احلّ الله البيع و حرّم الرّبوا (القرآن الكريم[1]، 2:275)

"Allah made trade lawful and forbade *riba*" (the Holy Quran, 2:275)

ISLAMIC ASPECTS OF INTEREST: FINANCING STRATEGY

Dr. Akbar Sadeghzadeh

Assistant Professor, Dept of Economics
University of Tabriz
Tabriz, Islamic Republic of Iran

Abstract

Allah made trade lawful and forbade *riba*" (the Holy Quran 2:275). Islamic literature interprets "*riba*" to "interest". Moslims perceive interest forbidden and avoid it. This affects adversely money and capital markets, fiscal and monetary policies, financing projects and eventually growth strategies and causes worse economic conditions of even rich Moslim countries. Many research projects, dealing with various aspects of *riba* have been carried out aiming at finding a solution to the problem. Most of these projects deal with deferral charges imposed on overdue loans, perceiving this charge as a penalty, hence legal; while some scholars declare it as unlawful and reject it.

Interest, however, consists of three elements. These elements are: "time value of money premium (I_{tvp})", "risk premium (I_{rp})" and "inflation premium (I_{ip})". Therefore, the following equation establishes: $I = I_{tvp} + I_{rp} + I_{ip}$. The I_{tvp} is the same for all classes of borrowers and is almost constant. I_{rp} and I_{ip}, however, are functions of "the riskiness of the loan" and "the inflationary conditions of economy", respectively. This article intended to analyse each element as well as their mixture from an Islamic point of view in order to clarify which element of interest best matches with the meaning of ***riba***, what types of transactions fall within this domain (hence are forbidden); and what types fall

[1] - The Holy Quran (2: 275)

Vol. 12, No. 2, December 2004

within the domain of **trade** (hence are lawful). The literature lacks this approach to the Islamic aspects of interest.

Based on the finding a blue print of an *istifta* was prepared. i.e., the opinion of *Mojtahids* and *Mofties* (the senior clergies) were asked. The *fatwa* (the opinion) will, of course, change the nature of both money and capital markets, monetary and fiscal policy making models and strategies, the financing patterns of projects by which the pace of economic growth in Moslim countries eventually to become better.

Key Words: *Riba*, Interest, Financing Instruments, Islamic Economics,Development

Introduction

Financing projects is the life-vein of societies and the basis for development. Financing patterns, instruments and frameworks facilitate financing and lead to development. Several varieties of financing instruments are common in developed countries that lubricate the wheels of development.

The prohibition of *riba* and strong commitment of *Moslims* to obey it, however, have weakened the instruments and frameworks of financing and ceased the idle savings from flowing into the economic cycle in their countries.

Neither is it explicit in Quran and *Sunna*[2] nor is there any consensus among *mujtahids* and *mofties* on what *riba* is. There is not always a clear-cut distinction between **trade** and ***riba***. To determine a transaction as *riba* or trade is very complicated. If the doubtful transactions are analysed from *riba*/non-*riba* point of view and (some of them) are proved to be non-*riba*, huge barriers of financing instruments and frameworks as well as existing investments limitations will be removed.

This paper is an attempt to research this issue. In the next sections after defining *riba* we will analyse the elements (components) of interest, in the context of non-Islamic economics. We, then, will survey the literature of Islamic perspective on issues relevant to *riba*, interest, charges on overdue loans and the relevant subjects. We will, finally, summarise the findings and prepare a blue print of an *istifta* from *mojtahids* and *mofties*. The *fatva* will remove, hopefully, some of the present limitations in money and capital markets, monetary and fiscal policy making models and strategies, the financing patterns of projects and by these means will ultimately cause the pace of economic growth in *Moslim* countries to become better.

[2] - *Sunna* means The Prophet's character sketch.

Component of Interest

Interest consists of three elements. These elements are: "time value of money premium (**I_{tvp}**)", "risk premium (**I_{rp}**)" and "inflation premium (**I_{ip}**)". Therefore, the following equation exists: **$I = I_{tvp} + I_{rp} + I_{ip}$**. The I_{tvp} is the same for all classes of borrowers and is almost constant. I_{rp} and I_{ip}, however, are functions of "the riskyness of the loan" and "the inflationary conditions of economy", respectively. We analyse each of these elements next.

