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Aspiring Maqāsid-e-Shariah and Socio-Economic Well-Being in Islamic Finance

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Abstract

The philosophy of Islamic finance aspires to an economic system based on risk-sharing, exchanges of assets, and avoidance of Ribā (interest). The framework of the Islamic financial system (IFS) is laid on shariah injunctions, drawn on the Quran and Sunnah. The contemporary institutionalization of an IFS is based on secondary sources such as Ijtihād (scholarly research), Ijmā (consensus), Istihsān (public good), and Qiyas (analogical reasoning). The goal of IFS is to furnish an equitable and just financial system that adheres to Maqasid-e-Shariah and enacts social well-being and welfare (Falāh). The challenge of rising above commercial goals and prioritizing Shariah objectives as a means of socio-economic welfare is yet to be mastered by the Islamic finance industry, both nationally and globally. Real success can only be achieved if shariah adherence vis-a-vis socioeconomic well-being becomes the primary concern of Islamic financial institutions. This article reviews the origins and the progress of IFS during the past five decades. We also articulate the interwoven implications of Islamic financial institutions' observance of Maqāsid-e-Shariah and socio-economic well-being barriers as the principal objective. Our findings point, towards the strong convergence of shariah and well-being which fundamentally revolve around the prohibition of Ribā not only in Islam but in all three Abrahamic religions i.e. Judaism, Christianity and Islam.

Keywords: *Islamic Finance, Islamic Banking, Islamic Economics, Maqāsid-e-Shariah, Well-Being.*

1- Introduction

Pakistan was created in 1947 as the Islamic Republic by the United Nations General Assembly, a designation it retains to this day. The country has a population of 203,253,152 million people growing annually at a rate of 1.88 percent above the current population. While this is an estimate for the year 2019, it serves as a solid starting point for more study and development. Additionally, it has the world's most fearsome military forces and is the only Muslim state with nuclear weapons. Pakistan is referred to be the Islamic Republic in the country's 1973 Constitution, which also contains various parts of Islamic law, the most significant of which are Articles 1 and 2, which proclaim Islam to be the country's official religion. Additionally, Pakistan's 1973 Constitution protects a wide variety of fundamental rights and guarantees that all citizens have equal access to social and political justice on a national and international level. The Principles of Policy, among other things, emphasize the government's commitment to safeguarding the rule of law and attaining social justice in the country.[1]

Gen. Muhammad Zia-ul-Haq garnered global prominence during his tenure as Pakistan's president from 1977 to 1988 for his attempts to Islamize the country's legal system after his election as president in 1977. Pakistan's Federal Sharia Court was founded on May 28, 1979, and is a key provision of Pakistan's 1973 Constitution, Chapter 3-A,[2] which establishes the

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[1]. The Constitution of Pakistan, 1973, Article 29-40

[2]. The Federal Shariah Court was established as a substitution of the Shariah Benches of the High Court's by virtue of the President's Order No. 1 of 1980. Article 203 C (1) states that a Court will be comprised of no more than eight Muslim judges including Chief justice, nominated by the president under Article 175-A".

Federal Sharia Court as the country's highest judicial authority. Aspects of contemporary legislation must be assessed against the Quran and Sunnah's standards and suggestions made by the Court's mission statement (PBUH). When it comes to legislation, parliament took into account the Council for Islamic Ideology's suggestions. Current law includes the Zakat and Ushr Ordinance of 1980, the Qisās and Diyat Ordinance of 1984, the Ihtirām-e Ramazan Ordinance of 1984, and the Enforcement of Shariah Act of 1991. Nizām-e-Zakat is a non-governmental organization that promotes Islamic ideals. It was founded in 1980 to assist in the Islamization of the country's economic system introduced.

The Council ruled in 1981 that the Interest Act of 1839 was in direct violation of basic principles of the Qur'an and Sunnah. As a consequence of the results, it was suggested that the Act be repealed (PBUH). According to the Council of Europe, all institutions, including banks, must be free of capitalist preoccupations to function properly.[3] When Pakistan's then-government pressured the State Bank of Pakistan to make particular efforts to eliminate interest from financial transactions within three years of assuming office, the State Bank of Pakistan pledged to do so. As a result, the “State Bank of Pakistan” issued an order directing all “financial institutions” to immediately cease paying interest and implement the Council's 13 alternative business plans.[4] 46 Following this defeat, the government chose to prolong its time in office by amending the constitution at the end of the three years, allowing it to serve an additional four years. Additionally, an expired constitutional clause on June 26, 1990, that was not renewed resulted in an additional seven-year delay.[5] It is a not-for-profit organization devoted to the development of Islamic learning, with the mission of promoting Muslim knowledge.

The Ideology Working Group examined eleven Conventional Acts of Insurance starting in 1984 and decided that the current insurance system is incompatible with Islamic values. According to the Council's recommendation, the present insurance system should be phased out and replaced as quickly as possible by an Islamic insurance system.[6] Since its inception in 1988, the International Islamic University has witnessed great development as a consequence of its dedication to the education of professionals in comparative legal and theological knowledge.

