

Substitutes of Interest in the Interest-free Banking

Abstract: Studies on Interest-free banking revolve on two issues: abolishing interest from banking operations and second, replacing other instruments. In the same verse of Koran, when Allah prohibits interest, alluded to transaction (Bai) as a substitute. Therefore Islamic finance utilize different types of transactions (Bai) instead of interest. In this article the following substitute of interest has been discussed. Morabaha, Bai Moajal, salam and Bai al-Dain(debt), Gharz Alhassan, Mosharaka, Mozaraba, Joala and Ijara. In discussing gharz Alhassan, a method of mutual lending in different times is challenged, based on the prohibition of transaction of debt for debt.

