

## Investigating Easy Availability of Debts in the Islamic Banking Market

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**Abstract**

*Debt-oriented of Islamic banking products amounted more than 90 percent of overall Islamic banking products. Although it became a financing facility for consumers and borrowers, but they have been misleading people towards oft-indebtedness and excessive use of debt for satisfaction and the fulfillment of want for luxuries that put them and the economy into destructive circumstances. People and financial institutions are eager to use debts and credits as a primary source of earning and income, rather than utilizing wealth-creating investment products. Therefore, it does not really reveal favourable and splendid impacts on the economy. Various negative impacts and aftermath have been exposed and they show that the involvement of debt-based is not really valued in the economy.*

**Keywords** – Debt-oriented system, promotion, religious incentive, prime source.

## 1. Introduction

Islamic debt-based contracts might have been perceived as contributing to economic growth particularly in emerging economies like South-east Asian and Middle Eastern regions where Islamic financing such as in infrastructure contributes toward economics. Therefore, it is not strange to hear some experts claim that debt-based financing is the backbone of the Islamic financing system. Haque (2006) emphasizes: 'it is expected that these (Islamic debt-based financing products) are likely to serve the varied credit needs of the rural mass, dislodge the money lenders, stabilize prices, improve production and ensure recycling of bank funds'.

Allah has placed upon all believers the limitation, when involved in financial and economic contracts, that these should have no adverse implications for the macro-public interest. The basic tenets of Islamic financing are clearly stated in the Holy Book in chapter al-Baqarah (2), verse 282<sup>1</sup> clarifies the very important matter in particular of debt transactions, by which it strongly recommends putting into writing and not used with arbitrariness. During the time of the establishment of the modern Islamic banking system, more than 90 percent of the overall number of Islamic products were debt-based, although these had been modified from that conventional to make them appear *shariah*-compliant on the advice of *shariah* jurists (BNM, 2008/2009). When Islamic banking products came onto the market, by offering mountain of debt-based products as the conventional, they thus widened and increased the room and magnitude for debt products in financing, compared to those based on equity or partnership. Thus conventional debt-dominant products plus Islamic debt-dominant ones contribute to an excessiveness of debt in the economy. This of course creates a mountain of debt in the whole economy, where cash is only a minuscule portion of the total money in the system, becoming a top-up element of the mainly debt-based financial system. The modern Islamic debt products in some way, and they have, at least partly, contributed to the expansion of money supply, driven by the fractional reserve banking system, and might eventually have a major connection by which it is a hurdle to socio-economic interest. Further by referring to Siddiqi and Khan (Aggarwal and Yousef, 2000) and Khan (1995) opined, the excessive use of debts, credits and loans are unanimously seen amongst Muslim scholars as not fulfilling the purposes of *shariah*; for socio-economic prosperity and sustainability. Hence, there is a pressing needs to examine the critical issue of impediments to socio-economic interest. Based on these grounds, the current study is conducted to address the following research question:

How do the financial institutions expand Islamic debt financing and trap people in oft-indebtedness?

The relevant methodology to the discussion of debt-based financial system from the perspective of the *shariah* law would require the use of the *shariah* principles, mainly of the Quran and *sunnah* (Prophetic traditions), and another Islamic jurisprudence principle namely *maslahah* (public interest). *Maslahah* is a consideration of public interest that would fit the objectives of the Lawgiver, securing benefits and preventing harm; the texts, the Quran and *sunnah* have never mentioned as to its validity or otherwise (Kamali, 2003; Nyazee, 2000). In addition to that, the research also applies and analyzes the views of classical scholars with regards to the concerned issues.

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<sup>1</sup> O you who have believed, when you contract a debt for a specified term, write it down. And let a scribe write [it] between you in justice. Let no scribe refuse to write as Allah has taught him. So let him write and let the one who has the obligation dictate. And let him fear Allah, his Lord, and not leave anything out of it. (Surah al-Baqarah, 2: 282).

