
Impact of Riba Based transactions on the Socio-Economic system of Pakistan

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Abstract

Riba-based transactions can have detrimental socioeconomic effects on Pakistani society. The aggravation of wealth disparity is one of the main effects. When Riba is used in financial transactions, it frequently creates a situation where the rich class uses Riba to increase their wealth while the less fortunate struggle to break free from a debt cycle. This leads to social discontent and economic inequality by growing the gap between the affluent and the poor. Riba can also impede economic growth by deterring investment in profitable industries. Rather of allocating capital to entrepreneurial endeavors that foster economic expansion, the focus on Riba-based gains promotes speculative and unprofitable financial activity. This might hinder the nation's overall economic growth, which would have an impact on people's quality of life and keep the most vulnerable members of society trapped in a cycle of poverty. Moreover Riba-based transactions, can have several negative impacts on the society of Pakistan. One of the primary consequences is the exacerbation of economic inequality. Riba often leads to the concentration of wealth in the hands of a few, widening the gap between the rich and the poor. This unequal distribution of resources can result in social unrest, as disenfranchised segments of the population struggle to meet their basic needs. Additionally, Riba-based transactions can hinder economic growth by discouraging investment and entrepreneurship. Many potential entrepreneurs, particularly those with limited resources, may find it challenging to access financing under Riba-based systems. This can stifle innovation and impede the development of small and medium-sized enterprises, hindering the overall progress of the society. Moreover, the reliance on Riba may contribute to a financial system that prioritizes short-term gains over long-term sustainability, potentially leading to economic instability and crises.

Keywords: Riba, Socio-Economics, Pakistan, interest, Qur'an, Sunnah

1 Introduction

The term 'Social-Economics/ Socio-Economics', generally refer to the 'use of economics in the study of society. More specifically, contemporary practices that consider the behavioral interactions of individuals and groups through social relationship for the sake of dealing effectively through social markets that will help create social values of the market.¹ Hence we can conclude its definition in these words:

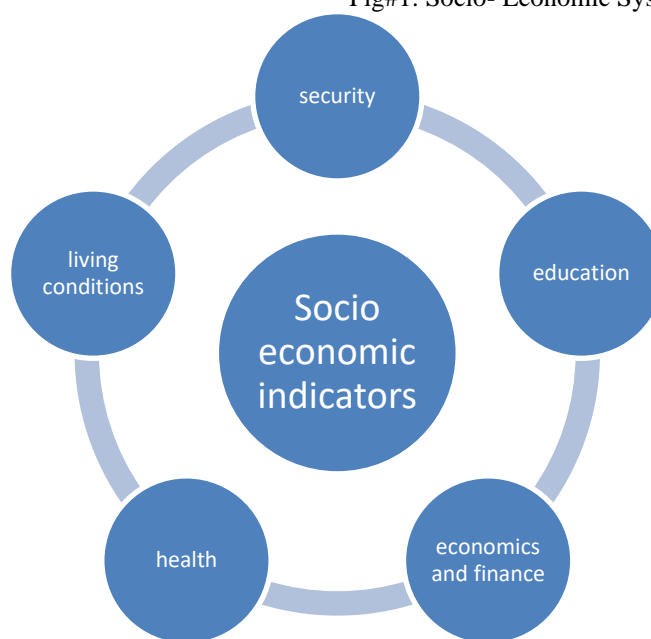
"It is a discipline, studying the reciprocal relationship between economic sciences on the one hand and social philosophy, ethics, and human dignity on the other toward social reconstruction and improvement"²

Another in-depth definition of socio-economics is as follows

"It is used to refer to several different fields of study. The phrase social economics can be used to refer broadly to the use of economics in the study of society. More specifically, modern practice takes into account the development of social norms³ as well as behavioral interactions of people and groups through social capital⁴ and social markets (not excluding, for example, sorting by marriage). In terms of how economics and social values interact".⁵

Some of the main shares that indicates the socio-economic condition of a country is gauged are showed in the diagram:

Fig#1: Socio- Economic System



Riba-based transactions have had a big influence on Pakistan's socio-economic situation. Income inequality has been made worse by the predominance of interest-based financial systems, which have led to the concentration of wealth among a select few. High interest rates impede economic growth at the local level by burdening small firms and individuals

with inadequate financial resources. Furthermore, depending too much on interest-bearing loans can result in debt cycles that imprison disadvantaged groups of people in an ongoing fight for financial security. Additionally, *Riba* is viewed as being at odds with Islamic law, which has an impact on the financial choices made by people and companies who follow Islamic banking guidelines. It's imperative to address the issues raised by *Riba* in order to promote a more just and long-lasting socioeconomic environment in Pakistan.

Riba involved in the financial markets is one of the last nails in the coffin which makes a society more vulnerable in terms of moral devaluation and slowly falling towards a trap of bankruptcy due to the non-payments of the Riba based loans.. It works more in a way to affect the societies badly in its indirect approach; it has the ability to ruin well off and advancing societies without shedding blood or creating any sort of war arena. Meaning thereby its users are never aware about its negative financial impact, they have to face at the end.

