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Why is interest prohibited in Islam? A statistical justification

A statistical
justification

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Abstract

Purpose – The purpose of this paper is to present an analytical justification from statistical view point about why Islam has strictly forbidden interest for the humankind.

Design/methodology/approach – It is a theoretical paper that looks into analytical views of justification in order to investigate the motivation of prohibiting interest.

Findings – The results of the paper suggest that interest has a great negative impact on the society, economy and morality of human beings. Analysis found some solid reasons which proved that interest has been really an evil system for the humankind and society as a whole for all times in the history of civilizations. On the other hand, from the statistical information given in the paper it was found that interest-free financial institutions have been very successful in terms of their deposit, investment, foreign exchange business, financial stability and popularity as compared to the interest based financial institutions.

Research limitations/implications – The impact of interest-free financial institutions in development financing and in establishing sustainability of a welfare community remains a potential problem due to our shortage and/or lack of proper knowledge.

Practical implications – It is, therefore, very important to be aware of the exact stance of Islam on interest first. Then more extensive networking and complementary relations are needed among the financial and socio-economic development goals in accordance with the tenets of the Islamic Shariah.

Originality/value – The paper shows its originality in substance and makes a unique contribution to the literature on systems and ethics.

Keywords Islam, Interest, Trade, Profit

Paper type Conceptual paper

Introduction

There are a number of illegal ways people make money today. People are also involved with a variety of immoral acts for the same purpose. However, the extent of destruction for such illegal ways of making money and immoral acts are not of the same level of those related to interest. In this regard Sayyid Qutb (1999) said, “No other issue has been condemned and denounced so strongly in the Holy Qur’an as interest”. Thus we are motivated here to present an analytical justification about why Islam has forbidden interest so strictly.

First of all, we want to discuss about what is meant by interest? Interest is one kind of fee charged by a lender to a borrower for the use of borrowed money, usually expressed as an annual percentage of the principal. The rate depends on time, value of money, the credit, risk of the borrower and the rate of inflation. Different economists have given different definitions and interpretations of interest. For example, Don Patinkin (1972) defines: “Interest is one of the forms of income from property, the other forms being dividends, rent and profit”. Samuelson (1976) states that “Interest is the price of rent for the use of money”. Abu Saud (1983), on the other hand, defines interest as “The excess of money paid by the borrower to the lender over and above the principal for the use of the lender’s liquid money over a certain period of time”. In fact, the literal meaning of *riba* (interest) as it is used in the Arabic language means to excess or increase. In contrast, the Holy Qur’an says, “Allah decreases interest and increases sadaqah”. From Islamic point of view, interest means effortless profit which is free of exchange.



However, today interest is well-known to all of us and has become so institutionalized and accepted in modern economies that it is almost impossible to conceive that an economy can run without interest. Muslims are now constantly being forced with fragile arguments in support of dealing with interest. As a result, many Muslims have surrendered to such pressure and so called rationale arguments, leading them to accept the concept of interest. Therefore, this article is intended to discuss the Islamic stance on interest based on the basic texts of the faith as well as enter into a rationale discussion of interest to determine if the arguments given in favor of interest are truly valid or not.

Prohibition of interest in Islam

Interest is prohibited in Islam as it appears explicitly in the Holy Qur'an and the Sunnah of the Prophet. There is consensus among all Islamic scholars regarding the prohibition of interest. On the other hand, the modern banking system is completely based on interest and hence the practices of the modern banking system are in conflict with the principles of Islam. To charge interest from someone who is forced to borrow to meet his essential consumption requirement is considered as an exploitative practice in Islam. Charging of interest on loans for productive purposes is also prohibited because it is not an equitable form of transaction. Now let us have a look very briefly on the prohibition of interest in the light of the Holy Qur'an and the Prophet's Sunnah.

Prohibition of interest in the Holy Qur'an

If we explore the Holy Qur'an, we find a number of places where Allah has categorically mentioned the consequences of interest. Allah says in the Holy Qur'an:

Those who devour interest will not stand except as stands one whom the Satan by his touch has driven to madness. That is because they say: "trade is like interest", but Allah has permitted trade and has forbidden interest [...] Allah will deprive interest of all blessing, but will give increase for deeds of charity: for He does not love any ungrateful sinner (2:275-276).

O you who believe! Fear Allah and give up what remains of your demand for interest if you are indeed believers. If you do not, take notice of war from Allah and his Messenger: but if you repent, you shall have your capital sum: deal not unjustly, and you shall not be dealt with unjustly (2:278-279).

