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THE SUPERIORITY OF THE ISLAMIC FINANCE SYSTEM OVER CONTEMPORARY MAN-MADE SYSTEMS

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Abstract: For decades, the debate over the interest-bearing financing system has raged, and economists have parted between a supporter of the capital-style interest system defending its efficiency and effectiveness, and a categorical opponent of this system, which brings only destruction, and groups that stand in the middle between the extreme parties.
On the other side of the river, the Islamic finance system stands tall, providing solutions, addressing problems, putting scalpels on wounds to herald a healthy financial and monetary system, and innovative financial solutions that have astounded its ideological enemies before its committed supporters, with its flexibility and efficiency to meet all desires and meet all funding requirements in any case.
This paper aims to study the fundamental differences between Islamic finance and man-made systems in general comparisons that address the basics and examine the genuine differences.

Introduction:

The interest-based financing system is the fundamental basis of positivist financial theories, despite the intellectual disagreements and theoretical contradictions that occasionally appear in the writings of positivist economic thinkers when determining the effectiveness and efficiency of this system, and despite the fundamental differences between Eastern and Western positivist thought in terms of application, theory, and foundation.
Since usury is one of the major sins that God Almighty has permitted to combat, and has promised its perpetrators the most severe punishments in this world and the Hereafter, God Almighty has replaced it with something better. He has permitted trade and allowed Muslims to stipulate whatever they wish, except for a condition that makes something permissible that is forbidden or something that is forbidden. He has permitted them to engage in transactions that will suffice them from usury and its evils. Thus, the Shari'ah is replete with diverse formulas, and Islamic jurisprudence is replete with numerous contracts through which all people's financial and investment needs can be met, across all ages and times, so that their transactions can proceed with ease and simplicity, without the need for abhorrent usurious dealings or falling into the clutches of injustice and ignorance. In the past, when the Soviet Union represented one of the pillars of the traditional system, socialist (Marxist) thought strongly opposed the capitalist system and criticized it violently. However, it did not provide a clear alternative that would dispense investors with interest. Interest, too, was implicit in the literature of Marxist thought, because modern socialist economists did not accept the views of Marx and the proponents of the old socialist thought without prejudice. Rather, they advocated modifying their content. Therefore, interest was also deeply embedded in the practices of the socialist system. However, it was subject to the will of the Central Economic Steering Committee and the economic conditions prevailing in society, which had the authority to guide investment forecasts in a situation no different from that of regulators under capitalism. However, the point of contention here was the absence of a market in which the interest rate was formed, and thus there was no natural tool for distributing productive resources among the various aspects of economic activity. Rather, the Central Steering Committee carried out this distribution on the basis of study, comparison, and selection, without the interest rate acting as a direct guide, as is the case in the capitalist system (Shandi,

p. 225). Contemporary global financial systems thus oscillate between a system that recognizes and relies entirely on interest (capitalist system), a system that rejects interest entirely and provides appropriate alternatives (Islamic system), and a system that rejects interest but implicitly uses it with controls that differ slightly from those of the blatant capitalist system in the way interest is used to direct investment on the one hand and savings on the other (socialist system.(

After the collapse of the Soviet Union, proposals and models for both planned economies and market socialism relied heavily on neoclassical economics or a combination of neoclassical economics with Marxist economics or institutional economics. (Wikipedia - Socialist Economy.(

Many of the remaining socialist countries, which presided over centrally planned economies, then moved to introduce reforms that shifted their economies away from central planning. In Central and Eastern Europe and the USSR, the transition from a planned economy to a market economy was accompanied by a transformation of the socialist mode of production to a capitalist mode of production. In Asia (China, Laos, North Korea, and Vietnam) and Cuba, market mechanisms were introduced by the ruling communist parties, and the planning system was reformed without any systemic change. (Wikipedia - Socialist economy).

In this paper, we will briefly discuss the interest system and its destructive effects on the economy and social development, on the one hand, and the alternative Islamic system based on the principle of joint financing, on the other.

