



TIME VALUE OF MONEY IN ISLAMIC LAW OF
TRANSACTIONS: A BRIEF COMPARISON
WITH CONVENTIONAL PRACTICES

BY

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ABSTRACT

Time value of money is the backbone of the conventional economics. It is considered as a subject matter of sale in the conventional system of economics. However, the view of Islamic economics seems to be different. Although, time value of money has been accepted in several cases of Islamic law of transactions as an essential factor of trade and business, it is completely ignored in some other cases. This duality of consideration makes it difficult to figure out the Islamic perception of time value of money. This study has attempted to clarify the ambiguity that exists in the consideration or the view of Islamic economics pertaining time value of money for finding a better understanding of this problem. The methodology used by the researcher is mainly an analytical study of the relevant literature of the topic. In this regard a survey of the old Islamic resources has been made. The researcher has purported to analyse and examine the Islamic literature concerning this issue and collect all relevant Islamic transactions in one compilation to unveil the vagueness associated with this matter and build a complete theory regarding it. The study of this subject has shown that time value of money is much interrelated with the prohibition of *ribā* and interest in Islamic law of transactions. That is why the approach of time value of money in *al-Sharī'ah* varies from one transaction to another such as, loan and sale. For example, Islamic law accepts the time value of money in sale and rejects it in loan. The permission of the increase of price in deferred payment sale and the reduction of price in forward sale (*al-salam*) deemed to be a sign for the application and acceptance of time value of money, whereas, the prohibition of interest in loans and debts gives an opposite impression about the acceptance of time value of money in Islamic law. This finding has been supported by many quotations from the eminent Muslim scholars. The duality of consideration of time value of money in Islamic law has its root in the prohibition of *ribā* in *al-Sharī'ah*. In this context, Islam allows profit in sales and prohibits interest in loans and debts. For the same reason, the application of time value of money in *bay'-'inah* and *tawarruq* has been disputed by some scholars as they considered these transactions as same as loan while the scholars who considered these contracts as valid sales accepted the application of time value of money in them. It is also noticed that Islamic law emphasises the importance of time value of money in certain sanctions such as the prohibition of default of payment and the prohibition of *ribā-al-nasā*. Based on the findings of this study it is recommended for the players in Islamic finance to avoid the application of controversial contracts such as *bay'-'inah* and *tawarruq* or any other structure related to *ribā*. The application of time value of money also should not reach the stage of exploitation of poor and needy when dealing with them in BBA or *al-salam*.

