



RESEARCH PAPER

Debt Financing Vs. Equity Financing in the Context of Maqasid Al-Shari'ah in Islamic Finance

Naheeda Ali

Assistant Professor, Department of Law, University of the Punjab, Gujranwala Campus, Punjab, Pakistan

***Corresponding Author:** naheeda.ali@pugc.edu.pk

ABSTRACT

Islamic finance is a major part of global financial system that is expanding profligate. A deeper understanding by regulators, policymakers, academics, and practitioners has been aided in growing significance of Islamic finance, especially in emerging countries in the Middle East, Asia and even Europe. This study provides a concise examination of Islamic finance's, origins, guiding principles, and practices. Islamic finance is seen as being a component of an Islamic economic system that has a social focus at its core, Its Maqasid-i-Shari'ah. Which should emerge in economy as promoting development and justice in the system's overarching objective. This signifies that in addition to surpassing legal criteria, an Islamic financial system needs to address a society's social demands of fairness and equality. There is a widespread Maqasid-i-Shari'ah, need to be present in outcomes of Islamic financial system. However, there isn't any particular study that looks at how Maqasid-i-Shari'ah may be used for financial goods.

KEYWORDS Debt Financing, Equity, Islamic Finance, Fairness and Equity, Maqasid Al-Shari'ah, Profits and Losses (PLS)

Introduction

Islamic banking seeks to alleviate poverty and promote equity. It is an economic system that encourages the improvement of humanity in every possible manner and economic equality for all individuals. The Quran and Sunnah are exceedingly explicit in their criticism of the concentration of wealth. Numerous civilizations have collapsed, and many revolutions have occurred directly because of the vast disparity between the affluent and the poor, as shown by a history review. Therefore, it is evident that a community with a higher degree of discrimination will fail in the long term. Sadly, it seems that humanity does not learn from past mistakes. Prophet (PBUH) once stated, "Community, where a person sleeps and awakens up famished, has lost God's protection." (Musnad). Sadly, there are various places in the modern Muslim world where many people sleep and awaken starving (Abd Rahman et al., 2020).

Islam is the religion to teach how to live a life that is meant to be practiced by all people, and God sent the Prophet (saw) as a kind of compassion to all people, not only Muslims. Nonetheless, it is regrettable that many of the procedures we use now in economics contain no trace of compassion and just elements of greed. A good number of individuals strongly dislike profit-loss sharing and are unwilling to get into Shirkah or partner with their contemporaries. It does not seem that there is any longer a sense of fraternity (Ahmad, 2020).

The economic system based on Islam does provide answers in the form of solutions. These methods provide cash to those in need via profit and loss sharing mechanisms. Many people believed that introducing Islamic banks would eventually lead to the development of financial instruments of this kind. Despite expectations, this did not turn out to be the case. The proportion of PLS contracts is quite low compared to the rate of debt-based contracting. Are these debt-based contracts a workable option in terms of satisfying the Maqasid-i-

Shariah and achieving financial Justice, or just a reflection of traditional debt financing instruments that have detrimental effects on the society? In this specific piece of research, we make an effort to provide an answer to this issue (Dusuki, 2019).

This article is broken up into many parts. Following the presentation of the issue, the declaration of the purpose of the research comes next after the introduction. Next, the following part (section 4) provides an overview of the research questions that the analysis in this study will answer. The fifth section of this paper addresses the discussion obtained from the review of the relevant literature. This section focuses on imperative matters about Maqasid-i-Shari'ah in terms of equality and Justice existing practices and the excellent standards of Islamic finance and banking. A piece of writing is brought to a close with a conclusion (Emon et al., 2018).

Literature Review

The meaning of the term "Maqasid al-shariah." Maqasid al-shariah has as its principal objective the expansion of Muslims' spiritual and socio-economic prosperity. This is the main objective of Maqasid al-shariah. In the same manner, as underlines the persistence of Shariah is to assist human beings, Allah reminds us in the holy Quran surah Al-Anbiyah (21:107) that he did not send the Prophet (saw) unless it was to be a favor to the universe consequently, Shariah was founded for this reason. Adl, also known as Justice, is another fundamental idea and objective of Shariah to build and maintain equilibrium within a society (Emon et al., 2018).