Literally *Ribā* stand for an increase or addition. Technically speaking: it is an increase of amount that has no corresponding consideration which has been stipulated in favor of one of the two parties, in a contract of exchange.⁶

This definition implicates that *Ribā* will always constitutes an increase in amount and the increase in amount is without any risk. So the beneficiary will always be a single party and it will be a contract of exchange between at least two parties. Talking about its prohibition; it is evident in *Qur'an* and *Sunnah* both. The verdict against the transaction of *ribā* mentioned in the *Qur'anic* revelations is gradual which means it was not prohibited at a single strike. The sequence from the beginning till the final verdict shows that Almighty communicated the issue with his believers a way of letting them know its harms and history and then once the message had been conveyed in its full spirit, it was casted out from its roots and declared as a prohibited act not to be engaged in any manner or form within the society of the Muslims living under the code of *Sharī'ah*. This sequential flow starts with the first revelation revealed in the fifth years before *Hijrah* :

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 multipliers⁷.

Here the focus is only at its literal meaning i-e increase in wealth. It's a mere comparison between zakat and Interest. The second verse was revealed in the early age of the *madani* period and a little bit of more emphasis:

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.⁸

This verse talks about the previous condition of the interest as it was prohibited on Jews but they didn't abstain and committed a grave sin. The third revelation was after *ghazwa* of *Uhud*:

O you, who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.⁹

This verse explicitly disapproves interest as a mode of finance. In the next verse Allah says:

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.¹⁰

The verses is in response to the non-believers argument who took the verdict for granted and keep on ridiculing it as they were doing it before by stating that there isn't any difference between trade and interest. Allah took notice of their behavior and reconfirmed His final verdict against *ribā* once again. This made the Believers faith more strengthen and questioned about the awkward position of the non-believers. The final ayah is as follows:

O you, who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged.¹¹

Here in this verse Allah declares *ribā* as an act of violence. Believers must abstain from it and keep on believing it as a grave sin. The one who is involved in it is no more in the lines of believers. He has no option but to repent from his heinous act of non-believing. This verse especially takes Muslims into account and beholds them to stay away from it. Other else they will be declared as enemies of Allah and his messengers. They will never prosperous and never seek glory. Their fate will be decided as losers. So it's important for Muslims that their society must be clean from the evil of *ribā*, just like other acts of grave sins like intake of vine, consuming dead meat or pig and so on and so forth.

Moreover *ribā* is a main source creating contentions between the parties. It is because of the nature of this transaction that things never get settled there and then rather it all depends upon the future outcome of the events. Therefore comparing it with other modes of finance is faulty and brings no purpose. It is a general belief that most of the society is risk averse and wills not to go for a risky job or business and show weakness. The shrewd facilitators of interest based transactions usually take advantage of this attitude which creates weakness in the financial system in which all the opportunities must be open for all on the basis of just rules of business and person who agrees upon the terms of the interest based transaction actually tends to look for a wrong risk mitigating tool. This situation is faith disturbing where a person is only eager about self-well-being and let go other at the harm's way. Anyway if someone is indulged into a *ribā* transaction and wants to revert back so that he may presume an upright position of a true

belief; he is not only welcomed back but also he has full authority and right to claim his capital money back.

Prohibition of *ribā* transaction is more evident in *Sunnah*. The prophet (peace be upon Him) explicitly void the transaction of *ribā* and said at the last *hajj* sermon of that:

“Beware; all *ribā* outstanding from the *ribā* prevalent during the pre-Islamic era is void. You are entitled to your principal money. Neither shall you oppress nor shall you be oppressed. Beware the first claim of *ribā* which I cancel is that of my Uncle.”¹²

He said:

From Jabir, who said: “the messenger of Allah (peace be upon Him) cursed the one who charges *ribā*, he who gives it, the one who records it and the two witnesses; saying that: they are all equal”.¹³

Contents of *ribā* involving in transactions are more thoroughly discussed in *Sunnah* than Qur’anic text. A thorough study of these sayings lets us know different aspect of *ribā* transaction. According to the study of text as per *sunnah* is concerned *Ribā* is divided into two main categories. The first one is related to the Qu’anic text; *ribā* in the transactions of debt. All the above quoted verses are related to the conditions of *ribā* at the time of ignorance. This kind is also known as *ribā al jahiliyyah*. Mainly three forms of *ribā* were practiced at the pre-Islamic period in the Arabian society. Firstly at the time of advancing the loan; the Arabs use to stipulate an extra amount of money over and above the capital advanced for the loan. This money is expected to be returned with the capital money. Abu bakr Jassas ponders light on the topic:

“This *ribā* which was known to and practiced was that they used to advance loan in the form of dirham and dinar for the fixed term with an agreed excess over and above the amount of loan”.¹⁴

The second form of *ribā al jahilliyah* was that the stipulated amount fixed over and above the loan was to be paid every month. At the time of expiry of the contract the principal amount was returned in full. If the debtor didn’t give back the principal money as per the contract; the contract was again renewed by increasing the payable amount and the time of the contract.

The third form of *ribā al jahiliyyah* was by selling the certain commodity on the basis of deferred amount payment. At the time of expiry if the debtor didn’t successfully paid the debt amount the contract was renewed by increasing the amount and the time period of the contract. *Suyuti* depict the picture in his words:

They use to purchase the commodity on the basis of deferred payment then on the date of maturity the seller use to increase the amount due in lieu of further delay.¹⁵

The second type of *ribā* is revealed in *Sunnah*. This type is related to the sale transactions. It is more complicated and covers other market based mall practices in this regard. This is again divided into two basic categories. *Ribā al fadl* and *ribā al nasa*.

