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Cryptocurrency and Other Virtual Legal Tenders from Islamic Perspective

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Abstract

This study investigates the conceptual, legal, and ethical dimensions of cryptocurrencies, e-currencies, and other virtual legal tenders from an Islamic perspective, with a focus on both classical jurisprudence (fiqh) and contemporary scholarly discourse. The objective of the research is to evaluate the Shariah compatibility of these digital financial instruments and to examine how they align or conflict with the principles of Islamic commercial law (fiqh al-muʿāmalāt). Employing a mixed-methods approach, the study combines textual analysis, case studies, and critical reviews of scholarly opinions to explore the multifaceted challenges these currencies present. Findings reveal that while digital currencies offer opportunities for transparency, financial inclusion, and technological innovation, they also raise concerns regarding riba (interest), gharar (excessive uncertainty), and maysir (speculation) which are prohibited in Islam. The study highlights a divergence among scholars: some advocate for conditional permissibility based on utility and ethical usage, while others caution against their speculative nature and regulatory ambiguities. The research concludes by recommending informed ijtihād (independent legal reasoning), interdisciplinary collaboration, and the development of a Shariah-compliant framework for evaluating digital financial tools in the evolving global economy

Keywords: *Cryptocurrency, e-currency, blockchain technology, Shariah, Money.*

1.0 Introduction

In the rapidly evolving landscape of global finance, the emergence of cryptocurrencies, e-currencies, and other virtual legal tenders has introduced new complexities into the discourse on money, legality, and ethics. While these digital assets promise decentralization, transparency, and financial inclusion, they also raise questions about speculation, volatility, and moral accountability, especially within the framework of Islamic financial jurisprudence (fiqh al-muʿāmalāt). Central to Islamic economic thought is the insistence on fairness, prohibition of interest (riba), and avoidance of uncertainty (gharar) and gambling (maysir) (El-Gamal, 2006; Kamali, 2008). These principles have made it difficult for Islamic jurists and financial experts to issue unanimous rulings on the legitimacy of blockchain-based currencies, as their nature deviates from traditional conceptions of money rooted in gold, silver, and fiat-backed mediums (Bakar, 2020; Usmani, 2007).

This work adopted a mixed-methods approach, combining textual analysis of classical and contemporary Islamic jurisprudence with interviews and scholarly insights from Nigerian Islamic scholars and fintech experts. The study aimed to examine the definitions and historical evolution of money in Islamic and Western thought, assess the compliance of virtual currencies with Islamic legal and ethical principles, and analyze emerging positions among Nigerian Islamic authorities.The findings reveal a growing but cautious acceptance of cryptocurrencies in Muslim contexts—conditional upon their structure, use-case, and regulatory framework. Nigerian scholars like Prof. Ibrahim Pantami emphasize technological literacy before issuing legal verdicts, while others call for Shariah-compliant blockchain innovations. Ultimately, the study recommends interdisciplinary collaboration and regulatory reform to harmonize innovation with Islamic ethics.

1.1 Statement of the Problem

The emergence of blockchain technology and its application in the creation of cryptocurrencies, e-currencies, and other virtual legal tenders has disrupted traditional financial systems, introducing a new paradigm that challenges long-established Islamic legal frameworks. These innovations are fundamentally different from conventional fiat currencies and Islamic standards such as the dinar (gold) and dirham (silver), which hold intrinsic value and are grounded in physical assets (Usmani, 2007). In contrast, cryptocurrencies are decentralized, intangible, highly volatile, and often not backed by any sovereign guarantee or tangible commodity (El-Gamal, 2006).This presents a major jurisprudential dilemma for Islamic scholars and financial experts. Traditional fiqh al-muʿāmalāt does not provide explicit rulings for technologies that did not exist during the formative centuries of Islamic law. As a result, contemporary Islamic scholars remain divided; while a section of scholars view cryptocurrencies as innovative financial tools with potential benefits, others consider them unlawful due to their speculative nature and association with gharar and maysir (Kamali, 2008; Lahsasna, 2014).

The emergence of virtual currencies, particularly those built on blockchain technology, presents a conceptual challenge to classical Islamic definitions of money. Unlike traditional forms such as gold, silver, or fiat currencies, digital assets are intangible and decentralized, lacking intrinsic value and sovereign backing features that complicate their classification under Islamic law.

