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### IMPACT OF THE CHANGE OF TIME ON MONEY VALUE WITH REFERENCE TO THE AL-QARD AL-HASAN PRACTICE

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#### **ABSTRACT**

This study aimed to analyze the impact of the change in the time value of money, particularly in reference to the Islamic financial notion of Al-Qard Al-Hasan. The study had discussed on the value of money in long term loan changes with time which leads to its appreciation or depreciation. In the case of depreciation of the value, the lender was losing the difference between the principle and new value. A serious hindrance in the application of Al-Qard Al-Hasan in the context of Islamic finance practices due to the violation of certain clear Fiqh rulings. This study had argued that Muslim scholars have offered various solutions to this problem, which potentially makes Al-Qard Al-Hasan appear as an effective financial device for borrowing and lending money without necessarily falling into any established prohibited practice. The data of this study has been drawn from the secondary source of the Islamic jurisprudence (Fiqh) where contemporary Fiqh literature has been closely studied as well as interviews with some contemporary Islamic scholars and experts. The findings revealed that Islamic scholars and contemporary experts had different views on this matter which need different solutions to the issue.

#### **INTRODUCTION**

The change in time value of money under the contemporary economic system affects the practice of Al-Qard Al-Hasan. Time vale of money is defined as the idea that same money amount is worth different amounts at different time [1]. This change results in incurring loss on the part of either parties involved in Al-Qard Al-Hasan based transaction or constitutes riba. This leads many

financial institutions, individuals and banks to ignore dealing with Al-Qard Al-Hasan. On the other hand, given the significance that Al-Qard Al-Hasan can have in the context of modern banking seems necessary that Muslims try to find a way to align the practice of Al-Qard Al-Hasan with the contemporary financial system as well as Shari'a complaint at the same time. The time value of money has direct relationship with time preference and influence the Islamic transactions pricing [2].

Al-Qard Al-Hasan potentially is one of the best mechanisms of borrowing and lending, but due to the inequality between the real monetary value of the loan and the repaid value of the loan makes it a problematic financial device. However, by making certain changes in transaction that is based on Al-Qard Al-Hasan, it is possible to overcome the problem associated. This will increase the applicability of Al-Qard Al-Hasan in modern Islamic banking sector.

Possession of money aims to facilitate exchange transactions; it is not an objective in its self, because money is just paper without importance or rather value. Trading money contradicts with the Shari'a principles and causes more harm than its positivity, thus, it is leading to inflation and eventually harming society. Time value of money is an important issue in the modern financial world. \$2000 today is not the same as \$2000 after 10 years from now. The reason is that purchasing power of \$2000 today is different from that of the same \$2000 in the future and usually less. The concept of time value of money appeared in Shari'a, when the prophet Muhammad (Peace Be Upon Him) announced to the Muslims that exchanging gold and silver has to be on the spot, which means that gold and silver have time value and that both parties (the Buyer and the Seller) can get benefits from the change in time value. The Shari'a agrees that the value of money has time by allowing the BBA (bay bi thaman Ajil) contract, which insists on paying the price at the present time or paying it on installment basis, but with a higher price.

The reason of the change in time value of money is the decline in purchasing power of paper money, which is called inflation. Inflation is defined as the rate at which general level of prices for goods and services is raising that contributes to decrease the purchasing power of currency [3]. Inflation influences in negative way the economy includes the population and companies [4-6]. It represents a continuous rise in prices, which results in spending more cash for fewer products. The reasons for inflation lay in dealing with interest, an increase in liabilities without any gain. In Malaysia, money supply is one of economic factors caused inflation which effects of money supply on the inflation is known important means [7]. Umi et al. [8] study to determine the relationship between inflation and economic growth between year 1985 and 2013 in Nigeria. The study found long run relationship between inflation and economic growth and moderate inflation in the economic system can accelerate the economic growth [8].

