OBJECTIVES OF ISLAMIC FINANCE

In the last chapter, Islamic finance and its background were discussed in order to understand the nature of Islamic finance from shariah point of view. Riba and its types were discussed so as to understand the Islamic finance thoroughly. In the present chapter, Islamic finance objectives are explained. The objectives have been classified into four categories: Islamic objectives, social objectives, ethical objectives and economic objectives.

4.1. Introduction

The goals of the Islamic economic system show that material well-being based on the unshakable foundation of spiritual values constitutes an indispensable plank of the economic philosophy of Islam. The very foundation of the Islamic system being different from that of capitalism and socialism, which are both earthbound and not oriented to spiritual values, the superstructure must necessarily be different. Any attempt to show the similarity of Islam with either capitalism or socialism can only demonstrate a lack of understanding of the basic characteristics of the three systems.

The Islamic system is, moreover, unflinchingly dedicated to human brotherhood accompanied by social and economic justice and equitable distribution of income, and to individual freedom within the context of social welfare (Chapra, 1979). This dedication is, it must be stressed, spiritually oriented and finely interwoven into the whole fabric of its social and economic norms. In contrast with this, the orientation of modern capitalism to social and economic justice and to equitable distribution of income is only partial resulting from group pressures, is not the outcome of a spiritual goal to establish human brotherhood, and does not constitute an integral part of its overall philosophy; while the orientation of socialism, though claimed to be the product of its basic philosophy, is not
really meaningful because of, on the one hand, the absence of a dedication to human brotherhood and of spiritually based fair and impartial criteria for justice and equity, and on the other hand, the less of individual dignity and identity resulting from the negation of the basic human need for freedom.

The commitment of Islam to individual freedom distinguishes it sharply from socialism or any system which abolishes individual freedom. Free mutual consent of the buyer and the seller is, according to all schools of Muslim jurisprudence, a necessary condition for any business transaction (Jaziri, 1938). This condition springs from the verse of the Qur’an:

‘0 you who have faith! Devour not the property of anyone of you wrongfully, except that it be trading by your mutual consent’.

The Prophet is also reported to have said:
‘Leave people alone for God gives them provision through each other.

The only system that would conform to this spirit of freedom in the Islamic way of life is one where the conduct of a large part of the production and distribution of goods and services is left to individuals or voluntarily constituted groups, and where each individual is permitted to sell to or buy from whom he wants at a price agreeable to both the buyer and the seller. Freedom of enterprise, in contrast with socialism, offers such a possibility and it had been recognized by Islam along with its constituent elements, the institution of private property.

The Qur’an, the Sunnah and the fiqh literature have discussed in significant detail the norms related to acquisition and disposal of private and business property, and the purchase and sale of merchandise, as also the institutions of zakat and inheritance, which would not have been done in such detail if the institution of private ownership of most productive resources had not been recognized by Islam. Besides, throughout the Muslim history, this principle has been universally upheld by Muslims with rare exceptions, and

39 Quran (4:29)
these exceptions have not been recognized to be within the mainstream of Islamic thought. A negation of this right of private ownership could not, therefore, be considered to be in conformity with the teachings of Islam.

The market mechanism may also be considered to be an integral part of the Islamic economic system because, on the one hand, the institution of private property is not workable without it; and, on the other, it offers the consumers a chance to express their desires for the production of goods of their liking by their willingness to pay the price, and also gives resource-owners an opportunity to sell their resources in accordance with their free will.

Profit motive, which is essential for the successful operation of any system incorporating freedom of enterprise, has also been recognized by Islam. Jaziri, in his well-known work on the fiqh position of the four Sunnite schools of jurisprudence says:

‘Buying and selling are allowed by the Shari’ah so that people may profit mutually. There is no doubt that this can also be a source of injustice, because both the buyer and the seller desire more profit and the Lawgiver has not prohibited profit nor has He set limits to it. He has, however, prohibited fraud and cheating and ascribing to a commodity attributes it does not possess’\textsuperscript{41}.

This is because profit provides the necessary incentive for efficiency in the use of resources which God has given to mankind. This efficiency in the allocation of resources is a necessary element in the life of any sane and vigorous society. But since it is possible to convert profit from an instrument into a primary goal thus leading to many social and economic ills, Islam places certain moral restraints on this motive so that it fosters individual self-interest within a social context and does not violate the Islamic goals of social and economic justice and equitable distribution of income and wealth.