Ribā Al fadl:

الرِّبَا نَوْعَانِ رَبًّا الْفَضْلَ وَرَبًّا النَّسَاءَ فَالْأَوَّلُ هُوَ فَضْلُ عَيْنِ مَالٍ عَلَى الْمَعْيَارِ الشَّرْعِيِّ وَهُوَ الْكَيْلُ وَالْوَزْنُ عِنْدَ اتِّحَادِ الْجِنْسِ وَالثَّانِي هُوَ فَضْلُ الْحُلُولِ عَلَى الْأَجْلِ وَفَضْلُ الْعَيْنِ عَلَى الدَّيْنِ فِي الْمَكِيلِينَ وَالْمُوزُونِينَ عِنْدَ اخْتِلَافِ الْجِنْسِ أَوْ فِي غَيْرِ الْمَكِيلِينَ وَغَيْرِ الْمُوزُونِينَ عِنْدَ اتِّحَادِ الْجِنْسِ وَعِلَّةُ رَبِّ الْفَضْلِ هِيَ الْقَدْرُ الْمُتَّفَقُ مَعَ الْجِنْسِ أَعْنِي الْكَيْلُ فِي الْمَكِيلَاتِ وَالْوَزْنُ فِي الْأَثْمَانِ وَالْمَثْمَنَاتِ وَعِلَّةُ رَبِّ النَّسَاءِ هِيَ وَجُودُ أَحَدٍ وَصَفِي عِلَّةُ رَبِّ الْفَضْلِ وَهِيَ الْكَيْلُ فِي الْمَكِيلَاتِ أَوْ الْوَزْنُ الْمُتَّفَقُ أَعْنِي أَنْ يَكُونَ ثَمْنِينَ أَوْ مِثْمِينَ لِأَنَّ وَزْنَ الثَّمَنِ يُخَالَفُ وَزْنَ الثَّمَنِ وَهَذَا عِنْدَنَا وَعِنْدَ الشَّافِعِيِّ رَبًّا الْفَضْلَ هُوَ الْفَضْلُ الْمَطْلُوقُ مِنْ حَيْثُ الدَّاتُ أَوْ حُرْمَةُ بَيْعِ الْمَطْعُومِ بِجِنْسِهِ ثُمَّ التَّسَاوِي فِي الْمَعْيَارِ الشَّرْعِيِّ مَعَ الْيَدِ مَخْلُصٌ عَنِ هَذِهِ الْحُرْمَةِ بِطَرِيقِ الرُّخْصَةِ.¹⁶

it is an increase by way of excess stipulated in one of the two counter values, in transaction of exchange. Technically speaking it is unequal exchange of two commodities of the same ingredient or kind as exchange of wheat with wheat.¹⁷

Unequal exchange of values can be in weight or measure of capacity or count. This means that it is a homogenous exchange of good with an increase from one side with respect to weight and measurement. Example is wheat /grain of 5kg with an exchange of 6kg wheat/grain. Six basic items are explicitly mentioned in two *Ahadith* of the prophet (peace be upon Him). The Prophet (peace be upon Him) said:

From Abu Saeed al-Khudhari, who said: “the messenger of Allah said: Do not sell gold for gold except when it is like for like; nor misappropriate one through the other; nor sell silver for silver except like for like; nor misappropriate one through the other, nor sell things that are absent for those that are present.”¹⁸

In another Hadith Prophet said:

from Ubadah Ibn Samit who said. The Messenger of Allah said : “Gold for gold , Silver for Silver, Wheat for Wheat, barley for barley, dates for dates, salt for salt, like for like , in equal weights, from hand to hand. If those species differ, then sell as you like as long as it is from hand to hand”.¹⁹

The two *ahadith* implicate some different versions of *ribā* which looks different from the one mentioned in the Quran that also prevail in the financial market. It covers all those transactions of same genus where sale isn't equal from both the sides; moreover the transaction is commenced on the basis of spot or deferred payment. It also covers the transactions of identical goods where weight/measured is disturbed in a spot or deferred payment. In a case of *ribā* which was heard at Supreme Court of Pakistan the verdict was given. According to the verdict a barter transaction between two different weighable or measureable commodities when delivered from only one side is deferred.²⁰

The rationale is the basis of the prohibition of *ribā al -fadl* and has a very meaningful impact over a faithful society. It is to safe guard the benefits of the party with less experience, knowledge or ignorance; that may get tested by the other parties whom through their experience, influence and knowledge may exploit the former. Hence, the lawgiver as a savior safeguarded the interest by eliminating injustice by making sure that the

exchange should be equal on both the side. Another aspect is to safe guard the interest of the public by eliminating different sorts of social crime, As an unequal exchange of the same commodity which may give birth to social crimes like monopoly, hoarding for the sake of abnormal profits. For instance, a rich man can hoard dates for the upcoming crises and when the crises of shortage is at peak he not only sales the date on higher prices rather can control the quality of it as well which means he is in the position to sell inferior dates on the price of superior dates making the price all-time high.

