JURISPRUDENTIAL AND ECONOMIC SURVEY OF GUARANTEED PROFIT (ON-ACCOUNT) IN IRAN'S RIBA-FREE BANKING SYSTEM

2021
MASTER THESIS
FINANCE AND ISLAMIC BANKING

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Master Thesis

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KARABÜK

Junaury 2021

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THESIS APPROVAL PAGE

I certify that in my opinion the thesis submitted by Farooq Omar Abdullah titled "JURISPRUDENTIAL AND ECONOMIC SURVEY OF GUARANTEED PROFIT (ON-ACCOUNT) IN IRAN'S RIBA-FREE BANKING SYSTEM" is fully adequate in scope and in quality as a thesis for the degree of Master of Science.

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The degree of Master of Science by the thesis submitted is approved by the Administrative Board of the Institute of Graduate Programs, Karabuk University.

Prof. Dr. Hasan SOLMAZ .....

Director of the Institute of Graduate Programs

DECLARATION

I hereby declare that this thesis is the result of my own work and all information included has been obtained and expounded in accordance with the academic rules and ethical policy specified by the institute. Besides, I declare that all the statements, results, materials, not original to this thesis have been cited and referenced literally.

Without being bound by a particular time, I accept all moral and legal consequences of any detection contrary to the aforementioned statement.

Name Surname: Farooq Omar Abdullah

Signature :

FOREWORD

This thesis is written as completion to the master finance and Islamic banking at the Karabük Üniversity (KBÜ). The master programme focuses on on-account profit, which is paid to bank deposits and partnership securities.

Since February 2020, I have been conducting research on the topic. I have experienced this period as very interesting and instructive. At the beggining I had little knowledge of Finance and Islamic banking. However, I have been able to achieve a result I am very satisfied with. I would like to thank my supervisor Assist.Prof.Dr. Abdulkadir ATAR. His valuable insights and directions gave me needful guidance to complete the research and write this thesis.

ABSTRACT

It has been 36 years since the enactment of the law on riba-free and the administration of the banking system based on it. The point of designing such system was to boycott the riba from the banking system of Iran. But has this point become practical? In this research it is indicated that the riba-free banking system in Iran despite removing it from the banking operations formally and on the surface, still it is not free from the adverse impacts of riba. Amongst these important impacts, paying the on-account profit can be referred to, which through practical guarantee turns to the guaranteed profit and works as an interest. In other terms, if the contingency characteristic is taken away from the on-account profit, the duality of interest and on-account profit will get integrated. In this dissertation, the research method is descriptive, along with jurisprudential plus economic analysis. Also, for data collection, the library and database resources have been employed. In the current study, in conjunction with reviewing on-account profit, the difference between Definte profit and on-account profit of bank deposits during 1990-2018 has been examined. Also, the study dealt with the difference between the definite profit and the on-account profit of the Central Bank's partnership securities during 2001-2014. According to the results, in most years, the difference between these two rates has been zero, and the least on-account profit is deemed final at the end of the deposit's period. And since the most prominent foundation of riba-free banking is to participate in the profits and losses of the desired plan, so paying the merest guaranteed profit (on-account) to bank deposits plus participation bonds is doubtful. Although this study mainly focuses on highlighting the on-account profit, it also presents some solutions to deal with it.

Keywords: On-account profit, Definite profit, Riba-free banking, Law of riba-free banking operation, Partnership securities, Interest, Profit.

ÖZ (ABSTRACT IN TURKISH)

İran'da faizsiz bankacılık işlemleri ve buna dayalı bankacılık sistemini uygulama yasasının onaylanmasının üzerinden yaklaşık 36 yıl geçmiştir. Anılan sistemin tasarlanmasından güdülen hedef ise İran bankacılık sisteminden faizin uzak tutulması idi. Ancak bu hedef pratik olarak ne denli hayata geçirilmiştir?

İşte bu araştırmada İran'da faizsiz bankacılık sisteminde, bankacılık işlemlerinin şeklen, görünüşte faizden temizlenmesine rağmen gerçekte faizin kötü tesirinden ve kurduğu sultadan kurtulamadığını göstermeye çalışmaktayız.

Bu etkilerin en önemlileri arasında kaynakları donatma alanında ödenen garantili (peşin) ('Ale'l-hesap) kâra değinmek mümkün. Bu kâr türü pratik güvenceler ile garanti kârına dönüşür ve tam faiz gibi bir rol oynar. Bu tezde araştırma mdetodolojisi olarak fıkhî ve ekonomik analizler ile beraber betimleyici araştırma yöntemi kullanılmıştır. Ayrıca verilerin toplanması için veri tabanları ve kütüphane kaynaklarına başvurulmuştur. Mevcut araştırmada garantili (peşin) kârın incelenip eleştirilmesinin yanı sıra 1990-2018 yılları arası bankaların mevduatlarındaki garantili (peşin) kâr ve kesin kâr arasındaki farkları ayrıca 2001-2014 yılları arası Merkez Bankası şirket tahvili garantili (peşin) kârı incelenmiştir. Sonuçlar ise bu iki kâr türü rakamları arasındaki farkın çoğu yıllarda sıfır kadar olduğunu ve minimum kesin olmayan kâr oranının mevduat döneminin sonunda kesin kâr oranı olarak telakki edildiğini göstermektedir. Halbuki faizsiz bankacılığın en önemli temeli kâr ve zararda ortaklık yapmaktır. Bu yüzden banka mevduatları ve şirket tahvillerinde minimum garanti (peşin) kârın ödenmesi hususunda belli başlı kuşkular söz konusudur. Buna rağmen mevcut araştırmanın asıl odaklandığı konu garantili (peşin) kâr ve bu süreç ile mücadeledeki çözüm yollarıdır.

Anahtar Kelimeler (Keywords in Turkish): Garantili (peşin) kâr, Kesin kâr, Faizsiz bankacılık, Faizsiz bankacılık işlemi kanunu, Şirket tahvili, Faiz, kâr.

ARCHIVE RECORD INFORMATION

Title of the Thesis	Jurisprudential and Economic Survey of Guaranteed Profit (On-account Profit) in Iran's Riba-free Banking System
Author of the Thesis	Farooq Omar Abdullah
Supervisor of the Thesis	Dr.Öğer.Üyesi Abdulkadir ATAR
Status of the Thesis	Master Degree
Date of the Thesis	Finance and Islamic Banking
Field of the Thesis	Finans ve Katılım Bankacılık
Place of the Thesis	KBÜ/LEE
Total Page Number	191
Keywords	On-account profit, Definite profit, Riba-free banking, Law of riba-free banking operation, Partnership securities, Interest, Profit

ARŞİV KAYIT BİLGİLERİ (in Turkish)

Tezin Adı	İran'daki Faizsiz Bankacılık Sisteminde Garantili (Peşin) Kâr Uygulamasının Hukukî ve İktisadî Bir Araştırması
Tezin Yazarı	Farooq Omar Abdullah
Tezin Danışmanı	Dr.Öğr.Üyesi Abdulkadir ATAR
Tezin Derecesi	Yüksek Lisans
Tezin Tarihi	18.01.2021
Tezin Alanı	Finans ve Katılım Bankacılık
Tezin Yeri	KBÜ/LEE
Tezin Sayfa Sayısı	191
Anahtar Kelimeler	Garantili (peşin) kâr, Kesin kâr, Faizsiz bankacılık, Faizsiz bankacılık işlemi kanunu, Şirket tahvili, Faiz, kâr

ABBREVIATIONS

IFSB: Islamic Financial Services Board

IDB: Islamic Development Bank

OIC: Organisation of Islamic Cooperation

HSBC: Hongkong and Shanghai Banking Corporation

PLS: Profit and Loss Sharing

AAOIFI: Accounting and Auditing Organisation for Islamic Financial Institutions

POA: Power of Attorney

PBUH: Peace be upon him

د.ت: دون تاریخ

هـ.ش: هجری شمسی

هـ.ق: هجری قمری

م: میلادی

SUBJECT OF THE RESEARCH

Inside the conventional banking system, bank profit gets designated from the inclusive supply of the money market, and this rate is according to the profit that the bank pays to depositors plus recipients of facilities the bank provides. Considering the sanction of riba and concluding Islamic contracts by Islamic banks, this question arises, stating that on what basis should the profit of depositors be calculated and determined?

According to all jurists and most Muslim economists, the profits paid upon bank deposits and obligation bonds in the free market economy system are ribavi based on the principles of Islamic jurisprudence. After the Islamic Revolution of Iran, the seminary and the university thinkers agreed that the riba is a stain of infamy which must get eliminated from the area of the Iranian economy. As a result, in 1983, the law on riba-free banking operations was enacted and administered. By establishing the system of the riba-free banking operation and altering its operational nature from the mediation of funds to POA affairs, the bank, as the depositor's attorney, is responsible for their funds and obtaining logical profit for them. According to the law, it also must divide the profit attained from partnering up with the applicants of bank facilities after subtracting the POA, in agreement with the amounts of the deposits, and considering the bank's share in line with the duration and the amount applied in partnership affairs.

It was expected that the administration of the riba-free banking law in all banks would result in the extermination of riba and that riba-free banking would efficiently serve to develop the economy. Unfortunately, from 1990 until today, a profit called on-account profit (guaranteed) is accrued to time deposits. On-account profit, according to jurisprudence and economic terms, can be examined from various aspects; besides, jurisprudential problems appear surrounding it. Amongst the most necessary shortcomings discussed over this matter, we can refer to the guaranteeable feature, the uniformity, and the final profit of on-account profit in most years.

Accordingly, this dissertation has dealt with the jurisprudential-economic study of on-account profit in riba-free banking of Iran, and it has examined the performance of the Iranian banking system in distributing the profit on deposits and participation bonds.

PURPOSE AND IMPORTANCE OF THE RESEARCH

This study aims to conduct jurisprudential and economic research through the on-account (على الحساب) application, which is used in banks in the riba-free banking system in Iran and offers a guaranteed return on deposits. The aim of the study is to demonstrate the compliance of Islamic banking practices in Iran with the principles of riba-free banking.

METHOD OF THE RESEARCH

The method adopted for this thesis is descriptive, along with jurisprudential-economic analysis, which through using library information, helped to examine the on-account profit in riba-free baking of Iran.

HYPOTHESIS OF THE RESEARCH / RESEARCH PROBLEM

1. The riba-free banking system of the Islamic Republic of Iran, by the most considerable portion of Islamic banking assets and also despite the presence of the law on riba-free banking operations, has not been victorious in resisting the real impacts of riba plus excluding it from the banking system.

2.The on-account profit rate and the final profit rate has been equal in most years since 1990, which itself shows the quasi-ribavi status of banking operations in Iran.

SCOPE AND LIMITATIONS / DIFFICULTIES

Undoubtedly, every research is inevitable in submitting to certain restrictions in their implementation. Concerning the present research in relation to data, due to the non-publication of annual monetary statements by Iranian banks, the researcher is restricted for collecting data

1. CHAPTER ONE: INTRODUCTION AND LITERATURE REVIEW

1.1. Introduction

The divine religion of Islam, as a school carrying all the essential plans for the prosperity of men in all steps of life, has also provided human beings in the economic field with a set of commands that are the central components of a monetary system. During the graceful life of the great Prophet of Islam, and the caliphs after him, this system's practical experience, has proved its success. Amongst the discourses of Islamic economics, riba is in possession of exceptional importance. Because on the one hand, it is one of the chief features of the contrast separating Islamic economics and capitalism. On the other hand, its presence or absence can play a determining role in financial policies so that most economists in the world's capitalist faction mention it as a resource allocator and economic balance.

Riba is the cruelest economic colonization and the most wicked exploitation from the helpless and divested bodies of society. Not only is riba an inhuman and unethical act, but also a shameful job, which leaves numerous disasters and misery in all social and financial affairs of human societies. Just like a malignant growth, riba scorches the sense of cooperation roots and love plus social bonds; besides, it inflicts disease, insufficiency, and disorder on consistent economic and commercial associations as well as exchanges. Riba has always been dirty and illegal, and nearly all societies contained some people who carried out this nasty job as their occupation that was like grass growing amidst a garden full of flowers. That is to say, society's economic system did not permit riba in its arteries and did not place it in the skeletal framework of its body. However, riba existed, in an informal way, on the margins plus outside the economic system, living with its hideous exterior and its freaking misbegotten wretched identity. Yet unfortunately, along with the changes in human life during recent centuries, some potent factors have been found that have interjected riba into the economic system's cycle and the arteries of human society's mundane life, granting it much formality, advancement, authority, and dominance.

Since the early of the sixteenth century, when many ethical and religious traditions and laws were subject to change in the West, the forbiddance of riba was increasingly objected and criticized. These actions went so far that they completely break the moral and religious barriers. Accordingly, some rulers, including Louis XIV, openly borrowed money in 1662, on the condition of returning it with significant profit. More eccentric and unexpected than this is the ribavi transaction of Pope IX, which took place in 1860, resulting in surpassing damage to the forbiddance of this religious law. At the end of the eighteenth century, some economists, including Turgot and Bentham, officially announced their agreement towards loan interest, and in 1793 the French legislature recognized the freedom of interest and lending as an official affair. But later in 1807 AD, they enacted a new law according to which the interest rate for commercial loans would be 6% and for non-commercial loans would only be 5%; moreover, if the lender received a higher rate, he would be sentenced for riba and punished. However, in 1918 this law got canceled, and the restriction was abolished (ذبیحی قیه باشی, 1392هـ.ش, ص. 1-4).

Today, from the capitalist economists' perspective, riba has a significant and unprecedented position, to the extent that the idea of an interest-free economy is unrealistic and farfetched. Interest is the main factor that drives the capitalist economy into the bustle, and economic mechanisms are implemented based on it. Interest, as one of the most remarkable macroeconomic variables, has an irrefutable influence, and from the supply and demand of money to savings, production, employment, supply and demand of capital along with its inflows and outflows are all influenced by interest rates. Capitalist economists recognize interest as the price of money that must be paid in exchange for lending it. Also, they consider money as a useful rare financial commodity, that the consumers are willing to pay the intended development so that they can fetch their desired item (مهدی عراقی, 1389هـ.ش).

Islam strictly forbids riba and interest so much that it labels them as the worst and evilest business ever, and to circumvent riba, the business owners must learn trading etiquette. Also, Islam sees riba as the war against God and his Prophet, stating that God curses the usurer. Regarding these details, it is clear that in banking, this tool cannot be employed like the capitalist system (سامی, 1374هـ.ش, ص. 2).

Therefore, Muslim scholars and scientists began to think of setting an Islamic bank plus financial institution that would comply with Islamic law. Islamic banking in the world of Islam started from the ideology of building an Islamic economy and gradually formed into the current banking. Islamic banking is pursuant to sharing the risk, physical trade of commodities, direct engagement in business and labor, rent, and construction contracts using a variety of sharia (religious) agreements. Sharing risk and managing it in order to achieve the governance of participation and cooperation in performing the projects is one of the goals of Islamic banking. Interest or riba is not received in Islamic banking; Because in riba, money is obtained from its place, not by getting involved in a business. Accordingly, it is also indicated as exploitation. One of the central contrasts between Islamic banking and interest-based banking is that in the latter one, the interest rate determines the amount of the depositor's revenue according to the percentage of the deposit and its term. However, in interest-free banking, the share of the capital's owner is determined at the end of the work and after the profit and loss of the plan have been audited (محسنی زنوزی, جوهری, & هلالی, 1390هـ.ش, ص. 38) (علم الهدی, 1397هـ.ش, ص. 70).

The idea of Islamic banking first brought up in the 1990s. The primary Islamic bank and financial institution initiated in 1963 in Mit Qamar, a village in Egypt. Following that, Islamic banks like the Islamic Development Bank, Dubai Bank, etc. appeared in the 1990s. In the 1980s, a variety of Islamic banks and financial institutions commenced operating in Islamic countries. At this period, countries like Iran and Pakistan chose to administer Islamic banking in all banking areas. Also, other countries allowed Islamic banks to work alongside common existing banks (تقی‌زاده, 1391هـ.ش, ص. 48).

Presenting Islamic banking services in various countries takes place according to the specific laws of each of them (فارابی & ترابی, 1394هـ.ش). In the Islamic Republic of Iran, in order to realize the Islamic education, the Law on Riba-free Banking Operations was administered so as to remove riba from the Iranian banking system from 1983. It was expected that the administration of the law on riba-free banking in all banks would result in the elimination of riba, and riba-free banking would efficiently serve to improve the economy of Iran. Unfortunately, since performing this law, the Iranian banking system has faced some issues that have not only reduced but also extended after 36 years (مصباحی مقدم, 1397هـ.ش, ص. 118). One of the most significant intricacies and

challenges of riba-free banking in Iran is to pay a guaranteed profit as the on-account profit to the time investment deposits. On-account profit is the amount that the bank pays to the owners of investment deposits prior to the completion and concluding the investment operation and calculating the final profit. There are various drawbacks in using the on-account profit, and according to some Islamic banking researchers, it has the quasi-ribavi nature of banking operations (سیفلو, 1389هـ.ش).

On-account profit, according to jurisprudence and economic terms, can be examined from various aspects; besides, jurisprudential problems appear surrounding it. One of the most significant problems brought up is the issue of guaranteeing the principle of capital and profit from the capital receiver. It is also possible to check whether ensuring the profit in the framework of Islamic partnership contracts holds jurisprudential as well as legal legitimacy or not? Another argument that surfaces up in this concern is that regarding the forbiddance of profits pre-determination in Islamic jurisprudence, whether the on-account profit is variable and not predetermined, or these profits have only taken the name of on-account, and they are definite profit?

This research is including five chapters. In the first one, besides the introduction of riba and sale (Baye), verses and hadiths corresponded to riba are stated. Following that, it examines the philosophy of riba and its harms. The second chapter deals with the concept of risk and its place in conventional plus Islamic economics. In the third chapter, apart from the definitions of conventional and Islamic banking as well as profit and interest, an effort is made to address theories associated with interest plus the Islamic prospect on the subject of Tas'ir (pricing). The fourth chapter takes care of the history of riba-free banking in Iran, and the performance of this system in this country for supplying and allocating resources, besides determining on-account profit for investment deposits plus participation bonds based on the jurisprudential and economic aspects. The fifth chapter will glance at the problems in the law and the administration of riba-free banking in Iran as well as religious supervision; moreover, it will proceed to contribute solutions for improving the riba-free banking system in Iran.

1.2. Literature Review

In this section, for understanding the on-account profit in the riba-free banking system better, several studies are reviewed.

Seiflo (1389هـ.ش), inside the article "Special Investment Account for a Fixed Profit Solution," observes riba-free banking in drawing and supplying bank deposits and stimulating depositors. Since most depositors are risk-averse people and their goal of depositing in a bank is to get paid. And the results of this study show that the on-account profit is the approach that Islamic banks in Iran have adopted to solve this issue and get rid of the incentive crisis of the depositors, so Islamic banking researchers believe that this work is like a quasi-ribavi banking system.

Within a study, Hosseinzadeh Bahraini (1374هـ.ش) examined the guaranteed interest (on-account) in the riba-free banking system. This study illustrates the logic and the reason why there is an inverse relationship between profit rates and production using the risk element and its role. And it has been pointed out that the drawing any interest rate on the on-account that the depositor is sure about receiving has the identical function as the profit rate. Furthermore, through a mechanism that is precisely similar to those of the interest rates on investment effect, it decreases society's actual risk-taking wealth, labor productivity, and national production.

Jami Zandabadi (1392هـ.ش), in his dissertation "Jurisprudential and legal study of on-account profit of bank deposits and participation bonds," has examined the on-account profit in the Iranian banking system. He asserts that one of the vital factors dragging the attention plus trust of investors is the guarantee of profit, which is realized in bank deposits and bonds by adding on-account profit. Also, the pre-determination of profit is the premise for guaranteed profit. The fundamental problem with the body of the profit prediction is the probable achievement of profit, and it relies more on transitions of the market and environmental conditions rather than the forecast of the parties. Guaranteeing the profit by excluding the risk element makes the on-account profit does not adapt in a form other than riba.

Rahmatinia (1394هـ.ش), in his dissertation "Designing a model for determining the optimal bank profit rate in the Iranian banking system," has examined six comprehensive sections, including Sharia (religious) principles, reference laws, macroeconomics, supervising regulations, and risk management, principles of resource

and expenditure management, and the framework of the banking market, as well as winning the opinion of technical experts in the banking system. As a result, it proves that the chief damage currently squeezing the Iranian banking system throat is the ordered determination of profit rates by the Monetary and Credit Council so that it has caused the investment deposits to receive an amount as the on-account per month. Following that, the definite profit will be calculated and paid at the end of the period. However, practically, the same on-account profit is determined definite, and the depositor will receive no other profit.

Seiflo (1389هـ.ش), within his master's thesis, along with examining corporative banking and introducing other common types of corporative accounts, introduced (Sood Ali Al-Hesab) (on-account profit), a unique model used in the form of riba-free banking in Islamic banking of Iran. Hence, this dissertation, while interpreting the riba-free banking model in supplying investment resources, presents a new approach that uses the benefits of the participatory model. Also, this new approach is an effective way to snap out of the problems brought up from how to supply investment resources and deposits through POA in Iran.

Tavakoli (1381هـ.ش), in the article named "The study of the profit on deposits distribution in the banking system of the Islamic Republic of Iran 1988-2000," states that: There is no banking law that asserts a clear interpretation of how different profit rates apply to annual and quinquennial short-term deposits. And the only presentable explanation is that the rates and amounts of POA are different. Besides, due to the lack of clarity in how to distribute real profits, on-account profit has become functionally guaranteed profits and have become real.

Samsami (1388هـ.ش), in an article named "Riba and the economic problems of Iran," affirms that the significant feature the law of the riba-free banking operations has is to change the system of supplying and allocating resources and introduce participatory and exchange contracts and remove riba from the banking system and replace profit rates. However, setting the on-account profit rate, which is the least pre-determined guaranteeing rate for long-term deposits, has practically prevented the law on riba-free banking operations from being correctly administered. The outcomes of this analytic study attest that the Iranian banking system has germinated the application of riba and wandered from the administration of the law on riba-free banking operations.

Meysamy and Qelich (1390هـ.ش) argue that the challenge of on-account profit is one of the most crucial challenges confronting riba-free banking in Iran today. Banks have made these rates a competition pit for each other, and unfortunately, in many instances, these rates have been considered definite. It has also got riba-free banking in Iran to become like ribavi banking in other countries, and people feel that the money receives a fixed and predetermined rate.

Nazarpour and Sadeghi Fadaki (1389هـ.ش), through research accomplished analytically-descriptively utilizing library resources, argue that the holders of participation bonds earn on-account profit, which is guaranteed by the publisher from the bank. But some have disputed the legitimacy of the guaranteed profit, naming it a branch of riba.

Mesbahi Moghaddam (1397هـ.ش), in the article "Challenges of riba-free banking in Iran: approaches to exit," states using the analytical method, that on-account profit is not mentioned in the texts of the law on riba-free banking, but today it is witnessed that banks compete with each other in declaring them, and each bank is trying to entice the customer's financial resources through announcing more profits.

Banks' conflict in rising on-account profit has approached the point where borrowers get loans from banks that offer low-rate facilities and make deposits in banks that grant higher profit rates. Also, the high-profit rate of on-account has prompted losses in the productive area of the economy and the capital to lead to the non-productive sector; besides, the owners of huge funds earn enormous profits without incurring costs and risk.

Mohagheghnia et al. (1395هـ.ش), within an article called "Designing a Model for Determining the Optimal Bank Profit Rate in Iran," proclaim that from 1990, according to the enactment of the Monetary and Credit Council, a monthly amount is paid to investment deposits as on-account profit of and definite profit is calculated and settled at the end of the period. However, in practice, the on-account profit has been recognized definite, and the depositor will receive no other profit.

Mir Jalili (1381هـ.ش), based on an article entitled "Interest-free banking issues in the Iranian experience," argues that the most critical concern of banking operations in Iran for providing the resources is the existence of on-account profit, which by

guaranteeing reasonably, turned into guaranteed profit. Besides, it has the function of interest.

Makian et al. (1396هـ.ش), in their article called "Executive Problems in Calculating definite Profit: A Case Study of Shiraz Housing Bank - Concluding Partnership," have studied the computation and payment of definite profit in concluding partnership.

By studying the resources of the library and then preparing eighty-one questionnaires by the Delphi method and handing them out amongst the employees of Shiraz Housing Bank, then their information was analyzed by the Friedman test. The results reveal that the problem that casts suspicion on the legitimacy of the concluding partnership profit is the guaranteed on-account profit. Sood Ali al-Hesab (on-account profit) has got banking operations in Iran to become the replica of ribavi banking operations in other countries. So, people assume that in Iranian banks, to the money with a definite and predetermined rate, an amount of profit is paid that has nothing to do with financial activities.

Shabani and Seifloo (1390هـ.ش), in research observing the two models of POA and partnership banking, stated that paying the on-account profit daily to regular short-term accounts that won't last a week holds no legal justification according to the POA contract. Accordingly, the on-account profit declared by the bank is considered a definite profit, which makes it look like a quasi-riba operation.

Kiai et al. (1392هـ.ش) , in a study called "Evaluating the Success of Islamic Banking Administration in Iran," came into understanding that despite all the attempts that have been made in current years to administer riba-free banking, there is a chasm between the administration and the favorable model of Islamic banking. The administration of Islamic banking in Iran is that the bank, as an economic institution, after paying a fixed profit rate to the depositor, endeavors to maximize its profit. While in the Islamic banking proper model, the bank is the depositors' lawyer, and after obtaining the POA fee, it must share all the acquired profits or losses among the depositors according to their risk-taking level.

Korang Beheshti (1379هـ.ش), in research called "The performance of the Iranian banking system and the law of riba-free banking operations," has studied the Iranian banking system performance. He argues that in the riba-free banking of Iran, the

investment deposits gain a profit that generally has a fixed amount in banks. Moreover, these profit of deposits are called on-account, but after a while, these numbers of on-account will intrinsically become definite.

2. CHAPTER TWO: THE CONCEPT OF USURY (INTEREST RATE) AND THE PRESENCE OF USURY IMPACT İN THE ECONOMY

2.1. The Lexical and Idiomatic Meaning of Usury

The origin of the word usury, which is mentioned in the Holy Qur'an, is: *Rib* (as in *Riba*), which means abundance, growth, elevation and height (مودودی, 1396هـ.ش).

Usury is an action noun (infinitive) which as a word means excess and addition. Its agent noun *rāb*, its feminine *rābi* and its comparative is *ārbi* (فیروزآبادی, 1419هـ.ق).

The exclusive letter (*ā*) is vowel and belongs to the category of (ribā yarbü) and is written with *ā* and its plural is (rabavān).

The Kufis have allowed it to be written for (Ilya - procrastinate and left behind) because of kasra[1] (/ı/ sound) that appears at the beginning of the word. But the people from Basrah have misunderstood it and scholars have argued that it is written by Waw/Vav[2] in the Qur'an.

Al-Fara: says: They wrote (Waw) because the people of Hejaz learned writing from the people of Hirah and in their language it is (yarbü), and they taught them in their own style and manner of writing. And he also said that (Abu Samak al-Adawi) recited it with (Wow) as well, (Hamza and Kasa'i) recited it in a crooked way, due to the Kasra of (Ra'a), but the rest of it was recited in capital form (TAFKHIM) based on the fatḥa of (ba). And he says that it can be written in (Alif)[3] or (waw) or (yā) (القحطاني, 1408هـ.ق).

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[1] The *ḥarakāt* or vowel points serve two purposes:

- They serve as a phonetic guide. They indicate the presence of short vowels (*fatḥa*, *kasra*, or *ḍamma*) or their absence (*sukūn*).
- At the last letter of a word, the vowel point reflects the inflection case or conjugation mood.
  - For nouns, The *ḍamma* is for the nominative, *fatḥa* for the accusative, and *kasra* for the genitive.
  - For verbs, the *ḍamma* is for the imperfective, *fatḥa* for the perfective, and the *sukūn* is for verbs in the imperative or jussive moods.

[2] Waw/Vav is the sixth letter of the Semitic abjads, including Phoenician wāw, Aramaic waw, Hebrew vav, Syriac waw and Arabic wāw. It represents the consonant in Paleo Hebrew, and in Block Hebrew, as well as the vowels and.

[3]Written as ا, spelled as ألف and transliterated as alif, it is the first letter in Arabic. Together with Hebrew aleph, Greek alpha and Latin A, it is descended from Phoenician ʾāleph, from a reconstructed Proto-Canaanite ʾalp "ox".

The word usury (Riba) in Arabic means 'increase'. It is the time they say: Usury of something when that thing increases and becomes more than what it used to be (عاشور, 1431هـ.ق).

Usury is written with Alif maqṣūrah[4] (ribā yarbü) and is written with Alif. Usury basically means: increase which is in the nature of that thing, as God Almighty says:

When we rain falls down on the ground, it flows and increases (Hajj: 5).

The word usury in the word means increase and abundance, and in jurisprudential terms it means increase in capital, whether it is more or less, God says (السابق, 1391هـ.ق):

And if you repent, then you will have your principal, neither harming others, nor suffering harm (Al-Baqarah: 279).

In the dictionary of economic knowledge, usury is as follows: An interest rate higher than the maximum determined by the relevant rules for different types of loans, in public dialogue, it would be any interest rate that is far from being fair and unjust (فرهنگ, 1367هـ.ش).

Another meaning of usury with a look at the use of this word in the Holy Quran is mentioned in verse 10 of Surah Al-Haqqah and verse 10 of Surah Al-Ra'd which means "intensity and strength" (زمخشري, 1407هـ.ق).

In the Arabic language: the meaning of usury is basically increase, and when it is said: ((Riba al-mal)) it means wealth increased and grew (ابن منظور, 1414هـ.ق).

The word usury in Persian means to increase, show off, profit or the owe that makes creditor out of debtor (معين, 1381هـ.ش).

In the dictionary of Larus, usury means extra: the interest that the lender receives from his loan. In religion: It is a financial excess for one of the two parties of the contract.

The literal meaning of usury is not equal to its religious term. Because in the word usury it is referred to as absolute increase. This is while in the religion, usury does not refer to any amount in transactions and exchanges, thus it is not forbidden (نوری م. , 1377هـ.ش).

[4] The alif maqṣūrah (ألف مقصورة, 'limited/restricted alif'), commonly known in Egypt as alif layyinah (ألف لينة, 'flexible alif'), looks like a dotless yā' ى (final ـى) and may appear only at the end of a word. Although it looks different from a regular alif, it represents the same sound /aː/, often realized as a short vowel.

Excess in special objects and borrowing against absolute deadline is called usury or interest (کوهستانی م. ا., 1396هـ.ش).

Usury is any excess that is obtained in capital except the one that is received in commercial and economic transactions, so the excess that is forbidden from the view of the Qur'an is called usury, which was also known by the same name before Islam. (مودودی, 1396هـ.ش, ص. 83).

2.1.1. Type of Usury

1. Riba Al-Nasiya (Riba Al-Jahiliyyah): It is appropriate to learn the meaning of the word Nasiya before we talk about Riba An-Nasiya. Nasiya verbally means delay and postponement, mostly in payment. God the Almighty says: delaying forbidden months (Sacred months) equals greatening in infidelity (At-Tawbah: 37). This kind of usury[5] (Riba)[6] belongs to the Age of Ignorance (Jahiliyyah)[7] and is the one which depends on time and limitation. By the arrival of Islam this sort of usury was extensively used by Pagan Arabs. This action was done out of borrowing money and repaying it during a specific time, besides, if the debtor didn't pay his debt back on the due time the creditor would have added extra money to extend the debt. Today, the same type of loan is beheld in conventional banking where the borrower pays only the interest and the principal debt is paid at the end of the term and if he fails to pay, a new contract will be concluded according to which the principal amount will be raised and the due date will be prorogated.
2. Riba al-fadl: This usury is to take out a loan and repay it with a larger amount on a future date or to sell the goods to make a profit. It is also worth mentioning that riba al-fadl is a sort of set-off[8] through which the exchange of money for money and cash for cash as well as food for food can be settled, presuming that one enhances over another. Abu Sa'id al-Khudri narrated on behalf of Prophet Muhammad that he said: "Never sell one dirham for two, since I am afraid it will give rise to usury." Nowadays, we are also a witness to this type of riba. For example: one goes to the

[5] Usury is the practice of making unethical or immoral monetary loans that unfairly enrich the lender.
[6] Riba can be roughly translated as "usury", or unjust, exploitative gains made in trade or business under Islamic law.
[7] Jahiliyyah is an Islamic concept referring to the period of time and state of affairs in Arabia before the advent of Islam in 610 CE.
[8] In law, set-off or netting are legal techniques applied between persons with mutual rights and liabilities, replacing gross positions with net positions. It permits the rights to be used to discharge the liabilities where cross claims exist between a plaintiff and a respondent.

bank and gets lodged with a loan that is worth $ 100000. In return, he agrees to pay back $ 120000 to the bank within two years. The question that is brought about here is that what caused the amount to increase by 20 to 50 percent, and what kind of index have been utilized to determine this premium (Abdul-Rahman, 2010) (السابق, 1391هـ.ق, ص. 4).

It is evident, it is never necessary for someone to exchange two things of the same type, unless those two things vary in nature. For instance, good and bad types of wheat, barley, gold, etc. Due to exchanging these two commodities, and because of excess in amount or differences between them based on the defectiveness or distinctions in their types or material, and with regard to the market price, this results into the advent of usury. And religion, via comprehending this problem, says that if someone has to trade two things that are the same type, they are required to consider that whether both goods are equal and they can pass up their price differences, or each person sells his product and buys the intended good with that money. Another issue of trading two goods of the same type is that one person has a commodity with which a product that belongs to someone else is produced, and both people are willing to trade items with each other, regarding this, it must be borne in mind that whether the shape of the goods has altered fundamentally or not. If one of the items has modified far too much that it has independently become something else, the trade with another item of the same type is valid, but if it merely changes a little and the form and foundation of the item have not varied as all, the trade of the two items is not permissible (105 .ص ,1396هـ.ش ,مودودی).

2.1.2. Usury in Qur'an and Hadith

2.1.2.1. The Quality of the Prohibition of Usury in the Qur'an

There are two styles among scholars in the quality of usury prohibition in Qur'an; It is believed by some scholars that because of the large-scale usury in the Arabian Peninsula at the time of the arrival of Islam, banning it instantly was not possible at all. As a consequence, usury was condemned by God sending the first verses and progressively prepared the ground for its inhibition. In 1908, Ismail Khalil was the first who stated the theory that the usury got gradually forbidden in Cairo, giving lectures about it. After that, at a conference carried out in Paris in 1951, Dr. Mohammad Abdullah elaborated it in depth and published it in the book Al-Raba fi Nazar al-Qanun al-Islami (حاجی, 1987م).

The word (Riba) is from (Rabü). This word along with its derivatives are mentioned with 11 verbs, in 16 verses, and in 12 suras of the Qur'an. These verbs have been repeated in some verses, and through repeating their calculation, they have been brought up in the Holy Quran in a total of 20 times and in distinguished nominal and verbal forms. These verses are respectively from the beginning to the end of Qur'an (at first Medinan surah,[9] then Meccan surah)[10] are as follows:

Verse 265 of Surah Al-Baqarah (Rabweh), verse 275 of Surah Al-Baqarah (Al-Rabwa), verse 276 of Surah Al-Baqarah (Al-Rabwa), verse 278 of Surah Al-Baqarah (Al-Rabwa), Verse 130 of Al-Imran (Al-Rabwa), verse 161 of Surah An-Nisa (Al-Rabwa), verse 92 of Surah An-Nahl (Ārbi), verse 24 of Surah Al-Isra (Rabyani), Verse 5 of Surah Al Ḥajj (Rabat), verse 50 of Surah Al-Mu'minun (Rabweh), verse 18 of Surah Ash-Shu'ara (Tarbak), verse 39 of Surah Ar-Rum (Riba) and (Yarbawa), verse 39 of Surah Al Fussilat (Rabat) verse 10 of Surah Al-Haaqqa (Rabia).

The term usury is utilized 8 times in 6 verses of the Holy Qur'an as a noun and 3 times as a verb, three of which are brought up in Surah Al-Baqarah and the other verses are corresponded to Surahs of Al-Imran, An-Nisa and Ar-Rum. Among 8 times in which this word has been mentioned as a noun, 7 times it has come as a definite[11] noun (Al-Riba) and only once in verse 39 of Surah Ar-Rum it has been recited in indefinite[12] (Riba) form (غلامی, 1395هـ.ش).

The term usury is stated in numerous verses of the Qur'an, which we will consider and study according to the revelation order of verses in the Holy Quran.

A. Verse 39 of Surah Ar-Rum

﴾And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah - those are the multipliers﴿ (Ar-Rum: 39).

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[9] The Madni Surahs (Surah Madaniyah) or Madani chapters of the Quran are the latest 24 Surahs that, according to Islamic tradition, were revealed at Medina after Muhammad's hijrat from Mecca. Community was larger and more developed, as opposed to their minority position in Mecca.

