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THE CURSE OF INTEREST

A pamphlet on the meaning, impact and implications of riba, including responses to frequently raised objections

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*To the courageous men and women
who answer the Quranic call
'And strive in His cause as you ought to strive'
(22:78)
with all that they are and all that they have,
willing to give not less than everything
to deconstruct the ways of falsehood
and to establish the Way of Truth.*

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FOREWORD

24 June 2002 woke up to be one of the darkest days in the history of the Islamic Republic of Pakistan .On that day, the Supreme Court of Pakistan revoked the considered judgment of the Federal Shariat Court of Pakistan on the issue of *riba*¹ (interest) made on 14 November 1991. The Supreme Court decision did not merely halt the process of Islamization of economy in Pakistan. It pulled thirty years of efforts and endeavors to pieces.

It should be noted here that while in matters of belief *shirk* (polytheism) is the greatest sin- unforgivable except through sincere remorse and repentance (Al Nisa: 48,116), - in practical collective matters of life, the worst of sins is dealing in *riba*. Allah Subhanahu wa Ta'ala and His messenger (Sallallahu Alaihi Wassallam) have declared war on people involved in *riba*-based dealings.

Back to the tragedy. For all the gloom and dismay produced by the decision, the latter was not entirely a bolt from the blue. It had the blessings of our rulers who do not mind leaning over backwards to please their foreign masters. Yet what was truly a surprise was the mute indifference- amounting to a welcome- with which the decision was greeted by the Muslims of the Islamic Republic. Not even a whimper issued from our religious groups and parties.

وائے ناکامی متاعِ کارواں جاتا رہا
کارواں کے دل سے احساسِ زریاں جاتا رہا

*The caravan's riches plundered! The greater woe:
From hearts, alas, was lost all sense of loss!*

¹ Henceforth the terms “riba” and “interest” are identified with each other and used inter-changeably throughout.

Such collective inertia betrays the true state of our commitment to Islam. Muslims of Pakistan but crucially all Islamic groups within the country had chosen to keep mum.

It is of critical importance therefore:

1. to reawaken Pakistani Muslims spiritually;
2. to spread awareness about the harms and evils associated with interest/*riba*.
3. to urge and plead them to avoid all direct *riba*/interest-based transactions;
4. to remove confusion about *riba* provoked by certain observations made during the Supreme Court hearings and circulating in the press.

The book in hand addresses these issues. Apart from the sources indicated in parentheses and the footnotes, Department of Composition and Compilation of the Anjuman Khuddam-ul-Quran Sindh, Karachi consulted the following works in putting this work together:

Urdu Exegeses of the Quran (*Tafasir ul Quran*)

1. *Bayan ul Quran*: Maulana Ashraf Ali Thanvi.
2. *Maarif ul Quran*: Mufti Muhammad Shafi.
3. *Tafheem ul Quran*: Syed Abul Ala Maududi
4. *Ahsan ul Bayan*: Maulana Salahuddin Yusuf

Books and Articles on Riba

1. *Sud key Mutabadil Asaas*(in Urdu): Sheikh Mehmood Ahmed
2. *Mas'ala-e Sud aur Ghair Sudi Maliaat* (in Urdu): Muhammad Akram Khan
3. *Pakistan key Maeeshat sey Sud kay Khatmey kay liay Islami Nazariati Council key Report ka Khulasa* (in Urdu): Dr. Tanzeel ur Rehman
4. *Islamic Banking*: Dr. Imran Ashraf Usmani.

5. *Pakistan mein Alami Maliati Idaron ka Kirdar aur un ka asar rasookh* (in Urdu); Dr. Shahid Hasan Siddiqui.

We pray to Allah Subhanahu wa ta'ala that He may accept this modest effort. We also pray for the day when Islamic Republic of Pakistan would become a state in which Islam truly reigns supreme.

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CHAPTER 1

A Short History of Riba in Pakistan: Chronicle of Government Initiatives

1969

Upon an enquiry made by the State Bank of Pakistan, the Islamic Advisory Council in its December 1969 session held in Dacca, declared interest on bank loans, savings certificates, prize bonds and postal life insurance schemes etc forms of “riba” and thus unIslamic. The Council recommended forming a committee to address the modalities of transition towards an interest-free economy.

1973

Article 37 of the Constitution of Pakistan categorically stipulated that removal of interest-based transactions from the economy is an official responsibility of the government. The Constitution set a nine-year limit for the Islamization of the entire legal, financial and bureaucratic framework of the country.

1977

On 29 September, President Zia-ul-Haq commissioned the Islamic Ideology Council to prepare a working proposal for an interest-free economy. The Council formed a 15-member panel of distinguished bankers and economists that submitted its proposal after intense research-work.

1980

On 25 June, the Islamic Ideology Council presented another report- the redrafted and revised proposal- to President Zia-ul-Haq but in vein. Later, upon the persuasion of Dr. Israr Ahmed, the report was made public. A summary of this report was published by Siddiqui Trust, Karachi.

1981

A Federal Shariat Court was established but its hands were tied by keeping financial matters out of its jurisdiction. As “alternatives” to interest, PLS and mark-up schemes were initiated. Ulema denounced both: the old wine of interest, said the Ulema, was now being marketed in new bottles.

1988

On 15 June 1988 President Zia-ul-Haq promulgated the Nifaz-e-Shariat Ordinance, constituting an Islamic Economy Commission. It was headed by Dr Ehsan Rasheed, former Vice Chancellor, University of Karachi. After a year, the commission became defunct, following the change in the government. The Nifaz-e-Shariat Ordinance was not even presented in the Benazir- led parliament.

1991

Under the directive of Prime Minister Nawaz Sharif, a committee was formed led by Professor Khursheed Ahmed. Its task was to work out a strategy to rescue the country from the crushing burden of foreign debt, and to put it on the track of self

reliance. With much effort, the report was completed in a short time. It was submitted on 10 April 1991.

Another commission was set up under the aegis of the State Bank of Pakistan on 11 May 1991 with the aim to propose steps towards the Islamization of economy. Yet again, the commission was rolled up as soon as the government changed hands, from Nawaz Sharif to Benazir Bhutto.

A committee working under Maulana AbdulSattar Khan Niazi was also assigned to prepare a blueprint of an interest-free economy. Its recommendations were duly submitted.