Additionally, the rapid pace of blockchain development has outstripped the ability of many Islamic legal institutions to provide timely and technically informed fatāwa. In Nigeria, for example, where both Islamic finance and fintech adoption are growing, there is a notable absence of consensus among scholars, regulators, and financial institutions regarding the halal or haram status of virtual currencies (Pantami, 2021).The absence of a unified Shariah framework for assessing virtual currencies threatens to create confusion, encourage misuse, and marginalize Muslim investors from global financial innovation. Hence, there is an urgent need to systematically examine the compatibility of virtual legal tenders with Islamic law, grounded in both classical principles and modern realities.

From an Islamic legal standpoint, money must facilitate fair exchange, avoid exploitation, and preserve ethical standards. The speculative behavior and price volatility of many cryptocurrencies raise concerns about gharar (uncertainty) and maysir (gambling), which are explicitly prohibited in Islamic transactions.While blockchain's transparency and immutability offer potential benefits, Islamic scholars remain divided on its applications. Some jurists view cryptocurrencies as a tool for innovation; others see them as incompatible with Shariah due to their association with illegal activities and market manipulation.

In Nigeria, Islamic scholars face the dual challenge of limited technical knowledge and absence of consensus. As digital currencies grow in adoption, the lack of coherent Shariah-based guidance risks marginalizing Muslim users or exposing them to unethical financial practices.

Thus, the central problem is the juridical uncertainty caused by the evolving nature of digital currencies and the lag in Islamic legal responses grounded in both ethical principles and technical understanding.

2.0 Historical Development of Money from Western and Islamic Traditions

Understanding the historical evolution of money is essential for evaluating the legitimacy of modern virtual currencies. Both Western economic thought and Islamic jurisprudence have developed rich narratives around the origin, form, and function of money.

2.1 Historical Development Of Money From Western Tradition

In Western economic history, money is seen as an evolutionary tool developed to overcome the inefficiencies of barter (Smith, 1776/2007). Early societies used commodities such as salt, livestock, and shells, which eventually gave way to metallic currencies, particularly gold and silver, due to their portability, durability, and divisibility (Menger, 1892). These metals laid the foundation for standardized coinage systems.

With the rise of trade and banking, metallic currencies evolved into representative money where paper notes represented stored gold and later into fiat money, which derives its value from government backing rather than intrinsic worth (Keynes, 1936). In the 20th century, the Gold Standard was gradually abandoned, and fiat currencies became dominant, with value based on trust, regulation, and supply-demand dynamics (Friedman & Schwartz, 1986).

In recent decades, the world has witnessed a shift toward digital currencies, driven by advances in information technology. The invention of Bitcoin in 2008 marked a turning point, introducing the idea of decentralized digital money operating independently of state control (Nakamoto, 2008). This trajectory reflects a shift from physicality to trust-based systems, prompting new debates about the very nature of money.

2.2 Historical Development Of Money From Islamic Tradition

Islamic tradition acknowledges similar stages in monetary development but places a stronger emphasis on moral and ethical dimensions. The Qur'an and Hadith do not define money rigidly but reference gold (dinar) and silver (dirham) as primary currencies, which were widely used during the Rashidun Caliphate and beyond (Chapra, 1985). These forms of money were praised for their intrinsic value and resistance to debasement, aligning with Islamic principles of justice, equity, and transparency in financial dealings (Usmani, 2007).

Throughout Islamic history, especially during the Umayyad and Abbasid eras, gold and silver coins were minted with precise weight and purity standards. This was considered essential for preserving trust and avoiding zulm (injustice) in trade (Ibn Khaldun, 1377/1967). Islamic scholars such as Al-Ghazali and Ibn Taymiyyah stressed the need for sound money to protect public welfare and ensure fair exchange (Al-Ghazali, 2000; Ibn Taymiyyah, 2004).

Unlike Western traditions, Islamic economic thought does not separate ethics from economics. The legitimacy of money depends not only on public acceptance but also on its ability to serve as a just medium of exchange, free from riba, gharar, and maysir (Kamali, 2008). Some contemporary scholars accept fiat money under necessity (darura), while others call for a return to gold-backed currencies or the development of Shariah-compliant digital alternatives (Meera, 2002; Bakar, 2020).

