INTEREST AND ISLAMIC BANKING

Riba, Financial Justice and the Jurisprudence of Muhammad Taqi Usmani



AHMAD RAMAY

DarALHamd

A DARALHAMD RESEARCH PUBLICATION

Interest and Islamic Banking

Ribā, Financial Justice and the Jurisprudence of Muhammad Taqi Usmani

Ahmad Ramay



An in-depth review of the Qur'an, Sunnah, juristic reasoning and the economic substance of modern Islamic finance.

DarALHamd
First edition · 2026

PUBLICATION DETAILS

Copyright and edition notes

Interest and Islamic Banking
Ribā, Financial Justice and the Jurisprudence of Muhammad Taqi Usmani

© 2026 Ahmad Ramay. Published by DarALHamd.

All rights reserved in the original text and artwork, subject to applicable law. Brief quotations may be used for scholarly criticism and review with appropriate attribution. Rights in cited source materials remain with their respective owners.

Author: Ahmad Ramay
Publisher: DarALHamd
Edition: First edition, 2026
Language: English, with selected Arabic text
Book format: 8 × 10 inches

This book is a critical literature-based study, not a personal fatwa, a product endorsement or individual financial or legal advice. The validity of an actual financing arrangement requires examination of its documents and implementation by suitably qualified advisers.

The study is principally framed by the Sunni sources identified in the bibliography. Classical school differences are often presented through Usmani's synthesis; this edition does not claim an exhaustive independent collation of every classical authority. No affiliation with, endorsement by, or approval from Muhammad Taqi Usmani or the cited institutions is implied.

Historical financial observations are explicitly dated. Figures reported for Q2 2024 and June 2025 are not represented as the latest market statistics in 2026. All worked monetary examples are illustrative.

The illustrations are original conceptual artwork; the charts are newly drawn from the cited data. Research, editorial organisation and typesetting were prepared with AI assistance. This edition has not undergone independent peer review.

Publisher contact

daralhamd.com.au

publications@daralhamd.com.au

PREFACE

Justice beyond the product label

Islamic banking is commonly described through the language of interest prohibition, asset-backed transactions and shared risk. Yet these expressions do not answer every question a reader might reasonably ask. What makes a sale genuinely different from a loan? Must every financier share the customer's business losses? Can a transaction comply with a contractual rule while reproducing a burdensome or unjust economic relationship?

This book develops the earlier research review into a sustained, illustrated study. It places the Qur'an and Sunnah first, then explains the principal contracts and examines Muhammad Taqi Usmani's arguments. His work is treated neither as immune from criticism nor as a convenient target. The task is to identify what he actually permits, what he regards as an ideal, and what he himself rejects.

A recurring distinction is between **legal validity**, **fair conduct** and **institutional outcomes**. Evidence that establishes one does not automatically establish the others. A genuine sale need not be a profit-sharing partnership; a bank's exposure to customer default is not the same as participation in operating losses; and a regulatory product classification does not establish how a contract works in a dispute.

The discussion also distinguishes equity from numerical equality. Parties who supply different resources do not necessarily have identical entitlements or liabilities. The more useful question is whether the allocation is lawful, transparent and faithful to the relationship being claimed.

The statistical chapter presents dated examples rather than a comprehensive survey of today's industry. Its charts illustrate why the gap between participatory ideals and observed financing structures deserves scrutiny. They do not establish that a particular institution or product is unlawful.

The intended audience includes readers of Islamic studies, finance practitioners, students, community educators and customers seeking a more exact vocabulary for evaluating financial claims. The aim is responsible criticism: to read the sources carefully, state the limits of the evidence and keep the prevention of oppression at the centre of the inquiry.

Ahmad Ramay
DarALHamd · 2026

CONTENTS

The argument at a glance

1 Ribā and the Qur'anic demand for justice 1
2 Ownership, honesty and commercial liability 4
3 What fair profit-and-loss allocation means 6
4 Usmani: ideal, permissible and unacceptable 9
5 Murābaḥah: a sale or a renamed loan? 11
6 Ijārah and diminishing home finance 14
7 Tawarruq, sukuk and circumvention 17
8 Worked financial comparisons 19
9 Evidence from banking practice 21
10 Scholarly disagreements 25
11 Where Usmani supports—and tests—justice 27
12 A framework for reform and assessment 29
Appendix A Data and calculations 32
Glossary 33
Bibliography 35
Qur'anic passages and hadith index 38
Subject index 39
About this publication 41

Chapter and index references are linked. Page numbers refer to the Arabic-numbered main text.

FIGURES AND TABLES

Visual guide to the evidence

Figures

1 Three levels of assessment 3
2 Illustrative muḍārabah outcomes 8
3 The sequence of a genuine financed sale 11
4 A diminishing co-ownership structure 15
5 Financing composition in the IFSB survey, Q2 2024 21
6 Pakistan's Islamic banking financing modes, June 2025 22
7 Pakistan's Islamic banking client mix, June 2025 23

Tables

1 Qur'anic foundations and their interpretive limits 2
2 Principal hadith evidence used in this study 4
3 The main financing contracts at a glance 6
4 Illustrative mushārakah capital-loss allocation 7
5 Principal writings and their relevance 9
6 Three findings that should not be confused 13
7 Home-financing questions that distinguish form from substance 16
8 The distinctions in the Academy's tawarruq resolution 17
9 Conventional loan, genuine murābaḥah and investment 19
10 Matching each claim to the evidence it requires 24
11 A comparison of jurisprudential and economic approaches 26
12 Areas of strong consistency with the principles examined 27
13 Areas requiring closer scrutiny 28
14 Questions for an Islamic finance product review 30
A1 Historical portfolio data used in the figures 32

RESEARCH OVERVIEW

What the study finds

Central finding. Usmani's foundational arguments support the prohibition of ribā, genuine ownership and the legitimacy of sharing commercial outcomes. His permission for sales and leases does not mean that every bank must become a partner in every customer's business. The substantial tension arises when conditional, debt-like alternatives become the dominant institutional model while risk-sharing remains largely aspirational.

The book separates three propositions. A transaction may be legally permissible without being the most equitable option. A product advertised as Islamic may fail its own legal conditions. An institution may conduct individually valid transactions while falling short of its wider distributive claims. Each proposition requires its own evidence and argument.

How to read the sources

Square-bracket references link the discussion to the numbered bibliography. Qur'anic citations identify surah and verse. Hadith numbers follow the linked editions. Usmani page citations refer to the printed pagination of the online edition specified in reference [9]. Where the text offers an ethical application or a proposed reform, it is presented as analysis rather than a verbatim scriptural instruction.

How to read the figures

Figures 1, 3 and 4 are conceptual diagrams. Figure 2 is an illustrative calculation, not observed performance. Figures 5–7 redraw historical data from IFSB and State Bank of Pakistan sources. Different dates, samples and classification systems are not treated as a single comparable dataset. The appendix reproduces the inputs and rounding notes.

How to read the conclusions

The critique does not depend on claiming that every fixed return is interest, that every Islamic bank is risk-free, or that fairness always means identical losses. It asks what rights actually exist, who bears the relevant burdens, how customers in genuine hardship are treated, and whether social claims can be supported by evidence.



A product name is a starting point. The contract, its implementation and its consequences are the evidence.

CHAPTER 1 · FOUNDATIONAL TEXTS

Ribā and the Qur’anic demand for justice

The prohibition of **ribā** is not a prohibition of every financial gain. The Qur’an distinguishes lawful exchange from prohibited increase and places both within a moral order concerned with wrongful acquisition, truthful dealing and the protection of vulnerable people. A serious evaluation of Islamic banking must therefore ask two questions: whether a contract falls within a prohibited category, and whether the relationship it creates is otherwise just.

Qur’an 2:275 states that Allah permits trade and prohibits ribā. This distinction is decisive, but it is not a ready-made manual for modern banking. The Sunnah and subsequent jurisprudence explain how ownership, possession, debt, exchange and contractual liability affect particular transactions. It is consequently unsound either to treat every profitable transaction as ribā or to assume that attaching the label “sale” makes any financing arrangement lawful. [1: 2:275; 2–3; 7]

1.1 Principal and reciprocal protection

The central words of Qur’an 2:279 are:

لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ

Neither wrong others, nor be wronged.

Meaning of Qur’an 2:279; concise editorial rendering.

The verse allows the creditor who abandons ribā to recover the principal. It protects the debtor from the prohibited increment while protecting the creditor’s legitimate claim. Its immediate rule is specific: relinquish ribā, retain the principal. Its statement of reciprocal justice is wider, but should not be detached from that immediate setting. [1: 2:278–279]

Two conclusions follow. First, the dominant juristic reading does not make a lender’s entitlement depend solely on whether the borrower can afford the increment. Secondly, a creditor’s recognised entitlement is not permission to pursue it through deception, humiliation or unjust treatment. The rule and the ethical purpose belong together.

The phrase does **not** say that every commercial contract must allocate profit and loss equally. It does not impose a universal 50/50 partnership. Fairness in a loan, an asset sale, a lease and a business partnership must be examined in relation to the different rights and responsibilities of each arrangement.

1.2 The question this book investigates

When an institution calls itself Islamic, does it merely avoid a prohibited contractual form, or does it also pursue the reciprocal justice that gives the prohibition its ethical significance? The question is not answered by a product name, a repayment amount or an assurance that a scholar approved the template. It requires evidence about the transaction and its consequences.

CHAPTER 1 · SCRIPTURE IN CONTEXT

Trade, hardship and the circulation of wealth

1.3 Reading the relevant passages together

Table 1. Qur'anic foundations and their interpretive limits

Reference	Relevant teaching	What it does—and does not—establish
2:275	Trade is distinguished from ribā.	Profit is not intrinsically forbidden; a genuine sale must still meet its legal requirements.
2:278–279	Abandon ribā; retain the principal.	Supports the dominant prohibition of a stipulated loan increment; not a universal formula for equal business losses.
2:280	Give respite to a debtor in genuine difficulty; remission is commended.	Hardship matters to collection and enforcement; the verse does not automatically cancel every debt.
2:282	Document deferred debt with justice.	Supports reliable records and clarity; debt itself is not prohibited.
3:130	Condemns multiplied ribā.	Highlights a destructive practice; whether this restricts the whole prohibition is disputed.
4:29	Reject wrongful acquisition; recognise trade by mutual consent.	Consent is important, but does not validate a prohibited transaction.
16:90	Commands justice and good conduct; forbids oppression.	Provides an ethical standard wider than contractual labels.
59:7	In allocating fayʾ, prevents exclusive circulation among the wealthy.	A distributional principle in a specific public-wealth context, not a detailed banking rule.
30:39	Contrasts ribā-seeking increase with giving for Allah.	Places acquisition within a moral account of wealth and responsibility.

Source: Qur'an, references shown [1]. The final column is interpretive analysis, not a quotation.

Qur'an 2:280 is particularly important because it follows immediately after the direction concerning principal. A person facing genuine inability to pay is not morally identical to a solvent debtor who refuses payment. The distinction must remain visible when a bank restructures debt, assesses charges or pursues security. Whether a particular remedy is lawful also depends on the contract and applicable law; this book does not supply a jurisdiction-specific enforcement opinion.

Mutual consent in 4:29 likewise cannot be reduced to a signature. A useful ethical inquiry examines disclosure, comprehension, misrepresentation and the practical ability to compare alternatives. Economic need does not by itself prove legal coercion, and unequal bargaining power does not automatically invalidate a contract. Nevertheless, those conditions may expose the customer to exploitation and warrant substantive scrutiny.

The verses therefore support an evaluation of financial conduct that extends beyond the narrow question of whether an amount is called "interest". The wider evaluation supplements, rather than replaces, the rules governing the underlying transaction.

CHAPTER 1 · INTERPRETIVE METHOD

Is only exploitative interest prohibited?