On 14 November 1991, the Federal Shariat Court declared bank interest “riba” after a marathon hearing. This was the highest officially recognized proclamation classifying bank interest as riba. Top Ulema, economists, and lawyers of the country submitted their observations during the case. The government was given six months to initiate the transition to an interest-free economy.

The government of Mian Nawaz Sharif filed a petition in the Supreme Court challenging this judgment. For the next eight years, the appeal could not be heard in the apex court for one reason or another. Thus the matter remained unresolved.

1997

On 23 February 1997, Prime Minister Nawaz Sharif formed one more committee under the leadership of Raja Zafarul Haq to reconsider the recommendations for a riba-free economy in the light of the concerns and objections raised. Once again, no practical outcome emerged from the suggestions put forward.

1999

The Shariat Appellate Bench of the Supreme Court of Pakistan heard the petition filed by the government against the 1991 Federal Shariat Court judgment. On 23 December the Bench upheld the FSC decision, turning down the appeal. The government received extension upto 30 June 2001 to eradicate riba from the economy. The government stealthily pushed forward another appeal challenging the decision, though this time the ostensible petitioner was a public bank, UBL.

2001

Following the above petition, the Supreme Court extended the 30 June 2001 deadline given to the government by another year.

2002

At the start of the month of May, the Advocate General of Pakistan officially stated that the government would now draw advice from such Ulema who do not deem bank interest *haram* (forbidden) as riba.

Dr Israr Ahmed published a biting riposte, soaked in dismay, in a newspaper advertisement giving a clarion call to the Ulema:

[It is curious that] while the Indian forces are biding time on the borders, anxiously looking forward to a showdown, our government is dreaming up clever ploys to carry on the war against Allah and the Prophet. The religious-political leaders should wake up to the statement issued by the Advocate General which says, firstly, that for reviewing the [Shariat Court] decision in favour of eliminating bank-interest, opinions of such Ulema (sic) will be sought who do not consider bank-

interest riba; secondly, role-model guidance will be sought from such Muslim countries that have interest-free banking running parallel to conventional banking. The religious-political leadership should demand the implementation of the Supreme Court decision by the 30 June 2002 deadline. At such a decisive crossroads, the demure silence of the Ulema and the Mashaikh as well as of our religious parties will make them the object of a severe Quranic censure: *“Why do not the rabbis and the priests forbid their evil speaking and their devouring of illicit gain? Verily evil is their handiwork.”* (Al Maida: 63)

Sadly, our religious leaders paid no heed to the appeal. Soon after, the government relieved the world-renowned Alim, jurist and Islamic economist, Justice Mufti Taqi Usmani from the seat of the Shariat Appellate Bench, and inducted two lesser-known gentlemen in his stead.

On 6 June, the Supreme Court Appellate Bench began the hearing of the case. According to the standard procedure, the same bench hears the appeal for reviewing a judgment that had earlier made the judgment. Disregarding the procedure, a newly composed bench heard the appeal. The advocates of religious parties objected to the composition of the bench and asked the court to summon all the earlier stakeholders. The court responded that it would not begin the hearing before ascertaining the validity of the appeal.

But all the same the hearing began. The state prosecutors raised some objections against the Shariat Court judgment. In all fairness, the Ulema and the religious parties should have been asked for a counter-response. But the court, in strange urgency, upheld the appeal and turned down the Shariat Court judgment.

CHAPTER 2

Bare Definitions: What is Riba?

Allah says in the Quran:

*“...and if you repent,
you have your principal (without interest)”*
(Al Baqara: 279)

Prophet sallallahu alaihi wassalam said:

“Riba is the excess on any loan.”
(Al Jamiul Sagheer, cited in Maarif ul Quran)

In the light of the above, jurists have defined riba as:

“A transaction in which a loan is given out for a set period on the terms that the lender would return it along with a definite increment on the principal.”
(Imam Hussas: *Fi Ahkam ul Quran*)

CHAPTER 3

Quran and the Prohibition of Riba

Al Rum (30:39) (revealed in the 6th year of Prophethood):

That which you give in usury in order that it may increase on (other) people’s property has no increase with Allah; but that which you may give in charity, seeking Allah’s countenance, has increase manifold.

Aal-e-Imran (3:130) (revealed in the 3rd year of Hijrah):

O you who believe! Devour not usury, doubling and quadrupling (the sum lent) fear the wrath of Allah and observe your duty, that you may be successful.

Al Nisa (4:160-161) (revealed in the 5th year of Hijrah):

*Because of the wrongdoing of the Jews we forbade them good things, which were (before) made lawful unto them, and because of their much hindering from Allah’s way.
And of their taking usury when they were forbidden it, and of their devouring people’s wealth by false pretences. We have prepared for those of them who disbelieve a painful doom.*

Al Baqarah (2: 275-276) (revealed in the 9th year of Hijrah):

Those who swallow usury cannot rise up save as he arises whom the devil has prostrated by (his) touch. That is because they say: Trade is just like usury; whereas Allah permits trading and forbids usury. He unto whom admonition from His Lord comes and

(he) refrains (in obedience thereto), he shall keep (the profits of) that which is passed, and his affair (henceforth) is with Allah. As for him who returns (to usury) such are the rightful owners of the Fire. They will abide therein.

Allah has blighted usury and made almsgiving fruitful. Allah loves not the impious and guilty.

Ibid (278-281):

O you who believe! Observe your duty to Allah, and give up what remains (due to you) from usury, if you are (in truth) believers.

And if you do not, then be warned of war (against you) from Allah and His messenger.

And if you repent, then you have your principal (without interest). Wrong not and you shall not be wronged.

And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that you remit the debt as alms giving would be better for you if you did but know.

And guard yourselves against a Day in which you will be brought back to Allah. Then every soul will be paid in full that which it has earned, and they will not be wronged.

