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Why interest-free banking and finance movement failed in Pakistan

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[Humanomics](#)

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Abstract

Purpose

The main objective of the paper is to understand the reasons why Islamic banking failed in Pakistan despite lots of efforts being made to implement in contrast to its success in other parts of the world.

Design/methodology/approach

The paper is based on a debatable conceptual approach. It provides a longitudinal view of the issue of replacing the interest-based financial system in Pakistan with an interest-free system by taking the religious, socio-economic and political factors of the country.

Findings

The findings of the paper hold that piecemeal solutions to eliminate interest from the financial sector of Pakistan could never succeed. It concludes that all intellectual, practical, political, constitutional and legal efforts undertaken in Pakistan to enforce an interest-free system were not meant in earnest and therefore they inflicted serious damage to the cause of Islam as well as Islamic banking. Interest is prohibited in Islam for its exploitative nature. In case of Pakistan, interest institution is not only deep-rooted, but also strongly interlinked with other exploitative tools that are prevalent in the hands of some selected people to keep their control over political, economic and social spheres of Pakistan. There is an indispensable need to eradicate interest along with its allied forces from the polity of Pakistan. The practical success of interest-free banking and



The contents of the paper woven around normative and social disciplines and therefore, it is not possible to devise any statistical model to empirically test the contribution of these socio-economic factors in a failure of interest-free banking and finance movement for future research and any identified limitations in the research process.

Originality/value

The paper provides a broader perspective over the issue of eliminating interest from the national economy and financial sector of Pakistan. The paper figures out some serious political, social and micro and macro economic constraints that should be first sorted out to pave the way for any viable strategy to succeed in replacing the existing system with risk-sharing and alternative interest-free mechanisms. The findings of this paper may be useful for the policy makers, researchers, academicians, financial experts, Islamic Shariah scholars, bankers, regulators, Islamic financial institutions and those Muslim countries who wish to undertake a similar kind of experiment as was attempted in Pakistan. This paper may also help the Western economist to think and debate about an alternative interest-free economic and financial system of Islam.

Keywords

- Interest
- Banking
- Finance
- Pakistan

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