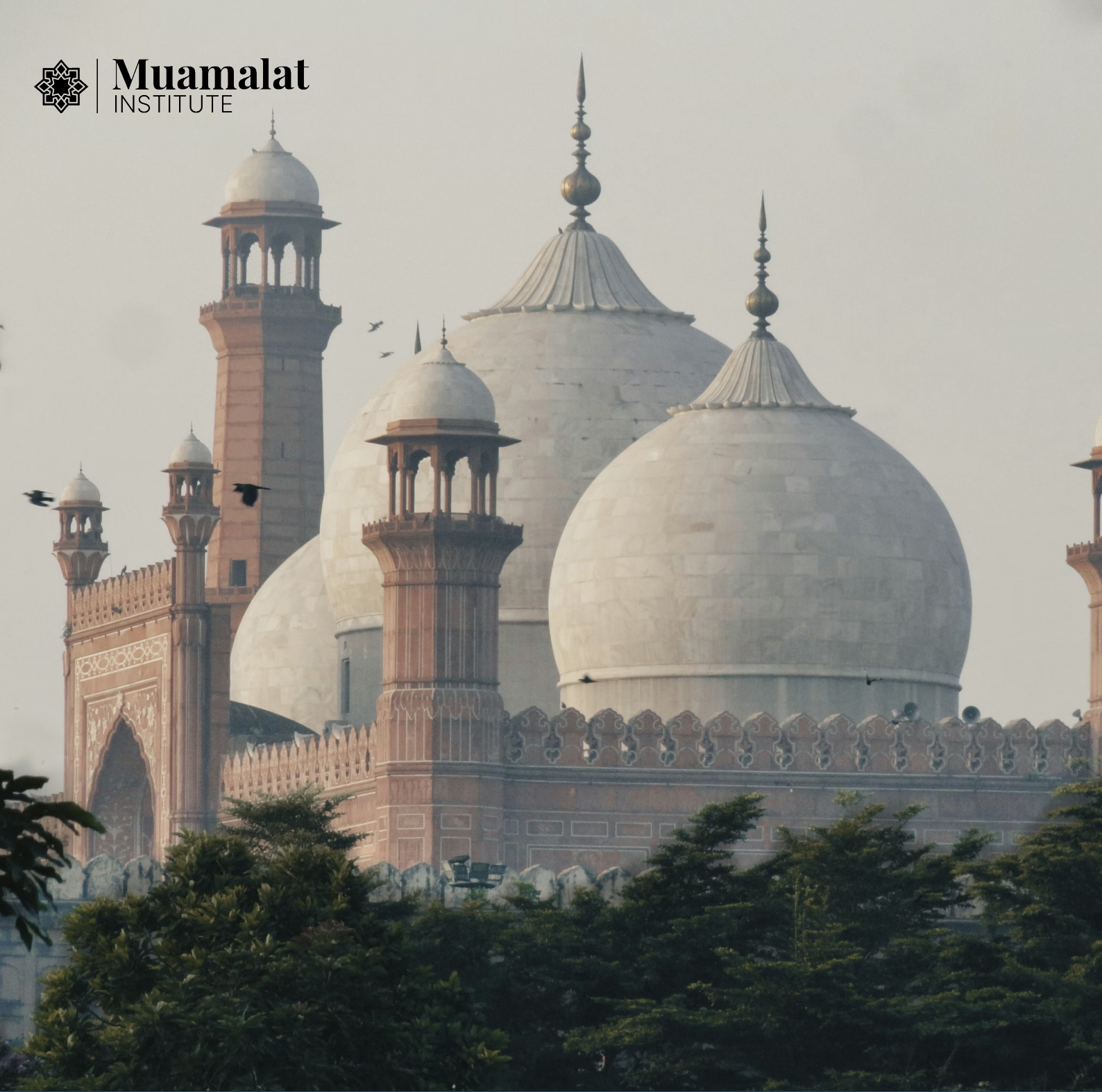




**Muamalat**  
INSTITUTE



# The Pursuit of Riba-Free System In Pakistan

CASE STUDY

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The Muamalat Institute is a public-interest political economy institute dedicated to the revival and contemporary application of Muamalat — the transactional, civic, and economic dimension of Islam.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

## Executive Summary

Pakistan's commitment to establishing an interest-free economy is a deeply ingrained national aspiration, explicitly mandated by Article 38(f) of its Constitution. This enduring pursuit has been marked by a series of pivotal judicial pronouncements, primarily from the Federal Shariat Court (FSC) and the Supreme Court of Pakistan, which have consistently affirmed the absolute prohibition of Riba (interest). This commitment reached a significant milestone with the definitive 2022 FSC verdict, which set a clear deadline of December 31, 2027, for a complete transition to an Islamic financial system. This national objective has since been further solidified by legislative action, including the 26th Constitutional Amendment, which explicitly extends the deadline to January 1, 2028.

