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AN OVERVIEW OF ISLAMIC BANKING IN PAKISTAN ECONOMIC PERSPECTIVE

Sadia Sardar ¹ and Muhammad Farooq Iqbal ²

Abstract: As a result of this study, we want to better understand Pakistan's economic Islamization process and its influence on people's material well-being in light of the economic provisions of the Qur'an and Sunnah, in addition to the World Bank's framework for material well-being. According to this study, the Islamic legal notion of *daruriyyāt* (necessities), as articulated in *Maqasid al-Shariah*, is identical to the English phrase "material well-being." Since the 1980s, economic Islamization ideology has been marketed as the sole answer to all economic problems generated by interest-based capitalism, and the purpose of this study is to investigate how this has happened. The fact that more than 60% of Pakistanis do not have access to the material well-being envisioned by the Islamic Legal System and the World Bank, after over three decades of economic Islamization, is concerning. There is a claim that Islamic economics and finance have been unable to alleviate Pakistan's economic woes in recent years. A study conducted by the Islamic Center for Social Justice and the World Bank found that it was unable to aid those who were deprived in reaching material well-being. Finally, a number of proposals are made in order to aid Pakistan in improving its current Islamic economic and financial circumstances.

Keywords: Islamic Banking, Finance, World Bank, Economics, Pakistan.

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WORLD BANK AND POVERTY AND ISLAMIC BANKING'PHILOSOPHIC TRADITION

The World Bank established a minimum level of poverty and specific targets for each economy to meet in order to improve the situation of poor people living below the poverty line as a result of modern economic systems' failure to reduce poverty, abolish feudalism's class system and monopolies, and establish a just social order. ¹ In 2000, the phrase "material well-being" was coined, and it was defined as a country's ability to use its resources to meet essential human requirements such as income, money, land, livestock, and house ownership, among other things. ²

It was revealed that the Islamic philosophical tradition of Maqasid al-Shariah had a comparable idea of material well-being, with access to material well-being or the provision of essentials for people's fundamental needs being highlighted as one of the most important goals. primary objectives of Islamic philosophy of economics and finance.³⁴ In this context, With reference to Qur'an and Sunnah (PBUH) principles as well as World Bank rules, this research investigates the idea and impact of Islamization on Pakistan's economy as well as its impact on the material well-being of the population in Pakistan. The following is a breakdown of the three parts 1. Introduction 2. For starters, we'll talk about the Islamic concept of material wellbeing, followed by a discussion of the current situation of Islamic economics and finance. It will define Islamic economics in light of the economic rules of the Qur'an and the Sunnah, among other things (PBUH). In addition, the elements that influence the modernisation of Islamic economics and finance will be investigated in depth. The second chapter will address the Islamicization of the economy as well as the establishment of an Islamic banking system in the United States of America. The final segment will explore the economic issues that Pakistanis are experiencing as a result of the country's current Islamic economic structure. To wrap up,

¹ World Bank Report, 2002, Available at <https://blogs.worldbank.org/category/countries/pakistan>, (Accessed on 22-12-21).

² Peter N Hess, *Economic Growth and Sustainable Development*, Rutledge, Taylor and Francis Group, (London 2016), p.56;

³ Ibn Hashsham, Muhammad, Abdul Malik, *Seerah al-Nabawiyah*, Matbaah Hijazi, Cairo 1988), p.322;

⁴ Al-Shatibi, Abu Ishaq Ibrahim bin Musa, *Al-Muwafaqat*, Matba' al-Salfiyyah Misr, 1997, vol 2,p.35.

suggestions will be developed to change Pakistan's current framework for Islamic economics and Islamic financial institutions.¹

ECONOMIC AND MATERIAL WELL-BEING CONCEPTS IN ISLAMIC THOUGHT:

The international economic systems of commercial capitalism, socialist capitalism, and capitalist capitalism all came tumbling down in the mid-twentieth century, bringing the whole globe to its knees. As a consequence of this, economists and social activists have urged for the establishment of a new World Economic Order that is devoid of all forms of exploitation and the ills that now plague the modern economy. In the wake of the incident, a feminist movement was established with the purpose of advancing women's rights in society.²

In this context, it has been proposed that Islamic economics and finance are justified on the grounds that Islamic economics lays a greater emphasis on social problems than Islamic finance does on financial considerations.³⁷ Over the past decade, economists and philosophers from Muslim and non-Muslim backgrounds have partnered to build a healthy economic and financial system based on Islam's ethical and positive values, as well as to address capitalism's structural faults. They were entrusted with conceptualising and executing previously inconceivable economic solutions for current economies, the banking industry, and other commercial organisations when they were a member of Islamic Economics.

Western bankers have the distinction of being the first to propose Islamic banking as a viable alternative to capitalism's oppressive practises, doing so as early as 1961. Given the capitalist banking sector's terrible socioeconomic effects, the aims of Islamic banking have been repeatedly emphasised in a variety of media outlets. Whatever method of funding an Islamic bank employs, it must be consistent with Shariah's objectives and the

¹ Djermakoyo IS., *The Search for New Economic Order*, Islamic Council of Europe, London, 1989, p.16

² Friedrich, *A New Studies in Philosophy, Politics, Economics and the History of Ideas*, University of Chicago Press, Chicago 1978, p. 23-34.

