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ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD

Course: Economic System of Islam (1913) • Level: BS

Semester: Autumn 2026

Assignment No. 2

SOLVED ASSIGNMENT GUIDE

(For Study & Reference)

Note: This guide is prepared for study and reference purposes. Students are advised to read the relevant units of the course book, understand the concepts, and then write the assignment in their own words. Total marks of the assignment are 100; each question carries the marks shown with it.

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Question 1: Bayt al-Mal and Economic Balance (20 Marks)

Explain the role of Bayt al-Mal in ensuring economic balance.

Introduction

Bayt al-Mal, literally "the House of Wealth", is the public treasury of the Islamic state: the institution that receives the revenues Islam assigns to the community, holds them in trust, and spends them on the purposes the Shariah has fixed. It began in the time of the Prophet (peace be upon him), who received zakat, fay and other public income in Madinah and distributed it without keeping a personal share, and it was organised into a formal department with registers by the second caliph, Umar ibn al-Khattab, as the state expanded. In an Islamic economy the Bayt al-Mal is far more than a cash box. It is the chief instrument by which the state prevents wealth from piling up on one side of society while poverty crushes the other — in a word, the instrument of economic balance. This answer explains what the Bayt al-Mal is, where its money comes from, where it goes, and how its working keeps the economy balanced between rich and poor, between regions, and between good times and bad.

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Meaning, Origin and Character of the Bayt al-Mal

The Bayt al-Mal is a trust (amanah), not the property of the ruler. The caliph or head of state is its trustee and is accountable for every dirham: Umar used to say that he stood towards the wealth of the orphans as a guardian stands, taking nothing while he was independent and only a bare necessity, openly, when he was in need. Classical jurists such as Abu Yusuf in Kitab al-Kharaj and al-Mawardi in al-Ahkam al-Sultaniyyah describe its departments, its separate accounts for separate revenues — because zakat money may be spent only on its Qur'anic heads — and the strict liability of its officials. This trust character is the first balancing feature: public wealth is locked to public purposes and cannot leak into private palaces.

Historically, the institution grew with need. Under the Prophet (peace be upon him) revenues were distributed almost immediately; under Abu Bakr the zakat was collected centrally and its refusal treated as an attack on the community; under Umar a diwan (register) of stipends was created, provincial treasuries were set up, and revenues such as kharaj from the rich lands of Iraq and Egypt were retained for the benefit of the whole community, present and future, instead of being divided once among the conquerors. That decision — to keep a permanent public asset producing permanent public income — is the founding example of Bayt al-Mal thinking: balance across generations as well as across classes.

Sources of Revenue of the Bayt al-Mal

Table 1: Principal revenues of the Bayt al-Mal and their character

Revenue	Nature	Balancing significance
Zakat	Compulsory levy on qualifying	Direct transfer from the rich to

	private wealth and produce	the fixed categories of need (Qur'an 9:60)
Ushr and Kharaj	Levies on agricultural land and its produce	Shares the fertility of the land with the whole community
Fay and Khums	Public property and the fifth of certain gains (Qur'an 8:41; 59:7)	Reserved expressly so wealth does not circulate only among the rich
Jizyah (historical)	Levy on protected non-Muslim citizens in lieu of military service, with exemption of the poor, elderly and monks	Contribution to common defence and administration by those able to pay
Awqaf and public assets	Endowments, state lands, mines and recovered ownerless property	Permanent income for welfare, education and public works
Customs, fines and other dues	Regulated charges under Shariah limits	Supplementary income raised without injustice to traders or citizens

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How the Bayt al-Mal Creates Economic Balance

The first balancing function is redistribution from surplus to need. Zakat and fay enter the treasury from those who have more than they require and leave it as food, cash, clothing, debt relief and care for those who have less. Because the transfer is compulsory, regular and

calculated on wealth rather than on mood, it steadily narrows the gap between the top and the bottom of society. The Qur'an states the purpose of fay openly: "so that it may not merely circulate between the rich among you" (59:7). A treasury that collects from the rich by law and pays the poor by right is a permanent balancing machine built into the constitution of the state.

The second function is the guarantee of basic needs. The Bayt al-Mal is the provider of last resort for the orphan, the widow, the disabled, the unemployed and the traveller cut off from his resources. Umar fixed stipends from the diwan even for newborn children, and jurists held that if a person dies of hunger in a community whose treasury and rich members neglected him, the community bears a grave sin. By guaranteeing a floor of food, clothing, shelter and care, the treasury prevents the desperation that produces crime, beggary as a trade, and the sale of labour at any price — all of which are forms of economic imbalance.

