

# Inaugural Address

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Distinguished participants, friends and colleagues:

It is my privilege to welcome you to the 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 removing some of the fog and clarifying some of the issues then Allah be praised, we would have made our contributions and achieved the immediate goals of this workshop.

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 and 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 organised with a view to having national debate and discussion on issue of prime importance, i.e. elimination of riba. We cannot address ourselves to all the relevant ques-

tions 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 repercussions it will have on the economy if it is eliminated are valid areas of inquiry which have 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.

## National Commitment

Starting with the first major policy speech the Quaid-i-Azam made at the inauguration of the State Bank of Pakistan (July 1948) 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 Council of Islamic Ideology starting from the first report in 1962-64, unanimously called for eliminating riba. The final report of the council, based on the report of the Panel of Economists and Bankers, came in 1980, also proposed a three-year programme. Case law at the levels of High Court and Supreme Court is also available and the most important judgement, which could come only after the constitutional ban of ten years on the Federal Shari'ah Court to examine the legality or otherwise of laws relating to monetary and fiscal issues, was pronounced in December 1991 and rightly affirms that it is a national resolve and a commitment to abolish interest from the economy. We thus start from this premise that elimination of riba is a national commitment which has to be honoured.

## The Challenge

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 lent or borrowed, is concerned, there has never been a difference of opinion on its definition. Any addition to the loan amount related to the time of loan constitutes *riba* regardless of the term used for it or the language in which the concept is translated. This comes 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 predetermined, whether it is simple or compound, is *riba*. Again, any increase whether it is on loan borrowed for business 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, is *riba* and 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 economists, as has also been affirmed by the judgement of the Federal Shari'ah 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 predetermined return on money lent. There can be a large number of other services the banks are engaged in and where service charges are not based on this premise. 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 such revenue as *riba*.

Thus the challenge we are facing is:

- a) How to eliminate *riba* in all these forms?
- b) How to evolve a *riba*-free system of financial and economic dealings?

Third, I would also submit that Islam is indivisible. Its whole socioeconomic programme comes from its core (faith) in the same way as tree grows 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 indepth 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, i.e. 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 aspects of one issue only in this working group.

Fourth, 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, i.e. what is our 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 its explicit forms and may devise certain financial instruments which would be interest-free, the need for moving to the next stage of building the economy on Islamic foundations and in the pursuits of Islamic socioeconomic objectives would beckon us.

Unfortunately, during the last two centuries the evolution of economic financial relationship has been engineered towards 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-sharing and risk-sharing, so that capital, labour, expertise and entrepreneurship operate 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 is not the be-all and end-all of Islamic economic programme. It is one of the key elements of the Islamic economic programme, but it would be incorrect to assume that this is the whole of Islamic socioeconomic programme. Islamic programme of 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 organisation; 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 in 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 Shari'ah Court. This has created an 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 minds to look into this issue. The purpose is not to dole out anything; it is in the true spirit of dialogue that we are meeting here. Our effort has been to invite those economists and bankers who have, particularly in the last twenty years, addressed themselves to the issue of *riba*. Also, we have invited people who are knowledgeable in the Islamic Shari'ah. Besides, we have invited the finance ministry 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.

It is in the true spirit of dialogue that we have tried to organise 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 identify the problems that are yet to be resolved and face critical questions. There are a number of areas that perhaps remain underdeveloped. There are apprehensions from external agencies, and I am happy that World Bank, IMF and other international agencies have also responded positively to our request and are attending the workshop. Thus the idea is to 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, yet a get-together of this kind where we could frankly and without questioning anybody's intentions discuss each others' judgement. 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.

## Would the Economy Collapse?

Let me submit that there are certain people 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 scare-mongering. Instead, we should try to analyse things in their perspective. After all, elimination of riba does not mean zero-return on capital. What Islam has forbidden is a fixed predetermined 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. This does represent a fresh approach in which the factors receive variable return based on actual performance. Capital entrepreneurship shares both the real contribution and the real profitability.

