Murabaha Financing VS Lending on Interest

A thin line making big difference in the understanding of Riba

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INTRODUCTION

What is the difference in ***Murabaha* Financing** (cost plus) and **Lending on Interest** (principal or loan plus)? This particular query of comparison, in contemporary financial circles, is raised not due to orthodox contract of *Murabaha* permitted/practiced in trading but when used as a tool or vehicle for financing and bears a semblance to conventional debt financing or lending on interest. There is no practical difference in *Murabaha* Financing or financing based on other classical trade contracts defined in *Shariah* like *Bai Muajjal* or *Bai Bithaman Ajil* (deferred payment sale).

The question in its intelligence is logical and so the criticism, it should be answered realistically that shall win through commonsensical arguments of differentiation and distinction. Essentially, it is a conceptual difficulty deep-rooted in the misunderstanding of Riba, not resolved satisfactorily within "who said what analysis" approach and shall be answered with economic and natural reasoning.

At the outset, *Murabaha* was a trade contract where the split-up of actual cost of the produce and the profit of seller were disclosed to the buyer, the extensive adaptation of this trade contract as a vehicle for Islamic financing is mainly because of this disclosure of price breakup, and perhaps the objections and its similarity to 'lending on interest' are also because of these visible fragments. In spite of the fact that present-day Islamic scholars who approve this modus operandi as a transitory financing technique (possibly under the law of necessity or *Darura*) and do not like it as a regular and permanent feature of Islamic financing operations – **it is the** widely used method which is not foreseen to be replaced by other preferred Islamic modes of financing explicitly *Musharakah* and *Modarabah* in the near future. Experts estimate *Murabaha* financing constitutes more or less eighty percent of the total Islamic modes of financing today, irrespective of figure's accuracy, every one accepts that it forms the major part of IFI's undertakings at present.

A less or non-preferential proviso is persistently chosen in practice over the ideal modes that are considered specific to Islamic financing. The situation is worth examining putting several questions like why this transitory permission was felt necessary, why it failed on the expectations of religious authorities who extended this for a makeshift or interim use, is it being misused, is there a fault in the permission or in its application (i.e., the concept or practice where error be if there is any), do we really have its alternative to switch over to etc. etc. Answering these questions is not easy since there is no one in the loop who could be insincere rather committed to the emerging movement of Islamic banking and finance, so where to point out if the state of affairs is not correct from the scholar's point of view who invented this technique? In our social value parallel, this standing is like a father-son relation, the son is not disobedient too, always seeking father's help and approval for its actions, now father has to replace the toy gadget given to him earlier if he thinks his son is over playing with it but who has to play any way. The desire of father from an infant (as argued) to drive heavy financing vehicles is far from son's reach.

As the crucial query is primarily related to the financing technique, therefore it shall be appropriate to compare within the conventional forms of financing, however this is just to use it as it is and still many of basic nature questions need recourse to their concepts, say for example – one may ask what is Equity and if equity is some kind of partnering then what is wrong with the Loan form that to consider it as another form of equity etc. Similarly, the rigid concept in Islamic financing minds, that financing shall always based primarily on Profit and Loss Sharing (PLS), but there are thousands of situations where PLS may not provide a justice, then why Sharing Profit and Not-Sharing Loss is not an acceptable form on pure economic and justice reasons etc.

Title of the article is self explanatory of the tendency spread throughout discourse; you will find few different ideas, like I have proposed a new classification scheme for 'economic activities' etc., and attempting to bring thinking towards reality consideration in Islamic financing.

Brief Outline of Write-up

It is prerequisite of topic to recognize what financing is prior to investigating the query and working around it. Therefore let me start in a sequence from describing financing as I could understand so far, followed by what exactly is the query while looking at *Murabaha* Financing, and finally the answer to the query inside that container of perspectives. Briefly:

SECTION 1 : What is Financing?

The deliverance, provision, raising, or acquisition of **funds** in order to undertake or facilitate an **economic activity** (of e.g. consumption, production, trading, services, education, health, construction etc.) that can not be realized otherwise or can't be done without it.

Virtually all financing transactions are achieved through motivation or persuasion called upon by (or on behalf of) the finance provider, the user of finances, an agent, mediator, negotiator etc. or by economic activity itself, all motivations and persuasions can be bracketed together within two broader clusters of **purpose** i.e., "For Profit (commercial)" and "Not For Profit (like religious, communal, charitable, *falahi*)".

The purpose is then served by way of four fundamental **forms of financing**, i.e., equity, loan, debt and donation, where donation is specific to non-commercial purpose only and can't be used for profit directly (however donations may potentially or possibly be used indirectly 'for the purpose of profit') while other three forms (equity, loan, and debt) are applicable to both purposes.

As one would expect, this financial interaction (interface) connecting more than one entities has to be defined that will result in a contract or agreement between them at some **terms**. There could be many concerns of each entity to be addressed in the resultant understanding but mainly revolving around the principal amount, its use, return/settlement, profit, loss, risk, liabilities, responsibilities, ownership, time, payments etc. etc.

When the basic forms of financing are applied to function in the vibrant dynamics of purpose, economic activity, finance provider and the user of finance (i.e., personal, corporate, public etc.) at some terms – further branches and types of financings are characterized.

However, essentially the financing en bloc is at least
a **purpose**, an **economic activity**, a **form** of financing applied and **a set of terms**.

Understandably, both purposes, more than one economic activity, and more than one form of financing are also possible in a contract, terms are one plus customarily.

A **mode of financing** is a blend or envelop of at least a basic form (e.g. equity) in some specific periphery and a set of terms, for instance *Musharakah* and *Modarabah* are both equity form of financing contracts with different sets of terms and outskirts.

Modes and types of financing are just to identify, attribute, or to standardize a blended form of the contract (like bridge financing, commodity *murabaha*, diminishing *musharakah*). There is no limit in developing a new mode or a type of financing but only imagination, creativity, and natural progression can erect temporary frontiers in doing so. Marketers are not behind in using these techniques of identification, financiers have their own marketing brands too.

Financing affairs (*muamlaat*) and concerns are ruled predominantly by the laws of the nature and moderately by the guidance or compulsions of doctrines (e.g. Islamic codes, Capitalism) which together forms relevant morals (ethos) that are reflected in terms of the contract.

The above is an overall perception of financing in my view.

Let us move further from common province of financing towards our topical issue, at the first step we may split the subject of 'what is financing' at its root by laying off half of the purpose to deal only with "For Profit (commercial)" financing.

For Profit (Commercial) Financing

Commercial Financing is the natural demand of people and societies based on nature, human instinct and living needs. Considering financing en bloc defined above as the framework of discussion in this section, we will try to understand each of its building block with their subset elements, related issues and as they are treated in **conventional** and **Islamic** financing.

1. **The Purpose** (First of the Building Block)
   In this explicit cluster – obviously 'profit', no one works for loss in its sincere and sensible state of mind, profit is desireable but loss is possible and a proof to the probability of loss is the manifestation of 'risk' factor in both conventional and Islamic financings. However, we are not discussing 'loss' and 'risk' here as they do not fall in the purpose of financing and will deal with them where they fit exactly in the subsequent sections. Only 'profit' as a subject is appropriate under this heading.

   What is Profit? The continued existence of a sense for a particular function or lexicon is the natural strength it illustrates and that helps as well to concept explorers in defining or employing it. The sense of profit has survived since long that we may try to encircle in following or the like expressions in our perspective :

   - A monetary gain desired, expected, or realized from an 'economic activity', or

   - A positive change in the 'economic input' value that incurred as a result of activity and is available in the 'economic output' (exchangeable produce), or

   - Simply in other words an addition to the 'present value' of exchangeable produce that is or may perhaps be realized in the future, i.e., within 'future value'.

   Since profit comes from a process – it has three states, firstly a desire only, then defined at some stage of process, and finally when it is actually realized, and unsurprisingly in this process – profit in all three states may be same or can vary from each other. The process of profit can be invoked by some motivation or persuasion like desire alone, but it can not become a function of the motive, then what construct it, since profit is not a fantasy but a reality.

Profit is a function of time principally, if it were not a function of time then being a motive it must had exploded the earth by its instant and perpetual behaviour, without invoking the sentimentality to add emphasize – it is a guess of logic that without time dependency, profit will be infinite in zero time i.e., inestimable and immeasurable. Now think it being tangible and not imaginary, had it not destroyed the planet? Logically and naturally a differential of time is essential to assert 'profit' either be it a difference from past to the present or from present to the future.

If 'profit' were a function of time alone then there remains no reason or motivation for the owner of the finance to do any thing by himself or why give it to some one else to employ but to sit idle and earn profit by the passage of time. Nature is not like that and surely it does not happen this way, realistically therefore the motive of profit can not be achieved unless some other function is not associated to it, and that other function is the economic activity (a topic in the next section).

Some one may argue – it is only 'economic activity' which constructs profit by rejecting it being dependent of time, then it may also mean that if you call profit even only by desire, the 'economic activity' shall happen instantly, although efforts are being made to reduce time element in grasping profit where financial engineers & technologists are at this work day and night in money markets, but still the power remains with GOD (*kun fa ya koon*).

In particular, therefore:

'**PROFIT**' is a function (construct) of time and economic activity.
This is the natural law of profit.

In the time-line of every financing deal, the differential of time is from present-to-future that will assert the 'profit'. That is – profit from financing is a future concern of contract. Now the first and the foremost notion that comes in the mind as regards to profit is – will it exist in the future as a result of the economic activity or not?

But who knows the future? Profit being the focus, every effort and measure will naturally be taken to assure its maturity and readiness in the outcome. It is possible within human intellect to determine profit in close proximity of its anticipated target within some given conditions. If vital estimations of related affairs are worked out sensibly to ensure purpose in appropriateness – it is generally acceptable to humans and even doctrines since perfect estimation is beyond human ability.

Then profit can only be defined exactly when the estimated 'future value' is negotiated to set its 'exchange value' with its user/consumer or buyer, whereas it may or may not be materialized at the time of negotiation. The user or buyer of 'economic output' can be one of the involved entities in the contract, or it can be a third or external entity not present in the whole scenario of economic interaction.

The realization of profit is just made when proceeds of total 'exchange value' are received by the owner(s) or the beneficiaries of the 'economic output'; at this stage success can be rated in terms of real profit achieved and its deviation from the original expectancy.

Although, the matter of 'value' is a complex and unresolved subject like the issue of Riba, however, in our deliberations here 'exchange value' is some thing that is fairly negotiated without the use of any force or indoctrination with an intent of justice. Thus, in the whole process of working for profit, the <u>stage of negotiating</u> the 'exchange value' is particularly important because of two primary reasons:

Firstly, negotiation transforms the uncertain state of profit to its definite state by fixing an 'exchange value' where involved entities are at their thrust of protecting or enforcing their advantages.

Secondly, **every 'exchange value' <u>has a life</u>** either natural or set by negotiation, it can be appreciated of depreciated after that.

It is hence the stage where <u>fairness spirit of profit</u> is built or valued in the contract having several basis of importance, for example (not all):

1. <u>The availability of information</u>: resolve of 'exchange value' is based on information possessed by each entity and that can be different for them individually.

2. <u>The need and opportunity</u>: obviously puts them in different status.

3. <u>Skills & Attitudes</u>: of negotiation, compromising, marketing, influnence of beliefs etc.

4. <u>Life of 'economic output'</u>: at different ages where its 'exchange value' is different.

5. <u>Payments of Proceeds</u>: if the terms of payments are not such that the realization of profit is achieved within 'exchange value life' then principally it will be unfair.

<u>Issues in Profit?</u> Just to mention here very briefly as each one itself is a complete subject of discussion that's certainly not meant for now. There are conceptual or dogmatic issues, executive or practical issues, profit realization issues (may be some other as well that I can't imagine at this time), few listed below in our context with short remarks:

<u>Definition of Profit</u> : although the <u>sense of the profit</u> reflected in all names given to it for the purpose of gain, benefit, advantage etc., <u>is almost the same</u>, however, in present era of subject specialism the capitalists, economists, and accounting people will define 'profit' from their own perspectives of subjects and use their own yardsticks for 'profit' measuring and estimation, e.g., wealth, types fo banking interests etc. <u>Issue is</u> what definition shall apply in a picky case when according to the standards of 'accounting', a profit is realized but as said by the standards of economics the wealth is decreased, or not changed, so one profited or not?

<u>Fixed and Variable Profit</u> : taking and averting risk, and sharing propensity are all different shades of human instinct (*fitrah*), nature does not deny the desire of fixed or variable profits, however restricts by fairness principles of its own that are perfected in divine texts only. Issues are related to dogmatic positions and human interpretations of applied principles like that of Riba.

Bench-marking of Profit : especially in the context of Islamic financing that is to link the profit with a variable standard established thru prohibited function of Interest, Islamic scholars who approve this for temporary use recongnize repute problems but serious issue is when this reference varies during the period of Islamic financing contract and effects the expectation and realization of profit and thus induces uncertainty.

Penalty issue : is basically an issue of profit where its realization is effected by the late or non-payment, also a serious moral / ethical concern.

Conventional and present Islamic Treatment of Profit:
Briefly again, let us see as how they treat profit practically with little commentary.

Conventional Handling of Profit: Who knows better than conventional money lenders and financiers that money (finances) has to be employed to earn profit? Simply they recognize the must function of economic activity for their purpose but this recognition and its reality is not reflected in the contract where they make profit a function of time alone. By ousting economic activity concerns, the natural law of profit is contradicted with no alternative to justify the so-called profit, wrong is integrated in the contract at its inception. No other terms, whatsoever, stipulated in the contract can repair this contractual fault.

Will this 'contractual fault' do some harm or not and to whom? Logically for the defense of their lacking position, no such 'contractual fault' is admitted, but then they must provide some natural or economic law of profit, the conventionalists are not found of speaking or projecting any natural or foundational law for the construct of profit to justify their stance. Conventional advocates do not have any convincing answer that can favour their position since 'harm' as a result is certain and evident, e.g., forced inflation that effects every one harmfully. Similarly in logic, their handling of profit can be seen as:

Although, the point is very clear that profit is neither a function of time alone nor it can be achieved without 'economic activity', i.e., the finance provider and its user are essential for one another to realize their intended profits, then what puts them at disparity to expel the concerns of one side all together? It is less important that who exert this force of expulsion, more important is that exclusion of activity concerns occur in the contract. It could be muscles disparity in favour of finance provider, or information disparity in favour of finance user or pressing need against one or any thing else in any one's favour who is taking undue advantage of that in making profit.

