

WORKSHOP ON ELIMINATION OF RIBA
FROM THE ECONOMY

INAUGURAL/CONCLUDING
ADDRESSES

Published in 'Elimination of Riba from the Economy'

April 1992

PROF. KHURSHID AHMAD



WORKSHOP ON ELIMINATION OF RIBA FROM THE ECONOMY

By Prof. Khurshid Ahmad

It is my privilege to welcome you to this Workshop on the Elimination of Riba from the Economy. I am grateful to all of you for responding to our request. I hope we are going to have a meaningful dialogue during these three days and if the presentations, the discussions that follow, the questions that are raised, the responses that are developed help in eliminating some of the fugee and clarifying some of the issues then Allah subhanahu wa Ta'ala be praised, we would have made our contributions.

Institute of Policy Studies is a nongovernmental, research and educational institute. By the grace of Allah, we have been working for the last thirteen years in a very humble way and have tried to promote policy-oriented research with professional integrity, our commitment to our ideals, values and the interests of the Muslim Ummah notwithstanding. Over 700 reports and about 100 publications, books, booklets have been published since then. For a private institute which has not sought support from any government or international agency, its continuance to be productive owes more to Allah's mercy than anything else. This workshop has been organized with a view to have national debate and discussion on issues of prime importance - that is: elimination of riba. We cannot address ourselves to all the relevant questions in a short working period like this one. Thus, let me make a few submissions at the very outset about what we are aiming at and how we propose to make this Working group a useful exercise. You are aware that prohibition of riba is an article of faith with the Muslims, and as such we cannot challenge its prohibitory nature. But what is the rationale behind its prohibition and what repercussion it will formulate on the economy if it is eliminated are valid areas of inquiry has been probed in the past and similar efforts would continue in the future as well; and on that count also we are open for discussion. Yet, as far as the present effort is concerned, we are starting from the premise that in Islam riba is forbidden. Pakistan as a nation, no matter how grossly the Islamic provisions of the constitution were violated, the people and the ummah are committed to the establishment of the Islamic Order.

Starting with the first major speech Quaid-e-Azam at the inauguration of the State Bank of Pakistan which committed itself to the abolition of riba and the introduction of riba-free system, all the three constitutional documents produced in Pakistan's 40-year history affirm that elimination of riba is an objective of the state policy. All the reports of the Islamic Ideology Council starting from the first report in 1962-6A, unanimously called for eliminating riba in 1980 with a three-year program. Case law at the levels of High Court and Supreme Court is also available and the most-important judgment, which could come only after the constitutional ban of ten years on the Federal Shariah Court to examine the legality or otherwise of laws relating to monetary and fiscal issues, say that it is a national resolve and a commitment to abolish intent from economy. We thus start from this premise that elimination of riba is a national commitment which has to be honored. Second, what is riba? Lately, this has generated a Lot of discussion. Let me submit that as far as the question of interest on monetary transactions, money landed or borrowed is concerned, there has never been a difference of opinion on its definition. Any addition to the loan amount and