O you who believe! Devour not interest doubled and multiplied; but fear Allah, that you may prosper. Fear the Fire, which is prepared for the disbelievers (3:130-131).

That they took interest, though they were forbidden; and they devoured people's wealth wrongfully: We have prepared for those amongst them who reject faith a grievous punishment (4:161).

That which you lend on interest for increase through the property of people, will have no increase with Allah: but that which you give for charity, seeking the countenance of Allah, it is these who will get a recompense multiplied (30:39).

In the above Qur'anic verses, Allah has clearly declared that the earnings based on interest are totally illegal and punishable. Note that any kind of interest e.g. simple interest, compound interest, periodic interest, commercial interest, money interest, interest *al-nasihah*, interest *al-fadl* and so on, all are prohibited in Islam. Ali (1992) in his commentary on the Holy Qur'an mentioned that interest is condemned and prohibited in the strongest possible terms. So, there can be no question about the prohibition. Due to the fact that interest occupies a central position in modern economic life, and has been regarded as the life blood of the existing financial institutions, a number of Muslim

countries have also been inclined to interpret it in a manner which is totally a different form the understanding of Muslim scholars throughout the last fourteen centuries and is also sharply in conflict with the traditions of the Prophet.

Prohibition of interest in the Hadith

In addition to the above verses of the Holy Qur'an, the Prophet *also* made many crucial statements about interest. For example, the following statements clearly demonstrate the gravity of this action:

Avoid the seven destructive sins: associating partners with Allah, sorcery, killing a soul which Allah has forbidden- except through due course of the law, devouring interest, devouring the wealth of orphans, fleeing when the armies meet, and slandering chaste, believing and innocent women (Bukhari and Muslim)[1].

One coin of interest that is knowingly consumed by a person is worse to Allah than 36 acts of illegal sexual intercourse (Ahmad, Darequtni, Al-Tabarani and Al-Hakim)[1].

A time will certainly come over the people when none will remain who will not devour interest. If he does not devour it, its vapor will overtake him (Ahmad, Abu Dawood, Nasai, Ibn Majah)[1].

I came across some people in the night in which I was taken to the heavens. Their stomachs were like houses wherein there were serpents, which could be seen from the front of their stomachs. I asked: O Jibril! Who are these people? He replied, these are those who devoured interest (Ahmad, Ibn Majah)[1].

The interest adopter, the interest giver, the interest accountant, and the witness of interest dealing, all are cursed and equally defaulter (Muslim, Abu Dawood, Ibn Majah, Nasai, Ahmad).

The second Khalif of Islam Hazrat Umar bin Al-Khattab reported: the last of what was revealed in the Holy Qur'an was the verse of interest. The Messenger of Allah was taken to Him and he could not explain it to us. So, we should give up interest and doubt (Ibn Majah, Darimi)[1].

Prohibition of interest in Christianity and Judaism

Islam, of course, is not the only religion that has banned interest and considered it as a despicable practice. The prohibition of interest has also been regarded as an illegal and punishable practice in both Christianity and Judaism. For example, we see the following verses from the Bible:

Do not charge your brother interest, whether on money or food or anything else that may earn interest (Deuteronomy 23:19).

Do not take interest of any kind from him, but fear your Allah, so that your countryman may continue to live among you (Leviticus 25:36).

If you lend money to one of my people among you who is needy, do not be like a money lender; charge him no interest (Exodus 22:25).

Hath given forth upon interest, and hath taken increase: shall he then live? He shall not live: he hath done all these abominations; he shall surely die; his blood shall be upon him (Ezekiel 18:13).

But love ye your enemies, and do well, and lend, hoping for nothing again; and your reward shall be great, and ye shall be the children of the Highest: for he is kind unto the unthankful and to the evil (Luke, 6:35).

The Torah and Talmud, on the other hand, encourage the granting of loans but without interest. Charging interest has been considered as worst sins and has forbidden

according to Jewish law. The Talmud dwells particularly on Ezekiel's condemnation of interest, where Ezekiel denounces it as an abomination, and metaphorically portrays usurers as people who have shed blood. Similarly, the early Christian Church connected to the New Testament, declared that any kind of interest was against divine law, preventing pious and outwardly pious. Christians from using capital for mercantile purposes in 1179, Pope Alexander III excommunicated usurers, which in that period was seen as an extremely harsh punishment.

