

The FUTURE of
ISLAMIC
FINANCE

From Shari'ah Law to Fintech



Edited by

EDIB SMOLO & MOHAMED MAHEES RAHEEM

The Future of Islamic Finance

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The Future of Islamic Finance: From Shari'ah Law to Fintech

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INVESTOR IN PEOPLE

To my dear family members, whose unwavering faith in me has been the driving force behind my accomplishments. In particular, I dedicate this book to my loving wife, cherished daughters, and late parents, whose love and encouragement have propelled me forward on this incredible journey.

Dr Edib Smolo

This book is dedicated to the Nameless and Faceless, who have lived and died striving for education and economic justice.

Dr Mohamed Mahees Raheem

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List of Abbreviations

4IR	The Fourth Industrial Revolution
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AI	Artificial Intelligence
APAC	North America and Asia-Pacific
APIs	Application Programming Interfaces
ASEAN	Association of Southeast Asian Nations
ATMs	Automated Teller Machines
BNM	Bank Negara Malaysia
BoP	Bottom of the Pyramid
CAGR	Compound Annual Growth Rate
CBDCs	Central Bank Digital Currencies
CCCA	Collective Commitment to Climate Action
CGC	Credit Guarantee Corporation Malaysia
CISL	Cambridge Institute for Sustainability Leadership
CSA	Community Supported Agriculture
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Corporate Governance
ETFs	Exchange-Traded Funds
G20	Group of Twenty
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GHC	Global Health Crisis
GIFT	The Global Islamic Fintech
GMOs	Genetically Modified Organisms
HDI	Human Development Index
HPP	Home Purchase Plans
IBBL	Islamic Bank Bangladesh Limited

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ICT	Information and Communication Technologies
IFI	Islamic Financial Industry
iFintech	Islamic Fintech
IFIs	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IME	Islamic Moral Economy
IRTI	Islamic Research and Training Institute
IsDB	Islamic Development Bank
ISF	Islamic Social Finance
ISFR	Islamic Social Finance Report
ITU-T	International Telecommunication Union Telecommunication Standardization Sector
KYC	Know Your Customer
LCTF	Low Carbon Transition Facilities
LMA	Loan Market Association
LSEG	London Stock Exchange Group
MENA	Middle East and North Africa
MSMEs	Micro, Small & Medium Enterprises
NFIS	National Financial Inclusion Strategy
NGOs	Non-Governmental Organizations
OIC	Organisation of Islamic Cooperation
P2P	Peer-to-Peer
PBUH	Peace Be Upon Him (Salutation Upon the Prophet Muhammad)
PLS	Profit-and-Loss Sharing
PoS	Proof-of-Stake
PoW	Proof of Work
PPS	Public/Private Partnerships
PRB	UN Principles of Responsible Banking
PSIB	Principles of Sustainable Islamic Banking
R&D	Research and Development
SC	Securities Commission
SDCs	Sovereign Digital Currencies
SDGi	SDGs Index
SDGs	Sustainable Development Goals

SMEs	Small and Medium Enterprises
SSLC	Sustainable Shipment Letter of Credit
SSOs	Standard Setting Organizations
SWT	Subhanahu Wa Ta'ala (Glorified and Exalted is He)
UN	United Nations
UNCTAD	UN Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
VBI	Value-Based Intermediation
VBIAF	Investment Impact Assessment Framework
VBIT	Value-Based Intermediation Takaful model

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About the Editors

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Preface

“The Future of Islamic Finance: From Shari’ah Law to Fintech” offers a comprehensive examination of the evolution, principles, and contemporary relevance of Islamic finance. Delving into its ethical, technological, and sustainable dimensions, this book explores the integration of Islamic finance with modern financial practices and its potential to foster sustainable development and financial inclusion. Through insightful chapters authored by experts in the field, readers gain a deeper understanding of Islamic finance’s role in shaping the future of finance, navigating economic challenges, promoting social well-being, and leveraging technology-driven innovations. With a focus on ethics, sustainability, and technological advancements, this book serves as a valuable resource for practitioners, policymakers, researchers, and students seeking to explore the dynamic landscape of Islamic finance.