³ Khir, K., L. Gupta., & B. Shanmugam, *Islamic Banking: A Practical Perspective*, Pearson Malaysia Selangor, Malaysia 2008, p.12.

public good. Additionally, each Muslim state must be an Islamic welfare state, since only an Islamic welfare state is capable of achieving the social justice and welfare-oriented objectives of Islamic economics, finance, and banking, as well as the need that each Muslim state be an Islamic welfare state.¹ Contrary to common assumption, Islam provides both normative and positive interpretations of Quranic economic notions, and as a result, it supports the use of both positive and normative standards in daily life.² According to Prof. Khurshid Ahmad, "Islam has much to offer in terms of the enjoyable aspects of life" (1976).³

Changing cultural, religious, and ethical norms within a community have an influence on economic behavior, and the Islamic economic notion is no different. Therefore, Islam established an acceptance/rejection policy based on the importance of each act/everything, which explains why Quranic legal injunctions include both positive and negative parts. Individuals have been given the authority to determine whether or not a certain economic system is advantageous to them based on revealed economic principles and the socioeconomic and political conditions of the nation in question. The economic policies of Umar (RU) may serve as a model for other countries. As a result, previously established universal economic principles give a framework for decision making. Comprehensive economic framework to evaluate the changed socioeconomic and political circumstances and to adopt any of the contemporary economic system of the world. The task of the Muslims is to evaluate all existing and practicing economic mechanisms in the light of the revealed economic principles and to decide its rejection or acceptance accordingly.⁴ This is the reason that the Holy Prophet (PBUH) declared: "If something belongs to the domain of your affairs, then you know all about it. (You are the best judge thereof and have the right and the capacity to deal with it according to the Shari'ah".⁵

¹ Izz al-Din „Abd al-Salam, *Qawa'id al-Ahkam fi Masaleh al-Anam*, Dar Ibn Kathir, Damishq,p.54

² Ramadan al-Buti, Muhammad saeed, *Ḍawabiṭ al-Maslahah fi al-Shari'ah al-Islamiyyah*, Dar al-Fikr, Damishq 2005,p.321.

³ Prof. Dr., Khurshid Ahmad, *Studies in Islamic Economics*, The Islamic Foundation, UK 1979,p.7.

⁴ Naseem Razi, *Islamic Banking System and Mode of Leasing*, Ibn Qayyim, *I'lam alMuwaqqi'een*, vol.,p.133.

⁵ Ibn Majah, *Sunnan Ibn Majah*, Islamic Publications, Lahore 1988, .vol.2, p.34.

Talking about the Sunnah of the Prophet (PBUH), the Prophet Muhammad (PBUH) established the first Islamic state at Madinah where he (PBUH) introduced Individual prosperity is the product of an economic system that prioritizes equality and well-being above all other considerations. A written constitution, authored by the Prophet (PBUH) as governor of Madinah, promised economic and political equality to all state residents. This was the world's first written constitution. As part of Muwakhath al-Madinah, the Prophet (PBUH) created the notion of controlled wealth and shared resources as an official state policy. This was done in order to deal with changing environmental conditions, state expansion, and people's material well-being.¹

Note that the Quranic income and wealth constraints, if correctly attained, allow for the accumulation of endless riches and the acquisition of private property. The Prophet (PBUH) was able to limit the scope of the Quranic texts, however, by the use of contextual interpretation. When it comes to money and property, the Sunnah (PBUH) restricted an individual's ability to accumulate an unlimited amount of money and property to the benefit of society and the preservation of people's material well-being. By implementing state-run economic policies, the four enlightened Caliphs were able to sustain the notion of shared resources, wealth, and property in conformity with the Sunnah (PBUH).²

Following this, Muslim jurists applied Maqasid al-Shariah to the question of material well-being, stating it to be the primary goal of the Islamic legal system. Muslims, understanding the significance of the issue, performed extensive research and categorised it as daruriyyat (necessities), hajat (needs), and tahsinat (rights) according to Islamic law (luxuries).³ A person's material well-being is identical with his or her physical well-being, and refers to all of the elements required to sustain a person's life in such a way that it is unimaginable to live without them. Protecting against noise, protecting against life, protecting against offspring, protecting against intelligence, and protecting against money are the five needs outlined in this section. Because we are all linked and participate in the beauty of the earth, according to Imam Ghazali, we need other people to survive. As a result, safeguarding human lives and children becomes

¹ Imam Shatibi, *Al-Muwafaqat*, p.178.

² Imam al-Razi, *Al-Tafsir al-Kabir*, Matba"ah Hijazi, Cairo 1998, vol.1, p.544.

³ Imam Malik, *Al-Muwatta*, Nafees Academy, Karachi 2000, p.263.

more important. It is followed by higher-order *ajat* (needs) of the *aruriyyat*, and having access to them makes life much easier.¹

It is the peak of material well-being, culminating in a life filled with splendour and sumptuousness that is referred to as luxury/*tasiniyyat*. When the essentials are achieved and dreams or luxuries are introduced, it is determined by the socioeconomic realities of each society. When individuals begin to enjoy all of their core requirements and necessities in order to simplify their lives, according to Imam Shatibi (1988), "the stage of luxury begins, and everything they acquire to beautify their lives becomes *tasinat*."² As a result, both the Islamic economic system and the Islamic political system have suffered. It is the goal of financial aid to ensure that people have enough money to live freely and comfortably in their homes. Also shown is that the current idea of material well-being and the Islamic purpose of meeting the basic necessities of people are equivalent. The World Bank's standards of material well-being are also similar to those espoused by Muslim rulers and the *Khulafa-e-Rashidin* during the sixth and seventh century AD. According to a wide definition, "Islamic economics" should be understood as a sound and universal economic framework with the goal of analysing and rating the soundness of any contemporary economic system on a global scale in light of its aims and impacts on people's material well-being. ³As defined by Joan Robinson (1962), a rational economic system is one that is "based on a specific ideology and on a set of general principles that explain them in the context of an individual's interests and economic growth. In other words, it is one that is "based on a specific ideology and on a set of general principles that explain them."⁴

As a result of advancing from generality to specialisation in order to carry out the system's scientific objectivities, Hobson (1929) established a strong economic system founded on basic ethical principles. As stated in Muslim writings and traditions, the primary function of an Islamic state is to provide religious practises, adequate food and

¹ Al-Ghazali, *Al-Mustasfa'*, p.255.

