

QUR'ANIC PRINCIPLES OF ISLAMIC BANKING

By:
Joni Tamkin B. Borhan *

Abstrak

Artikel ini membincangkan mengenai prinsip-prinsip perbankan Islam yang berasaskan kepada al-Qur'an al-Karim. Para sarjana Islam telah meletakkan dua prinsip yang awal iaitu konsep Allah sebagai pemilik yang mutlak terhadap semua yang ada di alam ini dan konsep manusia selaku khalifah di muka bumi ini dalam hubungannya dengan pemilik sebenar dan alam serta kekayaan-Nya sebagai prinsip asas dan teras dalam amalan perbankan Islam. Enam prinsip yang terakhir yang menjadi asas prinsip falsafah perbankan Islam ialah iaitu konsep keadilan, integrasi antara nilai-nilai akhlak dengan kegiatan ekonomi, sikap positif terhadap kegiatan dan pembangunan ekonomi, agihan semula kekayaan berorientasikan nilai, penghapusan amalan riba dan sistem perkongsian untung dan rugi.

Introduction

This article will briefly discuss the principles of an Islamic banking system based on Qur'anic verses to show the identity and distinc-

* Joni Tamkin Borhan Ph.D., is an Associate Professor and head of the Department of Syari'ah and Economy, Academy of Islamic Studies, University of Malaya, Kuala Lumpur. He is also a member of National Syari'ah Advisory Board, Central Bank of Malaysia.

tions between conventional banking and Islamic banking systems. A number of Muslim scholars have contributed ideas on the conceptual aspects of Islamic banking system including Dr. Ahmad al-Najjār, Dr. Muhammad Nejatullah Siddiqi and Dr. Sobri Salamon. There is a consensus among them that the principles mentioned below are the bases of an Islamic banking system.

The Principles of Islamic Banking

Islamic banking system makes possible checking facilities and renders many other subsidiary services. A number of Muslim Scholars have contributed ideas on conceptual aspects of Islamic banking system.¹ The following principles are the bases of an Islamic bank.

- a. True ownership
- b. Vicegerency of man
- c. *Al-'Adālah* (Justice)
- d. Integration of moral values with economic activities
- e. Positive attitude towards economic activities and development

¹ See for example, Sobri Salamon, "The Ideological Aspects of Islamic Banking." A working paper presented at the *International Conference on Islam and Technology*, December 1985, Kuala Lumpur, 11pp; *Idem*, *Bank Islam*, Petaling Jaya, 1984, pp. 1-41; Ziauddin Ahmad, *Concept and Models of Islamic Banking*, Karachi, 1984; Muazzam Ali, "A Framework of Islamic Banking" in John R. Presley (ed.), *Directory of Islamic Financial Institution*, Kent, 1988, pp. 3-13; Muhammad Anwar, *Modelling an Interest-Free Economy: A Study in Macro-Economic and Development*, Herndon, USA, 1987; M. Umer Chapra, *Towards A Just Monetary System*, Leicester, 1985; Ahmad al-Najjār, *Bunūk Bilā Fawā'id*, Jeddah, 1972; Muṣṭafā 'Abd Allāh al-Hamsharī, *Al-A'māl al-Maṣrafiyyah wa al-Islām*, Cairo, 1973; Zubair Iqbal and Abbas Mirakhor, "Islamic Banking," *al-Tawhīd*, Vol. IV (3), Tehran, 1986, pp. 90-145; S. Rafi Khan, *Profit and Loss Sharing: An Islamic Experiment in Finance and Banking*, Karachi, 1987; Mohammad Mohsin, "A Profile of Riba - Free Banking" in Mohamed Ariff (ed.), *Monetary and Fiscal Economics of Islam*, Jeddah, 1982, pp. 187-203; Muhammad Nejatullah Siddiqi, "Banking in an Islamic Framework," *Islam and the Modern Age*, Vol. VIII (4), 1977, pp. 4 -20.

