

The Role of Installment Sale in Economic Development and Reduction of Usurious Transactions: An Approach Based on Islamic Jurisprudence and Iranian Law

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Installment sale, as one of the key financial instruments in the economic system, holds a significant position in Iranian law and international instruments. This type of transaction, in which the payment of the price is made gradually and in installments, has long been utilized in economic exchanges and has recently been proposed as an alternative to interest-based financial systems. In Islamic jurisprudence, installment sale is considered legitimate due to the mutual agreement of the parties on the final price from the outset and is recognized as a non-usurious method of financing. Although Iranian law does not provide an independent definition of this type of sale, the general rules of contracts and certain banking regulations have outlined its legitimacy and implementation framework. The aim of this study is to examine the position of installment sale in the Iranian legal system and compare it with international instruments. In this regard, by analyzing the jurisprudential and legal foundations, the impacts of this type of transaction on economic development and the reduction of usurious transactions were evaluated. The research method employed is descriptive-analytical, and data were collected through library research and document analysis. The findings revealed that installment sale contributes to economic growth by increasing purchasing power, strengthening the market, and supporting entrepreneurship. Moreover, this type of transaction reduces dependency on usurious loans and, if properly implemented, can serve as a suitable alternative to interest-based financial systems. The results of this study indicate that installment sale can lead to business prosperity, facilitate access to goods and services, and enhance transparency in the banking system. However, challenges such as stringent conditions for granting installment facilities, the requirement for substantial collateral, and the determination of disproportionate profit rates have reduced the efficiency of this method in Iran. To promote installment sale, it seems necessary to amend relevant laws, facilitate the conditions for granting facilities, and promote Islamic banking based on this type of transaction. Finally, it is recommended that by drawing on successful banking systems in Islamic countries, a clear framework for installment sale be developed, and this method be used as a practical alternative to usurious facilities in Iran.

Keywords: *Installment Sale, Economic Development, Usurious Transactions, Islamic Jurisprudence, Iranian Law, Islamic Banking, Non-Usurious Financing, Installment Contracts.*

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1. Introduction

Installment sale is one of the significant methods in economic transactions where the buyer pays the price of goods or services gradually in installments. Due to its flexible nature, this type of transaction has been introduced as an efficient financial instrument for individuals and economic enterprises. In the economic system of Islamic countries, installment sale is not only a facilitator of transactions but also a legitimate alternative to usurious loans, as it allows the purchase of goods and services without the need to pay interest (Al-Sanhouri, 2002; Ebrahimi, 2021).

From the perspective of Islamic jurisprudence, the legitimacy of installment sale is confirmed due to the agreement of the parties on the final price of the goods and the determination of the payment method at the time of the contract. Both Imami and Sunni jurists, based on the jurisprudential rule "lil-ajal qistun min al-thaman," have permitted an increase in price for deferred sales compared to cash sales, as the profit gained is not due to payment delay but rather due to the initial agreement of the parties on the total price of the transaction (Mousavian, 2011). However, some critics compare this type of transaction to usurious transactions, arguing that the price increase in installment sales is akin to bank interest. Nevertheless, in usurious banking, the increment is applied gradually based on the payment delay period, whereas in installment sales, the final price is determined from the outset and remains unchanged after the contract is concluded (Ebrahimi, 2021).

In addition to its jurisprudential aspects, installment sale also has significant economic impacts. This type of transaction increases consumers' purchasing power and provides access to capital and consumer goods for broader segments of society. Consequently, effective demand in the market rises, leading to the growth of domestic production (Suyuti, 2023). Furthermore, installment sale can serve as a tool for the development of small and medium-sized enterprises by enabling business owners to procure necessary equipment and raw materials without resorting to bank loans (Mousavian, 2011).

The banking system plays a pivotal role in expanding installment sale. Islamic banks in many countries have utilized this method as an alternative to usurious loans.

In Iran, banks have also financed various economic sectors through installment sale contracts. However, challenges such as stringent conditions for obtaining facilities, the requirement of substantial collateral, and disproportionate profit rates have hindered the optimal implementation of this method (Darabpour, 1995). A comparative study of the banking systems in some Islamic countries, such as Malaysia, demonstrates that these countries have successfully fostered economic growth and reduced usurious transactions through the proper implementation of installment sales (Rafiei, 1999; Rahpeyk, 2011).

Given the importance of the subject, this study aims to examine the role of installment sale in economic development and the reduction of usurious transactions from the perspective of Islamic jurisprudence and Iranian law. In this regard, the present research seeks to elucidate the theoretical foundations of installment sale, compare it with usurious transactions, and evaluate its impact on economic growth. Additionally, by comparing Iranian laws with international instruments, the study aims to identify the differences and similarities in this field to propose solutions for improving and developing this type of transaction (Jamshidi, 2001).