the time constitutes riba regardless of the term used for it or the language in which the concept is translated. This come from the Qur'an itself which makes it very clear that whatever is above the Loaned amount one has no right to charge it or pay it. As far as financial dealings are concerned any increase on the original loan money which is pre-determined, whether it is simple or compound. Again any increase whether it is on loan borrowed for consumption purposes or production and consumption purposes, whether it is among the individuals or between individuals and institutions, whether it is between people and government or government and government, this is riba and is forbidden in Islam. There had been some side diversions whether bank interest and interest given or charged by individuals is same or different. I would not go into the debate presently, but I submit that the consensus of Muslim scholars and Muslim economists, as has also been affirmed by the judgment of the Federal Shariah Court, is that bank interest is as much riba as interest charged by other persons or institutions provided it falls in the category of a pre-determined return on money- landed. There can be a large number of other services in banks where service charges are not based on this premise and they may not invoke the mischief of riba, yet all those bank transactions that relate to this particular area and are undertaken on this pattern are riba. So the second premise on which we are starting is that as far as concept and definition of riba is concerned the consensus of the Islamic Ummah is that we treat all that as riba. Thus the challenge we are facing is: First, how to eliminate riba in all these forms. Second, how to evolve a riba-free system of| financial and economic dealings? Third, I would also submit that Islam is indivisible. Its whole* socioeconomic program comes from its core (faith) in the same way as tree from the seed. The whole tree is one organic unit, each part supporting the other and drawing sustenance from each other. Any effort to implement only one part to the exclusion of the rest is not going to produce-the results. Thus, the isolationist approach would not be a realistic one. This, however, does not mean that everything can be done at the same time. There can be a gradualism in the implementation process starting from building faith to education, social motivation, individual motivation, institutional and legal changes, it is only through an all-embracing effort that a real change can be brought about. So when we are dealing with a specific area for an in depth understanding of an issue, there is no harm in it provided we do not lose sight of the fact that there is a vital frame to the issue of riba that must be kept in mind - that is: Islam's objectives, its principles, values, ideals, laws and spirit. This perspective therefore should always remain before us despite the fact that we might be examining only one particular aspect or even certain group.

Fourth, I would like to submit that even at the level of elimination of Riba perhaps, this is my personal submission, we are faced with a three- tier situation. How to avoid what is haram? What is explicit and categorical that our moral, spiritual and social conscience abhors? But this would be only in the negative aspect. From there we have to proceed to the second phase and, that is, what is the positive vision of economic and financial dealings? What is the alternate basis on which Islam wants to organise it? While we may start from eliminating riba from the economy in it's explicit,-clear forms and may devise certain financial instruments which would be interest-free. Unfortunately during the last two centuries the evolution of economic financial relationship has been engineered toward a debt-based economy and this includes both consumption and

production spectrum of economy. As against this as a basic value, Islam abhors a debt-based life. Islam presents a vision of life free from the constraints of debt and where economic cooperation and activity takes place on the basis of equity-share, risk-share, capital Labour, expertise and entrepreneurship within the framework of their rules and limitations. Doubtless, this is a different vision and for that a new positive thrust would be needed. And last of course, elimination of interest. It is one of the key elements of the Islamic economic program, but it would be incorrect to assume that this is being all of Islamic socioeconomic program. Islamic program of Islamic restructuring has its own objectives and ideals which includes the prophetic mission of establishing justice at all levels - the concept of individual and his rights, of property and the whole approach to civil contracts, economic contracts and economic organization; how cooperation and collaboration between individual and society is to take place and on what basis? The mechanism of market, the need for arrangements so that the market could play its role efficiently and judicially, and the role of the state fiscal system. All these taken together provide the unique Islamic approach to man's economic problems and that would be the third stage to which we have to move. Yet, as I said, in this working group we are trying to concentrate only on limited areas cleansing the economy of all the forbidden haram. In this respect, a landmark decision has been made by the Federal Shariah Court. This has created urgency - an impetus to do something for our interest-based economy. It is in this context that we thought expedient, to have a get together - a union of mind to look into the issue. The purpose is not to dole out anything. It is in the true spirit of dialogue that we are meeting here. Our effort had been to invite those economists and bankers who have, particularly in the last twenty years, addressed themselves to this issue of riba. Also, we have invited people who are knowledgeable in the Islamic Shariah. Besides, we have invited the ministry of finance to send its representatives though this is not a government sponsored or government related exercise, yet we wanted them to come and share their difficulties with others - the practitioners, the bankers and the academics, without putting any shackles to anyone's thoughts or approaches. So it is in the true spirit of dialogue that we have tried to organize this workshop. We are not engaging ourselves in an exercise to convert the converted; instead, the idea is to share the work already done so far and to identify the problems that are yet to be resolved and to face critical questions. There are a number of areas that perhaps remain developed or underdeveloped. There are apprehensions from external agencies, and I am happy that World Bank, IMF, international agencies also responded positively to our request. Thus the idea is sit together and instead of simply talking about each other let us make an effort to talk to each other not necessarily that we would be able to resolve all the problems . This has never been done. It is this type where we could frankly discuss and without questioning others' judgment. If we are able to move a few steps in that direction and continue our efforts to further discuss and resolve the remaining problems, I think that would be a worthwhile exercise.