CHAPTER 4

Sayings of RasulAllah (saw) on the Prohibition of Riba

1. Jabir (radi Allahu anhu) narrates that Seyyedna Muhammad (sallallahu alaihi wasallam) cursed the consumer of interest, the giver of interest, the scribe (who inscribes the transaction) and its witnesses, and he said: All of them are alike (in sinning).
Sahih Muslim
2. Abu Hurairah (radi Allahu anhu) narrates the Prophet sallallahu alaihi wasallam) saying: The sin of interest has seventy parts; the smallest of them is like committing fornication with one's own mother.
Ibn Maja
3. Abdullah bin Hanzalah (radi Allahu anhu) says that Prophet Muhammad (sallallahu alaihi wasallam) said: Deliberately eating one dirham (worth) of interest by a person (i.e. despite being aware of its forbiddenness) is more grievous than committing zina thirty-six times.
Musnad Ahmad
4. It is narrated by Abu Hurairah (radi Allahu anhu) that he said the Prophet (sallallahu alaihi wasallam) said: Keep away from seven deadly sins. He asked: O Prophet of Allah! What are they? He answered: Holding a partner with Allah, indulging in sorcery, killing somebody innocent, taking interest, usurping an orphan's property, running away from the (fighting) Islamic forces (to save one's own life)
Ibn Maja

5. It is narrated by Abu Hurairah (radi Allahu anhu) that he said the Prophet (sallallahu alaihi wasallam) said: I passed by a group (during the night journey of al Mairaj) whose stomachs were like houses filled with snakes that were visible from the outside. I asked: Who are they, Jibril? He answered: These are the interest-takers.

Ibn Maja

6. It is narrated by Sumrah bin Jundub (radi Allahu anhu) who says that the Prophet (sallallahu alaihi wasallam) said: On the night of al Mairaj, I saw a man swimming in a stream and pelted with stones. I questioned: Who is this? I was told: The consumer of interest.

Musnad Ahmed

7. It is narrated by Ibn Masud who says that the Prophet (salla Allahu alaihi wasallam) said: No matter how much is the increment accrued through interest, the eventual outcome is scarcity.

Ibn Maja, Musnad Ahmed

8. It is narrated by Abu Hurairah (radi Allahu anhu) as reported from the Prophet (sallallahu alaihi wasallam): Indeed there would come a time upon people when none would remain without being involved in interest. Even the one who wouldn't consume it himself would have its dust reach into his nostrils.

Ibn Maja

CHAPTER 5

The Evils of Interest

Once interest is accepted as the integral element of business and finance, it begins to eat into the fabric of human society. Even a passing glance at the myriads of miseries with which it afflicts the society is enough to appreciate the wisdom in the stern Quranic warning:

“And if you do not (refrain from riba), then be warned of war (against you) from Allah and His messenger.” (Al Baqarah: 279)

1. Priority of Capital over Human Labour

Work requires both labour as well as capital. Whether it is industrial manufacture, business or agriculture the element of risk is bound up with work i.e. the possibility of loss of labour or capital cannot be eliminated. Yet interest-based investment operates unexceptionally on interest profit even if labour suffers loss or waste by accident. This prioritization of capital over human labour offends human dignity and defies logic. It is simply unjust as it flouts universal ethical principles.

2. Murder of Civility and Well-being

If capital is given precedence over the human self, it follows only naturally that the present-day civilization that has grown on interest should lack basic virtues: decency, compassion and fair dealing.² On the contrary our society thrives on greed, dishonesty and fraud. Often the borrower is

² Mark Achbar's illuminating documentary based on Joel Bakan's book *The Corporation: The Pathological Pursuit of Profit and Power* (2004) marshals a staggering body of evidences to indict laissez-faire capitalism for "self-interested, amoral, callous and deceitful" practices.

reduced to his last rags attempting repayment. Some are pushed to the extreme of taking their life or somebody else's life in desperation while the interest-gobbling capitalists keep caressing their pot-bellies without a burp.

3. Usurpation of Earned Income

The one who takes interest appropriates a lion's share from the income of others without incurring any risks. His capital is not only secure: it continues to grow while often the profit made through a loan is lost in the longer run in paying interest.

4. Rise of Greed and Selfishness

The consumer of interest is not bothered about the performance or growth of business. His sole interest is the fixed income that he is siphoning off through interest. If there is market-decline he withdraws capital. As a result of scarcity of capital the process of production is affected. The standing external debt of the country is almost \$ 40 billion (Sultan Ahmed, DAWN, August 05, 2004, p.6), even though according to press reports the net foreign investment of certain affluent Pakistanis has crossed \$100 billion. This falls into a global pattern of material self-aggrandizement as we note that as against the combined total debt of well over \$700 billion payable by the Muslim world, the combined assets of the 185,000 Muslim millionaires in the Gulf region alone exceed \$ 1000 billion (based on a Merrill Lynch report).

Our tragedy is not that we don't have the means to bail ourselves out of our liabilities; the tragedy is that those who *can* do not have the will to do so.

5. Business Risk

No business is risk-free but doing business on interest loans compounds the risk since it binds the businessman to pay interest at a fixed rate whether or not the business has made profit.

6. Excessive Profit-Making

Taking the risks of loss and the schedule of payments into account the businessman borrowing on interest keeps a higher margin of profit than he would without interest. Often this results in huge but unfair gains at the expense of consumers and buyers. The profit-figures of the international donor agencies are mind-boggling. According to conservative estimates, the external debt of all developing countries stands at almost \$ 2 trillion or \$2000 billion. At an average mark-up of 10%, lending institutions like the IMF and the World Bank earn an annual profit of \$ 200 billion. What all this means is that forever and ever, the poorest countries of the world will keep their begging bowls outstretched. As for what happens to the borrowed money, a study on Bangladesh foreign aid utilization shows that 75% of the amount goes back to donors to pay for experts, consultants and equipment.

7. Price Hike, Devaluation and Inflation

In estimating the cost price of a commodity the businessman includes interest as an expense, which pushes up the price of the item. In fact, if at every stage, from the supplying of raw material to manufacturing to distributing to selling, interest is incorporated into the cost, one can appreciate how inflated a price would the end-user have to pay.

In 1988, Pakistan committed itself to the Structural Adjustment Program at the behest of the international funding agencies. It resulted in an inflow of interest-based

loans but it also led to a steep rise in interest-payments. Prices went up by 500-700 %.

Consumer inflation rose to 4.57% over 2003-4 and in July 2004, Consumer Price Index shot up to 9.33%, unprecedented in seven years. What was disturbing was that this alarming rise had mainly hit food and housing rent, factors that affect the poor man the worst.