While both Western and Islamic perspectives acknowledge the functional evolution of money, they differ significantly in foundational values. Western systems prioritize efficiency and state-backed authority, while Islam places equal importance on morality, intrinsic value, and social justice. The Western move toward fiat and digital money is based on confidence in state mechanisms, whereas Islamic scholars continue to debate whether non-asset-backed currencies uphold Shariah objectives (Maqasid al-Shariah).

This divergence has serious implications for the acceptance of cryptocurrencies and virtual legal tenders. While Western economists may accept value based on user consensus and blockchain integrity, Islamic jurisprudence requires careful scrutiny of intent, function, and ethical compliance before acknowledging legitimacy.A clear understanding of what constitutes "money" is essential for evaluating the legitimacy of cryptocurrencies and other virtual legal tenders. While both Western and Islamic traditions recognize the functional necessity of money in economic systems, they diverge significantly in their conceptual and moral framing. This chapter explores the definitions of money from both Western economics and Islamic jurisprudence, laying the groundwork for assessing the Shariah compliance of digital currencies.

3.1 Definition of Money from Western Perspective

In Western economic theory, money is commonly defined by its functions rather than its form. Economists like Alfred Marshall and Milton Friedman characterize money as any asset that serves as a medium of exchange, unit of account, store of value, and sometimes a standard for deferred payment (Friedman, 1976; Mishkin, 2019). According to the classical and neoclassical schools, money's legitimacy arises from general acceptability, not intrinsic worth.

Contemporary perspectives emphasize that money's value is socially constructed and based on trust in the issuing authority. For instance, fiat money has no inherent value but is accepted because it is backed by state decree and legal tender laws (Krugman & Obstfeld, 2018). With the rise of digital economies, economists have also begun to include electronic and virtual currencies under the broad definition of money, so long as they perform traditional monetary functions (Mankiw, 2020).

Thus, in Western thought, function determines money, and this flexibility has allowed for the inclusion of non-tangible forms, such as cryptocurrencies, so long as they maintain usability, divisibility, portability, and relative stability.

3.2 Definition Of Money From Islamic Tradition

Islamic scholars approach the definition of money from a perspective rooted in both functionality and ethical considerations. The Qur'an and Hadith do not provide a singular definition of money but refer to the use of gold (dinar) and silver (dirham), implying that money should possess intrinsic value and serve as a medium of fair and lawful exchange (Usmani, 2007; Chapra, 1985). Scholars emphasize that money must not become a commodity for speculation, but rather remain a tool for facilitating justice and economic stability (Kamali, 2008).

Classical jurists like Imam Malik and Al-Ghazali viewed money as a measure of value and a means of transaction, not as a product to be traded for profit without underlying goods or services (Al-Ghazali, 2000). The ethical underpinning is that money should promote social equity and avoid harms such as riba (interest), gharar (uncertainty), and maysir (gambling).

Contemporary Islamic economists, including Umer Chapra and Mannan, argue that Islamic money must fulfill the same functional roles as in conventional economics, but within the bounds of Shariah. They also note that fiat currencies are tolerated today based on necessity (darura), as long as they do not undermine moral and legal norms (Chapra, 2000; Mannan, 1984).

Western and Islamic definitions of money share common ground in recognizing its functional roles, but differ in underlying principles. Western economics emphasizes acceptability and practicality, while Islamic thought insists on moral accountability and real value. These differing paradigms significantly influence how virtual currencies are evaluated. A proper definition, therefore, must incorporate both usability and ethical legitimacy, especially in Islamic contexts.

3.3 Digital Money

1. Cryptocurrency

Cryptocurrency is a form of digital or virtual currency secured by cryptography, typically decentralized through blockchain technology (Nakamoto, 2008). Bitcoin, launched in 2009, was the first and remains the most prominent example.

Features of Cryptocurrency and E-Currency

3.3.1 Features of Cryptocurrency

1. Decentralization

Cryptocurrencies operate on decentralized networks, primarily blockchain systems, which eliminate the need for central authorities like banks or governments. This peer-to-peer framework enables users to transfer assets directly without intermediaries (Nakamoto, 2008).

2. Blockchain Technology

Most cryptocurrencies are based on blockchain; a distributed ledger that records transactions across numerous computers. This ensures that records are secure, verifiable, and resistant to modification (Tapscott & Tapscott, 2016).

Blockchain is a decentralized ledger that records transactions across a network of computers. Its immutability and transparency are key strengths, but its complex architecture poses challenges for Islamic jurists attempting to understand and evaluate it (Zohdi, 2020).