In a system under usury, money provides profit without any effort. Therefore, in this situation spending money does not generate any goods or services by keeping production insufficient and the overall economy weak. If a country fails to manufacture goods and relies on import, this leads the economy of this country to be weak and spend money without income. Then prices increase

and cause a decline in purchasing power. The application of the capitalist system leads to the deterioration of the economic growth rates and the increase of unemployment with inflation, a growing deficit in the balance of payments, the stagnation of international trade, the collapse of the international monetary system, the emergence of the energy crisis, the growing problem of foreign debt, the fluctuations of consumer prices and productivity, and the vagaries of the same production.

The current international monetary system bears many of the causes of inflation, which seems to be favorable to the interests of America and its stability became dependent on the monetary policy and the economy of USA and the effects of which inflation are reflected in the most of Islamic countries and the third-world countries. The increase of the deficit in the balance of payments due to the widening gap between local resources and external import and the deficit ratio were up to 94% in some countries as indicated by some statistics in 1982. Financing military expenditures, either before wars to prepare for them, during or after wars to fix the destruction caused by them, is estimated at billions of dollars annually or does not contribute to production but demolishes it.

Al-Qard Al-Hasan is a kind of Takaful provided by Islam to finance the individuals and entities to cover their needs as an alternative of conventional loan. The scholars encourage dealing with Al-Qard Al-Hasan by relying on verses of the Holy Qur'an and Hadiths but with certain conditions.

In general, Al-Qard Al-Hasan is defined as a contract between two parties, lender and borrower which the former provides money to the borrower while the latter is obliged to repay the amount equal to the principle at an agreed date. Besides, AL-Qard Al-Hasan also defined as loan mentioned in the Qur'an as beautiful because in all the verses in which this loan mentioned and made directly to Allah (swt) and not recipient [9]. Each school in Islam gave different definitions of Al-Qard Al-Hasan. According to Hanafi scholars, Al-Qard Al-Hasan is defined as the products given to another party for use. Hanafi scholars put a condition for Al-Qard Al-Hasan such as the lent subject must be the same as what the borrower will return. Maliki scholars defined Al-Qard Al-Hasan as paying financed amount in equal. Another definition given by Maliki scholars states that Al-Qard Al-Hasan is paying amount to someone to get benefit and return the same manner or the same value for the sake of Allah. Hanbali scholars, Al-Qard Al-Hasan is paying money for who needs it and repays the money in the basic amount. Another definition provided by the Hanbali school states that Al-Qard Al-Hasan is paying amount to another person to get benefit from it and return it. In these two Hanbali's definitions, Hanbali scholars are focusing more on providing the benefits for the borrower who must pay the money to the lender in the future.

The loan is supposed to increase production as well as to develop industrial and agricultural projects, which require considerable amounts of money exceeding the capacity of individual entities and leads them to borrow from banks in order to cover expenses. Moreover, it stimulates consumption by

allowing people to purchase durable goods which are expensive and which they would not be able to afford otherwise.

The study by Selim [10] investigated the macroeconomic effects of Al-Qard Al-Hasan as monetary policy tool and its effectiveness in achieving full employment and price stability in the economy. The findings showed Al-Qard Al-Hasan based monetary policy was positively influenced economy real sectors and increased output. Al-Qard Al-Hasan provided lowest possible borrowing costs across economic [10]. This study aimed to analyze the impact of the change in the time value of money, particularly in reference to the Islamic financial notion of Al-Qard Al-Hasan.

## **METHODOLOGY**

The data collected by conducting interviews with thirteen experts in different majors related to Islamic finance (banker, managers, academics, consultants). The interviews include three questions for each person and showed their responds according to their viewpoints. Then, the study gathered the results from the interviews.