Prohibition of interest to the early scholars

It was not only those of the Judeo-Christian thinking that condemned interest. In fact, the Greek philosophers also took a very negative view of interest. Aristotle, Plato and other leading Greek scholars condemned interest. The famed Austrian economist, Eugen von Böhm von Bawerk (also known as Boehm-Bawerk), wrote in his famous work, *Capital and Interest*:

The hostile expressions of the ancient world, not few in number, consist in part of a number of legislative acts forbidding the taking of interest and in part accidental utterance of philosophers such as Plato, Aristotle, the two Catos, Cicero, Seneca and Pantus etc. Greek philosophers regarded money as nothing but a medium of exchange and, therefore, they denied the productivity of money loans. A piece of money cannot create another piece with the doctrine of Aristotle. The obvious conclusion was that interest is unjust (Bawerk, 1959).

Initially, the Roman Empire also prohibited the charging of interest. Thus the obvious question arises as to how interest went from being a despised and forbidden act to a socially acceptable and institutionalized practice in the West. Lawrence Dennis stated in this regard:

Aristotle, the Roman Catholic Canonists, the Jewish Torah [. . .] all forbade loans with interest, or denounced interest. Lending at interest took its rise in the medieval centuries largely as a matter of accommodating princes who needed and could not raise enough money for war and other public purposes. Contrary to current ideas, lending was not originally developed as a way of financing commerce. The Venetians, Dutch, Henseatic, British and other merchants up to the seventeenth century financed their operations with partners' capital contributions (Qureshi, 1974).

In the Jameison-Fausset-Brown commentary, it states: "Interest was severely condemned (Psalms 15:5, Ezekiel 18:8,17), but the prohibition cannot be considered as applicable to the modern practice of men in business, borrowing and lending at legal rates of interest".

With the removal of "scholastic" objections, it then became the role of the budding science of economics to justify the paying of interest. This, it turns out, is much more difficult than it sounds. Haberler was certainly correct in this regard when he stated:

The theory of interest has for a long time been a weak spot in the science of economics, and the explanation and the determination of the interest rate still gives rise to more disagreement amongst economists than any other branch of general economic theory (Haberler, 1939).

In reality, among economists, "There is not a single adequate and generally accepted theory of interest which can give a sound explanation of the origin and the cause of interest" (Rahman, 1976).

From the above discussions and numerous quotations, we find a clear picture that the Holy Qur'an, Torah, Talmud, Bible and early scholars, all consider interest as a great sin and hence the Muslims, Christians, Jews and all other human beings as a whole should not indulge in interest.

Analytical justification of prohibition of interest

Today many Muslim and non-Muslim economists, social scientists, socialists and even a number of capitalist economists have questioned about the so-called positive impact of interest from both theoretical and technical points. They often stress an important point that money capital cannot be treated as capital goods on the same basis as productive factors. Lending of money for interest was disliked and, in most cases, prohibited by all the monotheistic religions. An eminent Western economist, Harrod (1973) recommended the abolition of interest in order to collapse of capitalism. Not only this, he speaks with great admiration for an interest-less society in his work *Towards a Dynamic Economics*. Harrod also clarified that, "It is not the profit itself, earned by services, by assiduity, by imagination, or by courage, but the continued interest accruing from the accumulation that makes that profit taker eventually appear parasitical [. . .]". He further states that "an interest-free society which will be a totally new kind of society" would be the correct and final answer to all that is justly advanced by the critics of capitalism.

The interest based society and economy are abusive. How terrible the interest is – it can only be understood from one of the Prophet's Hadith where he says, "The interest has seventy levels of sins and the lowest level is equal to committing adultery with one's own mother" (Baihaki and Miskat). It is really a matter of thinking that why Islam has strictly forbidden interest and its related activities. In fact, the interest has a great negative impact on the society, economy and morality as well. If we look at the matter deeply, the first harm we notice behind interest is its economic harm. Its types may be as follows:

- People earn money by interest without any effort. A person is getting \$120 in place of \$100 after a fixed period by interest means that he is actually selling \$100 for \$120. In this case, the person gets extra \$20 without exchanging anything and making any effort. So this is undoubtedly an economic exploitation.
- Earning money by interest makes a person reluctant to labor and people lose their motivation to earn money through labor. As a result, people lose their interest in agriculture, industry, trading and construction, etc. which influence and hamper the total welfare of a society.
- A person will be interested to run his business with his own capital if he does not have the wide scope to take loan from interest based bank. This will force him to increase his capital and hence the extent of gross business will also increase. By this way, the unemployment problem may be reduced to some extent through expanding work facilities and finally, there will be a positive impact on the total economy of the country.
- Most often the whole nation fall into ruin because of the interest based banking system. Suppose, a person has \$10,000 as his capital and he takes \$90,000 more as loan from a public bank and runs a business based on that \$100,000. For any inevitable reason, if the person becomes bankrupt by losing cent percent of his business capital, then only 10 percent of his loss will go for him and the rest 90 percent will go for the total nation, because the bank is a public property.
- In the society, the wide scope to take loan can be exploited by a selfish class of people who take millions of money in the name of running business, but in reality they use that money for their self-interest. They do not feel to refund the original money to the bank. As a result, billions of money of the country is kept in the hands of a few dishonest people for unlimited time. As a result, the total economy of the country is captured by some loan defaulters and hence the whole

nation is being highly affected financially. These are the main reasons of interest being prohibited from economic point of view.

The second harm behind the interest is the social harm. Normally, we see that in case of loan, the poor and needy borrow from the rich. In this situation, the rich get scope to have extra money in the name of interest because of the existence of interest system. In consequence, the rich become richer and the poor become poorer. The class distinction therefore grows and takes the shape of class conflict in course of time. From societal point of view, this is one of the main reasons of interest being prohibited.

The third harm associated with interest is a moral harm. If the interest system exists in the society, the interest-free loan giving and taking is being collapsed. Nobody wants to lend money to anybody without interest. If the question of lending money comes, the question of the possible interest comes even before than that. As a consequence, the kindness, affection, love, fellow-feeling, amity, sense of brotherhood and the mentality of helping others gradually disappear from the society. This is the moral reason of interest being forbidden. See for a more detailed discussion Al-Qardawi (1984).

There are some other solid reasons that also prove that interest is an evil system for the human being and society as whole for all times. They are given below:

- It takes away the sense of feeling of human pain. Instead of helping the needy and poor, people want to make a fortune out of it.
- The outlook of interest hampers spending money and inspired to put that money in a bank or lend to someone. Such attitude severely impedes the basic economic formula which is spending increases demand, demand increases production, production increases employment and employment increases overall income of the country.
- The attitude of interest also hampers the nation's economy as people do not want to invest their money, and they prefer it to multiply in banks. This takes away the entrepreneur's spirit of investment and taking risks with the investments.
- In today's world credits have become a very significant part of our life. But in reality, it is an evil system that makes a person its slave. If someone tends to outstretch his capabilities and spends on borrowings, thus end up living in a cycle of earning and paying debts for everything that he owns.
- The western economies that are inflated due to consumer borrowings are a farce. It can fall down anytime because nobody has the real money. According to a recent report the per capita credit in USA is \$17,000. The recent fall of international stock market was due to such increased credits.
- Interest is one of the main causes why societies are currently deprived from basic needs.

Sayyed Maudoodi (1987) commented about the bad impact of interest as "Interest cuts the roots of human love, brotherhood and fellow-feeling, and undermines the welfare and happiness of human society, and that his enrichment is at the expense of the well-being of many other human beings".

From the above discussion, it is clear that interest is one kind of illegal earning which affects people's personality, humanity, honor, sense of cultural value, belief, faith and character. Apart from these, the illegal earners will also be deprived from Baraka and the blessings of Allah. None of his good deeds will be accepted and rewarded. Even, the

wealth earned illegally will not be accepted to Allah if it is spent in the charity work. Because, the Prophet said, “Allah is sacred and He accepts only the sacreds”.

Apart from the above reasons, there may have many other reasons of interest being prohibited which only Allah knows. Above all, Allah prohibits only those things for humankind which creates more harm than welfare. So it is our responsibility to keep ourselves far away from earning money by interest. At the same time, we should lead all our economic activities following the Islamic Shariah and leaving dealings of any kind including borrowing or keeping deposits from any interest based bank.

Islamic solution to the issue of interest

The Islamic scholars prescribed solutions to the issue of interest that can be based upon the following two basic principles, see for example Zaraboza (2007):

- (1) If an individual/country wishes to lend money to a person/another country for helping purpose, this act must be based on “brotherly principles” and it is absolutely unacceptable to charge any interest in such a case. This principle helps to improve relations among different individuals and nations. If this important principle is applied today, countries will truly give aid and assistance to other countries, rather than sucking them into a pattern of dependency and debt burden.
- (2) If an individual wishes to use his money to make more money, then he must be willing to put his money at risk. If he puts his money at risk, he can deserve some share of the profits. This implies that he must accept losses if losses occur. This is a system that is based on justice. It also has numerous benefits. The one who invests money would be concerned about the results of his investment and cannot demand his “dollar of flesh” regardless of what may occur to the debtor.