The legal journey commenced with the influential 1991 FSC verdict, which declared interest un-Islamic, a decision subsequently upheld by the Supreme Court in 1999. However, this was followed by a notable remand in 2002, which called for more extensive research and comparative study of global financial systems. Despite this delay, the process saw a powerful reaffirmation with the 2022 FSC verdict, establishing a firm and constitutionally backed deadline for the transition. This intricate judicial history underscores a persistent, albeit challenging, national resolve to align the financial system with Islamic injunctions.

Within this dynamic legal and economic landscape, the arguments presented by Shaykh Umar Vadillo and Dr. Humaira Shahid represent a profound and foundational critique of the prevailing financial paradigm. Their proposal transcends the conventional approach of merely structuring Shariah-compliant products within an existing framework. Instead, it advocates for a radical re-evaluation of the very nature of money and the financial system itself, emphasizing a return to real-wealth, asset-backed currency, specifically the Gold Dinar and Silver Dirham, and the implementation of genuine risk-sharing Muamalat (Islamic transactions). This distinct perspective offers a potentially transformative alternative to the «form-over-substance» criticisms often levelled against mainstream Islamic finance.

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# The Islamic Prohibition of Riba

## Definition and Types of Riba in Islamic Law

**Riba** (ربا) is an Arabic term. It literally means an “excess” or “increase.” In Islamic jurisprudence (fiqh), riba refers to any **unjustified excess** between the value of the goods given and the value of the goods receive<sup>1</sup>—As defined by The esteemed scholar, Qadi Abu Bakr Ibn al-Arabi.

Allah has made riba clearly and explicitly forbidden. This prohibition is found in the Qur’an and the Sunnah. Allah says in the Qur’an:

وَاحِلَّ اللهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

*“Allah has permitted trade and forbidden Riba.”*

Surah al-Baqarah (2:275)

Furthermore, Allah and His Messenger (sala Allah alayhi wa salam) have issued a stern warning to those who engage in riba. Allah states:

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُؤْمِنِينَ (٢٧٨)  
فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبِمُمْ فَلَكُمْ رُءُوسُ  
أَمْوَالِكُمْ لَا تَظْلُمُونَ وَلَا تُظْلَمُونَ (٢٧٩)

*“O you who have iman! Show fear of Allah and forgo any remaining riba if you are Mu’minin. If you do not, know it means war from Allah and His Messenger.*

*If you turn in repentance you may have your capital, without wronging and without being wronged.”*

Surah al-Baqarah (2:275)

<sup>1</sup> In Ahkam al-Qur’an, by Qadi Abu Bakr Ibn al-Arabi, a Legal commentary (Tafsir) on the ayats 275-280 from Surat al-Baqarah.

In Islamic jurisprudence, riba is primarily categorized into two types.

## 1. Riba al-Fadhl

رِبَا الْفَضْلِ

It describes an extra benefit that comes from an unjustified increase in weight or measure. Riba al-fadl relates to quantities. For example, **in a loan, riba al-fadl is the interest that is overcharged**. More generally, it occurs when one party in an exchange demands an additional increase to the counter-value. An example is when one party gives something worth 100 in exchange for something that is stipulated to be worth 110 from the other party without a valid justification for this increase.

## 2. Riba al-Nasi'ah

رِبَا النَّسِيئَةِ

Riba al-nasi'ah means the riba of delay. It describes an extra benefit that comes from an unjustified delay in a transaction. Riba al-nasi'ah relates to a delay in time. Understanding riba al-nasi'ah involves the concepts of 'ayn and dayn.

- **'Ayn** (عين) refers to a tangible item that is present and can be handed over immediately. Think of it as “cash”, i.e. a physical good at hand.
- **Dayn** (دين) refers to a debt or an obligation. It is something whose delivery or payment is deferred to the future.

To exchange (**sarf**) **dayn for 'ayn** of the same jins (kind/genus), is considered **riba al-nasi'ah**. Sarf means exchange, particularly of currencies or monetary items. It is also forbidden to exchange dayn for dayn. To use a dayn receipt as medium of exchange is also considered riba al-nasi'ah, specifically what is call 'Inah. The use of paper money falls under this latter type.<sup>2</sup>

To understand what is considered a justified increase and what is an unjustified increase, we must look at the nature of different transactions. This is especially important for transactions involving the same jins (kind), which means the same kind of goods are given and received. Examples include loans, exchanges, and rentals.

<sup>2</sup> Fatwa on paper money, Shaykh Umar Vadillo.

## Qard (loan)

قَرْض

A qard is a loan. It involves by definition deferment. Deferment means the repayment is delayed for a period. The excess in time (the deferment) is justified in a qard. However, **a qard must not involve quantity disparity**. Such an unjustified excess in quantity in a loan is a form of **riba al-fadl**.