The Capitalist Financing System (Interest System:(

To justify usurious interest, capitalism has sought to develop a number of theories that make the lender's receipt of interest from the borrower a natural matter, consistent with the nature of things, and in harmony with their realities. For example, they imagine or depict interest as legitimate and logical because it constitutes compensation for the various risks to which the creditor is exposed, or it is similar to the permissible rent of land, both of which constitute fixed income without work or risk. They view it as the wage of time, the wage of waiting, compensation for sacrifice, deprivation, or abstention, compensation for a low future, or the preference of time, or the price of use (Al-Masry, p. 413), and so on, among other flimsy arguments and justifications that are not based on acceptable logic. We will attempt to briefly address the most important of these theories:

First: The theory of capital productivity:

This theory is based on the premise that capital achieves a value greater than its intrinsic value. This means that the use of $500, for example, yields $550 before it is lost. This increase represents interest.

Hanson says: "There is a demand for loans because capital is productive. As previously stated, the highest quantities of production can only be achieved by adopting the highest capitalist means of production. However, this requires more time to acquire this capitalist means. Therefore, the businessman must sacrifice a small current return for a greater future return, and thus, pay interest on the borrowed capital." (Hanson, p. 351(

Here we can ask: Can this capital achieve this supposedly higher value if it remains locked away in its vaults? The answer is definitely no, because the increase in capital was achieved due to the integration of labor, money, and other factors of production, without capital being the sole source of any of the increase. Therefore, justifying interest for productivity here is inaccurate. If we accept the productivity of capital in the sense of its share in production, which is possible, this does not mean that a known benefit is allocated to it prior to the production process, because the failure of the factors of production to achieve production is

possible. Therefore, Islam has assigned a share of productivity to capital. However, if these factors actually achieve a net result at the end of the production process—profit that is divided among all parties involved in the production process, each according to their role, or according to the nature of the contract used in each case—then this is acceptable.
One of the criticisms leveled at this theory is that it did not differentiate between production and consumer loans. It assumed, without exception, that capital is productive, a mistake made by economist Samuelson (Al-Husseini, p. 14.(

Second: The Time Preference Theory:
This theory assumes that a loan is an exchange between present and future funds. Since present funds are preferable to future funds of equal value, the lender must be compensated for the loss of the benefit of their present funds. This compensation is in the form of interest added to the principal of the loan. The idea here is that the loan will allow the borrower time that he would have wasted saving this amount. In other words, it will enable him to acquire productive resources that he would otherwise be unable to achieve with his present funds, except after a long period of time. Therefore, he must pay the price for this acquired time, which he would have had to wait to achieve his desires.
This theory is not new. In fact, our ancient jurists recognized it and documented it in their books. Dr. Rafiq al-Masri quoted a statement by Imam al-Shafi'i in which he said: "One hundred sa's with a shorter term than one hundred sa's with a longer term are of greater value." (al-Masri, p. 30(
However, this support for the recognition of the decline in the future value of money cannot in any way justify the issue of interest, as usurious interest has nothing to do with this matter. Rather, it is a more inextricable justification. Indeed, Islam, which forbade interest and considered it a destructive economic act, cannot treat a disease with an incurable disease. Therefore, it urged the investment of money primarily to address the phenomenon of the relative decline in the value of money in the future. It established controls and restrictions that fundamentally prevent the hoarding and freezing of money, diverting it from its original function.

Third: The Liquidity Preference Theory:
This theory is very similar to its predecessor, as it justifies interest as a reward for abandoning liquidity. Those who possess and utilize money would not give it up without a price, expressed in a form that would prevent them from hoarding. (Al-Husseini, p. 17(
Those who keep their money in the form of liquid assets will inevitably lose the interest rate they earn from it. Therefore, the interest rate has a direct effect on liquidity preference, and vice versa. (Hanson, p. 353(
Based on this theory, the interest rate is not determined by people's desire to save, but rather by their attitudes toward liquidity, because the interest rate represents the price of relinquishing liquidity. (Hanson, p. 353(
On the other hand, relinquishing liquidity means being exposed to the risk of default, which entails interest on the loan as a result of assuming this risk. (Afar, p. 441(
However, these justifications are among the weakest and most ineffective on the subject of interest. If interest is the price of risk, why would a lender be inclined to demand the necessary collateral, something the lender (financier) has inevitably demanded in all ages? What does interest represent relative to the total borrowed amount if it is certain to be lost? What is the guarantee of interest payment for someone who has no guarantee of repaying the principal?

