

The Problem of Debt



The 'debt' of world's poorest countries was recently estimated to be \$2.7 trillion. Since 1996, the world's poorest 66 countries have paid a total of more than \$230 billion between them in interest - this amount far exceeds any aid they have received in return, so in reality, poor countries have been making rich countries richer. Indonesia for example had until recently, due to interest payments, paid rich countries US\$138 billion more than the original loan it received from them.

Interest over healthcare

Debt is one of the principal causes of poverty; it has hampered the economic development of indebted countries, and has prevented them from investing in essential services such as healthcare and education. For example, Ecuador spends 47% of its government income on interest payments but only 12% on education, and just 7% on healthcare. The reality is, therefore, that many poor countries are spending more on debt repayments than on providing the most basic needs for their own people.

Endless cycle of debt

Poor countries are often forced into taking out new loans just to pay the old ones; it's like a starving woman taking out a loan to buy something to eat, even though she could never afford to pay that loan back. From an ethical and moral perspective there are, therefore, clear reasons why the unpayable and unjust debts of the world's poorest countries should immediately be cancelled in full by fair and transparent means.

Cancelling these debts would release funds that poor countries could invest in social projects; though of course, debt cancellation must be part of an overall system of reforms that includes the ending of corrupt practices. This would allow millions of children to attend school; the better education standards would also help to thus reducing the incidence and impact of HIV/AIDS, malaria and other infectious diseases. Better healthcare systems created from the money saved would allow those who do become sick to be treated. In short, it would release the poor from the shackles of debt, allow them to stand on their own two feet, and to make something of themselves rather than relying on the charity of others.

Standing firm for justice

The Qur'an commands Muslims to stand firm for justice at all costs:

"You who believe! Be upholders of justice, bearing witness for Allah alone, even against yourselves or your parents and relatives. Whether they are rich or poor, Allah is well able to look after them." (The Qur'an, chapter 4, verse 135)

The importance of justice as a human value is emphasised in the following verse:
"Be just, that is closer to taqwa (piety)". (The Qur'an, chapter 5, verse 8)

Striving for social justice includes the struggle against poverty and inequality. The Prophet Muhammad (peace be upon him) said:

"He who sleeps on a full stomach whilst his neighbour goes hungry is not one of us"

It is through good deeds and praiseworthy initiatives that Muslims can earn the good favour of Allah. The Qur'an says:

"Let there be a community among you who call to the good, and enjoin the right, and forbid the wrong..." (The Qur'an, chapter 3, verse 104)

Hence, Islam stands firmly against inequality, and encourages Muslims to be involved with initiatives that aim to eradicate poverty and challenge the root causes of inequality such as unjust debt repayments and their causes.

Islam advocates wealth sharing

So important is the concept of social justice in Islam that *zakah* is one of the five pillars of Islam. The purpose of *zakah* (almsgivings) is to promote equality by redistributing wealth from the rich to the poor, as well as keeping wealth clear of greed and selfishness. In addition to the compulsory payment of *zakah*, Muslims are encouraged to make voluntary contributions, or *sadaqah*, to help the poor and needy, and for other social welfare purposes.

The payment of *zakah* helps to prevent wealth from being accumulated and circulated only among the rich, while depriving others of the means to earning a livelihood. The Qur'an says in chapter 57, verse 7, that wealth "...belongs to Allah and to the Messenger and to near relatives and orphans and the very poor and travellers..." and later in the same verse, warns that it should not revolve between the rich. This is clearly an injunction towards the redistribution of wealth from the rich to poor through charitable giving.

Islam prohibits interest

The huge debt that currently burdens poor countries has arisen from loans that have not only charged interest, but have not shared risk between the lender and the borrower; thus contravening the two most fundamental principles of Islamic finance. Islam outlaws the charging interest and instead encourages the sharing of financial risk. This avoids the concentrating of wealth in just a few hands, and prevents the poor and needy from being exploited.