## Sarf (Currency Exchange)

صَرْف

A sarf is an exchange of monetary items, like gold for gold or gold for silver.

- A sarf of items of the same jins (e.g. gold for gold), involves no deferment and no disparity.
- A sarf of items of different jins (e.g. gold for silver), involves naturally disparity, but no deferment.

An unjustified excess in time (deferment) in such an exchange would be **riba al-nasi'ah**. An unjustified excess in quantity in a exchange would be **riba al-fadl**.

## Ijarah (Rental–Hire)

إِجَارَة

An ijarah is a rental agreement. It involves both deferment and disparity, and in this specific contract, both are halal. When you rent a house, for example, you take possession of the house and return it after a set time. This is deferment (delay in returning the item). In addition, you make an extra payment, which is the rent. You can only enter into an ijarah for merchandise that can be hired out and used without being consumed. Examples include hiring a car, a house, or a horse. You cannot make an ijarah for money or foodstuffs. These are **mithliyyat** (مِثْلِيَّات), or **fungible goods**.

**Mithliyyat are items that are consumed by use or where each unit is identical to another, like a specific amount of currency or a measure of wheat.**

<sup>3</sup> 'Ubādah ibn as-Sāmit (may Allah be pleased with him) reported: The Messenger of Allah (salla Allah alayhi wa salama) said:

“Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt, like for like, equal for equal, hand to hand. If these classes differ, sell as you wish as long as it is hand to hand.”

[Authentic] - [Narrated by Muslim] - [Sahih Muslim - 1587]



### In the case of a bay' (sale - بيع)

Which is a sale that involves the exchange of goods of different jins (different kinds), the rules are different:

Deferment in payment in such a sale can be halal.

**Disparity (the difference in value or price) is accounted for in a specific manner.**

How do we determine if there is an unjustified disparity in a sale of goods of different jins (kind)? The disparity is determined by looking at the difference between the price offered for an immediate (spot) sale and the price offered for a delayed-payment sale. This situation, where two different prices are stipulated based on the timing of payment, is known in Islamic jurisprudence, as the stipulation of two prices, which falls under what is referred to as “**bay’atayn fi bay’ah**”. This phrase literally means “**two sales in one sale transaction.**” The spot price (the price for immediate payment) is considered the benchmark price.

An unjustified excess, and thus potential riba, occurs if there is an increase in the price offered for delayed payment, compared to this spot price.

Moreover, the use of dayn receipts (such as paper money or IOUs) in such a sale is considered riba.

# Pakistan's Legal Battle Against Riba

## A. Constitutional Mandate and Early Initiatives

Article 38(f) of the Constitution of the Islamic Republic of Pakistan unequivocally mandates the State to “eliminate Riba as early as possible.” This constitutional directive, enshrined in 1973, has served as the foundational legal and moral impetus for all subsequent efforts to transform Pakistan’s financial landscape into an interest-free system, reflecting a deeply ingrained national aspiration to align with Islamic principles.

The practical journey towards an Islamic financial system in Pakistan commenced in earnest in the 1980s, mirroring the global emergence of Islamic banking. During this period, significant legislative changes were introduced, including amendments to the Banking Companies Ordinance and the enactment of the Modaraba Companies and Modaraba Framework, laying the groundwork for the introduction of Shariah-compliant financial practices.

## B. Federal Shariat Court (FSC) and Supreme Court (SC) Judgments

The legal trajectory of Riba in Pakistan has been marked by a series of landmark judgments from its apex courts.

### 1. The 1991 FSC Verdict

On November 14, 1991, the Federal Shariat Court delivered a landmark verdict in response to numerous petitions filed since 1990. The FSC declared the prevailing interest-based banking system and a number of fiscal laws in Pakistan as repugnant to the injunctions of Islam. The court ordered the government to enact legislative measures to eliminate interest from the economy and financial sector by June 30, 1992. This judgment significantly revitalized the Islamic banking and finance movement in Pakistan, which had experienced a decline in momentum over the preceding years.

## B. Federal Shariat Court (FSC) and Supreme Court (SC) Judgments

### 2. The 1999 Supreme Court Shariat Appellate Bench (SAB) Upholding

The FSC's 1991 decision was challenged by the government and various banks. However, on December 23, 1999, the Shariat Appellate Bench of the Supreme Court, in a monumental ruling, upheld the FSC's judgment. This pivotal decision declared Riba, in all its manifestations, repugnant to the injunctions of Shariah, and directed the government to transform the economy into a Riba free system by eliminating all forms of interest-based banking. A deadline for implementation was set for June 30, 2001. This was widely hailed as a momentous event, positioning Pakistan as the first Muslim country to officially declare modern bank interest as haram (forbidden).

