

SPEECH AT BANGLADESH ISLAMIC BANK

Reference to be provided by Prof. Khurshid

8 June 1991

PROF. KHURSHID AHMAD



SPEECH AT BANGLADESH ISLAMIC BANK

Prof. khurshid Ahmad

Dear brother Sattar, my very dear and respected brothers,

I am delighted to be with you this morning. In fact I would not be far wrong if I suggest that originally the Islamic Bank represents a kind of a dream we urged. I remember how in our student days when we used to come to this part of the world have been dreaming of a new economic order based on the principal guidance and values of Islam. We were not sure within our life time, with the blessings of Allah Subhanahu WA Ta'ala; we would be able to see efforts towards translating those hops, those ideals, those aspirations in these institutions and actual socio-economic process. We have read some of the thinkers' surmising that while the western imperialist system and' the socialist system are dominant and in view of some yet they have suggested that time would come when the communist system would disintegrate and even in Moscow would rank support and sustenance and capitalism would be in difficult orders even in New York, Washington and Paris. That seemed to us at that time emotional wishful thinking yet we youth withdrew inspiration from these but we are happy and thankful to Allah that within our own life time we have seen how the people see 'socialism and how the western capitalist liberalism which still hold ground when it passes through crisis after crisis and catastrophe after catastrophe. Both have taken long yet its process has been very specific. On the one hand we are all happy to see that last 15 years more or less have witnessed a qualitative change in the evolution of Islamic economic thinking institutions.. We find that during the last 70/75 years or so, mainly after the First World War, there was a powerful effort, very forceful effort, from Muslim thinkers, mediocre, Ulema even some economists to articulate economic teachings of the Quran and Sunnah, The major contours of Islamic economic principles were spelled out. Islamic economic institutions were elaborated. This vast literature that we have can best be described as the right position of the Islamic teachings of Islam. In last 15 years we have seen that the field that was held by the Ulema is now being held by the professional economists, bankers, practitioners of economy not that the Ulema and Fuqaha have been driven out yet we see that the major actors represent most emotional stock that was there in the last 70 years. The literature also we find the last position which I may now describe as a movement from exposition and enunciation of economic teachings of Islam towards development of that can be described as Islamic economics. The two are not necessarily the same thing. Exposition of economic teachings of Islam meant drawing mainly from the Quran and Sunnah and the traditions of the Muslims and from that literature what guidance would be available, but the Islamic economics is resurgence, it is not a branch of theology. It's economics but economics with difference, not in economics where the effort simply to see how limited resources can be mobilized to harness, to fulfill in as optimal manner as possible the un-limited but actually an effort to look upon the whole economic problems from an Islamic perspective but the main interest is in the economic problem. The problem of meeting gives and wants. The problem of mobilization of resources, the problem of their efficient use and as such the focus has shifted from" an enunciation and exposition of values

to development of use of analysis and searching for answers to basic economic questions by drawing upon both the quality of knowledge of those economic analysis and policies and the inspirations and guidance that can be drawn from the Islamic sources. The Islamic economics is not a free product which will in a process of evolution. This process represents a qualitative change in the whole system. Added to that if the dimension of efforts to apply those economic principles and values through actual economic situations whether it is in the form of a small Mudarabah operating at gross root level, micro-level or at the level of establishing a bank which is Riba free or develop an economy gear to achieving the economic goals of Islam that is establishing a just, equitable and efficient economic order. All these efforts to create these institutions the other dimensions of this area so this is the background in which we are meeting today.