- f. Distribution of wealth based on social orientation
- g. Abolition of riba
- h. Profit-sharing

True Ownership²

Every Muslim believes that all creation, tangible or intangible, seen or unseen, is created by Allah SWT. A number of Qur'anic verses clearly mention this, among others are:

*"Allah is the sovereignty of the heavens and earth and all that is between them. He createth what He will."*³

*"Allah is the sovereignty of the heaven and the earth and all that is between them."*⁴

*"To Allah belongeth all that is in the heaven and on the earth."*⁵

The above-mentioned verses and others⁶ indicate that Allah SWT continuously reminds human beings of the nature of this wealth and economic resources and their creator, and the sense of equality applied to them. He has made it clear that these resources were created by Allah SWT and given to all, and He is the real owner of all that He created, including human beings themselves.

Vicegerency of Man (*al-Khilāfah*)

Property in this world is a trust from Allah SWT, the real owner is Allah SWT and man has been appointed by Allah SWT to the status of His vicegerency (*Khalīfah*) on the earth. Allah SWT has granted man certain rights and has prescribed certain responsibilities or *amānah* (trust) for Him. However, man's rights are circumscribed by the limits Allah SWT had prescribed and should be ex-

² Sobri Salamon, "The Ideological Aspects of Islamic Banking," pp. 3-4.

³ Surah al-Mā'idah (5): 17.

⁴ Surah al-Mā'idah (5): 18; See also Surah Ṭahā (20): 6.

⁵ Surah al-Baqarah (2): 284.

⁶ See Surahs Āli 'Imrān (3): 26 and 189; Yāsīn (36): 83.

exercised towards the ends He has defined. The right to property is, therefore, not absolute but limited and qualified.⁷ In this connection, Allah SWT says:

*".....Your wealth which Allah has made a means of support for you..."*⁸

And We have given you (mankind) power in the earth and appointed for you therein a livelihood.⁹

Al-'Adālah (Justice)

The concept of vicegerency and universal brotherhood have led to the giving of a place of paramount importance to socio-economics justice in the Islamic perspective. One of the indispensable ingredients of socio-economic justice is the social equality of all, irrespective of whether they are white or black, rich or poor and so on.¹⁰ The only criteria for determining a man's worth are character, ability and service to humanity as the Prophet Muhammad SAW stressed: *"Allah looks not at your faces or your wealth; He looks at your heart and your deeds"* and He also says: *"The noblest of you are the best in character."*

The second ingredient of socio-economic justice is that everyone has an equal right of access to Allah-given resources and no one can claim a monopoly over them or deny others a "fair" share. One of the ways to attain the above-mentioned justice is that everyone gets his due for his contribution to society or to the social product and that there is no exploitation of one individual by another.¹¹ The Qur'an urges Muslims to *"Withhold not things justly*

⁷ Sobri Salamon, "The Ideological Aspects of Islamic Banking," p. 4; *Idem, Bank Islam*, pp. 5-6.

⁸ Surah al-Nisā' (4): 5.

⁹ Surah al-A'rāf (7): 10; See also Surahs al-Hūjurāt (49): 14 and al-Ḥādīd (57): 7.

¹⁰ M. Umer Chapra, "The Economic Problems of Man and Islam" in *Islamic Order*, Vol. VI (4), 1984, pp. 20-21.

¹¹ *Ibid.*, p. 21.

due to others" (26: 183), implying thereby that every individual must get what is really due to him, and not more by depriving others of their share.

The third ingredient of socio-economic justice is that every human being should be able to fulfill his needs through his own effort. In this case, adequate income from work should be the primary basis of his well-being. Every human being should be able to utilize his time productively and should have a job or an occupation that enables him to do so. An important goal of the Muslim society is to achieve full employment and sufficient income through this to enable every vicegerent to realize a standard of living adequate for the health and well-being of himself and his family.¹²

Integration of Moral Values With Economic Activities

Islam stresses the importance of the integration of morality and economic activities in all spheres of Muslim life including Islamic banking. All Islamic teachings are aimed at the creation of individuals who are morally upright and a boon to society. Allah SWT says in the Qur'an, among others, are:

*"Allah created death and life so as to try which of you is best in deeds."*¹³

*"And if the people of the township had believed and kept will, surely we should have opened for them blessings from the sky and from the earth. But (unto every Messenger) they gave the lie, and so We seized them on account of what they used to earn."*¹⁴

"Whosoever doeth right, whether male or female, and is a believer, him verily We shall quicken with good life, and

¹² *Ibid.*

¹³ Surah al-Mulk (67): 2.