By the same token, the anxiety to meet repayment deadlines forces the government to keep devaluing the national currency against the dollar. The State Bank of Pakistan reported that in 2000-1, Pakistan incurred a financial loss of Rs.3,070 billion of which 57% was due to revaluation of loans as a result of devaluation of the Rupee.³

8. Rise of Rent and Fare

In leasing out or letting land or shops, machinery or factory, cars or personal vehicles in general, the rent or fare involved subsumes the interest given by the owner at various stages. Moreover, as the useful life of the asset is estimated, allowance for wear and tear and depreciation becomes an excuse to justify the interest-inflated rent and fare.

9. Exploitation of the Poor

By and large workers remain underpaid. Their wages or salary is not commensurate with the share of profit owed to them i.e. not according to what they deserve but according to what their owners desire. The same constraints often result in downsizing of the work force and “rationalization” i.e. reduction of salaries.

³ In an article titled ‘Violation of financial rules causes losses’ published in DAWN Economic and Business Review (August 9-15 2004), Ghulam Rasul has argued that over the past five decades, IMF has systematically used the ploy of devaluation by manipulating the price of gold to make Pakistan heavily indebted and dependent on interest-based financial assistance.

10. Rise of Unemployment

The renowned economist John Maynard Keynes has argued that without the abolition of interest, unemployment cannot be eradicated⁴. Interest slackens the productivity of capital. Risks associated with interest force the capitalist to squeeze the greatest amount of yield from the labour force, which is kept to a minimum. As a result, unemployment swells up. Those who can be usefully employed are kept out of work. According to the Economic Survey of Pakistan (2004) unemployed labour force in Pakistan has doubled from 1995 to 2004 pushing unemployment to 8.27 % in 2004, and this is despite vigorous economic activity (6.4% July2003-June2004).

The plight of the poor is compounded by the fact that they their business acumen is too limited to risk borrowing on interest for a trade venture. Moreover money-lenders are also skeptical of the success of small businesses. The fear of bearing a bad debt keeps them off.

11. Instability in Market Demand and Supply

Interest- inflated costs negatively influence demand. Consumers are put off by the steady rise in prices. Thus instead of being primarily governed by supply, demand is controlled by the purchasing-power of the consumer which is continually constrained by the rise in prices. In the very first month of the fiscal year 2004, food inflation was 14.93% affecting 60-70% people (Federal Bureau of Statistics). Does it not undermine claims about healthy economic performance questionable?

⁴John Maynard Keynes, *The General Theory of Employment, Interest and Money* (1936). Also note his strongly arguable concluding remarks: “The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes”.

12. Negative Effects on Savings and Investment

Investment rests directly on savings. As prices steep up, savings plunge and with that the capacity for investment. In 1965, interest rates hung around 5% with savings at about 13%. Twenty years on, in 1985, interest rates had shot up to 16-17% while savings had plummeted to 5%.

13. Negative Impact on the Performance of Capital in Small Businesses

Small businesses are the worst affected in interest-based economies. Either they are pre-emptively browbeaten by profit-sucking interest-rates, or on the other hand, they see the twilight in their infancy. For capital to perform in a small business is as easy as swimming in a quagmire. If it doesn't sink at once it sinks at last. Indirectly, this also undermines the productive exploration and exploitation of numerous natural resources.

14. Restriction on Production

Interest double-crosses the investor/producer in an impossible snag. First it hounds him up the cliff of inflation. But when he reaches the top and looks down, he finds the deep blue sea of market-decline ready to swallow him. He is left with no option but to bring production down to the point of optimum profit. The vicious circle runs all at the expense of the consumer.

Every year millions of dollars are forked out in the US to deliberately curtail agricultural produce. And even dimwits can guess how this abortion exercise is financed. So goes the tragic tale of mindless drain of human labour and capital.

15. Bottling up the Supply of Capital

Advanced capitalism remains jealous of capital. Lest too much capital in the hands of too many pulls down interest-rates, the clever ploy of bank-reserves is employed. The fatter the reserves, the thinner will be the supply of capital. This factor finds helpful kins in unemployment and inflation, which have already choked the availability of capital.

16. Perpetual Deficit in National Income

From time to time, capitalists keep springing the nightmare of market-decline before the eyes of the government in power. In order to keep unemployment in check and to facilitate purchasing power the government is goaded into making holes in its kitty i.e. to keep its expenses above its income. Most governments in the world including that of Pakistan are caught in this capitalist trap. They are forced to keep their borrowing bowls stretched forever before the capitalists. Every further loan sinks a people another foot in the sands of interest payment.

17. Capitalist Control over Institutions, Individuals and Key Sources of National Income

After ensnaring the government in complex fiscal webs, the government becomes for the capitalist an instrument for strengthening his spine.⁵ He not only reaps the harvest of the most productive institutions, organizations and individuals but also milks the national cow in the shape of

⁵ The late Dr. Mahbub-ul-Haq's statistics are dated but the basic point he made back in 1976 still rings true. He argued that by 1968, 22 families in Pakistan owned almost 65% of Pakistan's industrial wealth, 80% of banks and 70% of insurance assets. See Mahbub-ul-Haq: *Poverty Curtain: Choice for the Third World* (1976).

interest paid by the government. Thus the unbroken loop of annual loans running into billions and interest paid to the tune of millions feeds the capitalist and sustains the government.

18. Tyranny of Taxes

Being cash-strapped the government is forced to generate funds through taxes. But thereby hangs a problem. It is difficult to draw the big shots, the landlords or the mega-industrialists into the tax net. Solution: Levy direct taxes on the end-user. It is much more convenient for resource building. Result: the brunt of taxes falls on the already crushed classes of society.

19. Reduced Circulation of Wealth

It is a commonplace that flow of wealth in a country is an index of economic health that active money is a boon and dead money is a bane. In the interest-based system wealth gravitates towards an exclusive minority. And gets stuck. If it suits the money masters they may not release or invest it. As a result, economic growth rate is stunted. In 1980 it was 6.5%. In 1988 there was an agreement with international funding agencies. Two years later the growth rate had come down to 4.6%. Even though, recently, during the fiscal year 2003-4, the annual economic growth rate seems to be healthy, the poor are worse off. Economic Survey of Pakistan (2004) indicates that one-third of the population subsists below the poverty line i.e. earns less than \$1 a day.