² Imam Shatibi, *Al-Muwafaqat*, p.178.

³ Naseem Razi, *Transformation of Islamic Economics into a Global Economics*, p.75

⁴ Joan Robinson, *Economic Philosophy*, p.13.

clothes for all citizens, medical care, housing, and education.¹ In addition, the state should implement a system of equal income and resource distribution for its citizens.

ISLAMIC ECONOMIC SYSTEM OF PAKISTAN:

Pakistan was created in 1947 as an Islamic Republic by the United Nations General Assembly, a designation it retains to this day. By 2050, the United States is expected to have a population of 203,253,152 million people. This is an annual population gain of 1.88 percent above the current population. While this is an estimate for the year 2019, it serves as a solid starting point for more study and development. Additionally, it has the world's most fearsome military forces and is the only Muslim state with nuclear weapons. Pakistan is referred to be an Islamic Republic in the country's 1973 Constitution, which also contains various parts of Islamic law, the most significant of which are Articles 1 and 2, which proclaim Islam to be the country's official religion. Additionally, Pakistan's 1973 Constitution protects a wide variety of fundamental rights and guarantees that all citizens have equal access to social and political justice on a national and international level. The Principles of Policy, among other things, emphasise the government's commitment to safeguarding the rule of law and attaining social justice in the country.²

Gen. Muhammad Zia ul-Haq garnered global prominence during his tenure as Pakistan's president from 1977 to 1988 for his attempts to Islamize the country's legal system after his election as president in 1977. Pakistan's Federal Sharia Court was founded on May 28, 1979, and is a key provision of Pakistan's 1973 Constitution, Chapter 3-A,³ which establishes the Federal Sharia Court as the country's highest judicial authority. Aspects of contemporary legislation must be assessed against the Quran and Sunnah's standards, and suggestions made in accordance with the Court's mission statement (PBUH). When it comes to legislation, parliament took into account the

¹ Hobson, *Work and Wealth: A Human Valuation*, p.12.

² The Constitution of Pakistan, 1973, Article 29-40

³ The Federal Shariat Court was established as a substitution of the Shari"at Benches of the High Court"s by virtue of the president"s Order No. 1 of 1980. Article 203 C (1) states that a Court will be comprised of no more than eight Muslim judges including Chief justice, nominated by the president under Article 175-A".

Council for Islamic Ideology's suggestions. Current law includes the Zakat and Ushr Ordinance of 1980, the Qisas and Diyat Ordinance of 1984, the Ihtiram-e Ramazan Ordinance of 1984, and the Enforcement of Shariah Act of 1991. Nizam-e-Zakat is a non-governmental organization that promotes Islamic ideals. It was founded in 1980 to assist in the Islamization of the country's economic system introduced.

The Council ruled in 1981 that the Interest Act of 1839 was in direct violation with basic principles of the Qur'an and Sunnah. As a consequence of the results, it was suggested that the Act be repealed (PBUH). According to the Council of Europe, all institutions, including banks, must be free of capitalist preoccupations in order to function properly.¹ When Pakistan's then-government pressured the State Bank of Pakistan to make particular efforts to eliminate interest from financial transactions within three years of assuming office, the State Bank of Pakistan pledged to do so. As a result, the State Bank of Pakistan issued an order directing all financial institutions to immediately cease paying interest and implement the Council's 13 alternative business plans.² Following this defeat, the government chose to prolong its time in office by amending the constitution at the end of the three-year period, allowing it to serve an additional four years. Additionally, an expired constitutional clause on June 26, 1990, that was not renewed resulted in an additional seven-year delay.³ It is a not-for-profit organization devoted to the development of Islamic learning, with the mission of promoting Muslim knowledge.

The Ideology Working Group examined eleven Conventional Acts of Insurance starting in 1984 and decided that the current insurance system is incompatible with Islamic values. According to the Council's recommendation, the present insurance system should be phased out and replaced as quickly as possible by an Islamic insurance system.⁴ Since its inception in 1988, the International Islamic University has witnessed great development as a consequence of its dedication to the education of professionals in comparative legal and theological knowledge.

¹ Council of Islamic Ideology, Annual Report Islamabad: 1992, p.123-127.

² State Bank of Pakistan, Order No 13, issued on 20th of June 1984, <http://www.sbp.org.pk/circulars/index.asp>.

³ Council of Islamic Ideology, Report, 1992, p.125.

