Interest-Free Banking in the Islamic State: A Comparative Reappraisal of Imam Khomeini's and Ayatollah Sadr's Views Based on the Theory of the State

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Abstract
Interest-free banking, as one of the key institutions in the economic system of Islam, has always been a matter extending beyond a purely jurisprudential issue, closely linked to the structure of the state, the orientation of government, and the manner of political intervention in the regulation of money and credit. This study, aiming at a comparative analysis of the views of Imam Khomeini and Sayyid Muhammad-Baqir al-Sadr, examines the jurisprudential foundations, operational structure, and ijtihad methodology of these two thinkers regarding interest-free banking, and seeks to elucidate the relationship of these views to economic policymaking in the Islamic state. The research method is descriptive-analytical with a comparative and referential approach. The main question is how the views of these two jurists can serve as the theoretical basis for regulating the banking institution in the Islamic state, and what the source of their differences in this regard is. The research hypothesis is that the difference between the two thinkers, beyond transactional jurisprudence and minor rulings, stems from their divergent conceptions of the theory of the state and the manner of the Islamic government's presence in organizing economic life. That is to say, Imam Khomeini, with an approach of governmental jurisprudence and an emphasis on the state's role in transforming economic structures, views interest-free banking as a tool for achieving social justice, curbing financial domination, and restructuring state-market relations. In contrast, Ayatollah Sadr, with a systematic and institution-building approach, seeks to design an alternative model for an Islamic bank and to elaborate its jurisprudential and operational mechanisms. The findings indicate that the Interest-Free Banking Operations Act, despite its significance in the Islamization of the monetary system, has faced challenges in achieving efficiency, effective supervision, and credit allocation due to the gap between theoretical foundations and the executive organization of the state. Accordingly, the article argues that integrating the institution-building capacity of Sadr's thought with the state-building and policymaking perspective of Imam Khomeini can provide a suitable framework for institutional reconstruction and enhancement of the banking system's efficiency in the Islamic state.

Keywords: Interest-free banking, theory of the state, Islamic state, Imam Khomeini, Sadr, economic justice, financial policymaking.

1. Introduction

Interest-free banking is one of the most important arenas where jurisprudence, economics, and the Islamic state intersect. Following the victory of the Islamic Revolution, the reconstruction of economic institutions on the basis of Sharia—particularly in the banking sector—became one of the fundamental issues of the Islamic Republic system; for a bank is not merely a financial institution, but plays a decisive role in directing the flow of capital, regulating credit, distributing economic opportunities, and organizing the relationship between the state, the market, and society.

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Hence, the elimination of usury (*ribā*) from the banking system cannot be understood solely within the framework of transactional jurisprudence (*fiqh al-muʿāmalāt*); rather, it must be regarded as an issue tied to economic policymaking, the legal organization of the monetary institution, and the manner of the Islamic state's intervention in the economic life of society.

Among the prominent perspectives in this field, the thoughts of Imam Khomeini and Sayyid Muhammad-Baqir al-Sadr hold a central position. Sadr, in his work *Al-Bank al-Lāribawī fī al-Islām* (Interest-Free Banking in Islam), seeks to present a technical and institutional model for an Islamic bank—a model in which the mobilization and allocation of resources are organized on the basis of profit-and-loss sharing and legitimate contracts (*ʿuqūd*). In contrast, Imam Khomeini, with a governmental and transformative approach, emphasizes that the Islamization of banking should not be reduced to a superficial change of labels and contracts, but rather the content, function, and orientation of the banking system must be transformed so that it serves social justice, supports production, and negates usurious relations. Thus, one is more focused on the institutional formulation of interest-free banking, while the other clarifies its governmental and substantive aspect of establishment.

The main problem of this research is to determine on what common and distinct foundations the model of interest-free banking in the thought of Imam Khomeini and Sadr is based, and what capacity these two perspectives have for reforming the banking structure of the Islamic Republic of Iran. Accordingly, the main question of the article is formulated as follows: how is the relationship between jurisprudence, the banking institution, and the Islamic state explained in these two intellectual systems, and to what extent has the Interest-Free Banking Operations Act been influenced by them? The claim of the article is that the difference between these two approaches does not merely revert to certain jurisprudential subsidiaries or contractual mechanisms, but rather pertains to a difference in the level of analysis and the type of conception of the state's role in the economy: Sadr focuses on the technical, legal, and institutional design of interest-free banking, whereas Imam Khomeini emphasizes substantive transformation, the negation of legal stratagems (*ḥiyal*), and the genuine Islamization of the banking system within the framework of the Islamic state. Hence, these two views should be regarded as complementary rather than contradictory; one provides the capacity for institutional modeling, and the other elucidates its state-building and justice-oriented aspect.