The core belief in Islamic finance is that money has no value and should not therefore in itself be an earning asset; charging interest on money is therefore forbidden. There are several passages in the Qur'an which clearly condemn the practice of interest (referred to in Arabic as *riba*):

"Those who practice riba (deal in interest) will not rise from the grave except as someone driven mad by Shaytan's (Satan's) touch..." (The Qur'an, chapter 2, verse 275)

“You who believe! Have taqwa (fear) of Allah and forego any remaining riba (interest) if you are believers are indeed believers. If you do not, know that it means war from Allah and from His Messenger. But if you repent you may have your capital, without wronging and without being wronged.” (The Qur’an, chapter 2, verses 278-279)

Interest considered unjust in Islam

Interest is considered an unjust and exploitative instrument of financing because the lender is assured a return without ever doing any work or sharing in the risk; while the borrower, in spite of their hard work, is not assured of a positive return. In other words, if the borrower succeeds, the bank would get their money back; but if they fail, the bank would still get their money back. The prohibition of interest is therefore a mechanism to establish justice between the lender and borrower.

Islam discourages heavy debt

Islam permits and even encourages assuming debt within affordable limits. If debts are incurred responsibly, then prompt and full repayment is important. The Prophet Muhammad (peace upon him) said:

“The best among you are those best in paying off debt” and “Procrastination (delay) in repaying debts by a wealthy person is injustice.”

However, at the same time it warns against acquiring debt that one does not have the means or intention to repay. Islam discourages heavy debt as much as possible; indeed, it is something that is considered to have a serious and direct effect on a Muslim’s belief or conviction because it can lead to harmful consequences. The Prophet Muhammad (Peace be upon him) also said:

“Whoever dies free from three things – arrogance, cheating, and debt – will enter Paradise.”, and:

“The soul of a believer is held hostage by his debt in his grave until it is paid off.”

Borrowing to fund luxury

It is worth emphasising that incurring debt to fund luxury and extravagance is contrary to the core values of Islam that prohibit excess and waste. The Qur’an has in very strong words condemned and prohibited extravagance and profligacy (extravagant and wasteful spending):

“Children of Adam! Wear fine clothing in every mosque and eat and drink but do not be profligate. He (Allah) does not love the profligate.” (The Qur’an, chapter 7, verse 31) and:

“...do not squander what you have...” (The Qur’an, chapter 17, verse 26)

Islam encourages debt forgiveness

Most importantly, there is clear and unequivocal support in both the Qur’an and Hadith for a policy of debt cancellation towards those who are genuinely unable to meet debt payments. In the first instance, Islam encourages lenders to wait until such time as the loan can be repaid (with no penalties for late payment), or to re-schedule the loan repayments. However, for those unable to repay it favours simply forgiving the remainder of the loan, indeed, this is considered a virtuous action. The Qur’an clearly states:

“If someone is in difficult circumstances (in heavy debt) there should be a deferral until things are easier. But making a free gift of it (writing off the loan as charity) would be better for you if you only knew.” (The Qur’an, chapter 2, verse 280)

Similarly, the Prophet Muhammad (peace be upon him) said:

“If anyone would like Allah to save him from the hardships of the Day of Resurrection, he should give more time to his debtor who is short of money, or remit his debt altogether.”

Conclusion

Islam encourages Muslims to strive for social justice. It is also the duty of Muslims to continuously and fervently work for a more just society, indeed Muslims are urged to advocate on behalf of the poor and marginalised.

The debt that currently burdens many poor countries has arisen through unjust loans that were given irresponsibly by rich countries and frequently misspent by corrupt and dictatorial regimes in poor countries. It is unjust to force their successor governments to repay. Furthermore, the loans that were given contravened many aspects of Islamic financing; they were not given on the basis of risk sharing, they charged interest, and they have burdened poor countries with heavy and unpayable debts.

In addition, for those genuinely unable to meet their debt repayments, Islam encourages the debt to be forgiven. Therefore, there is clear support in Islam for those movements who advocate for justice on behalf of the poor and marginalised and that argue in favour of debt cancellation.