

The Drives behind Extension of Islamic Financing Models towards local Businesses [low and average earners] in Connection with Shariah Governance and National Regulations

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Abstract

Purpose:

The purpose of this research paper is to engage private sector of low or average earners to opt different business models working in full conformity with shariah standards along with fulfillment of nation's regulations to enhance their profitability, productivity present the importance of Islamization framework for Private Micro-Financing Practices which violates the divine rulings of financial matters. Indeed, one of the core responsibilities of the government to provide opportunities for public to startup different businesses but to ensure their security and to protect them from heavy losses is too the core liability. The core basis to ensure the businesses protection is to streamline it with Shariah Rulings along with Standardize Measures. The paper focuses on extension of Islamization Framework for Private Micro-Financing Practices.

Research Design/ Methodology:

This paper is conceptual and has theoretical aspect and the result will be provided on the basis of related literature, In-vogue Islamic Banking procedural documentations regarding different modes and shariah based texts.

Results and Findings:

The paper will emphasis firstly on describing the practices of different Islamic Banks which are claiming that their policies and practices are in full conformity with Shariah Standards. Their Inter-Banks and Intra-Banks transactions are entirely supervised by the specific shariah boards which consists of great Shariah cum Economic Experts. The paper will compare these financial institutions with private Micro Financial Model in order to portray the streamlining pattern and procedure of firm connection between them. Thirdly, paper will present the extension in scope of shariah governance with intension to create the generalize framework to bring other stakeholders under the Umbrella of Shariah Standards.

Conclusion:

The Shariah principles has great extended scope to accommodate all sort of Businesses whether operates at Macro or Micro Level, associated with individuals or connected with public sector collective property along with having strength and potential to Islamize the Products and Services if proper Islamization Framework executed with its true Spirit to make the system free from disorders and financial

disastrous what the humanity had seen in 20th Century in the form of different Financial Crises.

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Introduction

The philosophy beyond the blind acceptance of revelation (Quran) whether its logic is clear and understandable or not, is the firm faith of Muslims that Islamic Revelation stands where minds fails to work as Almighty Allah is the creator and he knows better about his creation. So his selection and choice will be indeed the best option to follow. Allah says in Quran; “Truly, the (recognized) religion in the sight of Allah is Islam.” (Surah Al-Imran: 19). It revealed that recognition as religion in the sight of Almighty Allah is the sign of its completeness and perfection. Islam is not only an ideology; rather, it is a practical Deen (Religion). Its comprehensive teachings regarding all walks of life prove to be totally balanced in order to provide humanity with means and opportunities to have purity of acts so as to live in this world (Dunya) for a blessed end (Aakhirat).

“The contemporary world revolves around economy. Most of the international conflicts, even, are one way or other, due to economic interests. As an eternal divine religion Islam too has blessed humanity with its economic teachings. Interest that had chained up the people before and even after Islam was denied by Islam”. (Bilal,Q 2014) Contrary to it Islamic religious teachings and Shariah rulings presents smooth and ideal pattern of economics dealings. The system that based on interest has adverse impact on social customs and chained-up the humanity in the name of global trade and consequent upon its systematic errors and drawbacks, a number of economic disaster occurred in past like 2008 Financial Crises is one of the example of it. Almighty Allah has clear teachings about the Interest and its bad results. Allah Says; those who take Riba (usury of Interest) will not stand but stands the one whom the demon has driven crazy by his touch. That is because they have said: “sale is but like Riba while Allah has permitted sale and prohibited Riba. So, whoever receives an advice from Lord and desists (from indulging in Riba), then what has passed is allowed for him, and his matter is up to Allah. As for the ones who revert back, those are the people of Fire. There they will remain forever.” (Al-Baqarah: 275)

Islamic teachings encourages the socio-economic rehabilitation and putting stress on enhancing the living standards, the numerous prophetic sayings are the sound evidences in this regards that Allah's Messenger got into Auction process and sale out Axe for his companions to start earning for his family instead of putting efforts in begging. This was the fine example of socio-economic rehabilitation in the prophetic era. The points derived by the jurists from this story are;

- Allah's Messenger Prophet Muhammad Peace be Upon Him was the head of Madina State and he took this initiative by his-self rather than ordering to any companion about the financial help of this man pointing towards the sensitivity of the issue and teaching for followers that economic rehabilitation is the responsibility of the state to provide opportunities and platforms for citizen to earn more conveniently.
- Prophet Muhammad Peace be Upon Him engage him in long run economic activity instead of full filling his need through getting money from someone pointing towards the fact that physical involvement and utilization of one's potential is more important than direct help and support. The Government needs to engage their low earner citizen in economic projects to enhance their earning power.
- The Prophet Muhammad Peace be upon Him inquires his financial status of the companion and he positively replied about his financial soundness. It shows that Government has to make system of proper monitoring to evaluate the economic projects whether operating profitably or not.

Significance of Study

This study will help in the following ways;

Short Term Significance:

- **Psychological Impact on Low or Average Earners:** The most effective impact of it is the creation of pleasant perceptions and insights about Government policies of involvement in large profitable projects in real sense through Islamic bonds and other modes of financing. The involvement in Murābaḥa cum Mudarabah pool of Government Projects will put them in ease and

psychological relaxation along with realization of true feelings that they are participating in National growth and Progress.