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[3]. Council of Islamic Ideology, Annual Report Islamabad: 1992, p.123-127.
[4] State Bank of Pakistan, Order No 13, issued on 20th of June 1984, http://www.sbp.org.pk/circulars/index.asp.
[5] Council of Islamic Ideology, Report, 1992, p.125.
[6] Ibid., p.78

Given the predominance of conventional commercial banks in Pakistan's financial sector, attempts have been undertaken to develop a robust Islamic banking and finance system to accomplish the ultimate aims of Islamic economics and finance. This objective was attained via the establishment of a robust Islamic banking and finance system. As a result, Pakistan created an Islamic banking and financial system. To succeed in ensuring that Islamic banks are perceived as institutions that promote social justice and material well-being for the people of this country, the government, planners, policymakers, and administrators must demonstrate a strong commitment to ensuring that Islamic banks are perceived as institutions that promote social justice and material well-being for the people. The Federal Sharia Court concluded in 1991 that commercial banks' approach violated Islamic norms and was therefore prohibited. As a result of this expansion, Al-Meezan Bank was founded in 1997 as the world's first Islamic bank, and it operates according to the Islamic financial model.[7] "This board was established in 2001 by Al-Meezan Investment Bank to regulate and approve guidelines for the country's emerging Islamic banking industry, as well as to establish criteria for the establishment of Islamic commercial banks in the private sector and the conversion of existing commercial banks to Islamic banking practices. The Shariah Supervisory Board is composed of members appointed by the Minister of Finance and is charged with supervising Islamic finance's implementation."[8] Each Islamic bank would operate as the client's agent/wakil, providing the consumer's access to material and social justice within the Islamic community. It has been agreed to provide an Islamic bank with a dual-purpose mandate. In addition to performing regular banking tasks, the business was responsible for offering Islamic financial instruments such as Mudārbah, Mushārka, and Murabaha. It was also responsible for the management of Qard-e Hasanah,[9] a lending organization that lent money to members of the general public. To protect Pakistanis' material well-being, all relevant processes were implemented as a consequence of the establishment of Islamic finance.[10]

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[7] www.meezan.com.pk. Last visited 10-01-22.

[8] Khir, K., L. Gupta., & B. Shanmugam, Islamic Banking: A Practical Perspective, (Malaysia: Pearson Malaysia Sdn.Bhd. Selangor, 2008), p.22

[9] "Among the ordinary functions are dealing in money, accepting deposits discounting commercial bills, acting as safe custodians of valuables, correspondents and clearing agents, trustees, executors, attorneys, collectors of dividends, selling foreign currency, and facilitating transfers to and from other countries. Among the Islamic modes of finance are, mushārkah, mudārbah, diminishing mushārkah, murāb'hah, salām, istisna, istijrār, ijarah (leasing) and ijarah wa iqtina‟etc. Likewise, Islamic banking sector also involves in different economic activities such as opening of bank account (bachat), remittance, zakat deduction, sale and purchase of foreign currency, sale and purchase of traveller's checks, etc."

[10] Ata-ul-Haq, Development and Distribution in Islam, (Malaysia: Pelanduk Publications,1991), p.110.

2- Rationalizing Islamic Banking and finance

Islam, being a complete code of behavior, educates people in all aspects of their life, with Islamic teachings extending to all spheres of economic activity. Islamic economics and shariah-compliant finance assert that Islamic teachings require believers to produce legal (Halal) earnings and that Islam has proclaimed the amassing of lawful (Halāl) wealth to be the primary form of devotion (Ibādat).[11] Islamic economics and Shariah-compliant organizations are the primary vehicles through which people may invest their excess funds to generate legal (Halal) money. In the first six requirements, Islamic banking is defined as a "Shariah-based financial system" that complies with Islamic norms.[12] The lack of interest payments is one of Islamic banking's most defining characteristics (ribā). “Numerous verses in the Qur’ān and sayings of the last Prophet Muhammad prohibit interest (PBUH).” Surahs of the Holy Quran (S.A.W.) depict interest-based discussions as a kind of resistance to Allah and His Messenger Muhammad. “Financial system activities cannot be considered Islamic if a little amount of interest is involved.”[13]

2.1 Comparing Islamic Banking Versus Conventional Banking:

In many parts of the world, conventional and Islamic banking coexist. The financial systems of these two countries are starkly opposite. The interest rate gap between Islamic and conventional banking is the most fundamental distinction between the two modes of banking (riba). In contrast to the former, which is fully based on interest (riba), the latter is entirely based on profit and loss distribution and expressly forbids interest trading. Banks' obligations have historically been perverted, and they have remained immoral social concerns; nevertheless, shariah-compliant banks are dedicated to aiding the communities in which they operate. In contrast to conventional banks, which keep capital inactive by paying a set interest rate, Islamic economic systems stimulate profit and loss capital investment and prohibit money hoarding. While conventional banking seeks to maximize profits by lending money to any business, regardless of its nature, the Islamic system prohibits financial institutions from participating in such unlawful, immoral, and unethical behavior.[14] Numerous restrictions and

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[11] Alam, N., L. Gupta, and B. Shanmugam, Islamic Wealth Management, in Islamic Finance. 2017, Springer. p. 451-473.

[12] Alam, M.K., et al., Problems of Shariah Governance Framework and Different Bodies: An Empirical Investigation of Islamic Banks in Bangladesh. The Journal of Asian Finance, Economics, 2020, p. 265-276.

[13] Hariyanto, E., The Settlement of Sharia Banking Dispute based on Legal Culture as a Practice of Indonesian Islamic Moderation. Al-Ihkām: Jurnal Hukum dan Pranata Sosial, 2020. p. 301-316.

