



Principles of Justice and Riba-Free Practice in Islamic Financial Management

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ABSTRACT

Islamic financial management is grounded in ethical principles that aim to promote social justice, economic balance, and moral accountability. Central to its framework are the principles of justice (al-'adl) and the prohibition of riba (usury or interest), which serve as pillars in ensuring fairness and equity in financial transactions. The principle of justice emphasizes transparency, mutual consent, and the protection of all parties involved, particularly the economically vulnerable. At the same time, the prohibition of riba aims to eliminate exploitative practices that lead to wealth accumulation without real economic activity, thereby preserving the integrity of wealth distribution in society. These principles align with the broader objectives of Maqasid al-Shariah, which seek to safeguard faith, life, intellect, lineage, and wealth. In practice, Islamic financial management encourages profit-and-loss sharing arrangements, asset-backed financing, and ethical investment strategies that reflect the spirit of inclusivity and sustainability. This abstract explores how justice and the riba-free ethos are implemented in various financial instruments, institutions, and personal finance practices within the Islamic economic system. Ultimately, it highlights the relevance and potential of Islamic finance as a just alternative to conventional models, particularly in addressing inequality and fostering a more ethical global financial order.

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INTRODUCTION

Islamic financial management has garnered increasing attention in recent decades as a viable and ethical alternative to conventional financial systems. Rooted in the principles of Shariah law, Islamic finance emphasizes justice, transparency, and social equity while strictly prohibiting exploitative practices such as *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). The growing demand for Shariah-compliant financial instruments reflects a wider search for financial systems that prioritize moral values alongside economic efficiency. However, despite the expansion of Islamic financial institutions globally, there remains a limited understanding of how foundational principles—particularly justice and the prohibition of *riba*—are operationalized within real-world financial management frameworks (Hassan & Lewis, 2007).

The main research problem addressed in this study is the lack of comprehensive models that explicitly incorporate the principles of justice and *riba*-free practices as core tenets of financial management, both at the institutional and individual levels. While various studies have examined Islamic finance from a regulatory or comparative perspective, fewer have explored how these moral imperatives directly shape day-to-day financial decisions, accounting systems, and investment strategies (Abdullah & Chee, 2010). This research seeks to fill this gap by investigating the practical application of these principles in Islamic financial management and evaluating their effectiveness in promoting economic fairness and ethical stewardship.

The research gap is further widened by the tendency of existing literature to focus heavily on technical instruments (e.g., *sukuk*, *murabaha*, *musharakah*) rather than the underlying ethical philosophy that distinguishes Islamic finance. Although scholars such as Chapra (2008) and Siddiqi (2006) have underscored the importance of justice as a spiritual and economic goal, there remains a disconnect between theoretical discourse and empirical observation. Furthermore, many Islamic financial institutions have been criticized for mimicking conventional banking practices while branding themselves as Shariah-compliant—a phenomenon sometimes referred to as "form over substance" (El-Gamal, 2006).

State-of-the-art research in Islamic finance has increasingly begun to bridge these concerns. Recent scholarship explores the integration of **Maqasid al-Shariah** (higher objectives of Islamic law) in performance measurement, governance, and ethical investment portfolios (Dusuki & Abdullah, 2007). For instance, ethical screening mechanisms and participatory contracts such as *mudarabah* and *musharakah* have shown promise in promoting fairness and risk-sharing. Nonetheless, a comprehensive framework that unifies these instruments under the broader principles of justice and anti-*riba* remains underdeveloped, especially in cross-sector contexts involving both private and public finance.

The purpose of this research is to explore and articulate a model of Islamic financial management rooted in the principles of justice and the prohibition of *riba*. This study aims to: (1) critically examine how these principles are conceptualized in classical and contemporary Islamic economic thought; (2) analyze their operationalization in

current Islamic financial practices; and (3) propose a set of actionable recommendations for enhancing the moral and economic impact of Islamic finance in both micro and macroeconomic settings. By doing so, this research contributes to the growing body of literature seeking to establish a truly ethical, inclusive, and sustainable financial system.