\textsuperscript{41} Jaziri, v. 2, pp. 283-84.
Recognition by Islam of the freedom of enterprise along with the institution of private property and the profit motive does not make the Islamic system akin to capitalism which is based on freedom of enterprise. The difference is significant and is due to two important reasons. Firstly, in the Islamic system, even though property is allowed to be privately owned it is to be considered as a trust from God, because everything in the heavens and earth really belongs to God and, man being the vicegerent of God, enjoys the right of ownership only as a trust. Says the Qur’an:

‘To God belongs whatever is in the heavens and whatever is in the earth’\textsuperscript{42};

Say: To whom belong the earth and whoever is therein, if you know? They will say: To God. Say: Will you not then mind?\textsuperscript{43};

And give them of the wealth of God which He has given you\textsuperscript{44};

Secondly, because man is the vicegerent of God and the wealth he owns is a trust from Him, he is therefore bound by the conditions of the trust, or more specifically, the moral values of Islam, particularly the values of halal and haram, brother-hood, social and economic justice, equitable distribution of income and wealth, and fostering the common good. The wealth he owns should be acquired in accordance with the teachings of Islam and should be used for the objectives for which it has been created. Said the Holy Prophet:

‘This wealth is certainly green and sweet (enticing); but he who acquires it rightfully, for him it is an excellent assistant, while he who acquires it without his right, is like one who eats but never satiates’\textsuperscript{45}.

While reviewing literature of Islamic finance, it has been found that Islamic finance objectives are many and can be categorized into different categories. The authentic

\begin{itemize}
  \item[\textsuperscript{42}] Quran (2:284)
  \item[\textsuperscript{43}] Quran (23:84-5)
  \item[\textsuperscript{44}] Quran (24:33)
  \item[\textsuperscript{45}] Muslim (second authentic hadith book after Bhukahri), v. 2, p. 728: 122.
\end{itemize}
sources of Islam have put down the conditions for the conduct of business and the same principles also apply for Islamic banking and finance. Different Islamic economists have tried to define the objectives of Islamic finance and have explained each one in detail while taking the sources of Islamic law into consideration. Islamic finance is different from conventional finance from many angles, but this does not mean that both have totally different objectives. There are many objectives in both the systems which are common. The macro environment is directly influencing both the systems and both the systems varies from country to country and from region to region. In the present system of banking in the world, Islamic banking share is minimum but increasing at an increasing rate.

There is a debate among Muslim scholars whether Islamic banks should mostly concentrate on social or economic objectives. Some are of the opinion that social objectives are more important than economic objectives, where as some are of the opinion that economic objectives are more important than social objectives. What is usually perceived regarding the objectives of Islamic finance is to maximize profits while taking Shariah law into consideration. It is facts that if Islamic banks and financial institutions do not provide a good percentage of return as conventional banks provide, then this system can not compete with it and therefore may loose in the long run. But this perception also differs from country to country and from region to region.

In the world, there are some countries where Islamic banking is hundred percent working, which means banking system is totally Islamic. There are also countries where dual system of banking is working, which means both conventional and Islamic banks are working. Whereas there are some countries where Islamic banking is not working at all. It is because of no interest among customers or because of the political system in the country. It all depends upon the political system of country when we are interested to know the Islamic banking profile in any region. If a country has Shariah law then all its activities whether economic, social or political are based on Islamic law and if there is no Shariah law in the country then there are many possibilities like dual banking system or no Islamic banking system at all.
Before coming directly to Islamic finance objectives, let us first understand the Islamic Shariah and its objectives.

4.2. Islamic Shariah and its Objectives

Before discussing the objectives of Islamic finance, in the light of Islamic Shari’ah (Shari’ah in brief) we should explain what Islamic Shari’ah is and what its objectives (Maqasid) are. This is because all business and financial contracts in the framework of Islamic finance have to conform to the Shari’ah rules with the objective of helping to achieve Maqasid al Shari’ah. Shari’ah refers to a code of law or divine injunctions that regulate the conduct of human beings in their individual and collective lives. In addition to some general rules there are some specific branches of these injunctions which are: Aqaid, or matters of belief and worship; Akhlaq, or matters for disciplining one’s self; Ahkam, or socio-economic and legal systems; Fraidh, or obligations; and Nawahi, or prohibitions. Islamic economics directly or indirectly deals with all these disciplines.

