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### ***Jurisprudential Perspectives and the Role of 'Urf in Regulating Debt and Deferred Payments: A Sīrah-Based Study of Gold and Silver Transactions in Islamic Finance***

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#### **Abstract:**

*This research provides a jurisprudential analysis of debt and credit within Islamic finance, addressing fundamental differences between Islamic and conventional banking. Unlike conventional banks utilizing fractional reserve banking and direct cash lending, Islamic finance employs asset-based transactions, facilitating financing through acquiring, leasing, or selling assets. This Shariah-compliant approach, while mitigating risk, generates distinct jurisprudential challenges. This study examines core concepts: Qard (benevolent loan), Dayn (debt/credit), and Nasi'ah (deferred payment), distinguishing between benevolent loans and commercial credit, thereby highlighting the prohibition of Ribā (interest). It analyzes complex transactions involving fungible goods, particularly gold and silver, clarifying the permissible use of paper currency in deferred payments. Furthermore, the study explores the role of 'Urf (custom) in shaping financial practices and its influence on applying Shariah principles. The research affirms the impermissibility of late payment penalties as Ribā, recommending Shariah-compliant alternatives: renegotiation, asset repossession, guarantees (Kafālah), and pledges (Rahn). By analyzing common practices like gifts, lending, leasing, speculation, and participatory contracts, this study clarifies how Islamic banking manages financial transactions ethically. This research aims to provide scholars, practitioners, and policymakers with valuable insights promoting ethical and equitable financial dealings within the Islamic financial framework, offering a detailed review of these mechanisms' function in daily economic and financial activities. This study contributes to a deeper understanding of Shariah-compliant finance, offering practical guidance for navigating the complexities of modern financial transactions while adhering to Islamic principles.*



**Keywords:** *Islamic Finance, Ribā, Debt, Deferred Payment, Gold Transactions, 'Urf (Custom).*

### **Introduction:**

The concept of debt (Qarḍ) and deferred payments (Nasi'ah) plays a pivotal role in the framework of Islamic finance. Unlike conventional banking systems, which primarily rely on interest-bearing loans and money creation through fractional reserve banking, Islamic finance adheres strictly to the principles outlined in the Qur'an and Hadith. These principles prohibit Ribā (interest) and promote asset-backed, transparent financial dealings rooted in fairness, equity, and the avoidance of exploitation.

Islamic finance structures loans and deferred payments in a way that minimizes risk and aligns with ethical guidelines. Rather than providing direct cash loans, Islamic financial institutions employ mechanisms such as sales, leases, participatory contracts, and other Shariah-compliant instruments to achieve similar objectives while remaining faithful to Islamic teachings. This approach underscores the prohibition of charging or earning interest on loans, making the differentiation between permissible and impermissible financial practices a critical concern in Islamic jurisprudence.

This study, titled "Forms of Debt and Credit in Islamic Finance: A Jurisprudential Perspective," aims to provide a thorough examination of the various forms of debt and deferred payment structures in Islamic finance, exploring their legal rulings, associated challenges, and their application within modern financial systems. The discussion delves into complex issues such as price differentiation between cash and deferred sales, the treatment of fungible versus non-fungible assets, and the permissibility of service charges for transferring money. By analyzing practices such as Hundi (a form of Bill of Exchange or Promissory Note), leasing, and participatory financing models, this research seeks to clarify how Islamic finance balances ethical imperatives with economic realities.

The paper also addresses prevalent issues and misconceptions related to Ribā, emphasizing the distinction between Islamic finance and conventional banking models. By drawing on classical Islamic jurisprudence and integrating it with contemporary practices, this study offers a comprehensive analysis of debt and credit mechanisms, providing insights and solutions for aligning modern financial transactions with Islamic values and legal rulings. This research is intended to guide scholars, practitioners, and policymakers in developing transparent, Shariah-compliant financial practices that prevent exploitation and promote equitable economic growth.

### **Research Question:**

How do Islamic jurisprudential principles govern debt (loans), deferred payments, and asset-based transactions to distinguish permissible financial practices from interest-bearing (Ribā) arrangements, and how can these principles be effectively implemented within the modern Islamic banking framework to ensure ethical, transparent, and Shariah-compliant financial dealings?

### **Research Methodology:**

This study employs a qualitative research methodology rooted in a doctrinal and interpretative approach. Primary data sources include the Qur'an, Hadith, classical Islamic jurisprudence texts, and contemporary fatwas on financial practices. The research involves a comprehensive literature review of historical and modern banking practices, with a focus on analyzing how Islamic finance principles are adapted in today's context.

## **Research Objectives:**

This study aims to examine the jurisprudential principles governing debt (loans) and deferred payment structures within the Islamic finance framework, emphasizing their distinction from conventional banking practices. A key focus is placed on analyzing the permissibility and conditions associated with deferred payments, price differentiation between cash and credit sales, and asset-backed financing, all while adhering to Shariah jurisprudence. The research also explores contemporary applications such as Hundi (Bills of Exchange or Promissory Notes), leasing, and participatory contracts to assess their compliance with Islamic principles.

Another objective is to identify and address prevalent issues and misconceptions related to Ribā (interest) within debt and credit mechanisms, providing clarity on what constitutes permissible versus impermissible financial practices. By integrating classical Islamic jurisprudence with modern financial practices, the study seeks to offer a comprehensive overview of ethical, transparent, and compliant financial dealings rooted in Qur'anic teachings and Prophetic traditions. Additionally, the research proposes frameworks and guidelines that enhance transparency, equity, and adherence to Shariah in financial transactions, providing practical solutions for challenges faced by modern Islamic financial institutions.

## **Differentiating Price, Market Value, and Debt in Islamic Transactions:**

In the realm of trade and sales within Islamic finance, the term "Price" or Thaman signifies the value agreed upon by contracting parties for the exchange of goods, referred to as Mabee (subject matter). This price can differ from the Qeemah or market value, which represents the general market-determined price based on supply and demand factors. When a deferred payment agreement is established, the owed amount becomes Dayn (debt).

To better understand these terms, Thaman reflects a negotiated value between a buyer and seller, which may or may not coincide with the prevailing Qeemah. The market value, or Qeemah, is shaped by broader economic factors and generally accepted norms, whereas Thaman represents the specific terms of an individual transaction, potentially influenced by factors such as quality, quantity, or payment terms. When Thaman is deferred and payable later, it transitions into Dayn—a credit obligation.

Prominent scholars in Islamic jurisprudence emphasize this differentiation to maintain clarity in financial dealings. By distinguishing market value from negotiated prices, Islamic finance ensures adherence to principles of fairness, transparency, and ethical conduct.