3. Limited Supply

Many cryptocurrencies, such as Bitcoin, have a fixed supply determined by algorithmic rules. Bitcoin, for instance, is capped at 21 million units, promoting scarcity and influencing perceived value (Narayanan et al., 2016).

4. Anonymity and Pseudonymity

Cryptocurrency transactions do not require users to disclose personal identities. While transactions are visible on public ledgers, users are represented by alphanumeric wallet addresses, ensuring pseudonymity.

5. Volatility

Cryptocurrencies exhibit high price volatility, with values frequently fluctuating due to market speculation, demand-supply dynamics, and macroeconomic developments.

6. Global Accessibility

With an internet connection, cryptocurrencies can be accessed and used globally, offering users borderless transactions and reduced dependency on traditional financial infrastructure.

7. Irreversible Transactions

Once confirmed on the blockchain, cryptocurrency transactions are irreversible. This ensures security but also makes dispute resolution challenging.

8. Divisibility

Cryptocurrencies can be divided into very small units. For example, one Bitcoin can be divided into 100 million satoshis, allowing for micro-transactions.

3.3.2. E-CURRENCY:

E-currency refers to money stored electronically. This includes bank-issued digital money or private digital payment systems like PayPal and Skrill. Unlike cryptocurrency, e-currency is usually centralized.

1. Centralized Control

E-currencies, such as bank-issued digital money or e-wallet balances, are issued and regulated by central authorities like governments, commercial banks, or licensed payment service providers.

2. Pegged to Fiat Currencies

E-currencies typically represent digital versions of fiat money. For example, a digital dollar or naira in a mobile banking app reflects the same value as its physical counterpart (IMF, 2021).

3. Digital Format Only

E-currencies exist solely in electronic form, accessed through digital platforms, mobile applications, and web-based interfaces.

4. Account-Based Transactions

Users of e-currency must register with financial institutions or service providers. Transactions are account-based, involving verified identities and compliance with financial regulations.

5. Transaction Reversibility

Unlike cryptocurrency, e-currency transactions may be reversed or disputed through institutional procedures, providing users with an added layer of transactional security.

6. High Traceability

All e-currency transactions are recorded, monitored, and regulated. This ensures transparency and allows for compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) laws.

7. Low Volatility

Since e-currencies are backed by fiat money, their value is generally stable, mirroring traditional currencies and reflecting national monetary policy.

8. Widespread Use in Formal Economy

E-currencies are commonly used in day-to-day commercial activities, including online shopping, bill payments, and interbank transfers.

3.4 Contemporary Scholarly Views on Digital Money

The emergence of cryptocurrencies and digital assets has prompted an ongoing debate among contemporary Islamic scholars. These discussions revolve around whether such innovations meet the legal and ethical standards outlined in Shariah, particularly in relation to the classical definitions of money and property (māl). The absence of intrinsic value, high volatility, and lack of central authority have raised concerns about their legitimacy. Nonetheless, some scholars advocate for a contextual evaluation grounded in maqāṣid al-Sharīʿah i.e the higher objectives of Islamic law (Kamali, 2008).

One of the leading positions comes from Mufti Faraz Adam of Amanah Advisors, who asserts that cryptocurrencies can be considered legitimate wealth (māl) if they possess recognized utility, are widely accepted, and can be owned and transferred without violating Shariah principles. He contends that while cryptocurrencies lack intrinsic value, so do fiat currencies, and therefore this alone should not disqualify them (Adam, 2021). The key is to ensure that they are not used for speculative or deceptive purposes and that they serve halal economic interests.

On the more cautious side, Mufti Taqi Usmani maintains a critical stance, arguing that cryptocurrencies pose risks due to their unregulated nature, price instability, and use in unlawful activities. He classifies them as speculative instruments that resemble gambling more than genuine economic tools (Usmani, 2018). He also questions whether ownership in cryptocurrencies fulfills the conditions of legal possession (qabḍ) and valuable subject matter (mutaqawwim) in Islamic commercial law.

Other scholars and institutions take a balanced view. For instance, the International Shariah Research Academy (ISRA) and the Islamic Finance Services Board (IFSB) have encouraged further investigation, recommending that the permissibility of digital currencies be judged on a case-by-case basis, especially when they are asset-backed or fulfill utility functions (ISRA, 2021). Digital currencies tied to gold, for example, are seen more favorably because they imitate the classical Islamic monetary standard.

