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Islamic Finance's Role in Investment: A Comparison of Conventional and Islamic Investment Finance

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Abstract:

Traditional economic structures are frequently devastated by periodic crises. The most recent global financial crisisrocked the foundation of the global financial system leading many to question the mechanics of the conventional financial system and its role in suppressing the investment urge. Adopting the Islamic banking system has proven to be a strategic treatment of several injustices in the existing system. Islamic finance has become a technology that can replace the current economic governance system. As a result, the study compares the role of Islamic finance vis-a-vis other financial systems to determine which should be used to encourage investment.

Keywords: Islamic finance, usury finance, Shari'ah investment, capital money, zakat

Introduction:

Prophet Muhammad's (PBUH) last sermon (10/632) is regarded as the Islam'sMagna Carta for humanity. The climax of his lifetime of preaching the faith of Islam was a brief yet impactful address. In his speech, the Prophet (PBUH) stressed fundamental belief in Allah as one God; a code of morality; and the rule of justice. He stressed economic fairness by declaring riba (usury) haram (forbidden) and the sanctity of life, money, and property. "Allah has prohibited you from taking usury (interest). Hence all interest commitments must henceforth be discharged," the Prophet (PBUH) remarked regarding interest in his last sermon. You have the option of keeping your money. You will not cause or be subjected to any injustice. Allah has decreed that there will be no interest.

Usury-based economic systems are characterised by periodic crises that devastate economies. Traditional economic mechanisms, especially interest, create a large gap between the real and token economies. As an alternative, theIslamic financial system has been used to address the imbalances in the prevailing system by providing an adjunct to interest-based

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financing and not a substitute for it. This study evaluates the role of Islamic finance in removing interest-based financing mechanisms to stimulate investment. It explores the potential of applying Islamic finance as an alternative to conventional finance instead of being one of its techniques.

Traditional finance lacks theflexibility to handle economic crises, whichrattles globally connected economies. For instance, the Russian attack on Ukraine continues to shake the global financial system. Islamic finance, in contrast, is more flexible and a viable alternative. However, whether it encourages interest and it better than usurious finance needs to be determined. The study is necessary since the conventional and Islamic financial systems coexist. The Islamic economic system offersthe traditional financial system a mechanism to fix imbalances and weather crises.It also provides a tool to stimulate investment and push the economy forward, especially for Muslim-majority countries.

Historical background:

The Arabic term riba, is derived from the verb raba, which literally means “to grow,”“to expand,”“to enlarge,”“to inflate,” or “to have in excess”.1 The same literary meaning can be found throughout the Qur’an. However,not all growth or increases are classified as riba, which is forbidden in Islam. Although it is sometimes translated into English as “usury” or “interest,” the Shari’ah uses the word in a much broader sense. In the context of the Shari’ah,riba refers to the ‘premium’ that the borrower must pay to the lender in addition to the principal amount as a requirement for the loan or an extension in its maturity.2In fiqh/jurisprudence,riba refers to a rise in the exchange of one of two homogeneous equivalents without a corresponding increase in the other homogeneous equivalent.3The Shari’ah uses the word riba in two different applications.4Riba al-nasi’ah(refers to loan transactions) and riba al-fadl(refers to sale transactions).5SeveralMuslim scholars attemptedto define riba in a way that is closer to the sense

[1] Abu Baker Jabir (2016). *Minhaj al-Muslim* (The Approach of the Muslim) tr. Ayman Muhammad Mahmoud Muhammad Beirut: Dar al-Kutub al-’Ilmiyyah, p. 518; ‘Ashiq ‘Abd al-HaqqRuhman al-Jawad ‘Abd al-Hamid (1992). *Al-Badil al-Islami li-l-Fawa’id al-Masrifiyya al-Rabawiyya*(The Islamic Alternative to Usurious Banking Interests) Tanta: Dar al-Sahabah li-l-Turath, p.7.

[2] Mahmoud A. El-Gamal (2006).*Islamic Finance: Law, Economics, and Practice*, pp. 50-52; Imran Ahsan Khan Nyazee (2016).*The Concept of Riba and Islamic Banking* CreateSpace Independent Publishing Platform.

[3] Mahmoud A. El-Gamal, *Islamic Finance: Law, Economics, and Practice*, pp. 50-51.

[4] Ibid, p. 49.

[5] Ibid, pp. 51-52.

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that is suggested in the Qur'anic verses and associated with hadith.6 They describe riba as a gain or excess that accrues to the owner (lender) in an exchange or sale of a commodity without providing an equivalent counter-value or compensation to the opposite party.7

Riba was used in the pre-Islamic and early Islamic eras to denote an increase in payment in exchange for extending a loan's maturity date. The Arabs of the pre-Islamic and early Islamic periods used to repay debts with specified repayments without it decreasing the principal. When the debtor's maturity date ended, they would demand payment of the principal. If this wasimpossible, they would raise the principal amount and prolong the period. As a result, transactions with a set deadline, the payment of interest, and a plethora of speculative activities were crucial components of the pre-Islamic trading system.A debtor received an extension of time to pay, but the total amount due was also doubled. This is mentioned in the Qur'an:

> O you who believe! Do your job to Allah so that you may thrive, and refrain from devouring ribaand increasing it. Q. 3:10.

Definition of investment in the Islamic economy

The consensus of the Islamic bank asserts that the Shari'ah, which is an interpretation of Islamic law that reflects the conditions of Islamic society, recognizes investment as a form of beneficial human activity.8 Some scholars refer to them as "a nice person, a reasonable person, who invests in money resources and human qualities to grow, develop, and reap their advantages and fruits."The following conclusions can be drawn from this definition: The human being is the caliph of Earth, and as such, they have the right to the fruits of their labor.9

Most jurists define money as "everything ready for use, whether in the form of a kind, benefit, debt, or right, and used for a permitted benefit."10 In Islamic thought, investing money refers to its growth and increase by use in legal activity and followingShari'ahinvestment

[6]Ibid.