1.4 Legal scope and moral rationale

One central dispute concerns the relationship between the prohibition's legal scope and its moral rationale. Some modern contextual readings emphasise exploitative debt and the historical circumstances of the Qur'anic condemnation. The dominant classical and contemporary juristic approach, adopted by Muhammad Taqi Usmani, treats a stipulated increase on a loan as prohibited even when its rate is moderate or the borrower is a profitable business. [10; 12; 14]

The argument for the dominant reading is not simply that every conceivable loan increment produces identical economic harm. It is that the command to retain principal in 2:279 identifies a legal boundary. The description of multiplied ribā in 3:130 is then understood as condemning a particularly grave manifestation, not as creating a safe harbour for a smaller increment. Usmani's 1999 judgment develops this argument and rejects a general distinction between consumption and productive-business loans. [1; 10]

A contextual critic asks whether a transaction falls within the oppression that the prohibition addresses. Usmani responds through the established legal category as well as its ethical purpose. These approaches cannot be reconciled merely by saying that both favour justice: they disagree about how that principle determines the scope of a rule.

In jurisprudential terms, the **operative legal basis** of a prohibition should not be confused with its **wisdom or purpose**. Identifying oppression as an important rationale does not, within the dominant approach, authorise an individual to declare a stipulated loan increment permissible whenever it appears beneficial. Conversely, identifying a permissible contract does not settle every question about deception, hardship or oppressive conduct.

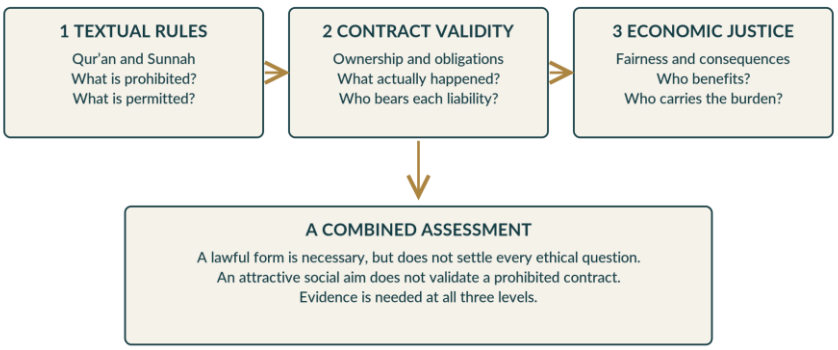


Figure 1. Three levels of assessment

Original analytical diagram. Textual references: Qur'an 2:275–280 and 4:29; contract analysis developed in Chapters 3–7.

The remainder of the book keeps these levels separate. A finding of legal invalidity requires a contractual or doctrinal argument. A finding of injustice requires evidence about conduct and burdens. A criticism of industry-wide distribution requires institutional data. None should be substituted for another without explanation.

CHAPTER 2 · THE SUNNAH

Ownership, honesty and commercial liability

The Sunnah supplies concrete guidance about credit, exchange, possession and commercial conduct. It also prevents an over-simple opposition between “all fixed obligations” and “all risk-sharing”. The Prophet Muhammad, peace and blessings be upon him, engaged in a deferred purchase secured by his armour. That establishes the legitimacy of credit purchase and security, without by itself resolving every modern question about deferred-price premiums. [4]

Table 2. Principal hadith evidence used in this study

Reference	Subject	Relevance
Ṣaḥīḥ Muslim 1598	Participation in ribā	Condemns receiving, paying, recording and witnessing ribā; the prohibition is not merely a rule about lenders’ marketing language.
Ṣaḥīḥ Muslim 1587c	Exchange of gold, silver and specified staples	Establishes rules of equivalence and immediate exchange; classical ribā doctrine extends beyond predatory cash lending.
Ṣaḥīḥ al-Bukhārī 2200	Food purchased on credit, with armour pledged	Recognises deferred purchase and collateral. It does not alone determine an allowable credit-price markup.
Ṣaḥīḥ Muslim 102	Concealed moisture in food offered for sale	Requires honest disclosure; deceptive presentation is independently objectionable.
Ṣaḥīḥ al-Bukhārī 2287	Delay by an able debtor	Deliberate non-payment by a person able to pay is injustice.
Sunan Abī Dāwūd 3503	Selling what one does not possess	Relevant to genuine acquisition before resale; the cited online edition records al-Albānī’s ṣaḥīḥ grading.

Sources: [2–7]. Reports are summarised, not quoted. Hadith numbering follows the linked editions; alternative numbering systems exist.

The exchange report is important methodologically. Some prohibited exchanges can occur without an impoverished debtor, an excessive annual interest rate or a compounding loan. The classical doctrine cannot therefore be reduced to a single test of visible borrower exploitation. At the same time, a bank cannot treat compliance with exchange rules as a substitute for honesty.

The creditor is also protected. A policy that excuses deliberate default regardless of ability would conflict with the report on unjust delay. Islamic financial justice is reciprocal: it condemns abuse by a powerful financier and dishonest withholding by a debtor.

CHAPTER 2 · RISK AND RESPONSIBILITY

Gain, liability and the limits of a maxim

2.1 Profit accompanied by liability

Islamic commercial jurisprudence frequently expresses the connection between entitlement and responsibility through **al-kharāj bi-al-ḍamān**—the benefit of property is associated with responsibility for it—and **al-ghunm bi-al-ghurm**—gain accompanies liability or exposure to loss. The latter is a juristic maxim, not a Qur'anic verse or a universal instruction to divide every loss equally. Usmani's treatment of sales, leases and partnerships applies this connection in contract-specific ways. [9, sections on mushārakah, murābaḥah and ijārah]

The point is not that risk itself is a commodity that always earns a lawful return. A gamble can involve substantial risk and remain objectionable. Rather, legitimate commercial entitlements come with the responsibilities of the lawful relationship that generates them. A seller's responsibility, a lessor's responsibility and a partner's responsibility are not interchangeable.

A lessor cannot claim the advantages of ownership while contractually discarding every burden that belongs to ownership. A partner cannot promise participation in profits but require the other partner to absorb every ordinary investment loss. A seller cannot purport to resell an asset that was never genuinely acquired. These are different applications of the same concern with the reality of rights and obligations. [7; 9]

2.2 Three different kinds of risk

Ownership risk concerns the asset while it belongs to a party: for example, the relevant consequences of loss before a completed onward sale. **Credit risk** concerns whether a debtor will fulfil an obligation. **Business risk** concerns the economic outcome of the enterprise itself.

An Islamic bank with a murābaḥah receivable normally faces credit risk. It may also have borne asset risk before selling the equipment. Neither fact establishes that it participates in the customer's subsequent operating profit and loss. Likewise, a conventional lender faces default and other financial risks; describing it as literally risk-free is inaccurate.

The decisive question is therefore not "Is there any risk?" It is: **Which risk arises from this contract, who actually bears it, and does the promised return correspond to the legal relationship claimed?**

2.3 Honesty is an independent obligation

Accurate disclosure includes more than avoiding a false statement. For this study's evaluative purposes, it includes explaining total payments, ownership expenses, default consequences and whether an advertised "partnership" truly shares operating outcomes. The report about concealed defects provides the ethical starting point; the application to modern disclosure is an analytical extension, not a claim that the hadith describes banking documentation. [5]

CHAPTER 3 · CONTRACTS AND EQUITY

What fair profit-and-loss allocation means

Islamic commercial law does not impose one universal financial relationship. A loan, a sale, a lease and a partnership allocate different rights. “Equality” is therefore an unsafe shorthand unless it is defined. This book uses **equity** to mean a lawful and defensible allocation of rights, obligations and burdens—not identical cash outcomes for parties making different contributions.

Table 3. The main financing contracts at a glance

Contract	Basis of return	Ordinary allocation of relevant loss
Qarḍ: loan	Principal is repayable; no stipulated lending gain.	Borrower owes the principal, with the rules on genuine inability to pay still relevant.
Mushārakah: capital partnership	Agreed share of actual profit, subject to school-specific rules.	Ordinary capital loss follows capital contributions; misconduct may change liability.
Muḍārabah: capital–management partnership	Agreed share of actual profit.	Investor bears ordinary capital loss; manager loses effort and expected remuneration unless culpable.
Murābaḥah: disclosed-cost sale	Agreed profit included in the sale price.	Seller bears the relevant pre-sale ownership risk; buyer owes the price after valid sale.
Ijārah: lease	Rent for an available usufruct or service.	Owner retains ownership responsibilities; user bears agreed use obligations and culpable damage.
Salam: advance purchase	Commercial return associated with future delivery and disposal.	Buyer bears relevant delivery and market exposure; detailed sale conditions apply.
Istisnāʿ: manufacture or construction	Agreed price for a specified manufactured asset.	Manufacturing, delivery and acceptance obligations govern the parties’ exposure.

Source: Usmani [9], relevant contract chapters. This is a simplified map, not a substitute for a contract-specific ruling.

A predetermined sale price is not the same thing as a predetermined return on investment capital. Rent is not a share of the tenant’s business profits. Conversely, a transaction cannot become a genuine investment partnership merely because its documents use partnership vocabulary.

This distinction is essential to evaluating Usmani fairly. His preference for participatory finance is not a declaration that all other contracts are prohibited. The harder question is whether the systematic use of non-participatory contracts prevents the banking system from achieving its stated distributive objectives.

CHAPTER 3 · PARTNERSHIP FINANCE

Mushārakah: proportionate loss, agreed profit

3.1 A worked capital-loss example

Assume that Partner A contributes $60,000 and Partner B contributes $40,000 to a genuine business partnership. Total capital is $100,000. If the venture incurs an ordinary capital loss of $20,000, A bears $12,000 and B bears $8,000. The result follows their 60/40 capital participation, not a universal requirement to divide losses equally. [9, pp. 23–25]

Table 4. Illustrative mushārakah capital-loss allocation

Measure	Partner A	Partner B
Initial contribution	$60,000	$40,000
Capital proportion	60%	40%
Share of a $20,000 ordinary loss	$12,000	$8,000
Capital remaining after the loss	$48,000	$32,000

Author's arithmetic: $20,000 × 60% = $12,000; $20,000 × 40% = $8,000. Assumes no misconduct, negligence or special liability.

Profit allocation is a separate question. In Usmani's account, Mālikī and Shāfiʿī approaches generally relate profit entitlement to capital contribution, whereas Ḥanafī and Ḥanbalī approaches allow greater flexibility under their conditions. In the Ḥanafī treatment he describes, a non-working partner cannot stipulate a profit share exceeding that partner's capital proportion. These distinctions should not be erased by saying merely that "Islam requires profit sharing". [9, pp. 23–24]

For an investment arrangement, the agreed percentage is a percentage of **actual profit**, not an unconditional percentage return on capital. Promising one participant $10,000 irrespective of the venture's result would raise a different issue from promising that participant half of whatever profit is actually earned.

3.2 What ordinary loss does not excuse

Risk-sharing is not a licence for dishonesty. Loss caused by a partner's misconduct, negligence or breach may attract liability under the relevant rules. A valid agreement needs a clear business mandate, reliable records, a defensible profit definition and procedures for resolving allegations of culpability.

The ethical balance matters. Financiers should not manufacture "negligence" whenever a venture performs badly, thereby turning ordinary investment risk into a guaranteed debt. Equally, managers should not conceal revenue or misdescribe avoidable wrongdoing as commercial misfortune. The partnership's credibility depends on a fair distinction between those situations.

CHAPTER 3 · CAPITAL AND LABOUR

Muḍārabah: different contributions, different exposure

A muḍārabah combines capital from an investor with management and effort from an entrepreneur. Suppose the investor contributes $100,000 and the parties agree to divide actual profits equally. A realised distributable profit of $40,000 would produce $20,000 for each party. If instead there is an ordinary capital loss of $30,000, the investor's capital falls to $70,000 and the manager receives no profit distribution. [9, pp. 31–36]

The manager does not ordinarily guarantee investment capital merely by undertaking the work. The manager bears the loss of effort and the absence of expected profit; misconduct, negligence or breach of mandate may create a different liability. Calling this arrangement "unequal" without recognising the different inputs misses the contract's structure.