This nuanced understanding of price and credit within Islamic finance underscores the system's commitment to equitable and just economic practices, rooted in the ethical guidelines of Shariah law.<sup>1</sup>

## **Differentiating Between Loan (Qard) and Custom Loan (Dayn):**

In Islamic finance, the terms Loan (Qard) and Custom Loan (Dayn) may appear similar but carry distinct jurisprudential nuances. The key difference lies in the nature of the asset and associated conditions. For a Loan (Qard), the asset provided must be fungible—meaning it can be readily replaced with an equivalent item available in the market, such as grains, gold, or similar standardized commodities.

### Understanding Loan (Qard)

A Loan represents a specific transaction where a lender provides an asset with the expectation of receiving an exact equivalent in return. This type of lending is typically rooted in benevolence, without any expectation of interest or additional compensation. The borrower has flexibility in returning the equivalent asset, often without a fixed timeline. For instance, if someone lends a specific quantity of wheat or a sum of money, the borrower is obliged to return the same quantity or an equivalent amount of equal quality. If the asset is damaged or cannot be returned, it may require compensation based on the current market value, which transforms the obligation into a Custom Loan (Dayn) with specified terms.<sup>2</sup>

### The Nature of Custom Loan (Dayn)

A Custom Loan arises in situations involving deferred payments or credit-based transactions, where specific terms and conditions are agreed upon. Unlike a regular Loan, a Custom Loan denotes a contractual obligation with defined repayment terms, often used in market transactions, deferred sales, or any scenario where a financial liability is created.<sup>3</sup>

Prominent scholars have emphasized the critical distinction between Loans and Custom Loans, highlighting their different applications and contractual stipulations. A deferred payment arrangement or an outstanding liability converts a simple Loan into a Custom Loan, subject to precise terms of repayment.

### Key Jurisprudential Differences:

1. Asset Nature:
  - A Loan involves fungible assets that can be precisely replaced with an identical equivalent.
  - A Custom Loan applies to deferred obligations with specified terms of repayment.
2. Contractual Terms:
  - Loans are benevolent and generally do not have a strict repayment timeline.
  - Custom Loans include a contractual agreement specifying duration and repayment terms.
3. Market Value Compensation:
  - If a borrower defaults or the asset is damaged, a Loan may convert to a Custom Loan with repayment obligations based on market value.

**Duration and Repayment According to Islamic Jurisprudence**  
The Quran mandates documenting all deferred debts with clear repayment terms to ensure fairness and transparency:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَى أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكْتُب بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ<sup>4</sup>  
(O you who believe! When you contract a debt for a specified term, write it down.)

This highlights the importance of well-defined terms for Custom Loans, ensuring that all parties adhere to ethical financial practices.

### Illustrative Example

A Loan might involve a lender providing a specific amount of wheat, which the borrower must repay in equivalent quantity. If the wheat is lost or consumed,

compensation may be required based on current market value, turning it into a Custom Loan with specified repayment terms.

In summary, a Loan refers to the benevolent lending of fungible assets without a strict timeline, encouraging social goodwill. On the other hand, a Custom Loan denotes a deferred payment arrangement with specific terms and conditions, emphasizing contractual obligations and accountability. This distinction underscores the Islamic finance system's commitment to ethical financial transactions and protection of the rights of all parties involved.

### **Differentiating Between Loan (Qard) and Deferred Payment (Nasi'ah)**

In Islamic finance, Loan (Qard) and Deferred Payment (Nasi'ah) represent two distinct forms of financial transactions, each with its own specific characteristics and rules. While they may appear similar at a glance, their differences lie in the nature of the transactions, conditions, and objectives.

#### **Key Differences Between Loan (Qard) and Deferred Payment (Nasi'ah)**

1. Transaction Nature:
  - Deferred Payment (Nasi'ah) involves commercial transactions, typically in the context of buying and selling goods on credit. It requires the clear specification of a repayment period and the terms of the transaction.
  - Loan (Qard), on the other hand, is a benevolent act intended to assist the borrower. It does not involve a sale or commercial exchange and typically does not have predefined repayment terms, as it is considered an act of charity or goodwill.
2. Type of Arrangement:
  - Deferred Payment (Nasi'ah) functions as a sale or purchase agreement with a defined repayment period. It inherently involves commerce and trading practices, often facilitated by structured payment terms.
  - Loan (Qard) is akin to borrowing for personal use or lending as a favor without profit motives or structured commercial terms.
3. Terms and Conditions:
  - In Deferred Payment, defining a repayment term is mandatory. If no term is specified, it is generally considered to have a minimum period, often defaulting to one month, unless otherwise agreed upon by the parties.
  - Loan (Qard) does not require the specification of a repayment period, as it operates outside the typical commercial trade context.
4. Underlying Intent:



- Deferred Payment arrangements center on commerce, trade, and exchange, where repayment terms and conditions form a binding aspect of the agreement.
- Loan (Qard) is based on altruistic principles, intending to support and assist without direct benefit or gain from the lending arrangement.<sup>5</sup>

#### Illustrative Example:

Consider a scenario where an individual buys a product but lacks the funds to pay immediately. If a repayment term is specified for the owed amount, such as a fixed due date for installment payments, this is categorized as a Deferred Payment transaction. Conversely, if the same individual borrows funds without specifying repayment terms, it falls under the category of a Loan (Qard).

#### **Clarification on Hadith Regarding Interest on Loans:**

The hadith, "Every loan that brings a benefit is Ribā (interest/usury),"<sup>6</sup> attributed to the Prophet Muhammad (peace be upon him), highlights a fundamental principle in Islamic finance. According to this teaching, any benefit or profit derived by the lender as a result of providing a loan is considered Ribā, or interest, which is prohibited in Islam. Although the chain of transmission (isnad) of this hadith has been deemed weak by some scholars due to the reliability of certain narrators, it holds significant weight because its meaning aligns with established principles found in the Quran and the consensus of Islamic scholars. Prominent scholars, such as Imam Bayhaqi, have emphasized that even weak hadiths may be considered for jurisprudential purposes when their meanings are supported by other evidence or the practices of the companions and early Islamic jurists.

To summarize, Deferred Payment (Nasi'ah) involves the sale and purchase of goods on credit with clearly defined repayment terms, while Loan (Qard) is an act of lending without commercial exchange or defined repayment periods. Islamic teachings and jurisprudence maintain a clear distinction between the two to ensure fairness, transparency, and ethical conduct in financial dealings. The prohibition of deriving benefit from a loan reinforces the importance of avoiding exploitative practices and upholding the principles of benevolence and charity in lending.