Al-Ghazali's categorization of the Maqasid is divided into three categories: Tahsiniyyah, Daruriyyah, and Hajjah. Its identified as essential, complimentary, and additional, respectively (desirable). The five components that comprise the Darurriyah are known as "Life," "Intellect," "Faith," and "Lineage." When these items are destroyed, the civilization in which they are employed descends into chaos. With the Hajjat, problems and hardships are often mitigated, i.e., Shariah concessions such as a traveler's reduced prayer requirements. Hajjah attempt to safeguard and promote the first group. Refinements in society are referred to as tahsiniyyah. One example of a tahsiniyyah is the encouragement to wear perfume to Friday prayers or to provide voluntary sadaqah. In addition, Shariah emphasizes appropriate behavior in men, such as Ihsan, which means kindness and nice speech (Fisol & Albasri, 2017).

Their article explores the concept of Maqasid from various scholars' views. Describes Fakhruddin al Razi's belief that the Maqasid components should first be developed, then exalted, and only then should they be kept. Further scholars added other purposes to those articulated by Shatibi and Ghazali, including the idea that man's self-esteem ought to be preserved since, under Shariah, it is illegal to make false accusations against another person (Fisol et al., 2017).

In this chapter, Shatibi examines the identification of Maqasid as well as the methods for providing evidence that it is, in fact, an objective. He divided this into two distinct groups, which he referred to as methodological ways and subjective ways. He advocated the use of logic in order to ascertain the purposes of the Sharia.

According to Kamali, using the Maqasid is necessary in the contemporary world since it addresses free-form jurisprudential issues that may be initiated in instruments of Usul fiqh, like Ijma. Therefore, it believes that Maqasid-i-sharia is independent of challenges and can provide realistic choices for developing many concerns that the Ummah is now confronting.

Additionally, according to Al-Fasi (1963), cited by Shidiqi (2004), the goal of shari'ah is the good (maslahah) of the human being as vicegerent in the society in which he lives, accountable to Allah, who gave him the responsibility of upholding Justice and fairness,

trying to ensure the intellectual and social well-being, and making certain psychological sense of satisfaction for each individual of the Ummah. Al-Fa Ibn 'Aashur (1879–1893) felt that the purpose of shari'ah was to maintain and preserve its good deed by guaranteeing the welfare of people in positions of authority, which denotes reforming (Islah) in this world and eliminating corruption (fasad) from it. Others, on the other hand, think that the goal of shari'ah is to preserve righteousness and order in the world.

Importance of Fairness and Equity in the World

One of the three pillars supporting Shariah's purpose is the establishment of Justice. Everyone should have the same opportunity to contribute the capital needed to accomplish the goals that have been set, which is why Justice is so vital for attaining sustainable economic growth. The administration of Justice must be carried out equitably so that everyone has access to the same opportunities. Equality safeguards against prejudice and discrimination of any kind, including those based on factors such as a person's race or color, age or gender, sexual orientation, or country of origin (Ishak & Asni, 2020). The satisfaction of one's spiritual needs is contingent upon the existence of Justice and human brotherhood, which entails fair treatment of persons. In order to maintain a calm and relaxed state of mind, we, as humans, need not only the satisfaction of our worldly requirements, which we strive to achieve but also the satisfaction of our spiritual needs. This spiritual satisfaction cannot be obtained via material means; rather, it must be pursued through immaterial methods, which cannot be measured in terms of commodities. In order to follow the immaterial methods, it is necessary first to fulfill our role as Khilafah and then ensure that all persons are treated equitably. There would be peace in an environment characterized by no criminality, life protection, and praises that may contribute to society's peace. The achievement of Justice can bring about a social and moral elevation that could help bring about peace (Ishak & Nasir, 2021).

When seen from the standpoint of Shariah, equality for all people is one of its essential tenets. The quality of a person's taqwa, also known as their degree of religiosity, is the single factor that Allah considers when determining whether or not someone is righteous in his or her eyes. On the other hand, opportunities are not distributed fairly in a system founded on debt, which results in a gap between the affluent and the poor. In most cases, those who are less fortunate do not have access to any finances, while those who are wealthier can borrow an unlimited amount. This is counter to the goals that are outlined in the Sharia (Fisol et al., 2017).

In contrast, equity provides comparable options for funding to all individuals, regardless of their economic standing. When it comes to investing, the potential return on investment in the project will be of more importance to the investor than the availability of collateral, in contrast to how debt financing works. These conceptual frameworks of Justice may be used to assess the advancements achieved in the contemporary use of Islamic finance and banking (Dusuki, 2019).