ملخص البحث

تعد فكرة التقييم النقدي للوقت أساسا للتبادلات التجارية المعاصرة في النظام الاقتصادي الربوي. كما يعتبر الوقت محلا للعقد في هذا النظام. وعلي العكس من ذلك تبدو النظرة الإسلامية مغايرة لهذا الاتجاه. فرغم وجود قبول ما لفكرة التقييم النقدي للوقت في بعض عقود البيع الإسلامية من خلال اعتبارها عنصرا من عناصر تحديد الثمن فإن التجاهل التام هو حظها عندما يتعلق الأمر بعقود أخرى. هذه الازدواجية في المعايير جعلت من الصعب علي الدارس العادي لهذه القضية أن يتبين وجه الصواب فيها. لذلك يأتي هذا البحث محاولا إزاحة الستار عن موقف الفقه الاسلامي من هذه القضية. ولقد استخدم الباحث في هذا المضمار منهجا استقرائيا وتحليليا للمادة العلمية المتوفرة. وفي هذا الإطار تم فحص الكثير من المصادر الإسلامية القديمة المتعلقة بالموضوع. ولقد سعى الباحث من خلال هذه الدراسة لتحليل وفحص المادة العلمية الإسلامية المتعلقة بهذا القضية وتجميع العقود الإسلامية المتعلقة بها في سلة واحدة لإزالة الضبابية عن هذا الموضوع وبناء نظرية إسلامية متكاملة عنه. ولقد كشف البحث عن علاقة وثيقة بين موقف الفقه الإسلامي من فكرة التقييم النقدي للوقت وبين تحريمه للربا والفائدة. ويعتبر ذلك هو السبب الحقيقي لإختلاف نظرة الشريعة الإسلامية للقيمة النقدية للوقت من عقد لآخر. فعلي سبيل المثال نجد القانون المالي الإسلامي يقبل فكرة التقييم النقدي للوقت في البيع ويرفضها في القرض. فإباحة البيع بثمن آجل مع زيادة ثمن السلعة مقابل الأجل وكذلك إباحة السلم مع نقص قيمة السلعة مقابل تقديم ثمنها يعتبر شكلا من التطبيق العملي والقبول المبدئي لهذه الفكرة في عقد البيع، بينما يعطي تحريم الإسلام البات لأي فائدة في القرض علي رأس المال أو في الديون مقابل التأخير انطبعا مغايرا. هذه النتيجة التي توصل اليها الباحث قد دعمت أيضا بكثير من الاستشهادات المنقولة من ألفاظ جهابذة فقهاء الإسلام القدماء. هذه الازدواجية التي تبدو لمن يدرس نظرة الإسلام للقيمة النقدية للوقت تجذورها في تحريم الشريعة الإسلامية للربا بكل أشكاله. ومن هنا فإن الإسلام أباح الربح في البيوع في حين حرم الفائدة في القروض والديون لأن القروض مبنية علي المكارمة بينما البيع بيني علي المشاحة. و للسبب نفسه اختلف الفقهاء في قبول فكرة التقييم النقدي للوقت في عقدي العينة والتورق، فبينما رأي البعض أن هذه البيوع مجرد حيلة لأخذ فائدة علي القرض وحرمها، رأي البعض استكمالها للشروط الظاهرة لعقد البيع الصحيح وأباح إعتبار قيمة الوقت النقدية فيهما. كما يلاحظ من جانب آخر أن الإسلام اعتبر القيمة النقدية للزمن من خلال بعض الأحكام المالية الأخرى مثل تحريم المماطلة في الحقوق وكذلك تحريم ربا النساء.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Comparative Laws.

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DECLARATION

I here declare that this dissertation is the results of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for my other degree at other institutions.

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TO MY BELOVED FAMILY
AND ALL OF MY BROTHERS IN THE MAURITANIAN SOCIETY IN
MALAYSIA

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TABLE OF CONTENTS

abstract	ii
abstract in arabic	III
approval page	IV
Declaration Page	V
copyright page.....	ERROR! BOOKMARK NOT DEFINED.
dedication	ERROR! BOOKMARK NOT DEFINED.
acknowledgements	VIII
table of contents	IX
list of cases	XI
CHAPTER 1: BACKGROUND TO THE STUDY	1
1.1 Introduction	1
1.2 The Objectives of the Study	6
1.3 Statement of Problem	7
1.4 Hypothesis	7
1.5 Literature Review	8
1.6 Methodology	16
1.7 Limitations of the Study	17
1.8 Structure of the Study	17
CHAPTER 2: CONCEPT OF TIME VALUE OF MONEY IN <i>SHARĪ'AH</i>	18
2.1 Introduction	18
2.2 Prohibition of <i>Ribā</i>	19
2.2.1 Prohibition of <i>Ribā</i> in the <i>Qur'ān</i>	19
2.2.2 Prohibition of <i>Ribā</i> in <i>Al-Sunnah</i>	23
2.2.3 <i>Illāh</i> (Ratio Decendi) of <i>Ribawī</i> Items in Islamic Schools	28
2.2.4 The Reasons Behind the Prohibition of <i>Ribā</i>	29
2.2.5 Comparison Between <i>Ribā</i> and Trade	32
2.3 The Monetary Valuation of Time in Credit Transactions	34
2.3.1 The Monetary Valuation of Time in Sale Transaction	36
2.3.2 The Monetary Valuation of Time in Loan Transactions	42
2.4 Conventional Views of Time Value of Money	46
2.4.1 Conventional Theory of Time Preference	48
2.5 Conclusion	50
CHAPTER 3: VALUATION OF TIME IN SALE TRANSACTIONS	52
3.1 Introduction	52
3.2 Scholars' Views About Increasing Price for Deferment	53
3.2.1 The Majority Beliefs or Understanding	53
3.2.2 The Minority Beliefs or Understanding	59
3.3 Time Value of Money in (BBA) and <i>Al-Salam</i>	65
3.3.1 Deferred Payment Sale or <i>Al-Bay' Bithaman Ājil</i>	65
3.3.1.1 Mechanism of BBA Financial Facility	66
3.3.1.2 Conditions of BBA From The <i>Sharī'ah</i> Perspective	69
3.3.2 Forward Sale or <i>Al-Salam</i>	70