These solutions can work for individuals as well as for society as a whole. Banks are essentially financial intermediaries. They take money from those who have excess money (savings) and turn it over to those who need money for investment purposes. Interest is not necessary at all for such a system to work. The bank and its depositors (shareholders) invest, rather than simply provide loan to their holdings. The money is put at risk and the return to the depositors will be based on the amount of profits made in the respective investments. Under normal circumstances of a growing economy, if the bank is big enough and it diversifies its portfolio, the bank is virtually “guaranteed” a positive return on its total investments. Thus, those who invest their money with the bank will also receive a positive return on their money without it being guaranteed or fixed ahead of time.

Numerous Islamic financial institutions such as Islami Bank Bangladesh Limited, Bank Islam Malaysia Berhad, Dubai Islamic Bank, Jordan Islamic Bank, Al-Baraka Investment Bank of Bahrain, Bahrain Islamic Bank, Faysal Islamic Bank of Bahrain, Emirates Islamic Bank, Kuwait Finance House, Qatar Islamic Bank, Faysal Islamic Bank of Egypt, Islamic Bank of Britain and so on, have been set up throughout the world today. They have been established based on the Islamic Shariah – the principle of avoiding interest and have been very successful and flourished today (Frank and Samuel, 1998).

Example of remarkable successes of interest free banks

Islami Bank Bangladesh Ltd (IBBL)

The Islami Bank Bangladesh Ltd is one of the most progressive, successful and prominent of Islamic banks internationally. From a cursory examination of its

performance data we can deduce the level of popularity and financial stability of IBBL. Much of the information given below is sourced to Rahman (2001).

Table I gives the ranking of IBBL with respect to some selected prominent private sector banks in Bangladesh. The level of popularity of IBBL can be deduced from its significantly highest volume of deposits. The highest volume of investment made by IBBL shows the effective mobilization of the deposits into productive outlets rather than holding them in the form of liquid saving. Consequently, the investment/deposit ratio of IBBL is the second highest. Its financial productivity measured by income/employee is almost the highest. It is also found that the highest volume of investment results in attractive dividends out of total income. This aggregate figure on investment as resource mobilization over-rides a slightly lower investment per branch. This consequence shows up in a slightly lower net profit level. But such an indicator is a signal to the common shareholders' well-being that IBBL keeps in view. Despite the lower retained income after dividends are declared, this indicator of popularity of IBBL does not result in lower incomes, which is seen to be near to the highest level. Popularity and competitive position of IBBL is also pointed out by its number of branches, which is higher than all other Islamic banks. Total employment figure is therefore the highest, although manpower per branch is the lowest. But when tallied against the investment per branch, the technical efficiency (investment per branch/manpower per branch) is the highest. This again reflects the highest technical productivity level of IBBL of all the conventional banks compared with. The highest efficiency level of IBBL is shown by its lowest cost of fund per branch, which over-rides the slightly higher total cost of fund. This again is an

| Si. no. | Particulars | IBBL | NBL | ABBL | UCBL | CBL |
|---------|------------------------------------|--------|--------|--------|--------|-------|
| 1 | Paid up capital | 318 | 391 | 373 | 230 | 1,602 |
| 2 | Statutory reserve | 282 | 321 | 286 | 191 | 263 |
| 3 | Investment loss offsetting reserve | 539 | nil | nil | 75 | nil |
| 4 | Normal capital | 1,429 | 1,020 | 743 | 496 | 172 |
| 5 | Provisional shortfall | nil | 342 | nil | 493 | 584 |
| 6 | Adjusted capital | 1,429 | 677 | 743 | 3 | 412 |
| 7 | Total deposit | 16,557 | 15,036 | 10,506 | 9,187 | 8,500 |
| 8 | Total investment | 13,095 | 12,364 | 6,742 | 5,152 | 5,820 |
| 9 | Investment per branch | 131 | 187 | 118 | 65 | 77 |
| 10 | Investment deposit ratio (%) | 79 | 82 | 64 | 56 | 68 |
| 11 | Total income | 1,368 | 1,456 | 1,049 | 887 | 918 |
| 12 | Income per employee | 72 | 78 | 68 | 45 | 49 |
| 13 | Cost of fund | 838 | 756 | 575 | 461 | 453 |
| 14 | Establishment expenditure | 360 | 425 | 335 | 306 | 289 |
| 15 | Total expenditure | 1,198 | 1,181 | 910 | 767 | 742 |
| 16 | Cost of fund per branch | 8 | 11 | 10 | 6 | 6 |
| 17 | Net profit | 170 | 275 | 139 | 120 | 251 |
| 18 | Dividend | 21% | nil | 10% | nil | nil |
| 19 | F. Ex. Business imports | 17,370 | 18,082 | 9,114 | 10,176 | 6,180 |
| 20 | F. Ex. business imports | 14,469 | 12,651 | 5,181 | 4,529 | 1,450 |
| 21 | No. of branches | 100 | 66 | 57 | 79 | 76 |
| 22 | Total manpower | 1,903 | 1,856 | 1,540 | 1,948 | 1,855 |
| 23 | Manpower per branch | 19 | 28 | 27 | 25 | 24 |