### 3. The 2002 Supreme Court Remand

In a significant and controversial turn, on June 24, 2002, the Shariat Appellate Bench of the Supreme Court set aside its own 1999 judgment. The case was remanded back to the Federal Shariat Court for a fresh decision. The Supreme Court cited the need for "thorough and elaborate research and comparative study of the financial systems which are prevalent in the contemporary Muslim countries of the world". This decision effectively granted a "new life to the modern banking system" in Pakistan, providing a reprieve from the immediate implementation of the Riba ban. Crucially, the Supreme Court also suggested that the FSC consider alternative approaches to address the issue of inflation and the time value of money, such as indexing loans, tying loans to gold or hard currency, or sharing the loss of value due to inflation between creditors and lenders.[6]

This 2002 remand highlights a persistent and fundamental tension in the Riba case: the conflict between strict Shariah adherence and the perceived practical necessities of a modern, globalized economy. The Supreme Court's call for "thorough and elaborate research" and its specific suggestions for indexation or gold-tying acknowledge the immense economic challenges of a sudden, total interest ban, particularly concerning issues like inflation, liquidity management, and international financial integration. This indicates that while the prohibition of Riba is absolute in principle, its implementation in a complex global financial

## B. Federal Shariat Court (FSC) and Supreme Court (SC) Judgments

system presents significant, often debated, practical hurdles. The court's suggestions, though not directly adopting the gold dinar, reflect a search for Shariah-compliant ways to address modern economic realities without compromising the core prohibition. The underlying pressure to delay implementation stemmed from concerns that a rapid, absolute transition could damage Pakistan's already fragile economy, given the prevailing interest-based global financial system. This reveals a recurring "necessity" vs. "principle" dilemma that has characterized Pakistan's Riba case, where the judiciary, while committed to Shariah, has also been sensitive to the potential economic fallout of a radical shift. This tension has led to delays and a search for alternative mechanisms that allow the economy to function while still adhering to the Riba prohibition.

### 4. The 2022 FSC Verdict

After nearly two decades of the case remaining pending before the FSC, the court, on April 28, 2022, delivered a comprehensive and decisive verdict. It unequivocally reaffirmed the absolute prohibition of Riba in all its forms and manifestations, declaring the prevailing interest-based banking system as against Shariah principles. The court mandated the federal and provincial governments to amend all relevant laws and directed that the country's banking system be completely free of Riba by December 31, 2027. The ruling emphasized that the Islamic banking system is inherently "risk-free and against exploitation" and that all laws facilitating interest are illegal.

## C. Subsequent Appeals, Withdrawals, and Legislative Developments

Following the landmark 2022 FSC judgment, the State Bank of Pakistan (SBP) and the National Bank of Pakistan (NBP), both government-owned entities, withdrew their appeals against the verdict in March 2023. This action signalled a renewed and strong commitment at the state level to comply with and implement the Riba-free system. However, appeals from some private commercial banks against the verdict remain pending before the Supreme Court.

Pakistan's Parliament further solidified this national commitment by passing the 26th Constitutional Amendment Bill 2024. This significant legislative act explicitly sets January 1, 2028, as the new, constitutionally mandated deadline for the complete elimination of Riba from the country's financial system, providing a clear and binding timeline for the transition.

## D. Role of Regulatory Bodies in the Transition

**The regulatory bodies play a crucial role in translating judicial directives into practical implementation.**

### State Bank of Pakistan (SBP)

As the central bank and primary financial regulator, the SBP has responded to the judicial mandates by releasing a comprehensive five-year plan (2023–2028). This plan outlines ambitious goals to transform the conventional banking sector, aiming to increase the share of Islamic banking in the country to 35% by 2025. The SBP has also proactively established a robust multi-tiered Shariah compliance mechanism, which includes a dedicated Shariah board at the central bank level, mandatory internal Shariah audits for Islamic financial institutions, and specialized Shariah inspections. This positions the SBP among pioneer regulators in promoting and overseeing Islamic finance but all in the context of Islamic banking, which is an extension of the same Capitalist system.

### Securities and Exchange Commission of Pakistan (SECP)

Complementing the SBP's efforts, the SECP introduced comprehensive Shariah governance guidelines in January 2023. These guidelines are applicable to a broad range of non-banking financial companies, Takaful operators, and private pension funds, with the strategic aim of

deepening Islamic capital markets. The SECP's framework facilitates the conversion of conventional institutions into Islamic ones, including through the establishment of "Islamic windows," which allow conventional banks to offer Shariah-compliant services within their existing structures.