⁴ Ibid., p.78

Given the predominance of conventional commercial banks in Pakistan's financial sector, attempts have been undertaken to develop a robust Islamic banking and finance system in order to accomplish the ultimate aims of Islamic economics and finance. This objective was attained via the establishment of a robust Islamic banking and finance system. As a result, Pakistan created an Islamic banking and financial system. To succeed in ensuring that Islamic banks are perceived as institutions that promote social justice and material well-being for the people of this country, the government, planners, policymakers, and administrators must demonstrate a strong commitment to ensuring that Islamic banks are perceived as institutions that promote social justice and material well-being for the people. The Federal Sharia Court concluded in 1991 that commercial banks' approach violated Islamic norms and was therefore prohibited. As a result of this expansion, Al-Meezan Bank was founded in 1997 as the world's first Islamic bank, and it operates according to the Islamic financial model.¹ This board was established in 2001 by Al-Meezan Investment Bank to regulate and approve guidelines for the country's emerging Islamic banking industry, as well as to establish criteria for the establishment of Islamic commercial banks in the private sector and for the conversion of existing commercial banks to Islamic banking practises. The Shariah Supervisory Board is composed of members appointed by the Minister of Finance and is charged with supervising Islamic finance's implementation.² Each Islamic bank would operate as the client's agent/wakil, providing the consumer's access to material and social justice within the Islamic community. It has been agreed to provide an Islamic bank a dual-purpose mandate. In addition to performing regular banking tasks, the business was responsible for offering Islamic financial instruments such as mudarbah, musharka, and murabaha. It was also responsible for the management of qard-e Hasanah,³ a lending

¹ www.meezan.com.pk. Last visited 22-8-21.

² Khir, *Islamic Banking: A Practical Perspective*, p.22.

³ Among the ordinary functions are dealing in money, accepting deposits discounting commercial bills, acting as safe custodians of valuables, correspondents and clearing agents, trustees, executors, attorneys, collectors of dividends, selling foreign currency, and facilitating transfers to and from other countries. Among the Islamic modes of finance are, musharkah, mudarbah, diminishing musharkah, murabahah, salam, istisna, istijrar, ijarah (leasing) and ijarah wa iqtina"etc. Likewise, Islamic banking sector also involves in different economic activities such as opening of bank account (bachat), remittance, zakat deduction, sale and purchase of foreign currency, sale and purchase of traveller's checks, etc.

organisation that lent money to members of the general public. To protect Pakistanis' material well-being, all relevant processes were implemented as a consequence of the establishment of Islamic finance.¹

IMPACT OF ISLAMIC ECONOMY ON THE MATERIAL WELL-BEING OF PAKISTANI PEOPLE:

The fundamental objectives of Pakistan's economic Islamization are to adhere to Islamic economic principles, such as those contained in the Qur'an and Sunnah (PBUH), to aid the poor, to ensure people's financial security, and to promote a just social order. Because it was thought that Pakistan, as an Islamic Republic, would be able to satisfy the criteria for a successful Islamic economic system, the country's underlying conditions favoured Islamization efforts during this time period. As a result of the interest-based capitalism system in effect at the time, economic Islamization was seen as a panacea for all economic issues encountered by people. Despite the fact that Pakistan's Islamic economy has failed to alleviate even one of the poorest people's economic concerns after more than 30 years of Islamization, there are reasons for worry. Today, Islamic banking and finance are primarily concerned with the establishment of Islamic banks across the country and the growth of assets and deposits; nevertheless, factors such as improving people's socioeconomic conditions and achieving material well-being are largely ignored. With over 60% of the world's population living in poverty, Islamic banking offers a viable alternative to conventional financing in a number of areas, including market pricing, consumer exploitation through hidden fees, profit maximisation, and contributing to price hikes. As with conventional banks, Islamic financial institutions cater to the rich, denying the poor access to social services. Islamic banks have failed to include the service sector and the underprivileged into their business strategies, despite their goal declarations. Along with a fiscal deficit and inflation, Pakistan's economy is beleaguered by concerns such as poverty, human development, and the need for help from the International Monetary Fund (IMF) and the World Bank.²

¹ Ataul Huq, *Development and Distribution in Islam*, p.110.

² IMF conditions basically require a country to reduce trade and budget deficit and have a smaller government role in the economy i.e. more privatization.
<https://www.imf.org/en/Countries/ResRep/PAK>

The world is now faced with a number of grave risks to individual material well-being, yet neither state-run economic programmes nor Islamic financial institutions are equipped to properly handle these problems. Fighting for people's material well-being on the surface of the planet seems to be pointless at the moment. On the one hand, the Islamic economy, which is supervised by the government, has failed to enhance the nation's overall economic standing while also ensuring material security for the Pakistani people. Individual economic concerns are the only focus of this study, since the objective is to ascertain the effect of Islamization on individual material well-being in Pakistan. This study employs both the World Bank's methodology for evaluating material well-being and Maqasid al-Shariah: The Book of Islamic Law to accomplish this purpose.

INDIVIDUAL'S INCOME AS A SOURCE TO GET MATERIAL WELL-BEING:

Money is the principal source of support for a person's material well-being. It is defined broadly as the quantity of money earned over a certain period of time in return for labour, the sale and purchase of things, and the generation of profit (or loss).¹ Pakistan's gross national income (GNI) was last estimated by the World Bank in 2013, the preceding year in which it was calculated. This value is calculated by combining gross domestic product (GDP) and terms of trade adjustment.² Individual or per capita income is estimated by dividing the entire gross domestic product (GDP) of a nation by the whole population.³ Pakistan is a low-income nation, according to the United Nations Development Programme, with a GDP that ranks 140th in the world.⁴ Pakistan must

¹ Hayek, Friedrich, *A New Studies in Philosophy*, p.54

² World Bank Report, 2016, <https://www.worldbank.org/en/country/pakistan>. Last visited 23-01-19.

