INTERNATIONAL ECONOMIC INJUSTICE: EXPLORING THE ISLAMIC FINANCE OPTION ON DEBT RELIEF IN THE DEVELOPING NATIONS.

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ABSTRACT

Debtor-developing countries are increasingly coming under both domestic and international pressure to get out of their debt-traps. The rich, developed-creditor countries have spared no efforts to assist the debtor-developing countries in breaking free from the vicious-circle of debt and poverty. Aids packaged as debt-relief, debt-rescheduling and debt forgiveness are some of the ameliorating panacea, but these have failed to bring any observable relief to the poor developing countries. Rather than bring reliefs, the actual number of people in poverty in the developing countries has actually increased. Thus, doubts have been expressed in Nigeria about the actual quantum of debt, and probing questions are being asked about their legality and justification. The developing countries like Nigeria as we have it are not blameless in their continual, illegal and unjustified entanglement in debt-traps. Weak economic policies and political fragility have combines to stunt their economic growth. Corruption, tribalism and devastations have ravaged and depleted their meager resources. In Nigeria, to be specific and during the democratic periods, there have been calls for a change of attitudinal, political, monetary and/or economic policies. Within and without the shores of the country, are there any alternative to the commercial banking interest payments? Perhaps there is no better time than now, for poor developing nations to consider Islamic Banking System where both the lender and the borrower are partners. The lending person (country) extending the loan is giving the borrower part of his property for instance, which is referred to as "salaf" meaning "advance".

In other words, loans are interest free. Interest (Riba) is fundamentally forbidden under the Islamic financial system to prevent major injustice between the lender and the borrower. Such interest may result based on accumulated compound interest. The interest payment keeps getting compounded over the years as long as the debtor does not pay. The accumulated compound interest in the long run exceeds the original loan in many folds. Islamic economic system strives to eliminate such exploitation. This paper is intended to highlight the injustice in the international economic system in relation to debt relief packages which, if observed religiously, it is hoped that the hook can be removed and people freed from the financial/economic slavery of the rich, developed-creditor countries. This paper recommends that developing countries design their own tools in the growth of their economic policies, thereby freeing themselves from imported economic policies imposed on them.

Keywords: *Unlawful, Profit, Riba, Developing Countries, Debt, Islamic Economy*

1.0.0 Introduction

A renewed interest has occurred in the issue of debt relief in recent times. This renewed interest has been largely aided by two factors firstly, a change in the Presidency of the G8 and the EU in 2008 and secondly, the Tsunami disaster.[1]

The British Chancellor began early enlisting support or debt relief.[2] In December, 2004 in Washington, he called for a Marshall plan for the world poor. This envisages rich countries agreeing to a doubling of aid and the visitation of a major debt forgiveness programme/crusade.
The second factor that has led to a re-examination of the debt issue has been the recent Tsunami disaster.

"The giant tidal wave that his coastal regions of the Indian Ocean on December 26, 2004 killed at least 286,000 people and caused havoc to the fragile social economic and ecological systems of these areas."[3] With every

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[1] *Debt Crisis Prevention international Monetary Fund (IMF)* Retrieved from https://www.un.org/esa/ffd/ffd-follow-up/inter-agency-task-force.html

[2] *The Philosophy of Zakat- Part 1*, Retrieved from https://www.reviewofreligions.org

[3] The Review of Religious, (May 2005), (Vol. 100), Issue 5 Islamic Publications p. 20.

affected country facing pressure for higher public spending to rebuild infrastructure, a moratorium on debt payments could not have come at a better time.

Indeed, these two basic factors are linked; the disaster highlighted the increasing vulnerability of these countries and their inability to respond to such disasters.

The solution to poverty in developing nations goes beyond debt-relief and other poverty reduction/alleviation strategies. This is evident from statistics which show that despite continuous poverty-reduction strategies embarked upon over the last decades of the twentieth century world-over, the actual number of people living in poverty has actually increase by almost 100 million. This occurred at the same time that the total world income increased by 2.5% annually[4]

It is only through the establishment of an international economic based upon the principles of absolute justice and fairness that the misery of developing nations' impoverishment can be alleviated.

2.0.0 Origin of Debt in the Developing World

Geographically, the world is divided into five continents but for the international economic system they are essentially divided into two:

The poor, developing debtor countries and the rich, developed creditors' countries.