The third function is regional and sectoral balance. Revenues collected in rich provinces were spent in poor ones; Umar retained the kharaj of Iraq and Egypt partly so that Muslims who came later, and the people of the land itself, would share in it. The treasury finances the roads, canals, bridges, wells and security that poor regions cannot finance alone, connecting their produce to markets and their people to opportunity. The fourth function is stabilisation across time: reserves held in the Bayt al-Mal meet famine, flood, war and epidemic. In the year of famine (Am al-Ramadah), Umar organised relief caravans from Egypt and Syria and suspended normal routines until the crisis passed — a treasury acting as the community's insurance. The fifth function is the circulation of wealth in the economy: stipends, salaries of soldiers and officials, payment of debts of the deceased insolvent, grants for marriage of the poor, and public works all push purchasing power into the hands of those who will spend it on necessities,

keeping demand and production alive at the base of the economy rather than stagnant at its peak.

Safeguards: Balance Without Corruption or Waste

A treasury can disturb balance as easily as create it if it is looted by rulers or wasted by officials. Islam therefore surrounds the Bayt al-Mal with safeguards: separation of the ruler's private property from public funds; fixed heads of expenditure for zakat that no ruler may alter; written registers and witnesses for receipts and payments; the duty of officials to accept no gifts from the public (the Prophet (peace be upon him) treated an official's gift as a breach of trust, ghulul); and public accountability, seen in Umar's practice of questioning governors about any increase in their wealth. Spending itself must avoid both miserliness and extravagance (Qur'an 25:67), so that the treasury neither starves the needy by hoarding nor bankrupts the future by display.

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Conclusion

To conclude, the Bayt al-Mal ensures economic balance by collecting the community's God-assigned revenues — above all zakat, land dues and public property — holding them as a strict trust, and spending them to redistribute wealth, guarantee basic needs, develop poor regions, stabilise the community in crisis and keep purchasing power circulating at the base of society. It is the institutional form of the Qur'anic command that wealth must not circulate only among the rich. A modern Islamic economy expresses the same institution through its treasury, zakat administration, social protection funds and public investment, and wherever these are honestly and competently run on Bayt al-Mal principles, the distance between rich and poor is narrowed

by design rather than left to chance. The Bayt al-Mal is thus not a relic of the early caliphate but the balancing heart of the Islamic economic system.

Question 2: Ethical Principles Governing Public Revenue in Islam (20 Marks)

Discuss ethical principles governing public revenue in Islam

Introduction

Public revenue is the money a state takes from its people and from public assets to run common affairs. Every state needs it, and every state is tempted to abuse it: to tax unjustly, to seize arbitrarily, to waste on luxury, and to hide what it does. Islam, which treats political authority as a trust (amanah) from Allah and from the people, governs public revenue with a complete set of ethical principles covering its sources, its collection, its custody and its spending. The classical statement of these principles is Abu Yusuf's Kitab al-Kharaj, written for the caliph Harun al-Rashid, in which the greatest jurist of his age instructs the ruler that revenue raised by injustice ruins the land, empties the treasury itself in the long run, and will be answered for on the Day of Judgement. This answer discusses the main ethical principles one by one: justice and absence of oppression, respect for lawful property, moderation and ability to pay, honesty and trusteeship, earmarking and legality of expenditure, economy in spending, and accountability and consultation.

Justice and the Absolute Prohibition of Oppression (Zulm)

The supreme principle is that no revenue may be raised by zulm — wrong, excess or seizure without right. The Prophet (peace be upon him) reported Allah's words: "O My servants, I have forbidden oppression for Myself and have made it forbidden among you, so do not oppress one

another" (Muslim). A tax that crushes the cultivator, confiscates the trader's capital or falls on those who have nothing is not revenue but robbery under official seal. Abu Yusuf warned the caliph repeatedly that the prosperity of the treasury and the prosperity of the subjects are one thing: squeeze the land unjustly and cultivation shrinks, villages empty, and revenue itself declines. Justice is therefore not only a moral duty but sound fiscal policy. The Qur'an's general command, "Allah commands justice and excellence" (16:90), and its command to the ruler to judge and act with equity (4:58), apply to the tax collector as directly as to the judge.