Qualitative research in general is a set of tools that focus more on how do people deal with a particular issue, links between theory and reality through taking different perspectives, usually the researcher in this type uses people's accounts as data, which cannot be numerical, and it focuses on the description and interpretation to find a new concept or theory. The most common methods to collect data for qualitative research were participant observation was appropriate or collecting data on naturally occurring behaviors in their usual contexts, in-depth interviews are optimal for collecting data on individuals' personal backgrounds, perspectives, and experiences, particularly when sensitive topics are being explored and focus groups are effective in eliciting data on the cultural norms of a group and in generating broad overviews of issues of concern to the cultural groups or subgroups represented. In this study, the data is collected based on literature review and conducted interviews with experts in Islamic finance, with the aim to describe and explain the relationship between the concept of the change in time value of money and Al-Qard Al-Hasan, to develop the knowledge, to find innovative ideas and solutions related to the problem of this study, and to achieve the main objective of the research.

## **RESULT AND DISCUSSION**

Most of contemporary experts in Islamic finance believed that Al-Qard Al-Hasan did not have a place in the banks because did not provided any return, while always looking for profits. The fourth interviewee agreed that Al-Qard Al-Hasan was a charity transaction while banks did businesses looked for profits. Therefore, any activity that the banks did to get a profit or return but in Al-Qard Al-Hasan was no return for the bank from such transaction. The first interviewee supported this opinion that financial system was based on interest so any activity had return while Al-Qard Al-Hasan did not provided return as for Allah's sake. Consequently, the bank who were looked for a profit which not deal with Al-Qard Al-Hasan. The second interviewee mentioned not many Islamic banks promoted Al-Qard Al-Hasan and need to understand the banks and Islamic bank was setup. Islamic banks were business entity and shareholders who were expected returns and income from investments.

Therefore, a good bank was who able to provided investments with returns so commercial institution and thus, the banks have to maximize the core objective of the commercial banks. The only difference between the Islamic commercial banks 37 and conventional commercial banks was the existence as well as application of the Islamic combining Shari'a in its transactions as was crystal clear that Al-Qard Al-Hasan was the only service which does not provide any return to the bank. The reason the majority of the experts believe was the banks did not trust the borrower whether return the loan. Therefore, there was always an uncertainty or rather a serious doubt to get the money back. The first interviewee mentioned that those who want to give a loan for the sake of Allah, there was a lack of trust, because when the bank gives the amount, they do not know if the borrowers were paid on time.

The third interviewee agreed with this reason that there was the lake of trust, if the bank offers Al-Qard Al-Hasan, who will make the bank guarantee that the borrower will able to return the Al-Qard Al-Hasan, offering that Al-Qard Al-Hasan in the banks is debated and the amount that some banks are offering is very small. Nevertheless, there are some banks that offer Al-Qard Al-Hasan for some trusted clients, but such clients are usually very rich, but they need liquidity. The only reason that forces the banks to give Al-Qard Al-Hasan according some experts is the corporate social responsibility, but in general, offering Al-Qard Al-Hasan was not from the bank's responsibility, there were special entities that provide this service such as Waqf, and charity. According to the third interviewee that the banks that offered the classical Al-Qard Al-Hasan was usually for the purpose of corporate social responsibility, for example in UAE, there are some banks such as Dubai Islamic bank that offers Al-Qard Al-Hasan in small amounts, such as "SR10,000 or SR 20,000".

The second interviewee agreed with that some banks provide Al-Qard Al-Hasan for the purpose of corporate social responsibility. The fifth Interviewee that divided the financial transactions between the people into two kinds that aimed to make a profit which was called in Islamic Fiqh by exchange contract and Ihsan or provided helped which was called in Islamic Fiqh (charity contract). Islamic banks were looking for profit and did not offered Al-Qard Al-Hasan only for corporate social responsibility. The change in the value of money contributed to ignore Al-Qard Al-Hasan, the change could be by declining the value which made the banks afraid of losses from such declining. The first interviewee agreed with that the change in the value was also can be a reason for ignoring Al-Qard Al-Hasan because the purchasing power is declining with years. In conventional loan, the long period of the loan means higher interest, but in Al-Qard Al-Hasan there was no interest while the value was continuing declining, which leads to losses for the banks.