4.3. Sources of Shariah Tenets

The primary source of the divine law is the revelation – the Holy Qur’an and Sunnah of the holy Prophet (pbuh) (Muslims believe in terms of Qur’anic injunctions that an established Sunnah of the prophet is based on the revelation)\(^{46}\). Accepting the revelation as the source of tenets and information requires complete submission to Shari’ah rules. According to Islamic belief, the Qur’an is the last revealed book from the Almighty, free from any tampering until the Hereafter\(^{47}\); obedience to the injunctions contained in it is considered necessary by all Muslims, at least conceptually. The Sunnah, which consists of the sayings of and the actions done and/or approved by the holy Prophet (pbuh), is an equally important source of information in Islamic law. The importance of sticking to the Sunnah is obvious from the following verse of the Holy Qur’an: Allah says,

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\(^{46}\) See, for example, verses 3 and 4 of Surah 53 of the Holy Qur’an.

\(^{47}\) Quran (15:9)
‘Indeed you have in the Messenger of Allah an excellent example for the one who hopes in Allah and looks to the Last Day’\textsuperscript{48}.

The Exalted also says:

‘So if you obey him (i.e. Muhammad, pbuh), only then you will be guided’\textsuperscript{49}.

Almost all Muslims believe that obedience to the orders of the holy Prophet is necessary for being a Muslim. The other sources of Shari’ah tenets are Ijma’a (consensus) and Qiyas (analogy), which are based on Ijtihad. Ijtihad, the mental effort of scholars having juristic expertise to find solutions to emerging problems and issues, and Qiyas, or finding solutions through analogy in the light of the text of the Qur’an and Sunnah, are the secondary sources for derivation of rules and regulation for any upcoming events or issues. Ijma’a of the Companions of the holy Prophet is considered by the overwhelming majority of Muslims an important source for the derivation of laws subsequently. The general welfare/interest (Maslaha-e-Mursalah) of human beings and ‘Urf (prevalent practice) are also important tools in the hands of Islamic jurists that are kept in mind for deciding the Shari’ah position of various contracts and activities without compromising on the basic tenets contained in the Qur’an and Sunnah. The jurists, Shari’ah scholars, Shari’ah boards of Islamic banks and other institutions dealing with Shari’ah matters are required to suggest solutions and issue edicts regarding various activities on the basis of the above sources of Shari’ah. Shari’ah rules can be divided into Dos (orders to undertake any act) and Don’ts (prohibition from some acts), which can further be divided into the rituals (matters of worship) that are considered as rights of Allah (SWT) and the matters for disciplining human life that constitute the rights of human beings. While the former acts (rituals or matters relating to belief and worship in the form of Faidh or obligations) have to be accomplished strictly according to the Shari’ah tenets, the latter matters that pertain to socio-economic rights and obligations are governed by the rule of ‘General Permissibility’ (Ibahatul Asliyah), which means that all acts and things which have not

\footnotesize{\textsuperscript{48} Quran (33:21)} \hfill \textsuperscript{49} Quran (24:54)
been expressly prohibited by the original sources of Shari'ah are permissible. It is pertinent to observe, however, that while Allah (SWT) may like to forgive any of the lapses by Muslims in respect of His rights (first category), lapses in respect of the rights of human beings would have to be forgiven only by the aggrieved person(s). Further, it is a cardinal principle of Islam that everyone is accountable for his acts and the accountability is individual, both in rituals and in socio-economic contracts. Banking and finance is also governed by some principles of Islam and following the principles help to achieve the objectives which Islamic finance has for the development of economic activities in the world.