Another rationale for eliminating *ribā-fadl* is to make sure that the commodity as a medium of exchange is money. This stipulation helps the economy to promote an intermediate act of money as a medium of exchange. In a hadith the prophet (peace be upon him) instructed Bilal (may allah be pleased with him) to sell measure of dates for money and after he completion of the sale, purchase superior ones with that money.

Ribā al-Nasa(delay) : it is an increase due to the delay in time which means it is an increase of another condition of the transaction based in the *ribā al fadl*. Hence *ribā al-Nasa* takes place when articles of same genera or different genera measured or weighted, are exchanged with deferment on one side, even if the excess of any sort isn't observed, the transaction will tantamount to *ribā al-Nasa*. Hence it is because of the delay in the completion of the transaction. Thus, 5kg of silver is exchanged with the 5kg of gold or silver with a stipulation of extra time of a year or so. This extra period of delay is not acceptable for the same reasons mentioned in *ribā al-fadl*.

Six items of sale in the above hadith are explicitly mentioned that may fall in the category of *Ribā al fadl*, if the principles of exchange are ignored. They are Gold, silver, wheat, barley, dates and salt. Question arises here that are these commodities subject to law or other commodities also come into range due to underlying cause *illah*. Jurists of all the sects have gathered on the unanimous opinion that the restriction just doesn't imply on the six mentioned commodities in the hadith rather the *Hukm* is extendable on the other commodities that resembles the six commodities with regard to the *illah*. The general resembling maybe on the basis; the *illah* should be plain and consistent so that the meaningful analogy takes place; same *illah* must appear on both the sides of the elements of analogy, Object (*far'a*) and subject (*asal*); the analogy must be general and not specified to a single case.

Keeping these general unanimous opinions in view that describes the attributes of underlying cause, jurists have showed their analogy based on the six commodities mentioned in the above Hadith.

Hanafi jurists: if the underlying cause is not based on similarity i-e similar weight and measure; if the similarity isn't observed, in a event of hand to hand transaction *ribā al-fadl* will take place. Classical example is exchange of iron with cotton. According to this analogy, it does on run with

any transaction that is based on count because it is neither weighted nor measured. Classical example is eggs, oranges, mangoes etc.

Shafi Jurists: the underlying cause for gold and silver is based on their currency-value (*thamaniyyah*) and for rest edible items i-e for wheat, barley, dates and salt is food-value (*tu'm*). Hence compatibility of items is only observed if the underlying cause is similar. For example *ribā* will only run in the event of exchange between the two vegetables of the same kind if the other conditions of exchange aren't fulfilled.

Maliki jurists: the underlying cause is currency value and storage capacity/ hoarding. According to *Maliki analogy* only runs in the non-perishable goods i-e gold and silver. The four remaining items, it can be stored for a reasonable time without perishing. Hence for edibles like vegetables; transaction with respect to hand on hand maybe delayed because of their perishability. This means any non-perishable item have the tendency to become currency for exchange. Imam Malik says:

“If the people of an age make currency out of the skin of camel and that become prevalent among the people. I view its exchange with gold or silver with delay unlawful.”²¹

This implicates that homogenous exchange of currency should fulfill the demand of equality in quantity and prompt delivery from either sides. This isn't in the case in heterogeneous exchange say dollars with rupees; here equality isn't required. However delay or deferment in delivery may lead to *ribā al-Nasa*.

The term Economy is Greek in origin which conveys the meaning of *management of the Households expenditures*.²² This makes sense as economy of any country is just like managing a household like taking decision for the sake of allocating domestic duties, expenditure and making choices between the available commodities. Similarly economics refers to a specific aspect of human behavior; an attempt for the optimal use of scarce resources to meet your needs which, by contrast, are numerous and unlimited.

Hence in an Islamic framework, the Socio-Economic outcomes will be relatively different from the capitalistic or socialist financial norms. For example, Riba bearing transactions in the markets of an Islamic ideological country like Pakistan is against its Social norms. The Socio-Economic System will always be the one that is parallel to the social Norms and values of the Country. This is the main reason that the Socio-Economic system of the country should be based on the *Sharī'ah* law which is the main source of our social values and norm. Hence only a *Sharī'ah* backed economic system will be the most efficient Socio-Economic system of the country if applied in full letter and spirit.

2 Inflation arising from the circular debt affect the consistent rise in the price level of the essential items

It must be noticed here that circular debts carry high amount of Riba payable by the Government of Pakistan because of the delay in the payment of the outstanding bills. Usually these debts are cleared by the financing the loans by the attainment of Riba based loans through the scheduled commercial banks. The reporting agency confirms that the circular debt, or the total amount of money the government owes to power producers and fuel suppliers, reached Rs 2.6 trillion by the end of October 2023, putting Pakistan's power sector in dire financial straits.