3.3.2.1 Mechanism of Al-Salam Financial Facility	72
3.3.2.2 Conditions of Al-Salam From Al-Sharī‘ah Perspective	73
3.4 The Time Value Through The Prohibition of Default	76
3.4.1 Penalty of Default	77
3.4.2 The Accepted Measures For Deterring Default in Classical <i>Fiqh</i> ...	80
3.5 Conventional Time Value of Money in Sale Transactions	81
3.6 Conclusion.....	85
CHAPTER 4: TIME VALUE IN ISLAMIC LOANS AND DEBTS	88
4.1. Introduction	88
4.2. Time Value of Money in Islamic Loans (<i>Al-Qard</i>).....	89
4.2.1 Conditions of Islamic Loan (<i>Al-Qard</i>).....	90
4.2.2 Time Value of Money in Islamic Loan.....	94
4.2.3 Views of Muslim Scholars on Time Value of Money in Loans	95
4.3 Time Value in Islamic Debts (<i>Al-Duyūn</i>)	99
4.3.1 Time Value of Money in Islamic Debt	99
4.3.2 The Sale of Debt.....	100
4.4 <i>Da‘wata‘ajjal</i> (Rebate For Early Settlement)	101
4.4.1 Time Value of Money in <i>Da‘wata‘ajjal</i>	101
4.5 The Controversial Sale Contracts.....	103
4.5.1 <i>Bay‘ -Al-‘Inah</i> or Sale and Buy-back.....	104
4.5.1.1 Time Value of Money in <i>Bay‘ -Al-‘Inah</i>	104
4.5.2 <i>Al-Tawarruq</i>	106
4.5.2.1 Time Value of Money in <i>Al-Tawarruq</i>	107
4.6 Conventional Approach of Time Value in Loan and Debts.....	109
4.6.1 Conventional Loan	109
4.6.2 Discounting of Instruments of Paper Money	111
4.7 Conclusion.....	113
CHAPTER 5: CONCLUSION.....	116
5.1 Conclusions	116
5.2 The Acceptance of Time Value of Money in Islamic Law	118
5.3 The Rejection of Time Value of Money in Islamic Law	120
BIBLIOGRAPHY	124

LIST OF CASES

Arab-Malaysian Finance Bhd v Taman Ihsan Jaya Sdn Bhd, [2008] 5 MLJ 631.

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CHAPTER ONE

BACKGROUND TO THE STUDY

1.1 INTRODUCTION

Monetary valuation of time in Islamic transactions arises from the recent practice of Islamic banking as a replacement for the widely used systems of the conventional banks in Islamic countries. Therefore, some questions are needed to be answered through deep exposure to the old Islamic resources which deal with such questions and combine those findings with the contemporary understanding of modern jurists to come up with good responses to this matter. Taking in mind that, *ribā* (usury) is prohibited in Islam in the strongest terms. In the *Qur'ān*, Allah, the Almighty says: “*And God has allowed sales and forbidden ribā* ”.¹ This verse requires consideration and examination of the differences between sale and *ribā*. Comparing them and seeing the reason behind their rules, then, it will be seen that, Islam forbids any conditional increase over the principal of loan in return for deferred repayment.

However, the Muslim scholars almost are in consensus that, in a sale contract, the price of an item may be increased in case of deferred payment. From this point it seems that Islam has a duality of considerations regarding time value of money. In terms of deferred payment sale it is allowed to be an element of the sale and to have a portion of the price, whereas the same is not true with loan transaction. Thus, the real solution for this problem should be deduced through deep investigation of the exact stand of Islamic law in time value of money.² In fact, the concept of time value of

¹ *Qur'ān Sūrat al-Baqarah*, 2:275

² SaadAllāh, Ridha, “Concept of Time in Islamic Economics”, *Islamic Economic Studies*, Vol. 2 No. 1 (1994), 1.

money in Islamic transactions is closely related to the rules of the prohibition of *ribā*. Thus, the study of the reasons behind the prohibition of *ribā* and its various kinds can serve as a suitable window for better understanding of time value of money in Islamic law.