As for the price of relinquishing liquidity, also known as the price of waiting, this is not directly related to interest. Rather, the owner of the money may relinquish liquidity on the condition that he be given some of the proceeds of his wealth if it bears fruit. This is the path of Islam, which based relinquishing liquidity on real investment, or a good loan based on kindness to people, in contrast to what is expected from usurious interest.

The Socialist System and Its View of the Interest-Based Financing System:

After reviewing the concept of interest in the capitalist system, which considers it a positive and beneficial act and provides justifications and arguments for it—as we have already mentioned—we believe it is useful to address the concept of interest in the socialist system. By this, we mean Marxist thought and its philosophy on the issue of interest, considering it the antithesis of capitalism.

Marxist thought considers the mere thought of interest as a matter of natural justice to be nonsense. This is what capitalists like Gilbart decide when he says: “If a man borrows money with the intention of making a profit from it, he must give a portion of his profit to the lender. This is an obvious principle of natural justice.” (Karl Marx, p. 362)

Marx believed that the owner of money, who desires to increase it as capital, generates interest that he transfers to a third party. That is, he puts it into circulation, where it is transformed into a commodity as capital, not just for himself, but for others as well. It is not capital for the one who gives it up alone, but from the very beginning, it is given to a third party as capital, that is, as value endowed with use value that creates surplus value, that is, profit. Value maintains itself through its movement and, after fulfilling its function, returns to its original owner, in this case the owner of the money. It then only leaves him for a certain period of time, that is, it only temporarily leaves his possession and enters the possession of a working capitalist. Therefore, it is neither given away nor sold, but rather lent, with the understanding that it will return, having realized additional surplus value. (Karl Marx, p. 367)

Marx adds his philosophy and thought to this issue, saying: “In the case of capital that yields interest, its return as capital appears to depend on the mere expenditure between the lender and the borrower, so that in this transaction, the return of capital does not appear to arise from the process of reproduction, but rather as if the loaned capital had never lost its money form. It is certain that these transactions are determined by the actual reality resulting from the reproduction of production, but this is not apparent in the transaction itself, and it is certainly not the case in practice.” (Karl Marx, p. 373(

From this brief presentation, we see that Marxist thought completely rejects the existence of interest paid on loans. Indeed, they see all the justifications advanced to prove the validity of interest as nothing but flimsy, unsupported by reason, and unrecognized by reality. For example, they see that interest, in the sense of the price of capital, is from the outset a poor expression.

The commodity in question has a double value, first as value, and then as a price different from this value, while the price represents the expression of value in money. Money capital is nothing but a sum of Money, or value, as the value of a certain quantity of commodities, is determined by a sum of money. If a commodity is lent as capital, it is merely a disguised form of a sum of money.

So how can a sum of money have a value besides its own price? That is, besides the price expressed in its monetary form? (Karl Marx, p. 379.(

Perhaps the origin of the Marxist rejection of interest is its falling under the umbrella of surplus value; this is because it represents a portion of this surplus that the capitalist extorts from the worker. (Dunia, p. 446.(

Marx stated this explicitly when he said: "Since interest is only a portion of the profit paid by the industrial capitalist to the capitalist who owns the money, the maximum interest is the profit itself, and in this case the portion appropriated by the capitalist carrying out the production process is zero. Apart from exceptional cases where interest may actually be higher than profit, the maximum interest may be considered the total profit less the portion considered to be supervisory wages." (Karl Marx, p. 383.(