The book is organized into four interconnected parts, each offering a unique perspective on different aspects of Islamic finance.

Part One provides an overview of the foundational aspects of Islamic finance, tracing its historical evolution and exploring its fundamental principles. *Chapter 1* delves into the historical journey of Islamic finance, highlighting its unique features and key principles, while *Chapter 2* examines the relevance of Islamic economics in addressing contemporary challenges. Building upon this, *Chapter 3* explores the philosophical underpinnings of Islamic finance, emphasizing its enduring relevance in today’s financial systems. Finally, *Chapter 4* discusses the contributions of Muslim scholars to economic theories, advocating for free trade and ethical market practices.

Part Two focuses on the ethical and socially responsible dimensions of Islamic finance, exploring its role in promoting sustainable development and social welfare. *Chapter 5* examines the integration of Islamic finance with the Sustainable Development Goals (SDGs), emphasizing its potential to alleviate poverty and promote environmental sustainability. This ethical imperative is further underscored in *Chapter 6*, which discusses the role of Islamic microfinance in fostering social well-being and financial inclusion. Additionally, *Chapter 7* explores the potential of Islamic social finance to address humanitarian challenges, particularly in Organization of Islamic Cooperation (OIC) countries, through mechanisms such as *zakah* and *waqf*. *Chapter 8* emphasizes the ethical imperative of Islamic banking, highlighting its role in promoting responsible financial practices and sustainability.

Part Three explores the intersection of technology-driven innovation with Islamic finance, addressing opportunities and challenges presented by fintech and digital currencies. *Chapter 11* discusses the potential of fintech to enhance financial inclusion and support sustainable economic growth within Islamic finance. This is complemented by *Chapter 12*, which analyzes the compatibility of digital currencies with Shari'ah principles and explores the regulatory framework needed for their integration into Islamic finance. Furthermore, *Chapter 13* examines the role of artificial intelligence in improving efficiency and risk management within Islamic banking while ensuring compliance with Shari'ah principles.

Part Four presents an in-depth exploration of the future landscape of Islamic finance, addressing key challenges and opportunities facing the industry. *Chapter 14* focuses on strategies for fostering financial inclusion, enhancing sustainability, embracing digitalization, and promoting industry harmonization within Islamic finance. Finally, *Chapter 15* concludes the book by emphasizing the need for a values-driven approach and the integration of Islamic finance with emerging technologies to drive ethical, equitable, and sustainable financial practices globally.

In short, "The Future of Islamic Finance: From Shari'ah Law to Fintech" presents a nuanced exploration of Islamic finance, spanning its historical roots to its contemporary applications. This comprehensive examination delves into the ethical, technological, and sustainable facets of Islamic finance, shedding light on its integration into modern financial practices and its potential to drive sustainable development and financial inclusion. Authored by experts in the field, each chapter offers unique insights into Islamic finance's role in shaping the future of finance, addressing economic challenges, promoting social welfare, and embracing technological innovations. Grounded in principles of ethics, sustainability, and technological advancement, this book serves as an invaluable resource for practitioners, policymakers, researchers, and students alike, providing a comprehensive understanding of the dynamic landscape of Islamic finance, its timelessness, and its profound implications for the global financial sphere.