The poor, under-developed or developing countries are what was once referred to as the "third world", at the height of the ideological rivalry between the East and the West in the 1960's. The concept of third world was coined by Alfred Sarry. To Sarry, third world states comprised "the countries of Africa, Asia, Latin America and the Middle East who were ex-colonial territories"[5].

Kwame Nkrumah defined the "third world" as "the colonial territories and ex-colonial territories",[5] while to Hans Maxageuthau "third world" consists of "the Afro-Asian block of nations"[6]. Bergsten classified, the "third world" as "the middle class of the developing States and the "have-notes".[6]

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On the other hand the 'first world' comprises the USA, and USSR, and the second world comprises the States of Western Europe, Japan, Canada, Australia and China. The third world or undeveloped countries are now re-christened developing countries. The countries are noted for certain characteristics associated with them i.e. poverty, low level of economic, political and social development; and high dependency as well as debt. Being ex-colonial States, the situation has led to un-equal development between the rich western countries and the developing countries in the economic and financial relations.

The twentieth century saw many nations achieving political independence from the oppression of imperialism. Ghana blazed the trail in 1957 and Nigeria followed in October 1960. The wind of change swelled and swept through Africa. However, this independence did not necessarily result in economic freedom.

As a result of series of factors, these newly independent States have become economically dependent upon rich Western Countries for "loans". These countries incur interest-bearing loans not only for developmental projects,

[4] Stightz, E.J. (2003) *Globalization and its discontents*, London, p. 5
[5] Clapham , C. (1985) *Third World Politics: An Introduction*, London Rontledge Croom Helm Ltd p. 72
[6] Nkrumah, K (1966) *Neocolonialism: The Last stage of Imperialism*, New York, p. 31.
[7] Clapham , C. (1985) *Third World Politics: An Introduction*, London Rontledge Croom Helm Ltd p. 73
[8] Clapham , C. (1985) *Third World Politics: An Introduction*, London Rontledge Croom Helm Ltd
[9] Clapham , C. (1985) *Third World Politics: An Introduction*, London Rontledge Croom Helm Ltd

but also for day-to-day expenses as well as to pay interest accrued on their previous loans, thus keeping them locked in a vicious circle of indebtedness.[10]

The origin of developing nation's debts is largely attributable to three main causes. First, as a result of colonialism developing countries could not develop independent economic policies. They were tied to the capitalist world economy and their development depended on what was obtained in the world economy, dominated and dictated by their former colonial masters.

Many developing countries economies have been tailored to be producing raw materials, mono-culture, and importing manufactured goods. Thus, the developing countries economy had been one of unbridled and unremitting consumerism. This type of relation leads to poverty in developing countries and ties their economy to a global system of production and distribution.

In the event therefore, any fluctuation in the dominant economies of the western countries triggers fluctuation in developing countries. This situation induces dependency on the developed economies for loans, grants and technology (especially manufactured goods).[11]

Secondly is the worldwide events in 1970s and 80s – particularly, the oil price shocks, high interests rates and recessions in industrial countries and weak commodity prices – were major contributors to the build up of debt.

Endogenous factors have also played a large role with weak economic policies and poor governance in many developing countries. These range from natural disasters, resources depleted by past invaders, political instability, tribalism, civil wars, corruption, to credit ratings by capitalist agencies, poor exchange management, or an administration that is open to bureaucracy at its best and bribery at its worst.
"As a result, developing country debt rose from $500 billion in 1980 to approximately $2 trillion in 2000"[12]

Thirdly, the unfair free trade laws in operation, which work to protect Western industry at the expense of developing nations, also increase developing countries' debt – this is an act of illegality and injustice against the growing poor countries.

An example of this can be seen with reference to European Union (EU) subsidies on its agricultural industries. Below is a chart of "Countries with the Biggest Debt-repayment burden" with debt as percentage of GNP, 2018[13]

S / N	COUNTRY	PERCENTAGE
1	Barbados	123..622%
2	Congo	100.681%
3	Mozambique	112.91%
4	Sudan	167.548%
5	Venezuela	159.023%

In a visit to Mozambique in January, 2005, Gordon Brow (British Chancellor) was struck by the extent to which protectionism was shutting the country's sugar producers out to world's markets.

