

Islamic Financial Guidelines

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In order to improve the human condition, Islam provides guidance in all walks of life by providing preventative measures to protect humankind from harm (*Mafsadah*). The objective of this guidance is to provide a means to achieve the good, the beneficial and the useful in life (*Maslaha*).

Islamic financial guidelines are designed to balance between the *Mafsadah* and the *Maslaha*, and if followed correctly, produce a balanced economic and financial system. However, in the presence of an alternative financial system, an Islamic financial system cannot be introduced from scratch. A different strategy is required in order to show its efficacy, its capacity to give better results, its ability to be more conducive to individuals, society, capital and labor, its inherent characteristic to be closer to human nature and common sense and its capacity to be sound and workable.

The current paper aims to emphasize the ability of the Islamic financial solutions to become an alternate of the current financial system and to show its benefits to believers as well as non-believers and aims to convince professionals and non-professionals alike to test it. In order to establish an Islamic system, two approaches can be taken.

One is to focus on a complete and perfect structure without a blend of “Islamic” and “Non-Islamic” models i.e. a 100% doubt free, authentic, documented (Halal) Islamic model. A believer can follow it as a package of faith and a non-believer can appreciate it as an Islamic brand in structure and content. The other approach is to proceed towards an Islamic system, but with a natural pace by establishing priorities, dealing with high-risk of Haram by removing it, then targeting Halal, mixed with some “unavoidable doubts”. This would entail removing *Mafsadah* first, then ensuring *Maslaha* as much as we can and making continuous efforts to reduce harm and increase benefit, as happened in the early days of the Islamic system.

The Prophet (S) states, “When I ask you not to do something, leave it totally and when I ask you to do something, try to do whatever you can”.

The point of the statement is that we move towards anything good or beneficial gradually and step-by-step. But anything bad or harmful is to be taken as a whole and not in pieces. This is clear guidance but if a harm (*Mafsadah*) is already present, and it needs to be replaced with good (*Maslaha*), the Islamic Jurists establish this in a Maxim which states that “The removal of harm is preferred to the acquiring of good”.

“Dar’ul mafsadah awla min jalbil-maslah”

Nowadays the Islamic economic theory is under debate for three reasons:

1. As a concept it is unfamiliar, especially when it is the opposite of the existing current financial system. The driving force behind the current economic system is based on loan generating

interest. Since interest is the incentive behind loan, the question arises, can there be another incentive in its place?

2. The Islamic economic theory is perfect but its practical application is missing. If there were a role model present, people who were convinced of its viability, could observe it, judge it and maybe even follow it?
3. The Islamic economic model is faith-based for Muslims and follows a strict code of ethics. Is it possible to take this model out from the tenets of the Muslim beliefs? Can we move towards its implementation in one leap? If we do, what would be the risks involved?

The Islamic financial theory is sound, appeals to common sense and fulfills the conditionality required for a comprehensive financial system. The system has justice for individuals, society, capital and labor. It is more shock-proof in times of crisis. It is equally suitable for a small and simple economy as well as a large and complicated one. When followed in essence, the system is more cost effective, free from tax evasion, and free from different scenarios of scandals and scams. It is more focused on good, instead of being open to good and bad alike.

Consider the following verses of the Holy Quran:

He set on the (earth) mountains standing firm, high above it, and bestowed blessings on the earth and measured therein all things to give them nourishment in due proportion, in four periods of time, in accordance with (the needs of) those who seek (sustenance). (The assurance being that everyone will get their due share from the sustenance provided by the All Mighty). Chapter 41, verse 10

And We have provided therein means of subsistence, for you and for those for whose sustenance you are not responsible. And there is not a thing but its (sources and) treasures are with Us; but We only send down from it in due and ascertainable measures. (The assurance that sustenance is sent down from the All Mighty as needed, in known proportion and in a measured way). Chapter 15, verses 20-21

Is it they who would portion out the Mercy of your Lord? It is We Who portion out between them their livelihood in the life of this world: and We raise some of them above others in ranks, so that some may command work from others. But the Mercy of your Lord is better than the (wealth) which they amass. (The assurance that sustenance is provided by the All Mighty in a proportionate way). Chapter 43, verse 32

These verses confirm that sustenance or provision (*Rizq*) is guaranteed. As one prophetic saying confirms. "The All Mighty God allocated a portion of provision for every soul and no one will die until he/she gets it, so make your best effort to acquire it".

Translating the above into economics, the issue is to create a system which ensures equal opportunity for everyone to compete, monitors activity to prevent injustice and exploitation and facilitates the distribution of wealth rather than hoarding. The Islamic financial system honors the dignity of humanity and importance of wealth. Wealth and property are called "a means of support" in the Holy Quran (Chapter 4, verse 5).

The current economic and financial systems have an over-reliance on loan, instead of using it as one of the sources of wealth. Islamic economics encourages trade-based investment, the objective of which is to seek profit but also be prepared for loss. In essence, Islam encourages taking business risk through trade by sharing of profit and loss and not isolating risk for one party and assuring profit for the other.

I hope that we not only follow the Islamic guidelines to produce a workable and result-oriented model to fill the gap which is created by recent financial crisis, but also that the model would be attractive enough that economists will be comfortable in using it and testing its credibility. While we are developing the system, we need also to look at how the model deals with mutual risk sharing (*Mukhatara*) instead of one-sided risk. The sustenance or provision (*Rizq*) is already present. The issue is how we utilize it for the benefit of individuals and society at large.

If we accept that provision is already ensured, and we know that shared risk (*Mukhatara*) between two parties is the way for the economics to work, then we do not need to put the onus of risk on one party, deal with high risk, or need dealings which are based on making fortunes. And we certainly do not need to cross the limit by looking at our own interests at the cost of another's loss. In such a case, we only need to develop a system to regulate transactions, create a balance between capital and labor and to create a balance between individuals and society.

The first step in such a system would be to re-define the role of a bank from a financier to a partner and co-owner. This way, the trade will be based on partnership (*Musharaka*) instead of just lending.

Islam rejects high risk (*Gharar*), but encourages business risk found in trade because such a risk is shared and is the only way to earn profit. Such risk-taking encourages individuals and firms to develop business skills and help spread wealth in the society. On the other hand, using a loan-based system is the way to suck all the wealth from the society and limit it amongst a few. The Holy Quran says:

Do not allow the wealth to rotate among the rich alone. Chapter 59, verse 7

In this sense, Islam does not utilize wealth just to earn profit, but to serve all, spread profit/benefit to all, and creates a relationship of co-existence between the haves and have-nots, instead of breeding animosity among them.

Islam, in its long history, has been seen as "other" and strange to the West. As a consequence, it is either ignored or neglected. I believe the financial field is a good tool to connect Islam with the West and the modern times. This is especially true when Islam provides insight through:

- (a) *Maqasid*: the essential needs of humanity which are protected by Islamic teachings, among them is the protection of wealth
- (b) *Hikmah*: wisdom, logical foundation for the ways which are needed and appreciated by common sense
- (c) *Ahkam*: the jurists' efforts to use texts and resources to extract the dos and don'ts which give basic and clear rulings

(d) The ability of Islamic law to adjust and its compatibility, efforts to develop a balanced model for all sciences including economics

In conclusion, we must be sincere and faithful in our efforts to continue to develop Islamic financial instruments. We need to keep them connected to trade and away from debt. Debt cannot take the whole burden of the economy, it is trade that can do so. Additionally, we need to convert banks from financiers to co-owners and partners. In this way we can move towards a safe society and away from recurrent financial disasters prevalent in today's time.