Dr Edib Smolo & Dr Mohamed Mahees Raheem

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Editors

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Chapter 1

A Brief Overview of Islamic Finance: From Madinah Market to Wall Street

Edib Smolo and Mohamed Mahees Raheem

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Abstract

Many lessons have been learned by the global financial system at the aftermath of the Global Health Crisis (GHC), which could last till the financial crisis occurred in 2008–2009 (global financial crisis [GFC]). As such, the system started facing the deep-rooted questions about regulatory reforms. Amidst a perilous situation, Islamic finance (IF) had demonstrated clear evidence of strong muscles into something that countries appreciate as the tool for money intermediation. It constitutes a brief introduction to the way Islamic Financial System or IFS (1) came forth in the past and (2) continues nowadays. The paper starts with the stating the maqasid al-Shari'ah (goals of the Shari'ah), which are the fundamental objectives of the legal system in Islam. Then, it highlights the key concepts, unique features, and modes of financing that are unique within the IFS. The integration of Islamic financial institutions (IFIs) into the global economy is covered and IF as well as global financial dynamics at large discussed with the closing comments mirroring IF complexity on the background of global economy. This segment alone has posted very significant gain of almost US\$3 trillion, which is projected to rise further to US\$6.7 trillion by 2027 – a clear indication of its outreach and accessibility to all.

Keywords: Islamic finance; Islamic banking; Islamic Financial System (IFS); Shari'ah; Islamic law; Maqasid al-Shari'ah

Introduction

In the wake of the COVID-19 pandemic (although referred to as the GHC) that erupted globally and the echoes of the GFC in 2008–2009 are claimed to be the most severe since the Great Depression, imposing some stringent alternative

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procedures and stress tests to evaluate the international financial system's strength became a pressing concern. These events prompted the world to go through the first comprehensive review of the current international financial system, and the interactions that were held were the first steps in determining the desired regulatory reforms. On the other hand, there also started a search for a dependable and clean long-term thing to solve the problems caused by these (Haneef & Smolo, 2013; Smolo, 2020; Smolo & Mirakhor, 2010).

In the midst of the devastating wreckage that the GFCs have brought upon the financial sector worldwide, IF has never ceased to grow and develop (Smolo et al., 2023). Increasingly seen as one of the most dynamic areas within the international financial innovation is of IF, and today, it has become well-accepted and widely practiced form of financial intermediation known for its market competitiveness and strength. Thus, it exceeds the boundaries of the realm of faith, which to a great deal is practiced by Muslims and non-Muslim people alike. The sector's surge is symbolized by the tremendous market share implying that the value of assets soared up to US\$4.5 trillion in the year 2022 and is predicted to grow even higher to US\$6.7 trillion by the year of 2027 (ICD-LSEG, 2023).

The present chapter is designed to explain the key principles and concepts of the IFS. Efforts are made to demonstrate the applicability of those ideas in the modern context by analyzing the current application of some of these key principles. The part two of the paper will present the summary of the IFS recording both its historical evolution and present situation. The *maqasid al-Shari'ah* (the objectives of Shari'ah) lies in the essence of the IFS; hence, the section three of this essay will examine the major concepts arising from these objectives. The IFS (which stands for the IFS) constitutes the specific type of financial intermediation form which is characterized by peculiar features that enable them direct the flow of funds toward the stimulation of the productive economic activity. On the contrary, I will be presenting the key syntheses as well as various forms of microfinance in part four and happening right after that in part five. Part 6 will emphasize on the placing the IFI in particularly global market and the transformation started from the local level to the international level. Lastly, the concluding section of this chapter will shed light with the insightful final remarks that put together the intricate fabric of IF on the loose sketched background of the global financial market.

The Islamic Financial System: An Overview

The realm of IF, rooted in the guidance of Shari'ah, embodies a unique ethos in financial dealings.¹ The Holy Qur'an and the *Sunnah* stand as the foundational

¹Literally, Shari'ah means a path to a watering place, a clear path to be followed. This led to its use for the path which the believer has to tread in order to obtain guidance in this world and deliverance in the next.

sources of Shari'ah, complemented by the consensus of jurists (*ijma'*) and analogy (*qiyas*).² While Shari'ah staunchly prohibits the exchange of interest, characterizing the IFS merely as “interest-free” oversimplifies its intricate nature. Beyond this restriction, IF, as a reflection of broader Islamic principles, champions the preservation of property rights, ethical standards, risk-sharing, and the pursuit of social justice. It extends beyond profit to embody a broader societal responsibility, where investment activities align not only with Shari'ah ethics but also consider public interests (*masalih* pl. of *maslahah*).³