- **Social Engagement:** Through these mentioned modes of financing, the skilled people will be highlighted and they will easily be engaged in different existent businesses and novel projects established through Sukuk. Most of them will be put in Mudarabah Pool where they will be trained according to their interests.
- **Earning Power:** The earning power of the people will enhance and will get motivation to involve in different economic activities for the benefit of Nation.

Long Term Implications:

- ❖ **Entrepreneurial Development:** Interaction with different Government institutions and their close collaboration with officials will develop their confidence level to go for novel businesses through defined pattern and procedures with proper risk mitigation measures to make it profitable.
- ❖ **Analytical Skills:** Once they got confidence of doing businesses, they may use the same model of collecting money through Sukuk and mudarabah for enhancing their earning power. In seeking profitable economic activity and thinking about sound opportunities within the limited fund will force them to be more innovative and intellectual.
- ❖ **Economic Growth:** In fact, their contributions to novel businesses, not only make them more sound and wealthy but in long term they will play a vital role in economic growth of the country.

“In a gentle way, you can shake the world.” (Mahatma Gandhi)

Problem Statement

The operating models and frameworks on the basis of Islamic Finance in different countries across the globe not addresses that special class of very low or average earnings. There are numerous factors active

behind it, not allowing these Islamic financial institutions to start financing for them which is big dilemma of this planet. In other words, no focusing on poor people and no strategy for enhancing low earners is the strategy of bringing these Islamic Financial Institutions away from its Spirit, mysticism and holiness.

Dire need is felt to study this aspect of Islamic finance in order to convince the stakeholders that it has capacity and potential to accommodate the low or average earners with in their financial restrictions along with having risk averting measures to safe the money of shareholders.

Objectives of the Study

The main objectives of this study are as following:

- To enhance the earning power through Sukuk (Islamic Bonds) and Murābaḥa cum Mudarabah modes of Financing.
- To enhance the satisfactory level of Islamic Financial Institutions to invest for poor people through mentioned Islamic Modes of Financing

Research question:

The study will investigate the following research questions:

1. Why Islamic Financing Models fails to formulate polices and strategies focusing on low or average earners to contribute in socio-economic rehabilitation in real sense on priority basis.
2. How Sukuk and murābaḥa cum Mudarabah financing modes help in quick national growth.

Research Methodology:

This Study has novelty and innovation, mainly focus on special model or framework to collect money on the basis of issuing Sukuk and its utilization in different government projects making Murābaḥa cum Mudarabah financing Pool for further investment and replication of businesses to accelerate the economic activities, consequently fast track will come into existence of National Growth.

Proposed Model:

The Model works on three phases.

- **Phase-I:** Categorization and specification of Target groups based on gender, education and skills
- **Phase-II:** Procedural Documentation and credential of Financing/Funding bodies like local Residents, Local Islamic Banks, Small Business Enterprises, Investment Fund Groups, Non-Government Organization and Civil Societies
- **Phase-III:** Mudarabah Pool, which is the central platform and hub for both Phases. On mutual consensus of both parties and availability of suitable individuals results different economic activities entirely based on Mudarabah financing mode.

Proposed Activities & Methodologies of Phase-I

- **Model Awareness:** Through advertisement in local newspapers & pamphlets
- **Detail Survey:** To get information about each target group.
- **Convincing & negotiation:** The Model team will negotiate with male responsible family members and convince them to allow their women to participate.
- **Registration:** Members of each target group will be registered.

Proposed Activities & Methodologies of Phase-II

Phase-II is all about seeking financing or funding bodies. In market a number of funding organizations exist like investment funds, local Islamic banks e.g. Meezan bank, The Bank of Khyber and different NGOs also provide the same facility with distinct terms and conditions.

This phase involves the following steps:

1. Ensuring financing body support us in this Model Executions.
2. Signing of Memorandum of Understanding with financing body.

3. Legalization of Mudarabah transaction and its terms and conditions documentation.
4. Final approval and allocation of fund according to the nature of Model activity and event structure from competent authority.

Proposed Activities & Methodologies of Phase-III

This phase plays a key role in determining the actual strength of the Model as it is the hub of both the stakeholders. i.e. Internally displaced people and financing organizations. The main task of it is the matching of suitable target group with economic event so as to get the fruitful results and consequences.

Conclusive Remarks

This model played a vital role in accomplishing the stated goals and objectives. As a result of its partial execution led to engage hundreds of low or average earners and approximately one hundred and forty three families were benefited at different levels.

This Model has high value of rationalization and firm ethical touch. Its execution is tremendously in full conformity with developed standards across the globe and achieves a social good because of the following key areas.

- Preferment of International Agenda
- Fully conformity with National Interest
- Supportive in Poverty Elimination & Unemployment eradication

- Business as well as Welfare activity Cultural Acceptability
- Approval from Jirga [Local/traditional Justice Body]

Moreover, this model has high capacity to implement anywhere across the globe and hopefully, will give remarkable outcomes and results.



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