“So much so the power consumers have paid the stunning cost of Rs19.2 billion as Riba rate on the loan borrowed by the power sector,” reveals the latest official documents on the power sector. The power joint secretary also confirmed the figure of the circular debt of Rs977 billion saying that the government is all set to borrow more loans of Rs80 billion from commercial banks to lay off some arrears of IPPs and some of the Pakistan State Oil”.²³

Talking about the total circular position of the country, the reports confirm that the circular debt, or the total amount of money the government owes to power producers and fuel suppliers, reached Rs 2.6 trillion by the end of October 2023, putting Pakistan's power sector in dire financial straits.²⁴

This form of debt is the payment that the government has to clear it yearly due to the nonpayment of the bills to the Public sector companies; mostly the electricity based companies which are mostly arranged out of the budget facilities, acquired on the basis of high rate of Riba. The inefficiency of these public sectors have cost us over the years in the form of circular debts that is considered to be a question mark over the performance of the whole system that is basically responsible to look after even micro issues that may cost even an extra penny as it is a burden over the weak economic system of Pakistan. This loss is always incurred by the new governments in the form of losses incurred by these public sectors organizations that never bother to settle themselves by justifying their expenses in the light of their income. For this reason special loans are arranged out of the way to at least let these public organizations some breathing space and operate until they may be able to overcome their losses. But this formula didn't really work at all as these organizations are smart enough to hold other responsible of their bad governance and always manipulate their position for the extra finance budget they need for their business to run on the same parameters due to which they will again confront the same situation in the coming fiscal year. According to the media sources the government plans to arrange another loan facility to the power sector in this regard; a worth loan 1.44 billion dollars. The sources confirm that only power sectors have incurred losses up to or more than 10 billion dollars this fiscal year 2018-2019; especially due to late payments. Independent power producers (IPPs) have cautioned the

government about the situation and showed their fuming attitude due to the late payment to the power sector; especially by the public sectors who are responsible for the whole unrest. If the situation isn't defused by the government representatives especially revision of the unjust agreements signed at the time of their instalment of the facility, the same financial crises will revert back every year. These IPPs are selling the energy on very unrealistic terms that are not practiced elsewhere in the world. This show casual approach of or public sector which is based on their non-professional behavior; intentionally or unintentionally. Both the ways they are answerable to the authorities because of the fact that the funds they allocate in certain projects that are aimed to benefit the socio- economic system of the society are on the very first place considered to be as trust.²⁵

These loans incurred by the government of Pakistan are not free. A stipulated increased amount of Riba is added in the total loan which is on the first place impermissible in the court of Lawgiver as it clearly include Riba over and above the loan facility acquired for a certain time period. The justification for accruing such loan is told to be the greater Riba of the nation. This can be a case of *Maslaha* (the greater public Riba).

It must not be forgotten that the loan we incur from the foreign loaning agencies are basically returnable that were acquired in foreign currency mostly dollars which is again subject to the increase due to the speculative nature of the exchange rate which is again out of the control of the regulatory authorities as it is the market behavior that will decide the value of money. This escalating amount of foreign payable debts has always burdened the fiscal and monetary policies of the state bank of Pakistan. This implies another Ribbing fact these loaning agencies because of their stake in our economy are always in control of the financial policies implement by the concerned authorities of the country in an indirect way which are always in consultation with these agencies especially IMF. There isn't any way that we can get out this trap so easily. The only way to overcome the problem is to stop taking those loans and manage our infrastructural weakness in the financial system of the country.

The question arise here is that these loans taken by the government of Pakistan for the payments of the circular debts acceptable as a religious need *Dharorah* (necessity)? Truly the answer is no, because the genuine reason behind the circular debts is the mismanagement of the public sector companies. These companies have to show first their full zeal and effort to overcome their weakness and only then there may be a provision of availing of a temporary loan only to help out the public sector companies settle their financial issue with a guarantee that in future they will run their organization on the basis of their original capacity. By overcoming its weaknesses it's clearly meant that it should realize its gap between the profit and loss, resolve its mismanagement issue, introduce austerity measures to lessen their expanses and make their business activity more affectively and more

profitable so that in future they don't have to rely on the external assistance. Say for example in the case of line losses incurred by the WAPDA, SNGPL and other public sector is an internal weakness that must be stopped with the help of the authorities in a given time frame and if they succeed to do that they may avail the required amount of money to pay their circular debts.

Projects like the generation of a low cost energy that were inevitable to be installed on time were always neglected although their importance in the regional or national development can never be denied shows again the incapability of the government organization in this regard. The problem of the allocation of funds which always remained a bone of contention between the federation and the provinces was addressed when the historic resolution of 18th amendment passed dated: 8th of April. Some of the key public sectors as health and education Agriculture became the prime responsibility of the provinces of the state of Pakistan. Moreover collection of the revenues became a provincial subject. Everyone welcome the change and thought the fruits of the democracy will now reach to the lower middle and the ultimate lower class of the country but time showed that it was just another useless ordinance. The Public sectors that are financed by the federation fall short of the funds after this amendment and also didn't welcome the change and due to the short of funds the government were again compelled to take Riba based big loans from the foreign agencies of the world and the financial position of the country became worsen day by day. On the other hand Federation is also striving hard in maintaining fiscal and monetary policy of the country due to less sources of income and high rates of return of the loans from the loaning agencies is compelling it to cut the budget of the development, forfeiting the provided subsidies and finally adding on a new burden of taxes, especially on the consumable items. The devaluation of the rupee against the dollar has also added up payment pressure to the loaning agencies and is considered to be the main catalyst in a disproportionate increase of inflation which is again a form of Riba that the public has to pay due to the devaluation of the money.