[7] Ahmad, Abu Umar Faruq, and M. Kabir Hassan. "Riba and Islamic banking." *Journal of Islamic Economics, Banking and Finance* 3, no. 1 (2007): 1-33.

[8]Abdallah Saeed (1999). *Islamic Banking and Interest* Leiden: Brill, p. 17; Khairuddin Abdul Rashid (2018). "Istisna' Model for Construction Workers' Contract", in Khairuddin Abdul Rashid, Kiyoshi Kobayashi, SharinaFarihah Hasan, MasamitsuOnishi. *Concept and Application of Shari'ah for the Construction Industry: Shariah Compliance In Construction Contracts, Project Finance And Risk Management*Singapore: World Scientific, p. 116.

[9]Abdul Karim Aldohni (2012). *The Legal and Regulatory Aspects of Islamic Banking: A Comparative Look at the United Kingdom and Malaysia* London and New York: Routledge, pp. 7-9.

[10]RafiqYounuf al-Masri (1999). *Usul al-Iqtisad al-Islami*/The Origins of Islamic Economics Damsucs: Dar al-Qalam, p. 35.

regulations. In Islamic accounting theory, investment is the deployment of economic resources to acquire advantages anticipated to occur over time. Among these definitions of investment, we find that the Islamic concept is distinguished from the modern economic trend,terms of the relationship between investments, such as Islamic politics, which leads to the rationalisation of investment operations and widening the fields to include the development of human productive capacities, including spiritual abilities, which is ignored in positive economics and lacks the impact and importance in the investment process.11

In addition, reverse investing in the Islamic economy has a limitation that cannot be compromised. As per the Shari'ah, an investment must accord to Islamic formulas, the envelopes that Islam has guarded as an example. Nonetheless, investments are an exception because all otherwise forbidden asset types can be supported by Islamic recipes (the wine business is the same).In the Islamic economy, the goal is to practically and effectively facilitate social prosperity. The Shari'ahfocuses on the practical realities of the world and subjects Muslims to them in all aspects of their lives. As a consequence of this, the fulfillment of fundamental requirements, the production of useful goods, and the advancement of the situation are all dependent on the labor of individuals and the initiatives they take on their own.

The Shari'ah preserves five essentials, namely life,religion, the soul, the mind, offspring, and wealth. These five essentials can be boiled down to just two: the human being and financial success.These five essentials are realised at the long-term level.Ignoring widgets will lead to embarrassment and hardship for humans in areas such as housing and pensions, and this is because widgets are not optional but rather necessary. Concerning the enhancements, specifically what people in our time refer to as "luxuries," this goes beyond the scope of what is considered to be "necessities."Islam offers a comprehensive legislative system, including financial and economic regulations designed for the well-being of individuals and societies.12

Shari'ahregulations for investing money:

The Shari'ah includes many legal regulations ensuring the proper investment and development of money. The project's scope should be halal (permitted) and good.

> O, believers! Do not devour one another's
> wealth illegally, but trade by mutual consent. And

[11]Nasr Farid Wasel (2000). *AfaqIstithmar al-Amwalwa-Turuquha fi al-*Islam/Prospects for Investing Money and its methods in Islam, Cairo: Maktabat al-Safa Bookshop, p. 33.

[12] Ibid, p. 32.

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> do not kill ˹each other or˺ yourselves. Indeed, Allah is ever Merciful to you. Q. 4: 29.

Additionally, the Quranic texts state:

> Those who consume interest will stand ˹on Judgement Day˺ like those driven to madness by Satan’s touch. “That is because they say, “Trade is no different from interest.” (“What are riba and the two types of riba? - Islam Hashtag”) But Allah has permitted trading and forbidden interest. Whoever refrains—after having received an admonition from their Lord—may keep their previous gains, and their case is left to Allah. “As for those who persist, it is they who will be the residents of the Fire. (al-Baqarah - 275-276) They will be there forever. Q. 2: 275.

Regulations for achieving the purposes of the Shari’ahin order to accomplish its goals to be followed. What is meant by "legitimate purposes"? To advance the interests of creation in both this world and the next, as your Abu Hamid al-Ghazali (d. 505/1111) defined the five purposes of Shariah: “Will He protect their religion for them, as well as their soul, their mind, their progeny, and their wealth?”13Concerning what people refer to as necessities, the projects are connected to the attainment of these goals. Because of this, the parameters of the modest project ought to be lawful and beneficial, and the evidence for this can be found in the Quranic verses above and what follows:

> O believers! Do not devour one another’s wealth illegally, but rather trade by mutual consent. And do not kill ˹each other or˺ yourselves. Surely Allah is ever Merciful to you. Q. 4: 29.

Controls to preserve money and protect it from risks:

Islam has commanded not spend excessivelyand not to entrust the incapable with wealth, but to protect against loss:

> Do not entrust the unable ˹among your dependents with your wealth which Allah has made a means of support for you—but feed and clothe them from it and speak to them kindly. Q. 4: 5.

[13]Ghazali, Abu Hamid (d. 505-1111). *al-Mustasfa min ‘Ilm al-Usul,* ed. Muhammad al-AshqarBeirut: Mu’asassat al-Risalah, 2012, vol. 1, pp. 277-278.

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The Prophet Muhammad (PBUH) said, “He who fought without his money,” meaning: forced to defend and fight whoever wanted to take his money unjustly and oppressively, “and he was killed, then he is a martyr,” and The Messenger (PBUH) said, “whoever fought without his blood,” meaning: defense and to protect himself from those who want to attack him, "then he is a martyr.” Both of these phrases mean that whoever fought without spilling blood is a martyr.”14He also commanded Muslims to invest and develop money.