[10] The Meccan surahs are, according to the timing and contextual background of supposed revelation (asbāb al-nuzūl), the chronologically earlier chapters (suwar, singular sūrah) of the Qur'an.

[11] It is the noun that refers to a specific noun; (person, animal, thing …. etc.). So, when you say that definite noun, you really mean someone or something definite, you have that specific noun in your mind.

[12] It is the noun which refers to a common and non-specific noun;(person, animal, thing …etc.). It can be given to any member under that category of nouns. So, when you say an indefinite noun, you really don't mean someone or something definite.

The term usury here means an interaction that commonly takes place among people in the exchange of gifts, in which a person presents a gift to a friend but in return expects a better one plus an additional reward. So, the giver must not have inclined to do so, since such a thing is not appreciated in the presence of God, nor is its owner merited a heavenly reward. Thereby, things that a person gives to others and in return receives more than that, is considered as usury. In other word, a service that a person provides for someone else in order to gain from it in the earthly world is called usury, so the benefit he receives is not appreciated by God. It should be pointed out that giving gifts for the purpose of achieving a better reward was forbidden, specifically for the Prophet (PBUH) because God Almighty sounded off to the Prophet:

﴿And do not confer favor to acquire more﴾ (Al-Muddaththir: 6).

But this is Mubah[13] (permitted) for their nation.

Ikrimah says: there are two types of usury, Halal[14] (lawful) and Haram[15] (forbidden);

The lawful usury is the one in which a person gives a gift and in return expects a greater gift- as stated in this verse- but the forbidden usury refers to usury in trade and in loan which means giving something and getting an exchange for it along with a condition in the contract, and that conditioning is not legitimate (مدرس, 1389هـ.ش, ص. 238-239) (مخلص, 1392هـ.ش, ص. 555-556).

In the meantime, Qur'an has completely uttered the means of excess and growing wealth for the riches, which is to give out wealth without waiting up for a return. Zakat[16]

[13] Mubah is an Arabic word meaning "permitted", which has technical uses in Islamic law. In uṣūl al-fiqh, mubah is one of the five degrees of approval, and is commonly translated as "neutral", "indifferent" or " permitted".

[14] Halal is an Arabic word that translates to "permissible or lawful" into English. In the Quran, the word halal is contrasted with haram. This binary opposition was elaborated into a more complex classification known as "the five decisions": mandatory, recommended, neutral, reprehensible and forbidden.

[15] Haram is an Arabic term meaning forbidden. This may refer to: either something sacred to which access is forbidden to the people who are not in a state of purity or who are not initiated into the sacred knowledge, or to an evil thus "sinful action that is forbidden to be done".

[16] Zakat is a form of alms-giving treated in Islam as a religious obligation or tax, which, by Quranic ranking, is next after prayer in importance. As one of the Five Pillars of Islam, zakat is a religious duty for all Muslims who meet the necessary criteria of wealth.

(almsgiving) and Sadaqah[17] (voluntary charity or almsgiving) are the ensured means of growing wealth and also for gaining God's pleasure (قطب, 1415هـ.ق).

B. Verse 161 of An-Nisa

﴿And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment﴾ (An-Nisa: 161).

The Jews were exerting themselves all day and night to hinder people from stepping in the way of God! They received usury, not out of ignorance, or lack of knowledge, they did it for the sake of usury itself, they insisted on it and wanted to do it, however, they were told not to do so (قطب, 1392هـ.ق).

The virtues that were previously lawful for the Jews was made forbidden for them due to the unrighteous deeds they committed. The injustice they inflicted on themselves and others, usury, Tatfeef,[18] fraud and gambling are some of their monstrous deeds (مدرس, 1389هـ.ش, ص. 386).

It can be seen from this verse that usury is also forbidden in Judaism, but the Jews employed usury with all sorts of trickeries. And usury is in line with indecent acts the crime of which is severe and definite and does not belong to a particular religion such as oppression, taking people's property unjustly. It is considered thereby that for all followers of the divine religions usury is forbidden.

C. Verse 130 of Al Imran

﴿O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful﴾ (Al Imran: 130).

According to Atta narration: In the time of ignorance, the Arabs used to sell their assets in the form of loan for one year, like, for two dinars, and when it was the due time and the debtor was not able to pay it back, the amount and duration of the loan were extended, for example, ten dinars raised to twelve and its duration also extended from 1 year to 2. And if the debtor was still unable to pay the debt, they would raise that 2 dinars

[17] Sadaqah or Sadqah in the modern context has come to signify "voluntary charity". According to the Quran, the word means voluntary offering, whose amount is at the will of the "benefactor".
[18] At-Tatfeef as a term means the act of giving less in measure and weight to the person you are selling to (decreasing the rights of sh3er), and it means also to take more if you are the one who is buying (increasing the rights of oneself), and this is the exact meaning of Tatfeef.

to 4 and the due date to 3 years and at the end of the third year they would added 4 more dinars, until it became 8. On account of the excessive amount of the profit that was taken in these transactions, it was lots of times over the principle. Sometimes the debtor could not do anything but to run from his country. This is Riba al-fadl through which they received from the debtor much more than the principal (مدرس, 1389هـ.ش, ص. 126).

This is the worst and most hideous type of usury, since it makes the borrower to become poorer and the lender to get richer, and the gap between the two gets widened day by day, since in a short run by virtue of the accumulation of interest, the total debt owed by the debtor is several times the principal, making him completely abolished from life (مکارم شیرازی, 1390هـ.ش, ص. 32).

It must be borne in mind that today this type of usury is called compound interest.[19] The adverb (اضعافا مضاعفة - multiply and many times - Exponential growth)[20] is to articulate the reality of the filthy oppression that people were infected by in ignorance era, and it definitely does not say that if usury was in a little amount, it is admissible to take it, so more or less, usury is unquestionably forbidden and is regarded a great deadly sin (مخلص, 1392هـ.ش, ص. 477).

We can examine and describe (اضعافا مضاعفة) which does not only contain the historical description about usurious transactions surrounding people lived in Arab Peninsula. Particularly here the main intention of Qur'an is forbiddance. And (اضعافا مضاعفة) is a description about usurious system, regardless of whatever its interests would like to be. This means that usurious transactions are not those which simply get done once or twice. As a matter of fact, they are transactions that are firstly continuous and secondly complex, and over time, due to repetition and becoming compound, the same attribute of (اضعافا مضاعفة) applies to it, and it is so clear that there is no room for controversy. This description no longer contains trades that were dealt commonly in the Arabian Peninsula, but it is also something that is always stuck to the usury system anytime and anywhere (قطب, 1392هـ.ق, ص. 473-474).

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[19] Compound interest is the addition of interest to the principal sum of a loan or deposit, or in other words, interest on interest. It is the result of reinvesting interest, rather than paying it out, so that interest in the next period is then earned on the principal sum plus previously accumulated interest.

[20] Exponential growth is a specific way that a quantity may increase over time. It occurs when the instantaneous rate of change (that is, the derivative) of a quantity with respect to time is proportional to the quantity itself. Described as a function, a quantity undergoing exponential growth is an exponential function of time, that is, the variable representing time is the exponent (in contrast to other types of growth, such as quadratic growth).

D. Verses 275-276-277 of Al-Baqarah

These verses are not an initial description of usury, rather, they accentuate the forbiddance of usury and step up the matter for usurers (اکبریان, 1370هـ.ش). It is inferred from this verse that the behavior of usurer is formed as a consequence of cognitive detriment (هادوی نیا, 1392هـ.ش).

﴿Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein﴾ (Al-Baqarah: 275).

In his book Tafsir Kabir, it is said by Fakhreddin Razi that why in this verse, God Almighty has utilized the term "Yaklon" (they eat) while usury is an action that has to be done through action not by eating; he states that this is because eating is a vital matter for human beings and it is provided through money, so God has used the word "Yaklon" to show the magnitude of the usury sin (رازی, 1401هـ.ق).

Those who said: there is no difference between trade and usury; it means, they are both profitable and done on the basis on the contract. However, they know themselves that it is falsehood, legitimate transactions are for the benefit of the society, and the profit gained by the seller or the buyer, also goes to the society the needs of which are met. While usurers, like leeches, drain people's blood and without making any effort, they amass superb wealth (مکارم شیرازی, 1390هـ.ش).

At the time of the Holy Prophet it was believed by users that just as transactions specify interest, so does usury. This is nothing but a void suspicion without foundation. Because trading comprises both profit and loss. Putting it differently, a trade is possible to receive both profit and loss. Besides, personal skills and endeavors, current conditions and status of life are factors which have important impacts on profit and loss. But usurious operations are actions which are free from these conditions and in any situation of life they have definite benefits for usurers in any case, anyhow. This is the essential variation between usury and trade. And this is the standard for which God has forbidden usury and allowed trade (قطب, 1415هـ.ق).

Put the matter another way, the cognitive impairment that has occurred for usurers started from the time when they did not understand the difference between Baye (sale - بیع) and usury. It is better to state the difference in this way that Baye takes place on the basis of a close connection between the real economy and the nominal economy; on the other hand, in usury the significance of this connection is lost; for this reason, it is not designated pursuant to a certain basis (هادوی نیا, 1392هـ.ش, ص. 123).

God destroys usury and increases alms (and blesses). And God does not love any ungrateful sinner (Al-Baqara: 276).

Bestowal and forgiveness are what almsgiving means in Islam, it is sourced in heart and pure intention that can cause the wealth to grow, cooperation and supporting the weak, but usury is miserly,[21] turpitude[22] and corruption. Almsgiving is the renunciation of asset without any repayment or taking it back. But usury is the repayment of a loan plus the extra amount of the wage the barrower earn that can be considered as a part or limb of his body. God's promise has been realized. We are now witnessing that in any society in which trades are dealt with in usury, there is no blessing, prosperity, or security and peace at all. That is why the subject of almsgiving immediately raised by God after usury. Almsgiving is shown with a pure and merciful appearance, unlike usury which is demonstrated by dreadful form and is extremely thirsty for all kinds of ugliness along with moral depravity, which indicates the coldness and dryness of the usurer's heart, and the corruptions that it thrust on society, and leads the servants of God to suffering and annihilation, (قطب, 1392هـ.ق, ص. 328).

"یمحق"[23] means loss or annihilation. The usurer creates misery and destroys society. Decay is also the cause that makes the society suffer, in the fire of poverty that usurers have opened for society they burn. It is impossible to feel happiness in a miserable society (مکارم شیرازی, 1390هـ.ش, ص. 29).

It is observable at the end of the verse that the usurer is considered by God as sinner and ungrateful. This verse ends like this because the usurers weren't satisfied with

[21] A miser is a person who is reluctant to spend, sometimes to the point of forgoing even basic comforts and some necessities, in order to hoard money or other possessions. Although the word is sometimes used loosely to characterize anyone who is mean with their money, if such behavior is not accompanied by taking delight in what is saved, it is not properly miserly.
[22] depraved or wicked behavior or character.
[23] It means: to lose something gradually (the word محق means consecutive loss until the asset completely disappears).

the lawful (halal) wealth God has given them. In fact, they aim to eat people's asset under absurd reasons and a lot of wrong and forbidden types of works and businesses. And all the blessings that God has bestowed them, are ignored (ابن كثير, 1421هـ.ق).

O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers (Al-Baqarah: 278).

This holy verse has declared the usurpation property that the usurers have not yet received to be invalid, and has forbidden their confiscation (مخلص, 1392هـ.ش, ص. 350).

God left for usurers the profits that they had made in the past. And seizing and confiscating their property for the excuse that they had usury inside them was not permissible. Because in Islam, forbidden subjects (Haram doings) are explicitly prohibited, and no sentence is carried out of the religious laws. The religious law is also administered after the sentence is issued. Thus, usurious interests acquired in the past before the prohibition of the usury is up to God, not to the law. With this method, Islam saved the Muslim community from a major economic crisis. The law of Islam is clearly on the basis of the fact that it deals with the real life and events happening the daily life of mankind. It circulates their lives cleansing it from corruption, and simultaneously, gives freedom to the society so that it grows and reaches its peak (قطب, 1392هـ.ق, ص. 330).

Atta and Ikrimah said: The revelation of this verse was when Abbas ibn Abd al-Muttalib and Uthman ibn Affan were busy collecting dates, and they were told by the owner that, "If you get what you get, there will be no enough dates with which I'll be able to manage my family."Instead, take half of your rights now and I will give you twice the other half next year," so they agreed. This matter was taken to the Prophet and he forbade them from taking the extra amount.

It is argued by some scholars that the revelation of this verse was when four brothers from the people of Bani Saqif were receiving interest from the people of Bani Mughira during the time of ignorance, and by the arrival of Islam and these four brothers turning to Muslims, they were still seeking their profit. But the Bani Mughiris said that we will not pay interest in the time of Islam because usury is forbidden by God. They took their complaint inevitably to Atab ibn Asid, the governor of Mecca in those days; he also wrote a letter sending this case to the Prophet. When the Prophet received it, this verse was revealed. The Prophet sent a letter to Atab, asking him that if the Bani Saqif

were satisfied with God's command, that will be good of them, but if they did not agree, they should get prepared for war against God and His Messenger. They, too, were satisfied with the sentence of God and His Messenger, and only demanded the principal of their money, not its interest (مدرس, 1389هـ.ش, ص. 525-526).

All verses mentioned above, it is transparent that at least 8 verses of the Holy Qur'an point on the forbiddance of usury, and it is so forbidden that Qur'an considers it a kind of blasphemy against God and usurer by doing such a thing has armed himself for fight with God and His Messenger, and considers the usurer to be deserving the eternal hell, and this act is considered the cause of earthly punishment.

2.1.2.2. Prohibition of Usury in Hadiths

Because usury is a significant sin the harmful of which affects the individual and society, regardless of the Qur'an verses, a great deal of hadiths has been narrated by the Messenger of God about this critical subject. In accordance with forbidding the adverse action of usury a lot of shocking interpretations of this ruthless and inhumane anti-economic act have been brought up. Regarding usury, a number of hadiths will be mentioned, in this part.

Abu Sa'id narrated that: They kept giving us dates in which good and bad were mixed, and we kept selling two Sa[24] of them for one Sa of good dates. The Prophet of God highlighted that: neither sell two Sa for one, nor give up two dirhams for one.

Some of the rulings and issues belong to this hadith are:

1) Date is date, in all kinds, types, and shapes. So exchanging one type with another with a difference is not permissible, like: exchanging two kilos of bad dates with one kilo of good ones, whether it is cash or credit, is inadmissible.
2) Just like dates, any other food such as rice, mung bean, wheat, barley, sesame and the like have got the same rule as dates.
3) If someone has poor quality food, and is willing to exchange it for a good one, he sells his, and buys good quality food for himself with its money.

[24] The Sāʿ is an ancient measurement of volume from the Islamic world, with cultural and religious significance. While its exact volume is uncertain, the Arabic word Sāʿ translates to "small container," related to the Quranic word ṣuwāʿ.

4) The rule of exchanging dirham with dirham is like the one for exchanging one food with another.

Umar ibn al-Khattab narrates reporting from the Prophet of God that he said: exchanging Gold with gold is usury unless it is given and taken, (that is, it is done from one to another), exchanging wheat with wheat is usury unless it is given and taken, exchanging date with date is usury unless it is given and taken, exchanging barley with barley is usury unless it is given and taken.

Some of the rulings and issues belong to this hadith are:

It is agreed by scholars that usury runs through these four objects, as well as in silver and salt, which make up a total of six things. Exchanging these things with their own kind is not permissible, unless it is done from person to person. But why is this kind of exchange forbidden? This is a question about which the scholars still disagree with each other, and the religion of the Hanafis,[25] surrounding this issue, states as follows. Hanafis believe that this action is forbidden because if something that can be busheled or weighed gets exchanged with something of its own type, it would be a usury, unless it is done from person to person, but not as a sale. And on the condition that both causes occure in something, selling that thing for its own kind it is not permissible, neither with excessive amount nor in credit. For instance: because wheat is something that is busheled, and all kinds of wheat are the same material, exchanging wheat from any type or class to wheat from any other class is not permissible, except it is done from person to person and equally. So selling ten kilos of wheat for twelve kilos in cash or on credit is not admissible. Also, trading two kilos of wheat per ten kilos of wheat on credit it is not permissible, since in trading wheat for wheat, both causes which are bushel and genus, exist. And on the condition that one of the two reasons does not exist but the other one does, the sale of that material is permissible in excess but not on credit. For instance, in trading wheat for barley, selling in each one in excess over another is permissible, because of the absence of one reason out of two, and that is the same material, but it is not allowed to sell those two things on credit. This means, selling 10 kilos of wheat for

[25] The Hanafi school is one of the four religious Sunni Islamic schools of jurisprudence. It is named after the scholar Abū Ḥanīfa an-Nuʻman ibn Thābit, a tabiʻi whose legal views were preserved primarily by his two most important disciples, Abu Yusuf and Muhammad al-Shaybani.

15 kilos of barley from person to person is permissible, but it is not allowed to do this purchase and sale on credit.

Uthman ibn Affan narrates that The Messenger of God said: never sell one dinar for two, and one dirham for two (النيشابورى, 1419هـ.ق).

The same rule of the above hadith is considered in this one, because dinars to dinars, dirhams to dirhams are of the same kind, so selling one in excess over another is not permissible.

Malik bin Aws says I was in need to exchange a hundred dinars. Talha ibn Obaidullah called me, and we both argued about this deal, and we agreed to deal with each other. Talha ibn Obaidullah took the dinars and while turning them over he said: you have to wait for my accountant to return from the forest. Omar, who heard our conversation, told me: I swear by God, do not leave him until you have not taken what is yours. Because it is said by the Prophet (PBUH) that: gold for gold is usury otherwise it is done in cash.

Some of the rulings and issues surrounding this hadith are:

1) It is not permissible to sell gold for silver if it is not in cash and from person to person.
2) Today's current cash, like, exchanging dinars to lira, or dollars to dinars and things like that, which has taken the place of gold and silver, is valid thoroughly only on the condition that it is done in cash and person to person, but not on credit.
3) On the condition that the money that is being exchange are equal, like lending lira to lira, toman to toman, dinar to dinar and other similar stuff, the transaction is valid, for instance, one hundred liras to one hundred liras, one thousand tomans to one thousand tomans and ten thousand dinars to ten thousand dinars and the like.

Abu Bakr narrates that the Prophet said: Never exchange gold for gold and silver for silver equally, but sell gold for silver, and silver for gold however you'd like."

In the interpretation of this hadith, as referring to the previous hadith, this happens if the buying and selling of gold for gold, and silver for silver takes place in cash and from person to person. But if it occurs on credit neither the equal amount is permitted nor is unequal. However, if it is held on loan, as it has already been mentioned, it is legitimate only with equal amount (الكشميرى, 1426هـ.ق).

Abu Sa'id al-Khudri narrates that the Prophet said: Never exchange gold for gold except equally, and do not give one more than the other, and do not exchange silver for silver except equally, and do not exchange one more than the other, and do not sell credit gold and silver for gold and silver in cash.

This hadith, also, says that it must be in cash and from person to person, and it is not permissible to sell it on credit in any way.

Rabi 'told us that Shafi'i told us that' Abd al-Wahhab had told us from Ayyub and that he had told from Muslim ibn Yasar and a few others, and 'Ibadah ibn Samat that the Prophet had said: never sell gold for gold and silver for silver and wheat for wheat and barley for barley and dates for dates and salt for salt, unless it is equal in origin and takes place from person to person in cash. But sell gold for silver and silver for gold and wheat for barley and barley for wheat and dates for salt and salt for dates as you wish, any way you'd like (الشافعي, 1422هـ.ق).

On the basis of this hadith, the trade of gold for gold and for silver, and also the trade of similar foods is forbidden (haram), otherwise on three conditions: they must be the same type, the trade happens in cash, and receiving takes place in the transaction place and time.

This belongs to the time when the transaction is of the same type and their material is the same, but if they are not the same type, such as gold to silver and wheat to barley... it is permissible to differentiate them or take an excessive amount from one over another.

After a few hadiths have been narrated concerning usury, it is now the time to study this shameless sin regarding its punishments and of course as a sin.

It is narrated from Jabir that he said: The Messenger of God cursed the usurer, the one who writes the contract and the two witnesses, saying that all of them are equal in sin. (النيشابورى, 1419هـ.ق, ص. 651)

According to the above narration, everyone who takes part in the usury business, which is the usurer and the one who receives usury, are equal in this sin. In books including Sunan Abu Dawud and Sunan Tirmidhi, Ibn Majah and some other books, this narration has been brought in.

Regarding the Ibn Mas'ud narration, the Prophet said: Usury is seventy-three portals, its simplest form is that a man gets involved in incest intercourse with his own mother, and its hugest shape equals to spoiling a Muslim's dignity (الألباني, 1408هـ.ق).

Ibn Mas'ud also narrates that the Prophet (PBUH) said: A single dirham gained consciously from usury is thirty-six times more intense than getting busy with adultery (ابن ماجه, 1418هـ.ق).

These narrations compared usury with the ugly act of adultery and is considered something worse. Several other narrations have also uttered this interpretation, but with different numbers. Sahih ibn Majah has brought it 71 and 73 times and Al-Targhib wa Al-Tarhib through another narration has mentioned it 72 times. It is very well-known that adultery and everything surrounding it, is severely dealt with in Islam, so it is understood that the usury is so harmful and ugly about which Islam has such ideas, thus, this can be considered as one of the most transparent reasons of why usury is forbidden in Islam.

2.1.3. Ijma[26] (Consensus)

The population of Ulema[27] (scholars) pursued proof in order to forbid usury. In the following we will mention these statements of some scholars:

1. Yahya ibn Habira and Abu Abdullah of Damascus said: It is agreed by all Muslims that selling gold for gold or silver for silver, whether raw or refined, is not legitimate unless they are the same weight and the action happens person to person (ابن هبيرة, 1417هـ.ق) (الدمشقي, 1407هـ.ق).
2. Al-Nawawi also argued: Muslims have agreed forbidding the sale on usurious goods in exchange for a commodity that is delayed and deferral. Also, if the exchange is happening by trading a commodity for goods, their quantity or weight must not be different, like gold for gold or silver for silver (النووي, 1392هـ.ق).
3. Following the verses about usury, Ibn Hajar al-Haytami said that: there are four types of Riba (usury), Riba An-Nasiya, Riba al-fadl, Riba al-ghardh, and Riba alyd, all of

[26] Ijmāʿ is an Arabic term referring to the consensus or agreement of Islamic scholars on a point of Islamic law.
[27] In Islam, the ulama "scholar", literally "the learned ones". also spelled ulema; feminine: alimah [singular] and uluma [plural]) are the guardians, transmitters, and interpreters of religious knowledge in Islam, including Islamic doctrine and law.

which are forbidden (haram) according to Ijma, advices, verses, and hadiths (ابن حجر الهيتمي, 1407هـ.ق).

4. Ibn Taymiyyah has also mentioned: Riba An-Nasiya, Riba al-fadl, a loan followed by interest are regarded forbidden because of the fact that the recipient perpetrates injustice due to earning money without making any effort (ابن تيمية, 1425هـ.ق).
5. In his book Tafsir, it has also stated by Qurtubi that the forbiddance of usury is by Ijma (consensus) (قرطبي, 1384هـ.ق).

2.1.4. The Consept of Baye or Sale (بيع) and Its Difference with Riba (Usury)

Undoubtedly it has to be taken into consideration that Baye is the most significant and common Juridical subject that everyone has to deal with in their routine life so that their social life keeps going on. Also in the first eras of mankind history, Baye had its part. The agricultural products of the ancients surpassed their daily needs, and at the same time, they did not possess some other commodities or agricultural goods, so they needed to get involved in barter for obtaining those goods to make living via this simple transaction. Therefore, by defining Baye this discussion is followed up.

a) Definition of Baye by Hanafis

Hanafi jurists introduce Baye as a sort of barter, which is the transaction of assets for assets, like exchanging goods with goods (ابن نجيم, 1419هـ.ق). Some others included the same definition in their books, but with the adverb of «In an agreeable manner and in a satisfactory manner» (ابن مودود, 1356هـ.ق).

b) Definition of Baye by Malikis

It is believed by Al-Maliki jurists that Baye an exchange contract which is not for interest or profit (حطاب الزعينى, 1412هـ.ق).

c) Definition of Baye by Shafi'is

It is defined by Shafi'i jurists as follows: It is the equality of an asset with another that is able to be owned by willingness and (محمد الحسيني, 1422هـ.ق).

d) Definition of Baye by Hanbalis

It is defined by Hanbalis jurists as follows: the exchange of an asset is to be known as Baye, even if that asset is something that is consistently traded whether it is an admissible profit or a loan. (الحجاوي, د.ت).

e) Definition of Baye by Shiites

Jurists comprising Sheikh Tusi, Allama Hali, and Ibn Idris Hali stated that Baye refers to transference of an appointed asset from person to person in exchange for something that is agreed to be paid for it (طوسی, 1387هـ.ق) (مطهر حلی, د.ت) (حلي عجلي, 1410هـ.ق). It is conceived out of the jurists' statements that exchanging or converting two goods with each other is the same as Baye. The seller initiates to take the action of this affair. Taking into possession or transference do not form the nature of Baye, in fact, they are tools and impacts of the trade.

f) Definition of Baye from lexical perspectives

Pursuant to Semitic root, Baye is a derivatives of the three-letter word root (Ba'a), the branch of which is utilized as the three-letter word roots of (Ba'i), (Ba'a) and (Bagha) in Arabic. «Seeking» is the main meaning whose branches in various Semitic tongues also mean to take and desire. Baye is occasionally applied with other terms that is شراء (the purchase). This term is also derived from the ancient Semitic roots whose meaning is «to leave» (مرکز دائرة المعارف بزرگ اسلامی, 1367-1398هـ.ش).

So, it is inferred that a product given to the customer by the seller (بایع) is Baye and on the basis of the agreement of the parties the price of that product is designated then it is paid by the customer taking the mentioned product from the seller (بایع). Two importance are regarded in this type of transaction, first, the product that the seller delivers to the customer is provided through a lot of efforts and consumption of his own asset or second, the product is bought from someone else, as a result, in both cases, the effort that the seller made is added to the capital he has spent to purchase or make that product (مودودی, 1396هـ.ش, ص. 85-86).

Qur'an, Sunnah and Ijma of the Islamic nation are the reasons for legitimacy of Baye. Its reason from Qur'an: Allah has permitted trade and has forbidden interest (Al-Baqara: 275). In order to extend the field of life God Almighty has legitimized Baye, due to the urgent need of human beings for food, garment, and other stuff, besides, not every human being can obviously fulfill all the necessities they need. So their need

should be taken from others and what a better way which is more complete than selling (السابق, 1391هـ.ق, ص. 127). The Prophetic tradition reason: Abri Banda ibn Niyar narrates that the Prophet (PBUH) said: Business is the best action done by a man himself along with any transaction that is empty of haram, cheating and betrayal (الألباني, 1408هـ.ق, ص. 252). Also, it is agreed by Islamic nation that from the time of the Prophet (PBUH) up until now there has always been Baye which is totally valid.

Baye is founded on three bases: 1- the concluder or administrator of Baye contracts, 2- something over which the Baye contract gets concluded, 3- terms and contract of Baye.

It is now the time to distinguish Baye from Usury. It is understood from the past experience and history that the circulation of money in one-way mostly causes the capital to be accumulated only for a particular group of society. They largely earn far more than they need, which turns them into lending and gathering wealth by usury. The opinions of Abu al-Ali Mawdudi will be explained in this part, about the basic differences which distinguish Baye and usury both ethically and economically.

1) The exchange of products in Baye transactions is carried out equally between the buyer and the seller. Since the customer receives his profit from the product bought from the seller, instead, the wages and efforts which the seller incurred in preparing and making the product is gained from the customer. But the interests are not split by the same amount between the parties in usurious transactions. The debtor is designated to give a fixed profit to the creditor, there is no choice for the debtor but to lengthen the time which may be useful or lead to the debtor's loss. Conversely, if the given asset was a loan for consumptive purposes, it certainly can be uttered that no provisions are in its extension. Also, if a loan for business and investment was taken out by the borrower, then loss is as probable as a profit. So, it can be inferred that in usury transactions one of the parties receives a fixed profit, while this certainty is not potential for the profit of the other party.
2) If there is a possibility of a rich profit in Baye the seller may only once benefit from it. However, as long as the principal of the loan is not yet repaid, the interest is ongoing and constant in usurious transactions, and becomes thicker and larger over a specific period of time. Even in so many cases all of the debtor's property and assets have been confiscated by the debtor, while the debt was still the same.

3) In Baye when the product is sold by the designated market price the transaction ends. It means that after the transaction ends the seller is not given anything else. In rental transactions of houses, lands, shops, etc., due to the fact that the property remains after is used by the one who rented it, it will be delivered to the owner. In usurious transactions, on the other hand, the amount received from the loan is spent by the borrower who is required to repay the principal plus a specific interest to the lender.
4) In Baye, the man gains benefit out of the energy, time and effort he has spent. But regarding the usurious transactions, it can be said that the lender, only by giving his property to the borrower without spending the minimal vigor or the shortest duration of time shares in the profit made by the borrower and considers himself his partner. However, the lender is merely partner in the provisions of the contract not in losses or harms. And he is such a partner who must be paid a certain amount of benefit, besides he does not fear or care about other people loss (مودودی, 1396هـ.ش, ص. 87-88).

These are economic reasons and causes differentiating Baye from usury, and making the first one the factor of success, development and progression in society, whereas naming usury as the source of misery and devastation. And this is the chain of reason according to which God has made Baye halal and usury haram. Hence, it is worth saying that usury is pest or calamity descending over the humanity throwing the usurer both ethically and economically into the pit of miresy and destruction.

2.2. The Philosophy of Usury Forbiddence

The study of usury philosophy and its forbiddance is one of the significant discourse relating to it. When God created human beings granted them religions through his prophets so that their material and spiritual lives are organized in order to gain perfection and happiness, nothing has ever been forbidden except through the doors of wisdom and expediency that is within it for humanity (پوروفا, 1385هـ.ش). There are important questions surrounding this issue, including: why getting extra amount in transactions of weighable and scoop-able items has become forbidden? What is the reason of usury forbiddance? Can factors such as injustice and social class differentiation, increase in social discrimination, and wealth accumulation just for a small number of people within the society be efficacious in legislating usury? If the destination is where the social and economic categories are proven to be effectual for

legislating the forbiddance of usury, it is then required to specify and analyze them. the most important reasons for usury forbiddance will be stated in this section.

1. Usury is tyranny which is forbidden by God

Fighting against oppression and seeking justice have always been one of the fundamental, inviolable principles of Prophets' quests. Bringing justice in society is one of the significant goals that Islam has been after, so Islam is against anything which contradicts justice; this indicates that economic activities are only assessed through Islamic nature if justice is carried inside the society. Usury is against this importance, resulting into being forbidden by Islam. As it has been observed before, God Almighty in verses 275-280, warned Muslims against usury and its consequences which is equal to declaring war against God and his prophet, encouraging them to almsgiving along with informing them about the forbiddance of usury and mentioning the characteristics of usurers plus the impacts of usury comparing to alms. At the end he states that oppression is the reason of usury forbiddance (نوری م. , 1377هـ.ش, ص. 2). Usury transactions make the property that is owned by somebody to be seized without exchange, because an individual who sells one dirham for two whether in cash or credit has earned it without exchange, and everyone's property is as respectable as his blood, which cannot be taken but only by right (عاشور, 1431هـ.ق, ص. 175). The Prophet stated: Respect for one's asset equals to respect for his blood that must not be taken unjustly (الألباني, 1400هـ.ق). It is also said by the Prophet (PBUH) in the farewell Hajj sermon: Be aware! The usury that is done out of ignorance will not be considered as your doings, your principle will be yours, neither you have wronged anybody nor have anyone wronged you (ابن ماجه, 1418هـ.ق, ص. 501).

Why is usury a kind of oppression? Because everyone who has part in economic activities of society receives both profit and loss, but usurers are excepted from this rule and only gain profits. Therefore, usurers earn profits not even by lifting a finger which results into oppression. Usury results into the accumulation of capital and asset for the riches, which is why usury is considered as one of the social class system factors, because there are a few people who have everything due to usury without bearing any effort, they in fact are playing the role of some kind of weeds nurture themselves by other people's suffering. Conversely, some people do not have anything at all, and by the passage of time the distance between riches and poor gets wider. Obviously, such a

society in which poor are getting poorer and riches getting richer every day, is tyrannical (السابق, 1391هـ.ق, ص. 178) (ذبیحی قیه باشی, 1392هـ.ش).

2. Usury causes weakening the human emotions

Usurious transactions result in elimination of the existing benevolent and compassionate social relationships between people, consequently everyone will desire to lend only through usury, there will be no almsgiving unless it will be accompanied by profits like usury, this will also make people turn their back to each other and doing good deed to poor and miserable will be lost (عاشور, 1431هـ.ق, ص. 176-177). Muslims are invited in the religion of Islam to lend their asset in sort of Qard al-Hasan to their Muslim brothers so they have their needs met. Generally, almsgiving and Qard al-Hasan is against usury. These good deed prevent the society from making usury a common deal. Qard al-Hasan will be wiped out of the society if usury is legitimate, and no one will have desire to deal and invest in productive activities; since usurious loans in proportion to other economic activities, are more profitable and less risk-taking. Thus, usury, like a disease, possess the whole economy, making everyone get involved in usurious economic activity (علوی, 1390هـ.ش). This fact that in Qard al-Hasan, the debtor will not suffer from the dense interest pressure, should not be ignored. For instance, the debtor will repay only the same amount of the loan he received as the principle even if he is unable to repay his loan for ten years. The main reason for individuals' bankruptcy, which is the accumulation of interest, will not be realized through Qard al-Hasan. Besides, the only thing that matter in Qard al-Hasan is the emotional and ethical aspects of society which makes it exceptional since those who receive these loans and get involved in production activities will never experience bankruptcy unless in some rare instances, as a result general economy is not hurt and bankruptcy will not turn into a general issue (مجتهدی, 1375هـ.ش).

3. Disconnecting capital and beneficial economic activity and creating a recession

Because of usury, people are attracted to corrupt transactions which are extremely profitable, containing large income and regarded as Haram, and remain unwilling to get involved into Halal hardworking useful deals. Usurious loans disconnect the capital from the beneficial economic activities and for the following reasons it will cause recession:

A. If usury becomes permissible inside a society, the property owners and riches without lifting a finger keep gaining profits and becoming richer. This earning method makes the culture of earning without suffering to become fashionable, since the capital owners will not have any limits to hold them back and they keep giving usurious loans and gaining profits.

B. Because of the unjust risk distribution and the high outcome of usurious loans, the barrowers make efforts to spend their assets into short run activities which are highly profitable and less risky, they are even willing to invest in harmful risk-taking activities instead of doing the same in useful economic operations.

C. The lender receives the capital in a loan agreement and do not care about where this money is going to be spent. The absence of lender supervision over the borrowed property will lead to disconnection between capital and economic activity. Simply put, since the lender does not care in what way the lent money is spent, the capital is even likely to derail from useful activities and gets applied in destructive ones (حسینی, 1381هـ.ش). On the contrary, the rational logic bears that wealth and capital are the result of hardworking beneficial efforts. Work is the factor through which the society evolves and develops. It is via works that the cities get expanded, roads get developed and needs are met, furthermore, the life of human being makes its own way into the prosperity and becomes healthy. Any sort of business, whether it is sale or industry or even profession, is one of the beneficial and positive aspects of society's perfection and development (پوروفا, 1385هـ.ش, ص. 123).

2.3. The Point of Usury Forbiddance

In order to justify the usury forbiddance, some scholars sought to propose a segregation theory. This means that they have identified the money a potential capital, through segregating it from capital giving it a separated character. Saying that Islam approves the role of capital recognizing its own cut from profit, but since there is no role for money in production, any kind of outcome allocated to it is known as usury. There are several fundamental issue surrounding this theory, firstly, this segregation is against the interpretation of Qur'an, tradition, jurisprudence, economics and market conventions. Because the capital is employed in line with the business. Also institutions' working capital, which is typically kept in form of cash within the institutions' fund or bank account, is counted as capital belonging to institutions. Second, stated by this

group, if it is agreed on that money is not the production factor, yet no one has got the right to call it capital, however it must be borne in mind that in the modern world it is capable of turning into physical capital, so that the institution owner whose money is in the bank deposit, is able to withdraw it via signing a check turning it into physical capital and thus increase his income and profit. Hence, by leaving the money to its recipient (albeit indirectly), it is possible to make opportunities for investing, producing, gaining income and profit, and on the economic basis this has no distinction from direct capital transfer. Now there is this question pops up, whether this total distinction (giving capital directly or indirectly) makes it to be said that the capital giver has got a share in institution, but the one who gives capital indirectly (the money owner) receives no share and only his principle gets back to him? Third, this segregation is against the Islamic jurisprudence. From the emergence of Islam up until today, giving any asset other than money is as haram and forbidden as giving and receiving money with excessive amount as usury. For instance, giving a ton of wheat to a farmer so that he consumes it or cultivate his farm with it, taking back any extra amount on top of the principal is usury and thus haram. The truth is that, regarding the usury Islam concentrates on its contracts not the material, item, or the nature of it, and this poin has been hidden for the believers of the segregation theory. In accordance with the Islamic jurisprudence if someone lends money or any kind of asset to another person on the condition of receiving extra amount instead, whether it is for the personal consumption or investment or even production, it is going to be usury and thus haram. Now if the property or money is given pursuant to Islamic contracts, the profit gained from investment not only goes to the employer but also is received by the capital owner as well. As a result, it can be said that Islam has identified setting prices (cash or non-cash) for capital according to interest system as something oppressive, instead it has suggested another method for it (موسویان, 1378هـ.ش).