³ Penguin Dictionary of Economics, p.78.

⁴ World Bank Report, 2016, <https://www.worldbank.org/en/country/pakistan>. Last visited 23-01-19.; Income Distribution in Pakistan and Agenda for Future Direction of Research, Human Conditions Report. Islamabad: Centre for Research on Poverty and Income Distribution. <http://www.finance.gov.pk/poverty/pakistan-income-inequality-growth.pdf>.

increase its per capita income from \$2,000 to at least \$4000 if it want to be classified as a middle-income country.¹

According to the World Bank, Pakistanis have financial difficulties due to low salaries compared to the national average, high food expenditure, a lack of savings, and economic inequity. The World Bank estimates that the country's gross domestic product (GDP) was \$284 billion in 2015-16 and its per capita GNP was \$1,512. Pakistan has been categorised as a low-income nation as a consequence of this.² Since the beginning of the year, inflation and price rises have reduced an individual's monthly pay to Rs13365, which is insufficient to meet even the most basic of living expenditures. Food consumes 56% of a family's income, while housing consumes another 28%.³ Inflation also impairs people's capacity to save by requiring them to spend more than 80% of their salaries. The second issue to address is a financial shortfall caused by a lack of revenue. According to official statistics, Pakistan's average savings rate has increased to over 14% in recent years. According to reliable sources, Pakistan having one of the world's lowest savings rates (Economic Survey of Pakistan, 2015-16). Economic inequality, as well as unequal distribution of income and resources, are among the most critical problems. The governing class's involvement in the entrepreneur sector has produced an artificial climate that has resulted in a slew of other economic problems, including price increases. According to 2015 data, ruling-class families control 66% of industrial wealth and 87% of bank and insurance holdings (WB, 2016). Pakistani citizens, meanwhile, have faced economic inequities since the 1970s. Economic inequalities rose dramatically after Islamization of the economy. According to the survey, "between 1987-88 and 2001-02, the poorest 20% lost share in urban and rural regions, while the wealthiest 20% gained share." While the income share of the lowest 20% of the population decreased somewhat since it was already low, the income share of the middle 60% of the population eroded significantly, resulting in big rises for the wealthiest 20% of the population, signifying middle-class collapse. In urban regions, the decline in the income share of the middle 60% was larger than in rural ones."⁴ This means that the economic Islamization process

¹ Pakistan Bureau of Statics Division, Report 2016, available @ <http://www.staticdivision.gov.pk> Last accessed on 20-01-19.

² World Bank Report, 2016, p.113.

³ Ibid.

⁴ Kamel, Income Distribution in Pakistan, p.6.

was not undertaken in accordance with genuine Islamic economic principles, Shariah objectives, or the public's financial well-being. When Friedman (1962) noted, as money flows from the poor to the wealthy, economic inequality increases (Capitalism and Freedom, p.233).¹ Unemployment affects Pakistanis as well. Since 1990, when it was 3.13 percent, the unemployment rate has been steadily increasing, peaking at 8.27 percent in 2002. Islamic economics was founded on the principle of improving the living circumstances of common people by providing them with basic requirements. Pakistan's Islamic finance and economics have failed in this respect.

DISTRIBUTION OF AGRICULTURAL LAND AS PART OF MATERIAL WELL-BEING:

According to the World Bank, agriculture employs more than half of the country's workforce and contributes for around 21% of GDP. 83 percent of all agricultural land in the United States is utilised for farming.² According to the 2010 Agricultural Census, the United States has 8.26 million farms. In all, 52.91 million acres were dedicated to various agricultural enterprises. Agriculture land distribution was severely biased in favour of small and large farms, notably in the Midwest. While farms with less than 5 acres of land accounted for 64% of all private farms (5.35 million), they accounted for just 19% of total cropland (10.18 million acres). According to the United Nations, farms of 25 acres or more accounted for just 4% of all farms (0.30 million), yet controlled 35% of all agricultural land (18.12 million acres). According to the Census Bureau, farms in the United States were on average 6.4 acres in size, with 5.2 acres of cultivated land per farm.³

¹ Friedman (1962) pointed out that income inequality increases if income is transferred from the poor to the rich," See, Capitalism and Freedom, p.233.

² Government of Pakistan Statistics Division Pakistan Bureau of Statistics Islamabad, "The Household Integrated Economic Survey", 2011, available @ www.pbscensus.gov.pk/. Last accessed on 13-01-19.

³ Ibid., Census 2010, p.21; Ministry of Finance, Economic Survey of Pakistan, 2014-15, available @ http://www.finance.gov.pk/survey_1415.html.

NUMBER OF FARMS AND FARM AREA - BY PROVINCE

Administrative Units	Farm Area in Acre Out of 100%	Number of Farms %	Use of farms by Tenants %
Punjab	55%	64%	86
KP	15	19 %	86
Sind	19%	13%	86
Baluchistan	15%	0.38%	79

Tenancy is officially prohibited in Islam, although it is used to increase around 86 percent of farms worldwide, according to these numbers. As a result of the circumstance, Pakistan now has a very unequal land distribution. Economic scholars and muftis in the Muslim world have categorically rejected the Prophet's (PBUH) and four Caliphs' practise of contextually limiting the scope of relevant literature along the process of Islamicization.² Tenants' concerns were overlooked and neglected as a result of the landlord's unwillingness to respond promptly and appropriately. Additionally, as a result of widespread resistance from landowners throughout the 1980s and early 1990s, administrations usually neglected land reform during that time period.³ As a consequence, wealthier landowners maintain control over small farmers and tenants, particularly in Sind's interior, where tenancy is still prevalent. Sindh has the highest proportion of tenant farmers in Pakistan, accounting for more than half of the country's total agricultural households. Tenant farmers are often required to contribute half of their yield to their landlords as a kind of rent. According to a 2015 World Bank research on the subject, just 5% of farmers hold 64% of agricultural land.⁴ Similarly, 65 percent of farmers hold plots of land less than two acres in size.⁵

¹ Abu Yusuf, *Kitab al-Kharaj*, p.314.