> Those who look after orphans can trade their money and keep it until the charity consumes it. Q. 4: 10.

Controls of adherence to Islamic priorities:

al-Shatibi, Abu Ishaq Ibrahim ibn Musa (d. 790/1388),indicated that controls based on Islamic law are necessary to ensure that Islamic priorities are adhered to, with the objectives being divided into three categories: necessities, widgets, and improvements.15As a result, giving precedence to luxury projects before ensuring that fundamental requirementsare satisfied is not allowed. God Almighty has commanded us not to hoard money; we are obligated to put in place protections that encourage its growth through trade rather than hoarding it.

> Give good news of a painful torment to those who hoard gold and silver and do not spend it on Allah’s cause. Q. 9: 34.

Tominimise stockpiling, the zakat payment system requires the guardian of the orphan’s fortune to invest it rather than holding onto it until it isdepleted by charity. Control over account recordkeeping protects rights. If one can takes a debt for a set period, it should be written.

> O, believers! When you contract a loan for a fixed period, commit it to writing. Let the scribe maintain justice between the parties. Q. 2:282
>
> The scribe should not object to writing in the manner that Allah has instructed them. They will write the debtor’s instructions while keeping Allah and the obligation in mind. Let the debtor’s guardian impose fair judgment on their behalf if they are unable, frail, or incapable of dictating.

[14] Al- ‘Ayni, Badr al-Din (2016). *‘Umdat al-Qari’: SharhSahih al-Bukhari,* Beirut: Dar al-Fikr, vol. 9, p. 250.

[15]Shatibi, AbuIshaq Ibrahim ibn Musa (d. 790/1388). *al-Muwafaqat fi Usul al-Shari’a*,ed. ‘AbdallahDaraz Beirut: Dar al-Kutub al-’Ilmiyya, 2009, pp. 219-235.

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> Invite two of your men to attend as witnesses. If two men can be obtained, two men and two women of your choosing will testify; if any of the women forgets, the other may remind her. (Q. 2: 282).
>
> The witnesses must not refuse when they are summoned. You must not be against writing contracts for a fixed period, whether the sum is small or significant. This is more just for you in the sight of Allah and more convenient to establish evidence and remove doubts. "If you do, then you have gravely exceeded "your limits." Be mindful of Allah, for Allah is the One Who teaches you. And Allah has "perfect knowledge" of all things. Q. 2: 28

In addition, the recorded jurists' opinions in the jurisprudence literature were of great interest to Muslim jurists throughout the ages. Islamic law commanded to notarise contracts and transactions and attest to them to preserve rights; as the Qur'anic verse reads,

> However, if you conduct an immediate transaction among yourselves, then there is no need for you to record it but call upon witnesses when a deal is finalised. Let no harm come to the scribe or witnesses. Q. 2:282.

Moreover, the Almighty said:

> Security can be taken if you are on a journey and a scribe cannot be found. ("Surah Al-Baqarah - 283 - Quran.com") If you trust one another, then ˹there is no need for security, but˺ the debtor should honour this trust ˹by repaying the debt˺—and let them fear Allah, their Lord. And do not conceal the testimony; whoever conceals it, their hearts are indeed sinful. And Allah ˹fully˺ knows what you do. Q. 2: 283.

Contracts and transactions must be documented and attested in Islamic law, according to jurists' views, and this is consistent with the entire Islamic school of thought, which states and indicates this requirement.16

[16]Sarakhsi, Abu Baker Muhammedibn Ahmad (d. 483/1090). *al-Mabsut*Beirut: Dar al-Ma'rifah, vol. 10, p. 8; IbnQayyim al-Jawziyya, Shamd al-Din Muhammad (d. 751/1351). *AhkamAhl al-Dhimma*, ed. SubhiSalih Beirut: Dar al-'Ilmlil-Malayyin, 1980, vol. 2, pp. 457-472; Abu Hamid al-Ghazali (d. 5050/111). *al-Wajiz fi Madhahb al-Imamaals-Shafi'i*, Beirut: Dar al-Ma'rifah, vol. 2, p. 198; Malik ibnAnas (d. 179/795). *al-*

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Zakat, the divine obligation:

Zakat on money is a legal obligation, and one of the most critical components of the Islamic economic system:

> Moreover, establish prayer, pay alms tax [zakat] and obey the Messenger so that you may receive mercy. Q. 24:56.

One of the prerequisites for effective, meaningful, and targeted finance that leads to complete development is the implementation of these regulations.17

The purpose of investment:

Investments that are part of the “renewal” or “replacement” process involve trading in older assets for brand-new ones. This maintains production capacity or increases productivity. Expansion investments increase production capacity. New investments call for the establishment of additional production capacity.18

Investoridentity:

National investment: whether it is sufficient nationally, enough for the public or private sector, whether inside the country (locally) or abroad. Foreign investment is where a foreigner (direct or indirect)owns the entity in whole or part, but where the nation controls management (indirectly).19

The importance of investment:

For economists, investment is the primary driving force in managing economic activity, serving as adynamic foundationessential to raising national income.20Investment helps reduce unemployment by facilitating economic and social structural changes and promoting

*MudawwanaRiwayatSahnun*Beirut: Dar Sadir, vol. 1, 278; Labeeb Bsoul (2008). *International Treaties (Mu’ahadat) in Islam: Theory and Practice in the Light of Islamic International Law (Siyar) according to Orthodox Schools* Lanham: University Press of America, pp. 44-48; Hanse Krus (1953). “al-Shaybani on International Instruments,” *Journal of the Pakistan Historical Society*, 1, pp. 90-100.