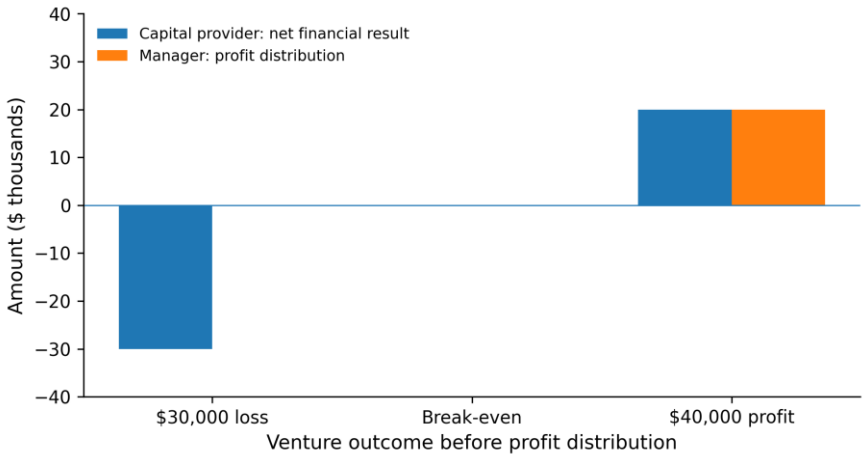


Figure 2. Illustrative muḍārabah outcomes

Author's calculation. Initial investor capital: $100,000; profit split: 50/50; no manager capital contribution, fee or culpability. Values show net financial results, not total capital returned.

The chart displays three discrete examples, not a prediction of investment performance. At break-even, the investor's capital is intact, but neither party receives a profit distribution. In the loss case, the manager's zero cash distribution does not imply that time and labour were costless.

3.3 A genuinely different financial relationship

An unconditional requirement that the entrepreneur repay $120,000 would not replicate this ordinary muḍārabah allocation. It would place a fixed monetary claim against the entrepreneur rather than make the investor's entitlement depend on realised investment performance.

That distinction supports the case for participatory finance. It does not prove that every customer should be financed through muḍārabah. A household purchasing a refrigerator, a tenant renting equipment and an entrepreneur raising venture capital have different needs. The relevant ethical question is whether the selected contract is genuine, intelligible and appropriate—not whether it carries the most attractive label.

CHAPTER 4 · USMANI'S FRAMEWORK

Ideal, permissible and unacceptable

Muhammad Taqi Usmani's work is best read through three categories: the financial relationships he prefers as an economic ideal; the alternatives he considers legally permissible under specified conditions; and the practices he regards as unacceptable despite Islamic terminology. Confusing these categories leads either to uncritical endorsement of the industry or to an inaccurate portrayal of his jurisprudence.

Table 5. Principal writings and their relevance

Work	Contribution to this study	Necessary qualification
An Introduction to Islamic Finance	Contract rules; participatory finance; qualified use of murābaḥah and ijārah; criticism of banking practice.	Page references follow the online edition listed in the bibliography, not every printed edition.
The Historic Judgment on Interest (1999)	Argument against narrowing ribā to excessive or consumption-loan interest; criticism of paper-only markup financing.	Used as a historical juristic argument, not a statement of present Pakistani law.
Memories, Episode 57	Usmani's retrospective account of Shariah supervision and his sukuk objections.	A first-person account, not an independent audit of market compliance.

Sources: [9–11]. No endorsement of this publication by Usmani or these institutions is implied.

4.1 The basic distinction

In a loan, the principal is repayable but an additional stipulated lending return is prohibited in Usmani's approach. In a genuine investment, the capital provider may receive an agreed share of profit while accepting the investment exposure attached to that contract. He presents partnership finance as an important route towards a more equitable relationship between finance and productive enterprise. [9, foreword and mushārakah chapters]

The philosophical appeal is clear: a provider of business capital should not always stand outside the enterprise's fortunes while extracting a predetermined investment return. A participating investor benefits when the business succeeds and may lose capital when it fails legitimately.

Yet Usmani does not collapse all commerce into investment partnership. He retains the classical law of sale and lease. His permission for a genuine deferred sale therefore cannot be refuted simply by repeating the rules for a muḍārabah. A serious critique must address his contractual distinction or show why an actual product does not satisfy it.

CHAPTER 4 · THE INSTITUTIONAL QUESTION

Can a transitional concession become the system?

4.2 The role of qualified alternatives

Usmani's account allows practical alternatives within a transitional environment while distinguishing them from the ideal he advocates. In the case of murābaḥah financing, the conditions are substantive: real acquisition, proper possession, relevant ownership risk and an onward sale. A mere change of vocabulary cannot turn a cash loan into a sale. [9, preliminary points and murābaḥah chapter]

Calling an arrangement transitional does not, by itself, make it unlawful after an unspecified number of years. Nor does it mean that an ordinary merchant's murābaḥah sale is only temporarily permissible. The qualification concerns the use of that sale form as the principal institutional substitute for participatory finance.

This creates an important policy question. If a bank can earn predictable margins through sale receivables, what will motivate it to develop more demanding partnerships? The permission may be coherent at transaction level while generating weak incentives to pursue the broader ideal. That is an institutional tension rather than an automatic logical contradiction in the underlying contract law.

4.3 Usmani's own criticism of bank performance

In the concluding evaluation of An Introduction to Islamic Finance, Usmani argues that Islamic banking should pursue distributive justice rather than merely imitate conventional commercial outcomes. He criticises excessive reliance on murābaḥah and ijārah and urges greater attention to partnership finance, ordinary customers and smaller traders. [9, "The Performance of the Islamic Banks—A Realistic Evaluation", pp. 161–169]

His criticism is significant because it comes from within the jurisprudential framework that enabled the industry's growth. It rejects the idea that minimum contractual permissibility is a complete account of the institution's success.

The book's assessment is therefore two-sided. Usmani provides arguments that defend valid sales and leases against the charge that every fixed payment is interest. He also supplies grounds for criticising an industry that indefinitely marginalises its own risk-sharing and justice objectives.

4.4 Avoiding unsupported personal claims

Disagreement with a scholar's reasoning does not establish bad faith. The existence of advisory remuneration does not itself prove corruption or that a ruling was purchased. Governance questions should be framed through independence, disclosure, review powers and documented compliance outcomes. This book assesses published arguments and identifiable structures; it does not attribute hidden motives to Usmani, his critics or bank employees.

CHAPTER 5 · SALE-BASED FINANCE

Murābaḥah: a sale or a renamed loan?

Murābaḥah is a disclosed-cost sale with an agreed profit. In the financing example used throughout this book, a bank purchases equipment for $100,000 and sells it to its customer for a fixed deferred price of $120,000. The $20,000 is characterised as sale profit only if the bank actually enters and completes a valid sale sequence. It is not made lawful by the word “profit” alone. [9, pp. 65–75]

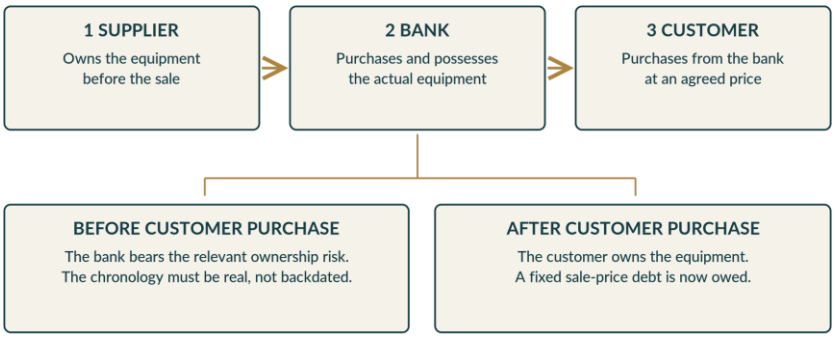


Figure 3. The sequence of a genuine financed sale

Original diagram based on the sequence discussed in Usmani [9, pp. 73–75]. Agency arrangements may alter the operational steps, but not remove the required acquisition and risk.

5.1 Why ownership matters

Before the customer buys, the bank must have the ownership and possession required by the relevant rules. Constructive possession may be recognised in appropriate circumstances; that is not the same as pretending that an asset exists or backdating a sale. Where the customer buys as the bank’s agent, the customer’s agency role and subsequent purchase role must remain distinguishable. [7; 9]

The bank’s exposure during this interval may be brief, but it must be real. A short duration does not automatically invalidate ownership. Equally, a long set of documents cannot compensate for the absence of an actual acquisition. The inquiry concerns legal rights, control, chronology and responsibility if something goes wrong before resale.

5.2 After the sale

Once a valid sale is complete, the agreed price becomes a debt. A later loss in the customer’s business does not ordinarily reduce the amount owed. This is the crucial difference between a sale and a participating investment. The bank retains credit exposure, but generally does not share the buyer’s subsequent operating result.

Accordingly, a genuine murābaḥah can be legally distinguishable from a conventional loan while imposing a similar scheduled cash burden. Both observations can be true. Neither should be suppressed to make the argument simpler.

CHAPTER 5 · PRICE AND BENCHMARKS

When similar payments do not settle the issue

5.3 Cash price, deferred price and debt

Usmani permits a fixed deferred sale price that differs from the immediate cash price, provided the transaction meets its conditions and the operative price is determined. Under this analysis, the consideration is an asset sold at an agreed price, not a fee charged for extending a cash loan. An increase added to an existing debt merely because more time is granted raises a different prohibition. [9, pp. 70–82; 12]

This distinction may appear formal to a customer whose main concern is monthly affordability. It nevertheless has legal consequences: what was owned, when ownership moved, who bore asset responsibilities, and whether the debt can grow because payment is late.

The strongest economic criticism is not that two schedules contain the same number. It is that a bank may organise most financing through fixed receivables, assume only limited asset exposure and leave the customer's operating uncertainty substantially untouched. The financial system can then remain debt-centred even where each sale is valid.

5.4 Reference to conventional benchmarks

Usmani argues that using a conventional interest-rate benchmark to help set a sale price does not, by itself, change a genuine sale into a loan. The benchmark influences price; the underlying contract supplies the legal basis for entitlement. He nevertheless regards dependence on interest-based benchmarks as undesirable. His original discussion uses LIBOR, a historical reference that should not be read as a description of every contemporary contract. [9, pp. 81–82]

In support of this distinction, merchants can consider competitors' prices without adopting the competitors' legal arrangements. Against complacency, persistent replication of loan pricing may expose the limited economic distance between the products. A benchmark does not establish invalidity, but neither does a valid sale establish that a bank has created a substantively different risk-sharing system.

5.5 A fair customer comparison

The customer should be able to compare the entire obligation: initial contribution, instalments, fees, ownership expenses, early settlement treatment and default consequences. Comparing only the stated profit rate can conceal important differences. Conversely, using an equivalent annualised cost as a disclosure tool need not claim that every legally distinct contract is the same transaction.

The ethical standard proposed here is transparent comparability, not the concealment of similar economic burdens behind unfamiliar terminology. A clear explanation serves informed consent and allows a bank to demonstrate the genuine differences it claims.

CHAPTER 5 · DEFAULT AND RESTRUCTURING

The debt must not become a licence to exploit

5.6 Late payment and genuine distress

The treatment of a debt after origination is part of the ethical inquiry. An otherwise valid sale does not exempt the creditor from Qur'an 2:280. The debtor in genuine hardship requires respite; the solvent debtor deliberately withholding payment is a different case under al-Bukhārī 2287. [1; 6]

Usmani's treatment of penalties seeks to distinguish deterrence against deliberate default from income earned by extending a debt. He discusses a charitable undertaking rather than a late-payment gain retained by the financier. The detailed permissibility, administration and exceptions require the applicable contractual and scholarly framework; the phrase "charity penalty" is not a universal approval of every charge. [9, pp. 91–97]

A meaningful review asks whether the customer was actually able to pay, whether the charge is retained as bank income, how any charitable amount is controlled, and whether purported recovery costs are genuine. An ethical concern cannot be answered merely by renaming an extra payment "administration". Nor should legitimate, demonstrable expenses automatically be equated with a prohibited return.

5.7 Paper-only transactions

In the 1999 Historic Judgment on Interest, Usmani criticises markup arrangements involving circular buybacks, transactions that exist only on paper, and financing for expenses that do not involve an actual commodity sale. His conclusion concerns the substance of those arrangements, not the proposition that every deferred sale is invalid. [10, para. 191]

This is a powerful internal test. If the bank advances cash while its documents pretend that equipment changed hands, the problem is not simply that the product failed to achieve an ideal. It may fail the legal requirements on which its own approval depends.