Justice also governs the distribution of the burden: similar persons in similar situations must be treated similarly, exemptions must rest on Shariah grounds (such as the poverty exemptions in zakat and the historical jizyah), and no official may favour his tribe, party or family. Favouritism in assessment is a second injustice added to the first.

Respect for Lawful Property and Legality of the Levy

Revenue may be taken only under a recognised legal title. The wealth of a Muslim is inviolable: the Prophet (peace be upon him) declared property as sacred as life in the Farewell Sermon, and the Qur'an forbids consuming wealth by false means (4:29). The known titles in the Shariah are zakat, ushr, kharaj, fay, khums and regulated dues within the limits the jurists set; where the community faces genuine necessities beyond these, the classical scholars allowed additional levies only under strict conditions — real public need, just distribution according to ability, and no waste of what is taken. Arbitrary fines, confiscations, forced "gifts" to officials and tolls invented for private enrichment fall outside legality altogether. The famous case of the collector criticised by the Prophet (peace be upon him) for accepting a gift — "why did he not sit in his parents' house and see whether gifts came to him?" (Bukhari and Muslim) —

establishes that everything an official receives by virtue of his office beyond his salary belongs to the public treasury, and keeping it is embezzlement (ghulul), condemned in the Qur'an (3:161).

Moderation, Ability to Pay and Protection of Production

Islamic revenue ethics require the levy to respect the payer's capacity and to leave his productive capital intact. Zakat itself is charged only above the nisab — the minimum of surplus wealth — and normally on accumulated wealth and produce, not on the tools of a trade, the house one lives in, or the seed and animals by which a farmer lives. Umar instructed his collectors to take the due without harshness and to leave the people their means of livelihood; the collectors of zakat were forbidden to take the best of people's animals or to accept the worst, but to take the middle (as the Prophet (peace be upon him) instructed Mu'adh when sending him to Yemen, adding the warning: "beware of the supplication of the oppressed, for there is no barrier between it and Allah" — Bukhari and Muslim).

A related principle is that revenue policy must encourage, never strangle, production and trade. Abu Yusuf advised replacing arbitrary shares of the harvest, which discouraged cultivation, with assessed dues the farmer could plan around, and urged investment of revenue in canals and irrigation so that the taxable base itself would grow. Duties on trade must remain moderate so that lawful commerce — which Islam honours — is not driven into smuggling and bribery. A levy that destroys its own source violates both ethics and wisdom.

Earmarking, Custody and Economy in Spending

Ethics govern the spending side as strictly as the collecting side. Some revenues are earmarked by revelation itself: zakat may be spent only on the eight categories of Qur'an 9:60 — the poor,

the needy, its administrators, those whose hearts are reconciled, freeing captives, debtors, in the cause of Allah and the stranded traveller — and a ruler who diverts zakat to palaces or armies commits a breach of trust. Public money must be kept separate from the ruler's private purse; the caliphs accounted for both separately, and Umar accepted a modest stipend openly fixed by consultation. Spending must observe the Qur'anic middle course between miserliness and extravagance (25:67); waste on luxury, monuments to vanity and bloated establishments while subjects lack necessities is a moral crime, and the Qur'an calls the wasteful "brothers of the devils" (17:27). Priority belongs to necessities: defence, justice, basic administration, relief of the poor and public works that serve all.

Accountability, Transparency and Consultation

- **Accountability to Allah:** every official will answer for public wealth in the Hereafter; Umar said that if a mule stumbled in Iraq he feared being asked why he had not repaired its road.
- **Accountability to the people:** registers of the Bayt al-Mal, witnessed receipts, audit of governors, and the right of any citizen to complain of a collector's excess without fear.
- **No gifts, no commissions, no private benefit:** an official's unexplained enrichment is itself evidence of ghulul and was investigated as such by Umar.
- **Consultation (shura):** major fiscal decisions — new levies, stipends, large works — are taken after consulting people of knowledge and those affected, as Umar consulted over the kharaj lands and the diwan.
- **Gentleness in collection:** collectors are ordered to be kind, to accept what is due without humiliating the payer, and never to enter homes or seize necessities by force for a disputed due.