Time Value of Money Premium:

What does "time value of money" mean? ***Regardless of inflation***, \$1 at hand today is greater than \$1 of tomorrow; since today's money can be invested and can produce some amount of return on investment (**ROI**) until tomorrow.

In order to better understand the notion of the "time value of money" we offer a simple example. Consider the "table of place value of digits" we studied in arithmetic, when we were in elementary schools, as shown below:

Hundredth	**Tenth**	**Oneth**
1	1	1

Table of place value of digits

Each digit in a left column in this table is 10 times as the same digit in its right, with regard to its place and the value we assign to each place.

We, similarly, arrange a "**time value of money table**" to show that any earlier money on a "time axis" is greater than the same amount of any later money, as shown below:

Yesterday	Today	Tomorrow
$1	$1	$1

Table of time value of money

On the basis of this table we will later have:

Yesterday's $1 > Today's $1 > Tomorrow's $1

Similarly:

Last year's $100 > this year's $100 > Next year's $100

This, in non-Islamic economics, means that any lent money should bring a return on investment (an ROI) together with the principle. i.e., there should be some amount of interest to compensate the income we do not earn because of lending rather than investing. Notice that we will refer to this analysis in the next sections.

Risk Premium:

The interest rates of treasury bonds are the lowest interest rates in the bond markets. The reason is that they bear the least (zero) risk. The return of the principle and interest is assured. It never becomes a bad debt. As the involved risk in a loan transaction increases, a higher rate of return will be expected, a higher rate of interest (proportionate to the involved risk) will be charged. In the literature of financial analysis this is best explored by using the pendulum example.

Figure 1

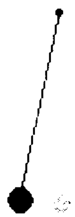

Figure 2

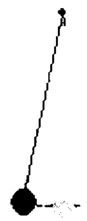

Figure 3

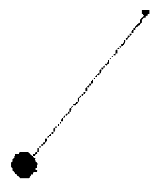

Figure 4

In Figure 1 the pendulum is in a balance position. If it is taken out of the balance position to one side and released, it will start swinging and the amplitude is the same in both directions. In figures 2, 3 and 4 to the extent you unbalance it to one side, it will swing to the same extent on the other side. The swinging amplitude is the same in both sides. Financial analysts metaphorically name one side "**risk**" and the other "**expected return**" and conclude "**the more the risk, the more the expected return**".

It can be suggested in this analysis that the interest should have a component (an element) to compensate the involved risk in loan transactions. The greater the risk, the greater this element becomes. We call this element the "**risk premium**" portion of interest and show it by $\mathbf{I}_{rp}$.

Inflation Premium

Inflation means to become inflated. It is mostly used to refer to the rise of prices. The rise of prices means shrinkage in the value of money; which, in turn, means decrease in the purchasing power of money (and therefore the purchasing power of its owners). In an inflationary economy less goods and services can be bought by some specific amount of money today compared to yesterday and each year compared to its previous year.

In other words, the par value of a loan at the beginning of the loan contract is stronger than at the end. Does this shrinkage in the value of money **in the loans' period** need to be compensated? Does any economy do it practically? We name this "**inflation premium**" and show it by $\mathbf{I}_{ip}$.

So far we have analysed the components or elements of interest. In the next section we analyse each element as well as their mixture from an Islamic point of view in order to clarify which element of interest best matches with the meaning of ***riba***, what types of transactions fall within this domain, hence are forbidden; and what types fall within the domain of **trade**, hence are lawful. The literature lacks this approach to the Islamic aspects of interest.

Based on the finding a blue print of an *istifta* will be prepared. i.e., the opinion of *Mojtahids* and *Mofties* will be asked. The *fatwa* will, of course, change the nature of both money and capital markets, monetary and fiscal policy making models and strategies, the financing patterns of projects and by these means eventually the pace of economic growth in Moslim countries to become better.

