

Studying the Status of the Interest Free Loan Regarding Non-Usury Banking Law in Islamic Republic of Iran

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ABSTRACT

This Loan, as a part of economic system with social results, is emphasized in Quran and narratives. Verses of Quran about loan represent its moral and material effects and God will multiply rewards of the loan. The current study investigates the status of the interest free loan in Islamic Republic of Iran and aims to show relationship between interest free loan and removing usury in Islamic society. It is concluded that interest free loan in IRI is established to exclude usury banking, but the little amounts of profits taken from interest free loan is approved by the majority of Islamic scholars. According to some Islamic scholars, this type of banking is in contrast with other illegal high profit banks. Therefore, promoting interests of depositors should be considered in development of Islamic banks.

KEYWORDS: Loan, Religion, Usury, Interest-Free Loan

1. INTRODUCTION

Interest free loan is a subset of one of the legal issues and economic system of Islam. Very little attention has been paid to this research area [1]. In recent two decades in Iran, interest free loan has been publicized and individuals and entities emphasize it by paying interest free loans and making it to be more common. Therefore, it necessitates studying interest free loan theoretically and investigating its status and conditions. Regardless of applicability of the subject, there is no comprehensive research done as the form of interpreted issues, verdicts, judicial and legal verses. In this study the aim is to study Islamic economic system from view point of Islamic branches and using verses and narratives.

1.1. Statement of problem

One of the most controversial issues in judicial context is loan. Loan means to cut, that is, cutting some money from you. In general, loan is classified in two types: productive loan, and depreciatory loan; productive loan considers productive issues and in depreciatory loan, goods are used in daily affairs. Interest free loan is against usury system. Loan can be under an economic system called interest free loan of banks, a kind of depository. This research aims to discuss interest free loan of IRI regarding non-usury banking law [2]. Depositories can be classified as usury depository and non-usury depository. Interest free loan system is based on religion and is considered as non-usury depositories. But, based on the viewpoint of economic systems, interest free system cannot be hold accountable for monetary inflation. Therefore, some interest free loan funds go towards financial or credit institution and invest along with loaning, and loan is applied in conditional way of fees and in some cases in the economic and political issues, which are not compatible with ideas of some scholars [3,4]. This research aims to study above mentioned issues and encourage the lender and the borrower of the Islamic society to loan their money without usury.

1.2. Research objectives: studying the status of interest free loan regarding usury-free banking law in the Islamic Republic of Iran

1.3. Importance of the research: Mostly, other economic systems do not pay attention to the morality in business deals, and in economic crisis they usually offer a formula that is not consistent with morality and religious convictions. They separate economic system and heavenly schools and ignore usury and its social problems and try to increase their own property. Therefore, it's necessary to consider different aspects of interest free loan despite the usury in Islamic society deals, different aspects of interest free loan to establish a healthy economic system along with respecting other's right and social justice. This research aims to offer an independent, united and explanatory study.

1.4. Research question: How is the status of interest free loan regarding usury-free banking law in the Islamic Republic of Iran?

1.5. Hypothesis: Regarding the money credit, in this study the inflation is considered, and surplus amount of what is given is returned. The profit is legitimate and under one of legal contracts, this benefit is gained or returned.

1.6. Review of literature: historical studies and verses of Quran indicate that from long ago, loan was very common among people; hence, it has a long history. In Quran, religious background of the loan has been explained as:

وَلَقَدْ أَخَذَ اللَّهُ مِيثَاقَ بَنِي إِسْرَائِيلَ بِبَعَثِ نَبِيٍِّّ عَلَيْهِمْ أَن يَتَّبِعُوا تِلْكَ الْأُمَّةَ وَحَقَّ عَلَيْهَا الْقَوْلُ فِي أَيِّ شَيْءٍ أَرَادُوا مِنْهُ عَمَلًا أَوْ نَهَاهُمْ وَآخَرْتُمْ لَهُمْ وَالْأَقْرَبَ ضَرَّتُمْ اللَّهُ فَكَرِهَهَا لَكُمْ وَأَعْتَدْنَا لِلْغَافِلِينَ عَذَابًا عَظِيمًا
 [5] السَّبِيلِ