20. Marginalization of National Welfare Projects

An interest-laden system may take up welfare projects but grudgingly unless there are some economic spin offs. Financial feasibility is the deal clincher no matter how valuable the cause. The social sector (health care or education) is “non-performing”. Hence it is attended only

after interest debt-servicing. In the year 2003-2004 the total expenditure on health care was a whopping 0.73% of the GDP and while education received a generous 2.5%. These figures are thrown into relief when one considers that well over 30 % of our GDP was consumed by debt-financing.

21. Damage to Collective Social Development

This point derives from the preceding points. A transparent view of the interest-operated capitalist society shows us that it tilts acutely in favour of a select minority, which holds the country, the people and the resources to ransom. They lord over capital. They control prices. They take the lion's share in all enterprises. A privileged few guard the stocks piled up in the den that cost the countless many their sweat and blood. The poor finance the opulence of the rich. Allama Iqbal said in his Urdu poem 'Lenin Khuda kay Huzoor main' (*Lenin before God*):

ظاہر میں تجارت ہے، حقیقت میں جوا ہے
سوڈ ایک کا لاکھوں کے لئے مرگب مناجات

*What they call commerce is a game of dice:
For one, profit, for millions swooping death.*

22. Social Instability

It naturally follows from what is said in the aforementioned paragraph that the gulf separating the rich and the poor should widen. Maulana Manazir Hasan Gilani gave graphic force to his point when he painted the interest-stung society as one in which “one side is swollen with wealth while the other is anaemic with poverty”. Class-consciousness and consequently class struggle blow up to the point of social discord. Vested interests of various classes coagulate good sense and fairness. Grievances

harden into prejudices. The affluent harp in air-conditioned rooms on the tune of “freedom” “opportunity” and “fair play”, while the down-trodden swelter in the heat of oppression. Soon they descend into crime. Professional begging, burglary, shoplifting, kidnapping for ransom, drug trafficking and murder evolve into organized mafia business.

One fundamental cause of the complete financial breakdown in Argentina in 2002 was this lopsided distribution of wealth. Live television clippings showed desperate Argentinians window-crashing into shopping malls and plundering banks. Similarly, anti-globalization protests worldwide at various WTO conferences offer proof that power and money topple social order if they are not fairly shared.

23. Extremist Reactions: Communism

The harder the ball hits the ground, the higher it bounces. Advanced capitalism drives a wedge between classes, which swells with time. The have-nots raise their voice and then the gun to assert their rights. First they think it is the capitalists in question that are at flaw. From there it takes just one flourish of deluded frenzy to believe that it is not the industrialists but profit itself that is the root of evil. Therefore overthrow the system. Instead, build a system that does not rest on privately owned means of production. Nationalize all land, property, shops and factories.

However, the irony in all such “revolutionary” situations is that the assets deposited in the bank are not nationalized nor is the payment of interest stalled. That is done on the pretext that interest payment is a necessary incentive to keep up the industrial economic cycle. Thus under the guise of communism, and in the name of equality and fair play, fundamental freedoms of the common man are

confiscated. Capitalists here survive by sneaking into the oligarchy of communism.

24. Friction in International Relations

As unemployment flares up, many countries seek to offset the effect by turning to international trade. To boost exports, they often resort to devaluation of their currency against foreign exchange. But since in the international market others are no less shrewd, the advantage usually evens out. On the contrary, it sometimes incites tension or at least restlessness among countries affected by this action.

25. Intractable Complexities

Even the skeptics in the capitalist academia who appreciate these flaws and faults take the system as a whole for granted. They keep writing prescriptions for short-term, medium- term and long-term problems but never question the existing system itself. Their cures create more problems than they solve. Suggestions to end unemployment breed inflation and solutions for controlling inflation aggravate unemployment. The system is vast and irreducibly complex. One can only sympathize with the experts who confess that the system is beyond their grasp.

26. The Supreme Loss

Unfair distribution of wealth that is an absolute and inevitable outcome of a system that runs on interest is a double-edged sword, as Shah Waliullah said. It robs men of peace in the world and it ruins their hereafter. The venture capitalist may charter a plane to Hawaii to sate his appetites whenever he pleases but his heart remains hollow and his life is empty. Two gods cannot cohabit a single heart and

the house divided against itself is destined to fall. It is only natural that lust for the pleasures and luxuries of this world should cloud one's soul, and forgetfulness of Allah and indifference to the hereafter should set in. According to a hadith, the body that has grown on haram (religiously forbidden stuff) deserves hell-fire. (*Musnad Ahmed*)

On the other hand, the poor man is chained to the daily grind of labour for his share of crumbs. Poverty, said the Prophet (sallallahu alaihi wasslam), comes close to disbelief. That is due to the despair and frustration in meeting one's needs despite one's best efforts.

Observation tells us that it is not the working class alone that is targeted for overwork. Consumer capitalism hinging on interest has enslaved the bulk of the middle classes working in offices or in the market. The nine- to-five office is a stale joke. Weekends are often normal workdays. The bait of a handful of extra pennies keeps people away from preparing for or thinking about the hereafter. The phenomenal rise in the leasing business and the success of deferred payment schemes (all based on interest) for financing anything from your children's tuition fees to a new TV or car capitalize essentially on middle class temptations. Through clever marketing, wants are ceaselessly invented and stretched beyond income, and then the middle class along with the working class after it, is fettered and pitted one against the other in the rat race. Moreover, the line between wants and needs is kept deliberately blurred. Thus even where there is no real poverty, artificial or felt "poverty" is perennially present.

This illusion is perhaps the most devastating manifestation of the interest-based economy for there is hardly anyone immune to it.

CHAPTER 6

Frequently Raised Objections

Objection 1

The verses concerning interest in Surat Al-Baqarah pertain to the needy and orphans, not to businessmen and industrialists, who borrow money usually for financing a business.

Response

It is enjoined in Surat al Baqarah (2:278) *to leave what remains of interest*. It is clearly a categorical order. It does not specify persons from whom interest may not be taken; moreover, it subsumes all forms of interest. In verse 280, it is said that if the debtor is in straitened circumstances, there must be postponement till the time of ease. It is wrong to deduce from this that the debtor in such a situation has to be a needy person. It may be the case of a businessman or an industrialist who needs money and is not capable of returning it for the time being. In any case, the ease would obviously be for the one who could be expected to refund the money borrowed. As for the needy and the orphans, it is understood that their debts would be written off as alms as directed in the Quran.