This research employs a descriptive-analytical method with a comparative approach, relying on library sources. Within this framework, the jurisprudential and politico-economic works of Imam Khomeini—especially *Taḥrīr al-Wasīla*, *Kitāb al-Bayʿ*, and *Ṣaḥīfa-yi Imām*—alongside Sadr's principal work *Al-Bank al-Lāribawī fī al-Islām*, the Interest-Free Banking Operations Act, and some contemporary studies have been examined. Although in the research background numerous works have been written on Islamic banking, Sadr's model, and the jurisprudential foundations of Imam Khomeini, most of them have focused on one of the two perspectives or have examined the issue solely from a jurisprudential and economic angle. The contribution of the present article lies in its comparative approach, re-reading these two intellectual systems in relation to the Islamic state, public policymaking, and the institutional reform of the banking system. Accordingly, the article first elucidates the fundamental concepts of usury, profit (*ribḥ*), Islamic contracts, and the place of banking in the economic system of Islam; then it examines the views of Sadr and Imam Khomeini separately; thereafter it analyzes their commonalities and divergences at the level of ijtihad methodology, institutional function, and the scope of state intervention; and finally, it demonstrates the capacity for integrating Imam Khomeini's governmental rationality with Sadr's

institutional precision for the practical reform of the banking system of the Islamic Republic of Iran.

1. Conceptual Framework

1.1. The Concept of Usury: From Jurisprudential Analysis to Governmental Implications

The term "ribā" is derived from the root "r-b-w" and in lexical sources is generally understood to mean increase, growth, and elevation (Fayyūmī, n.d., vol. 2, p. 212; Rāghib Iṣfahānī, 1991, p. 313). Some have also interpreted it as meaning growth and height (Ibn Fāris, 1983, vol. 2, p. 180). Although *ribā* initially appears as a linguistic phenomenon meaning excess, in the political jurisprudence of Islam, *ribā* is not merely a transactional concept but is regarded as one of the key concepts in regulating the public economy and safeguarding social justice; for its primary function in Sharia is to prevent the accumulation of wealth, the concentration of financial power, and the deepening of class divisions in society. For this reason, the prohibition of *ribā* must be understood not only at the level of transactional jurisprudence but also at the level of economic policymaking and the regulation of the relationship between the state and the market.

In Imami jurisprudence, one comprehensive jurisprudential definition has been provided by Shahīd al-Thānī: "*Ribā* … in Sharia is the sale of one of two similar things measured by volume or weight … for the other, with an increase in the reality of one of them or in its legal effect, or one of them is a loan with an increase …" (Shahīd al-Thānī, 1989, vol. 3, p. 240). This definition divides *ribā* into two main categories: "transactional *ribā*" and "loan *ribā*." The first condition for transactional *ribā* is the homogeneity of the two exchanged items, and the second is their measurement by volume or weight (being *makīl* or *mawzūn*) according to commercial custom; whereas in loan *ribā*, the condition of an increase over the principal, without the need for being measured by volume or weight, is the criterion for prohibition.

From a governmental perspective, this distinction is not merely a jurisprudential classification but indicates that Sharia is sensitive to two types of unequal production and distribution of wealth: one at the level of commodity exchange, and the other at the level of credit and debt relations. From a political analysis standpoint, the differing rulings of these two types of *ribā* are directly related to the structure of the distribution of financial power in society. The author of *Jawāhir al-Kalām*, while reiterating the formulations of Shahīd al-Thānī, notes that *ribā* in the technical sense of Sharia also remains in line with its lexical meaning (increase in exchange or loan) (Najafī, 1983, vol. 23, p. 202). From the perspective of public policymaking, the consensus of jurists on the prohibition of *ribā*—especially loan *ribā*—indicates a clear Sharia position against the unproductive accumulation of wealth and the domination of financial capital over the economic life of society. In this sense, the prohibition of *ribā* is not merely concerned with a private relationship between two individuals but carries a governmental implication: the Islamic state cannot remain indifferent to mechanisms that lead to the reproduction of inequality, financial exploitation, and the unregulated transfer of wealth.

The exceptions mentioned in relation to *ribā*—such as the negation of *ribā* between father and child or between husband and wife, upon which major jurists such as Imam Khomeini and Ayatollah Khoei have agreed (Khoei, 1992, vol. 2, pp. 11 and 14; Khomeini, n.d., vol. 1, pp. 102–105)—from the perspective of an institutional analysis, indicate that the sacred Lawgiver has separated relationships based on affection, responsibility, and social solidarity from the rigid and profit-driven relations of the market. These exceptions demonstrate that, in the logic of Sharia, financial relations should not undermine the fundamental bonds of society nor reduce familial and ethical relationships to a mere logic of profitability. Therefore, *ribā* in the domain of Islamic government is not merely a deviation in the sphere of private sale but constitutes a structural threat

to distributive justice and the economic cohesion of society. From this perspective, any attempt to justify usurious transactions or to ignore their exploitative nature through legal stratagems directly undermines the efficiency and legitimacy of the Islamic state; for the political philosophy of Islamic governance is founded on the negation of injustice, the prevention of the unjust concentration of wealth, and the establishment of equity (*qisṭ*). Consequently, dealing with *ribā* must be considered part of the economic policy of the Islamic state, not merely a subsidiary issue in transactional jurisprudence.

