BANKS AND THE BORROWERS/INVESTORS:

Three situations can arise here:

i) Consumption loans: Bank will extend interest-free loans for genuine consumption purposes.

ii) Borrowing for Investment: The banks will enter into Mudaarabah and Mushaarakah agreements with the borrowers of the fund for investment purposes. The agreement will specify the proportions according to which profits/loss will be shared between the investor and the bank. After charging the administrative expenses, the bank will distribute the profits among the share holders and depositors according to the terms of agreement.

Q: 27- (i) Does the interest on loans floated by the Government to meet national requirements come under Riba?

(ii) What alternatives can be suggested for the banks in case they grant loans without interest for various requirements?

A: i) Yes the Qur'anic injunctions regarding the prohibition of interest is general. The interest is prohibited both in the public and private sectors and for all types of purposes. Any excess payment made over and above the principal amount is Riba and is thus Haram. For more details see the answer to the question(1).

ii) The Islamic Banks??? will finance viable investment/production projects on the basis of Mushaarakah and / or Mudaarabah. As for the financing of genuine consumption needs on the basis of Qarz-e-Hasana is concerned, the following considerations will have to be kept in view:

a) The amount of loan cannot exceed reasonable limits.

b) Income accruing from the collateral security like land or house will be deducted from the amount of loan.

c) If the debtor is unable to pay back the loan or he dies and there is no known way to repay his loan, then Bait-ul-Mal will make payment of the loan to the Bank.

Contemporary fatawaa