Next, it may be argued that it goes in the benefit of the two and they mutually agree to expel the concerns of 'economic activity' together, but then we may ask:

- Why? Is it not the need of both to engage in 'economic activity'?
- How? Can they jump to the target of profit over the process?
- Either, if they don't care for the activity then how they will do justice with it?
- Or, if there is nothing in the activity that shall be taken care off, it will mean that there are no 'loss' or 'risk' concerns as well, but they are serious about 'risk', where in activity or in the heavens?
- If they intend to do justice with the activity for their own purpose of assuring profit then how they can expel concerns of the activity even mutually?

All such queries bring morality in question, it seems that has not been respected. What they earn this way can't be regarded as legitimate profit but some thing else since profit is profit only when it comes through natural law of profit, legitimacy can not be asserted without respecting main beliefs otherwise we must be altering values to claim legitimacy. How some one can fetch the authority to alter ethics from a financing transaction? If they can do then every one gets this right even looters and bribery partners, and every thing is ethical for the motive of profit. There is no doctrine of 'profit' in conventional system.

Islamic Handling of Profit:
Conversely, in original *Islamic* injunctions, the natural law of profit is not only not rejected but a systematic purification process of profit is devised, it is primarily espoused in two logical blocks i.e., selection and execution, each having two stages within them. In a top down order as below:

1. Selection

a) Economic Activities : The segregation is made at the root in the 'concept of profit' and the process of Islamic legitimization of profit starts at 'economic activity', for instance when trade is allowed – it means the permission of the activity, and when gambling is prohibited, it means 'NO' to the activity. This is the top level of prohibitions. Any gain from prohibited activities is not a legal profit in Islamic value system. Legitimate 'profit' is only within the perimeter of 'economic activities' that are permitted.

b) Subjects or substances : Further stratum of profit legitimacy is set off in segregating the subjects and substances, for instance alcohal – no 'economic activity' is allowed to be assumed for alcohal's manufacturing, trading, or consumption. That means alcohal is a prohibited substance in permitted activities.

2. Execution

a) Principles : A filtered activity and subject/substance is then put through a set of explicit norms and prohibitions for the execution, like the conditions of Riba and Gharar. In the hierarchy of profit sanitization, this stage is real test of practicing Islamic tenets where utmost concern is insisted to draft terms and conditions of executing the activity so.

b) Performance : It is not only emphasized to stipulate terms and conditions according to the belief system but to fulfill them in their letter and spirit as well. There are guidance of conduct (e.g. fulfill commitments, weigh accurately) and prohibitions (e.g. cheating, dishonesty) applicable from undertaking the activity till the realization of profit.

This is a very simple engaging strategy in the process of profit, that is to say - if a list of prohibited activities and subject/substance is made available, then all other activities and subjects/substances are permissible (the prohibition list is very small indeed). If the prevailing confusion is removed from the conditions of execution (primarily Riba), than we are about to get the Islamically legitimate profit. However, in present state of inaccurate selection list and contractual confusions for economic interactions, who knows better than those seeking islamically legitimate profit that how difficult is it today.

Noble *Fiqh* scholars of Islam had left behind an incomparable heritage of standards, terms and conditions in order to establish justice in the contracts of economic interaction, in this legacy, the profit is not detached from economic activity anywhere, time is given its due role to assert profit. Permissible activities are discussed in Islamic *Fiqh* to form contract standards according to religious injunctions for such undertakings.

However, the circumstances are changed considerably owing to the natural progression in economics, business needs, techniques and practices. The taste of this transformation can easily be felt by acknowledging new economic activities that were not present then, e.g., the creation and development of intellectual properties (like software), the involvement of third-party in activities (i.e., Islamic banks and other financial institutions) etc.

Islamic financing by intermediaries is a new phenomenon and this third party involvement is not present in contracts developed earlier by *Islamic* scholars, naturally therefore, some value is required to be added at the intellectual base of their work, in any case for one primary reason at least that with the involvement of a mediator in 'economic activities', sensitivities like Riba (that are not resolved so far) are prompted and forcing other values to change which had no dispute in their understanding originally, for instance the sense and logic of model contracts, trade, loan, profit etc. In our current scholarship we are not succeeded in demonstrating the ability to insert exact sense of 'economic interaction' with justice as our predecessors were able to do in their circumstances.

It is somehow misunderstood in our contemporary Islamic Finance that profit is attached to 'asset' alone and therefore permitted only through those economic activities which involve assets describing IBF as 'asset backed' industry. This is definitely a misconception about economic activities and profit because of two conceptual reasons:

Firstly, asset has neither a quality to be entitled as 'economic activity' nor it can become a 'function of profit' (as both are processes) but is merely a subject of the process where it can serves as carrier of 'exchange values' or as means for the transference of profits.

Secondly, since asset is a subject of economic activities, it possess no such superiority to classify economic activities for their Islamic permissibility or rejection that is already done at the root and this responsibility was never given to asset in the religion previously.

In the current status of Islamic Finance, this reversal of order is inducing confusion and it has expelled a major part of 'economic activities' out of IBF opportunities because they do not involve an asset. In basic economic sense therefore, an already reduced and filtered set of opportunities is further reduced without any basis in the code of belief.

After that, this attempt of reversing the order of sanitization has compelled its backers to define 'economic interaction' within the realm of contracts established earlier. It is a real disgusting blunder and failure of contemporary scholarship that they have reduced whole nature of economic interaction within so short latitude, thus it's impossible (naturally) and illogical (in belief) to accept this reduction which destroys the concept of profit as well.

However, with this degraded concept of profit, there is no doubt that even in the present situation of Islamic finance operations, profit is not detached from 'economic activity' but it has reduced the set of activities.

2. Economic Activity

The conventional categorization of economic activities are basically three i.e., production, distribution and consumption, some also include exchange as fourth category, whereas for the convenience of subject specialism, numerous further sectors of activities are branched out. However, what is common and essential function in all these groupings that is viewed as an economic activity should be defined? That is so considered necessary because of the reason for instance, as of production activity – the output of economic process is available either with some addition or modification to the input or without destruction, whereas in a consumption activity – the input may totally be consumed leaving nothing as output in a tangible form, therefore what is common in both to be regarded as economic activity?

The available categories in conventional theories do not encircle all **natural possibilities**, we need to perceive the answer in its universal and inclusive sense of natural dynamism instead of looking it from a narrow view of what is measureable and accountable only, i.e. as opposed to limited 'mathematical calculations' of accredited production, consumption and distribution of tangible and intangible products and services, we shall include all those factors and occurrences of economic nature which are not recognized in modern economic thinking. For instance, it is a fallacy that man's motivation to work is its needs and intent of benefit alone (that is a reduction of nature), while man works for pride, honour, praise, spirituality etc. too, similarly nature creates and amends value to its products without any intervention of man's labour or intellect or machines, such are purely economic incidents but they do not find a valid place in traditional economic philosophies.

In this perspective, we may obviously desire that a concept shall be existing able enough to enfold all conceivable economic activities, and shall answer and apply universally for all times since the inception of human's actions. After much efforts to locate one such idea in either descriptive, normative or pictorial form, when no success was seized unluckily, I urged myself to try developing a model in that perimeter, yet it does not mean that some one had not done it before, may be or may not be, simply I don't know.

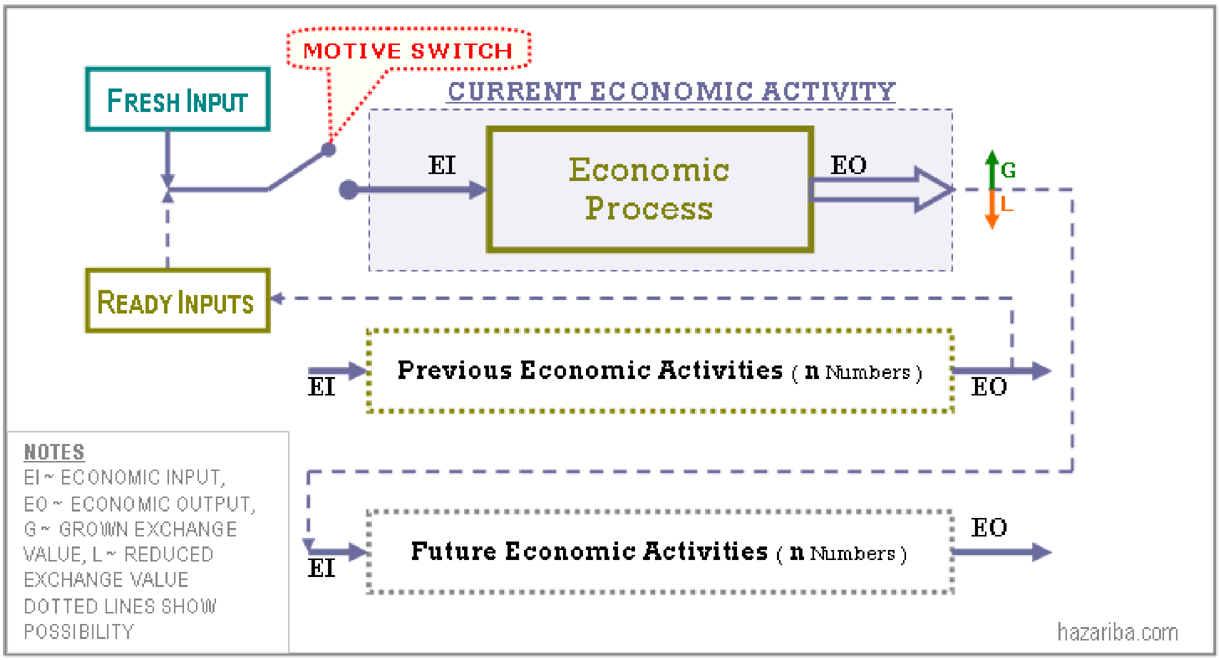
In other words, it was the dissatisfaction with conservative divisions of economic activities which are now outdated with the passage of time and need a recourse to the subject primarily because of new dimensions exposed by the noteworthy human intellect based partaking in regular value creation. In pre- & post- industrialized economic philosophies, human contribution as input to the economic activity is always beholded as a provider of labour, i.e., the acts of human that are based on his energy stores as a rule while the function of his intellect is limited to the need of directing his energy to perform those acts. In contemporary information age, an additional combination of man's innate features has emerged to a significant extent, i.e., human intellect is the actual input in an economic activity and his energy stock has limited contribution that is - just to sustain his ability in providing the intellect.

For instance, intellectual properties, media and other forms of communication resources, and recently a new phenomenon of virtual world is turned up after the spread of Internet which offer virtual products and transactions based on virtual money that is convertible to legal money. This all is significantly happening and can not be neglected for its economic character. Intellect was not silent previously but was never familiar as a regular donor.

Briefly, in our model, we are projecting a valid place of nature's role (that is ever-present but never reasonably demonstrated in traditional theories), secondly 'human nature' and thirdly the contribution of human intellect in 'economic activity' as a distinguished form.

The concept is explained in two steps, firstly an overview illustration, and then a new core scheme to classify 'economic activities' by rationalization of 'economic processes', some explanations and examples are given where necessary.

A) Economic Activity : An Overview



In a few words, above modules of current activity block may be described as below:

Fresh Input

Implies, that is not coming from the output of any other economic activity but supplied by nature or exist within human innate capacity or created by order. Unclaimed land and rain from nature are two such examples, human intellect is one and his energy another form (not labour at this stage unless transformed into acts impelled by motives), and we might take newly created money (fiat) that was never put to work before as another example of fresh input etc. etc. Entire identification of Fresh Inputs can be affirmed as the Nature (unclaimed land and resources, processes, divine acts etc.), Human Intellect, Human Energy, and Capital by order.

Ready Input

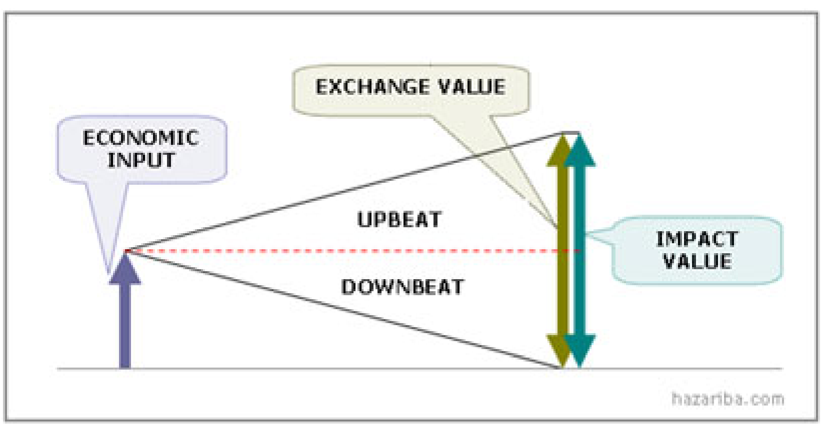
Output(s) from previous economic activities that are now fed as input to current economic process. All previous economic outputs are principally the properties of some owner(s) or have claims of ownership, and if they have no owner then we might consider them waste (garbage) or redundant. Entire identification of Ready Inputs can be affirmed as the sum of all properties under ownership like (land, materials, machines, tools, capital, skills etc.) later on we can group these properties by purposeful functional attributes for their role as productive, carrier, servicing etc.

Motive Switch
The imperative reason of life and work, broadly speaking, all 'for profit' and 'not for profit' causes of actions to get involved in the economic process, including for instance; needs, competition, opportunity, pride, praise, spirituality, honour, help, benefit, greed or any instinct of kind within individuals or purpose of non-living entities that to survive, sustain or thrive, to satisfy or gratitude or pleasure or whatever man intend to achieve, and do at will or compulsion. This is to say all inclusive 'human nature'.

Economic Input
Is the required input for the intended 'economic process' and may comprise a mix of both 'fresh input' and 'ready input' or just from one of the two depending on type and demands of the economic process. The motive when applied converts all available inputs to become functional economic inputs.