Let me submit that there are certain people and I hope genuinely, who feel that perhaps elimination of riba may lead to the collapse of economy. Everyone has a right to his opinion, still I think we should not go by score mongering. Instead, we should try to analyze things in their perspective. After all elimination of riba does not mean zero-return on capital. What Islam has forbidden is a fixed pre-determined return for a certain factor of production - one party having

assured return and the whole risk of entrepreneurship to be shared by others. Islam has not denied the productivity of capital. There is a fresh approach in which the variable return-based actual performance and capital entrepreneurship both share the real contribution and the real profitability. This is not something as noble as some people are trying to project. After all, if one looks into history, one finds that capital and loan-capital both have played their roles in promoting industrialization and economic development. Also, we find that their relative roles bear differences in different parts of the world in different periods of time. For example, the British model of banking the role of commercial banking in promoting economic development and equity-based investment is; but as against that, in the French tradition where bank had played a very important role throughout 19th and even 20th century the commercial banks in Germany, we find that commercial banking was not allergic to equity based investment. They were simultaneously working as commercial banks in the limited sense of the word and as investment bankers. We are aware that in 19th century in international development equity capital played a much more important role, while in post world war two phase we find that the loaned-capital, particularly through the aid agencies, became much more important. We are also aware that whenever banking crisis has overtaken the Western world, like the great depression in the '30s or the banking crisis in the '80s, proposals for banking reform were made even to the extent of a two-tier banking, - that is - one 100 per cent deposit banking and the other equity based investment banking. With the advent of Islamic banking in the '70s we find that a number of international institutions or organizations had shown openness that we expect from international organizations or international bankers and investors. In a number of studies IMF, World Bank, IFC have shown interest in the alternate arrangement for participation of capital entrepreneurship. Some of the economists have been voicing great concern over the distorting proportion between Loaned capital and equity capital even in the Western economic system. The German economist Alba had launched in this direction a number of studies, demonstrating that even the Western economies are not getting enough equity capital. New instruments and institutions are needed to put in equity capital, so when we say that equity-based banking and finance are possible, we are not talking in a language foreign to the professionals. We are discussing these issues at a time when very important changes are taking place in the world. We find that there is a lag of 7 to 8 years in debt recovery, inflation has dug its teeth deep, unemployment is still a, which is causing worry to economists, policy makers and politicians. With the collapse of socialism there is a perceivable optimism for eternal victory of the market liberalism. Still, we find that the World Bank in its latest report on the Challenge of Development cautions that while market economy should play very important role, the state positive role should not be totally neglected. Realities have to be faced. After four decades of developmental experiment in over 120 developing countries, we find that the developmental efforts has not been universal, not even a predominant success. There is no evidence to suggest that their developmental efforts owe much too loaned capital or aid in the form of loans; instead, each has a particular role to entrepreneurship and effective utilization of a number of factors. We are also meeting [at a time when the ecological crisis in the world is assuming grave proportion and the forthcoming! ecological summit is going to address for the first time perhaps to problems which have been raised by dissenting voices in the last three decades,

including the two reports of the We are also I meeting at a time when international distribution of income and wealth and consequently of opportunities has reached a stage affecting the political system and prospects in this part of the world. So instead of just repeating and assuming that the developmental strategy the two can be model for saving in foreign exchange deficiencies to be met through foreign aid is going to be from the guarantor. I think this is the time we should address ourselves with all professional integrity to more fundamental questions.

This is the background in which we are meeting and our effort on the one hand is to share and survey whatever efforts has been made particularly in the Muslim World during the last two decades both at the intellectual as well as professional levels; and on the other hand, to address ourselves to specific sectors, commercial banking, central banking, government transactions, public debts, international dealings both trade as well as aid-based developmental or exchange support programmes. Each of these areas has to be cleansed from riba-based operations, and alternate operation instrument or institutions have to be developed.