In verse 279 of Surah al Baqarah-one of the verses dealing with the prohibition of interest-it is stated: *Wrong not and you shall not be wronged*. Hence the rationale for the prohibition of interest is that through it humanity is wronged. Do the industrialists and businessmen who take loans from banks pay

them off from their own pockets? On the contrary, interest as a cost factor is included in the price of the goods. Thus the burden ultimately falls on the consumers. And among them are both, the rich as well as the poor.

Secondly what is the guarantee that the borrowing industrialist or businessmen is bound to make a profit, and that would be sufficient to pay interest in addition to the amount of loan? Is it fair that while the lending party's (i.e. the bank's) profit is fixed the borrower may lose all and yet be obliged to pay back an amount well in excess of the loan?

Moreover, banks make no concessions of interest rate in cases of non-trade loans. A major portion of the government's bank loans may be spent in the defence sector or in payment of salaries. Are banks any compassionate in such cases? Likewise, the ordinary citizen may borrow from a bank for house or car financing or even for wedding arrangements. Banks are no less rigorous than Shylock in exacting their pound of flesh. In fact, it is sad to observe that the terms of loan are often far more flexible for businessmen who borrow to make money.

Objection 2

According to Surat Aal-e-Imran (3: 130), it is forbidden to take interest by doubling or quadrupling the principal amount. Does it not imply that within reasonable limits interest is permissible?

Response

The verse in question was revealed after the Battle of Uhad in the third year of Hijrah (migration to Madinah). Moreover, the cited order came as a provisional injunction. The definitive edict on the prohibition of interest came later, in the ninth year of Hijrah. It is recorded in Surat al Baqarah (2: 275-280). On principle an order intended for a transitional period cannot be enshrined into a permanent law. For instance it would be devious

to argue from Surat al Nisa (4: 43), *Do not go near Salat when drunk* that one may hit the bottle after completing one's prayers. As we know historically, this was the first of a series of injunctions about drinking which was finally prohibited once and for all. The same gradualism was adopted in the case of riba. First, an excessive charge on loan was ruled out; then came the command forbidding interest: 2: 278: *and give up what remains (due to you) from usury*. The lender may take back only the principal as is stated in 2:279: *for you there is only the principal*. Anything taken on top of that is inadmissible, as stated in the same verse. *Wrong not that you may not be wronged*.

Besides, the words in the verse: *Devour not usury doubling or quadrupling (the principal)* point to the detestation of riba. They do not contain a license for charging a self-suiting, self-styled "reasonable" markup over principal. That would be a misleading interpretation of the verse. When we come across the verse *Barter not My revelations for a little gain* (ie do not distort them for petty benefits), Surat al Maida (5:44) can we take it to mean that it is okay to distort revealed verses if the benefit is substantial?

Some people argue that the verse 2:130 actually condemns compound interest. Simple interest, they infer from the verse, is acceptable. However more often than not simple interest earned is reinvested alongwith the principal amount sooner or later. This results in what may be considered a form of compound interest.

Objection 3

Since banks deal in trade and business, what they give or take is profit (which is permitted by Allah) not riba.

Response

The ambiguity here lies in the phrase "deal in". Banks in general do not themselves enter trade or business. They only give loans.

Trade, by definition, is buying and selling of goods and services. Assets and commodities are exchanged; further, mental and physical labour is invested; and yet there is always a risk of loss but no guarantee of profit. None of these factors are involved on the side of the bank in extending a loan. It demands a predetermined increase on the given loan and that by definition is not profit but interest. Mufti Muhammad Shafi' has related the saying of Prophet Muhammad (salla Allahu alaihi wasallam) from *Jami-us-Saghir* on the definition of interest:

“Interest is the surplus charged on loan”

Thus the primary function of banks viz. money-lending does not fall in the category of trade. As for people who have a vested interest in confusing the matter are mentioned in Surah al-Baqarah (2:275) as follows: *They said that trading is similar to interest. Allah replies as follows: Allah has permitted trade and forbidden usury.*

The following verse (2:276) says that such people are *kaffar* (deriving from the same root as in *kuffar*- KFR- literally, unbelievers): *Allah has blighted usury and made almsgiving fruitful. Allah loves not the impious and the guilty.*

Objection 4

Interest on industrial or commercial loans does not fall in the category of riba.

Response

Whether the loan taken is for financing an industry, for trade or for personal use, anything fixed in advance over the amount of loan to be obtained from the borrower is riba.

Even if we overlook the argument from definition, industrial or commercial interest remains deceptively tyrannical. For who in the ultimate analysis bears the brunt of the interest-inflated

prices? Besides, in case of loss there is no concession or relief offered to the borrower.

Objection 5

In the Quran, Allah urges believers to give Him “a loan” which He promises to return increased manifold. Is this not a form of interest?

Response

To draw an argument for interest from this verse would be in the language of logic a false analogy. Man takes loan out of need. Allah is *al Samad* (the self-subsistent). If Allah chooses to assume the “role” of a borrower, it is despite His absolute self-sufficiency. On the other hand, if He makes man a lender, it is in spite of man’s absolute dependence on Allah. The truth is that His mercy ceaselessly seeks avenues for blessing man. It must be understood that the expression “loan” is used in the said verse metaphorically from the human vantage point to induce people to spend in Allah’s way to earn His gratitude. It cannot obviously be from the point of view of God, who is All-Sufficient. To appeal to human beings to give Him a loan is in fact a gesture of grace.

From the mundane point of view it should be obvious that far from being a precedent justifying ordinary interest, the inducement contained in the verse cuts at the roots of accumulation of wealth. If all surplus capital is given away in the way of Allah the plague of interest will be completely wiped out.

The key to the verse is that whoever offers such a “loan” becomes an agent of Allah’s mercy to humankind and thus deserves a reward. Besides, it should be noted that this divine “interest” if so it may be called, is not at anyone’s expense.

Nobody is wronged as a consequence of the bounty promised by Allah.

Objection 6

Enforcing the law of interest through the state machinery is against the Sunnah of the Holy Prophet.