Table 6. Three findings that should not be confused

Finding	What it means
Valid sale, demanding debt burden	The contract may be lawful; hardship, affordability and enforcement still require scrutiny.
Valid sale, weak distributive contribution	An institutional or ethical shortcoming may exist without proving the sale itself void.
Fictitious sale or missing required ownership	A contractual compliance failure may exist; the problem is deeper than failure to meet an ideal.

Analytical distinction developed from [1; 7; 9–10]. No determination about a named bank is made.

The practical lesson is to inspect both origination and collection. A genuine sale should not be condemned merely because it creates debt; an oppressive collection practice should not be excused merely because the initial sale was valid.

CHAPTER 6 · LEASING AND HOME FINANCE

Ijārah and the responsibilities of ownership

Ijārah concerns a right of use or service rather than an investment in the customer's operating profit. A financier that genuinely owns an asset may earn rent for making its use available, subject to the relevant contractual rules. The owner's right to rent is accompanied by ownership responsibilities; the lessee has responsibilities associated with use and culpable damage. [9, pp. 109–121]

6.1 What must remain with the owner?

Usmani distinguishes ownership-related expenditure and risk from operating or use-related costs. A bank cannot simply call itself owner, collect rent and place every ownership liability on the customer. The precise allocation needs to be checked against the lease, any agency agreement, takāful arrangements and the actual handling of repairs or loss. [9, pp. 116–121]

Appointing the customer as agent to arrange maintenance does not automatically transfer the ultimate economic responsibility for an owner's obligation. Who performs an administrative task and who must bear its cost are separate questions. That distinction is especially important when a lease is presented through a bundle of interlocking agreements.

The fact that rent is predictable does not itself make it ribā. Rent compensates for a lawful usufruct under a genuine lease. A separate issue arises where an asset cannot provide the contracted use through no fault of the lessee: a claim to rent cannot be analysed as though the promised benefit were unaffected. The detailed result depends on the circumstances and governing rules.

6.2 The continuing ethical inquiry

A lawful lease may still be misleadingly sold, unaffordable, or enforced harshly. Those concerns do not erase the distinction between a lease and a loan, but they prevent formal classification from becoming the end of moral evaluation.

An appropriate audit therefore examines the complete allocation of obligations, not just the product's headline name. It should ask who insures or arranges takāful, who pays structural costs, who bears uninsured ownership loss, whether rent starts before use is available, and how a casualty or early termination is handled.

> **A useful test**
> When a bank claims to be the owner, identify a realistic adverse event in which its ownership makes a financial difference. A title with no meaningful accompanying responsibility deserves closer examination.

CHAPTER 6 · DIMINISHING MUSHĀRAKAH

Co-ownership is not always business-risk sharing

In diminishing mushārakah home financing, bank and customer acquire shares in a property. The customer uses the home, pays rent for the bank's share and progressively purchases units of that share. These are related but distinguishable legal relationships: co-ownership, lease and successive transfers. [9, pp. 57–62]

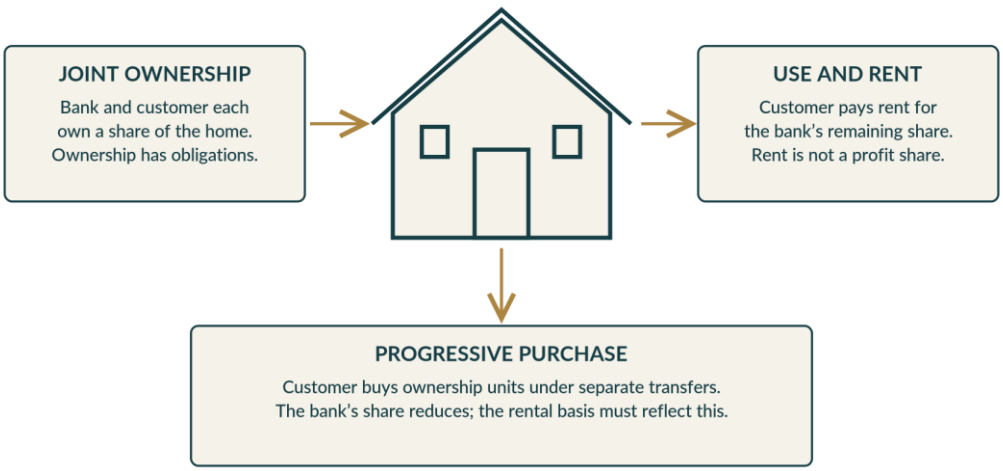


Figure 4. A diminishing co-ownership structure

Original conceptual illustration based on Usmani [9]. It depicts a home-financing structure, not participation in the customer's salary or business profits.

As ownership units are acquired, the basis for rent must reflect the bank's remaining share. This does not mean that every change in total instalment must follow a simple straight line: rental valuation, review terms and purchase scheduling may also matter. The customer needs an explanation separating rent from acquisition payments.

6.3 The fixed-price purchase promise

Usmani states that using the property's prevailing market value for successive unit purchases is preferable, while allowing a particular price to be specified in the customer's purchase promise. In his discussion of diminishing participation in trade, he rejects an arrangement that guarantees the partner's investment capital through a fixed repurchase commitment. [9, pp. 62–64]

The legal distinction is between forms of property co-ownership and participation in a trading venture. It is not accurate to quote one passage without acknowledging that distinction.

Nevertheless, an economic tension remains. When the property's market value falls, an enforceable promise to buy units at the original price may shelter the financier from part of the value decline. The customer may then absorb more market risk than the word "partnership" suggests. This is an analytical concern about the promise's effects, not a blanket ruling that the structure is invalid.

CHAPTER 6 · EVALUATING THE TENSION

Which losses does the financier actually bear?

6.4 A structured examination

A claim that the bank bears “no risk” is too broad. It may remain exposed to relevant ownership liabilities, casualty, interrupted rental entitlement, customer default or legal enforceability. The stronger question is which exposures remain after all purchase undertakings, indemnities, insurance arrangements and security documents are considered together.

Table 7. Home-financing questions that distinguish form from substance

Event or obligation	Question for the contract review
Ordinary fall in property value	Who absorbs it on a scheduled unit purchase, early exit or forced sale?
Major structural repair	Who ultimately pays, even if the customer arranges the work as agent?
Destruction without customer fault	What happens to ownership loss, rent and future purchase obligations?
Customer loses employment	Is hardship assessed independently from deliberate non-payment?
Early settlement	How is the outstanding purchase price determined, and are fees disclosed?
Default enforcement	What is sold, who receives the proceeds, and how is any shortfall allocated?

Author’s review framework, informed by [1; 6; 9]. These are questions, not universal answers for all contracts.

The most demanding critique arises when ownership vocabulary promises mutual participation but the contractual package protects the financier against nearly every ordinary ownership downside. The customer may reasonably ask what substantive co-ownership remains. An answer must identify actual obligations and remedies rather than point to the structure’s title.

6.5 Consistency and legitimate distinctions

A genuine difference in contractual subject matter can justify different rules. Therefore, fixed-price home-acquisition promises and capital guarantees in investment sukuk should not be treated as automatically identical. Equally, different names do not establish a genuine difference. The reasons for the distinction need to be articulated and tested against the resulting allocation of burdens.

This is where Usmani’s framework both assists and invites criticism. It supplies precise categories through which to inspect a product, while its permissions can permit relatively predictable financing returns. The unresolved question is whether the remaining responsibilities adequately justify the claimed ownership relationship and whether customers receive a fair account of the risks.

No conclusion about a particular home-finance provider follows from this discussion alone. The purchase undertaking, lease, co-ownership terms, security documents and implementation must be reviewed as a whole.

CHAPTER 7 · STRUCTURED CASH FINANCE

Tawarruq and the problem of circumvention

Tawarruq obtains cash through a sequence of sales: a person purchases a commodity on deferred payment and sells it for immediate cash to another party. The distinction between an independently executed transaction and an institutionally organised cash-financing chain is central to the controversy.

The International Islamic Fiqh Academy's Resolution 179 (5/19), adopted in April 2009, permits individual tawarruq subject to the conditions of a valid sale, while prohibiting the structured and inverse forms it defines. Its concern is an arranged sequence whose purpose and effect are present cash against a larger future debt. This is an important collective ruling, not evidence that every contemporary Shariah authority classifies every structure identically. [13]

Table 8. The distinctions in the Academy's tawarruq resolution

Form	Essential feature	Academy's 2009 position
Individual tawarruq	Buyer independently sells the credit-purchased commodity to someone other than the original seller.	Permitted if the applicable conditions of sale are satisfied.
Structured tawarruq	Financier arranges the onward cash sale directly, through agency or collusive coordination.	Prohibited in the form described by the resolution.
Inverse tawarruq	The institution is the cash-seeking party and the customer is financier.	Prohibited in the described structured form.

Source: International Islamic Fiqh Academy, Resolution 179 (5/19) [13]. The wording here is a summary.

7.1 Why a chain of valid-looking steps can be questioned

A critic asks whether the commodity performs a genuine commercial role or merely provides documentary cover for a cash exchange across time. The concern is not resolved by counting how many contracts were signed. The connection between the contracts, the actual transfers and the parties' pre-arrangements matters.

This strengthens the methodological case for examining an entire transaction rather than isolated clauses. It also shows that criticism of financial engineering is not confined to opponents of Islamic jurisprudence: the Academy's objection is expressed from within that jurisprudence.

A bank's report may classify a product as "commodity murābaḥah". That reporting label is not, by itself, sufficient to establish that it corresponds precisely to a prohibited form in the Academy's resolution. Product-level documentation is still required. Statistical prevalence and a legal determination are different kinds of evidence.

CHAPTER 7 · INVESTMENT CERTIFICATES

Sukuk and the capital-guarantee problem

Sukuk are not one uniform contract. Their obligations depend on the underlying sale, lease, agency or partnership structure. The present issue concerns **partnership-based sukuk**: instruments presented as participation in investment outcomes but supported by undertakings that protect investors' original capital.

In Memories, Episode 57, Usmani recounts his objections to sukuk structures in which repurchase arrangements effectively insulated investors against ordinary capital loss. His account is evidence of his stated position and his recollection of the controversy, not an independent market-compliance survey. Historical percentage claims associated with that controversy should not be presented as measurements of the current industry. [11]

7.2 Why the undertaking matters

If investors are meant to participate in a mushārakah or muḍārabah, an undertaking by the relevant investment partner or manager to repurchase at original capital value can undermine that participation. The supposed investment may leave the issuer bearing ordinary venture losses while the investor holds a substantially protected capital claim.

That does not mean every promise, guarantee or security arrangement is prohibited. Liability for misconduct, negligence or breach is a different matter from guaranteeing ordinary commercial performance. A review must identify the obligor, the trigger, the valuation basis and the risk being covered. [9; 11]

Usmani's objection is a strong example of his insistence that investment labels retain substantive consequences. It supports, rather than contradicts, the proposition that a person claiming investment profit should accept the ordinary exposure of that investment relationship.

7.3 The connection to home finance

The comparison with diminishing home co-ownership is revealing but requires care. A promise to acquire identified property units and a promise insulating an investment partner from ordinary business loss are not automatically the same legal arrangement. Their economic effects may overlap, however. This makes consistent explanation and transparent disclosure especially important.

The sound conclusion is limited: a product advertised as risk-sharing should be examined for clauses that reverse the advertised allocation. If a capital guarantee is inconsistent with the underlying contract, sophisticated drafting does not cure the contradiction. If a recognised contractual distinction is relied upon, its justification and consequences must be made explicit.

> **The central test**
> Do the investor's rights in a loss scenario match the kind of participation promised in the product description?

CHAPTER 8 · WORKED COMPARISONS

The same repayment amount, different obligations

Assume that a business requires equipment costing $100,000. Compare a loan with a total contractual repayment of $120,000, a genuine deferred sale for $120,000, and an investment providing $100,000 of capital. These simplified cases isolate legal and economic differences; they do not describe a particular provider or quote a market rate.