“Allah did aforetime take a covenant from the children of Israel, and we appointed twelve captains among them. and Allah said: "I am with you: if ye (but) establish regular prayers, practice regular charity, believe in my messengers, honor and assist them, and loan to Allah a beautiful loan, verily I will wipe out from you your evils, and admit you to gardens with rivers flowing beneath; but if any of you, after this, resisteth faith, he hath truly wandered from the path or rectitude." [5, translated]

As it's obvious, God had advised children of Israel to lend to each other. This verse represent that interest free loan was common among Jewish and Christianity with long history. In this verse, praying, zakat, faith to Messenger and interest free loan is emphasized. Montesquieu [3] in his book “Rouh al-qavanin” states that:

“Lending interest free money to others is one of the best deeds, the act that is recommended in different religions, a moral deed, not a law or culture of a country or society”.

He also added:

“Interest free loan is one of the recommendations of divine religions. It is recommended by all prophets and its presentation in holy books indicates its ancient history”. Although he believes that loaning is a moral not legal deed, but most of us believe that is not only a moral principle, but it can be considered as a part of economic system; along with other parts of a healthy economic, it can help and control needy people of the country and society. Therefore, it comes from the history that people were spiritually and morally opposed to usurious, while lending money was common among them [7]. These all represent that interest free loan is consistent with teachings of prophets and desire of conscience, though usury is demand of merchants, princes and plunderers. Theses directly and indirectly study this topic include:

- 1- Jurisprudence analysis of religion and loan, Islamic Azad University, Qom branch, presenter: Asad Allah Adeli, supervisor Dr. Molla Mohammad Ali, advisor Dr. Shadravan, defending date, 8/June/2011 [8]
- 2- Islamic economic system (usury and loan), Mohammad Hossein Ebrahimi, fall of 2002 [7]
- 3- Interest free loan and its economic effects, Ali Asghar Hadavi Nia [3]

2. RESEARCH METHOD

The study is a library, theoretical and analytical-descriptive research.

2.1. Definition of bank: bank is a credit commercial and administrative institute established under the banking act. Banks are responsible for safeguarding public funds, conducting monetary policy and flowing economic cycle of the country [9]. From the time the money was created as transaction tool, moneychangers were found and in some cases they can be called banks, like banks of ancient Greek. In capitalist countries, the bank was a vehicle for misusing the oppressed and to exploit them. Banks were gathering money and reserves, and loan these money to people and gain huge amount of interests [9].

2.2. History of Islamic banking

Non-usury banking or Islamic banking- based on primary studies and viewpoints- dates back to before revolution. First studies dates back to 70-80 years ago, when common banking was developed in Islamic countries. Therefore, at the time, Islamic scholars were facing two problems: on the one hand they considered banking industry as efficient for the society which was playing significant role in economy; three main roles of banks include:

- 1) Ease of transaction and trading contracts, facilitating money cycling, accurate and low cost transactions. Banks activate markets.
- 2) Collecting micro and macro funds from society and changing them to large capitals for economic actor. In fact, banks relate capitals and capital activists. Cash funds are collected and held by the group of economic actors, which makes economic growth and development.
- 3) Monetary policy.

And on the other hand, Islamic scholars considered that most of the transactions of banking are based on usury that forms the base of their function both in attracting capitals and offering banking services. Therefore, they questioned putting banking system entirely aside because of its usury orientation? Or some changes should be made? Regarding verses about banning usury, they tried to establish usury free banking. The first sparks of

usury free banking appeared in the mind of Sheikh Mohammad Abduh, and followed by his student "Rashid Reza". In fact, first Islamic banking institutes were established in Egypt in 1963 as saving banks, followed by Pakistan. In 1975, Islamic development banking in Saudi Arabia and in 1977, Islamic bank of Dubai were found.

Like other Islamic countries, in Iran, interest free loan was given individually as a contract between the lender and the borrower. From about 40 years ago, it completely changed; lending money was not individually anymore and changed to interest free loan institutions. The first interest free fund was established in Tehran in 1969, in one of the mosques of south-east of Tehran. These funds were mainly operating under the Islamic economy organization, and considered as the only interest free funds. After Islamic revolution of Iran, the first attempts started to cleanse the country of the scourge of usury lending and usurious banking system [1]. Therefore, in the third of January 1979, a law was passed in the form of money and credit council, and was notified to the banking network. Based on this Act, the title of "interest rate" banking was eliminated and replaced by "guaranteed minimum profit" for fixed deposits and savings and "wages" for loans and banking facilities. In some parts of this Act it's stated that:

1. Minimum profit guaranteed for deposits; for fixed and saving deposits, a guaranteed annual profit of 8.5 percent and for fixed deposits and savings deposits guaranteed minimum profit of 7% per year is awarded.