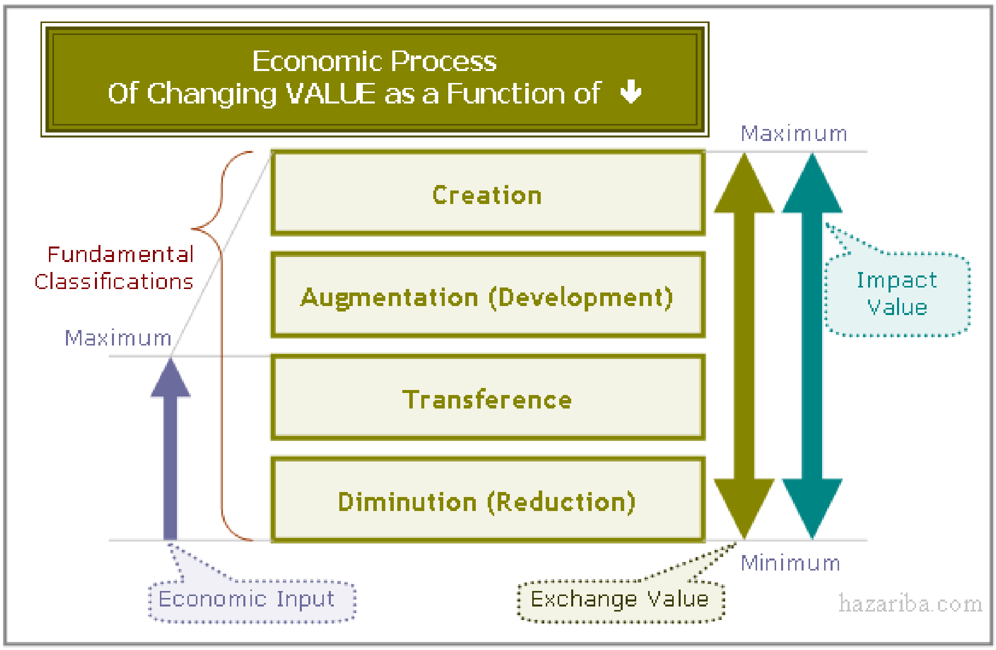
Economic Process
All existing economic beliefs are focused on the matter of value of goods and services that are discussed extensively by theorists, whether be it the labour theory of value, intrinsic or subjective theories of value, exchange value, use value etc., differences are perceptive and none of these attributes is deniable rather in certain situations inseparable at a given time for a particular thing and may also be present separately for the same thing at some different point in time of its life span. In the framework of economic process, its two ends offer various views relating to input and output values. However, the economic process in totality is the function of changing value from zero to definite to zero, that is – from the creation of value to its total destruction and any thing in between.

Economic Output
The output of any economic process can be seen from two primary angles of motives, i.e., within 'for profit' and 'not for profit' divisions; in first dissection it is mostly expected to be measured in terms of gain-construct in the 'exchange value' of the economic output, while for other dissection, it can be measured as an 'impact value', and vitally every economic output (exchange and impact values) has a life either defined by nature or the perception, the judgment on economic output must consider the input and the motive of the process together. For instance, for a poverty reduction cause, the result of economic activities executed for the purpose shall be estimated by some poverty indicators to define the level of achievement of the goal and naturally the degree of achievement will have a relation with the economic input, symbolically:



B) Economic Activity : Classification

Since the economic processe is the function of changing VALUE (exchange-value), there are only four rational types, i.e., by creation, augmentation, transference, and diminution.



An incomplete (unfinished) subsequent sub-list of value changing processes in proximity of respective classifications:

Classification	Economic Process / Operations
Creation	Nature's Creation of Resources and Products Intellectual Creations by Humans Inventions
Augmentation (Development)	Discovery/Extraction of Natural Resources Research & Developments Infrastructure Developments Human Resource Developments Agricultural and Industrial Productions Natural growth of value in natural Products Trading of real advantages
Transference	Inheritance Distribution Services Trading of perceptive advantages Gambling
Diminution (Reduction)	Consumptions Natural reduction of value in natural Products Trading of Discounting or Liquidation

We have reasons for above categorization, given that the function of change of value is the economic activity, few examples or explanation may show up typical way of thinking:

1. A farmer of basmati rice (economic product) has yielded a crop as a result of some economic inputs (including his labour) through a course of agriculture production, the produce has an 'exchange value' and he sells his stock. The buyer of product knowing that if he keeps this value for some time, the aroma and taste of rice will improve and therefore the value (i.e., exchange value if he sells it further or impact value to satisfy his demand of taste if he consumes it). The increase in value (change of value) here is only attributable to nature and specific to just this or few products because waiting or stocking other agri-products may not provide similar results. The value of labour, the intrinsic value of product considering all economic inputs and subjective value to buyer based on his perception are all suitable attributes to the value of the same product.

2. Similarly, the diminution of value occurs by nature in perishable products that reduces the worth of produce to a level that may not even cater the value of labour alone.

3. Among all economic processes, trading is a kind of unique activity that is pertinent to three classes except creation of value category since the product need to be existing naturally before it can be traded. Next, there is always a life of an 'exchange value' (life formative causes are plenteous including natural and market dynamics) that can expire consequently, a new 'exchange value' may be typified and it may go on several times within the total life span of an 'economic output', logically thus the very same economic product may be traded with real advantage (~profit), without any profit or by incurring loss, hence in our pragmatic classification structure based on the change of value function, trading activity qualifies for three groupings.

An objective contribution of all four economic processes is required to achieve a balanced or progressive economy, otherwise national economies dominated with last two functions (i.e., transference and diminution) will certainly lead the nation in to debts, poverty and negative trade of balance (true for individuals / entities as well).

In our context of financing and now the function of changing value in an economic activity as classified above, a natural relation of each form of financing looks sensible, i.e., for:

Creation	: Logically Equity
Augmentation	: Equity and Loan
Transference	: Loan and Debt
Diminution	: Debt only

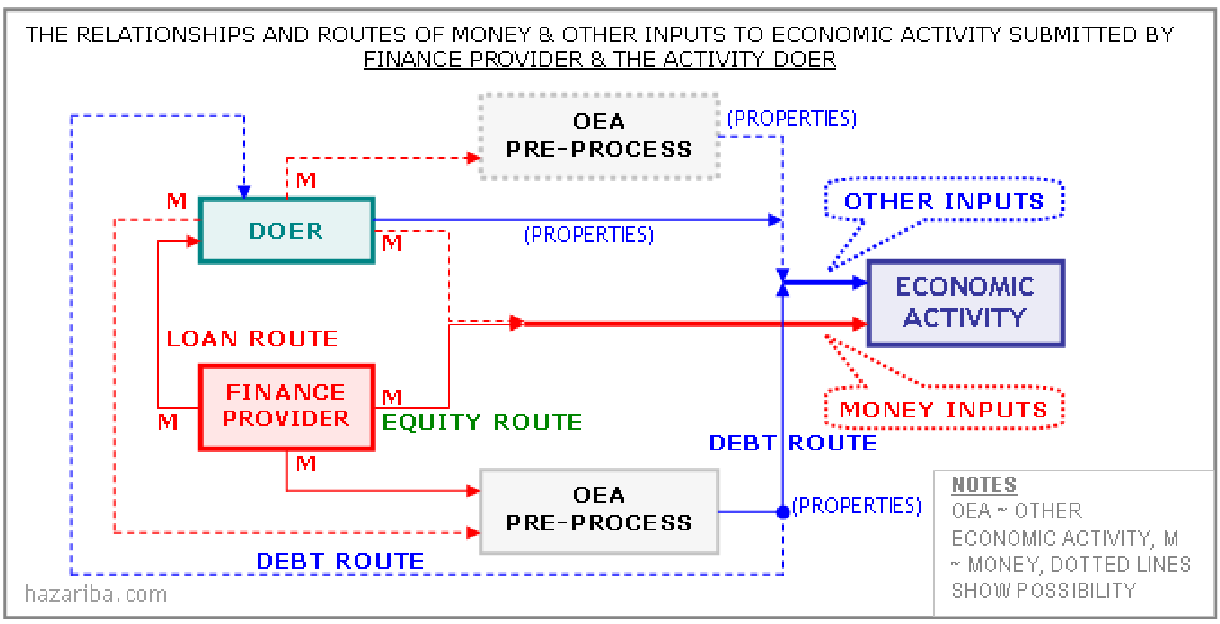
These relations are preferential by logical linkage but not binding as attributable to other factors and constraints of different idealogies.

<u>Conventional and Islamic Handling of Economic Activities</u>
Please excuse me, as I am afraid I can't even place my poor understanding as regards to handling of activites by the two within few pages and that is also not much required in our context of discussion.

3. **Forms** of Financing

Since, economic activities require one or several inputs and when there exists an actual or intentional deficit to put in to the process, naturally some arrangements need be done to deal with insufficiency. If the deficient inputs (ready and/or fresh) are acquired by mutual agreements with their owners/holders, economic activity can be carried out. However, it's not always practical for various processes and for so many reasons that required property owner(s) may or wish to participate in the activity, therefore their properties can only be acquired lawfully at their terms usually by means of exchanging with money. Conversely, instead of making contracts for each input discretely or owing to some other concerns, it's always judicious and convenient for activity planner to seek and deal with a finance owner and to acquire his property (money) in the first place and then manage the rest of inputs needed for his intended economic activity. Thus 'forms of financings' are the naturally possible basic arrangements with a finance provider for the purpose.

Given that the arrangement is for money principally, let us divide all economic inputs in two kinds, i.e., one as 'money inputs' and else as 'other inputs', next we can illustrate the relationships and routes of these kinds (money & other inputs) to the economic activity that can possibly be contributed by finance provider and the activity doer, indicated in the following illustration:



For the two kinds we assumed, above are the entire probabilities of arrangements; and as said earlier financing is predominantly ruled by the laws of the nature, therefore every probable option is a natural option here. These natural options are further subject to the natural law of profit if any option is to be used for making profit.

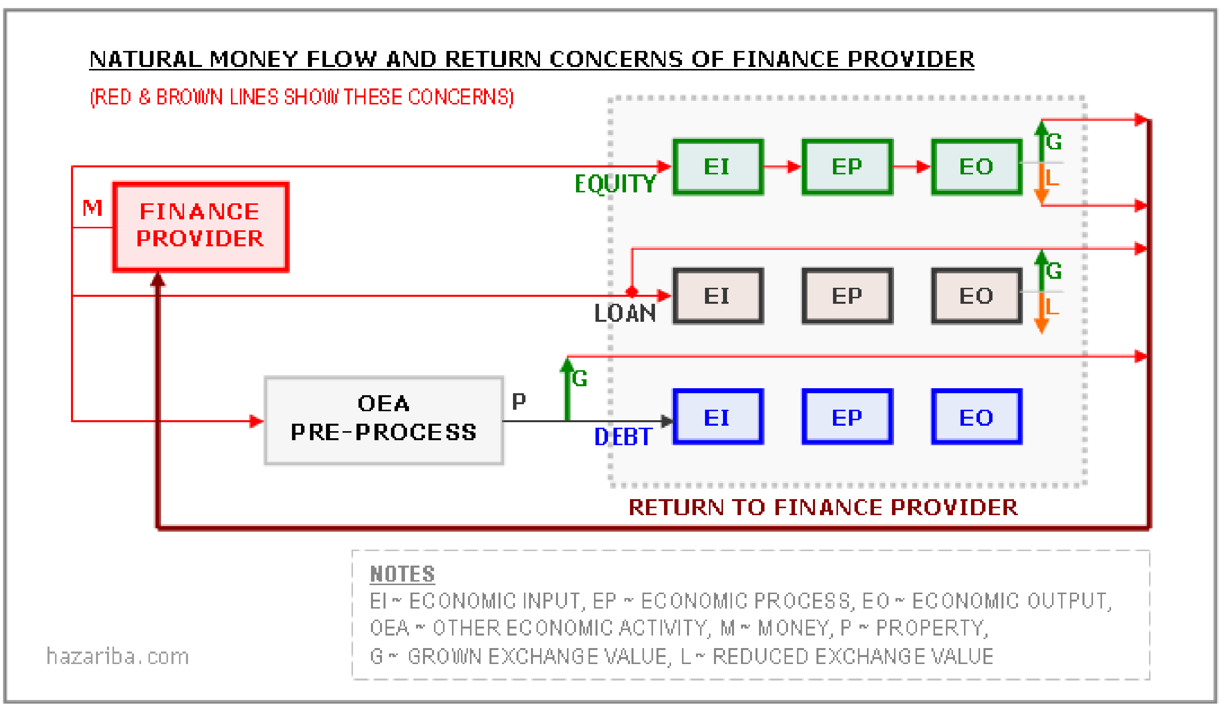
We must not forget our theme for the involvement of 'finance provider' which is based on his motive of 'profit', thus three elemental routes identified above should provide a way to incorporate his motive; what are those natural ways? It shall not be much difficult to find as we have at hand the economic activity, two participants (with possibly different motives), and the natural law of profit.

If 'economic activity' being financed is wished-for making profit by itself, then the motive of the activity planner (doer) and finance provider coincide naturally, that is – most of the activities under '*creation* and *augmentation*' categories offer such synchronization. On the other hand, if the intended economic activity falls in '*transference* or *diminution*' category then the motive of activity doer and finance provider may not harmonize, so we have few natural considerations in defining relationship between the activity doer and the financier.

All activities which are not meant for making profit (e.g., consumption) can not offer profit to the financier ab-intra (from within the activity), only 'Debt Route' will then be naturally suitable relationship where the financier employs his money to submit property instead of contributing his money as input to the anticipated activity and constructs his profit within on-purpose pre-process economic activity, this shall be practical for activities under 'transference and diminution' categories where the exchange value of projected 'economic output' may not offer a gain.

Likewise all activities which are intended for making profit by itself (e.g., a trading activity of real advantage) may be served through 'Loan' and 'Equity' arrangements realistically, however 'Debt' bargain do have a chance as well to be used in a profit making activity and can't be ruled out completely (since Equity through Debt is a possible blended form). The form of financing in a <u>profit oriented activity</u> is actually a matter of willingness or the possibility of '<u>involvement extent</u>' of finance provider in the economic activity.

Understandably, the finance provider and the activity doer may agree for none or some or extensive role for the financier in economic activity, taking into consideration his motive of profit and bringing in his money – the concerns of financier are also comprehensible as shown in next illustration. Please remember there is no indoctrination bias known till this point (just what is) since we are looking only natural possibilities (as they are) for each form of financing discretely (shown inside dotted gray block).