The Current Methods Employed in Contemporary Islamic Finance And Banking

According to information acquired from the current practices of Islamic banks, the bulk of financing operations carried out by Islamic banks across the world seem to be based on debt-like instruments rather than equity itself. It is claimed that Islamic banks and financial organizations have chosen profitable Islamic financing such as murabahah over musharakah since the latter is oriented toward debt-financing. At the same time, the former is geared toward equity financing. This is the reason why this is the case. The term "murabaha syndrome" was used to characterize this issue since Islamic banks and financial institutions tend to rely excessively on debt-based financing for most of their products (Ahmad, 2020).

The items sold by Islamic banks do not contribute to the advancement of Justice; to put it another way, they do not yet accomplish the goal of shari'ah. In their efforts to be shariah-compliant, Islamic banks tend to emphasize the appearance of something rather than the thing itself. However, the effort or strategy used by Islamic banks is not compliant with Shariah. This is since the method that Islamic banks use is only a masquerade of the efforts that conventional banks have employed for a significant amount of time. In other words, when Islamic banks provide clients with financing facilities, they continue to use debt-based financing contracts rather than asset-based financing contracts. Because of this, as shown by the mudharabah contract, it does not fulfill the fairness and standards specified in the contract. As a result, the execution of PLS contracts like Mudharabah and Musharakah is extremely restricted, and the poor have not truly profited from this in addition to the murdering and discrimination of people who are in desperate need of funding from the existence of Islamic banks. This is due to the restricted usage of PLS contracts like Mudharabah and Musharakah implementation. The Prophet SAW started as a struggling merchant, but over time, with the help of his wife Khadijah, he was able to build a prosperous business because of PLS contracts. Asserts that banks provide loans to customers based on the 5C's standards—credibility, integrity, capitalization, collateral, and capability. This is by the statement above. In light of this reality, it is abundantly obvious that the finance contract does not inherit Justice or equality, which results in a disparity in income between those who have access to financing and those who are prevented from engaging in financing (Abd Rahman et al., 2020).

Additionally, the widespread use of collateral in the banking system favors creditworthy commercial patrons and trades owing to rigorous scrutiny and due diligence before approving the money. However, the profit-loss sharing system that is wanted in Islamic banks serves to support Small and Medium Enterprises (SMEs), in addition to microfinancing for companies that have a chance of success. Given that 291 million people, or 24 percent of the entire population of OIC-LDCs, live in poverty, equity-based financing is thus preferable to debt-based financing, and the need for Islamic banks to aid the destitute is emphasized. Comparatively, debt-based financing is less desirable than equity-based financing (Abd Rahman et al., 2020).

Effects of Debt Financing on Socio-Economic Equity and Justice

Elimination of debt-based financing is one of the primary goals of the Islamic financial sector, which also seeks to maximize the use of available resources while simultaneously maximizing efficiency. The concept of "riba," also known as interest, is widely regarded as one of the most perplexing and deceitful practices that have tainted the traditional financial business. This has significantly affected society's socio-economic Justice by making the standards of exploitation, prejudice, and conjecture acceptable as the fundamental rule of the conformist economic sector's activities. As a result, the implications of riba and debt-based finance may be investigated from a local and a macro viewpoint.

When seen from a more microscopic level, it is clear that debt-based financing is often unfair, particularly to those in lower socio-economic brackets (Ahmad, 2020). The current state of banking requires a level of confidence between the borrower and the lender for the transaction to go through. This level of trust is contingent on the readiness of collateral; it is something the deprived do not hold. Because of this, those with low incomes cannot get loans. Due to their limited access to financial resources, the poor are sometimes forced to seek financing from predatory lenders. This is observable in Pakistan. These individuals yield the benefit to the impoverished and control enormous interest rates, which is not reasonable or fair and goes against numerous Islamic precepts, particularly since Islam frowns upon the practice of exploitation (Lahsasna, 2013).

Because impoverished people lacked the assets necessary to get a loan, Muhammad Yunus established the Grameen Bank in Bangladesh to provide them access to credit when

it was previously unavailable. In other words, the impoverished could not get bank loans (Yunus, 2007). This is a glaring violation of Islamic principles, which hold that individuals of all origins should be given equal opportunity.