Considering the position of installment sale in the Iranian economic system and Islamic jurisprudence, the question arises whether this type of transaction can effectively replace usurious transactions and contribute to the country's economic development.

2. Methodology

The research method employed in this study is descriptive-analytical, and the data collection method is library-based and documentary. Data were gathered from jurisprudential, legal, economic sources, and international instruments and subsequently analyzed. Despite being an analytical study, efforts were made to establish connections between various concepts of the research and provide necessary arguments through comparison and adaptation. In the research process, sources such as jurisprudential books, domestic laws, scientific articles, judicial practices, and international instruments were reviewed.

One of the challenges of this study is the scarcity of comprehensive sources on installment sale in the Iranian legal system. Although some jurisprudential sources have addressed this type of transaction, there is no

explicit definition in Iranian civil and commercial laws. Therefore, this study attempts to analyze the position of installment sale in economic development and the reduction of usurious transactions through a comparative examination of the Iranian legal system and international instruments.

3. Theoretical and Conceptual Foundations of Installment Sale

3.1. Definition and Nature of Installment Sale

Installment sale is one of the methods of concluding financial contracts in which the buyer pays the price of goods or services in installments over specified periods. This type of sale has been used since ancient times and is now recognized as a crucial financial instrument, particularly in economic systems based on Islamic banking. Linguistically, "sale" means "trade" and "installment" means "dividing payments into specified portions." In legal terms, installment sale is considered a type of deferred sale in which the transaction price is paid in several stages, but unlike deferred sales, the goods are usually delivered to the buyer and ownership is transferred from the outset (Al-Zuhaili, 1998).

From a jurisprudential perspective, installment sale falls under the general concept of "sale" and is accepted as legitimate based on numerous Quranic verses and hadiths. The jurisprudential rules of "awfu bil-uqud" (fulfill your contracts) and "al-nas musallatun ala amwalihim" (people have authority over their properties) are among the foundations of the legitimacy of this type of contract. However, some jurists have expressed doubt about the legitimacy of installment sale due to the price increase in exchange for the payment period, likening it to bank interest. Conversely, many Imami and Sunni jurists, based on the rule "lil-ajal qistun min al-thaman," argue that the price increase due to payment delay is legitimate because it was agreed upon from the outset and does not create an additional condition in the contract (Al-Sanhouri, 2002; Bahrani, 2026).

3.2. The Position of Installment Sale in Islamic Jurisprudence and Iranian Law

In Islamic jurisprudence, installment sale is closely related to deferred sale, and many of its rules are consistent with the general provisions of deferred sales.

Shi'a and Sunni jurists have referred to principles such as the "no-harm rule" (qa'idat la darar), the "principle of contract validity" (asl sihhat al-uqud), and the "principle of mutual consent" (asl taradhi) to analyze the legitimacy of this type of transaction. One of the most significant distinctions between installment sale and usurious transactions is that in usurious contracts, the additional amount is added to the principal debt as a penalty for late payment, whereas in installment sale, the final amount is determined from the outset and remains unchanged (Ibn Abidin, 1995).

In the Iranian legal system, installment sale is not explicitly defined in the Civil Code; however, from the content of certain articles, such as Article 338 of the Civil Code, which defines sale as the "transfer of ownership of a specific object in exchange for a known consideration," it can be inferred that this type of transaction falls under the general category of deferred sales. Additionally, in Iran's banking system, according to the Law on Usury-Free Banking Operations, installment sale is recognized as one of the financing methods through which banks can provide financial facilities to applicants (Khavari, 1997).

3.3. Installment Sale and International Instruments

In international law, installment sale is addressed under deferred and credit sales contracts, and the United Nations Convention on Contracts for the International Sale of Goods (CISG, Vienna 1980) includes certain provisions regarding payment terms and the execution of installment sales contracts. Article 73 of the CISG outlines conditions for installment contracts, stipulating that if one installment is not paid, the other party may suspend performance or terminate the contract. This article also specifies the rights and obligations of the parties in case of delayed installment payments, bearing similarities to Iranian legal provisions in this regard (Bianca & Bonell, 1987).

However, a key difference between Iranian law and international instruments in this area is the issue of ownership in installment sales. While in the Iranian legal system, ownership transfer typically occurs immediately upon contract conclusion, in some international legal systems, ownership transfer can be suspended until full payment of all installments. This is particularly evident in leasing contracts and hire-purchase agreements, where the seller retains ownership until the final installment is paid (Ebrahimi, 2021).