Literature Review of *Riba* in Islam

Riba means usury, "some return in excess of the principle on a loan or sales on credit" Webster's Dictionary (1993, 2525) defines "usury" as: "[a] premium or increase paid or stipulated for a loan of money or goods"[3]. The excess is called interest. *Riba* is explicitly prohibited in the Holy Quran[4]. Getting *riba* after its prohibition is a war against God and His Prophet (Quran 2:275). To get it at the beginning of the loan contract is more obscene, cruelly and horrible than at the end. *Riba* is perceived as deceiving others (Mothahhari 1984, 110). People hate and avoid deceiving. Usurers, even, possess inferior social status in *Moslim* societies.

In contrast to non-Islamic economics "time value of money" **is not** recognised in Islam. In Islam, money does not have any essential value; it, rather, is a representative of some value (Beheshti 1993, 41). It is a means of saving value (Qadiri Asl 1988, 5). Although money is everything potentially, it is nothing actually (Omrani 2003, 65); it is barren (Beheshti 2000, 77). It cannot reproduce in itself (Mothahhari 1984, 13); because it, only, can play the role of an intermediator, a catalyst, a "transaction means' in financial and business activities. Therefore, contrary to non-Islamic economics, in Islam "yesterday's money" is not greater than "today's money" and "last year's money" is not greater than "this year's money". Therefore, $\mathbf{I}_{tvp} = 0$ in loan transactions in Islamic economics. Loans can take the form of *Qardhul Hassanah*[5], only.

"Time value of money", in Islamic economics, however, can be taken into accounts only within a credit sale transaction (a trade – where money is exchanged with different and not with its congeneric goods). That is, the seller can charge different prices on cash sales and credit sales of the same commodity. Selling receivable accounts at a lower price to the debtor (not to someone else) is another example of taking the "time value of money" into accounts[6]. In these cases $\mathbf{I}_{tvp} \neq 0$.

---

[3] - The complete meaning is: "A premium or increase paid or stipulated for a loan of money or goods: INTEREST, {Thou shaft not lend upon ~ to thy brother – Deut. 23:19 (AV)}: the lending out of money with an interest charges for its use: the taking or practice of taking interest: an unconscionable or exorbitant rate or amount of interest; *specif.* interest in excess of a legal rate charged to a borrower to the use of money."

[4] - The Holy Quran (2: 275, 278 and 279 also 30:39).

[5] - Interest-free loan.

[6] - Imam Khomeini, *Toudhihul Masael*. Problems 2108 and 2109.

As we saw before, non-Islamic economics prescribes higher interest rates in more risky loans. Therefore, $\mathbf{I}_{rp}$ is taken into account in these economics and $\mathbf{I}_{rp} \neq 0$. Following the so-called principle of "the more the risk, the more the expected return", $\mathbf{I}_{rp}$ is a function of the riskiness of the loan contract. In Islam, however, both in loan and credit transactions, risk is insured by mortgaging (Quran 2:282-283), not by (higher rate of) interest as risk premium; hence, $\mathbf{I}_{rp} = 0$. Inflation premium ($\mathbf{I}_{ip}$), the third and most controversial component of interest, will be analysed more in this research.

Aside from the explicit prohibition of *riba*, there are still some complicated cases in transactions that cannot be put in *riba* or non-*riba* category easily. Charges on overdue loans, charges on loans for investment (not consumption needs) and unnecessary loans, sale of receivable accounts (discount), compensation of inflation effect, exchange of different amounts of homogeneous/congeneric goods (such as gold, cupper and grain) are examples of these kinds of transactions.

Charging interest on overdue loans is practiced in non-Islamic banking systems at present as a controlling instrument to collect loans. Nevertheless, it still is a controversial discourse among the researcher, *Mojtahids* and *Mofties*. Some **for** and **against** opinions from the literature are cited in this section.