2. Commission of loans and other credit facilities will be calculated from the beginning of 1979, and interest received from loans and other types of credit facilities will be removed to cover the cost of bank and guaranteed profit share will be received as following...." [10]

Changing interest to guaranteed profit share didn't convince many scholars so they were demanding substantive change. Hence, in 1982 the government was commissioned to offer a comprehensive study of the evolution and change of the banks toward interest-free banking. In 1982, ministry of economy, central bank and PBO started some studies and used experiences of interest free banks of Saudi Arabia, Kuwait, UAE and Egypt until interest free banking law passed by parliament in 1982. The law was approved by Guardian Council, and banks were obliged to perform it since April, 1984.

2.3. Attractions of Islamic Bank [9]

The most significant point and attraction of Islamic bank include

- avoiding usury, fighting God, and Haram property
- replacing social justice instead of common oppression and exploitation of usury banks
- replacement of human work in the banks as income rather than usury
- Contribute to productive, trade and cooperative activities, etc.
- Creating legitimate social capital
- Meet the needs of the oppressed instead of loans usury banks give to investors and intermediaries
- Increasing job opportunity
- Developing potentials in making money through business
- Creating spirit of brotherhood and love, rather than the spirit of hatred and jealousy in usury income
- Combating poverty, moral vices arises between interest lenders and interest borrowers

2.4. Definition of Islamic banking

Islamic banking refers to the manner in which the principles of Islam are observed; that is, banking transactions are away from usury, gambling, and forbidden betting and so far. Therefore, "Islamic Banking" is more comprehensive than "interest free banking"; since Islamic banking not only avoids usury but observes other Islamic provisions [11].

2.5. Services of contemporary urban banks

In this era, banks offer fundamental and important services:

a) Checking Account: is the most significant bank services in which people put their funds in the bank with the condition that whenever they want they can pick their fund without any condition and the bank does not provide any benefit. The aim of the account is:

1. Creating a safe and secure place only for investing property of people

2. Using banking services in transactions that facilitate economic activities without any extra money exchange. Most of transactions are done through bank cheque, which is legal and there is no law opposition with it.

There is some probability in the nature of the account:

1. The nature of checking account is the nature of loan, in fact, it's one of the loans in which property owners give their property to bank for a certain time, and any time they want they can pick some money from bank account

2. Its nature is the nature of deposit and loan and people loan their money to the bank in the condition that at any time they want they can pick the amount they want and also they allow bank to make changes in these properties. In common, identity of this type deserves reflection

3. Its nature is the nature of deposit and loan; people don't put their property but the price of their property in the bank. The property is priced in the bank and bank can use this amount of money instead of using the property.

Result: the second hypothesis is better and its result is the same as loan which is logical and with no law problem.

b) **Loaning:** Islamic loaning without getting any profit is uncommon in contemporary banks, since all debts and loans have special amount of profit. Interest free loan in Islamic banks differentiate them from common banks that is emphasized by Quran verses and narratives [12].

c) **Saving accounts:** people put their money to the bank to be used in business and bank gives some profit to the property owner, whether as a cash or gift. This type of account has no legal problem if the profit become as motivator. The account should not be judged as usury, in that case it face some problem.

d) Legal transfer of capital and remittances has no problem.

e) **Deposits of people in banks are the most important service of banks:** Nowadays, conventional banks are taking people's money to make certain profits, and instead lend the money of investors to others with more profit, which is the worst type of usury. But in Islamic banking the property of investors are in the hands of Islamic bank, which uses it in manufacturing industry and business and gaining profit, then profit of the capital is divided between them and both parties gain profit, which is legal and makes development of the economic activities.

f) **Banking facilities granted to people:** Banks contract with those that are economically qualified but don't have capital, so banks give them money and receive some part of their profit. It does not have any legal problems. But in some cases the contract is not practiced correctly which makes problems to the borrower [4].