[17]Omer Hussain(1992). *Mawsu’at Al-Mustalahat Al-Iqtisadiyya*. Cairo: Dar al-Fikr al-Arabi.

[18] Mustafa Kamal El-Sayed Tayel (2006). *Al-Qarar al-Istithmari fi al-Bunuk al-Islamiyya*(The Decision to Invest in Islamic Banks), Alexandria: al-Maktab al-Jami’i al-Hadith, p. 1.

[19] Ibid, p. 38.

[20]KadhimJassem al-Issawi (2010). *Dirasat Al-Jadwa Al-Iqtisadiyyawa-Taqyyimal-Mashru’at: TahlilNadhariaa-Tatbiqi*(Economic Feasibility Studies and Project Evaluation: Theoretical and Applied Analysis) Amman: Dar al-Manahij, pp. 41-44.

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comprehensive and sustained social and economic growth. 21 As a result of the investment, a nation’s revenue rises and more jobs are created, fostering economic and social growth. This increased output then helps a nation’s trade balance and balance of payments.

Investment is the main motor of every economy. Investment has grown alongside the advancement in technology. It is now widely accepted that industrialised nations must invest at least 10% of their national income in maintaining their level of economic sophistication and that the selection of investments significantly impacts the economy’s growth.22Agriculture, industry, commerce, and services make up the three primary sectors that comprise the investment fields.23

A comparison between conventional finance and Islamic finance in investing:

The meaning of Islamic law in finance can be understood only by understanding the legal distinctions between usurious finance and Islamic finance. Without this insight, it will be challenging to comprehend the reality of Islamic finance, its ambiguity, and the primacy of theShari’ah in its regulation. The interest in Islamic finance hasspread almost universally.24 Islamic banks have increased Western rivalry for these banks and their financial products, which have established their efficacy in luring capital and investors, among other areas.

Comparisonbetween Islamic banks and Traditionalbanks25

Traditional bank	Islamic Bank	
An individual materialistic tendency to trade in money and to maximise wealth.	The intent is not only to profit but to work alongside Islamic jurisprudence, to purify the banking businessof usury.	Foundation
A financial institution whose work is limited to credit only, such as discounting commercial papers, buying and selling	A financial institution that accepts money for trading within the rules of the Shari’ah, based on two principles: tax with guarantee and profit with fine.	Concept

[21]“Al-Mashru Al-Magharibiwa-l-Shirakahal-Urumutawassitiyah (Silsilat Al-Marifah Al-Iqtisadiyah) (1997 Edition).” Open Library. Dar Tubqallil-Nashr, January 1, 1997. https://openlibrary.org/books/OL13215371M/al-Mashrual-Magharibi_wa-al-shirakah_al-Urumutawassitiyah_ (Silsilat_al-Marifah_al-iqtisadiyah).

[22]Lotfi Ahmed, Ahmed Mohamed (2013). *Al-Istithmar Fi ‘Uqud Al-Musharakat Fi Al-Masarif Al-Islamiyya: DirasahFiqhiyyaMuqaran*. Al-Mansoura: Dar al-Fikrwa-l-Qanun, pp. 20-23.

[23]Jazar, Jafar al (1998). *Al-IdkharWa-l-IstithmarWa-l-Midharabah Fi Al-Bursah (Savings, Investments and Speculation in the Stock Exchange)*. Beirut: Dar al-Nafa’is, p. 102.

[24] Mohammed al-Fateh Mahmoud Bashir al-Maghraby (2020). *Idarat al-Tamwil al-Masrifi* (Bank Finance Management) Cairo: al-Akadimiyya al-Hadithatlil-Kitab, pp. 8-10.

[25]ZahafHabiba (2018). *Dawr al-Tamweel al-Isami fi al-Istithmar: Dirasahmuqaranh bi al-Tamwil al-Ribawi*, Ph.D. Dissertation Larbi Ben M'hidi University of Oum El Bouaghi, Oum El Bouaghi: Algeria, pp. 62-63.

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them, and granting loans, like other monetary operations.		
An intermediary institution, impartial, that does not interfere in the business but reaps its profit from the money, which is It is used in lending and financing.	Its role extends to the practice of effective work by being a partner, speculator/stock exchange, merchant, and sponsor.	Nature of the role
It is based on lending at fixed interest without working	It is based on work, according to the profit and loss rule.	Finance basis
Customer and: Depositor, borrower, or lessee of a trust fund.	The customer is: a participant, a seller, a buyer, and a current account holder, since a good loan.	Customer character
It is prohibited for a client to engage in trade or industry, or to own goods or real estate not related to his work, to repay a debt he owes to others if he sells it within a certain period.	The main subject is work in industry, trade, the purchase of financial shares, and real estate, but within legal limits.	Forbidden & permitted
He can issue preferred shares.	He can't because it is based on usury.	Own financial resources
Deposits and loans based on interest.	He does not borrow or lend.	Sources of funds
Lending - deduction of bonds - other banking services such as documentary credits and letters of guarantee in return for a commission.	The bulk of the money is used in Islamic financing formulas, such as trading, mudaraba/stock exchange, murabaha/ resale with the specification of gain, musharaka/partnership, production, and others.	Uses of money

The nature of financing:

Definition of finance in positive economics:

Finance is the process of giving or receiving money from different parties—whether they are institutions, businesses, or individualsto those who are asking for it (the request parties). The

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relevantparties can use the money for consumption or invest it in productive projects to make a profit (previously known interest).26

Definition of finance in Islamic economics:

Fouad Al-Sartawi described Islamic finance as: "A person contributes something of financial worth to another person, either as a contribution or as a form of collaboration, between the two parties to invest it." This definition is based on Shari'ah regulations according to the type of labourthey do, the level of their capital contribution, and the decisions they make on administration and investment, the earnings are shared between them on an agreed-upon percentage basis.27

According to MundhirQahaf, Islamic finance is "the supply of in-kind or monetary wealth, with the goal of the benefit from its owners to another person who administers it and disposes of it in exchange for a return authorised by Shari'ah judgment."28

As mentioned in the preceding description, the first kind of financing ignores finance between two persons, between financial organisations, or between relationships other than those between two people and their relationships. The secondincluded investment funding and disregarded other forms, such as presents and good loans.

