transactions." (Muslim, Kitab al-Musaqat, Bab bay'i al-ta'ami mithlan bi mithlin; also in Nasa'i).
- b) From Anas ibn Malik: The Prophet, peace be on him, said: "If a man extends a loan to someone he should not accept a gift." (Mishkat, *op. cit.*, on the authority of Bukhari's Tarikh and Ibn Taymiyyah's al-Muntaqa).
- c) From Anas ibn Malik: The Prophet, peace be on him, said: "When one of you grants a loan [of money] and the borrower offers him a dish, he should not accept it; and if the borrower offers a ride on an animal, he should not ride, unless the two of them have been previously accustomed to exchanging such favours mutually." (Sunan al-Bayhaqi, Kitab al-Buyu, Bab kulli qardin jarra manfa'atan fa huwa riban).
- d) Fadalah ibn "ubayd said that "The benefit derived from any loan is one of the different aspects of riba." (Sunan al-Bayhaqi).
- e) From Abu Burdah ibn Abi Musa: I came to Madinah and met 'Abdallah ibn Salam who said, "You live in a country where *riba* is rampant; hence, if anyone owes you something and

presents you with a load of hay, or a load of barley, or a rope of straw, do not accept it for it is *riba*." (Mishkat, op. cit., reported on the authority of Bukhari).

- f) From Ibn Mas'ud: The Prophet, peace be on him, said: "Even when *riba* is much, it is bound to end up into paltriness." (Ibn Majah, Kitab al-Tijarat, Bab al-taghlizi fi al-*riba*; also in Musnad Ahmad).

8.2.3 Hadith related to Riba al-Fadl

- a) From Abu Sa'id al-Khudri: The Prophet, (peace be upon him), said: "Do not sell gold for gold except when it is like for like, and do not increase one over the other; do not sell silver for silver except when it is like for like, and do not increase one over the other; and do not sell what is away [from among these] for what is ready." (Bukhari, Kitab al-Buyu, Bab bay i al-fiddati bi al-fiddah; also Muslim, Tirmidhi, Nsai i and Musnad Ahmad).
- b) From Abu Sa'id al-khudri: The Prophet, (peace be upon him), 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]." (Muslim, ibid; and Musnad Ahmad).
- c) From Abu Sa'id and Abu Hurayrah: A man employed by the Prophet, peace be on him, in Khaybar brought for him janib [dates of very fine quality]. Upon the Prophet's asking him whether all the dates of Khaybar were such, the man replied that this was not the case and added that "they exchanged a sa [a measure] of this kind for two or three [of the other kind]". The Prophet, (peace be upon him), replied, "Do not do so. Sell [the lower quality dates] for dirhams and then use the dirhams to buy janib. [When dates are exchanged against dates] they should be equal in weight." (Bukhari, Kitab al-Buyu, Bab idha arada bay'a tamrin bi tamrin khayrun minhu; also Muslim and Nasa'i).
- d) From 'Ubada ibn al-Samit: The Prophet, (peace be upon him), said: "Gold for gold, silver for silver, wheat for wheat, barley for barley dates for dates, and salt for salt - like for like, equal for equal, and hand-to-hand; if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand." (Muslim, Kitab al-Musaqat, Bab al-sarfi wa bay'i al-dhahabi bi al-waraq naqdan; also in Tirmidhi).
- e) From Abu Umamah: The Prophet, (peace be upon him), said: "Whoever makes a recommendation for his brother and accepts a gift offered by him has entered *riba* through one of its large gates." (Bulugh al-Maram, Kitab al-Buyu, Bab al-*riba*, reported on the authority of Ahmad and Abu Dawud).
- f) From Abu Sa'id: Bilal brought to the Prophet, peace be on him, some barni [good quality] dates whereupon the Prophet asked him where these were from. Bilal replied, "I had some inferior dates which I exchanged for these - two sas for a sa." The Prophet said, "Oh no, this is exactly *riba*. Do not do so, but when you wish to buy, sell the inferior dates against something [cash] and then buy the better dates with the price you receive." (Muslim, Kitab al-Musaqat, Bab al-ta'ami mithlan bi mithlin; also Musnad Ahmad).
- g) From Fadalh ibn 'Ubayd al-Ansari: On the day of Khaybar he bought a necklace of gold and pearls for twelve dinars. On separating the two, he found that the gold itself was to more than twelve dinars. So he mentioned this to the Prophet, peace be on him, who replied, "It [jewellery must not be sold until the contents have been valued separately." (Muslim, Kitab al-Musaqat, Bab bay'i al-qiladah fiha kharazun wa dhahab; also in Tirmidhi and Nasa'i).
- h) From Anas ibn Malik: The Prophet, (peace be upon him), said: "Deceiving a mustarsal [an unknowing entrant into the market] is *riba*." (Suyuti, al-Jami' al-Saghir, under the word ghabn; Kanz al-'Ummal, Kitab al Buyu, al-Bab al-thani, al-fasi al-thani, on the authority of Sunan al-Bayhaqi).

9. CONCLUSION

It is seen that *Riba* has huge adverse impact on business, such as it increases price level of the goods and services, it leads inflation, it makes business difficult and so on. *Riba* hinders smooth business

operation and real business development. *Riba* is an unjust gain for the money lender and *zulm*, on the other hand, for the entrepreneurs who take a loan in consideration of *Riba* [11]. Allah Almighty, the creator of all creations and well known of everything, says that *Riba* does not increase wealth but it is a transfer payment from borrowers to lender. Allah almighty made *Riba* 'Haraam' and declared war against receivers of *Riba*. Dealing with *Riba* is also prohibited by the hadith. *Riba* is an imprecation for an economy that harms business in various ways. And that's why *Riba* is strictly prohibited in Islam.

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