



ADVANCE SOCIAL SCIENCE ARCHIVE JOURNAL

Available Online: <https://assajournal.com>

Vol. 05 No. 01. Jan-March 2026. Page#. 215-222

Print ISSN: [3006-2497](#) Online ISSN: [3006-2500](#)Platform & Workflow by: [Open Journal Systems](#)<https://doi.org/10.5281/zenodo.18283851>

Leveraging Mudarabah in Islamic Banking and Finance in Pakistan through Quran and Sunnah Al-Naba (78:10-11) and Prophet Mudarabah Model

Abdul Samad bin Alhaj Mohammad Ramzan

PhD Researcher Institute of Islamic Banking and Finance, International Islamic University
Malaysia (IIUM)

Email: samad.ch@gmail.com

Dr Syed Musa Alhubshi bin Syed Jaaffer Alhubdshi

Associate Professor, Institute of Islamic Banking and Finance, IIUM Gombak Campus

Abstract

This research proposal aims to promote the development of Mudarabah-based financing products in Islamic banking and/or in Islamic finance through an investor(s), fostering risk-sharing and entrepreneurship in Pakistan's economy. Mudarabah, a Shariah-compliant partnership, offers a unique opportunity for banks and investors to support businesses while sharing risks and rewards. However, its implementation has been limited due to lack of awareness, regulatory hurdles, and risk aversion.

This study seeks to explore the concept of Mudarabah through the lens of the Qur'an and Sunnah, analyzing how its values of experience (Qavi), trust (Amanah), justice ('Adl), and cooperation (Ta'awun) can inform modern Islamic banking and financial models. The proposed framework will address regulatory and operational challenges, encourage Shariah-compliant entrepreneurship, and promote sustainable financial inclusion. By enhancing Mudarabah-based financing, Islamic banks and financial institutions can contribute to Pakistan's economic development, job creation, and sustainable growth, aligning with the UN's sustainable development goals and Islamic finance principles

1. Introduction

Mudarabah, a partnership-based financing arrangement, is a vital component of pre & post Islam. Khadija (RA) was a woman known as a merchant in the period of Jahiliyyah. It was surprising that she was famous in trade under the conditions of her time. This made her a commercial genius. Her partnership with the Prophet Muhammad (SAW) afterward and her marriage to him made Khadija even more important in the history of Islam. Khadija (RA) was trading using partnership with anyone she found to be trustworthy. She was looking for a trade partner, with whom she could trust and deliver her goods. She also met with Muhammad (SAW) on this occasion. And so, the partnership with Muhammad began. The commercial relationship between Muhammad and Khadija was not limited to this. Her servant, Maysara, specifically received information about Muhammad's ethics and behavior in the course of his journey to Damascus and manyfold profit in this trip. Later, Khadija proposed to Muhammad, whom she admired for all his qualities, an offer he accepted. Muhammad had not yet become a prophet when they got married. They had 6 children: Qasim, Zainab, Ruqayyah, Umm Kulthum, Fatima, and Abdullah.

In its essence, Mudarabah embodies the principle of *risk-sharing*, where both the financier and the entrepreneur collaborate for mutual benefit. Unlike conventional lending, Mudaraba rejects interest (*riba*) and replaces it with partnership and profit-sharing, reflecting the ethical and spiritual vision of the Qur'an.

1.1 How Mudarabah Works

The bank provides the capital (*Rabb-ul-Maal*) for the business venture, while the entrepreneur (*Mudarib*) manages and operates the business. Profits are shared according to a pre-agreed ratio. In case of loss, the financier bears the financial loss, while the entrepreneur loses time and effort. This risk-sharing mechanism promotes fairness and cooperation between the parties, encouraging innovation and entrepreneurship. In contrast, conventional banking prioritizes profit security for the lender regardless of business outcomes — a practice condemned in Qur'an 2:275, which warns against *riba*.