#### **Research Analysis on Interest-Related Issues in Loans and Deferred Transactions for Fungible and Non-Fungible Goods:**

In Islamic finance, significant jurisprudential discussions arise concerning lending (Qard) and deferred transactions (Nasi'ah) involving fungible and non-fungible goods. The primary issue revolves around why lending fungible goods such as gold and silver is permissible among the general public but prohibited among jewelers in specific transactional contexts. This apparent contradiction raises questions about the distinction between loans and sales in deferred transactions, particularly for fungible goods.<sup>7</sup>

#### **Distinction Between Fungible and Non-Fungible Goods:**

Fungible Goods are those whose units are interchangeable and do not differ in value or quality. Common examples include grains, gold, and silver. On the other hand, Non-Fungible Goods have unique attributes that make their units non-interchangeable, such as animals, fruits like watermelons, or custom-made products.

The jurisprudential principles concerning fungible goods are derived from the hadith narrated by 'Ubadah ibn al-Samit, wherein the Prophet Muhammad (peace be upon him) said:

*“Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, and salt by salt, like for like and equal for equal, payment being made hand to hand. If these classes differ, then sell as you wish if payment is made hand to hand”*<sup>8</sup>

This hadith establishes the prohibition of any excess or delay (Ribā) in exchanges involving the same type of fungible goods unless the exchange occurs immediately and equally.

### **Loans (Qard) for Fungible Goods:**

In the context of loans, fungible goods can be lent and must be repaid in the same quantity and quality. For example, if a loan of gold is provided, the borrower must return the exact quantity of gold without any increase or decrease, regardless of market value fluctuations. This ensures compliance with Islamic guidelines against Ribā (usury or interest). Any deviation in repayment terms, such as increasing or reducing the value based on market fluctuations, would constitute Ribā, which is strictly prohibited.<sup>9</sup>

### **Deferred Transactions (Nasi'ah) Among Jewelers:**

While lending fungible goods such as gold is permissible, there is a prohibition when it comes to deferred sales (Nasi'ah) among jewelers. This prohibition arises because, in practice, transactions among jewelers often resemble commercial sales involving deferred payments, which may lead to potential Ribā. The distinction lies in the nature of the transaction—what appears to be a simple loan may, in reality, involve sales terms that introduce elements of deferred payment and profit. In such cases, Shariah law treats the transaction as a sale rather than a pure loan, subjecting it to strict rules to prevent interest.<sup>10</sup>

### **Examples and Practical Implications:**

1. **General Public Lending:** An individual may borrow gold as a loan and repay the same amount of gold without any conditions for increase or change, aligning with the principles of Qard.
2. **Jewelers' Transactions:** When jewelers engage in what appears to be lending gold, it is often intertwined with commercial sales and deferred payment terms, resulting in the prohibition under the rules governing deferred transactions.

### **Jurisprudential Clarifications:**

Islamic jurisprudence emphasizes strict adherence to equality and immediacy in exchanges of fungible goods to prevent exploitation or Ribā. The requirement for exact equivalence and immediate exchange is particularly stringent for Ribāwi (interest-prone) items, including gold and silver. Non-fungible goods, on the other hand, can involve deferred payments, but they must adhere to specific conditions, ensuring that any value discrepancies are accounted for through a recognized market valuation rather than arbitrary increases.

The differentiation between loans (Qard) and deferred transactions (Nasi'ah) for fungible and non-fungible goods is rooted in Islamic finance's ethical commitment to fairness, transparency, and the prevention of exploitation. While lending fungible goods is

permissible under strict conditions of equivalence, commercial transactions involving deferred payments and potential profit introduce complexities that must be carefully regulated to prevent Ribā. This distinction underscores the importance of adhering to Shariah principles in all financial dealings, ensuring justice and equity in every transaction.<sup>11</sup>

### **The Consideration of Custom ('Urf) in Lending and Deferred Transactions of Gold and Silver:**

Islamic jurisprudence recognizes the role of custom ('Urf) as a legitimate source and standard for legislative and jurisprudential matters, particularly in non-essential rulings where established customs and practices do not contradict Shariah principles. This flexibility is intended to ease the lives of people, as Allah desires ease and does not intend to burden His servants. The Quran emphasizes the validity of acting in accordance with 'Urf in various matters, as demonstrated by the following verses:

لَا جُنَاحَ عَلَيْكُمْ إِنْ طَلَقْتُمْ النِّسَاءَ مَا لَمْ تَمْسُوهُنَّ أَوْ تَفْرِضُوا لَهُنَّ فَرِيضَةً وَمَتَّعُوهُنَّ عَلَى الْمُوسِعِ قَدَرُهُ وَعَلَى الْمُقْتِرِ قَدَرُهُ مَتَاعًا بِالْمَعْرُوفِ حَقًّا عَلَى الْمُحْسِنِينَ<sup>12</sup>

*(Give them (divorced women) a gift, the rich according to his means and the poor according to his means—a gift of a reasonable amount, a duty upon the doers of good.)*

وَلَا تَأْكُلُوهَا إِسْرَافًا وَبِدَارًا أَنْ يَكْبَرُوا وَمَنْ كَانَ غَنِيًّا فَلْيَسْتَعْفِفْ وَمَنْ كَانَ فَقِيرًا فَلْيَأْكُلْ بِالْمَعْرُوفِ فَإِذَا دَفَعْتُمْ إِلَيْهِمْ أَمْوَالَهُمْ فَأَشْهَدُوا عَلَيْهِمْ وَكَفَى بِاللَّهِ حَسِيبًا<sup>13</sup>

*(And do not consume it excessively and quickly, [anticipating] that they will grow up. And whoever, [when acting as guardian], is self-sufficient should refrain [from taking a fee]; and whoever is poor - let him take according to what is acceptable. Then when you release their property to them, bring witnesses upon them. And sufficient is Allah as Accountant.)*

### **The Role of 'Urf in Islamic Jurisprudence:**

Islamic scholars have recognized 'Urf as a basis for jurisprudential rulings provided it does not contradict established Shariah norms. For instance, classical Islamic jurisprudence texts such as "Radd al-Muhtar" and "Al-Qawa'id al-Fiqhiyyah" state: "What is established by custom is akin to what is stipulated by a textual condition."<sup>14</sup> Shah Waliullah al-Dihlawi in his work "Hujjatullah al-Baligha" emphasized that 'Urf holds legislative significance, elevating it to the status of a source for deriving rulings, provided it aligns with Shariah.<sup>15</sup>

### **Application to Gold and Silver Transactions:**

'Urf plays a role in distinguishing permissible and impermissible practices in the context of lending and deferred transactions involving gold and silver. When ordinary individuals engage in lending gold or silver, it is typically understood as a straightforward, non-commercial loan (Qard) that must be repaid in kind without any additional benefit or delay that might constitute interest (Ribā). However, among jewelers, the context often shifts towards commercial transactions, where deferred payments or exchange of gold and silver can easily involve profit motives or unequal exchanges. This transforms what appears as a loan into a sale or deferred payment transaction subject to stricter rules to prevent Ribā.