British officials have pointed out that the total support for agriculture within OECD countries was $318 billion, roughly five times more than all the aid the world gives them. It was estimated that in shutting out EU markets alone, such subsidies cost developing nations $20 billion a year.[14]

[10] The dependency on foreign loans has not only disrupted the economic well-being of these poor nations but has adversely affected their self-determination and forced them, sometimes against their interests to submit to the demands of the creditors.
[11] The importance of technology is in the fact that it is knowledge and the owner has some kind of monopoly over the purchaser or donee. This accounts for the high monopoly price being paid by the developing countries to owners of technology in the developed world.
[12] IMF, (September 2000) The Logic Debt Relief, IMF Working Papers,
[13] Ventura, Luca (2018) *Percentage of Public Debt to GDP Around the World 2018,* Retrieved from https://www.gfmag.com
[14] Wintour, Patrick (January, 2005) *Mandela backs Brown's plan for Africa' Guardian*.

Similarly, the United States has raised its farms subsidies, contributing to enriching a few large corporate farmers in the US at the expense of the poorest of the poor internationally. For instance, subsidies to 25,000 American cotton farmers exceed the value of what they produce and so depress cotton prides. Consequently, it is estimated that the millions of cotton farmers in Africa lose more than $350 million each year.[15]

However, causes of the indebtedness of the majority of the third world have far deeper roots that are embedded in the structure of the global capitalist financial system based upon interest. This is highlighted in the following quote from the then President Obasanjo of Nigeria, commenting on the debt Nigeria faces;

"All that we had borrowed up to 1985 or 1986 was around $5 billion and we have paid about $16 billion yet we are still being told that we owe about $28 billion. That $28 billion came about because of the injustice in the foreign creditor's interest rates. If you ask me what the worst thing in the world is, I will say it is compound interest."[16]

Although, an analysis of the harmful effects of interest is important, it goes beyond the scope of discussion of this article. Suffice to say that because of interest, despite ever-increasing payments total debt continues to rise. "Consequently, the developing world now spends $13 on debt repayment for every $1, it receives in grants."[17]

What is crucial here is that the cost of servicing debts has reached unsustainable levels. The present situation as well as the prognosis is alarming to say the least.

Faced with these unfair laws of international economics, is it any wonder that these countries have been unable to lift themselves out of destitution?

Political and social fragility apart, developing countries have to grapple with one major cause of economic under-development and regression.

Corruption is manifest in many shapes and public (or private) powers vested in an office in order to achieve private goals. The dangers of corruption are at their peak when political and public offices become accepted as an avenue of personal wealth and power.

The upright, uncorrupted, and man of integrity is treated with scorn and derision, and socially ostracized, because, he failed to "make it", "build himself" when he was appointed or elevated to a lucrative position.[18]

Taking a cue from their superiors, even petty officials, for instance, the clerks, messengers use their bit of power to increase their income. The messenger invents ingenious means of extorting money; missing file, misfiled file, files hidden under the rug, kept out of sight and out of reach until he is "seen or settled". Corruption, bribe and swindling of government funds, thus greatly hinders the enabling environment for proper economic development.

Mismanagement of resources is another area the developing countries need to address. Loans, aids, debt reliefs and grants are frittered away, siphoned and stacked in foreign banks or mismanaged. Development projects are not executed, or abandoned. Rather resources are wasted on uncompleted projects or white elephant projects which have little or no relevance to the mass of the population.[19]

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[15] Stightz, E.J. (2003) *Globalization and its discontents*, London, p. 254

[16] Quoted in Jubilee 2000 news update, August, 2000

[17] Shah, Anup www.globalissues.org/TradeRelated/ Debt/Scale.asp

[18] At one level corruption manifests in accepting gratification for a work to be done (the case of Halliburtons), accepting properties built in choice areas, lodging funds in foreign accounts. At another levels, contracts are awarded between Nigeria and International economy, for instance, by providing lucrative opportunities for corruption through the avenue of contracts, concession agreements.

[19] One is tempted to ask-why are our petroleum refineries not working in Nigeria? Why are Ajaokuta and other steel rolling mills not working also in Nigeria? Why is Nigerian Telecommunications (NITEL) not working? Why is Power Holding Company of Nigeria (PHCN) not working? In short why is Nigeria economic system not adjusting or responding to global or international economic system? One may hazard an opinion "mismanagement": that is a process of spending huge sums of money on which few clique of people benefit from. Recall the billions of naira spent on petroleum regularization funds.

