

# JUSTICE AND EQUITY: THE MESSAGE OF ISLAMIC BANKING

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Reference to be provided by Prof. Khurshid

PROF. KHURSHID AHMAD



## JUSTICE AND EQUITY: THE MESSAGE OF ISLAMIC BANKING

By Prof. Khurshid Ahmad

I was eager to attend the International Seminar on Justice and Equity: The Message of Islamic Banking. Unfortunately, at the last moment due to logistic problems I had to cancel my visit. However I am taking this opportunity to extend my greetings to all the participants of the Seminar and prayers for its success. It is a very timely initiative and I hope the discussions in the Seminar would prove path breaking — paving the way for emergence of Islamic Banking and Finance Institutions in India.

Banking has played a very important role during the last eight centuries to provide essential financial services to the people and act as a catalyst for economic development. As conventional banking has grown and flourished in the context of capitalism it has become almost identified with that system. While in the initial phases venture capital did play an important role, later developments have gone to define the present character of banks as financial intermediaries operating through the instrument of interest. Centrality of interest is now a major characteristic of banks. In this model of banking the demands of financial and economic development and imperatives of justice and equity do not converge. Economics and finance have been delinked from ethics and moral values and objectives. Conventional banking has a number of positive achievements to its credit, but it is also a fact that it has led to concentration of wealth and power in fewer hands with consequent gross inequalities of income and W opportunities in the economy and society. There is a genuine need for credit in every economy. But the emergence of a predominantly debt-based economy has very serious social and moral consequences both for the economy and the humanity at large. Today the entire world is plagued by the curse of debt, domestic and international, and this has, for all practical purposes, promoted a new form of slavery — economic and financial servitude. This is a challenging situation. It is time to call a spade a spade. Those who stand for justice, equality and wellbeing of all human beings, and not merely of a few, must strive hard to find adequate alternatives to the interest based financial system.

Islamic model of Riba-free banking is one such alternative. Islamic banking today is not simply a dream or a theory. It is now a reality. During the last 40 years, in particular, sustained efforts have been made in different countries to establish Islamic bank and finance institutions. The deposit base of these over three hundred institutions is now approaching half a trillion dollars. The rate of growth of Islamic banking during the last three decades has averaged between seven to thirteen per cent per year. While the movement is still in its early phase of development, its achievements are remarkable bearing great promise for the future.

Permit me to make a rather critical observation as well. While acknowledging the; achievements made during this initial phase of the current movement of Islamic banking I am concerned about

rather slow movement towards genuine equity-based investments. There is greater dependence in riba-free yet near-fixed return financial products. The real movement towards genuine equity-based product is cardinal to the future development of Islamic banking so as to achieve the socio-economic-goals of Islamic economics. In Iran and Sudan relatively more efforts are being made to promote financial ventures based on Mudaraba and Musharika. Those now entering the field of Islamic banking should, in my view, keep the need for a balance between instruments which yield a near-fixed return like Murabah and Ijara and the ones that are characterized by variable return like Mudaraba and Musharika. I may submit that the promotion of venture capital is the most pressing need of the hour.

While participants in the Seminar are discussing different theoretical and practical issues, I hope this aspect would not be ignored in its deliberations. Elimination of Riba is a religious and moral imperative, but the promise it bears for development of a truly just and egalitarian economy and society makes it a great human need in our times.

I am sending two papers for circulation to the participants (i) An earlier article of mine on "Islamic Finance and Banking: The Challenge and Prospects", published in Review of Islamic Economics, (No. 9, 2000) and (ii) A Short Note prepared by the Research Unit, Institute of Policy Studies, Islamabad, which throws some light on the current status of Islamic Banking in Pakistan.

I believe that in the countries where Governments are committed to the ideal of elimination of interest they should strive for the change of the entire financial and economic system which should be reorganized on Riba-free basis. Conceptually this approach was advocated by Pakistan's Islamic Ideology Council (1980), the Federal Shariat Court (1992) and the Shariat Appellant Bench of the Supreme Court of Pakistan (1999). The Governments of Sudan and Iran have theoretically subscribed to this ^ approach. However in practice this has not been pursued so far by any Muslim country. What is being promoted is a two-stream model in which one stream consists of banking based on interest while there is also a parallel system operating without interest. Malaysia | initially promoted this approach and by and large most of the countries are now pursuing it. In a country like India, I am afraid; two-stream model seems to be the only practical choice. However every effort should be made that the interest free stream is really interest free and is also geared to serve the objectives of social justice and well being of the common mass of humanity by playing a critical role in the establishment of a truly equalitarian society.

I hope this Seminar will make substantial contribution towards spelling out a clear vision of this alternate socio-economic order based on moral values, spiritual commitments and organized efforts to establish human life and society on the basis of justice, fair-play and access of all members of the society to well being.

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