To achieve both social and economic growth, Islamic finance entails providing in-kind wealth or cash from surplus owners to women with disabilities, in formulas that are consistent with the requirements and principles of theShari'ah, and assuring Shari'ah standards and regulations.

Comparison:

In its broadest sense, financing refers to the provision of funds and is based on a contractual arrangement between two parties, one of whom has a surplus in his financial position and the other a deficit. Accordingly, the essence of financing is transferring funds from the surplus to the deficit to satisfy consumption or investment needs. Money, incentive, and term are

[26] Al-Maghraby, Mohammed al-Fateh Mahmoud Bashir (2018). *al-Tamwilwa-l-Istithmar fi al-Islam* (Finance and Investment in Islam) Cairo: al-Akadimiyya al-Hadithat li-l-Kitab, pp. 344-336.

[27] Sartawi, Fuad(1999). *al-Tamwil al-Islamiwa-Dawr al-Qitta' al-Khass*(Islamic Finance and the Role of the Private Sector) Amman: Dar al-Maysarah, p. 97.

[28] MundhirQahaf (1998). *Mafhum al-Tamwil fi al-Iqtisad al-Islami:Tahlilfiqhiwa-Iqtisadi*(The Concept of Finance in the Islamic Economy: a jurisprudential and economic analysis) Jidda: Islamic Development Bank, Islamic Research and Training Institute, p. 12.

three factors that contribute to the financing process, and they all operate differently depending on the system, as will be shown.

A. Money:

This is the issue of the process of financing; it is the Islamic economy, and it contains all of the resources and benefits that may be used, including the advantages of security and assurance. In this respect, it is analogous to money, with the important exception that its use is limited to activities that are sanctioned by the concept of a modern economy. As previously noted, the Islamic economic system looks at these finances differently, particularly when it comes to credit and money, and as a result, it forbids usury since it promotes injustice and unfairness, which ruins interpersonal relationships.29 However, we see that a healthy economy does not distinguish between money and other forms of currency.

B. Reward:

The views have been agreed between the Islamic and the positive economic systems in that the owner of the money (the financier) deserves a reward for giving his money. In a partnership, the owner of the money deserves the profit. The difference is what the financier deserve in return for giving up that money, and how does the financier deserve the reward he receives?30

Positive economics holds that the financier deserves a reward for foregoing the money for a while or delaying current consumption.31 As a result, the term of the financing process was linked to the reward, making it guaranteed and predetermined regardless of whether a profit or loss was realised. As for the Islamic economy, the reward under the Islamic system is not guaranteed, and the financier receives the benefit in exchange for the risk (guarantee), as defined by the concept of kharaj,32 with guarantee.33Profit is thus obtained through labour, investment,

[29]Harbi Muhammad ‘Uriqat, Saeed Jum’a‘Aqil (2012). *Idarat al-Masarif al-Islamiyya* (Islamic Bank Management) Amman: Dar Wa’il, p. 18.

[30]Mohammed al-Fateh Mahmoud Bashir Al-Maghraby (2020). *Idarat al-Makhatir fi al-Masarif al-Islamiyya* (Risk Management in Islamic Banks), pp. 52-53.

[31]al-Khawaladeh, Mahmoud Mohammad (2008). *al-Masarif al-Islamiyyah*(Islamic Bank) Amman: Dar al-Hamid, p.16.

[32]*Kharaj* is a type of individual Islamic tax on agricultural land and its produce developed under Islamic law. See the work of Abu Yusuf, Yaqub Ibn Ibrahim al-Ansari (d. 181/798). *Kitab al-Kharaj* (Taxation in Islam), ed. Muhammad Ibrahim al-Banna Beirut: Dar al-Ma’rifah, 1981.

[33]al-‘Ajil, Bashar Hussein (2017). *Kharajwa-l-Dharibah al-Mu’Asirrahfi al-Fiqhal-Islami*(Contemporary Tax and Tax in Islamic Jurisprudence) Beirut: Dar al-Kutub Al- ‘Ilmiyya, p. 127.

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and the promise to provide restitution payments if someone else is harmed.34 The output from a thing is known as kharaj,35incorporating the benefits of the object as well as the revenues of an animal.36

C. Term:

In apositive economy, we find the basis of the financing process based on the relationship between the term and the reward, not only in the financier's entitlement to the reward but in determining the reward's amount and value. Islamic economics does not differ from this view in principle. It considersthe exchange, but it made an exception in the case of usury, where such an arrangement is not legally valid as usury leads to usury.37

D. Format:

The relationship is viewed as the goal in and of itself, as it is what regulates and structures the funding process. The recipients of the award are decided according to the criteria of the Islamic economic system. The prize was obtained by the thing that was contracted either as a consequence of resistance to it or engagement in it. Regarding the prize that was discussed and agreed upon, a respectable loan is not something that merits commendation.38

Non-Islamic financing is based on the principle of the loan, whereby the lender of the financing provides the money, in return, he obtains specified benefits, without considering the productivity of this money and the actual profit achieved. As for the conventional economy, the contractual relationship has no restrictions and does not specify the principle of entitlement to the reward. It requires finance (the borrower), a guarantee of capital, and the requirement to pay the agreed-upon interest at the predetermined maturity date. Profits are divided between the parties to the financing process in accordance with the ratio specified in the contract. When a financing party defaults, the loss is distributed according to the capital shares in both speculative and participatory cases. This is the fundamental distinction between usurious finance and Islamic

[34]Ibn al-Athir al-Jazari (d. 606) *al-Nihaya fi Gharib al-Hadith wa-l-Athat* (The End in Gharib Hadith and Athar, ed. Tahir Ahmad Al-Zawi, Mahmoud al-Tanahi, Beirut: al-Maktabah al-'Ilmiyya, 2005, vol. 2, p. 19.