Elsewhere, he says: "Interest in the sense of the price of capital is, from the outset, an entirely absurd expression. A commodity has a double value: first as value, and then as a price different from that value, while price represents the expression of value in money." (Karl Marx, p. 379.(

However, in practice, we find that Marxist thought has retained interest with a change in its nature. They believe it is required by objective economic needs, such as covering part of the expenses of the state bank and its branches, and encouraging institutions to make rational use of the funds allocated for lending. (Dunia, p. 447)

However, modern socialist economists did not accept these views of Marx at face value. Rather, they advocated for modifications in their content. Therefore, interest in the socialist system is implicitly present, but it is subject to the will of the Central Economic Steering Committee and the economic conditions prevailing in society. This committee has the authority to direct investment forecasts, in a situation no different from that of regulators under capitalism. However, the point of contention here is the absence of a market in which the interest rate is formed. Consequently, there is no natural tool for allocating productive resources among various aspects of economic activity. Rather, the Central Steering Council carries out this allocation based on study, comparison, and selection, without the interest rate acting as a direct guide, as is the case in the capitalist system. (Shandi, p. 224(

In sum, the usurious financing system, whether based on the capitalist approach or the socialist conception, has led and continues to lead to devastating economic and social effects, from which both the developed and underdeveloped worlds have suffered. It has contributed significantly to the exacerbation of the global financial crisis, in which bank loans and the sale of debt play a major role. However, the effects of this system have been more severe. On the countries of the Islamic world, because they implemented a system that contravened their Sharia, which strictly prohibited usury and severely punished it. They also implemented it in an environment that was economically, socially, doctrinally, and morally inconsistent with it.

If this system had negative effects on the countries that fostered and oversaw it, it is even more likely that it would cause widespread harm to the Islamic nation. To understand these destructive consequences of the leader's system, we will examine some of its effects on the production process and the creation of crises.

The Impact of Interest on Production:

The first negative effect of usurious interest on production is that it diverts capital owners from investing their money in beneficial industrial, agricultural, or commercial projects to increase national production. This is because these owners can obtain a fixed rate without effort or willingness to bear the loss. (Fadl Elahi, p. 82(

This is what Lord Keynes meant when he stated that high interest rates hinder production, because they entice capital owners to save to obtain a guaranteed return without exposing their money to risk when investing in industrial or commercial projects. On the other hand, it does not help the businessman expand his business; he believes that the return on expansion—with its associated risks—is equivalent to the interest he will pay to the lender, whether the loan is through a bank or through bonds. Therefore, any decrease in the interest rate will lead to an increase in production, as well as an increase in employment, creating opportunities to employ more people.” (Al-Banna, p. 72.(

The indisputable fact is that the interest rate on loans constitutes an additional cost to the cost of production, leading to an increase in the prices of manufactured goods. This, in turn, leads to a decrease in demand for the quantities produced, threatening the continued increase in production.

Johann Philipp, the director of the German Bank, says: “High interest rates mean an exaggerated rise in prices without this rise in prices being matched by production or productive effort.” (Bettmann, p. 6.(

Although this thinking is linked to inflation, a matter we will address later, it is nonetheless one of the major negative influences on production.

Similar arguments are also echoed by one of the leading Western economists, Thomas Klepper, who says: “The high rate of interest makes people lazy in their professions and they become usurers. The decrease in the official rate of interest provides an opportunity to develop agriculture and will breathe life into our dying industries.” (Fadl Elahi, p. 83).