2.6. Interest free loan and its place in Islamic Law

2.6.1. Definition of interest free law: first let's define the word "loan": the meaning of the word is to cut. That means people cut their money from themselves when they are lending it to others [13]. In Quran we see "قرضاً حسناً" that is the loan given without obligation or harassment and no additional profit or interest is received in exchange. In Quran God says:

«من اذا الذى يقرض ا... قرضاً حسناً فيضاعفه له و له اجرا كريم» [1]

2.7. Importance and position of Interest Free Loan in Islamic jurisprudence

Regardless of its importance, no comprehensive study has been done on interest free loan. Interest free loan is a kind of system that can be effective and create balance in developing society and its economic system. Establishment of interest free funds is a step toward it. Interest free loan not only cater to the needs of others, but is representative of emotional maturity of the society.

Some scholars have expressed very important points about the Interest Free Loan, Imam (AS) said:

"Interest free loan is one of the good deeds. The one who borrow is obliged to return the money back... loan is very important but interest free loan is more important..." Shahid Beheshti defines [14] interest free loan as a way of social balance and says: "there is another type of credit that facilitate the works. Interest free funds are established by people or government that is representative of people, which is usury free." As it's clear from Shahid Beheshti that interest free loan in services and consumer affairs are important, which is against the idea of some Sunni scholars who believe that usury is Haram in consumption affairs but is allowed in production affairs. Imami scholars' idea is that interest free loan is allowed in every affairs and usury is Haram in every affair. In his book "Islamic Economic", Shahid Beheshti says about private or group interest free institutions : With great reward which Allah hath ordained for Interest Free Loan and considered to be superior than without return donations, if an accurate method is used in this concept, the way of establishing these institutions will be open. Interest free institutions receive reasonable fees to cover the ongoing costs, but there is no profit for the loan itself. Islamic scholars have stated about debt that usury in loan is Haram, but interest free loan is highly desirable and acceptable. Allameh Helli states:

يشترط فى القرض ان لايجر المنفعة بالقرض ، لان النبى صلى الله عليه و آله و سلم نهى عنه ، فلايجوز ان يقرض بشرط ان يرد
الصحيح عن المكسر و لالجيد عن الردى و لزيادة القدر فى الربوى و لذا فى غيره عندنا

One of the conditions of loan is that it should be interest free for lender, because it's forbidden by prophet (PBUH). Our scholars are unanimous on this issue" [15, 16]

2.8. Social and economic effects of loan

2.8.1. Cooperation Fund or assistance of loan

Loan system can be operated in two systems:

a) **Cooperation fund:** in this system lenders are from same economic class that put their money as deposits to the banks and let them to loan it under certain conditions

b) **Loan assistance fund:** in this system lenders are from higher economic class, and give their money to the banks by temporary or permanent blocking of their own cash, to loan it to lower class citizens.

There are significant differences between quality and quantity effect of these two types of loans [16].

2.8.2. Interest free loan for social adjustment:

Today, difficulty of economic justice and inability of economic managers to solve the problem have force them to have backwardness and say if we are unable to have social justice, so we can have social adjustment. Social adjustment is to make social class closer by means of subsidies and state aid to help them improve their economic status. Along with improving their status, there should be effort to make balance between higher classes and lower classes to achieve the goal of Islam. Beside interest free system, other Islamic economic systems should be considered; otherwise, it's just an adjusting system. If other Islamic system occurs, such as equality, cooperation, pay the obligatory Zakat, Khums, taxes, etc. it would be a fair system that is acceptable by Islam [6].

2.9. The effect of loan on consumption: wealth, permanent income and income distribution are the most important factors affecting consumption.