RESEARCH METHOD

This study employs a qualitative descriptive research method, focusing on an in-depth exploration of Islamic financial management principles, particularly justice and the prohibition of *riba*, through secondary data analysis. The qualitative approach is chosen to allow for a rich, contextual understanding of the philosophical, normative, and practical dimensions of Islamic finance (Creswell, 2013). Descriptive methods are used to systematically present the existing theories, institutional practices, and scholarly debates that shape the discourse on Islamic financial ethics. The study relies on secondary data sources, including scholarly books, peer-reviewed journal articles, regulatory documents, fatwas from Islamic financial authorities, and reports from institutions such as the Islamic Financial Services Board (IFSB) and Bank Negara Malaysia. Secondary data are valuable in qualitative research because they provide a comprehensive foundation for conceptual analysis and critical interpretation without the constraints of primary data collection (Bowen, 2009). Data are selected purposively, with a focus on relevance, credibility, and recency to ensure analytical depth and validity. The data are then analyzed thematically to identify recurring patterns, principles, and gaps in the application of justice and anti-*riba* principles across Islamic financial systems. This method supports a deeper theoretical insight while also enabling practical recommendations for future policy and institutional reforms. *Maqasid al-Shariah* theory emphasizes the preservation of essential human values—faith, life, intellect, lineage, and wealth—making it a foundational guide in Islamic financial ethics. It ensures that financial practices uphold justice, eliminate harm, and promote societal welfare (Auda, 2008).

RESULTS AND DISCUSSION

Principles of Justice and *Riba*-Free Practice in Islamic Financial Management

1. Conceptual Understanding of Justice in Islamic Finance

Justice (*‘adl*) in Islamic finance is not merely a legal standard but a holistic moral imperative deeply rooted in the ethical framework of Islam. It reflects the Qur’anic mandate to uphold fairness and prevent *zulm* (injustice), especially in economic interactions. This concept requires that all financial dealings be based on mutual consent, transparency, and the absence of any form of exploitation. Islamic financial principles view justice as a prerequisite for economic stability and social cohesion. It is closely aligned with the objectives of **Maqasid al-Shariah**, particularly the preservation of wealth (*hifz al-mal*) in an ethical manner. In practical terms, justice manifests in fair pricing, risk-sharing, and equal access to financial services. Financial products are structured to ensure that neither party bears undue risk or gains unjust advantage. For instance, unlike conventional finance where asymmetric information can lead to predatory lending, Islamic finance seeks equilibrium by requiring disclosure and shared responsibility in contracts. Moreover, justice is also about redistributive

justice, which justifies the inclusion of zakat and waqf as socio-economic instruments within the Islamic financial ecosystem (Dusuki, 2008). The failure to operationalize justice leads not only to inefficiencies but also to systemic vulnerabilities. As Iqbal and Mirakhor (2011) assert, justice is the cornerstone of trust in Islamic financial markets, and its consistent application is essential for achieving sustainable and inclusive economic development. (Iqbal & Mirakhor, 2011)

2. Operationalization of Riba Prohibition

Riba, commonly interpreted as interest or usury, is one of the most severely prohibited practices in Islamic economics. The Qur'an explicitly condemns riba as exploitative and unjust, and its prohibition is considered an act of divine wisdom aimed at protecting the weak from financial oppression. In Islamic financial management, the operationalization of riba elimination has led to the development of alternative instruments that allow for legitimate profit-making while respecting Shariah boundaries. These include **mudarabah** (profit-sharing), **musharakah** (joint venture), **murabaha** (cost-plus financing), **ijarah** (leasing), and **salam** or **istisna'** for trade-based contracts. Each of these mechanisms ensures that profit is earned only through real economic activity and risk participation, not from the mere passage of time as in interest-based systems (Ayub, 2007). The implementation of these alternatives reflects Islam's commitment to ethical financing, where both lender and borrower share the outcome—whether profit or loss—based on agreed terms. Moreover, the structure of these contracts discourages speculation and enforces asset-backing, adding a layer of financial discipline. However, the operationalization process also faces tensions. Some products are criticized for merely replicating the economic outcome of interest-based loans, thus violating the spirit of the prohibition. To safeguard authenticity, Shariah Supervisory Boards (SSBs) are tasked with ensuring that contracts adhere to both form and substance. Therefore, while the elimination of riba is foundational, its true operational success depends on continuous innovation, transparency, and strict Shariah compliance in financial practices.