From here, we can arrive at the conclusion that interest has a negative impact on production. This is because the lender guarantees his profit from the product, while the producer does not guarantee his profit from the production process. This leads to the emergence of two fundamental issues: the first is the general fear of productive work except within the limits of self-financing, which has a direct impact on the volume of production. The second is directing available production to areas that generate returns exceeding interest rates, or abandoning it. For example, if the prevailing interest rate is 5%, while money invested in agriculture proves to yield no more than 4%, or even slightly more than 5%, these producers will shy away from such activity, regardless of its benefit to society. This is contrary to what some analysts of usury have raised, that it does not apply to investment or production loans, as they are return-generating, when they differentiate between investment loans and consumer loans. The impact of interest on prices is also evident due to the rise in the total cost of production, which leads to a decline in demand for production. Accordingly, the relationship between capital and the various elements of production is based on selfishness and hostility, not cooperation and support. This is because the relationship between them is a constant gamble. If the need for capital decreases, usurers will push it forward on a massive scale and lower the interest rate. However, if the need for capital increases, they will be stingy and raise its price. Likewise, usurers work to raise interest rates by holding on to capital until it rises to the point where it exhausts all profits for producers. Demand for money decreases or ceases, forcing usurers to lower interest rates, which creates economic crises and periodic bouts of recession. (Al-Anani, p. 86(

The Impact of Interest on Consumption:

Herein lies the problem. Those who attempt to justify certain forms of usury differentiate between interest-based loans for production and interest-based loans for consumption. They all acknowledge the harmful effects of interest on consumer loans. This recognition, in itself, absolves us from discussing the negative impact of interest on consumer loans.

However, we do not aim to address only the negative impact on consumer loans. Rather, we tend to discuss the impact of interest on consumption as a whole, because the impact extends even to consumption within the framework of individual disposable income, and to the level of national income to a large extent.

If we consider the issue of consumption from the income perspective first, we note that interest rate advocates believe that the higher the interest rate, the greater the savings. While this is not entirely true (Al-Qari, p. 33), it is nevertheless one of the reasons for the decline in aggregate demand, especially among the wealthy. Because they want to save due to increased interest rates. (Al-Anani, p. 191(

There is no doubt that the rise in the prices of productive goods due to interest on production loans leads to a decrease in consumption, on the one hand. Concerning consumer loans, the issue becomes more complicated and exacerbated, because the weak worker who borrows at interest to consume will be weakened by the worries and sorrows that beset him and haunt him due to his fear of not repaying his debts when due. Furthermore, the usurious system encourages the rich to save by increasing interest rates, even though they are able to purchase them. This leads to a stagnation in consumer goods. This means that the poor will not consume due to financial constraints and the double increase in commodity prices: "once when production is financed with interest and once when consumption is financed with interest." (Chabra, p. 287(

Therefore, it can be said that high interest rates lead to a decrease in consumption, while low interest rates, by distorting capital, stimulate consumption and reduce the overall savings rate. (Chabra, p. 288)

Comparing this usurious approach and its consequences with the regulation found in Islam reveals the greatness of Islamic legislation, which has made the good loan a loan of convenience and facilitation, and requires the wealthy to grant the poor in need respite until they become solvent. Here, the great impact of the good loan on consumption becomes apparent. In addition to preventing the cost of consumption from increasing due to the addition of interest to the loan, it enables the poor to consume what they need as long as they are able to afford it if they are in difficulty. Islam also prohibits those who are able to pay from delaying the repayment of debts, lest this lead to injustice on the part of debtors and reluctance on the part of creditors. Islam emphasizes the importance of debt repayment, giving it priority even over those entitled to it upon death. Indeed, it places the believer's soul in suspense over his debt until it is repaid.

Usury and Economic Crises:

The primary culprit behind so-called economic cycles is usury and interest. This is the prevailing opinion, despite the many contradictions and conflicts in what has been written on this topic. Because most theories about the economic cycle are based on distinct assumptions and observations supported by one or more factors at the expense of all other factors (Kamal, p. 76.(

However, experience is sufficient to prove this point. The financial crisis that occurred in America in 2008 is the most notorious global crisis of the modern era, and its effects have continued to this day (2022) and are constantly increasing. Its storms and winds have affected all countries of the world, and no economy has been spared. National debts have risen to an unprecedented level, and economic recession continues to plague most economies, including those of Europe, America, and the Asian Tigers, as well as poor and below-poverty-line countries.