Nizam Al Mulk, a well-known Muslim thinker, was of the view that in order for society to be stable, it is necessary that all members of society, even those who are economically disadvantaged, have the same economic opportunities available to them. However, inequity arises from the fact that the poor often cannot receive this kind of funding owing to a lack of collateral, whereas with debt-based funding, this is not the case. Maqasid: Despite the fact that the goal of Shariah is to protect life, millions of poor people lose their lives every year as a result of the little opportunities they have to get out of their miserable circumstances (Laldin & Furqani, 2013).

Our definition of "Maqasid" demonstrates that certain academics have included the idea that respect for human dignity should be protected in their interpretations. Consequently, we can see that a man's dignity is based on his ability to sustain himself and feed his family. They must have equitable access to money if men attain this dignity, especially the impoverished. This will allow them the chance to gain dignity in the community by becoming successful business owners, allowing them to achieve this dignity (Lateef et al., 2017).

If they are provided with this chance, they will not have to depend on handouts or charity; as a result, society will benefit from this development. A well-known Chinese adage says that giving someone a fish will provide food for them for a day; teaching someone to fish will provide food for them for the rest of their lives. In this saying, "give" refers to providing a single meal, while "teach" refers to the actions. We may make a connection between this and the situation we are in right now by noting that providing a poor person with funding via mudharabah or musharakah allows them to become self-sufficient rather than relying on charitable giving (Mergaliyev et al., 2021).

As Muslims, we must objectively assess the outcomes of a potential action before carrying it out. If one were to inquire, how does debt finance affect society, and does it go against the Maqasid? The answer to the previous question is yes. Debt should never be promoted since it may negatively affect society. Examining the Maqasid reveals that the preservation of the family unit and the welfare of society are among its key objectives. Individuals are encouraged to live above their means by credit cards and other types of debt financing, which has a detrimental effect on society. Because he must work longer hours to meet his financial responsibilities, a man cannot spend time with his family. It should come as no surprise that this violates Shariah's objectives. Contrarily, This does not occur when equity is used as the basis for financing, since both partners are obligated to look out for one another, and as a consequence, no one will carry the burden of duty (Lateef et al., 2017).

Another impact poverty has on society is that sometimes the poor can remain poor because they do not have access to finances, while the affluent can grow much wealthier. This can contribute to the growth of animosity and hostility in society. As was the case with the racial riots in Pakistan, there is the potential for loss of life and damage to property as the discrepancy widens. This violates the Maqasid of Shariah since one of the fundamental tenets of Shariah is that people and their possessions should be protected at all times (Laldin & Furqani, 2013).

Debt-based financing under the conventional system is terrible because it promotes speculation, which would make the economy unstable from a macro perspective, as is evident from the consequences on the economy's overall performance. This is clear from the fact that the existing system's debt-based funding is notoriously poor. Even if having no initial financial sector input into the real sector, economic instability hurts the "real" sector of the economy by raising unemployment, poverty, and inflation. Interestingly, the conventional structure divides the economy into two sectors: the real sector and the

financial sector. This is because, under this system, the only assets used to sustain debt-based financing are financial ones, and the only industry that sees money flow is the financial one. Unfortunately, the real sector of the economy is the one that suffers from the negative consequences of the financial sector (Mohammed & Taib, 2015).

The actual and financial sectors of the economy will not be clearly distinguished in the Islamic financial system that Islamic economists and shariah scholars envision. As opposed to most financial assets in the financial sector, equity financing is backed by real assets, so anything the financial sector does will help the real sector. Because of this, it would increase employment in the economy, which would end poverty. Additionally, it will limit economic speculation, a terrible scourge in the established order. Poverty will be eliminated as a consequence of both of these advantages. Due to its foundation in equity finance, the Islamic financial system supports the economy's growth and the upkeep of economic stability. In addition, it satisfies the Maqasid of Shari'ah criteria by producing socio-economic fairness among the individuals who participate in the economy (Lateef et al., 2017).

Ideal Islamic Finance and Banking, Viewed from Perspective of Maqasid Shariah

The Maqasid Al-Shari'ah must serve as the Islamic Banking and Financing industry's guiding concept in light of the above information about the drawbacks of debt-based finance. The notion that The phrase "Maqasid Al-Shari'ah" (which translates to "objective of the Shari'ah") in Islamic banking must be interpreted systemically and dynamically. Additionally, the maqasid-i-Shari'ah encompasses more extensive measures ensuring welfare to achieve Justice and equality and does not just depend on individual-oriented aims. As a result, it is important to distinguish clearly and specifically between the Maqasid-i-Shari'ah and the overall goal of Islam. This is so because the overall goal of Islam encompasses social and psychological concepts that Maqasid al-Shari'ah does not address (Mergaliyev et al., 2021).

