

# Islamic Finance, Religious Norms and Financial Practices

The prohibition of *riba* – commonly translated as *interest* – is a central idea in Islam. What does this mean for Muslims in the Nordic countries? Does the absence of interest-free financial alternatives affect people’s everyday lives and their financial choices and opportunities? Here, we shed light on these questions and present key findings from the project ‘FINEX – Financial Exclusion, Islamic Finance and Housing in the Nordic Countries’.

## Brief Points

- Islamic financial norms – and the prohibition of *riba* (interest) in particular – matter to Muslims in the Nordic countries, but are interpreted in different ways.
- For Muslims who do not want to use interest-bearing loans, the lack of alternatives creates barriers to homeownership, business development and student financing.
- When religious conviction and low socio-economic status intersect, it is even more challenging for people to access housing finance, which leaves them in an expensive and precarious rental market.
- To some, the lack of interest-free alternatives has broader social and emotional implications, negatively affecting feelings of belonging to the societies in which they live.

Torkel Brekke *PRIO & OsloMet*

Kaja Borchgrevink *Peace Research Institute Oslo (PRIO)*

Edin Kozaric *Peace Research Institute Oslo (PRIO)*

## Introduction

*Riba* – commonly translated as ‘interest on money’ – is prohibited in Islam. Although this prohibition is as old as Islam, ‘Islamic economics’ and the institutionalization of an Islamic banking and finance sector is a modern, 20th-century phenomenon. The sector has grown over the past decades, and Islamic banks have opened in several European countries with sizeable Muslim populations, such as Germany and the UK. No Islamic banks are currently operating in the Nordic countries.

We sought to find out to what extent Islamic norms about money and finance impact people’s everyday lives in the four Nordic countries of Norway, Sweden, Denmark and Finland through the research project ‘FINEX – Financial Exclusion, Islamic Finance and Housing in the Nordic Countries’. What do Muslims in minority contexts understand by ‘Islamic finance’? In what ways do Islamic norms about money and finance influence attitudes and practices among Muslims in the Nordic countries? And what, if any, social and emotional effects does the lack of alternative financing produce?

## Methods and Sampling

To answer these questions, we gathered data via focus group discussions, interviews, and an online survey. The survey included a total of 2,376 respondents across Norway, Denmark, Sweden, and Finland. The sample consists of residents in the four countries who self-identify as Muslim, are over the age of 20, and were reachable through mosques and associated networks. As a result of this sampling frame, the sample is likely to have a bias towards people that have an interest in the topic. The survey is *not* representative of Muslims in the Nordic countries. Still, our sample is diverse, with respondents born in, or with parents born in, 60 different countries, with the six most common country backgrounds being Somalia, Pakistan, Ethiopia, Iraq, Syria, and Bosnia-Herzegovina.

FINEX project researchers have also analysed data from Statistics Norway’s representative survey on living conditions among immigrants in Norway (the ‘LKI-survey’), predicting the share of Norwegian Muslims that do not own a home despite having characteristics (demographics and education, resources, and priorities) indicating they would. This analysis suggests

that religious norms prevent at most a small fraction of Norwegian Muslims from becoming homeowners.

## The Meaning of Islamic Finance

Setting out to explore what ‘Islamic finance’ – Islamic norms about money and finance – means to Muslims in the Nordic countries, we conducted 18 focus group discussions with 74 Muslims in Norway and Denmark in 2017–2018, mainly recruiting participants through various mosques and immigrant organizations.

Our data reveal that some informants, although few, expressed a keen interest in the field of Islamic finance, and had engaged quite extensively with the topic. Most participants, however, were not very familiar with ‘Islamic finance’ as a concept. This does not mean that they did not care about or were unaware of Islamic principles related to money; they expressed concern with the prohibition of interest and how this related to their own life situation. When asked what they understood by ‘Islamic finance’, nearly all participants noted ‘the prohibition of interest’. Other recurring themes were:

- Islamic principles and Sharia law
- The legality/illegality of conduct and practice (*halal/haram*)
- Redistribution of resources through *zakat* and other forms of charity
- Just and ethical banking and investment

