

## **An Introduction to the Model of Qarz-al-Hasan Institution in Islam**



**Seyed Reza Jafarifard**  
**Ph.D. Student, Banking, Imam Sadiq University, Tehran, Iran.**  
srjafarifard74@gmail.com

Seyed Reza Jafarifard studied financial management. His research interests are Islamic finance, Islamic banking and Qarz-al-Hasan. He has written his Thesis on "Designing Model of Qarz-Al-Hasan Institution in financial system of Islamic Republic of Iran".

### **Introduction**

Qarz al-Hasna is not only one of the contracts approved by Islamic law; but also is a laudable social tradition. Qarz al-Hasna has a special place in the Islamic financial system, and in the financial system of the Islamic Republic of Iran, extensive financial institutions exploit the capacity of this contract. In the country banking network, along with commercial banks that receive deposits and pay facilities under the loan agreement, two banks, Qarz al-Hasna Mehr Iran and Resalat, have completely organized their operations based on the Qarz al-Hasna contract. Moreover, Qarz al-Hasna funds in the unorganized monetary market, are in charge of managing a part of Qarz Al-Hasna resources.

### **The necessity of designing a Qarz al-Hasna Institute**

In the field of designing the Islamic financial system, various experts are working and have various ideas to design or redesign the Islamic financial system. Analyzing the main principles of Islamic financial systematization, it can be concluded that the pattern of separation of financial institutions based on contracts or financial needs is one of the most progressive models. Although the separation pattern is better known as Dr. Samsami, but with an overview of the different patterns, becomes clear that in many of the proposed models, the orientation is towards the separation pattern. Also in all suggested patterns, a special place has been given to the contract of Qarz al-Hasna and explicitly or implicitly, the need to separate the institution of good credit and establishing an independent mechanism for managing the resources of Qarz al-Hasna has been emphasized. Of course in some patterns, institution related to Qarz al-Hasna contract, includes other non-profit contracts that indicates the importance of paying attention to these contracts in the design of Qarz al-Hasna institution; Therefore, in order to separate the institution of Qarz al-Hasna from other institutions in the Islamic financial system, it is necessary

that a favourable model for the institution of Qarz al-Hasna is designed, and the necessary grounds for the operation of the desired model of the institution of Qarz al-Hasna is provided. The table below summarizes the views of experts on the types of institutions that can be proposed in the separation model.

**Table 0-2: Types of institutions proposed in separation patterns**

Types of institutions proposed in the model				The name of the expert
Comprehensive bank	Exchange Bank	Participatory Bank	Qarz al-Hasna Bank	Mousaviyan
	Leasing company	Investment Bank	Qarz al-Hasna Bank	Samsami
Public Sector Economics	Private Sector Economy	Cooperative sector economics	Profit-free sector economics	Yousefi
Comprehensive bank	Development Bank	Commercial Bank	Qarz al-Hasna Bank	Gazavi
		Capital market institutions	Al-Hasna loan institutions	Alavi
	Development Bank	Commercial Bank	Basic Needs Bank	Seiflo

Source: Research Findings

### **Principles of the subject of design of Qarz al-Hasna institution**

In order to determine the design framework of Qarz al-Hasna institution in the Islamic financial system, it is necessary to analyse the nature of the loan agreement and examine the Quranic teachings and the validity of the loan, the principles of the subject of design of Qarz al-Hasna institution should be counted and explained; The principles of the subject matter of the design of the institution of Qarz al-Hasna are general, definite and unchangeable propositions, which should be considered in designing the model of Qarz al-Hasna institution and policy in this area. In the table below, the five principles of the subject of designing the institution of Qarz al-Hasna and the summary of the most important points related to each principle are mentioned.

#### **The Principle of Need**

- Qarz al-Hasna should be used to meet the basic needs of society.
- The intensity of need is one of the priority criteria for allocating Qarz al-Hasna resources.
- Qarz al-Hasaneh resources can be used to meet consumer and entrepreneurial needs

**The Principle of Spirituality**

- The institution of Qarz al-Hasna should not weaken or destroy spiritual motivations.
- The institution of Qarz al-Hasna should be designed and operated on the basis of belief and faith in a way in which the nearness of God and the reward of the Hereafter are the main motives.
- Avoiding the dominance of materialistic motives over spiritual motives; In other words, material incentives should not interfere as the only or most important factor in motivating people to move towards lending in the institution of Qarz al-Hasna.