Response

Mufti Muhammad Shafi writes in *Maarif-ul-Quran* that the Prophet (sallalahu alaihi wassalam) in his last sermon had declared that the law of prohibition of interest is for the good of the entire humanity. By implication, it should be applicable to Muslims as well as non-Muslims. The Prophet on that day also relinquished the interest owed to him by his uncle, Abbas. It was as the head of the state that the Prophet issued the declaration. Using the state machinery to enforce a ban on interest is quite in keeping with the sunnah.

Maulana Abu al Ala Maudoodi explains in *Tafhim-ul-Quran* that after the revelation of verses 278- 279 of Surat al Baqarah taking interest in trade became a punishable legal crime under the Islamic government. Through his officials, the Prophet made it clear to the Arab tribes that took interest that if they persisted in their practice, war will be waged against them. When the Christians of Najran were given self -autonomy under the Muslim rule, it was made clear in the treaty that if they traded on interest, the agreement between them will become null and void and they would be treated as defiant antagonists. Similarly, when the Prophet signed the peace treaty with the people of Taif, he added a condition about abandoning trade on interest.

The opinion of Hadrat Abdullah ibn Abbas was that if one living in an Islamic state is unwilling to give up interest, the ruler of the day should give him the choice between making *tawba* and being executed.

Objection 7

Our times are different from the times of the Holy Prophet. Commercial interest did not exist in the days of the Prophet.

Response

First off, when Islam prohibits something, it prohibits it in all its forms and for all times. The contemporary forms of gambling were non-existent in the days of the Prophet. New names are invented; the prohibited factor of random outcome remains intact. Hence also the prohibition. Likewise, call it beer, wine, champagne or sherry. As long as a drink is intoxicating, whatever be its ingredients, it is *haram* (prohibited).

Besides, in point of fact, interest on commercial loans *did* exist in the days the Prophet. In Taif, an important commercial centre, interest was routinely given and taken on trade loans. Before Muhammad (sallallahu alaihi wassalam) received Prophethood, Abbas bin Abdul Muttalib, Khalid bin Waleed and Uthman bin Affan, radi Allah anhum ajmaeen used to give trade loans on interest.

Objection 8

Interest is permissible if it is acceptable to all the parties making the transaction.

Response

The Islamic Shariah law does not accept mutual agreement as an arbiter for what is *halal* (permissible by religious law) or *haram* (prohibited). Even if there is common consent on the terms between the parties, should the transaction be negotiated on or with interest its religious-legal status will be *haram*. This is a general principle and not devised especially to settle the issue of

interest .Can the mutual consent of two partners make adultery or homosexuality *halal*?

Objection 9

Riba is the late-return penalty levied on the loan returned after the due date

Response

This is a groundless self-styled definition of riba. Any amount charged on loan is riba regardless of the duration of loan. Verse 279, Surat al Baqarah, cited above, says that *if you repent, then you have your principal (without interest)*. Earlier, the hadith that defines riba was also quoted:

“Riba is the surplus charged on loan”

A jurist has elaborated the saying as follows:

“[The prohibition is of] such a loan transaction that is conducted on the condition that the borrower will return the loan along with a definite increment.”

Imam Hassas, *Fi Ahkam ul Quran*

Objection 10

The Islamic Shariat Court decision equating riba with bank interest is impractical. It is bound to stir anarchy in the country.

Response

It has already been clarified that the decision in question stands up to the stipulations of the Quran and Sunnah. To argue against the feasibility of a matter that has been decided and determined by Shariah is symptomatic of weakness of faith. It is tantamount to disbelief. In Surat Aal-I-Imran, right after the exhortation to avoid usury, the practice is referred to as an attribute of the *kuffar* (disbelievers).

Imam Qurtubi, a well known mufassir (exegete) of the Quran, says that one who deems interest is permissible is an apostate, and one who takes it is (like one who is) rebelling against the Islamic government.

Only the superficial eye will buy the argument of anarchy. The truth is to the contrary. Implementation of Shariah will result in the proliferation of Allah’s blessings [Surat al Maida (5): 66]. Muslims in Pakistan do not generally practice Islam due to lack of awareness or slackness of faith, and not because they are heretical or defiant. If our electronic and print media can organize a campaign to give the issue the high seriousness that it deserves, and if they could highlight the prohibition, evils and consequences of interest, the ordinary public would at least begin to think about the matter. Some might even be moved to quit interest- based transactions. The same media that give prime- time and prime- place projection to the polio campaign or family planning can be critical to the transformation of our economic system as well.

Abolition of interest can arguably be a stabilizing factor for the state of Pakistan. It will strengthen the state by mitigating its liabilities. According to the Ministry of Finance (DAWN, May 31,2003) domestic debt stood at Rs.1.8 trillion. In the year 2002-2003 alone, Rs.191.8 billion were allocated for domestic interest debt- servicing, which was 25.8% of the total budget. Moving to an interest-free system will not only relieve the state of a budget deficit of Rs162 billion. It will anchor national resources in productive developmental work.

Objection 11

If Ulema are so adamantly against interest and they feel that an alternative exists, why don’t they erect a counter-system that is free of interest, and thus demonstrate what they preach?

Response

Over the years various committees commissioned by the government have been submitting reports and proposals. These committees include a fair representation of Ulema among other experts. Thus time and again Ulema have in fact contributed to formulating a blueprint of an interest-free system.

As far as the implementation of the plan is considered, it is altogether in the hands of the government. Should the government not sponsor the plan, it would always be liable to flop for the following reasons:

1. If an alternative system is introduced experimentally in parallel with the prevailing setup, it would entail the possibility of loss, which is natural in business. In the face of this risk, why will the public be diverted away from an established, tried and tested setup that delivers profit without fail?
2. The vast majority of people feel secure to invest in state-regulated schemes. They have been rudely and repeatedly bitten by private companies. With the public guns already loaded in skepticism it will be naïve to test the success of a privately conducted experiment that depends critically on the blessings of the government.
3. Only the government has the clout, the cash, the apparatus and the expertise necessary to establish and manage a comprehensive financial setup. Only the government has the long arm and the muscle to ensure the transparency and the stability of such a broad-based arrangement.
4. Finally, the Ulema are not on special duty to eradicate riba. It is obligatory on every Muslim individually, and the Muslim community as a whole, to help in the establishment of an Islamic system. Article 37 of the Constitution of Pakistan

binds the Government of Pakistan to remove the element of interest from the economy as soon as possible.