¹⁴ Surah al-A'rāf (7): 96.

We shall pay them a compense in proportion to the best of what they used to do."¹⁵

From the above-mentioned Qur'anic verses, it could be said that Islam attaches paramount importance to spiritual and moral values and its economic system is based on a strong ethical foundation.

According to M. A. Mannan, Islam forbids all anti-social economic activities which are not conductive to communal welfare. Thus all monopoly, hoarding and speculative businesses are prohibited because all these are opposed to Islamic principles and take the advantage of the need or distress of their fellow-beings.¹⁶ In other words, all economic activities permitted by Islam including Islamic banking, there should not be any exploitation or unfair dealing which may ultimately stand in the way of true brotherhood.

Positive Attitude Towards Economic Activities and Development

The first economic principles emphasized by the Qur'an and repeatedly stressed is that all natural means of production and resources which subscribe to man's living have been created by Allah SWT. It is He who made them as they are and set them to follow the laws of nature that make them useful for man.¹⁷ It is He who has allowed man to exploit them and placed them at man's disposal¹⁸

Since all resources and means of living are regarded as Allah SWT's gift to mankind, people should be provided with free opportunities to earn to the legal limits of their capacities. Individuals should work and develop the natural resources for the improvement of quality of life. In other words, every individual should be positive towards economic wealth¹⁹ as stated in the al-Qur'an:

¹⁵ Surah al-Nahl (16): 97.

¹⁶ M. A. Mannan, *Islamic Economics: Theory and Practice*, New Delhi, 1980, p. 67.

¹⁷ Sobri Salamon (1985), *op. cit.*, p. 6.

¹⁸ See for example, Surahs al-Baqarah (2): 29; al-A'raf (7): 10; al-Ra'd (13): 3; Ibrahim (14): 32-34.

¹⁹ Sobri Salamon (1985), p. 6; *Idem, Bank Islam*, Petaling Jaya, pp. 9-11.

*“And when the prayer is ended, then disperse in the land and seek of Allah’s bounty, and remember Allah much, that you may be successful.”*²⁰

Furthermore, it is regarded as a sin for the possessor of wealth to leave his wealth idle which doesn’t benefit himself or the Ummah as warned by Allah SWT:

*“They who hold up gold and silver and spend it not in the way of Allah, unto them give tidings (Muhammad) of a painful doom.”*²¹

In discussing economic development, some Muslim economists say that a true Muslim looks upon development efforts as striving in the cause of Allah SWT. Economic development has become a necessary condition to be fulfilled to enable the Muslim people to perform their mission with humanity that are declared to be their *raison d’etre*. In other words, Islamic principles are seen as a motivating force for development.²²

Economic development is a matter of improving the living conditions of the people rather than just economic growth. It involves the attainment of a number of goals such as a rise in productivity, social and economic equality, acquisition of modern knowledge, improved socio-economic institution and human attitudes in order to maintain justice and tranquility in life.²³

Distribution of Wealth Based on Social Orientation

Islam is concern about the distribution of wealth based on justice and social orientation. Islam was proclaimed to reform peoples shortcomings and prevent injustice on earth, and set up a society of solidarity where the strong stand besides the weak, the rich help

²⁰ Surah al-Jum’ah (62): 10.

²¹ Surah al-Tawbah (9): 34.

²² *Al-Mawsū’ah Li al-Bunūk al-Islāmiyyah*, Cairo, 1977, p. 103.