1.2. Interest-Free Banking: Restructuring the Monetary System in the Service of Social Justice

Interest-free banking cannot be regarded merely as an alternative model for eliminating interest from banking operations; rather, it must be considered an effort to restructure the monetary and credit system in the direction of social justice. In this framework, money is not a self-generating capital but a medium of exchange and a means of allocating resources to real economic activities. Accordingly, the bank in the Islamic economy is not merely a profit-making enterprise but an intermediary institution that must direct financial resources toward production, meeting public needs, and reducing inequality (Mousavian, 2006, p. 75; Sadr, 1989, p. 45). From this perspective, the function of the bank is linked to the broader objectives of the Islamic state in regulating credit and directing the flow of capital. In this model, the distinction between "profit" and "usury" is of fundamental importance. Sadr, by separating profit derived from economic activity and risk-taking from fixed and pre-guaranteed interest, demonstrates that the legitimacy of income in the Islamic economy depends on its connection to work, production, and risk-taking, rather than merely on the ownership of capital (Sadr, 1989, p. 52). Accordingly, *ribā* is not merely a jurisprudential prohibition but is regarded as a mechanism for reproducing inequality and unilaterally transferring wealth to the benefit of capital owners. In contrast, interest-free banking seeks to shift the financial relationship from the logic of guaranteed returns to the logic of participation in real economic activity. Hence, the system of profit-and-loss sharing (*mushāraka* and *muḍāraba*) gains importance as one of the pillars of Islamic banking; for it distributes economic risk among the parties rather than imposing it unilaterally on the facility applicant, and strengthens the link between the financial sector and the real sector of the economy (Mousavian, 2001, p. 112). This mechanism is not only compatible with the jurisprudential foundations prohibiting *ribā*, but can also help reduce speculative behavior and enhance financial stability. Therefore, interest-free banking in the Islamic state is not limited to changing the form of contracts, but necessitates a redefinition of the bank's role, the manner of supervising credit allocation, and the overall orientation of the monetary system in the service of social justice.

1.3. The Participation-Based Operational Model and the Challenges of Sovereign Supervision

The core of Sadr's proposed model is the "two-tier *muḍāraba*" (profit-sharing) model—a model designed to link small deposits with productive activities, positioning the bank as a trusted intermediary between the depositor and the entrepreneur (Sadr, 1989, p. 45). Mousavian also considers this model as a basis for utilizing deposits in production (2006, p. 78). Accordingly, in the interest-free system, the bank is no longer merely a profit-making enterprise but an institution that must channel resources toward productive sectors. This functional shift links the bank's role to the justice-oriented objectives of the Islamic state in regulating credit and directing capital. In this model, the bank's partnership with the entrepreneur in the economic outcome of the project necessitates effective supervision over the allocation and execution of contracts. The Islamic state can utilize the capacity of contracts such as civil partnership, *murābaḥa* (cost-plus financing), and

lease-purchase to direct capital toward strategic sectors (Mousavian, 2006, p. 81), but the application of these contracts, in the absence of substantive supervision, is susceptible to deviation. As Fayyaz (2019, p. 122) warns, the use of legal stratagems and the formal application of exchange contracts to reproduce fixed interest not only preserves the usurious logic but also undermines the legitimacy of Islamic banking. Therefore, the main issue is not merely the diversity of contracts, but ensuring that their economic content aligns with the objective of negating *ribā* and supporting production. On this basis, the effective implementation of the Interest-Free Banking Operations Act, enacted in 1983, requires an institutional and supervisory re-reading so that banking contracts are transformed from instruments of formal compliance into genuine mechanisms for financing production. In this context, interest-free loans (*qarḍ al-ḥasana*) deposits are not a peripheral matter but form part of the bank's social function in reducing inequality and supporting needy segments of society (Khomeini, 2000, vol. 1, p. 601). Therefore, the participation-based model can only realize its justice-oriented goals if it is accompanied by substantive supervision, credit direction, and the responsible intervention of the Islamic state in the banking structure.

1.4. The Political Implications of Efficiency and Stability in Interest-Free Banking

The efficiency of interest-free banking is not merely a technical or economic issue, but is linked to the stability of the political economy and the legitimacy of the Islamic state. Sadr (1989, p. 112) demonstrates that in the usurious system, the guarantee of the principal deposit along with fixed interest, under conditions of recession and inflation, leads to balance sheet imbalances and ultimately banking crises—crises whose consequence is the erosion of public trust and the weakening of political stability. In contrast, in the Islamic model, by transforming the depositor into a partner and distributing risk, economic shocks are better absorbed and the resilience of the financial institution increases—a matter that contributes to economic stability and the preservation of state authority in public policymaking. On the other hand, the elimination of interest enables the state to direct the flow of capital from speculative activities toward productive sectors. Mojtahed and Hasanzadeh (2005, p. 176) emphasize that interest-free banking, by weakening the logic of guaranteed profit, strengthens the link between the financial sector and the real economy and provides the ground for the implementation of justice-oriented credit policy. However, the realization of this function in practice faces obstacles such as profit concealment, information asymmetry, and differing risk preferences. Therefore, the success of this model requires the strengthening of supervisory mechanisms in the Islamic state. Ghafourian (2007, p. 142), pointing to these challenges, emphasizes the necessity of effective supervision—supervision which in the Islamic banking system must be realized in the form of a Sharia supervisory body and substantive oversight over the flow of wealth, not merely limited to formal control over contracts. Thus, Sadr's model, to be efficient in new conditions, requires institutional and supervisory completion—an issue that makes its comparison with Imam Khomeini's governmental approach necessary.

