

Service Charges of Interest-Free Loan Societies ♦

The functioning of interest-free loan societies and problems relating to the same were considered in the Third Seminar. The conclusions arrived at after due deliberations are as follows.

- 16.1 Such institutions are welfare institutions in their nature, which are based on compassion, righteousness, virtue and fellow feeling.
- 16.2 To collect any amount, by whatever means, from the debtor over and above the actual loan amount is not permitted in Islam as all amounts so collected fall within the category of interest. Hence, to collect any excess amount, be it for the benefit of one's own self, or the loaning institution or for the purpose of financing any other charitable or welfare institution, is Islamically not at all permissible. Similarly, it is also *Harām* (prohibited) to put the amounts belonging to such institutions as fixed deposits in banks and utilize the interest accruing thereupon.
- 16.3 As to the finances necessary for the operational expenses of such institutions, this Seminar suggests the following measures:
 - a) The charity-minded well-off and affluent persons should bear all the operational expenses treating it as an act of service for their community and to seek the pleasure of Allah. If such institutions succeed in bringing it home to the people that they operate strictly within the bounds of Shariah under the guidance of *'Ulemā* and by offering financial assistance to their brethren to save them from the curse of interest, it is strongly hoped that the affluent Muslims will come forward to shoulder the burden of the operational costs of such institutions and even to provide finances for the expansion of their activities.
 - b) This Seminar is of the view that such institutions should try to invest a part of the capital in their hands in productive ventures to earn some *Jaiz* (Islamically permissible) income, at least to the extent of being able to meet the operational costs of the institutions.
 - c) Many of the participating *'Ulemā* are of the view that service charges of operational costs, though indispensable and even if at the level of bare-actual, cannot be charged from the creditors. Some other *'Ulemā* hold that although in essence, this may be Islamically permissible, it should

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necessarily be held as impermissible as inherent in it is the danger of the door for interest, getting opened.

- 16.4 Some other *'Ulemā* put forth the view that in as much as setting up of such welfare institutions fulfill a great need of the community and in case required cooperation from the well-to-do people of the community is not forthcoming, nor it be possible to generate capital for the operational costs through Islamically lawful productive investments, in that case the actual cost necessary to meet the operational cost may be charged from the debtors because the amount thus collected goes neither to the persons collecting it nor forms a source of income for the institution's purse.
- 16.5 However, even those holding this view were firmly of the opinion that as charging any amount to the debtor over and above the loan amount is quite against the Islamic spirit of loaning and since it is to be permitted only because of its unavailability, extreme care should be taken in computing the operational costs to be charged from the debtors.
- 16.6 In case the operational costs, estimated with great caution and collected from the debtors, are found, at the end of the accounting period, to be in excess of the actual expenditure incurred, it would be incumbent on the institution, according to Shariah, to return the balance to the debtors from whom it had been collected, on *pro rata* basis.