The practice of lending gold jewelry or bullion is thus permissible among the general public, provided it adheres to Shariah principles of equivalence and repayment



in kind. However, among professionals, like jewelers, such transactions are treated differently due to their commercial nature, and Shariah prohibits deferred sales involving Ribā under such contexts.

### **'Urf and Practical Applications:**

Islamic jurisprudence underscores that 'Urf can shape and influence rulings as long as it does not contradict clear scriptural directives. For example, community customs that do not contravene Islamic teachings may be incorporated into rulings and practical applications, as highlighted by Imam al-Ghazali, who stated that 'Urf is a practice or norm so widely accepted that it aligns with human nature and sound minds, provided it does not contradict established texts.

In conclusion, 'Urf serves as a flexible yet grounded basis for accommodating community norms and practices within Islamic finance, ensuring relevance and adaptability while maintaining adherence to Shariah principles. This applies equally to gold and silver transactions, allowing for customs to influence practices without compromising essential ethical and legal boundaries.

### **Conditions for the Acceptance of Custom ('Urf) in Islamic Jurisprudence:**

In "Manzoomat al-Qawa'id al-Fiqhiyyah," Sheikh Abdul Rahman al-Sa'di outlines the conditions necessary for a custom ('Urf) to be considered valid in Islamic law. These conditions ensure that the custom is recognized and applied in a manner that aligns with Shariah principles:

1. **The Custom Must Be Widespread and Predominant:**  
The custom must be commonly practiced in society and followed consistently in everyday transactions and dealings. It should reflect a widely accepted norm within the community, influencing their decisions and behavior.
2. **The Custom Must Not Contradict Shariah:**  
The custom must not conflict with established rulings derived from the Quran, authentic Hadith, or other fundamental Islamic texts. Any custom that opposes Shariah principles is invalid and cannot be considered a source of law.
3. **The Custom Must Be Prevalent at the Time of the Transaction:**  
The custom must be active and recognized at the time a transaction is being carried out. If it has been abandoned or replaced by another practice, it no longer holds weight in jurisprudential terms.
4. **The Custom Must Not Be Opposed by a Clear Stipulation:**  
If a specific condition or stipulation contradicts the custom, the stipulation takes precedence. In such cases, the clear contractual or textual condition is prioritized over general custom.<sup>16</sup>

### **Application to Gold, Silver, and Currency Lending and Deferred Transactions:**

Understanding the role of custom ('Urf) helps clarify why lending and deferred transactions involving gold, silver, and currency have different rulings in Islamic finance.

1. **Lending Gold and Silver:**  
Lending gold and silver is permissible under Shariah provided there is no increase or decrease in the quantity during repayment. This aligns with the principle that fungible goods (goods with interchangeable units) must be repaid

in exact equivalence to prevent Ribā (interest). When individuals engage in such transactions, the customary understanding is that repayment must be exact, even if a general promise of repayment period is discussed without binding contractual terms.

2. Deferred Transactions Among Jewelers:

In contrast, jewelers often engage in deferred transactions involving gold and silver as part of commercial sales agreements. Here, the transaction moves beyond simple lending and is treated as a sale on credit, which involves defined terms and a stipulated period for repayment. This type of arrangement falls under Bay' al-Nasi'ah (deferred sales), where any increase or change in terms can lead to Ribā. Therefore, Islamic jurisprudence prohibits such deferred transactions among jewelers due to the potential for profit-making and unequal exchange over time, which constitutes interest.<sup>17</sup>

### **Significance of Custom in Distinguishing Transactions:**

Custom ('Urf) provides clarity in distinguishing between permissible and impermissible practices. For general lending among individuals, the expectation is to repay the exact quantity without increase, aligning with Shariah's prohibition on Ribā. In commercial contexts, such as among jewelers, the custom of deferred sales introduces complexities that are regulated to prevent exploitation and ensure fairness.<sup>18</sup>

In summary, the role of 'Urf in Islamic finance emphasizes the distinction between loans (which must adhere to strict equivalence and repayment conditions) and deferred commercial transactions (subject to stricter rules due to their potential to generate interest). This distinction, rooted in Shariah principles and supported by the conditions for recognizing custom, ensures the integrity of financial dealings and prevents exploitative practices in society.

### **Explanation of Issues in Lending and Deferred Payments of Gold and Silver:**

In Islamic finance, there is a distinct difference between lending (Qarḍ) and deferred payments (Nasi'ah) when it comes to gold and silver. If a buyer purchases goods (Aroos) and does not pay immediately, the deferred payment amount is treated as Nasi'ah (Deferred Payment). In the case of gold and silver transactions (Bay' al-Sarf), if the price is not paid immediately, it becomes a deferred exchange, which poses potential issues of interest (Ribā al-Nasi'ah), prohibited in Islamic law.

### **Lending and Deferred Sale of Gold and Silver:**

1. Interest (Ribā) in Gold Transactions:

When gold is exchanged for gold on a deferred basis, regardless of whether there is an increase or decrease in quantity, it constitutes Ribā (interest). This prohibition is rooted in the principle of Ribā al-Nasi'ah or interest in deferred payments, and it is considered impermissible in Islamic law.

2. Deferred Payments Using Currency:

However, if the transaction involves purchasing gold or silver and paying for it with currency (paper money) on a deferred basis, it is treated differently due to the nature of paper money. Unlike gold or silver, paper money is considered a representation of value (Thaman) and lacks intrinsic value. Thus, it can be used

to structure deferred payments without falling into the same category as a direct gold-for-gold exchange.<sup>19</sup>

### **Jurisprudential Resolution:**

Islamic scholars have addressed the complexities of using paper currency in transactions involving gold and silver. Since paper currency represents a specific value but does not have intrinsic value like gold or silver, it can serve as a medium of exchange for deferred payments, provided certain conditions are met. The price must be fixed at the time of the transaction, and no changes in the amount due are permissible after the agreement. This ensures compliance with the principles of Shariah and prevents potential exploitation or unfair profit-making.<sup>20</sup>

Example:

If an individual wishes to purchase gold but does not have the cash on hand, they can agree to pay a specific amount of currency on a deferred basis. The agreed price becomes a form of debt to be paid at a specified time without any increase or decrease. This differs from a gold-for-gold transaction, which cannot be deferred due to the inherent risk of Ribā.

