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# Is interest-free banking possible?



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**T**he word Riba denotes an increase over and above its original amount or quantity.

According to the Quran, and sayings of Prophet Mohammed (SAW) Riba is interest on loans involving an exploitation of the economically weak by the strong and resourceful. In this case the lender is assured of fixed interest, and is not concerned with the manner in which the money is used. If the money is borrowed for business purpose, the lender gets the fixed amount of interest or profit, irrespective of the loss suffered by the borrower. Another school of thought is of the opinion that when the rate of interest is lower than the rate of inflation, the interest cannot be called Riba. Some Ulema quote Prophet's saying that income of the absentee landlords also falls in the category of interest. The fact remains that objective of Islamic system is to eliminate exploitation of any form and every kind with a view to establishing a society based on socio-economic justice. Islamic scholars, however, have not yet been able to reach an agreement on the definition of Riba, which could encompass all the facets and areas of economic activity.

The problem is that in none of the Muslim countries we can find even the prototype of

Islamic system. References are made about the success of Islamic banking in Malaysia, Saudi Arab and other Muslim countries, but in reality none meets the fundamental conditions to qualify as an Islamic or Interest-free bank. To satisfy Muslim clientele, Standard Chartered Bank, HSBC, BNP Paribas etc., have launched a full range of products under the banner of Islamic Banking, which also appears to be an attempt to attract customers from oil-producing Muslim countries. In Pakistan, during General Zia's regime banking was Islamized but ended up with changing the nomenclature from interest bearing Savings Account to Profit and Loss Account. Since the banks continued advancing loans to business and industry on interest, the profit and loss sharing was just a fade. Now about much spoken paradigm Malaysia. There, if a customer wants to buy a house under Islamic option, the bank purchases the house and sells it to the customer at a higher price, covering the interest and service charges. Similarly in Pakistan, hire purchase and installment system is not uncommon in case of cars, buses, truck and household goods, but selling price is sometimes more than the double of the current rate of interest.

The question arises as to whether in an unjust and corrupt society, where the borrowers get away with billions of rupees in the form of written off loans, using

political and bureaucratic clout, can the borrowers be trusted with the hard earned money of the people? In a capitalist society, the greed for more and more profit is a natural phenomenon, and especially in Pakistan majority of the businessmen and industrialists is inclined to evade tax. For this purpose, they manipulate their accounts and in the process deprive the shareholders of their due share in profits. During the last twenty years, Investment Companies and Cooperatives have deprived the small investors of their life long savings. Majority of the Public Limited Companies also did not pay any dividend for the last 10 years; on top of that, the share value of most of Modaraba companies ranged from Re. 1 to Rs.3 against face value of Rs. 10 per share. The CEO's and directors of the companies draw unimaginable remuneration and perks, whereas the shareholders and the government are duped.

The problem however is, who will inspire them to be honest and God-fearing so that they don't cheat and exploit people. One could imagine of honest and God fearing people during the periods of four Khulafa-i-Rashadeen and Umer bin Abdul Aziz, but could not quote another example during the last fourteen hundred years. Evidence suggests that people in general adhere to the laws of the land for the fear of being punished and penalized. In Pakistan those who amassed wealth through illegal means,

like smuggling, corruption or defrauding government and the people, were 'rewarded' by the various governments in the forms of amnesty and packages. They had to pay only 10 per cent to convert their black money into white. Tax evasion is the main cause of shortfalls in revenues targeted in the budget, which are normally met with indirect taxation i.e., general sales tax on consumer goods and utilities. So the axe falls on the common man. If the corrupt and dishonest are not punished, they feel encouraged to continue with loot and plunder and become role models for others who wish to make a quick buck without any effort.

It is common knowledge that ruling elite, comprising politician-landlords, subservient capitalists, the civil and military bureaucracy is responsible for degeneration, rot and abysmal state of affairs. The religious parties and scholars also failed to reach the innermost recess of conscious and subconscious minds of the people and inculcate in them the spirit of Islam that provides intellectual inspiration to be honest, to conceive lofty ideas, invent, create, develop and gain ultimate knowledge of nature, truth and reality. They instead offered dogmas, doctrinal cults and rituals only, which contained no remedies for the immediate solution of their problems; hence they could not fascinate them. By persuading people to seek life

of the hereafter only, and convincing them that God made them as they are due to Divine Determinism, they created supineness, lethargy and insouciance. The people should have been told the truth that Almighty Allah is keenly interested in positive change of their state. Allama Iqbal says: "In his inmost being, man is a creative activity, an ascending spirit who on his onward march rises from one state to another. But this process of progressive change is conditional: that man must take initiative."

It is, therefore, the duty of Ulema, intellectuals and creative individuals to discharge their historical duty of bringing about mental revolution and prepare the people for the struggle to rid the society of corruption, exploitation and inertia. This will provide the infrastructure on which super structure of Islamic system can be built. It will, of course, require a lot of effort and imagination to devise foolproof system, but below mentioned broad contours can provide the basis for giving practical shape to the concept of interest-free banking:

1) The banks should be directed to employ professional managers with adequate experience and expertise in financial management and induct them in the borrowing firms and companies. They can monitor if regulatory, accounting and compliance standards are

being followed; and all inputs and sales are being recorded. The number of staff will depend upon the size of the loan/investment.

2) Tax collecting departments should be reorganized by selecting competent and honest personnel with decent salary structure.

3) Clearance of goods from factory premises subject to Central Excise Duty and/or sales tax should be supervised. The rules should be amended to withdraw Self-clearance facility, as there is no rationale for trusting taxpayers in a corrupt society. As a matter of fact the tax evasion takes place at factory and import stages. If this can be checked, evasion of Income Tax will be controlled and this will lead towards documentation of the economy automatically, as everybody will be obliged to issue invoices or cash memos to wholesalers and distributors.

4) Judiciary should be reformed to ensure quick dispensation of justice and to award severe punishment to those involved in white-collar crimes.

5) The government should amend the rules and regulations for company auditors, as they invariably oblige the client companies by accepting the improprieties in accounts with a view to seeking re-appointment for the next term.