²³ Joni Tamkin Borhan, “The Tawhidic Paradigm in Islamic Banking,” *Jurnal Usuluddin*, No. 11, July 2000, pp. 51-52; See also Aidit Ghazali, *Development: An Islamic Perspective*, Petaling Jaya, 1990, pp. 21-38.

the poor in love, mercy and cooperation, in a spirit of profound obedience to Allah SWT.²⁴ Muḥammad Ānas al-Zarqā' explains this concept by saying that distribution includes both distribution and redistribution of wealth and income between individuals irrespective of whether it is by way of exchange (in market) or by any other means (such as inheritance), and whether it is concluded between individuals directly (such as gifts and trusts) or through the state (such as zakat on visible assets), or between the state and individuals (such as the guarantee by the state of a minimum level of living for individuals) and whether it is obligatory (such as *ṣadaqāt al-fitr*) or voluntary (such as supererogatory *ṣadaqah*).²⁵

The Qur'an has stressed on a share in the wealth of the rich which should be taken by virtue of Islamic concepts. Allah SWT stipulates and guides those who have wealth to observe the rights of the needy and to be guardians of Allah's wealth. Allah SWT says:

*"Take aims of their wealth, where with thou mayst purify them and mayst make them grow."*²⁶

*"The alms are only for the poor and needy, and those whose collect them, and those who hearts are to be reconciled, and to free the captives and the debtors and for the cause of Allah."*²⁷

*"Spend you wealth for the cause of Allah, and be not cast by your own hands to ruin; and do good: Lo! Allah loveth the beneficent."*²⁸

*"Give the kindman his due, and the needy, and the wayfarer."*²⁹

²⁴ Sobri Salamon (1985), p. 7.

²⁵ M. A. al-Zarqā', "Islamic Distributive Schemes" in Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester, 1988, p. 67.

²⁶ Surah al-Tawbah (9): 103.

²⁷ Surah al-Dhāriyāt (15): 19.

²⁸ Surah al-Baqarah (2): 195.

²⁹ Surah al-Isrā' (17): 26.

In terms of distribution of income, zakat is seen as one of the tools of transferring part of the wealth the haves to the have-nots in order to decrease the inequality in the distribution of income and wealth. Zakat is also a weapon against hoarding, since money whether utilised or not is taxable at the same rate.³⁰ Those who keep their money out of circulation and economy, and consequently affect the economic growth of society, would be severely punished by having their wealth reduced annually to the point of extinction. Hence the Prophet SAW urged the Muslims to invest the wealth of the orphan and He justified his recommendation by the fact that zakat would eat up the wealth if it was not productively invested. By taxing the capital as well as profit, Islam forces the capitalist to put their capital into circulation and thereby keep the economy going.³¹

Abolition of Riba

One of the integral parts of an Islamic financial and banking system is the prohibition of riba from the economy. The injunctions regarding the prohibition of riba are contained in the Qur'an and the Hadiths of the Prophet Muhammad SAW. The prohibition of riba appears in the Qur'an in four different revelations (in eight verses); five verses in Surah al-Baqarah,³² and the remaining three in Surahs Āli 'Imrān,³³ al-Nisā'³⁴ and al-Rūm³⁵ respectively.

The first of these is surah al-Rūm verse 39 revealed in Mecca, emphasised that while interest deprived wealth of Allah's blessings, charity raised it manifold. The second revelation (surah al-Nisā' verse 161), in early Medina period, severely disapproved of

³⁰ According to the study conducted by Dr. Monzer Kahf shows that the one who does not utilize his capital and wealth in production and economic activities, and keeps them idle will lose one-fourth of his wealth in less than twelve years. *The Islamic Economy*, Indiana, 1978, p. 62.

³¹ Sobri Salamon (1985), p. 8.

³² Surah al-Baqarah (2): 275-279.

³³ Surah Āli 'Imrān (3): 130.

³⁴ Surah al-Nisā' (4): 161.

³⁵ Surah al-Rūm (30): 39.

it, in line with its prohibition in the previous verse. It placed those who took riba in juxtaposition with those who wrongly appropriated other people's property and threatened both with severe punishment from Allah SWT. The third revelation (surah Āli 'Imrān verse 130) revealed around the second or third year after Hijrah, enjoined Muslims to keep away from riba if they desired their own welfare. The fourth revelation (surah al-Baqarah verses 275- 279), revealed near the completion of the Prophet's mission, severely censured those who take riba, established a clear distinction between trade and riba, and required Muslims to annul all outstanding riba, instructing them to take only the principal amount, and forego even in the case of borrower's hardship.³⁶