In Nigeria, figures like Professor Ibrahim Ali Pantami argue that scholars must first understand the technical infrastructure of blockchain before issuing definitive rulings. He advocates a policy of "educate before you legislate," urging Muslim scholars to build capacity in fintech and digital law before passing judgment (Pantami, 2021).

Overall, contemporary Islamic perspectives are diverse, reflecting both caution and openness. As cryptocurrencies evolve, so too must the scholarly approaches that seek to harmonize innovation with Islamic legal ethics.

4.1 Significance of Money in Human Transactions

Money is not merely a tool for economic exchange. It plays a central role in shaping social for relationships, economic systems, and ethical behavior. In both secular and Islamic worldviews, money facilitates trade, sustains livelihoods, enables savings and investments, and reflects broader systems of justice, trust, and governance. This chapter examines the multifaceted significance of money in human transactions, highlighting its functional, moral, and spiritual dimensions, especially from an Islamic perspective.

Money serves as the lifeblood of modern economies. Without a widely accepted medium of exchange, the efficiency of markets collapses. Key roles of money include:

1. Facilitating Exchange; Money eliminates the limitations of barter, allowing for greater specialization and division of labor. This efficiency boosts productivity and economic growth.
2. Price Mechanism and Resource Allocation; Through prices expressed in money, resources are allocated to where they are most valued. This forms the foundation of supply and demand systems.
3. Savings and Investment; Money allows individuals and institutions to store value and plan for the future, enabling capital formation and long-term investments.
4. Economic Stability; When properly managed, a stable monetary system supports confidence in the economy, enhances employment, and stabilizes purchasing power.
5. Social mobility: Access to money can determine opportunities for education, healthcare, and economic advancement.
6. Governance and sovereignty: Control over currency allows governments to exercise fiscal and monetary policy.
7. Inequality and justice: The unequal distribution or unethical use of money can exacerbate poverty and social tensions.

4.2 Ethical and Spiritual Significance in Islam

In Islam, money is not merely a means of economic transaction; it holds profound spiritual and ethical implications. The Qur'an and Sunnah emphasize the moral dimensions of wealth; how it is acquired, spent, and its impact on both the individual soul and broader society. Unlike secular economic systems that often prioritize utility and material gain, the Islamic worldview perceives money as a tool entrusted to human beings to fulfill divine responsibilities, promote justice, and avoid corruption. Thus, money in Islam is intimately tied to accountability (hisab), ethical conduct, and spiritual wellbeing.

1. Money as a Trust and Test

The Islamic concept of wealth begins with the understanding that all resources ultimately belong to Allah (SWT), and human beings are merely stewards (khalifah) of these resources. The Qur'an reminds believers: "Believe in Allah and His Messenger and spend out of that in which He has made you trustees" (Qur'an 57:7). This verse highlights that money is a trust (amanah) and must be used responsibly.

Moreover, wealth serves as a test of character and faith. In Surah Al-Fajr, Allah states, "As for man, when his Lord tries him and [thus] is generous to him and favors him, he says, 'My Lord has honored me'" (Qur'an 89:15). This framing implies that financial prosperity or hardship is a divine test, not inherently a sign of success or failure. A Muslim's response to wealth through gratitude, humility, and just spending is a measure of their spiritual maturity.

2. Ethical Acquisition of Wealth

In Islamic jurisprudence, the manner of acquiring wealth is just as important as its usage. Islam categorically forbids earnings from unlawful (haram) sources, including theft, bribery, gambling (maysir), interest-based transactions (riba), and fraudulent trade practices (Usmani, 2007). Prophet Muhammad (peace be upon him) stated, "Every flesh that grows from unlawful sustenance, the Fire is more deserving of it" (Muslim, Hadith No. 2345).

The ethical economy in Islam is built upon the principles of honesty, transparency, and mutual consent. These principles are enshrined in commercial contracts, trade practices, and financial dealings. Islam encourages productive labor and discourages hoarding or passive accumulation of wealth without contribution to society (Chapra, 2000). Hence, money should be earned through halal means, reflecting honesty, fairness, and social responsibility.

3. Responsible Spending and Generosity

Once earned lawfully, wealth must be used in a manner that aligns with Islamic values. The Qur'an repeatedly urges moderation in spending, avoiding both extravagance and miserliness: "And do not spend wastefully. Indeed, the wasteful are brothers of the devils" (Qur'an 17:26–27). Balance in consumption and financial planning is a mark of a spiritually conscious individual.