[14]. Khan, H.N. and N. Asghar, Customer awareness and adoption of Islamic Banking in Pakistan.

inspections have been implemented to guarantee that money is utilized just for company purposes. This is done to guarantee that the public's money is not misappropriated. Islam permits.[15] Thus, interest-based banking dominates the worldwide market, whereas the market segment of Islamic banking based on assets is developing internationally.

2.2.Islamic Banking Throughout the World

While the Islamic banking system has existed in concept for fourteen centuries, it did not become a reality until the twentieth century, when El-Najjar created the world's first Islamic bank in 1963.[16] It operated as a savings organization, with earnings and losses distributed equally among owners. Egypt had the highest concentration of Islamic banks in the world until 1967 when the government was compelled to shut them. Another ten to fifteen years passed before additional Islamic banks in the Arab world were established, including the Dubai Islamic Banks in 1975 and the Faisal Islamic Bank of Sudan and Egypt in 1977, both of which were headquartered in the United Arab Emirates. Around the same period, the Organization of Islamic Countries (OIC) and the “Organization of Islamic Countries (OIC)” founded the “Islamic Development Bank (IDB).”

Islamic Banking has been separated from the "Islamic Finance Industry." Islamic banking is gaining popularity in non-Muslim countries. According to the World Bank, Islamic banking is increasing at a pace of 10%, 12.3%, 13.3%, and 20% every year. Sudan and Iran have both abolished conventional banking and fully recognized the Islamic financial system as a viable financial system. As a consequence, Islamic banking is gaining popularity around the globe, with Pakistan leading the way.

Pakistan's religion is Islam, which is regarded as the country's official religion. Pakistan's quick rise indicates how enthusiastic its residents are about Islamic finance, even though Islamic finance accounts for just 8% of total banking activity in the country. Numerous Pakistanis feel that donating to Islamic organizations is an effective way to earn money. As a consequence, some Pakistanis have turned to Islamic banking, feeling that the West is hostile to Islam and Muslim communities.[17] Muslims are increasingly turning to Islamic banking as

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Interdisciplinary Journal of Contemporary Research in Business, 2012. p. 359-366.

[15]. Setiawan, A. Harmonization of Islamic Law Norms in Sharia Banking Laws. in 2nd International Conference on Indonesian Legal Studies. Atlantis Press. 2019.

[16]. Hārūn, S. and N. Ahmad, The effects of conventional interest rates and rate of profit on funds deposited with Islamic banking system in Malaysia. International Journal of Islamic Financial Services, 2000.p. 1-7.

[17]. Asif, M., Motives Behind the Transfer of a Bank From Conventional Banking to Islamic Banking in Pakistan. Journal of Business Tourism, 2017 p. 225-234.

they become more conscious of the country's interest-based banking system's financial problems.

2.3 Philosophical Foundations of Islamic Banking and Finance

It was revealed that the Islamic philosophical tradition of Maqāsid al-Shariah had a comparable idea of material well-being, with access to material well-being or the provision of essentials for people's fundamental needs being highlighted as one of the most important goals. Primary objectives of Islamic philosophy of economics and finance.[18][19] In this context, concerning Qur'an and Sunnah (PBUH) principles as well as World Bank rules, this research investigates the idea and impact of Islamization on Pakistan's economy as well as its impact on the material well-being of the population in Pakistan. The following is a breakdown of the three parts 1. Introduction 2. For starters, we'll talk about the Islamic concept of material wellbeing, followed by a discussion of the current situation of Islamic economics and finance. It will define Islamic economics in light of the economic rules of the Qur'an and the Sunnah, among other things (PBUH). In addition, the elements that influence the modernization of Islamic economics and finance will be investigated in depth. The second chapter will address the Islamization of the economy as well as the establishment of an Islamic banking system in the United States of America. The final segment will explore the economic issues that Pakistanis are experiencing as a result of the country's current Islamic economic structure. To wrap up, suggestions will be developed to change Pakistan's current framework for Islamic economics and Islamic financial institutions.[20]

2.4 On the Performance of Islamic Finance Institutionalization

Islamic banks are evaluated on three criteria: their liquidity management strategy, the asset and liability sides of their balance sheets, and their liquidity management. Banks should strengthen their policies for balancing liabilities and assets, align their activities and principles with the public interest to increase public support for Islamic banks, and strengthen their liquidity management. [21] Rather than repaying their debts during financial crises caused by depositors' liquidity problems, banks sell equities to increase their cash holdings.[22]

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18. Ibn Hishām, Muḥammad, Abdul Malik, Seerah al-Nabawiyyah , Matbaʿʿah Hijazi, Cairo 1988), p.322;
19. Al-Shātibi, Abu Isḥaq Ibrahim bin Musa, Al-Muwafqāt, Matb'āʿ al-Salfiyyah, Egypt, 1997, vol 2, p.35.
20. Djermakoyo IS., The Search for New Economic Order, Islamic Council of Europe, London,1989, p.16
21. Franck, R. and M. Krausz, Liquidity risk and bank portfolio allocation. International Review of Economics Finance, 2007, p. 60-77.
22. Dinger, V., Do foreign-owned banks affect banking system liquidity risk? Journal of Comparative Economics, 2009. 37p. 647-657.