[35]al-Zarqa, Mustafa Ahmed (1998). *al-Madkhal al-Fiqi al- ʻAmm*(Introduction to general jurisprudence)p. 1035.

[36]Zuhayli, Wahbi (1998). *Nazariyat Al-Dhaman*(Guarantee Theory) Damascus: Dar al-Fikr, p. 15.

[37]Ibrahim, Ghasan Mahmoud, and MundhirQahaf(2020).*al-Iqtisad al-Islami ʻIlmammWahim*(Islamic Economics, Science or Fiction?) Beirut: Dar al-Fikr.

[38]Qahaf, Mundhir (1998). *Mafhum al-Tamwil fi al-Iqtisad al-Islami: TahlilFiqhiwa-Iqtisadi*(The Concept of Finance in the Islamic Economy: a Jurisprudential and Economic Analysis), p. 41.

finance, with the former considering the actual profit made and the latter allocating the loss to the capital owner in the absence of violation.39

Islamic finance differs from interest-based finance in the following points:

In Islamic finance, the ownership of the financed money remains with its original owner, whereas in usurious financing, the ownership of the financed money is given to the borrower. In Shari'ah finance, the owner of the money suffers potential loss. However, in the case of financing through usury, the financier does not suffer a loss, which enables the recipient to acquire a greater quantity of assets than they would have otherwise been able to. The two parties share in the profit according to their agreement in Islamic finance, while the increase that the financier obtains in usurious finance is not related to the project's profitable result nor the share of the beneficiary of the finance.

Islamic finance is limited to investment activities that are expected to be profitable, while any use can be financed in interest-based finance. Financing in Islam can be with cash, fixed, or current assets, whereas in customary, or interest-based funding, with cash only. While this is not necessary in usurious finance, it is essential in Islamic finance that the work influences the growth of the financed money. This applies to the debt in debt and ensures that it neither works nor grows on its own. If we restrict the comparison to speculation, then the money is often provided for it, making it comparable to interest-based financing.40

If there is growth in Islamic finance, it will be genuine, as opposed to the increase in usurious relationships, which is just imaginary. Usurious finance is primarily dependent on one's ability to pay. Therefore, it can be used for a project, including investments, to settle prior obligations, or for sheer mischief like gambling.

In contrast, Islamic money is required to travel through commodities and services, whether produced as part of a project or exchanged as part of a business. This is because the concept of assigning bonds and depositing them over time, or riba, underlies the exchange of commitments between banks (usury). Usurious finance permits interbank borrowing and the transfer of loans from one bank to another, but Islamic finance forbids the transfer of obligations.

[39]Mahmoud Bashir al-Maghraby, Mohammed al-Fateh(2020). *Idarat Al-Tamwil Al-Masrifi*(Bank Finance Management), p. 8.
[40]Kahf, Monzer(1991). "Mafhum al Tamwil fi al Iqtisad al Islami." *IRTI*, Jeddah, p. 52.

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The Shari'ah forbids the transfer of debts from one hand to another, except their notional worth. Hence it does not permit the exchange of obligations. Since the debtor must pay the whole amount owed regardless of when it is due, there is no gain or interest for the person who assumes ownership of the loan.41

Funding controls in the Islamic economy:

Repeat financial crises have demonstrated that specific dealer actions are among its primary causes. Officials and experts stressed the growth of unethical behaviours in institutions and financial markets, including corruption, disinformation, lying, and fraud, as greed, rapacity, and corruption are some of the most significant causes of the crisis.42

The current financial crisis has created a fantastic opportunity for Islamic banking and finance to meet the demand for an alternative to conventional banking and traditional finance by providing the globe with its business model. Thus, it is necessary to define the underlying principles and regulatory framework of this sector and demonstrate how they differ from the principles and regulatory framework that underpin interest-based finance.43

Islam has established principles and general rules controlling finance to preserve the Islamic economy in its appropriate framework and carry out its fundamental duty. The following is an explanation of these principles and laws. The first set of regulations and guidelines is the Islamic financial community's commitment to the Shari'ah. The first and foremost of these limitations is the outright ban on usury.44 According to legal precedent, riba is the addition of money to a transaction of money for money without receiving anything in return.45In Islamic jurisprudence, usury is:

> An increase in one of the two homogeneous alternatives does not correspond to this increase in compensation.46

[41]Ibrahim, Ghasan Mahmoud, and MundhirQahaf(2002). *al-Iqtisad al-Islami 'IlmammWahim*, pp. 172-173.

[42]Mas'ud, Samih (2010). *al-Azmah al-Maliyah al-'Alamīyah: Nihayat al-Libraliyah al-Mutawaḥḥishah*(Blind financial crisis: the end of savage liberalism)Montreal: Canadian Center for Middle Eastern Studies,pp. 94-97.

[43]Al-Banna, Muhammad Ali (2006). *al-Qard Al-Masrafi: DirasaTarikhiyyaMuqaranahbayn al-Shari'a al-Islamiyyawa-l al-Qanun al-Wadh'i*(Bank Loan: A Comparative Historical Study between Islamic Sharia and Positive Law) Beirut: Dar al-Kutub al- 'Ilmiyya, p. 326.

