

VI. ISLAM & FINANCE

What is Islamic Financing?

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Islamic financing pertains to economic transactions that are in accordance with the principles of Islamic law, or *sharia*, as derived from the Qur'an and the *hadith* (stories of the Prophet Muhammad's sayings and deeds). The foundation of Islamic finance and banking is the prohibition of *riba*, usually translated as "interest."

The prohibition of *riba* is rooted in the Qur'an. A number of verses in the Qur'an address this prohibition, including the following:

Whatever you give in usury, in order that it may increase on the wealth of the people, does not increase with God, but what you give in alms, desiring the face of God – those are the ones who gain double (Q. 30:39).

The *hadith* also include references to *riba*. One example comes from the Prophet Muhammad's last sermon, in which he states, "God has forbidden you to take *riba*."

Scholars recognize that the charging of *riba* in ancient Arabia resulted in borrowers frequently becoming overwhelmed by debt if they defaulted on a loan. The prohibition of *riba* generated a system in which the borrower and the lender shared the risk in the transaction, minimalizing the potential for exploitation. Seen in this light, the prohibition of *riba* is an attempt to establish and maintain economic justice.

In modern Islamic financing, *riba* is understood as any return on money that involves a fixed, predetermined amount. This includes the interest-based financing that is dominant in the Western world.

However, contemporary Muslim scholars are not in agreement as to whether the prohibition on *riba* applies to all forms of interest. Some scholars view all interest as forbidden. Other scholars argue that *riba* refers primarily to practices of economic exploitation or the charging of excessive interest. They maintain that the original prohibition on *riba* was not intended to cover all forms of interest, and they point to practices in early Islamic history in which non-exploitive forms of interest were charged. In fact, one of the premier centers of religious authority today, Al-Azhar University in Cairo, adopts this latter position.

There has been an increase in demand for Islamic financing in recent years, including in the West. Many of the largest Islamic financing institutions in the world can be found in the West, including banks such as UBS, HSBC, Barclays, Lloyds TSB, Citigroup, and Morgan Stanley. London is the largest center of Islamic financing in the West, and Prime Minister David Cameron wants to make the UK [one of the centers of global Islamic finance](#).

One of the most common examples of Islamic financing that Western Muslims make use of is a home mortgage. Muslims who are not comfortable with conventional mortgages obtain what is called a *sharia*-compliant mortgage. These are mortgages that conform to the principles of Islamic law. In a *sharia*-compliant mortgage, the bank first purchases the home, and then the customer buys it back. There are two common ways that this is done.

First, the customer can purchase the home from the bank at a higher price, agreed upon in advance by both parties. Payments are made in installments. This is known as a *murahaba* transaction. Second, the customer

can enter into a partnership with the bank in which the customer makes monthly payments in return for using the home. With this arrangement, known as a *musharaka* transaction, the payments contribute toward equity in the home, and eventually, the customer makes enough payments to pay off the mortgage.

A common question that non-Muslims in the West ask is whether you have to be Muslim to participate in Islamic financing. The short answer is “no,” and we are beginning to see evidence of greater interest from non-Muslims in *sharia*-compliant products. For example, the Islamic Bank of Britain reported a [55% increase](#) in applications from non-Muslims for its savings accounts in 2012. [Non-Muslims and Muslims alike](#) are finding the resources within Islam to navigate the difficulties and pitfalls of the twenty-first century global economy.

Response to: What is Islamic Financing?

Yusuf Abdi

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As a young child, my family was forced to flee the civil war in Somalia. We made a frightening journey to leave our home country and ended up in a refugee camp in Kenya where we spent several difficult years. In 2000, my family received exciting news. We were approved to come to the United States. Our new beginning started in Pelican Rapids, MN, with the assistance of Lutheran Social Service of Minnesota.

We were uncertain about what life in America would be like. Thankfully, our transition was smooth, and the local community was extremely welcoming. My parents were able to find full-time employment in Pelican Rapids. I enrolled in school and began learning English. By the time I was in 8th grade, I started volunteering at the local LSS office. After school, I would come to LSS and help the program manager and other new refugees with translations and paperwork.

After graduating from Pelican Rapids High School and North Dakota State University, I received my first job at Lutheran Social Service of Minnesota. Today, I serve as the Director of Refugee Services for LSS. I am gratified that I am able to serve new Americans as they adjust to their lives in the United States – just like I did 15 years ago.

Prior to coming to the United States, as Muslims, my family was never exposed to interest. In Somalia, anyone who wanted to buy a home or business would start by asking family and friends if they would loan the money interest free.

The prohibition of *riba* (usury or interest) is clearly addressed in the Qur'an and in the Hadith. *Riba* is considered a major sin in Islam. Simply, unjust gains in trade or business are not acceptable in Islam. The practice of

making unethical or immoral monetary loans that unfairly enrich the lender has spread widely in our world economy. A loan may be considered *riba-existent* because of excessive or abusive interest rates.

My first personal exposure to credit was when we arrived in the US and learned we needed to have a good credit rating to rent an apartment, purchase a vehicle or buy a cell phone plan. As a Muslim, it is difficult to accept or give interest, so we would use full cash payments for all of our basic needs. When I graduated from high school and started using a credit card to build my credit rating, I would pay the full balance every month before incurring any interest. I also learned certain car dealerships would sell a brand new vehicle interest free for sixty months, which fit within the parameters of my faith.

In the United States, there are Islamic financing banks that provide loans to Muslims interest free so they can agree to large purchases, buying a house for instance, with a transaction fee that is not fluctuating.

It is important to note that, at LSS, we do not see a lot of Muslims clients utilizing our Financial Counseling services. Muslims tend not to accept traditional bank loans or get into debt that is associated with interest.

When Muslim refugees come to the United States, they are very grateful for the opportunity to live in a free and safe country. These new neighbors want to do well and contribute to their communities. Most refugees seek employment as soon as they arrive, and many work overtime in multiple jobs so they can pay their bills completely and begin to save money. Because they strive for a good life for their families, especially for their children, many refugees are financially successful in the United States because they are filled with the drive to do well. It is amazing to see the tenacity and work ethic of new refugees in this country.

VI. Discussion Questions

1. Did anything surprise you about the concept of Muslim finance? If so, what was new to you?
2. In a world of easy credit, buy now/pay later, payday lending, etc., what can we learn from what Islam teaches about financing?
3. What connections do you see between your Christian faith and your financial practices?
4. How can we be good stewards of the financial gifts God provides? How can we provide support for those struggling financially?