## 2. Discussion and Findings

This paper contributes to the existing body of knowledge in terms of narrowing the research gap by examining the easy availability of debt and its dominance in all areas of purposes; both for the sake of worldly reasons and for the religious duties too. The novelty of this study is that it provides a holistic perspective of the critical view from the *shariah* standpoint.

### Easy availability of consumer debt

Islamic banking and financing is a system that provides easy availability of debt facilities to the people with, as claimed, interest-free financing products. Since then the financier is risk-averse, such a lower risk product encourages them to offer more and more this form of transactions, rather than the other, for the sake of production or consumption deals. It is an important facility in order to make sure the demand for goods and services can be met with no lack of resources, and give more convenience to people, since the debt-based financing would enable them to fulfil every single desire that they could wish for and it also provides an alternative to the conventional transactions (Borhan, 2005). As Hassan and Chachi (2007) said:

(...) access to interest-free mortgage finance is a prerequisite to widespread home ownership and car ownership may be increased by the availability of car loans and hire purchase.

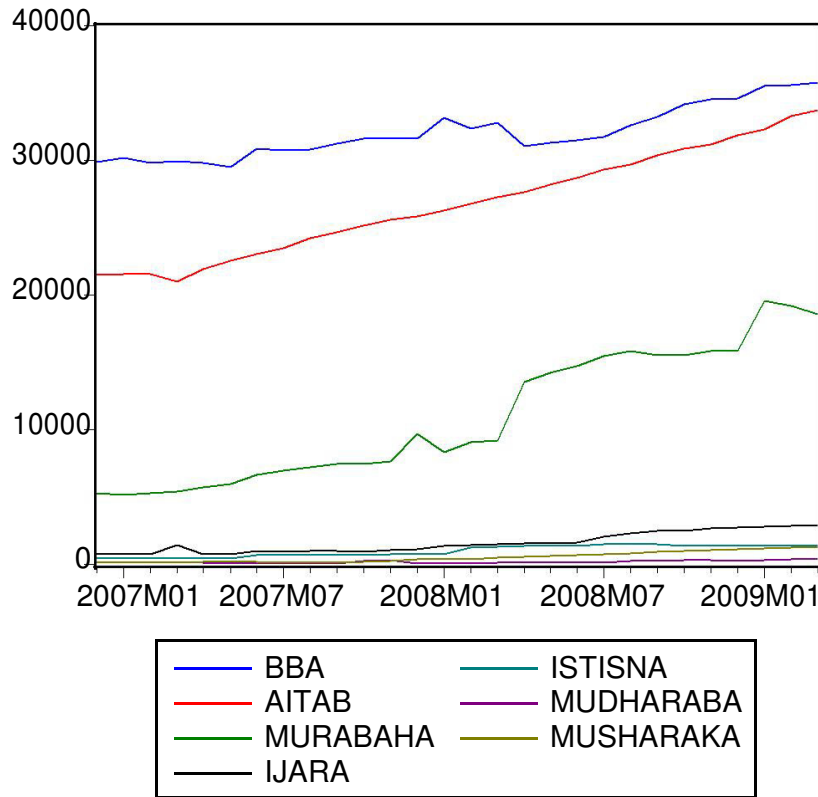
The easy availability of debt would also guarantee a fair and equitable distribution of wealth for all levels of society. People need credit to purchase residential properties, buy groceries, repair the family automobile, retire outstanding debts, purchase luxury items or to enjoy the pleasure of shopping without the need to use cash (Paxford, 2010). They can own properties easily with no centralization of wealth amongst well-off people and indeed those who live in poverty would have greater opportunity to own properties and to accumulate wealth. This form of financing is a step towards poverty elimination, by which the poor will not become poorer as the equitable and just distribution of wealth has been taking place. The Islamic banking system is thus not comparable to its counterpart, the conventional, where the latter has a tendency towards the centralization of bank credit and the market power is controlled by the well-off people (Haque, 2006), as Allah has ordered: 'in order that it may not become a fortune used by the rich among you'.<sup>2</sup> Thus, various means and alternatives have been employed by Islamic banks in order to promote and campaign those Islamic debt-based products.