Based on these theoretical foundations, it can be concluded that installment sale, in addition to its jurisprudential legitimacy, has a solid legal basis in both the Iranian legal system and international instruments, playing a significant role in financing and reducing dependency on usurious transactions.

4. The Role of Installment Sale in Economic Development

4.1. *The Impact of Installment Sale on Increasing Purchasing Power and Social Welfare*

Installment sale is one of the most important financial instruments that enhances consumers' purchasing power. This method allows individuals to obtain the goods and services they need without having to make full cash payments. It not only increases individuals' access to goods but also improves social welfare by enabling various social groups to purchase essential and capital goods (Al-Sanhouri, 2002; Ebrahimi, 2021).

From an economic perspective, installment sale contributes to market equilibrium by balancing supply and demand and helps reduce price pressures. This method allows consumers to acquire goods through installments instead of taking interest-based bank loans, thereby reducing dependence on usurious facilities while simultaneously increasing effective demand in the market (Ebrahimi, 2021).

4.2. *The Impact of Installment Sale on Entrepreneurship and Employment*

Installment sale plays an effective role in supporting small and medium-sized enterprises (SMEs). This method enables producers and entrepreneurs to purchase necessary goods on an installment basis while maintaining their working capital. This facilitates entrepreneurship and increases employment in society, as many small businesses use this method to procure equipment and raw materials (Rahpeyk, 2011).

Moreover, banks and financial institutions use installment sale contracts as a tool to direct financial resources towards productive economic activities. This method enhances productivity and reduces unemployment rates, as businesses can expand their projects and create new job opportunities through this type of financing (Ebrahimi, 2021).

4.3. *Comparison of the Banking System in Iran and Islamic Countries in Using Installment Sale*

Installment sale has been widely used in many Islamic countries as a non-usurious financing method. For example, in countries such as Malaysia and Saudi Arabia, Islamic banks utilize installment sale contracts to finance the purchase of capital goods, housing, and industrial equipment. This method not only increases financial transparency but also reduces the risk of default on facilities (Mousavian, 2011).

In Iran, banks have also employed installment sale to finance various economic sectors, but challenges persist. Some of the issues include excessive strictness in granting facilities and the requirement for substantial collateral. Additionally, the determination of disproportionate profit rates in some installment sale contracts has made this method resemble usurious systems in certain cases. In contrast, in Islamic countries like Malaysia, banking reforms have facilitated the implementation of installment sale, leading to greater acceptance of this method (Mousavian, 2011).

The experience of successful Islamic countries demonstrates that banking reforms, reduction of operational barriers, and creation of facilitating conditions can promote the use of installment sale for financing economic activities. Therefore, banking policy reforms and facilitation of conditions for granting installment sale facilities in Iran can help reduce reliance on usurious loans and foster economic development (Mousavian, 2011).

Overall, installment sale, as an efficient Islamic financing tool, can contribute to economic growth, increased production, improved social welfare, and reduced unemployment rates. Proper implementation of this method in the country's banking and economic systems can reduce reliance on usurious transactions and pave the way for sustainable development.

5. Installment Sale and Reduction of Usurious Transactions

5.1. *Comparison of Installment Sale with Usurious Loans*

Installment sale, as a financing instrument in the Islamic economic system, has fundamental differences from usurious loans. In installment sale, the price of the goods is determined at the outset, and the price increase compared to a cash sale is due to the deferred payment

period. In contrast, in usurious loans, the debt amount increases exponentially based on the length of the payment delay. From the perspective of Islamic jurisprudence, this fundamental difference distinguishes installment sale from usurious transactions, as the price increase in installment sale is predetermined and does not involve additional conditions during the contract period (Ebrahimi, 2021).

Some critics have likened installment sale to bank interest, as an additional amount is also charged compared to the cash price. However, Islamic jurists, citing the rule "lil-ajal qistun min al-thaman" (the term has a share in the price), reject this claim. This rule states that the seller can charge a higher price in exchange for granting a payment deferment, provided that the increase is agreed upon from the outset. Therefore, unlike usury, where the increase occurs without real compensation, the price increase in installment sale is considered part of the mutual agreement (Al-Sanhuri, 2000).

5.2. *Jurisprudential Doubts Regarding Installment Sale and Responses*

One of the jurisprudential doubts about installment sale is that the price increase compared to cash purchases may be considered a form of usury. Some jurists believe that if the price increase is solely due to the payment schedule, it is no different from usury. Conversely, many Imami and Sunni jurists argue that since the price increase is specified from the outset and is part of the transaction agreement, it differs fundamentally from bank interest (Darabpour, 1995).