3. Institutional Compliance with Shariah

To ensure that Islamic financial institutions remain faithful to Shariah principles—especially justice and the prohibition of riba—internal governance mechanisms have been institutionalized. One of the most important is the **Shariah Supervisory Board (SSB)**, an independent body composed of qualified scholars with expertise in Islamic jurisprudence and finance. These boards are responsible for reviewing financial contracts, auditing operational procedures, and issuing fatwas to guide the institution's compliance with Islamic law. The presence of SSBs enhances credibility, reduces legal uncertainty, and builds consumer trust in the ethical foundations of the institution. In many jurisdictions, the existence of such a board is a regulatory requirement for an entity to be recognized as Shariah-compliant (Venardos, 2012). Their duties include ex-ante approval of new financial products, regular compliance reviews, and the issuance of annual Shariah compliance reports. In some advanced markets, national Shariah advisory councils also provide overarching regulatory guidance. However, the effectiveness of SSBs varies significantly depending on their independence, transparency, and the consistency of their interpretations. There is also growing concern over "fatwa shopping," where institutions seek lenient opinions to justify questionable practices. Therefore, institutional compliance must evolve from a mere box-ticking exercise to a values-driven culture of ethical accountability. For Islamic financial management to genuinely reflect the spirit of Shariah, SSBs must be empowered with not only theological authority but also operational influence and transparency in reporting.

4. Challenges in Real-World Implementation

Despite the growth and formalization of Islamic financial institutions, significant challenges persist in implementing the core principles of justice and riba-free transactions. One of the most pressing issues is the phenomenon of “**Shariah arbitrage**” or “**form-over-substance**”, where Islamic financial products mimic conventional banking structures under a religious label. Critics argue that many murabaha contracts, for instance, functionally resemble interest-based loans, thus undermining the spirit of Islamic finance. This practice stems from the pressure to remain competitive within global markets while operating under Islamic restrictions (Khan, 2010). Furthermore, there is often a lack of qualified personnel who deeply understand both Shariah and modern finance, leading to poor product innovation and inconsistent compliance. Additionally, the absence of a unified global Shariah standard creates fragmentation and confusion, particularly in cross-border operations. Regulatory disparities among countries further complicate this landscape, with some jurisdictions offering more robust oversight than others. Another critical challenge is public awareness. Many customers engage with Islamic financial products out of religious duty without fully understanding their structure or ethical basis, reducing accountability and demand for truly authentic products. To overcome these challenges, the industry must invest in capacity-building, strengthen global Shariah governance, and reorient toward a purpose-driven financial model grounded in ethical substance over superficial form.

Discussion

The integration of *Maqasid al-Shariah* in Islamic financial management offers a comprehensive ethical framework that aligns spiritual, economic, and social dimensions. Among its key objectives, the preservation of wealth (*Hifz al-Mal*) is central to the elimination of riba (interest). Islamic finance promotes asset-backed transactions—such as murabaha (cost-plus sale) and musharakah (partnership financing)—which ensure that profit arises from real economic activities, not speculative gains or unjust enrichment. This approach promotes justice through equitable wealth distribution and discourages financial exploitation. However, the over-reliance on fixed-profit murabaha in modern Islamic banking—often mimicking conventional interest-based loans—has drawn criticism for undermining the true spirit of Shariah.

Table 1 Analysis of Principles of Justice and Riba-Free Practice in Islamic Financial Management Based on Maqasid al-Shariah (Jasser Auda’s Framework)