When Bob Geldof was asked sometimes ago what had changed in the twenty years since "Live Aids", he replied, a lot had, Africa had grown poorer by 25%[20]

3.0.0 General Solutions proposed to the problem of debt relief of the Developing World

Very often the exacerbating poverty of some developing countries is attributed to the forced policies imposed upon them by global financial institutions such as the International Monetary Fund (IMF) that prevent them from breaking free from the vicious circle of debt and poverty, for example, Structural Adjustment Programme (SAP) 1964-89. Developing countries claimed that there is a lack of choice when devising economic development growth strategies. However, experience from other countries show that alternatives are available. Poland, for instance, employed and adopted alternative strategies to those advocated and introduced by Western Financial Institutions. Instead of following policies recommended by the IMF, it pursued those which it felt were needed for the development of its state such as <u>strengthening of democratic reform, keeping employment low and providing benefits for those who were unemployed.</u>

This resulted in Poland becoming the most successful country in Eastern Europe as at that time. The case of Ghana is the same in West Africa.

It is evident that solutions to poverty do exist and are possible. What is certain, however, is that poverty-reduction strategies can not be tailor made and dictated from elsewhere. Solutions need to be home-grown and should take into consideration the specific characteristics of the country, society an the needs of its people. In essence, these need to be a democratization of the international financial system.

Countries are rejecting and need to continue to reject the notion that a single set of policies dictated by the West or Western-controlled international institutions are right as this is in contradiction to both the principles of economics, which emphasize the importance of trade-offs. In Western countries there is often active debate of every aspect of economic policy. This needs to transcend to the international level as well.

A broad range of economists and officials from developing countries need also to be involved in the debate. There should be an exchange of information and view points and there should be an opportunity for new information to be considered.

Thus, the economic principles of Western countries and international institutions need to be open to new information and ideas that may expend or change current understanding. This will also enable developing countries to assume responsibility for their well-being themselves, encouraging them towards more effective governance, democratic accountability, openness and transparency.

Government need to play a role not only fostering economic growth, but also ensuring social justice to offset inequalities of wealth produced as a result of market forces. In countries experiencing socio-economic success, such as the Scandinavian countries, governments have provided a high level of social infrastructure in the form of high quality education to all and a generous welfare system. In contrast, in Nigeria government policies have tended to pauperize the people, for example mass retrenchment, downsizing etc without corresponding employment generation, and prompt payments of pensions, gratuities etc.

In short, governments have a role in making economics function efficiently, as well as humanely.

Development, in a candid approach is not about enriching a few, nor about being able to buy Western consumer products. "Development is about transforming societies, improving the lives of the poor, enabling everyone to have a chance at success and access to healthcare and education."[21]

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[20] Geldof , Bob, (April, 2004) *Why Africa?* Delivered at the Bar Human Rights Commission Bi-Annual Lecture at St. Paul's Cathedral,

[21] Stightz, E.J. (2003) *Globalization and its discontents*, London, p.252

This is the true meaning of development sustainable, equitable and democratic growth. This is even inherent in religions i.e the concept of equity, since religious seeks to establish a politic-economic, system based on morality and absolute justice. For instance, at the center of the Islamic economics system we read that, it commences with the premises that “all that is in the heavens and earth has been created by and belongs to God Almighty.”[22] Who in turn has entrusted man with these earthly provisions. Hence, man’s responsibility is to discharge this trust honestly and equitably.

In the conventional economic sphere, there are four (4) fundamental rights granted to man the right to be fed, the right to be adequately clothed, the right to clean supply of water and the right to shelter. This is first charter of “rights” according to Tahir Ahmad.[22]

Yet despite the progress of civilization and the great leaps in scientific and material progress, the basic principles of economic justice set out years back are still not met even today.

So what happens when the basic needs of some are not met? Humanity at large must be, and feel responsible and answerable to human problems. It is said; “whenever natural or man-made disasters strike any community, it must be treated as a (common) human problem and all societies and states of the world must help alleviate the sufferings.”[23]

This is the level of consciousness and sensitivity expected in response to man’s sufferings to one another. In the words of Tahir, he said, “this should be raised to such a degree whereby members of society as a whole are concerned more about what they owe to society than what society owes to them”[24]. This is in stark contrast to the current rationality of the international financial system. Wealthy countries devise macro-economic policies to assure the continued strengthening of their economies at the expense of weaker nations.