Most experts, including American economists, attribute the primary cause of this crisis to the problem of subprime mortgages and the subsequent securitization processes (debt sales), which are directly based on the interest system, starting with the granting of loans, continuing through the sale of debt to special-purpose companies, and ending with the issuance of bonds to repay debts. This setback is also attributed to the expansion of various types of derivatives, which also entail two dangers warned against by Islam: usury and uncertainty.

Lord Boyd Orr says: "Interest is a fundamental cause of current economic turmoil, whether it takes the form of periodic crises, unjust inequalities in the distribution of household incomes, or obstacles to the path to full employment." (Abu Zahra, p. 48.(

Johann Philipp believes that the factors that cause prosperity or recession always relate to the spending or holding of money, i.e., saving it, or, in other words, the size of aggregate demand in the economy. If aggregate demand for the majority increases significantly, this leads to an upward trend, usually accompanied by inflation. If aggregate demand for the majority decreases significantly, this leads to a downward trend and recession, which may end in a crisis. (Bateman, p. 9(

From all of this, we conclude that increased demand and decreased savings lead to higher interest rates, which is what those with increased demand expect. The opposite—a decrease in demand and an increase in savings—leads to a decrease in interest. This confirms the direct impact of interest on economic cycles and the generation of crises. It is the decisive factor determining whether the majority of wealth holders prefer saving or spending, providing a significant indicator of the impact of interest on overall demand for goods and services.

The Islamic System and Participatory Finance:

After reviewing the usurious financing system, both capitalist and socialist, and demonstrating the shortcomings of this system, which has been behind most economic crises and problems, including recession, depression, inflation, and the like, it was important to review the Islamic financing system and its efficiency as an effective alternative to eliminate most of these problems. Furthermore, it offers tremendous flexibility, enabling the development of its tools and mechanisms through the innovation of new products that suit consumer desires and meet investor needs.

In summary, it can be said that the Islamic financing system is distinguished by its comprehensiveness, flexibility, and practical efficiency, due to its multiple forms and diverse financing methods, which are appropriate for individuals and groups in all eras and times, unlike the usurious financing system based solely on interest.

Among the categories of Islamic financing are self-financing, financing in partnership with others, financing through loans, and financing using certain special contracts such as salam, istisna', deferred sale, leasing, and other forms and types that arise from the devising of new contracts or the combination of known and used contracts, the combination of which does not lead to violations of Islamic law.

The intended meaning of the partnership system here is the entry of an Islamic bank or financial institution into investment transactions with other individuals and institutions through capital participation, profit-sharing only, diminishing partnership, crop participation, fruit participation, speculation in commodities, currencies, or stocks, and so on.

Perhaps we are not referring here to this system, which is commonly known as the Sharia-compliant partnership, which involves both parties sharing capital and labor. Rather, it represents part of the comprehensive partnership system we are discussing.

Partnership is a beneficial system, permitted by God Almighty for His servants, and He has guaranteed their protection under its auspices. He has also commanded them to be upright and honest in its application, as stated in the holy hadith narrated by Abu Hurairah, who said: The Messenger of God said: God Almighty said: "I am the third of the two partners as long as one of them does not betray the other. If he betrays, I depart from between them." (Bulugh al-Maram, p. 258(

This hadith indicates that God Almighty has encouraged the partnership system as an alternative to the usurious system. He has also pledged to protect and care for both partners, bestow His blessings upon them, and provide them with wealth if they refrain from betrayal and unlawful consumption of wealth. Adherence to the principles and provisions of Islamic Sharia is one of the most important characteristics of joint financing. This provides both the capital owner and the businessman, or both partners, with a moral return that is not usually measured in monetary terms. This means gaining God's pleasure and enjoying His blessings and bounties, unlike the usurious system, which fills its owner with feelings of guilt and disobedience, awaiting the war declared by God and His Messenger.