As mention previously, studying *ribā* is essential to understanding the role of time in the real Islamic perception of the economy. Thus, the analysis of *ribā* will open the path toward a better comprehension of the issue of time value of money. In fact, there are many verses of the *Qur'ān* and *Ḥadīth* which discuss *ribā*. In *Sūrat al-Baqarah*, verse 275, for instance, Allah says:

“Those who eat *ribā* will not stand (on the Day of Resurrection) except like the standing of a person beaten by *Shaitān* (Satan) leading him to insanity. That is because they say: "Trading is only like *ribā*," whereas Allah has permitted trading and forbidden *ribā*. So whosoever receives an admonition from his Lord and stops eating *ribā* shall not be punished for the past; his case is for Allah (to judge); but whoever returns [to *ribā*], such are the dwellers of the Fire - they will abide therein.”

This *ayah* clearly forbids *ribā* and warns the dealers in its activities. The verse is also calling the people to turn away from *ribā* of any kind. Also in *Sūrat Āl 'Imrān* verse 130, Allah says: “*O you who believe! Eat not ribā doubled and multiplied, but fear Allah that you may be successful.* This *ayah* ordains Muslims to keep away from *ribā* if they want to prosper and please Allah. In a *Ḥadīth*, narrated by Samurah Ibn Jundub r. a, he spoke about the story related to the Prophet's (*pbuh*) dream that,

“there was a river of blood and a man was in it, and another man was standing at its bank with stones in front of him, facing the man standing in the river. Whenever the man in the river wanted to come out, the other one threw a stone in his mouth and caused him to retreat back into his original position. The Prophet was told that, these people in this river of blood were people who dealt in *ribā*.”³

³ Ibn Ḥajar al-ʿAsqalānī, Aḥmad Ibn Ali Ibn Muḥammad, *Fath al-Bārī Sharḥ Ṣaḥīḥ al-Bukhārī*, (Beirut, Dar al-fikir, 1st edn., 2000), Vol. 5, 36.

This narration illustrates how evil is to deal with *ribā* in the sight of Allah. Another *Ḥadīth* which stated about *ribā -al-nasī'ah* (excess for deferment) is as below: Ibn ‘Abbās reported that the Prophet, (*pbuh*), has said: “*verily ribā is in deferment.*”⁴ These *ayahs* and *Ḥadīths* are clear that *ribā* is prohibited in Islam. Therefore, it is needed to be known what *ribā* is and when can a transaction be interpreted as *ribā*.

- a. "Zayd Ibn Aslam reported that *ribā* in pagan times was of this nature: When a person owed money to another man for a certain period and the period expired, the creditor would say: You pay me the amount or pay the interest. If he paid the amount, it was well and good; otherwise the creditor increased the loan amount and extended the period for payment again.”⁵
- b. The Prophet (*pbuh*), during his last sermon addressed his revered Companions, “Every form of *ribā* (interest) is cancelled; capital indeed is yours which you shall have; wrong not and you shall not wronged. Allah has given His Commandment totally prohibiting *ribā*. I start with the amount of *ribā* which people owe to ‘Abbās and declare it all cancelled. He then, on behalf of his uncle, ‘Abbās, cancelled the total amount of interest due on his loan capital from debtor”⁶
- c. The Prophet (*pbuh*), is reported to have said “Sell gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, in the same quantities on the spot; and when the commodities are different, sell as it suits you, but on the spot.”⁷
- d. Bilāl visited the messenger of Allah (*pbuh*) with some high quality dates, and the Prophet (*pbuh*) inquired about their source. Bilāl explained that he traded two volumes of lower quality dates for one volume of higher quality. The messenger of Allah (*pbuh*) said: “*this is precisely the*

⁴ Al-Nawawī, Muḥyi al-Dīn, *Sharḥ Ṣaḥīḥ Muslim*, (Beirut, Dar al-Kutub al-‘Ilmiyyah, 2nd edn., 2003), Vol. 6, 21.