Economists call the fact that more wealth needs more consumption as "influence of wealth". Naturally, wealth don't drastically change from one year to another, it appears in long term [17]. Permanent income is a fixed amount of consumption that people can save according to the current wealth and income of present and future. Freedman's permanent income hypothesis believes that income change is not permanent (such as salary), usually people use a large amount of their income, on the other hand, if the income is temporary (such as rewards), so the significant amount of income is saved. This saving can be as purchase of consumer durable goods as a part of wealth of family [3]. In income distribution, the effect of income distribution adjustment on increasing consumption is not a general issue, and depends on "redistribution of the income" [18]. If redistribution is done through grants, this transfer is expected. According to above mentioned issues, Muslims prefer to have their permanent income based on production and increasing added value. But in some special cases, loan can help to solve the problems. So Muslims don't regard loaning as a permanent income. However, borrower consider loan as temporary and try to buy consuming goods, it can increase the wealth and increase consumption. But since this property increase is through loan, so the borrower should specify some parts of income for returning the loan. According to automatic economic stabilizers mechanisms, it's expected that the pattern can have effects on automatic stabilizers mechanisms [19].

2.10. The effect of loan on saving: saving can be defined as delaying consumption from the present to the future. Saving can be as contract or commitment (such as installments of life insurance), increasing cash assets (such as bank deposits) direct investment in equipment and business clearing obligations or paying liabilities [20].

2.11. The effect of loan on income distribution: unlike capitalism system that believe the main cause of economic problems is limited to natural resources and variety of human needs, Islam believe the main cause of these problems is unjust distribution and indifference in accurate use of natural resources [21]. Therefore, Islamic economic system emphasize on income distribution in all levels (pre-production, post production and redistribution) to solve the problem. In capitalism economic, income distribution is done in two mechanisms:

- Bazaar mechanism: that determines each share of capital, labor and field as the main factors of production through supply and demand in the market.
- Non-bazaar mechanism: un-adjustments caused by market mechanism and force governments to intervention through income redistribution.

Redistribution of incomes causes transfer of a part of incomes in two ways:

- Vertical redistribution of incomes is transfer of income from wealthy classes to low income classes.
- Horizontal redistribution is done within low income social groups.

To have positive income redistribution, the real transfer of purchase should be for low income groups and consumed within national economic. Required good demand should also have adequate attraction to avoid increasing cost. Redistribution of income should also not transfer income and wealth authority of people to government, but it should provide depreciation expense of manpower and improve the efficiency and welfare of low-income groups [22]. In general, performing income redistribution policy under above mentioned situation is always efficient and will be for social justice. Islamic way of the issue doesn't include the following:

- Respecting private property rights, economic freedom within a given range
- The right of the public in natural resources before generation
- The right of poor in the rich property
- Property right on each production factors

Distribution criteria of each economic system are determined based on intellectual basis of that system. In Islam, "need" and "work" are two distribution criteria [21]. Since the lender specify a part of his disposable income to this work, and then we can say that loan is considered after income redistribution by bazaar mechanism and after performing financial policies of the government that is one of the income redistribution policies. Two approaches have been proposed in economic justification of the effect of loan on income distribution. In individual view, when a person have not lend loan for necessary needs, he should wait until the end of the period and use his savings at the end of the period. Therefore, without loaning, a period of his consumption was reduced.

But in lending loan, he is able to increase his consumption from beginning of the period, and gives his savings to return the loan at the end of the period. However, in individual view, loan increases consumption period during life. But in macro view, the type of loaning system is considered. Since cooperative fund establish among people with same income level, it's expected its effect be horizontal. In fact, the system consolidates income of low-income classes by changing it to durable goods. Cooperative funds of loan have longitudinal effect on income distribution, since in this system wealthy people separate a part of their wealth and give it to poor. Therefore, at any point of time, a part of income of rich dedicated to poor, that should be returned in another point of time [23].

2.11. Different types of interest-free loan

2.11.1. Checking loan deposit: quality of this account is the same as visual deposits of traditional banks. Individuals and entities deliver the funds surplus to their needs to the bank to get a cheque, to use it in appropriate time in their financial interactions. Because depositors aim to save their money and facilitate their financial transactions, this type of deposit cannot be called "interest free". It seems these types of loaning are called interest free because they don't receive any profit, but it is not appropriate. Based on Quran verses and narratives, interest free loan is when the lender lends his money to gain spiritual reward. Therefore, some experts believe that when lenders give their money to bank for other purposes such as saving their money, facilitating interactions, transferring funds, etc., although is interest free loan and is acceptable in Islam, but is not completely based on Islamic ideas [24].