This is not something as novel or naive as some people are trying to project. After all, if one looks into history, one finds that capital, as loan capital as well as venture capital, has played the role in promoting industrialisation and economic development. Also, we find that their relative roles have been rather different in different parts of the world, in different periods of time. For example, in the British model of banking,

the role of deposit banking in promoting economic development was dominant while equity-based investment was limited. But as against that, in the French tradition, Investment banks had played very important role throughout 19th and even in 20th centuries. Similarly 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 banks. We are aware that in 18th-19th centuries even in international field equity and venture capital played a much more important role, while in post-World War II phase we find that loan 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, i.e. hundred percent deposit banking and the equity-based investment banking.

With the advent of Islamic banking in the '70s we find that a number of international institutions or organisations had shown an openness that we expect from international organisations, bankers and investors. In a number of studies, IMF, World Bank and IFC have shown interest in the alternate arrangement for participation of capital and entrepreneurship. Some of the economists have been voicing great concern over the distorted proportion between loaned capital and equity capital even in the western economic system. The German economist Albach has produced 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.

## International Scenario

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 seven to eight years in debt recovery. Inflation has dug its teeth deep and unemployment is still a menacing phenomenon. All these are causing worry to economists, policy-

makers and politicians. With the collapse of socialism there is a perceivable optimism for the alleged "final 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's 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 have not borne real fruits, not even a predominant success. As to a few success stories like South Korea, Taiwan and Singapore, there is no evidence to suggest that their developmental efforts owe much to loaned capital or aid in the form of loans; instead, each represents a particular case with a critical entrepreneurship and effective utilisation of a number of factors.

We are also meeting at a time when the ecological crisis in the world is assuming grave proportions and the Earth Summit at Rio de Janeiro is addressing 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 Club of Rome. We are also 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. Assuming that the developmental strategy based on the Harrod Domer model, emphasising two major gaps: the savings gap and the balance-of-payments gap; and the deficiency to be met through foreign aid, is the guarantor for development, will be an exercise in futility. This is time we should address ourselves with all professional integrity and an open mind to these fundamental questions.

This is the background in which we are meeting. Our effort on the one hand is to share and survey whatever efforts have been made particularly in the Muslim world during the last two decades both at the intellectual as well as operational 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 development or exchange-support programmes. Each of these areas has to be cleansed from riba-based operations and alternate operational instrument or institutions have to be developed.



## The Spectre of 'Fundamentalism'

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 not a prisoner of certain biases. My main concern is that some of the western intellectuals, journalists, scholars and politicians instead of trying to understand us in our effort to seek our identity and build our society in accordance with our own moral and ideological ethos are casting us in the role of adversaries. I want to emphasise that we are part of the contemporary world and want to make the world a better place to live in for all. If the NATO had treated a certain part of the world painted 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 *Ronald Reagan: An American Life*, the autobiography of the former US president, you will find that the spectre of "fundamentalism" seems to be haunting him page by page. Richard Nixon has also come out with a book, *Seize the Moment* and the Frankstein of "fundamentalism" is very much there. Even those who are talking of the end of history are searching a new enemy in the Japanese corporate model and in the Islamic fundamentalism. What I want to submit is that we are not afraid of titles. People 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 decolonisation process that began with political freedom is still incomplete. We are in the process to seek cultural, intellectual and economic de-colonisation in the same way as we have been able to achieve at least partial political de-colonisation. 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 and all others. To be powerful, to be great politically and economically are facts of history. There is no denying them but to extend that political

hegemony or cultural and economic imperialism would produce real friction and even wars.

So our effort is that let the world leaders realise that bipolar or unipolar may be the concepts of international relations but when we are dealing with human beings, nations, civilisations and cultures, we have to adopt a much more pluralistic approach. We accept their right to have their own vision of individual and society, faith, culture, polity, ideology, but would it be too much if we also seek to have a right to be our own self, to have our own values, to develop our own lifestyle? The West can claim to have its own lifestyle in the name of liberty, then why is this liberty 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, merely to talk *about* each other but talk *to* each other. This is the background in which this dialogue takes place.