⁵ Mālik Ibn Anas, *al-Muwaḥḥa*’, ed. Muḥammed Vu’ād ‘Abd al-Bāqī, (Beirut, Dar al-Kutub al-‘Ilmiyyah, “n.d.”), 425.

⁶ See al-Khāzin, ‘Alā’ al-Dīn Ali Ibn Muḥammad Ibn Ibrāhīm, *Tafsīr al-Khāzin*, (“n.p.”, Dar al-kutub al-‘Arabiyyah, “n.d.”), Vol. 1, 217.

⁷ Al-Nawawī, 12.

*forbidden ribā! Do not do this. Instead, sell the first type of dates, and use the proceeds to buy the other.”*⁸

Mohammed Obaidullah, after he listed those four traditions, comments that the two first *Hadīths* are concerned about the prohibition of interest in loan which is mentioned in the *Qur’ān*. The other last two *Hadīths* are about the prohibition of *ribā* in sale or exchange. While the subject of the first *Hadīths* is the explanation and elaboration of the prohibition of interest in loan, the focus of the last two *Hadīths* is elimination of any element of *ribā* from sale and exchange.⁹ Whereas profit conventionally is generated from the difference between the interest in loan from the borrower and that paid to the lender which is precisely *ribā*, the wealth creation in Islamic economics has to be different. The only way to accrue profit over the principle is through trade.¹⁰ Therefore, *ribā -al-nasī’ah* has a very strong relationship with the issue of time value of money in Islamic economics.

Time value of money is an important cornerstone of modern finance. In simple terms, it means that money has to be evaluated according to its time of delivery. SR1000 today is not same as SR1000 tomorrow. A rational person would prefer the former to the latter. The reasons offered in favour of this contention are two-folds.¹¹ First is the postponement of consumption which implies that an individual usually prefers to consume in present rather than to wait for the future. If he does so, he deserves compensation for this sacrifice. Nevertheless, this contention is easily refutable, because people take care of their future consumption as they do in their

⁸ Ibid., 19.

⁹ Mohammed Obaidullah, *Introduction to Islamic Finance*, (New Delhi: IBF Net (P) Limited, India, 2008), 23.

¹⁰ Mohd. Ma’sūm Billah, “Comparing Modern and Islamic Finance” in *Theory and practice of Islamic Finance*, edited by Saw Sawee-Hock Karyn Wang (Singapore, Saw Center for Financial Studies, 1st edn., 2008), 11.

¹¹ Obaidullah, 26.

present consumption. Sometimes people are even more concerned with their future consumption than their present.¹² The second argument in favour of time value of money perhaps has greater merits. It states that a person can invest his money now and get return for his investment later which is conventionally based on the rate of interest.

Mohammed Obaidullah, comments on this point by saying, time value of money indeed has a place in Islamic finance. He adds that, the return available to the individual saver in the above example, need not relate to an interest or *ribā* -based transaction. The return available on the next best “permissible” investment (from trade or otherwise) constitutes time value of money in Islamic finance.¹³

Thus, the position of time value of money and its justification in Islam will be further discussed in this research. The details of the discussion will be as follows: first, it will start by examining the concept of time value in Islamic law and the Muslim jurists’ opinions about it. Second, it will discuss the aspects of valuation of time in Islamic sale transactions. Third, the aspects of time value of money in Islamic loans and debts will be examined. In addition, every chapter there will be comparison with the concept of the time value of money in conventional economics. Finally the following terms in the research are defined as below:

- a) Time: is the thing that is measured in minutes, hours, days, years etc using a clock, or the particular minute, hour, day, etc when something happens or should happen.¹⁴ In context of this research it is referring to both meanings: the first in general and the second in particular transactions.

¹² Ibid.

¹³ Ibid., 27.

¹⁴ Pearson Longman, *Longman Dictionary of Contemporary English*, (England, Pearson Educational Limited, 2005), 1738.