A. Arguments <u>For</u> Charges on Overdue Loans

Some scholars argue **for** charges on overdue loans. They perceive it to be non-*riba*. They reason that:

It is not *riba* since it is not charged on the principle. It, rather, is a penalty of the debtor for his[8] violation and detaining the lender to reach to his right / to his asset (Mousavi Bojnoordi 2003, 14). This, of course, is not to allow the debtor, after fining, to use the lent money for some extra time (Rezwani 1993, 33-34). Moreover, this fining is a compensation of "the opportunity costs" incurred by (imposed on) the lender following the rule of "The believers are committed to their promise"[9] (Rezwani 1993, 33-34), a compensation of the adverse effect of inflation on the purchasing power of the lent money and a controlling instrument to collect loans. It is not *riba*; because *riba* is agreed upon at the start of a contract. The compensation of a loss is determined at the end to adduce justice (Ahmad AlZargha in Rezaei 2003, 31). It is not excess on a loan; it has its own lawful cause. It is not eating wealth of

- There is, of course, a very rich literature on the relevant issues. Researchers interested in more extensive study may refer to the literature.

[8] - Present literature following non-sexist language uses his/her in order to include both gents. Imitating Quran, however, I prefer to use his (and other male pronouns) whenever both gents are meant.

[9] - مهطورش دنع نونموؤملا

others in vain[10] (Katoozian 1990, 272-273).

B. Arguments Against Charges on Overdue Loans:

There are also those who argue, any charge on overdue loans is *riba*. Some pre-set compensation on overdue loans, however, is legal and practicable. Mohammad Al-Seddigh Al-Dharir holds that banks can set such a pre-set agreement and a conditional penalty only if the debtor is financially strong enough to pay it (in Rezaei 2003, 31).

Those who perceive any charges on overdue loans *riba* and declare it as unlawful argue that:

Even pre-set agreement and/or conditional confirmation to return something in excess of the principle of a loan, cannot convert the overdue charges into something other than *riba*; since such a conditional agreement is incorrect, vain and illegal in essence[11] (Imam Khomeini 1998, 102).

Any charge on overdue loans, under whatever nomenclatures (fining the debtor because of his violation, compensating the inflation or compensating the opportunity costs of lender) is not defensible (Rezaei 2002, 27), is *riba* and unlawful (Moosavian 2003, 88). Other solutions to the dilemma should be sought.

Interest, at the Holy Prophet Mohammad's Era, and after its first prohibition[12] used to be charged on overdue loans. The reason for the revelling of the Verse 275 of *Sourat al-Baqara* was to ban it[13]. Whether one can, by making a *riba* bearing loan contract conditional, convert it into a non-*riba* contract is questionable (Rezaei 2002, 36).

Assuming the charges on overdue loans as a compensation of the lender's opportunity costs, also, bears its own problems:

1. Whether there would be an opportunity cost or not is arguable. The possibility of investing the overdue money is doubtful (Nazih Himad in Rezaei 2003, 31-32). A potential/probable loss is not a loss[14] unless the common law perceives its prerequisite fulfilled[15]. Consider the example of a detained worker. The compensation of his wage is due only if he had an employment contract with someone for the detention period; otherwise, there is no compensation. The compensation, therefore, is for a certain/incurred loss and not for a potential/probable one (Zaki

[10] - لطابلاب لاملا لكا

[11] - دسافلا طرش

[12] - *Riba* has been prohibited twice.

[13] - Imam Khomeini. *Kitabul Baia*. pp 527-529 and *Tahrirul Vaseelah*, p 535.

[14] - Moosavi Bojnoordi quotes from *Imamiyyah foghaha* (Isfahani and Khoee who believe: مدع النفع ليس بالضرر).

[15] - Mohaghghigh naeeni in Moosavi Bojnoordi 2003, 21

AbdulBarr in Rezaei 2002, 32). A certain loss is one which the common law and The Prophet's character sketch perceive its compensation enforceable (Katoozian 1992, 78).

2. Ramadhan AlBoothee believes that financial penalty (on overdue loans) is illegal (Rezaei 2002, 32). Zaki-Al-Deen Shaa'ban perceives financial penalty for abnormal losses on overdue loans legal and Kuwait's civil law enforces it (Rezaei 2002, 32).
3. Only judge can sentence fine on overdue loans (Ahmad Al-Zargha in Rezaei 2002, 31), and the fine should be paid to a charity association (Nejatollah Seddighi and Ali Al-Saloos in Rezaei 2002, 32).
4. Any charge on an overdue loan is a trick to escape *riba*; it is a way to reach to the **Goal** only by playing with the words to change the appearance.
5. Its *riba* criterion is stronger than the permission to get it as a penalty (Rezaei 2003, 41).