### **Paper Currency and Its Role:**

Paper money, unlike gold and silver, does not possess intrinsic value. Its value is derived from its purchasing power and the trust placed in it by society. Therefore, when used in transactions involving deferred payments, it is treated as a medium of exchange (Thaman 'Urfi) rather than a commodity. Islamic jurists have ruled that such transactions are permissible provided they do not involve interest or unfair terms.<sup>21</sup>

### **Practical Implications and Summary:**

To summarize, the use of paper currency in deferred payments for gold and silver is permissible within Islamic finance as long as the terms of the transaction are clearly defined and adhered to. The price must be fixed at the time of agreement, and there can be no increase or decrease upon repayment. This ruling ensures that the transaction remains free from Ribā and aligns with Islamic principles of fairness and justice in financial dealings.

Transactions among jewelers involving deferred payments, however, are subject to stricter scrutiny due to their commercial nature and potential for interest-bearing practices. Therefore, distinguishing between lending and commercial deferred sales is essential to maintaining compliance with Shariah.

### **Interest Issues in Hypothetical Purchase of Gold and Silver from a Bank or Commercial Institution:**

The practice of purchasing gold and silver, or jewelry, from a bank or commercial institution in a hypothetical manner and then redeeming it for its market value at a later date raises critical interest-related (Ribā) concerns in Islamic finance. There are two primary scenarios where issues arise, each with its own unique considerations:

#### **Scenario 1: Hypothetical Purchase of Gold/Silver with Currency:**

##### **1. Nature of the Transaction:**

When a buyer hypothetically purchases gold or silver using currency through a bank or commercial institution, the transaction falls under Bay' al-Sarf (currency exchange), which mandates that both the gold/silver and the currency exchanged must be physically transferred (Qabd) during the contract session

- (Majlis al-'Aqd). Deferred transactions where either the currency or the gold/silver is not immediately delivered are impermissible according to Shariah.
2. Requirement for Physical Possession:  
For the transaction to be valid, the buyer must take physical possession of the gold or silver at the time of the sale. In cases where a receipt is issued as a proxy for possession, it must represent an actual transfer of ownership, not just a notional or recorded amount. Any changes to the agreed-upon value or delays in returning the amount, along with imposing financial penalties for such changes, are not permissible under Shariah.
  3. Non-Compliance of Bank Records:  
In many cases, banks or commercial institutions merely record the weight of the gold or silver without transferring physical possession to the buyer. Subsequently, when the buyer redeems their investment at a later date, the amount paid reflects the current market value, potentially with increases or decreases. This arrangement violates the conditions of Bay' al-Sarf, as it lacks immediate possession of both countervalues (Awdain) at the time of the original transaction, rendering it impermissible.<sup>22</sup>

### **Scenario 2: Actual Possession and Subsequent Sale/Redemption:**

1. Immediate Possession Followed by a Sale:  
If a buyer purchases gold or silver and takes actual possession, and then later engages in another transaction with the bank or institution to sell it back for a profit or loss, some scholars argue that such a transaction may not constitute direct interest (Ribā). However, it may fall into the category of a Hiyal (legal ruse) to circumvent the prohibition of Ribā, making it impermissible due to its deceptive nature.
2. Scholarly Consensus on Hiyal:  
Islamic jurisprudence warns against legal stratagems that undermine the objectives and ethical principles of Shariah. As noted, “Hiyal (ruses) that contradict a fundamental Shariah ruling or negate a legitimate Shariah benefit are prohibited.”<sup>23</sup> Therefore, even if there appears to be no explicit interest, the transaction is invalidated by its manipulative nature.

### **Summary and Key Takeaways:**

1. Hypothetical Transactions: Transactions where banks or commercial institutions record a hypothetical purchase of gold or silver without transferring physical possession violate the rules of Bay' al-Sarf and are impermissible.
2. Requirement for Immediate Possession: For a sale of gold and silver to be valid, both parties must immediately exchange possession of the agreed values.
3. Avoidance of Hiyal: Islamic finance prohibits transactions structured as a legal stratagem to bypass the prohibition on interest.<sup>24</sup>

Islamic scholars emphasize the importance of transparency, fairness, and adherence to the conditions of valid sales, particularly with high-value commodities like gold and silver, to ensure compliance with Shariah and prevent exploitation or unethical practices.

## **Condition of Immediate Exchange in Currency Transactions Between Different Countries:**

The summarized view based on "Islam and Modern Economy and Trade" offers a comprehensive understanding of Islamic rulings concerning currency exchanges, especially between different countries:

1. **Nature of Gold, Silver, and Currency:**

Islamic scholars in South Asia and the Arab world hold varying perspectives regarding the status of gold, silver, and modern currency notes. The consensus is that gold and silver remain *Thaman Haqiqi* (true and intrinsic forms of money) and will continue to be so until the end of time. On the other hand, paper currency is considered *Thaman I'tibari* (customary money) with an agreed-upon value, rather than being intrinsically valuable like gold and silver.

2. **Historical Context of Currency Notes:**

In earlier times, currency notes were backed by gold reserves, serving as receipts representing gold holdings. However, this is no longer the case; modern currency notes function as independent forms of money without direct ties to physical gold. They are considered real assets but as *Thaman 'Urfi* (customary money) rather than intrinsic money like gold and silver.

3. **Zakat and Currency:**

The value of modern currency notes is recognized for purposes such as Zakat (obligatory almsgiving in Islam). Transactions involving these notes are not treated under *Bay' al-Sarf* (currency exchange rules for gold and silver), though any exchanges of the same currency within a single country must maintain parity to avoid *Ribā* (interest). For example, exchanging 100 notes for 90 notes of the same currency without any underlying reason or value difference would constitute *Ribā*.