My brother has asked me to say a few words about the situation of banks in Pakistan. Due to time constraint I would not delineate too much on that yet it will be worthwhile to suggest that as far as professional and capitalistic thinking is concerned in that context Pakistan has made quite a headway and despite the fact that in the 70's major banks were nationalized and luckily for about 18 years 90 percent of the banking had been in the public sector, only 10 percent in the private sector, and recently switch over towards private banking has increased, one of the nationalized bank is being de-nationalized, another is on the way. Private Banks have now been allowed to come into operation. Foreign banks have also been allowed to operate. Over 7,500 branches are presently in operation. Banking in different specialized fields' i.e. industrial banking, investment banking, banking in for small industries, all these developments have taken place in Pakistan but that is not my main concern. My concern is their transition towards Islamic model. I think theoretical work that has been done In Pakistan is pioneering and in this respect, among others, the report of the Panel of Islamic Bankers, the report of the Governor of the State Bank of Pakistan on Islamisation of Banking, the report of the Islamic Ideology Council at the discretion of their own, on the basis of that new legislation on-banking and development of some 16 financial instruments in keeping with the Shariah is an effort to gradually introduce them to the Islamic banking system. Yet is has to be realized that the movement that started in 1981-82 and the target was that in five years time domestic transactions would be made totally Riba free but some-how -in 1985 the process not only did not move forward .in the manner as it was planned. Presently I can only say that while the wish, the ideals, the effort and the possibilities are there but I would not describe the banking system as it is operating today as in any way moving on the basis of the Islamic principles or in accordance with the models that the Islamic economists had in their view.

The passing of the Shariah bill and a re-affirmation of the commitment for all sectors of the economy to monitor changes and to suggest the measures necessary to and if they are able to move in that direction then perhaps next three years would be very productive. So much about the Pakistani experience about the whole situation as it is and that is my major concern today. You know there are about 100 banking institutions of both which claim to operate on the basis of Islamic principles as possible. The pioneering effort made in Egypt in the form of Social Development Bank, then the efforts made by the Nasr group, Al-Barakah group and others and I

think would be the same international movement. All these represent very costly developments. As I have been given the honour and a privilege to meet you and share with you some of my thoughts this morning I thought it would be worthwhile to make some suggestions and discuss some issues which I can view, as people responsible' for making this historical experiment, should be sent abroad and try to address themselves. To me if you are serving the Islamic bank movement with a realization that this is an effort to create a new banking system, and the primary idea is to accept the Challenge which the contemporary thinking poses to Islam and the Muslims. In the context of the facts, Allah (SWT) has made it very dear to us that a system based on Riba is one that tantamount to war and... The strongest term used in the Quran. If we are inspired by -this motivation and was really, want to create an institution which would lead to elimination of Raba from the economy then it is an Ibada and a Jihad. I am sure those of us who apply themselves to this problem from that background they would be the greatest benefactors. The task that you are doing is a changing task but I think something worth facing and accepting the challenge. I want to warn you that bankers by traditions are bound to deserve it. I would .like to go for a path that calls for while the challenge that has two faces deserves to be disputed calls for departure, departure which should be planned in a systematic manner not departure that creates confusion and chaos yet departure that would finally lead to conditions of new economic order.

In my view just for simplification I would suggest that there are two phases in which your work has to grow. But at the first phase that would be less revolutionary phase where we can, technically speaking, create a banking that is non-Riba banking, Non.-Riba banking and the Islamic bank.ing need not be the same thing. Non-Riba banking would mean that we might be able to eliminate the whole, the explicit form of Riba as it envisages itself, from our banking practices, from our business practices. This would also be a blessing. This would at least mean that now we are at ceasefire with Allah. We need to go deeper. We need to understand that Islam does not merely want.

The Islamic banking would be a very important instrument towards the establishment of that organization and why has Riba been called as zulm in both forms whether you give it or take it.? So unless we know what is the challenge we may not be able to prepare ourselves and our institutions to really face this challenge. To put it very clearly Islam wants to deal with the society in which all participate in the economic process and share the risks involved in this process. The right approach is that while all other factors of production somehow their return is tied to their productivity. The capital is one resource which has an assured return without shouldering the risks of a process. Now this is against the concept of justice and that is why it is described as zulm. Islam suggests that capital should also be made an active participant to the production process and should share with this movement expansionary. In final analysis there would be increased, there would be expansion, yet no cast of people whether rich or pensioner has a right to be outside this system. That is why you will find that Islamic concept is that either you can have assured capital or if you want to go for assured capital then, there you can guarantee the return of your capital irrespective of any contribution made by this but if you want a return it has to be not only a variable return but even the assurance of capital. When you have to participate you have to take the risk and you have to

face the consequences. In fact Islam is an anti-load approach. Capitalism is based upon debt or interest, whether it is consumer or capitalist, or both.