The Prophet SAW also condemned, in the most unambiguous words not only those who take riba, but also those who give riba and those who record the transaction or act as witnesses to it.³⁷ He even equated the taking of riba to committing adultery thirty-six times or being guilty of incest with one's own mother.³⁸

All these verses and Hadiths use the word riba which in Arabic generally signifies increase, excess, growth, addition, expansion, rise or the like.³⁹ This increase (*ziyādah*), originates either in the thing itself,⁴⁰ or in an exchange or sale of money as the sale of one dirham for two dirham,⁴¹ or of commodities as in cases of bar-

³⁶ See for example, M. Umer Chapra, "The Nature of Riba in Islam" in *Hamdard Islamicus*, Vol. VII (1), 19, p. 4.; *Idem*, *Towards A Just Monetary System*, Leicester, 1985, p. 56, pp. 235-246; A. M. El-Gousi, "Riba Islamic Law and Interest," Unpublished Ph.D Thesis, Temple University, 1982, pp. 132-143.

³⁷ Muslim, *Ṣaḥīḥ Muslim*, Vol. III, p. 1219 (no. 106).

³⁸ *Mishkāt al-Maṣābiḥ*, Vol. II, p. 90 (no. 2825) on the authority of Aḥmad and Dār al-Quṭnī. Al-Bayhaqī also reports the above Hadith in *Shu'ab al-Īmān*, with the addition that "Hell befits him whose flesh has been nourished by the unlawful," *Ibid*.

³⁹ Ibn Manẓūr, *Lisān al-'Arab*, Beirut, 1968, Vol. XIV, pp. 304-307; al-Zabīdī, *Tāj al-'Arūs*, Cairo, 1306 H., Vol. X, pp. 142-143; al-Rāghib al-Isfahānī, *al-Mufradāt fī Gharīb al-Qur'ān*, Cairo, 1961, pp. 186-187.

⁴⁰ Surah al-Ḥajj (22): 5.

⁴¹ Al-Shawkānī, *Nayl al-Awṭār*, Beirut, 1973, Vol. V, pp. 29-296.

ter of a measure for more of the same merchandise.⁴² It is, however, not every increase or growth which is prohibited by Islam. Therefore, *riba* may be defined as the premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity.⁴³ In this sense, *riba* has the same meaning of both the words "interest" and "usury" in accordance with the consensus of all the *Fuqahā'* (jurists)⁴⁴ and Muslim scholars⁴⁵ without any exception,⁴⁶ because both words are interchangeable and are used for the addition or excess paid (or received) over and above the loan capital.⁴⁷ The term *riba* is, however, used in the Shari'ah in two senses. The first is *ribā al-nasī'ah* and *ribā al-faḍl*.⁴⁸

The term *nasī'ah* comes from the root *nasa'a* which means to postpone, defer, or wait, and refers to the time that is allowed to

⁴² El-Goussi, *op. cit.*, pp. 121-122; Chapra, *Towards*, p. 57.

⁴³ Fakhr al-Dīn al-Rāzī, *Al-Tafsīr al-Kabīr*, Tehran, n.d., Vol. VII, p. 85; Abū Bakr al-Jaṣṣāṣ, *Aḥkām al-Qur'ān*, Cairo, 1347, Vol. I, pp. 551-552; Muḥammad b. 'Abd Allāh al-'Arabī, *Aḥkām al-Qur'ān*, Cairo, 1957, p. 242.

⁴⁴ See for example Muḥammad Abū Zahrah, *Buḥūth fī al-Ribā*, Dār al-Buḥūth al-'Ilmiyyah, 1980, pp. 52-57.

⁴⁵ S. H. Hasan-uz Zaman, "Islam Vis-a-Vis Interest" in *Islamic Culture*, Vol. XXXX (1), 1966, pp. 1-13; *Idem*, "Conceptual Foundations of Riba in Qur'an, Hadith and Fiqh," in *Journal of Islamic Banking and Finance*, Vol. II (1), 1994, pp. 7-15; Ziauddin Ahmad, "The Qur'anic Theory of Riba," in *The Islamic Quarterly*, Vol. XX-XXII (1-2), 1978, pp. 3-14; Ziaul Haque, "The Nature of *Ribā al-Nasī'ah* and *Ribā al-Faḍl*," in *Islamic Studies*, Vol. XXI (4), 1982, pp. 19-38.