4. **Different Currencies and Exchange Rules:**

Transactions involving the exchange of different countries' currencies are permissible with disparities in value, as each country's currency is treated as *Mukhtalif al-Jins* (different kind) due to differences in their value and purchasing power. For example, exchanging Saudi Riyals for Pakistani Rupees at a market-determined rate is permissible. However, the condition of immediate possession (*Qabd*) of one of the currencies during the transaction must be fulfilled. In modern foreign exchange, this requirement is often met through documented agreements and instant electronic confirmations, which are considered acceptable substitutes for immediate physical possession.<sup>25</sup>

## **Summary of Key Conditions:**

1. **Same-Country Currency Exchange:**

Exchanges within the same currency (e.g., exchanging 100 rupees for 90 rupees) are not permissible if they involve disparity, as this constitutes *Ribā*. The transaction must be equal in value and immediate.

2. **Different Countries' Currency Exchange:**

Exchanging different countries' currencies at varying rates is permissible due to their differing values and market rates. However, one side of the transaction



must be immediately exchanged or documented as per Shariah requirements, ensuring compliance with Islamic financial principles.

3. Immediate Possession Requirement:

When exchanging currencies, immediate possession (Qabd) is a key condition for validity. Modern practices such as documented electronic transactions fulfill this requirement, ensuring compliance with Islamic rules for valid and fair exchanges.

This approach emphasizes the importance of transparency, fairness, and adherence to Islamic guidelines in currency exchanges while accommodating modern economic practices where applicable.

### **No Difference Between Business and Personal Loans with Respect to Interest (Ribā):**

Some individuals attempt to justify the permissibility of interest (Ribā) by misinterpreting the Quranic verse:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ<sup>26</sup>

*(Do not consume usury, doubled and multiplied)*

They argue that the prohibition of interest applies only to personal loans and not to business loans. According to their interpretation, interest on personal loans is forbidden, but taking or giving interest for business purposes is not explicitly prohibited by this verse. Furthermore, they claim that what is prohibited is compound interest (interest on interest), whereas simple interest used for business purposes is merely a profit, not true Ribā.<sup>27</sup>

### **Refutation of This Misinterpretation:**

This interpretation is entirely baseless and finds no support in the Quranic verses or authentic traditions. The Quran unequivocally prohibits Ribā without distinguishing between personal and business loans. The prohibition is absolute, and any attempt to limit or qualify it requires clear evidence from the Quran and Sunnah. However, no such evidence exists.

### **The Comprehensive Nature of the Prohibition:**

1. General Prohibition Without Exception:

The Quran categorically forbids Ribā without any conditions or exceptions. The prohibition applies equally to all forms of interest, regardless of whether the loan is for personal needs or business purposes. Prominent scholars and exegetes from the earliest generations (Salaf) to the present have upheld this view without any distinction.

2. Context of Pre-Islamic Ribā Practices:

In pre-Islamic Arabia, both simple interest and compound interest practices were widespread in personal and business transactions. When Islam prohibited Ribā, it encompassed all forms of interest-based dealings. The historical context supports this understanding, as Ribā was a deeply ingrained practice in both commercial and personal loans during that era.

3. Scholarly Interpretations:

Imam al-Dhahhak, in his commentary on the relevant verses, mentions that the type of Ribā commonly practiced during the Jahiliyyah (pre-Islamic era) involved both personal and commercial transactions. Similarly, Qatadah,

another early Islamic scholar, interpreted the verses as referring to commercial interest. Imam al-Suddi explains that the verse was revealed concerning specific individuals, including Abbas ibn Abdul Muttalib and a man from Banu Mughira, who engaged in interest-based lending. These interpretations emphasize that the prohibition of Ribā is comprehensive and applies equally to all forms of interest-bearing loans.<sup>28</sup>

In conclusion, there is no difference in the prohibition of interest for personal loans and business loans. The Quranic injunctions against Ribā are universal and apply to all interest-based transactions. Attempts to justify interest for business purposes or distinguish between simple and compound interest are baseless and contrary to the clear teachings of the Quran and Sunnah. The prohibition of Ribā is an essential part of Islamic economic principles and aims to establish fairness, justice, and the prevention of exploitation in financial dealings.

### **Clarification of Jurisprudential Doubt Regarding Loans of Modern Machine-Made and Traditional Hand-Woven Fabrics:**

In contemporary times, due to the advancement in textile manufacturing technology, machine-made fabrics can be produced with uniform quality and consistency across different rolls of cloth. As a result, the exchange of these machine-made fabrics, when the type and quality (Sifat and Jins) of the fabric are identical, is treated under the Islamic legal category of 'Addadi Mutataqari'b (quantitative similarity). This means that transactions involving these fabrics, if conducted on a cash basis with an agreed-upon increase or decrease, are permissible according to the relevant jurisprudential principles.

### **Supporting Evidence from Imam Malik's "Muwatta":**

Imam Malik (may Allah have mercy on him) provides guidance in his "Muwatta" on such matters: *"Malik said: It is not valid to make an exchange until there is a clear distinction between what is being exchanged. If the cloths resemble each other, even if they have different names, two cloths cannot be exchanged for one on a deferred basis. For example, exchanging two garments from Harwi for one from Marwi or Kuh for one from Shatwi on a deferred basis is impermissible if they are of the same type. Malik said there is no harm in selling what you have bought to someone other than the one you bought it from, provided you have already paid the purchase price."*<sup>29</sup>

### **Explanation:**

1. Uniform Fabrics and 'Addadi Mutataqari'b:  
If the fabrics have uniform characteristics and belong to the same type (Jins), they are considered 'Addadi Mutataqari'b (similar in count and measure) in Islamic jurisprudence. Thus, exchanging such fabrics with a variance in quantity on a cash basis is permissible, provided there is no deferral involved.
2. Prohibition of Deferred Transactions:  
While it is permissible to have a cash-based exchange with varying quantities, deferred transactions involving these fabrics are not allowed if the fabrics are of the same type, to prevent potential Ribā (interest).
3. Practical Implications:  
This ruling applies to machine-made fabrics that exhibit consistent quality and characteristics. The permissibility of exchanging different quantities on a cash

basis ensures flexibility in trade while adhering to Islamic principles prohibiting Ribā in deferred exchanges.

In summary, as long as the fabrics are of the same type and quality and the transaction is conducted without deferral, the exchange with variance in quantity is permissible according to Islamic jurisprudential principles. This ruling maintains compliance with the guidelines provided by early Islamic scholars, such as Imam Malik, while accommodating modern advancements in fabric production.