Hence the resulting situation arising from the problem is disturbing the society in every way possible. It is becoming a constant challenge for the government to run its state business with harmony. In fact, it is biggest hurdle for the state machinery to reach its destiny making Pakistan a welfare state.

3 Negative relation of Riba payment with expenditure on the social capital which is directly analogous to the welfare of society: Due to an increasing loan payment pressure over the economy of Pakistan, its social infrastructure is in a bad state, and this has a significant impact on every Pakistani living there. Electricity outages and inadequate access to clean water and sanitary facilities affect everyone. Additionally, as the population grows, so do our problems. Poor infrastructure is a struggle that the Pakistani government and people must fight, and it appears that they are winning.

For a nation to sustain and accelerate economic growth and social development, its infrastructure must be improved and expanded. For Pakistan's economy and to improve quality of life, it is essential to improve the quality and coverage of services in the areas of transportation, logistics, power, water supply, and sewage treatment.

According to estimates, Pakistan loses between 4 and 6 percent of its GDP, or roughly \$6 billion. Our products' production costs are increased by around 30% as a result of logistical difficulties. This has a big effect because Pakistan is up against fierce competition in the export markets from countries like China and India. Pakistan has significant requirements for infrastructure expansion and improvement but few resources to meet those demands. In addition to having little room for additional spending, the public sector is ill-equipped to construct and maintain infrastructure. The public sector cannot spare resources for infrastructure development due to tight fiscal indicators like the fiscal deficit of 4.2%, the trade deficit of almost \$10 billion, and the current account deficit of 4.4% of GDP. Given that the economy is expanding on average by 7% annually, infrastructure investment must account for 7% to 9% of GDP.²⁶

4. Increase in Debt Servicing to GDP ratio causes adverse impact over the society due to less expenditure on the development projects: Because of historical events that are rife with instances of approximate debt overhangs, rescheduling of foreign loans, and current account deficits, Pakistan has always faced a formidable problem servicing its external obligations. Although the country temporarily enjoyed a break from the onerous payback obligations thanks to the postponement or restructuring of loan arrangements, the ensuing costs hindered economic growth. The average Pakistani citizen's standard of living is steadily declining. Pakistan's domestic and foreign debt payments are taking money away from spending on development because of rising unemployment and inflation.

.It is important to note that the public debt is just reaching its peak of \$500 per person. High levels of public debt, in particular the presence of numerous equilibrium states where investors view debt as dangerous and, by requiring a risk premium and raise the fiscal burden and effectively make debt riskier to payback.²⁷

All the above mentions financial problems are deriving the decision making forces to cut the development projects and compromise on the life style of the people of the country.

5- Higher Riba Rate

Due to the monetary tightened policies practiced in Pakistan, the rate of Riba is on the higher side. At current point of time the rate lending rate is 7% (plus KIBOR).²⁸ This has affected the growth factor of the private sector and its expansion as well. Hence, Instead of giving importance to the Riba rate in their economic policies, more focus should be on the increase per

capita income, national spending, and improve working conditions in their countries to increase saving. For this reason, SBP should also try to lower the lending rate and inflation, increase trade for the sake of inward remittances to increase investment.

According to the Asian Development Bank figures, the GDP growth of the economy of Pakistan is shown up to 2%.²⁹ Hence if we want to boost our economic growth indicator, we must encourage the Profit Sharing modes of Islamic Finance in true letter and spirit.

6- Concentration of Wealth: The Banking sector has a very strict screening criteria for awarding loans, it largely focuses on the corporate sectors, which it perceives more reliable when it comes to the guarantee for the return of the loan. This criterion of awarding loans has damaged the SMEs growth. As a result the business is flourishing in a limited manner. This has a very serious implication over the society as it encourages the curtail to set price on a higher ceiling and providing less benefits to the grass root level.

7- Less Job creation: Job creation in the market has always been a problem for the nation. Our economy is not flourishing at a speed it is required to excel rather our population is growing at a very high pace. According to the latest statistics, Pakistan is one of the poorest countries in the world, and has one of the highest population growth rates in the world at around 3.0% annually. For more than two decades, the average woman in Pakistan has given birth to more than 6 children.³⁰ While the unemployment rate in Pakistan is gadding to 5%. According to the ministry of finance, Before COVID-19, the working population was 55.74 million. This number dropped to 35.04 million indicating that people either lost their jobs or were unable to work. As a result of wise government decisions, the working population has reached 52.56 million as of October 2020.³¹ The gap can only be filled if we make policies that are more realistic and less superficial. Currently, The International Labour Organisation (ILO) predicts 5.6 million unemployed people in Pakistan this year, up 1.5 million from 2021, indicating the country's labour market has not fully recovered from the Covid-19 outbreak and economic crisis. This projection aligns with the IMF's predicted unemployment rate of 8.5% in 2023, up from 6.2% in 2021. The study also suggests that women's unemployment rate may rise to 11.1%.³²

8-Declination of Foreign Direct Investment: Due to the constant pressure over the economy of Pakistan has cumulated the loss in the form of declination in the Foreign Direct investment of the country. According to the sources, Foreign investment in various sectors of the Pakistani economy such as energy, telecommunications, financial business, oil and gas production declined by 40% to \$167.6 million in March 2021.³³ As for now the reports confirm that Foreign Direct Investment (FDI) fell by 25% in the fiscal year 2022–2023 as compared to the year before, a notable decrease in foreign investment as a result of persistent economic uncertainty.