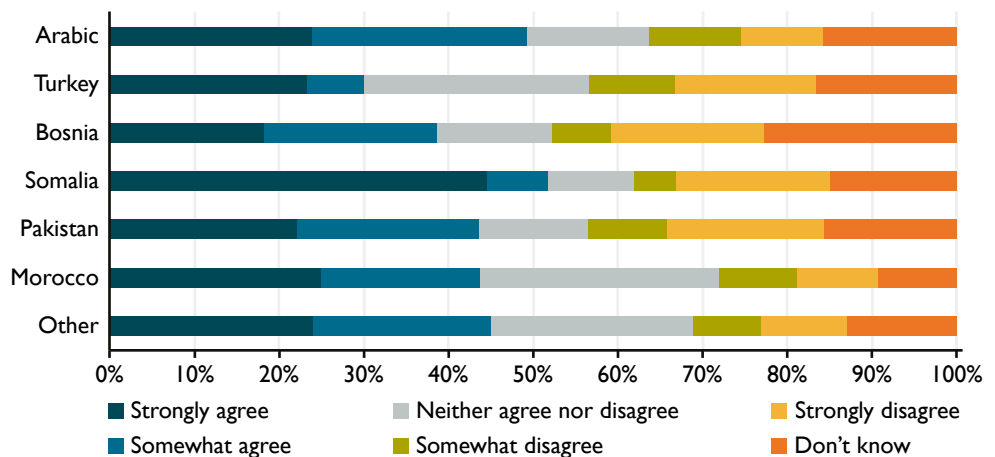


Figure 1: ‘Having a loan with interest might lead to negative reactions from others!’

## Riba and the ECFR Fatwa

‘*Riba*’ is a word in Arabic that in its fundamental sense means ‘usury’, i.e. an immorally high interest rate on money. One of the key legal and theological questions concerning finance and economics in Islamic intellectual circles is whether ‘*riba*’ also includes ‘interest’ in the modern sense of normal interest rates charged by banks.

The Dublin-based European Council for Fatwa and Research (ECFR), which aims at being the primary authority on Sunni Muslim law in Europe, issued a *fatwa* in 1999 permitting Muslims to obtain an interest-bearing mortgage when needing to buy a home ‘out of necessity’, e.g., when no other options are available.

- Transparency in financial transactions
- Alternatives to the existing capitalist economic system.

We found that Islamic norms about money and economics matter to our informants, but also observed great variation in how these norms are interpreted. The most significant difference relates to the interpretation of *interest* in the context of housing finance, where endorsement/non-endorsement of the 1999 ECFR *fatwa* on housing mortgage represents a clear divide. This broadly followed country-of-origin lines, with many informants of Pakistani and Bosnian backgrounds reporting that religious leaders in Norway and Denmark refer to the ECFR 1999 *fatwa* when allowing the use of interest-bearing mortgages to buy a home ‘out of necessity’, e.g.,

when other options are not available. In contrast, our informants with backgrounds from Somalia and Palestine more often reported that religious authorities reject the authority of the ECFR *fatwa*, and thus upheld the illegality of interest-bearing mortgages. While we find variations also within these immigrant groups, our survey results indicate a similar trend, with informants with a background from Somalia being more concerned than the rest that having a loan with interest might have negative implications on health, social standing, and the afterlife. While the question of taking loan – or not – was most pertinent in regard to buying a home, in our qualitative data we found that those who interpreted the prohibition of interest in a strict sense also avoided consumer loans, car loans, student loans, and the use of credit cards.

### Muslim Professionals and Entrepreneurs without Loans

To explore the ways in which religious norms might impact financial attitudes and practices, we recruited informants who did not hold a mortgage but whose socio-economic background indicated that they could obtain a loan from a bank – if they wanted to. Through mosque networks in Norway, Sweden, Denmark, and Finland, we recruited and interviewed 50 ‘professionals’, meaning highly educated and fully employed Muslims who choose not to take interest-bearing loans. In addition, we interviewed 40 entrepreneurs who ran their businesses without using conventional loans.

In the interviews with the ‘professionals’, using interest-bearing loans was frequently described as a great sin – by some as ‘waging war against God’ – and as something that they ‘could not do’ out of religious conviction. The inability to own a home due to the lack of access to bank loans compatible with Islamic norms was described as an important and difficult issue. Not being able to invest and accumulate wealth that could be passed on to their children – on a par with other citizens – caused frustrations. Some described it as ‘throwing money out of the window’. A sense of losing out, due to what was perceived as unequal opportunities, affected feelings of belonging and inclusion in the societies in which they live.