2. The Model of Interest-Free Banking in the Civilization-Building Thought of Martyr Sayyid Muhammad-Baqir al-Sadr

Sayyid Muhammad-Baqir al-Sadr is one of the most important thinkers who formulated interest-free banking not merely at the level of a jurisprudential response to a transactional issue, but in the form of an institutional model for reconstructing the monetary and credit order of Islamic society. His work, *Al-Bank al-Lāribawī fī al-Islām* (Interest-Free Banking in Islam), written in the early 1960s, was an effort to demonstrate the capacity of Imami jurisprudence in the institutional design of an alternative to interest-based banking. The significance of this work lies in the fact that it transcends the discussion of *ribā* from the level of prohibiting a specific transaction and links it to

the issue of organizing money, capital, and credit in the Islamic economy. From this perspective, Sadr's project can be seen as an attempt to move from a jurisprudence merely concerned with prohibition to a jurisprudence oriented toward the design of economic institutions. The basis of Sadr's analysis is that the usurious structure is not merely a contractual deviation in private relations, but a mechanism for the concentration of wealth and the reproduction of unequal economic relations. By examining the nature of conventional bank deposits, he demonstrates that these funds, contrary to their nominal designation as "trust deposits" (*wadīʿa*), are in fact "loans" (*qarḍ*) to the bank; for their ownership is transferred to the bank, and the bank is obligated to repay their equivalent or similar to the depositor. Accordingly, any guaranteed profit on such deposits assumes a usurious nature (Sadr, 1989, p. 210). This analysis, in addition to its jurisprudential precision, carries an important institutional implication: interest-based banking, in practice, turns money into a source of guaranteed income and weakens the relationship between financial capital and real economic activity.

Despite his critique of the usurious nature of conventional banking, Sadr does not reject the banking institution itself, but rather seeks to redefine its function. In his view, the bank can become, instead of a profit-oriented institution reliant on fixed interest, an intermediary for mobilizing small capitals and directing them toward productive activities (ibid., p. 20). The importance of this approach lies in the fact that Sadr neither adopts a passive stance toward new financial institutions nor deems every modern institution illegitimate merely because it emerged in a non-Islamic context; rather, he seeks to transform its usurious logic while preserving the useful functions of banking. In such a conception, the Islamic bank must serve the financing of production, the fairer distribution of economic opportunities, and the support of public interests.

One important aspect of Sadr's theory is his attention to the possibility of the gradual realization of interest-free banking. He distinguishes between the ideal state, in which Islamic banking forms part of a coordinated economic system, and the transitional state, in which society is still surrounded by usurious structures. This distinction indicates that Sadr does not make the realization of interest-free banking contingent upon the complete establishment of all Islamic institutions, but considers it a project that can be initiated under existing conditions. From this perspective, his model is not merely a theoretical picture of an ideal system, but a practical proposal for reducing the Islamic society's dependence on usurious mechanisms and providing the institutional groundwork for the gradual transformation of the financial system.

The operational core of Sadr's model is based on the two-tier *muḍāraba* (profit-sharing) contract. In this model, the bank on the one hand attracts deposits from depositors, and on the other hand places them at the disposal of economic actors; but unlike interest-based banking, the bank's income is not based on fixed interest, but is derived from fees, agency fees, or a legitimate share of economic activity (ibid., p. 11). Consequently, the bank occupies the position of a trusted intermediary between capital owners and financing applicants, and its profit must be linked to real economic activity. Sadr also distinguishes between types of deposits: current deposits, which can largely be analyzed on the basis of *qarḍ al-ḥasana* (benevolent loans), savings deposits, and investment deposits, which are organized on the basis of profit-and-loss sharing. This distinction indicates that the Islamic bank, in addition to its productive function, can also have a social function—a matter consistent with Imam Khomeini's emphasis on the importance of *qarḍ al-ḥasana* in meeting people's needs (Khomeini, 2000, vol. 1, p. 601).

Nevertheless, Sadr's model, in relation to the complexities of modern banking, new financial markets, and contemporary credit instruments, requires institutional completion and re-reading. The importance of his theory lies not in having provided the final answer to all issues of

contemporary banking, but in elevating the path of designing Islamic banking from the level of negating *ribā* to the level of institution-building. This very approach later became one of the theoretical supports for the Interest-Free Banking Operations Act in Iran, enacted in 1983, and opened a new horizon for thinking about the independence of the Islamic financial system. Therefore, Sadr's principal contribution should be seen in demonstrating that the fight against *ribā*, without the design of alternative monetary and credit structures, does not lead to a sustainable reform.

3. Interest-Free Banking from Imam Khomeini's Perspective

Imam Khomeini does not present interest-free banking merely within the framework of transactional jurisprudence (*fiqh al-muʿāmalāt*); rather, he understands it within the horizon of restructuring the economic institutions of the Islamic state. From this perspective, the bank is not only an institution for mobilizing and allocating resources, but also a part of the mechanism for realizing social justice, curbing unjust financial relations, and Islamizing the monetary and credit system. Hence, an analysis of Imam Khomeini's viewpoint on interest-free banking can be examined at three interconnected levels: the jurisprudential basis for the rejection of *ribā* (usury), the governmental will to transform the banking structure, and the necessity of supervising the actual implementation of Islamic contracts.