The roots of Islamic financial principles run deep through the annals of Muslim history. This has been discussed extensively in Chapter 4. The term “Islamic financial system,” though coined relatively recently in the mid-1980s, encapsulates a tradition that spans centuries. Over the past four decades, and particularly in the last 20 years, IFIs have transcended regional confines to become integral components of the international financial system. Today, IFIs extend their influence across banking, insurance, and capital markets, a testament to their evolution and significance in the global economic landscape.

The utilization of Islamic financial instruments echoes through the corridors of time, with the first “modern” experiments in Islamic banking surfacing in the 1960s and 1970s. Mit Ghamr local savings bank of Egypt that initiated in 1963 is an Islamic bank of historical importance since it is the first one to be launched. The establishment of the Bank was done with a full success; then in 1967, after installation, the Bank of Nasir became the precursor of social banking accordingly to the principles of Shari'ah.

The entire historical road map of IF comprehensively depicts IF as an independent and separate financial paradigm from usual financial systems with experimentation intended for local interests only to one that has been globally accepted. The narrative that smoothly threads its way through time shows bright connection between the ethics of marketplace in Madinah to advanced tapestry of Wall Street, where IF has managed to reaffirm its significance and power.

The Market of IF came to attract not only Muslim but also non-Muslim investors and stakeholders too. Exploring the expansive global reach of the IFS, the following narrative derives inspiration from the comprehensive perspectives outlined in the “Islamic Finance Development Report 2023: Navigating Uncertainty” which came into existence through the cooperation between the Islamic Corporation for the Development of Private Sector (ICD) of the Islamic Development Bank Group and the London Stock Exchange Group (LSEG).

In the dynamic environment of global finances, IF resolved the challenge of insecurity in 2022, consequently delving into a macroeconomic system that was besieged by the fluctuations in world prices of commodities and a global supply chain that was still on its pre pandemic equilibrium. In the environment, the

²*Sunnah* is an Arabic word that means “habit” or “usual practice”. Technically, this term refers to whatever was reported that the Prophet Muhammad (peace and blessings be upon him) said, did, or gave his tacit approval.

³The Holy Qur'an is full of references to *maslahah* (benefits). For example, see: (57:25), (16:90), (2:151), (3:164), (2:185), (22:78), (2:286), (4:28), (27:77).

industry level, the growth has surged to 11% last year, which is lower than 17% peak recorded in the previous season. In the year 2021, the asset levels were at US\$4.5 trillion.

Diverse sectors within IF experienced disparate fortunes. Islamic funds, both mutual funds and exchange-traded funds (ETFs), bore the brunt of adverse sentiment in equities due to multiple rate hikes. Consequently, assets under management for Islamic funds dipped by 10% to US\$220 billion. Despite this downturn, notable launches, including Australia’s inaugural Islamic ETF and environmental, social and governance (ESG) ETFs in various regions, injected a spark of innovation into the landscape.

Islamic banking, a cornerstone with assets totaling US\$3.2 trillion, encountered headwinds as 24% of Islamic banks reported lower profits or higher losses. Inflationary adjustments, increased expenses for digitalization, and equity investment setbacks contributed to these challenges. However, some regions, like the Gulf Cooperation Council (GCC), exhibited positive performance driven by higher profit income and reduced impairment charges.

Sukuk, the second-largest contributor with US\$788 billion in outstanding value in 2022, demonstrated resilience. Malaysian market issuances surged, but the GCC experienced a decline due to reduced funding needs from sovereigns and state-backed entities, which was attributed to a spike in oil prices. Noteworthy corporate issues arose in Sub-Saharan African nations like Tanzania and Nigeria.