[44] Hans Visser (2019). *Islamic Finance: Principles and Practice*Cheltenham: Edward Elgar Publishing, p. 43.

[45]Ibn al-Rushd, Abu al-Walid Muhammad ibn Ahmad (d. 520/1126). *al-Muqadimat al-Mumahidat*, ed. Muhammd Hajji and Saeed A'rab Beirut: Dar al-Gharb al-Islami, 1988, vol. 2, p. 570.

[46]al-Zarqa, Mustafa Ahmed (1998). a*l-Madkhal al-Fiqi al- 'Amm*(Introduction to General Jurisprudential Entry), p. 1035.

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Its prohibition is explicit in the Qur'an and Sunnah, with absolute certainty, without ambiguity.

> O you, who have believed, fear God and give up what remains of usury if you are believers. Q. 2: 278.

In Islam, some contracts are prohibited, notably loans, discounts, and ribaloans. It is also forbidden if these contracts contain investing or consuming, knowing that it is unavoidably unlawful. Devaluation is also illegal since it seeks to accelerate payments by lowering the debt in exchange for doing so. The growth in debt for a term is referred to by jurists as riba al-fadl when required, riba an-nasi'a when required to receive it, and riba al-fadl when it is usury on loans that the Qur'an forbids.47 It includes riba al-fadl and riba an-nasi'a.48 That the discounted value is the difference between the present value and the nominal value of the paper, and thus the discount is an exchange of two monetary values, with an increase in one of them, and deferred payment, and this is riba al-fadl, and riba an-nasi'a, both of which are forbidden.49

Prohibition of hoarding, fulfilling the rights of God and society over money, and economical means seizing the amount of money from the exchange, which directly impacts the country's economy.50As a matter of jurisprudence, hoarding is defined as the act of preventing zakat, or the act of withholding money that is superior to the need to spend for the path of God, the common good, and the public interest. In other words, hoarding is the act of not spending money for the sake of God.51Hoarding is considered robbery in the Qur'an,

> O believers! Indeed, many rabbis and monks consume people's wealth wrongfully and hinder ˹others˺ from the Way of Allah. Give good news of a painful torment to those who hoard gold and silver and do not spend it on Allah's cause. Q. 9: 34.

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[47]Zahra, Muhammad Abu (1986). *Buhuth fi al-Riba*(Research on Usury) Cairo: Dar al-Fikr al- 'Arabi.
[48] Ibid:98
[49]MasriRafeeqYounis (2010). *al-Azmah al-Maliyya al-'Alamiyya: Hal Najd Lahafi al-Islam* (The global financial crisis, do we find a solution to it in Islam?)Damascus: Dar al-Qalam, pp. 108-106.
[50]Jalal al-Din, Adham Ibrahim (2018). *'Ilm al-Istithmar al-Islami*(The Science of Islamic Investment) Cairo: Markaz al-Kitab, p. 266.
[51]Muhammad ibn Ahmad, Qurtubi Abu 'Abdullah(d. 671/1273). *al-Jami' li-Ahkam al-Qur'an*, ed. 'Abdullah al-Turki Beirut: Mu'Asassat al-Risalah, vol. 2, pp. 125-126

The foregoing passage includesall forms of money, including gold and silver, according to the Qur'anic interpretation because the Almighty indicated that they do not spend them.

> "You are not going to spend money on me." "He spends both of you," is something that he could say to you.52

From the following, it may be inferred that it is wise to forbid hoarding: -Hoarding eliminates the value of saving, which is a disgrace if it is discussed in relation to the advancement of society. Withholding wealth from exchange causes it to become scarce in the market, at which point it gets priced. That price is the interest rate, which then enables usury. The legal alternative to hoarding is properly investing money, represented by Islamic financing formulas. Zakat, which is the right of the poor that God has imposed in the wealth of the rich, will inevitably not be paid if money is not spent on the cause of God and charitable projects.53

The amount of investment declines with the rate of development because hoarding money discourages the establishment of new initiatives and the expansion of current ones, which increases unemployment and the detrimental effects it has on both individuals and society.54

One of the most crucial Islamic guidelines for spending or obtaining money is to stick to moral and permissible items while avoiding immoral and controversial activities.55 This is known as investing money in good things and avoiding taboos.56The Qur'anic verses read,

> He commands them to do well and forbids them from evil, permits for them what is lawful and forbids to them what is impure, and relieves them from their burdens and the shackles that bound them." ("Ayah al-A`raf (The Heights, The Elevated Places) 7:157 –IslamAwakened") Q. 9: 157.

The jurists hold that'good' goods include anything that benefits people, regardless of theirdifferent requirements. As a result, they define people's needs per these needs and determine

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[52]Tabari, Ibn Jarir (d. 310/923). *Jami' al-Bayan;* al-Qurtubi, Abu 'Abdullah (d. 671/1273) *Jami' li-Ahkam al-Qur'an;* Ibn Kathir, Imad al-din Abu al-Fida (d. 774/1373)*Tafsir al-Qur'an Al- 'Azim*.
[53]Jalal al-Din, Adham Ibrahim (2018). *Ilmal-Istithmaral-Islami*(The Science of Islamic Investment), p. 266.
[54]Ashri, Manal Ibrahim (2020). *Al-Takatulat Al-Iqtisadiyya Al-Mu'Asira Fi Al-'Alam Al-Islami*(Contemporary Economic Blocs in the Islamic World), Alexandria: Dar al-Ta'lim al-Jami'i.
[55]Hanafi, Hassan (2021). *DirasatFalsafiyya fi al-Fikr al-Mu'Asir*(Philosophical Studies: In Contemporary Islamic Thought) Cairo: Founders of al-Hindawi, pp. 240-241.
[56]Shatibi, Abu Ishaq Ibrahim ibn Musa al-Gharnati (d. 790/1388). *al-Muwafaqat fi Usul al-Shari'a*. p. 219.