Other than ‘Debt’ arrangment, the finance provider might have a real concern in economic input (EI) as he is bringing-in his money to the economic activity and a must concern with the result i.e., the economic output (EO) for his purpose of profit. These concerns of the finance provider are inherent and undeniable. The economic process (EP) is an option to be settled between the two partakers, if they agree to engage in the process together or one trust other for the execution of process by giving him the right to excute on his behalf by accepting result or any other effective agreement between them to bear the liability of economic process (EP) with its consequences mutually, it will imply a joint undertaking of the economic activity and for that reason the agreement is ‘Equity’ type in essence – they are now jointly responsible of the whole activity and of the outcome from it either be it a benefit or loss.

If no role or liability is settled-on for the finance provider in economic process (EP) – just opposite to first arrangement (like if the above was YES then this one in NO), logically he shall not be held responsible for any loss <u>by design or by force</u> since he took no direct or indirect liability of the process, and at the same time his concern to any value gain in the economic output (EO) must be accepted <u>by default</u> for very obvious reason of supplying his money in expectation of some gain from the activity. If failure to construct a gain in the economic output through the process is faced, it shall be the sole liability of the activity doer given that he was executing the process. In moral, realistic and rational economic thinking, the money-input provided by the finance provider may be protected under the law for its preferential return from the activity doer. If profit is realized, then the finance provider shall have his due share as per their mutual agreement of sharing the profit. This is straightforward ‘Loan’ arrangement in a ‘for profit’ financing deal.

All ‘Ready Inputs’ to an economic activity are the existing economic outputs of former economic activities, logically all previous activities can not have any relation to the current activity at least as an activity. Similarly, if an on-purpose pre-process economic activity is carried out to facilitate few inputs other than money to this economic activity – principally the two must be treated and executed as separate activities. The ‘Debt’ arrangement is a form of financing where the financier has no concern to the economic input (EI), economic process (EP) and the economic output (EO) of the current economic activity.

Financier’s activity concerns have no fourth probability after three:

1. If, ‘Profit’ obtained at the economic input (EI), no ‘activity’ concern ahead.
2. Otherwise, ‘Profit’ can only be obtained when the economic output (EO) is determined.
3. He may or may not be involved in the economic process (EP) to achieve his purpose.

Naturally thus to conclude, for each basic form of financing, financiers’ concerns are :

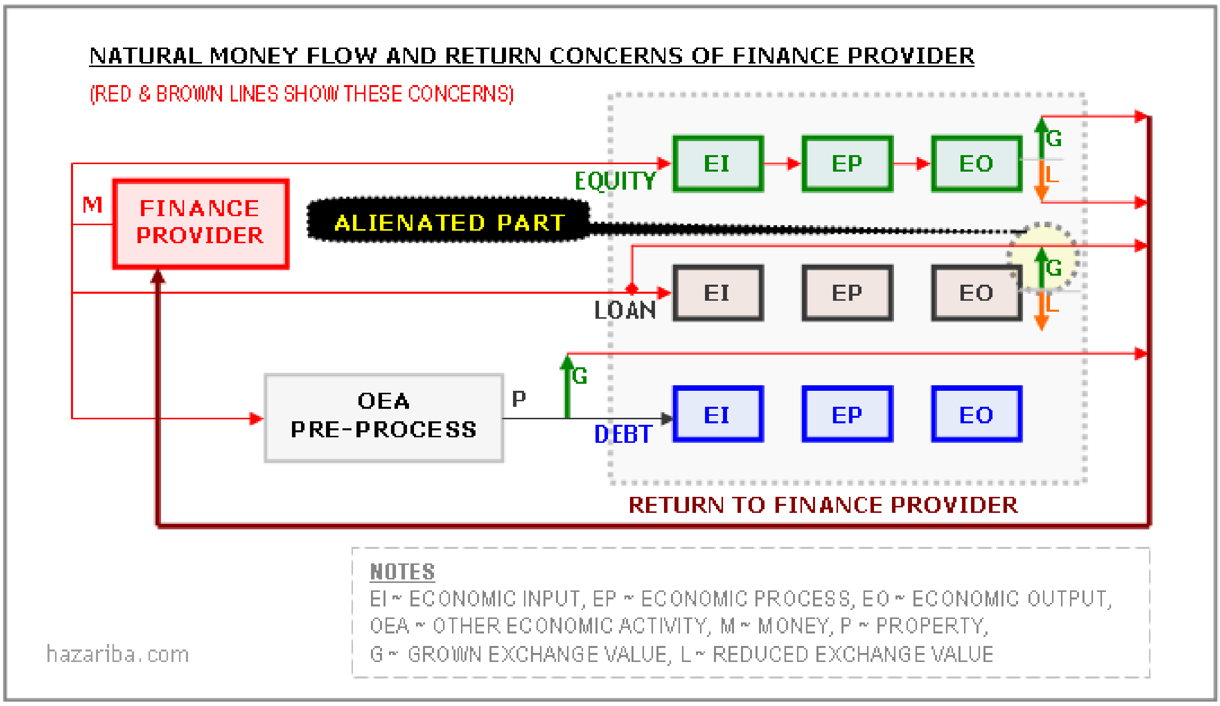
1. In Equity form, the concerns are EI, EP, EO
2. In Loan, these are only EI, EO
3. In Debt form, No concern at all to the current activity at least as an activity

There is a need to emphasize it so discretely since prevailing practices in financing deals have camouflaged the natural pattern of doing money businesses that are identified in the next section of conventional and Islamic handling of financing forms.

Conventional and Islamic Handling of Financing Forms

If a financing arrangement is based on single fundamental form without any blend, then 'Debt' and 'Equity' forms have no or little fatalistic or notional disputes in two doctrines (but blended forms like diminishing musharakah are problematic), whereas 'Loan' form of financing have serious dogmatic positions at odds in the two that we shall discuss initially, later in Islamic handling of these forms, I would try to highlight some general handling or neglect, and some food for thought.

In previous illustration, there is one spot that is a common '<u>alienated part</u>' to conventional and Islamic handling of 'Loan' financing form, that is marked below :

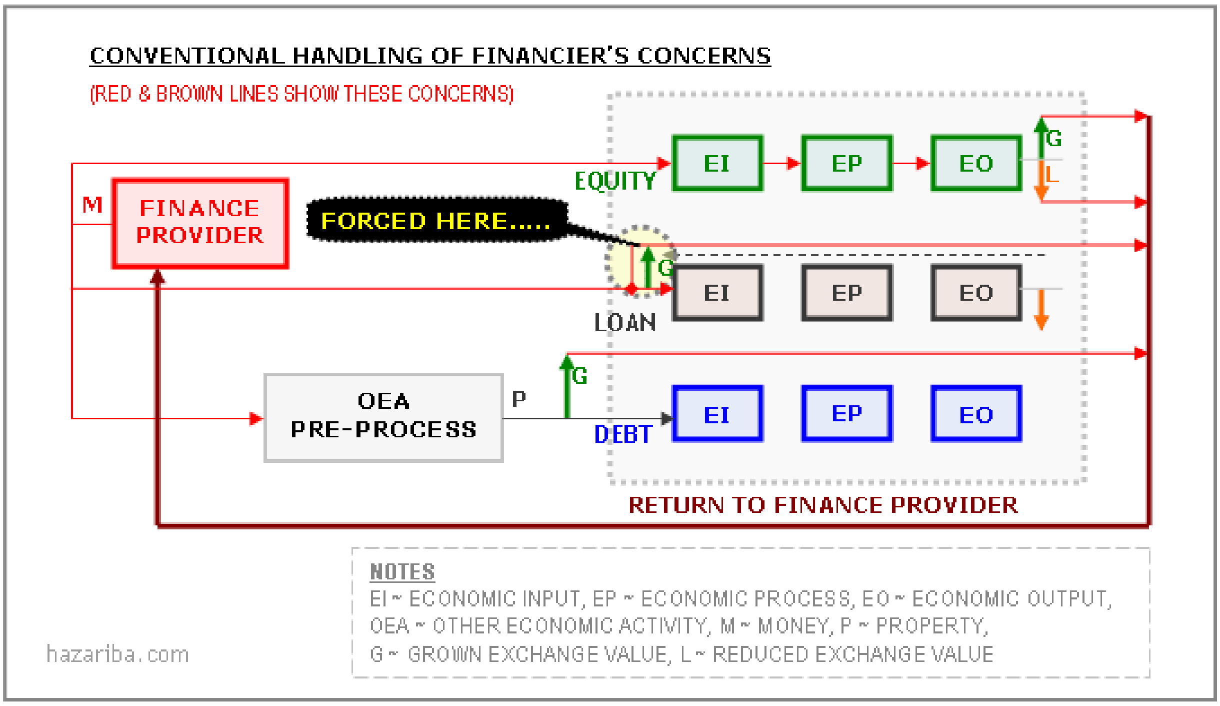


This 'Alienated Part' is the most complex component earning all sorts of differences amid two doctrines and the primary source of confusion. If any practical separation of affairs is to be defined then respective treatment to this molested constituent can do that only.

Conventional Handling

The desire of 'profit' is not rejected or discarded in any system of belief since it is natural and catalyst for human interactions but the way it is enforced unnaturally in conventional financing is disappointing.

Considering the natural law of profit, the change of value incurred as a result of economic process is available in economic output, i.e., the 'exchange value' of economic output will have three probabilities; either it is more than the value submitted at input (means profit) or less than that (i.e., loss) or same as input value (no profit no loss) and just one of three can be available in the economic output. Conventional handling of economic output (EO) is shown in below diagram with its evident mistreatment of 'Loan' based activity :



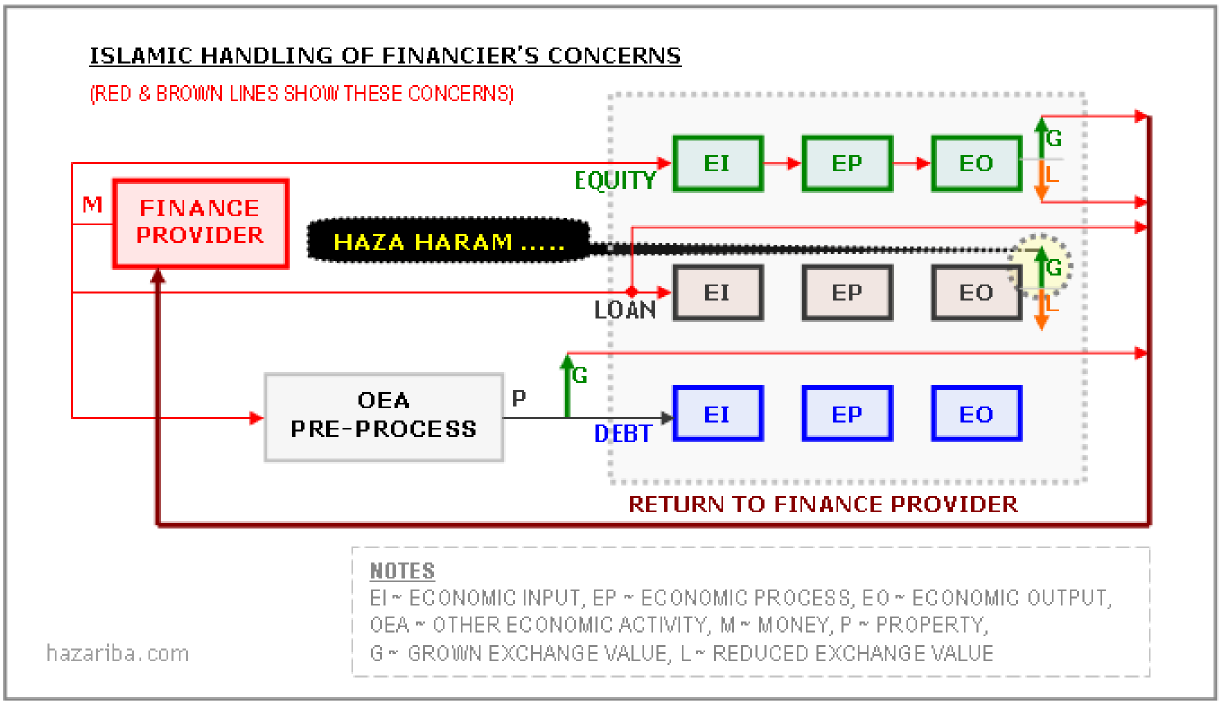
The motive of profit is fair enough but the conventional methodology has adopted artificial course for defining and realizing it, forcing it to exist where it is not doable and absolutely perverted. The 'Profit' <u>does not and can not exist</u> at this point and this is precisely the argument for the non-existence of an element in a loan arrangement. Whatever name you give it – *Riba*, *Usury*, *Interest*, *Sood* or else, and where on earth you call for help to bring a credible justification, there is no possibility that some one can prove the existence of 'Profit' at this point in an economic activity. Humanly developed laws are not eternal but this one is the law of the nature which is not going to change anyway.

There is a colossal difference in two positions of 'Profit' – where it can exist and where it is forced to exist, the whole conventional philosophy of making profit through loan financing arrangements is based on this lie or deception. Without any biased notion or narrow-mindedness or any kind of prejudice, this is very honest reckoning.

In analogy to the '*cause and effect*' philosophy applicable to events like economic activity, if we consider the 'economic process (EP)' as the cause then the 'economic output (EO)' is its effect that may hold 'Profit', how an *effect* can be acknowledged prior to its *cause*? The conventional conduct is eager to change not only the natural law of profit but other norms and philosophies and that is without having any of its own logic or reasoning but through force only.

<u>Islamic Handling</u>
As a rule, Islam is consistent with nature – this is one of the essential religious convention and applicable to the law of profit as well. We must also recognize that Islam and Islamic understanding are two different things; Islam is eternal (belief) but Islamic understanding is the reflection and thinking of fallible human beings thus impermanent. In prevailing Islamic concepts hitherto, it does not change the position of profit in an economic activity

for its probable existence as conventional proponents do, however the present perception has another kind of fallacy:



In above illustration at 'LOAN' based activity, you will not see any connection between the profit element and the return path that is a valid concern of finance provider, the profit is "IGNORED HERE" by labeling it unlawful (*Haram*) without any reason within the doctrine. Thus, no 'For Profit' loan arrangement is workable in prevalent Islamic understanding and this is of course due to the confusion on *Riba*. The worst part is that the confusion is not done away and since this is the natural way of earning profit, thus in practice profit is not ignored completely and because it is not ignored fully as opposed to traditional *Islamic* conviction and sensitivity – the confusion further intensifies; for instance, the 'deposits' received by Islamic banks (from customers who are their finance providers) are treated exactly like the natural 'Loan' arrangement (unnatural thinking but natural working; i.e., thinking and working are conflicting) – and to justify this way of working, rationally some other concept or philosophy is required to label the 'taking of deposit' practice – there you have options like *Qard Hasan*, *Wadiah, Amanah* etc., but unfortunately none of these meet the terms of practice with their original meanings and conditions, hence we need to modify the definition and sense of these options to agree with the practice. Here, *Islamic* conduct (of contemporary Islamic banking promoters and professionals) is eager to change these old established models and philosophies forcibly, will this manipulation of previously indisputable norms would protect valuable *Shariah* or distort it consequently?