² Allama Shibli Numani, *Al-Farooq*, p.167.

³ Muhammad Mahroof Khan & Others, *Land Distribution in Pakistan*, p.65.

⁴ Muhammad Mahroof Khan & Others, "Land Distribution in Pakistan", p.65.

⁵ *ibid*

HOME OWNERSHIP AS A PART OF MATERIAL WELL-BEING:

According to Islamic economics and the World Bank's material well-being strategy, house ownership is a vital component of material well-being and a life requirement. Pakistan, on the other hand, has been experiencing housing challenges on both qualitative and quantitative levels. Urban regions face a greater severity of the issue.¹ According to Pakistan's 1998 Population and Housing Census, the nation had around 19.3 million housing units in 1996-97. Pakistan now has a house ownership rate of roughly 75%, with approximately 67.7% living in rural regions and just 32.3 percent in urban areas. In fact, every third Pakistani lives in a metropolis.²

As a result, around 78 percent of urban residents rent their homes. With inflation, the buying power of homeowners is dwindling daily. The World Bank's definition of housing affordability is that a house worth four times (4:1) the average yearly wage is deemed within the purchasing capacity/affordable range, whereas the global average house size is around 1300 square feet (WBR, 2015). In Pakistan, a home of 1300 square feet (=5Marla) costs roughly Rs. 5 million (\$50,000), whereas the average yearly pay is Rs. 160380 (Rs. 13365 monthly salary) or \$1,000 per year. According to the above-mentioned formula, a house costing Rs. 6,41,520 is affordable in Pakistan, whereas the existing market sells the same house for approximately Rs. 45-50,00,000 in south Punjab such as Multan and Bahawalpur, and for approximately Rs. 60-70,00,000 in Lahore and Rawalpindi (in developed sectors). In Islamabad's developed area, the same size home is offered for between Rs.130,000 and Rs.150,000 in the capital.³

In this context, Islamic banks may be tasked with evaluating market prices in light of global standards in order to establish a balance price for an average-sized house in relation to the average annual income of Pakistanis, in order to ensure home ownership to the populace as recommended by Shariah's Objectives. Regrettably, the Islamic banking industry, by adopting conventional bank policies, contributed to the price increase by beginning to sell houses through *ijarah* & reducing *musharakah* at the same price and terms and conditions as conventional banks. At the moment, only the wealthy

¹ Government of Pakistan, *The Household Integrated Economic Survey*, 2011, p.98.

² Pakistan Bureau of Statics Division, 2002, available @ <http://www.staticdivision.gov.pk> Last (Accessed on 22-01-19).

³ See, www.zameen.com. Last visited on 11-01-19.

can finance their homes via Islamic banks, while the middle class and poor have no option to acquire even a tiny property through Islamic finance. For example, if a 45-year-old client applies to a bank for leasing a single-story old house measuring 1300 square feet and valued at Rs. 10 million, the Islamic bank will offer him only 40% of the total cost and will require the client to arrange for the remaining 60% in some way if he wishes to purchase a home. This implies that the customer must have a savings or income of Rs. 6 million, and in Pakistan, only the wealthy may save or earn such a large sum. Similarly, the rent paid by an Islamic bank on its stake (units) in a property is far more than the market price.¹

LIVESTOCK AS PART OF MATERIAL WELL-BEING:

Crop cultivation, animal husbandry, agricultural labour, agricultural input supply, agricultural product transportation to market, and other agricultural industries provide employment for around 64% of Pakistan's rural population, the World Bank reports.²

The ability to keep any animal in the house is both a need and a significant social status symbol for individuals who live in rural locations. The cattle industry is a significant component of the agricultural economy, contributing more than 11% of GDP in 2005-06, more than the overall crop sector's contribution of 10.3 percent in the same year. Animal husbandry is a frequently practised occupation in rural regions. It is one of the most prevalent vocations in rural areas. According to estimates, cow ranching employs 30-35 million people and contributes 30-40 percent to the nation's gross domestic product (GDP).³ According to the United Nations Food and Agriculture Organization's "Livestock Population Report," the global livestock population in 2006 was 24114455 cattle, 23468,154 buffaloes, 45,738,255 goats, and 15,025,659 sheep. ⁴

¹ Razi, Naseem, "Islamic Banking System and Mode of Leasing", p.355.

² Agricultural Census 2010 - Pakistan , available www.pbs.gov.pk/content/agricultural-census-2010-pakistan-report.

³ Live Stock Census 2006 - Pakistan Report,6, www.pbs.gov.pk/.

⁴ Ibid.