Other *Riba*/non-*Riba* Doubtful Transaction

Sale of receivable accounts at discount is also controversial. Some scholars consider it as *riba*. Some others, following the rule of "put it in hastened"[16] do not believe it to be *riba* if sold to the debtor[17].

Compensation of inflation effect; i.e., the shrinkage in the purchasing power of the lent money, is another issue target to pro and con opinions. Some scholars believe that the transaction has taken place on the basis of the real and not the nominal value of money at the beginning of the contract. If there is a shrinking as a result of inflation, it should be compensated (Rezaei 2003, 39). Katoozian (1990, 272-273) highlights the significance of the problem by posing the questions: "Who deserves more to get it: the lender whose money's purchasing power has shrunk as a result of the debtor's violence, or the debtor who has violated? Is defending the debtor's benefit more important or the loss of the lender?" The amount to compensate inflation effects is not an income of the lender. Because the inflation compensation is not originated from the loan contract, rather an exogenous factor caused it (Najafi in Moosavi Bojnoordi 2003, 19).

Rezaei (2003, 39) classifies inflation into low, medium and high. In his analysis, common law perceives any compensation of low inflations as *riba*. Medium rates of inflation must be compromised. High rates of inflation, however, must be compensated by the debtor. The criterion to classify the inflation rate into low, medium and high is, again, the common law.

It is noteworthy, however, that there exists a massive confusion of reasoning in the literature between charges on **overdue loans** as a penalty of the violation of the debtor, the opportunity cost of the lender and the compensation of the inflation effect. **Unless a loan becomes overdue, no reference is made to the inflation effect on the purchasing power of the lent money during the original loan period.**

Exchange of different amounts of homogeneous goods and/or their derivatives that are weighable (such as gold and cupper) or measurable by pint-pot (such as grain) is another controversial field in *riba*/trade arguments[18]. Exchanging manufactured gold or cupper with the scrap or bullion of their congeneric goods or their derivatives in excess is perceived *riba* by most of the scholars, though it is being practiced in business.

---

16 - لجعت و ضع

17 - Imam Khomeini. *Istifta'at*. Vol. 2. p. 175.

18 - Exchange of countable goods such, as eggs, is not *riba*.

Specifications of *Riba* Transactions:

Riba is the exchange of different amounts of two congeneric goods (money or other goods) or their derivatives in the form of loan or credit sale. One criterion for a transaction to be a trade, however, is that those being exchanged must be of different materials; not congeneric goods (Moosavi 2003, 76).

A loan transaction in which the borrower - as a condition to the loan contract agrees an additional material commitment (for the lender, someone else or even for a charity organisation), also, is *riba*. For instance, if a borrower - as a condition to the loan contract - agrees to sell his goods or services[19] at a lower price is a *riba* and not a trade contract (Sadr 1880, 179 -180).

Alternatives to *Riba* Bearing Loans

By banning *riba*, Islam, suggests alternative ways for capital to enter into economic cycle and in business activities and share profit. Islam perceives capital as the personified (piled up results of) labour (Beheshti 2000, 76) and totally different from the other production factors (land, labour and entrepreneurship) in nature. Islam holds that these production factors can produce goods and services, while capital cannot be productive by itself. Someone else, **the borrower**, will mix it with other factors of production to produce goods and services which will satisfy people's needs and desires. Capital cannot do it by itself.

In other words, lending capital on interest and expecting **an assured return** at maturity without bearing any **risk of loss of actual involvement in business activities** is deceiving others and is not permitted in Islam. *Musharika*, *Mudhariba*, *Muzari'a*, *Mosaghat* and *Jo'aala*, rather, are the most famous alternatives to investing capital on interest-bearing loans.