Many scholars agree that banks should emphasize social and private aims to fulfill their responsibilities. The laudable aim to improve societal well-being requires developing a welfare economics paradigm, and he feels social fairness and moral customs could be implemented. Notwithstanding this, some think Islamic banks should promote social welfare. Most Muslim economists agree that Islamic banking involves more than selling Shariah-compliant items. It is aimed to contribute to the community's socio-economic objectives. A new paradigm and adjusted behavioral standards may avoid homo economicus tendencies. Equity financing has the potential to be moral, and the ideas of risk sharing and collaborating via involvement are preferred to debt financing's inherent interest conflict between the lender and the borrower. Rodney Wilson in 2005, a non-Muslim researcher, favors equitable finance. Moral equity financing is possible. Moral equity financing is possible. Rodney Wilson says that restrictions on debt financing are becoming obvious at both micro and macro levels, the specified rise of bad debt among firms, and national indebtedness among many Third World states. Borrowing money is risky if it is used to fund high-stakes or long-term projects. Equity financing shifts risk from the investor to the funder. The flexibility of the project's payoff reduces hazards and increases the probability of success (Tarique et al., 2021).

Equity finance is the path ahead for obtaining that point of standard as established in Maqasid-i-Shari'ah to accomplish social or economic well-being, as taught by Muslim and non-Muslim thinkers. Equity finance is needed to reach that paradigm. Shari'ah consultants and scholars want equity financing in Islamic finance and Islamic banking. This is so that equity financing might incorporate profit-loss sharing depending on the investor's financial commitment. Equity financing is not a cover for debt-based financing employed in conventional banking. Persistently using equity finance may help achieve shari'ah's purpose of social fairness (Nasir, 2020).

In Islamic finance and banking, equity financing accomplishes a counter-value criterion. Shari'ah requires Iwadh or counter value for a lawful transaction. Iwadh requires risk, effort, and liability. Debt financing may have these elements. Iwadh is missing from most debt financing arrangements. If this is true and there is no risk, effort, or duty involved with a contract (debt), then there is no way, not even by a stretch of the imagination, such a deal could be considered reasonable. Musharakah and Mudharabah include danger, effort, and responsibility. These equity financing agreements are thus more sensible and compliant with Maqasid Shariah as shari'ah favors profit-loss sharing. When debt-based funding is utilized to guarantee the fee, Islam considers profit loss sharing unjust. Both the creditor and debtor should share the transaction's gains or losses. Profit-sharing interest rates may be greater than market rates to reflect the creditor's participation. Profit sharing helps the debtor and creditor equally (Nouman et al., 2021).

Iqbal Zamir (1997) The author claims that his statement that "Social justice necessitates that lenders and borrowers share gains and losses evenly" supports his claim that this is a fundamental need for fairness. From the perspective of the investor, equity is juster. He believes that it is unjust for the creditors expect specific percentage of return from the debtor if he experiences loss and that it is unfair only to pay the creditor a small portion of the profit if the debtor experiences huge percentage of profit. Likewise, (Imad & bin Osman, 2017) . He asserts, "The creditor should pay the debtor more if debtors earns much money." Equity-based financing is more equitable than debt-based financing since the borrower and lender share earnings and losses. One party assumes all risk when using debt-based financing (Qoyum, 2018).

Forbidding loans based only on the borrower's creditworthiness offers a more egalitarian environment than personal loans within the framework of debt-based finance. PLS promotes cooperation, fellow-feeling, solidarity, fraternity, interdependence, and global brotherhood by including everyone in production and investment. In an economic system, fraternity and general well-being demand justice, not debt (Rafay & Farid, 2017).

Musharakah is a partnership contract that is compatible with Maqasid Shariah. Instance: this contract. Musharakah Mutanaqisah equity contracts are more favorable than DBA debt-based arrangements. This is because, unlike the DBA, it does not tax those with small earnings and seeks to increase the population's well-being. They claim that Musharaka contracts may stabilize the economy since they encourage cooperation rather than debt. They think Musharaka contracts can stabilize the economy. Musharakah is more egalitarian than other types of funding, according to Taqi Usmani (2005), since the lender may lose money (Rafikov & Saiti, 2017).