As someone who has worked both as an employee and an employer, the researcher brings practical insights to this study, examining how Mudarabah can be applied effectively in Pakistan's Islamic finance industry to achieve economic justice and social balance.

2. Background of Mudarabah in Islamic Finance

The roots of Mudarabah can be traced back to the pre-Islamic *Qirad* system, which was later refined and legitimized by Islamic teachings. The Prophet Muhammad (peace be upon him) himself participated in Mudarabah transactions with Khadijah (RA) and Abu Saib, setting a moral precedent for partnership-based commerce. Later Hazrat Umer has done Mudarabah with one orphan who made trade at Iraq.

Over time, Mudarabah evolved as one of the most authentic forms of Islamic financing, supported by classical jurists across the Hanafi, Maliki, Shafi'i, and Hanbali schools. It became a cornerstone of Islamic commercial law due to its alignment with Qur'anic principles of justice, mutual consent, and accountability.

3. Quranic Foundation of Partnership and Risk-Sharing

3.1 Partnership in the Light of the Qur'an

Islamic finance derives its principles from divine injunctions. The Qur'an commands honesty, trust, and justice in all business dealings:

"O you who believe! Do not consume one another's wealth unjustly, but only [in lawful] business by mutual consent." (Qur'an 4:29)

This verse forms the ethical foundation of all Islamic commercial contracts, including Mudarabah. The notion of *mutual consent* (*taradin minkum*) ensures fairness and prevents exploitation.

3.2 Trust and Accountability (Amanah)

Trust (*Amanah*) is a central value in Mudarabah. Allah commands:

"Indeed, Allah commands you to render trusts to whom they are due and when you judge between people, judge with justice." (Qur'an 4:58)

The Mudarib must act as a trustworthy agent of the investor's wealth, and misuse of funds constitutes a breach of *Amanah* — a serious sin in Islam.

3.3 Justice and Fair Dealing ('Adl)

Allah says:

"Give full measure and weight with justice, and wrong not people in their goods." (Qur'an 11:85)

This verse underscores the requirement of transparency and fairness in partnerships. Mudarabah reflects 'Adl by ensuring profit is shared justly and losses are not borne unfairly by one party.

3.4 Economic Balance

“And We made the night as a covering.” (Qur’an 78:10)

“They are a garment for you, and you are a garment for them.” (Qur’an 2:187)

“And We made the day for seeking livelihood.” (Qur’an 78:11)

These verses, when read in this sequence, establish a complete divine framework of covering, mutual responsibility, and productive outcome. The night (78:10) symbolizes protection, concealment, rest, and trust—the foundational space where ethical conduct, mutual respect, and responsibility are cultivated. This meaning is further reinforced in Qur’an 2:187 through the metaphor of garments, emphasizing intimacy, trust, dignity, and reciprocal obligation.

When the protocols of the night—trust, respect, moral discipline, and safeguarding of rights—are properly observed, the transition into the day (78:11) produces outcomes of a higher order. Although external conditions may remain the same—much like sharing the same space, resources, or sustenance—the results differ significantly based on whether these foundational principles were upheld.

In the context of Mudarabah, this sequence closely mirrors the relationship between the Rabb-ul-Maal and the Mudarib. The Rabb-ul-Maal provides capital and security (night/cover), while the Mudarib exerts effort and enterprise (day/livelihood). When trust, transparency, and mutual respect are established at the foundational stage, the resulting economic performance is not merely functional, but exceptional and value-aligned, reflecting divine balance and economic harmony.

3.5 Prohibition of Riba and Its Relevance

The Qur’an strongly condemns riba:

“Allah has permitted trade and forbidden riba.” (Qur’an 2:275)

Mudarabah provides a practical alternative to interest-based financing, promoting equitable wealth circulation, as emphasized —

“So that wealth may not merely circulate among the rich.” (Qur’an 59:7)

4. PROBLEM STATEMENT:

Banks in Pakistan don't offer Mudarabah products to businesses, but they do collect deposits from account holders under Mudarabah arrangements. This limits their potential and exposes them to risks, as seen in the infamous Mudarabah scandal. The scandal involved large-scale embezzlement, with key figures accused of swindling billions of rupees from investors, highlighting the need for better regulation and oversight.