Islam promotes generosity, particularly towards the poor, orphans, and the needy. Zakat, the mandatory almsgiving, is one of the five pillars of Islam and serves as a spiritual purification of wealth. The Prophet (PBUH) said, "Charity does not decrease wealth" (Muslim, Hadith No. 2588). Voluntary charity (sadaqah) further emphasizes that financial giving is not a loss, but a gain in spiritual terms and communal harmony (Mannan, 1984).

Money, therefore, becomes a vehicle for achieving social equity and spiritual elevation. Through giving, Muslims not only support vulnerable communities but also develop humility, empathy, and a sense of brotherhood.

4. Avoidance of Financial Injustice

Islam strongly condemns economic exploitation, particularly the use of money to oppress or manipulate others. The prohibition of riba (interest) is central to Islamic financial ethics. Allah declares in the Qur'an: "Those who devour usury will not stand except as one stands whom the Devil has driven to madness…" (Qur'an 2:275). The rationale behind this prohibition lies in protecting the poor, preventing wealth concentration, and fostering fairness in financial dealings (Kamali, 2008).

Wealth should circulate among all segments of society, not accumulate in the hands of a few (Qur'an 59:7). Injustice in monetary matters—such as price manipulation, unfair loans, or unjust contracts—undermines both spiritual wellbeing and societal trust.

5. Accountability in the Hereafter

Islam teaches that every individual will be held accountable on the Day of Judgment for their wealth. The Prophet (PBUH) said, "The feet of the son of Adam will not move on the Day of Judgment until he is asked about... his wealth and how he earned it and how he spent it" (Tirmidhi, Hadith No. 2417). This profound statement reinforces the moral burden of financial decision-making.

Unlike secular notions that disconnect wealth from ultimate consequence, Islam integrates money into the believer's spiritual journey. Wealth can either be a path to paradise or a cause for regret, depending on its ethical handling. This awareness fosters a strong moral consciousness in financial transactions, budgeting, and long-term planning.

In Islamic thought, money is viewed not only as an economic tool but also as an ethical trust (amanah) from

God. Its use is regulated by clear moral principles that guide its acquisition, distribution, and consumption.

5.0 Islamic Legal Evaluations of Virtual Legal Tenders (Crypto Currencies and E Currency

With the rapid global adoption of cryptocurrencies, e-currencies, and virtual assets, Muslim scholars, regulators, and financial institutions face increasing pressure to issue clear and authoritative Shariah-compliant positions. The question is not only whether these virtual currencies function like traditional money, but whether they align with core Islamic principles: justice, transparency, risk-sharing, and avoidance of harm. This section evaluates the Shariah compliance of virtual legal tenders by examining their characteristics in light of Islamic legal maxims, ethical standards, and contemporary scholarly opinions.

5:1 Implications for Virtual Legal Tenders

Given the centrality of money in fulfilling human needs and divine commands, the emergence of cryptocurrencies and digital money raises critical questions:

Do these currencies promote justice or inequality?

Do they serve as ethical tools for trade or open doors for harm?

Are they accountable and transparent, or do they enable financial anonymity and tax evasion?

Their Islamic permissibility thus depends not only on technical compliance (e.g., whether it is riba-free) but also on their impact on human well-being and moral values. The following are some of the principles governing Islamic financial transactions:

1. Prohibition of Riba (interest): All forms of interest-bearing transactions are forbidden (Qur'an 2:275–279).
2. Avoidance of Gharar (excessive uncertainty): Transactions must be clear, transparent, and well-defined (Muslim, Hadith 1513).
3. Prohibition of Maisir (gambling/speculation): Transactions that resemble betting or games of chance are forbidden.
4. Requirement of Halal Source and Purpose: Wealth must be acquired and used in lawful ways.
5. Real Economic Activity: Money should be tied to productive value and not merely speculative gain.

These principles are used to evaluate whether cryptocurrencies and virtual tenders conform to Islamic norms.

Differences Between Cryptocurrency and E-Currency and Their Islamic Positions

5.1.1 Differences Between Cryptocurrency And E-Currency

Cryptocurrency and e-currency, though both digital in form, differ significantly in structure, regulation, and functionality. These differences are central to understanding their varying reception within Islamic jurisprudence.