They had used global financial institutions like the World Bank and the I.M.F to further their nationalistic agendas unjustifiably and illegally. Whether it is giving out loans, grants or aid to the developing nations, setting up and promoting trade and financial co-operation between nation-states, rich countries pursue policies that further the interests of themselves at the expense of poorer nations.[25]

On the political front, developing countries should cultivate and nurture democratic culture or socialization among the people. Even the democracy they emulate is badly practiced as all important rules of democracy like free and fair election, tolerance and peaceful change of government are brazenly and imprudently violated.

The positive of politicians seems to be –ones in government and power, always in government and power, and forever in government and power. This encourages “do-or-die” approach to elections and conducts of fair elections, and therefore makes peaceful change elusive, and so undermines political economic development.

Some developing countries have to move away from consumer mentality (after about a decade of democracy now), for sooner or later induces a culture of dependence and ultimately inferiority complex.

The financial crises been faced by the developing nations and other economic woes call for a second thought. There have been a lot heated and spirited debates by analysts, observers, financial experts and capital market gurus alike; condemning and criticizing the unfortunate and dilapidated developing nation’s economic situation despite the various debt relief packages in the one hand; and preferring the ways-out and means of preventing future re-occurrence on the other hand. But only a few observers have alluded their minds to the rudiments of the crisis so as to probe both the remote and immediate causative agents.

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[22] Tahir Ahmad, H. M. (1996), *Absolute Justice, kindness and kinship: The Three Creative Principles*, Islam International Publications Ltd., p. 117

[23] Tahir Ahmad, H. M. (1992) *Islam’s Response to Contemporary Issues*, Islam International Publications, London, p. 212

[24] Tahir Ahmad, H. M. (1992) *Islam’s Response to Contemporary Issues*, Islam International Publications, London, p. 212

[25] The crucial factors that will enhance the economic development of the developing countries is the re-ordering of the international economic system so that developing countries can get out of the role which had been there for so long, the role which enabled the developed countries to be enriched which stems from unequal terms of trade, export of raw materials and imports of manufacture goods.

One discernible fact is that the developing nation's economy and financial dealings are largely based on the conventional finance system which deals ultimately in Riba (interest), thereby constituting a major rival of the conventional system of finance globally is the Islamic Financial System, which is the fulcrum of the Islamic Economic System. Whereas, while the former is based largely on interest, the latter is devoid of interest. This is inherent in the golden principle of Islamic Finance that INTEREST IS DISCOURAGED WHILE PROFIT IS ENCOURAGED.[26]

4.0.0 Shariah Solution

4.1.0 The Understanding Of Interest Under The Shariah

Interest is money charged for borrowing money or paid to somebody who invests money. This definition seems to have been espoused even within the circle of economic experts.

Thus, interest is defined as "*the cost of using someone else's money or viewed from lender's point of view, as the price charged for allowing someone else to use your money*".[27] Interest, for the purpose of the discourse may simply be defined as excesses charged on loan and/or excesses paid for making investment without having or running any risk in the business in which the investment is engaged in.

Some people have misconceived the idea behind this principle of Islamic economic standards, when they hold that interest is to conventional system what profit is to the Islamic Financial System. Whereas the emerging economic realities have shown that both are two entirely different concepts; there is indeed a border line demarcation between interest and profit.

Commenting on the provision of the Qur'an 2 verse 257, where Allah declares thus, ***". . . for they say: see thou trade (for profit) is like interest, whereas Allah permits trade, while He prohibits interest"***; Al-Himsiy said: *'If it were that interest is part of profit, Allah would not have prohibited it in financial dealings of the Ummah'* [28]

In essence, shariah makes a clear-cut distinction between Riba and Profit. Any lawful trading leading to profit is under the Islamic economic standards, while any trading involving interest is disallowed and therefore prohibited. To the conventionalists, interest is part of profit. Femi Adekanye, aligning himself with classical economists like ADAM SMITH and RICARDO believed that INTEREST is the cost of using another person's money, or as the price charged for allowing another person to use one's money.[29]

To these people, interest is so fundamental to the survival of financial institutions, which are the key players in the economy. This view represents the money conviction of the capitalists whose dastardly disposition is to exploit others. The capitalists believe that without interest, there can be no profitable investment.