2.4. Usurious Losses

It has been proved through previous discussions that usury is not rational and against justice and fairness, in fact there is not benefit concerning it. Forbidding usury is not only standing over this cause, as a matter of fact its truthful forbiddance is due to its severe and constant harmfulness toward human being. In order to wipe out all ambiguities surrounding usury, here all its losses will be explained.

2.4.1. Ethical and Emotional Losses

Since the essence of man is his emotions and ethics, and whatever he does is on these bases, anything against this nature of human being is not proficient to be accepted by men. Going through all the economic stages of usury, it can be considered as an emotional outcome of miser, privilege obsession, narrow-mindedness, cruelty, servitude to property and other vile vices. And the more a man gets involved into usurious businesses and gain experience, the deeper these characteristics make their ways within his soul and entity. On the contrary, if a person sticks to financial matters involving zakat and almsgiving, his mind takes up with holy characteristics of grace, generosity, sacrifice, self-sacrifice, helping, patience, diligence, etc. and as long as human being steps in this path, the above said characteristics gets deeper and becomes indigenous.

2.4.2. Social Losses

The society which is involved in usurious deals, is the one that is torn apart. There is no attitude and willingness for cooperation, tolerance and sympathy in such a society. the society in which its people are obsessed for gaining privileges, the poverty and being in need of some people makes ways for other individuals' wealth, victimization and hunting materials, besides, the benefits of riches gets in conflict with poor people's. These kinds of societies cannot survive on the social bases, and its components along with its people are toward fragmentation. But the society where the attributes of grace, generosity, mercy and kindness dwells, if a person feels that another part of the society is in need of help, he stretches his hand of corporation and will spare no help giving him anything he can help the person in need with. Therefore, the spirit of cooperation, affection, and compassion enhances every day that passes, making people to get closer to each other, besides, nothing, not any factor can cause the aforementioned society to fall and fade in to black. Undoubtedly, this society in proportion to the previous one proceeds towards progress, perfection, improvement and development way too sooner (القحطاني, 1408هـ.ق, ص. 52) (مودودی, 1396هـ.ش, ص. 41-43).

2.4.3. Economic Losses

1. Recession in production

Usury deviates the correct production investment making the capitals to be invested in unhealthy, corrupted ways as usury loans instead of being taken into healthy

and righteous path. It has to be taken into consideration that money is the leverage to circulate various economic wheels of society, when it is correctly taken into work inside the productive ways each different class of society can diversely benefit from it. But in usurious system, the cycle of production stops for money is not being invested for productive plans and merely provide interest which goes straightly into the usurers' pockets. The flow of money only happens through the production and barter, whereas, in usury the pint is to increase the money so it is the target not the means of production and trade. Money is never spent in productive ways through usury, which will harm the society pretty badly, thus, usury can never be regarded as a correct way of economic trade (مجتهدی, 1375هـ.ش).

2. Unemployment

It is considered as a socio-economic disaster, which causes the prestige, production decline and savings to be lost. Because of the existing speculation within the usurious banking system, the volume of savings exceeds the investments, this is while the condition of employment equals the savings and investment. Unemployment is yielded by this imbalance the negative results of which affects directly workers and those who earn a fixed amount of income. Usurers whose income is nurtured through usurious earnings, do not step inside the current of production and profitable economic interactions, instead they are some individuals who lack a useful and an actual job, spreading some sort of unemployment throughout the society. Through deleting usury and restricting the profitmaking aspect of savings in the healthy economic activities, the volume of investment enhances and those who are unemployed, just because of the lack of capital to invest can find a suitable job (فرهانی‌فرد, 1378هـ.ش).

3. Poverty

Another economic loss resulted by usury is poverty. Usurers prevent the society from gaining the fair distribution of money out of absorbing its interests only for themselves. This will spread the poverty throughout the society and will be followed by the misery of debtors. Powerful people and riches, become unemployed and self-sufficient, and in fact without bearing loss and suffering the hardship of works they gain profits and income from the trade. Without regard to the fact of being in some worldly pleasures in society and enjoying it, these unemployed people also levy pressure, unhappiness and corruption throughout the life of the poor classes. When taking loan is

exclusively leading towards the usury most of the people from the worker class refuse to take part in getting loans for trade or investment, (because there is no guarantee for gaining profit and also it is potential to receive loss and disadvantages) so the loan gets excluded for poor people only for their needs or problems which cannot be solved in anyway, such as treatment for illness or buying houses. In this regard, the minimum amount of income earned by poor people goes to the wealth of banks, riches, and professional usurers, and so usury causes poor to get poorer and riches to get richer. Therefore, usury results into the concentration of money only in the hands of riches and usurers, and destruction and mortality of poor. Riches keep putting wealth on top of their property contrary to the poor who keep losing and the only thing increases for them is the misery gained from the usury, so that the usurers can do anything they like employing the innovative forces to fulfill their insatiable appetites (طباطبائی م. , 1361هـ.ش).

4. Economic crises

The capitalist economic system as whole and its financial system as one of its components is naturally struggling with economic crises and periodical inconsistencies. On the basis of the statements presented by economists such as Keynes, such a feature is there because of the existence of interest on various types of loans and the usury this system suffering from. Keynes believe that economic crisis is rooted in the fact that the monetary sector of the economy is separated from the real sector, and setting the interest rate inside the monetary market makes savings and investment inadequate, and causes shortfall in the whole demand along with recession. Since the capitalist economic system is regarded as usurious system and it is one of its intrinsic characteristics, so it can be logically inferred that popping up economic crises is a natural phenomenon in this kind of system from which there is no way to escape. Also, a crisis rising system is practically not efficient or proficient at all, and the only way to flee from these crises, and the only solution to solve the problem of these systems for being inefficient is to neutralize the root of crisis which is usury. Any other solution can only act as a painkiller which temporarily eases the problem for a short run.

5. Inflation

Regarding the previous texts undoubtedly usury is the source of corruption and the deviation of the social justice. In this part it is going to be tried to make examination over the relationship between usury and inflation. On the basis of economic literature,

there is a close relationship between interest rate (usury) and inflation. It is believed by some policymakers and Islamic economic experts that increasing interest rates will cause a raise in production costs and, as a result, the prices and inflation will be increased as well. Also, from another angle of economic theories it is seen that by increasing the inflation rate the interest rate will increase too. Macroeconomics can provide us with its existing theories in order to examine the relationship between interest rate and inflation. Pursuant to macroeconomic issues for this point, the mechanism of the interest rates effectiveness on inflation and the inflation on interest rates are going to be examined. On the basis of the macroeconomic literature, the real money balance is the initial influential variable if the price increases. In fact, it will decrease by the increase in the price level. Within the framework of Keynesian analysis, the decrease of real money supply (extra money demand), causes economy to get some disruptions. Regarding the Wallace's equilibrium, in order to provide balance throughout the whole economy, a surplus of demanding money in the monetary market generates an excessive supply in the market of bonds. This will lead to decrease in the price of the loan bonds and increase in market interest rate. So, from the theoretical view it is expected that if the price level goes up the interest rate increases as well. According to theoretical points, from inflation to the nominal interest rate there is a favorable causative relationship; it means, the interest rate in economy can be an enhanced by inflation increase. But it can be explained in variety of ways that how interest rate can affect the inflation. The cost of employing the capital is one of the mechanisms of interest rate influence on inflation. In this way, any increase in interest rate results into enhancement in the cost of employing the capital, leading to increase in production expenses. Through switching to the left of the curve of whole economy supply, inflation will ultimately be increased by increasing the cost of production. Also, the inflation can be affected by changes in interest rate via influencing the volume of money. It means that, in the patterns of money which are endogenous, and in which supplying money is considered as the interest rate direct function, the money supply goes up by the increase in interest rate (مهرگان, عزتی, & اصغرپور, 1385هـ.ش).

The famous nominal and real interest rates relationship, possessing a prolong history throughout the economic literature, is another mechanism for illustrating the relationship between interest rates and inflation. Generally, it is indicated from the relationship between the real and nominal interest rates that there is a positive association dwells among inflation and the nominal interest rate.

In the economic literature, the positive relationship which exist between interest rates and inflation is known as a classic theory attributed to Irving Fisher. Although Thornton was to be the first who proposed this relationship in 1802, Irving Fisher later gave it the form of a coherent theory in 1930. Putting it in a nutshell, according to the Fisher's work it is stated that if the expected inflation rate goes up by the amount of a unit, the nominal interest rate increases by one unit and the expected real interest rate residue steady (کمیجانی & بهرامی‌راد, 1387هـ.ش).

Numerous studies including Darby, (1975) Tobin (1965), Berumont, (1999) Both & Ciner, (2001) Brazoza & Brzezina, (2001) Feve & Auray, (2002) Atkins, (1989) Macdonald & Morphy, (1989) Mishkin, (1992) Hoffman & Crowder, (1996) Famy & Kandil, (2003) کمیجانی و بهرامی راد, (1387هـ.ش) کشاورزیان و عظیمی, (1384هـ.ش)have confirmed the affirmative relationship between interest (usury) and inflation, considering the interest as the potential factor in generating inflation. Regarding the brought up contents, it is expected to run a bidirectional relationship between interest rate and inflation, and as a matter of fact it is worth mentioning that pursuant to the achieved results, accordingly a positive significant relationship exists between inflation and nominal interest rate (مهرگان, عزتی, & اصغرپور, 1385هـ.ش, ص. 96).

From the adherents of justice and equality perspective, inflation is the reason the riches get richer and poor become poorer (روزبهان, 1369هـ.ش). Inflation makes those with fixed incomes, such as salaried workers, retirees, and tenants, to suffer, since these people cannot raise their income in proportion to inflation (ماجدی & گلریز, 1368هـ.ش). The income of traders, businesses, and producers, goes up by inflation, also, the profits of productive and unproductive capital gets enhanced by this phenomenon, since the cost of producing the product price goes to the employers' bag. The assets and the inventories of companies keep their real value. Those who kept savings and made deposits encounter with losses. On the contrary, barrowers and debtors make benefits. If the rate of the deposit's outcome and the expense of borrowing the loan, are under the inflation rate, the income rate varies to the benefits of debtors (روزبهان, 1369هـ.ش, ص. 354-355).

The structure of investment is altered by inflation, as a result investments incline toward useless subjects which are safe from the impacts of inflation (قحف, 1418هـ.ق).

In inflationary condition, money owners turn to investing in the unproductive sections in order to prevent the decrease in the value of money. Also, money exchangers

and stock market traders, take action of collecting money from owners, employing it into buying houses, lands, and things like that. And by making other in debt to themselves they earn a huge amount of wealth; therefore, in the inflationary condition the inclination toward savings, productive and useful investment gets reduced, and via destructive debts, part of people properties is moved (یوسفی, 1381هـ.ش).

The balance of payment gets reduced and the trade imbalance occurs by the inflation. Because the rise in the export goods price makes exportation to fall and lifts up importation, and due to the excess amount of currency demands the balance of payment plummets. Also, considering the inflationary condition government general expenses rises according to the amount of increase in prices, and this will end in budget deficit (کتابی, 1371هـ.ش).

3. CHAPTER THREE: THE CONCEPT OF RISK AND ITS POSITION IN CAPITALİSM AND ISLAMIC ECONOMICS

3.1. Definition of Risk

The word risk has several definitions depending on how it is used. In order to better understand the concept of risk, the components of a risky situation can be examined. Risk implicitly refers to uncertainty and unpredictability of future results. For this reason, greater ability to predict the future leads to lower risks. Risk can be considered a combination of the probability of the occurrence of an event and its consequences. The concept of risk can be illustrated by the interrelationships between uncertainty, probability, effects and their results. Once the probability of the source and effect an event or incident is determined, its probability distribution function can be plotted and evaluated. Based on the intended probability distribution function, the probability of danger or risk of occurrence can be determined on a range of probabilities. The source of risk - uncertainty - for a phenomenon will lead to a positive or negative result with a probability, which is shown in the diagram below (Merna & Al-Thani, 2008).

Şekil 1: Risk

Therefore, the concept of risk includes three components of uncertainty, possible consequences and the probability of the occurrence of those consequences.

The Oxford dictionary translates risk into the possibility of the occurrence of detrimental event in future (Hornboy & Wehmeier, 2005).

In the Dictionary of Economics, risk is defined as follows:

This term is used to describe the hazards arising from fire, war, and credit, and represents the probability of losses with which an investment may face. The risk may also be economic, or physical (فرهنگ, 1369هـ.ش).

In the management dictionary, risk refers to a situation in which events are likely to occur, or in other words, in such a situation, events have a probability distribution. Also, this dictionary considers the most important source of risk as uncertainty about the future economic situation (Abrol & Sharma, 2003).

The Webster dictionary defines risk as exposure to danger (Webster, 1981). Risk is the possible difference between return and expected value. In the context of investment, risk refers to the probability of different between actual return and expected return (سروش & صادقی, 1386هـ.ش).

About the concept of risk, several definitions are suggested in the financial literature. Hube defines risk as the probability of a reduction in income or a loss of capital. On the positive side, risk is any possible fluctuations in economic returns and on the negative side, it is defined as possible negative fluctuations in future economic return. Galib also considers risk as a phenomenon that can create a kind of deviation in the expectations of investors (راعی & سعیدی, 1383هـ.ش).

Risk in the general sense is a danger that arises due to lack of uncertainty about the occurrence of an event in future, and higher uncertainty is the source of greater risk (Ross, Westerfield, & Jaffe, 2005). Risk can include the positive part (profits) as well as the variability of the negative part (losses), and risk assessment is based on plotting the distance of random variables with expected trend (Cheng,, Liu, & Wang, 2004).

Hopkin believes that risk is used to show negative consequences, but accepting risk can also lead to positive results. The institute of risk management defines it as a combination of the probability of the occurrence of an event and its consequences.

According to this definition, consequences belong to the future and can be positive or negative (Hopkin, 2012).

The main concept underlined by all these definitions is the existence of uncertainty about future events, and in fact, risk is a type of uncertainty toward the future, which can be calculated. In other words, if the degree of uncertainty about the future cannot be calculated, it will not be risk, but rather just uncertainty; this is why a specific value is introduced for risk and can be managed and controlled (ویلیامز & هاینز, 1382هـ.ش).

As a result, it can be said that financial risk, in its standard definition, refers to the probability of fluctuation in actual return relative to expected return. In other words, it is a combination of uncertainty elements in the occurrence of unfavorable results and elements of desirability or benefit whose probability of occurrence is known for each possible consequence.

3.2. Position of Risk in the Economy

Production constitutes the most significant discourse in economics. An issue on which all three schools of economics-capitalism, Marxism, and Islam-professionally agree with is to increase production as much as possible and to maximize the exploitation of nature within the framework of the general regulations of the school (صدر, 1350هـ.ش). Today, with its extensive capacity and scope, production has found new innovations in transactions and new issues related to this type of transactions, which has made the world contemplate about it and offer various solutions to improve its quality (عثمانی, 1394هـ.ش). All the theories proposed to achieve economic growth have discussed increasing national production. What is production? The definition of production has evolved with the development of the schools of economic systems. Production is a process that transforms inputs into outputs.

Seeds, fertilizers, planting and harvesting tools, manpower, land and water are combined to produce an output called wheat. The nature of economic investment requires a time interval between spending the necessary capital and receiving revenue from selling the output. Although this time interval varies depending on the size and characteristics of projects, it exists anyway. In the production process, that is, transforming inputs into outputs (cost to income), many variables are affective, a small number of which the investor can control. Although the investor can determine the

variables under his control with certainty in the beginning, he can only make predictions on uncontrollable variables.

For instance, how determinant can be an employer's decision who plans to invest in wheat production on the following variables?

- The total amount of lands that is under wheat cultivation in the country during current crop year

- The amount of rainfall

- The amount of wheat imports in this year and next year

- Wheat consumption in this year and next year

- Possibility of locusts attacking wheat fields

- Possibility of fire in wheat fields due to lightning

- Possibility of a broken water pump by which the farm is watered

- Worker wages in the harvest season

and...

Normally the producer does not have significant control and influence over any of the above items and should consider them as uncontrollable variables. At max, he can make predictions for each of these variables, taking into account available statistics from previous years, meteorological forecasts, political and economic conditions, and finally his personal judgments. It is important to highlight that the producer can reduce the risk factor in the project using mechanisms, such as insurance, installing safety devices to prevent fire and theft, and pesticides. But, he will never be able to provide a completely safe and risk-free environment for himself (حسین زاده بحرینی م. , 1375هـ.ش).

In the realm of economic activity, there is a kind of risk that cannot be measured in any way. In addition, both the fear of loss and the hope of making a profit are associated with this risk; for example, consider a producer decides to produce a product today that will be available for sale in the market a few months later. His exact income is currently unknown and can only be guessed partly. On the other hand, the production cost of these products is known and must be paid now. Anyway, every producer and

businessman makes calculations which, depending on the economic situation, may be right or wrong, as a result he might gain profits or bear losses. In any case, the amount of profit or loss cannot be accurately predicted at the time of production. This is an instance of pure economic risk and uncertainty (غفاری, 1392هـ.ش).

Human decisions are typically accompanied by restrictions on information. Gathering information is extremely important for effective decision-making. However, the correct processing of all information is often difficult due to limitations in human cognitive capacity (Noyes, Cook, & Masakowski, 2007). Since such constraints increase the level of risk and given that effectiveness in decision-making is of particular importance, determining and managing the risk level is necessary for the decision-maker. The phenomenon of risk is a key characteristic in decision-making in the field of investment, financial markets and various economic activities (Durlauf & Blume, 2008).

Money is cute, so why do people keep cash with sight deposits instead of buying bonds or making any other type of investment that can generate revenue for them? In this regard, the economic theory suggests two justifications. The first is that converting capital into cash, when needed, requires time and patience. The second is that all forms of investment involve risk and the instinct for risk-aversion28 of individuals is satisfied only by keeping part of their wealth in unprofitable but secure forms (Arrow, 1971). This means that all forms of investment involve risk. In other words, there is no secure investment in the real world, and risk acceptance is a prerequisite for the transition from input to output.

In some studies, the risk factor is mentioned as the fourth factor in the production process, while in most economic books, the three factors of labor, land and capital are mentioned as the main production inputs. This means that in order for production to happen, all three factors must be ensured. However, it must be borne in mind that risk is also a sufficient condition because despite the existence of labor, capital, and land, if the producer does not accept the potential losses of this process, production will never take place (Adams & Periton, 2009).

[28] In economics and finance, risk aversion is the behavior of humans, who, when exposed to uncertainty, attempt to lower that uncertainty.

3.2.1. Human Roles Participation in the Production Process

Land, production tools, raw material, energy and communications are typically necessary for any production process. Apart from these material inputs, three human roles or factors must necessarily be present in the production process. These 5 human factors are: 1. labor force (worker), 2. cost-provider, and 3. employer (risk force).

3.2.1.1. **Labor Force (Worker)**

Workforce is the main and most important production factor and is basically a factor that can largely compensate the physical and material limitations and shortages in other factors and contribute enormously to increasing production. In other words, labor force is not limited to the worker's physical ability. Each worker is in fact a combination of material and qualitative components that, according to history, human intellect has either eliminated or reduced many material shortcomings and limitations by relying on the power of human thought and talent (سبحانی, 1372هـ.ش).

Today, by the word "worker," economists do not mean only simple labor force. According to the new definitions, all the human resources effective in the production process who help production with their labor force-both physical and intellectual-are referred to as the labor force (worker). It thus encompasses a wide set of labor force that ranges from simple packagers to high-ranking engineers and experts, and ultimately the company managers (حسین زاده بحرینی م. , 1375هـ.ش, ص. 200).

It is undoubtedly not possible to strengthen the economy without considering the workforce as the most central factor of production. The labor force plays an essential role in the realization of the economy, the most important effects of which are reducing dependence, increasing domestic production, empowering the workforce, growing entrepreneurship and improving skills. Strengthening the production factors, especially empowering the labor force and correcting the weaknesses in this area can overcome some existing obstacles for large and small enterprises in the country (خانباشی & بستان‌منش, 1394هـ.ش).

3.2.1.2. **Cost-Provider (Investor)**

Due to the nature of most production factors, usually they are not actually available to the producer and he has to provide them from the relevant markets. The producer must, at once or at certain intervals, "spend" funds to provide the necessary

inputs before the production can take place. Of course, this is a requirement in complex economies, but in a simple and primitive economy, it is conceivable for a small production process to take place without cash. Money has no meaning or place in the barter29 production. Barter production refers to a production method in which all production inputs are provided to the production process without receiving a specific thing. The worker is not paid for what he does; no rent is paid for the land provided to the project; work tools and raw material are also supplied to the production process with no charges. In such a situation, all the owners of production factors contribute to the production costs.

Now, if one of the owners of production factors is not willing to accept the risk of production, his wage must inevitably be paid or guaranteed. Here money can be the best way to transfer risk from the owner of one production factor to another. Thus, the function of money in the monetary process is to transfer risk from the owner of a real production factor to the owner of the money. Cash basically plays no role in production and only acts as a facilitator of the production cycles, just like a catalyst. However, it should be noted that the difference between money and real production inputs is that these inputs play a real role in production, while they can take on the character of risk-taking; for example, the worker injects his labor force into the production process, whether or not he receives a fixed wage. At the same time, if he gives up a fixed wage and provides his workforce with the hope of participating in the final product, which will be probably produced, he will be a risk force in addition to the labor force. But cash has no real function in the production process, apart from participating in the risk force.

It should also be noted that in the capitalism school, risk is defined according to the cost of opportunity. While the Islamic school of economics does not consider the cost of definite opportunity for cash and other goods that cannot be used except with the loss of the original. As a result, it can be said that the school of capitalism sees money at risk when facing with the possibility of making a profit less than its opportunity cost-standard interest rate, but from the Islamic school point of view, cash is only at risk if it is faces with the possibility of non-return of its principal.

[29] In trade, barter (derived from baretor) is a system of exchange where participants in a transaction directly exchange goods or services for other goods or services without using a medium of exchange, such as money.

In this way, production costs can be divided into real and monetary types. The provider of real production cost will simultaneously assume the role of a risk-taking input if he give up wages or guarantees. The monetary cost provider also becomes a risk force if he incurs risk (203-201 .ص ,1375هـ.ش , حسین زاده بحرینی م.) (توتونچیان, 1379هـ.ش).

3.2.1.3. **Employer (Risk Force)**

An employer is a person who wants to produce and provide goods or services, and above all, he provides the conditions for the realization of other factors and takes the responsibility for its profit and loss. The view of capitalism in the field of wealth distribution is to assign taxes or rents to lands, wages to labor force, interests to investments, and profit to the employer. In the meantime, rent, wage and profit are determined in advance based on supply and demand. While the employer's profit is not determined from the beginning, but after the work is done (61-33 .ص ,1394هـ.ش, عثمانی).

In the socialist system, there are only two real production factors are land and labor. Land is not owned by anyone, so there is no need to consider its separate value. Thus, for the distribution of wealth, there remains only one account called wages, which is determined by government decisions. Marx's well-known opinion is that the increase in the value of everything is done only through labor force, so wages only belong to the labor force. Capital gain, land taxes and employer's profit are surplus and dummy factors. This is called the theory of surplus value (1396هـ.ش , کوهستانی م.).

The employer (risk force) is an input whose sole task is to bear the potential losses arising from the project. Just as there is a possibility of failure to achieve the desired profit in the project, it may be highly profitable, so to whom does this additional profit belong? Some economists see this extra profit as a reward for the employer's risk-taking.

William P. Albert Jr. states: Land, labor, and capital do not combine with each other to participate in a production process per se. These factors must be organized for production. The person in charge of this organization is the employer. He supplies the remaining production input, which is being employer. The profit perspective provides sufficient motivation for the employer to take risks (William, 1983).

Now, if we consider the employer as a production factors, we must also determine his role in the production process.

In his book Economics dictionary, Donald W. Moffat writes: For a long time, economic resources were considered only land, labor, and capital. Late writers usually add a fourth economic source to the previous three, which is the employer's talent. He also considers land, labor, capital and employer's talent as production factors (Moffat, 1984).

In economic texts, several tasks have been assigned to the employer, including organizing the production process, accepting risks arising from production, deciding about the production type, amount and method, innovation, marketing, etc. For example, in the dictionary of Economic Knowledge, Manouchehr Farhang writes about the employer as follows: Someone who in practice takes the responsibility for organizing, managing, and dealing with the risk of winning and losing in an economic activity. The business owner considers the conditions in order to add a new product, a new way, or a better organization. Elsewhere in his book he says: The employer is an individual or a group of people who take the risks of a business economic unit (فرهنگ, 1369هـ.ش, ص. 420).

Macmillan Dictionary of Economics, under the word employer, writes: In completely private companies, the employer assumes both the financial risks of the firm and the responsibility for its management. In public companies, on the other hand, these two main roles are divided between shareholders and the board of directors. Shareholders are the owners of the enterprise and bear the risk arising from its operation, while the board of directors is responsible for the actual control of the enterprise, decision-making, policy-making and management (Pearce, 1985).

It is important to note that the employer is risk-taker, and therefore plays a vital role in any production process. It can be said that the employer is someone who gives life to a group of production factors. Depending on the definition that anyone can have of the employer, other duties can also be attributed to the employer. Anyway, his most important characteristic, which is to bear the potential risks of production, should not be ignored.

So far, it has been concluded from the argument that in any production process, the presence of the three human roles of worker, cost-provider and employer is mandatory.

3.3. The Position of Risk in Islamic Economics

Economists have often named labor, capital, and natural resources as production factors. And considering their opinions, the production factors of can be described in details as follows:

Physical and intellectual labor, management of capital as a means of production, capital in the form of cash and credit, land (including all natural resources), the accumulation of these inputs are necessary conditions for production, but they are not enough. In order to start and continue production, it is necessary to have another input whose job is to bear the possible risks arising from production, which is risk (فطانت, 1376هـ.ش).

Bonits et al. argue that what can be measured can be managed, and we have to measure to be able to manage (Bonits, Dragonetti, Jacobsen, & Roos, 1999). Thus, for risk management, we must first measure its value, but the question is whether the risk has market value so that it can be priced and traded in the market? It can be said that the occurrence of desirable outcomes in a risk situation is merely based on probability, but the factors that cause these outcomes can be valued. The way of arguing here is exactly the same as doing it about the value of medicine. By paying, buying and consuming medicine, the patient is only likely to be cured, that is, he sees medicine as a useful factor in his health. Here, we see that the patient has paid and valued the factor that contributes to the treatment and improvement of his health. The same logic applies to production factors. Economic useful work is valuable because it is a production factor, so in the market they value work and there is a market for it. The same argument applies to risk. It means, since risk is an integral part of production factors, it should also be valued (مصباحی مقدم & صفری, 1388هـ.ش).

Since many decisions in the field of economics in an Islamic system are made at risk, examining Islam's view on the legitimacy of risk is necessary and important. Therefore, in this section, we examine the legitimacy of risk or risk-taking from the Islam point of view and whether someone who takes risk in the production process can demand any reward?

Mohammad Baqir Sadr rejects the risk element as one of the production inputs and explicitly declares that risk-taking has no role in the school of Islam:

Since the theory of distribution comes after production, risk is not considered a source of income and is not in possession of any type of legal income's theoretical license. Because risk is neither a commodity or capital that the risk-taking person gives to another and demands its price in return, nor is it a work to be done on materials, to clarify the right of ownership or demand for wages. Rather, it is a state in which a person does something that he or she fears the consequences of. It does not matter whether the person abandons his decision out of fear or not. But it is not out of two points, either the person gives up on his decision or not. Anyway, he has willingly decided to go through a risky way, so he'll accept the possible losses, therefore, he cannot demand material possessions until his decision has found an external reality and is embodied in the form of work. Although it is true that overcoming fears is ethically important, it should not be valued economically.

Some scholars have stated that the profit of the property owner in a Mudaraba contract is theoretically based on the risk element, because he exposes himself to risk and loss by transferring capital to the agent. As a result, the agent is obliged to pay a percentage of the profit to the property owner. But the truth is different, due to the fact that the property owner's profit from the trade is not from risk, but from the ownership of financial capital. Although the value of commercial capital is often accompanied by profit as a result of the economic activities of the agent, but it has not come out of the owner's possession, because no material is taken out of the owner's possession because of the transformation in its original shape. So the right of the capital owner to profit is the same as the right of the owner of the wood to the bed with which it is made. For this reason, part of the profit is the right of the owner of the capital, even though he was not psychologically exposed to the risk. Now, if someone carries out an activity with the capital of the property owner without informing him, and this results into a profit, here the owner can agree to the action taken and picks up his profit, or, he can object and disagree, taking back his capital.

It appears that the lack of distinction between the different types of risk has caused Sadr to declare risk absolutely worthless. The evidence he presents to prove the worthlessness of the risk is a proof of this claim. He says:

There is other legal evidence that clarifies the negative stance of Islam on risk and proves that risk should not be considered a source of income. Somehow, many people, relying on this risk factor, seeking to justify usurious profits, saying that when a creditor lends money to someone, he or she has actually taken the risk, and jeopardized their capital. Because, if the debtor is unable to pay it, the capital is lost and loss is incurred by the creditor, so the owner has the right to receive a reward, which is interest, in return for risking his capital. The ban of gambling and its proceeds is another reason to justify Islam's opposition to risk. Obviously, this type of income is not based on a profitable work, but merely on risk (صدر, 1350هـ.ش, ص. 234-236).

According to Mohammad Baqir Sadr, we conclude that, contrary to the belief of the proponents of the classical capitalist school, accepting risk is a heroic act on the part of the owner of the capital and so, he deserves to receive interest. Theoretically, the right of the owner of the capital to profit is not the result of his risk, or in other words, the reward of his sacrifice and courage.

The risk accepted by Islam is productive and controllable, but gambling and its income do not include this type of risk. Thus, what is rejected in Islam, is non-productive and useless risk, and we discussion about the useful and productive economic risk. In this case, the risk factor should also be brought up as one of the components of the total cause for the acquisition of added value. By taking this result into consideration, the merit of the risk-taker from the generated income is acceptable and provides the necessary basis for accepting the principle of “more risk, more source of income” (فطانت, 1376هـ.ش, ص. 159-160).

3.3.1. The Concept of Risk Theory in Islamic Economics

The risk theory in Islamic economics means that: The principles of Islamic financial legislation are a justice-based logical requirement between action and reward, between rights and duties, and between "al-ghunm" (profit) and "al-ghurm" (losses), and between investment-with all different types- and its consequences. The risk theory in Islamic economics also means that: The only source of entitlement in any investment

operation is the risk associated with the property or operation; because the investor or employer is ready to bear the results of the investment in terms of profit or loss.

It can also be said that the risk theory in Islamic economics is a general theory that includes a set of rules of financial jurisprudence such as: "Al-Kharaj Bi Al-Dhaman,"30 "Al-Ghunm Bil-Ghurm,"31 "Al-Nima Bi Ghadr Al-Naqma," "Al-Naqma Bi Ghadr Al-Nima," "Min Zdamn Mala Fala Rabba," and "Al-Adjr wa Al-Zdaman La Yajtami'an." And each of these rules expresses specific criteria in one aspect of the risk theory, and this group of financial jurisprudence rules has a common chapter in general, which is based on the logic of the connection between "al-ghunm" (profit) and "al-ghurm" (losses), as well as logic of equality and balance. In this sense that tolerating retribution is as much as blessing and is based on the logic of reciprocity, i.e. the entitlement of profit is against the loss, and in this sense it summarizes these rules in the general case under a single theory called the "risk theory."

Mohammad Awadha argues about the application of the risk theory in Islamic banking: Islamic banking is distinctive comparing to traditional banking due to the lack of emphasis (risk) and division of results between partners, because the parties (the rich and the financier) participate in profit and loss, which is in accordance with the jurisprudential rules of " al-ghunm Bi al-ghurm" and "Al-Kharaj Bi Al-Dhaman". These rules settle down a collocation between income and risk. Islamic jurisprudence has bequeathed to us several methods and alternatives in order to supply our financial needs based on the rules of the risk theory, such as Annan and Mudaraba Companies, also Be'i (i.e., Contract of sale),32 including Murabaha and Salma. This means that the participation of Islamic Bank as a rich figure in bearing the risks of productive activity is essential. The greater the power of risk-taking, the higher the probability of innovation and profit, which results in economic prosperity and this leads to the progress and development of society.

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[30] It means: the entitlement to profit from something is dependent on responsibility for attendant expenses and possible loss and defects (Hadith narrated by al-Tirmizi, Abu Dawud, Ibn Majah and Ahmad).

[31] It means: “entitlement to profit is accompanied by responsibility for attendant expenses and possible loss.”

[32] A contract of sale, sales contract, sales order, or contract for sale is a legal contract for the purchase of assets by a buyer from a seller for an agreed upon value in money. An obvious ancient practice of exchange, in many common law jurisdictions, it is now governed by statutory law. See commercial law.

The relationship between profit and risk is the common ground of traditional and Islamic economics. Profit is therefore the most obvious incentive for taking risk along with the innovation on which economic growth relies. On the other hand, bearing risk entitles you to profit that is unjustly forbidden in proportion to higher than unjust income. As a result, as long as Islamic banking provides risk-based financing, its income (profit) will be more than the income of traditional banks, for this reason, Islamic banking is distinguished by financing on the risky investment. Moreover, there is a tendency to attract the accumulated capital in order to keep it from interacting with usurious banks. This allows innovation to expand because the employer finds someone to share the risk with.

The Islamic Theory of Investment and Financing is based on the element of risk and tolerance of high and calculated risks in order to establish a correlation relationship between income and risk. As growth operations are based on two elements-risky capital and risk work-and especially the work that has an innovative nature and necessarily has a risky nature.

The action of Islamic banks to increase trust in the distribution of risk capital through participatory methods in its various types and Mudaraba methods, using the power of employers, is a suitable alternative to the application of Islamic banking thought and Islamic financing theory to create an economic revolution (محمد عويضه, 2010م).

3.3.2. Accepting Risk form the Isamic Point of View

Entering into any kind of economic activity requires accepting some kind of risk, and the religion of Islam does not forbid accepting all risks. Risk is one of the basic principles of Islamic economy. This is also based on the principle of responsibility, so that profit can be justified on the basis of liability. The Prophet (PBUH) says: Profit is accompanied by responsibility, the Sharia distinguishes legal profit from other forms of profit. Profit is realized only when there is responsibility or risk of losing it. Islam recognizes risk as the preferred organizational structure for all economic activities. It provides a financial system based on participation in risk and return. The Islamic financial system prohibits interest-based transactions, but instead proposes Islamic contracts in which risk and return are divided. The Holy Qur'an encourages participation in risk and forbids risk transfer, risk shedding, and risk change, because Islamic

financing is based on risk sharing, and the prohibition of debt settlement is based on interest. Verse 275 of Surah Al-Baqarah emphasizes the division of risk, in which God Almighty says: They say that the contract of sale is like usury, while God has made contract of sale lawful and usury forbidden because the parties in the contract of sale are at risk (Askari, Iqbal, & Mirakhor, 2015). But if the interest is only for the lender and he has no share in the loss or risk of loss, such activity is considered usury. This issue shows that Islam pays attention to risk and accepts it as a reasonable activity in economic interactions, and conversely, certainty about the realization of profits for the lender and risk aversion are forbidden in transactions. Thus, one of the wisdoms for ban on usury is the lack of risk-taking in which the investor is never exposed to the natural risks, rather than artificial risks, in any other transaction, that is, the usurer transfers all the harmful probabilities that certainly exist in nature to other members of the society (میرزاقمی, 1414هـ.ق).

The Islamic economic system, in addition to the risk-sharing feature, is more stable than its traditional counterpart. For this reason, when production is fully financed by the risk-return share or equity financing, if the prices change rapidly, both assets and liabilities move in the same direction at the same time, which adjusts the financial structure (Askari, Iqbal, & Mirakhor, 2015, pp. 89-90).