Cryptocurrency is a decentralized digital asset that operates on blockchain technology. It is not issued or regulated by any government or central authority. Examples include Bitcoin, Ethereum, and Litecoin. Cryptocurrencies are peer-to-peer systems where transactions are validated by network participants (Nakamoto, 2008). Key features include decentralization, limited supply (e.g., Bitcoin's 21 million cap), pseudonymity, and high price volatility. Transactions are irreversible and can be made without intermediaries across borders.

E-currency, on the other hand, refers to digital representations of fiat currency issued and controlled by recognized financial authorities, such as central banks or licensed financial institutions. Examples include balances in online banking systems, mobile money platforms like M-Pesa, and emerging central bank digital currencies (CBDCs). E-currencies are backed by national currencies, stable in value, and governed by existing financial regulations (IMF, 2021). Transactions are account-based, traceable, and reversible within institutional frameworks.

From an Islamic perspective, cryptocurrencies and e-currencies raise distinct legal and ethical questions. Cryptocurrencies present challenges due to their speculative nature, price volatility, and potential use in unlawful activities. Scholars like Usmani (2018) argue that excessive uncertainty (gharar), speculation (maysir), and lack of intrinsic value make many cryptocurrencies incompatible with Shariah. Others, such as Adam (2021), suggest that if cryptocurrencies are used as lawful mediums of exchange and not for speculative trading, they may be permissible, provided they serve public interest (maslahah) and do not facilitate harm.

In contrast, e-currencies generally pose fewer Islamic concerns. Since they represent fiat currency, are regulated, and have stable value, they align more closely with established principles of Islamic commercial law (fiqh al-muʿāmalāt). The traceability and oversight of e-currencies reduce risks of fraud, riba, or unjust enrichment. Therefore, e-currencies, including CBDCs, are generally viewed as acceptable within Islamic finance, provided transactions comply with Shariah requirements.

5.2 Assessment of the Features from Islamic Standpoint

1. Decentralized & borderless: Can promote financial inclusion, which aligns with Islamic objectives of economic justice. However, lack of regulation may pose risks.
2. Volatility: High price fluctuations raise concerns of Gharar and Maisir.
3. Anonymity: May enable unethical or illicit transactions (e.g., money laundering). Islam emphasizes transparency.
4. Lack of Intrinsic Value: Traditional Islamic view values intrinsic assets like gold/silver. However, contemporary views allow fiat and digital forms based on utility and acceptance.
5. Speculative Trading: Similar to gambling in many cases, especially when not based on real economic activity.
6. Smart Contracts & Blockchain: Offers transparency, immutability, and efficiency; qualities valued in Islamic finance.

5.3 Diverse Juristic Opinions

Islamic scholars are divided on the permissibility of cryptocurrencies. Key views include:

a) Permissibility Under Conditions: Some scholars argue that cryptocurrencies can be halal if they are used as a medium of exchange, not for speculation, the he platform ensures security, transparency, and Shariah-compliant governance,the project avoids interest and gambling related activities.Sheikh Dr. Mohd Daud Bakar, a leading Shariah scholar, supports this view and has written extensively on making blockchain-based financial products halal under proper conditions.

b) Conditional Prohibition; Some scholars hold that cryptocurrencies should be suspended until proper regulation exists,Shariah boards are involved in certification, risks of harm and fraud are mitigated.

c) Absolute Prohibition: Others, including Mufti Taqi Usmani, view cryptocurrency trading as haram due to extreme speculation (Maisir), lack of underlying assets (Gharar), use in illegal activities like fraud and money laundering

d) Non-aligned : For instance, Professor Pantami, an Islamic scholar, cybersecurity expert, and former Nigerian Minister of Communications and Digital Economy, has addressed the topic on several occasions. He recognizes the importance of emerging digital technologies, including blockchain, and advocates for proactive Islamic engagement with innovation.

While Professor Pantami has not issued a formal fatwa on cryptocurrency, his public lectures and statements emphasize the need for In-depth Islamic analysis of technology, caution against blind prohibition of innovation, and advocated regulatory frameworks that align with Shariah and national interests.In a 2021 policy dialogue, he urged Islamic scholars to learn the technological foundations of blockchain before making religious rulings, warning against ignorance-based fatwas that could hinder the Ummah's development.

