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BANKING WITHOUT INTEREST

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The Islamic Foundation

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Contents

Foreword – Khurshid Ahmad	7
Preface	9
Preface to the Urdu Edition	11
Chapter 1: Establishment of the Bank	15
Chapter 2: Business of the Bank	19
Charged Services	19
(a) Partnership through Bank Capital	21
(b) <i>Muḍāraba</i> through Bank Capital	25
Distribution of Profit between the Entrepreneur and the Bank	27
Investment in Running Business	32
(c) Purchase of Shares of Entrepreneurial Institutions	37
Chapter 3: The Bank and the Owners of Capital	39
Acquisition of Additional Capital on the Principles of <i>Muḍāraba</i>	39
<i>Muḍāraba</i> Account	39
Determination of Profit and Loss under <i>Muḍā-</i> <i>raba</i> Account	44
Use of Loans in Bank Business	46
The Loan Account	48
Competition among Banks	51
Chapter 4: Bank Loans	53
(a) The Need for and Provision of Short-Term Loans	55
(b) Short-Term Loans	57
(c) Incentives for Advancing Interest-Free Loans	59
(d) Determination of the Ratio between Loan Account and Loans to be Advanced	63

(e) Equilibrium between the Demand for and the Supply of Loans	63
(f) Duration of Loans	65
(g) Sureties against Loans	67
(h) Expenses incurred on the Maintenance of the Loan Account	68
(i) Problem of Bills of Exchange	69
Chapter 5: The Process of Credit Creation	73
The Nature of Bank Credit	73
The Process of Money-Creation	78
Examples	80
First Phase	82
Second Phase	83
Last Phase	84
Cancellation of Bank Credit and Reduction in the Supply of Money	90
Profit or Loss in the Banking Business and the Process of Money Creation	94
Chapter 6: The Central Bank	97
Role and Functions	97
Fundamental Bye-laws	99
(1) Changes in the Reserve Ratio	104
(2) Change in the Borrowing Ratio	110
(3) Preferential Use of Borrowing Ratio	115
(4) Purchase and Sale of Commercial Shares	116
(5) Changes in the Lending Ratio	121
(6) Use of Various Instruments	124
Chapter 7: Banking System and Public Finance	127
State Expenditure and Sources of Revenue	129
Procurement of Capital on Partnership or <i>Mudāraba</i> ..	132
Government <i>Mudāraba</i> Shares	133
Government Partnership Shares	137
Government Loans	142
The Loan Certificate	147
Government Loan Certificates in the Banking System	151
Government Partnership Shares in The Banking System	152

Government <i>Mudāraba</i> Shares in the Banking System .	153
Chapter 8: Loans for Consumers	155
The Needs of Consumers.....	155
Sources of Loans.....	157
Bank Loans for Consumers	159
Right of Overdraft.....	159
Certificates of Sale	161
Chapter 9: Some Clarifications	167
(1) Supply of Savings.....	167
(2) Supply of Business Capital	172
(3) Procurement of Capital for the Public Sector.....	173
(4) Profitability in the Banking Business	173
(5) Liquidity.....	174
(6) Interest-Free Banking and the State.....	174
Appendix: Literature on Interest-Free Banking	
up to 1967	177
Index	189

Preface

This work was originally produced in Urdu in 1969. Some friends in Pakistan got it translated and published it in English in 1973. Unfortunately the translation was poorly done — so poorly indeed that the text was in many places confusing and sometimes conveyed a meaning entirely different from the one conveyed by the original. All these errors have now been rectified and, so far as possible without re-doing the translation, the language has also been improved. It is hoped that the earlier editions of the uncorrected translation will now go out of circulation and out of use, being replaced by this version.

The readers' expectations from a book on interest-free banking published in the eighties will most likely be more than this translation can satisfy. It was felt, however, that nothing short of a new work would meet this demand and it would be futile to add to this book with a view to updating it. The book has a historical value even as it stands, being the first book-length discussion of interest-free banking in any language. Since subsequent development of the subject has not drastically modified the basic model incorporated in this book it deserves preservation. That it does fulfil some need is testified to by the fact that it has gone into half a dozen editions in English and Urdu, in addition to being translated into other languages. I have since written several papers on the subject which will shortly be published in the form of a collection, partly to meet the demand for an updated work.

I am grateful to Mr. Khurram J. Murad, Director, The Islamic Foundation, Leicester, for the keen interest he has shown in bringing out this book.

King Abdul Aziz University
Jeddah
5 September, 1981

M.N. Siddiqi

Preface to the Urdu Edition

In prohibiting interest Islam has endeavoured to do away with a hideous form of tyranny and injustice prevalent in human society. The institution of interest is a great challenge to all those who are trying to revive and reconstruct the Islamic way of life in modern times. In the modern economic system, interest and enterprises based on interest, occupy a key position. The whole banking system rests on interest. It is, therefore, imperative that for the reconstruction of the economic system on the Islamic pattern, an interest-free banking system should be established and run successfully. Obviously, the banking system renders some fundamental and beneficial services without which no modern developed economy can be conceived. There is also a consensus among Muslim economists that even without interest a banking system can be set up to discharge all the usual functions performed by the modern banking system based upon interest. These experts also agree that the reorganisation of banking on the Islamic pattern can be brought about on the Islamic principles of *muḍāraba* (profit-sharing) and *shirkah* (partnership). But, to date, the details of how a banking system would be established on these principles and how interest-free banking would discharge all the functions of modern banks, have not been described.