Risk is considered a challenge in Islamic finance, just as in the conventional one. The first rule of investment says that the one who does not put himself at risk will not make a profit. The same is true at the macroeconomic level. According to most economists, economic growth cannot be expected without risk tolerance. On the other hand, the lack of risk leads to a loss of motivation and jeopardizes economic efficiency. Thus, inevitably, the risk element must be accepted for economic growth, but too much risk can be a kind of obstacle for investment and also disturbs economic growth. A question is raised here that how can a balance take place between these two? Islamic finance provides the answer to this question in the form of an attitude. Investors are not able to separate risk from the ownership of actual goods and services when entering into for-profit transactions. The reason for this is not the desirability of risk in this type of trading, but in fact, the reason is that this type of risk is completely undesirable, so the strategy of effective risk management is to integrate and apply it in real activities. Thus, risk will be inherently controlled by the real economy. At the same time, it is considered as an incentive for real activities to generate wealth in order to compensate for risk-

taking. Regarding the motivational nature of this measure for economic growth, the above strategy does not cause the two goals of value creation and risk minimization to be achieved simultaneously (آزاد & رجب‌زاده, 1398هـ.ش).

With the aim of examining the legitimacy of risk monetization, and the relationship between changes of risk and income, Baktash analyzes several rules and religion rulings as the basis. These rules are: religion ruling on the forbiddance of usury, conformity of tribute from guarantee, conformity of benefit from loss, non-entitlement of property profits that is not guaranteed and the relationship between profit and loss. He concludes that what is common between these rules is that risk can be a source of income (بکتاش, 1391هـ.ش).

3.3.3. Risks Accepted in Islam

1. Useful risk

As it can be indicated from this kind of risk, determining usefulness or uselessness of a risky action is a valuable job, and depends on the tolerable accepted values. If we want to distinct useful risk from useless risk in the framework of Islamic teachings, we are inevitably referring to Islamic values, in this way, considering the consequences of risk tolerance examines its value or futility from the perspective of Islam. In many Qur'anic verses and hadiths, it is forbidden to do "vain" and human life is mentioned to be purposeful. Man must organize his activities so that the ultimate goal of creation, which is the worship of God is achieved. At the same time, he should refrain from doing things that are in conflict with this goal, or are vain and without a purpose. Obviously, in such a value system, risk tolerance in performing activities that are in line with the purpose of creation is desirable and tolerating risk in performing activities other than that is considered undesirable.

God says in the Qur'an: And whatever you spend of good - it will be fully repaid to you, and you will not be wronged (Al-Baqara: 272).

It is narrated from Abu Hurayrah that the Prophet of God said: No day turns into morning, unless two angels descend and one of them says: God, recompense for the one who has spent his property, and... (الکشمیری, 1426هـ.ق, ص. 111).

The above verse explicitly encourages the financial risk-taking that one faces when giving in the way of God and speaks of its great reward. Due to the fear of poverty

and misery man often turns away from spending, so, God encourages man to outlay and accept the financial risk contained in it by the phrase "You will not be wronged" (غفاری, 1392هـ.ش, ص. 79).

2. Productive risk

Productive risk involves added value. It is also called economic risk (مصباحی مقدم & صفری, 1388هـ.ش, ص. 130). The value of any economic decision is not primarily determined by its riskiness, but by the wealth it creates and the value it generates. Risk is reflected in value, but it does not intrinsically determine value. Anytime risk-taking is encouraged, it is because of the added value and wealth it creates. This distinguishes between legitimate and illegitimate risk. Legitimate risk is when it leads to value creation, but when there is no added value, it is counted as betting (السویلم, 1428هـ.ق).

Investment in a mining project involves the economic type of risk. While participating in a gambling session, which also puts at risk the investment in the hope of gaining more wealth, is considered an uneconomic or unproductive risk (مصباحی مقدم & صفری, 1388هـ.ش, ص. 123).

God says in the Holy Qur'an: They ask you about wine and gambling. Say, "In them is great sin and [yet, some] benefit for people. But their sin is greater than their benefit." And they ask you what they should spend. Say, "The excess [beyond needs]." Thus Allah makes clear to you the verses [of revelation] that you might give thought (Al-Baqarah: 219).

3. Controllable risk

Controllable risk can be controlled or influenced by the decision-maker. It is also called reactive risk. For example, if the risk of car theft is considered a risk for the owner, the car owner can cover himself against part of the risk of theft by observing safety measures, such as using locks, burglar alarms, etc. Such a risk is called controllable risk because the car owner is somehow able to control and influence this risk (مصباحی مقدم & صفری, 1388هـ.ش, ص. 123). If someone is looking for uncertain returns, he should try to control the occurrence of those returns. Factors that control the probability of an accidental occurrence of income are known as causes. In the Islamic culture, uncertainty is intertwined with causes. When one of us Muslims encounters a

problem in an atmosphere of uncertainty, he usually commits himself to doing the cause and leaves the result to the will of God Almighty. This benevolent behavior of Muslims is rooted in Islamic principles and teachings, according to which we are only obliged to do our duty and we should leave the results to God. The wish that a person makes to achieve the desired goal but without any effort or reason is called by the jurists as "Tamanna" (desire); but if the element "Sababiyat" (cause) is included next to this "Tamanna", then it is called "Redja" (hope). It is clear that the latter is considered pleasant and the former is disliked (Iqbal & Liewllyn, 2002).

3.4. Risk in Islamic Banking

Islamic banking, in attracting and consuming financial resources, has unique features compared to the conventional banking. In this type of banking, an important principle, which is the distribution of profit and loss of transactions, as well as the avoidance of interest (usury), has distinguished these financial institutions from other banks. This principle has confronted them with various risks, which can be said that their diversity and amount are more than the existing risks in the conventional banking. This highlights the need to address risk issues in these banks. Therefore, it is very important to identify the types of risks facing Islamic banking. Islamic banking needs measures to reduce and control risk due to direct exposure to risk in most activities, especially in civil partnerships, juridical partnerships, and Mudaraba. Also, due to the different nature of Islamic banking and the religious and moral principles governing it, risk management faces with more complex and diverse problems. Recognizing the risks associated with this system depends on knowing the rules and considerations that the legislator has considered for financial and economic behavior. The Islamic financial system is just, and it fairly defines the relations between economic institutions (علم الهدى, 1397هـ.ش).

3.4.1. Type of Risk in Islamic Banking

In this section, we examine the types of risks that an Islamic bank faces.

1. Credit risk

It is any kind of delay, postponement and default of payment by the contracting party. It includes the profit-loss participation contracts (Mudaraba and participatory), rent and receipts (Murabaha, reduced participation and rent) and financing of working capital (Salaf, Istisna' and Murabaha). It can be present at various stages of a contract.

Financial risk arises when a financial institution expects to receive the amount agreed in the contract (between the contracting party and the financial institution) while the obligor is unable to fulfill its obligation,or, in other words, is unable or unwilling to pay (آکیزیدیس & خاندلوال, 1394هـ.ش). Credit risk is sometimes called default risk. The effect of this risk, or the cost of replacing the cash due to the default of the contracting party, is measured. Credit risk is one of the most important risk factors in banks and financial companies. To measure credit risk, one should pay attention to such things as the probability of default, the amount of credit commitment, the recycling rate, and the credit rating of companies (نجفی, 1394هـ.ش).

2. Market risk

This risk is the possibility of changes in prices and financial rates that reduce the value of the bank's assets or portfolio. Market risk arises as a result of various market fluctuations, such as inflation, interest rates, exchange rates and asset prices. In other words, market risk can be defined as the probability of an adverse movement in the value of assets, including securities, stocks, loans, currencies, commodities or derivative bonds corresponded to these assets, due to changes in market prices and rates (عبده تبریزی, 1388هـ.ش).

Market risk is a risk that banks face in items inside or outside the balance sheet and is as a result of abnormal changes in market prices. It falls into the category of high-risks in which price changes lead to profit or loss. This type of risk is created not only as a result of changes in market prices, but also due to the actions and reactions of traders who try to take risks or get rid of it.

Market risk arises from changes in the prices of capital, commodities, money and currency. Therefore, the most important components of market risk are capital risk, commodity risk, interest rate risk and exchange rate risk (فلاح شمس & رشنو, 1389هـ.ش).

Market risk in Islamic financial markets is intrinsically hidden in the period of Islamic contracts, so it is important to identify, model and control it in this market (آکیزیدیس & خاندلوال, 1394هـ.ش, ص. 213-214).

3. Liquidity risk

This risk is the inability of a bank to provide funds for giving out facilities, or timely payment of its debts (e.g., deposits). When a bank does not have enough liquidity,

it will not be able to obtain sufficient funds quickly and at a reasonable cost by increasing its debts or converting assets, and this inability will affect the bank's profitability. In acute conditions, insufficient liquidity may lead to the bankruptcy of a bank (یزدان‌پناه & شکیب حاجی آقا, 1388هـ.ش).

This risk arises mainly from the structure of the bank's assets and liabilities. In banking activities, the due date of the facilities or assets is usually longer than those of the deposits or liabilities. The inconsistency in the due date of payments and receipts increases the probability of the bank's inability to pay at different due times (فلاح شمس & رشنو, 1389هـ.ش, ص. 20).

4. Operational risk

It refers to the risk arising from the inadequacy or failure of processes, individuals and systems or external events related to the company's operations. According to the guidelines of the Islamic Financial Services Board (IFSB), financial institutions face operational risk when experience losses due to failure in their internal control, including processes, individuals and systems. Losses resulted from religious incompatibility and failure to play the role of trustee are also included in this category. Among special characteristics of Islamic financial contracts, one can point to the obligation of the relationship between the financial institution and the parties to the contract. Also, during the implementation of partnership contracts (Mudaraba and partnership), both parties share in the profit and loss of the project. Thus, all parties to the contract, including bank, buyer, seller, lessor, and business partner are subject to operational risk. Three main approaches, including self-assessment analysis, quantitative operational risk indicators, and operational risk losses are used in the cognitive analysis of operational risk (آکیزیدیس & خاندلوال, 1394هـ.ش, ص. 75-258).

Regarding the fact that the operational risk can arise from the failure and inefficiency of staff, people and technology, this risk is very complex to manage. Senior managers should administer operational risk management systems with the utilization of strategies and policies communicated by the board of directors. Considering the complexity of operational risk, it is difficult to minimize this risk. However, banks can have an estimate of operational risk based on audit reports, management reports, business plans, and so on. Considering the different sources of operational risk, there are various ways to reduce and manage it.

5. Interest rate risk

All institutions face with this risk. It is something that banks usually experience due to the adverse changes in interest rates. Fluctuations in interest rates affect revenues, expenses, and the economic value of assets, liabilities, and the status of items below the balance sheet, and ultimately reflect their net effect on the bank's income and capital. In fact, what matters here is the difference in received and paid interest rates. In Islamic banking, this risk is reflected in the form of uncertainty about interest rates and income.

Banks and financial sectors should have clear determined policies to control the interest rate risk. These policies include the definition of responsibilities and accounts, continuous reporting, and the use of tools and techniques to control this risk. Interest rate risk for each component of the bank's assets and liabilities should be determined based on the due date, repayment and revaluation. There are many techniques for measuring this risk. The most important ones are gap analysis, crisis condition testing, and simulation methods based on statistical and mathematical methods and assumptions. By employing these methods, future events related to the change of a variable can be predicted using past information. Banks should also use the crisis stress test to examine the possible effect of interest rate fluctuations on the slope of the income curve (خان & حبیب, 1387هـ.ش).

6. Standard risk

This risk arises from the inadequacy of the legal framework, the conflict between Islamic and conventional laws, as well as the conflict between religious law and legal decisions (آکیزیدیس & خاندلوال, 1394هـ.ش, ص. 75). Many countries have adopted the framework of customary law or civil law, but their legal system does not have specific laws to protect Islamic financial activities. For example, while the primarily operations of Islamic banks are in the form of trade (Murabaha) and investment (participation and Mudaraba), current banking laws and regulations in many jurisdictions prevent commercial banks from being responsible for many of their activities. Non-standardized contracts also makes the various aspects of the transaction more difficult and costly throughout the negotiation process. Financial institutions cannot anticipate or hedge against risk. Applying standard contracts makes it easier to

monitor and execute the transaction. Finally, the absence of Islamic courts can increase the legal risk of Islamic contracts. It means, this risk arises when a transaction is not legally feasible (علم الهدی, 1397هـ.ش, ص. 74).

7. Sharia (religious) risk

One of the most important risks that Islamic financial tools face is Sharia risk. Since all Islamic tools are expected to be based on the Sharia principles and norms, this risk may not be considered significant at first glance (Syed Ali, 2005). In order to explain this risk better, one can point to a case of rental Sukuk[33] issued in Bahrain, which although they are issued in Bahrain and bear the name of Sukuk, the jurists believe that in the process of its issuance, Bai Alayna 34 is used, which is haram (forbidden). The religious risk is higher in countries that use the Islamic and conventional financial system simultaneously compared to other Islamic countries. Malaysia and the UAE are examples of these countries (سروش & صادقی, 1386هـ.ش). This risk is considered a part of the operational risk because non-compliance with the religious laws can damage the reputation of the bank and cause the main outflow of financial resources by investors, which will lead to systematic risk and bankruptcy. With the growth of the Islamic financial market, innovation in products has grown and single solutions for Islamic financing have been created. Some products may not be completely in accordance with religious laws, so they are under jurisprudential study. These products pose a special risk if they do not comply with Islamic law. Considering the differences in jurisprudential interpretations, great caution should be taken when concluding contracts (آکیزیدیس & خاندلوال, 1394هـ.ش, ص. 83).

3.4.2. Risk Management in Islamic Banking

The most important issues facing banks today are the amount of capital required and risk management. Risk management is one of the most important pillars of financial and banking systems and includes those parts of the banking activities that affects the

[33] Sukuk is the Arabic name for financial certificates, also commonly referred to as "sharia compliant" bonds. Sukuk are defined by the AAOIFI as "securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets."

[34] It is the purchase of goods on credit and selling them in cash at a lower price. Aynah comes from Ayn means existing property. In this kind of sale, if the first transaction is not conditional on the second transaction, it is permissible and legitimate. And in the case of the second transaction, there is no obligation on either side, but if probation happens, so that the buyer is required to sell and the seller is required to buy, the transaction is therefore not valid.

set of risks (محرابی, 1389هـ.ش). The main reason for implementing risk management is to minimize risk and uncertainty and maximize return for investors. In other words, the goal of risk management is to reduce loss (negative risk) and increase profit (positive risk) of investments. As mentioned earlier, risk management is performed in situations where risk is somewhat measurable and predictable.

In addition to the fact that risk management can reduce loss and increase profit, its essential role in transforming a state of uncertainty into a state of greater confidence is of particular importance and it facilitates decision-making for managers by creating safer conditions for them.

Risk management is a process that aims to reduce the possibility of adverse effects of an activity through conscious actions to anticipate unintended events and do planning to avoid them. Risk management refer to the utilization of the skills of individuals or groups to ensure that all risks are identified, measured and administered in the project. Often, risk is regarded as a negative effect on activities, while risk can be a window on opportunities, development, improvement or new concept (موسسه عالی آموزش بانکداری ایران, 1381هـ.ش).

Some argue that in Riba-free[35] banking, the risk is somewhat reduced because loan applicants need to know more about how to repay. Also, since there is no predetermined interest in Riba-free banking, if the prediction of the expected profit is not met, the bank does not face any losses, and all losses are returned to the depositor. On the other hand, some believe that the lack of fixed profits creates a risk called business risk. That is, Riba-free banks do not determine profit in advance, so they turn to interest on interim payment in order not to be defeated by usurious banks in attracting deposits. This kind of interest is currently being paid to depositors in the Riba-free banking of Iran, and if the bank fails to realize interest on interim payment, the banks will suffer a significant loss (اکبریان & دیانتی, 1385هـ.ش).

The main difference between Riba-free banking and conventional banking is the application of Islamic contracts based on profit-sharing. These differences cause the amount of risk of banking activities in the two systems to be distributed differently between the bank depositors and investors (محرابی, 1389هـ.ش, ص. 73). Since Islamic

[35] Riba is unjust, exploitative gains made in trade or business under Islamic law.

banking deals with the risk directly in most facilities and activities, especially in civil and juridical participation and Mudaraba, it requires measures to accept and distribute risk. On the other hand, most methods require an extensive information network to be provided as a database to the banking system (کدخدایی, 1380هـ.ش). In other words, risk management in Riba-free banking, due to being Riba-free and its specific concepts, requires careful application of Islamic banking concepts in addition to the risk management concepts (محرابی, 1389هـ.ش, ص. 73).

Since Riba-free banking is based on investment services, it include the three goals and strategies of security, income, and growth. Depositors of this type of banking try to achieve growth, and this goal makes the activity of Islamic banking riskier than conventional banking. Risk management methods include three stages: 1) Accurate identification of risks, 2) Measurement and evaluation of measurable aspects of risks, 3) Decrease the frequency and severity of the risk effect by avoiding, reducing, preventing, tolerating and transmitting expressions. The insurance mechanism and the assurance market are regarded the most appropriate methods of applying risk management in Riba-free banking.

In order to achieve optimal risk management in the Riba-free banking system, the following steps are considered necessary:

1. Accurate identification of risk and determination of major risks experienced.

2. Applying appropriate mechanisms for reducing and distributing risk (کدخدایی, 1380هـ.ش, ص. 19).

4. CHAPTER FOUR: CONVENTIONAL AND RIBA-FREE BANKING, PROFIT AND INTEREST

4.1. Bank

This term is a derivative of the old German word Banck that is a kind of join stock applied by Italians for the bench of money exchangers which gradually referred to the organization and place in which banking activities are being commonly taken place today.

The Bank of Barcelona is to be the first bank established by the Spanish government in 1401 AD. On top of all common activities of that era, the bank also had the government treasury operations carried out (صدقی, 1349هـ.ش).

The first banking experience, in its new pattern, was implemented in France in 1716. A Scottish man, John Law who arrived in France planning to build a bank, got accepted for doing so by Louis XIV (King of France), who was in terrible financial narrows.

In spite of the fact that the word bank is a common term today, the concept of which is conventionally clear, providing an illustrated and thorough definition can be effectual in clarifying the mechanisms governing this subject.

A bank is an institution taking care of exchange and banking transactions, or namely, banking is the business of money and credit; i.e. the banker takes credit from the individual who is willing to put his money into work and gives credit to the one who is in need of money for starting a business in exchange for a profit (اعظمی زنگینه, 1318هـ.ش).

A bank is a commercial institution which invests or grants credit by supplying resources through absorbing people's deposits aiming to earn profits. There are also other financial services which it offers to its customers (بهمنی & بهمند, 1386هـ.ش).

A bank is a business entity that gathers people's capital lending it to merchants, industries and other people in need (عثمانی, 1394هـ.ش, ص. 198).

A bank is a financial institution intended to gain profit, receives public funds in form of different types of deposits and offers credit facilities plus banking services in variety of ways.

Arguably, banks have a determining role in money circulation and wealth as financial and service institutions in a society. Also, they own a special place in the economy of any country. Their act can both positively and effectively have important impacts on the growth of economic sectors along with the production increase in each one and flourishing in some economic fields. In the world today, the existence of banks is extremelt necessary for most of the monetary claims, social lives management and the administration of countries' economic affairs (موسویان & فیروآبادی, 1387هـ.ش).

4.2. Conventional Banking

The most common type of banking in the world is to be known as usury (conventional) banking, which is on the basis of receiving and paying interest, in which banks acquires people's deposits and instead gives them in form of loan to another group called investors who are obliged to pay interest to the bank for those loans in exchange. Interest rate which has a fixed and predetermined rate, is the one received and paid by the bank. The income of the banks is constituted according to the balance between the received and paid interest rate. As a result, because in usurious banking interest, the easiest type of income, is received, the only intermediary for money is the bank which does not truly care about where the investor is going to invest; putting it differently, the bank has nothing to do with the investor's profit or loss, and at a specific date, it takes from the investor the principal and interest of the loan. In fact, the foundation of usurious banking is on the legal relationship amongst the creditor and the debtor; and the investor, is required as the debtor to repay the principal and the interest belong to them; in the case of loan when is given by the bank, it takes away the ownership from that loan giving it to the applicant who pledges to return the principal loan and its interest at a specific due time. The usurious banking system has struggled to discourage the banking industry from engaging with the actual economy, in such a manner that in most countries, banks are barricaded from investing right away in economic activities, buying corporate shares, and even loan bonds convertible into stocks (موسسه عالی آموزش بانکداری ایران, 1378هـ.ش).

Consequently, in reference to usurious banking, the three groups of depositors, banks and applicants for banking facilities, in legal terms are separated totally in their field of activity. Banks, both public and specialized, operate as a sole money

intermediary. On the one side, the extra funds of natural[36] and juridical[37] persons are received as loans (bank deposits) and from the other side, the same funds are paid as debts (loans and credits) to institutions and households (موسویان, 1382هـ.ش).

In usurious banking the deposits are generally segregated into three groups; that is, various methods of supplyping resources in usurious banking comprising current deposits, savings and time deposits. Even in usurious banking, the interest rate is zero for current deposits. The bank provides current account services in current deposits, to depositors in pursuance of money; this means that not only they do some banking works for current account holders without receiving a fee, but also the account holders can pay more easily, their need for carrying and storing cash gets eliminated, and thus their safety and security increases. However, interest is received and paid in time deposits and savings of usurious banking. Also, the same interest rate is counted as the leverage of the bank to regulate the amount of deposits and the credits volume (سهیلی, 1387هـ.ش). Indeed, why a borrower pays interest to a lender includes different perspectives, some of which are: being a risk-taking job for both borrower and lender, interval precedence, derivation of ownership from usufruct[38] at the time of borrowing, rewarding the owner of the capital for refusing to use it, regarding the share of capital from the benefits of the accomplished activity, taking the balance between the present and the future value of capital into consideration, etc. (صدر, 1350هـ.ش, ص. 234-242)

[36] In jurisprudence, a natural person is a person that is an individual human being, as opposed to a legal person, which may be a private or public organization. Historically, a human being was not necessarily a natural person in some jurisdictions where slavery existed rather than a person.

[37] A juridical person is a non-human legal entity, in other words any organization that is not a single natural person but is authorized by law with duties and rights and is recognized as a legal person and as having a distinct identity.

[38] A usufruct is either granted in severalty or held in common ownership, as long as the property is not damaged or destroyed.

Şekil 2: Conventional banking operation

4.2.1. Definition of Banking Interest

In regard with interest, there are definitions brought in from various types of views, which we will describe some of them here.

Turgot, the French economist, considers the interest rate as the price paid to take advantage of a specific amount of value over a period of time (توتونچیان, 1379هـ.ش, ص. 200).

On the other hand, it is believed by Keynesian economics that the interest of reward is the renunciation of liquidity or the delay that happens in purchasing power, and the rate of interest is determined inside the monetary market.

A relatively full concept of interest is presented via Fisher's interest theory; interest is the value that is generated from evaluation of a community about a unit of current income versus future income (usually one year later) (ازوجی & فرهادی‌کیا, 1386هـ.ش).

According to Swedish economist Knutt Wicksel, interest is a cost paid for the utilization of capital, and like the price of other goods, its rate is determined in the supply and demand market.

The interest is defined by Austrian economist Eugen Böhm von Bawerk as the outcome of the devaluation during a certain period, so the interest stabilizes the purchasing power of money.

According to Paul Anthony Samuelson interest is the elementary phenomenon in economics and the savings owned by society should be consumed for investment which makes profit as well, and if the borrower does not pay the lender anything out of profit, he has violated lender's right, which Samuelson believes that might get the interest

rate to fall sharply, but even in a fully evolved economy it will never disappear, (جامساز, 1388هـ.ش).

Interest is the price of money and for this reason is paid to the lender as a reward, to encourage them to disengage from their money at first place, then to nullify the economic risks that may arise in lending money in the second place (تفضلی, 1391هـ.ش).

Interest is the price of the money which is borrowed. Whenever the money is given as a loan to a lender for a specified period, the amount that the lender will receive from the borrower in the future will be more than the amount received at first place. This extra payment or interest rate can be uttered as the ratio between the amount of balance and the amount of refund at the end of a specific period and the total amount that is received. So, anytime 10 rials are lent and 105 rials are received at the end of a year, the annual interest rate will be equivalent to 5% (مریدی & نوروزی, 1373هـ.ش).

It is also defined in dictionary stating that interest is the amount paid for utilizing capital. Generally, interest can be referred to the distinction between the exchange price of a good or the same at two different times, or to take it more exactly, the variation between the exchange rate of money and the same amount of money at two various periods (شجری & کمالزاده, 1393هـ.ش).

From the above definitions it is inferred that the foundation of financial transactions is formed by the existence of interest, and it is impossible and far-fetched in every monetary system to be ignored, since no deposit-maker will give up their money to anyone to be freely utilized.

4.2.2. The Reasons for the Existence of Interest

There are multiple theories and reasons in variety of economic schools, in relation to the existential philosophy of interest, some of them are to be mentioned here.

1. Interest as a reward for risk-taking

On the basis of this theory, the lender is deserving a reward due to facing with numbers of risks in exchange for payment. This means that, the lender will be meritorious for taking interest to replace the amounts that are not repaid through accepting the potential risk of not returning the loan. Consequently, if the debtor personal needs are met through this asset, it is necessary for him to pay his wage as well (مودودی, 1396هـ.ش, ص. 18).

2. Interest, a lease of money or a share of capital

In consonance with this theory, money is a producible capital, so just as other production factors (nature and labor) it has to be naturally rewarded. Exactly the way that land and houses can be rented, why isn't interest being received from money, which can be bought and lent? Means that, it is the rental interest of the money that is paid to the lender. When a land or a house is rented by a person, it will be for the use of tenant for his own production plus housing, and will result into earning a profit from it, and the rent will be for the benefit the tenant makes. Regarding money, interest is the part of capital in the profits yield by the activity (سامی, 1374هـ.ش, ص. 25-26).

3. The theory of compensating the devaluation[39]

In agreement with this theory, the difference between the present and future value of capital cause consideration for interest to compensate for the decline in the purchasing power of money in the course of time. The money exchange value at the current time greater than the same thing in the future, and when someone is lent money, due to this decline in exchandge value that has been created after a while, the longer it lasts, the greater the decline gets, hence the lender is right to receive an amount for the devaluation in the future puls his principal amount (میرجلیلی س. , 1384هـ.ش).

4. The theory of forbearance[40] or omission theory of interest

Nassau Senior is the one who first proposed this theory. Interest is the reward of savings pursuant to this theory. Saving itself is due to forbearance and self-sacrifice, so the interest is the reward of forbearance (سیف & بهمنی, 1383هـ.ش). It should be pointed out that there is a moral factor in the word forbearance and since Western economists aimed to set up a positive economy not the norm, as a result, the validity of this word vanished, and has got no use in the discussion of interest, still Senior believes that the supply of capital depends on forbearance and defines it this way: The act of a person who either through consuming unproductively renounces something that he can master, or deliberately prefers future production over its results. It is believed by some Western

[39] In macroeconomics and modern monetary policy, a devaluation is an official lowering of the value of a country's currency within a fixed exchange-rate system, in which a monetary authority formally sets a lower exchange rate of the national currency in relation to a foreign reference currency or currency basket.
[40] Forbearance, in the context of a mortgage process, is a special agreement between the lender and the borrower to delay a foreclosure. The literal meaning of forbearance is "holding back". When mortgage borrowers are unable to meet their repayment terms, lenders may opt to foreclose.

economists that the weakness of the forbearance theory is in the doubtfulness toward justification of interest because forbearance connected with the supply of savings while it is required for a demand. After that, the term waiting which indicates the importance of passage of time is used by Alfred Marshall instead of forbearance. Marshall argues that interest is essential for an economy because it can be used to encourage people to save more instead of spending much, and waiting for consumption expands the future (توتونچیان, 1379هـ.ش, ص. 204-205).

5. Theory of time preference of interest

This theory, also known as the Austrian interest theory or the exchange theory, was proposed by the Austrian Bohm Bawerk and the American Irving Fisher. Pursuant to this theory, people rather to spend on current goods than the future ones, and this shows that current consumption is more important comparing to those of future, and people who have put off their current consumption to the future are rewarded by the interest.

There are reasons given by Bohm Bawerk for preferring present over the future, which include:

a) Because the present situation is clear the future is not valued much and it is blurred, besides, people psychologically care more about the present and having their needs met.
b) The demands and predicting the needs of individuals are different, and people who earn low incomes definitely value the present time and consumption more.
c) In order to generate wealth current goods can be used, therefore, technically the final productivity of current goods is higher than what will be produced in future.

Bohm Bawerk holds interest as an economic necessity owing to the above reasons (قریشی, 1361هـ.ش).

6. Classics Theory (Real Theory of Interest)

On the basis of this theory, interest is the price of the reward for saving whose rate also relies on the return of capital. As stated in this theory, savings equal to function of interest rates. Alternatively stated that, a direct relationship opens up between savings and interest rates, according to which the volume of savings in society is determined pursuant to interest rate. This means, the savings are encouraged and start expanding if

the interest rate enhances, and if just the opposite the interest rate declines the savings become constraint and their volume gets reduced. On another note, also another function of the interest rate is the demanding money for investment, given that, increases in the interest rate, will result in decrease of demanding money for investment, however, this goes up by a plummet in interest rate. Capital returns play an important role in realization of this purpose. Because if the return on capital gets to be higher than the interest rates, the demand for investment goes up, and there will be no sign of it if the return on capital comes less than the interest rate (زندی حقیقی, 1354هـ.ش).

7. Neoclassical Theory (theory of borrowable funds)

As it is stated in this theory, interest is the price of a loan that is determined by supply and demand intersection curves of the loan. If the demand is more than the supply of borrowable funds interest rates enhances resulting into decrease in demand and increase in supply which will finally bring balance between demand and supply of borrowable funds. Thus, it is believed by Neoclassical economists that savings and capital are always counterbalanced by interest rates.

In accordance with this theory, the amount of savings is inherently tender to interest rates, at least in the short run. It is one of the interest monetary theories mainly aiming to designate the interest rate, and basically regards interest rate as a monetary rate, moreover, it understands interest rate a total monetary phenomenon (قریشی, 1361هـ.ش, ص. 28). Knut Wicksell was first to propose this theory, considering that in spite of the distinctions between the two kinds of interest rates (natural and market interest rates), a disparity is created between the two markets of money and capital which will later spread to other markets, comprising labor and commodities. As a matter of fact, the current interest rate is likely to be less than the natural one. In this regard, the employers take action to borrow and invest, and the bank owners get their capital demand satisfied through bank and writing money creation mechanisms in spite of the existing distinction between the two interest rates. The course of investment, in these conditions, is accumulated, leading to the formation of augmentative waves of production and income, following that, total demand levels rise as a result of prices as well as interest rates on investments and finally, engages the process of the economic success. Conversely, if the current interest rate is higher than the natural interest rate, the savings often turn to the money market leaving the economy with a lack of investment,

and eventually an imbalance in the form of a recession pervades all markets alongside the economy (منتظر ظهور, 1381هـ.ش).

8. Keynesian Theory (Liquidity Preference Theory)

As stated in the theory put forward by John Maynard Keynes, the supply and demand of money are the determining factor of the interest rate, besides, the interest is the price of leaving the cash. Since the most significant asset is cash and people always prefer to keep it around themselves; when a person relinquishes this value he must receive a reward for doing so. There are three types of demand for cash pursuant to Keynesian theory: 1. Transactional demand 2. Cautious demand 2. Demand for Speculation[41] or business (کینز, 1394هـ.ش).

It is said by Keynes that the amount of savings is designated apart from interest rates. Although the amount of savings is predetermined, it is possible to exploit this savings which can retain it in cash or lend it to another person. If someone maintains his savings in cash, no income will find its way into his pocket, but if he lends this savings, his cash will make profits for him. Liquidity preferences and interest rates are the factors that designate the choice between keeping cash without income and borrowing with income. The high interest rate shows the high opportunity cost of retaining cash savings which encourages people to lend their money, but the low interest rate points out that keeping assets that have less liquidity would not be cost-effective. And people prefer to retain their liquidity (توانایان‌فرد, 1359هـ.ش).

4.2.3. Factors Affecting Interest Rates

1. Supply and demand

The supply and demand natural law suggests that anything the supply of which exceeds results in decrease of its demand and price in the market, and its price will increase if its demand exceeds its supply in the market. The interest rate, like the price of other commodities, varies on the basis of the amount of credit demand in proportion to its supply in the market, in fact, if the amount of the loan is more than its demand, in

[41] Speculation is the purchase of an asset (a commodity, goods, or real estate) with the hope that it will become more valuable in the near future. In finance, speculation is also the practice of engaging in risky financial transactions in an attempt to profit from *short term fluctuations* in the market value of a tradable financial instrument—rather than attempting to profit from the underlying financial attributes embodied in the instrument such as value addition, return on investment, or dividends.

this case, the interest rate decreases and conversely, if the amount of the loan is less than the its demand, this will lead to a rise in the interest rate (عثمانی, 1394هـ.ش, ص. 30-34). One of the most significant reasons for the enhancement in the supply of credit is that the desire of people, businesses and even the government increases in order to decrease their consumption and consequently expand their savings, and one of the fundamental reasons for the increase in demand can be referred to the expansion of investment opportunities, and consumers' preference for current goods over future ones (سیف & بهمنی, 1383هـ.ش, ص. 117-118).

2. Inflation

Inflation rate is one of the essential factors in designating the interest rate due to the fact that if the interest rate becomes lower than the inflation rate, the creditor will gain in the future the purchasing power of the money that will be less than the one he is paying now. The purchasing power of money gets reduced by inflation; meaning that each one percent enhances in the inflation rate in fact means a one percent decline in the amount of goods that money can buy in the future. As a result, the creditor makes efforts to keep the minimum vigor of his money through concerning the inflation rate in the interest rate (ابونوری, سجادی, & محمدی, 1392هـ.ش).

3. Risk

Not only does the risk affect the interest rate, but also makes it to differentiate in variety of transactions. Most investment decisions are affected by the condition according to which the amount of revenue is not able to be precisely measured (while the volume and expenses type would be controllable and known, or at least have a small variance in comparison to the amount of income). To assess investment projects various methods have been proposed so far, but these methods have got a common characteristic which is the fact that risk and interest rate are straightly related to each other, meaning that, as the amount of risk increases, the interest rate must be enhanced in order to make it compensated (توتونچیان, 1379هـ.ش, ص. 416-417).

4. Tax

As it is seen in some countries, taxes are imposed on securities, which is also efficacious in designating their interest rate. Regarding the above effectual factors, it could be argued that the securities buyers or the creditors expect that their interest rate

should not be less than a determined limit. Setting the expected interest rate is reasonable so that the followings will be sufficiently covered:

a) The anticipated interest rate must not be lower than the inflation rate; due to the fact that otherwise the current principal's purchasing power of the amount that had to be paid will be less than the purchasing power of the principal in addition to the received interest.
b) Due to the existence of risk on not paying the principal and interest of the amount on time, the risk rate ought to be added to the inflation rate; so that it covers the anticipated interest rate resulted by the inflation rate and the approved risk. Because if such a thing doesn't happen, the purchase of bonds or facilities lenders will continue to lose.
c) If there was no inflation and risk in granting facilities or buying bonds, still it does not add up that the facilities lender or the buyer give their bonds to someone else without remaining patience for a while. As a result, the anticipated interest rate, plus the inflation rate as well as the risk rate, should also comprise the least intended interest rate.

So, to cut the long story short, the main constituent factors of the intended interest rate can be measured through followings (حیدری, 1395هـ.ش).

Risk rate + intended inflation rate + anticipated minimal interest rate = expected interest rate

4.3. Riba-Free Banking

4.3.1. History of Riba-Free Banking in the World

The pragmatic kind of Islamic banking can be traced to hundreds of years ago when the great Prophet Muhammad (PBUH) lived (Abdullrahim, 2010). Cash Waqfs were a pre-modern banking application in Ottomans from 15th centry till the end of the Ottoman State. With cash waqfs (foundations) established widely in the Ottoman State, the majority of whose capital consists of foundation money, were tried to meet the financing needs of tradesmen and tradesmen. Cash waqfs is actually considered as a foundation for the application today’s Turkey' participation banking or Islamic banking precursor of a more broadly. According to Atar, the first Islamic banking transaction with the name of a bank in the Islamic world and the Ottoman Empire was applied in

Ziraat Bank, established in 1888 (ATAR, 2017). Financial documents which are subjected to the high Islamic values in banking activities have been prepared by Muslim bankers and some Islamic jurists through some great efforts over many years. It is due to the fact that the provisions are chief constituents, and also it is necessary that the mentioned documents stimulate the ethical principles and transparency of financing, distributing wealth equally and capital partnership in the economic center (خوانی, فولادوند, & صفرکوپایه, 1395هـ.ش).

After banking system, with their vital role in carrying out economic activities, constituted in the countries of the world, in Islamic countries- which were often under colonial dominance- the banking system appeared with the same kind of usury; but in terms of the existence of Islamic ideas in Muslim countries and the conflict of the ongoing banking system with the principles of Islamic inevitableness- including usury forbiddance in Qur'an and Sunnah (Islamic traditional rules)- some proceeded to flee the usury yielded out of trading with these banks. Some articles were written by Muslim thinkers on the basis of this subject, besides, fatwas were issued by great jurists in order to solve the difficulty (جواهری, 1395هـ.ش).