#### A) Promotion

The products and services that have been offered by Islamic banks make it possible for every single person to apply for debt financing for whatever their desires may be. Islamic debt-based products have dominated other products, especially equity-based ones ever since they first emerged, as in the statistical graph released by the Central Bank of Malaysia (2008/2009) on Islamic debt-equity transactions offered by Islamic banking.

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<sup>2</sup> Surah al-Hashr, 59: 7.



\* in million of Malaysian currency

**Figure 1.0: Debt and equity products in range 2006-2009**

The line graph shows the amount (in millions of Malaysian currency) of Islamic debt and equity products that have been dealt by Islamic banking in Malaysia between December, 2006 and March, 2009. The fact demonstrates that the debt-based financings are obviously dominant; consisting of BBA,<sup>3</sup> AITAB,<sup>4</sup> MURABAHA, IJARA, and ISTISNA` for all of the months shown above. Based on the diagram, it shows that the amount of debt-products kept increasing from December, 2006 until March, 2009, whereas Islamic equity-instruments are nearly unchanged, as their rate of growth appears flat on the graph throughout the selected months.

A study confirms the statistical data of that found by Aggarwal and Yousef (2000) who observed that: 'For BIM (Bank Islam Malaysia only) markup financing has averaged

95.3 percent of new financing over the period 1983-1994 (...) BIM extended on average 9.7 percent of its new financing to manufacturing for the period 1983-1994'. It is further supported by Kuran (1995) and Nienhaus (1994) that the composition of debt-based or markup products offered by Islamic banks in mixed financial sectors, like Malaysia, has been constantly above 90 percent ever since.

It indicates the promotion made by Islamic banks and Islamic banking window in providing Islamic

<sup>3</sup> Bay` Bithaman Ajil or mark-up sale.

<sup>4</sup> Al-Ijara Thumma al-Bay` or leasing contract that ends up with purchasing.

debt products for the sake of people is widespread and perhaps effectively practical. The approval of the product is fast and minimal documents required. The procedure for debt approval is then very simple and basic. Today Islamic bank and Islamic banking window do not require any collateral to stand for guarantee against insolvency, no processing fees and neither is any security deposit. The applicants are only asked to show that they earn more than the minimum required income. The tenure of debt pay-off is, inter alia, very long up to 40 years and by the automatically-computerized salary deduction. If we look at the benefits gained by people, these seem almost fantastic. The banks would give rebate for every single debt transaction, plus earning point for redemption from each debt purchase in the selected retailers and shops (CIMB Islamic, 2010). No collateral, no fees, no deposit, very low monthly income requirements and long tenure plus rebate are, inter alia, giving customers a huge amount of convenience in making the applications and in fulfilling their desires and wishes, as confirmed by Mansor (2004), who said that:

A lot of benefits from using Islamic credit card (Islamic credit), inter alia, no registration fees, exceptional fees in the first year of application, low encashment fees, family Islamic insurance is given free of charge, a sum of RM 1,000 is given as a gift to heirs, and it is accepted all over the world.

Prize draws and gifts also play an important role in making debt products interesting and desire-provoking in customers. Majority of Islamic banks and Islamic banking window do offer such an anniversary bonanza, daily, monthly and grand draws and gifts for those who make the greatest use of debt financing, in amount and number of transactions. For example, Bank Muamalat Malaysia Berhad (2010) runs a campaign that anyone is eligible to be awarded a sumptuous present as soon as he has secured debt financing. Another debt-provoking method is to offer the possibility of winning a package for two to watch 2010 FIFA world cup in South Africa (Bank Islam, 2010). These forms of promotion clearly show that Islamic banks have succeeded in expanding debt financing businesses in particular to the majority of Muslim community.