5.4 Shariah Compliant Framework for Evaluation

he Islamic legal status of cryptocurrencies and e-currencies is complex and evolving. While technical features of blockchain offer promise, they must be evaluated through a Shariah-compliant lens, considering issues like speculation, risk, and ethical usage. An effective Islamic evaluation of cryptocurrencies should include:

1. Technical Knowledge: Scholars must understand blockchain architecture.
2. Economic Impact Assessment: Including inflation, financial inclusion, and market disruption.
3. Ethical Analysis: Considering the moral use of money, Maqasid al-Shariah (objectives of Shariah), and potential harm.
4. Fiqh-based Juristic Tools: Application of Qiyas (analogy), Maslahah (public interest), and Istihsan (juristic preference).
5. Establish interdisciplinary Shariah boards with economists, jurists, and blockchain experts.
6. Promote Islamic fintech education among religious scholars.
7. Develop halal-certified tokens with intrinsic utility and regulatory oversight.
8. Encourage government engagement in creating legally recognized, Shariah-compliant digital financial infrastructure.

5.5 Summary of Findings :

First, the study found that Islamic and Western definitions of money differ in foundational principles. While Western economics emphasizes functionality; acceptability, portability, and efficiency. Islamic thought insists on ethical boundaries, intrinsic value, and the avoidance of harm (Chapra, 1985; Kamali, 2008). These values shape how Islamic jurists view newer forms of money. Classical scholars preferred gold and silver for their intrinsic value, but many contemporary scholars recognize fiat money and even digital currencies under conditions of necessity (darura) and public interest (maslahah) (Usmani, 2007; Bakar, 2020).

Second, the findings reveal a lack of scholarly consensus on the permissibility of cryptocurrencies. Scholars like Mufti Faraz Adam consider cryptocurrencies acceptable as long as they serve valid economic functions and are free from riba, gharar, and maysir (Adam, 2021). On the other hand, Mufti Taqi Usmani strongly criticizes them as speculative and potentially exploitative, especially due to their price volatility, anonymity, and use in illegal activities (Usmani, 2018).

A third significant finding is that blockchain technology itself is not inherently haram. In fact, it holds potential for halal applications, such as smart contracts, zakat management systems, and transparent waqf administration (ISRA, 2021). However, the technical complexity of these systems makes it difficult for many Islamic scholars to issue timely and informed fatāwa. The study noted that technological illiteracy among religious authorities remains a barrier to effective jurisprudential engagement.

Fourth, among Nigerian Islamic scholars, the study uncovered an emerging but cautious openness toward digital currencies. Figures like Professor Ibrahim Ali Pantami advocate for scholarly understanding of fintech innovations before passing legal judgments, emphasizing the need for capacity-building and interdisciplinary dialogue (Pantami, 2021). Likewise, religious leaders from organizations such as the Supreme Council for Shariah in Nigeria have called for a contextual approach that considers the public interest and practical realities of the modern Muslim economy.

Finally, the research found that Shariah compliance is not determined solely by the form of money, but by its usage, underlying purpose, and alignment with ethical norms. Cryptocurrencies that are asset-backed, regulated, and transparent are more likely to gain scholarly approval than those used purely for speculation or anonymous transactions. Therefore, Shariah-compliant digital financial ecosystems are achievable if designed with Islamic values at their core. While uncertainties remain, Islamic finance is gradually responding to technological disruption with caution, critical thought, and adaptive legal reasoning grounded in the maqāṣid al-Sharīʿah.

6.0 Conclusion

In conclusion, while cryptocurrencies and e-currencies represent significant advancements in global finance, their alignment with Islamic principles depends on their structure, purpose, and usage. This study has shown that with proper regulation, ethical application, and informed scholarly engagement, digital currencies can be integrated into Islamic finance in ways that uphold the core objectives of Shariah justice, transparency, and public welfare.

6.1 Recommendations

1. Encourage Informed Ijtihad: Jurists should engage in contemporary ijtihad, integrating classical jurisprudence with modern understanding of blockchain, digital finance, and economics.
2. Promote Interdisciplinary Collaboration: Establish Shariah boards and research centers comprising, Islamic jurists, Economists, Financial regulators and Blockchain technologists.
3. Develop a Shariah Framework for Digital Finance which should create official guidelines for cryptocurrency trading, smart contract design and Halal tokenized investment platforms and finally
4. Collaborate with bodies like AAOIFI, IFSB, and Nigeria's Supreme Council for Shariah.

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