Table I.
IBBL *vis-à-vis* private
sector banks in
Bangladesh (as on 31
December 1997) (Taka in
millions)

Notes: NBL: National Bank Limited; ABBL: Arab Bangladesh Bank Limited; UCBL: United Commercial Bank Limited; CBL: Commercial Bank Limited

indicator of client-friendly banking procedures, which increases the popularity of IBBL among clients, especially among the microenterprises in Bangladesh.

We now turn to many such Islamic banks, which together have performed with sound financial stability and have been popular among their clients. Table II shows that except for some volatile movement in deposits for BIBB, in deposits, equity, assets and revenue for FIBE and BTFH, most other Islamic banks have recorded medium to healthy growth in all the critical financial indicators.

Finally, Table III shows that the rate of return on assets and the rate of return on equity have both been significantly positive and on an increasing trend between 1990 and 1998. These figures being positive, they indicate that Islamic banks internationally are fairly solvent.

| Bank | Total equity | | | Total deposits | | | Total investment | | | Total assets | | | Total revenue | | |
|----------------|--------------|-------|-------|----------------|-------|-------|------------------|-------|-------|--------------|-------|-------|---------------|-------|-------|
| | 90-94 | 94-98 | 90-98 | 90-94 | 94-98 | 90-98 | 90-94 | 94-98 | 90-98 | 90-94 | 94-98 | 90-98 | 90-94 | 94-98 | 90-98 |
| KFH | 14.4 | 21 | 17.6 | 2.7 | 3.3 | 3 | 9.9 | 6.2 | 8 | 4.2 | 6.2 | 5.2 | 11.2 | 11.8 | 11.5 |
| BIBB | 0.2 | 3.1 | 1.6 | 12.2 | 5.5 | 3.8 | 10.5 | 3.8 | 3.6 | 9.3 | 5.1 | 2.3 | 14.9 | 23.3 | 19 |
| BIB | 17.6 | 2.4 | 9.7 | 5.8 | 4.6 | 5.2 | 7.1 | 4.5 | 5.8 | 6.7 | 4.5 | 5.6 | -2 | 11.9 | 4.7 |
| FIBB | 16.3 | 5.4 | 10.7 | 5.2 | 4.3 | 4.7 | 4.3 | 4.8 | 22.6 | 31.4 | 8.8 | 9.5 | 23.9 | 2.8 | 12.8 |
| FIBE | 15.2 | 12.2 | 2.4 | 2.4 | 5.6 | 1.6 | 4.5 | 9.3 | 6.8 | 1.2 | 5.1 | 1.9 | 13.8 | 17.1 | 0.4 |
| DIB | 8 | 34.1 | 20.3 | 17 | 6.9 | 11.8 | 12.2 | 9.7 | 11 | 13.8 | 9.2 | 11.5 | 14.4 | 8.6 | 11.5 |
| JIB | 32.2 | 6.4 | 18.6 | 22 | 5.2 | 13.3 | 21.2 | 6.5 | 13.6 | 21.9 | 5.1 | 13.2 | 17.8 | 0.6 | 8.9 |
| QIB | 1.3 | 11.9 | 5.1 | 6.2 | 4.1 | 5.1 | 10.4 | 3.6 | 7 | 11.7 | 4.1 | 7.8 | 2.9 | 12.5 | 7.6 |
| IBBL | 12.1 | 25.2 | 18.5 | 18.5 | 13.4 | 15.9 | 21.4 | 9.3 | 15.2 | 18.8 | 13.3 | 16 | 12 | 14 | 13 |
| BIMB | 24.1 | 30.8 | 27.4 | 21.1 | 2.4 | 8.7 | 21.7 | 1.3 | 11 | 21.5 | 3.3 | 12 | 19.9 | 7.6 | 13.6 |
| BTFH | 12.1 | 35.4 | 9.1 | 20.1 | 9.8 | 14.8 | 14.8 | 12 | 13.4 | 10 | 10.7 | 10.4 | 49.9 | 27.9 | 4 |
| Simple average | 8.7 | 16.3 | 12 | 9.8 | 5.7 | 7.6 | 10.7 | 6.5 | 10 | 11.8 | 5.4 | 8.4 | 12.6 | 7.8 | 9.4 |
| Wt. average | 7.9 | 12.6 | 10.2 | 8.8 | 5.7 | 7.2 | 11.3 | 6.9 | 9.1 | 9.3 | 6.4 | 7.8 | 11.2 | 3.7 | 7.3 |