While the Federal Shariat Court and Supreme Court have issued absolute prohibitions on Riba with definitive deadlines, the operational implementation by regulatory bodies like the SBP and SECP adopts a "gradualist and proportionality" approach. This creates a practical tension. The judiciary demands an immediate and complete overhaul, reflecting the theological imperative. In contrast, regulators, faced with the immense complexity and systemic risks of such a rapid shift, opt for phased conversion, parallel systems (Islamic windows), and evolutionary changes. This highlights the profound institutional challenge of translating a deeply rooted religious injunction into a functional, modern economic reality without causing significant disruption. This "gradualism" reflects an attempt to minimize disruption while moving towards the ultimate goal, but it also opens up criticisms of "form-over-substance" or "Shariah-washing", as the system may not immediately embody the full spirit of Riba prohibition.

[This dynamic interplay between judicial idealism and regulatory pragmatism is a defining characteristic of Pakistan's Riba case.](#)

# Chronology of Key Riba Judgments in Pakistan

Nov 14, 1991

## Federal Shariat Court (FSC)

Declared existing interest-based banking and fiscal laws repugnant to Islam. Ordered government to eliminate interest by June 30, 1992.

→ Revitalized the Islamic banking and finance movement in Pakistan.

Dec 23, 1999

## Supreme Court Shariat Appellate Bench (SAB)

Upheld the 1991 FSC verdict, declaring Riba in all its manifestations repugnant to Shariah. Directed government to transform economy to Shariah-compliant system by June 30, 2001.

→ Landmark decision, positioning Pakistan as the first Muslim country to officially declare modern bank interest haram.

June 24, 2002

## Federal Shariat Court (FSC)

Reaffirmed the absolute prohibition of Riba in all its forms. Directed federal and provincial governments to eliminate Riba from the banking system by December 31, 2027.

→ Renewed state commitment to Riba elimination with a definitive timeline. Emphasized Islamic banking as “risk-free and against exploitation”.

April 28, 2022

## Federal Shariat Court (FSC)

Reaffirmed the absolute prohibition of Riba in all its forms. Directed federal and provincial governments to eliminate Riba from the banking system by December 31, 2027.

→ Renewed state commitment to Riba elimination with a definitive timeline.

March 2023

## State Bank of Pakistan (SBP) & National Bank of Pakistan (NBP)

Withdrew their appeals against the 2022 FSC verdict in the Supreme Court.

→ Signalled strong commitment from key government financial institutions to comply with the Riba-free mandate.

Oct 20, 2024

## Parliament of Pakistan

Passed the 26th Constitutional Amendment Bill 2024, explicitly setting January 1, 2028, as the new constitutional deadline for complete Riba elimination.

→ Provided a clear and legally binding timeline for the transition, reinforcing the national resolve.

Jan 1, 2028

Deadline for the complete elimination of Riba from Pakistan’s financial system.

→ Represents the culmination of decades of legal and policy efforts to establish a fully Shariah-compliant economy in Pakistan.

# The Transformative Proposal of Shaykh Umar Vadillo and Dr. Humaira Shahid

## A. Background of the Proponents

Within the complex legal discourse surrounding Riba in Pakistan, the contributions of Shaykh Umar Vadillo and Dr. Humaira Shahid represent a distinct and profound intellectual current.

**Shaykh Umar Ibrahim Vadillo**, a Spanish Muslim scholar born in 1964, is a prominent figure in the Murabitun World Movement. He is renowned for his pioneering work in Islamic economics and finance, particularly his advocacy for a return to real-wealth currency and a fundamental critique of contemporary economic systems from an Islamic viewpoint. His studies on Zakat notably led to his promotion of the Islamic Gold Dinar and Silver Dirham as necessary for a truly Islamic financial system.

**Dr. Humaira Awais Shahid** is listed as a petitioner's counsel in Shariat Petition No. 30-L of 1991, a pivotal case in Pakistan's Riba litigation. Her work involvement and advocacy was for replacing the Riba-based system with a Muamalat (Islamic transactions) framework. She proposes the alternate Riba free system based on the scholarship work of Shaykh Umar Vadillo. She previously authored and moved a bill on Private money Lending prohibiting private usury in Punjab. The bill was passed in 2007 and was a historical victory of her success as a private member. It became the first milestone against usury in Pakistan.

Their shared philosophical ground lies in a radical critique of Riba-based capitalism and a scepticism towards conventional Islamic banking's perceived compromises, advocating for a more authentic and fundamental transformation of the financial system.

[Shaykh Umar Vadillo and Dr. Humaira Shahid hosting a conference in preparation for the riba petition in Pakistan.](#)



## B. Core Arguments and Critique of Conventional Finance

### → Riba as a System, Not Just a Contract

The proposal put forth by Shaykh Umar Vadillo and Dr. Humaira Shahid is rooted in a deep critique of the foundational elements of the modern global financial system, as detailed in their submission “Muamalat : The Alternative to the Riba System Exists”.

