



# Debt and Islam

Islamic Relief International | *Information Paper*

Debt and Islam

**It is well known that debt is one of the root causes of poverty in many poor countries.** Less well known is how Islam, a religion with charitable giving, social rights and justice at its core, deals with the issue. Muslim teachings are rarely utilised in the international discourse on 'unjust' debt and its consequences, yet studying them reveals many ways that the debt crisis could be tackled and ways in which similar problems could be avoided in the future.

#### PHOTO BELOW

Micro-credit group in Famale, Mali. Islamic Relief provided these women with small interest-free loans that they have used to start small income generation activities, such as making traditional handicrafts to sell at market. Islamic Relief carries out micro-credit programmes in many of the countries it works in from Bosnia to Bangladesh, Kosovo to Sudan. Providing interest-free loans ensure people do not end up in a cycle of debt and are able to make a sustainable living.



[www.islamic-relief.com](http://www.islamic-relief.com)



**PHOTO LEFT**

Women from a community cereal bank in Gourma Rharous, northern Mali. Islamic Relief helped to establish the cereal bank by providing the store and grain. In this region there are often severe food shortages and the cost of grain is often far higher than people can afford. This means people often end up in debt trying to buy food to feed their families. Cereal banks provide grain to local people at a much lower cost than local traders, meaning people don't have to borrow money and their families have enough to eat.

**FACT**

Soaring interest rates mean that countries are paying back many times what they originally borrowed. Nigeria, for example, originally borrowed less than \$17 billion, repaid back over \$20 billion, but, in 2005 still owed about \$32 billion.

**PHOTO RIGHT**

Islam prohibits interest and encourages people and organisations to lend money in a responsible manner so that people do not end up in a spiral of indebtedness. Islam therefore has much to say on the issue of international debt and the affect on poor countries.



The debt of the world's poorest countries is estimated to be \$2.7 trillion. However, much of this debt has been termed 'unjust' provided to dictators or oppressive regimes by lenders who knew it would never reach the people or projects for which it was intended. The effect of paying back this 'unjust' debt has been that many indebted countries have failed to make any significant socio-economic developments or have failed to sustain previous development progress. This lack of economic development has also made it difficult for successor governments to pay back what they owe, thereby forcing poor countries into a deepening spiral of debt.

**Question of social justice**

The current situation where poor countries are made to pay millions of pounds in servicing their debts but have no way of providing their citizens with basic services is clearly morally and ethically wrong. Frequently poor countries are spending more on debt repayments than on providing for their citizens' most basic needs. The fact that these unjust debts have not been cancelled in full by fair and transparent methods means that the world's poorest countries are trapped in a cycle of poverty unable to invest in education, child immunisations, HIV

**FACT**

As a result of the high levels of interest charged by lenders, Indonesia has already made overpayments in the region \$151 billion – twice the level of its recorded debt.

Islam supports the equitable distribution of wealth and warns against wealth circulating amongst a few rich individuals.

*'Wealth should not circulate between the rich amongst you.'*

**(Qur'an 59:7)**

prevention and treatment, provision of safe drinking water and the preservation of precious environmental resources.

Yet as well as the moral and ethical arguments, for Muslims there are also strong and clear faith-based reasons for supporting debt cancellation. Firstly, the concept of social justice is paramount in Islam. Muslim teachings advocate for a fair and equitable distribution of wealth, the protection of the weak against economic exploitation and providing the poor with the basic needs for life. Conversely the debt crisis, and the resultant structural adjustment programmes, has forced countries to strip down their social 'safety nets' and prevented them from providing their populations with basic needs such as public health and education systems. For example, Ecuador spends 47 per cent of its government's income on servicing debt and only 12 per cent on education and just 7 per cent on healthcare.



**Speaking out**

Striving for social justice involves the struggle against the twin evils of poverty and inequality, two of the consequences of the international debt crisis. However, it is not sufficient for Muslims to simply support the ideals of equality and poverty eradication. They are also compelled to speak out and to advocate on behalf of the poor and oppressed and to work for the greater good of the community and state. This includes advocating for full debt cancellation.

Speaking out against inequality also means speaking out against the unequal negotiating power that lenders and borrowers have. In debt negotiations, lenders usually join together while borrowers are usually refused this option, leaving them with less bargaining power. This leaves poor countries open to economic exploitation which is contrary to Islamic beliefs.

**Prohibition of interest**

Despite moves to relieve the debt burden, it is estimated that indebted poor countries are still paying back to rich countries around \$118 million every day. This is despite the fact that they have often already made payments that far exceed what they originally borrowed. So why are they still making these massive payments? The answer lies in the interest that they have to service on their debt. This is a massive burden on heavily indebted countries and is preventing many from freeing themselves from their debt burden. But could Islamic thinking provide a solution to the problem?