It is believed by some people that the first endeavor to Islamize banking system traces back to the early 1940, when the riba-free savings fund was set up in Malaysia. Further away, in the late 1950s, for the first time, some efforts were made in order to set up an Islamic investment atmosphere in Pakistan, in which one institution received landowners' deposits and provided them to poor farmers to improve their living standards and agricultural activities without depositors getting a return. A symbolic salary was also given to the institution only for administrative expenses, but due to lack of budget as well as increase in administrative costs, the institution closed down at the outset of 1960s and cleared the road for other experiences in laying down Islamic banks (صارة, 2012م). The first endeavor to set up modern Islamic banking have been carried out in Egypt by Dr. Ahmad al-Najjar in the small village of Mit Qamar in 1963 (Abdul-Rahman, 2010, p. 192). In 53 villages this bank's activities took place and remained for 3 years, then in 1968 it merged with the National Bank of Egypt (محمد, 2006م). In 1971, as an Islamic institution Nasser Social Bank was settled. The Arab-Israeli war in 1973 prompted oil prices, so that the price of a barrel of oil increased from $ 2.40 to $ 12 bringing huge sums of cash to oil-producing countries in the Gulf (Abdul-Rahman, 2010, p. 193). As a result, the IDB Islamic Development Bank was established in 1975 by the

Organization of Islamic Countries aiming to finance the development projects in OIC member countries in Saudi Arabia (محمد, 2006م, ص. 22). Ever since, Islamic banks have become widespread amongst Arab countries, Pakistan, Iran and Southeast Asia. In 1975 the Islamic Bank of Dubai was founded, and in 1977, the Kuwaiti Financing House was settled, also in 1977 and 1978, Prince Mohammed bin Faisal of Saudi Arabia established the Islamic Bank of Faisal in Egypt and Sudan. After the Islamic Revolution in 1979, the Islamic banking system was introduced into the market by the officials of the Islamic Republic of Iran, and then Pakistan took action of Islamizing its banking system in 1980. Additionally, Jordanian Islamic banks were launched in 1978. The Islamic Bank of Bahrain came into existence in 1981 and the Islamic Bank of Qatar in 1983. Moreover, in 1983, the first Islamic financial institutions in Malaysia and Bangladesh emerged. In 1988, the House of Islamic Financing was initiated in Luxembourg, which was the first attempt to do so in the Western world. The International Islamic Bank of Denmark was laid down in Copenhagen and the Melbourne Islamic Investment Company of Australia was also constituted at this era. In 1984, Al-Rajhi Investment and Banking Company earned an Islamic banking warrant. After one year, the banking group became the largest Islamic bank in the world, and opened up 30 branches in Saudi Arabia, London, Geneva and Bangkok. In 1985, a Saudi businessman settled the Al-Barakah Islamic Banking Group in London, Turkey and Tunisia. In August 2004, the Islamic Bank of Britain was set up as the first Islamic bank in a non-Muslim country to employ riba-free banking and absorb capitals of Muslim.

Islamic banks are not the only system which accepted the Islamic banking system, now-a-days. The Islamic system is approved by Large international commercial banks, and some European banks offer Islamic financial products called Islamic Booth such as HSBC Investment Bank, Swiss Banking Companies, Halal Bilateral Investment Company, Al-Baraka International Company (تقی‌زاده, 1391هـ.ش, ص. 48-49).

Apart from the previously mentioned countries, Albania, Algeria, USA, UK, Afghanistan, Bahamas, Djibouti, Canada, Maldives, Bosnia and Herzegovina, Cyprus, France, Gambia, Germany, India, Indonesia, Iraq, Italy, Kazakhstan, Lebanon, Mauritania, Morocco, Netherlands Nigeria, Oman, Palestine, Philippines, Russia, Senegal, South Africa, Sri Lanka, Tanzania, Thailand, Yemen and several other small and large countries are parts of the world where Islamic institutions and banks are presently interacting. And the capital of Islamic banks in various countries all around

the world has arrived to more than $ 1.57 trillion concerning the IFSB report that was issued in July 2019 (Islamic financial services board (IFSB), 2019).

Iran with 32.2%, Saudi Arabia with 20.2%, Malaysia with 10.8%, UAE with 9.8%, Kuwait with 6.3%, Qatar with 6.2%, Turkey with 2.6%, respectively has the largest share of Islamic banks. Chart 3 shows the share of Islamic banking assets in 2018.

Şekil 3: Share of global Islamic banking assets (%)(2018)

In some Muslim countries the banking system is Islamic as a whole (integrated) like Sudan, Iran, Pakistan. And some use a dual banking system (usurious and non-usurious) such as Saudi Arabia, Bahrain, Malaysia, Indonesia, the United Arab Emirates and other Muslim countries. The ground of activities for the largest Islamic financial institutions is in Bahrain, Kuwait, Saudi Arabia, Malaysia and Iran (محمودی‌پور, 1394هـ.ش).

4.3.2. Definition of Riba-Free Banking

Riba-free banking takes action on the basis of Islamic law and religion. It is a monetary and financial institution aiming to present the expected transactions from the bank by utilizing Islamic-approved contracts, and simultaneously, it should pay attention to factors such as Islamic justice and ethical points. This means that, distributing banking

facilities equitably among various sections and society stratum, determination of interest rates fairly and observing Islamic ethical aspects are conspicuous features of riba-free banking. Riba-free banking is based on participation in profit and loss (PLS), however, it is important to note that the legal relationship in Islamic banking, from a depository perspective, is the one between a lawyer and a client in which, the bank is authorized by its customers to utilize investment deposits for variety of purposes and within Islamic contracts and transactions context. The economic role of commercial banks is to supply resources steering them to people who are in need of capital so that they make a profit through the provision and employing funds. Islamic banks, on the other hand, supply resources steering them to people whose main purpose was the development of society; as a result, they need capital, which is anticipated to yield a profit. Riba-free banking plays a general and comprehensive role. Creating an Islamic economy and having Islamic societies developed is regarded as the most important or desirable goal of riba-free banking; that is to say, making a profit is not the sole purpose of the riba-free banking foundation. So, besides the fact that banks and the public are committed to each other and have responsibilities, in a non-usurious framework, banks also function in moving the economic wheels in order to be accountable to the depositors.

Since riba-free banking is not able to pay interest (usury), it therefore takes exchange and partnership contracts into action, for which researchers are trying to figure out the foundation of the distinction between riba-free banking and conventional banking in partnership contracts. Also, riba-free banking does not invest in transactions of Haram[42] (forbidden) goods and non-religious transactions such as the sale of alcohol drinks, weapons, casinos and gambling, etc. (جوكار, 1394هـ.ش) (Abdul-Rahman, 2010, pp. 196-197).

Riba-free banking has no long history from theoretical and practical dimension; However, a few definitions are presented for it, which will be depicted here:

1. The founder of the first riba-free bank in Egypt, Dr. Ahmad Al-Najjar defines it in the following way: it is the same financial consumptive institution which works up in order to consolidate the property assigning it in the Islamic religious system (كوهستانى م. ا., 1396هـ.ش, ص. 126).

[42] Haram is an Arabic term meaning forbidden. This may refer to: either something sacred to which access is forbidden to the people who are not in a state of purity or who are not initiated into the sacred knowledge, or to an evil thus "sinful action that is forbidden to be done".

2. A banking mechanism in which the terms, principles and jurisprudential standards are observed, is referred to as riba-free banking in which banking transactions such as usury, gambling, forbidden bets and things like them are kept away (مظاهری, 1377هـ.ش).
3. Islamic Bank is considered an intermediary financial institution which by regarding the terms and jurisprudential standards and also the general benefits of society using suitable and competent solutions, like any other economic institution, strives to maximize shareholder profits, in order to be able to provide adequate profits to depositors along with having the capital needs met (موسویان & میسمی, 1393هـ.ش).
4. Riba-free banking or in fact, Islamic banking is a new kind of banking which is founded on Islamic jurisprudence. It is in accordance with the sharing of profits and losses between the parties involving in trade (lender and borrower). Thus, a fixed and predetermined rate (interest) payment and receipt is banned and replaced by a profit and loss sharing model on the side of assets and debts (جواهری, 1395هـ.ش, ص. 88-89).
5. Mohammad Baqir Sadr has got something to say which, besides combining the above definitions is a total clarification of riba-free banking. He is of the opinion that a riba-free bank which is able to survive successfully in an unfavorable economic atmosphere and non-Islamic social reality, is founded on three bases:

- Its function should not be in contrast with the principles and standards of jurisprudence.
- Contain a plan and strategy on the basis of which, in the framework of the indicated social reality, as a business institution that is after profit, be able to move and succeed.

6. The Islamic program and method that it has adopted, enables it to play its role as a bank in the best of ways inside areas where the economic and industrial life of society are required, plus those needs which the economy and industry are expanding and developing (صدر, 1414هـ.ق).

Şekil 4: Islamic banking operation

4.3.3. The Difference between Riba-Free Banking and Conventional Banking

Like other divine religions, Islam, by naming usury as cruel, has been fighting fiercely against the usurious debt and seeks to eradicate it. Following the religion of Islam, riba-free banking by putting aside borrowing with interest in financing households and economic institutes turn to real contracts, particularly all kinds of partnerships. Probably the most important and significant distinction between Islamic economics and others is that Islam has prohibited usury. Usury flows up through all component parts of the capitalist economy but Islam stringently forbade it all, by considering it one of the deadly (great) sins committed ever and threatened that anyone who makes it happen will suffer the dire consequences not only in this world, but also the rest of their eternal afterlife.

In this section, we will illustrate some of the differences between riba-free banking and conventional banking via the table below.

Tablo 1: Diffrences between riba-free banking and conventional Banking

	Conventional banking	Riba-free banking
Purpose	Higher profitability	Ensuring social justice
Banking size	Huge	Ensuring social justice Small and medium
Bank-customer legal relationship	Debtor-creditor	Lawyer-client
Supervision	Lack of attention to the direction of investment	Necessity of monitoring the administration process
The role of recipient of the facility	Debtor	Partner
Facilitation based on	Interest	Profit

The way of paying the facility	Owned by the applicant	Based on Islamic treaties
Philosophical and moral principles	Capitalism and world-centered model	Islamic ethics and the religious instructions
Business	Free but for the benefit of large companies	Free, fair and balanced
Political orientation	Elite rule-Elite oriented	Populist
The purpose of the competition	Possessing markets	Encourage productivity and innovation
Asset share	Huge	Growing

Reference: (Abdul-Rahman, 2010, pp. 201-202) (موسویان, 1378هـ.ش).

4.3.4. Proficiency and Features of Riba-Free Banking

Many economists address the interest and speculation as the cause of the recent financial crisis, arguing that riba-free banking due to its special features is more proficient than the capitalist system when facing with financial crises. Correspondingly, part of the proficiency and benefits of riba-free banking, which indicates what a proficient this system is in encountering with financial crises, will be examined in this section.

1. Increase in investment

In riba-free banking system, the increase in investment happens as a result of reducing the production costs, speculation activities, risk and uncertainty. By negating the interest rate, the limiting factor of project implementation will be eliminated and the cost of capital opportunity will be zero. Indeed, different projects are in competition with each other, as long as the facilities of country in relation to production gives authorization to investment, the project which is more profitable gets to be taken care of. Accordingly, as long as interest rates and final outcome incline to stay at zero point, investment keeps going; however, for picking out the type of project in order to do the investing, the projects pitch themselves against each other and whichever sounds more profitable will be selected. So, due to the lack of interest rates, the investment volume in Islamic economics goes up. The expenses of producing goods all over each production stage get reduced for the lack of interest rates in the decision-making procedure.

Supplementing the amount of investment, and in consequence enhancing employment as well as bringing down the cost of production, and following that the reduction in the price of goods, is one of the positive impacts of investment with the Islamic economics model comparing to capitalist economics (صمصامی & توکلی, 1391هـ.ش).

Concerning usurious banking system, on the other hand, the employer is given the benefits yielded via economic activities after the principal and interest are paid, but if the project ends in loss the employer will be in a adverse position and will have to use his savings to pay the principal and interest owed to the lender which reduces the employer's presence in future economic activities; on the contrary, in the riba-free banking system, the employer is in a better position because both the depositors and the employer are partners in the loss and the employer does not need to use his savings to settle up for the obligations, which jacks up the incentive to work for more profit. On the contrary, the decrease in the employers' share of potential losses, results in increase of their demand for investment; as a consequence, they are after experienced people and managers to raise their profits.

2. Limiting speculation activities

One of the high-ranking essential factors which has got a very influential part in the financial crisis emergence is the nature of the capitalist system, which is in possession of a factor called speculation, lying down in its heart. Because of the opportunities for gaining easy and short-term profits, part of the money is pulled out of the stream of commodities as well as services and in return is spent for speculation purposes. The more extreme the incentive is, the more monetary resources are absorbed through it, causing more shortage of financial resources in the real economy sector; consequently, it gets a mismatch appear between the monetary and real markets leading to a financial crisis due to its intensification. Most speculation are relying on elementary unrealistic properties including indices; thus, the most important condition for taking over the reign of financial markets speculation is the formation of instruments and transactions on real assets; in this way, stocks and trades on elementary assets including stock index or interest rate index leads to speculation.

According to Islamic perspective, it is permissible to speculate in the sense of buying and selling properties for profit through predicting the price, depending on two conditions:

- It must be carried out inside the range of the provisions associated with the purchase and sale in cash, credit and futures.[43]
- Muslims should not get harmed by it. This means, as long as speculators accept prices, speculation is admissible; but having a made-up price rumored out, or colluding over it in order to make a profit in this way, is not permissible for them, at all. Moreover, the Islamic government, protecting the benefits of Muslims, must prevent it through legal and administrative legal action.

Thus, it can be inferred that because speculation is limited pursuant to the rules and laws of religion, it does not occur on unrealistic basic assets, and uncertainty in the economy is more constraint and less frequent, creating a coordination between the financial and real markets and preventing financial crises from occurring (فراهانی‌فرد, نظرپور, & بایی, 1391هـ.ش).

3. Enhancing total production and decreasing inflation

Concerning the riba-free banking system, the depositors, without deviation, have a part in the profits gained from the operations which are subject to the partnership. In contrast to usury, this share does not contain a fixed rate and it relies directly on factors including proper management, promptitude and a market for the product. Therefore, the parties will be encouraged to work harder to have the partnership goals realized. So, the profitability and fruitfulness of productive activities will grow. In the riba-free banking system, the realization of effects mentioned above, will intrinsically lead to two other important impacts: enhancing total production and decreasing inflation.

Consumption decreases in the participation system, in the absence of consumer loans, and this negatively affects inflation. Moreover, inflation is negatively affected by the increase in all of capitalized aspect of production. There is no role and place for interest in the riba-free banking system, and as a result institutions owners do not interfere any cost as the interest in the production process, and so the predicted profit does not have to be necessarily more than the interest cost to run the desired activity. In the riba-free banking system, banks conclude contracts and agreements with those who are seeking to run an activity and pay the facilities based on gaining a part of the outcome of that activity; for this reason, production can be done in the long run, even at zero

[43] Futures is when goods are bought in cash but delivered in the future. For example, one buys wheat from a farmer to deliver in another six months; But he pays the price at first place.

profit, and economic products of the institution can supply to the benefit of the society. on the contrary, it is not possible to be done in the usurious system, besides, the profit must be higher than the interest that is paid to the bank so that the economic activity keeps moving on (صمصامی & توکلی, 1391هـ.ش, ص. 83-84).

Riba-free banking takes action through Islamic contracts to provide facilities. Each of these contracts gets a specific branch of production activity covered. This flows money to a specific production channel. Also, by accepting Qard al-Hasan deposits and granting them to manufacturing companies (due to the non-return of Qard al-Hasan deposits), riba-free banks, cause institutions to produce a certain product at a lower cost, which leads to reduction of the final price of manufactured goods (موسویان & ورمزیاری, 1391هـ.ش).

4. The realization of more justice and stability in society

Sharing investor risk between the lender and the borrower happens through elimination of usury. Besides, the revenues will be more fair at different times by making profit contingent on the performance of the business venture. The last point is that the realization of revenues can only be achieved when an increase in the initial value of the investment that will ultimately benefit the entire society, is witnessed. Also greater cohesion across different classes is created through the profit and loss sharing system. Because all entrepreneurs and owner of fruitful ideas will be equally in touch with financial resources.

In case of stability, it is believed bt Muslim economists that in the Islamic financial system the operation of which is on the basis of participation, there are fewer periods of prosperity and recession. Because in the Islamic system, due to the modification of potential profits and losses along with splitting it between producers and capital owners, neither in improving mode the capital gets inflated and unbridled success takes place, nor does the recession deepen in a state of recession due to the fear of risk and uncertainty. But in conventional banking, when the improvement in economic situation is expected, broad investment is fallen back so the higher profits are attained, and this leads to unconstrained success, and when recession is expected, investment is held back so that the possible losses get avoided, and this worsens the economic situation and gets the recession deepened. Consequently, the economy is always stormed by the periods of success and recession.

5. More efficiency of capital

In relation to the efficiency of capital allocation, the usurious lending system with the possibility of adaptation for capital risk has generally focused its attention on the creditworthiness of the facilities recipients and pays less attention to the productivity and efficiency of the project. Whereas in riba-free banking, resources are allocated to the most profitable investments. Because in this instance, the expected share is more favorable than the investment outcome. Besides sharing the profit, a closer working relationship is acquired by the borrower, which in turn will ensure the success of the investment and eventually will have been fruitful for the society.

Also, in a participatory Islamic system, the owner of the capital has a serious enthusiasm and real attachment to the profitability of the institution. Since his share of profits was a straight function from the profitability of the institution, and it is natural that he has also been making an effort to enhance the institution's efficiency and help it in every possible way. For instance, a bank can supply the necessary resources for the institution by raising its share of profits and losses through examining it when it is in need of working capital,[44] or when the institution is encountering with a surplus of capital, the surplus resources can be allocated to other activities by the bank through reducing its share of profits and losses (نوروزی, زینلی دستمال‌باف, & حسینی, 1394هـ.ش).

6. Supervision

Supervision is another issue that exists in the riba-free banking system. It is believed by Muslims in the Islamic societies that all their behavior and even intentions are recorded in the sight of God, and this makes them feel obliged to take ethical aspects seriously, so the same thing happens by the banks monitoring the work of facility applicants in accordance with the concluded transactions and contracts. On the other hand, the issue of supervision in the usury system does exist (at the time of receiving the loan), but it is not going to be for the profit made by the activity, rather, it is to ensure the principal of loan and its interest will return. Besides, no interference regarding how banks use the loan is carried out; only it must be ensured that the risk of loan repayment is minimized. However, in the riba-free banking system, the bank, both because of its

[44] Working capital is a financial metric which represents operating liquidity available to a business, organization, or other entity, including governmental entities. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital.

commitment to its duties and due to its share in the profits, in all stages, including the initial and executive stages, to the end of the work and until the facility is repaid, will keep this going. By taking this way into use, not only provides the necessary advisory assistance to the applicants in the field of the desired activity, but also proceeds as a supervisor at all times for the mentioned activity so that it does not drift away from its way and arrives at the desired goal. It is true that the supervising levies expenses on banks, but these expenses will not have any impact on the products of the facility receiving institution, because the subject matter here is the profit sharing which can only change this profit. Furthermore, if the supervision is done accurately, it can assist the company in its field of activity. Meanwhile, the bank, by presenting guidance, reduces the costs of the institution which will accordingly increase the share of profits of the bank and the owners of the institution. Additionally, the bank's supervisory costs get reduced by the increase in bank's confidence in the suitable functioning of the facilities recipient.

Also, with application of suitable monitoring and control, many fruitful results and effects will be made, including:

a) Supplying a proper area for industrial, agricultural, service transactions and projects and so on. And consequently, growing the production of the society;
b) The potentiality for better understanding toward the financial shortcomings as well as other problems that applicants encounter with;
c) Making the project as successful as possible by creating eagerness in applicants and a sense of liability as well as duty;
d) Capacity for detecting deviations and violations plus preventing the risks of potential abuse;
e) Acquisition of tangible assets by the bank and supervising them, which will end in proper function of the contract;
f) Reduce the pressures caused by receiving confidant bails in order to secure the return of facilities and, as a result, giving credit and facilities based on project returns and not by bailing and financial capability;
g) Steering the stream of resources owned by bank in a specific direction along with identifying the amount of credit in each sector and thus better administration of credit and monetary policies (سامی, 1374هـ.ش, ص. 100-102).

7. Stability in the money supply sector

Because of eliminating interest in Islamic economics and replacing it hugely by participatory and non-participatory financing methods, creating money is also achieved in a huge amount using these methods. Thus, the greatest part of the capital laid out for economic activities is on the basis of the participation in the profit which is yielded via using these funds, and every part of this money that is poured into the banking system as a deposit (gets open) goes up by the same amount of money supply. So, the supply of money in the Islamic financing system is carried out so that it is directly tied to the real sector of the economy and is not apart from it (عیوضلو & میسمی, 1387هـ.ش).

4.3.5. Definition of Profit and its Difference with Interest

In the dictionary Profit is meant benefit, advantage, gain and behoof (معین, 1381هـ.ش, ص. 893). In financial matters, profit refers to a type of financial benefit, and it happens when the total income attained from an activity exceeds the sum of the expenses sustained to earn that income. This surplus obtained from income and charges is profit.

The profit equation is: total expenses - total income = profit / loss

Thus, every time a monetary capital is included in a productive/service activity in the real sector of the economy, the revenue left after deducting all expenses is considered a profit (جواهری, 1395هـ.ش, ص. 86-87).

Generally, it can be defined that: Value added profit relates to the outcome of a transaction between the parties, according to which, besides expecting a profit between the parties, there is a fear of any possible loss; the amount of the enhancement is not signified in advance, but the it relies on the economic condition and the trades personally done by the trader. The parties weigh the benefits and disadvantages surrounding the transaction before concluding it, and if they see the probability of profit to be greater than the loss, they proceed to get the transaction done (خاوری, 1375هـ.ش).

In conventional usage, the word profit is not carefully taken into account and ordinary people do not care about the difference between the terms profit and interest. Although sometimes both terms are used synonymously, there is a foundational distinction between them, including:

a) One of the variables of capital cost is interest rate; so, it possesses an inverted relationship with investment; but profit refers to the distinction between income and expenses.
b) The interest rate is determined in the monetary market; while the determination of profits is carried out in the real market of goods and services.
c) Regarding the interest, when a certain resource owner gives it to the applicant in exchange for an extra on its principal, he has cut off his legal relationship with the intended property and remains indifferent to how it is utilized;
d) Because of the nature of the loan, interest rate is free of risk; but because of the essence of profit, it is a risky phenomenon.

Wexel believes that although the two are different, interest rates and profit rates become equal in the long run; but since these two rates are designated in two totally separate markets and different situations and factors are influencing them, equating these two rates in the long term is not theoretically possible.

It is believed by Keynes that the interest rate is determined in the financial market, whereas the profit rate is designated in the real market. Due to speculation, supplying resources does not intrinsically result in equal savings and investment. Factors such as the expected return on the economic structure project, etc. affect profits; whereas accelerating and transient factors influence interest rates; so he assumes that it rarely happens that the two rates become equal (ساکی, 1397هـ.ش).

On the basis of Islamic law, merchants must look for profit that is approved by Islam and also beneficial to society. In Qur'an and Sunnah there is no text can be found indicating the prerequisite or desirability of a definite percentage of profit, including one-third, one-fourth, one-fifth, or more ... Maybe the wisdom behind this is because the religious structure is on the basis of the realization of justice which is not attained by determining a specified percentage of profit, but must be unleashed so that its rate in the market get determined. However, there are conditions and jurisdictions set by Islamic law for religiously legitimate profit, the most important of which are:

1) The profit must come from a legitimate project and not violate religious contents.
2) Profits should not be the result of abuse, fraud or cheating.
3) The attained profit should not inflict injustice towards the other party.

4) Profit should not be due to hoarding[45] and things like that, Abu Dawud and al-Tirmidhi and Muslim narrated from Mu'ammar that the Prophet said: Whoever gets involved in hoarding is a sinner. It is also narrated in Musnad Ahmad that the Prophet said: Whoever hoards food for forty days and does not give it to the people, he is indeed against God and is despised (القرهداغی, 1431هـ.ق).

4.4. Islam's View on the Subject of Tas'ir[46] (Pricing)[47]

Tas'ir (pricing), is a term in Islamic jurisprudence meaning to set a price on a product and compelling the seller to act in accordance with it. Setting this rate must be obviously carried out by some government authority. Tas'ir is literally separated from the word (sa'ar) which means price and rate, but rate determination (مرکز دائرة المعارف بزرگ اسلامی, 1367-1398هـ.ش, ص. 298).

Since pricing is in contrast with the moral standards and rules of jurisprudence, the jurists have suggested various perspectives in order to focus on the rights of property owners on the one hand and the right of association and the benefits of the people on the other hand; but all these opinions revolve around two basic views, one of which points out to the admission of pricing and the other specifies the impermissibility of pricing (بهمن‌پوری & حائری, 1389هـ.ش).

Most of the Islamic jurists whether Sunni or Shiite, pursuant to the narrations of the Prophet, believe that pricing is prohibited to be set by the Islamic ruler, it is something that should be determined by the market (موسویان, 1387هـ.ش).

During the Prophet (PBUH) era, prices went up, he was told; wish you set the pricing. The Messenger of God said: I hope to set apart from you while none of you has wronged me and I have not wronged him either.

The people who served the Prophet (PBUH) said: O Messenger of God, the prices have increased; The Messenger of God said: God is the only one who set prices, indeed he is the giver, and the receiver. I hope to meet God while none of you claim any

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[45] In economics, hoarding is the practice of obtaining and holding resources in quantities greater than needed for one's immediate use.

[46] In Islamic jurisprudence, Tas'ir is defined as the pricing of goods or services by the ruler or his representative and determining that price as the basis of transactions.

[47] Pricing is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the marketplace, competition, market condition, brand, and quality of product.

received harm and wrong doings in your life and property, from me (ابن ماجه, 1418هـ.ق, ص. 548-549).

These narrations got the scholars to infer that setting the price by intervening ruler and governor is forbidden. Because there is a possibility of committing oppression to the customer or buyer. And people are free to impose a limit on their financial and property possessions, in such cases it is in contrast with their freedom and the profit of the customer should not be considered better than the profit of the seller. So now that the benefits of both are equal, it is obligatory for them to be allowed to ijtihad48 about their interests and to reach an agreement with each other (السابق, 1391هـ.ق, ص. 160).

All Sunni jurists and scholars, in reference to these narrations, believe in the forbiddance of pricing (البرئى, 1412هـ.ق) (يوسف الشيرازى, 1417هـ.ق) (ادريس البهوتى, 1424هـ.ق) (الدهلوى, 1426هـ.ق) (الزحيلي, 1405هـ.ق) (الثعلبي, 1425هـ.ق). The Shafi'is and the Hanbalis put pressure on the forbiddance of pricing, the Hanbalis said: setting prices is not admissible for Imam and people are free to sell their assets at any price. And the Shafi'is have also said: Pricing is forbidden and is not admissible even in times when everything is expensive (الزحيلي, 1405هـ.ق, ص. 588).

Shokani said: Indeed, people are in charge of their assets, and pricing or determining the price is to limit them banning their occupation and freedom. And the Imam and the leader are required to supervise and consider the interests of all Muslims, they should keep their eyes on all customers and their benefits and breaking the price of a commodity is not better than paying attention to the profits and benefits of the seller by raising the price of his commodity, as a result, for the leader or Imam, both are in possession of equal and opposite benefits, so it is obligatory for both groups to be allowed to strive and perform ijtihad for their own benefit and loss. And forcing the seller to sell his commodity with a price that he is not satisfied with is in contrast to this verse (السابق, 1391هـ.ق, ص. 160): God says: O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful. (An-nisa: 29).

Ibn Taymiyyah sees the Prophet's (PBUH) pricing prohibition to be associated with the forbiddance of oppressive pricing. Since the prices which are determined by the

[48] Ijtihad is an Islamic legal term referring to independent reasoning or the thorough exertion of a jurist's mental faculty in finding a solution to a legal question.

mechanism of supply and demand without orchestrating the market, are just and divine from the point of view of Ibn Taymiyyah, and should not be changed. Pricing, in regard to Ibn Taymiyyah, is the market control to adhere to the same common price, because he considers it compulsory to apply to such a price.

Ibn Taymiyyah differentiates between two types of pricing in Al-Hasba fi al-Islam, saying that: Some pricing is oppressive and unauthorized, on the contrary, some are just and admissible. Cruel pricing is when it levies oppression on people pushing them to exchange prices without satisfaction of both parties, and so on. Fair pricing takes place when justice between individuals is guaranteed, like forcing them at a normal price and preventing them from taking more than the normal value of goods in the market.

It is also believed by Ibn Taymiyyah that fixing prices by government authorities to the extent that no profit is attained by the seller will disrupt prices. It also causes sellers to keep their goods hidden from people, which eventually destroys their wealth. He also declares his opposition toward price changes against buyers or sellers who are not aware of the market price. By quoting this hadith of the Prophet (PBUH) who said: (Receiving excessive prices from an unknowledgeable person is usury) states that: The seller is not permitted to levy extortionate prices on those who are not conscious about the market prices (Mostarsel),49 instead, he must sell his items at the normal price or something close to it. If the seller places excessive prices, the buyer is right to reassess his contract ... A person who is known for discriminating prices must be punished and averted from entering into the market (ابن تيمية, د.ت).

Ibn al-Qayyim says: The public benefit of the people in the area of commodities, if it depends on pricing, by setting prices fairly it should be exercised until the needs of the people are met. Putting it differently, he states that if only some certain people benefit from the privilege of producing and selling food as well as its goods, and they set any prices they would like to sell them out, this will make an example of oppression and thus it is necessary to perform Tas'ir.

However, most Sunni jurists and scholars object to pricing by any ruler, in the meantime, it is believed by some of them that whenever the sellers abused and went over their limits committed wrong doings toward the people, so that it was harmful to the

[49] injury suffered by a person as the result of his overconfidence in the other party and his neglectful failure to find out and ascertain the true value of a thing in a commutative transaction

market, the ruler is obliged to step in setting the rate and price of the goods themselves in order to defend the rights of the people keeping them safe from harm, and to put a stop to hoarding and to save people from the greed and persecution of the merchants and traders. Hence, pricing is allowed by Imam Malik and Imam Abu Hanifa, and a group of Shafi'i scholars also permit such an act when prices are high. And a group of Zaydi leaders along with some other groups agree on the pricing to be set on many commodities, among them are Sa'id ibn al-Musayyib, Rabi'ah ibn 'Abd al-Rahman, and Yahya ibn Sa'd al-Ansari, all of whom have considered it permissible if it would be in the benefit of the society (السابق, 1391هـ.ق, ص. 589) (الزحيلي, 1405هـ.ق) (ابن عابدين, 1413هـ.ق) (البرئى, 1412هـ.ق, ص. 240) (الدهلوى, 1426هـ.ق, ص. 175).

Also some Shiite jurists and scholars believe in absolute forbiddance of pricing. Sheikh Tusi writes fully detailed that: Imam and his deputy are not permitted to set prices for the market goods, there is no violation in this matter whether it is food or non-food and whether it is expensive at the time or cheap. Holy Prophet (PBUH) narrates that a man came to meet him saying that: Set a specific price on food sellers: The Prophet said: We'll pray for it to get flowing. Then another person arrived and said: O Messenger of Allah! Set a fixed price on the food sellers, he responded: God Almighty raises or lowers the price and I hope to meet him while no one is wronged by me (طوسى, 1387هـ.ق, ص. 195). Among other jurists, Mohaqeq Hali (1409هـ.ق), Allamah Hali (1413هـ.ق), Fadhil Abi (1410هـ.ق) and Ibn Zohra (1409هـ.ق) agreed on it.

The founder of the Islamic Republic of Iran, Ayatollah Khomeini, says about pricing: Initially, pricing is not permissible; now, if prices caused injustice, we will be forced to reduce it, otherwise the ruler is obliged to set the price he is aware of or a price that is to the benefit of the society. Non-pricing would also lead to hoarding; since the hoarder, in order to flee from selling, may set a price that no one will be able to buy; so, such cases are allowed to be referred to the ruler and governor (خمينى, 1410هـ.ق). In his theories, we also see that he first does not consider pricing to be permissible, then he mentions that in case of injustice, the price should be reduced, then he states that the supreme ruler can perform the pricing at the price he knows or he sees it fit.

On the other side, some other jurists are capable to permit pricing in absolute terms, including Sheikh Mofid in Al-Muqanna, he writes in this regard: The ruler can set price for the goods pursuant to his circumspection and it should not be a source of

loss for the owner of the asset (شیخ مفید, 1410هـ.ق). The same quote is also cited by Salar Deilami (سلار دیلمی, 1414هـ.ق). Those who did this, have not mentioned any reason for doing so.

5. CHAPTER FIVE: RIBA-FREE BANKING IN IRAN AND ON-ACCOUNT PROFIT

5.1. Riba-Free Banking in Iran

5.1.1. History of Riba-Free banking in Iran

The history of riba-free banking in Iran dates back to the provision of profit-free loans in Iran. The first profit-free loan fund was established in Iran in 1969, exactly when an increasingly large number of usury-based banks and institutions were being established across the country. The funds were initially established in a small chamber in one of the mosques located in the southeast of Tehran. If the profit-free loan fund is considered as a type of bank, it is the first experience of Islamic Banking in Iran (جواهری, 1395هـ.ش, ص. 90). Until 1979 Iran's banking was underpinned by a reasonable usury-based banking system. Following the Islamic Revolution, due to different reasons such as the political problems caused by the revolution, the parallel works of many investors and founders of the private banks, a decrease in the assets of most banks because of not collecting debts and consequently these banks', particularly private banks, over-reliance on the Central Bank to provide the liquidity, most of the banks in Iran were exposed to the risk of bankruptcy. Some measures such as nationalizing the banks, passing some bills with regard to the bank management, merging banks, and passing the law on riba-free banking operations were adopted to eliminate the aforementioned problems and also to comply with the necessity of dominating the religious rules in Iran, and in particular in the banking system. Considering the pressing financial problems posed to a majority of the banks and also based on the Constitution of the Islamic Republic in Iran, the Council of Revolution was established on June 7, 1979 to preserve the national rights and capital, help initiative production across the country, and guarantee individuals' deposits and savings in the banks. Moreover, the bank management was also to change with regard to the changes in the ownership of the private and state banks. Accordingly, a legal bill concerned with the management of the banks was approved on September 25th 1979, according to which all commercial, specialized, and regional banks were to be managed based on the articles of the concerned bill. The next step to be taken was to merge the banks. An overview of the conditions of the banks during 1973-1979 shows

that the number of Iranian banks, except for the Central Bank, increased from 24 banks at the end of 1973 to 36 banks in early 1979, and the number of bank branches increased from 6993 in 1973 to 8274 in March 1979. According to the plan to merge the banks, Iran's banking network, except for the Central Bank, decreased from 36 banks to nine banks (six commercial banks and three specialized banks) (صمصامی, 1388هـ.ش, ص. 117). Two significant changes were made in the rules and relations among the banks, following the establishment of the Islamic Republic of Iran. First, the Currency and Credit Council eliminated the usury from the banking system on December 24, 1979, and the council introduced guaranteed profit and commission, according to which a certain profit was specified for the fixed deposits and savings deposits as the least annual guaranteed profit. Accordingly, where the savings deposits were given an 8.5% annual profit, the savings deposits are given a 7% annual profit. Furthermore, it was determined that if the banks make any profit additional to their common performance costs, it would be paid to the depositors. In other words, the minimum guaranteed profits of 7% and 8.5% would be the same on-account profit. However, this rule did not survive because of the religious and economic drawbacks until the Riba-free Banking Operations Law was proposed (خوانی, فولادوند, & صفرکوپایه, 1395هـ.ش, ص. 16). According to the Note 54 of the Budget Law 1981, the government was committed to do the necessary studies as soon as possible and provide the riba-free bank operation bill to Iran's parliament within six months. This bill was then provided to the cabinet on May 9, 1982, and it was presented to Iran's parliament on May 11, 1982 to be further approved. Iran's parliament finally approved the bill after making some modifications in September 1983, and it was then approved by the Council of Guardians. The Riba-free Bank Operation Law was submitted to all banks in the early 1984 to be implemented. Afterward, some relevant executive bylaws and instructions were approved by the cabinet and Currency and Credit Council (توتونچیان, 1379هـ.ش, ص. 701).

According to the most recent data from the Central Bank of the Islamic Republic of Iran, 41 banks and financial institutions with 22640 branches are now operating across the country. Accordingly, there is approximately a bank branch per 3570 persons in Iran (بانک مرکزی جمهوری اسلامی ایران, 1399هـ.ش).

5.1.2. Equipping and Allocating Resource in Riba-Free Banking in Iran

In short, the main banking operations in the present riba-free banking model practiced in Iran can be divided into two groups: Equipping resources and allocating monetary resources.