Objection 12

It is pointless to strive for an interest-free economy in a society that is not truly or completely Islamic.

Response

It is true that for enforcement of Shariah law to be effective *taqwa* i.e. a certain God-fearing piety is essential. The Quran stresses the importance of *taqwa* wherever it stipulates social guidelines or rules of conduct. However it is the task of the Islamic government to cultivate such an attitude in society. See, for example, Surat al Hajj, 22:41:

Those who, if we give them power in the land, establish worship and pay the poor due and enjoin kindness and forbid iniquity. And Allah's is the sequel of events.

If the state television projects lust, greed and pettiness, it is lust, greed and pettiness that will be promoted and not modesty, contentment and nobility. It would be ridiculous to expect a people to grow in concern about the evils of interest while the government is bending over backwards to encourage interest/ 'profit'/ mark-up schemes. Elementary psychological principles of habit formation are at work here.

Objection 13

Interest offsets the loss of value of currency due to inflation.

Response

It has been observed elsewhere that it is actually interest that brings on inflation. Prices rise as interest is added to cost. That reduces the purchasing power of buyers. Then it is interest that discourages investment and puts dampers on production that

results in shortage of supply, which in turn beefs up prices. In short, inflation cannot be tackled without eliminating interest. Some economists have argued that inflation can be treated through general indexation. Interestingly, countries that tried out general indexation were left with even higher inflation.

Then there is another problem. Inflation hits not only the affluent moneylender but other members of the society as well. Justice demands that everyone affected should be equitably redressed but all the griping and the tears are for the capitalist investors. It makes sense to ask if inflation results from any action of the borrower that he should be collared to throw up an extra sum as penalty. Will the interest-gobblers be willing to give relief to their debtors when prices go down?

It is apt to ask here about the religious take on the matter. Giving a loan to one in need is a virtuous deed worthy of reward in the hereafter. Devaluation is admittedly a loss to the lender. But then his is the greater recompense in the after-life. Nonetheless, it is perfectly legitimate to loan in kind (gold or silver) instead of cash in order to avoid incurring a loss.

CHAPTER 7

What Should We Do?

The Way Out for the People of Pakistan

- a. Avoid direct involvement in any transaction based on interest. If you are employed in an organization whose business dealings require giving out or taking interest, start looking for another job. Of course the job alternative will probably not be as lucrative as your present position. But inshaAllah the career sacrifice you make will pay you infinite dividends in the hereafter.
- b. Keep only a current account at the bank. Lockers may also be used.
- c. Do not take a loan on interest for business, construction or for buying any item or article of convenience.
- d. Since collectively we operate in a system entrenched in interest, it is impossible to completely insulate oneself from its poisonous dust particles. What is possible is to make *istaghfar* (supplication for forgiveness) individually and to strive one's utmost to replace the system, which can only and effectively be done through an organized concerted effort.

Here are some practical suggestions:

- Raise awareness among your family and relatives, colleagues and companions, neighbours and acquaintances about the evils of interest. Turn conversations away from idle gossiping and table talk to a serious exchange of ideas about interest. Discuss its forms and manifestations. Circulate the Quranic verses and ahadith about its forbiddenness via email or one- page pamphlets. Gift copies of books and audio lectures by Islamic scholars on the subject.

- Join an organized struggle for deconstructing the interest-based system at work. Besides, invite people to join the cause so that the critical mass necessary for an effective public protest is reached. All peaceful forms of agitation and public pressure including demonstrations, protest March and civil disobedience demanding the government to overhaul the system may be used. The 24 June 2002 decision of the Supreme Court has proved that without such a mass revolutionary call for action the monstrous system will not budge.

The Way Out for the Government of Pakistan

(A) *Strategic Recommendations*

1. The government should file a petition in the Supreme Court requesting to have the 24 June 2002 decision rescinded, and the Federal Shariat Court ruling about interest being *riba* upheld. The government should commit to a realistic time-frame for building the alternative (interest-free) system.
2. All legal and constitutional impediments to constructing an interest-free system should be removed.
3. The Commission for the Islamization of Economy should be revitalized. Expertise from a broader base of economists, Ulema and other relevant experts may be solicited. The proposals of various committees formed over the years must be given a critical and close reading.
4. A public debate and a mass awareness campaign should be staged on all the electronic and print media. The purpose should be twofold: one, to enhance consciousness and concern about the unacceptability of *riba* in the light of the Quran and the *ahadith* of the

Prophet as well as in the light of sound rational arguments; two, to get as many angles as possible on the issues and options available on the subject. Just as after the announcement of the plan for the devolution of power public seminars and media debates facilitated its popular acceptance, a rough but comprehensive sketch of an interest-free system may be put forward on public platforms.

5. Interest or *riba* on capital cannot completely be eradicated from the country until interest is purged from agricultural income. Landlordism and absentee cultivation on lease will also have to be stopped.

(B) *Recommendations for Immediate Action*

1. Interest on all internal federal or provincial loans as well as on loans taken from the State Bank of Pakistan must be immediately abolished. It will be seen that this action will not materially affect the overall position of revenue or expenditure on the balance sheet.
2. Loans that the government has extended to the semi-governmental institutions such as WAPDA, Railways, PTCL etc, that is, the liabilities, should be immediately converted to equity.
3. Payment of interest on all national saving schemes - bonds, securities or certificates- that have indebteded the government to the people must be suspended at once. A feasibility plan for returning the principal amount of each public creditor should be chalked out.
4. Interest on loans given to public servants for house building or for purchasing a private vehicle should be written off. Similarly payment of interest on GPF or the Provident Fund should also cease.

5. For the adjustment of international loans, the government may adopt the debt-equity swap method. Accordingly, the foreign lenders may be asked to make real investment in the country for which the government may furnish them with capital in local currency. This way of loan recovery has successfully been used in Latin America.
6. Investment banking should be encouraged to enter trade and make real investment. This is not prohibited in Islam nor is there any complication in it.
7. Speculative buying and selling must be strictly prohibited in the stock market. Only real (existing) shares should be traded on the exchange floor.
8. Bank audits should be screened in the light of Islamic injunctions, to ensure compliance with the Shariah.