Takaful (Islamic insurance), the third-largest sector with US\$90 billion in total assets, expanded by 16% though only 52% of operators posted positive performance. Claims payouts in sectors like motor *takaful* and investment losses impacted results (Refer Fig. 1.1).

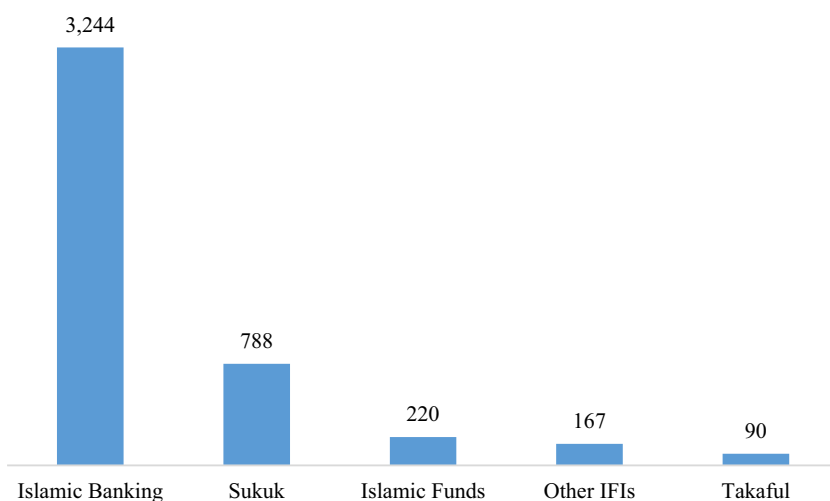


Fig. 1.1. Global Assets of Islamic Finance. *Source:* Adapted from ICD-LSEG (2023).

The other IFIs sector, valued at US\$167 billion, saw Saudi Arabia leading in numbers, with a burgeoning IFS in Pakistan capturing attention. The Islamic Finance Development Indicator underscored Malaysia, Saudi Arabia, and Indonesia as the most developed jurisdictions among 136 countries, with Pakistan ascending to the sixth position.

Looking ahead, the IF industry anticipates a positive trajectory. In emerging markets, Russia and Uganda incorporate Islamic banking, while Algeria and Ethiopia lay the foundations for Islamic capital markets. Established Shari'ah-compliant markets witness advancements in governance in the UAE and strengthened Shari'ah governance in Pakistan and Saudi Arabia.

A burgeoning trend in Islamic fintech unfolds, with digital *takaful* operators launching in Malaysia, aligning with technological advances. *Sukuk*, a crucial asset class, awaits a growing pipeline, especially in ESG *sukuk*, aligning with sustainable economic goals. Increased efforts in knowledge and awareness are reflected in the growing importance of Shari'ah qualifications and Indonesia's national strategy for financial literacy.

With these multi-faceted growth channels and developments, the IF industry projects a growth trajectory, reaching US\$6.7 trillion by 2027 (ICD-LSEG, 2023).

***Maqasid al-Shari'ah* (Objectives of the Shari'ah)**

In the realm of IF, the principles embedded in *maqasid al-Shari'ah*, often referred to as the objectives or *maslahah* (public interest), play a pivotal role. This complex topic, briefly touched upon here, holds significance as it is commonly argued that *maqasid al-Shari'ah* forms the foundational basis of Islamic economics. According to Khan (2002), economic agents within an Islamic framework are oriented toward seeking *maslahah*, going beyond the conventional pursuit of utility.

The nuanced exploration of *maqasid al-Shari'ah* gained substantial attention only in the 11th century, notably by al-Ghazali (505H/1111 CE) and later by al-Shatibi (d. 790/1388). Ibn Qayyim al-Jawziyyah (d. 1356) emphasized that the Shari'ah aims at safeguarding people's interests in both this world and the hereafter (Ibn Qayyim, n.d.). Al-Ghazali eloquently expressed that the objective of the Shari'ah is to promote the welfare of human beings, encompassing the safeguarding of faith, life, intellect, posterity, and wealth (Al-Ghazali, 1937).