### **Clarification of Interest Issues in Varying Deferred and Cash Prices:**

In Islamic jurisprudence, the majority of scholars permit selling an item at a higher price when sold on credit (deferred payment) compared to a cash sale, provided certain conditions are met. This ruling is supported by references from early scholars, such as Ibn Qudamah al-Hanbali in "Al-Mughni":

*"It is narrated from Tawus, al-Hakam, and Hammad that they said: There is no harm in saying, 'I will sell you this for such and such amount if in cash, and for a higher amount if deferred'... Ahmad (ibn Hanbal) also said that in scenarios where different terms and prices are stipulated for a service based on time (e.g., sewing done today versus tomorrow), it is permissible. This could extend to transactions with similar arrangements for deferred sales..."<sup>30</sup>*

Similarly, this view is affirmed in the Hanafī school, as reported in various compilations of fatawa.

### **Key Principles and Conditions for Permissibility:**

1. **Permissibility of Different Pricing for Cash and Credit Sales:**  
The fundamental rule is that offering different prices for cash and credit sales is permissible as long as it is clearly stipulated and agreed upon at the outset of the transaction. For example, a seller may state that the price for immediate cash payment is \$100, whereas the price for deferred payment over a period is \$120. The buyer must be aware of and agree to the terms without ambiguity.
2. **Requirement for Clear Terms:**  
The transaction must not leave room for uncertainty (gharar). Once the terms of payment are established—whether cash or deferred—the agreed-upon price becomes binding. There can be no subsequent changes to the price due to delayed payment or other reasons.
3. **Condition of Different Kind (Ikhtilaf al-Jins):**  
The permissibility of different prices for cash and deferred sales applies when the exchanged items (Awdain) are of different kinds (e.g., a machine for currency) and are not measured by weight or volume in a way that would make the exchange subject to the rules of Ribā al-Nasi'ah (interest in deferred transactions). This ensures that the transaction does not fall under prohibited forms of interest-based exchanges, which occur when like-for-like goods are exchanged with differences in value or quantity.
4. **Prohibition of Interest-Based Transactions:**  
Transactions where a bank or financial institution lends money and subsequently increases the repayment amount as a form of interest are considered Ribā al-Qard (interest on loans) and are strictly prohibited. Similarly, structuring transactions that serve as a legal ruse (hiyal) to disguise interest-bearing loans as sales is impermissible.

### **Practical Example and Permissibility:**

- If a bank sells a machine or non-cash commodity to a buyer on deferred payment terms at a higher price, this is permissible provided the deferred price is agreed upon in advance. The bank cannot increase the amount or impose penalties for late payments.
- Conversely, if a bank lends money directly with a requirement to repay a higher amount, this constitutes Ribā and is prohibited.

The differentiation in prices between cash and deferred payments is permissible under Islamic law when the terms are clear, mutually agreed upon, and involve different kinds of items (e.g., goods for money). However, any transaction that seeks to exploit deferred payments to generate profit from interest or disguises lending arrangements through sales contracts is strictly prohibited to prevent exploitation and ensure compliance with Shariah's ethical and legal principles.

### **Difference Between Cash and Credit Prices is Based on Jurisprudential Principles, Not Mere Semantics:**

Some individuals may dismiss the differentiation in cash and credit prices as mere wordplay, failing to recognize the jurisprudential principles underpinning such transactions. However, Islamic law clearly distinguishes between cash and credit sales, and this differentiation is deeply rooted in the principles of Fiqh and supported by the practices of the Prophet Muhammad (peace be upon him) and his Companions (may Allah be pleased with them). The legitimacy of this distinction is affirmed by classical scholars and remains integral to Islamic economic and legal thought.<sup>31</sup>

### **Jurisprudential Basis for Differentiation:**

1. Cash vs. Deferred Payments in Islamic Jurisprudence:

The distinction between cash and credit sales is not merely a matter of semantics but a reflection of the inherent differences between immediate (cash) and deferred (credit) transactions. In "Al-Bahr al-Raiq", it is stated: *"In the explanation of 'Al-Majma' and in 'Al-Khaniyyah' and 'Al-Tajnis,' it is mentioned that if a person says to another, 'I have sold you this garment for ten dirhams, on the condition that you give me one dirham each day or two dirhams per day until the total of ten is paid over six days'..."*<sup>32</sup>

This example illustrates that credit sales involve a defined agreement and pricing structure based on deferred payments, which is distinctly different from cash sales.

2. Imam al-Kasani's View in "Bada'i al-Sana'i":

The differentiation between cash and credit is explicitly addressed by Imam al-Kasani, who writes: *"There can be no equality between cash and deferred transactions, because cash is inherently better than credit, and immediate payment holds greater value compared to deferred payment."*<sup>33</sup>

This principle emphasizes that the increase in the price of a deferred sale reflects the time value of money in a permissible manner, distinguishing it from interest (Ribā).

3. The Value of Immediate vs. Deferred Transactions:

In cash sales, the buyer receives immediate possession of the item, while in

credit sales, the seller bears the risk and delays receiving payment. This difference in risk and timing justifies the price increase in credit transactions and reflects the economic reality that deferred payment often entails additional costs or risks for the seller.<sup>34</sup>

### **Historical Context and Scholarly Consensus:**

Islamic scholars across various schools of thought have consistently upheld this differentiation based on sound jurisprudential reasoning. The Prophet Muhammad (peace be upon him) and his Companions engaged in transactions that recognized these distinctions, providing a practical example for subsequent generations. The legitimacy of setting different prices for cash and deferred payments was recognized and affirmed by jurists as long as the terms were clearly defined and agreed upon at the time of sale. The difference between cash and credit pricing is not a superficial distinction but a well-established principle in Islamic law, rooted in the economic realities of risk, time, and value. Scholars have recognized the permissibility of such differences as long as they comply with Shariah guidelines, including clarity, mutual agreement, and the absence of Ribā. This understanding underscores the flexibility and depth of Islamic economic principles in addressing practical commercial needs while upholding ethical standards.