If we assume that this false labeling is not false but a real *Islamic* way of doing business, then they must approve and extend the methodology to their customers who seek money for commercial purposes on same terms of *Qard Hasan*, *Wadiah,* and *Amanah* as a regular mode of financing since these operations were existing well before banking and people were involved in it. Definitely, it is not happening and this functioning is in one direction only to entertain depositing customers. A pathetic argument is presented mostly that the society is so corrupt that people can not be trusted or at least banks can not trust people,

but is it really the case and how societies can exist with total corruption where banks are also part of it? These are all feeble excuses, showing greedy conventional mentality, and untested assumptions, we don't see angels from heaven sitting in the banks.
As against to the natural concern of finance provider in a 'Loan' financing arrangement, if the conventional handling of profit is forced and misleading then the Islamic handling of profit is disregarded and depressing, both treatments are abnormal and strange.

In view of the Natural Law of Profit plus Natural and Valid Concerns of the Financier in an economic activity, the Islamic handling of 'Loan' arrangment is fixed in a dilemma, i.e.:

1. A 'Loan' arrangment for '<u>For Profit</u>' financing of economic activities is 'NOT ALLOWED', yet it is practiced 'ONE WAY' and therefore some out-of-box or bravery thinking efforts are required from Islamic scholars to legitimize the unidirectional ongoing practice on purely realistic and natural consideration in order to remove the confusion?

2. Since, the 'Profit' is not handled in conventional methodology at its natural place (i.e., where it can exist) therefore no such work or knowledge, skills/tactics and technology is readily available that can be useful for expected and proper handling of the 'Profit'. That is to say, conventional handling of 'Loan' arrangements is artificial and by force, that is not workable for Islamic handling if it goes with real profit.

3. If *Shariah* scholars ever consider and approve 'Loan' based financing arrangements for '<u>For Profit</u>' motive to remove the confusion of thoughts and practice, then there will be a huge task ahead to develop methodical handling of 'Profit' at its correct place where it can exist in a 'Loan' based financing arrangment; a fresh dimension of knowledge & technology shall come to reality that will be significantly different than the presently employed conventional tools & techniques like that used in deal evaluation, customer profiling, profit determination, risk management, auditing and other standards etc. This will definitely be seen as a different kind of banking than conventional.

Beside rejecting 'Loan' arrangement in general, Islamic financial technologists are altering other *Shariah* norms like the *Musharakah* methodology, e.g., the so-called 'Equity' type of financing by Islamic operations (i.e., diminishing *musharakah*) is flawed at the root since there is no possibility of 'Equity' arrangement in a '<u>For Profit</u>' financing for a consumption type of activity, the use of diminishing property ownership mechanism is totally fake and ridiculous – just by owing some thing can not be seen as taking part in economic process but as a debt only, this mechanism can merely provide security of assets or repayment. It is observed further that this false understanding of ownership hypothesis is nonsensically used to an insupportable thinking when it is said that to **Shariahfy** a transaction, if constructive ownership of subjective substance is kept momentarily, it is OK. Alas! The minds go off as to understand what is that? Why is that? And how is that?

Practically, instead of adding some value to the *Shariah* heritage, we are destroying it. We are our own adversary, foolish friend. There are many examples of misunderstanding the work of our predecessors, for instance, take the case of a *Mudarabah* contract, there is a condition that if loss is incurred – the finance provider (*Rub-ul-maal*) will bear it; there is another condition that finance provider will have no role in managing the business. In our contemporary wise scholarship, we have taken these conditions as defacto rules, i.e., we have derived these so-called Shariah ruling from the contract of partnership, from a set of terms and conditions specifically designed for a particular situation where activity Doer (*Mudarib*) had nothing to put in the activity and financier had no intent or capability to participate in the activity. It was a demand of justice that if *Mudarib* discharges his task with honesty and responsibility and loss incurrs, then he should not be made liable for the loss since he has no capacity to bear it. The contract of *Mudarabah* has extensive sense and business concept in it. Now, leaving the framework out of sight, we have made it a rule that all losses shall be born by the finance provider regardless of any situation, and the finance provider can not take part in the activity unless his counterpart does not put some finance in it, where in that case the contract is not *Mudarabah* but *Musharakah*.

Owning to these rules, you can offer *Mudarabah* contract to those who have no need for an external finance since they have enough of their own to carry out the undertaking, also you can not demand or have a role or control in the activity – how dangerous and risky that business would be inherently when financed out of contextual situation for which it was meant? The concept of *Mudarabah* is entirely tarnished. These alleged defacto rules are basically the most significant and primary cause of *Mudarabah* failures because they were tried and enforced to situations where they could not fit or were not designed-for. On the other hand just because of these defacto rules, many valid opportunities are not entertained but rejected.

The rules of association as defined in respective situations of Mudarabah and Musharakah are different, which itself is a proof of the argument that rules are made for situation and not otherwise. If a situation is changed then a set of new terms and conditions for that particular situation can provide the justice to the interaction.

The noble *Islamic Shariah* and *Fiqh* scholars were able to deal with any situation that was put to them seeking a model of conduct; their key concerns were to build justice, prevent exploitation, protect rights of involved parties, adhere to religious tenets etc. in designing the contract with clear definitions of terms and conditions for that particular situation.

The *Mudarabah* and *Musharakah* or other valid contracts set by earlier scholars shall not imprison *Shariah* within them even partly; these shall not be looked upon more than just Shariah validated contracts for explicit circumstances, and validation shall only be limited to pertinent situations principally.

In reality, there are several situations that were not contractualized previously (especially emerged after the introduction of financing intermediaries), these situations exist inviting *Shariah* handling to develop new conduct models (contracts), but I have a suggestion for modern Islamic Financial Technologists of any stature: if they are unable to handle the untreated situations with the same theme of contract development as our former Islamic scholars used to do, then they should at least keep their brains and hands off of previous works for the sake of preserving the legacy rather than destroying it by their poor work.

What is a situation or 'untreated situation'? A good question in view of above talk and our topic of financing. Owing to the natural imperative, situations exist first before they can be handled, therefore it is futile trying to create a situation from a contract (like trying to enforce rules driven from *Mudarabah* and *Musharakah* on different situations), whereas a contract (i.e., a misplaced or mishandling sort) can destroy a situation that will generate a new state needing again to be handled amicably with a suitable new contract.

Let us consider what are possible factors and variables that could be present in a situation calling for financing, then we can see which combinations were treated earlier and which are untreated hitherto. In our relationship diagram (page 15) for submitting inputs to an economic activity, we assumed only two types of input (Money and Other), however we can segregate inputs in as many types as possible by decomposing properties etc., so assuming three types of inputs here under, we below have arranged list of probabilities – the syntax followed is Factors **{**Variables**}**:

1. Economic Inputs **{**Money, Properties, Human Work**}**
2. n x Activity Doer(s) **{**w/wo Money, w/wo Properties, Human Work**}**
3. n x Financier(s) **{**w/wo Money, w/wo Properties, w/wo Human Work**}**
4. n x Economic Activity(ies) **{**Economic Inputs, n x Economic Processes, n x output(s)**}**

(P.S. - Here above, **'n'** means 'one or more', **w/wo** stands for 'with or without')

Now consider the intentions and capabilities of participants in their postions of owners and representatives (mediators like banks), their undeniable and negotiable rights, their valid natural concerns, just imagine! how many combination of above variables are possible in these sensitivities, I can't put them here, you can try yourself and may be you will need a computer programme to do that.

For instance there might be a new situation: if a financier has the intent and the capability to assume some role or control in business and activity Doer agrees to his participation without investing finance of his own, it is neither a *Mudarabah* situation nor one like *Musharakah*, why it can not be included in the contract by definition and how the situation can be rejected, where else in *Shariah* such rejection is stipulated except this defacto rule deduced from a contract not fit for this situation?

A combination based on above mentioned factors and variables will define a unique kind of situation, (certainly before handling the situation, required variables shall pass through a filter as applicable for their Islamic permissibility); finally since the motive is 'profit', therefore a contract for the situation can be designed considering:

1. Circumstances and the Natural Law of Profit – A must dynamic to be observed
2. Relavent tenets of Islamic doctrine (*Shariah*) where applied

That's all, we have a new contract – *Shariah* validated, this is realistic Islamic thinking.

Re-examining these subjects is inevitable on the part of Islamic scholars and intellectuals to harmonize the thinking with practice or practice with thinking whatever is more realistic and acceptable as a result of the rework. Rather than removing the known confusion on *Riba*, we are introducing confusion in concepts where there was no confusion formerly. It is very difficult to accept such truths.

4. Set of Terms

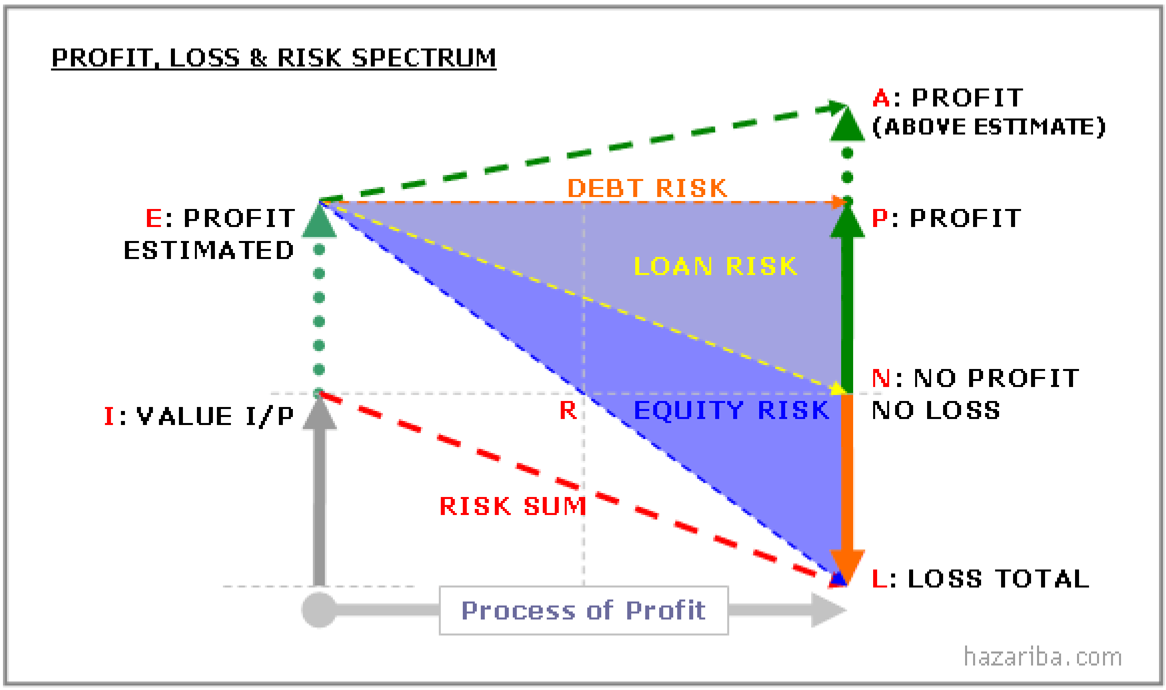
Means the description of interaction as negotiated or agreed between involved parties, in the structure of 'For Profit' financing, we may list out meanings and/or sense of concerns that are or could be the general topics under the terms and conditions:

CONCERNS	Meanings / Sense of Concerns
Principal Amount	Money spent/contributed by respective finance provider(s)
Return/Settlement	Money payable to respective finance provider(s) / doer(s)
Profit	Increase (Gain) above Principal Amount
Loss	Decrease (Drop) below Principal Amount
Risk	The probability of losing Principal Amount, Return, and/or Profit
Use of Money	The type of economic activity where money is employed
Payments	Fixed or relative time schedule of money imbursement either way
Security/Collateral	Counterpart's porperty: a way of managing the Risk
Liabilities	Chiefly for the Return of money, Risk and Loss
Ownership	Of Properties (economic inputs, process and outputs)
Responsibilities	Of discharging commitments and implementing tasks
Sharing	In the Work, Liabilities, Responsibilities, Profit, Loss, and/or Risk
Time	Definition for payments and money employment (use of money)

There are plenty others as well that are not included above, each situation can bring its own concerns to the economic activity being financed, e.g., a need to monitor, evaluate, reassess, modify, improve, audit, quiting/exiting, expiring of an entity, defaulting by one, transfer of ownership and responsibilities etc. etc. these are the conditions that might be considered and negotiated.

From above list of concerns, we may talk about three selected ones that are relatively more important to our topic of 'For Profit' financing, i.e., Profit, Loss, and Risk.