However, the emerging economic realities have totally disputed this position, for profitability is not determined by interest. An alternative have been found in the Islamic Finance System. Analysts and finance experts alike have attested to this. It is a common view among finance experts conversant with both the Islamic Finance and conventional finance that interest oriented financing is the bane of the current global economic woes.

Professor Monzar Kahf postulated that " . . . except the government explores Islamic financing, the world's economy may not achieve its developmental goals on time."[30] Warning on the sanctions that flow from interest-

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[26] The Glorious Qur'an is replete with authorities expressly prohibiting Riba. See for example, Qur'an 20 vs 39, 2 vs 257, 3 vs 130, 4 vs 61 inter alia; see also Aljazairiy, A.J.A. (2003) *Minhaj al Muslim* (New Revised Edition, Dar al Fikr, Lebanon, , pg 286)

[27] Hornby,A.S. (1995) *Oxford Advanced Learner's Dictionary*, (5th Edition), University Press, Great Clarendon Street, Oxford, , pg 622.

[28] Al Himsiy, M.H. *Tafsir wa Bayan Al-Qur'an* (Dar al-Rashid, Bairul, pg 47)

[29] Adekanye, F. *The Elements of Banking in Nigeria* (for detailed citation, see the material on Islamic Banking by A.T. Sheu, Lecturer, Department of Islamic Law, Faculty of Law, University of Ilorin, Ilorin, pg 5)

[30] The Guardian, Monday, January 19, 2009 at pg 24

based financing, Kahf attributed the recent turmoil in the stock mortgage section in the United States to the potential pitfalls of credit practices in the conventional system.

He therefore suggested confidently that now is the timely opportunity to consider Islamic Finance, "which prohibits lending of money for interest and propagates fair and just practices in financial dealings."[31] Also acknowledging the Islamic Finance and exploring its virtues and values, Mr Miller Neil said: "the IMF has rated Islamic Finance as one of the world's fastest growing sectors with a yearly growth rate of between 15 – 20%."[32] He however added that "Islamic Finance is targeted as socially responsible investors."[33]

5.0.0 RATIONALE BEHIND THE ISLAMIC ECONOMIC STANDARDS

One of the five protective intentions of shariah is protection of property/wealth (Hifz-al-Mal), and one of the pragmatic measures taken by shariah to achieve this is the prohibition of interest, the thrust of which is to ensure the protection of the weak, the poor as well as investors against the prejudicial financial dispositions of the capitalists.

This measure has been justified in that it provides the world's economy with reliable alternative to the global capitalists' economic order. It also provides world's financial services with reliability and sustainability. In essence, the prohibition of interest under the shariah is justifiable on the following grounds:

i. It is ultimately to protect people's property from misappropriation.
ii. It is to ensure the right of the masses to profitable investments, devoid of any kind of deceit, uncertainty and unnecessary risk.
iii. It ensures right of individuals to lawful acquisition of wealth without rancour, pain, grudge and or enmity etc.
iv. To prevent the society from running into topsy-turvy.
v. Riba involves wrong-doing and its prohibitions are to prevent wrong-doing in the society.
vi. It is also to allow for and open wide the door of benevolence as encouraged by the Islamic dictates.[34]

The Islamic economic system runs on the total absence of interest factor. Yet, there is neither historical nor current evidence to suggest that as a result of no interest, the milieu of inflation or insufficiency went amok, and set the prices and needs spiralling beyond control. In the contemporary times, we have a very interesting opportunity to draw comparisons with regard to the influence of interest rates (on capital) or its absence on inflation and insufficiency.

The government of China under Mao Tse Tsung's era made many experiments with the economy. Some faltered, and some produced excellent results. But during the entire reign of Mao Tse Tsung, interest was not allowed to play any part either domestically or internationally. Yet throughout this period, there was no prominent increase in inflation or any sort of insufficiency, prices began to register falls.[35]

As compared to this, is the state of Isreal, perhaps the world's most capitalist country, the rate of inflation has been amongst the highest recorded anywhere in the world, except of course, Latin American countries and the post war exceptional phenomenon of inflation in Europe, particularly in Germany. But then those were not normal days. Other things being equal, the role of interest in any economy can be depended as anything other than inflationary and thus the prohibition by the Islamic Law.