Conclusion

To conclude, public revenue in Islam is governed by an ethic of trust: the state may take only by legal title, only with justice, only according to ability, and only for the purposes for which the money was raised, keeping it separate from private wealth, spending it with economy on real needs, and answering for it to the people and to Allah. Oppression in taxation is condemned not only as sin but as folly, since it destroys cultivation, trade and revenue itself. These principles — legality, justice, moderation, earmarking, honesty and accountability — were worked out in detail by Abu Yusuf and the classical jurists more than a thousand years ago, and they remain a complete standard by which any modern budget, including Pakistan's, can be judged: a revenue system that taxes the weak, exempts the powerful, tolerates corrupt collectors and wastes the proceeds on luxury fails the Islamic test at every single point.

Question 3: The Islamic Critique of Feudalism (20 Marks)

Explain the Islamic critique of feudalism.

Introduction

Feudalism is a system in which land — the main source of wealth in agricultural societies — is concentrated in the hands of a small class of lords who hold it by hereditary grant or force, while the actual cultivators work it as tenants or serfs, surrender a large share of the produce as rent, and live under the lord's social and often legal domination. Europe knew this system in the middle ages; Muslim lands knew it in the iqta in some of its later, degenerated forms, and the Indian subcontinent knew it as the jagirdari and zamindari system, whose effects survive in parts of Pakistan today. Islam appeared in a world of tribal chiefs and great landowners, and its teachings on land, labour and wealth amount to a systematic critique of the feudal order — a

critique that was applied in practice by the Prophet (peace be upon him) and the early caliphs, and written down by the jurists. This answer explains the Islamic principles involved, shows point by point where feudalism violates them, and notes the historical and modern applications of the critique.

Islamic Principles of Land Ownership

The critique begins from ownership. The earth and its resources belong to Allah; human beings are His vicegerents and trustees (Qur'an 6:165; 57:7). Land, therefore, is held on conditions: it must be acquired lawfully, its dues must be paid, it must not be used to harm or dominate others, and — crucially for land — it must be used productively. The Prophet (peace be upon him) laid down the rule of *ihya al-mawat*: "Whoever revives dead (uncultivated, unowned) land, it belongs to him" (Tirmidhi and Abu Dawud). Ownership of land is thus earned by labour and cultivation, not inherited as a badge of rank over land one has never touched. The jurists added the complementary rule that land granted or held but left uncultivated for three years loses its protection and may be reassigned to someone who will work it — Umar applied this even to grants made by the Prophet (peace be upon him) himself. Title to land in Islam is justified by service to the land; feudal title is justified by birth, grant and force. That is the first and deepest point of conflict.

The second principle is that the produce of the earth is a provision for mankind generally: "He it is who made the earth subservient to you, so walk in its paths and eat of His provision" (67:15). A system that locks the many out of access to land, or lets them reach it only by surrendering most of its fruit to an idle intermediary, contradicts this open provision. The third principle is the Qur'anic law of circulation: wealth, including land revenue, must not circulate only among

the rich (59:7) — the exact description of a feudal economy, in which rent flows permanently upward from village to lord while nothing flows back.

Point-by-Point Critique of the Feudal System

- **Concentration of land:** feudalism gathers vast estates in few hands and leaves the cultivating majority landless. Islam counters it with ihya (ownership through cultivation), the three-year forfeiture of idle land, compulsory division of estates at death among many heirs, and the prohibition of hoarding resources.
- **Rent without work or risk:** the feudal lord takes a large fixed share of the crop purely from ownership, while the tenant bears the labour, the seed and the risk of drought. Islam allows rent and sharecropping contracts (muzara'ah and musaqah) only as genuine agreements with fair, known shares, condemns taking produce without corresponding right, and obliges the landowner to pay the land dues (ushr or kharaj) and to treat the tenant justly.
- **Personal domination and bonded labour:** feudal tenants are often bound to the soil, owe labour services, and stand under the lord's private justice. Islam declares the freedom and dignity of every person, forbids compelling labour without wage, and places all under one public law and one court system; no landlord has jurisdiction over his tenants' persons.
- **Hereditary privilege and closed opportunity:** feudal rank passes by blood and blocks the talented poor from rising. Islam recognises no nobility of birth (Qur'an 49:13), and its land rules continuously reopen access to ownership for whoever will work.
- **Idleness of the owning class:** feudal income supports a class that produces nothing. Islam honours income from work, risk and service, censures parasitic living, and subjects idle wealth to zakat year after year so that hoarded and unproductive holdings steadily shrink.