Key Issues:

- 4.1 Limited Product Offerings: Banks focus on attracting deposits but fail to provide corresponding Mudarabah-based financing options to businesses.
- 4.2 Missed Opportunities: By not offering Mudarabah products, banks miss opportunities to support economic growth and development.
- 4.3 Risk-Sharing and Governance: The Mudarabah scandal highlights the importance of proper risk-sharing and governance in Mudarabah arrangements.

4.4 Regulatory Framework: The scandal underscores the need for a robust regulatory framework to prevent similar incidents in the future.

5. RESEARCH QUESTIONS

- 5.1 What are the key principles of Mudarabah as outlined in Quran and Sunnah?
- 5.2 How is Mudarabah applied in modern Islamic banking and finance?
- 5.3 What are the challenges and opportunities in implementing Mudarabah as a prime product?
- 5.4 What are the characteristics need to be observed in order to hit any scandal

6. Research Objectives

To examine the concept of Mudarabah in Islamic finance through the light of Qur'an and Sunnah.

To analyze its principles and applications in Pakistan's Islamic banking sector as well as in Mudarabah companies.

To identify challenges and opportunities in implementing Mudarabah, drawing from practical experience as an employee to employer ranging from small-scale (Rs.10,000) to large-scale (USD 10 million) businesses in less than ten years.

To propose a Shariah-compliant framework for securing and operationalizing Mudarabah in Islamic banking and companies.

7. Literature Review

7.1 Classical Scholarship

Classical jurists such as Imam Abu Hanifa, Imam Malik, and Imam Shafi'i discussed *Qirad* (Mudarabah) as a permissible form of profit-sharing, provided transparency, trust, and defined ratios exist. They viewed it as an equitable arrangement fostering social cooperation.

7.2 Modern Islamic Finance Scholarship

Scholars like Muhammad Nejatullah Siddiqi, M. Umer Chapra, and Monzer Kahf have emphasized the moral economy of Islam — where profit-sharing and justice replace exploitative interest systems. Siddiqi (1983) argues that Mudarabah enhances productive enterprise without guaranteeing profit, ensuring fairness in risk-taking.

7.3 Empirical Studies in Pakistan

Studies by the State Bank of Pakistan (SBP, 2023) show Islamic banking accounts for over 20% of total banking assets, but Mudarabah-based products remain under 5% due to regulatory, operational, and awareness constraints beside the fact it is primarily used under Murahabah account deposit.

7.4 Literature Gap

Existing research focuses mainly on operational and legal aspects of Mudarabah but rarely integrates *Qur'anic epistemology* and spiritual ethics into practical frameworks. This study addresses this gap.

8. Theoretical Framework: The Quranic Partnership Framework (QPF)

This study proposes the **Quranic Partnership Framework (QPF)**, grounded in four divine principles:

Amanah (Trust): All wealth and responsibility are trusts from Allah (Qur'an 8:27).

'Adl (Justice): Ensuring equity in distribution and accountability (Qur'an 16:90).

Ta'awun (Cooperation): Working together for mutual benefit (Qur'an 5:2).

Tawakkul (Reliance on Allah): Accepting risk with faith in divine decree (Qur'an 64:11).