When interviewing the entrepreneurs, a key question for us was whether they faced problems in financing their businesses and how they

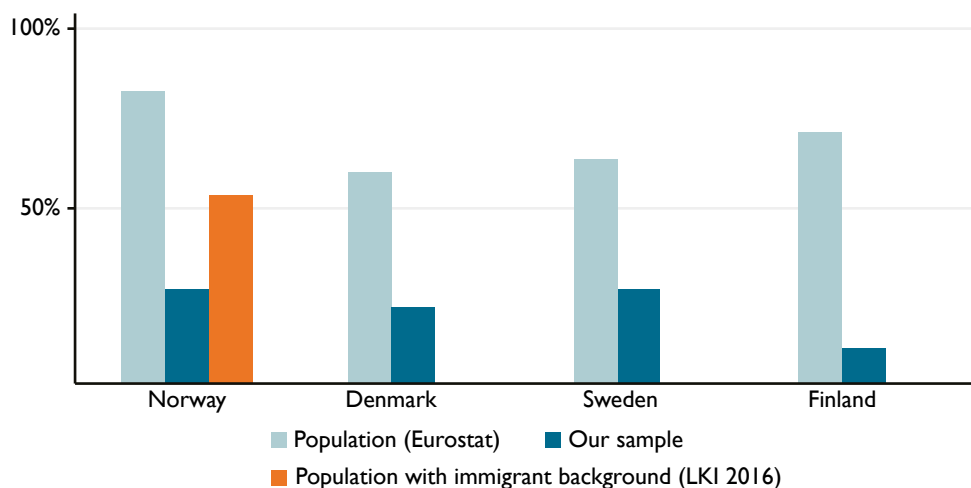


Figure 2: Homeownership rates in the Nordic countries compared to homeownership rates in our sample, when respondents are distributed by country of residence.<sup>2</sup>

would reason about a contrafactual situation in which they had been able to take a bank loan or get other types of credit to invest in their companies. Most of our informants believed that lack of access to credit had a negative effect on the development of their business, limiting their ability to develop it further. When asked to speculate about the development of their business in the future, all our informants ruled out the possibility of taking up a conventional interest-bearing loan. However, many were optimistic about the prospects for alternative, interest-free finance to emerge locally, and said they would consider obtaining a mortgage, if acceptable alternatives emerged.

### Religious Norms and Homeownership

Homeownership is high across the Nordic countries. It is highest in Norway, where 78 percent of the population live in housing that is owned by themselves or someone in their household. Among immigrants, the rate is only 53 percent, although there is great variation in homeownership rates among different immigrant groups. For instance, the homeownership rate is 85 percent among those of Pakistani origin, while only 19.8 percent among those of Somali origin. This can partly be explained by differences in socio-economic situation and participation in the labour market, associated with time of residence in the country and history of migration. For some Muslims, religious norms against interest-bearing loans and the lack of alternatives to this can be an additional explanation.

Among our survey respondents, only 25 percent are homeowners. This is much lower than the average and considerably lower than the homeownership rates among immigrants in general. We also find that prohibition against interest in Islam is reported as one of the main reasons for not having an interest-bearing bank loan by 85 percent of the survey respondents – this holds true for respondents across the four countries, and for all the most common country backgrounds. This makes the survey a good window into understanding what people who do not have an interest-bearing loan and who are concerned about the prohibition of *riba* think about religion and finance.

### Size of Exclusionary Effect

With the aim of assessing how religious norms against interest might influence homeownership, FINEX researchers analysed data from the representative LKI-survey of immigrants in Norway to predict the share of Muslims who are not homeowners despite having characteristics indicating that they ‘would’ be. We found that three percent of respondents in the LKI-survey are in a situation where they 1) have characteristics that should be indicative of homeownership, 2) in fact are not homeowners, and 3) experience Islam as extremely important in their lives.<sup>3</sup> This suggests that the group potentially affected by the lack of alternatives to conventional interest-bearing finance is relatively small.