The first level concerns Imam Khomeini's jurisprudential basis for criticizing usury and rejecting legal stratagems. In *Taḥrīr al-wasīla*, Khomeini explicitly states that the methods commonly referred to as ways of escaping the prohibition of usury are not legitimate (Khomeini, 2000, Vol. 1, p. 495). The significance of this position lies in the fact that, in his view, usury is not merely a legal designation that can be eliminated by changing the wording or making formal adjustments to a contract. Rather, it is a phenomenon associated with injustice, the disruption of transactional justice, and the reproduction of economic inequality. Accordingly, in *Kitāb al-bayʿ*, he also emphasizes the manifest economic and social harms of usury, demonstrating that the central issue is the economic substance of the transaction, not merely its legal form (Khomeini, 1972, Vol. 2, pp. 405, 410). On this basis, Khomeini's jurisprudential position is concerned from the outset with the actual content of financial relations, rather than merely their outward formal structure.

The second level concerns the governmental dimension of Imam Khomeini's vision for transforming the banking system. Following the victory of the Islamic Revolution, Khomeini did not regard the elimination of usury as a limited reform of certain contracts; rather, he considered it part of the process of Islamizing the structures of the state and the economy. In his view, the banking system inherited from the Pahlavi era was in need of fundamental transformation not merely because it charged illicit interest, but also because of its role in reproducing dependency and perpetuating *ṭāghūtī* relations. Accordingly, he emphasized the transformation of banks from a "*ṭāghūtī* form" into an "Islamic form," making clear that the primary criterion was the Islamization of their substance, not merely a change in name or form (Khomeini, 2009, Vol. 6, p. 45; Vol. 7, p. 23). Within this framework, interest-free banking, in Khomeini's thought, constitutes part of the project of Islamic state-building and the redefinition of the state's role in regulating financial relations. This governmental approach has important implications for the place of banking within the Islamic state. In Khomeini's view, eliminating usury is not merely an individual obligation to refrain from engaging in prohibited transactions; it is also a means of supporting the productive sector, preventing economic exploitation, and strengthening social justice. Consequently, the further the banking system departs from genuine participation, transactional transparency, and a production-oriented approach, the further it moves away from the objectives of the Islamic state. In other words, Khomeini's critique of usury is not simply a critique of a

financial instrument; it is a critique of a logic in which financial capital dominates labor and production without assuming risk or being connected to the real economy.

The third level concerns the practical model for replacing usurious relations with legally permissible contracts. Within this framework, investment deposits can be accepted on the basis of *muḍāraba*, with the bank acting as a financial intermediary that deploys the funds in economic activities (Khomeini, 2000, Vol. 1, pp. 493–495). Likewise, *qard al-ḥasana* deposits are accepted on the basis of interest-free loans, and the bank may offer depositors unspecified prizes as an incentive, without undertaking to pay a fixed return (Khomeini, n.d., Issue 2855). On the asset-allocation side, the use of contracts such as *mushāraka madaniyya* (civil partnership), *murābaḥa* (cost-plus sale), *ijāra bi-sharṭ al-tamlīk* (lease-to-own), *juʿāla* (commission-based contract), and *muzāraʿa* (agricultural sharecropping) makes it possible to finance various sectors of the economy (Khomeini, 2000, Vol. 1, p. 494). The significance of Khomeini's position, however, lies not merely in his approval of these contracts, but in his insistence that they serve the real economy rather than become a cover for reproducing fixed-interest returns.

It is here that the need for substantive state oversight of banking operations becomes apparent. From Khomeini's perspective, the legitimacy of a financial institution cannot be established merely by ensuring that contracts comply with their formal requirements; rather, it must be assessed whether their practical outcomes are consistent with the rejection of usury, economic justice, and support for the productive sector. Accordingly, if Islamic contracts are, in practice, turned into instruments for guaranteeing fixed returns and unilaterally shifting risk, they will be incompatible with the purpose of the Sharia and the objectives of the Islamic state, even if they appear formally valid. Consequently, oversight, in Khomeini's thought, is not merely legal supervision of contract enforcement, but also supervision of the overall orientation of the credit system and its conformity with the economic objectives of Islam. The institutional manifestation of this approach can be seen in the Law on Usury-Free Banking Operations, enacted in 1983, which, drawing on existing jurisprudential models, including Sadr's views, established the formal framework for banking in the Islamic Republic of Iran. In this sense, Khomeini's model of interest-free banking has three essential features: strict jurisprudential opposition to usury and legal stratagems for circumventing its prohibition; the political will to transform the banking structure; and an emphasis on substantive oversight to prevent the banking system from deviating from Islam's justice-oriented objectives. These features distinguish Khomeini's position from accounts of Islamic banking that focus exclusively on contractual forms.