Notes: BIMB: Bank Islam Malaysia Berhad; QIB: Qatar Islamic Bank; BIBB: Al-Baraka Investment Bank of Bahrain; BIB: Bahrain Islamic Bank; FIBB: Faysal Islamic Bank of Bahrain; IBBL: Islamic Bank of Bangladesh Ltd.; DIB: Dubai Islamic Bank; FIBE: Faysal Islamic Bank of Egypt; JIB: Jordan Islamic Bank; KFH: Kuwait Finance House

Table II.
Annual growth rates for some key variables of selected Islamic banks (1990-1994 and 1994-1998)

| | ROA | | ROE | |
|----------------|-----------|-----------|-----------|-----------|
| | 1990-1994 | 1994-1998 | 1990-1994 | 1994-1998 |
| KFH | 0.4 | 2.2 | 6.6 | 29.3 |
| BIBB | 1.2 | 2.4 | 3.6 | 7.3 |
| BIB | 0.9 | 1.1 | 10.8 | 11.1 |
| FIBB | 5.45 | 4.9 | 16.8 | 15.9 |
| FIBE | 0.2 | 0.1 | 3.7 | 1.3 |
| DIB | 0.5 | 0.6 | 8.7 | 8.5 |
| JIB | 0.9 | 0.8 | 19.2 | 11.3 |
| QIB | 0.4 | 1.1 | -2.3 | 16.4 |
| IBBL | 1.4 | 1.4 | 32.9 | 28.8 |
| BIMB | 1.1 | 0.9 | 13.2 | 13.2 |
| BTFH | 1.8 | 1.3 | 42.9 | 38.3 |
| Simple average | 1.9 | 2.3 | 19.9 | 22.1 |

Table III.
Percentage rate of return on assets (ROA) and rate of return on equity (ROE), Islamic Banks Internationally, 1990-1998

Some recent statistics on a significant success of IBBL

As has already been mentioned, the IBBL has been very successful to register phenomenal growths in all areas of business and has been enjoying the status of the largest private commercial bank of the country in terms of deposit, investment and foreign exchange business. For example, the total deposit of IBBL stood at TK.214,910 million as on 31 May 2009 registering a growth rate of 20 percent. The total investment stood at TK.215,270 million registering a growth rate of 18 percent against corresponding period of the previous year. The total foreign exchange business stood at TK.179,480 million (import: 61,360 million; export: 42,970; and remittance: 75,150 million).

The IBBL has been handling more than 25 percent of country's total foreign remittance which is an outstanding achievement and has been earning highest profit among the banks of the country. Being inspired by its remarkable success, seven other banks in the country have been functioning as full pledged interest-free banks for the last few years. Currently, the IBBL has become the bank of mass people of the country irrespective of cast, creed and religion. It has been the first bank in the country which is committed to fulfill its corporate social responsibility and as such carrying out different welfare and humanitarian activities namely, education programs, health and medicare programs, humanitarian help programs, income generating programs, relief and rehabilitation programs, etc. Some important schemes of IBBL includes Islami Bank Hospitals, Islami Bank Community Hospital, Islami Bank Medical College, Modern Islami Bank Crafts and Fashion Service Centers, Islami Bank Institute of Technology, Islami Bank International School and College, Distressed Women Rehabilitation Centre, Islami Bank Medical College Nursing Institute, Islami Bank Health Technology Institute and so on.