Islamic banks must remain competitive since their conventional competitors provide the same services. Islamic banks may benefit more from economic development by focusing on their depositors rather than their owners.[23] Islamic banks should exist for spiritual and commercial reasons, and banks should provide high-quality goods and services since religious belief is not the only element that attracts people. Sixteen, twenty-three, twenty-seven, twenty-seven, thirty-three, and Muslim depositors fall into two categories: those who strictly adhere to Islamic norms and regulations and choose sharia-compliant banking, and those who prefer these banks for their service quality, high return on their money, and convenient location.[24] Depositors in Islamic banks may open three types of accounts: current and savings accounts, which guarantee payment of a minimal value against the deposited amount but do not guarantee profits; and investment accounts, which guarantee sharing profits and losses but do not guarantee the primary amount or pre-determined profits. [25]

The majority of Muslims worldwide value Islamic banks for religious and economic reasons.[26] The primary issue confronting Islamic banks is the insufficient training of their employees.[27] However, 70% of Muslims in Jordan choose Islamic banks for shariah compliance and spiritual reasons.[28] According to jurists, Islamic banking should not remove risk from its contracts, with earnings accruing depending on bank performance rather than interest rate swings.[29] Islamic banks may expand via knowledge-based administration, customer-friendly procedures, and service innovation.[30]

People invest their savings assets throughout all emerging countries as a result of the banks' earnings and losses.[31] Islamic banks should expand their secondary market to improve

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[23]. Karim, R.A.A. and A.E.T. Ali, Determinants of the financial strategy of Islamic banks. Journal of Business Finance Accounting, 1989. p. 193-212.

[24]. Erol, C. and R. El Bdour, Attitudes, behaviour, and patronage factors of bank customers towards Islamic banks. International Journal of Bank Marketing, 1989.

[25]. Abdullah, A., R. Hassan, and S. Kassim, A real asset management approach for Islamic investment in containerships. Journal of Islamic Accounting Business Research, 2020.

[26]. Ghannadian, F.F. and G. Goswami, Developing economy banking: the case of Islamic banks. International Journal of Social Economics, 2004.

[27]. Kahf, M., Islamic banks at the threshold of the third millennium. Thunderbird International Business Review, 1999. 41(4 5): p. 445-460.

[28]. Naser, K., A. Jamal, and K. Al Khatib, Islamic banking: a study of customer satisfaction and preferences in Jordan. International journal of bank marketing, 1999.

[29]. Iqbal, M. and P. Molyneux, Thirty years of Islamic banking: History, performance and prospects. 2016

[30]. Sheikh, A.Z. and U.L. Shah, Islamic Finance: Challenges of Islamic Banking in Pakistan. 2019: p. 50.

[31]. Abozaid, A. and A.W. Dusuki. The challenges of realizing Maqāsid al-Shariah in Islamic Banking and Finance. in IIUM International Conference on Islamic Banking and Finance, IIUM Institute of Islamic Banking and Finance. 2007.

risk management in areas where cost transparency and liquidity are required. Sukuks and Financial Takaful (insurance) as risk-hedging instruments.[32] Islamic banks in Brunei Darussalam confront three categories of risks: credit risk, foreign currency risk, and operational risk, which they professionally manage using risk management methods such as risk identification (RI), risk assessment, and risk analysis.[33] In developing nations, the presence of large-scale banks creates liquidity concerns for Islamic banks, which typically retain low-liquidity assets but maintain a higher level of liquidity during crises than single-market banks.[34] There is an indirect link between liquidity and stock returns as stocks become more illiquid and liquidity risk rises, but returns are unaffected by changes in the liquidity of comparable stocks.[35]

While the principles of Shariah-compliant financial instruments such as Mudārbah should be vigorously invoked to achieve interest-free banking, this seems to be an impossibility given that he did not advocate bank-owned ventures. [36] Mudārbah is the most important financial product in which earnings and losses must be shared equally between bank and mudārib and where bank losses must be recovered either from the bank's reserve fund or by the bank's owners.[37] Equal profit and loss distribution between financier and entrepreneur are not Sharia compatible and, as a result, is impractical for Islamic banks. Mudārbah and Mushārkah-based models were built on a two-tier Mudārbah structure in which Islamic banks' activities and functions were divided into three broad categories: free services, Mudārbah and Mushārkah-based financing transactions, and fee and commission-based services. [38] They said that success in interest-free banking is achievable only in nations where interest (ribā) is prohibited and interest-based transactions are punished, although several Islamic banks have functioned effectively in several countries where Islamic rules are mandatory. In the contemporary setting,

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[32]. Zheng, H., Interaction of credit and liquidity risks: Modelling and valuation. Journal of Banking

[33]. Hassan, A., Risk management practices of Islamic banks of Brunei Darussalam. The Journal of Risk Finance, 2009.

[34]. Franck, R. and M. Krausz, Liquidity risk and bank portfolio allocation. International Review of Economics Finance, 2007. 16(1): p. 60-77.

[35]. Vaihekoski, M., Pricing of liquidity risk: Empirical evidence from Finland. Applied Financial Economics, 2009. 19(19): p. 1547-1557.

[36]. Novikov, Islamic Banking in the Global Financial System: Current Situation and Global Environment. in 5th International Conference on Economics, Management, Law and Education (EMLE 2019). 2020. Atlantis Press.

[37]. Samad, A., N.D. Gardner, and B. Cook, Islamic banking and finance in theory and practice: The experience of Malaysia and Bahrain. The American Journal of Islamic Social Sciences 2005. p. 69-86.