Among the characteristics of Islamic financing in general, and joint financing in particular, are the multiplicity of legal formulas used in Islamic investment activities, and their diversity to suit the nature of each development endeavor. This diversity and variety help attract savings, whether small or large, and direct them toward investment rather than hoarding or excessive consumption. This, in turn, contributes to economic development. For example, we find that these formulas differ in terms of the degree of risk, profitability, and growth rates, to suit the nature and behavior of capital owners and businessmen (Shahata, p. 16.(

On the other hand, this multiplicity and diversity are a great advantage of the Islamic system over the usurious system, which provides a single method for all investment types—interest—as a result of the relationship between the creditor and debtor. Therefore, this system is unable to finance many forms of investment that require not only capital but also participation in labor, expertise, and effort. It is also unable to finance even the smallest projects that do not provide sufficient financial and material guarantees to secure financing.

The participation financing system also encourages investment, as the applicant knows that their project will be studied by a bank with technical and marketing expertise in this field. They also exert great effort, working diligently and sincerely to avoid being considered a guarantor of the capital if their negligence or transgression is proven. They also know that in the event of a loss, they will only bear the amount of their share of the capital, and in some forms of financing, they will bear nothing at all, unlike the interest system, which deducts from their profits if they make a profit, and from their own effort and money if they make a loss. Dr. Omar Shabra believes that the participatory financing system helps in broadening the base of project ownership and contributes greatly to achieving the goal of fair distribution of wealth. (Shabra, p. 102)

Dr. Shehata mentioned a number of concepts and principles governing capital investment. Financing economic projects was unknown to the usurious system, as it represented a contradiction and conflict with its objectives, which are based on private interest without any regard for the interests of the nation.

Among these principles are: the principle of profit versus loss; the principle of linking return to risk; the principle of capital development through lawful investment in pursuit of lawful profit; the principle of material and moral balance in investment; and achieving cooperation in projects that individuals are unable to undertake alone (Chabra, p. 16.(

Sections of Participatory Financing:

The Participatory Financing system can be divided, according to the various forms of participation and financing, into three main sections: equity financing, profit sharing, and profit sharing. These are detailed below:

First: Equity Financing:

This method involves the Islamic bank partnering with individuals or institutions to establish specific investment projects with a percentage of the capital and, subsequently, with a share in the profits and losses.

This formula, in all its forms and manifestations, differs from the usurious form prevalent in conventional banks, where financing is limited to loans with a fixed interest rate, without any role in the projects they finance, and regardless of whether the borrowing parties make a profit.

This type of company is called a contract company and is based on contracts between the capital and profit participants. There are three types: capital companies, business companies, and face companies.

This formula, with its various components, can finance many national development projects, such as factories, facilities, local and international trade operations, and others, due to its great flexibility and ease of practical application.

Islamic banks can also partner with the government in this formula to establish and upgrade the public sector and infrastructure projects, as well as with individuals in their private projects through what is known as diminishing participation. This formula allows the bank to grant the partner the right to replace it in ownership, either in one lump sum or in installments, depending on the agreed-upon conditions and the nature of the transaction. This arrangement is based on a structured arrangement to set aside a portion of the income as an installment to repay the bank's share. (Dunia, p. 521(

Dr. Hamoud believes that this method provides the bank with a flexible means of investing funds and obtaining a revolving profit return throughout the year, and creates an incentive for the partner to be honest in dealing with this method. (Hammoud, p. 427(

This type of financing is based on the mudaraba contract, whereby the bank provides the necessary funds to the partner, acting as the owner of the capital. The partner—the mudarib—is solely responsible for implementing the contracted project, in accordance with the agreement and the type of mudaraba. The profits resulting from the partnership are then divided between them according to the percentage agreed upon at the time of contracting.

Jurists have differed regarding the classification of the mudaraba contract. Some classify it under the heading of partnerships, which is the prevailing view among Hanbali jurists. Others classify it under the heading of leases, which is the view of the majority, and it is permissible without dispute (Al-Sawi, p. 25.(

The researcher believes that this disagreement is not significant, as jurists classify general leases themselves as partnerships.