PROVINCE WISE DISTRIBUTION OF LIVE STOCK

Total Animals	24.11 in million	In %
KP	3.84	16
Punjab	13.20	55
Sind	5.64m	23
Baluchistan	1.3	6

It is possible that qard-hasanah, or low-cost livestock investments, would prove to be a viable option for underprivileged people in Baluchistan, KPK, and Sindh in terms of accessing Islamic finance and banking. Although the qard-e-hasanah, or financial help received through Islamic finance income, is available to underprivileged individuals in the animal husbandry sector, there is no equivalent system in place in conventional banking to aid them. Several studies, including one by the World Bank, have shown that animal investment may help increase milk, meat, and poultry production while also providing exportable surpluses to help meet growing local demand as a result of an ageing population.

LIFE REQUIREMENTS AND SHARIAH ISLAMIC BANKING:

Extremely costly home equipment, such as a washing machine, iron, computer, air conditioner, and automobile, are classified as "durable household."¹ Pakistan's average inflation rate from 1965 to 2015 was 77.9 percent, according to the World Bank, with a low of 68.22 percent in 1991 and a high of 84.67 percent in 1975.² Durable home goods are associated with life requirements (hajjat) in accordance with the Islamic concept of maqasid,³ which aims to improve people's lives by reducing the amount of everyday problems they confront. These connections are developed with care for the socioeconomic situation of each nation. However, around 60% of Pakistan's population remains impoverished, lacking access to food, safe drinking water, adequate sanitation,

¹ World Bank Report, 2002, p.23.

² World Bank Report, 2016, p.75.

³ Al-Shatibi, Al-Muwafaqat, vol.1, p.177.

medicine, education, and adequate housing, among other requirements. In comparison to other environments, the supply of durable home products is less critical. According to this study, the word "material well-being" is synonymous with the Shariah's daruriyyat (Sacrament of Material Well-Being) concept from Maqasid al-Daruriyyat (necessities).

Notable about Islamic finance and banking is that it was formed not just to act as a traditional financial intermediary, but also to assist the poor in gaining material well-being and meeting basic living necessities, as well as to administer social justice. Additionally, by disregarding the issue of land reform, which affects around 70% of the population, participants have polarised Islamic economics and finance, which is a bad trend. The fast growth of Islamic banks does not imply that they have enacted policies that assist the poor in attaining material well-being, which is necessary for existence. In this context, Islamic banking and finance's inability to relieve poverty and promote material well-being is a major cause of concern, owing to the lack of development in these areas. Bear in mind that both capitalism and socialism failed as a result of an inability to appreciate the condition of the poor and working class. Due to the failure of Islamic economics to achieve its primary aims, the average individual sees no functional difference between capitalism and Islamic economic systems. In Pakistan, the conventional banking and financial industries come in a close second to Islamic banking and economic firms. When it comes to price increases, contempt for people's material well-being, consumer exploitation through hidden fees, and profiteering at an ever-increasing rate, it is following the capitalist system, which overlooks the socioeconomic realities of the Pakistani people. As a consequence, Islamic economics failed to construct the so-called Qard e Hasanah window for the poor, which was one of Islamic money and banking's primary goals. A poor person with no assets, no credit, and no property is not insured. Neither an Islamic fiancé nor economics can adequately address the question of educating, training, or providing material well-being for such a person.

According to the results of this essay, Islamic economics and finance should be reorganised in order to achieve their fundamental goals. One of the most critical objectives in Islamic economics and finance is to guarantee that individuals have adequate material well-being in their life. Contemporary Muslim economists and academics should examine contemporary Islamic economic systems in light of Qur'anic

economic provisions, the Prophet's (PBUH) economic policies in Madinah (Muwakhat al-Madinah), and the economic policies of the four Caliphs in order to determine the validity of contemporary Islamic economic systems (especially Hadrat Umar).

DEVELOPMENT AND GROWTH OF ISLAMIC BANKING IN PAKISTAN

Individuals, organisations, enterprises, and governments rely on banks for assistance and support in meeting their financial obligations. Banking services may have a wide range of consequences for all parties involved in the transaction. We reviewed and compared the financial performance of three Islamic banks: Meezan Bank Limited (MB), Bank Islami (BI), and Dubai Islamic Bank Pakistan Limited (DIBP) (DIBPL). The liquidity, profitability, and activity of banks were used to evaluate and compare their financial performance. The financial performance of the institutions was examined utilising experimental quantitative research. To establish the normality of the data and to analyse it, Q-Q plots and ANOVA were utilised. According to data, there was no statistically significant variation in bank financial performance during the research period. Despite this, there is still a large disparity in the banks' equity ratios. The Least Significant Difference (LSD) approach is used to determine the importance of the bank's return on equity ratio (ROE). This is because, other than return on equity, all other outcomes are meaningless. This report included several recommendations for management and strategic changes, as well as academic endorsements, aimed at improving Islamic banks' financial performance.

IMPORTANCE OF ISLAMIC BANKING

Islam, being a complete code of behaviour, educates people in all aspects of their life, with Islamic teachings extending to all spheres of economic activity. Islamic economics and shariah-compliant finance assert that Islamic teachings require believers to produce legal (Halal) earnings and that Islam has proclaimed the amassing of lawful (Halal) wealth to be the primary form of devotion (Ibadat).¹ Islamic economics and Shariah-compliant organisations are the primary vehicles through which people may invest their

¹ Alam, N., L. Gupta, and B. Shanmugam, *Islamic Wealth Management*, in *Islamic Finance*. 2017, Springer. p. 451-473.

excess funds in order to generate legal (Halal) money. In the first six requirements, Islamic banking is defined as a "Shariah-based financial system" that complies to Islamic norms.¹ The lack of interest payments is one of Islamic banking's most defining characteristics (riba). Numerous verses in the Quran and sayings of the last Prophet Muhammad prohibit interest (PBUH). Surahs of the Holy Quran (S.A.W.) depict interest-based discussions as a kind of resistance to Allah and His Messenger Muhammad. Financial system activities cannot be considered Islamic if a little amount of interest is involved.²