In *Mudhariba*, for instance, the return on capital is proportionate to the role the capital plays in the economy. The *Mudhariba* contract is based on an expected, **but risky**, return. This style of distributing income between the production factors (labour and capital) is distributing a real income and justly. Moreover, it causes investment trend, and subsequently employment, production, and economic development to benefit from a more sustainable growth (Beheshti 2000, 5).

---

[19] - Sadr uses the example of renting house at a cheaper price.

In an Islamic banking system, as a second example, financing contracts take two types, normally:

1. The form of a loan contract, and
2. The form of partnership, which is extendable.

A loan contract can be secured by mortgaging, which is prescribed in Quran (2:282-283).

In partnership (principal-agent) contracts; through which an institution, say a factory, is established; the agent has undertaken to buy the bank's shares during several years. If the postponement of the purchase becomes necessary because of inability of the agent, the bank will not lose. Because the bank still benefits from its own share of profit, can increase its share of profit based on an initial agreement[20] and sell its share at a higher price of the sale time (Beheshti 2000, 41-42).

There are, of course, strong logical and philosophical bases on which Islamic economic system works. "What is the difference between interest-bearing loans and these alternatives?" "What is the difference between the bottom line of *riba* based and non-*riba* based economic systems from social, political, cultural and economical aspects?" "Why trade is made lawful and encouraged while *riba* is forbidden?" These are, of course, very rich fields open to philosophical discussions and research. This analysis, however, refrained entering to these fields.

Conclusion

Considering the pro and con arguments about the inflation premium ($\mathbf{I}_{ip}$) as analysed already, we can conclude that the inflation effect should be compensated both on overdue loans as well as for **the original periods of loans**. We should recognise $\mathbf{I}_{ip}$ and take it into account. It is not interest since it offsets the effects of an exogenous factor. Then $\mathbf{I}_{ip} \neq 0$.

The reason is that money, as analysed before, is essentially nothing but the representative of a certain amount of value - purchasing power. So, what is lent is the purchasing power of money not the money itself, which has a face value. The same amount (of purchasing power) should, then, be returned not the nominal amount (which is weakened). Therefore, the shrinkage as a result of inflation should be compensated. "Unless the shrinkage in the purchasing power of the lender is compensated, the commitment of the debtor is not fulfilled"[21] and there will be no motivation for lending *Qardhul Hassanah*, although strongly encouraged and recommended in Islam (Quran 64:17).

---

[20] - Imam Khomeini (in *Rislatul Amaliyyah, Mas'alat* No. 2146).

[21] - Makarem Shirazi. New *Istifta'at*. P 161 and *Riba* and Islamic Banking. P 148.

Let us put it another way and consider someone who bases his credit sale on - or lends - some "transaction means" which normally is not affected adversely so much from inflation, gold for instance. Returning the same amount (which is the same purchasing power) of the same "transaction means" at maturity will fulfil his responsibility. What happens if the debtor compares the money equivalent of this "inflation-resistant transaction means" at the beginning and end of the loan or credit period[22] and returns a smaller amount of it[23] to the lender and thinks that his debt is settled and his account is cleared?! This, of course, is not fair and a logical reasoning. Neither is the commitment of a debtor fulfilled unless the inflation premium ($\mathbf{I}_{ip}$), applicable for both **the original loan period** and after maturity, is taken into account.

The blue print of the *Istifta* from *mojtahids* and *Mofties* can, then, take the *following* form:

"In interpreting the Rule "The believers are committed to their promise" will "fulfilling the commitment of promise" mean to leave the debtee as well off at the end of the loan or credit period as at the beginning by returning **the same purchasing power not the nominal amount of debt**?" If the answer is yes, should the inflation effect on loan transactions and credit sales on the **original period of transaction** and after maturity be compensated?

[22] - The money equivalent at the end is greater due to the inflation.

[23] - An amount equal to the money equivalent of the beginning of the contract converted into the "transaction means" at the exchange rate of the maturity date.

References

Beheshti, Mohammad Hossein. 1993. *Riba in Islam*. 2nd ed. Islamic Culture Publication Bureau. Tehran.

_____ 2000. *Islamic Economics*. 7th ed. Islamic Culture Publication Bureau. Tehran.

Katoozian, Nasser. 1990. *General Rules of Contracts*. Vol 4. Behnashr Publications. Tehran.