The third interviewee mentioned that change in the value of money which affected Al-Qard Al-Hasan but in reality, the period is very short, normally the banks tried to mitigate the risk by offering loans with short period. The seventh and the eleventh interviewees said Islamic banks were commercial banks as well as the conventional banks, so looking for return behind their transactions. Hence, Islamic bank were not interested to deal with Al-Qard Al-Hasan. As far as individuals were concerned, they actually use Al-Qard Al-

Hasan in their life, but in the name of community groups. The eighth interviewee mentioned the banks did not ignore dealing with Al-Qard Al-Hasan, but the difficulty did not provide return. Therefore, a lot of banks did legal tricks to earn from Al-Qard Al-Hasan under the name of service charge or different names just to take the extra amount.

Offering Al-Qard Al-Hasan may lead to loses because of the change in the value. Thus, changing can be by decreasing when comes to the case of the lender who will lose the difference because get back paper money that has less value than what he paid, or it can be by increasing which in this case the borrower will lose, because he will pay paper money that has value more than what he got. The first and the twelfth interviewees agreed that the effect of the changing value in the practice of Al-Qard Al-Hasan was going to the lender by declining their wealth into two ways such as invest amount and gain profit instead of lending and value of amount might decrease and lose a percentage of the purchasing power. This was the effect of the change in the value on the wealth to give Al-Qard Al-Hasan.

The third interviewee mentioned that the change in the value can affect Al-Qard Al-Hasan but normally the banks provide loans for short term while changing in the value is always happen on the long-term period. The seventh interviewee had a dissenting opinion that there was no relationship between time value of money and Al-Qard Al-Hasan and who offering, who has not cared about the value of their money because offered for Allah's. The ninth interviewee added that the impact of inflation and deflation on Al-Qard Al-Hasan was a fact which cannot be denied. It has a positive effect on one party and a negative one on the other.

Scholars suggested different solutions which can be used. Thus, there were divided into two teams according to their solutions included deal with gold in Al-Qard Al-Hasan. The first and thirtieth interviewees agreed with this suggestion, Meanwhile, second interviewees became interested with this opinion and mentioned that most scholars agreed to dealing in gold when comes to Al-Qard Al-Hasan instead of paper money due to gold is the least thing that can be affected by inflation or the volatility of currency. However, the second team believed that Al-Qard Al-Hasan is a charity transaction for Allah's sake. Therefore, there was no need for seeking solutions because the difference here lies in the charity intention. The sixth interviewee mentioned Al-Qard Al-Hasan supposed to be practiced merely because of reward. However, both parties did not look for material rewards in their argument. Hence, any changing value such as the value of money paid to the beneficiary parties did not affect the intention of the other party at all. Therefore, only mechanism suggested is to enhance the moral value of Al-Qard Al-Hasan and its positive returns on the society. The fourth and the tenth interviewee have the same opinion that some of the scholars suggested offering gold instead of cash as Al-Qard Al-Hasan. The fifth interviewee has the same opinion but for a different reason as the change in the real value of money is not a problem because the change did not occur on the short term which is the most used by the low-income people, while the rich people and the companies they do not need Al-Qard Al-Hasan.