Fixed planned payment is forbidden in Islam since it is not based on the profits and losses suffered in an enterprise. However, the profit that comes through commerce and productive investment is highly encouraged by Islam. This is one of the reasons why many academics think that the socio-economic fairness envisioned by the Islamic banking system will never come to pass until Islamic banking institutions agree to PLS financing tools. PLS dominates the assets and liabilities of an ideal Islamic banking standards' balance sheet. Most writers on Islamic economics believe PLS is the sole concept that correctly depicts the Islamic banking mechanism, which differs from interest-based approach.

The equity-based system, which Islamic finance and banking should embrace, aids generate worth added to the economy, which boosts economic growth. Islamic economics views equity and profit-sharing finance as better than debt-like financial instruments. However, present reality reveals that Islamic banks have diverged from this ideal. Islamic economics favors equity and profit-sharing finance (Rahman & Haron, 2019).

Equity finance reflects Shariah's values of Justice and equality

PLS sharing equity contracts are the only way to alleviate global poverty considering the economic benefits. The debt-based economy collapsed. According to the article, debt-based finance is a key source of the global financial crisis. The role of Shariah in Islamic finance and banking expansion is unclear. If Islamic banks fully integrate Shariah to promote their mission, they might be the pioneers of socio-economic fairness in the community (Shinkafi & Ali, 2017).

Uncertainty about the distribution of profits and losses (PLS)

Investigate arguments against profit-and-loss sharing (PLS). Stiglist and Weiss (1981) concluded that profit-sharing schemes were inefficient. A high-risk strategy promotes partnerships, transitions to an equity-based structure, removes debt, and converts depositors to shareholders. Some reasons include asymmetric information and the cost of eliminating it, moral hazard and adverse selection, agency expenditures, and monitoring counterparty behavior. Certain Islamic banks disagree with profit-and-loss sharing. These banks may claim that the agency issue was unavoidable based on self-interest.

Because the agent is not spending their own money, the venture is hazardous. Iqbal and Molyneux (2006) found two problems in the premise that banks should not use PLS financing. Proponents of this position provide weak arguments (Nouman et al., 2021). While investigating the assertion that PLS financing is too risky for banks, they found two flaws. First, return rate volatility is not the only risk in financial transactions. Second, "fixed return" interest-based contracts may not generate a fixed return. Several authors have established that Islamic banks face more risks if the ultimate return on their assets fluctuates more due to large-scale transactions. PLS devices may expose users to deadly risks and hazards. Some scholars claim that profit sharing may approach a market solution since it involves civil society engagement, administrative abilities, and expertise in managing bank investment initiatives. Equity financing provides various benefits over debt-like vehicles that the banking sector must acknowledge as more favorable. Therefore, they concluded that the notion that Islamic financial institutions cannot use PLS contracts due to the high risk involved is not believable. In light of this, they feel that more research and discussion are necessary to continue supporting the practice of PLS (Tarique et al., 2021).

Conclusion

Islamic banking is commonly known as a global system of investments and money. Although Islamic banks have only existed for around thirty years, their financial system is based on Islamic finance traditions that date back far more. The system is founded on moral ideals and prioritizes the health and prosperity of the whole society.

A bank that bases its operations and functions on Shariah principles is notably distinct from a bank that bases its operations and functions on artificial concepts. Islamic banks will become financial entities to help Muslims avoid *riba* and other banned aspects in commercial and financial transactions. All other Islamic banks, the Islamic Development Bank (IDB), and the General Secretariat of the Organization of Islamic Conference have accepted the definition of Islamic banking as a financial institution whose statutes, rules, and procedures expressly state its commitment to Islamic Shari'ah and prohibit the receipt and payment of interest (OIC).

The above function is unlikely to be its main goal. According to Al-Fiqh Al-Islamic wa-Adillatuh by Wahbah Al-famous Zuhayli, Since the main objective of Islamic banking is not to make a profit but to foster socioeconomic progress and alleviate poverty, Islamic banks should be receptive to societal needs. If Islamic banking could withstand macroeconomic shocks by depending on equity rather than debt, this may be possible. In

light of the aforementioned considerations, this research concentrated on the challenges that Islamic banking and finance confront in attaining justice and equality as prescribed by the shari'ah. These issues are a direct outcome of Islamic banking and finance, which, under the pretext of "efficiency," encourage debt-based financing arrangements while dispensing with shari'ah standards outlined in the contracts. Divergence from shari'ah standards affects society's members, resulting in a fall in economic performance. This is against the spirit of Islam and shari'ah and must be avoided. If you desire Justice and equality, you must deploy Shariah-compliant solutions that rely on equity financing.