3.1. Qard al-Ḥasana in the Thought of Imam Khomeini

In Imam Khomeini's thought, *qard al-ḥasana* (interest-free lending) is not merely a jurisprudential contract or an instrument for providing small-scale loans; rather, it is one of the most important expressions of the distinction between the Islamic economy and an interest-based financial system, and one of the means of realizing social justice in the Islamic state. According to this conception, the bank is responsible not only for mobilizing and allocating financial resources but also for serving people's actual needs, particularly those of disadvantaged groups and the productive sectors of society. Accordingly, *qard al-ḥasana* can be regarded as part of the identity of Islamic banking, redefining the relationship between financial institutions, social responsibility, and the state's credit policy. Khomeini regarded *qard al-ḥasana* as a means of stimulating economic activity and strengthening individual responsibility. He stated explicitly: "Interest-free lending is one of the very good deeds … The person who borrows and is obligated to repay the loan becomes motivated to work so that they can repay it when the time comes" (Khomeini, 2009, Vol. 12, p. 427, as cited in Amiraslani, 1998, p. 53). This statement shows that, in his view, *qard al-ḥasana* is

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not merely a mechanism for providing assistance; it can also link supportive justice with economic empowerment. This approach was also reflected in the Law on Usury-Free Banking Operations, enacted in 1983, under which *qard al-ḥasana* became part of both the mobilization of financial resources and the provision of bank financing (Amiraslani, 1998, p. 53). Accordingly, banks may accept current and savings *qard al-ḥasana* deposits, guarantee their principal, and award depositors variable cash or non-cash prizes without undertaking to pay a fixed return (Amiraslani, 1998, p. 54; Khomeini, n.d., Vol. 1, Issues 2854 and 2855). In this way, the relationship between the bank and the depositor shifts from the logic of guaranteed returns to one of participation in the public good and support for social needs. In the allocation of financial resources, *qard al-ḥasana* likewise serves an explicitly justice-oriented function. Banks are required to allocate a portion of their resources toward the objectives of Article 43 of the Constitution, including job creation, support for production, and meeting individuals' essential needs (Amiraslani, 1998, p. 54). From this perspective, *qard al-ḥasana* is not simply an interest-free loan; it is an instrument for directing credit toward reducing inequality, supporting livelihoods, and strengthening production. Thus, in Khomeini's thought, *qard al-ḥasana* constitutes a point of intersection between credit policy, social justice, and the role of the Islamic state in regulating the economy.

4. A Comparative Analysis of Imam Khomeini's and Sadr's Views on the Islamic Financial System

A comparison of the views of Imam Khomeini and Shahid Sayyid Muḥammad Bāqir al-Ṣadr shows that, despite differences in their historical contexts and theoretical vocabularies, both understand interest-free banking as extending beyond the replacement of a few usurious contracts with Sharia-compliant ones. Writing in the context of establishing and administering an Islamic state, Khomeini addresses banking in relation to the transformation of the state's structure and its economic institutions. Sadr, by contrast, focuses more on designing the internal mechanisms of Islamic banking as a theorist concerned with constructing a comprehensive system. Nevertheless, they share a common premise: interest-free banking is part of Islam's broader project of curbing financial domination, establishing social justice, and directing credit toward the productive sectors of the economy.

4.1. Common Ground in Their Conceptions of the Islamic State and the Rejection of Financial Domination

The first point of convergence is their shared understanding of usury as a phenomenon that extends beyond an individual jurisprudential prohibition. By criticizing the nature of interest, Sadr shows that conventional banking disrupts distributive justice by turning monetary capital into a source of guaranteed income without assuming risk or maintaining a connection with labor and production (Sadr, 1989, p. 210). Imam Khomeini, too, emphasizes the evident economic and social harms of usury in *Kitāb al-bayʿ* and regards its prohibition as consistent with rational judgment (Khomeini, 1972, Vol. 2, p. 405). Thus, in the thought of both, usury is not merely a violation of a religious ruling; it is a mechanism for concentrating wealth, weakening production, and expanding unjust economic relations (Khomeini, 2010, Vol. 18, p. 434). The second point of convergence is their opposition to legal stratagems and their insistence that the economic substance of transactions take precedence over their legal form. In *Taḥrīr al-wasīla*, Khomeini explicitly states that circumventing the prohibition of usury is impermissible (Khomeini, 2000, Vol. 1, p. 495). In *Kitāb al-bayʿ*, he also rejects certain claims concerning ways of evading the prohibition of usury (Khomeini, 1972, Vol. 2, p. 413). Sadr likewise criticizes conventional methods of circumventing the prohibition, showing that although these devices differ at the level of wording, in practice they reproduce the same logic of interest (Sadr, 1989, p. 164). Accordingly, for both thinkers, the

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Islamization of banking is substantive rather than merely formal. The Islamic state therefore cannot limit itself to formally regulating contracts; it must also oversee their economic substance. The third point of convergence is their reconceptualization of the bank as an intermediary institution serving production and economic participation. Through his design of a two-tier *muḍāraba* model, Sadr regards the bank as the agent of depositors and an intermediary for financing producers, explaining its income in terms of fees and a lawful share in economic activity (Sadr, 1989, p. 11). Imam Khomeini, too, emphasizes transforming the bank from an interest-oriented institution into an Islamic institution based on participation (Khomeini, 1389, Vol. 6, p. 45). Their shared emphasis on contracts such as *muḍāraba*, *mushāraka*, and *juʿāla* shows that banks must be connected to the real economy and direct monetary resources toward production, employment, and the fulfillment of public needs. Taken together, these points of convergence show that Imam Khomeini and Sadr regard interest-free banking as part of the broader project of Islamizing the monetary and credit order. Within this framework, the rejection of usury, the closure of formal loopholes for circumventing its prohibition, and the reconceptualization of the bank as an institution based on participation are components of a unified system aimed at curbing financial domination and establishing an order consistent with Islamic justice. The convergence between these two thinkers should therefore be understood not merely in terms of their agreement on jurisprudential matters, but also in terms of their shared conception of the Islamic state's role in regulating the money market, supporting the productive sector, and preventing the unjust concentration of economic power.