- b) Value: the usefulness or importance of something, the amount of money that something is worth.¹⁵ In this research the focus will be on the second type of the meaning of value. Thus it will be seen how time can be worth any an amount of money in Islamic transactions.
- c) Money: money is usually defined by economists in terms of its functions, most prominently as a means of exchange, but also as a means of payment, a unit of account and a store of value. These roles also articulate a logical explanation of how and why the use of money originated. In the economists' view, true money of full-fledged money needs to fulfil all of these functions.¹⁶ Thus money is not confined to the metallic money but any substance set by people as a medium for exchange and the other functions of money.

1.2 THE OBJECTIVES OF THE STUDY

There are various objectives which the study wishes to achieve they are as follow:

- 1) To unveil the ambiguity about the Islamic opinion in valuation of time.
- 2) To analyze the Islamic principles relevant to time value of money.
- 3) To clarify the relationship between time value of money and *ribā* or interest in Islamic law.
- 4) To differentiate between the Islamic approach of time value of money and the conventional approach.

¹⁵ Oxford University, *Oxford dictionary*, (China, Data Standard Limited, 2006), 844.

¹⁶ Sevket Pamuk, *A Monetary History of the Ottoman Empire*, (The University of Cambridge, 2001), 1.

1.3 STATEMENT OF PROBLEM

Although, time value of money has been recognised widely in some Islamic transactions as an important element of trade, it is ignored in many other cases which render the stand of Islamic law about time valuation become ambiguous. It is needed to know whether Islamic law recognises the valuation of time as a factor to be considered in Islamic transactions. Also, the extent of the application of time value recognised in Islamic transactions needs to be precisely clarified. In addition to that, the difference between the acceptability of the valuation of time in some transactions and the prohibition of *ribā* or usury is in need of precise explanation. This study is seeking a better understanding of these issues, by examining and analysing the Islamic literature relevant to the time value of money to clarify the Islamic view regarding the time value of money.

1.4 HYPOTHESIS

Islamic law recognises the time value of money in different aspects. It considers the time value of money as an essential factor in any exchange. However, this recognition varies from one transaction to another. For example; it differentiates between sale and loan in the consideration of time value. While in sale the seller is allowed to increase or decrease his prices according to the time payment, in loan the benefit is only the reward of Allah. Therefore the sale is the only acceptable instrument to add consideration for time, loan, on the other hand, is benevolent in nature, and its consideration is the sole reward from Allah. Therefore, the difference between sale and loan in determining the factor of time in Islamic transactions is a better help to unveil the reason behind the prohibition of *ribā* in Islam.

1.5 LITERATURE REVIEW

The writing and works in this area of Islamic law are still limited. Some writers have essays or chapters in their books about it. However, the only writers who have completed books are Rafiq Yūnus al-Miṣrī, 2000 and Ridha SaadAllāh, 1994. Therefore, the data of this research has to be mainly based on the old resources of Islamic law to overcome this shortcoming of references in addition to the available contemporary writing related to the topic. More than the shortcoming of references in this topic, the approaches of the writers although they tried to come up with some answers for these questions, they focused on only one aspect or another without setting up a complete comprehensive solution. Moreover, some writers are in doubt about time value in Islamic transactions. The literature review of this thesis is as below:

(Muhammad Akram Khan, 1985, *Time Is Money! Or Is It?*), argues that there is no time value recognised by Islam. According to him; the acceptance of discounting for the project evaluation would keep the “ghost” of interest alive and would continue providing a justification for interest. Which in his opinion, has been form the basis of mark-up, financial leasing which disguise interest and have been accepted by the State Bank of Pakistan in its recent scheme of *Islamization* of banks. He claims that, a merchant who charges a higher price for a credit sale on the plea that had he sold it for cash he would have invested the sale proceeds and made a profit is equally unfair. Even, if he is assuming that these proceeds would surely bring him a net gain, if invested. This is an assumption is not necessarily supported by real experience of business which may bring lose instead of profit.