They contend that Riba is not merely an isolated contract but a complex system that has evolved over centuries, affecting all aspects of the economy. This system is made possible by institutions and instruments such as banks, credit/paper money, central banks, and financial markets. Therefore, any attempt to eradicate Riba must address it as a systemic issue.

### → Critique of Fiat Money and Riba-Based Banking

Their central argument is that the prevailing capitalist system, particularly its reliance on fiat currency and Riba-based banking, is inherently usurious and a mechanism of economic domination. They assert that credit/paper money allows banks to lend in excess of what they possess through fractional reserve banking, transferring the burden of Riba to the community through the loss of value of paper money. This “transformed Riba” involves three parties: the lender (benefiting from lending excess credit), the borrower (benefiting from a reduction in repayment burden due to money’s loss of value), and the community (suffering the unfair burden of losing value in their money). They view Riba as a fundamental corruption of trade, stating, “There cannot be trading with riba, nor riba with trading”. They also argue that central banks have transformed money from a freely chosen commodity into a legally compulsive fiat money.

### → Critique of Mainstream Islamic Banking

Their critique extends to much of mainstream Islamic finance, which they argue has engaged in the “islamisation of capitalism”. They contend that many existing Islamic financial institutions, especially those heavily reliant on Murabaha (cost-plus financing) and Tawarruq, merely replicate conventional interest-based structures through “legal ruses” (heela). This “form-over-substance” criticism posits that while these products may formally comply with Shariah principles, they fail to achieve the true spirit of Islamic finance by not genuinely embracing risk-sharing and asset-

→ Critique of Mainstream Islamic Banking

backed principles. They explicitly state that “Islamic banks are haram” and that the “islamisation of paper money is deceptive”. They view Islamic banks as the “central piece of this deception” because they do not alter the system of Riba, tacitly endorse credit money and the US dollar’s dominance, and deny the existence of the Islamic socio-economic model (Muamalat ) and Shariah currency. They also criticize the alteration of business contracts like Shirkat and Qirad to fit alien practices, and the addition of forbidden practices like “two sales in one” under Arabic names like Murabaha.

**C. The Proposed Alternative: A Return to Real Wealth and Authentic Muamalat**

In light of their comprehensive critique, Vadillo and Shahid propose a transformative alternative grounded in classical Islamic economic principles, which they term Muamalat.

→ Muamalat as the Comprehensive Solution

They contend that Muamalat is the true alternative to Riba, representing the socio-economic model of all Islamic societies from the beginning of Islam until the fall of the Khalifate, perfected in Madina.

Muamalat encompasses all economic, political, and social interactions, involving not only contractual matters but also institutions and instruments such as the **Gold Dinar**, **Silver Dirham**, **Wadi’ahs** (safe-keeping institutions), **Suqs** (open markets), **Caravans** (open trading institutions), **Guilds** (open production institutions), **Waqf** (welfare institutions), and **Bait ul Maal**.



Shaykh Umar Vadillo addressing at the Allama Iqbal Convention center in Lahore July 2012

→ **The Gold Dinar and Silver Dirham (Shariah Currency)**



The first minted Gold Dinar in Islam.

A cornerstone of their proposal is the advocacy for a return to a bimetallic currency system based on the **Gold Dinar (4.25 grams of gold) and Silver Dirham (2.975 grams, 7/10 of a mithqal)**. They argue that these metallic currencies represent real wealth and provide a stable, just monetary system, directly addressing the perceived flaws of fiat money. This approach links money to tangible value, thereby eliminating the potential for Riba that arises from the abstract, debt-based nature of paper currency. They emphasize that Shariah currency is not legal tender but a commodity, freely chosen by mutual consent, and its value depends on the market value of gold and silver, unlike paper money which can be artificially inflated. The ultimate purpose of introducing the Dinar and Dirham is the payment of Zakat in ‘ayn (tangible merchandise) rather than dayan (debt/promissory notes).



The Kelantan Gold Dinar and Silver Dirham, minted under the guidance of Shaykh Umar Vadillo

→ **Emphasis on Genuine Profit-and-Loss Sharing (PLS) and Asset-Backed Transactions**

They advocate for a fundamental shift towards true Mudarabah (profit-sharing trade partnership) and Musharakah (joint venture partnership) as the primary modes of finance. In these models, risk and reward are genuinely shared between the financier and the entrepreneur, and transactions are directly linked to real economic activity and tangible assets. This contrasts sharply with the widespread reliance on the Islamic banking debt-based mechanisms like “Murabah mortgages” and Ijara (leasing), which they view as mere imitations of conventional loans. Their vision promotes a financial system where capital grows through productive investment and shared enterprise, rather than through guaranteed returns on passive loans. They specifically highlight that in



Shirkat, all partners must participate in the work, and the concept of “majority ownership” in modern corporations is a “deceiving concept” that usurps the legal ownership of minority co-owners.x

→ Restoration of Public Markets (Suqs), Caravans, and Guilds:

They propose the simultaneous introduction of public markets (Suqs) as public institutions (awqaf), freely accessible, with no taxes, levies, or rents, akin to mosques. Following this, the restoration of Caravans (open distribution networks with shared logistical infrastructure) and Guilds (open production systems with commonly owned means of production) is crucial. These institutions, historically awqaf, foster genuine competition and prevent monopolization. They argue that the implementation of Qirad and Shirkat contracts becomes “enormously easier” within the context of Caravans and Guilds, respectively.