In an interest nominated society, owners of capital are always ready to lend money without investigating or caring for the ability of the borrower to repay. On the borrower side, there are few who seriously consider their repayment ability.

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[31] The Guardian, Monday, January 19, 2009 at pg 24
[32] Miller is the global head of Finance Department, Morton Rose LLP, London
[33] Miller is the global head of Finance Department, Morton Rose LLP, London
[34] The Guardian (N.5)
[35] The Guardian (N.5)

This is in tandem with the opinion of Tahir Ahmad, when he postulated that, "Little do they know or realize that borrowing from the loan-sharks, the likes of Shylock and prestigious finance houses and banks is tantamount to borrowing from

their own future earnings."[36] Thus, interest encourages the habit of living beyond

one's resources. It results in over-spending and an increasing inability to repay and honour one's pledges. Such societies give an unrealistic boost to production to meet consumer demand.

According to Mirza Tahir:

> *people with less means available to buy all that they want are willy-nilly turned to false plastic money to fulfil their desires. Obviously, this means that they buy for more than their earnings. If this money was to be repaid even without interest on the capital, it would be tantamount to increasing one's buying capacity at present at the cost of lowering the same in the future.*[37]

For instance, if a man earns $1,000 per month and goes shopping for expensive articles with the help of borrowed money (as his capital and TO PAY NO INTEREST on it) say, to the tune of $40,000, his ability to repay will be determined by his net savings per month. Let us suppose that he can barely make the ends meet at $600. This will leave him with net savings of $400 per month with

which he has to pay the loan. He will have to live within that tight budget for the

next 100 months to repay the loan arising from his spending spare of $40,000 without interest. What he has therefore, done is to borrow money from his future 100 months (i.e. 8 years and 4 months) to spend at the beginning of this period.

The only advantage he has gain is to satiate his impatience and fulfill his desires instead of waiting for the next eight years or so. But, if HE HAS TO PAY INTEREST on this $40,000, his financial position will be far worse than the one discussed in the above scenario. At an average rate of say, 14% his total loan from his own future earnings would work out to be far greater than the actual money he had borrowed. This will lower his ability to repay and lengthen the period of repayment to a considerable degree. Such a person will have to suffer patiently for some 20 years or so as a punishment for his impatience making monthly payment of about $500 i.e. a total of about $12,000 to repay the loan with compound interest. The loss is most certainly of the borrower and not of the lender. This same scenario is applicable to a nation with all the attendants' negative effects.

> Again, Mirza Tahir observed; *"The lender is part of a very powerful system of exploitation which guarantees, after allowance from inflation and load loss. That the lender ends up with more money in his pocket."*[38]

With inflation, the situation of the borrower in question will further worsen. His buying power will continue to decrease. This is what the Islamic financial system

frown at, as is concerned with the welfare of all and not profit making alone and this accounts for the prohibition of Riba (interest).

In particular, interest is usually treated as cost; thereby leading to higher cost of production, the consequence of which is higher prices leading, in effect, to higher cost of living. WHEREAS, it is settled economically that higher cost of living stimulates fall in standard of living.[39] The reality is that the current global economic/financial crisis was triggered off by interest-oriented dealings in the capital market inherent in speculations, risks, deceits and other forms of malpractices, which the developing-debtor nations have suffer more than other countries.[40]

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[36] Ahmad, H.M.T. (1997) *Islam's Response to Contemporary Issues*, Islam International Publications Ltd, pp 171 – 174
[37] Ahmad, H.M.T. (1997) *Islam's Response to Contemporary Issues*, Islam International Publications Ltd, pp 188
[38] Ahmad, H.M.T. (1997) *Islam's Response to Contemporary Issues*, Islam International Publications Ltd, 188

[39] Jhingan, M.L. (1997) *Macro-Economics Theory*, (10th Edition) Vinda Publications (p) Ltd, pg 134
[40] Vanguard Newspaper, Nigeria, Friday, January 23rd, 2009, pg 33

"Many big countries have been affected. For example, only last December, the Russian government announced an increase in tarrifs on imported cars, sparking angry protests from motorists. The move was meant to support a local car industry that temporarily shutted factories due to withering demand. Also in Indonesia, the government is slapping imports restrictions on about 500 items. The decree announcing the measure said they were necessary because 'the global crisis has resulted in uncertainties and caused unbeneficial impact on the economy of Indonesia.' Apart from traditional tariffs, other countries are using the financial support strategy. For instance and most obviously was the Washington's 17 billion dollars bail out of the United States auto industry. It is further expected that the 'Buy America' provisions in the proposed Obama's government stimulus package will favours US industrialists over foreign imports. China, meanwhile has restored or raise tax rebates over the past six months on more than 3,700 export items to assist struggling exporters." The foregoing highlights the practical measures being taken by various governments world over to bail their economies out of the global crisis.