We do not claim that all the questions have been answered. Human effort must always continue, and commitment must always be made. We should be pragmatic to face the problems as they are and should not be a prisoner of certain ideas. My main concern is that some of the Western intellectuals, journalists, scholars and politicians instead of giving us understanding in our effort to seek our identity our society in accordance with our own moral and ideological ethos are casting us in the role of adversaries. I want i to emphasize that we are a part of the contemporary world and we want to make the world a better place to live in. If the NATO had painted on the map certain part of the world into Red as threat for four decades, the secretary-general of NATO has to say that in future the red may be replaced by the green.

If you read American Life, the biography of Ronald Reagan, you will find that the specter of fundamentalism seems to be haunting the US. Richard Nixon has just come out with a new book "Seizing the Moment and the Frankstein of fundamentalism is very much there. Even those who are talking of the end of history they are searching a new enemy in the Japanese corporate model or the Islamic fundamentalism. What 1 want to submit is that we are not afraid of titles. Peoples are free to dole out whatever names and titles they want. Yet the Muslim world is going through a period of creative tensions. Tensions, because we are still trying to rediscover ourselves. The de-colonization process that began with political freedom is still incomplete. We are in the process to seek cultural, intellectual and economic de-colonization in the same way as we have been able to achieve at Least partially political de-colonization. There is also tension because of the tension between leadership and the people. By and large the leadership is a hangover of a long period of our own weaknesses and colonialism. But as I said this is a creative tension because there is a very strong urge not only to rediscover our identity but also to rebuild our life not as a threat to anyone else but as a blessing to ourselves. To be powerful, to be great politically and economically are facts of history. There is no denying them but to extend that to political hegemony or cultural and economic imperialism would produce real friction and even wars. So our efforts is that let the leaders of the world realize that bipolar or unipolar may be the concepts of international relations

but when we are dealing with human beings, nations, civilization and cultures, we have to adopt a much more pluralistic approach. We accept your right to have your own vision of individual and society, faith, culture, polity ideology but would it be too much if we also have a right to be our own self, to have our own values to develop our own life style. The West can claim to have its own lifestyle in the name of liberty, then why this game liberty is denied to other people. If democracy is the greatest achievement of mankind, then why does it become irrelevant to the Algerian people. Our effort is not, as I said, to talk about each other but perhaps make but to talk to each other.

With this approach we will be addressing ourselves to the elimination of riba from the different segments of our economy as we sit together for the next three days. A number of papers have been prepared that you would have time to go through. The speakers would present their arguments followed by a discussion. Any issue that is not covered in the papers, you would feel free to raise it. The chairmen of the sessions would have the difficult task of coordinating these discussions. We are also appointing a drafting committee to present in the concluding session the major ideas shared during this workshop. Also, if there is a consensus, to identify those areas. And if there are differences in certain areas on which discussion is needed, they would also be identified. He will make every effort to produce a full report on the proceedings of this workshop.

I have requested our very senior and beloved Dr Ziauddin Ahmad to be the chairman of the drafting committee. Dr Munawar Iqbal of the Islamic Development Bank and Dr. Ghulara Qadir of the World Bank and are the members of this drafting committee.

In the end I would to thank you for giving me a patient hearing.

CONCLUDING SPEECH BY PROF. KHURSHID AHMAD

We are now coming to the end of this working group but I assure you it may be end of this working group but it represents also a beginning of| fresh efforts. It should be a continuous struggle and we look forward to participation and cooperation from all of you. I am also happy that Sartaj Aziz, although coming only in the end of the workshop has participated in the dialogue. My effort was that Government Ministers, Secretaries, Advisors, people from banks who feel that they are facing certain difficulties they should be part of a workshop like this. So that we sit across the table discuss these problems and try to evolve a solution. One of the Ministers, the Law Minister, had actually promised that he would spend 3 days with us but we know how busy those with responsibility are, so I excuse them for that and I am happy that even in the last session at least Sartaj Aziz has frankly discussed some of the reservations, difficulties he might be facing.