Prototype of a contemporary public market (AI Generated)

The Grand Bazaar of Istanbul. the model of Ottoman public markets.





→ **Gradual Transition and Nationalization of Banks:**

They propose a gradual transition from Riba to Muamalat , replacing the speculative economy with the real economy. This transition should not compromise the objective of full Muamalat . They suggest that “Islamic” or “Shariah compliant” labels should be reserved for instruments fully subscribed to the Muamalat model, denouncing “nearly halal” or “less haram” practices. As a first step towards eliminating banking, they propose the nationalization of banks, followed by their gradual consolidation into a single “Haram Bank of Pakistan” to handle existing Haram practices during the transition. This nationalized bank would then promote lending towards establishing social trading infrastructure like public markets, caravan infrastructure, and manufacturing facilities for guilds. They cite examples of bank nationalization in Western countries as precedents.

→ **World Islamic Mint (WIM) and Gold Dinar Network**

They highlight the role of the World Islamic Mint (WIM), created in 1993, in maintaining global standards for Shariah coins and promoting their distribution. They mention the existence of a Gold Dinar Network with over 20,000 shops accepting Dinar and Dirham, predominantly in Southeast Asia, and the e-dinar digital payment system, launched in 1997, which is 100% backed by physical gold and silver. They also cite the example of Malaysia, where Shaykh Umar Vadillo provided documentation to then-Prime Minister Mahathir Mohamad, leading to the proposal of the gold dinar as an alternative currency for international trade, and the subsequent introduction of Dinar and Dirham as a means of payment in Kelantan state, including for Zakat.

Marketing Banner by the World Islamic Mint



## D. Integration within the Pakistan Riba Case and its Importance

The arguments presented by Shaykh Umar Vadillo scholarship and Dr. Humaira Shahid's petition, particularly their critique of fiat money and advocacy for a gold-backed currency, found a unique resonance within the Pakistan Riba case. While the courts did not fully adopt their radical monetary reform, their arguments likely contributed to the Supreme Court's 2002 remand. The Supreme Court's explicit suggestion to the Federal Shariat Court to consider tying loans to gold or hard currency, or indexing them to inflation, demonstrates that the court was grappling with the very issues of monetary value and stability that Vadillo and Shahid's proposal addressed. Their arguments introduced a more profound systemic critique into the legal debate, pushing beyond mere transactional compliance to question the very foundation of the modern financial system.

Their proposal is significant because it represents a more radical, purist approach to Riba elimination, challenging the very foundations of the modern financial system rather than merely adapting it. This perspective is crucial for understanding the full spectrum of debate within the Riba case and the long-term aspirations for Islamic finance in Pakistan. It elevates the discussion from simply finding Shariah-compliant products to a comprehensive economic and social vision aimed at overcoming systemic disequilibrium and economic enslavement, thereby seeking to restore authentic Muamalat as a path to Islamic recovery.



Shaykh Umar and Dr. Humaira At Federal Sharia Court Addressing the journalists. Islamabad 2013



# Challenges and Future Outlook for Riba-Free Banking in Pakistan

Despite the strong constitutional mandate and judicial directives, Pakistan's journey towards a fully Riba-free financial system faces considerable challenges. The challenges indicated already show that there are no serious efforts to eliminate Islamic banking and introduce the real pillars of Islamic Economic systems, the direction of the change would be to repackage Islamic banking and camouflage it yet again as Islamic when it clearly is an extension of the same capitalist system.

## Current Challenges

### Lack of Standardization and Diverse Shariah Interpretations

One significant hurdle is the absence of uniform global standards for Islamic financial products, contracts, and regulations. Different countries and institutions, and even scholars within Pakistan, often follow varying interpretations of Shariah principles, leading to inconsistencies and confusion in the market. This lack of consensus can slow down innovation and create uncertainty for both financial institutions and consumers.

### Liquidity Management Issues for Islamic Banks

Islamic banks face unique challenges in managing liquidity due to the prohibition of interest-based instruments like conventional government bonds and Treasury bills. Unlike conventional banks which have well-developed tools for liquidity management, Islamic financial institutions struggle to find Shariah-compliant alternatives that offer similar efficiency and returns, impacting their ability to manage short-term funding needs and respond to crises.