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- **Injustice in dues:** feudal exactions are arbitrary — the lord takes what custom and power allow. Islamic land dues are fixed by law (for example the ushr rates and assessed kharaj), collected by public officials with receipts, and the supplication of the oppressed tenant is a warned-against danger for the collector.

The Historical Application: Umar and the Lands of Iraq

The critique is not theory only. When Iraq and Egypt were conquered, some soldiers demanded that the rich agricultural lands (the Sawad) be divided among them as private estates — the exact beginning of a military feudalism. Umar, after consultation, refused. Citing the fay verses of Surah al-Hashr (59:7–10), which include "those who come after them" among the beneficiaries, he kept the land with its cultivators, imposed the kharaj for the Bayt al-Mal, and made the revenue serve the whole community and future generations. The cultivators kept their farms, the soldiers received stipends from the treasury, and no landed aristocracy was created. Later, when the iqta system in some periods degenerated into hereditary exploitation of peasants, jurists and reformers criticised it precisely on these original principles, distinguishing the lawful administrative iqta (a salary assignment) from feudal ownership of the peasantry's land.

The Prophet's own practice in Madinah points the same way: he arranged sharecropping at Khaybar on a clear half-share agreement with the cultivators doing the work, gave uncultivated plots to individuals and tribes to develop, and forbade leasing arrangements that concealed exploitation or uncertainty about the rent. Land relations were contractual, transparent and terminable — the opposite of feudal bondage.

Relevance to Pakistan

The Islamic critique speaks directly to the surviving feudal pattern in parts of Pakistan: very large hereditary estates, sharecropping tenants (haris) without security or written contracts, political power built on land, and rural poverty side by side with fertile soil. Measured by Islamic standards, such a structure fails on its own declared principles — land held idle or extensively while landless families starve, rents fixed by power rather than agreement, tenants denied schooling, justice and mobility, and dues to Allah and society unpaid. This is why land reform has repeatedly been debated in Pakistan in Islamic terms: supporters of reform cite ihya, Umar's Sawad decision, the dues on land and the circulation principle, while the debate in the courts and the Federal Shariat Court (which in its 1989–1990 proceedings examined land-reform laws against the Shariah, with appeals and reviews continuing in later years) shows that the exact legal limits of reform remain a matter of juristic argument. What is not in doubt among the scholars is the moral core of the critique: Islam will not sanctify a land order built on hereditary domination, idle rent and the misery of the cultivator.

Conclusion

To conclude, Islam criticises feudalism at its root. Land belongs ultimately to Allah and is entrusted to human beings on condition of lawful acquisition, payment of dues, productive use and just dealing; ownership is earned by reviving and cultivating the earth, lapses when land is left idle, fragments at every inheritance, and never confers personal dominion over the cultivator. Feudalism violates every one of these conditions: it concentrates land by birth and grant, extracts rent without work or risk, binds and dominates the tenant, blocks opportunity, and makes wealth circulate only among the rich. From Umar's refusal to feudalise the Sawad to

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the modern debate over land reform in Pakistan, the Islamic position is consistent: the earth is Allah's provision for all His servants, and any system that turns it into the permanent private kingdom of a few families stands condemned by the Shariah it may claim to respect.

Question 4: Basic Features of Islamic Banking (20 Marks)

Describe the basic features of Islamic banking.

Introduction

Islamic banking is banking conducted in accordance with the Shariah: it mobilises savings, finances trade and industry, and provides payment services like conventional banking, but it does so without interest (riba), without excessive uncertainty and speculation, and only in lawful, real economic activity. It began as a modern industry in the 1970s, was adopted as a national experiment in Pakistan at the end of that decade, and has since grown into a global sector; in Pakistan today Islamic banks and Islamic windows operate under the State Bank of Pakistan's Shariah governance framework alongside conventional banks, and the Federal Shariat Court's 2022 judgement directed the elimination of riba from the economy within the period it specified. Whatever the pace of implementation, the features of the model itself are clear and agreed. This answer describes them: the prohibition of riba, profit-and-loss sharing, the standard contracts, asset-backing, Shariah supervision, and the social and ethical character of the business, ending with a comparison table.