Conceptual Model Summary

Component	Description	Qur'anic Foundation
-----------	-------------	---------------------

Inputs	<ul style="list-style-type: none"> • Capital from Rabbul Maal (investor) • Labor, skill, and management from Mudarib (entrepreneur) • Ethical and moral guidance derived from Qur'anic values such as justice, trust, and accountability 	<i>"Indeed, Allah commands you to render trusts to whom they are due..." (Qur'an 4:58)</i>
Process	<ul style="list-style-type: none"> • Partnership based on mutual consent and transparency • Full Shariah compliance ensuring prohibition of Riba and adherence to equity principles • Ongoing monitoring and disclosure to maintain Amanah (trust) between parties 	<i>"O you who believe! Do not consume one another's wealth unjustly, but only [in lawful] business by mutual consent." (Qur'an 4:29)</i>
Outputs	<ul style="list-style-type: none"> • Economic justice through fair profit and loss sharing • Financial inclusion by enabling entrepreneurs' access to capital • Sustainable development contributing to social welfare. 	<i>"And in their wealth, there is a known right for the beggar and the deprived." (Qur'an 70:24-25)</i>

9. Methodology

This research will adopt a **qualitative approach** using:

Textual analysis of Qur'an, Hadith, and classical fiqh literature.

Case studies of selected Islamic banks in Pakistan.

Semi-structured interviews with experts, bankers, and entrepreneurs.

Thematic analysis to identify recurring patterns and Qur'anic alignment.

Triangulation will ensure reliability — combining divine sources (text), empirical data (bank reports), and lived experience (entrepreneurs).

10. Mudarabah in Pakistan's Context

Islamic banking in Pakistan has grown rapidly, yet Mudarabah remains underutilized. Challenges include:

1. Regulatory constraints from the State Bank of Pakistan.
2. Preference for low-risk Murabaha over profit-sharing models.
3. Limited awareness and risk appetite among entrepreneurs.
4. Lack of Shariah standardization.

However, opportunities exist in:

1. SME and microfinance sectors.
2. Agricultural entrepreneurship.
3. Start-ups seeking ethical capital.
4. Integration with digital financial platforms.

Case studies from **Meezan Bank**, **Bank Islami**, and **Dubai Islamic Bank Pakistan** show pilot Mudarabah projects, but these remain small in scale. A robust policy framework is required to expand adoption.

11. Expected Outcomes

1. Comprehensive understanding of Mudarabah principles grounded in Qur'anic ethics.
2. Development of a *Qur'an-based framework* for Mudarabah application.
3. Recommendations for regulators to create enabling environments.
4. Increased access to finance for small entrepreneurs.
5. Enhanced financial inclusion, stability, and socio-economic development.

6. Each outcome reflects Qur'anic aims of *Maslahah Amma* (public welfare) and *Adl* (justice).

12. Comparative Analysis

Criteria	Conventional Finance	Mudarabah (Islamic Finance)
Return	Fixed interest	Profit-sharing
Risk	Borrower bears all	Shared between parties
Relationship	Creditor–debtor	Partner–partner
Ethic	Profit-maximization	Justice & cooperation

This comparison highlights Mudarabah's moral superiority and social harmony.

13. Ethical Considerations

The researcher upholds Islamic research ethics — honesty, objectivity, and respect for human dignity. All interviews will be voluntary, and confidential data will be protected. Interpretation of Qur'anic verses will adhere to authentic Tafsir references (Ibn Kathir, Tafseer-e-Usmani).

14. Limitations

- Limited access to detailed Mudarabah case data from banks / NAB.
- Subjectivity in interpreting Qur'anic concepts.
- Time constraints for extensive fieldwork.

15. Significance of the Study

This research will make a significant contribution to Islamic finance by:

Bridging Qur'anic principles with modern finance. Offering a spiritual-economic model that promotes justice and entrepreneurship.

In Surah Al-Naba (78 : 10&11), Allah says that the night is a covering (Libas), and the day is for seeking livelihood.

The other Quranic verse clarifies "They are your garments (Libas) ye are their garments (Libas)" (2:187) highlights the importance of mutual respect, trust, and cooperation in a spouse relationship. This principle can be extended into business partnerships, especially in Mudarabah arrangements. The verse "And He has made for you the night and the day for your rest and for your seeking of bounty" (28:73) further emphasizes the importance of collaboration and mutual benefit in economic endeavors.