Table 9. Conventional loan, genuine murābaḥah and investment

Feature	Loan / murābaḥah comparison	Genuine investment
Initial transaction	Loan: cash advanced. Murābaḥah: equipment acquired and resold.	Capital supplied to the venture under a partnership arrangement.
Basis of return	Loan: stipulated interest. Murābaḥah: agreed asset-sale markup.	Agreed share of actual profit.
Contractual claim	Both illustrative debts total $120,000 if validly owed and fully performed.	No unconditional $120,000 entitlement from ordinary business performance.
Later operating loss	Loan debt ordinarily remains; valid sale debt also ordinarily remains.	Investor may bear ordinary capital loss under the contract.
Ownership before customer acquisition	Not inherent to the loan. Required of the murābaḥah seller in the relevant sequence.	Depends on the venture's assets and governing arrangement.
Risk of non-payment	Both lenders and sellers can suffer default losses.	Investment loss is not necessarily debtor default.
Key inquiry	Is the sale genuine, and are the resulting debt and enforcement fair?	Are profit accounting and loss allocation genuine, without impermissible capital protection?

Contract principles: [9; 12]. Amounts and scenario design are illustrative; no time period or annual percentage rate is implied.

8.1 Why the legal distinction is real

A buyer acquires an asset from a seller; a borrower receives money subject to repayment. Under the jurisprudence considered here, those are different exchanges. The bank's pre-sale ownership, the transfer of title and the fixed character of the sale debt can make a practical difference. Identical total payments alone do not prove that the contracts are identical.

8.2 Why economic resemblance still matters

The customer may still need to pay $120,000 despite a failed business. A sale receivable is not an agreement to share operating outcomes. The financing can therefore be permissible as a sale while remaining a poor example of participatory business finance. This is a meaningful ethical and institutional criticism, not a reason to ignore contractual distinctions.

CHAPTER 8 · FINANCIAL BURDENS

Default risk is not shared business performance

8.3 A distinction with practical consequences

Suppose an honestly managed venture suffers a $30,000 loss. Under the simplified muḍārabah in Chapter 3, the investor's capital falls from $100,000 to $70,000. Under either illustrative debt arrangement, the contractual claim does not automatically become $70,000. The creditor may suffer a later recovery loss if the debtor cannot pay, but that is not the same as an agreed allocation of ordinary investment loss.

This is why "the bank could lose money" is an incomplete answer to criticism. Any creditor may lose through default. The issue is whether the financier's **entitlement** adjusts to the business result or whether a fixed claim persists and the customer bears the first responsibility for satisfying it.

Conversely, "the bank earns a fixed amount" is also incomplete. A seller may fix a price, and a lessor may agree rent, without becoming an interest lender. The entitlement must be analysed through the lawful consideration and obligations that support it. [9]

8.4 Two debtors, two moral situations

Consider two customers with the same outstanding sale debt. One can pay but deliberately refuses. The other cannot pay after a genuine adverse event. Treating their situations as morally identical ignores the distinction between Qur'an 2:280 and the hadith condemning delay by an able debtor. [1; 6]

The debt may remain legally owed in both cases, but collection conduct is not thereby identical. Respite, realistic restructuring, honest assessment of ability and proportionate treatment become central in the hardship case. Debt forgiveness is commended in the Qur'anic passage, but it should not be misrepresented as an automatic cancellation of all distressed debts.

A fair analysis also recognises other interests. Depositors, investors, employees and honest customers can be harmed when strategic default is ignored or losses are allocated arbitrarily. Compassion and accountability are not opposites; the challenge is to distinguish inability, misconduct and ordinary commercial risk accurately.

8.5 What the example proves—and does not prove

The examples demonstrate different contractual allocations. They do not establish that partnership always produces a lower cost, that every bank sale is oppressive, or that a finance provider can absorb unlimited losses without affecting others. Nor do they show that more complex documentation necessarily makes a transaction more ethical.

Their practical lesson is narrower and stronger: compare the obligations in success, failure, distress and enforcement, rather than comparing only the payment schedule in the expected case.

CHAPTER 9 · EVIDENCE FROM PRACTICE

How Islamic banking portfolios are structured

Empirical evidence helps test the distance between a partnership ideal and actual financing portfolios. It cannot determine the Shariah validity of an individual product without its documents. The following charts intentionally retain their historical dates. They are selected 2024–2025 snapshots, **not a claim to report the latest position in November 2026**.

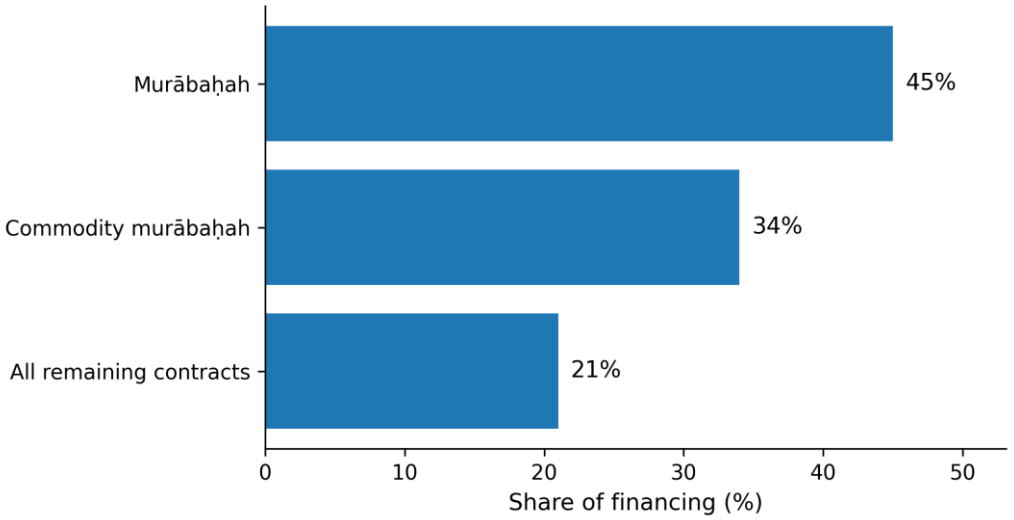


Figure 5. Financing composition in the IFSB survey, Q2 2024

Source: IFSB, Islamic Financial Services Industry Stability Report 2025, Box 1.2, printed p. 24 [16]. “All remaining contracts” is calculated as 100 − 45 − 34 = 21%. Scope is the reported survey.

The reported murābaḥah and commodity murābaḥah categories together account for 79% of this financing distribution. This supports a limited conclusion: sale-based financing is prominent in the reported portfolio. It does not establish that 79% is unlawful, that the remaining 21% is entirely profit-and-loss sharing, or that every jurisdiction has the same structure. [16]

The report also identifies debt-like and systemic-risk concerns associated with hybrid instruments. These are prudential observations, not a product-by-product religious verdict. They are relevant because a contractual structure can preserve fixed obligations and leverage characteristics even when its legal form differs from a conventional loan.

9.1 The appropriate inference

This evidence gives substance to the concern that Islamic banking may develop primarily through debt-producing sale arrangements. Its significance depends on the institutional claim being tested. It challenges an assertion that participatory finance necessarily dominates; it does not refute the permissibility of every properly executed sale.

An industry assessment should therefore examine contract mix alongside customer treatment, actual loss allocation, governance and access. No single portfolio percentage is a complete measure of Islamic economic justice.

CHAPTER 9 · A DIFFERENT MARKET PROFILE

Pakistan: financing modes in June 2025

The State Bank of Pakistan's June 2025 bulletin reports a substantially different mix from the IFSB survey snapshot. Diminishing mushārakah accounts for 38.5%, mushārakah for 23.1% and murābaḥah for 11.5% of the reported financing portfolio. Figure 6 shows the full June distribution. [17, Figure 6, printed p. 7]

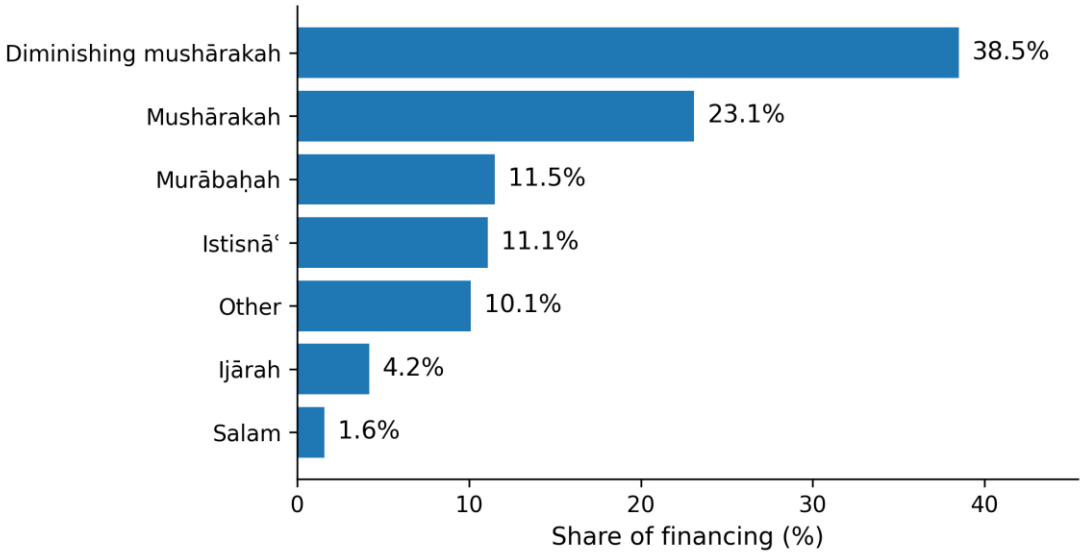


Figure 6. Pakistan's Islamic banking financing modes, June 2025

Source: State Bank of Pakistan, Islamic Banking Bulletin—June 2025, Figure 6 [17]. Categories total 100.1% because of published rounding; no silent adjustment has been made.

The difference is a useful warning against treating "Islamic banking" as one uniform portfolio. It also illustrates the limitation of contract labels. Diminishing mushārakah can combine property co-ownership, rent and progressive purchase without creating a partnership in the customer's business profits or wages.

A label such as mushārakah likewise does not reveal every undertaking, settlement mechanism or loss-allocation clause. The classification is a starting point for investigation, not conclusive proof of meaningful participation in ordinary commercial losses.

9.2 Why the charts should not be combined

The IFSB and Pakistan observations refer to different dates, scopes and reporting categories. Their percentages should not be merged into a synthetic global estimate or used as a like-for-like country ranking. A sound comparison would require aligned definitions, common reporting periods and reconciled coverage.

The warranted conclusion is therefore cautious: partnership-related classifications are substantial in the Pakistani snapshot, but their substantive economic character must be examined separately.

CHAPTER 9 · ACCESS AND DISTRIBUTION

Who receives the financing?

The same Pakistani bulletin reports that corporate customers received 73.6% of financing, compared with 2.1% for small and medium enterprises and 1.1% for agriculture. These are **client-type classifications**. They should not be confused with the bulletin's industry-sector table, where "agribusiness" is a different classification. [17, Figure 7, printed p. 8]

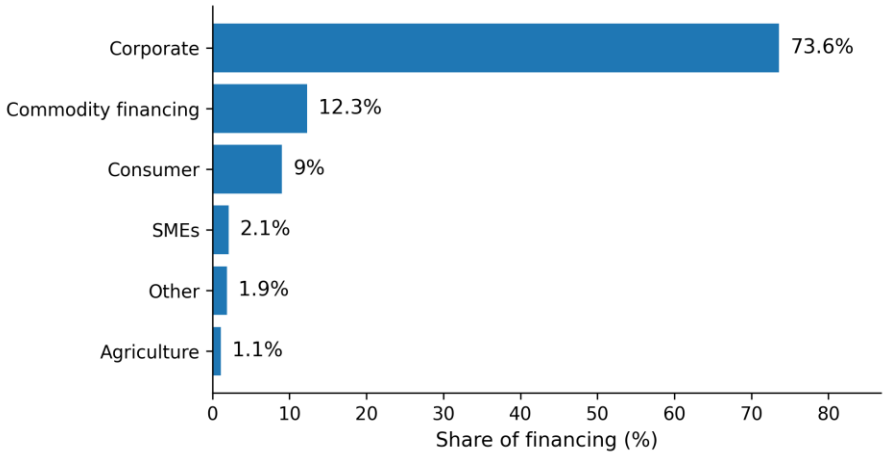


Figure 7. Pakistan's Islamic banking client mix, June 2025

Source: State Bank of Pakistan, Islamic Banking Bulletin—June 2025, Figure 7 [17]. Denominator: the reported Islamic banking financing portfolio. Shares total 100.0%.