After considering the factors above, I have concluded that for our economic operations to be fair and equitable, the poor must have access to fair money. If this is done, a stable society and economy will enable Maqasid Shariah to be applied fully. I say this after considering the above points. Unstable is a society with large economic and opportunity inequalities. Due to a lack of Justice and financial equality, maqasid have declined in many nations. This reduces respect for maqasid. Many individuals strive to make ends meet, and some must resort to violence to do so. This is the reverse of what the Maqasid preaches, yet it happens elsewhere when people are angry about their social status. During riots, the property is harmed. To attain Maqasid, equity contracts must be formed.

For Islamic banking to become a viable alternative, there must be a real difference in content, not just form. According to many Muslims, Islamic banking is surprisingly similar to regular banking, and the only difference is its outer appearance, not its underlying workings. To fully adopt Islamic finance, Muslims must amend the contracts and utilize Mudharabah and Musharakah. This contract change is also important.

This is the perfect moment for Islamic finance and banking to undergo a paradigm shift in how we see financing. We should all support the wider implementation of equity PLS sharing agreements. Low-income people, especially farmers, would have access to cash, improving production and output, alleviating poverty, and stabilizing society. These are a few advantages of global equity financing.

Consequently, microfinancing has become a new option for Islamic financial institutions seeking to expand their commercial operations. It is predicted that this kind of funding would be able to support Shariah's socio-economic development goals since it targets economically or financially disadvantaged and handicapped prospective businesses. This is because the targeted group is economically or financially disadvantaged and disabled. This kind of financing encourages commercial innovation, entrepreneurship, and risk-sharing among prospective firm owners who lack the financial means to reach their full commercial potential. This kind of financing would prohibit banks from exploiting large-scale enterprises. Similarly, it would stimulate the channeling of money to entrepreneurs who, in the absence of this legislation, would have difficulty gaining access to financing to accomplish their commercial or entrepreneurial ambitions. This would be done by boosting entrepreneurs' access to capital.

In a word, Islamic banks must avoid debt-based financings since it is an instrument that might precipitate a severe economic collapse. This is crucial for addressing the present financial crisis facing many nations; It results from careless risk-taking and a lack of financial discipline, both of which are forbidden under the entire scope of Shariah. This tragedy results from taking unwise risks and lagging in personal finance, which the sharia law forbids. The growth of Islamic financial goods made available by Islamic banks will enable the goals of Shariah to be widely realized in this way. According to the Islamic financial industry, asset-based financing's main goals are to do away with "riba," also known as interest, and to promote the norms of socio-economic Justice and equality, both of which are badly missing in the traditional financial sector. Suppose Islamic finance and banking work to make up for what the conventional financial system sorely lacks. In that case, we believe that Islamic finance and banking might become institutions that serve as examples of

shari'ah for the whole economy. This is due to the tremendous efforts made by Islamic banking and finance to overcome the deficiencies of the conventional financial system.