⁴⁶ See for example, 'Abd al-Rahmān al-Jazīrī, *Al-Fiqh 'Alā al-Madhāhib al-Arba'ah*, Cairo, Vol. II, p. 245.

⁴⁷ See for example, Gamal Moursi Badr, "Interest on Capital in Islamic Law," in *American-Arab Affairs*, (Summer, 1989), pp. 86-95; Anwar Iqbal Qureshi, "Views of Islam on Interest," in *The Islamic Review*, July 1957, pp. 5-12; Mahmud Ahmad, "Semantics of the Theory of Interest" in *Islamic Studies*, Vol. VI (2), 1967, pp. 171-196; Ghulam Sarwar, "Islam, Usury and Interest," *The Islamic Review*, January, 1925, pp. 12-29.

⁴⁸ *Ribā al-Nasī'ah* is also called *ribā al-duyūn* or *ribā al-mubāshir* or *ribā al-jalī*, while *ribā al-faḍl* is also called *ribā al-buyū'* or *ribā ghayr al-mubāshir* or *ribā al-khafī*.

the borrower to repay the loan in return for the "addition" or the "premium." Hence *ribā al-nasī'ah* refers to the interest on loans. It is in the sense that the term *riba* is used in the Qur'an in the verse: "Allah has forbidden interest."⁴⁹ The prohibition of *ribā al-nasī'ah* essentially implies that the fixing in advance of a positive return on a loan as a reward for waiting is not permitted by the Shari'ah. It makes no difference whether the return is a fixed or a variable per cent of the principal, or an absolute amount to be paid in advance or on maturity, or a gift or service to be received as a condition for the loan. The point in question is the predetermined positiveness of the return. It is important to note that according to Shari'ah, the waiting involved in the repayment of a loan does not by itself justify a positive reward.⁵⁰ All jurists and Muslim scholars are in agreement that *ribā al-nasī'ah* is prohibited (*ḥarām*).⁵¹ Furthermore there is no room for arguing that *riba* refers to usury and not interest, because the Prophet SAW prohibited the taking of even a small gift, service or favour as a condition for the loan, in addition to the principal.⁵² In another words, in this case the return of the investment or principal invested is either positive or negative depending on the final outcome of the business, which is not known in advance. It is allowed provided that it is shared in accordance with the principles of justice as laid down by the Shari'ah.

The discussion of *ribā al-faḍl* has arisen from the Hadiths requiring that if gold, silver, wheat, barley, date and salt is exchanged against itself it should be exchanged spot and be equal and alike.⁵³ There is disagreement among jurists as to whether the

⁴⁹ Surah al-Baqarah (2): 275.

⁵⁰ Chapra, "The Nature of Riba in Islam," p. 5.

⁵¹ See El-Gousi, *op. cit.*, pp. 131-190.

⁵² "The Muslims are agreed on the authority of their Prophet that the condition for an increase over the amount lent is *riba*, irrespective of whether it is a handful of fodder, as indicated by Ibn Mas'ūd, or a particle of grain." Muḥammad b. Aḥmad al-Qurtubī, *Al-Jāmi' li Ahkām al-Qur'an* popularly known as *Tafsīr al-Qurtubī*, Cairo, 1967, Vol. III, p. 241.

⁵³ From Abū Sa'īd al-Khudrī (r.a.): The Prophet SAW said: "*Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, and hand to hand. Whoever pays more or takes*

injunction applies only to the six commodities mentioned above or whether there is some general principle which emerges covering a whole class of commodities. Since this type of *riba* is not our concern, it will not be discussed these differences here.

Thus *ribā al-nasi'ah* and *ribā al-faḍl* are both essential counterparts of the verse "Allah has allowed trade and prohibited *ribā*."⁵⁴ While *ribā al-nasi'ah* relates to loans and is prohibited in the second part of the above verse, *ribā al-faḍl* relates to trade and is implied in the first part.⁵⁵ Because trade is allowed in principle, it does not mean that everything is allowed in trade. Since the injustice inflicted through *riba* may also be perpetuated through business transactions, *ribā al-faḍl* refers to all such injustices or exploitations.

