

Q.No Islamic Financial System provides an effective framework for the elimination of poverty. Discuss -6

Ans: Introduction

Every economic system has its own peculiar, which forms its formation and from which it can be distinguished. Islam, however, believes in justice and fairness in the economic field. Islam leaves no aspect of life, where there is not complete guidance. Islamic financial system is also based on withdrawing poverty from the society. It includes Zakat system, Sadaqah, Fidyah, Kharij, Ithms and Al-fay. The purpose of them is to create balance in society, but Zakat is superior to all of them. Zakat system only is only for poor and need people. Our society can be able to exchange poverty if Islamic ways of financial system are used effectively.

2- Financial System of Islam

- Zakat
- Sadaqah
- Jizya
- Radaq
- Khums
- Al-fay

9. Zakat

In Islam, Zakat is the fourth pillar. It has been given so importance by Allah Almighty in the Holy Quran.

“ And establish Salaat (Muslim prayer) and pay Zakat ” (Baqrah: 43)

In Surah Baqarah, Allah Almighty orders muslim to consume money from their wealth for sake of Allah. Besides Allah has also categorised the receivers of Zakat in Surah Toah.

i. Who should be given Zakat
The Holy Quran has only made the poor and needy people eligible for taking Zakat. There are eight types of Zakat receivers.

“Alms are for the poor and the needy. For those employed to administer the funds. For those whose hearts have (recently) reconciled to truth; for those in bondage and in debt. In the cause of Allah; and for the Way Farer.”

~ Al-Toba: 60

The Holy Quran has called first class of Zakat receiver "Fuqarāh" and "Masakeen". The first appropriate persons for the Zakat is poor and extremely needy.

b. Sadaqah

In Islamic Financial System, Sadaqah is taken from every person. However, it is not compulsory like Zakat. Sadaqah is assembled in Baitul Maal.

c. Jizya

In the time of Holy Prophet (PBUH), Jizya system began in the state of Madinah. Only Non Muslims would pay for protection, security and safety. These money were given to guards that they could feed their children.

d. Kharaj

Kharaj is a land tax. Those people who had no gold or silver would pay tax from their lands.

e. Khums

In Islamic financial systems Khums is the booty collected from conquered places. These were distributed among the soldiers. It was aimed at fulfilling the financial needs of Muslims. Over and above, Holy Prophet (PBUH) had prohibited Muslims from vandalizing the lands, homes and livestock of conquered people.

f. Al-Fay

It was a tax that non muslim merchant or traders had to pay.

3. Impacts of Islamic Financial System on Muslims

Every muslim whose is rich enough has to disburse zakat on poor people, otherwise he shall be asked about on the day of judgement.

In the caliphate of Hazrat Umar (R.A), there was no any starving person in the state. The reason is that Islamic Economic System had almost terminated poverty due to its reaching economic strategies in Islam.

4- Financial System of other Religions and Islam

- a. Islam and Capitalism
- b. Islam and Socialism

9. Islam and Capitalism

Capitalism is an economic system based on the private ownership of the means of production, distribution and exchange.

i. Islamic doesn't support complete privatization.

In Islam, all the means of production are not placed under private ownership. However, public ownership of certain things of common exists.

ii. Economic freedom

In capitalism, there is full freedom of carry any business in any way. But Islam has placed some restrictions on economic freedom to an individual. Though Islam also allows economic freedom, there are certain restrictions in means of earning such as interest, bribery, embezzlement, gambling, games of chance, and etc.

iii. Monopoly

Competition leads to destruction of minor enterprise and firm. As result, they eventually decide to merge with major business.

IV. Institution of Interest

For business, trade and industry, especially for big projects and economic ventures, huge funds are required, which no individual or firm can arrange. This leads to establishment of banks which borrow from depositors and investors on lower interest. According to Quran, taking of interest amounts to war against God and his apostle, where it is worse than adultery, according to holy prophet (PBUH).

VI. Distribution of Wealth

Capitalism doesn't believe in fair and just distribution. It believes in full economic freedom and private ownership of means of production. Islam provides guarantees of basic human needs such as food, clothing and shelter, and ensures fair and equitable distribution of wealth and economic resources among all. It helps the poor person to fulfill his needs by Zakat.

5. Islamic financial system and Socialism

Socialism is essentially a doctrine and a movement aiming at the collective organisation of the community in the interests of the mass of people by means of common ownership and collective control of the means of production and exchange.

i. Ownership in Islam and socialism
State ownership of all property is distinctive feature of socialist economy. Private ownership is absolutely abolished in socialist economic system.

On other hand, Islam does not abolish private ownership neither place all the means of production, distribution and exchange in the hands of the state. Unlike socialism, Islam gives economic freedom to an individual with certain limits.

ii. Materialism

Scientific socialism or communism rest on a purely materialist basis. Islam, however, believes in material as well moral and spiritual welfare of its followers at micro and macro level.

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Conclusion

Hence, Islamic financial system is composed of different ways, which already and indirectly play role in the reduction of poverty in the society. Among them, Zakat is compulsory for all muslims who have to consume money on the poor and needy people. Whereas in other non-Islamic financial system, people are being exploited and took advantage of. Besides, people have full freedom to earn in any way whether right or wrong. In Islamic financial system, there is restriction on some ways of earning like corruption, bribe, usury and etc. The main aim of financial system of Islam is to fight against poverty.