5.1.2.1. Equpping Resources

According to the Articles 3 and 6 of the Riba-free Banking Operations Law, the banks are allowed to provide three types of deposits, as mentioned below.

1- profit-free loan deposit

This deposit is based on the riba-free loan contract, according to which the depositor is entitled to withdraw his on-demand resources by checks, in person, or a third party. No profit is paid for this type of bank deposit; however, the depositor enjoys the free services provided to the current accounts.

2- Profit-free loan savings deposit

This deposit is based on the profit-free contract, according to which the depositor is entitled to refer to the bank and withdraw the required resources. This type of deposit pays no profit to the depositor and is to encourage the (potential) depositors to be involved in the charitable affairs of profit-free loans according to their account balance to enjoy some moral rewards. Furthermore, some prizes are also submitted to some depositors in cash by lottery.

3- Investment deposit

According to the contract of mandate, the investment deposits are divided into two types: short-term deposits extending from three to six months and long-term deposits extending from one to five years. The bank receives the depositor's cash as the attorney and use it in accordance with the partnership contracts, commandite contract, hire purchase contract, installment plans contract, sharecropping contract, debt purchasing contract, Istisna contract, harvesting contract, direct investment, forward and reward transactions, and the profit resulting from the transactions. The profit is then paid to the depositors after subtracting the attorney's fees (موسویان, 1387هـ.ش).

Given the contents of Riba-free Banking Operations Law, its bylaws and also the deposit contracts, the principle of attorneyship is a benchmark for accepting the

investment deposits in Iran's banking system. The bank guarantees long-term investment deposits; hence, the depositor would suffer no loss. One of the reasons provided by the banks to justify guaranteeing the deposits is that the bank guarantees the investment deposits as the third party. However, an overview of the contracts on providing bank facilities in Iran's banking system shows that the banks do not guarantee the long-term investment deposits in this system. In contrast, those receiving the credits guarantee it, and guaranteeing these deposits are performed by the parties receiving the capital. For example, in the commandite contracts and civil participation in the banking system of the Islamic Republic of Iran, the agent conducting the commandite and the bank's partner pledges to pay for the loss of the bank principal (توکلی, 1381هـ.ش, ص. 70).

Tablo 2: Long-term investment deposits (thousand billion Rials) during years 1997-2017

Year	Deposits (thousand billion Rials)	% Change
1997	70.9	-
1998	85.6	% 20.7
1999	105.9	% 23.7
2000	134.6	% 27.1
2001	178	% 32.2
2002	234.8	% 31.9
2003	309.2	% 31.6
2004	349.1	% 12.9
2005	489.6	% 40.2
2006	707.1	% 44.4
2007	915.9	% 29.5
2008	1177.6	% 28.5
2009	1522.3	% 29.2
2010	1886.7	% 23.9
2011	2301.9	% 22
2012	3059.9	% 32.9
2013	4756.8	% 55.4
2014	6100.9	% 28.2
2015	8187.4	% 34.2
2016	10123.1	% 23.6

2017	12339.1	% 21.9

Source: (بانک مرکزی جمهوری اسلامی ایران, 2001-2017)

5.1.2.2. **Allocating Resource**

According to the Articles 7 to 17 of the Riba-free Banking Operations Law, the banks are allowed to allocate the resources obtained from different types of deposits after making legal deductions from the deposit and contingency reserved (liquidity) as follows:

1- Giving profit-free loan

In this method, the banks apply the effective resources of profit-free loan savings deposits as the profit-free loan for charitable purposes such as marriage, treatment, education, and employment. These loans are provided as profit-free loans, and the party receiving the facilities should pay only a negligible percentage as the operation commission.

2- Transactional contracts

In this method, the banks sign some transactional contracts such as installment sale, hire purchase contract, forward contract, debt purchasing[50], installment plans, Istisna contract, and contract of reward with individuals demanding bank facilities and using the resources of investment deposits and other bank resources. These contracts are alimentative in nature, and they are paid to individuals demanding banking facilities based on some fixed profit rates.

3- Partnership agreement

In this method, the banks provide the whole or some of the capital required by the economic actors using the resources of investment deposits and other bank resources based on the partnership contracts such as civil participation, legal participation, commandite contract, sharecropping contract, and harvesting contract. Then they share the profit obtained from the concerned economic activity.

[50] It should be explained that the debt purchasing and Istisna contracts are not mentioned in the Riba-free Bank Operation Law; however, they were approved in the 128th session of the Currency and Credit Council on August 16, 2011 (پژوهشکده پولی و بانکی, 1390هـ.ش).

4- Direct investment

In this method, the banks invest some resources on some direct economic operations such as construction of highways, tunnels, and other large infrastructural projects and consider the value added of the plans and projects as the bank profit to be divided among the depositors (165-164 .ص ,1387هـ.ش ,موسویان).

Tablo 3: Model for equipment and allocation of resources in riba-free banking of Iran

	Equipping resources			Allocating resources		
No.	Type of deposit	Legal relationship	Profit	Type of facilities	Legal relationship	Profit
1	Profit-free loan current deposit	Profit-free loan	Zero	Profit-free loan	Profit-free loan	Commission
2	Profit-free loan savings deposit	Profit-free loan	Zero	Installment sale	Credit sale	Determined
3	Long-term investment	Attorneyship	Variable	Hire purchase contract	Hire	Determined
				Forward	Forward sale	Determined
				Debt purchasing	Debt sale	Determined
				Reward	Reward	Determined
				Civil participation	Partnership	Variable
				Legal participation	Partnership	Variable
				Commandite	Commandite	Variable
				Sharecropping contract	Sharecropping contract	Variable
				Harvesting contract	Harvesting contract	Variable
				Direct investment	---	Variable

Source: (165 .ص ,1387هـ.ش ,موسویان).

5.1.3. The Process of Determining Bank Profit Rate in Iran's Riba-Free Banking System

At the present time, according to the Article 3 of the bylaw stipulated in Chapter 4 of the Riba-free Bank Operation Law, as approved by the Currency and Credit Council, the Central Bank determines the minimum probable profit rate to select the investment plans or participation as well as the minimum or the maximum, if necessary, expected profit rates or the probable return rates for other facilities provided by the bank. Accordingly, the Central Bank determines the on-account profit rates of the investment deposits at each particular period for short-term and long-term deposits (one-year, two-year, three-year, four-year, five-year) (سیف & بهمنی, 1383هـ.ش, ص. 122). This is the case while no predetermined rate will be paid to any of the deposits, known as long-term deposits, according to the Article 10 of the bylaw of Riba-free Banking Operations Law, Chapter 3 (اقتصاد گردان, 1394هـ.ش). Moreover, according to Note 2 of the Article 14 addressing the executive instructions approved by the Currency and Credit Council, the banks can pay or announce no predetermined profit rate for long-term deposits (ولی نژاد, 1369هـ.ش).

In contrast to the articles in Riba-free Banking Operations Law, the minimum guaranteed profit rate will be paid to all the bank deposits, except for the profit-free loan deposits, as the on-account profit rate (صمصامی, 1388هـ.ش, ص. 118). The first law text referring to the term on-account is the Article 21 of the executive instruction approved by the Currency and Credit Council. This instruction has not recommended or instructed the determination of the on-account profit rate and the payment of the on-account profit based on the principles of the mentioned rate to all depositors. This instruction is used only as a solution in cases where a long-term deposit is granted before the initiation of the bank's financial period, when the depositor requests to get back his principal and the profit. The text of the Article 21 of the executive instruction approved by the Currency and Credit Council is as follows:

The profits of short-term investment deposits are paid at the end of a year after determining the profits of the operations in line with the contents of the Article 12. The profits of the long-term investment deposits are paid definitely if their maturity date is reached at the end of September or March. Otherwise, they are paid on-account. These

on-account payments are Definite after determining the depositor's profits, as described in the Article 20 (ولی نژاد, 1369هـ.ش, ص. 220).

The Riba-free Banking Operations Law has specified how the profits obtained from the employment of these long-term investment deposits are distributed. According to this article, the profits are distributed based on the signed contract, and in accordance with the duration and the cash provided for investment deposits and preserving the share of the bank's resources with regard to the time and sum of money, considering all the cash employed in the operation. This article provides no exact image of how the profit is distributed. In addition, the issue of incidental loss has not been resolved (توکلی, 1381هـ.ش, ص. 72-73).

The profit rate of the bank deposits in Iran and the facilities are determined by the Currency and Credit Council, and the Central Bank of the Islamic Republic of Iran announces rules to the banking system and supervises the correct implementation of the rules. The announced rates are completely inflexible in practice, and the banks are obliged to abide them. These profit rates are not determined based on a particular criterion, and they are mainly determined based on the relevant trends in the previous years. This is the case while the change in the bank profit rate made by a policy-making body (e.g., the Central Bank) can affect the income and expenditure of the banks and increase the market and liquidity risk for the bank.

In general, determining the profit rate in the economies of different countries encompasses two aspects: (A) The profit rate determined by the central banks; (B) The profit rate in the money market formed by banks for different types of deposits and loans. However, the concept of the bank profit is more complicated than the reasonable profit rate in an economy because the on-account profit rate, on the one hand, is the instrument used to advance the monetary policies adopted by the Central Bank by which it seeks to attain its macro-economic goals. On the other hand, it is a rate used by the banks to receive deposits and give loans; however, the combination of these two issues as one rate is unprecedented in other countries (محققنیا, دهقان دهنوی, & رحمتی‌نیا, 1395هـ.ش, ص. 105-110).

5.2. Definition of On-Account Profit

Since the on-account profit is a type of profit paid only to the depositors by Iranian Banks in Iran's riba-free banking system to achieve a better understanding of this type of profit, it is defined as follows:

1- The on-account profit is the cash paid by banks to the owners of the capital before the end of the bank operation, where the payment involves an implied condition, that is, the case of any difference between the on-account profit and the realized profit at the end of the operation and determination of the realized profit, the difference must be specified for to the creditor. This profit can be paid to the depositors at some regular intervals (monthly, three-month, six-month intervals, or once a year) (مکیان, دانش, & جوکار کمال‌آبادی, 1396هـ.ش, ص. 146).

2- The on-account profit is the cash paid by the bank to the investment depositors before reaching the end of the investment and gaining the investment result, and also before achieving and calculating a definite profit[51] by the bank (میرجلیلی س. , 1381هـ.ش, ص. 128).

5.2.1. Reasons for Using On-Account Profit

Here are some reasons on using on-account profit in Iran's banking:

A- The bank is bound to invest the depositors' cash in different projects either directly or indirectly. The nature of the riba-free banking entails awareness of the profit given to the deposit after the end of the financial period and the realization of the revenue and the deduction of the costs. Evidently, the depositors will have no clear vision of the expected profit of their deposits until the definite profit is estimated. If the bank does not manage to overcome this problem and fails to provide the depositors with a vision, even an approximate and probable one, of what they will gain as the profit, they may choose not to deposit their cash in the banks, and choose some other alternatives but banks to invest their cash.

B- The payment of the whole profit after the end of the financial period and the end of the calculations are some other factors decreasing individuals' willingness to

[51] The definite profit is gained by a bank, in addition to the profit announced to be realized at the end of the year, and the bank is committed to divide it among the investors. In other words, the definite profit = the real profit at the end of the period + i.e. the paid on-account profit (قائمی اصل, متین, بافنده ایمان دوست, & موسوی برزودی, 1395هـ.ش).

deposit their cash in the banks. If a bank manages to find a way, by reference to which it can pay the profit to the depositors in shorter intervals, it would be much more profiting for individuals to deposit their money there.

The authorities in Iran's banking system have concluded that they can encourage the depositor to deposit in banks by announcing the on-account profit at the beginning of each period and paying a certain amount of money on a monthly basis as the on-account profit to the depositors to prevent a motivation crisis (سیفلو, 1389هـ.ش, ص. 129-130).

5.2.2. On-Account Profit of Bank Deposits

Considering the Riba-free Banking Operations Law in Iran, the bank profit rate is not a fixed rate in Iran and it changes depending on any given contract and the term of the contract. In other words, the profit rate is a floating rate. In practice, the profit rate has been fixed at least since 1990 because the definite profits of bank deposits originating from the use of banks and depositors' resources in the economic activities were supposed to be divided among the depositors and banks until the end of 1989 according to the time and money proportionate to the total cash used in the operation after the end of the year and the confirmation of financial statements. In this period, no cash was paid to the depositors throughout the same year; however, the banks were allowed to pay on-account profit to the investment deposits over some three-month periods to encourage depositing. Since 1990, the profits given to the short-term, one-year, two-year, three-year, four-year, and five-year investment deposits have been paid in three-month intervals. Since 1991, payments have been at three-months intervals, and the profit has been completely settled at the end of this period (محققنیا, دهقان دهنوی, & رحمتی‌نیا, 1395هـ.ش, ص. 108-109). This is the case; however, according to the executive instructions approved by the Currency and Credit Council, the profit given to the short-term and long-term investment deposits should be paid at the end of the year and after determining their profit, and the banks are only allowed to pay the on-account profit to these deposits if the maturity date of the long-term investment deposit is not at the end of September or March. Moreover, the on-account profits should also be specified after determining the depositor's profits. As obviously noted in this article, the payment of on-account profit to the long-term investment

deposits is not considered as a general rule but as a solution in some particular predicted cases (131-130 .ص ,1389هـ.ش ,سيفلو).

Tablo 4: Profit rate of lomg-term investment deposits during 1984-2018

On-account Profit rate of long-term investment deposits							
Year	Short-term	One-year	Two-year	Three-year	Four-year	Five-year	Inflation rate
1984	7.2	9	9	9	9	9	10.4
1985	6	8	8	8	8	8	6.9
1986	6	8.5	8.5	8.5	8.5	8.5	23.7
1987	6	8.5	8.5	8.5	8.5	8.5	27.7
1988	6	8.5	8.5	8.5	8.5	8.5	28.9
1989	6	8.5	8.5	8.5	8.5	8.5	17.4
1990	6.5	9	10	11	-	13	9
1991	6.5	9	10.5	11.5	-	14	20.4
1992	7.5	10	11.5	13	-	15	24.4
1993	8	11.5	13.5	14.5	-	16	22.9
1994	8	11.5	13.5	14.5	-	16	35.2
1995	8	14	15	16	-	18.5	49.4
1996	8	14	15	16	-	18.5	23.2
1997	8	14	15	16	-	18.5	17.3
1998	8	14	15	16	-	18.5	18.1
1999	8	14	15	16	-	18.5	20.1
2000	8	14	15	16	17	18.5	12.6
2001	7	13	13-17	13-17	13-17	17	11.4
2002	7	13	13-17	13-17	13-17	17	15.8
2003	7	13	13-17	13-17	13-17	17	15.6
2004	7	13	13-17	13-17	13-17	17	15.2
2005	7	13	13-17	13-17	13-17	17	10.4
2006	7	7-16	7-16	7-16	7-16	16	11.9
2007	7	7-16	7-16	7-16	7-16	16	18.4
2008	9	17.25	17.5	18	18.5	19	25.4
2009	9	14.5	15.5	16	17	17.5	10.8
2010	6	14	14.5	15	16	17	12.4
2011	To be determined by banks and credit institutions in a range of 6%-20%						21.5
2012	To be determined by banks and credit institutions in a range of 6%-20%						30.5
2013	To be determined by banks and credit institutions in a range of 6%-20%						34.7
2014	10	22	-	-	-	-	15.6
2015	10	18-20	-	-	-	-	11.9
2016	To be determined by banks and credit institutions in a range of 6% to 20%	15	-	-	-	-	9
2017	Maximum of 10%						

2018	Maximum of 10%

Source: (بانک مرکزی جمهوری اسلامی ایران, 1399هـ.ش).

One of the criteria for evaluating the profit rates paid to the deposits is the comparison between to-be-paid profit rates and the inflation rate. Table 1 shows the on-account profit rate of investment deposits during 1984-2018. As it can be seen, the on-account profit rate has been smaller than the inflation rate during this 19-year period, indicating that the depositors made a loss in practice. The profit rate has been less than the on-account profit over 17 years, but this does not apply to all deposits. Moreover, during most of these years, only the on-account profit rate of the five-year deposits has been greater than the inflation rate, and the on-account profit of the short-term deposits has not led to a loss only in three years over the thirty-six-year period. The on-account profit of all deposits was larger than the inflation rate only in 1985.

Moreover, according to the report of the Central Bank of the Islamic Republic of Iran during years 1984-1989, the profit obtained from using the deposits in some years was about 3% to 4%, and the government has paid profit rates ranging from 6% to 8.5% to the depositors (توکلی, 1381هـ.ش, ص. 77-78). This means nothing but not paying the profit based on the real profitability of the banks.

According to the concept of attorneyship and also the Articles 4 and 5, the Riba-free Bank Operation Law, the Articles 8 and 10 of the executive bylaw of the second chapter of the law, and the Articles 10, 14, and 20 of the executive instruction of this chapter, the investment depositors are not entitled to claim for any money from the bank as long as they have not terminated bank's power of attorney as to their deposits and the definite profit of the bank operation has not been calculated and determined.

In this case, the following question is raised: How is it possible to justify what the banks pay as the on-account profit to depositors?

The concept of on-account profit basically indicates the exchange of money and the like between a natural person and a legal person. In other words, one of the parties pays a certain sum of money to the other party providing that the party receiving the sum of money pledges to give back the whole or some of the extra cash being paid to him wrongly according to the following calculation and auditing. Obviously, the cash receiver owes to the paying party before auditing because it was not determined that the paying party is a debtor where the party receiving the sum of money owes the equivalent

cash it has received on account. This general issue also holds for the relationship between banks and investment depositors.

In other words, although the ownership of the originally paid money is transferred to the depositor, the depositor is indebted to the bank the same money as long as the profit is Definite. This concept is nothing but the concept of the loan in Islamic contracts. Thus, the nature of the on-account profit can be justified as a loan (میرجلیلی س. , 1381هـ.ش, ص. 130).

In order for the on-account profit to be converted into interest, it is sufficient to reassure the depositor that the amount he has received as on-account profit is definite because the main difference between the profit and usury is the principle of certainty. If the depositor somehow ensures that the on-account profit to be received will not be taken back even in case of not achieving the real profit in the investment operation, the on-account profit exactly functions similar to the usury rate. In other words, if the uncertainty is taken away from the on-account profit, the duality of usury and on-account profit will convert into a unity.

In the usury-based baking system, the depositor receives a legal guarantee to receive usury. In other words, if the bank refuses to pay the deposit usury, the depositor can file a complaint against the bank officials to the legal authorities. On the other hand, in the banking system that is really not usurious, no guarantee is given to the depositor as to the payment of profit. If the bank claims at the end of the financial period and after the audition when the definite profit is less than the paid on-account profit, the depositor is not entitled to raise any objections (حسین زاده بحرینی م. , 1375هـ.ش).

In Iran’s riba-free banking system, the on-account profit rate has been misused as an instrument. That is, the banking system has operated in such a way to make the investment depositors sure that on-account profit is definite. The thirty-six-year long performance of the banks considering the quality of calculating the definite profit rates of the investment deposits at the end of each financial period has changed the certainty into some comparative expectations among depositors, implying that on-account profit rate announced at the beginning of the period isthe minimum guaranteed rate. This means that if the definite profit rate is not greater than the on-account profit rate at the end of the period, it will not be less either. This behavior on the part of the banks has naturally removed the instabilities and uncertainty features from the on-account profit

rate as such those who receive on-account profit do not consider themselves as indebted to the bank until the end of the financial period. This attitude contradicts with the nature of on-account profits.

Since the implementation of the Riba-free Bank Operation Law in Iran, there is not even a single case where calculations at the end of the financial period represent the definite profit rate of investment deposits to be less than the on-account profit rate announced at the beginning of the period.

According to Table 4, the definite and on-account profits are equal from 1990 to 2000, and the definite profit rates are announced to be greater than the on-account rate during the period 2001 -2005, when the competition among the banks to attract greater resources led to their close competition over a certain period. The important point is that the profit rates have been different for some years and are increased by a certain amount; therefore, the difference between the on-account profit rate and definite profit rate does not represents the floating rate. In other words, the profit rates of the investment deposits are not determined based on the executive bylaw during the same years.

Tablo 5: Difference between the on-account profit and definite profit during 1990-2000

Year	Type of profit	Short-term	One-years	Two-years	Three-year	Four-year	Five-year
1990	Definite	-	9	10	11	-	13
	On-account	6.5	9	10	11	-	13
1991	Definite	-	9	10.5	11.5	-	14
	On-account	6.5	9	10.5	11.5	-	14
1992	Definite	-	10	11.5	14	-	15
	On-account	7.5	10	11.5	13	-	15
1993	Definite	-	11.5	11.5	14.5	-	16
	On-account	8	11.5	13.5	14.5	-	16
1994	Definite	-	11.5	13.5	14.5	-	16
	On-account	8	11.5	13.5	14.5	-	16
1995	Definite	-	14	13.5	16	-	18.5
	On-account	8	14	15	16	-	18.5
1996	Definite	-	14	15	16	-	18.5
	On-account	8	14	15	16	-	18.5
1997	Definite	-	14	15	16	-	18.5
	On-account	8	14	15	16	-	18.5
1998	Definite	8	14	15	16	-	18.5
	On-account	8	14	15	16	-	18.5
1999	Definite	8	14	15	16	-	18.5
	On-account	8	14	15	16	-	18.5
2000	Definite	8	14	15	16	17	18.5
	On-account	8	14	15	16	17	18.5

2001	Definite	7	13	14	15	16	17
	On-account	7	13	13-17	13-17	13-17	17
2002	Definite	7.5	17	17.5	18	18.5	19.5
	On-account	7	13	13-17	13-17	13-17	17
2003	Definite	8.25	17	18.5	19	19.25	19.5
	On-account	7	13	13-17	13-17	13-17	17
2004	Definite	8	15	18.5	18.75	19	19.5
	On-account	7	13	13-17	13-17	13-17	17
2005	Definite On-	7.5	14	17.55	18.5	19.05	19.5
	account	7	13	13-17	13-17	13-17	17
2006	Definite	-	-	-	-	-	-
	On-account	17	7-16	7-16	7-16	7-16	16
2007	Definite	-	-	-	-	-	-
	On-account	17	7-16	7-16	7-16	7-16	16

Source: (بانک مرکزی جمهوری اسلامی ایران, 1399هـ.ش) (تجلی, عزیزنژاد, & میرشمسی, 1389).

In Table 5, the on-account and definite profit rates of 28 banks during 2008-2018 show that the on-account and definite profits of the banks are the same in 258 cases out of 297 cases. The payment of on-account profit as a definite profit can perhaps be considered as a type of guaranteeing the deposit profits in practice. In this case, Iran's banking system faces the problems of the legitimacy of profit allocation to the depositors because guaranteeing the profit converts the deposits from a down payment into a debt, where the paid profit turns into usury. Regardless of legitimacy, the announcement and the payment of deposit profits, as definite and predetermined profits, decrease risk-taking in the country because the investors are sure that the announced on-account profit rate will be definitely paid, implying no risk.

Tablo 6: Difference between definite and on-account profit rates over the period 2008-2018

Bank	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Ansar	0	0	0	0	0	0	0	0	0	0	0
Day	0	0	0.200	0	0	0	0	0	0	0	0
Eghtesad Novin	0	0.0121	0.0121	0	0	0	0	0	0	0	0
Mehr Iran	0	0	0	0	0	0	0	0	0	0	0
Karafarin	0.024	0.009	0.054	0.160	0	0.015	0	0	0	0	0
Keshavarzi	0	0	0.119	0	0	0	0	0	0	0	0
Maskan	0	0	0	0	0	0	0	0	0	0	0
Melli	0.132	0.192	0.087	0	0	0	0.074	0	0	0	0
Mellat	0	0	0.265	0.210	0	0	0	0	0	0	0
Saman	0	0	0	0	0	0	0	0	0	0	0
Post Bank	0	0	0	0	0	0	0	0	0	0	0
Industry and Mine	0	0	0	0	0	0	0	0	0	0	0
Sarmayeh	0.343	0.024	0.017	0	0	0	0	0	0	0	0
Sepah	0	0	0	0	0	0	0	0	0	0	0
Sina	0	0	0.071	0	0	0	0	0	0	0	0
Sina	0	0	0.071	0	0	0	0	0	0	0	0
Ayandeh (+Tat)	0	0	0	0	0	0	0	0	0	0	0
Tejarat	0.028	0.100	0.207	0.381	0	0	0	0	0	0	0
Tose'e Ta'avon	0	0	0	0	0	0	0	0	0	0	0
Tourism	0	0	0.276	0	0	0.041	0.036	0	0	0	0
Hekmat	0	0	0	0	0	0	0	0.006	0	0	0
Parsian	0	0	0	0	0	0	0	0	0	0	0
Refah	0	0	0	0.037	0.039	0	0	0	0	0	0

Saderat	0	0	0.032	0.028	0	0	0	0	0	0	0
Shahr	0	0	0	0.078	0	0	0	0	0	0	0
Pasargad	0	0.032	0.041	0.008	0.002	0	0	0	0	0	0
Export Development	0.028	0.017	0.201	0	0	0	0	0	0	0	0
Middle East	-	-	-	-	0	0	0	0	0	0	0

Source: (سامانه اطلاع رسانی کدال, 1399هـ.ش).

Obviously, this cannot indicate the precision of the bank experts' predictions of the business conditions at the beginning of each financial period. Moreover, when the predictions of an authority are always correct, naturally some reasonable doubts are posed about the accuracy of the real predictions to show their accuracy.

In this regard, the banks can operate in such a way to correct some initial prediction errors by making changes in their attorney's fees at the end of the financial period as such the final figures would come closer to the predicted figures. Moreover, the government can compensate for the cases over the years when the real profit is lower than the announced and paid on-account profit by its resources. However, the final result of all these attempts is nothing but to ensure the depositors that the definite profit granted to their deposits is not less than the announced on-account profit (میرجلیلی س. , 1381هـ.ش, ص. 131-132).

Concerning the attorney's fees, in a study conducted by the Ministry of Economic Affairs and Finance on the riba-free banking in the Islamic Republic of Iran, the differences in these rates were explained as follows:

The profits granted to both short-term and long-term deposits are the same, and what changes the profit paid for any type of deposit is the attorney's fees. Attorney's fees for the more short-term deposits are higher than the more long-term deposits (میرجلیلی ح. , 1374هـ.ش).

Accordingly, the attorney's fees can theoretically be provided in the following ways:

A- The banks obtain an attorney's fees for the use of the deposits: In this case, there will be no criterion for the difference in the profit rate granted to the short-term, one-year, two-year, three-year, and five-year deposits, and the payment of different on-account profits to these deposits indicates no difference between the definite and on-account profits. Moreover, the profit rate given to the deposits is calculated independent from the reality of the bank's revenue.

B- The banks receive attorney's fees to use deposits: Although there is a criterion to differentiate the profit rates in this case, this poses the question whether the rate of attorney's fees to use each one of the deposits (namely short-term, one-year, two-year, three-year, and five-year deposits) are known before using them or the rate is not

determined in advance. In contrast, the attorney's fees are determined for each one of these deposits when the (definite) profit is distributed among different types of investment deposits in such a way that the given profit rate (i.e., the same on-account profit rate or is at least 0.05-1% greater), is obtained for each of the deposits. The second option is suitable for the case where the rates of the profits paid to each deposit remain unchanged or do not change significantly over many years. In other words, the payment of the same profits over some years, supposing that the attorney's fees are not zero, can indicate that the profit rate is fixed. Now, if this option is accepted, we will face the question if the banks can use individuals' deposits by an unknown attorney's fees if the banks should announce their attorney's fees to the depositors to use each of the deposits as attorneys. On the other hand, according to the contents of the Riba-free Banking Operations Law, the attorney's fees are considered as one of the policy-making tools of the Central Bank. However, in the second option, the on-account profit rate is the policy-making instrument based on which the attorney's fees are determined. This is the case while the on-account profit has not been addressed in the Riba-free Banking Operations Law and its bylaws, and it has been mentioned in one of the articles of the executive instruction, which is limited to some of the long-term investment deposits (توکلی, 1381هـ.ش, ص. 74).

5.3. Definition of Partnership Securities

The first legal definition of the partnership securities are mentioned in Note 85 of the Second Development Plan Law approved on December 11, 1994. Accordingly, the partnership securities are those issued with a certain nominal price and sold to the investors who intend to participate in the execution of the infrastructural, production, and building plans. The purchasers gain a share of the profits made by the execution of the plans according to the nominal price of the securities they buy. Moreover, the note indicates that these securities can be either unnamed or named and they can be issued for a certain limited period of time.

Furthermore, the Article 1 of the Law explains the issuance of the partnership securities approved on September 21, 1997: The partnership securities are named securities issued with authorization from Tehran Exchange Market with a certain nominal price for a certain period to provide some of the financial resources required by

the renovation and development plans of the companies listed on the Tehran Stock Exchange (روشن & جهان تیغی, 1396هـ.ش).

According to the Article 2 of the executive bylaw of the rule on the issuance of the partnership securities, the government, government companies, municipalities, institutions of public utility, public companies, and private companies, and the production cooperatives can help to issue the partnership securities. The partnership securities are issued to increase the public participation in the economic activities, diversify the financial markets, and finance to create, complete, and develop profitable private and public projects by some other resources but banks. According to the contents of the law on the issuance of partnership securities and its executive bylaws, the elements constituting the partnership securities are the issuing party, subject of partnership, capital, and guaranteed profit, agent (bank), and trustee. In this regard, the Central Bank and the board of detection play an important role in the process of issuing and supervising these securities (نظرپور & صادقی فدکی, 1389هـ.ش, ص. 94). The partnership securities are issued as the commandite contract, sharecropping contract, contract for harvesting, and partnership contract.

Partnership securities have been defined as the securities that can be issued by both the private sector and the public sector; however, the private sector has almost paid no attention to these securities since the approval of the law on the issuance of partnership securities. The inattention of the private sector may be caused by different reasons such as the high costs of these securities, the obligation making companies guarantee the payment of principal and profit for the issuance of the partnership securities before the due date, no transaction based on the real rate of return on investment, and also the inability to repurchase the partnership securities before the maturity date.

5.3.1. Different Type of Partnership Securities

5.3.1.1. Government's Partnership Securities

These securities that are known as the civil or national corporate bonds are merely issued by the government to provide some resources required by the civil and for-profit plans executed by the government, which are issued as many as the number predicted in the laws on the annual budget of the country. The principal and profit of these securities are guaranteed by the Ministry of Economic Affairs and Finance based

on the finance predicted for the country in the laws on the annual budget. The civil and for-profit plans of the government in the budget laws, which are to be executed by the government companies and municipalities, are also subject to this definition and follow the regulations of government's partnership securities.

5.3.1.2. Partnership Securities of Companies and Other Institutions

These are the securities issued under the authorization from the Central Bank to finance some of the financial resources required to create, complete, and develop the profitable, building, and service plans such as the financial resources required to prepare the raw materials of the production units. These securities are produced and distributed by the government companies, municipalities, and the public non-governmental institutions of the public utility and the companies affiliated with these institutions, the public and private companies, and cooperatives and are provided to the public by one of the banks. The issuing party should guarantee the principal and profit of these securities and provide the required collaterals to the agent bank to guarantee the repayment of the principal and profit of the securities. If the issuing party fails to honor its commitments, the agent bank should directly take measures to fulfill those commitments by using the guarantees provided by the issuing party.

5.3.1.3. Partnership Securities of the Central Bank

This type of partnership securities is issued in accordance with the Article 91 of the Third Development Plan Law by the Central Bank of the Islamic Republic of Iran and based on the portfolio of the profitable assets of the bank. It refer to no particular plan and is issued to control the money market (تنانی & حسین پور, 1394هـ.ش).

5.3.2. On-Account Profit of Partnership Securities

The profit of the partnership securities is the most challenging issue in the jurisdictional nature of these securities. The problem casting doubts on the legitimacy of the profit of the partnership securities is the guaranteed on-account profit. As explained in the Article 3 of the rule on the issuance of partnership securities, the repayment of the principle, on-account profit, and the realized profit of these securities are guaranteed by the Ministry of Economic Affairs and Finance from the allocated finance of some particular budget lines predicted by the Planning and Budget Organization for the same purpose in the annual budget laws of the country. Also, it has been mentioned in the

Article 5 of this law that the government companies, municipalities, and non-governmental institutions and companies are bound to pledge and guarantee the repayment of the relevant principal and profit on the maturity date stipulated in the securities (مجلس شورای اسلامی, 1376هـ.ش).

The partnership securities are issued to supply the financial resources required to develop an economic plan and unit. Since giving loans to the economic institutions and companies and obtaining usury from them cannot be justified in Islam, the Council of Guardians agreed to supply the financial resources via partnership. Apparently, the purchasers of the partnership securities have gained a share of the economic unit and they have a share of the profit or loss made by the company as much as the securities they buy. However, the legislator does not accept this view of the partnership securities and considers that the purchasers of the partnership securities have only a share of the obtained profit. Article 2 of the law on the issuance of partnership securities explicitly states that the holders of the partnership securities have a share of the profit resulting from executing the relevant plans according to the nominal price and duration of holding the partnership securities. The Article 2 and the executive bylaw of the rule on the issuance of the partnership securities have explicitly stated that the owners of the partnership securities possess a share of the financial profit obtained from the execution of the relevant plans according to the nominal price and duration of holding partnership securities. The law on the issuance of the partnership securities and its executive bylaw does not state that the holders of the partnership securities have a share of the assets and properties of the economic unit; however, it is explicitly noted that the holders of the partnership securities only have a share of the profit or the financial gain of these securities. Accordingly, the partnership does not mean having a share of the assets and properties and thus the profit or loss made by an economic unit; however, it only applies to the profit or financial result of the execution of the project (شیروی, 1381هـ.ش).

According to Ayatollah Sistani, the owners of the partnership securities must hold in common a share of the original project. If the contract is stipulated that individuals to whom the partnership securities are transferred should have only some shares of the profits, not in the original project, this type of contract is not a sound contract. In other words, it is a loan contract where individuals to whom, the partnership securities have been given lend to the party issuing these securities on condition that

they receive some of the profits of the projects. In this case, the loan is considered to be usurious, which is forbidden according to Islamic rules.

As Ayatollah Sistani states, the fact that these securities are really the same as bonds by which individuals give a loan to the issuing party as much as the value printed on the securities indicates that the receiver of these securities transfers the ownership of a certain amount of money to the issuing party if the issuing party guarantees something identical and pays them a certain amount of the profit at some certain intervals. This contract is the same as a usurious loan, which is forbidden by the Islamic rules. Changing its name to partnership securities makes no difference in its nature and it is still considered to be forbidden in Islam (جمعی از طلاب, 1395).

The profits resulting from the partnership are paid in two steps: An on-account profit is paid to the holders of partnership securities in the execution step, and the definite profit is announced after finishing the plan, and the difference between these two profits is paid to the security holders. As a result, if it is determined by calculating the final profit that there is no difference to be paid to the security holders, nothing will be paid to them. However, if it implies that the share of the person holding the securities of the final profit is less than the amount paid to them previously in the execution of the plan as an on-account profit, the issuing party is not entitled to take back the extra money paid to the security holder. In other words, the on-account profit is non-refundable, and the issuing party cannot claim back the underwriting contract considering the contents of the contract between the issuing party and purchaser in case the investment makes a loss. This notable issue can be laid out as follows: The purchasers of the partnership securities do not expect to get a share of the loss the company makes. Moreover, the legislator has predicted a solution so that the lack of prediction of the probable loss by the holders of the partnership securities does not raise the doubt that there is no participation at play. This prediction makes the probable compensation of the loss resulting from the execution of the plan possible for the holders of the partnership securities and ensures them that, in case the plan makes any loss, the loss will be compensated. This solution is nothing but guaranteeing the partnership securities purchasers' investment (روشن & جهان تیغی, 1396هـ.ش, ص. 53-54). In other words, the party issuing the partnership securities do not pledge to guarantee the principal and profit, but the bank pledges so as the agent. What happens in practice is that a contract is signed between the issuing party and the agent for the agent bank's guarantee of the

investment of the holders of partnership securities', and the issuing party provides some collaterals to the agent.

Thus, the main question is if the issuing party's guarantee (that is in fact one of the partners) cancels the partnership between it and security holders. It is reasonable to pose such a question because this guarantee not only brings the security holder no loss, they will gain some profit under any condition, even if the plan incurs a loss.

Some researchers have stated that if the feature of uncertainty is taken away from the on-account profit, the duality between profit and on-account profit will turn into a unity. Accordingly, the combination of the guaranteed on-account profit that has prevailed in the process of selling the partnership securities in Iran's banking system is a paradoxical and heterogeneous combination. The minimum profit that has been guaranteed to be paid to the holders of the partnership securities by the banking system if it is on-account, cannot be guaranteed and if the profit rate is guaranteed by the banking system, it will be meaningless and useless to use the term on-account. According to different statistics and experiences, there is nothing as the economic guarantee and the risk and probability of incurring a loss or gaining a profit, which is smaller than the expected profit, is an indispensable part of the investment (حسین زاده بحرینی م. , 1375هـ.ش, ص. 158-159).