Data from the State Bank of Pakistan, which was made public on Tuesday, shows that from July to June 2023, Pakistan received \$1.456 billion in foreign direct investment (FDI). This amount is \$480 million less than the \$1.936 billion received in the previous fiscal year (FY22). In addition, foreign direct investment (FDI) decreased by 58% annually to \$114 million in June 2023 from \$271 million in June 2022.³⁴

9- Import led economy of the country: Pakistan has one of the main issues that its imports are always greater than its exports. Due to this problem, most of our economic indicators like current account, trade account, FDI and alike are showing a constant indication toward negative side. Hence if we want to improve our economy, we need to balance out our expenditures by putting out economy back on track. This can only be achieved by improving the condition of the trade related to the private sector which is constantly facing pressure from the outer world in term of competition. Hence *Riba* rate shouldn't be the gauge to measure the growth of economy rather realistic approach should be propagated through adopting the *Sharī'ah* Led economic Indicators which are clear from the speculation. According to Pakistan Bureau of Statistic:

“Based on the provisional figures of imports and exports the balance of trade in March, 2021 was 514,199 million in terms of Rupees and 3,295 million in US dollars. The balance of trade figures cumulative from July - March, 2020-2021 were 3,360,416 million in terms of Rupees and 20,831 million in US dollars. 14. Four statements giving quantity and value details of selected commodities of exports and imports for the month of March, 2021 and July – March, 2020 - 2021 along-with the data for previous month and corresponding period of last year are enclosed.”

Hence, the only way to revive the economy is to revive the Private sector of the state. Until and unless the GOP doesn't own it, the problem may go on to the extent, the revival may be impossible. As for now the reports confirm that throughout all four quarters of FY2022, the country's terms of trade trend has been negative due to an increase in the import price index above the export price index. FY2022 saw the largest overall negative percentage shift in terms of trade (-21.47%).³⁵

10- Social and financial distress in the Society: Keeping in view the above discussion, when all the economic indicators are showing a downward impact due to the higher *Riba* rates; it creates a negative sentiment all over the financial market where over all business efficiency is disturbed and people show negative attitude toward the market by not investing into it. This signal of no confidence over the market triggers an impact over the economy as a whole and the market activities slows down to an extent, it discourages the consumer behavior to stay alert from any possible loss in the income and feel insecure. Hence the private businesses suffer a lot under this pressure created by the regulating institution

11- Agents responsible for the Riba based transaction in financial dealings

There are many deterrents that are responsible for the Riba-Based transaction such as:

- **Undocumented economy:** in our daily businesses we need loans to cop up the problem of financing. Unfortunately the banking sector with its strict compliance, doesn't offer much to the society. However there are many illegal private loaning agencies that are accommodating the needy with a *Riba* based loans with high rate of interest. All of the above is possible due to the fact that our economy isn't documented. We have a very big chunk of informal economy.

Our country has a history of undocumented economy which has proved to be a headache for the regulatory authorities. Moreover due to less efficient ways to control undocumented transactions like *hundi* or *havalah* in which *Riba Al Fadl* is involved, we get deprived from the precious taxable income. On the other hand our labor class specially living in the middle east countries are always questioning the higher levels of taxes paid in case if they use a proper taxable channel. This income is a barely livelihood of their family members that are 100% dependent over them. However, the whole scenario case multi problem issues that the state has to face.

- **Weakness in the Law implementation:** Private loaning organizations work in a form of web for the sake of getting influentially stronger day by day. These local loaning communities are good in their business because of the fact that they are well aware of weaknesses of the law enforcement agencies. Moreover it is also supported under the law providing agencies like local Police stations working in a behavior locally known as the "typical Thana Culture" who work for these local loaning agencies for recovering of their loans in form of agreements that gives the authority to the lender over the lendee to confiscate his belongings in case of non-payment of the *Riba* based debts.
- Local businessmen who face genuine problems due to the financial crises like locally based working farmers having a very limited income, fishermen, Rickshaw drivers, crafts worker, technicians, field workers, seasonal work of harvesting or ginning or husking, and many others sorts of laymen services happening all over the cities are just like bonded labor because of their reliance on informal loans for money to complete their life circle of feeding, clothing and other human needs to be fulfilled there and then that these influential private moneylender provide them. Moreover failure in the field of crop cultivation, unexpected financial losses from natural or man-made disasters, sudden health problems in the family or any other calamity make these people in an impassable network of lenders who claim more than a pound of

meat from victims of the borrowers; The stories of Munshi Prem Chand are key evidences to learn about the social role of moneylenders in the subcontinent, noted that lenders have been in our cities and villages for generations.³⁶