4.4. Objectives (Maqasid) of Shari’ah

The primary sources of Shari’ah are the Quran and Sunnah. These contain rules and recommendations on all aspects of individual and social life, dividing actions into three broad categories: farz (compulsory), halal (permissible), and haram (prohibited). Within each category there are refinements, subtleties and complexities; for example within the halal category, there are gradations from highly recommended to highly disliked. The Quran states that Islam is a complete religion; hence, it is axiomatic that all human actions fall within the scope of Islam. Extending the application of Islamic law to a new situation is called ijtihad. Rules by which ijtihad is done (analogy to similar situations, consensus, etc.) are called fiqh. Over the centuries, a large body of rulings covering applications of Islamic law to different situations encountered in the historical experience of Muslims has emerged. We will refer to the collectivity of these rulings as the Islamic tradition. This tradition covers a broad range of issues, with sharp conflicts over some, and a wide range of positions adopted by different groups over others. Despite diversity and conflicts, the tradition as a whole forms a harmonious collection of rules broadly consonant with the spirit of Islam for a wide range of situations faced by humans both individually and collectively. Islam also has a tradition of tolerance for dissent, so that conflicting opinions may simultaneously be held to be acceptable Islamic solutions to a
given problem. Walbridge (2002) discusses this tradition of tolerance and its significance in Islamic history. Deeper and more extensive discussions based on source materials are given in Zakariyya (1938) and Waliullah (1750, conclusion of Part I).

Engaging in the struggle (jihad) to bring justice and good to the world, as prescribed by the Shari’ah, will bring closer to God, and lead to spiritual development, realization of the human potential within us, and an increase in knowledge. Islamic law covers both external and internal actions. For example, to be acceptable, the external act of giving money in charity must be accompanied by the intention of pleasing God by doing so. The intention to be praised for generosity, or the feeling of superiority or contempt for the poor, invalidates the act. This tension between the visible action and the invisible intent has played an important role in many aspects of Islamic history. Banking and finance is one of the aspects which is totally based on Ijtihad. Matters or transactions related to it must be governed by the teachings of Qur’an and sunnah. Islamic history shows that exclusive focus on one or the other leads to an imbalance and harmful outcomes. The complexity of modern economies and of modern life in general, has led to many situations not covered by the tradition. Thus ijtihad to cover these new complexities of economic life is a central issue in Islamic economics (and also in devising a suitable Muslim response to modernity in general). Appropriate methods for ijtihad continue to be a source of substantial discussion and controversy among Muslims. Modernist Muslims feel that the traditional rules of fiqh are not adequate to cope with current complexities, and ask for freedom to reinterpret source materials so as to creatively adapt them to modern conditions (instead of being bound by traditional rulings; i.e. Siddiqi, 2004). Traditionalists feel that existing fiqh is adequate to cope with new situations, and feel that excessive freedom would amount to throwing out Islamic law altogether and caving in to modernity (Zaman, 1985). Yousri (2004) advocates a careful middle ground. In a seminal work, Shatibi’s Philosophy of Islamic Law, Masud (1995) has proposed a middle way that remains within the Islamic tradition while allowing for the greater flexibility demanded by modernists. Shatibi was an Islamic scholar in Muslim Spain who lived in a period of rapidly changing economic and political conditions. Finding traditional
formulations of fiqh inadequate, he analysed Islamic law to distil the underlying philosophy of the law. Shatibi notes that it is universally agreed that the Shari’ah is not an arbitrary collection of rules, but rather is designed to promote both the material and spiritual welfare of human beings in the best possible way. Using the existing tradition to analyse this broad goal, one can mention several specific objectives aimed at by the Shari’ah via a logical process. These objectives include the preservation of life and property, and the welfare of descendants. In effect, Shatibi adds to traditional fiqh an additional method that may be used to extend Islamic law to new situations. By utilising the objectives of Islamic law, in conjunction with more specific and precise rulings of the Shari’ah, one can derive many principles for Islamic economics. For example, we would not be able to find analogues for fiscal and monetary policy in Islamic source materials, putting these issues outside the scope of Islamic law – at least according to traditional rules of fiqh. However, we may argue on the basis of the source materials that the Prophet facilitated trade and business in many ways, and took active steps to provide a means of earning a living to the unemployed. If we conclude that reducing unemployment is an objective of the Shari’ah, then we may deduce that fiscal and monetary policy to achieve this goal is recommendable according to Islamic law. In a similar way, one can argue that price stabilization via monetary policy falls within the ambit of Islamic law. This methodology has been advocated by numerous scholars in Islamic economics and elsewhere (Chapra, 1985; Siddiqui, 2004).