Profit Sharing

It is reported that the operations of Islamic banking and financial institutions should be on the basis of profit and loss sharing in accordance with the Islamic legal concept of, for example, *al-sharikah* and *al-muḍārabah*, and also *qard al-ḥasan*.⁵⁶ *Qard al-Ḥasan* is a loan extended without any additional charge over and above the principal amount.⁵⁷ Under this system, the amount of return on the funds invested is neither fixed nor predetermined. The ratio of profit depends on the operational results of the economic undertaking. When capital is provided entirely by one party and

more has indulged in *riba*. The taker and the giver are alike (in guilt)." See Muslim, *Ṣaḥīḥ Muslim*, Vol. III, p. 1211 (no. 82).

⁵⁴ Surah al-Baqarah (2): 275.

⁵⁵ See the commentary of verse 2: 275 in *Tafsīr Ibn Kathīr*, (Abū al-Fidā' Ismā'il b. Kathīr, *Tafsīr al-Qur'ān al-Karīm*, Cairo, n.d., Vol. I, p. 326).

⁵⁶ For a discussion see the CII report which contains a detailed blueprint for reorganisation of the operations of Islamic banking and finance entitled "Elimination of Interest from the Economy" in Ziauddin Ahmed, *et al* (eds.), *Money and Banking in Islam*, Islamabad, 1983, pp. 103-257; Chapra, *Towards*, pp. 166-173; Ingo Karsten, "Islam and Financial Intermediation," in *IMF Staff Papers*, Vol. XXIX (1), March, 1982, pp. 108-142.

⁵⁷ *Al-Mawsū'ah al-'Ilmiyyah wa al-'Amaliyyah Li al-Bunuk al-Islāmiyyah*, Vol. V, Cairo, n.d., pp. 206-211; Cf. Nabil A. Salleh, *Unlawful Gain and Legitimate Profit in Islamic Law*, Cambridge Univ. Press, 1986, pp. 99-100.

the enterprise or labour entirely by another party as in the case of *al-mudarabah*, the proportion of profit are to be agreed proportionately at the time of the contract, while loss is to be borne by the supplier (provider) of the capital unless it is due to the negligence of the entrepreneur (worker). If there is more than one supplier of capital as in the case of *al-mushārah*, profit is to be distributed among them in agreed proportions or according to their contribution, while loss is to be shared by them strictly in the proportion to their capital contributions.⁵⁸

Besides *al-mudārah* and *al-mushārah*, there are a number of other alternative financing arrangements within the general framework of Islamic values have been suggested in the literature of Islamic banking. The major alternatives recommended are *al-ijārah* (leasing), hire-purchase, *al-bay' bithaman ājil* (a sale against deferred payment), *al-murābahah* (a resale of goods or merchandise at a specified rate of profit on the stated original cost) and *bay' al-salam*.⁵⁹

Conclusion

In this article, we have seen that the basis in the framework of an Islamic banking system is *Tawhīd* which differentiates it with the interest-based commercial banking. Furthermore, the superiority of the Islamic banking system over modern banking lies in the fact that Islam has eliminated the tyranny of *riba*, integration of morality and economic activities, positive attitude towards economic development, distribution of wealth based on social orientation, profit and loss sharing contracts and the implimentation of the concept of *al-'adl* in the banking activities and services.

⁵⁸ See M. Mohsin, "A Profile of Riba-Free Banking" in Mohamed Ariff (ed.), *Monetary and Fiscal Economics of Islam*, Jeddah, 1982, pp. 188ff; Mohamed Ariff, "Introduction" in *Ibid.*, pp. 6-9; Joni Tamkin bin Borhan, "The Tawhidic Paradigm in Islamic Banking," p. 57.

⁵⁹ See for example, Report of the Council of Islamic Ideology of Pakistan on the "Elimination of Interest from the Economy" in Ziauddin Ahmed, *et al* (eds.), *Money and Banking in Islam*, Islamabad, 1983, p. 13.