However, the researcher is of the opinion that this form of system is a 'debt-oriented campaign' run by Islamic banks that encourages people to accumulate an excessive mountain of debts; since it appears that banks are on a lending spree to increase their profits through expanding pile of credit financing by well marketing their financial products (Kim, 2011). As a study done by Masters and Rodriguez-Reyes (2005) shows that, on the one hand, the increase in incentives for retailers to accept credit cards will decrease the amount of cash held by buyers. On the other hand, the researcher would then say that the incentive to offer credit increases in banks (including Islamic banks) today with great opportunities to grab offers, promotion, gift and winnings would reduce the amount of cash and personal income held by customers.

Such an increasing debt statistics shows the easy availability of debt through effective debt promotion. Each consumer has vast array of opportunity to apply for more debt financing for whatever their desires are. Promotions made by that Islamic bank are eagerly attractive and alluring; and such promotions then encourage people to apply for more debt with very minimum condition and loose eligibility criteria. A familiar promotion found in any banking system, Islamic as well as conventional, is '...whatever the reason, we can help you get the money you need quickly and without hassle' and no collateral, no fees, no deposit, very low monthly income and long tenure plus rebate (CIMB Islamic, 2010) are, inter alia, not then actually giving a huge amount of convenience to borrowers' living status, but leading them to have more debt and off-indebtedness, as they are keen on taking on more debts and seduced by that debt promotions offered, as

confirmed by Abichara (2009):

Indeed, we have a culture of debt in this country, and much of it starts at the top. A lot of people do not realize that even the dollar is a debt-based currency. There is nothing backing up the dollar, not gold or any other commodity. The only thing backing up the dollar is a promise to pay back the US Treasury at a later date. So whenever you see those printing presses churning out dollars at Federal Reserve (central bank), they are actually creating more debt for the country.

This statement made by an economic observer speaks the truth of banking system creating debt as is perfectly similar what is happening nowadays in Malaysia, where Islamic banking system is in place. Insofar as Islamic banking does create and encourage people to borrow by promoting and marketing more debt-based products. Accordingly, it is parallel to that which has been claimed by Skousen and Skousen (1997):

One of the biggest causes of this predicament has been the easy availability of credit, strongly encouraged by legislators. At one time, cynical shopkeepers reworded our national motto to read, 'In God we trust, all others pay cash'. Now, however, the entire motto seems to be changing to 'buy now, pay later'.

On the one hand, Islam has indeed admired people who are offering help and debt assistance. There is no oppression and mercilessness in Islam regarding debt and paying it off. Perhaps, that Islamic debt financing provided by Islamic banks complies with what has been proclaimed in Qur'an and the following hadith:

If the debtor is in a 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.<sup>5</sup>

Helping those in need by giving debts and loans is then encouraged as in a hadith narrated by Anas bin Malik that Rasulullah (peace be upon him) said:

While traveling in upper realms, I saw the following written on the doors of heaven (*Janna*): by giving charity, a person receives tenfold reward and the reward for giving a loan is eighteen times. I asked Gabriel (*Jibril* – peace be upon him) why the lender was given more virtue than the one who gave charity. Gabriel (peace be upon him) replied that a beggar begs when he has something by him while the person asking for loan, only asks when he is in dire need (Ibn Majah, 1994).

The reward of giving charity and loan or debt shows the different level of these two. The reward of eighteen times is because the person who takes a loan generally does so when he is in dire need, and the lender is actually has fulfilled a need of a borrower and at the same time eliminating his ongoing distress, without hoping any worldly reward unless one considers the mercy of the Almighty God. Whereas the only ten times reward of giving charity is since the recipient is normally not in need (Rangooni, 2006); but keeps begging, even though he has already had something in hand. This virtue and encouragement are concerning to those who are in dire need. It is important because the loan or debt received due to upgrading the individual and the social economy.

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<sup>5</sup> Surah al-Baqarah, 2: 280.