[38]. Shaikh, S.A.A., A critical analysis of Mudārbah & a new approach to equity financing in Islamic finance. Journal of Islamic Banking Finance, Forthcoming, 2011.

a well-developed structural model for the Islamization of banks is innovatively associated with the apparent presence of merchant banks, commercial banks, and development banks.[39] Islamic banks (IBs) should use equity financing to finance projects, since profit and loss sharing (PLS) arrangements may reduce the bank's distance from its clients. The primary difference between Islamic and conventional banks is that conventional banks reject promising projects owing to the lower value of collateral, but Islamic banks do not use collateral value as a deciding factor.[40] Thus, Islamic banking may help maintain economic development by financing such beneficial initiatives on a PLS basis.

3- Prohibition of Ribā (interest) in Ibrahimic Religions

Usury was not prohibited in the bulk of ancient Near Eastern religious systems, nor was it prohibited in the secular standards that developed as a result of those systems. Ancient societies regarded plants, animals, and humans as being alive and capable of reproducing, as did modern ones. Consequently, interest might be charged on 'food money or any other kind of monetary symbol, as long as the amount charged was reasonable. There has been a food money system in existence since around 5000 BCE, and it has been exchanged in exchange for a range of items, including but not limited to olives, dates, seeds, and animals, throughout history. For the Mesopotamians, the Hittites, the Phoenicians, and the Egyptians, interest was seen as acceptable, and it was often imposed on them by their governments.[41]

In Judaism, loans and interest, as well as Jewish perspectives on poverty, wealth, and charitable giving, are all authorized. Although taking interest is forbidden in the Torah and subsequent parts of the Hebrew Bible, the ban has been interpreted differently in other places. According to common opinion, Jews are prohibited from collecting interest on loans made to other Jews, but they are permitted to charge interest on non-Jewish transactions such as purchases of goods or services. On the other hand, this assertion is often contested throughout the Hebrew Bible. According to Deuteronomy 23:19, you are not permitted to provide money, food, or anything else to thy brother based on interest.[42] You may give money to a foreigner but not to a brother, so that the LORD, thy God, may reward you in everything that you do in the area where you come to live. Lucas Cranach the Elder's woodcut Passionary of Christ and

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39. Uusmani, M.T., An introduction to Islamic finance 2002. Vol. 20.

40. Warninda, T.D., I.A. Ekaputra, and R. Rokhim, Do Mudārbah and Mushārkah financing impact Islamic Bank credit risk differently? Research in International Business Finance, 2019. 49: p. 166-175.

41. D. Sacks, A Dictionary of the Ancient Greek World Oxford University Press, 6 February 1997, p.81

42. Deuteronomy, 23:20

Antichrist depicts Christ driving the Usurers out of the Temple, as portrayed in the artwork. The majority of participants stated that staying out of debt was the most efficient approach to prevent becoming a slave to someone else. Debt should be avoided at all costs, and debt repayment should be reserved for necessary commitments. The prophets, on the other hand, rebuked the people for breaking many laws, especially the prohibition against usury. When Jews in Christian Europe came to feel that charging non-Israelites interest justified benefitting from lending money in the 14th century, they were labeled heretics. Even though Christians did not lend, they were able to take out loans since doing so allowed them to skirt both Judaism and Christianity's bans on usury.

Among the subjects explored are interest rates, Christian attitudes on poverty and riches, and Christian finance, to name a few. Christian churches used to prohibit usury or the practice of charging interest. One example is a charge for the usage of money, such as at a bureau de change. Charging interest became lawful when the nature of money changed, and the word "usury" was used to represent interest rates that were higher than the legal rate. [I'm on the lookout for a source] The term "Christian finance" refers to a centuries-old banking and financial practice. Despite the Church's prohibition on usury and skepticism of exchange activities, several banking and financial operations (such as money loans and guarantees) have emerged. These companies have been created by the Knights Templar (12th century), the Mounts of Piety (founded in 1462), and the Apostolic Chamber, which is directly linked to Vatican City (opposed to production activities). In the sixteenth century, the spread of Protestantism reduced Rome's hold on several territories, ending in the abolition of her anti-usury laws in several jurisdictions. As a consequence, the banking sector in Northern Europe would be allowed to grow. Protestant merchant families started to enter the banking business in greater numbers in the late 18th century, particularly in trade nations like the United Kingdom, Germany, and the Netherlands. New types of financial activity, on the other hand, have extended banking's reach well beyond its original boundaries. The Protestant labor ethic fostered unorganized and spontaneous mass activity, which finally contributed to the establishment of capitalism. According to Rodney Stark, "Christian reason" is the driving force behind capitalism's success and the spread of the Western world. [43]

Interest-bearing loans are strictly forbidden by the Quran. Consuming usury is banned, according to the Prophet, "even if it is twice or tripled." "Fear Allah so that you may prosper,"

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[43]. Edward E. Cohen, Athenian Economy and Society: A Banking Perspective, Princeton University Press 1992. P.34

says the Quran. (3:130) "And Allah permitted trade while forbidding the payment of interest" (2:275). The Quran forbids Muslims and earlier communities from unlawfully collecting interest or creating money. According to two verses in the Quran (Al Quran – 4:160–161), "We stopped them from accomplishing major things that were previously allowed to them because of the Jews' misbehavior." The Quran reads, "We have prepared a dreadful retribution for those who disbelieve as a result of their numerous impediments to Allah's way, as a result of their taking usury when it was banned, and as a result of their devouring of people's money under pretenses." The practice of riba is prohibited under Islamic economic law (fiqh). The Qur'an forbids capital accumulation without the provision of services, and the Sunnah forbids commodities exchanges in unequal quantities, as well as commerce in promissory notes (such as fiat money and derivatives). Despite the prohibition on collecting interest, a sequence of events in the twentieth century resulted in the formation of an Islamic banking model, in which banks create profits rather than paying interest to customers. To do this, a variety of fees, risk-sharing agreements, and other types of loan ownership, such as leasing, would be employed. In the 15th–17th century, there was a lot of expansion.