Classified by Muslim scholars into three main categories, *maqasid al-Shari'ah* includes *daruriyyat* (essentials), *hajiyyat* (needs), and *tahsiniyyat* (embellishments).⁴ Muslim scholars define *maslahah* as "the preservation of the objectives of Shari'ah," signifying its primary role. The essential *masalih*, or *daruriyyat*, are divided into five, emphasizing the preservation of key aspects:

- (1) Preservation of faith/religion (*Din*),
- (2) Preservation of life (*Nafs*),

⁴For detailed discussion on different classifications see Ibn Ashur (2001), Kamali (1998, 2008), Vejzagic and Smolo (2011), and ISRA (2011, 2023).

- (3) Preservation of lineage/descendants/procreation (*Nasl*),
- (4) Preservation of property (*Mal*) and
- (5) Preservation of intellect/reason (*'Aql*).

This comprehensive approach aligns with the multifaceted objectives of Shari'ah, ensuring not just the individual but also the communal well-being. Recognizing these objectives serves as a compass guiding IF practitioners (Smolo, 2013).

The Salient Features of Islamic Finance

In the intricate realm of IF, numerous scholars have delved into the foundational principles, drawing insights from key sources like the Qur'an, *Sunnah*, *ijma'*, and *qiyas* (Askari et al., 2012; Ayub, 2007; El-Gamal, 2006; Mirakhor, 2007; Smolo, 2013; Smolo & Ismail, 2011; Usmani, 2002). These principles, deeply rooted in Islamic jurisprudence, underpin the ethical and financial framework that transcends geographical and temporal boundaries. The most important are:

*The Prohibition of Riba (Interest or Usury)*⁵

At the heart of IF lies the unequivocal prohibition of *riba*, or interest and usury, as emphatically stated in the Qur'an. The verse declares, "Those who devour usury (*riba*) will not stand except as one stands whom Satan has driven mad by his touch. That is because they say, 'Trade is like *riba*,' whereas Allah has permitted trade and forbidden *riba*."⁶ *Riba*, with its literal meaning of "excess," "growth," or "increment," holds profound implications for financial transactions.

The prohibition extends to two distinctive forms (Al-Zuhayli, 2003a):

- (1) *Riba al-Fadl*: Primarily applicable to barter transactions, this form of *riba* involves the trading of one commodity within a category where the rules of *riba* apply for another commodity of the same category. An increase of one compensation over the other characterizes this exchange.⁷
- (2) *Riba al-Nasi'ah*: Tailored specifically to loans, this type of *riba* encompasses any excess payment over the principal amount, acting as compensation for a delay in repayment.

⁵Some authors differentiate between usury and interest and say that *riba* refers to usury only while interest is not included in the prohibition. In this paper, the term *riba* refers to both interest and usury. For detailed discussion on the issue of *riba*, see: (Al-Zuhayli, 2003b, p. 309).

⁶Al-Qur'an, 2:275. In fact, the receipt of *riba* is forbidden in the Holy Qur'an, while the payment of *riba* is prohibited in the Sunnah of the Prophet (peace be upon him), and consensus (*ijma'*). In the Qur'an, the strongest prohibition is provided in the verses [2: 275–279].

⁷The following items are mentioned in a *hadith* to be *ribawi* and as such should be exchanged only in an equal measure or quantity: gold, silver, barley, wheat, salt and dates.

The meticulous classification of these two types underscores the depth and precision with which IF addresses various facets of financial transactions. This prohibition not only reflects a distinctive ethical stance but also emphasizes the importance of fairness, justice, and equitable dealings in the financial realm.