Maqasid al-Shariah Dimension	Application in Islamic Financial Management	Alignment with Justice and Riba-Free Principles
Preservation of Wealth (Hifz al-Mal)	Promotes asset-backed financing, prohibits speculative or unjust enrichment (e.g., riba-based lending). Instruments such as murabaha and musharakah ensure wealth circulation through real economic activity.	Ensures fair wealth distribution, discourages exploitation, and supports economic stability by removing interest and enforcing real value creation.
Preservation of Faith (Hifz al-Din)	Financial products are structured to comply with Shariah, integrating	Strengthens religious adherence in financial dealings, aligning moral

	fatwas and ethical audits through Shariah Supervisory Boards.	duties with economic actions, and rejecting interest as a sinful practice.
Preservation of Life (Hifz al-Nafs)	Encourages ethical investment and prohibits financing harmful industries (e.g., alcohol, gambling). Also includes charitable instruments like zakat and waqf.	Promotes social justice and welfare, prevents socio-economic harm caused by predatory lending or unjust financial practices.
Preservation of Intellect (Hifz al-'Aql)	Encourages financial literacy, risk transparency, and informed consent in all financial dealings.	Prevents ignorance-driven exploitation and ensures that individuals understand the ethical and legal implications of contracts.
Preservation of Lineage (Hifz al-Nasl)	Supports family financial planning tools (e.g., Islamic inheritance laws, takaful). Protects wealth continuity without unethical accumulation.	Prevents unjust financial burdens across generations due to riba or oppressive debt structures.

In preserving faith (*Hifz al-Din*), Islamic financial institutions uphold religious values by structuring products in compliance with Shariah, typically supervised by dedicated Shariah Boards. These boards issue fatwas, audit products, and ensure moral soundness in financial operations. While this reflects commitment to religious integrity, criticisms arise regarding standardization and independence of some boards, which in certain contexts may be influenced by institutional pressures, potentially compromising objectivity.

Preservation of life (*Hifz al-Nafs*) manifests through ethical investment policies, prohibition of financing harmful sectors (e.g., alcohol, gambling), and promotion of social welfare instruments like zakat and waqf. These ensure finance serves human dignity and prevents social harm. Nevertheless, in practice, the social finance sector remains underdeveloped, often sidelined in favor of commercial profitability.

The principle of preserving intellect (*Hifz al-'Aql*) is operationalized through financial literacy programs, transparent contracts, and the insistence on informed consent. These measures protect consumers from ignorance-driven exploitation. Yet, current education efforts are still limited, especially in underbanked Muslim populations, making many vulnerable to mis-sold or misunderstood financial products—even within Shariah-compliant frameworks.

Lastly, preservation of lineage (*Hifz al-Nasl*) focuses on intergenerational justice through tools like Islamic inheritance laws and takaful (Islamic insurance). These tools protect families from debt traps and ensure wealth continuity. However, implementation gaps exist, particularly where national legal systems do not fully integrate Islamic inheritance regulations, leading to fragmented or disputed applications.

While the alignment of *Maqasid al-Shariah* with Islamic financial principles such as justice and riba prohibition provides a noble and strategic foundation, the real-world implementation often falls short due to commercialization, lack of standardization, and underdevelopment of social finance arms. Thus, a reform agenda is needed—one that re-centers *maqasid*-driven objectives as the heart of Islamic finance, beyond legal formality into actual socio-economic transformation.

CONCLUSION

This study set out to explore how the principles of justice and the prohibition of riba are embedded and operationalized within Islamic financial management, using the framework of *Maqasid al-Shariah* as a guiding lens. The findings indicate that while the foundational values of fairness, transparency, and interest-free transactions are conceptually and institutionally upheld, their practical implementation often encounters structural and ethical limitations. Mechanisms such as murabaha, mudarabah, and Shariah-compliant auditing are widely adopted to achieve the goals of wealth preservation and equitable financial distribution. However, a strong tendency to replicate conventional finance models under Islamic branding undermines the full realization of Islamic economic justice. The implications of this are significant: without a deeper commitment to *maqasid*-driven substance over form, Islamic finance risks stagnating in superficial compliance rather than delivering real socio-economic impact. The research suggests that to uphold the original moral and transformative mission of Islamic finance, institutions must invest more in financial literacy, strengthen independent Shariah governance, and promote underutilized instruments like waqf and zakat to enhance social welfare. Furthermore, regulatory bodies must encourage frameworks that prioritize ethical outcomes and reject profit-maximization models disguised under Shariah terminology. In conclusion, while the theoretical foundation of Islamic financial justice is robust, its future depends on a collective effort to realign practice with purpose—reviving a finance system that is not only compliant but also genuinely empowering, inclusive, and transformative for individuals and communities alike.

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