4- Islamic finance as a means of enacting social well-being (Falah)

The international economic systems of commercial capitalism, socialist capitalism, and capitalist capitalism all came tumbling down in the mid-twentieth century, bringing the whole globe to its knees. As a consequence of this, economists and social activists have urged for the establishment of a new World Economic Order that is devoid of all forms of exploitation and the ills that now plague the modern economy. In the wake of the incident, a feminist movement was established with the purpose of advancing women's rights in society.[44]

In this context, it has been proposed that Islamic economics and finance are justified on the grounds that Islamic economics lays a greater emphasis on social problems than Islamic finance does on financial considerations.[45] Over the past decade, economists and philosophers from Muslim and non-Muslim backgrounds have partnered to build a healthy economic and financial system based on Islam's ethical and positive values, as well as to address capitalism's structural faults. They were entrusted with conceptualizing and executing previously inconceivable economic solutions for current economies, the banking industry, and other

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[44]. Friedrich, A New Studies in Philosophy, Politics, Economics and the History of Ideas, University of Chicago Press, Chicago 1978, p. 23-34.

[45]. Khir, K., L. Gupta., & B. Shanmugam, Islamic Banking: A Practical Perspective, Pearson Malaysia Selangor, Malaysia 2008, p.12.

commercial organizations when they were a member of Islamic Economics.

Western bankers have the distinction of being the first to propose Islamic banking as a viable alternative to capitalism's oppressive practices, doing so as early as 1961. Given the capitalist banking sector's terrible socioeconomic effects, the aims of Islamic banking have been repeatedly emphasized in a variety of media outlets. Whatever method of funding an Islamic bank employs, must be consistent with Shariah's objectives and the public good. Additionally, each Muslim state must be an Islamic welfare state, since only an Islamic welfare state is capable of achieving the social justice and welfare-oriented objectives of Islamic economics, finance, and banking, as well as the need that each Muslim state is an Islamic welfare state.[46]

Contrary to common assumption, Islam provides both normative and positive interpretations of Quranic economic notions, and as a result, it supports the use of both positive and normative standards in daily life.[47]

According to Prof. Khurshid Ahmad, "Islam has much to offer in terms of the enjoyable aspects of life" (1976).[48]

"An economic evaluation," says the author. Women, children, mountains of wealth and silver, excellent horses, animals, and estates are all described as "the delight of this life," According to the Quran.

"However, Allah is the perfect dwelling place for man."[49]

"He is who created everything on earth for you,[50]" the Quran declares emphatically. A wonderful benefit of Allah Almighty is that He has appointed human beings to serve as His Vicegerents on this planet, burdened with the duty of administering justice, maintaining law and order, and legislating in response to changing circumstances. Therefore, rather than supporting a "New Economic Order," Islam produced a comprehensive set of universal economic principles that are today recognized by all economic theories as essential features for the establishment of an equitable socioeconomic system on a worldwide scale.[51]

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[46]. Izz al-Din „Abd al-Salam, Qawāʾid al-Ahkām fi Masāleḥ al-Anam, Dar Ibn Kathir, Damishq, p.54
[47]. Ramadan al-Buti, Muhammad Saeed, Ḍawabiṭ al-Maslahah fi al-Shariʻah al-Islamiyyah, Dar al-Fikr, Damishq 2005, p.321.
[48]. Prof. Dr., Khurshid Ahmad, Studies in Islamic Economics, The Islamic Foundation, UK 1979, p.7.
[49]. Āl-Imran:14:3.
[50]. Al-Baqarah:29:2.
[51]. Naseem Razi, Islamic Banking System and Mode of Leasing: A Comparative Analysis in the Light of Maqāsid al-Shariah, Cultural and Religious Studies USA: Dec., 2014, Vol. 2. p. 6

Changing cultural, religious, and ethical norms within a community influences economic behavior, and the Islamic economic notion is no different. Therefore, Islam established an acceptance/rejection policy based on the importance of each act/everything, which explains why Quranic legal injunctions include both positive and negative parts. Individuals have been given the authority to determine whether or not a certain economic system is advantageous to them based on revealed economic principles and the socioeconomic and political conditions of the nation in question. The economic policies of Hadrat Umar (RU) may serve as a model for other countries. "As a result, previously established universal economic principles give a framework for decision making.

"Comprehensive economic framework to evaluate the changed socioeconomic and political circumstances and to adopt any of the contemporary economic systems of the world. The task of the Muslims is to evaluate all existing and practicing economic mechanisms in the light of the revealed economic principles and to decide its rejection or acceptance accordingly."[52]

This is the reason that the Holy Prophet (PBUH) declared: "If something belongs to the domain of your affairs, then you know all about it. (You are the best judge thereof and have the right and the capacity to deal with it according to the Sharia."[53]

Talking about the Sunnah of the Prophet (PBUH), the Prophet Muhammad (PBUH) established the first Islamic state at Madinah where he (PBUH) introduced Individual prosperity as the product of an economic system that prioritizes equality and well-being above all other considerations. A written constitution, authored by the Prophet (PBUH) as governor of Madinah, promised economic and political equality to all state residents. This was the world's first written constitution. As part of Muwākhāt al-Madinah, the Prophet (PBUH) created the notion of controlled wealth and shared resources as an official state policy. This was done to deal with changing environmental conditions, state expansion, and people's material well-being.[54]