_____ 1992. *By Force Warrant*. Bahman Publications. Tehran.

Khomeini, Roohullah Moosavi (*Ayatullah*). 1998. *Istifta'at*. Islamic Publication Bureau. Qom.

_____ *Tahrirul Vaseelah*. Vol. 1. 2001. Imam Khomeini's Works Publication Institution. Qom.

_____ *Kitabul Baia*. 2002. Imam Khomeini's Works Publication Institution. Qom.

_____ *Resalatul Amalyyah. Toudhihul Masael*.

Makarem Shirazi (*Ayatollah*). New *Istifta'at*

_____ *Riba* and Islamic Banking.

Moosavian, Seyyed Abbass. 2003. Evidence of Hidden and Manifest Riba in Iranian Islamic Banking System. *Islamic Economics* – in Persian. No. 6. pp 67-90.

Moosavi, Seyyed Bagher. 2002. Selling Accounts Receivable (Discount). *Islamic Economics* – in Persian. No. 7. pp 75-88.

Moosavi Bojnoordi, Seyyed Mohammad. Lawfulness of Penalty on Overdue Loans. *Maghalat wa Barrasiha* - in Persian. No. 73. 2003.

Mothahhari, Mortedha. 1984. *Riba, Insurance and Bank*. Sadra Publications.

Najafi, Mohammad Hassan. 1974 (1394 A.H). *Jawaherul Kalam*. Tehran.

Omrani, Ali. 2003. Penalty on Overdue Loans in Iran Laws. Masters Thesis. Tabriz Islamic Free University.

Qadiri Asl, Bagher. 1988. *Monetary Theories*. Tehran University Publications. Tehran.

Rezaei, Majid. 2003. A Juristic and Jurisprudential Analysis of Penalty on Overdue Loans. *Islamic Economics* – in Persian. No. 6. pp 27-44.

Rezwani (Ayatullah). An Interview about Islamic Banking. Central Bank of Iran. 1994.

Sadr. Seyyed Mohammad Bagher. *Al-Bank ul-Larabavi*. Darul Ta'arof LilMath'boo'at. Beirut. 1980 (1400 A.H.)

The Holy Quran.

Webster's New International Dictionary of English Language. Unabridged. 1993. Vol. 3. Encyclopaedia Britannica, Inc. Chicago.

Yousofi, Ahmad Ali. 2003. Compensation of Shrinkage in Money Value in Loan Transactions and in Financial Dealings. *Islamic Economics* – in Persian. No. 6. pp 45-66.

Appendix: English Translation of the Verses Referred to:

Al-Baqara 275: Those who live off the interest on loans will never stand up, except in the way those who Satan knocks down with a fit rise up again. That is because they say: "Trading is just like taking interest". **Yet God has permitted trading and forbidden taking interest.** Anyone who receives such an instruction from his Lord and stops doing so, may keep whatever [capital] is a thing of the past, while his case rests with God; yet those who do so over and over again will become inmate of the Fire, to remain there for ever.

Al-Baqara 276: God wipes out usury and nourishes act of charity; God does not like every vicious believer.

Al-Baqara 278: You who believe, heed God and write off anything that remains outstanding from lending at interest if you are [true] believers.

Al-Baqara 279: If you do not do so, then be prepared to face war declared by God and His messenger! If you repent, you may retain your principle. Do not wrong [others] and you will not be wronged.

Al-Baqara 280: If any debtor suffers hardship, then postpone [repaying] it until conditions become easier [for him]; while if you treat it as an act of charity, it would be better for you, if you only knew.

Al-Baqara 282: You who believe, whenever you commit a debt for a stated period, write it down, ... 283: If you are on a journey and do not find a literate person, then a deposit may be withheld as a lien. If one of you entrust [something to] another, the one who has been entrusted with it should land over his security and he should heed God his Lord and not hide any testimony. Anyone who hides it has a vicious heart. God is aware of anything you do!

Al-Taghabon 17: If you advance God a handsome loan, He will compound it for you and forgive you. God is appreciative, Lenient.