A high corporate share does not prove oppression. Corporate financing can fund productive activity, employment and supply chains. Different customer groups also have different financing needs. The chart cannot reveal rejected demand, affordability, the number of customers served or indirect benefits to smaller enterprises.

It does, however, justify asking whether smaller businesses and underserved borrowers are adequately reached. A system claiming distributive justice should be prepared to explain its allocation, not merely report overall growth. This concern is consistent with Usmani's criticism that ordinary customers and small traders should not be neglected. [9, concluding evaluation]

9.3 What additional evidence would help?

A fuller evaluation would examine approval and rejection patterns, collateral requirements, price and fee burdens, hardship outcomes, and the allocation of credit across different income or business-size groups. These are proposed research measures, not results established by the present data.

The appropriate claim is that the snapshot raises an inclusion question. It cannot, on its own, answer whether Islamic banks treat comparable customers better or worse than conventional banks, or whether a particular lending decision was unjust.

CHAPTER 9 · WHAT THE DATA CANNOT SHOW

From portfolio categories to defensible conclusions

9.4 An evidence hierarchy

A regulator's portfolio chart is stronger evidence of reported contract composition than a promotional brochure. It is weaker evidence of the detailed allocation of risk in a specific contract than that contract's complete documentation and implementation records. Customer hardship records answer a different question again.

Table 10. Matching each claim to the evidence it requires

Claim being tested	Appropriate evidence	What is insufficient by itself
A sale actually occurred.	Invoices, transfer records, possession, chronology and relevant liability.	A product label or generic approval certificate.
A partnership shares ordinary loss.	Terms, guarantees, valuation rules and settlement records.	The word mushārakah in a reporting category.
A bank treats distress fairly.	Hardship criteria, decisions, charges, enforcement and complaints.	A charitable mission statement.
Smaller businesses have meaningful access.	Applications, approvals, rejections, affordability and portfolio reach.	Total balance-sheet growth.
A structure improves stability.	Comparable risk, liquidity and loss evidence over time.	The claim that asset linkage eliminates all financial risk.

Author's research framework. The statistical examples are drawn from [16–17]; the contractual questions are informed by [9–13].

9.5 Causation, classification and moral judgement

The figures in this chapter describe selected portfolios. They do not establish that a particular jurisprudential ruling caused an observed allocation, that every financed corporation is wealthy in the same sense, or that alternative finance would necessarily improve outcomes. Those would require additional evidence and a research design capable of examining causal mechanisms.

Nor should a percentage be used to collapse ethical categories. A valid sale can produce a debt; a debt can fund useful activity; useful activity does not automatically excuse a prohibited contract; and contractual validity does not certify distributive success. Each proposition requires its own argument.

The research implication is straightforward: meaningful accountability needs both transaction-level and institutional evidence. Product audits investigate compliance. Portfolio and customer-outcome studies investigate the claimed social contribution. Combining them is more informative than declaring the entire industry lawful or unlawful on the basis of one statistic.

CHAPTER 10 · SCHOLARLY DISAGREEMENT

Context, legal categories and economic substance

The debate is not simply between religious supporters and secular opponents of Islamic banking. There are disagreements about scriptural interpretation, the relevance of classical categories, contractual devices and the economic performance of Islamic institutions. These disagreements should be presented accurately rather than reduced to slogans.

10.1 Abdullah Saeed: the moral context of ribā

In his 1995 article, “The Moral Context of the Prohibition of Riba in Islam Revisited”, Abdullah Saeed examines the prohibition through its moral and historical context. His analysis questions an approach that treats the presence of a stipulated increase as sufficient without attending adequately to the exploitation addressed by the Qur’anic passages. This represents a contextual approach, not a basis for attributing to him unrestricted approval of every modern interest practice. [14]

Usmani’s response, developed in his judgment, relies on the principal-only language and the broader juristic tradition. On that approach, the prohibition cannot be narrowed to cases that an observer independently judges excessive or oppressive. The IIFA’s 1985 resolution similarly prohibits stipulated loan increases and increases imposed for extending an overdue debt. [10; 12]

The disagreement concerns the relation between moral purpose and legal scope. Both approaches can appeal to justice, but they use that appeal differently. The dominant juristic position described in this book is closer to Usmani’s; acknowledging that dominance does not require concealing contextual disagreement.

10.2 Mahmoud El-Gamal: replication and arbitrage

Mahmoud A. El-Gamal’s Islamic Finance: Law, Economics, and Practice criticises the replication of conventional financial functions through modified classical forms. His law-and-economics perspective asks whether this process produces additional complexity and costs without corresponding improvements in economic substance. [15, especially the preface and chapters on arbitrage and governance]

This criticism does not depend on declaring every sale or lease invalid. It asks why an industry with distinct ethical aspirations should be satisfied with reproducing existing financial relationships through a more elaborate sequence.

An important distinction follows. Saeed’s contextual inquiry questions the scope of ribā prohibition; El-Gamal’s economic critique questions the design and effects of the industry that has developed around it. These are related but not interchangeable arguments.

CHAPTER 10 · COMPARING THE ARGUMENTS

Where the approaches meet—and diverge

Table 11. A comparison of jurisprudential and economic approaches

Issue	Usmani's framework	Contextual or economic challenge
Stipulated interest on a loan	Prohibited even where moderate or commercially productive.	Contextual readings ask how exploitation and historical setting determine the scope.
Genuine deferred sale	Permissible if its conditions are met.	Permissibility does not itself show improved fairness or risk distribution.
Profit-and-loss participation	Preferred basis for important forms of commercial finance.	Should be demonstrated in actual outcomes, not only institutional aspirations.
Benchmark pricing	A price reference does not alone change a sale into a loan.	Persistent replication can reveal limited economic transformation.
Capital protection in partnership	Ordinary investment risk cannot simply be removed by an incompatible undertaking.	Product documentation should be tested for hidden guarantees or asymmetrical burdens.
Institutional performance	Criticises excessive reliance on debt-like modes and neglect of ordinary customers.	Requires evidence of inclusion, customer welfare and substantive accountability.

Synthesis of [9–15]. The right-hand column combines distinct critiques; it does not attribute every statement to every critic.

10.3 Taking the strongest argument seriously

A fair defence of Usmani must explain why the distinctions between sale, lease and investment matter, not simply appeal to scholarly authority. A fair criticism must show the contractual failure or ethical shortcoming it alleges, rather than assuming that a similar payment amount proves ribā.

There is substantial common ground in opposition to deception and paper-only compliance. There is also a shared basis for asking whether institutions actually deliver the benefits they promise. The deepest disagreement concerns whether a prohibited loan increment is defined primarily by a settled legal category or more narrowly by its moral-historical context.

This book does not settle that disagreement by inventing a consensus. Its principal evaluation operates within Usmani's own framework while also examining the economic critique. That makes it possible to identify strong internal objections without first having to resolve every dispute about the definition of ribā.

CHAPTER 11 · CRITICAL ASSESSMENT

Where Usmani supports financial justice

The evidence does not support the simple claim that Usmani merely made interest permissible by changing its name. His published framework distinguishes genuine transactions from artificial devices and prefers meaningful participation in commercial outcomes. His own criticism of bank performance supplies part of the case for reform. [9–11]

Table 12. Areas of strong consistency with the principles examined

Principle	Relevant position	Assessment
Abandoning ribā	Rejects a stipulated increase on a loan.	Consistent with the dominant reading of Qur'an 2:279 and the IIFA ruling.
Return linked to investment outcome	Prefers genuine mushārakah and muḍārabah for participatory commercial finance.	Supports responsibility alongside investment profit.
Real ownership	Requires acquisition and relevant risk in sale-based financing.	Opposes a documentary fiction that masks a cash loan.
Ownership responsibilities in leasing	Distinguishes owner obligations from user obligations.	Supports a substantive, not merely nominal, ownership relationship.
Integrity of partnership sukuk	Objects to undertakings that improperly protect ordinary investment capital.	Supports the reality of the risk-sharing claim.
Distributive objectives	Criticises excessive debt-like financing and inadequate service to ordinary customers.	Provides an internal ethical critique of industry practice.

Sources: [1; 9–12]. "Assessment" is the book's reasoned evaluation, not an institutional certification.

11.1 The strongest favourable conclusion

Usmani's foundational argument does not separate financial technique from moral purpose. It gives a role to commercial ownership, reciprocal responsibility and distributive justice. A critic should acknowledge these commitments rather than treating his practical concessions as his entire economic philosophy.

That favourable conclusion does not establish that every product approved under a similar framework has been implemented correctly. Nor does it prove that a banking system built from individually permissible contracts has achieved equitable social outcomes. The distinction between a scholar's principles, a product template and actual institutional conduct remains essential.

CHAPTER 11 · CRITICAL ASSESSMENT

Where tensions and possible contradictions arise

Table 13. Areas requiring closer scrutiny

Issue	Potential concern	What can responsibly be concluded
Extensive murābaḥah financing	Fixed debt persists while operating loss remains with the customer.	A strong institutional tension with a partnership ideal; not automatic invalidity of each sale.
Nominal or fleeting ownership	The bank's asset responsibility may be absent or economically slight.	Absence can be a compliance failure; brevity alone does not prove invalidity.
Interest-linked pricing	Commercial outcomes may closely resemble loan financing.	Similarity warrants inquiry; the benchmark alone does not establish ribā.
Fixed home-unit purchase promises	A decline in asset value may fall disproportionately on the customer.	A substantive question about the allocation of market risk; documents and legal distinctions matter.
Hardship enforcement	A valid original debt may be collected without proper regard to inability.	A serious ethical concern under 2:280; facts are needed in each case.
Permanent reliance on transitional alternatives	The preferred participatory model may remain marginal.	A strong reform criticism consistent with Usmani's own warnings.

Analytical assessment based on [1; 6; 9–13]. The table distinguishes possible legal failure from wider ethical shortcoming.

11.2 Contradiction or unresolved tension?

A logical contradiction would arise if the same transaction, under the same relevant conditions, were both prohibited and permitted for incompatible reasons. Different rules for sales and investment partnerships do not automatically establish such a contradiction. They are deliberately different categories in the jurisprudence being assessed.

A more compelling criticism concerns institutional selection. Banks may systematically prefer contracts that preserve a predictable margin and shift ongoing operating uncertainty to customers. Even where each transaction is valid, the resulting system may fall short of the risk-sharing and distributive ideals used to justify it.

The criticism becomes more direct where the bank does not genuinely acquire the asset, claims investment participation while improperly guaranteeing capital, or treats genuine distress as an opportunity for added return. In such cases the concern may reach beyond aspiration to the institution's own stated legal requirements.

CHAPTER 12 · A REFORM FRAMEWORK

Contractual legitimacy and substantive justice

A credible reform programme needs two levels of assessment. The first examines whether the transaction satisfies the relevant legal requirements. The second examines conduct, customer treatment and the institution's wider economic contribution. Neither level can replace the other.

12.1 Level one: contractual legitimacy

For murābaḥah, the review should identify the asset, the seller, the purchaser, the acquisition sequence, possession, price and relevant risk. For ijārah, it should identify the available usufruct and allocation of ownership obligations. For mushārakah and muḍārabah, it should establish the actual profit definition, ordinary loss allocation and effect of undertakings or guarantees. [7; 9; 11–13]

The test must extend to implementation. Documents signed in the right order are not enough if their factual assertions are false. Conversely, a recognisable commercial difference should not be dismissed merely because the repayment pattern resembles another product.

12.2 Level two: substantive justice

The proposed ethical review asks whether terms are intelligible, total burdens are disclosed, hardship is assessed fairly, and vulnerable parties have meaningful recourse. At institutional level, it asks whether capital reaches productive and underserved activity and whether public claims about risk-sharing are supported by evidence.

These are proposed standards for evaluating the industry's moral promises. They should not be misrepresented as a single universally adopted certification scheme or as a fatwa issued by this book.

12.3 Making reform measurable

A bank could report the share of financing that genuinely participates in ordinary business outcomes, together with how that classification is established. It could publish hardship-decision measures, complaint outcomes, access indicators for smaller businesses and material compliance exceptions. Aggregate reporting should protect customer confidentiality while allowing meaningful scrutiny.