### **Interest Issues in Deducting from Loans in the Hundi (Bill of Exchange or Promissory Note) Business:**

The concept of Hundi, which can function as a Bill of Exchange or a Promissory Note depending on the context, historically served as a means of transferring money securely.<sup>35</sup> It involves giving funds to a third party who issues a document or receipt, allowing the recipient to collect funds at a different location. This practice was designed for safe wealth transfer, as detailed by Dr. Abdul Haq in "Mudaraba and Interest-Free Banking." In modern times, banks and institutions use similar mechanisms for facilitating the transfer of funds domestically and internationally. However, the practice, especially regarding loan deductions and service charges, raises important concerns about interest (Ribā) in Islamic finance.<sup>36</sup>

### **Mechanism of Hundi Transactions and Associated Issues:**

1. **Description of Hundi as a Financial Instrument:**  
In modern applications, a buyer may use a Hundi (acting as a Bill of Exchange or Promissory Note) to purchase goods on credit, with an agreement to repay after a specified period (e.g., three months). The buyer issues the Hundi to the seller, who may cash it in advance at a bank.<sup>37</sup> The bank, upon advancing the funds, typically deducts a portion as a service charge or discount for early payment. Since this deduction is contingent on early access to funds, it is considered a form of interest (Ribā).
2. **Islamic Ruling on Early Deduction:**  
When a bank deducts an amount for providing immediate funds against a Hundi (Bill of Exchange or Promissory Note), it effectively charges for the time value of money.<sup>38</sup> This is considered Ribā because it involves compensation based on the timing of payment, which is prohibited in Islamic finance.<sup>39</sup>
3. **Conditions for Permissibility:**  
To comply with Islamic jurisprudence, any reduction or incentive for early payment must be voluntarily initiated by the seller without being a stipulated



condition imposed by the bank or buyer. This voluntary nature ensures Shariah-compliance by avoiding contractual imposition of financial penalties or discounts for time-based considerations.<sup>40</sup>

### **Supporting Evidence from Hadith and Fiqh Literature:**

1. **Hadith of Banu Nadhir:**  
A relevant Hadith concerns the expulsion of Banu Nadhir, where the Prophet Muhammad (peace be upon him) instructed them to "reduce the debt and receive early payment."<sup>41</sup> This demonstrates that voluntary reductions initiated by creditors are permissible when they are not imposed as a contractual obligation.
2. **Classical Jurisprudential Texts:**  
"Al-Mabsut" by Al-Sarakhsi and other classical works emphasize that preconditions or stipulated reductions in return for early payments amount to Ribā, making such practices impermissible. The key distinction is whether the reduction is voluntary or enforced by contract.<sup>42</sup>
3. **Scholarly Consensus:**  
Scholars such as Al-Shafi'i have consistently prohibited Bay' al-Dayn bi al-Dayn (trading one debt for another) and conditioning transactions based on deferred payments. This ensures that transactions do not exploit time-based gains or create unfair financial practices.

### **Key Rulings:**

- The deduction from loan payments against a Hundi (Bill of Exchange or Promissory Note) in exchange for early access to funds constitutes Ribā when conditioned upon timing.
- To render such transactions permissible, any price reduction or incentive must be initiated voluntarily by the seller without being a condition of the contract.
- Islamic finance principles emphasize fairness, transparency, and mutual agreement, avoiding unjustified gains through interest-based practices.

This approach ensures compliance with Shariah law, maintaining ethical and equitable financial dealings while preventing exploitation and promoting trust in financial transactions.

When discussing the transfer of funds using the **Hundi** mechanism, two primary scenarios emerge, each with distinct Islamic jurisprudential rulings.

### **1. Transfer of Funds Between Different Currencies (Cross-Border Transactions):**

- **Nature of the Transaction:**

In cases where funds are transferred between different countries involving two different currencies, the transaction qualifies as an exchange of "different kinds" (In Different Kind) of assets. This type of currency exchange allows for variance in amounts due to fluctuations in exchange rates. The exchange rate for the currencies is typically fixed and documented at the time of the transaction, with the rate communicated to the recipient immediately. As long as there is no change or alteration in the agreed-upon rate once fixed, the delayed receipt of funds does not constitute Ribā (interest) or a prohibited practice.<sup>43</sup>

- **Permissibility of Delay:**

The delay in receiving funds under such arrangements is considered permissible since there is no intention of exploiting the time element for additional gain. The transaction is structured as a Custom Loan (Deferred Payment) without interest implications, provided that recognized and authorized institutions (e.g., licensed foreign exchange entities) facilitate the process. However, using the Hundi mechanism for unofficial or illegal transfers violates legal frameworks and is not permitted in Islam, as it falls under law-breaking, which is explicitly prohibited.<sup>44</sup>

## 2. Transfer of Funds Within the Same Country (Single-Currency Transfers):

- **Nature of the Transaction:**

For transfers involving the same country's currency, no increase or decrease in the transferred amount is permissible, as it would constitute Ribā (interest) under Islamic law. However, charging for services rendered during the transfer, such as service fees, is allowed, as it does not amount to benefiting from the loaned amount itself. This is because the fees are strictly for the service of safely and promptly delivering funds and do not involve any trading or increase in the amount lent or transferred.<sup>45</sup>

- **Justification for Service Charges:**

Unlike loans where interest may be accrued, service charges for transferring money within the same currency are not considered Ribā under the rule "**Every loan that derives a benefit is Ribā**"<sup>46</sup> since the charges are purely for the service of safe and timely delivery. The transferor does not gain from the transferred funds themselves; rather, the charges compensate for logistical and security services rendered during the transfer.

### Key Considerations:

- **Permissibility and Conditions:**

Service charges applied to fund transfers are permissible if they cover actual costs related to logistics, security, and the facilitation of fund transfer, without any interest-based gain. However, it is essential that these fees remain reasonable and not exploitative, so as not to burden individuals unnecessarily or lead to financial institutions hoarding resources or becoming overly dependent on central banks.

- **Avoiding Ribā:**

Any arrangement that exploits the time value of money through increases or decreases based solely on deferred payment terms is strictly prohibited. Therefore, clarity, transparency, and adherence to Islamic principles are paramount to ensure compliance.<sup>47</sup>

By adhering to these principles, fund transfers using mechanisms like Hundi (or similar means) can be conducted within the bounds of Shariah, maintaining fairness and protecting against exploitation or unethical practices in financial dealings.

### Conclusion:

This study has provided a comprehensive jurisprudential analysis of debt and credit within Islamic finance, clarifying key concepts such as Qard, Dayn, and Nasi'ah,

and addressing issues related to Ribā. It highlighted the crucial distinction between benevolent loans (Qard) and commercial credit, emphasizing the prohibition of any form of interest. The research further examined the complexities of transactions involving fungible goods, particularly gold and silver, clarifying the permissibility of using paper currency in deferred payments under specific conditions. The significant role of 'Urf (custom) in shaping financial practices was also explored, demonstrating its influence on the application of Shariah principles. Critically, the study affirmed the impermissibility of late payment penalties as they constitute Ribā, recommending instead alternative solutions such as renegotiation or asset repossession, and the utilization of guarantees (Kafālah) and pledges (Rahn) for securing financial obligations. This research contributes valuable insights for scholars, practitioners, and policymakers, emphasizing the importance of adhering to Shariah principles for ethical and equitable financial dealings within the Islamic financial paradigm. Future research should focus on developing standardized Shariah-compliant contracts and harmonizing interpretations across jurisdictions.

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