The study of objectives is significant, as they reflect the spirit of the Shari’ah and help jurists in determining the prohibition or permissibility of any matters on the basis of Ijtihad and Qiyas. Catering to the well-being of the people in the worldly life as well as in the Hereafter or relieving them of hardship is the basic objective of Shari’ah. Islam takes a positive view of life considering man as the viceroy of God. Virtue does not mean abandoning the beauties of life, but enjoying those while remaining within the framework of the values through which Islam seeks to maximize human welfare. It requires living a morally responsible life, earning only by fair means and considering wealth as a stewardship for which account is to be rendered to Allah Almighty.
According to conventional economics, livelihood is the fundamental problem of man and economic development is the ultimate goal of human life. According to Islamic economics, livelihood is necessary and indispensable but is not the true and the only purpose of human life; the life hereafter is the real factor to be taken care of. This way, Islam also caters for the welfare of man in the Hereafter. Wealth in all its possible forms is created by Allah, it belongs to Allah; He has delegated the right of property to man for use and He has the right to demand that man subordinates his use of wealth to the commandments of Allah.

‘He it is who made you vicegerents in the earth’\textsuperscript{50}

and ‘does the man think that he will be just left to himself’\textsuperscript{51}.

Wealth has to be used in such a way that it ensures success in this world and the world hereafter.

The overall objective of Shari’ah behind these injunctions is the happiness and well-being of human beings in this world and the world hereafter. The concept of happiness from the Islamic perspective is different from the concept of pleasure – the major objective of positive economics. Accordingly, everything which guarantees well-being and fulfils the supreme interests of mankind is included in the objectives of Shari’ah. These objectives have been identified by jurists like Ghazali, Shatbi and subsequently by Tahir ibne Ashoor by an inductive survey of the Holy Qur’an and Sunnah.

Objectives of Shariah are important for the welfare and comfort of human beings. Shariah explains different rules to every aspect of life and the same is with economic aspect. In economic aspect, banking and finance play an important role. Human beings have to follow the Shariah in all its aspects with zeal and zest, so that to achieve the objectives of finance in real sense.

\textsuperscript{50} Quran (6:165)  
\textsuperscript{51} Quran (75 :36)
4.5. Types of Islamic Finance Objectives

The main sources of objectives which Islamic finance has are Quran and Sunnah. All objectives are taken from these sources in addition to the sources which do not contradict Quran and sunnah. Different Islamic economists have categorized the objectives of Islamic finance into different categories. Some emphasis on economic objectives whereas some concentrate on social objectives. There are also some economists who have categorized the Islamic finance objectives into different categories. This list of objectives is by no means complete and from the review of literature on the subject Islamic finance objectives can be classified into following four categories.

1. Islamic Objectives
2. Ethical Objectives
3. Social Objectives
4. Economical Objectives

All these objectives are explained briefly as below:

4.5.1. Islamic Objectives

Islamic objectives of finance include all those necessary commands which have been ordained in Quran and Sunnah for the smooth conduct of baking business. Islamic finance is governed through well defined principles and these principles have authentic sources of their origin. These all principles are for spreading justice and welfare in the world for the human beings. Islamic teachings strongly emphasis on welfare of all human beings in the world and strongly discourages exploitation in any form. These objectives are compulsory to follow for all Islamic banks and financial institutions. Any Islamic financial institution deviates itself from these principles is not Islamic in real sense. The authentic sources of Islam are compulsory guidelines for the working of Islamic banks and financial institutions. Different world bodies are looking seriously towards the
functioning of Islamic banks and financial institutions so that to find out if there is any deviation in working as per the Quran and sunnah so that to report the same to the concerned people or organization which is working as a watchdog for the same. Even customers are themselves reporting to the management of the bank or institution if they find deviation in the working of Islamic banks.

Following are some of the Islamic objectives which Islamic banks and financial institutions have (Kahf, 1999; Waliullah, 1995; Siddiqui, 2004; Masud, 1995)

Islamic banking products and services are:

- True to the teachings of Islam.
- Shariah Based.
- A good vehicle to promote Islamic values.
- Working as per the teachings of Quran and Sunnah.
- First in conformity with the norms of Islam and then in accordance with customer’s preferences.
- Investing in business where there is no Gharar (uncertainty).
- Practically not indulged in businesses like Gambling, pornographic, alcohol, cinema and other forbidden businesses in Islam.
- Not different from other commercial banks except in complying with Shariah legal prescriptions with regard to product offering.
- Promoting Islamic values and way of life towards staff, clients and general public.

Do you think:

- Shariah scholars play their role while issuing different products.
- Shariah board acts as a watchdog while issuing different products.

