

ISLAMIC BANKING IN PAKISTAN

IN RETROSPECT: PROGRESS AND REVIEW

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PRELUDE

By Allah's grace, Pakistan emerged as a sovereign state on August 14, 1947. The then British Government of India bifurcated the sub-continent in such a way that areas which had strong industrial base and had well established Financial System were handed over to India and primary producing commodity areas were given to Pakistan. Dr. Allama Muhammad Iqbal, in his historic Allahbad address delivered in 1930, visualized Pakistan to consist of overwhelming majority of Muslims so that the country to be later born would practice Islamic principles and was to be based on Islamic Ideology - Quran and Sunnah. He died in 1938 and Quaid-e-Azam Muhammad Ali Jinnah, father of the nation, launched historic movement which enabled Pakistan to emerge as a sovereign state on August 14, 1947. Pakistan is senior to India by one day as India was born on August 15, 1947.

Banking is a Constituent of Financial System which in itself is a sub-system of economic system. On July 01, 1948 while inaugurating the State Bank of Pakistan, being the Central Bank of the country, advised the Research Department of the State Bank of Pakistan to develop an economic system based on Quran and Sunnah and never follow the Western economic system. He had a great vision to see flourish of prosperity of Pakistan to be equitably shared with the principles of economic development and cushioned with social justice. To strengthen this framework, he very strongly advised that Western economic system should not be followed in Pakistan. He stated two arguments in this respect. Firstly, this system created big gap between haves and have nots. Presumably he visualized social destabilization if western economic system was followed. Second due to system two World Wars were fought in the 20th century. Being a person with great wisdom, he spelled out an economic system based on the tenants of Islam, the last religion (Deen) as pronounced by God. History has proved that he was absolutely right. Even Super Powers like USA, Germany, France etc. are in big financial trouble with growing unemployment rates and conspicuous gap between the rich and the poor.

THE RISE OF ISLAMIC BANKING

To our misfortune Islamic Banking was not started in Pakistan. No Islamic Economic System was evolved and therefore, till today it is a dream. No wonder, blessings of Allah are not on us and we are caught in all sorts of problems. For 30 years of our life time we had military dictators and Martial Law in one shape or the other, for the remaining 30 years we had dictatorial regimes under the beautiful name and style of democracy.

While, the world is in search of a new economic order capitalism, communism and socialism failed wherever they were tried. Therefore, it is a great opportunity for Pakistan to rediscover herself and develop Islamic Economic System to which Islamic Financial System will be an integral part and its sub-system will be Islamic Banking.

A brief historical run down of the efforts made in Pakistan from 1970's onwards is as under:

1970s:

Efforts, in their initial stages, were started to eliminate Riba. In the 1973 Constitution of Pakistan, Article 38 (f) was included which is quoted below:

"The State shall eliminate Riba as early as possible".

In the last 37 years of Pakistan's history after the break away of the erstwhile East Pakistan, the spirit of the above Article stays unimplemented. One wonders, whether this dream will be ever crystallized or it will stay as a future hope of tomorrow.

1980s:

Bold and comprehensive initiatives were taken. Pakistan joined the race of three countries in the world for interest free banking, several existing laws were reviewed. New financial instruments were introduced, Twelve Non-Interest Based (NIB) modes were released to replace riba based practices, Profit & Loss Sharing concept was introduced.

1990s:

Court battles were on. Instructions were issued by courts for a time framework for implementation to replace conventional banks into Islamic Banks. However, the system did not positively respond for implementation.

21st Century:

In January 2002, Commission for Transformation of Financial System was constituted in SBP. Task Force was set up to suggest ways to eliminate interest from government financial transactions. However, the end conclusion has been to continue parallel banking i.e. Conventional and Islamic Banks. This system is going on in Indonesia and Malaysia also.

CURRENT POSITION

At present Conventional Banking based on interest / mark up and Islamic Banking based on profit and loss sharing are both continuing. Such a situation also exists in Malaysia and Indonesia. However, there is no time frame to implement the spirit of eliminating Riba in toto.

It is heartening to know that Islamic Banking Department of State Bank of Pakistan is doing useful work in respect of struggling to introduce Islamic Banking System. Its vision is quoted below:

“To make Islamic Banking the banking of first choice for the providers and users of financial services”.

The vision is an excellent one and is fully transparent. The challenge is to translate their real spirit of this vision so that Islamic Banking gets a boost in our country. The Mission Statement of the above Department is quoted below:

“To promote and develop Islamic Banking Industry in line with the best inter-sectional practices, ensure Shariah compliance and transparency”

It is very important for the stakeholders to re-visit the above aspects reflected as vision and mission. Motivated by the enlightened guidance provided by State Bank of Pakistan, all Islamic Banks must follow sunshine vision and driving mission. These aspects need to be indoctrinated in the minds of all stakeholders so that their efforts are reflected in real life situation as achieving motivation.

In Pakistan, State Bank of Pakistan has followed three point strategy relating to development of Islamic Banks. These strategies include the following:

1. Full fledged Banks can be established in Pakistan.
 2. Islamic Banks can set up their subsidiaries.
 3. Stand-alone Islamic Banking branches opened by Conventional Banks in Pakistan.
- Therefore, flexibility exists in respect of starting and extending Islamic Banking in Pakistan.

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