In Islam, having a monopoly over wealth is forbidden, as it concentrates wealth in the hands of a few, without benefiting wider society. Similarly, and importantly for the debate on debt, in Islam all forms of interest are prohibited. This is because in Islam money in itself may not be used to make money and interest is considered to be destabilising for society. In the case of poor nations who are forced to borrow their way out of poverty, the burden of interest can swell their debt, widening the gap between them and their rich counterparts.

Because interest tends to benefit a few at the expense of the vulnerable, it is considered to be unjust and exploitative. The prohibition of interest is therefore a mechanism to establish justice between lender and borrower. The interest charged on loans provided to poor countries is unjust as they are keeping these countries in a permanent state of indebtedness. So while sub-Saharan Africa received \$540 billion in loans between 1970 and 2002 and paid

*'O ye who believe! Fear Allah, and give up what remains of your demand for interest, if you are indeed believers. If you do not, take notice of war from Allah and his messenger. But if ye turn back, ye shall have your capital sums; deal not unjustly and ye shall not be dealt with unjustly.'*

**(Qur'an 2:278-279)**

back \$550 billion, accumulated interest and penalties meant that in 2002 the continent still 'owed' \$295 billion.

Islamic teaching warns against situations where debt becomes un-payable and where a debtor's circumstances are severely worsened because of a heavy debt burden. This is clearly the situation that has been created when poor countries are struggling to pay back the heavy interest charges imposed on them and when they are unable to progress with socio-economic development.

**Risk sharing**

Islam does not prohibit all commercial business or all loans. Instead it encourages legitimate commerce and trade activities, undertaken on the basis of 'equitable risk sharing.' Equitable risk sharing means that both parties share in the reward, or the failure, of the investment, thereby encouraging more responsible lending practices. However, the 'unjust' loans provided to corrupt leaders and dictatorial regimes were

not given on this basis. Therefore there was no reason for lenders to ensure that the loans were invested wisely and productively, or that the borrowers would be able to pay them back.

In Islam responsible loans – those that are used to finance economic activities or bridge periods of economic hardship – are permitted. However, it is the obligation of the lender to provide loans in a responsible manner and also in a manner that does not overburden the borrower. Yet the 'unjust' loans given to poor countries failed these criteria. They were irresponsible because there was knowledge that they would never benefit those for whom they were intended. And they were over-burdening because the high rates of interest have meant that countries are still heavily indebted.

**Cancel debts**

As well as encouraging responsible lending and the prohibition of interest to prevent serious indebtedness, Islam supports full debt cancellation. If someone is genuinely unable to make a debt payment Islam calls on the lender to wait until such a time as the loan can be repaid, with no penalty for late payment. For those unable to repay the loan, Islamic teaching advocates forgiving the remainder of the loan.

*"If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew"*

**(Qur'an 2:280)**



Registered charity  
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## What next?

It is clear that on the subject of debt, Islam can add religious thinking to the ethical and moral debates. What Islamic thinking supports often mirrors what campaigns such as the Jubilee Debt Campaign are also calling for. **Muslims are therefore encouraged to:**

**Speak up about injustice and inequality:** Islam encourages people to reflect on their individual and global responsibilities in the hope that ethical behaviour will create ethical political and economic systems. The debt crisis has created situations of poverty and injustice, and it is therefore important that Muslims advocate for this to be addressed.

**Support debt cancellation:** many indebted countries are unable to repay the interest on their loans, let alone repay the loan itself. Therefore, Muslims should support full debt cancellation through fair and transparent means in order to relieve poor countries of their debt burden.

**Support the prohibition of interest and promote risk sharing:** An integral aspect of Islamic finance is the prohibition of interest because it is considered unjust and exploitative. The interest charge on loans given to poor countries has clearly had negative effects, keeping countries locked into debt. Therefore, Islamic thinking supports the cancellation of the interest currently owed on loans, and feels that interest that has already been paid should count towards the original loan repayment. In addition, any loans that are provided in the future should be done on the basis of equitable risk-sharing in order to prevent a replication of the current debt crisis.

Islamic Relief is an international relief and development organisation that works to alleviate the poverty and suffering of the world's poorest people. We work in over 25 countries in sub-Saharan Africa, the Middle East, Asia and Eastern Europe, assisting communities to make positive, sustainable change.

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Jubilee Debt Campaign  
[www.jubileedebtcampaign.org.uk](http://www.jubileedebtcampaign.org.uk)



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*Since it was granted debt relief, Burkina Faso has used the money that has freed up to improve education, provide access to safe water and fight AIDS. One success has been reducing the cost of Anti retroviral drugs by between 38 and 96 per cent.*

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