### Higher Costs and Complexity of Islamic Products

Islamic financial products often require multiple layers of structuring to ensure compliance with Shariah principles. This complexity can make



## Current Challenges

them more costly and less flexible than conventional financial products, potentially deterring investors and consumers seeking simpler, lower-cost options.

### **Lack of Awareness and Skilled Personnel**

There is a persistent lack of awareness and understanding among the general public, both Muslim and non-Muslim, regarding the fundamental differences, benefits, and practical implementation of Islamic banking. This is compounded by a shortage of qualified Shariah scholars with expertise in both Islamic jurisprudence and modern finance, as well as a scarcity of operationally skilled personnel within Islamic financial institutions.

### **Competition from Conventional Finance and “Shariah-Washing” Concerns**

Islamic finance operates in competition with well-established conventional financial institutions that benefit from economies of scale and extensive product variety. Furthermore, concerns exist about “Shariah-washing,” where some institutions market products as Shariah-compliant without fully adhering to Islamic principles, which can undermine consumer trust and the credibility of the entire industry.



# The Way Forward | Transitioning to an Authentic Islamic System

The “Way Forward” for Pakistan, as presented by Shaykh Umar Vadillo and Dr. Humaira Shahid, demands a radical departure from the current “gradualist” reform of conventional banking. They argue that as long as the state remains committed to the fiat currency model, the elimination of Riba will remain a legalistic mirage. To achieve the constitutional goal set for 2028, the following comprehensive steps are required:

## De- Institutionalizing the Bank and Re- Institutionalizing the Marketplace

Shaykh Umar Vadillo posits that “what the open market-place is to trading, the bank is to Riba”. The way forward involves moving beyond “Islamic Banks”—which often merely replicate conventional debt structures through “reformed Riba”—toward the restoration of mu’amalaat (Islamic civic transactional dealings). This requires establishing physical and digital marketplaces that operate on real-wealth exchange rather than credit creation.

## Adopting Shariah Money: The Gold Dinar and Silver Dirham

The most critical step forward is the re-adoption of the Gold Dinar and Silver Dirham as the standard for value. Proponents argue that paper fiat money is essentially dayn (debt). In Islamic law, exchanging debt for debt (dayn-for-dayn) is forbidden. Therefore, the path to a Riba-free economy necessitates a currency that is not a promise to pay, but the payment itself.



Shaykh Umar Vadillo presenting the contrast between the fraudulent paper money, and the money of the Sunnah, the Gold dinar.



## Moving from Credit to Real-Wealth & Profit-Sharing

The transition requires a fundamental shift in how capital is deployed. Instead of interest-based lending, the system must prioritize Musharakah (partnership) and Mudarabah (profit-sharing) models that tie financial gain strictly to real economic growth and asset ownership. This prevents the “economic disequilibrium” inherent in capitalism, where money is traded as a commodity rather than serving as a numeraire for real goods.

# Conclusion

## The Finality of the Mu'amalaat Choice

The decades-long judicial journey of the Riba petition in Pakistan has reached a historic crossroads. While the Federal Shariat Court and the 2024 constitutional amendment have provided a clear legal deadline (January 1, 2028), the inclusion of the “as far as practicable” clause highlights the persistent tension between ideological commitment and the current global financial order.

The research and advocacy of Shaykh Umar Vadillo and Dr. Humaira Shahid provide the missing link in this transition: the halal alternative. Their conclusion is that Riba cannot be “reformed” within the institutions of capitalism (the Bank and the State). Instead, it must be overcome by restoring the authentic mu'amalaat system.

Ultimately, Pakistan's success in eliminating Riba by 2028 will depend on whether it chooses to merely rename interest-based products or whether it has the political will to adopt a real-wealth standard like the Gold Dinar. The mu'amalaat system offers a path beyond the current economic disequilibrium, promising a society where wealth is not “doubled and multiplied” through debt, but shared through enterprise and just exchange.



Shaykh Umar Vadillo and Dr Humaira Shahid hosted by students at the Karachi University.

The choice for Pakistan is now between a legalistic compromise and a total restoration of the Islamic economic paradigm.

ولا غالب الا الله

Non is Victorious except Allah.

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OUR VISION – A world where nations reclaim sovereignty through just trade, real money, and trust-based systems where African, Asian, and Arab communities rise together through Muamalat.

## About the Muamalat Institute

The Muamalat Institute is a public-interest political economy institute dedicated to the revival and contemporary application of Muamalat — the transactional, civic, and economic dimension of Islam.

Our work bridges classical legal tradition and modern institutional design. We operate as both a think tank and advisory body, developing frameworks for:

Productive participation and entrepreneurship

Commons-based institutional models (Awqaf)

Public market infrastructure

Real-asset monetary systems

Sovereign economic strategy



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