4.5.2. Economic objectives
It is usually perceived by some Muslims that Islamic banks and financial institutions are like charitable institutions, which is not correct. Islamic banks and financial institutions are working with the same principles as conventional banks but they concentrate on Islamic teachings. Islamic banks and financial institutions have also to try to maximize the profits but within the boundary of Islamic principles. So maximizing the profits is also one of the objectives of Islamic finance. Islamic banks and financial institutions have to compete with the conventional banks as well as conventional financial institutions so they have to keep the pace with them as far as rate of return is concerned.

Islamic banks are not different from other financial institutions in terms of their legal modalities, constitutive structures, objectives and means of achieving those objectives. The only difference lies in their description as Islamic. The Islamic banks have enjoined on themselves to conduct their affairs within the limit of the rulings of Shari’ah and to comply with its overall objectives. This definition of Islamic banks would make our approach easy as we embark on the research into the success factors of Islamic banks as financial institutions. It must be realized that maximization of profit is the objective of the highest priority for all investment institutions created by private individuals so same is with the Islamic banks and financial institutions. Consequently, all Islamic private-sector financing institutions have one fundamental objective: to make as much profit as they can within the limits of Islam. However, profit maximization is a general proposition that must be narrowed down and explicated in detail. Similarly, the criteria of every component of this general objective must also be determined so that to find out the limits in Islamic banking objectives. This will be the subject of the First Section of this study. In brief those Criteria are as follows: Boosting all forms of deposits, improvement in the quality of customer services, expansion the base of banking services, protection of capital, provision of humanitarian and social services, and the factors that raise the profit margin, or what is usually called the rules of profitability management of an Islamic bank.

Different Islamic economists (Kahf, 1999; Warde, 2000; Ahmad, 2000) have put the economic objectives of Islamic finance into many categories, some of them are as:

Islamic banks and financial institutions are:

- Maximizing profits (good percentage of return to investors).
- Providing employment opportunities.
- Minimizing cost of operations.
- Enhancing product and service quality.
• Offering viable and competitive financial products.
• Providing enough retail products?
• Use modern technology in performing banking transactions?
• Completely serve as an alternative banking system?

4.5.3. Social Objectives

Since Islam considers mankind as one family, all members of this family are alike in the eyes of Allah God and before the Law revealed by Him. There is no difference between the rich and the poor, between the high and the low, or between the white and the black. There is to be no discrimination due to race or colour or position. The only criterion of a man's worth is character, ability and service to humanity.

Said the Holy Prophet: Certainly God looks not at your faces or your wealth; instead He looks at your heart and your deeds\textsuperscript{52};

The noblest of you are the best in character\textsuperscript{53}.

To be even more emphatic the Prophet warned of the disastrous consequences of discrimination and inequality before Law for an individual or a nation:

‘Communities before you strayed because when the high committed theft they were set free, but when the low committed theft the Law was enforced on them. By God, even if Fatimah, daughter of Muhammad, committed theft, Muhammad would certainly cut her hand\textsuperscript{54}.

‘Whoever humiliates or despises a Muslim, male or female for his poverty or paucity of resources, will be disgraced by God on the Day of Judgment\textsuperscript{55}.

\textsuperscript{52}Muslim, v. 4, p. 1987: 34.
\textsuperscript{53}Bukhari, v. 8, p. 15.
\textsuperscript{54}Ibid., p. 199; and Nisa'i, v. 8, p. 65.
Umar the second Caliph, wrote to Abu Musa al-Ash’ari, one of his governors, asking him to ‘treat every-one before you alike in respect so that the weak does not despair of justice from you and that the high does not crave for an undue advantage’\textsuperscript{56}.

This spirit of social justice thoroughly permeated Muslim society during the period of the first four Caliphs and even in the later period though a little ‘Subdued did not fall to find its full manifestation on several occasions. It may be pertinent to quote what the renowned jurist Abu Yusuf wrote in a letter addressed to the Caliph Harun al-Rashid:

‘treat alike all individuals irrespective of whether they are near you or remote from you' and that ‘the welfare of your subjects depends on establishing the Divine Law and eliminating injustice’\textsuperscript{57}. Islamic banks and financial institutions have to concentrate on social objectives also, as they are important for the development of this industry. Different experts of Islamic banks and financial institutions have categorized the social objectives into different categories while taking the long term objectives into consideration. Society has many expectations on this industry and these banks as well as financial institutions have to concentrate on the same. As there should be difference as far as objectives of conventional and Islamic banks are concerned, as one is working on the principles made by human beings and one is having principles made by the lord of the universe. How both can be same? Social objectives are for the welfare and benefit of the society both in the long run as well as in the short run. Social objectives of Islamic finance are many (Khattak, 2011; Dusuki, 1998; Mirakhor, 2000; Zaman, 1985; Zakariyya, 1938) but some important are as

Islamic banks and financial institutions:

- Are help in alleviating poverty (poverty eradication).
- Are promoting sustainable development projects.
- Are contributing to social welfare.