2.11.2. Interest free loan saving deposits: saving accounts are common deposits of banking system. In these accounts, individual and entities deliver the funds surplus to their needs to the bank for an uncertain period of time and in return they receive a passbook to receive them when necessary. The nature of such a deposit is loan and in traditional banks a profit is awarded to it. In usury-free banks, profit is forbidden, but for encouraging depositors, some rewards are taken to them. These rewards are unfixed (cash or good) and are distributed among account owners through lottery. Since owners of these deposits not only save their cash, but help bank in giving interest free loans and participate in its spiritual rewards, they can be called as Islamic interest free loan. Islamic interest free loans, and Mudarabah deposits, don't exist in capitalism economic [24].

2.11.3. Depositing on interest free loan: interest free system is a kind of depositing, in which depositor can have two concepts: usury depositing, and non-usury depositing. But in capitalism depositing system, it has only usury depositing concept. In capitalism, whoever gives his money to the bank, aims to use its profit determined by bank. Hence, this determining the amount of profit has negative effect on economic of society. If the bank profit is low, people prefer to give their money to bank and take it whenever they need and use it in investing on production, which increases production level of the society and increases goods in bazaar, while high amount of bank profit encourage people to give their money to bank and use its profit without using the money itself, which results in decreasing good in the bazaar and increases money inflation. Bank, as deposit receiver, keeps some part of the money and lends the other parts to borrowers, so the bank profits both from deposits and loan. There is deposit in interest free accounts, in which banks receive money from people and lend it to others. Money owners can take their money whenever they want. People who give their deposits to the interest free banks have spiritual motive or they want to save their money and the borrower loan it without giving any extra profit and the bank receive no profit either from depositor or borrower.

Seyyed Abbas Mousavian [21], Head of Economics Department of Qom Islamic Thought and Culture Research, says in an interview with news website:

There are different types of banking facilities granted, one group is interest free, in which bank can't receive any profit but can receive fees. The difference between profit and fee is that in profit we receive extra money for the cash we have deposited, but in fees bank receive the money of their services such as construction costs, water, electricity and computers, but receive no profit from interest free cash [23,24].

There is also another law for interest free deposits in Islam called Mudaraba. This type of deposits to a depositor may be profitable and may have a loss, similar to companies. That is, cash owner give the money to another person who participate in economic activity. Therefore, in Islam we have an interest free depositing that cannot be seen in capitalism. In response to the legal issues about loan in condition of deposit, Seyyed Abbas Mousavian says:

Loaning in condition of depositing in interest free deposits is problematic but in proxying deposits is no problem. For example, if the granting concessions of important payment facilities are in condition of 3 month depositing, this is problematic in Islam. In Iran banking system deposits are in two types: interest free deposits and investment deposits. In interest free deposits with loaning entity we cannot determine depositing condition, that is, banks can't have depositing condition for granting banking facilities. In investment deposits, legal relation of depositor and bank is proxying and proxy contract is profit contracts. In this contract any conditioning is no problem.

2.11.4. Consuming and amortization loan: loan can be classified in two ways: productive loan and consuming and amortization loan. In productive loan, someone loan the other to let him do productive affairs, but in consuming or amortization loan, the loan is used in daily issues and is not used in productive works. What we have seen in narratives is that loan is mostly used in consuming affairs such as marriage, pilgrimage to Mecca,

agriculture, returning debt, etc. and is mostly used for consuming affairs. Although loan is not illegal in productive affairs, but productive affairs is not exclusive to loaning. In general affairs, such as building residential houses and investing in production, etc. cooperative fund can help.

2.11.5. Lending in condition of refunding higher profit: Although lending in condition to receive higher profit is Haram, the borrower should return the guaranteed amount. Mohadeth Bahrani states that this kind of loan is not forbidden but it's better to avoid lending to gain higher profits. But there is no problem if the borrower gives extra money when returning.

2.11.6. The effect of inflation on interest free loan: one of the issues in which returning interest free loan can have disadvantage or lose to money owner is money inflation. For example a person give 20 \$ to a person in a time that some goods were purchasable by that amount, but after a while the good becomes more expensive that is not purchasable by that money and needs more money. This is called money inflation. On the other hand, the debtor can buy something from that money and sell it and gain some benefits due to money inflation. In that case money lender will lose, while debtor has gained some profit. In Islam we don't have lose "لا ضرر ولا ضرار في السلام", so for solving this problem general equation scheme is proposed [22].