References

- Abd Rahman, N., Osman, M. R., & Kasim, N. (2020). Islamic legal maxim for Shari'ah audit in Islamic bank. *Journal of Islamic Accounting and Business Research*, 11(2), 457-471
- Ahmad, A. A. (2020). Realizing Maqasid Al-Shari'ah in Shari'ah governance: A case study of Islamic banking institutions Malaysia. *International Journal of Islamic Economics and Finance Research*, 3(2 December), 39-52.
- Dusuki, A. W. (2019). Shari'ah Parameters On The Islamic Foreign Exchange Swap As A Hedging Mechanism In Islamic Finance. *ISRA International Journal of Islamic Finance*, 1(1), 77-99.
- Emon, A., Ademi, C., Ahmed, H., Auda, J., Chaudhry, A. S., Duderija, A., Kamali, M. H., Khalfaoui, M., Masud, M. K., & Nekroumi, M. (2018). *The Objectives of Islamic Law: The Promises and Challenges of the Maqasid al-Shari'a*. Lexington Books.
- Fisol, W. N. M., & Albasri, S. H. (2017). The Scientific of the Fundamentals of Maqasid in Islamic Financial Products Development. *International Journal of Academic Research in Business and Social Sciences*, 7(10), 683-692.
- Fisol, W. N. M., Radzi, N. Z. M., & Othman, Y. (2017). The engineering of Islamic legal opinion (Ijtihad) on the Maqasid Al-Shariah development in the assessment of Islamic financial products. *International Journal of Academic Research in Business and Social Sciences*, 7(4), 945-956.
- Imad, O. M., & bin Osman, M. F. (2017). INVESTMENT IN THE LIGHT OF QURAN, SUNNAH, AND ISLAMIC JURISPRUDENCE. *Journal of Global Business and Social Entrepreneurship (GBSE)*, 3(9).
- Ishak, M. S. I., & Asni, F. (2020). The role of maqasid al-Shari'ah in applying fiqh muamalat into modern Islamic banking in Malaysia. *Journal of Islamic Accounting and Business Research*, 11(9), 2137-2154
- Ishak, M. S. I., & Nasir, N. S. M. (2021). Maqasid al-shari'ah in Islamic finance: Harmonizing theory and reality. *The Journal of Muamalat and Islamic Finance Research*, 108-119.
- Lahsasna, A. (2013). *Maqasid al-Shari'ah in Islamic finance*. IBFIM.
- Laldin, M. A., & Furqani, H. (2013). Developing Islamic finance in the framework of maqasid al-Shari'ah: Understanding the ends (maqasid) and the means (wasa'il). *International Journal of Islamic and Middle Eastern Finance and Management*, 6(4), 278-289.
- Lateef, A. W., Abdurrazzaq, A. A., Shukor, S. A., & Tajudin, A. A. (2017). Maqasid Al-Shari'ah in Ijarah (Leasing) Contract of Islamic Banking System. *Journal of Islamic Finance*, 6(2), 038-044.
- Mergaliyev, A., Asutay, M., Avdukic, A., & Karbhari, Y. (2021). Higher ethical objective (Maqasid al-Shari'ah) augmented framework for Islamic banks: Assessing ethical performance and exploring its determinants. *Journal of Business Ethics*, 170(4), 797-834.
- Mohammed, M. O., & Taib, F. M. (2015). Developing Islamic banking performance measures based on Maqasid al-Shari'ah framework: Cases of 24 selected banks. *Journal of Islamic Monetary Economics and Finance*, 1(1), 55-78.
- Nasir, M. A. (2020). The Relevance of Maqasid al Shari'ah to Anti-Money Laundering and Terrorism Financing. In *Handbook of Research on Theory and Practice of Global Islamic Finance* (pp. 179-194). IGI Global.

- Nouman, M., Siddiqi, M. F., Ullah, K., & Jan, S. (2021). Nexus between higher ethical objectives (Maqasid Al Shari'ah) and participatory finance. *Qualitative Research in Financial Markets*, 13(2), 226–251.
- Qoyum, A. (2018). Maqasid Ash-Shari'ah framework and the development of Islamic finance products: The case of Indonesia. *Tazkia Islamic Finance and Business Review*, 12(2), 169-188
- Rafay, A., & Farid, S. (2017). Maqasid-al-Shari 'ah vs. Contemporary Islamic Banking and Finance: The Case of Pakistan. Rafay, A. & Farid, S.(2017). *Maqasid-al-Shari 'ah vs. Contemporary Islamic Banking and Finance: The Case of Pakistan. Journal of Islamic Thought and Civilization*, 7(2), 41–51.
- Rafikov, I., & Saiti, B. (2017). An analysis of financial speculation: From the Maqasid Al-Shari'ah perspective. *Humanomics*. 33 (1), 2-14
- Rahman, A. S., & Haron, R. (2019). The Effect of Corporate Governance on Islamic Banking Performance: A Maqasid Shari'ah Index Approach on Indonesian Islamic Banks. *Journal of Islamic Finance*, 8, 001–018.
- Shinkafi, A. A., & Ali, N. A. (2017). Contemporary Islamic economic studies on Maqasid Shari'ah: A systematic literature review. *Humanomics*, 33(3), 315–334.
- Tarique, K. M., Islam, R., & Mohammed, M. O. (2021). Developing and validating the components of Maqasid al-Shari'ah-based performance measurement model for Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management*. 14 (2), 366-391