On the other hand, a person who requests a debt, loan or borrowing in order to fulfill all his satisfaction of wants and desire for luxuries, is acting in a way truly contrary to the meaning and rewards of that hadith however. His spending is not inherently to attain the individual and social *maslahah*, rather more to fulfilling his luxury and want desires, which may potentially lead to a downgrading the level of economy at large. Furthermore, those who are providing and promoting the easy availability of debt for the sake of a hope for return and of doing business on the luxury financing are not included in the said hadith since debt, specifically loan, is a benevolent activity where the excessive use does not guarantee the stability of socio-economy. Moreover Islam does not recognize any individual or institution do encourage people by debt promotion to be involved in debt and lead them to social destruction.

Although the ‘eighteen times rewards’ hadith is specifically on a form of debts from ‘non counter-value debt (*dayn laysa fihi mu`awada*)’, but it might also involve the use of debt from ‘counter-value debt (*dayn fihi mu`awada*)’. This is because, as far as the researcher is concerned, the benevolent loan product is too limited and is not attractive to Islamic financial providers. However, because of eagerness of financiers to provide profit-based contracts by whatever means of financing (Schooley & Worden, 2010), the providers are happy to provide the latter, ‘counter-value debt’, since they are allowed to charge cost-plus or mark-up as profits. Practically, Islamic financial providers have thus transformed ‘non counter-value debt’ into ‘counter-value debt’ with the same purpose; that is for liquidity or cash. On the other hand, when people do not find easily available loan (non-counter-value debt) in market, they would then approach debt or credit providers that offer buy-back sale or organized *tawarruq* to obtain liquidity or cash (Al-Qusoyyir, 2005). In brief, the purpose of loan that is originally for only benevolent practices, has then been used for commercial practices by reforming the contract from ‘non counter-value debt’ to ‘counter-value debt’, with the same objective; merely for the sake of profiting. This similarity of objective of financing practices between these two systems is confirmed by Rosly (1999) as saying: ‘conventional banks are allowed to make loans and attract deposits on the basis of interest receipt and payments while Islamic banks can do the same but only through the application of trade and commercial contracts’. In the *shariah* point of view then, purchaser and seller are now considered as a borrower and a lender.

Hence, it shows that Islamic debt products do not conform to the rules revealed in the textual studies from the abovementioned Qur’an and hadith; but should it still be claimed that Islamic banks are on-track with what is delivered in the text of the said hadith, the researcher favours saying that Islamic bank is actually trading debts for the sake of profiting and that this profiteering objective is not truly in keeping with the requirement of the hadith. Let us say, if the debtor defaults or he is in difficulty to repay, would Islamic bank give the debts made as charity, as pronounced in that Qur’anic text ‘If the debtor is in a 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’? Of course not, in contrast the debtor will then be penalized with other extra charges. Hence, it clearly shows that Islamic bank is not on-track with the pronouncement of the hadith and even the Qur’an, contrariwise their objective is merely to profit by trading debts through the process of good-looking marketing and tempting promotion.

### **B) Incentive for religious duty**

Some Islamic banks are offering instant-debt-access-to-cash facility in Saudi Arabia during pilgrimage of *hajj* and *umrah*. A credit card offered by, inter alia, Al-Rajhi Bank (2010) is perhaps a form of leading people to apply for easy credit when they are performing a tenet of the principles of Islam, *hajj* and *umrah*,

and a package awarded to perform religious pilgrimages (*hajj* and *`umrah*) when spending with visa and master credit card is also a form of religious promotion to entice people to do deals with them (Bank Islam, 2010).