The world has been experiencing financial crisis during the last few years and such crisis is mainly responsible for the current recession in the world economy. The causes of financial crisis identified so far are excessive and imprudent lending by interest based banks and financial institutions, inadequate market discipline, unjustified expansion of the size of derivatives, excessive leverage, severe credit crunch, transactions involving speculation and gambling and greed. Interest-free banks and other Islamic financial institutions are not engaged with such type of transactions. They are mainly backed by assets. Moreover, the people have greater amount of confidence on interest-free banks and other Islamic financial institutions. Thus they are protected from adverse impact of the current crisis and facing less risk.

Above all, the IBBL has been playing a vital role in national economy of the country. The bank is investing its money in industry, commerce, education, real estate and health sector. It invested about 55 percent of its total investment in industrial sector. It disbursed more than TK.20,970 million among 0.6 million people of 11,000 villages under Rural Development Scheme with a view to alleviate poverty from rural areas of the country. It is one of the ten highest tax payers in the country. Moreover, it built up quality manpower for banking sector. The IBBL can be regarded as a successful model of the interest-free Islamic banking in the world today (Ahmad, 2009).

From the quantitative picture given above it is clear that Islamic banks have been doing well in being profitable institutions towards maintaining the liquidity position of their depositors and shareholders. Yet the element of socio-economic development and a better prospect for diversification of project financing instruments is lacking. Consequently, the full impact of Islamic banks in development financing and in establishing sustainability of an Islamizing community remains a potential problem. Social well-being of the type we have explained in this paper in terms of measuring and

directing complementary relations among the Shari'ah recommended possibilities, needs more extensive networking and complementary relations among the financial and socio-economic development goals in accordance with the tenets of the Shari'ah. See Choudhury and Hoque (2004) for a detailed discussion.

Concluding remarks

In conclusion we would like to remark several important points. First, many of us in our society still treat interest equals to business because of our shortage and/or lack of proper knowledge. But these two things are extremely different. Business and interest are different like truth and false or light and dark. Business is one of the best professions a person adopts for his livelihood. Business reinforces the economic activities of a country and plays a vital role in the progress of civilization and culture. If the business activities of a country increase gradually, the economy of the country becomes dynamic and hence the country turns into a self-dependent one. In fact, business controls the economy, politics, civilization, culture, etc. of a country. This is why Islam has declared business not just holy or permissible; rather, Islam has inspired people to do business. In this regard the Prophet has said, "Fair and honest businessman will be the company of the Prophets, the truthfults and the Martyrs" (Tirmizi, Ibn Majah, Miskat)[1].

On the other hand, interest is one of the dangerous weapons to exploit and extort the poor and needy. The major portion of the wealth of a country is captured by a few rich men through interest. The poor become more poor and the rich more rich. As a result, humanity in the society is divided into different classes, and hence envy, jealousy, murder, etc. develop among the classes. The ominous class-struggle starts from this particular point. The society and country fall into an extreme insecurity. Eventually, the gross ethics of human collapse and the society, culture, economy, the state management, etc. fall into a ruined state. For this reason, Almighty Allah has declared for the humankind in His Holy Qur'an, "Allah has allowed trade and has forbidden interest" (2: 275).

Second, Islam teaches that Allah has mercifully given guidance to humankind for all aspects of human life. This guidance covers not just acts of worship but also covers economic and business ethics, marital relations, international relations, ethics of all other individual, social and state activities.

Third, there are a number of reasons why many Muslims have not followed the same path that the numerous seculars have followed. This is because the Muslims have still strong confidence that the revelation which forms the basis of the Islamic religion has not been distorted or human interference since its inception. Thus, there is no need for humans to come along now and fix the mistakes of earlier humans, as many seculars would argue.

Fourth, many Muslims strongly believe that they have not been shown any strong evidence that somehow their religion is out of touch with reality in modern times. For example, in Islam, there has never been a conflict between religion and science, leading to a breakdown of trust in the church and a virtual revolt against the authority of religion as experienced in the West. (Draper, 2002, 2005). Many people, even some so-called Muslims argue for changes in Islam but, in reality, the arguments that they have presented have been faulty and flimsy, to say the least. The case of interest, the present topic, can be taken as an excellent example of this nature.

Last but not least, although Islam has been in the media quite often lately, our experience is that many Muslims and non-Muslims are not aware of the exact stance of

Islam on interest. Hence, this article would, it is hoped, shed some light on this important topic which is extremely relevant for today's advanced world.

Note

1. List of Islamic scholars whose works comprise the *Al-Hadith* (n.d.), Bukhari, Muslim, Abu Dawood, Nasai, Ibn Majah, Tirmizi, Baihaki, Miskat, Ahmad, Darimi, Darequtni, Al-Tabarani, Al-Hakim.

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