2.11.7. General equation scheme: since money determines the value of goods and any good is compared and deal by the money, what is the money itself compared with? It is obvious that money is compared with goods and work, and with this comparison we can say that money of the country is valuable or not. So we can determine a relatively fixed expense for the money, as the money is the cost of goods, gold can be value of money. Therefore, money can be compared with general goods such as wheat, rice and mineral objects (such as gold). Therefore, when a person lends some money, he can compared his money with gold, etc. that is, this amount of money is equal to this amount of gold and when receiving it the money equal to that amount of gold is expected. Or it can be compared with other goods that have fixed value in the country [13].

2.12. Interest free loan in Islamic Republic of Iran banks

Before studying interest free loan in IRI banks, let's consider it according to the act 15 of banking law: interest free loan is a contract in which one party lends a certain amount of his property to borrower and receive the same money or good." There are some points in this act that needs explanation [25]:

It's stated that loan is a kind of contract, but what kind of contract? Permitted or required contract? Permitted contract is that whenever the lender wants, he can receive his money. According to act 2 of loan law, banks can give all or any of the following grants to depositors in order to equip deposits and loan without commitment contract with the depositor: a) non fixed item gifts, b) discount or exemption from payment of banking interests, c) giving priority in using banking facilities. It's clear that contract is permitted because banks guarantee to return the deposits when the depositor wants. In required contracts, the contract remains up to the time when is specified in the contract and during this time depositor is not permitted to take the money from bank. This type of contract is explained in the verse *تا زمان معین ؛ تا اجل مسمى* [5²⁻²⁸²], which says when receiving a loan to return it on a specified time, write it on a paper. In Tahrir Al-vasiyleh, Imam Khomeini says: "الأقوى أن القرض عقد لازم [5], the loan is a required contract" [25]

Lender and borrower of the act 15 can be banks, institutions and people, and lender can be banks, institutions, organizations, governmental and private institutions and people. Loan is not specific to individuals, but government can loan to other governments or for people [22, 25].

In act 15 it's said that lender makes the borrower the owner of the property and the borrower guarantees to return the property or its value. Even if the property is destroyed in the hand of borrower, or some profit is gained by it, he is responsible for returning the amount he has borrowed. Unlike Mudarabah in which there is a relation between the property owner and his property, in interest free loan the property is separated from the lender and is in the hands of owner. In Tahrir Al-vasiyleh [25], Imam Khomeini says "it's better to return the money according to the date he has received it." In act 17 of banking law we have: "expenses of returning interest free loan is measured based on the instruction of the central bank of the Islamic republic of Iran"

This act states that borrower is responsible for the interest of bank. How much is the interest and how is accounted in the bank? In any time, there should be an agreement between two parties, lender and the borrower.

3. CONCLUSION

Considering the development of society, and the need for economic system in community, interest free loan can be an efficient system in relative balancing of society. Interest free fund is a step toward it. Economic system of interest free loan is in a way to avoid usury in society. But one of the issues that may prevent interest free loan is monetary inflation, in which property owner loses by decreasing purchasing power of the money, but the borrower profits from it. Since in Islam it's emphasized that *لا ضرر ولا ضرار في الإسلام*, to solve the problem, general equation scheme is proposed in which a fixed amount of money is specified, that is, the money is compared with general goods. Consequently, the lender can compare the value of money with goods such as gold, etc.

Another way that is more general and is closer to realities of the society is daily measuring of money inflation by central bank of IRI. In this case, after determining inflation by central bank, the borrower can borrow

and when he wants to return, inflation percent is accounted. In this case none of the parties lose and decreasing money value is compensated by central banks. On the other hands, banks give some grants to encourage these kinds of deposits by:

a) non fixed item gifts, b) discount or exemption from payment of banking interests, c) giving priority in using banking facilities, d) measuring returning date value by the date bank receives the money, and expenses of interest free loan is taken from borrower. e) the borrower is informed of the amount of bank interest, f) satisfying lender and both parties will encourage people for interest free loaning.

In Tahrir Al-vasiyleh, Imam Khomeini says: "it's better to return the money as the day of loaning, but it is obligatory precaution to satisfy lender"

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