Progress should not be judged only by growth or by a rising share of products carrying partnership names. A larger nominal mushārakah portfolio is not an improvement if contractual devices eliminate the ordinary investment exposure that the name implies.

A combined standard
Avoid prohibited transactions, preserve genuine contractual responsibilities, and demonstrate fair treatment. None of these requirements is a substitute for the others.

CHAPTER 12 · PRACTICAL REVIEW

An evidence-based audit checklist

Table 14. Questions for an Islamic finance product review

Review question	Evidence to request
Does the bank genuinely own what it sells?	Invoices, transfer documents, possession records and transaction chronology.
What happens if the asset is lost before the customer buys?	Risk clauses, indemnities, takāful and the actual allocation of loss.
Does a claimed investment share ordinary loss?	Profit definitions, accounts, guarantees, purchase undertakings and settlement records.
Are the lessor's responsibilities preserved?	Lease and agency agreements, maintenance allocation and casualty provisions.
Does debt increase merely because more time is granted?	Late-payment, rescheduling and refinancing clauses; actual collections.
Is genuine hardship distinguished from deliberate default?	Written criteria, assessment records, remedies and appeal processes.
Can the customer understand the entire cost?	Total-payment disclosure, fees, ownership costs and early-settlement terms.
Do governance arrangements support independent review?	Appointment terms, conflict disclosure, audit access, exceptions and remediation.
Is the social contribution evidenced?	Access, affordability and customer-outcome measures, with clear definitions.

Author's proposed checklist, informed by the source-based analysis in Chapters 1–11. It is not a replacement for professional legal or Shariah review.

12.4 More than one route to improvement

A more just financial system need not force every need into a single partnership form. Genuine sales and leases can coexist with properly governed participatory investment and benevolent lending. The IIFA's tawarruq resolution specifically encourages qard hasan funds as an alternative for people needing cash. [13]

Partnership finance also needs competent accounting, monitoring and dispute resolution. Diversification may reduce concentrated exposure but cannot logically guarantee that every portfolio avoids loss. Presenting risk-sharing as both genuine and universally risk-free would contradict the premise of participation.

The goal is disciplined compassion: protect legitimate claims, distinguish fraud from misfortune, preserve genuine ownership burdens, and avoid profiting merely from a debtor's need for more time.

CHAPTER 12 · CONCLUSION

Beyond the Islamic label

The Qur'anic prohibition of ribā is situated within a reciprocal demand for justice. The creditor is not entitled to the prohibited increment, but the principal remains protected. Genuine hardship calls for respite; deliberate delay by an able debtor is itself injustice. Together, these teachings resist both oppressive finance and dishonest repudiation of obligations. [1; 6]

Muhammad Taqi Usmani's work supports important parts of this framework. He advocates participatory commercial finance, insists on genuine ownership where a sale is claimed, rejects artificial markup arrangements and challenges capital protection that undermines investment participation. He also criticises Islamic banks for failing to advance distributive objectives. [9–11]

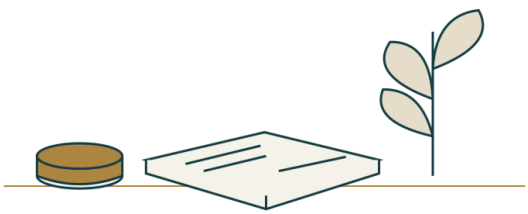
His permissions for valid deferred sales, benchmark-based pricing and certain home-acquisition promises nevertheless create legitimate areas for critical inquiry. The strongest question is not whether classical law distinguishes a sale from a loan; it does. The question is whether an industry concentrated on predictable, debt-producing returns can deliver the wider risk-sharing and justice objectives through which it is often presented.

The evidence examined here shows why that concern deserves attention, while also demonstrating the limits of generalisation. Portfolio mix varies. Reporting labels do not settle actual risk allocation. Customer treatment cannot be inferred from a product's name. Historical statistics cannot be used as if they measured every institution today. [16–17]

Three conclusions should therefore remain distinct. **A legally permissible transaction need not be the most equitable available arrangement. A product marketed as Islamic may fail the legal conditions on which that description depends. An institution may conduct valid individual transactions while failing to achieve its wider social objectives.**

This is not an argument for discarding Islamic jurisprudence in favour of an undefined appeal to fairness. Nor is it an argument for allowing formal compliance to displace moral scrutiny. It is an argument for holding together textual fidelity, genuine contractual responsibility and demonstrable justice.

The most defensible assessment of Usmani is consequently neither unconditional endorsement nor blanket rejection. His framework supplies both the legal defence of genuine alternatives and some of the strongest internal grounds for criticising their misuse. A constructive reform agenda should take both contributions seriously.



APPENDIX A · DATA AND CALCULATIONS

Chart data and methodological notes

Table A1. Historical portfolio data used in the figures

Figure / category	Percentage	Provenance
5 · Murābaḥah	45.0	IFSB survey, Q2 2024; report published 2025, Box 1.2.
5 · Commodity murābaḥah	34.0	Same survey and denominator.
5 · All remaining contracts	21.0	Calculated residual: 100 − 45 − 34.
6 · Diminishing mushārakah	38.5	SBP, June 2025, Figure 6.
6 · Mushārakah	23.1	Same source and denominator.
6 · Murābaḥah	11.5	Same source and denominator.
6 · Istisnāʿ / other / ijārah / salam	11.1 / 10.1 / 4.2 / 1.6	Same source. Full seven-category total: 100.1% due to rounding.
7 · Corporate / commodity financing	73.6 / 12.3	SBP, June 2025, Figure 7; client-type classification.
7 · Consumer / SMEs / other / agriculture	9.0 / 2.1 / 1.9 / 1.1	Same client-type classification. Total: 100.0%.

Sources: [16–17]. These snapshots are retained for their analytical relevance, not presented as the latest data available in 2026.

The IFSB and SBP datasets differ in date and scope and have not been pooled. “All remaining contracts” in Figure 5 is not the IFSB’s narrower “Others” category; it is the combined residual used for this book’s three-category chart. No assertion is made that this residual is wholly participatory finance.

The three leading SBP financing categories total 73.1%; their aggregate remainder is 26.9% when derived from that total. Adding the individually rounded remaining categories gives 27.0%. Both observations reflect the published rounding rather than an undisclosed adjustment.

Figure 2 is not market data. Its assumptions are a $100,000 capital contribution, a 50/50 share of positive realised profit, no separate fee and no manager misconduct. For a loss of $30,000, break-even, and profit of $40,000, the investor’s net financial results are −$30,000, $0 and $20,000; manager distributions are $0, $0 and $20,000. These are illustrative calculations only.

GLOSSARY · A–I

Key concepts and contract terminology

Agency (wakālah) Authorisation to act for another. An agency role does not automatically transfer the principal's underlying ownership obligations.

Al-ghunm bi-al-ghurm A juristic maxim linking gain to liability or exposure to loss. It is not a universal instruction to split every loss equally.

Al-kharāj bi-al-ḍamān The connection between entitlement to an asset's benefit and responsibility for that asset; often invoked in discussions of ownership and commercial liability.

Benchmark A reference used to help set a price or return. Its legal significance depends on the underlying transaction; it is not the contract itself.

Business risk Exposure to the actual economic performance of an enterprise, distinct from whether a fixed debt is paid.

Capital guarantee An undertaking to preserve or repay investment capital. Its permissibility depends on the arrangement, obligor and cause of liability.

Commodity murābaḥah A commodity sale-based financing category. The label alone does not determine whether a particular arrangement is a prohibited organised tawarruq.

Constructive possession Recognised control or availability that may satisfy possession requirements in appropriate circumstances, without physical handling by the owner.

Credit risk The risk that a debtor or contractual counterparty does not fulfil an obligation. It is not identical to agreed participation in ordinary business losses.

Diminishing mushārakah An arrangement in which one co-owner's share is progressively acquired by another, often combined with a lease of the remaining share.

Distributive justice The ethical concern with how economic opportunities, benefits and burdens are distributed. It is broader than the validity of one contract.

Equity In this book's ethical usage, appropriate and defensible treatment; not necessarily equal numerical outcomes. "Equity investment" separately refers to ownership participation.

Fayʾ A category of public property addressed in Qur'an 59:7. The verse's distributional language should be read with that immediate context in view.

Fiqh Human jurisprudential understanding of religious norms. A juristic interpretation should not be conflated with the wording of the primary text.

Ijārah Lease or hiring of a lawful usufruct or service, with rights and obligations appropriate to that relationship.

GLOSSARY · I–Z

Key concepts and contract terminology

Istisnāʿ A contract for manufacture or construction of a specified asset under agreed conditions.

Muḍārabah A capital–management partnership in which profit is shared by agreement and ordinary financial loss falls on the capital provider, absent a basis for manager liability.

Murābaḥah A sale disclosing the seller's acquisition cost and an agreed profit. Modern financing use requires a genuine sale sequence.

Mushārakah A partnership involving contributed capital. Ordinary capital losses follow capital proportions; profit allocation is subject to the applicable rules.

Ownership risk Exposure and responsibility that follow ownership of an asset during the relevant contractual period.

Profit-and-loss sharing Participation in actual investment outcomes. It should not be inferred solely from the existence of default risk or a partnership label.

Qarḍ A loan whose principal is repayable without a stipulated lending gain under the dominant jurisprudential approach examined here.

Qarḍ ḥasan Benevolent, non-interest lending; the expression often describes socially directed loan assistance.

Ribā A prohibited category of increase or exchange in Islamic law. Its precise application is developed through scripture and jurisprudence, not merely through the English word "interest".

Salam An advance-payment sale of specified goods for later delivery, subject to its particular conditions.

Shariah arbitrage A critical term for using formal differences between legal regimes or contract categories to reproduce economic functions; associated here with El-Gamal's critique.

Sukuk Certificates whose rights derive from their underlying structures. They should not all be treated as one uniform instrument.

Takāful An Islamic risk-protection arrangement. Its presence does not, by itself, answer who ultimately bears an ownership obligation.

Tawarruq Obtaining cash through a credit purchase followed by a cash sale; individual and organised forms are distinguished in the Academy ruling discussed here.

Usufruct The benefit or use of property, distinct from ownership of the property itself.

Ẓulm Wrongdoing, injustice or oppression. Its commercial application includes attention to both creditor and debtor, not only one side.

Glossary definitions are working explanations for this study, informed by [1; 9; 12–15], not comprehensive legal definitions.

BIBLIOGRAPHY · PRIMARY TEXTS

Scriptural and hadith references

The numbered references below correspond to citations in the text. Qur'anic citations use surah and verse; hadith references use the numbering of the linked editions. Brief English renderings and summaries in this book are editorial, unless otherwise identified. Online sources were checked for this edition on 4 November 2026.