After interviews were conducted and interviewees' answers were analyzed, the following was found that not necessary for Al-Qard Al-Hasan to be in the form of cash or in the form of study loan, real estate, goods or gold. However, there are many problems in contemporary financial system and international economy, which make Al-Qard Al-Hasan difficult option for adoption. Al-Qard Al-Hasan has no place in the commercial banks in which looking for profit maximization because some scholars Al-Qard Al-Hasan has to be provided to Islamic community given for the sake of Allah and thus we have to accept any collateral results that may come with it, even though banks aims for loss minimization as much as possible. The banks that dose offer Al-Qard Al-Hasan did not characterize under its core business activity and considered as corporate social responsibility for which offers a small amount of money due to the huge percentage of uncertainty associated with Al-Qard Al-Hasan. The most suitable place for Al-Qard Al-Hasan is charity institutions, because did not a profit maximization activity. Besides, lack of banks trust in the borrowers contributed to the absence of Al-Qard Al-Hasan mainly because uncertain about the borrower's capability of paying back Al-Qard Al-Hasan. According to some scholars, the change in time value of money did not affect the short term loan. According the other scholars, the continuance of the change in time value over the years without re-covering also caused the absence of Al-Qard Al-Hasan in the banks. Some scholars suggested that offering gold instead of cash as Al-Qard Al-Hasan helped to avoid the change in time value of money because gold is more stable than cash. A few scholars agreed that there was no need to look for solutions to avoid the impact of the change in the value of money, because it is for the sake Allah.

The main reason that led to ignore offering Al-Qard Al-Hasan by banks because the banks are commercial entities and looking for a financial return behind all their transactions, while Al-Qard Al-Hasan is a charity transaction. Another reason for ignoring Al-Qard Al-Hasan by the banks given by the interviewees is the lack of trust. Increment interest for the loan cannot force the borrower to pay. Some interviewees believed that individuals provide Al-Qard Al-Hasan for the sake of Allah and considered the difference in value as a charity. On the other hand, the lenders also need to their money and the difference lies in the fact that they are not businessmen, as allowed the borrower to attend their need without any direct financial benefit. Other interviewees believed that the change in values did not affect the loans only if it was a long-term loan.

Most of interviewees agreed that lending gold instead of cash can be a solution to avoid the impact of the change in the value. This method can be applied by individuals but bank cannot take the cost of time to go to the market and buys gold. A few interviewees suggested a solution that is increasing a percentage for Al-Qard Al-Hasan to achieve equality in value. However, most of the contemporary experts agreed that is purely *riba*. Their argument was that Islam considered this increment as *riba*. Islam prohibited *riba* to avoid the exploitation of the borrower. Therefore, this suggestion was accepted by few Islamic scholars and Islamic finance experts, but still there is a huge argument on this issue.

In case of the existence of a huge difference in the money value, where the lender losses one third (1/3) or more from their original value, the bank and the borrower can make a mutual settlement (Musalaha) between each other. Most of the scholars were unanimously agreed that the borrower had to pay the same amount of Al-Qard Al-Hasan not the value while there were few scholars agreed that borrower had to pay the value. In some points of view, some scholars agreed that payment had to be according to Sulh between Al-Qard Al-Hasan parties which were applied in Dubai and some contemporary scholars agreed that if the difference in value caused losses reached to one third (1/3) or more. The amount has to be paid according to Al-Sulh. This method was applied in financial crisis time in 2009 in UAE where the price of real estates declined, for example when the borrowers took the real estate when its value was 5,000,000, afterwards when the crises occurred its value became 500,000. After that, the borrowers started evading payments and the Shari'a board in Dubai suggested that a mutual settlement (Musalaha) between the borrowers and the banks is due to be made.

### **CONCLUSION**

In conclusion, Al-Qard Al-Hasan is a non-profitable transaction and still important for banks due to its contribution in attracting depositors to banks. Therefore, banks should offer Al-Qard Al-Hasan to get more depositors as much as possible. Al-Qard Al-Hasan and conventional loan (with interest) have the same percentage in terms of lack of trust. Thus, interest cannot guarantee repaying the loan and only makes the borrower have more liabilities. The change in time value of money does not just affect long term loans. The short-term loans also may face this effect in certain economic problems, such as wars, as in Iraq, and the last financial crisis. Gold cannot be a subject matter in Al-Qard Al-Hasan instead of cash especially in banks, because buying and selling gold in the market increases costs for banks. Therefore, the previous and current scholars and experts recommend different methods to make the practice of Al-Qard Al-Hasan more applicable.

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