Although some Islamic banks are offering instant debt access to cash or credit-sale transactions in Saudi Arabia during pilgrimage of *hajj* and *`umrah* due to a desire to make it easier for pilgrims to access more spending, but it is a form of leading people to apply for more credits when they are performing a tenet of the principles of Islam, *hajj* and *`umrah*. It is against the principle of Islam, where Allah the Almighty has imposed the requirement to be free from any liability or obligation to other people before fulfilling *hajj*. Let us say if he falls sick and dies there and, prior to his death, he has made multiple credit transactions using the debt facilities offered. It is crucial to take into consideration the possibility of that death tolls during *hajj* and fasting months that could be very high, since the population even in a small town, for instance, Mecca could reach three to four million of people in one time. The situation and conditions in the area are really crowded. Hence, even though he has properly fulfilled all pilgrimage (*hajj*) stages and rules with no sin having been committing, but his deeds are still suspended before the Almighty God until his debts have then been paid off. As reported that, for instance, Ibn al-Haj's teacher, known as Ibn Abi Jamrah prohibited his students from performing *hajj* with the expenses covered by loan, since they did not know whether or not they would be able to fulfill the loan (Al-'Abdari, 1981). Allah emphasizes:

Pilgrimage thereto is a duty men owe to Allah, those who can afford the journey.<sup>6</sup>

Muslim jurists have unanimously agreed that pilgrimage to Mecca (*hajj*) is obligatory deed upon anyone unless he is not able to perform it. *Hajj* is not obligatory on a person who is in debt. Indebtedness indeed shows that the person is unable in terms of financial matter and cannot afford the journey, though he might not have other constraints to disqualify him from performing *hajj*. Before going to *hajj*, he should relieve himself of obligations to others, his trust and debts. If he is still indebted, he is considered unable to afford the trip for *hajj*, as he is considered under obligation of debts to his creditors (Islam Online, 2009). Hence, applying for debts or loans during the performance of *hajj* in Mecca is a much discouraged exercise. According to Uthaymeen (2009), he confirms that a person being indebted does not know whether he will be able to pay off the debt or not. Perhaps he will die without having time to make the payment. In brief, debt facilities promoted by Islamic banks do actually encourage people to be ever-indebted, even in the case of performing religious duties.

### C) Prime source for business

Nevertheless, the modern Islamic financial system that is based on debt, as advocated by Fadillah Mansor, Saiful Azhar Rosly, Joni Tamkin Borhan and amongst others, most probably has a basis in classical Muslim scholars' opinion. Meaning to say, the Islamic debt-based financing product offered by Islamic banks looks like favourable by some Muslim scholars to become the main profitable source of businesses, as in a report from Imam al-Sarakhsi (1978), an eminent Hanafi jurist indicating that the debt-based product is a main source of investment and gaining for profit as observed:

Debt-based sale is an absolute feature of trade. We believe that sale contract based upon credit is part of transaction practiced by sellers, traders and merchants; which is the most favourable means for completing the investor's objectives, namely profit.

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<sup>6</sup> Surah Ali Imran, 3: 97.



This might show the legal treatment of the important form of commercial activity in markets, credit or debt. Credits might be considered to be almost indispensable to successful and profitable trading as Ahmad and Hassan (2006), by extension, explaining that the Islamic law of contract permits commercial activities in the form of credit, as it constitutes the Qur`anic principle ‘trading by mutual good-will’.<sup>7</sup> Allah permits all types of commercial activities except for those activities that are clearly prohibited in the Islamic law of contract. However, according to Udovitch (1967 & 1970), he observes that the al-Sarakhsi’s statement made clear the advantage of Islamic credit over the traditional credit based on usury, by which the traditional credit triggers the exploitation against borrowers, as Udovitch (1967 & 1970) then clearly states ‘the difference in price between a credit and cash sale also helps explain why the prohibition against usury’.

On the other hand, perhaps there might be a claim saying that the current debt-based business by Islamic bank is proportionate to what has been suggested by al-Sarakhsi, not only against traditional interest-based debt but also to gain profits as he pronounced ‘the most favourable means for completing the investor’s objectives, namely gaining profit’.