One of the advantages of the mudaraba contract is that it enables the mudarib to obtain the necessary funds without being obligated to pay a fixed percentage as the price. Instead, he pays the owner of the capital from the profits God provides him, while at the same time, he is not liable for any loss that occurs through negligence or negligence on his part.

It also enables the bank to benefit from the mudarib's experience, market reputation, marketing expertise, and efforts to invest funds.

This contract can be used in all economic sectors due to its flexibility, particularly in general trade, industry, agriculture, the service sector, and other diverse activities.

Thus, mudaraba can achieve all the advantages that modern banking regulation has succeeded in achieving, in a manner consistent with emerging requirements and needs, both for those who have the money and those who need it. (Hammoud, p. 377(

The bank can also use mudaraba to penetrate many horizons that usurious banks have not previously explored, such as disbursing its mudaraba funds to experts working in the fields of legal, medical, economic, and technical consulting, as well as to agent offices. This allows them to benefit from their expertise in developing the bank's funds, on the one hand, and providing them with the necessary funds to finance their projects and enable them to make profits, on the other hand.

Profit-sharing is considered one of the most important methods of investing funds, meeting the projects' working capital needs during the production cycle, the period that encompasses production activity from its inception until its marketing. (Shahata, p. 16(

Financing by Participating in the Yield:

This includes sharecropping and musaqat. In the former, a contract is concluded between the landowner and the farmer to plant some of the crops grown on the land. In the latter, a contract is concluded between the owner of the trees and the person who waters, cares for them, and does all other necessary work for them, for a known portion of the crop, such as a quarter or a third.

The Hanbalis defined sharecropping as the landowner giving his arable land to the farmer who cultivates it. He also pays the farmer the seed he sows, with the condition that he receives a known shared portion of the crop, such as a half or a third. (Al-Jaziri, p. 7(

The Malikis, however, believe that sharecropping is a partnership in the contract, and it is invalid if the land is owned by one of the two partners, the owner, and the seeds, labor, and machinery are owned by the other partner, as the Hanbalis and the two companions of Abu Hanifa (Muhammad and Abu Yusuf) state. They only permit leasing the land for a fixed sum, and the work is evaluated by assigning a value to it. Similarly, the agricultural machinery is evaluated, and the seed is divided equally, and profits are calculated according to the proportion of each partner. This is not permissible according to some Shafi'is (Al-Jaziri, p. 8.(
Ibn Qudamah says that sharecropping and musaqat are unanimously permissible. The evidence for this is the narration of Ibn Umar, who said that the Messenger of God [had a contract with the people of Khaybar for a share of the crops or fruits produced there (Agreed upon)). (Ibn Qudamah, p. 585.(
The system of partnership financing, despite its many forms, is not the only method of Islamic financing. Rather, this system remains rich in its various forms and financing formulas that suit all the needs of financiers, regardless of their backgrounds and desires. Among these forms, contracts are designed to meet the desires of many investors who do not wish to enter into a partnership system, yet are in dire need of financing for their production and projects until they are ready for distribution.
These contracts and forms include leasing, istisna', salam, deferred sale, and murabaha for the one who promises to purchase, among others. These contracts are sufficient to meet many financing needs. Moreover, Islamic jurisprudence remains rich in potential future additions to these forms and formulas. Modern applications of Islamic banking have also succeeded in developing a wide range of financing products in the field of Islamic sukuk, treasury products, documentary credit products, investment funds, and others, which completely replace interest and comply with the rules and provisions of Islamic Sharia.

Conclusion:
The intensification of crises, rising inflation rates, and declining economic growth rates that have swept the entire world in recent years necessitate the development of radical alternatives and an integrated system that replaces the interest system and offers the world innovative financial solutions that will lead it from the darkness of interest to the light of halal investment. This is what the Islamic finance system provides, with its efficiency, flexibility, diversity, and comprehensiveness. The experience of Islamic banks and financial institutions has demonstrated this unparalleled success, even in countries that timidly apply the Islamic finance system, with rates lower than those of interest.

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