4.2. Differences: Ijtihādī Method, Role and Position, and Scope of Theoretical Formulation

Despite their fundamental agreement on the rejection of usury, the repudiation of legal stratagems, and the emphasis on Islamic contracts, Imam Khomeini and Shahid Sayyid Muḥammad Bāqir al-Ṣadr differ significantly in their methods of legal derivation, historical positions, and the scope of their theoretical formulations. These differences do not reflect a fundamental disagreement in their underlying principles; rather, they point to two distinct levels of engagement with the problem of interest-free banking in contemporary political jurisprudence: one from the position of a ruling jurist and founder of a political order, and the other from that of a jurist seeking to construct a system and formulate a model of the Islamic economy.

The first point of difference concerns their methods of ijtihad (independent juristic reasoning). In evaluating usury and ways of circumventing its prohibition, Imam Khomeini does not limit himself to examining the authenticity and import of the relevant narrations; he also considers the rationale behind legislation, the social function of the ruling, the guiding authority of the Infallible Imam, and the structural effects of legal rulings on collective life. Accordingly, his ijtihad on economic matters is linked to the objectives of the Sharia, the conditions of time and place, and the interests of the Islamic state (Ghafourian, 2007, p. 140). Sadr, by contrast, in *Al-Bank al-lāribawī fī al-Islām*, adopts a more jurisprudential and rule-based approach, criticizing methods of circumventing the prohibition of usury through an analysis of the nature of contracts, the relationship between loans and excess returns, and the customary understanding of contractual arrangements (Fayyaz, 2019, p. 128). Thus, whereas Khomeini's approach tends toward a form of purposive, state-oriented ijtihad, Sadr's is more technical and systematic. This difference leads to distinct conceptions of how the Islamic state should intervene in organizing financial institutions. The difference also becomes apparent in their views on the powers of the Islamic state. On the basis of his theory of *wilāyat al-faqīh* (the guardianship of the jurist), Khomeini grants the Islamic ruler extensive powers within the bounds of the public interest and the preservation of the political order, holding that, where necessary, governmental rulings take precedence over primary rulings

of Islamic law (Khomeini, 2010, Vol. 21, pp. 289–292). This conception enables the Islamic state to actively restructure the monetary and banking system. Sadr, too, recognizes the role of the *walī al-amr* (the ruler) in regulating social life. However, his formulation, particularly through the concept of *minṭaqat al-farāgh* (the sphere left open to legislative discretion), focuses more on the domain in which no binding textual ruling exists. Consequently, at least in its jurisprudential formulation, the scope for state initiative in Sadr's account appears narrower than in Khomeini's (Sadr, 1989, p. 220).

The second point of difference concerns the historical and political positions of the two thinkers. In addition to his standing as a jurist, Imam Khomeini, as the leader of the Revolution and founder of the Islamic Republic, was able to translate a jurisprudential idea into public policy, legislation, and executive institutions. Accordingly, his engagement with interest-free banking was not merely theoretical; it was also connected to legislation, executive direction, and oversight of the orientation of the banking system. This was reflected in the enactment of the Law on Usury-Free Banking Operations in 1983 and in his emphasis on transforming the substance of the banking system (Amiraslani, 1998, pp. 49–50). Sadr, by contrast, although one of the most prominent contemporary thinkers concerned with constructing comprehensive systems, did not have the opportunity to realize his theory institutionally or assess it in practice because of the political circumstances in Iraq and his early martyrdom. Consequently, he became established primarily as a designer and theorist rather than as an executive or ruler. This difference in their positions, however, does not imply an intellectual or political distance between them. Evidence suggests that, recognizing Imam Khomeini's historical position, Sadr placed his scholarly authority and standing as a religious authority at the service of Iran's Islamic movement and regarded Khomeini's approach to governance as a more effective horizon for realizing the Sharia in the contemporary world (Fayyaz, 2019, p. 132). Moreover, Sadr's attention to the potential of the theory of *wilāyat al-faqīh* to establish an Islamic government indicates that he was aware of the distinctive historical role played by Khomeini (Sadr, 1989, p. 225).

The third point of difference concerns the scope and scale of their theoretical formulations. From a broad, state-centered perspective, Imam Khomeini regarded banking as part of the wider framework of the political economy of Islam and as an element in the reconstruction of the Islamic state. Within this framework, interest-free banking was not merely an issue in the jurisprudence of commercial transactions, but also part of a project aimed at achieving economic independence, social justice, and the rejection of *ṭāghūtī* domination. It was for this reason that he emphasized the transformation of the "banking system" (Khomeini, 2010, Vol. 7, p. 23). Sadr, by contrast, in *Al-Bank al-lāribawī fī al-Islām*, focuses primarily on designing an operational model for interest-free banking—that is, on how the banking institution can retain its functions of mobilizing and allocating financial resources while being freed from the logic of usury and restructured on the basis of Islamic contracts (Mousavian, 2006, p. 80). The difference here, therefore, concerns less their ultimate objective than their respective levels of focus: Khomeini approaches banking from the perspective of the state and the broader social order, whereas Sadr approaches it from the perspective of institutional design.