Profit is an estimate initially, then defined, and finally realized, if the probability of 'Risk' is some thing that goes wrong, then likewise we can create an analogy of risks respectively; i.e., information risk at the stage of estimation, process / functional risk in second phase, and realization risk at last. (briefly information risk, process risk, realization risk). This is minimal requisite division of Risk since we have three types of financing arrangements and each one is subjected to its own levels of risk and loss probabilities, depicted below:



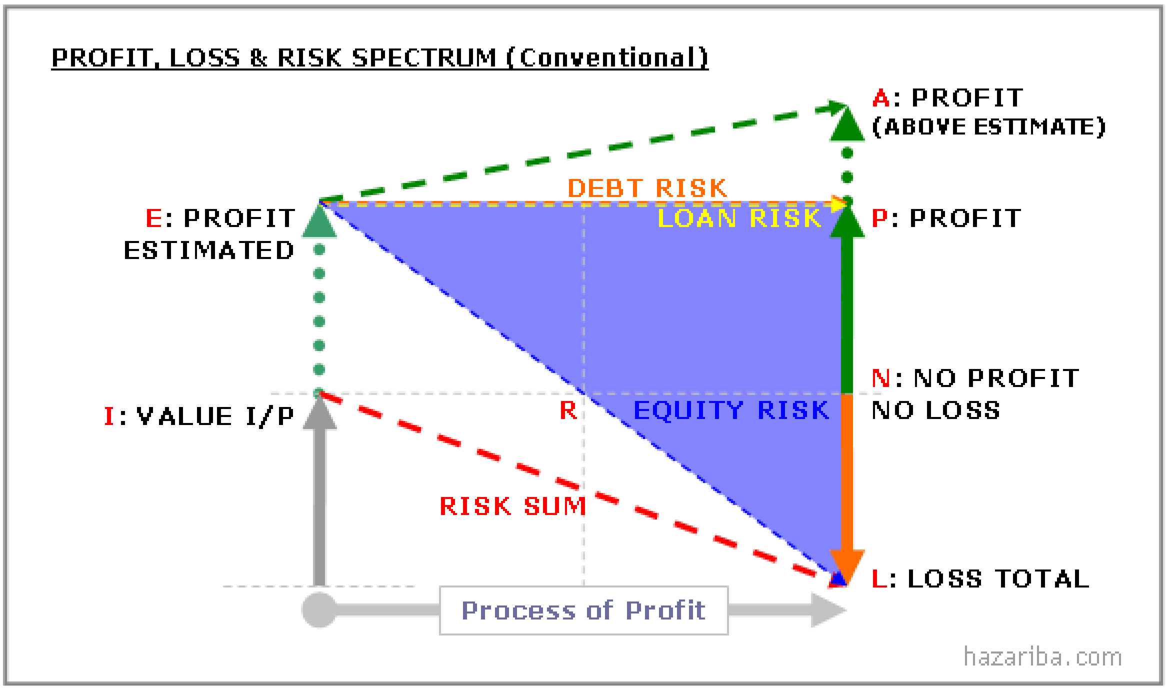
Since, each form of financing is subject to a different spectrum of risk, therefore naturally respective contracts shall have a different set of terms for handling the conditions of risk. By the way, as shown in the spectrum delta areas (i.e., other than debt based financing), the profit may be more than as estimated at some occasions possibly.

SLOPE / DELTA	PARTICULAR RISK SECTORS in FORMS OF FINANCING
E→P	Debt Risk (only Profit Realization Risk)
Δ EPN	Loan Risk (Partial Risk of Process i.e., Risk of Profit)
Δ EPL	Equity Risk (Full Risk of Process)
I→L	Risk Sum: (Total Risk of Surprise or Random nature)

First three Risks are those mostly that are managed or manageable, and what is not within the knowledge, controlling capacity or vision of humans is the 'Risk Sum'. The point of 'L: LOSS TOTAL' is the maximum effect of risk, and point 'P: PROFIT' is the maximum taking or averting of risk. The point 'R' is important in blending forms that we are not trying to discuss at the moment.

As said earlier that no one works for loss (against the motive) therefore only 'Risk' shall cause the 'Loss', i.e., conditions that will define the probability of swing between 'Profit' and 'Loss' to be had in estimation, process, and realization phases in the process of profit. In relation to the forms of financing, 'estimation risk' and 'realization risk' are common to all forms, partial process risk (that is risk of profit) is added to 'Loan' arrangement and full process risk to 'Equity' arrangement. On top of all, 'Risk Sum' can do anything in any form without distinguish. The handling of 'Profit' is discussed already, let us see how Risk and Loss is handled in conventional and Islamic practices.

<u>Conventional Handling of Risk & Loss</u>:



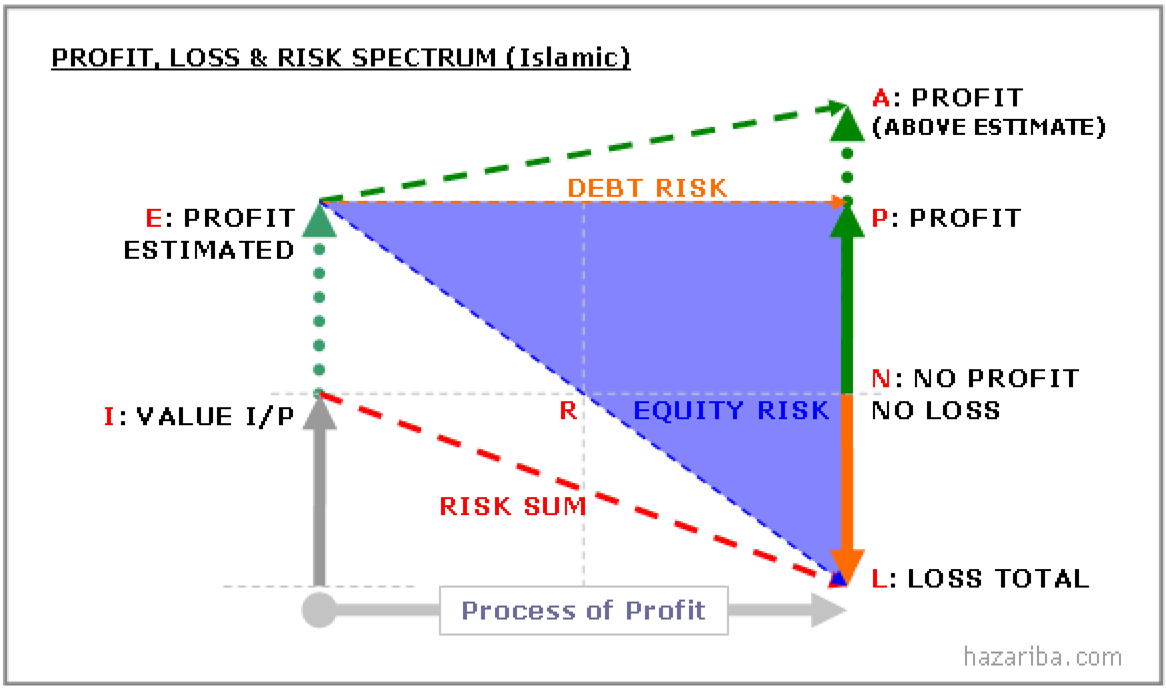
SLOPE / DELTA	Conventional Handling of RISK
E→P	Debt Risk (only Profit Realization Risk)
E→P <u>IOF</u> Δ EPN	Debt Risk <u>I</u>nstead <u>OF</u> Loan Risk (~ only Profit Realization Risk)
Δ EPL	Equity Risk (Full Risk of Process)
I→L	Risk Sum: (Total Risk of Surprise or Random nature)

There is no real handling of 'Loan Risk' in conventional working since they have forced the profit to exist artificially before it can, hence no partial process risk (i.e., risk of profit) is considered and virtually therefore there is no difference in conventional handling of risk in 'Debt' and 'Loan' arrangements. When collateral is acquired to secure the debt or the loan as mostly practiced, in essence then the 'realization risk' is also not a risk, however, there could be extra efforts or expense required to recover the principal amount and the profit from the collateral. The 'Risk Sum' of surprise or random nature, in any case is still there.

For most theoretical and practical purposes, the probability of 'Loss' is almost negligible as evident by conventional handling of Risk for a collateralized 'Loan' arrangement, since any possibility that could effect profit in the process is already disappeared from the scene by defining profit forcibly before it can exist. In short conclusion:

Although, 'Debt' and 'Loan' forms of financing insist different handling conditions but the conventional treatment of the two is similar without any distinction.

Islamic Handling of Risk & Loss:



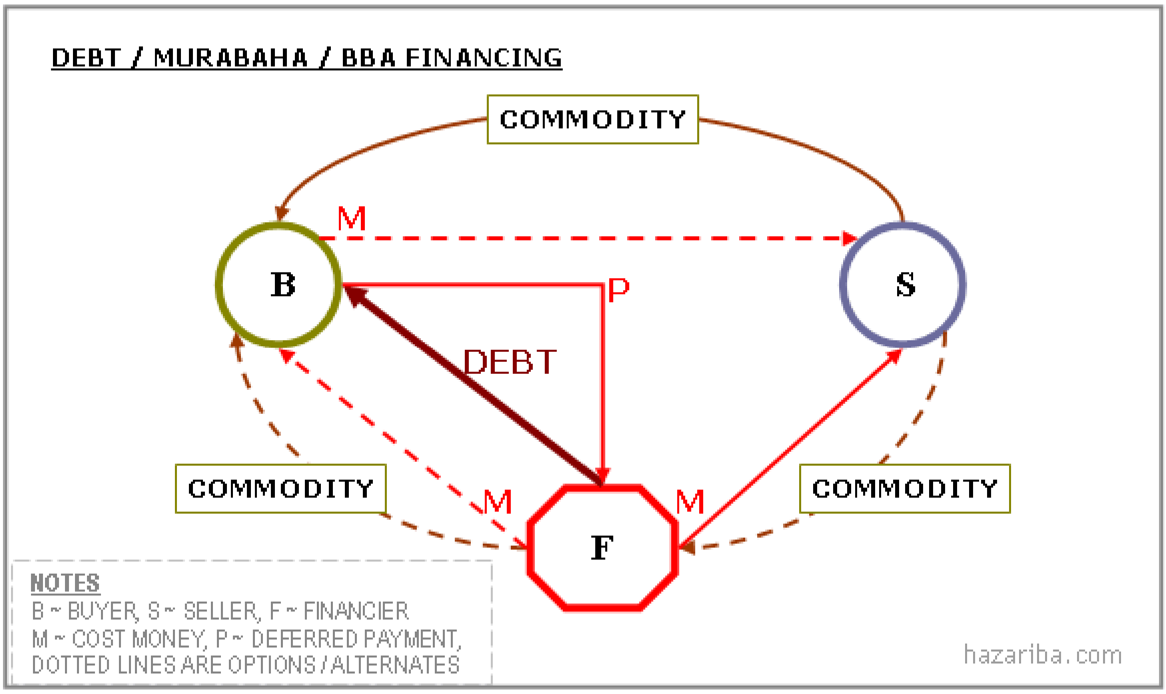
SLOPE / DELTA	Islamic Handling of RISK
E→P	Debt Risk (only Profit Realization Risk)
EPN	No Loan 'For Profit' **THUS** No Loan Risk at all (Delta disappeared)
Δ EPL	Equity Risk (or Risk of Principal plus Full Risk of Process)
I→L	Risk Sum: (Total Risk of Surprise or Random nature)

There is no handling of 'Loan Risk' in Islamic working since they have disregarded profit to be considered as legitimate though it can exist. Therefore, 'For Profit' financing through 'Loan' arrangement is prohibited in theory, thus no Loan Risk issue is valid here. Whereas, Islamic treatment of 'Debt' and 'Equity' based financings is almost similar to conventional handling till the point of profit definition (i.e., uptill Process Risk) but differs in the profit realization phase evident by stipulated terms of late payments. The issue of penalty terms is a disputed matter in Islamic handling that is also related to profit realization phase of profit. In short conclusion:

There is no 'Loan' form of financing arrangement effective in prevalent Islamic theories of 'For Profit' motive, there is no difference in Islamic and conventional handling of 'Debt' and 'Equity' forms of financing prior to the profit realization phase of the financed activity.

SECTION 2 : Murabaha Financing

The conventional financing practices were treating 'Debt' and 'Loan' arrangments in a similar manner; an obscured difference in the two treatments was verbalized after the introduction of Islamic Finance since Islamic *Murabaha* Financing assumes natural 'Debt' arrangement that is usual in conventional system, but Islamic Finance rejects any 'Loan' arrangement either in its natural form or as the conventionalists perform. The query is therefore only related to the difference of '*Murabaha* Financing and Lending on Interest', while no standing dissimilarity exists in conventional 'Debt' and Islamic '*Murabaha*' financings at least to the point of defining the profit but differs in the profit realization phase. Below is the self descriptive illustration for 'Debt/Murabaha/BBA' financing outline; buyer, seller, financier, debt indicating deferment of payment, money and some possible routes for the transfer of money and commodity, as:



In this creation of 'Debt', the adoption of optional routes for the transfer of commodity or the money as shown above are only significant for the purpose of ensuring the intended activity as planned or agreed, *Shariah* does not offer any magic of legitimacy for this profitable debt formation just by possessing or owing commodity momentarily by the financier (as argued and induced in modern Islamic thinking) since the legitimacy of the profit/debt already exist for contributing money and becoming part of the activity where profit is actually constructed.

The valid and established concerns of *Shariah* like the existence and ownership of commodity with seller or its transfer from seller to buyer are pragmatic that can be pursued/protected in any course taken, the truth of transference of commodity/money shall be of prime concern that must be ensured, the spirit shall prevail, so any situational terms and conditions without negative apprehension to guarantee this truth shall be acceptable, pointless restrictions will only curtail the natural freedom of executing the activities.

The purpose of above reminder is to emphasize that acts and intentions must be seen in their real context, no artificialism to be included, trade is happening between buyer and the seller, the factual role of financier is to facilitate the trade with the provision of his finance.

In simplest understanding, trade is permitted – so nothing is wrong in the trade provided that no prohibited commodity is the subject of trade, selling on credit is permitted – if the price on deferred payment is established. The buyer of credit product making a commitment to effect payment on some later stipulated date, gets the right to sell the product next even on further credit without effecting payment to his seller, or even on lesser than his credit price. In practice, selling on less than credit purchase price is frequently used by small wholesale/retail businesses for financing their other businesses, this is trader's self financing (at cost minus) without financiers. Principally in trade, subject of trade can be priced as many times as trade happens using any cost-plus or cost-minus formula, the fixation of price is not supported in any pragmatic thinking including *Islamic*, and this is due to the fact that every involved trade formative factor is invariably changing like the ciscumstances, situations, markets, supply, demand, exchange-values etc. etc.

Indisputably, selling on credit with an increase in price is permitted in Islam, however if seller wants to sell for immediate payment but the buyer does not have or wants to use his money, then this mismatch will not allow the ecocnomic activity (exchange-event) to take place, in this situation/circumstances if a third body assumes the role of a mediator to remove visible impediment then economic activity will happen. Now the seller sells and this mediator accepts the credit function.

In other words, the creation of debt is made possible due to mediator's instrumental role that is satisfying the demand of buyer for the deferrment of payment and effective in fulfilling the seller's demand of immediate payment. With the involvement of a mediator a fresh economic activity is made possible.

Now consider a previous economic activity when a credit was extended by the seller himself on a higher price than the cash price, the debt was established and demand of buyer was initially fulfilled by the seller for the deferment of payment. In ever changing circumstances of every one, if the seller wants an immediate payment now, the above mediator has exactly the same role to assume here and there is no reason why he will refuse it.

It comes to religious understanding where such barrier is wrongly erected without any reason in the Islamic doctrine. Creating a debt and discounting it immediately is OK, that is exactly happening in Murabaha Financing, but if debt is existing, then you can not discount it.