Another group of researchers has stated that if the profit given to the principal means guaranteeing the profit, whether the plan really or not gains any profit, this contradicts the requirements of partnership, and it is similar to usury or the subterfuge to gain usury (موسسه عالی آموزش بانکداری, 1378هـ.ش). These researchers found the calculation method of the definite profit of the partnership securities ambiguous and stated that the partnership securities, in most cases, are sold by extensive publicity via the media. However, no official report is issued on the progress, success, profitability, value added and real profit to be given to the security holders. The agent banks will give back the principal and on-account profit to the holders of the securities without providing any information on the fixed maturity date. This has made the investment in the partnership securities to be doubtful in religious and economic terms (موسویان, 1386هـ.ش).

Some other researchers have stated, to explain the legitimacy of the profit given to the partnership securities, that the government can determine a guaranteed profit rate as the real guarantee and not the legal guarantee for the partnership securities based on

the practical experience resulting from the performance of the investment in the civil plans, the increase in the value-added of these plans, and reasonable trust it acquires that the purchasers of the partnership also agree with. Also, the government can assure the purchasers, using the contract of mandate, that a least a value-added equal to the announced rate will be gained and as in cases where a less or greater value added is realized, it will be determined as the attorney's fees of the brokers of partnership securities (عیوضلو, 1383هـ.ش). In this regard, it seems that this is an incorrect view because a partner cannot provide any guarantee or pledge to pay an unrealized profit. In other words, the maximum level of commitments and guarantees provided by a partner is to undertake the principal as the condition of performance. Therefore, the real guarantee to pay the unrealized profit is meaningless.

Some other researchers have suggested that the government issues some partnership securities without providing any guarantee neither for the principal nor for its return to solve the religious problem with the partnership securities, where purchasers have a share of both profit and loss made by the issuing party (علوی, 1388هـ.ش). If the mechanism to provide the partnership securities in the securities exchange market is prepared, the partnership securities can be received well and warmly by individuals because the real profit of the partnership securities is usually greater than the profit given by banks and that of the annual profits of the stocks. The projects for which these securities are issued are more probable to make profits due to some technical reasons (روشن & جهان تیغی, 1396هـ.ش, ص. 57).

5.3.3. Examination of Partnership Securities of Central Bank of the Islamic Republic of Iran

Issuing securities by the Central Bank is one of the ways used by the Central Banks in the developing countries to execute the open market operation. In Iran's banking system, it is improper to use the bonds in the market operations according to the Riba-free Banking Operations Law. Accordingly, the Central Bank has issued "Partnership Securities of Central Bank".

In Iran's banking system, the "Partnership Securities of Central Bank" is only an instrument having some functions similar to the instruments of open market operation since 2001. The Central Bank of the Islamic Republic of Iran has used this type of securities throughout different years to collect liquidity.

There are some basic elements concerning the issuance of the partnership securities by the Central Bank. The first basic element is the “issuer”. The issuer of this type of securities is the Central Bank that issues the securities to achieve its goals (that is in particular collecting the liquidity and controlling the inflation). The second basic element is the “subject of partnership”, i.e. the profitable plans or projects managed by the Central Bank and financed by providing the securities. The last basic element involved in the issuance of the partnership securities by the Central Bank is the “agent”. The agent is a bank issuing the securities on behalf of the main issuing party (The Central Bank) to be purchased by the public, which is responsible for the payment of on-account profit, definite profit, repurchase of the securities before the maturity date, and repayment of the principal paid to buy the partnership securities on the due date (میثمی, 1394هـ.ش) (میثمی & ندری, 1394هـ.ش).

The jurisprudential rule for each particular type of securities is extracted based on the image presented from it; therefore, the correct understanding of the nature and jurisprudential image of the partnership securities of the Central Bank of the Islamic Republic of Iran is of great importance. According to some evidence, it can be claimed that the partnership securities of the Central Bank (contrary to the partnership securities of the ministries and companies) are not invested in specific economic plans and projects. To prove this claim, the definition provided in the Official Website of Central Bank is pointed out: The issuance and provision of the partnership securities by the Central Bank is one of the instruments of anti-inflationary to execute the open market operations such that the liquidity volume decreases along with the issuance of these securities and the collected cash is blocked by the Central Bank.

According to this definition, it is obvious that these securities are issued only to collect the surplus liquidity and to control the inflation and the resulting resources are not invested in any particular economic activity; therefore, the jurisprudential nature of these securities is similar to add-on profit loan, which is forbidden and considered as usury unanimously by all Sunni and Shia jurists. In other words, these securities have assumed a nature similar to the bonds, and if they pay any profit, the profit is not gained by the investment and is seriously suspected of being usurious (نظرپور & گل محمدی, 1397هـ.ش).

The partnership securities that are of the Central Bank face some challenges, some of the most important of which will be examined in the following.

1- The doubts about the authenticity of the payment of profit to the holders of partnership securities:

The problem facing partnership securities is that whether it is really possible to say that the profit paid to these securities is not definite and it is on-account. When the profit given to these securities is exactly equal to what the issuing party announces and they are never less or greater than the announced figure, the doubts about the usurious nature of these securities are enhanced. The experience of executing different plans by the governments in Iran shows that most of these plans are not finished during a predicted period, and if the plan to be executed according to the partnership securities is not completed over a specified period, not only is it impossible to determine the definite profit but this will bring about nothing but some loss for the plan. In that case, the law on partnership securities will not apply to the issue that the holders of the securities will have a share of the profits gained from the execution of the plans based on the partnership securities. Accordingly, the on-account profit is always a definite and fixed profit, and this definitely strengthens the doubt about the usurious nature of the subject of these securities, and it is not considered to be flawless (تنانی & حسین پور, 1394هـ.ش, ص. 164).

According to this table, the on-account profit rate and the definite profit rate paid by the Central Bank are the same, and the difference between the on-account profit rate and the definite profit rate has not been paid to the security holders during any financial period.

Tablo 7: Difference between the on-account profit rate and definite profit rate of the partnership securities of the Central Bank over the period 2001-2014

Year	On-account profit	Definite profit
2001	17	17
2002	17	17
2003	17	17
2004	17	17
2005	15.5	15.5
2006	15.5	15.5
2007	15.5	15.5
2008	Partnership securities of the Central Bank were not issued this year	

2009	Partnership securities of the Central Bank were not issued this year	
2010	Partnership securities of the Central Bank were not issued this year	
2011	20	20
2012	20	20
2013	23	23
2014	23	23

Source: (بانک مرکزی جمهوری اسلامی ایران, (بانک مرکزی جمهوری اسلامی ایران, 1399هـ.ش) (نظرپور & گل محمدی, 1397هـ.ش, ص. 140-141) 1399هـ.ش).

According to the notification issued by the Central Bank of the Islamic Republic of Iran, the definite profit of partnership securities issued on February 15, 2014 and its maturity date is on August 17, 2014 is less than the paid on-account profits. Hence, the on-account profit has been deemed a definite profit (بانک مرکزی جمهوری اسلامی ایران, 1394هـ.ش).

2- Not intending to participate due to the lack of notifications of the economic activities as the basis of issuing the securities

Since the purchasers of the partnership securities partner with the Central Bank in the profitable activities as the basis for the issuance of partnership securities, it seems to be necessary for them to intend to partner. In other words, they should be aware of the fact that the contract is the basis for the issuance of partnership securities. At the present time, since the Central Bank provides the purchasers with no information on the profitable economic activities (as the basis for the issuance of securities) and there is no transparent procedure concerning the profitability of the plans and the method of calculating the profit, many purchasers consider these securities as an instrument involving no risk featuring a finalized and predetermined return rate. This makes the security holders consider the securities of the Central Bank as completely equal to the bonds and decide to loan some of the required resources to the Central Bank temporarily and take back the principal and surplus in the future and this decision involves some doubts (میثمی, 1394هـ.ش, ص. 5).

3- Costly nature of issuing partnership securities

Another challenge facing the partnership securities of the Central Bank is that it is costly to use these securities to implement the open market operation because the operation of the open market is usually carried out for the bonds in other countries and

the Central Bank does not directly issue the securities. The Central Bank gets involved in the secondary market of government securities and implements expansionary and anti-inflationary policies by trading securities. Hence, the cost and loss (and in some cases the income) of the monetary policy-making for the Central Bank only results from the difference in the purchase and sales rates.

In Iran, the Central Bank is responsible for paying all costs of the securities including the payment of profit, print, publicity, and the commission of the banks operating as agents, cost of pledging the principal and profit of securities, the cost of eliminating unsold securities, and so on; hence, a loss will be definitely imposed on the balance sheet of the Central Bank.

4- Impossibility of blocking the cash

In the operations of the common open market, the central banks take the resources collected through this operation out of the economy and decrease the total liquidity volume in the economy. However, when the Central Bank implements the anti-inflationary policies by issuing the partnership securities, it is impossible to block the collected resources due to the nature of the partnership contract in Islamic jurisprudence, and these resources are injected into the economy and return to it (نظرپور & گل محمدی, 1397هـ.ش, ص. 147).

5.4. Jurispurdential Examination of the Partnership Contracts (Commandite Partnership)

Since the partnership contracts (commandite, partnership) constitute the main portion of the banks' possession in Iran's riba-free banking, and the partnership securities are also issued based on the partnership contracts, a jurisprudential examination based on Sunni and Shia jurists' views is conducted as follows:

Commandite: The commandite in religious terms indicates the agreement between the two transacting parties based on which one of the parties (owner) grants a certain amount of capital and cash to the other one (agent) to do business with it. This agreement is signed provided that the profit and profit are shared between them according to the stipulations in the agreement (عاشور, 1431هـ.ق, ص. 193).

Partnership: The jurists consider and use the term partnership as a contract between the partners in the capital (السابق, 1391هـ.ق, ص. 294). The main difference

between the partnership and commandite is that the partners both provide a portion of the capital in the partnership, and they can also partner in the performing the contract; however, one of them may refrain from being involved in the activities which can be addressed separately (عثمانی, 1394هـ.ش, ص. 236).

5.4.1. Sunni Perspective

In a commandite, the profit rate must be completely obvious, and its components such as a half, a quarter, one third, and one-sixth must be also specified. If the owner tells the agent "You can transact using this capital, provided that you gain profit in the made profit or receive a part of the profit for the transactions you do, the agreement is void and forbidden according to Sunni Jurists because the consideration is unknown. If the capital owner tells the agent "Work with capital and we will have the same share of the obtained profit, then the agreement is permissible where each involved party receives half of the profit, if the agent stipulates a certain profit (e.g., they note "If I take one hundred… from the obtained profit"), or if they stipulate that they receive only a particular type of profit, these agreements and transactions are both void and forbidden (عاشور, 1431هـ.ق, ص. 193). According to Ibn al-Mundhir, all individuals whose instructions are followed by us unanimously believe that if the qirād transaction and commandite are conducted as such one of the parties or both parties stipulate gaining a certain amount of money in the agreement, the stipulation renders the agreement and transaction null and void. The agreement is null and void because the profit or usury stipulated by the party as a condition may be so much that nothing is left for the other party, and this contradicts with the philosophy of commandite seeking to provide both parties, not one of the parties, with a profit (السابق, 1391هـ.ق, ص. 213-214).

In the commandite, the partners have a share of the loss, and no partner is allowed to only have a share of the profit and not of the loss. However, the partners will definitely receive a profit in any caseregardless of the loss or profit in the agreement. Accordingly, this type of partnership is considered forbidden in religious terms. This is the case even if the partners are assured that they are not supposed to incur a loss because the transaction is made based on the condition that the partners will always make a profit and this void condition renders the agreement forbidden in religious terms. In other words, the initial condition when singing the contract should not state that the parties involved will definitely make a profit because there is a probability that the plan will

suffer a loss, but the contract will be null and void because it has not been stipulated that the partners must have a share of the loss.

Furthermore, another condition stipulated in the commandite contract is that the profit rate should not be exactly determined, and the percentage of each partner's share of the profit should be determined. For example, in a commandite plan, a person gives one million tomans to his partner, now if he is told that: In any case, two hundred thousand toman will be paid to you. This renders the commandite null and void (فتاوی, 1389هـ.ش).

The agent in the commandite is considered to be a trustee; thus, whenever the agent receives the property and capital after the end of the commandite contract, he possesses the property as a trustee, and he will not be liable if he commits an infringement, wherever the property is destroyed without his infringement. If he claims that the property he holds has been destroyed, the claim is accepted upon his swearing because it is basically believed that he does not betray. Moreover, the jurists believe unanimously that the commanditaire will incur no loss in the commandite, and the loss should be completely incurred by the property owner (السابق, 1391هـ.ق, ص. 214) (عثمانی, 1394هـ.ش, ص. 287) (مجموعة البرئی, 1412هـ.ق, ص. 285) (عاشور, 1431هـ.ق, ص. 194) (ابن قدامه, 1388هـ.ق) من المؤلفين, 1404-1426هـ.ق).

Ibn Qudamah states, "The loss occurred in the partnership should be incurred by both parties proportionate to the property they have invested. In other words, if both parties provide the same capital, the loss must be divided between them equally, and if each one of the parties pays one-third of the capital, each party must incur one-third of the loss. I have found no disagreement on this view, and Abu Hanifa and Ash-Shafi'i held the same view as well.

Ibn Qudamah also states, "Whenever a condition is stipulated making the agent guarantee the capital or making it incur some of the loss, this condition is null and void, and I have observed no disagreement among the scholars concerning this view. If this condition is stipulated when signing the agreement, it is not permissible to comply with this condition; however, the contract is valid. There is an explicit quotation from Imam Ahmad confirming this view and there are also some quotations from Abu Hanifa and Malek confirming this view; however, it is quoted from Ash-Shafi'I that he considered

this contract as void because the condition is void, thus making the commandite void (ابن قدامه, 1388هـ.ق, ص. 22-40).

According to the Islamic Law Encyclopedia, The jurists unanimously believe that the loss inflicted on the public companies should be incurred by all partners i.e. each party should pay for the loss according to their property, and it is not permissible to stipulate a condition opposing this rule, according to which one of the partners has to pay something smaller or larger than the percentage of their share in the partnership for the loss. Ibn 'Abidin (a Hanafi jurist) noted, “There is no disagreement among the Sunni scholars that any condition stipulated about incurring the loss is null and void except for that making parties incur the loss according to their share of the whole capital (مجموعة من المؤلفين, 1404-1426هـ.ق, ص. 6).

In the partnership, the profit each partner gains may differ in a partnership i.e. it is not determined based on the ratio of the capital, but it is determined according to the agreement between the partners. However, the loss is equal to the loss inflicted on the partnership (عثمانی, 1394هـ.ش, ص. 237). The jurists have interpreted it in one sentence: The profit is determined based on the agreement among the partners, and the loss is equal to the purchase price (حیدر, 1423هـ.ق) (السابق, 1391هـ.ق, ص. 296).

5.4.1.1. **Shia Perspective**

Trust is one of the common features and rules of some contracts including commandite contract, sharecropping contract, and the contract for harvesting and this is not unrelated to their partnership nature. This is the case because the agent is considered as an authorized partner holding the property held in common, and one of the rules concerning the partnership is that the partner’s trust possession because holding the possession by each one of the partners should be authorized; therefore, the property held in common by the partners is held in trust.

The general rule (on the hand I took) includes the trust position and it makes the trustee guarantee the possession they hold . Rule (the Trustworthy person has nothing but swearing) (مکارم شیرازی, 1411هـ.ق) known as Estiman (demanding) (lack of trustee’s guarantee) principle that has been derived from the famous Hadiths (the Trustworthy person has nothing but swearing), (The trustee does not need to provide any guarantee) and (The trustee does not need to provide a guarantee) (نوری م. , 1408هـ.ق) and it means that if the property in the trust is destroyed or becomes defective, the trustee will bear

no responsibility and guarantee. Now, as the trustee is not supposed to provide any guarantee, this will naturally lead to the lack of any guarantee. The requirement of the trust position is the lack of guarantee on the part of the trustee and the guarantee clause contradicts the evidence indicating the lack of guarantee provided by the trustee. Therefore, this clause contradicts the Book and Tradition.

Many Shia jurists, including Allamah Al-Hilli in Ghavaed Al-Ahkam (علامه حلی, 1413هـ.ق, ص. 331-336) and Mohaghegh Karaki in Jame Al-Maghased (کرکی, 1414هـ.ق), consider the guarantee clause to be in conflict with the requirements of the contract.

Mohaghegh Naeini states, The truth of owning a property transfers the loss to the owner and this does not apply to anyone other than the owner. In the commandite contract, the profit is divided among the involved parties according to the ratio determined by them in advance, where the owner alone bears the loss inflicted on the principal. In other words, the loss incurred by the agent is only the waste of its activities. Accordingly, the guarantee clause is null and void not because of opposing the requirements of the property held in trust, but because of opposing the requirements of the ownership as mentioned in the structure of this agreement (صدر, 1414هـ.ق, ص. 195).

Some jurists such as Shahid al Thani believe that the guarantee clause stipulated by the agent in the commandite changes the nature of the commandite contract to that of the loan contract. The guarantee clause of the capital in the commandite makes two features out of the three features of the loan contract be completely realized. The original property is guaranteed by the owner of the capital (third feature). Moreover, the guarantee clause makes the receiver of the capital inflict the capital loss (second feature). Further, the capital is provided to the agent according to the commandite contract, and the agent is entitled to possess and use the capital. Thus, the first feature from among the three features of loaning is realized incompletely. Those who consider the agent's guarantee clause as the factor changing the commandite to a loan believe that the basis of the ownership transfer is the same as transferring the activity's risk and the totality of the right of property possession, first of which is created as a result of the agent's guarantee clause and the second of which is a natural part of the commandite. They believe that other remaining options to be used by the commanditaire such as the right of supervising the agent are not much important and they are considered as the

subdivisions of ownership. Therefore, the agent's guarantee clause changes the nature of the contract to that of a loan, and the owner will no longer have any share of the profit. It is axiomatic that if the owner has a share of the profit of the commandite, this is considered as usury (علوی رضوی, 1388هـ.ش).

The following Shia jurists also believe that the guarantee clause changes the commandite contract into a loan contract: Allamah Al-Helli in Ghavaed Al-ahkam Fi Marefat Al-Halal Va Al-Haram (علامه حلی, 1413هـ.ق, ص. 336); Ibn Idris in Al-Sara'ir Al-Hawi Li Tahrir Al-Fatawi (حلي عجلي, 1410هـ.ق, ص. 409); Hamza ibn 'Alī in Ghaniat Al-Nozo Ela Elmi Al-Osoul Val Forou (زهرة الحلبي, 1375هـ.ش); Ibn Hamzeh in Al Wasila Ela Neyl Al-Fazilah (حمزة, 1408هـ.ق); Muhaqqiq al-Hilli in Mukhtasar Al-Manafeh fi al-Fiqh al-Imamyah (محقق حلی, 1418هـ.ق); Ibn Fahad in Al-Muhazab Al-Bare Fi Sharh Al-Mukhtasar Al-Nafeh (محمد اسدی, 1407هـ.ق); Ṣāḥib Rīyāḍ in Ryadh Almsaa'l Fi Tahghigh Ala'hkam Baldlaa (طباطبائی ا. , 1418هـ.ق); Keydari in Asbah Al-Shia Be Misbah Al-Sharia (کیدری, 1416هـ.ق); Sahib Al-Hadaegh in Al-hdaa'k Alnadhrah Fi A'hkam Ala'trah Altahrah (البحرانی, 1405هـ.ق); Fayz Kashani in Alvafi (فیض کاشانی, 1406هـ.ق); Khansari in Jami' Al-Madarik Fi Sharh Mukhtasar An-Nafi' (خوانساری, 1405هـ.ق); Ameli (Shahid al Thani) in Asalek Alafham Ela Tanqih Sharaye Al-Islam (العاملی, 1913هـ.ق); and Khomeini in Tahrir al-Wasilah (خمینی, 1390هـ.ق).

However, in the commandite contract in Iran's banking, there is an inverse operation. According to the Article 15 of commandite contract, the agent accepted and pledged while signing the reconciliation contract. In the Article 4 of the contract, if any loss is inflicted on the principal provided for the commandite constituting the contents of this contract and on its profit, it will pay for the loss from its own assets as determined by the bank. That is, the agent considers the statement of the bank about the loss valid, and the agent waives no right to find any fault or raise any objections to the bank's decision by signing the contract (پیری یوسف آبادی & چنگیزی راد, 1393هـ.ش).

Some Shia jurists believe that the condition, according to which one party is to incur a greater loss than the other parties, is void; however, the contract is still valid. This is the case because the loss should be incurred by the partners based on the share of the jointly owned property unless one of the partners gratuitously bears the loss (عبیدالله حلبی, 1403هـ.ق).

Mohaghegh-e Khoei expresses his view on the margin of Urwa Al Wuthqa as follows: If it is stipulated as a condition that all loss is to be borne by some particular persons, even though it is not contrary to the requirements of the contract, it is contrary to the tradition of the prophet of Islam, thus the condition renders the contract null and void (طباطبایی یزدی, 1410هـ.ق).

Ayatollah Noori Hamedani states his view on the above condition concerning the compensation of loss as follows: This condition is not valid, and it renders the contract null and void (ملا کریمی, 1392هـ.ش).

Both Sunni and Shia jurists unanimously agree that if the owner of the capital stipulates a fixed and specific share of the capital for himself in the commandite contract, this renders the commandite null and void and changes it into usury, which is forbidden in Islam. Ibn al-Mundhir states, "All Islamic jurists unanimously agree that If one of the parties or both parties of the commandite contract stipulate in the contract to get a certain and fixed sum of money, this renders the commandite null and void (ابن قدامه, 1388هـ.ق, ص. 38). Moreover, it is mentioned in the book "Sharai' al-Islam" that the profit of the commandite should be held in common and if one of the two parties stipulates to get a specific and fixed profit such that all profit not a specific and fixed profit rate is shared among them, this makes the contract of the commandite void since it is not certain whether there would be left extra interest, and the "partnership" is no longer realized in this case (محقق حلی, 1409هـ.ق, ص. 358).

5.5. The of Thinkers and Jurists' Views on Iran's Banking System's On-Account Profit

After understanding the concept and nature of the on-account profit in Iran's riba-free banking system, in this section, the on-account profit is examined based on Islamic thinkers and jurists' views.

1- In the 28th annual Islamic Banking Seminar on the on-account profit, Gholamreza Mesbahi-Moghaddam, a member of Expediency Discernment Council, a member of Iran's parliaments in three terms, the founder and director of the Jurisprudential Committee of Securities and Exchange Organization of Iran, a member of the Currency and Credit Council, and the member and deputy chairman of the jurisdictional council of the Central Bank stated, There is nothing known as on-account

profit neither in Islam nor anywhere worldwide and it should be eliminated from Iran's economy (تابناک, 1396هـ.ش).

He added, The on-account profit is a crisis posed by Iran's banking system because there is nothing known as an on-account profit in the law. The bylaw and instructions created it and it does not exist in the conditions as an integral part of the contract (پژوهشکده پولی و بانکی, 1394هـ.ش).

2- Dr. Toutounchian, a retired professor at Al-Zahra University, the former deputy of Ministery of Economic Affairs and Finance, and one of the group members formulating the Riba-free Banking Operations Law in 1984, mentions, "there is no Islamic bank or Islamic financial institution in Iran. I believe as an economist that Iran's banking system is completely based on usury. For example, the on-account profit has been made juristically sound by only making some changes by individuals making legal problems lawful. The authorities of the country believe that the on-account profit is paid and received while complying with Islamic rules. However, on-account profit functions approve usury (ایکنا, 1399هـ.ش).

In an interview in 2014, Dr. Toutounchian added, "the on-account profit granted by the banks is the same as usury because the bank must identify profit in each of the transactions of the facilities to determine the depositor's profits and then divide the profits among the depositors. It is not possible to cheat religion by simply changing its name, and it is neither possible to keep off individuals from this reality. Suppose when individuals deposit their cash and it is announced that the banks grant on-account profit, this indicates paying usury by banks. When the banks announce that 15% or 20% or a certain profit is given to the depositors, the bank pledges to provide this amount of money, and the payment of such profits by the banks can prepare the grounds for the law breach (علی اکبری, 1393هـ.ش).

3- Hujjat al-Islam Gholamali Masoumi, the director of the Monetary and Financial Committee of Howzeh, a member of Jurisdictional Committee of Securities and Exchange Organization of Iran states, "a type of profit is named as on-account profit in Iran to solve the problem of fixed profits while the on-account profit has no religious justification and it is mentioned in none of the books on Islamic jurisprudence.

He added, "unfortunately, for many years, we have witnessed no change in the on-account profit granted by most of the banks. For example, if the bank acquires a 20%

profit, it must pay the difference between 20% and 15% (i.e., 5%) to the depositor and clear it. However, this is not totally undertaken by banks, and the on-account profit, which should not be a definite profit, is given to the depositor as a definite and fixed profit. This is against the religious rules (تسنیم, 1396هـ.ش).

4- In a letter on the on-account profit written by the Islamic Monetary and Financial Committee of Qom Howzeh for Hujjat al-Islam Hosseinibahreini (the Chairman of Monetary and Banking Committee of Iran's Parliament Commission on Economy, a member of Jurisdictional Council of the Central Bank), it is noted, "the crisis of on-account profit in Iran's banking system has not been solved yet. The correct solution is to completely forbid the payment of on-account profit and determine a substitution (ایکنا, 1398هـ.ش).

5- Ayatollah Javadi Amoli, the former member of the Assembly of Experts for Constitution, a member of Assembly of Experts and the Supreme Judicial Council, one of the religious sources of Shia emulation, and Quran interpreter, as one of the greatest critics of Iran's riba-free banking system, comments on the guaranteed (on-account) profit, "Guaranteeing profit in the bank deposits represents usury. How is it possible for a bank to provide the same profit in all cases (under different conditions in terms of sanctions, economic depression, and inflation), where the fixed profit is 20%, which is an on-account profit paid untill the end of the deposit maturity date (رسا, 1395هـ.ش).

6- The former guardian of the Ministry of Economic Affairs and Finance as the former faculty member of the Economics at Shahid Beheshti University also comments on the on-account profit in a paper entitled "Usury and Iran's Economic Problems," :Upon implementing the Riba-free Banking Operations Law since 1984, even though it was seemingly implemented, and the law framework was somewhat complied with it in official agreements between the banks and customers, determining the on-account profit, which was the least pre-determined guaranteed rate for the long-term deposits, distanced it from Islamic rules as such there was no difference between this banking system and the usury-based banking system. He states that they formulated some courses of action to give on-account profit legally and considered it to be sound in religious terms. We made up a acceptable appearance; however, there is no difference between this banking system and the usury-based banking system (صمصامی, 1388هـ.ش, ص. 113-123).

6. CHAPTER SIX: REVİEW OF THE PERFORMANCE OF RİBA-FREE (RF) BANKİNG SYSTEM İN IRAN İN RESOURCE MOBİLİZATİON AND RELİGİOUS SUPERVİSİON AS WELL AS SOLUTİONS TO IMPROVE THE PERFORMANCE OF THE BANKİNG SYSTEM İN IRAN

6.1. Review of the Performance of the Riba-Free Banking

6.1.1. Unclear Jurisdiction of the Riba-Free Banking Operations

A problems in the laws and regulations of Riba-free banking operations is unclear jurisdiction, regulations, executive instructions, etc. Some of key issues are not discussed in the law, and have been addressed sporadically in the regulations and executive instructions or, even in some cases, in the approvals of the Monetary and Credit Council, leading to a kind of heterogeneity and inconsistency in the set of regulations governing Iran's banking activities. For example, one can point to the divisions of some deposits and on-account profit;[52] the law of Riba-free banking does not provide any divisions to investment deposits. Executive instructions divide it into short-term and long-time deposits, which are then divided into five types of annual, biennial, triennial and quinquennial by the decision of the Monetary and Credit Council. Regarding the lack of such a distinction in the law of Riba-free banking operations and its annexes, there is no clear interpretation on the different profit rates of each deposit type and the only presentable interpretation is the use of a different attorney's fees, the problems of which were discussed in detail. Moreover, despite the fact that on-account profit is not mentioned in the law and its regulations, and it has been addressed in an clause of the executive instructions on the deposit acceptance only for time-investment-deposits and in cases where the deposit period has not expired at the time of auditing the profit and loss statement; by the act of the Monetary and Credit Council, it applies to all deposits and in all circumstances, with consequences that are outside the scope of this

[52] An on-account profit is a part-payment of compensation that is paid by the defendant during litigation to the claimant. The sum can vary significantly and is often used for rehabilitation, putting in place treatment or even to ease financial hardship.

book. In short, in the laws and regulations of the banking system of the Islamic Republic of Iran there is no transparency and clarity in the distribution of profit among investment deposits; and in addition to guaranteeing the principal of deposits, the banking system practically guarantees on-account profit by offering them. Similarly, different profit rates are assigned to different deposits, while the basis of their difference is not announced in advance and there is no clear picture in the calculation (توکلی, 1381هـ.ش, ص. 76).

6.1.2. Compliance of Resource Mobilization with the Law of Riba-Free Banking Operations

In the usurious banking system, depositors receive a fixed and predetermined rate by placing their funds with the bank. In this case, the banking system is at the wheel of intermediating the funds and regardless of the usage type in lending, it must pay a predetermined rate to depositors. In order to avoid this practice, the legislator prohibited setting a specific rate for the depositor in the law of Riba-free banking operations, and in Articles 3, 4, 5, and 6 of the law, it has determined the way of resource mobilization by banking system.

Based on the agreements concluded between the bank and the customer for investment resource mobilization, banks use the attorney relationship in resource mobilization. Although the term "equity sharing"[53] (common share) is not included in the law on Riba-free banking operations, the bank gets power of attorney[54] (POA) from the depositor to use their resources in place of equity sharing. Considering that banks should use time deposits based on the type of contracts in partnership, Mudaraba,[55] leasing, installment transactions, and so on, and share profit in accordance with Article 5 of the Law and the following note to Article 3, it is challenge to use them commonly. Proper implementation of the law requires to precisely specify the deposits have been spent in what fields in order to distribute profit correspondingly. This contradicts with

[53] Equity sharing is another name for shared ownership or co-ownership. It takes one property, more than one owner, and blends them to maximize profit and tax deductions. Typically, the parties find a home and buy it together as co-owners, but sometimes they join to co-own a property one of them already owns.
[54] A power of attorney (POA) or letter of attorney is a written authorization to represent or act on another's behalf in private affairs, business, or some other legal matter.
[55] Mudarabah or "Sharing the profit and loss with venture capital", is a partnership or trust financing contract (similar to western equivalent of General and Limited Partnership) where one partner (rabb-ul-mal or "silent partner"/financier), gives money to another (mudarib or "working partner") for investing in a commercial enterprise.

the principle of using deposits in general equity sharing, which is already common in Iranian banks. The explanation is that the use of people's deposits as an equity sharing is possible in both general and restricted forms. General equity sharing means that the bank generally collects the people's surplus funds and then, on their behalf, apply them entirely in all the projects of their choice without distinction. Just like collecting all the water of different springs in a pool and then diverge it to multiple usages. But in the restricted equity sharing, people have to make a separate deposit for each project at first place and banks are required to allocate funds for each project only for that purpose, and in the end, divide the profit resulting from that particular economic activity only among the depositors of that project. Although the law is silent on the use of funds in the form of general equity sharing, the widespread use of deposited funds has become a tool to cover up bank inefficiencies, because when profits from investment in different projects are aggregated and then divided among the depositors, the bank does not care at all if each and every project is profitable, rather the sum of projects should profitable. Thus, the bank does not select the project carefully. It is also worth mentioning that, since banks basically do not have sufficient expertise in all areas of the economy, such as trade and industry, the negative effects of current resource consumption method in general equity sharing become more obvious.

Based on the existing procedure, according to the contract concluded with the customer, banks use deposits as general equity sharing and pay profit to depositors in form of on-account profit. On this basis, with the idea of preserving their resources and keeping people inclined to have their funds deposited, banks determine some profit for deposits at first place in the form of on-account profit, and pay the depositors based on the amount and duration of the deposit. In this context, it is set out that at the end of each year, the banking system shall calculate the real profit from the bank's activities and if profit is more than on-account profit, they shall pay it to the depositor. And if it is less than the on-account profit, the bank will remit it to the depositors. In practice, on-account profit becomes definite, and the lack of required financial settlement by the bank at the end of the year for determining the real profit -with the exception of recent years- has led to stable and reliable profit to depositors.

Determining a fixed profit rate ensure that depositors receive definite and positive return on investment plans and as a result, depositors get the profit of their deposits despite the way they are distributed and consumed. In these conditions, the

depositor acts as a person who gives some of their funds to the bank as an attorney and receives profit at certain times in proportion to the amount and duration of the deposit. This even contradicts with the power of attorney contract, because the attorney invests the client's funds in the agreed areas and cannot guarantee profit. The attorney only receives attorney's fee and is not obliged to pay at all.

As previously mentioned, in practice, banks offer their clients the guaranteed on-account profit rates, and in most years, the same profit rates of on-account profit are considered definite at the end of the deposit period. Thus, the bank who is the depositors' attorney guarantees the principal deposit and the positive on-account profit in contrast to the requirement of a power of attorney contract. As a result, the depositor behaves exactly the way a depositor does in usurious banks. He leaves his money with the bank for a certain period of time and receives the principal and a specific interest called on-account profit. He does not care his deposited fund is invested in which field or project and he does not and cannot monitor this task. Therefore, one of the most important reasons for failure to implement the law on Riba-free banking operations is determined on-account profit rates (صمصامی, 1388هـ.ش, ص. 121-123).

6.1.3. On-Account Profit Becomes Definite

As previously mentioned, paying on-account profit is not foreseen in the law on Riba-free banking operations. Only an article of the executive instructions for accepting deposits states that on-account profit for long-time investment deposits is allowed in cases where it has not expired at the time of profit and loss audit (at the end of September and March). But since 1990, in order to encourage deposit-making, banks are allowed to pay on-account profit in trimester sections to all deposits in all conditions. From that year onwards, the banking system of the Islamic Republic of Iran announces different on-account profit rates at the beginning of each year for short-term deposits of annual, biannual, triennial and quinquennial and it is supposed to pay the difference between on-account profit and definite profit after the final audit. The following points are important in this regard:

As mentioned in the previous sections, in the banking system of the Islamic Republic of Iran, to assign different profit rates to various types of time investment deposits the only basis that can be used from the law of Riba-free banking operations and its annexes, is accruing different attorney's fees rates for each of the short-term

deposits of annual, biannual, triennial and quinquennial. But as claimed by Iranian banking officials, banks have not received any attorney's fees from depositors since the beginning of the Riba-free banking system. Now, putting these two points together and considering the fact that banks have paid different profit rates to each type of time investment deposits throughout the 36-year implementation period of Riba-free banking system, the only conclusion that can be made is that there is no concrete foundation for determining the profit rate.

For instance, it is unclear how and based on what calculation method, the (definite) profit rates of 8, 14, 15, 16, and 18.5 percent were granted to each short-term deposits of annual, biannual, triennial and quinquennial, respectively. This confirms our claim in the previous paragraphs that there is no criterion for calculating the real profit of deposits, and the same declared on-account profit with little or no change will be announced as the definite profit.

The performance of the banking system of the Islamic Republic of Iran in paying on-account profit is notable. As we saw in the previous chapter, there is not much difference between on-account profit and definite profit, and exactly the same on-account profit has been announced as definite profit. This can evoke the formality of calculating real profit rates, leading to the same point mentioned in the previous discussion about the lack of a real computational basis. In other terms, the small difference between on-account profit rate and definite profit, and also their equality during most years strengthen this theory that on-account profit is merely a coverage to pay the same profit in the form of definite profit. Perhaps paying on-account profit in the form of definite profit could be considered a kind of guarantee for profit on deposits in practice, and if so, the banking system faces the problem of the legitimacy of profit accruing to depositors; because guaranteeing the profit withdraws them from the pledge for a contract and turns them into loans, which results in changing the payable profit into interest. Regardless of the issue of legitimacy, the announcement and payment of profit on deposits in the definite and predetermined way, reduces risk-taking in society and causes serious damage to this valuable investment; because with this process, depositors are sure to receive the announced on-account profit rate, and there is no risk in it. However, this process leads to reduced efficiency (توکلی, 1381هـ.ش, ص. 76-78).

6.1.4. Copetition for Increasing On-Account Profit

With the enactment of the Law on the Establishment of Private Banks in 2000 onwards, especially with the mushrooming of financial-credit institutions and credit cooperatives, more problems arose from on-account profit. New banks and institutions were expected to enter a positive competition for attracting resources, granting facilities, reducing bank costs, and lowering bank profit rates. Instead, they took part in a destructive competition in announcing and applying on-account profit, and by increasing the announced profit rate and the competing in that field, in some cases, they even made producers to shut down their production facilities and transfer the funds to banks and credit institutions to make money at no cost or risk; in view of the fact that producers must bear the costs of capital depreciation, interest expense of money, labor and insurance costs, taxes and tolls, water, electricity, telecommunications and other costs. They also have to bear trade risk, currency risk, interest rate risk, risk of production stop due to equipment failure, and product price fluctuations due to market competition, but depositors in banks do not bear any costs and risks compared with the producers and traders.