\textsuperscript{56} Abu Yusuf, Kitab al-Kharaj; Cairo, 1367 A.H.
\textsuperscript{57} Abu Yusuf, pp. 4 and 6.
• Are collecting and distributing Zakat.
• Are contribute in removing society’s inequalities and improving general standard of living.
• Performance cannot be judged only through good percentage of profit/return.

4.5.4. Ethical Objectives

The overarching principles of Islam set the operating framework for every aspect of how business is conducted in the Muslim world. While the shifting boundaries of acceptable behavior in conventional Western business are set by laws, regulations, and corporate governance guidelines, Islamic business is governed by divine principles covering values such as fairness, equality, and morality dating back over a thousand years. More specifically, Islamic finance adopts a long-term partnership approach between businesses, often based on investors essentially taking an equity stake in businesses. Shariah law outlaws the charging of interest of any kind, while in the wider context the use of money to generate interest is not permitted. Speculation of any kind is also forbidden, while investments are required to deliver social benefits to the community. Islam also forbids activities in prohibited areas such as gambling or alcohol, instead specifying that shariah-compliant businesses should focus on legitimate trade-based activities.

The ethical standards to which Islamic finance operate reflect the same standards and principles of the Quran, which every Muslim is expected to follow in every aspect of their lives. Therefore, Islamic finance must operate on a basis of fairness and integrity, while also treating everyone equally. The need for honesty, truthfulness, and fair dealing is also inherent in Islamic business requirements which have wide-ranging implications across the full spectrum of business activities, from advertising to after-sales customer service. Islamic banking companies must also respect the principle of trusting others to be as good as their word. However, this puts the responsibility on businesses to cover their liabilities promptly, honoring their word with timely payment, given the exclusion of credit facilities. The emphasis on the partnership approach to business is further underlined by the need for banking companies to look after their investors’ interests, thus
protecting them whenever possible from dharar (any kind of harm). The ‘stakeholder’ element of Islamic financing is reflected in the onus on working in tandem with other businesses whenever possible, while markets should generally be free and prices competitive.

Ethical objectives of Islamic finance are based on well defined principles of fairness, justice and integrity. Due to competition and other factors, conventional banks have tried to ignore this aspect completely. Although ethics vary from country to country and from region to region, but for our purpose in this thesis, Islamic ethics standards are taken into consideration which Muslims have to follow. The ethical objectives of Islamic finance are also based on the teachings of Quran and Sunnah. Ethics is a must element in Islamic finance and this objective should not be ignored by the modern Islamic banks and financial institutions. While reviewing the literature of Islamic finance, it has been found that there is a little difference between the Islamic and ethical objectives in real sense. Ethical objectives are also compulsory for Islamic banks and financial institutions.

Islamic economists (Ahmad, 2000; Mirakhor, 2000; Warde, 2000) have categorized the ethical objectives of Islamic finance into the following:

Islamic banks and financial Institutions:

- Do not exploit its customers in any way.
- Do not indulge in misleading advertisements.
- Do not earn income through unfair means.
- Are free from exploitation, discontentment and strife.
- Are in consonance with the principles of fair dealing, justice and benevolence.
- Properly reflect the values in which they are based.
- Follow Islamic ethics.
The above all objectives have been put in a questionnaire and response was collected from the stakeholders of Islamic Finance. The same has been analyzed statistically and on the basis of that findings and conclusions were generated.

**Summary**

Islamic finance objectives are based on well-being and welfare of the humanity. They seek to develop such a banking system which is based on equal distribution of income. Muslim economists have classified the Islamic finance objectives into four categories, which include: Islamic objectives, social objectives, economic objectives and ethical objectives. Accomplishment of all objectives is necessary for the development of Islamic financial system in the world.
References