Nevertheless, Sadr's thought should not be confined to *Al-Bank al-lāribawī fī al-Islām*. In his later works, including *Al-Islām yaqūd al-ḥayāt* and *Lamḥa fiqhiyya tamhīdiyya ʿan mashrūʿ dustūr al-jumhūriyya al-Islāmiyya fī Īrān*, his intellectual horizon extends beyond banking to encompass the formulation of the jurisprudential and legal foundations of the Islamic system. This indicates that the difference between Sadr and Khomeini lies less in their underlying civilizational concerns than in the stage of realization and the level of focus (Fayyaz, 2019, p. 135). The overall conclusion of

this comparison is that the differences between Imam Khomeini and Sadr regarding interest-free banking pertain less to their ultimate objectives than to their respective methodologies, positions, and scales of analysis. Through his state-oriented ijtihad, political leadership, and vision of state-building, Khomeini presents interest-free banking as a project for the structural transformation of the Islamic state's financial system. Sadr, by contrast, employs a technical and systematic approach to articulate the conceptual and operational form of this transformation. Their respective approaches can therefore be understood as complementary: one addresses the possibility of institutional realization, while the other focuses on its technical and jurisprudential design.

Conclusion

This study, which set out to conduct a comparative analysis of the model of interest-free banking in the thought of Imam Khomeini and Shahid Sayyid Muḥammad Bāqir al-Ṣadr, has shown that despite their differences in jurisprudential methodology, historical position, and the scale of their theoretical formulations, the two thinkers share a fundamental principle: interest-based banking is not merely an issue within the domain of the jurisprudence of commercial transactions. Rather, as a mechanism for concentrating financial power, undermining distributive justice, and weakening society's economic independence, it is directly connected to the question of the Islamic state and its economic order. From this perspective, the rejection of usury in the thought of Khomeini and Sadr should be understood as part of an effort to reconstruct the financial system on the foundations of justice and production, while curbing the domination of financial capital.

The findings of this study show that the relationship between the views of Imam Khomeini and Sadr is not one of two competing approaches, but rather one of two complementary levels in the design and implementation of interest-free banking. As the ruling jurist and founder of the Islamic Republic, Imam Khomeini moved the question of Islamic banking beyond purely jurisprudential debate and situated it within the broader project of Islamic state-building, the reconstruction of economic institutions, and the formulation of public policy. In this conception, the bank is not merely a financial institution; it is an instrument for directing credit, supporting production, reducing inequality, and countering ṭāghūtī relations in the economy. Sadr, by contrast, elucidated the internal architecture of this transition through technical precision and systematic theoretical analysis. By designing an operational model of interest-free banking, he provided the jurisprudential and institutional foundations necessary for moving banks away from the logic of interest and toward a logic of participation and justice. The overall conclusion of this comparison is that Imam Khomeini's thought focuses more on the broader horizon of the Islamic state, the governing authority's powers to restructure monetary and financial institutions, and the relationship between banking, economic independence, and social justice. Sadr's thought, by contrast, focuses more on the technical, contractual, and institutional formulation of interest-free banking, explaining the operational mechanisms through which this transformation can be achieved. Thus, the former clarifies the overall direction and the political and social objectives of the transformation, while the latter provides the theoretical and practical instruments for realizing it. This complementarity offers significant potential for rethinking the current state of the banking system of the Islamic Republic. In light of these findings, the current challenges facing the country's banking system cannot be attributed solely to weaknesses in jurisprudential resources or the absence of a theoretical model. A substantial part of the problem lies in the gap between Islamic principles and their institutional realization in legislation, implementation, supervision, and credit policy. The continued formalization of contracts, the dominance of guaranteed-profit arrangements, inadequate substantive oversight of banks' operations, and the growing disconnect between the financial system and the productive sector indicate that the central problem lies less

in a lack of theory than in how interest-free banking is implemented and institutionally regulated. Returning to the thought of Imam Khomeini and Sadr is therefore not a return to the past, but an effort to recover neglected capacities within Shiʿi political jurisprudence for addressing the contemporary challenges of the financial system. Ultimately, redesigning the banking system of the Islamic Republic requires drawing simultaneously on two complementary strengths: on the one hand, Imam Khomeini's state-building and justice-oriented perspective, which defines banking in relation to the broader objectives of the Islamic state, monetary policy, credit allocation, and the curbing of financial domination; and, on the other, Sadr's technical precision and institutional approach, which make it possible to design lawful, effective, and implementable mechanisms for achieving these objectives. Interest-free banking can therefore move beyond the level of a legal designation and become an effective economic reality only if it is restructured both at the level of public policy and state commitment and at the level of instruments, contracts, and supervisory institutions. The present article thus demonstrates that, within the contemporary tradition of political jurisprudence, the theory of interest-free banking can bear fruit only when the relationship between jurisprudence, the state, and economic institution-building is maintained in a coherent manner.

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