Feature One: Complete Prohibition of Riba (Interest)

The defining feature is that money may not be lent for a predetermined increase. The Qur'an permits trade and forbids riba (2:275) and commands believers to give up what remains of riba

and take only their principal (2:278–279). An Islamic bank therefore cannot charge or pay interest on loans or deposits, cannot deal in interest-bearing bonds, and cannot impose late-payment interest; where a penalty for deliberate default is stipulated for discipline, classical and modern standards require it to go to charity, not to the bank's income. Return is lawful only when it arises from trade, leasing or genuine partnership in which risk is borne — following the principle that profit is justified by liability (al-kharaj bi al-daman). This single prohibition changes the whole personality of the bank. It must earn from real transactions, and it shares the fate of the ventures it finances.

Feature Two: Profit-and-Loss Sharing and the Standard Contracts

On the deposits side, savings and investment accounts are accepted largely on mudarabah: the customer provides capital, the bank manages it as mudarib, profit actually earned is shared in a pre-agreed ratio, and loss of capital (without negligence) falls on the capital provider — so returns are expected and historically competitive but never guaranteed as a fixed rate. Current accounts are held as loans or safe custody (qard or amanah) repayable on demand without any return. On the financing side, the bank uses a family of classical contracts, each tied to a real need.

The Main Contracts Used by Islamic Banks

- **Mudarabah:** one party supplies capital, the other work and management; profit shared by agreed ratio, financial loss on the capital owner.
- **Musharakah (including diminishing musharakah):** joint ownership of an asset or business; profit by agreement, loss strictly in proportion to capital; widely used for house and project finance, with the client gradually buying the bank's share.

- **Murabahah:** the bank buys an asset the client needs and sells it to him at cost plus a disclosed profit on deferred payment — the workhorse of trade and consumer finance.
- **Ijarah:** leasing of an asset owned by the bank for a known rent; used for vehicles, machinery and equipment, with ownership risks resting on the lessor.
- **Salam and Istisna:** advance-payment purchase of described agricultural produce, and commissioned manufacture or construction with staged payments, serving farmers and industry.
- **Sukuk:** certificates representing ownership in real assets or projects, giving investors a share of the asset's return instead of interest on a debt.
- **Takaful:** cooperative, Shariah-compliant cover that commonly accompanies Islamic finance, based on mutual donation (tabarru) rather than a commercial gamble on risk.

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Feature Three: Asset-Backing and Link With the Real Economy

Because a return must come from a transaction, Islamic financing is asset-backed: behind every financing there stand goods bought and sold, an asset leased, a project built or a business jointly owned. The bank may not finance gambling, alcohol, pork, armaments of aggression or other prohibited sectors, nor purely speculative positions; transactions involving excessive uncertainty (gharar) and gambling-like gain (maysir) are excluded, and conventional derivatives used for speculation are not traded. This keeps the financial sector tied to the real economy of farms, factories, homes and trade, so that bank growth reflects production rather than layers of debt traded among institutions.

Feature Four: Shariah Governance and Transparency

Every Islamic bank works under a Shariah board or Shariah advisor — qualified scholars who approve products, audit transactions, and order any non-compliant income to be purified by giving it to charity. In Pakistan the State Bank maintains a central Shariah board, licensing conditions, and Shariah audit requirements for Islamic banking institutions. Transparency is itself a Shariah value: in murabahah the cost and profit must be disclosed to the client; in mudarabah accounts the profit-sharing ratio and the method of calculation must be declared. Customers may thus verify not only the price of the service but its permissibility — a dimension of accountability unknown to conventional banking.

Feature Five: Social and Ethical Orientation

Islamic banks carry social duties as part of their charter: they operate zakat payment services, maintain charity funds from late-payment penalties and purified income, and are encouraged to extend qard hasan (benevolent loans) and to finance small farmers, small enterprises and housing for ordinary families. Because the bank shares risk with its clients, it has a built-in interest in the client's real success rather than in merely securing repayment plus interest from a failing business; in distress, rescheduling without additional increase is the norm required by the Qur'anic command to grant respite to a debtor in difficulty (2:280).