Note that the Quranic income and wealth constraints, if correctly attained, allow for the accumulation of endless riches and the acquisition of private property. The Prophet (PBUH) was able to limit the scope of the Quranic texts, however, by the use of contextual interpretation. When it comes to money and property, the Sunnah (PBUH) restricted an individual's ability to accumulate an unlimited amount of money and property to the benefit of

52. Naseem Razi, Islamic Banking System and Mode of Leasing, Ibn Qayyim, I'lam alMuwaqqi'een, vol., p.133.
53. Ibn Mājah, Sunnan Ibn Mājah, Islamic Publications, Lahore 1988, vol.2, p.34.
54. Imam Shātibi, Al-Muwāfaqāt, vol 2, p.178.

society and the preservation of people's material well-being. By implementing state-run economic policies, the four enlightened Caliphs were able to sustain the notion of shared resources, wealth, and property in conformity with the Sunnah (PBUH).[55]

Following this, Muslim jurists applied Maqāsid al-Shariah to the question of material well-being, stating it to be the primary goal of the Islamic legal system. Muslims, understanding the significance of the issue, performed extensive research and categorized it as daruriyāt (necessities), hājāt (needs), and tahsiniyāt (rights) according to Islamic law (luxuries).[56] A person's material well-being is identical to his or her physical well-being and refers to all of the elements required to sustain a person's life in such a way that it is unimaginable to live without them. Protecting against noise, protecting against life, protecting against offspring, protecting against intelligence, and protecting against money are the five needs outlined in this section. Because we are all linked and participate in the beauty of the earth, according to Imam Ghazali, we need other people to survive. As a result, safeguarding human lives and children becomes more important. It is followed by higher-order ajat (needs) of the zarūriyāt, and having access to them makes life much easier.[57]

It is the peak of material well-being, culminating in a life filled with splendor and sumptuousness, which is referred to as luxury/tasiniyāt. When the essentials are achieved and dreams or luxuries are introduced, it is determined by the socioeconomic realities of each society. When individuals begin to enjoy all of their core requirements and necessities to simplify their lives, according to Imam Shāt'bī (1988), "the stage of luxury begins, and everything they acquire to beautify their lives becomes tehsīnyāt."[58] As a result, both the Islamic economic system and the Islamic political system have suffered. It is the goal of financial aid to ensure that people have enough money to live freely and comfortably in their homes. Also shown is that the current idea of material well-being and the Islamic purpose of meeting the necessities of people are equivalent. The World Bank's standards of material well-being are also similar to those espoused by Muslim rulers and the Khulafā-e-R āshidīn during the sixth and seventh centuries AD. According to a wide definition, "Islamic economics" should be understood as a sound and universal economic framework to analyze the soundnrateess of any contemporary economic system on a global scale in light of its aims and

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[55]. Imam al-Razi, Al-Tafsir al-Kabir, Matbā Hijāzī, Cairo 1998, vol.1, p.544.
[56]. Imam Malik, Al-Muwattā, Nafees Academy, Karachi 2000, p.263.
[57]. Al- Ghazali, Abu Hamid, Muhammad bin Muhammad, Al-Mustasfā (Damishq: Dar Ibn Kathir), p.255.
[58]. Imam Shātibi, Al-Muwāfaqāt, vol 2, p.178.

impacts on people's material well-being.[59] As defined by Joan Robinson (1962), a rational economic system is "based on a specific ideology and on a set of general principles that explain them in the context of an individual's interests and economic growth. In other words, it is "based on a specific ideology and on a set of general principles that explain them." [60]

As a result of advancing from generality to specialization to carry out the system's scientific objectivities, Hobson (1929) established a strong economic system founded on basic ethical principles. As stated in Muslim writings and traditions, the primary function of an Islamic state is to provide religious practices, adequate food and clothes for all citizens, medical care, housing, and education.[61] In addition, the state should implement a system of equal income and resource distribution for its citizens.

4.1 Islamic Finance and the Social Well-Being (falāh) in Pakistan

The fundamental objectives of Pakistan's economic Islamization are to adhere to Islamic economic principles, such as those contained in the Qur'an and Sunnah (PBUH), to aid the poor, to ensure people's financial security, and to promote just social order. Because it was thought that Pakistan, as the Islamic Republic, would be able to satisfy the criteria for a successful Islamic economic system, the country's underlying conditions favored Islamization efforts during this period. As a result of the interest-based capitalism system in effect at the time, economic Islamization was seen as a panacea for all economic issues encountered by people. Despite even though odan's Islamic economy has failed to alleviate even one of the poorest people's economic concerns after more than 30 years of Islamization, there are reasons for worry. Today, Islamic banking and finance are primarily concerned with the establishment of Islamic banks across the country and the growth of assets and deposits; nevertheless, factors such as improving people's socioeconomic conditions and achieving material well-being are largely ignored. With over 60% of the world's population living in poverty, Islamic banking offers a viable alternative to conventional financing in a number of areas, including market pricing, consumer exploitation through hidden fees, profit maximization, and contributing to price hikes. As with conventional banks, Islamic financial institutions cater to the rich, denying the poor access to social services. Islamic banks have failed to include the service sector and the underprivileged into their business strategies, despite their goal declarations. Along with a fiscal deficit and inflation, Pakistan's economy is beleaguered by concerns such as poverty,