Against the background or our discussion so far in this paper, the current global economic crisis being experienced world over today and the debtor developing countries in particular (as a result of the debts and the compound interest associated therewith) is justifiable with the prohibition of Riba under the Islamic economic/financial principles/ideologies.

It must be confessed point blank and outright that Riba-based transaction (economy) which has become part and parcel of the global economic order portends greater danger for the global economy, for it tends to prejudice the economic interest of the populace. And unless there is an attitudinal change by adapting the Islamic financial standard which is zero-interest financing, it is doubtful where the measures already taken and being taken by various debtor developing countries (as proposed by the creditor-developed countries in form of relief packages) to mend their economies and salvage their countries from crisis, will yield ANY positive result. The global economy is unsalvageable and the crisis unabatable, without the adoption of zero-interest financing methods. And in the words of Professor Kahf summarily, are instructive: "The key structures used in Islamic finance, which include sale-based models like Murabaha and Ijarah, agency-based models like Wakala, and profit and loss sharing models like Mudarabah and Musharakah are developmental in nature (and more beneficial for a meaningful economy)."[41]

6.0.0 CONCLUSION

Compound interests arising from loans from developed countries and major world financial bodies have constituted albatross on the economy of developing nations. The developing countries are not entirely blameless in their entrapment in the vicious circle of debt-poverty.

Having just emerged from colonial rules and coupled with internal political acrimony, that have fragile political structures, they mismanage their resources or engage in unconscionable corruptions.

Added to these negative social features are other varieties of structural characteristics which reflect and reinforce their dependence on the rich creditor-countries for loans. Some of these characteristics are that their exports are subjected to erratic price fluctuations in the world market, and these are mainly agricultural, or mono-products the prices of which are determined by the loan-giver countries, yet another characteristic is their lack of technological autonomy.

The combined effect of these features and characteristics is that loans could not be paid as and when due and so interests compounded. The costs of servicing debt have reached alarming and unsustainable level. This is creating and aggravating poverty. In fact, African countries have grown poorer.

Developing countries have to device and design their own home grown economic policies. They should break free from the stranglehold of alien, untested policies, imported, dictated and imposed on them. Developing countries have to improve management of the elites and political class.

More importantly, developing countries should direct attention to considering alternative methods of raising loans. One such untapped source is the Islamic financial institutions. These institutions give interest-free loans.

[41] The Guardian, Nigeria, Monday, January 19th 2009, pg 26

Their primary goal is not for profit making but the endorsement of social goals of socio-economic development and the alleviation of poverty. Islamic financial institutions as capital providers act also as silent partnership or general partnership.

Islamic creed is the focus of these institutions and is unlike commercial banks whose main object is profit making and so charge interests. Islamic financial institutions view bank interest as a form of unjust charges be it simple or compounded. The institutions being first and foremost founded on faith, they strictly adhere to, and share the fundamental Islamic drive to avoid what God has forbidden. Thus, they target their financing and economic activities towards the good of the people and the nation as the Maqasid-al-Shariah (objects of Islamic Law).

Islamic financial institutions endorse the principles of mercy and forgiveness when clients face financial difficulties.[42]

This is in obedience to God's command. Conventional banks may also forgive debt but under stringent conditionality that may even result in insolvency of the debtor which can have catastrophic effects on the debtor and economy at large.

Islamic financial institutions are more open and provide transparency in their dealings. The depositors' monies are invested in specific lawful and reasonable projects that are made known to them. The institution and depositors share profits and losses according to agreed-upon ratios. When the principles, policies and practice of Islamic financial institutions are adopted and applied at national and international levels, developing countries would be able to save their breath on loan repayment, for the cooling of their development and poverty alleviation programmes.

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[42] "*If the debtor is in difficulty, grant him respite till it is easy for him to repay . . .*" Qur'an 2 vs 280