We have an example of Prophet Muhammad (PBUH) and Hazrat Khadija's (RA) business partnerships became most secret relationship of spouse. Hence both the relationship needs same kind of care and respect as demonstrated below because one share night and other relationship shares daytime therefore both has same result if practice under Qur'an and Sunnah guidelines.

Aspect	Spousal Relationship	Mudarabah Partnership
--------	----------------------	-----------------------

Aqad (Contract)	Marriage contract (Nikah)	Mudarabah agreement
Trust	Mutual trust and reliance	Rabbul Maal trusts Mudarib to manage business
Cooperation	Working together for family goals	Mudarib and Rabbul Maal work together for business success
Support	Emotional and financial support	Rabbul Maal provides capital, Mudarib provides expertise
Intimacy	Sharing life's joys and challenges	Sharing business decisions and profits
Commitment	Long-term commitment to each other	Commitment to work together for business success
Outcome	Children, family growth	Business growth, prosperity, new opportunities

1. Assisting policymakers and Shariah boards to develop sustainable Mudarabah-based products.
2. Supporting Pakistan's alignment with UN Sustainable development Growth **i.e Decent Work and Economic Growth (SDG-8)**.

16. Timeline

Phase	Duration	Activities
Literature Review	6 months	Collect and review classical and modern sources
Data Collection	8 months	Interviews and case studies
Analysis	6 months	Thematic coding and synthesis
Writing & Review	6–9 months	Drafting and finalization

Total Duration: 2–3 years.

17. Incubation Project

Automotive Workshop and Vocational Training Centre at IIUM

As an automotive expert, I propose establishing a workshop and vocational training center at the university, catering to the maintenance needs of over 1,000 vehicles owned by students and staff. This initiative will provide convenient, discounted services while promoting technical skills development.

17.1 Key Components:

1. Workshop Services: Offer general and periodic maintenance, repairs, and technical inspections for vehicles at discounted rates.
2. Vocational Training: Provide certificate programs in mechanical and electrical technologies, enhancing students' skills and employability.
3. Infrastructure: The university will provide the necessary infrastructure, while Swan Honda will supply human resources and I will provide tools, and spare parts.
4. Tripartite Mudarabah: A three-year partnership between the university (infrastructure provider), Swan Honda (Mudarib/Technician), and I as a potential investor (Rab-ul-Mal) can be established to share profits and risks.

17.2 Benefits:

1. Convenience: On-campus services for students and staff
2. Cost-effective: Discounted rates for maintenance and repairs
3. Skill development: Vocational training for students under skill kulia
4. Revenue generation: Potential income stream for the university and partners
5. Industry-academia collaboration: Opportunities for research, innovation, and talent development

17.3 Implementation Plan:

1. Infrastructure setup: The university will provide the necessary space and infrastructure.
2. Human resources: Swan Honda will supply skilled technicians and trainers.
3. Tools and equipment: I will provide the necessary tools, equipment, and spare parts.
4. Marketing and promotion: Joint marketing efforts to promote the services to students and staff.

17.4 Financial Arrangements:

1. Tripartite Mudarabah: Profit-sharing ratio to be determined based on investment, expertise, and infrastructure provision.
2. Revenue streams: Workshop services, vocational training programs, and spare parts income.

By partnering with the university, we can create a win-win situation for all stakeholders, promoting technical skills development, convenience, and revenue generation. I'd be happy to discuss this proposal in more detail and explore how we can make it a success!

18. Conclusion

Mudarabah represents more than a financial contract; it embodies Qur'anic values of cooperation, justice, and shared destiny. Reviving this model in Pakistan's Islamic banking sector can transform economic behavior, reduce inequality, and strengthen faith-based finance.

By rooting economic practice in divine guidance, this research aspires to restore the ethical balance envisioned in *Surah Al-Naba (78:10–11)* — where human financial needs vis a vie human family structure through divine blessing, and social justice coexist in perfect harmony. *Insha'Allah*, this study will contribute to both the academic literature and the practical advancement of Islamic banking in Pakistan and beyond as this model is truly in lined with UN sustainable development Goals.