**The Principle of the Province**

- The formation of the Islamic government and the realization of the provincial system is the premise of the establishment of the institution of Qarz al-Hasna.
- The institution of Qarz al-Hasna should be designed and implemented in order to support the Imam of the community and the strength of the divine government and in accordance with the policies of the Imam of the community.
- The flow of resources of Qarz al-Hasna must be within the framework of the special and general system of governorship that exists in the Islamic society.
- The Imam of the society is the guarantor and supporter of the believers who have spent their debt in the path of obedience to God and are not able to repay it.
- The mechanism of Qarz al-Hasna should provide the ground for reducing attachment to the world, spiritual growth and spiritual purity of society.

**The Principle of Social Sufficiency**

- The institution of Qarz al-Hasna must be formed in accordance with the rules of social patronage and with the focus on patronage institutions.
- The priority of meeting the needs in social taqfal should be considered in the prioritization of the allocation of good loan resources.
- In case of inability of the borrower, its debt will be repaid in the context of social dependence.

**The Principle of Interaction with the Zakat Institution**

- Preference is given to financing the middle class from Qarz al-Hasna sources rather than financing them from gratuitous payments

- Possibility of considering the debt as obligatory or mustahabb zakat by the lender
- Possibility of settling the debt recipient debt by other believers as obligatory or recommended zakat
- Payment of debt by the borrower from the sources of Zakat by the Imam of the community in case of inability to repay

**Pattern of optimal distribution of resources of Qarz al-Hasna and Zakat**

Before explaining the proposed model of the loan institution, according to the principle of interaction between the institution of Qarz al-Hasna and the institution of Zakat and the principle of social sufficiency, it is necessary to study the pattern of optimal distribution of resources of Qarz al-Hasna and Zakat in the context of sufficiency institutions. In this model, zakat means all gratuitous payments that is done with the intention of intimacy and in popular literature it is often referred to as alms or charity. The model of optimal distribution of Qarz al-Hasna and Zakat resources includes the following points.

1. The flow of Qarz al-Hasna and Zakat resources takes place in the system of guardianship and spirituality; Qarz al-Hasna should be granted with a spiritual motivation and with the focus on the special or general guardianship that God has established in the society.
2. The management of the resources of Qarz al-Hasna and Zakat should be done as close as possible in the sufficiency institutions and the volume of funds exchanged and managed in the context of these institutions should be more than the more general institutions.
3. Due to the nature of the loan contract, which is a medium contract and has a wide audience as well as the superiority that has been mentioned in the narrations for Qarz al-Hasna over alms and zakat, it is expected that more resources will flow in the form of Qarz al-Hasna compared to Zakat.
4. In the Islamic financial system, Qarz al-Hasna promotes Zakat and Zakat covers Qarz al-Hasna; therefore, with the expansion of the sources of Qarz al-Hasna, the amount of Zakat paid has increased and in cases where the sources of Qarz al-Hasna are faced with the issue of default, the sources of Zakat can be used to compensate.

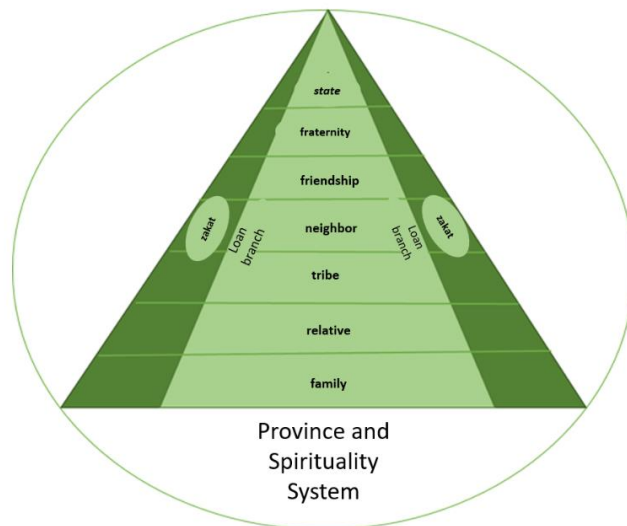


Figure 0-1: The optimal pattern of dispersion of Qarz al-Hasna and Zakat sources  
Source: Research Findings