Whereas the analysis of the LKI data indicates that the exclusionary effect of not having

interest-free loan options in Norway is relatively small, this cannot be taken to mean that Islamic financial norms are not important to Muslims in Norway. We don't know the share of Muslims who take a mortgage 'out of necessity' and, as such, against their religious convictions. We also know little about how Muslims might limit the amount of loan they take, thus forfeiting opportunities to buy a larger home or to invest in business.

The FINEX interviews, focus groups and survey explored experiences among Muslims for whom this is a lived reality, where an *experience* of exclusion emerged. FINEX data suggest that these norms matter a great deal to some, albeit in different ways and with varying consequences.

### Conclusion and Recommendations

We found that Islamic norms on money and finance – most notably the prohibition of *riba* – matter to many of our research participants and respondents. Meanwhile, many questions remain.

For Muslims who abstain from taking an interest-bearing loan for religious reasons, the lack of alternative means of financing – for the purpose of buying property, running a business, or to study – presents a real difference for the terms of their participation in economic and social life, compared with the population overall in these societies.

### What can be done?

**Recognition.** Policy makers need to recognize the obstacles the lack of interest-free alternatives to conventional finance presents for some Muslims.

**Revisit regulations.** There is a need to revisit regulations to make it easier for private initiatives

and conventional banks to establish interest-free alternatives.

### Alternative models for housing finance.

Housing stands out as the single most important issue. There is a need for looking into alternative models for housing finance, including models of rent-to-own, and to develop better alternatives to owning.

**Intersectional analysis.** Understanding barriers to homeownership among Muslims in the Nordic countries requires intersectional analysis, where religion is but one factor, and considerations of other factors (e.g. socio-economic status, length of residence, and education level) matter.

**Inclusive dialogue.** There is a need for strengthening the dialogue between relevant government bodies, the private banking and finance sector and, not least, the Muslim communities. ■

### Notes

1. The data source for Figure 1 is: Brekke, Torkel; Siri Aas Rustad, Kaja Borchgrevink & Edin Kozaric (2021) Attitudes to Housing and Finance among Muslims in the Nordic Countries. A Report from A Survey in Mosque Networks. *PRIO Paper*. Oslo: PRIO.
2. The data sources for Figure 2 are: Brekke, Torkel; Siri Aas Rustad, Kaja Borchgrevink & Edin Kozaric (2021) Attitudes to Housing and Finance among Muslims in the Nordic Countries. A Report from A Survey in Mosque Networks. *PRIO Paper*. Oslo: PRIO; Eurostat (2018) *Distribution of Population by Tenure Status, Type of Household and Income Group*. EU-SILC Survey; Vrålstad, Signe & Kjersti Stabell Wiggen (2017) *Levekår blant innvandrere i Norge 2016* (LKI 2016) [Living conditions among immigrants in Norway 2016]. SSB-rapport, 2017/13.

3. Carling, Jørgen & Marta Bivand Erdal (2021) Religiosity and Homeownership among Muslims in Norway. *PRIO Policy Brief*, 16. Oslo: PRIO.

### Further Reading

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Borchgrevink, Kaja & Marta Bivand Erdal (2021) The Necessity of Taking a Loan, and the Necessity of Not Doing So: Islamic Finance among Muslim Minorities in Denmark and Norway. *Nordic Journal of Religion and Society* 34(2): 117–129.

Brekke, Torkel; Siri Aas Rustad, Kaja Borchgrevink & Edin Kozaric (2021) Attitudes to housing and finance among Muslims in Mosque networks in the Nordic countries. *PRIO Paper*. Oslo: PRIO.

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Brekke, Torkel, Malik Larsen & Edin Kozaric (2021) Islam and the Spirit of Capitalism: Muslim Entrepreneurs in the Nordic Countries. *Nordic Journal of Religion and Society* 34(2): 102–116.

Carling, Jørgen & Marta Bivand Erdal (2021) Religiositet og boligeierskap blant muslimer i Norge [Religiosity and Homeownership among Muslims in Norway]. *PRIO Policy Brief*, X. Oslo: PRIO.

## THE AUTHORS

Torkel Brekke (torkelbr@oslomet.no) was project leader of FINEX at PRIO. He is a Professor at Oslo Metropolitan University.

Kaja Borchgrevink (kaja@prio.org) is a Senior Researcher at PRIO.

Edin Kozaric worked as Research Assistant on the FINEX project.

## THE PROJECT

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## PRIO

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