Prohibition of Gharar (Excessive Risk and Uncertainty)

Gharar, a term laden with meaning, encapsulates the concept of something with a pleasant appearance but an unpleasant reality. Defined as the sale of probable goods whose existence and/or characteristics lack certainty, *gharar* equates to a trade akin to gambling (Al-Darīr, 1995). Examples include the sale of fish in the sea, birds in the sky, or unripe fruits on the tree, all of which introduce excessive and avoidable uncertainty into transactions.

Prohibition of Maysir (Gambling/Speculation)

IF staunchly prohibits gambling and games of chance that involve the possibility of total loss to one party.⁸ Described as a zero-sum game, *maysir* leads to a transfer of wealth without creating any new wealth. Beyond financial considerations, the prohibition of *maysir* is motivated by the potential for invoking enmity and distracting individuals from their worship.

Shari'ah-Compliant Activities

As a subscriber to Islamic tenets of trading, IFIs must operate upon to what will be permissible under Shari'ah guidelines. This means that Shari'ah pays an absolute disapproval of investing in casino business, tobacco production, alcoholic beverages, pork farming, pornography works, and the manufacture of guns and other things not associated with Islamic teaching.

Risk-and-Return Sharing

Unlike interest-based incomes, IF seeks to promote returns on investment by spreading the risk and reward among lending parties or monies given. Such kind of the approach stimulates business among the partners depending on the nature of human relationships not the system of base interests which are clubbed as the conventional interest system.

The Sanctity of Contracts

The contractual obligations not carried out according to Islamic way of life are also regarded as breach of trust in Islam.⁹ Contracts involvement in the sanctity of

⁸Gambling is prohibited in the Qur'an [5:90–91].

⁹Refer to Qur'an, [5:1] where it says: "O you who believe! Fulfill (all) obligations."

contracts is another aspect which is marked the disclosure of full information, which is aimed to tackle the possession of the hazard and information asymmetry. This implementation allows for genuine business delicate deals under fair conditions.

Social Justice

Islamic system fully stands against the things that would lead or result in social injustice or the party doing exploitation. Furthermore, public interest is promoted ensured above the benefit of an individual. This is achieved by IF principals that oppose paying interest except on the basis of deferred payment (*riba*), risk-maximizing instruments (*gharar*) and gambling (*maysir*). IF then promotes fairness and justice through legitimate compensation for risk-and-return sharing as well as cooperation and *maslahah* (public interest).

Among other issues, community banking, ethical banking, and socially responsible investing are the basis of IF model. In this way, it endeavors to design a financial environment that not only be in accordance with the religious doctrines but also complies with the ethical values that people follow in the modern world. Being this ethos ponders as the passage from the antique markets of the town of Madina to the busiest financial structures of Wall Street the Islamic banking is the entrenched principle that it will stand the test of time.

The Basic Modes of Islamic Finance

As the landscape of IFIs has evolved, so too has the array of financial instruments at their disposal. These instruments cater to a wide spectrum of sectors, encompassing housing projects, car financing, working materials and equipment acquisition, funding business ventures, and addressing government deficits. A concise exploration of the fundamental modes of finance in IFIs reveals their versatility and applicability across various economic domains.¹⁰

Qard Hasan (*Benevolent Loan*)

Qard Hasan, translating to “good loan,” is not merely a financial contract but a commitment grounded in social welfare. Technically, it functions as a loan agreement between two parties, with the amount borrowed being equivalent to the amount to be repaid. However, what distinguishes it is the benevolent nature allowing the borrower to repay more than the borrowed sum, provided such terms are not predefined at the contract’s outset. This unique mode aligns with the spirit of mutual assistance and societal well-being, reflecting the ethos of IF.

¹⁰For a detailed discussion of the basic modes of Islamic finance, please see: [Al-Zuhayli \(2003a, 2003b\)](#), [Ayub \(2007\)](#), [ISRA \(2023\)](#), [Smolo \(2013\)](#), [Smolo and Ismail \(2011\)](#), [Usmani \(2002\)](#), etc.