[1] The Qur'an. Principal passages: 2:275–280; 2:282; 3:130; 4:29; 16:90; 30:39; 59:7. Arabic text and translation resources consulted through Quran.com. Interpretive applications in this book are distinguished from the text itself.

https://quran.com/2/275-282

Qur'an 3:130

Qur'an 4:29

Qur'an 16:90

Qur'an 30:39

Qur'an 59:7

[2] Muslim ibn al-Ḥajjāj. Ṣaḥīḥ Muslim, no. 1598. The Book of Musāqāh; report on participation in ribā. Online text: Sunnah.com.

https://sunnah.com/muslim:1598

[3] Muslim ibn al-Ḥajjāj. Ṣaḥīḥ Muslim, no. 1587c. The Book of Musāqāh; report on gold, silver and the specified staple commodities. Online text: Sunnah.com.

https://sunnah.com/muslim:1587c

[4] Al-Bukhārī, Muḥammad ibn Ismāʿīl. Ṣaḥīḥ al-Bukhārī, no. 2200. Sales and Trade; deferred purchase of food with armour pledged. Online text: Sunnah.com.

https://sunnah.com/bukhari:2200

[5] Muslim ibn al-Ḥajjāj. Ṣaḥīḥ Muslim, no. 102. The Book of Faith; concealed moisture and deception in a sale. Online text: Sunnah.com.

https://sunnah.com/muslim:102

[6] Al-Bukhārī, Muḥammad ibn Ismāʿīl. Ṣaḥīḥ al-Bukhārī, no. 2287. Transfer of Debt; unjust delay by a debtor able to pay. Online text: Sunnah.com.

https://sunnah.com/bukhari:2287

[7] Abū Dāwūd, Sulaymān ibn al-Ashʿath. Sunan Abī Dāwūd, no. 3503. Wages/Transactions; selling what one does not possess. The linked edition records the grading "Ṣaḥīḥ (al-Albānī)".

https://sunnah.com/abudawud:3503

[8] Muslim ibn al-Ḥajjāj. Ṣaḥīḥ Muslim, no. 1564a. Parallel report on unjust delay by an able debtor. Included for comparison with [6].

https://sunnah.com/muslim:1564a

BIBLIOGRAPHY · USMANI AND COLLECTIVE FIQH

Principal juristic sources

[9] Usmani, Muhammad Taqi. An Introduction to Islamic Finance. Online edition, 170 PDF pages, undated copy consulted. Especially: foreword, pp. 6–8; preliminary points, pp. 9–16; profit and loss, pp. 23–25; muḍārabah, pp. 31–36; diminishing mushārakah, pp. 57–64; murābaḥah, pp. 65–108; ijārah, pp. 109–127; salam and istisnāʿ, pp. 128–139; concluding evaluation, pp. 161–169. Page citations use the printed pagination in this online edition.

https://www.financialislam.com/uploads/3/8/5/3/3853592/introduction_to_islamic_finance.pdf

[10] Usmani, Muhammad Taqi. The Historic Judgment on Interest (1999). Text reproduced by SeekersGuidance as “The Text of the Historic Judgment on Interest—Mufti Muhammad Taqi Usmani”. Particularly the treatment of the scope of ribā and paragraph 191 on artificial markup arrangements. Consulted as a historical juristic source, not as a statement of current Pakistani law.

https://seekersguidance.org/articles/featured-articles/the-text-of-the-historic-judgment-on-interest-mufti-muhammad-taqi-usmani/

[11] Usmani, Muhammad Taqi. “Memories (Episode 57)”. Author’s website, undated web text consulted. Especially the discussion of Shariah supervision and mushārakah sukuk. A retrospective personal account; historical estimates quoted elsewhere should not be treated as independently audited current statistics.

https://muftitaqiusmani.com/en/memories-episode-57/

[12] International Islamic Fiqh Academy. Resolution No. 10 (10/2), “Rulings on Usury-based Bank Transactions and Dealing with Islamic Banks”. 28 December 1985. Prohibition of stipulated loan increases and increases for extending an unpaid debt.

https://iifa-aifi.org/en/32234.html

[13] International Islamic Fiqh Academy. Resolution No. 179 (5/19), “Essence and Types of Tawaruq (Fiqh Compliant vs Bank Structured)”. 30 April 2009. Distinguishes individual tawarruq from the structured and inverse forms defined in the resolution, and recommends benevolent lending funds.

https://iifa-aifi.org/en/32987.html

A note on the use of classical jurisprudence

Classical school differences are presented principally through Usmani’s synthesis. This edition does not claim to have collated every classical manuscript, variant or school authority independently. Where a technical ruling is contested, readers should consult the underlying juristic literature and qualified specialists rather than treating a comparative table as a final fatwa.

BIBLIOGRAPHY · RESEARCH AND INDUSTRY DATA

Academic analysis and empirical sources

[14] Saeed, Abdullah. “The Moral Context of the Prohibition of Riba in Islam Revisited”. American Journal of Islamic Social Sciences 12, no. 4 (1995): 496–517. Contextual analysis of the relationship between ribā, exploitation and the Qur’anic moral framework.

https://www.ajis.org/index.php/ajiss/article/view/2368

[15] El-Gamal, Mahmoud A. Islamic Finance: Law, Economics, and Practice. Cambridge: Cambridge University Press, 2006. Especially the preface and the discussions of jurisprudence, arbitrage and governance. The critique summarised here concerns economic replication and form–substance tensions, not a claim that every Islamic transaction is invalid.

https://www.cambridge.org/core/books/islamic-finance/FD60F9CB788309C36E2C4A1DD113701A

Publisher’s online preface

[16] Islamic Financial Services Board. Islamic Financial Services Industry Stability Report 2025. May 2025. Box 1.2, “Risks and Financial Stability Implications of Hybrid Islamic Financial Instruments”, printed p. 24; chart “Global Total Financing by Contracts 2024 Q2”, source identified as IFSB Survey. Used for Figure 5 and Appendix A.

https://ifsb.org/wp-content/uploads/2025/05/IFSI-Stability-Report-May-2025.pdf

[17] State Bank of Pakistan. Islamic Banking Bulletin—June 2025. Figure 6, “Mode Wise Financing”, printed p. 7; Figure 7, “Client Wise Financing Portfolio”, printed p. 8. Used for Figures 6–7 and Appendix A. Dates refer to the statistical observation period, not the publication date of this book.

https://www.sbp.org.pk/ibd/Bulletin/2025/Islamic-Banking-Bulletin-Jun-2025-Final.pdf

Evidence, permissions and editorial scope

The charts are newly drawn from the cited numerical observations; they are not reproductions of the institutions’ original chart designs. The diagrams and decorative illustrations are original conceptual artwork prepared for this edition. They do not depict authenticated historical artefacts and should not be read as historical evidence.

This is a critical literature-based review. It is not an empirical audit of individual banks, an exhaustive treatment of every Islamic legal tradition, or a claim to independent peer review. The scriptural and juristic discussion is principally framed by the Sunni sources identified above. Statements of contemporary industry practice are limited to the specified evidence and periods.

REFERENCE INDEX

Qur’anic passages and hadith

The references point to substantive discussion. The bibliography supplies the source links.

Qur’anic passages

2:275 · Trade and ribā 1, 2, 12
2:278–279 · Abandoning ribā; principal and justice 1, 2, 3, 31
2:280 · Respite for genuine hardship 2, 13, 20
2:282 · Recording deferred debt 2
3:130 · Multiplied ribā 2, 3
4:29 · Consent and wrongful acquisition 2, 29
16:90 · Justice and good conduct 2
30:39 · Ribā and giving for Allah 2
59:7 · Wealth circulation in its fayʾ context 2

Hadith reports

Ṣaḥīḥ al-Bukhārī 2200 · Credit purchase and security 4
Ṣaḥīḥ al-Bukhārī 2287 · Unjust delay by an able debtor 4, 13, 20
Ṣaḥīḥ Muslim 102 · Concealed defects and deception 4, 5
Ṣaḥīḥ Muslim 1564a · Parallel report on unjust delay 35
Ṣaḥīḥ Muslim 1587c · Monetary and staple exchanges 4
Ṣaḥīḥ Muslim 1598 · Participation in ribā 4
Sunan Abī Dāwūd 3503 · Selling what is not possessed 4, 5, 11

Hadith numbering varies between editions. These identifiers follow Sunnah.com, as detailed in references [2–8].

SUBJECT INDEX · A–L

Concepts, contracts and institutions

Agency arrangements 11, 13
Al-ghunm bi-al-ghurm 5
Al-kharāj bi-al-ḍamān 5
Asset ownership 5, 11, 14, 30
Benchmarks, conventional 12, 26
Benevolent lending (qarḍ ḥasan) 17, 29
Business risk 5, 8, 20
Capital guarantees 8, 18, 28
Charity and default charges 13
Collateral 4, 13
Commodity murābaḥah 17, 21
Consent and disclosure 2, 5, 30
Conventional interest 3, 19, 25
Corporate financing 23
Credit risk 5, 20
Debt enforcement 2, 13, 20
Deferred sale price 6, 12, 19
Diminishing mushārakah 15, 16, 22
Distributive justice 2, 10, 23, 29
El-Gamal, Mahmoud A. 25, 26
Equality and equity 1, 6, 7
Ethical assessment 3, 28, 29
Fayʾ and circulation of wealth 2
Financial hardship 2, 13, 20
Formalism and circumvention 13, 17, 25
Hadith evidence 4, 5
Home finance 14, 15, 16
Ijārah 6, 14
International Islamic Fiqh Academy 3, 17, 36
Islamic Financial Services Board (IFSB) 21, 32
Istisnāʿ 6, 22
Legal validity 3, 13, 29
LIBOR (historical benchmark) 12

Page references identify substantive discussion rather than every incidental occurrence.

SUBJECT INDEX · M–Z

Concepts, contracts and scholars

Market-value risk 15, 16
Muḍārabah 8, 18, 19
Murābaḥah 6, 11, 12, 13, 21
Mushārakah 7, 15, 18, 22
Negligence and misconduct 7, 8, 30
Non-oppression; see also Ẓulm 1, 27, 31
Ordinary commercial loss 7, 8, 20
Ownership responsibilities 5, 11, 14
Pakistan, historical banking data 22, 23, 32
Paper-only transactions 13
Partnership profit allocation 7, 8
Portfolio classifications 22, 24
Principal, recovery of 1, 3
Profit-and-loss sharing 6, 7, 8, 10
Purchase undertakings 15, 16, 18
Qarḍ and qarḍ ḥasan 6, 17, 29
Qur’anic sources 1, 2, 3
Reform and product review 29, 30, 31
Ribā: scope and rationale 1, 3, 25
Risk: credit, ownership and business 5, 20
Saeed, Abdullah 3, 25, 26
Salam 6, 22
Shariah arbitrage 25, 26
Small and medium enterprises (SMEs) 10, 23
State Bank of Pakistan 22, 23, 32
Sukuk 18, 27
Takāful 14, 16
Tawarruq 17, 21
Transitional arrangements 10, 11, 28
Usmani, Muhammad Taqi: framework 9, 10
Usmani: critical assessment 27, 28
Usmani: principal writings 36
Ẓulm (injustice and oppression) 1, 2, 31

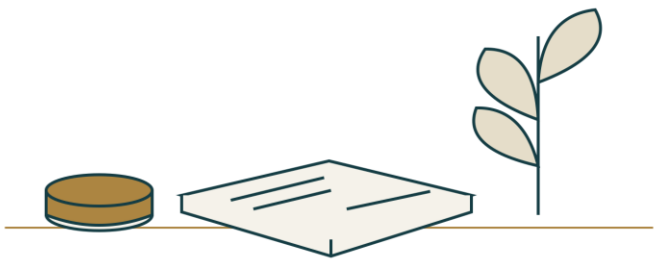
Page references identify substantive discussion rather than every incidental occurrence.

DARALHAMD PUBLICATIONS

Knowledge with responsibility

This study examines a demanding question: can finance satisfy the rules of a lawful contract while falling short of justice in its economic effects? Its purpose is to encourage careful reading of the primary texts, accurate engagement with Muhammad Taqi Usmani's arguments, and an evidence-based assessment of financial practice.

Respectful criticism requires precision. Neither the Islamic label nor a resemblance to conventional pricing settles the matter. The rights, responsibilities and real consequences of the transaction must be examined together.



Interest and Islamic Banking

Ribā, Financial Justice and the Jurisprudence of Muhammad Taqi Usmani

Ahmad Ramay

Published by **DarALHamd** · First edition · 2026

daralhamd.com.au

publications@daralhamd.com.au

YouTube · @AlHamdAus

Instagram · @alhamdaus

DARALHAMD / RESEARCH & REFLECTION

Interest and Islamic Banking

Can a financial contract satisfy its legal conditions while still raising serious questions about fairness? Ahmad Ramay's illustrated study examines ribā, ownership, commercial liability and the arguments of Muhammad Taqi Usmani. It separates three questions that are often combined: whether a transaction is contractually valid, whether the parties act fairly, and whether an institution delivers the social outcomes it claims.

Contractual legitimacy is necessary to the inquiry, but does not settle every ethical or institutional question. The author argues for genuine ownership, transparent allocation of obligations, careful treatment of hardship and evidence for social claims. Assessment of any particular financing arrangement requires its actual documents and implementation, not a conclusion drawn from its name alone.

Ahmad Ramay · Free digital research edition · 2026

Explore more books and free learning
www.daralhamd.com.au

YouTube youtube.com/@alhamdaus

Instagram instagram.com/alhamdaus

Facebook facebook.com/alhamdaus

TikTok tiktok.com/@alhamdaus

© 2026 Ahmad Ramay · Published by DarALHamd