Comparison With Conventional Banking

Table 1: Islamic and conventional banking compared

Feature	Islamic banking	Conventional banking
Basis of return	Profit from trade, lease and	Interest fixed in advance

	partnership with risk borne	regardless of the borrower's result
Deposits	Investment accounts on mudarabah; return variable, not guaranteed	Deposits at a contracted rate of interest
Financing	Asset-backed contracts (murabahah, ijarah, musharakah etc.)	Cash loans against interest and collateral
Sectors financed	Lawful sectors only; speculation and gharar excluded	Any sector lawful under secular law
Supervision	Financial regulation plus Shariah board and Shariah audit	Financial regulation only
Default penalty	Compensation limited; penalties directed to charity	Additional interest charged to the defaulter

Conclusion

To conclude, the basic features of Islamic banking form one coherent pattern: no riba, profit earned only with liability, finance tied to real assets through mudarabah, musharakah, murabahah, ijarah, salam, istisna and sukuk, exclusion of prohibited and speculative business, independent Shariah supervision with purification of doubtful income, and an ethical duty of fairness and social concern towards clients. Islamic banking is therefore not conventional

banking with Arabic labels; properly practised, it is a different way of organising finance, in which the bank stands as trader, lessor and partner rather than as a mere lender of money at interest. Its continuing growth in Pakistan and worldwide shows the practicality of the model, while its quality depends — as its own scholars insist — on keeping the substance of risk-sharing and real trade ahead of mere formal resemblance to interest-based products.

Question 5: Islamic Economic Principles and Pakistan's Economic Problems (20 Marks)

How can Islamic economic principles guide solutions to Pakistan's economic problems?

Introduction

Pakistan's economic problems are well known and long-standing: heavy public debt and interest payments that consume a very large share of revenue, recurring inflation that erodes the incomes of the poor, widespread poverty and inequality, mass unemployment and underemployment especially among the young, a narrow tax base with low collection, corruption and weak governance, energy and trade deficits, a large undocumented economy, and an agricultural sector in which many small farmers and tenants remain poor on fertile land. Conventional policy has treated these problems for decades with borrowed programmes and short-term fixes, yet the problems return in every cycle. Islamic economic principles do not offer magic; they offer a different framework — interest-free finance, compulsory circulation of wealth, ethical revenue, land justice, dignity of labour and honest governance — that speaks directly to the causes of several of these problems. This answer matches the main problems of Pakistan with the Islamic principles that address them and indicates practical steps, while noting honestly where implementation is gradual and difficult.

The Debt and Interest Burden: Moving Towards Riba-Free Finance

The heaviest chain on Pakistan's budget is debt servicing: interest payments absorb such a large portion of federal revenue that little remains for development, education and health, and the state borrows afresh to pay interest on old borrowing — the classic riba trap at national scale. Islamic principles address this in three ways. First, they impose a discipline of borrowing only for real need and real assets, since finance must be asset-backed; a government that finances through sukuk linked to identifiable projects and assets faces harder questions than one rolling over treasury bills. Second, they direct the banking system towards equity and partnership finance, so that the private sector's growth is not strangled by interest costs that must be paid in recession and boom alike; Pakistan's Islamic banking sector, regulated by the State Bank, already demonstrates workable models of trade, lease and partnership finance. Third, the constitutional position — Article 38(f) requires the state to eliminate riba as early as possible, and the Federal Shariat Court's 2022 judgement set the direction of travel — gives the transition a legal anchor. No serious writer claims the conversion of a whole debt stock is simple; but every step that replaces interest-bearing instruments with asset-backed, risk-sharing ones reduces the budget's most unproductive expenditure and the economy's fragility.

Poverty and Inequality: Zakat, Awqaf and Guaranteed Basic Needs

Pakistan already possesses, on paper, one of the world's few state zakat systems, plus large-scale income support through the Benazir Income Support Programme and the Ehsaas initiatives. Islamic principles show how to make this floor stronger and more honest: assess and collect zakat on the full range of zakatable wealth with transparent administration; spend it strictly on its Qur'anic heads (9:60), with priority to making recipients self-reliant — tools,

livestock, training and small capital — rather than permanently dependent; revive and professionally manage awqaf, whose lands and properties, honestly administered, historically financed education, health and welfare at no cost to the budget; and mobilise sadaqah and qard hasan through mosques, charities and Islamic microfinance so that the poor can borrow for emergencies and micro-enterprises without falling to loan sharks and exploitative interest. The principle of guaranteed basic needs (the Bayt al-Mal duty) sets the target: no citizen without food, basic clothing, shelter, primary health and basic education. Pakistan's philanthropy is already among the most generous in the world relative to income; Islamic institutions exist precisely to channel that generosity from scattered charity into organised, audited welfare.