We are conscious of that and one may not agree with his views yet we should always be prepared to consider all these issues questions and nuances. Yet before I discharge the pleasant responsibility of thanking all of you I would like to say that in the communiqué we have touched upon the question of indexation in the workshop. We devoted several hours to the complex issue of indexation and the communiqué does not advocate the idea of indexation. We have very strong

reservations about that. What we have suggested is that there is an issue which has been created by wrong policies wrong strategies yet the solution lies in rectifying and correcting the mistake at its source. Nonetheless the results of this problem are there and have to be faced. Yet we have not arrived at any positive recommendation on that and I have only suggested further discussions research till we are able to find out a solution that is compatible with Shariah and could also face difficulty in which we find ourselves.

As to interest free borrowing from the Central Bank or from the commercial banking is concerned I do not see any contradiction between these two instead what has been suggested is that if government is performing certain duty to the society, government also has a right to draw upon resources not merely upon the income of individual and corporations but also institutions including the central bank and the commercial bank particularly when commercial bank is earning a very high profit because of the creation of credit which is one of its privileges. So in this context on an interest free basis government has a right to share a part of that. That is what is referred to in that part of the communiqué.

I also welcome his resolve which in my view is positive that we want to move in this direction. That is what we expect from a government that has been elected by the people on a manifesto which commits, to elimination of Riba and also establishments of Islamic socio-political-socio-economic system. And I am happy that Sartaj Aziz brought this in because elimination of Riba is only one aspect of Islamic economic program. And I assure it that in the working group we were conscious of that. From the very beginning we realized that our objective is along with elimination of Riba, creation of all those conditions and pursuit of all those policies which should lead to the establishment of a healthy strong resilient economy based on justice which should become a model for others. And that is our objective. And we are sure elimination of Riba would strengthen this process. So I fully share this concern of yours and assure that this working group and I am sure following working groups would continue to address themselves to the multifarious problems. At the moment elimination of interest became much more central and critical. Yet we have to see that all other aspects of Islamic economic system and even the entire Islamic way of life because the moral uplift of the individual in a society is as important.

With these few words I once again take this opportunity to extend to you my greetings my felicitations for being with us in this concluding session as well as the three days you have spent with us I would fail in my duty if I do not personally thank Sartaj Aziz for joining us in this concluding session. Mufti Shujaat Ali Qadri and Dr. Hussain Ahmed Hassan for making themselves available to us for Sharia guidance. I would also thank all the bankers' insurance experts' accountants, economists. University professors, academicians who have participated in this working group and without whose effort and participation this could not have borne any fruit. So my thanks to each one of you individually and personally. I would also like to thank those institutions who have sponsored some of the dinners and lunches. The Finance Minister was kind enough to host a dinner in honor of you. The International Islamic University, the Saudi Pak-Investment Co., The Prudential Bank and Askari Bank my thanks are due to all of them for

extending that sponsor age. Finally I assure you that not only the copies of the papers would be made available to the Commission and to the press but we are very eager to see that within very short period of time a more detailed report on the workshop is produced and my request to the drafting committee is that your work has not finished with very special thanks to Or. Ziauddin Ahmed and his team who have really worked very hard in odd hours of night in fact sacrificing their sleep to produce this report and I am sure under his guidance the work will continue and the final edited detailed exhaustive report on the workshop would also the light of the day very soon. Finally I thank Allah Subhanahu wa Ta'ala for giving us all this opportunity to be a part of this effort, to share this experience and I pray that may Allah enable us to continue these efforts. Whatever we have been able to achieve all that is in consonance with the will of Allah and His Prophet (peace be upon him). May Allah enable us to fallow that and wherever we have faltered May Allah protect us and others from that. With this prayer I conclude and once again my hope and prayer that the way you have participated during the last three days we shall, continue to be honored by this cooperation and I am sure with this spirit with this cooperation we would definitely be able to move a long way towards our destination.

PROF KHURSHID AHMED