Akram Khan, even goes further than that, when he alleges that, allowing higher prices for credit sales than for cash sales would lead to all those negative

consequences which accrue from interest. For example, it would bid up prices without adding any utility into the product. Thus, other things equal, it would lead to inflation. Another consequence could be imbalance in the economic power of the people. Furthermore the argument made by him is that, in his opinion the early jurists did not realise the economic consequences of allowing such practice. Thus in his opinion, in this age the *ribā* is so wide-spread and its elimination is getting difficult because of the ever-growing innovations to keep it intact in one guise or another. Afterwards, he concludes that, he cannot allow any concept which will introduce the negative consequences of interest to become part and parcel of Islamic economic framework.¹⁷

On the contrary, (Ridha SaadAllāh, 2000, *The Concept of Time in Islamic Economics*), holds the idea that, Islam accepts the valuation of time as a factor to be considered in Islamic transactions. However, he differentiates between loan (*qard*) as a benevolent action towards the needy person which has no material consideration rather than the rewards of Allah. On the other hand, the sale which is a pure transaction can be increased for the delay of consideration or vice versa, can be at lower price instead of delay of delivery. He starts with an analytical introduction for the notion of western economists about time and the rate of interest in their literature. Then he states that their stand contradicts the Islamic law in the valuation of time. This is because, they see time as a factor of economic product, as a result, they consider the sole time as the subject matter to be bought.

However, Muslim jurists view time in deferred sale as a factor of the contract to be considered. Based on that, they allow the price of sale to be exceeded for deferment while they disallow any excess of price in loan because the consideration is only for the time which is not fair for the debtor. He even goes further to say that,

¹⁷ Muhammad Akram Khan, "Time Is Money! Or Is It?", *Afkar Inquiry Magazine Of Events And Ideas*, Vol. 2, no. 12, (December 1985).

Islam does accept the valuation of time in loan otherwise; it would not be considered as a benevolent contract. While in loans the creditor only gives away time consideration as a charity.¹⁸ Also, (M. Fahim Khan, 1991, *Time Value of Money and Discounting in Islamic Perspective*), almost agrees with the notion of time value of money but he seems to be cautious to attribute to it the essential affect of value. He claims that, the contemporary research on investment behaviour in Islamic perspective, most of the time, finds it expedient to assume zero rate of time preference in Islamic economy. He argues that there is no justification for that. According to him, there is nothing against positive time preference or against realising time value of money in an Islamic framework, as long as the time value of money is not claimed as a predetermined value.

He alleged that, the prohibition of interest can be considered as a sort of denial of time value of money. On the other hand *bay' al-mu'ajjal* and *bay' al-salam* are permitted in Islam. In these contracts of sale, the price of commodity is allowed to be different from its spot price, if the time element is involved in the process of exchange. This can be considered as a sort of recognition of time value of money. He claims that, a higher price in the case of deferred payment in *bay' al-mu'ajjal* contract cannot be attributed only to time preference. It has been allowed taking into account both the factors of time preference and supply and demand conditions. Therefore, it is possible in his opinion to say that, there may be time value involved in *bay' al-mu'ajjal* contract but this time value is definitely not predetermined. Then, he concludes that Islam does not have anything against realising time value of money but it cannot be claimed as a predetermined value.¹⁹

¹⁸ SaadAllāh.

¹⁹ M. Fahim Khan, "Time Value of Money and Discounting in Islamic Perspective", *International Association For Islamic Economics Review Of Islamic Economics*, Vol. 1, no. 2, 1991).

In the same view, (Rafīq Yūnus al-Miṣrī, 2001, *al-Jāmi' fi Uṣūl al-Ribā*), states that, time has a value in Islamic transaction. He proved this notion by saying that, Islam considers the exchange of similar items *ribā*, if they were exchanged equally in size, type, and value but in different time which is unjust for the party who receives his property lately. In this book, he thoroughly recognises the idea of time valuation in Islamic transactions. He also admitted that time value of money is considerable in loan. However, this approach of time value of money in loan was based merely on the rewards of Allah in the hereafter and not as materialistic compensation.²⁰ Also (al-Miṣrī, 2000, *al-Ribā wa al-Ḥasm al-Zamanī fi al-Iqtisād al-Islamī*), holds the same ideas as in his former book but this book is dedicated exclusively to the time value of money in Islamic transactions.²¹

On same ground, (Najmul Hassn, Time Value of Money in Islamic Banking), argues that, there is no problem in using the interest rate as a benchmark for Islamic institutions to determine their profit rate in *murābaḥah*. His argument is that, even if the Islamic institutions use the conventional institutions' benchmarks, the underlying principles of their transactions are very different. He claims that, the problem of the conventional institutions is that, they consider money as a commodity and exchange it as they exchange any other goods. Therefore, they operate on interest-based money lending while Islamic institutions operate like a trading house. He further adds that, keeping in mind the definition given in *Ḥadīth* to “every loan that draws a gain is *ribā*” one can discuss the time value of money and the workings of present day Islamic financial institutions.