But the researcher would say that the claim might be evidence-less since the al-

Sarakhsi’s view is solely focusing on a real seller or trader in a market who takes real effort and risk by purchasing and possessing goods in order to resell them to end or absolute users. The goods then reach the end users by them having absolute possession of those goods. Meaning to say, the sale and purchase are real instead of fictitious. And this form of transaction is what was spelled out by al-Sarakhsi. But, the Islamic bank from which mark-up debt-based financing provided seems to keep gaining profits out of thin air, with almost no effort and almost risk-free businesses; opposed to the Islamic decree that all earnings must be underlain by work effort (Presley & Sessions, 1994). This is because most of the underlying contracts that they use in offering debt-product financing are buy-back sale and organized *tawarruq* contracts. As for these two contracts, it has been clearly shown that the transactions made are not real but simply fictitious, since the parties’ intention is not to be the end seller and the end user, but rather to gain liquidity by which it seems to be committing money now against money later. Insofar as the former business takes real effort and risk to gain profits, unlike the latter by making debt a trade through ‘simultaneous transactions’ to gain profits. In addition to that, according to Hanafite school of thought, buy-back sale is not allowed to be practiced, hence the modern Islamic banking might have no basis to claim that their financing business tallies with Hanafite legal opinions therefrom. On the other hand, by making debt a trade might not really promote economic growth and should be avoided and constrained, as observed by Siddiqi and Khan, since such a debt, in particular mark-up financing may stunt economic growth by restricting people from investing in new productive projects, besides most of the time it might unveil a ‘back-door’ to *riba* (Aggarwal & Yousef, 2000).

By extension, although al-Sarakhsi’s point of view looks like giving a preferable room for credit in commercial activities, but the most popular opinion (*masyhur*) in the Hanafite school of thought is a credit partnership (Udovitch, 1967), as al-Sarakhsi (1978) comments:

Verily, the credit partnership is also known as the partnership of cashless (*sharikah al-mafalis*).

This contract involves partners from two parties having no capital with them, doing some credit

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<sup>7</sup> Surah al-Nisa’, 4: 29.

purchases of commodities in order to sell in the market.

The importance of credit for investment or partnership suggested by al-Sarakhsi has then been emphasized by al-Kasani (1997) as the grounds of usage, of legal principle and by virtue of the general economic function of partnership, as he comments:

We maintain that cash partnership was ruled permissible for the sake of supplementary capital or the partners are to expand the capital holding; however in terms of work and credit partnership, they were considered impermissible to facilitate capital holding expansion, but simply to create the (initial) capital itself. The need to create the (initial) capital itself has priority over the need to expand the capital holding.

These two eminent jurists from Hanafite school of thought seem to suggest credit preference to create the initial capital but not for capital expansion or augmentation, and their concern is then actually grounded more on business and investment for creating value and wealth, though being financed by debts. Debt or credit is a means of investment financing, but does not become an objective entity. Another eminent Hanafi jurist, al-Shaybani, confirms that investment is of the foremost importance in commercial activities in which the parties or partners have the option to take on any alternative financing, either as cash or credit. Hence, it reflects that the means of financing is not the paramount objective as saying:

They have been partners in all things, making acquisitions and having expertise in that joint partnership. They might sell and buy for cash or credit; every single partner might carry out all these matters based on judgment (Al-Sarakhsi, 1978).

Contrariwise, the researcher would perceive that today's Islamic bank is massively investing and trading debt as a prime sector to gain profit but not investing in the real productive investment that creates values in the market. Meaning to say, there is huge dichotomy between doing debt business and doing business financed by debt.<sup>8</sup> From the Islamic perspective, the researcher is of the opinion that the Islamic banking system is in Prophetic-norm-contravention promoting (*mukhalafa sunna*); because the Prophet (peace and prayer be upon him) promotes his people to be more involved in real investment and to make it a prime source of earning. Even he himself was a successful trader and shepherd during that time, but Islamic banking makes debt as a prime business by encouraging people to get involved more in debts and stand away from investments. The Prophet (peace be upon him) had never seen debt is a primary source of profit, as in his hadith clearly stating that debt is only for those who are in dire need.<sup>9</sup> According to al-Tabi'i, Nu'im bin Abdul Rahman al-Azdi says:

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<sup>8</sup> Doing 'debt business' means that Islamic banks stay static and do nothing. As soon as a customer has approached them and asked for financing, the Islamic bank would immediately purchase an asset from a manufacturer and resell it simultaneously to the customer. This situation seems almost effort and risk free.