Jurists opposing installment sale refer to the "prohibition of usury" principle, arguing that this type of transaction ultimately leads to an unjust increase in the price of goods. In response, some jurists cite the tradition of the Prophet Muhammad (PBUH), who engaged in deferred purchases, thereby legitimizing this type of transaction in Islam. For example, it is narrated that the Prophet (PBUH) pledged his armor to a Jewish man and purchased food from him on a deferred basis, indicating the legitimacy of such transactions in Islam (Khavari, 1997).

5.3. *Reform Measures for Expanding Installment Sale in Iran*

To expand installment sale in Iran and reduce reliance on the usurious financial system, reforms in the banking system and related laws are necessary. One of the most critical actions is to reform the collateral and guarantee system. Currently, one of the main obstacles to the expansion of installment sale is the requirement for substantial collateral from buyers, which limits access to this type of financing for low-income individuals. It is recommended that banks facilitate the conditions for obtaining installment facilities and offer alternative guarantees to make this method accessible to a broader segment of society (Rafiei, 1999; Rahpeyk, 2011).

Additionally, revising profit rates in installment sale contracts is essential for the development of this method in Iran. In some cases, the profit rates set in these contracts are so high that they differ little from bank loan interest rates, reducing the incentive to use this method. Setting reasonable and balanced rates can encourage greater use of installment sale and establish it as a genuine alternative to the usurious system (Rahpeyk, 2011).

Moreover, the development of Islamic banking through the broader use of installment sale can help reduce reliance on usurious facilities. In many Islamic countries, banks use installment sale contracts for financing instead of offering traditional loans. The experiences of countries like Malaysia and Saudi Arabia have shown that the proper implementation of this method not only stimulates economic growth but also reduces default rates on facilities and increases financial transparency. Therefore, it is recommended that Iranian banks adopt successful Islamic banking models and utilize the potential of installment sale as a non-usurious financing method (Jafarzadeh & Simaeisarrafi, 2005).

6. Conclusion

In conclusion, installment sale is an important instrument in Islamic finance that, if properly implemented, can reduce usurious transactions, increase financial transparency, and promote economic development. Reforming laws and facilitating the implementation of this method can establish it as a reliable alternative to interest-based financial systems, fostering economic prosperity and social justice.

Installment sale plays a fundamental role in non-usurious financing, enhancing purchasing power, fostering economic development, and reducing reliance on usurious transactions within the economic system. This study, based on jurisprudential, legal, and economic foundations, sought to examine the position of installment sale in the Iranian legal system and analyze its impacts on the financial market and economic behaviors. The findings indicate that this type of transaction, due to its gradual payment structure, increases access to goods and services for a broader spectrum of society, thereby enhancing social welfare. The analysis of jurisprudential foundations reveals that installment sale is religiously legitimate, recognized under the jurisprudential rule "lil-ajal qistun min al-thaman," which asserts that price increases in deferred sales in exchange for payment deferment are legitimate as long as they are predetermined and mutually agreed upon. Unlike bank interest, the price increase in installment sale is not applied progressively based on payment delays. Despite some juristic doubts likening installment sale to usurious transactions, the prevailing jurisprudential view emphasizes that this type of transaction aligns with the principles of Islamic banking and reduces dependency on usurious financial systems. From an economic perspective, installment sale significantly contributes to economic development and investment growth. By increasing effective demand, it stimulates the market and boosts production. Furthermore, financing small and medium-sized enterprises through this method creates new opportunities for entrepreneurship and reduces unemployment. The experience of Islamic countries such as Malaysia demonstrates that expanding installment sale within the financial system enhances economic transparency and reduces default risks. In Iran, despite the use of installment sale by banks, structural challenges such as stringent facility conditions, heavy collateral requirements, and disproportionate profit rates have hindered its widespread adoption. To better utilize the potential of installment sale and reduce reliance on the usurious banking system, several measures are proposed. First, simplifying the process of obtaining installment facilities and reducing administrative barriers is essential. Facilitating access to installment financing and easing collateral requirements can broaden the use of this method. Second, profit rates

in installment sale contracts should be set in a manner consistent with Islamic banking principles, eliminating usurious doubts. Third, banks and financial institutions should play an active role in providing installment sale facilities and offer flexible plans to accommodate various social groups. Finally, it is recommended that a dedicated section in the Iranian Civil Code be allocated to installment sale to precisely and transparently define its legal and operational dimensions.

Overall, installment sale can serve as an effective Islamic financing tool, contributing to economic growth, increased production, improved social welfare, and reduced reliance on usurious transactions. Proper implementation of this method requires legal reforms, facilitation of operational conditions, and raising public awareness of its benefits. By providing suitable conditions and eliminating existing obstacles, installment sale can become a viable and legitimate alternative to usurious bank loans, paving the way for sustainable economic development.

Authors' Contributions

Authors contributed equally to this article.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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