He said that, according to capitalist theory, there is no difference between

²⁰ Al-Miṣrī, Rafīq Yūnus, *al-Jāmi' fi Uṣūl al-Ribā*, (Damascus, Dar al-Qalam, 2nd edn., 2001).

²¹ Al-Miṣrī, Rafīq Yūnus, *al-Ribā wa al-Ḥasm al-Zamanī fi al-Iqtisād al-Islamī*, (Syria, Dar al-Maktabī, 1st edn., 2000).

money and commodity in so far as commercial transactions are concerned. Both are treated at par and can be sold at whatever parties agreed upon. For them selling one \$100 for \$110 is the same as selling a bag of rice costing \$100 for \$110. On the other hand, he argues that, Islamic principles differ from the capitalist theory as money and commodity have different characteristics, for instance money has no intrinsic value but only a measure of value or a medium of exchange, it is not capable of fulfilling the human needs by itself, unless converted into a commodity. Based on those differences, he claims that exchanging \$1,000 for \$1,100 in spot transaction will have no meaning the same will hold true if the same transaction is made for deferred loan since the extra amount has no consideration save for time only. While the commodity has value and quality in itself and it can be sold on whatever price agreed upon provided there is no fraud or uncertainty.²²

On the opposite stand, (Shamim Ahmad Siddiqui, 2006, *The Controversy over Time Value of Money among Contemporary Muslim Economists*), argues that the notion of time value of money have no justification in real economics, therefore, he criticises the practice of deferred sale transactions practiced by Islamic financial institutions claiming that it is similar to interest-based loan. In his introduction he said that his paper is suggesting that, in general, people do not prefer present consumption over future consumption. Instead, there are some other factors which influence their decision to receive, if possible, present income (and no present consumption) sooner than later. It is then argued that, from an Islamic point of view neither a positive preference nor a preference for realising an income sooner than later, justifies a reward for consumption of loan. He further claims that, it is emphasised that although, the case of loans for consumer durables appears to be different from those given for

²² Najmul Hassan, "Time Value of Money in Islamic Banking", Academy for International Modern Studies, via, <WWW.LearnIslamicFinance.com> (accessed 16 October 2009).

necessities, the severe condemnation of the later requires a very careful look at the permissibility of sale on deferred payments.

He refutes the idea of preference consumption which is the basis of the interest mechanism by saying that if a person expects to live three periods of time and he is working in first and second ones he will be indifferent of getting his wages in three instalments or in advance. Provided that there is no other income expected, and with creditworthiness of his employer, since he has to allocate each instalment for one period of his life. He also contrasts the idea of differentiating between interest and *bay' al-mu'ajjal* as (practiced now in Islamic finance), in his opinion, the core difference that the underlying asset in *bay' al-mu'ajjal* is commodity and in loan is money is not reasonable since the result is the same, both are exploiting the needy people. After he gave the requirements of effective sale without any increase for time, he said, financing of consumer durables is an important issue. However, allowing *bay' al-mu'ajjal* and *al-murābahah* as it is currently practiced, is not the solution. Its effects are similar to that of interest.

He even says that, the Prophet would not have allowed it looking at its exploitative nature. The people with relatively less income and wealth end up paying more for the same commodity. For him, just because a good (instead of money) is involved in a *murābahah* transaction is not a sufficient argument for its justification. The effect is similar to that of interest.²³ In contradiction to Siddiqui's approach, (Abu Umar Faruq Ahmad and M. Kabir Hassan, *The Time Value of Money Concept in Islamic Finance*), start by saying Islam prohibits giving and taking *ribā* in the strongest terms. This prohibition can be considered a sort of denial of time's monetary

²³ Shamim Ahmad Siddiqui, "The Controversy over Time Value of Money among Contemporary Muslim Economists", *Journal of Management and Social Sciences*, Vol. 2, no. 2, (Fall 2006), 144-153.