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how the Muslim should allocate his funds in this arrangement.57In addition, the interests of religion and this world depend on preserving the five quantities that make up religion: the soul, mind, money, offspring, and these essentials. Additionally, it would be impossible for them to conduct their lives as usual without it.58 Concerning wants, they are the things that a person needs to increase, enhance, and relieve difficulty; failing to meet these needs results in anguish and shame.59 Then come the advancements that make life simpler and more comfortable, and their fulfilment does not violate any wants or necessities.60

As for taboo things Islam forbids financing or investing in, they are the jobs and professions that are prohibited explicitly in the Qur'an and Sunnah, or the jurisprudence of jurists, such as prostitution, dancing, making statues, making alcohol, raising pigs, etc.61

D. Commitment to Islamic morals in financial transactions

The first righteous caliph was Abu Baker al-Sidiq, who offered insightful commentary on this topic and remarked that adhering to moral norms is the only way to ensure that this endeavor will be successful.The fundamental distinction between Islam and artificial systems is that in the Islamic economy, economic activity must be connected to moral values, which are demanded by attentiveness in transactions and are the only assurance for the success of this activity. 62Islamic economics is based on money and work. Islam connects these two pillars with ethical values to ensure that money stays within a natural framework and fulfills its function in society without becoming a slave to work.63

We can't discuss all of Islam's morals and values in this context, nor can we discuss all of its prohibitions. Still, we will focus on the most crucial to Muslims' economic life, such as

[57]Ghazali, Abu Hamid (d. 505/1111). *al-MustasfaMin 'Ilm Al-Usul*, ed. Muhammad al-AshqarBeirut: Mu'Asassat al-Risalah, vol. 1, pp. 277-278.

[58]Raissouni, Ahmed (2002). *al-Fikr al-MaqasidiQawa'iduhu aa-Fawa'Iduhu*(Purposeful Thought: Its Rules and Benefits) Cairo: Dar al-Kalimah, pp. 32-33.

[59]Muhammad Othman Shabir (2006). *Al-Qawa'id al-Kuliyyawa-Dhawabit al-Fiqhiyyah fi al-Shari;a al-Islamiyya*(Total rules and jurisprudence controls in Islamic Sharia), Amman: Dar al-Nafa'is, pp. 13-14.

[60]'Abd al-Hamid al-Ba'li (1996). *MafahimAsasiyya fi al-Bunuk*(Basic Concepts in Islamic Banks) Herndon: International Institute of Islamic Thought pp. 44-45.

[61]Ghazali, Abu Hamid (d. 505/1111). *al-Mustasfa Min 'Ilm Al-Usul*, vol. 1, pp. 277-278.

[62]Akpinar, Mehmetcan (2016). "Narrative representations of AbūBakr (d. 13/634) in the second/eighth century." PhD diss., the University of Chicago; Akpinar, Mehmetcan (2021). "Medinas Scholars on the move: Professional Mobility at the Umayyad Court", in Mohamad El-Merheb, Mehdi Berriah. *Professional Mobility in Islamic Societies (700-1750): New Concepts and Approaches* Leiden: Brill, pp. 15-35.

[63]Malik ibn Nabi (1993). *al-Muslim fi 'Alam al-Iqtisad*(Muslim in the world of economics), Damascus: Dar al-Fikr, p. 32.

honesty, loyalty, abandoning monopoly, moderation in spending, and abstaining from impurity, deceit, and deception.

Analysis:

The above discussionleads us to conclude that Islamic financing depends on the ownership of the asset, the business, the delegation of duties, and the associated risks. It is also committed to relying heavily on the general work environment. Different types of commercial activity are not required to apply Islamic law to their operations.The first is founded on sharing in profit and loss; the Prophet Muhammad (PBUH) used this principle when he traded for his wife, Khadija. This is where Islamic financing differs from ordinary financing.

Islamic finance does not rely on the imposition of interest; instead, it shares in the profits from using funds. Islamic finance providers invest the depositors' money in projects and businesses. The depositors split the profits from these investments according to a predetermined percentage. As a result, there is a relationship of some sort between depositors and Islamic finance providers on the one hand and between the latter and the clients of their investors on the other. In this situation, Islamic finance companies act as financial intermediaries in a way that benefits and is profitable for society.

Fundamentally, Islamic finance is different from conventional finance in terms of itsessence. Traditional finance is thought of as making loans to dealers who must repay them at a fixed interest rate regardless of how well the borrower, whether an individual or a business, performs. Islamic finance comes in many different forms, and some of the most significant differences between them are as follows: -Islamic financing frequently helps to broaden the base of participation in the ownership of projects. This presents an opportunity for many smallholders in major companies and various productive sectors. Islamic finance contributes significantly to establishing equitable distribution and striking a balance that prevents wealth from building up in the hands of moneylenders or influential traders with capital, as is the situation under the old system.

In Islamic finance, the owner retains ownership of the capital, but the other party receives the request in conventional finance. If there is no default or carelessness on the worker's side, the owner of the money pays the loss under Islamic finance. While in conventional finance, the master of money suffers no loss, in Islamic finance, the increase that the owner of the fundsreceives and the worker acquires is related to the amount of profit realisedby joint investments and the endowment of the agreed-upon proportions. In contrast, in traditional financing, the financier has no stake in the success or failure of the transaction, and the interest may not be capped at a specific percentage. Instead, it varies from contract to contract from one month to the next. However, it is always limited by the contract limits in Islamic financing.

Islamic finance uses cash and assets, whereas traditional finance uses money. Islamic finance, unlike regular finance, is an ethical system rather than merely a financial sector that seeks to generate a profit.

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