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[59]. Naseem Razi, Transformation of Islamic Economics into a Global Economics, p.75
[60]. Joan Robinson, Economic Philosophy, p.13.
[61]. Hobson, Work and Wealth: A Human Valuation, p.12.

human development, and the need for help from the International Monetary Fund (IMF) and the World Bank.[62]

The world is now faced with several grave risks to individual material well-being, yet neither state-run economic programs nor Islamic financial institutions are equipped to properly handle these problems. Fighting for people's material well-being on the surface of the planet seems to be pointless at the moment. On the one hand, the Islamic economy, which is supervised by the government, has failed to enhance the nation's overall economic standing while also ensuring material security for the Pakistani people. Individual economic concerns are the only focus of this study since the objective is to ascertain the effect of Islamization on individual material well-being in Pakistan. This study employs both the World Bank's methodology for evaluating material well-being and Maqāsid al-Shariah: The Book of Islamic Law to accomplish this purpose.

4.2 Islamic Finance – An Operationalization of Maqāsid-al-Shariah

Extremely costly home equipment, such as a washing machine, iron, computer, air conditioner, and automobile, are classified as "durable household."[63] Pakistan's average inflation rate from 1965 to 2015 was 77.9 percent, according to the World Bank, with a low of 68.22 percent in 1991 and a high of 84.67 percent in 1975.[64] Durable home goods are associated with life requirements (hājāt) in accordance with the Islamic concept of Maqāsid,[65] which aims to improve people's lives by reducing the number of everyday problems they confront. These connections are developed with care for the socioeconomic situation of each nation. However, around 60% of Pakistan's population remains impoverished, lacking access to food, safe drinking water, adequate sanitation, medicine, education, and adequate housing, among other requirements. In comparison to other environments, the supply of durable home products is less critical.

According to this study, the word "material well-being" is synonymous with Shariah's daruriyāt (Sacrament of Material Well-Being) concept from Maqāsid al-Daruriyāt (necessities). Notable about Islamic finance and banking is that it was formed not just to act as a traditional financial intermediary, but also to assist the poor in gaining material well-being

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[62]. IMF conditions basically require a country to reduce trade and budget deficit and have a smaller government role in the economy i.e. more privatization. https://www.imf.org/en/Countries/ResRep/PAK

[63]. World Bank Report, 2002, Available at https://blogs.worldbank.org/category/countries/pakistan, (Accessed on 22-10-21), p.23.

[64]. World Bank Report, 2016, p.75.

[65]. Imam Shātibi, Al-Muwāfaqāt, vol.2, p.35.

and meeting basic living necessities, as well as to administer social justice. Additionally, by disregarding the issue of land reform, which affects around 70% of the population, participants have polarized Islamic economics and finance, which is a bad trend. The fast growth of Islamic banks does not imply that they have enacted policies that assist the poor in attaining material well-being, which is necessary for existence. In this context, Islamic banking and finance's inability to relieve poverty and promote material well-being is a major cause of concern, owing to the lack of development in these areas. Bear in mind that both capitalism and socialism failed as a result of an inability to appreciate the condition of the poor and working class. Due to the failure of Islamic economics to achieve its primary aims, the average individual sees no functional difference between capitalism and Islamic economic systems. In Pakistan, the conventional banking and financial industries come in a close second to Islamic banking and economic firms. When it comes to price increases, contempt for people's material well-being, consumer exploitation through hidden fees, and profiteering at an ever-increasing rate, it is following the capitalist system, which overlooks the socioeconomic realities of the Pakistani people. As a consequence, Islamic economics failed to construct the so-called Qard e Hasanah window for the poor, which was one of Islamic money and banking's primary goals. A poor person with no assets, no credit, and no property is not insured. Neither an Islamic fiancé nor economics can adequately address the question of educating, training or providing material well-being for such a person.

5- Conclusion

The shariah-compliant banking is also known as Islamic banking, and the financial system is effectively a realization of the overarching Islamic economic system and is henceforth a force to reckon with in the global financial system. Relative to conventional economic ideals, the Islamic economic system not only addresses economic issues but also accounts for the ethical dimension of society to enable social and well-being and collective economic welfare. Also, equitable and just distribution of economic resources is form the key locus of the economic approach of Islam, and one of the major underpinning of the Islamic economy. This ensures that all segments of society, i.e. the rich, and the poor, receive the same opportunities, facilities and lifestyle. The philosophy is drawn on the basic and primary sources of the Sharia of the Qur'an and Sunna, coupled with the secondary sources including qiyās, Ijma and Ijtihad etc.

The analysis in this article asserts that Islamic Banking, Islamic economics and finance should be reorganized to achieve their fundamental goals. We argue that adherence to the principles of shariah is not a goal, but a means to accomplish socio-economic well-being. Based on our review of Abrahamic religious injunctions, this paper asserts that for IFS to be truly Islamic, it should aspire to achieve the well-being of its stakeholders.

One of the most critical objectives in Islamic economics and finance is to guarantee that individuals have adequate material well-being in their life. Contemporary Muslim economists and academics should examine contemporary Islamic economic systems in light of Quranic economic provisions, the Prophet's (PBUH) economic policies in Madinah (Muwākhāt al-Madinah), and the economic policies of the four Caliphs to determine the validity of contemporary Islamic economic systems (especially Hazrat Umar).