I am unable to understand as what is the difference or where is the difference? Can we find a reason of disparity in the buyer, seller, trading activity, debt, trading subject or the financier? Nowhere and nothing, except for the difference of timings of debts happening.

It is argued and portrayed imperfectly in the defense of Murabaha financing that Islamic financier is assuming trading activity, this is not accepted to any rational thinker since factually this is not the case. Financing is not a prohibited activity rather desirable, and there is no need to falsely project the involvement as a trader since facilitating the exchange-event to happen is imperative for economic reasons, and sharing or obtaining a gain through such partnering shall automatically be justified here in all aspects.

In my view, Murabaha Financing is Discounting practically (i.e., creating debt and discounting at once), since it is not *Murabaha* but Murabaha Financing.

SECTION 3 : What Exactly is the Query?

The query for its meaning can be translated in several ways, such as:

#1

Why the increase of price in a credit sale transaction of a commodity is acceptable to Islamic financial thinking while a similar increase in the principal amount of a loan is not legal, when the increase is only due to the delayed payment?, or

What are the reasons that Islamic sanctity is granted to an increase when attached to asset (or activity) only? Why this status can not be assigned to the increase in a loan, i.e, if it is without any link or association to the asset (or activity)?

#2

If a debt is created through financing of a credit sale transaction by adding some profit to the cash price of the commodity being sold (Cost of commodity PLUS some profit), then how it is different from a similar debt if created through a Loan by adding Interest to it (Principal PLUS Interest). That is – in both cases the addition is made on the account of deferred payment or in other words is the same as charging the time value of money. What makes the former debt (or built-in profit) as legitimate in Islamic idealogy and the later unlawful?

#3

Owing to the conceptual vagueness about Riba, some people argue that an ex-ante increase in loans is permissible and what is prohibited is the increase ex-post (i.e., subsequent). This further translates that impermissibility is attached to the increase in the realization phase of the profit therefore Islamic treatment of 'Debt' and 'Loan' arrangements shall be same like conventional practice, thus it denounces any difference in debts created through credit sale or loan. The query from this thinking says, why there should be any difference in first degree of conventional and Islamic handling of debts and loans?

#4

The argument of differentiating between qualities of money and commodity for their intrinsic values is rejected by many on the grounds that if some thing of intrinsic utility is used instead of paper money, gold, silver etc. as a medium of exchange (like wheat, dates, salt etc.) then above argument is invalidated since debt may be created in any medium of exchange that is acceptable to involved parties. Hence, questioning minds still unsatisfied with this reasoning and query remains the same as to differentiate between the two debts.

Summing-up Queries

In essense, all queries are seeking answer in economic sense since apparent financial outlook of the two transactions is almost the same. The conventional advocates are not successful as well in supporting their position with some convincing economic reason directly related to the question however via assumptive theories like that for productivity, effeciency etc., which are quite restricted and ambiguous for their practicability.

So looking beyond legalistic nature of *Shariah* scholar's position on topic, can we put forward any sound economic or natural reasoning to differentiate between the respective gains or the debts from 'Loan' and 'Debt' based arrangements? This exactly is the query in my view.

SECTION 4 : Answering the Query

Let us brood over few interrelated concepts before proceeding further:

1. **Profit is Ex-Post**

   The Latin expressions of ex-ante and ex-post are used very frequently in connection to the subject under discussion, to refer some thing before the event (ex ante) or after the event (ex post); in the case of profit, economic activity is **the event** by analogy, and since Profit is a construct of time and economic activity therefore Profit is an Ex Post reality, it means there will be no profit if there is no activity. Profit can be predetermined in activities like trade, or may be undertermined in activities like production etc., that is to say – Profit can be expost-predetermined or expost-undetermined.

2. **Interest is Ex-Ante**

   Since conventional lending do not comply with the natural law of profit, i.e., in a loan type arrangement – no concern is shown to the 'economic activity', which implies Interest could be charged without an activity, that is – Interest is an exante-predetermined element and can not be equated with Profit (expost-predetermined) of trade. Hence, Profit and Interest are technically different, that we can say before any economic argument of differentiation.

3. **Exchange Value Specifics**

   The issue of 'value' in economics is perhaps more complex and disputed than the matter of Riba, however there are few 'exchange-value' specifics that are inherently less-problematic or undisputed and understandable in our context of financing, for instance:

   - All commodities may have a relative exchange-value to each other at any given time.
   - Price is the exchange-value denoted in some medium of exchange like money.
   - Every exchange-value has a life that is defined either by the nature or by perception or set by negotiation. This is true for all commodities and products whatsoever.
   - By each conclusion of an exchange-value negotiation, a new exchange-value life may be on track (for successive activities such as trade on trade on trade ……) with a different exchange-value (thus price) and that may be without any qualitative change occurred in that commodity or product.
   - In the whole life of an economic output, there could be as many exchange value lives as the nature or the exchange negotiations may allow.
   - The use or utility of an economic output might cause a reduction in the exchange-value of economic product, this decrease may be termed as the transference of value from exchange-value to impact-value (not use value), e.g., use of an automobile.
   - Profit once incorporated in an exchange-value of a commodity or product then becomes the integral part of exchange-value (and so the price) describing change of value which is functionally the connotation of economic activity. Similarly, in case of loss, a change of value occurs but with converse tendency.
   - Money has fixed exchange-value, Interest once charged on money does not become the integral part of money as it can not increase its face value and thus is always treated separately for all accounting purposes.

Now the case we have in hand is to prove some economic difference in two identical debts so created – one in the course of trading and the other by loaning. Let us consider a practically possible scenario (example) as below:

In this exemplar, all trading transactions are conducted by creating debt with built-in profit. A car's Manufacturer sells a car to its Exporter who further exports the car to a Distributor in another country, the distributor vends out the car to his Reseller, and the Reseller retails out the car either to his customer (user) or through bank to bank's customer. The first customer utilizes it for some time and then sells out to some other user, and so on. Let us assume that from manufacturer to current user of car, there are twenty trade transactions executed (i.e., twenty exchange-value lives) hitherto.

In our new classification scheme of economic activities, from Manufacturer to the first user of car – all trading activities are of augmentation type; while from first user to current user – all trading activities are diminution type, in our example.

To create an identical pattern of loan based debt, let us further assume – there were twenty money lending transactions originated corresponding exactly to each trading transaction. The Interest charged is exactly the same as the built-in profit of trade based debt.

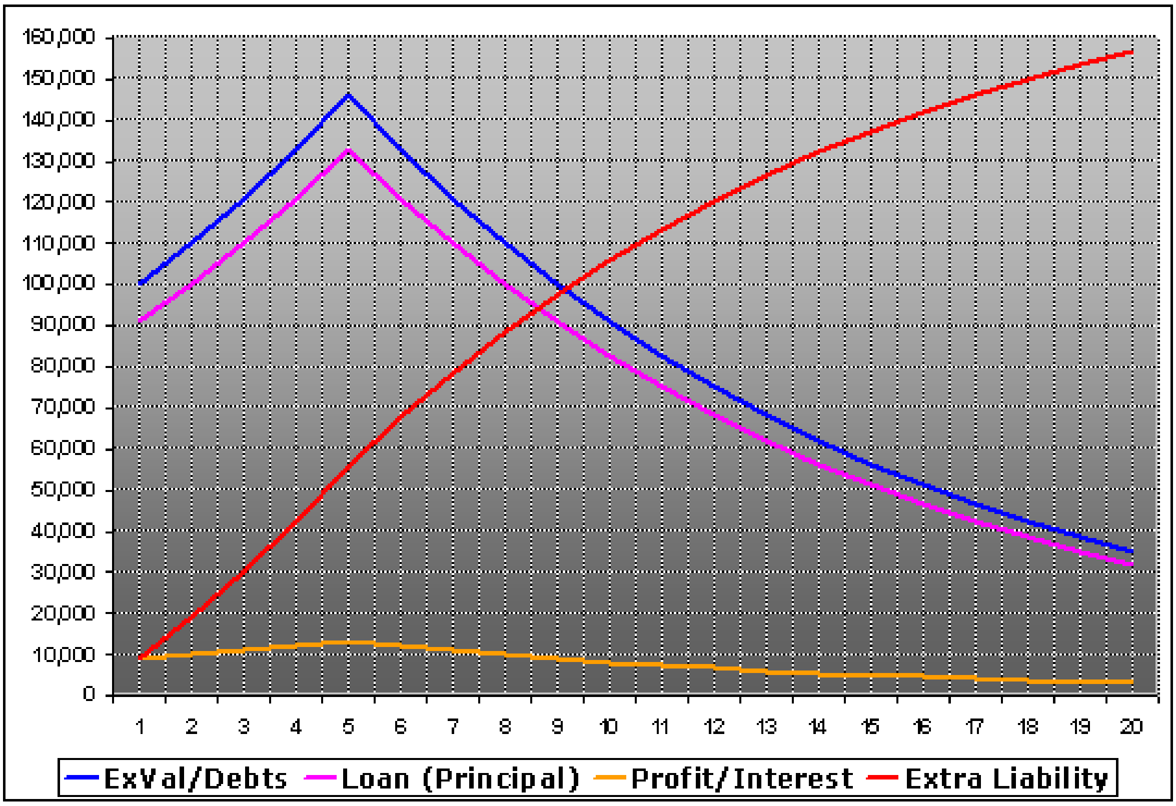
Since profit is the integral part of exchange-value in trade/asset based debt therefore no split accounting of profit is required, whereas Interest is not the integral part of lent money and treated alone, therefore it should be kept in a separate account that I label as 'Extra Liability'.

Following initial values are used to populate the two debts in next table:

Manufacturer's Price (Exchange Value) of Car sold on Credit	=	100,000.00
Manufacturer's Profit built-in @10% on his cost price	=	9,090.91
Lender's Principal Amount used to create a same value debt	=	90,909.09
Interest charged @10% on Loan amount	=	9,090.91
The Debt created through lending	=	100,000.00

ExVL	Exchange Value	Debt (Trade)	Profit (Trade)	Loan (Principal)	Interest (Loan)	Debt (Loan)	Extra Liability
1	100000.00	100000.00	9090.91	90909.09	9090.91	100000.00	9090.91
2	110000.00	110000.00	10000.00	100000.00	10000.00	110000.00	19090.91
3	121000.00	121000.00	11000.00	110000.00	11000.00	121000.00	30090.91
4	133100.00	133100.00	12100.00	121000.00	12100.00	133100.00	42190.91
5	146410.00	146410.00	13310.00	133100.00	13310.00	146410.00	55500.91
6	133100.00	133100.00	12100.00	121000.00	12100.00	133100.00	67600.91
7	121000.00	121000.00	11000.00	110000.00	11000.00	121000.00	78600.91
8	110000.00	110000.00	10000.00	100000.00	10000.00	110000.00	88600.91
9	100000.00	100000.00	9090.91	90909.09	9090.91	100000.00	97691.82
10	90909.09	90909.09	8264.46	82644.63	8264.46	90909.09	105956.28
11	82644.63	82644.63	7513.15	75131.48	7513.15	82644.63	113469.43
12	75131.48	75131.48	6830.13	68301.35	6830.13	75131.48	120299.56
13	68301.35	68301.35	6209.21	62092.13	6209.21	68301.35	126508.78
14	62092.13	62092.13	5644.74	56447.39	5644.74	62092.13	132153.52
15	56447.39	56447.39	5131.58	51315.81	5131.58	56447.39	137285.10
16	51315.81	51315.81	4665.07	46650.74	4665.07	51315.81	141950.17
17	46650.74	46650.74	4240.98	42409.76	4240.98	46650.74	146191.15
18	42409.76	42409.76	3855.43	38554.33	3855.43	42409.76	150046.58
19	38554.33	38554.33	3504.94	35049.39	3504.94	38554.33	153551.52
20	35049.39	35049.39	3186.31	31863.08	3186.31	35049.39	156737.83

All later transactions have same profit and Interest rates (@10%), so all corresponding trade and loan based debts, profit and Interest entries are exactly the same, the next chart shows exchange-value (ExVal), Debts, Loan (Principal), Profit, Interest and the Extra Liability:



The financial outlook (or the concern of finance/money) as shown in debts, profit and Interest figures/traces does not recommend any point of differentiating characteristics, however, the accumulation of Interest labeled Extra Liability (red trace) is quite significant having economic implications; while since the same amount of Profit is absorbed within trade based Debt (blue trace) as it being part of exchange-value (ExVal), also suggests economic behavior of ExVal.

If economics is a science of people and society then its prime connotation shall be the justice to them individually as well as collectively; societal justice is premeditated primarily in norms and customs that are existing as a result of civilization struggle of people, then respecting those standards is binding unless any alteration in them is agreed communally, nevertheless the shared justice is desired again that might be redefined with probable change. Thus let us see the lending on Interest in its societal perspective before economic comparison of the two.

Societal Norms – Right or Wrong?

We all live with our own natures and circumstances; every individual has its own thinking and abilities, propensity to consume and produce, to decide among our preferences and concerns seeking freedom of choices etc.; I can spend just two rupees for a cup of tea at a road-side truck driver's hotel (*chappar* hotel) or may spend hundred rupees for a cup of tea at five-star hotel located just on the other side of the road; my decision to go to expansive hotel may be economical since I am sensitive about hygienic conditions and know the two rupee cup of tea will eventually cost me five times more than the apparently expansive choice when I will pay physician's fee for the treatment of my stomach disorder caused by unhygienic conditions of *chappar* hotel.

People roaming around the same place of hotels may choose one of the two, everyone having its own seminal reasons of actions to achieve the desire of taking tea, collectively there could be a multiplicity of reasons for the two choices.

Similarly, even though having cash in hand to purchase a car, one can opt to get on credit for his own reasons including that of economic nature, so to be in debt is one's own choice, what price has to do here. If one were able to approach the manufacturer directly to purchase the car and its manufacturer had a policy to retail on credit, then he would be paying much less certainly than what he would be paying to the reseller or the bank, so price (exchange-value against money) is just a choice available or choice-in-access for the intended purchase.

I am not wrestling with any theory of value here, the points to emphasize are:

1) We are <u>the best judge of our own affairs</u> after the Almighty Creator.
2) The <u>freedom of choice</u> is every one's fundamental right limited only by accessibility.