I do not have time to go into details; but as far as consumption loans are concerned, for example, there can be only three reasons for that. First, your income is not enough to meet your normal genuine needs and you have to fall back on debts to make up the gap. If this is so there is injustice because every participant in the society is incapable, natural handicap when the society has an obligation to support him and if everybody is capable with his skill to participate then he has a right to be rewarded properly, so just to wage a just income policy which would take in view all dimensions, its needs and needs of a society is productivity, his specialization, skill expertise and if you have a just wage and a just income policy the question of fall back of debts to meet all your genuine normal needs in the society.

Second issue is that although the income is enough to meet all your needs, a life of extravagance, conspicuous consumption when Islam providing for conspicuous consumption and making it easy for them that means no service to him, the sheer exploitation. It provides roles of that type of expenditure consumption role we just considered and that is why we find that after a certain stage the consumer is caught in a vicious circle where it becomes impossible for him and this is a situation where most of the people have already reached.

In the third scenario while you are able to meet your normal needs there can be special circumstances, unfortunate Circumstances Islam makes, genuine situation. As far as production is concerned the primary objectives to-create then capital should also participate in this process and if there is a failure then it would have also to be changed, but if there is a success he has a right to be rewarded equitably. In the production process all participants should share the risks and rewards. This cannot be on a whole basis. What is happening, if we have taken this into consideration other instruments without understanding its spirit? The reason what that was and the type of new financial and economic relationships new structural relationships between different members of the society. In the capitalistic model the ideal is that banking draws upon the savings of the millions but the resources are utilized to provide economic ware-withal to those who can give security. Interest is not so much directly in the viability of the process. This is also one of the considerations but the primary concern is security in financial dealings and that is why bankers interest is only in ensuring the financial security and the red signals are given only when some kind of a break-down takes place in these flows irrespective of the real economic situation.. Banker is primarily a financial intermediary and not one of the actors in the whole investment and production process. Now the Islamic banking is a very different exercise all together. It is not mere financial obligation. It leads to a new approach to the whole investment process, to the whole gamut of economic institutions and relationships. The Mudaraba bank emphasize that the skill and entrepreneurship should be provided with financial resources and I would emphasize that this can only be a stepping stone. What, in my view you are doing at the moment is you .are trying to move towards a non-Riba banking institution which is helpful provided it is not become an exercise in futile. There are many

things which call for a changed attitude and not merely the changed practices. In certain cases the difference may seem to be very small but even if the small difference if it is accompanied by changed outlook would lead to a major change in the same way we improve our life standard. A time would come when the small change would bring about very Visible Change. In my view you will have to think of a new approach-In this respect there are many periods of history which we can draw and learn lessons. The service banking in 19 century deserves to be studied. The Merchant banking between 14 and 15 centuries deserve to be re-examined and there is no reason to believe that the work succeeded in the past would not succeed in the future. Also in my view there would be need of a series of .institutions outside the limit Islamically based industries, corporations, investment banking, audit firms, all the routine network of fiscal organizations which would really act as extension of the movement of Islamic banking and leading towards establishment of an Islamic economic order. The question of reversing the whole process where savings of the millions are used by thousands and leads to the representation of economic and political power some new channels have to be explored so that possibility to teach the gross root and bank even that social dimensions in my view is part of a new experiment we are engaged. It is not just a substitution of role, it's a creation of new roles and that alone would lead you to what I am describing as from non-Riba banking to Islamic banking and then moving to Islamic economy in Islamic society and would definitely need support from the political authority, support from masses, social participation of these efforts would also be needed. It needs to be realized that what an Islamic banking is really trying to do is play its own role towards creating a new order so I think these were some of the ideas I thought it might be worthwhile to share with you. It has to be realized that we are creating an experiment in which you are engaged and it would really bear the historic results, the long distance we have to cover and the long struggle that we have to make. That in my view provides some of the challenges, some of the ideas which deserve to be examined while you are engaged in what constitutes the first step towards evolving non-Riba banking.

I hope these few thoughts would at least give some food for thought and would be helpful in your future research.