ISLAMIC BANKING VS CONVENTIONAL BANKING:

In many parts of the world, conventional and Islamic banking coexist. The financial systems of these two countries are starkly opposite. The interest rate gap between Islamic and conventional banking is the most fundamental distinction between the two modes of banking (riba). In contrast to the former, which is fully based on interest (riba), the latter is entirely based on profit and loss distribution and expressly forbids interest trading. Banks' obligations have historically been perverted, and they have remained immoral social concerns; nevertheless, shariah-compliant banks are dedicated to aiding the communities in which they operate. In contrast to conventional banks, which keep capital inactive by paying a set interest rate, Islamic economic systems stimulate profit and loss capital investment and prohibit money hoarding. While conventional banking seeks to maximise profits by lending money to any business, regardless of its nature, the Islamic system prohibits financial institutions from participating in such unlawful, immoral, and unethical behaviour.³ Numerous restrictions and inspections have been implemented to guarantee that money is utilised just for company purposes. This is done

¹ Alam, M.K., et al., Problems of Shariah Governance Framework and Different Bodies: An Empirical Investigation of Islamic Banks in Bangladesh. *The Journal of Asian Finance, Economics*, 2020, p. 265-276.

² Hariyanto, E., The Settlement of Sharia Banking Dispute based on Legal Culture as a Practice of Indonesian Islamic Moderation. *Al-Ihkam: Jurnal Hukum dan Pranata Sosial*, 2020. p. 301-316.

³ .Khan, H.N. and N. Asghar, Customer awareness and adoption of Islamic Banking in Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, 2012. p. 359-366.

to guarantee that the public's money is not misappropriated. Islam permits ¹Thus, interest-based banking dominates the worldwide market, whereas the market segment of Islamic banking based on assets is developing internationally.

ISLAMIC BANKING IN THE WORLD:

While the Islamic banking system has existed in concept for fourteen centuries, it did not become a reality until the twentieth century, when El-Najjar created the world's first Islamic bank in 1963 ²It operated as a savings organisation, with earnings and losses distributed equally among owners. Egypt had the highest concentration of Islamic banks in the world until 1967, when the government was compelled to shut them. Another ten to fifteen years passed before additional Islamic banks in the Arab world were established, including the Dubai Islamic Banks in 1975 and the Faisal Islamic Bank of Sudan and Egypt in 1977, both of which were headquartered in the United Arab Emirates. Around the same time period, the Organization of Islamic Countries (OIC) and the Organization of Islamic Countries (OIC) founded the Islamic Development Bank (IDB).

ISLAMIC BANKING IN ISLAMIC COUNTRIES:

Islamic Banking has been separated from the "Islamic Finance Industry." Islamic banking is gaining popularity in non-Muslim countries. According to the World Bank, Islamic banking is increasing at a pace of 10%, 12.3%, 13.3%, and 20% every year. Sudan and Iran have both abolished conventional banking and fully recognized the Islamic financial system as a viable financial system. As a consequence, Islamic banking is gaining popularity around the globe, with Pakistan leading the way.

Pakistan's religion is Islam, which is regarded as the country's official religion. Pakistan's quick rise indicates how enthusiastic its residents are about Islamic finance,

¹ Setiawan, A. Harmonization of Islamic Law Norms in Sharia Banking Laws. in 2nd International Conference on Indonesian Legal Studies. Atlantis Press. 2019.

² Haron, S. and N. Ahmad, The effects of conventional interest rates and rate of profit on funds deposited with Islamic banking system in Malaysia. International Journal of Islamic Financial Services, 2000.p. 1-7.

despite the fact that Islamic finance accounts for just 8% of total banking activity in the country. Numerous Pakistanis feel that donating to Islamic organisations is an effective way to earn money. As a consequence, some Pakistanis have turned to Islamic banking, feeling that the West is hostile to Islam and Muslim communities.¹ Muslims are increasingly turning to Islamic banking as they become more conscious of the country's interest-based banking system's financial problems.

SIGNIFICANCE OF THE RESEARCH:

This study about Islamic Banking will help all Islamic banking stakeholders, including customers, students, professionals, and policymakers. Secondary data analysis and the financial performance of more than two Islamic banks will provide clients and students with a comprehensive understanding of Islamic banking practises. Students may be able to use the findings of this study to improve Islamic banking in real-world business scenarios as a consequence of their studies. The results and suggestions of the research will assist bank executives in their efforts to have a better grasp of Islamic financing. The study's conclusions will have policy ramifications for Islamic financial institutions' chiefs. The investigation is anticipated to be expanded to include more Islamic financial institutions located around the nation.

Specifically, the financial performance of a limited number of Islamic banks is being scrutinised as part of this inquiry in order to determine whether or not the Islamic banking system has a statistically significant financial performance. Profits and losses are distributed in line with Islamic principles in Islamic banking, which means that interest is not charged. A significant premium is placed on market efficiency in Islamic banking, which is a rapidly growing business with a young workforce. In this study, a variety of financial metrics are used to assess how well Islamic banks perform in terms of financial performance.

¹ Asif, M., Motives Behind the Transfer of a Bank From Conventional Banking to Islamic Banking in Pakistan. *Journal of Business Tourism*, 2017 p. 225-234.

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