- ***Mistrust between the locals and government organization:*** Due to the higher level of mistrust between the government organizations and business entities/ NGOs / local level financial activities orienteers, people more rely on doing their financial activities through undocumented ways as described above. They are more comfortable in doing their daily routine business through cash. This is again a way letting someone not giving access to its financial information which again becomes a question mark for the government organizations about how and where this undocumented chain of transaction is initiated. No one knows if it's used for the betterment of the society or otherwise. Unfortunately knowingly or unknowingly our religious organizations well known as Madrassas also fall under this category too. No doubt their fear is valid as they are sure of the fact that once the government organizations get hold of the source of these donation they will rightfully ask about it. Government of Pakistan from the time of independance till now has done nothing in this regard as these Madrassas work in an order of NGOs by fulfilling all of their financial obligations through these funds whom source is still alien. It is easily understandable for those working close in this sort of environment that a huge amount of funds come from the foreign where like-minded group of people make it possible without letting anyone know its type, quantum and purpose of its use. However the tug of war is on and time will decide about the fate of it but very clearly one can see that there is no other way then to cooperate with each other and solve the issue once and for all.
- ***Ignorance of upholding the concept of ḥalāl and ḥarām:*** It is dreadfully sorry to say that the nature of the local society isn't that transparent that we may shift all the burden of responsibility on the weak shoulders of the regulatory authorities of the government. Meaning thrse by, these people cross all the limits without observing limits of ḥalāl and ḥarām when they feel they are going to experiencing some financial activity that will do some good for them in the terms of high profits or income. They don't care if its ḥalāl or ḥarām and their only motive are to stay alive in the market by whatsoever maybe the way. Sometimes it is so grieve to know that people for their own benefits can cause harm to other people living aside them. The junctions of *Sharī'ah* are very clear about *ribā* but still these ignorant local of our society are bold enough to cross the line that was basically stretched by the lawgiver himself. Certainly it is duty of men of Knowledge *Ulemas* to take notice

of it and not let someone use the divine junction against the will of the lawgiver. They must inculcate the *Shari'ah* values regarding *halal* and *haram* so forcefully that people of faith must stop doing these heinous crimes that will not only be a cause of loss in this world but also in coming time hereafter.

12- Finding

All three sectors i.e. Public Sector, Private Sector and Local Businesses have abundant traces of interest bearing transactions, both the side i.e. Financing and investment.

Concerning to the *Riba* economic Impact on the society, *Riba* based transaction and liabilities reduces the cost for the welfare of the society. The economy of Pakistan as we know is heavily indebted due to the foreign loans and that has why our quality of life is declining day by day. This impact has directly influenced the welfare being of the society as the major portion of the tax based revenues face serious cuts due to interest payments by the existing governments

Major reason of the high price level of necessities based items is due to the effects of the circular debt. The circular debt is arising due to many factors mainly it's the gap between income and expenditures, subsidies and inefficiency like line losses

Upsurge in debt servicing depletes the resources to be spent on the development projects for the society. The huge part of our budget collection is now spent in balancing out the debt incurred over a long period of time which is always subject to increase due to acquiring new loans just to level up the deficit in the budget. One of the main heads of the expenditure is the repayment of the external debt. Hence the cut in the budget is always from its development side.

Inability to pay *Ribawi* payments forces local industries shutdown. The private sector is very sensitive about its economic conditions as they need to maintain profit margins that keeps them going all the way. If the *Ribawi* payments that are paid against the external loans, this will create negative sentiments in the local economy and may cause the partial closure of the industries.

The Bailout plan based on *Riba* leaves the adverse impact on the society. It is because of the fact that this type of transaction is incurred where the economy is debt based. In a debt based economy, extra taxes are collected to clear the debts incurred to ensure the daily business of the state. The extra burden of taxes then creates an overall negative impact over the economy like price hike, inflation, slow pace growth of the economy etc.

Rescheduling is also one of the hurdles in the betterment of the society. Rearranging can have an impact on the economy, particularly in business and trade. Production, logistical, and supply chain delays can result from rapid schedule changes. This may lead to higher expenses, lost revenue, and possibly harmful impacts on the economy as a whole.

International dependency restrict to design conducive policies. It can definitely limit a nation's ability to create and put into effect policies that are suitable for its unique requirements and circumstances. The interests and objectives of those external entities may restrict or affect a country's policy options when it becomes highly reliant on other countries for resources, trade, or financial support.

Financial institutions are also badly affected by the *Riba* based dealings. It has the potential to negatively affect financial institutions profitability and balance sheets. Loan demand is impacted by rising borrowing costs, which could also lower the net interest margin when interest rates rise.

12- Recommendation

Government should establish an Islamic Central Board which may be designated the responsibilities to ensure compliance of the Islamic financial products and services launched by the financial institutions. Further legislation is required to put further checks over the financial system of the country to ensure that it is *Ribā* free.

All the alternatives like Islamic Banking against Conventional Banking, Takaful against insurance, *Sukuk* bonds at the treasury side and other alternatives must implement in letter and spirit and replace completely its counterpart so that the *Shari'ah* Compliance is observed.

The Educational institutions need to educate and develop the conceptualization regarding the Non-*Shariah* compliant elements as *Riba*, *Gharar* and *Maysir* by offering courses that are properly designed for the cause

It is the Duty of the council of the Islamic Ideology that All the Interest based transaction must be ceased systematically. The Council should assure that The *Riba* Based Financial Institutions must report about the measures they have taken in this regard in their periodic report. The harms of the Interest based transactions must be better understood in terms of the effects of it on the socio-economic system of Pakistan just like corruption, robbery, theft, deception, tax evasion and other immoral activities.

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