In this book an attempt has been made to answer these questions and in the following pages we have presented an outline of interest-free banking. Considering the magnitude of the problem it may well be found that this is only an outline. Undoubtedly each aspect of this important problem deserves separate and detailed discussion. We have, therefore, made an effort to present the outline so as to provide a base for further and fuller detailed analysis. The opinions expressed and the outline proposed are presented for readers' consideration and comment, so that scholars of economics and Islamics may, through their own thinking and

study on this new topic, arrive at such conclusions as may be authentic from the viewpoint of *Shari'a* and also found viable according to the principles of economics and thus appear feasible to all thinking people.

As we have already clarified elsewhere, some of the principles of Islamic *Shari'a* on *muḍāraba* and partnership,¹ their repetition in this book will serve no useful purpose.

It is appropriate to mention here that our discussion of these issues rests upon the consensus view that interest is totally prohibited in Islam and that every form of interest including banking and commercial interest is unlawful.

Those who wish to study the principles of Islamic *Shari'a* underlying the prohibition of interest or the rational basis of this injunction may consult the appropriate references.² Likewise, we need not discuss the rôle and functions of modern banks or the modern theory of banking — there is already a vast literature on this subject available. What this book discusses in detail is how banking could be established on the basis of partnership and *muḍāraba* and yet discharge its usual functions. In this context the problems of monetary policy and public finance emerge at every step but these issues cannot possibly be discussed in detail in this book and are touched upon only as and when they arise.

In modern times, besides commercial banks, other financial intermediaries, e.g. insurance companies, building associations and investment corporations, are assuming increasing importance. These institutions play an important rôle in mobilising savings and investing them in specific processes of capital formation. These activities may also stimulate the flow of credit and such institutions cannot be ignored in any comprehensive discussion on monetary policies. The nature and scope of these institutions in an interest-free economy require separate study and discussion. We shall not, therefore, deal with them in this book; we shall discuss the issue in the light of the functions of money and banking as conventionally

¹ Siddiqi, M. N.: *Shirkat aur Muḍārabat kē Shara'ī Uṣūl*, Islamic Publications Ltd., Lahore, 1961.

²Sayed Abul A'lā Maududi, *Sūd*, Islamic Publications Ltd., Lahore, 1961.

Maulana Mufti Mohamḡad Shafi, *Masa'la-e-Sūd*, Idārat-ul-Ma'ārif, Karachi, 1380 Hijri.

Mohammad Fazlur-Rahman, *T'ijāratī Sūd*, Department of Theology, Muslim University Aligarh, 1967.

Dr. Anwar Iqbal Qureshi, *Islam and the Theory of Interest*, Sh. Mohammad Ashraf, Lahore, 1946.

understood. Such an approach is unavoidable in a preliminary discussion of this nature.

While studying interest-free banking, it should be kept in mind that its successful operation can be ensured only in a country where interest is legally prohibited and any transaction based upon interest is declared a punishable offence. Moreover, where this law is not enforced strictly, the possibility that some capitalists would jeopardise the larger interest of the people for their private benefit will exist. In such a country the transaction of interest would enter the black market and disrupt the entire interest-free system. In addition to this essential condition there are some other prerequisites for stable interest-free banking, for instance, proper social security arrangements to take care of the needy consumers and prevention of hoarding through imposition of taxes. These and other similar conditions favourable to an interest-free system will obtain when, besides prohibiting interest, other Islamic laws are also enforced and steps are taken to realise the objectives held as desirable by the Islamic code of life. Besides these collective measures, if every member of the society possesses the quality of honesty, a passion for public service, and the sense of responsibility that Islam wants to inculcate in its followers, the proposed interest-free banking system can be run very conveniently and produce excellent results. A society in which the moral standards of citizens is low and in which the tendency to sacrifice public good for personal benefits is too strong and common, more and more legal action will be needed to run interest-free banking, which would in turn seriously affect the functioning of the proposed system.

This book describes how the banking system will be organised after the prohibition of interest. Its first eight chapters were published in Urdu in a prominent monthly journal *Zindagi* (Rampur), in its issues from February to December, 1967. I had the good fortune to benefit from discussions on the subject with some eminent scholars of economics, and Islamic studies. An exchange of views with Mr. Fazlur Rahman Faridi of the Economics Department, Aligarh Muslim University, has helped me in formulating my own opinions on various points. Mr Nurul Haq Siddiqui (Reserve Bank) and Dr. Wahiduddin Khan (Hyderabad), have also given valuable advice after reading the chapters published in the above journal. Professor Ali Muhammad Khusro, Director, Institute of Economic Growth, Delhi, having read these

chapters very carefully, gave me valuable suggestions during discussions. I am very grateful to these friends. I am specially grateful to Maulānā Sayyid Abu'l A'lā Maudūdī who, in spite of his pre-occupations and precarious health has very carefully read all the printed chapters one by one, and has done me the favour of giving his opinions in writing. Having benefited from the views of these scholars, I made several alterations and modifications in the printed chapters.

In view of the importance of the subject, all the literature published on it until now has been reviewed in an Appendix which may stimulate further thinking and study. Keeping in view the nature of the problems it was inevitable to make some suggestions and express an independent opinion. It, therefore, seems only right to point out here that the author himself is responsible for whatever opinions have been expressed in this book, and not the scholars who have given him their valuable suggestions. I pray to Allah that He may amply reward all those persons with whose active interest and co-operation, this work has been accomplished and has reached the readers. I also pray that Allah may guide us in further understanding this problem according to his promise: 'And for those who strive in Us, We surely guide them to Our paths . . .'

(Holy Qur'ān 29: 69)

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