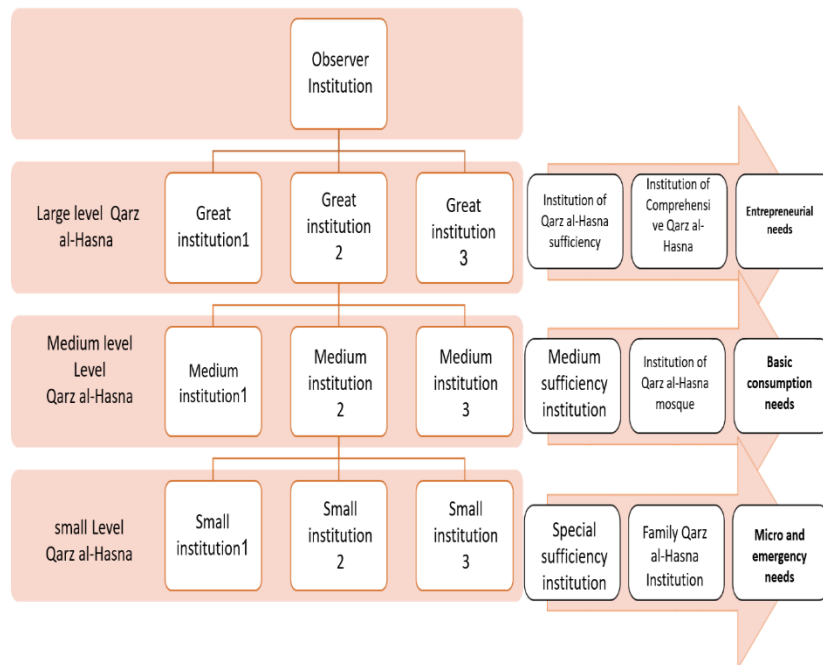
### The Model of the Institution of Good Credit

Taking into account the principle of social sufficiency and the direction of simplification, the model of Qarz al-Hasna institution is designed and proposed in three levels: small, medium and large. At the level of a small institution, due to the need for maximum knowledge and trust of members, closer sponsorship institutions such as kinship, neighborhood and friendship are more desirable. Of course, considering the stability and strength of the kinship institution, the family loan institution is considered as the best example of a small loan institution.

The institution of Qarz al-Hasna is moderately formed at the neighborhood level and with the focus on middle-level institutions such as friendship, neighborhood and brotherhood. Although there may be various social institutions in the neighborhood, such as Hosseinieh, Basij base, cultural center, neighborhood hall, school, etc. However, considering the position of the mosque in the Islamic society and the role it plays as a social network for believers, Qarz al-Hasna Institution in a mosque will be a good example of a moderate Qarz al-Hasna institution.

Finally, the institution of Qarz al-Hasna is considered to be large at the level of an area or city. This institution of Qarz al-Hasna is formed with the focus on the brotherly sufficiency institution, which is considered to be the most common sufficiency institution. Undoubtedly, the social institution that

had the most similarity with the institution of the mosque, has been more compatible with the principle of guardianship and spirituality and it has the highest capacity for brotherhood in the city, and is the institution of Friday prayers. This institution, which is called the Comprehensive Institution of Qarz al-Hasna, is the best example of the institution of Qarz al-Hasna. In this model, three levels have been considered for the needs of Qarz al-Hasna each of which is in charge of eliminating one of these levels. Therefore, small loan institution responsible for meeting micro and emergency needs, moderate loan institution that meets basic consumer needs, and the big loan institution will focus on the needs of entrepreneurship.



**Figure 0-2: Separation of Qarz al-Hasna institutions and responsibility of each institution**  
 Source: Research Findings