Whereas, doing 'business with debt' means that the real seller does not stay static, even though no customer has ever approached him. The real seller would purchase an asset at first by making the effort and taking the risk, before reselling it to the customer by debt instalments, and this is what has been claimed by al-Sarakhsi. According to Muddassir Siddiqui (Head of Islamic Finance Middle East, SNR Denton), the current Islamic banking products, such as *Murabaha* and *BBA* are superficial, synthetic and not genuine, since during the time of the Prophet those products, in particular *Murabaha*, were in cash and not based on a form of debts. For instance, party-A owns a camel, purchased at market price RM 2,000. Another person, party-B, offers him RM 3,000 payable in cash after party-A has told party-B that he has purchased it at RM 2,000, and this would then profit party-A by RM 1,000. (Muddassir Siddiqui, 2011).

<sup>9</sup> Hadith that Gabriel responded eighteen-time rewards for lending and ten times for charity.

Take to trade and commerce, because nine-tenth of the source of earnings is in trade and commerce (Al-Ghazali, 2008).

And narrated by Abu Hurayra, that the Prophet (peace be upon him) said:

All the Prophets (peace be upon them) raised up by God have shepherded sheep. And did you do the same, asked the Companions. The Prophet (peace be upon him) then replied: Yes, I used to shepherd the sheep of the people of Mecca for some Qirats (Al-Bukhari, 1987).

It does mean 90 percent out of overall returns is from trading, commerce and investment but not from debt business. Today it is vice versa, that more than 90 percent's is from debt. And why we are bothering with the 10 percent, whereas there is a wider room for gaining the returns. Even the Prophet (peace be upon him) was a successful shepherd as well as the other Prophets before him, as Qur'an pronounces: 'Ye have indeed in the Messenger of Allah an excellent exemplar'.<sup>10</sup> It shows productive investment is very important as all Prophets (peace be upon them) did some investment examples by producing real products that eventually created value in the market, as opposed to trading debt. All in all, productive trading and commercial investments are a means of seeking 'the bounty of the God and Sustainer'. Anyone who seeks to earn some income through productive trade, real business and commercial investment, rather than through debts, then he is realizing a state of devotion to the Almighty God, as well as following the model of the Prophet (peace be upon him), and Allah will always be with partners in businesses, so long as they are on-track with the Islamic law of contract.<sup>11</sup>

### 3. Conclusion

The prohibition of interest in Islam is because of its exploitation in the market itself, as then Islam has formulated interest-free financing system towards a real productive sector in pursuing the economic growth for all groups of people. However, the modern of Islamic debt-based products today have sabotaged this unique feature of Islamic finance by introducing debt-oriented financing in the system, although they are so-called asset-based products. The introduction of such a form of financing looks likely to provide a virus destroying the socio-economic system by misleading people towards oft-indebtedness and excessive use of debt for satisfaction and the fulfillment of want for luxuries. Islamic banks are just adapting what has been used by conventional and at the end, all debt-obligations are now saleable products.

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<sup>10</sup> Surah al-Ahzab, 33: 21.

<sup>1011</sup> Hadith qudsi: 'Allah says: When two persons run a business jointly, I am the third of them, i.e. My Blessings are with them as long as any of them does not cheat his partner or breach the trust. When a partner defrauds and commits breach of faith, I part company with them (and withhold My blessings). (Al-Hakim, 1990; Al-Bayhaqi, 1994).

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