

Khan: Significance of the Presentation on Pakistan

Pakistan was one of the early pioneers in Islamic Banking and Finance. In 1969 the Council of Islamic Ideology (CII) issued a report recommending that the country transition over to an interest-free, i.e., Islamic, banking system. This change was duly ordered by Gen. Zia ul Haq in 1980 (on the basis of the revised and greatly expanded 1979 CII report that went well beyond the 1969 one), and was fully implemented by 1985. Following a series of Federal Shariat Court and Supreme Court Shariat Appellate Bench rulings in 1991, 1999 and 2002 on the Shariah compliance of Islamic banking in Pakistan, the State Bank of Pakistan ordered in late 2002 that Islamic Banking in Pakistan be restructured to, in effect, make it more Islamic than the 1985 version.

Islamic banking and finance is literally a trillion-plus dollar industry as there are about three hundred Islamic banks/financial institutions in over 70 countries but mainly concentrated in the Gulf/Middle East and S.E. Asian regions. Pakistanis are found at all levels (from the boardroom to the teller's cage) in virtually all of the major Islamic financial institutions in the Gulf/Middle East, as well as being heavily represented in Islamic financial regulatory agencies and think tanks. Pakistan's Meezan Islamic Bank, the nation's largest wholly Islamic bank, has been at the forefront of Islamic financial product development for almost two decades. Thus it is important to critically analyze—as opposed to merely advocating for it—the current state of Islamic banking in Pakistan, what its advocates and theorists say, and where it is likely to be headed.

Between 2006 to 2018, the financing mix of Pakistani Islamic banks changed from an overwhelming reliance on de facto interest-based products (i.e., *murabahah* and leasing) to apparently direct equity participation (i.e., *musharakah*) products. In short, to the Islamically desirable venture capitalism form of finance advocated by Islamic finance's most ardent advocates, e.g., the Shariat Appellate Bench of the Pakistan Supreme Court ruling in 1999. However, by closely analyzing the actual lending practices of Islamic banks in Pakistan, this paper shall show that the apparent change exists only in form and not in substance. The new Islamic banker is still the same as the old one.