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Tax Injustice and the Undocumented Economy: Ethical Revenue Principles

Pakistan collects far less tax than its economy should yield, and the burden falls unfairly: salaried persons and consumers pay, while large incomes in protected sectors escape. The Islamic ethics of public revenue condemn exactly this pattern — a levy that squeezes the weak and exempts the powerful is zulm, and Abu Yusuf's rule that unjust taxation destroys cultivation, trade and finally revenue itself describes Pakistan's low-trust fiscal culture with precision. Guidance from the principles is practical: broaden the base to real ability to pay; simplify and stabilise rates so honest traders can comply; end arbitrary, negotiable assessments that breed bribery; protect the payer's productive capital (the nisab idea) so that taxation never kills the small business or farm it taxes; and spend visibly on the public, since citizens pay willingly only when they see the treasury as a trust rather than a leak. Documentation follows

trust: traders join the formal economy when formality brings fairness, finance and protection instead of harassment.

Unemployment, Agriculture and Land: Productive Justice

Islam dignifies labour, commands the search for lawful livelihood, and directs capital towards production. For Pakistan's unemployed youth this means, in Islamic terms, expanding partnership and lease finance for small and medium enterprises, workshops, transport, livestock and services — the sectors that actually employ people — instead of concentrating bank credit in a few large, interest-based borrowers. Salam finance can carry the small farmer's seasonal needs, istisna can finance local manufacture, and diminishing musharakah can house families without interest. In agriculture, the land principles discussed in the Islamic critique of feudalism apply with force: security and fair, written contracts for tenants, payment of ushr and dues, revival of uncultivated land by those who will work it (ihya), and an end to absentee domination that leaves haris without incentive, schooling or health. A countryside in which the cultivator keeps a just share is a countryside that produces more — Islamic land justice is also agricultural policy.

Corruption, Inflation and Instability: Governance and Monetary Morality

- **Corruption:** Islam treats public office as amanah and officials' unexplained wealth as embezzlement (ghulul); applying transparent registers, audit, conflict-of-interest rules and protection for honest officials is Bayt al-Mal ethics in modern form.
- **Inflation:** it falls hardest on the poor and on fixed-wage earners and is fuelled by deficit financing and interest-driven money creation; Islamic fiscal discipline — borrowing limits

tied to real need, no extravagance in state spending (Qur'an 25:67) — attacks its root rather than only its symptoms.

- **Hoarding and profiteering:** the prohibitions of ihtikar and fraud, enforced through market supervision in the spirit of hisbah, protect consumers in food and essentials, where Pakistan's poor spend most of their income.
- **Energy and imports:** moderation in consumption (no israf) and preference for productive investment over luxury imports are Qur'anic habits with direct balance-of-payments value for an import-dependent economy.
- **Social peace:** a visible floor of welfare, fair wages and prompt payment ("before his sweat dries") reduces the desperation that feeds crime and unrest, which are themselves heavy economic costs.

A Realistic Order of Implementation

Islamic principles also teach gradualism with direction: the Qur'an itself prohibited riba in stages, and Pakistan's own institutions — the Council of Islamic Ideology, the State Bank's Islamic banking framework, the zakat system and the superior judiciary's riba judgements — provide the machinery for staged reform. A sensible order is: first, honesty and competence in what already exists (zakat, awqaf, treasury); second, steady expansion of Islamic finance and sukuk so the state and firms have real alternatives before obligations are tightened; third, revenue and land reforms carried with compensation and due process, since Islamic justice forbids curing one zulm by committing another; and throughout, education of the public, because moral reform of traders, officials and citizens is the cheapest and deepest reform of all. The obstacles — vested interests, administrative weakness, the sheer size of the debt stock —

are real, and this answer does not pretend otherwise; but they are obstacles of will and management, not of the principles' relevance.

Conclusion

To conclude, Islamic economic principles guide solutions to Pakistan's problems because they were revealed as a complete ethic of wealth: they attack the interest burden through riba-free, asset-backed finance; poverty and inequality through zakat, awqaf, qard hasan and the guaranteed floor of basic needs; fiscal failure through just, ability-based, honestly spent revenue; unemployment and rural poverty through productive partnership finance and land justice; and corruption and instability through trusteeship, accountability and moderation. Pakistan does not need to import a theory of economic justice; its constitution and its faith already contain one. What is required is the patient, competent and honest application of principles the nation professes — so that the economy begins to serve the whole people, as the Qur'an commands, instead of circulating its rewards among the few.

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