People are accustomed and cultured to acquire other's property by negotiation in exchange of what they can offer and acceptable to their counterparts. Since, it looks indecisive how value could be defined, then whoever logician gave the idea of the <u>medium of exchange</u> or <u>money</u>, infact did a great favour to the humanity, because it gives the autonomy to individuals and to property owners to symbolize their work, intellect and property as they wish appropriate in their circumstances with knowledge and experience they possess to do so, in addition to that the society works on standards.

If the five-star hotel has priced its cup of tea for hundred rupees, the attendant of hotel will not accept if I pay him rupees two after having tea, rather he might thump me on my nose or penalize me some other way. He will be justified in his actions and will get societal approval since I was trying to violate the understanding. Although, one is free to choose the option but that must be in agreement with the counterpart in a mutual affair.

Though we being part of the society with all our personal privileges, we don't get the right even mutually to alter the norms that society has established for communal interactions, and if society had established some medium of exchange that might be any thing either a piece of paper, gold, silver or any other metal or material (suitability of medium's material properties is not in question here) in the benefit of all the people to facilitate their mutual exchanges of values, then whoever try to contravene that norm, will upset the mutual interaction of people and thus effect the society severely. Accordingly, if money as a medium of exchange is used to price the exchange-value of people's commodities, products, or services, then how it would not upset the mutual interaction if money itself is priced? The lending of money on Interest (i.e. pricing money) is a lucid violation of societal norms, no differing view is justified since no such rationalization is ever identified.

Still, we are away from the focused economic argument, the points to emphasize here are:

1) All exchanges of exchangeable-values in a society are mutual agreements between the elements of society having participants' respective benefits contained within.
2) A societal binding to respect the norms of society like that for <u>medium of exchange</u> is a communal obligation and its violation is inexcusable and unjustifiable.

Millions of products and billions of people; each product having a relative exchange-value to the other changing invariably with time; each individual is a case of distinct disposition unlike others having its persistently varying circumstances, this is what the nature is – unimaginable and indescribable. That is why I think thus – no agreement on the issue of "what is value" is reached and neither seems possible so I guess. Ultimately, the only method left to people for their interactions is the exchange-value mechanism using medium of exchange standards set to handle so complex dynamics and realm of nature and the value. How people can survive (live peacefully) and interact (justifiably) without respecting each other and the principles?

While said that and without any rational argument against it in my knowledge, what surprises me the most is repeatedly asking for the economic reason of outlawing lending on Interest, is the violation of standard alone is not enough for the prohibition? Do conventional economists have built any justified financial economics resting on this bare contempt? Is economics some supra-natural science that will cure the damage supernaturally caused obviously by abusing the values? Results are evident, the concepts of right and wrong are buried, just benefit has become the prime most concern of people no matter how one assures it, the rationality from communities is vanishing.

The Economic Rationale of Differentiation

The observable essentials about value and exchange-value are nothing like each other, value is seen in the idiosyncratic (individualistic) context like perception and utility, while the basics of exchange-value are necessarily seen in mutual or communal perspective that are based on other aspects like market and market conditions. Any individual economic entity in its current economic status is always a potential economic agent / participant. Then the exchange which brings the individual's economy in relation to societal economy acquires the status of an exceptional event since the former (individual's economy) which itself is a factor of the later, stimulates and regenerates the shared economy (anthology of entire individual's economies). This cyclic phenomenon based on exchange event has two essential dimensions of economic immensity, one toward the individual's economy and the other toward shared economy, thus having a pivotal place in creating equilibrium between the two economies, any disturbing anomaly between start and finishing point of the event with an immediate effect in any one direction will eventually effect the second since the two are interrelated.

What are the conditions of equilibrium in 'exchange event'? That is of paramount importance. The exchange event, which is the whole and sole life of economy – for all economies; which is raison d'être for the formation and existence of economy; shall be the primary investigative subject (in my view) for all sorts of economic issues of primary nature like the one we have at hand.

Given that every economic agent is the best judge of its own affairs and actions, now it shall not be eccentric to say that the basic cause of the event of exchange is the circumstances of the participants, where we may consider circumstances as the anthology of overall economic variables and indicators in their current status offered by participant at the time of exchange event; this approach of looking toward exchange event will also attach 'circumstances' as the subject of the exchange in place of 'value' and 'counter-value'; changing idiosyncratic context from 'value' to 'circumstances' in fact has its verifiable basis in *Shariah* that I can not include here due to its vastness and my personal lacking in doing so at the moment.

If we consider the argument of 'circumstances' as the true cause and subject of an 'exchange event' then we may reach at some point of distinction between the two debts and gains.

The present or foreseeable circumstances of an economic entity (person or business) may be in the state of either declining, stagnant or progressing at a given point in time – this facts of circumstances is best known to the economic entity alone. Then we know humans and active businesses are nonstop consuming machines, whilst this ceaseless feature has a tendency of driving the current economic status of the entity backwards; logically thus, every economic entity will always be acting in one of the two modes – either to prevent worsening off its current circumstances or to become better-off, there is no third mode/attitude expected from a practical economic entity for its economic actions.

These two modes of actions (i.e., preventing worse-off, becoming better-off), although may have varied notions for each state of circumstances (i.e., declining, stagnant, progressing), however to become better-off is absolutely rooted in gainful economic activities; whereas, acts of preventing worse-off are certainly based on sustaining economic activities.

In reality and totality sense, understanding of gainful economic activities is much more than just economic and financial gain, in view of the fact that humans are dignified creature having several motivations to act including that to help others, to please or thank humans and the almighty Creator, to achieve spiritual satisfaction and to think becoming better-off in the hereafter etc. etc., therefore gainful and better-off notions have natural human sensitivities beside economic implications and financial aspects and all are inter-related through economic behavior and exchange-events in practical life.

The modes of actions and states of circumstances have extensive possibilities and dimensions in economic relations; however we may reduce our deliberation related to the focal topic of establishing an economic distinction between two debts in the context of 'for profit' financing.

Now suppose we have two economic bodies, each shall be in either of the two modes (let us denote preventing worse-off as mode M1 and becoming better-off as mode M2), then there we have maximum three situations possible once they meet up for an economic interaction:

1) Bothe are in mode M1
2) One in mode M1 and the other in mode M2
3) Bothe are in mode M2

In the first situation (when both are in mode M1), none may be able to offer any economic or financial advantage to the other without deportment of sacrifice which will not prevent him from further worsening off his circumstances, hence no exchange shall be desired by him at deterioration, however if any one of them tries to inflict some advantage in his favour then he must not be in the mode M1 and the next situation shall apply. There is no probability of an exchange-event here with some monetary advantage to any one, and if any exchange-event happens between them – it shall be an exclusive sustaining type of economic activity solely for the purpose of supporting or maintaining current ciscumstances of one or both economic entities without any monetary advantage to any one (perceptive trading under transference category for example, in our new classification), the motive behind such exchange-event may be of a humane kind, a 'mutual cooperative' state of affairs.

In the second situation, the economic body carrying mode M1 is conceivably not able to grant any benefit to the other unless he be deprived of his current economic position, however the gravity of need to sustain may force this economic body to compromise his long term further worsening off his circumstances with his short term sustaining constraint and this perpetual loop of now sustaining and additional worse-off effect in future, will eventually kill this body economically at point when he would have nothing to sacrifice. Conversely, other economic body in mode M2 have few options, for instance:

a) It can refuse to interact with economic body in mode M1 for not having benefit from.
b) It insists on immediate monetary gain (financial or economic) without considering the economic circumstances of the body in mode M1.
c) It can compromise to postpone his objective of gain now until the other body move on to the better-off mode when a gain can actually be constructed or if constructed.
d) It can help to sustain the other economic body within his own capacity of doing so that does not bring him in the worse-off mode; an economic body in Mode M2 and state of progressing shall always have this cooperative capacity, extending cooperation is very common human being's instinct, businesses are also run by human beings. Every kind of economic cooperation with or without monetary gain is good for societal economy.

Principally, M1-M2 interaction is a 'not for profit' state of affairs, no monetary gain is existing without depriving economic body of mode M1, here again a warranted economic activity shall only be a sustaining type; any monetary gain or advantage is unwarranted, achievable only by force, compulsion, and/or exploitation.

A point needs some added emphasize here – the difference between a gainful and sustaining activity shall be acknowledged; although it's fairly explicable and obvious from expressions that what should be gainful or sustaining, however just to ensure its intended sense, I would like to cite here that all activities that do improve the current circumstances of the economic body are to be entitled gainful, and all activities which helps economic body(ies) to maintain current level of economic circumstances but does not improve shall be regarded as sustaining activities; it will be an oversight if sustaining activity is considered as advantageous (gainful) just because of preventing this economic body from further worsening off its circumstances.

Finally in third situation (when they are in mode M2), both economic bodies would be looking for some economic gain, means they are ready to exchange what they have to offer against their intended respective gains. Then it only remains a matter of negotiating and agreeing the terms and conditions of transferring objects that each of them is or will be possessing, and when they do agree mutually – the exchange event would occur instantly or in a prearranged time frame. If the exchange-event is instant (like buy or sell by cash), their respective gains would be achieved straight away; however if the event incorporates some time period, then one or both economic body(ies) would have to wait for his gain sum until end of event. Gain does not exist in the air but within objects exchanged (it's a rule) – objects which economic body receives from the other, collectively there might be as many particular gains as the number of objects involved in the exchange-event. If there is just one object involved, then there is just one gain that has to be shared or divided between them since they are in mode M2, if this single gain in sum goes to any one entity only, the situation will revert to M1-M2.

Think of any situation of circumstances that demands or triggers an exchange-event, you will probably find it within the scope of above premise of economic patterns. In my view, *Islamic* Economics should take 'circumstances' as the individualistic context for all individuals (person or business), 'value' as 'exchange-value' of objects only that contains any gain or loss for the recipient of object, the modes of actions for the demarcation of 'not for profit' and 'for profit' type of economic situations, and then the exchange-event (which is the whole and sole life of economy; for all economies) as the basic subject of economic interactions. In conventional economics, 'value' (without any resolve as what exactly is it) is taken as the individualistic context related to materials and non-humans, while 'circumstances' (including human nature and business structures) are related directly to humans or indirectly through businesses – is a elemental distinction at the root, much desirable as well since the conventional economics is proven disastrous in solving serious issues of people like poverty, it may possibly prove to be a paradigm shift in economics.

Anyway, in connection to our topic, two things need a little explanation here, firstly what is disturbing anomaly in an exchange-event, and secondly how the mode of actions (M1 or M2) of an economic entity would be identified by the other economic body since 'circumstances' are personal or private and best known to respective economic entities alone.

As a rule, a disturbing anomaly at the start of an exchange-event will come from the neglect or the concealment of circumstances by any or all economic bodies involved in the event, and if the exchange-event prolongs over a period of time, it may also come from the subsequent change in the initial circumstances of any or all economic bodies involved in the event.

Although, a little investigation process is mandatory to identify the mode through exchange of information between the economic entities, however, few indicators do directly specify the mode without the process of investigation. For example, if an economic body is buying some thing that is having a general well-off quality, then it will be implied that he is in mode M2, or when economic body is undertaking an augmentation or creation type of activity, then again it would be taken as in mode M2; whereas, generally commodities or money don't indicate a particular type of mode and a little investigation is requisite. There can be other methods and techniques for this purpose of identification which is inevitability required to understand and maintain equilibrium condition in the exchange-event. A sample of mode identification is:

Indicators for the	**Indications (if)**	**Modes**
Nature of Object	Non-Negotiable like Money Negotiable like Commodities Having well-off/prosperous quality	M1, M2 M1, M2 M2
Number of Object(s) in exchange-event	One Two or More (if being traded)	M1, M2 M2
Type of Activity	Creation Augmentation Transference Diminution	M2 M2 M1, M2 M1, M2

We can now apply the above concept of 'circumstances' to the credit transactions in question.

A creditor (for his ability to extend credit and the motive of profit) shall always be operating in mode M2 and will undertake activities like augmentation or creation type that matches with his purpose of profit; the situations M1-M2 and M2-M2 are related to him, and for the reason of gain he must meet up with an economic body carrying same mode as M2.

Once a potential debtor gets in contact with the creditor, then it may either discuss its intent and circumstances with him like what use or activity is intended with the credit obtained, or it can just show off his mode in any way. An offer to buy a well-off kind of product like house or a car, or a commodity/product for reselling will show off his mode as M2. Then both economic bodies do only need to discuss the terms and conditions for exchange-event to take place and where each economic body will secure and obtain its respective gain in the object it receives. There is positively no 'anomaly' in notice at the beginning of exchange-event (unless willful) as both are in mode M2 and there are minimum of two objects involved; the only possibility of 'anomaly' rests in subsequent change of circumstances, therefore although the economic equilibrium was existing initially but a later abnormality can not be ruled out for the reason of time bound exchange-event, if such disorder occurs afterward then some re-thinking to the economic interaction is necessary for the reestablishment of economic equilibrium (in original *Islamic* injunctions, this re-thinking is demanded significantly).

If the object being credited is money (one object in the exchange-event), then the purpose of gain for both economic bodies can only be obtainable by a gainful economic activity using this credit. The decisive factor in this case to detect the mode of debtor is the economic activity. If no gainful activity is planned then the mode of debtor is M1, the situation M1-M2 exists, but, if gainful activity is intended then they are in the right domain of economic interaction of situation M2-M2 where condition of economic equilibrium is fulfilled at the start of exchange-event for the purpose of gain – thus linking of 'credit for gain' to a gainful economic activity is inevitable to assure economic equilibrium in case when one object is used in the exchange-event. If <u>decisive factor of linking to the economic activity</u> is not used for the detection of debtor's mode – then disturbing 'anomaly' to the 'economic equilibrium' is basically stipulated at the start of economic interaction because the debtor could have either of the two modes.

<u>The Economic Distinction</u>:
If economics is any science or discipline of study related to people and businesses, then it is connected to their circumstances intuitively and perfunctorily; and if economic equilibrium at all levels of economic interactions is desired in this science, the purpose can only be achieved in handling of those circumstances appropriately.

In a 'credit for gain' correlation of circumstances, the condition of economic equilibrium exists initially in the trading of commodity/product or in any other gainful economic activity, while this condition is not fulfilled in case when the exchange-event is based on a singular object (like money) where credit and gain is not linked to the gainful activity. So the exchange-value and extra liability economic behaviour is quite understandable in this background.

Therefore the two debts although are one hundred percent similar in their financial outlook (as shown in example) but still have an economic difference at their inception. This is a thin line making a big difference in the understanding of Riba. *** End ***