The competition of banks for increasing on-account profit rate has reached the point where borrowers receive loans at lower rates from large governmental and non-governmental banks and immediately deposit in credit-financial institutions and banks that pay higher profit rates. This way, without having significant capital and only by borrowing, such borrowers earn a lot each year. Owners of large funds enter into negotiations and bargaining with bank managers, board members and other officials to get a higher interest rate which will enormously increase their wealth in banks and financial-credit institutions; while banks are suffering from a lack of liquidity. Thereby, in some cases, bank managers surrender to their demand for increased on-account profit rates in order to attract these resources their banks.

High on-account profit rates bring many advantages for owners of large funds, because they earn a lot without bearing costs and risks, and consume part of the profit for monthly and annual costs of living and add the remaining profit to their large liquidity, making deposits. The statistics of about the last ten years show that 80% of the resources deposited with the banks belong to 2% of the depositors (مصباحی مقدم, 1397هـ.ش, ص. 124-126).

6.1.5. Problem with Calculating Real Profit in the Iranian Banking System

As stated in previous chapters, in the Islamic banking system, the bank is counted as its depositor lawyer and it should invest for the benefit of its client and return the profit received from the facilities to the investor after deducting its power of attorney fee. However, all Iranian banks receive profit on transactions in the form of on-account profit, the real profit has not been calculated and paid due to the problems ahead, but the payable on-account profit is declared by the Central Bank as the definite profit.

Considering the financial and accounting characteristics and procedures for resource mobilization and the Riba-free banking model, here we try to identify and present the obstacles and problems in identifying the real profit of transactions and paying definite profit to depositors.

- Problems arising from accounting practices

Basis for identifying and recording the financial effects of transactions, financial operations and events in the current accounting of for-profit institutions is an accrual basis; this means that the effects of transactions are recognized at the time of their occurrence, regardless of whether it is accompanied by payment or receipt of cash. Accounting experts believe that the utilization of accruals provides information about the assets, liabilities, capital, and components of the profit that better demonstrates the financial status of a for-profit unit in comparison with presenting information related to cash receipts and payments of different periods.

Within the framework of accounting standards, the concept of "accrual of income and expenses" is one of the basic concepts of preparing financial statements. Reviewing the methods used in recording and identifying the income of banking transactions in the form of Islamic contracts in the Iranian banking system and comparing it with international accounting standards shows that one of the main problems in calculating the definite profit is the accounting basis applied in banks.

Legally and in accordance with existing instructions, the bank costs are generally recognized as accruals, but there is no single procedure for income. However, the Central Bank of the Islamic Republic of Iran, in Circular No. MB/722 dated 2005-7-18 on the recognition of the income of Islamic contracts has declared the accrual method as the basis for the operation of banks and financial institutions. But due to the generality of

the accrual method and the existing myriads of ambiguities and also the lack of a single instruction for the accounting unit of Islamic contracts founded on this method, each of the Iranian banks and financial institutions, according to their requirements and conclusions, record the profits of Islamic transactions in their books and financial statements, which seems extremely doubtful.

On the other hand, considering that in the aforementioned circular, the Auditing Organization was introduced as the accountable authority to resolve the ambiguities of how to execute the approval, and this organization has also instructed the banks to identify and record the profit of all Islamic contracts (both participatory and non-participatory) in a daily basis. In addition to the administration problems of this method, such identification and recording of transaction incomes, regardless of the nature of the contracts or based on the internal estimates of each bank seems wrong. Due to these reasons, banks have problems in identifying the real profit of transactions and, consequently, the payable profit to depositors.

It is noteworthy to mention that in this regard, an authority called the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) has developed and published accounting and auditing standards for Islamic banks and financial institutions.

The financial accounting Statement No. 2 of this organization titled financial accounting concepts for Islamic banks and financial institutions reads: If income can be identified (measured), the accrual method should be executed. Accordingly, it requires banks to identify income as follows:

- The basic principle of income identification is that it should be identified after realization and this happens in the following conditions:

1. Banks must have gained the right to receive income. This means that the monetization process must be complete or half-complete. The completion point of the monetization process may vary with different types of income. For example, the monetization process for the sale of goods is completed only at the time of their delivery, and the monetization process for the income from renting the bank's assets to other people is completed with the passage of time.

2. The obligation to pay a fixed or determinable number by the bank must be made by the contracting party.

3. The amount of income must be clear and there must be relative assurance that it will be received or has already been received. In addition, all banks are required to identify income in the earned period and record it in the bank's financial statements.

As it is required by the FAS3 and FAS4 standards issued by AAOIFI, regarding contracts that last more than one financial period, the share of Islamic banks' profit from incomes (which a part or all of the amount takes place due to the settlement) for each financial period, it must be identified up to the maximum amount of income. The method of recognizing income according to the current standards of Islamic banks for various contracts is as follows:

1. Musharaka[56] (Civil Partnership): According to the FAS4 standard issued by AAOIFI, the bank's share in the capital of partnership (in cash or non-cash) is identifiable at the time of payment to the partner or when the payment is paid to the partner as stated in the contract. In reference to contracts lasting less than one year, the bank's share of the profits and losses of the partnership contract is identified at the time of realization. For contracts with more than one year, the share of profit is identified at the time of "announcement". The share of losses in each period is identified by deducting those losses from the share of the partnership capital and is based on the capital ratio.

2. Mudaraba:[57] According to the FAS3 standard issued by AAOIFI, the bank's share of Mudaraba capital (in cash or non-cash) is identifiable at the time of payment to the partner or when it is prepared to pay the partner pursuant to the contract. In the case of contracts lasting less than one year, the bank's share of the profits and losses of the Mudaraba contract is identified at the time of realization. For contracts lasting more than one year, the share of profit is identified at the time of the 'announcement'. The share of losses in each period can be identified by deducting those losses from the share of Mudaraba capital, and it is based on the capital ratio (ناصری & باقری, 1393هـ.ش).

[56] Musharakah is a joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise.
[57] The term 'Mudaraba' has been derived from one of the meanings of the Arabic word which means 'Travel'. Thus the word 'Mudaraba' means 'Travel' for undertaking business. Mudaraba is a partnership in profit whereby one party provides capital and the other party provides skill and labor.

6.2. Religious Supervision in the Iranian Banking System

Iran is one of the countries in which the Riba-free banking law was approved and all credit institutions operate based on this method and conventional banking does not execute. On the other hand, the largest banks of the Islamic world are located in this country, but the legality of banking operations is not supervised as expected and after more than 3 decades from approval of the law on Riba-free banking operations, some of the scholars, elites and the general public are still skeptical about the full conformity of banking activities with Islamic teachings.

In Iran, after the enactment of the law on Riba-free banking operations in 1983, no institution, organization or department has committed itself to pursuing and monitoring the proper implementation of the law. Although the law on Riba-free banking was silent on full religious supervision and practically has not provided any measures to monitor the proper implementation of the law; but in recent years, the banking officials has focused on the need for religious supervision over the performance of banks and credit institutions. Thus, in 2004, a council called the Islamic Banking and Finance Advisory Council was formed in the Monetary and Banking Research Institute of the Central Bank. This council, which consist of Fiqh[58] (jurisprudential), economic and banking experts, discussed the issues and doubts raised in the field of Riba-free banking and presented proposals to correct the current situation. After about 2 years of activity, it was transferred to the Deputy Minister of Banking of the Ministry of Economy and Finance, and with a more coherent combination, examined the problems and obstacles of implementing the Riba-free banking. This process continued until after the managerial changes in the Central Bank and in 2009, a council was formed in the Central Bank called the Islamic Jurisprudential Council of the Central Bank of the Islamic Republic of Iran. This council, which is composed of jurisprudential, economic and banking experts, works in the field of monitoring the compliance of the proposed new tools with the religious standards. Regarding the performance of this council, it can be said that since this council has a consultative nature and has no official and legal position in the organizational structure of the Central Bank, changes in the management of the Central Bank in recent years have had numerous effects on the council meetings

[58] Fiqh is Islamic jurisprudence. Fiqh is often described as the human understanding of the sharia, that is human understanding of the divine Islamic law as revealed in the Quran and the Sunnah.

or their frequency or form. For example, if the chairman or deputies believe more in Islamic banking discussions, the meetings of the Islamic jurisprudential council will be held more regularly, and vice versa. Apparently this adversely affects the performance of the jurisprudential council of the Central Bank.

The religious supervision in the Iranian banking system has special features:

1. Banks and financial institutions are not required to establish a jurisprudential committee.

2. The Islamic Jurisprudential Council of the Central Bank, as the supreme jurisprudential authority in the field of Islamic banking, has no legal status but had only consultative authority.

3. There are no rules on religious supervision.

4. No departments within the Central Bank or other banks is held responsible for the contracts used in the institution, or the correct understanding of the contract parties in the bank regarding the nature of what they are signing, all of which are among the most basic assumptions for the correct implementation of the law on Riba-free banking operations in Iran.

With respect to these points, it can be claimed that the current model of religious supervision in Iran is at a low level, which is not appropriate at all for a country like Iran in which all banking operations must be Riba-free, given that each bank has thousands of branches in different cities and villages (موسویان & میسمی, 1393هـ.ش).

6.2.1. Evaluation and Analysis of the Experience of Religious Supervision in Some Islamic Countries

Examining the experience of religious supervision and minimizing its risk at the international level suggests that most Islamic banks and institutions operating in other countries have dealt with this issue in various ways, such as specialized jurisprudential council, jurisprudential council, religious council, religious committee, etc.

Reviewing the experience of other countries in the field of religious supervision towards the performance of Islamic financial institutions clearly exhibits that there are many differences between countries regarding religious supervision. The following table

summarizes the main similarities and differences of religious supervision in different countries in seven general areas (میسمی, موسویان, عبدالهی, & امرالهی, 1391هـ.ش).

Tablo 8: Similarities and differences between religious supervision in different countries

Country name	Level of religious supervision	Authority of religious supervisors of banks	Authority of authority religious observers	Authority for selecting members of the religious board	Compulsory or optional	Supreme authority for resolving disputes between members of jurisprudential committees	Existence of a single law
Saudi Arabia	Financial institutions	-	Consultative, supervisory and administrative	General assembly of a financial institution	Optional	Banking disputes committee (affiliated to the central bank)	Yes
Malaysia	The central bank and financial institutions	Consultative, supervisory and administrative	Consultative, supervisory and administrative	Board of directors of the financial institution with the approval of the religious board of the central bank	Compulsory	National religious consultative council (affiliated with the central bank)	No
Indonesia	The central bank and financial institutions	Consultative, supervisory and administrative	Consultative, supervisory and administrative	Board of directors of the financial institution with the approval of the religious board of the central bank	Compulsory	Religious finance board (affiliated to the central bank)	Yes

Bahrain	The central bank and financial institutions	Consultative, supervisory and administrative	Consultative, supervisory	Board of directors of the financial institution with the approval of the religious board of the central bank	Compulsory	National religious consultative board (affiliated to the central bank)	Yes
Emirates	Ministry of justice (government) and financial institutions	Consultative, supervisory and administrative	Consultative, supervisory and administrative	Board of directors or general assembly, with the approval of the religious board of the ministry of justice	Compulsory	Supreme religious authority (affiliated to the ministry of justice)	Yes
Kuwait	Financial institutions	Consultative, supervisory and administrative	-	General assembly	Compulsory	Fatwa committee (affiliated to the ministry of endowments)	Yes
Qatar	Financial institutions	Consultative, supervisory and administrative	-	Board of directors or general assembly	Compulsory	Supreme religious council (affiliated to the ministry of endowments)	Yes
United kingdom	Financial institutions	Consultative, supervisory	-	Board of directors or general assembly	Optional	-	No
IRAN	Central bank	-		-	-	-	No

Source: (میسمی, موسویان, عبدالهی, & امرالهی, 1391هـ.ش, ص. 74-75).

6.2.2. Consequences of a Lack of Religious Supervision

Looking at the experience in the administration of Riba-free banking in Iran for more than 36 years reveals that there are some challenges, problems and non-compliance of religion in the activities of banks and financial institutions has somewhat led to the convergence and similarity of the Riba-free banking system in Iran with the usurious banking system. In other words, the Islamic banking system in Iran in some cases has quasi-usurious performance, which is not in compliance neither with Islamic standards in the field of economics and finance, nor with conventional economic and financial standards. In fact, due to the lack of necessary process and institutional requirements for the implementation of Riba-free banking, and some shortcomings in the law, this law failed to make changes in the banking system, and the banks should mainly carry out their past activities formally in the form of Islamic contracts. Here, by focusing on the standard contracts and accounting rules of banks, the most important problems, which are mainly rooted in the lack of religious supervision over the banking network, are addressed.

6.2.2.1. Non-Compliance of Banks with POA Requirments and Acting like Owners with the POA Assets

Banks' investment deposits are based on a POA contract, not a loan agreement. However, to date, due to the issuance of standard financial statements by the Central Bank and a lack of proper accounting methods, these deposits are treated exactly like loan deposits, and the principal and profit of this group of deposits are recorded in the bank column-in the balance sheet-and as a part of capital expenditures.

Banks are attorneys of depositors in time investment deposits to pay their deposits in an equity sharing basis with the bank's resources in the form of facilities and investments, and to split up the depositors' share of the yielded profits after deducting the bank's POA fee among the depositors. Thereby, the bank cannot guarantee a predetermined amount as the profit for any depositor. In fact, announcement and payment of the amount of on-account profit means that the definite profit is calculated at the end of the period and the difference between the two is settled or paid. Therefore, if the definite profit of the bank is not calculated or the difference between definite profit

and on-account profit is not settled or paid, both the amount of the difference, which remains with the bank and the amounts paid as on-account profit will be uncertain.

In such situations, banks should compete for decreasing the POA rate and increasing the definite profit rate paid in the previous period; but we rarely see such competition, and there are a limited number of institutions that announce or advertise the POA fees and definite profit paid in the previous period. In fact, while abusing on-account profit rates, banks compete for these rates, and unfortunately, in numerous cases, these rates are regarded definite and serve as a basis for settlement. This evidence suggests that banks in practice do not act as depositors' lawyers, but they consider themselves as the owners of deposits and pay profit rates to depositors as the cost of attracting deposits, not on the basis of the real profit earned on the use of deposits. In fact, the appearance of this action is similar to usury between the depositor and the bank, and the banks compete for interest rates, which are referred to as on-account profit rates.

6.2.2.2. **De-Contenting of Participatory Contracts and Teir Formal Use**

Participatory contracts are part of Islamic contracts that are based on the participation of the bank with facility receiver in the profit (loss) of the activity, and for this reason, they have a higher risk compared to the normal activity of the banks. If banks would like to manage this risk properly, they must inevitably monitor and control the selection of plans and their progress to the operation and post-operation stages with the help of experienced experts. And this is naturally impossible for banks due to their limited expertise and the lack of specialized consulting institutions for evaluation of plans and the high number of projects, and severely increases the costs of their credit operations. On the other hand, the applicants of facilities may intend to deceive the bank and involve it in the possible loss of their risky project; as a result, entering into a participatory agreement is not possible or desirable for the bank. Thus, although partnership contracts may be the primary subject of a banking contract, banks anticipate minimum expected profit at the time of concluding the contract and demand it from the customer on the due date, which itself contradicts the requirements of participatory agreements.

Changes in the nature of participatory contracts is also reflected in their agreements; for example, according to Article 8 of the Mudaraba Agreement (Circular No. 94/249601 of the Central Bank, dated 2015-11-23), the agent is obliged to guarantee

the principal of Mudaraba capital. Also, according to Articles 10,11, and 12 of this contract, in case of non-payment of funds at the due date or violating the provisions of the contract, the agent will be obliged to pay the mandatory fund of delaying the payment or the losses at the rate of 6% in addition to the expected profit rate specified in Article 6 of the contract.

On the other hand, there are several jurisprudential problems in the sample contract of Musharaka contracts (Circular No. 92/206546 of the Central Bank dated 2013-10-3), the set of which has led to de-contenting of these contracts. By improper use of the contract of settlement, the banks completely destroy the rights defined in the Islamic contracts for the facilities receivers; in such a way that both the bank and the customer from the beginning of the transaction are sure that the participation is not real and the borrower will have to deliver a certain rate to the bank. For example, Article 1 of this agreement reads:

By signing this agreement, the partner is obliged to manage resources and expenditures of the participation subject in such a way that at the end of the period, the participation share of the bank/credit institution in addition to the profit expressed on the subject of the participation announced by the partner, contained in the facilities application form dated... would be paid to the bank/credit institution. Otherwise, the partner is required and obliged to settle the share of the bank/credit institution in addition to the profit expressed in the subject of participation and losses incurred by the bank/credit institution, and pay from his own property.

In fact, according to this article, the partner has guaranteed the principal and profit of Musharaka, which is in contrast with the requirements of the participatory contract (روحانی & بنی طبا, 1396هـ.ش).

6.3. Solutions to Improve the Performance of Riba-Free Banking System in Iran

6.3.1. Elimination of On-Account Profit

In most countries, there is no on-account profit in Islamic banking, but the realized profit is distributed among the depositors after deducting the bank's POA fee. Often this profit is higher than the interest rates which usurious banks pay to their

depositors; it is usually higher than the inflation rate in those countries; while in Iran, despite on-account profit rate, its opposite usually occurs.

To reform the banking system, on-account profit must be eliminated. However, this does not mean that profit is not paid to depositors. In fact, at the end of each fiscal year, the bank/credit institution calculates the profit and loss by performing an audit. And whatever profit is realized, after deducting the share of the bank's own resources and the POA fee for the deposited funds, the remaining profit is distributed between all deposits in proportion to their amount and duration. Therefore, there is no need to declare on-account profit to attract customer resources. By increasing their efficiency, banks and credit institutions must also demonstrate their capabilities and create the necessary attraction for customers by paying higher realized profit.

Of course, depositors must be assured that real profit will be credited to their accounts without any deduction, and that the Central Bank, as the supervisor of banks' operations, will assure the public that it will closely monitor banks and their performance and distribution of profits. If this method is followed for a year, depositors will feel more confident and given that the banking system is the safest market for people's deposits and its risk is small compared to other markets, people prefer to keep making deposits in banks.

With the elimination of on-account profit, the phenomenon of "money price" in Riba-free banking will not be realized and the excuse for banks to compete in increasing facilities disappears and the profit in the "money market" will be a function of the profit in the market of goods and services.

Due to the elimination of on-account profit, banks and credit institutions will not have to impose predetermined profit on the production sector and create money costs for producers. In this case, one of the production costs, which is the cost of money, is deducted from the production costs list, and the final cost of goods and services in the real market will be lower than current prices, and the competitiveness of domestic producers increases compared to foreign ones. Thus, the elimination of the price of money will benefit the productive sector and somewhat prevents the diversion of banks' resources to the non-productive sector.

If on-account profit is removed from banks and credit institutions, the strong desire of the non-government public sector for establishing banks and credit institutions

will decrease, because the main reason for this unprincipled action is the high and risk-free income of the banks and credit financial institutions from the phenomenon of money profit. By eliminating this phenomenon, the motivation for establishment of such banks and credit institutions will decrease, and the banking tasks will be entrusted to banks with higher specialized capacities and skills in providing banking services (مصباحی مقدم, 1397هـ.ش, ص. 137-139).

Before applying deposits, the Islamic Bank of Jordan announces two ratios of equity sharing, one for distribution of profit between the bank and the depositor (POA fee) and the other for distribution of profit between depositors. This clarifies the problems of the banking system, facilitates banking activities and is also effective in gaining the trust of religious people, so it seems that this procedure can be explored instead of paying on-account profit in the Iranian banking system (تقی‌زاده, 1391هـ.ش, ص. 78).

6.3.2. Liberalization of Banking Profit Rates

As mentioned before, from the of Islamic teachings point of view, the best way for pricing is to follow the market price as well as supply and demand. Most economists also believe that if competition exists in the field of economic activities, and there are no ground for monopoly, hoarding and collusion, the best way for achieving balanced rates is to liberalize rates and economical institutions so that prices balance at the best level due to the activity of supply and demand factors. Also if competition exists in the banking sector, the best decision is to leave the banks free to determine profit on deposits and facilities (موسویان, 1387هـ.ش, ص. 24).

Rahmatinia (1394هـ.ش), for his dissertation entitled “Designing a model for determining the optimal bank profit rate in the Iranian banking system” distributed a questionnaire between the faculty members of Mofid University, Allameh Tabatabai University, Monetary and Banking Research Institute and the members of the Board of Directors of Refah Bank and its heads of departments. The analysis obtained from this questionnaire shows that about 75% of the respondents agree with the liberalization of bank profit rates, and nearly 55% believe that setting the profit rate by the Monetary and Credit Council could not bring justice to the three bank-related groups (depositors, facilities applicants, shareholders).

Liberalization has three major effects on the economy of countries:

A. It increases the amount of investment and economic growth.
B. It reduces the gap between investment demand and savings supply (excess investment demand) and eliminates the economic rent created in the financial system, and most importantly, it boosts the informal money market and narrows the distance of profit rates in the two markets.
C. It leads to the optimal allocation of society's limited resources. As real profit rate increases, low-return investment activities are eliminated and average investment efficiency increases. According to this model, in developing countries, increasing real profit rate increases savings, investment, and economic growth, and at the end moves towards balanced real profit rates (محققنیا, دهقان دهنوی, & رحمتینیا, 1395هـ.ش, ص. 111).

6.3.3. Model Proposed to Strengthen Religious Supervision in the Iranian Banking System

Given above, it can be argued that although the Islamic Republic of Iran is one of the few countries in which the law on Riba-free banking has been approved, all institutions are operating on the basis of Islamic banking and the conventional banking does not execute in this country. However, religious supervision does not play an important role compared to other countries. In fact, based on the seven sections presented above, Iran has the weakest model of religious supervision compared to all the studied countries (even compared to non-Islamic countries like the United Kingdom); a model in which no financial institutions have a jurisprudential council with a specific legal position. Also, the jurisprudential committee of the Central Bank does not have a specific legal position in this model and has only advisory powers, and there is no law related to religious supervision.

Considering this issue and given the necessity of full implementation of Islamic economy and banking in Islamic countries like Iran, it seems necessary to develop a comprehensive model using the experience of other countries in order to ensure religious supervision in the Riba-free banking system in Iran. However, it should be noted that the religious supervision model is not expected to be developed abruptly in the Iranian banking system, but it should be developed step by step with proper planning, serious efforts of the Central Bank and the cooperation of financial institutions.

According to the experiences and analyzes presented in the previous sections, the following implementation model for development of religious supervision system in Riba-free banking in Iran is presented for three periods of short-term, medium-term and long-term:

A. Short-term (next year):

It is suggested that in the short term, the religious supervision working group (supervision on the implementation of the Riba-free banking law) is formed in the Banks and Credit Institutions Supervision Department of the Central Bank and is integrated with the jurisprudential council of the Central Bank. It is necessary to determine the exact position of this working group. In short-term, it is better to consider only the advisory or at max supervisory task for it, which is considered the supreme jurisprudential authority in this field of banking. It is also possible to include the issue of religious supervision in the headings of annual policy-supervisory package of the Iranian banking network, which are approved each year by the Monetary and Credit Council and are communicated by the Central Bank.

B. Midterm (2-4 years)

It is proposed that in the midterm the administrative authority is assigned to the religious supervision working group of the Central Bank. For this purpose, it is necessary to form units under the religious supervision working group to act as their administrative arms. It is also suggested that all banks and financial institutions operating in Iran are given the authority to form a jurisprudential committees in their institutions (if desired). However, in the midterm, only advisory and supervisory (and not administrative) powers ought to be assigned to these committees. In addition, the Central Bank should compile instructions for the establishment and operation of jurisprudential committees and must exactly specify the criteria for their establishment and operation (including tasks, powers, selection method, duration of activity, etc.). It is desirable for the Central Bank to provide suitable incentives for institutions that establish jurisprudential committees.

C. Long-term (4-6 years)

It is suggested that in the long-term, all banks and financial institutions are required to form jurisprudential committees under the supervision of the Religious Supervision Working Group of the Central Bank. In addition to advisory and supervisory

powers, administrative tasks should also be assigned to the committees operating in the central branches of various banks in a way that they have the right to prevent the implementation of processes, contracts and relationships that are not religious and legal. The Central Bank should continuously modify the religious supervision instructions. In addition, it is desirable that the Religious Supervision Working Group of the Central Bank compiles the "Islamic Banking Index" by defining specific and measurable components (for instance, the correctness of contracts applied in the institution), and announce it annually for all banks and banking institutions. This index, which can vary in the range of zero to 100, reflects the degree of observance of Islamic laws by financial institutions. Requiring institutions to present this index to the public paves the way for competition between financial institutions to strengthen their Islamic performance in order to attract more customers (میسمی, موسویان, عبدالهی, & امرالهی, 1391هـ.ش, ص. 78-80).

CONCLUSION

Riba was the most common method of saving among the Arabs before the arrival of Islam. Riba was the most common method of saving among the Arabs before the arrival of Islam. According to the Arabs' opinion, riba was the best method to handle their savings because the usurer did not have to bear the nuisance of traveling and transporting goods for trade. As a result, they made a profit without these hardships. At the arrival of Islam, people were immersed in ignorance and the dirt of riba so much that there was no place forbidding it. Hence, Islam, by its method, in situations where the pollution is remarkable, first alerts, then takes action to warn more severely and then expresses explicit prohibition and comprehensive forbiddance to fully spread God's command and making it firm and rooted. Islam, based on establishing ethical virtues and setting the principles of fairness and equity, by prohibiting riba and forbidding this inequitable act, has encouraged Muslims to trade, mercy, compassion, and help their fellow human beings. Holy Qur'an and the Sunnah of the Prophet, has explicitly forbidden riba and mentioned it as the greatest sins and promised severe punishment for those who commit to it. Accordingly, the jurists have proved the forbiddance of receiving an excessive amount in transactions by referring to the verses and narrations plus relying on the consensus. Not only is riba a problem for humanity concerning faith, ethics, and intuition toward living, but also a problem for the real nature of economic and practical life, so that riba diminishes production, raises unemployment, poverty, financial crises, and inflation.

The phenomenon of risk is one of the key-features of forming a decision in the realm of investment, financial markets' related affairs, and several types of economic activities. Islamic finance risk has also been of exceptional importance. Both renowned jurisprudential rules "Al-Kharaj bi Al-Dhiman" and "Min Lah Al-Ghanam Fiealayh Al-Gharam" in Islamic tax are on the principles of risk basis. From the two aforementioned jurisprudential rules, it is followed that the outcome obtained from an asset is intrinsically associated with the extent of susceptibility against the potential loss of that asset. Islamic fiscal jurisprudence has employed the word risk in two senses of permissible and forbidden. In the former, risk means bearing the results of investment concerning profit and loss or bearing the outcome of experimental or multiplicative exercises in terms of profit and loss. And in the later, risk means vanity and gambling.

If we define risk as to the potentiality of loss, then from the perspective of Islam, it will be unsatisfactory. The principles of Islam pray for the conservation and expansion of wealth. Wealth exposition cannot be a goal on its own. If we define risk as to the potentiality of loss, then from the perspective of Islam, it will be unsatisfactory. The principles of Islam pray for the conservation and expansion of wealth. Wealth exposition cannot be a goal on its own. The value of any financial decision is not fundamentally due to its risk-taking nature, but because of the wealth it creates.

Since risk in financial institutions is a potential loss that comes directly from income and capital losses or indirectly from restraints decreasing the bank's capacity to realize its business and fiscal purposes. So, the life of the banking industry, according to the nature of banking activities, relies on accepting the risk, so that avoiding it is impossible but it can only be managed. Consequently, some measures should be taken into account for controlling the risk yielded from the economic activities accomplished by banks. Various behaviors in the two systems of riba-free banking and conventional will have quite a distinct effect on both financial performance and its result. Within conventional banking, the profit rate of deposits is final, and banks transfer the risk to the borrower. However, in riba-free banking, banks must perform following determined frameworks designated by the law to accept and allocate resources. The problem of risk management in riba-free banking is doubly important because, concerning the participatory system in it, enhancing the capability of banks will not solely make them profit-making but will also grow public welfare owing to profit and loss sharing.

The bank is an intermediary receiving people's deposits and grants them to applicants. In Islam, the duties of banks can be comparable to other systems, on the condition that, firstly, they do not contradict divine commands and orders; Secondly, it should be socially agreeable with the interests of the community and should not receive harm. Thirdly, work and activity hold a service feature. According to the above reasons, interest cannot have a place in Islamic banking laws and operations, but it is probable to use Islamic agreements and deals.

There are deep-felt inequalities amid the Islamic banking system and conventional banking. The most important and evident variation is in courses of structure. The conventional system depends on interest, but Islamic banking follows profit and loss sharing, it means the most conspicuous distinctive trait in an Islamic

system is that banks participate in potential profit and loss. In the conventional system, the bank is merely an intermediary. But in the Islamic system, the role of the bank is beyond being a lawyer. These discrepancies make the end of the two systems separate; In the conventional banking, the object is to maximize profits, but in the Islamic system, the intention is to attain fiscal justice and evenhanded distribution of income.

In the Islamic banking system, since receiving facilities takes place in the form of contracts and economic transactions, the increase in money supply happens simultaneously with the enhance in production. So, there is no general level of prices or inflation like the capital system. Supervision exists in the Islamic system at all stages (certainty of the plan's profitability, spending way, and the credit return). Despite supervision at all stages in the Islamic Bank, credits are not granted according to the financial capacity and collateral of the facility applicant, but it is based on the outcome of the project. The Islamic banking system is firm because the depositors share in profits and losses during recession and prosperity. Also, in this banking system, in financial action, all of them either earn or lose. Because of the distribution of profits and possible losses among producers and owners of capital, the sharpness of economic vacillations has reduced, and due to high employment and equitable distribution of earnings, demanding as a whole is more enduring.

Setting price is forbidden in Islam on normal conditions based on hadiths and the consensus of jurists. However, in critical situations, such as hoarding of goods, be of losses and hardships in the life of people, and the entry of oppressing them, some people are allowed to do it.

Although by the arrival of Islam, the Islamic economy came into existence, modern Islamic banking has little background in the realm of banking throughout the world. But with this limited experience, it has been capable of spreading in most Islamic and non-Islamic countries so that Islamic banking wealth is more than $ 1.57 trillion. Countries such as Iran, Sudan, and Pakistan have administered Islamic banking in their entire country's banking system so much that conventional banking possesses no spot in these countries. Conversely, in other Islamic countries, both banking systems operate together. Islamic banking in Iran began functioning in 1983 with the enactment of the law on riba-free banking. Islamic banking in Iran began functioning in 1983 with the enactment of the law on riba-free banking. The dominant spirit of the law on riba-free

banking is the substantiation of a monetary and credit system according to fairness and equity to improve the proper flow of money and credit. The most notable point of this law is turning the system of supplying and allocating resources and including partnership and exchange agreements, and excluding interest from the banking system plus succeeding profit rates. In accordance with this law, transactions must get done pursuant to Islamic contracts and methods, and the bank is the attorney of the depositor. After 36 years of this law administration, regardless of persevering its appearance as well as its framework in banking and customer agreements, setting on-account profit rates, the least pre-determined guarantee rate for time deposits, has functionally led some critics, banking scientists, jurists, and the public to suspect the authenticity of this profit calling it the interest.

On-account profit is the price that the bank pays before the completion of banking operations, and can be paid to the owners of the capital at periods of three months, six months, nine months, and one year. The truth is that in the text of the law on riba-free banking operations, within the realm of supplying resources, no permission is granted to pay the guaranteed or the on-account profit; The first legal text which utilized the phrase "on-account" is Article 21 of the Administration manual, enacted by the Monetary and Credit Council. The mentioned instruction does not appoint paying the on-account profit rate for all depositors; This instruction is simply for opening the cases where the time maturity arrives before the bank's fiscal session, and the depositor necessitates the refund of his capital and profit.

In the country's economic system, profit rates of banks are one of the chief variables, and determining the accurate rate has a meaningful effect on other economic quarters. Other countries' banks assign profit rates themselves, and the central bank designates its profit rates and bonds, while in Iran, the central bank specifies the banks' profit rates. This intervention of the central bank has caused the passivity of banks in making decisions and managing risk. Also, it has led to fiscal suppression, rent-seeking, and lack of facilities and optimal resource allocation.

In the Law of Riba-free Banking and its concerns, the interpreted profits get distributed between the depositor and the bank, even though it is not apparent whether these benefits mean profit or income. Although in the administrative manual the benefits are interpreted as interest since the bank's power of attorney can cover the costs of

utilizing the funds, this is not compatible with the description of benefits as interest; Because profit is nothing but the balance between the income and expenditures of applying the deposits and resources of the bank. Besides, it is not explicit why the expenses of employing the deposits should be included in the attorney's fee? None of the articles of the law on Riba-free Banking and its additions render a bright understanding of how diverse profit rates practice to short-term deposits of annual to quinquennial, and the single interpretable description is the rates and prices of attorney fees. Now, if the bank does not take POA, there will be no foundation for assigning different real profit rates, and on account of receiving POA, this question surfaces up that whether banks as lawyers can use the deposits with the unidentified POA? If not declaring POA and determining it in the advance lead to the resolution of the POA to the amount that it directs us to the same announced on-account profit rates? By adding this point that, according to the banking officials of the country, banks have not obtained POA fees since the beginning, the brought up-problem in case of paying different real profit rates for each type of investment deposit will get complete. Consequently, there is no legal foundation for distributing different final profit rates to each of the annual to quinquennial short-term deposits, and the same interest gets announced as a final on-account profit with little or no difference.

For converting the on-account profit into interest, it is sufficient to console the depositor that the amount he has earned as on-account profit is certain. Because the primal difference between interest and profit is the element of confidence absence. If the depositor becomes assured that the on-account profit will not be refunded from him, even though the investment operations yields no real profit, then the on-account profit will function exactly like the interest rate. Putting it differently, if the uncertainty trait is taken from the on-account profit, the duality of interest and on-account profit will become integrated.

The contrast between on-account profit and final of the bank deposits during 1990-2018 reveals that in most years the on-account profit rate was the same and banks paid merely the least collected profit to depositors. However, the on-account profit rate has not altered in various sequential years, while the inflation rate has been inconstant in all years. It also designates the scarcity of a computational foundation for determining the genuine income on a deposit. It may be likely to recognize paying the on-account profit in the form of final as a guaranteeing the profit of deposits in practice. However,

in this trend, the Iranian banking system faces a problem which is the illegitimacy of profit accruals to depositors, because guaranteeing the profit draws deposits out of their current status and turn them into debt.

Examining the central bank participation bonds proves that these bonds encounter challenges, the most prominent of which is the absence of distinction between final and on-account profit. According to Table 6, the distinction between the final and the on-account profit of the Central Bank participation bonds during 2001-2014 has been zero in all the years, which makes it suspicious.

The dilemma of the law on riba-free banking operations, its regulations, and the administrative manual have stopped it from addressing structural issues in the law and directing it sporadically in the regulations and administrative manual and, in some cases, the enactment of the Monetary and Credit Council. For instance, the Riba-free Banking Law does not render any division of investment deposits but shares the regulations and the administrative manual into short-term and long-term deposits. Following that, the long-term deposits get divided by the Monetary and Credit Council into five types of annual, biannual, triannual, quadrennial, and quinquennial.

Competition for increasing on-account profit to draw depositors has approached a spot where banks are struggling with each other by declaring high-on-account profit rates. It has led borrowers to acquire facilities from the government and non-government banks at lower rates and to make deposits instantly in credit financial institutions plus higher-profit banks. This itself admits a large share of capital to go to the unproductive quarter of the economy.

In most Islamic and some non-Islamic countries, the Islamic banking system gains benefits from the services of a religious oversight entity at several levels and under diverse titles such as the Sharia Board, the Sharia Council, and the Sharia Committee, for the proper administration of Islamic banking. In the Iranian banking system, the absence of such institutions appears to furnish grounds for religious doubts about financial and financial activities at the national, territorial, and international levels. Thus, in the Iranian banking system, setting and institutionalizing such organizations, in addition to other advantages, also magnifies the picture and state of the banking system at the international level.

Since the substantial foundation of Islamic banking is participation in the profit and loss of the project, so paying the least guaranteed profit (on-account) to bank deposits and participation bonds is doubtful. Accordingly, on-account profit should get eliminated. Then, at the end of the financial year, banks should assess the profit and loss by auditing and dividing all the realized profit after deducting the POA and the bank's share amongst the depositors.

Other Islamic countries' experiences, whether in paying the bank profit or in religious supervision, can be highly beneficial, so that the Iranian banking system can use these models to improve banking obliterate to eradicate the suspicion of the ribavi banking system from the minds of critics and the public.

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