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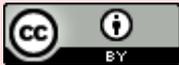
Research Article

The Genesis and Development of Islamic Economics and Finance

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Abstract. The Islamic economic and finance industry has undergone significant transformation, evolving from a nascent sector into a robust global industry since the latter half of the 20th century. This sustained growth has exceeded the expectations of many who were initially skeptical of its viability. During the economic recession of 2008, Islamic economics and finance emerged as an unscathed, ethical, and resonant alternative to the conventional financial systems. As of 2023, the global financial landscape continues to grapple with numerous challenges, including geopolitical tensions, inflation, and excessive debt. Notwithstanding these formidable obstacles, the Islamic Financial Services Industry has persistently demonstrated remarkable growth, with approximately 3.38 trillion U.S. dollars currently engaged in this sector. The Islamic financial system has garnered

attention from major international financial institutions, including the International Monetary Fund, the World Bank, and the World Trade Organization. However, despite its notable expansion, some Western scholars, including Timur Kuran, contend that the Islamic economic and financial system is a product of the 20th century and lacks a historical genesis. Kuran has further argued that this system exhibits a sectarian bias, which its founders developed primarily to benefit the Muslim community, thereby neglecting the welfare of other societal segments. Additionally, he posits that the system has been advocated by Abul Ala Mawdudi to support the movement of political Islam. Consequently, this paper seeks to address these critiques and to explore the historical origins and developmental trajectory of the Islamic economic and financial system.

Keywords: Origin, Development, Islam, Economics and Finance.

INTRODUCTION

Every branch of knowledge has developed systematic and incremental way over a period of time and not randomly in a single stage or overnight. Islamic economics which provides frame work within which Islamic finance is supposed to work, is based on the inevitable principles and has evolved systematically in stages like conventional economic and financial system. The conventional economic system has gone through various stages, first, it got its origin from Greek philosophical dialogue, Roman jurists, administrators, and early views of Christian priests, then there was a great gap of five years, thereafter in the 12th century, eventually, scholastic economics emerged which remain in dominance for about four centuries then mercantilism stage for about two and half-century and then came to physiocracy which remained for a short period till Adam Smith's incredible work 'Wealth of Nation' in 1776 A.D., which is labeled as the magnum opus of economics but it doesn't denote that there was no economics before Smith. The same is the case with Islamic economics which has eventually evolved systematically from its classical foundations to become a vital growing part of the global financial industry, despite facing a number of challenges.

Research Methodology

The study applies a qualitative research methodology rooted in historical cum analytical approaches to explore the theme origin and development of Islamic economics and finance. The research aimed to comprehend the conceptual evolution, institutional framework, and practical implications of Islamic economics and financial ideals from classical Islamic civilization to contemporary times.

The term Islamic finance may be from the twentieth century but the Islamic economic ideas, concepts, financial tools, and instruments existed right from the time of Prophet Muhammad (SAAS), and these ideas and instruments groomed gradually in different developmental phases which are aptly discussed below:

First Stage (First Century of Islam)

This period may rightly be called the shaping period of Islamic finance. In this period socio-economic issues were tackled mainly by taking insights from the fundamental sources of Islam i.e. Qur'an and Sunnah which serve as the basis of Islamic economic thought. Simultaneously, in order to provide welfare and well-being (*masliha*) to the masses emphasis was equally given to reason/intellect (*Aqil*).¹ No need was felt to seek guidance from external sources². The Qur'an and Sunnah present a substantial body of economic teachings and injunctions that have been elaborated upon in detail by Muslim scholars through methods such as *qiyās* and *ijtihād*, as well as their experiences in addressing contemporary challenges. Consequently, Muslim jurists and scholars began to admonish rulers and individuals regarding economic matters and policies. To support this endeavor, Islamic scholars and jurists initiated the collection and compilation of Prophetic Ahadith related to financial issues. By the end of the century, numerous treatises addressing economic matters had been written, including Abu Yusuf's *Kitab al-Kharaj* (Book of Taxation), Abu Ubayad's *Kitab al-Amwal* (Book of Finance), al-Shaybani's *Kitab al-Kasb*, and al-Qurashi's compilation of prophetic traditions concerning taxes and financial issues. Additionally, al-Muhasibi (d. 857) produced a work emphasizing the significance of economic activities, while Ibn Abi al-Dunya (d. 891) authored *Islah al-Mal* (Betterment of Wealth). Al-Kinani (d. 901) examined the laws and regulations governing markets in his work *Ahkam al-Suq*, and Imam al-Ghazali (1111) discussed the nature and functions of money and moderate spending. Al-Dimashqi, who lived in the 12th century, outlined the advantages of commerce. These contributions emerged during what Joseph Schumpeter described in his book *History of Economic Analysis* as a "great gap" of five hundred years in the development of economic thought.

From the inception of Islam, a diverse array of financial tools and instruments became prevalent, including Mudarabah, third-party intermediaries, safe deposits, interest-free loans, trade mechanisms, Bait al-Mal, cheques, bills of exchange, and a money exchange system. During this period, financial instruments like Mudarabah were widely utilized, particularly by individuals lacking direct experience in business endeavors—such as government officials, soldiers, and orphans—who invested surplus funds through Mudarabah arrangements. As Muslim society evolved, the presence of third parties emerged, functioning as intermediaries between investors and capital users, akin to modern Islamic banking, which serves as a conduit between fund depositors and business operators.³ In the due course of time, the third party

¹ Islahi, Abdul Azim, *History of Islamic Economic Thought: Contribution of Muslim Scholars to Economic Thought and Analysis*, Edward Elgar, United Kingdom, P. 4.

² *Ibid*, P. 8.

in the form of trustworthy persons existed which acquit as a central bank, as there was absence of central deposit institution and people used to save their valuable commodities and money with them, who were reliable persons like al-Zubair b. al-Awwam⁴. It was reported that Zubair b. al-Awwam was the first person to have exercised the instrument of loan or *qard* and accumulated deposits estimated to 2,200,000 million *dirhams*.⁵ Furthermore, Bait ul-mal under Pious Caliphs, particularly during the time of Hadhrat Umer (R.A) served as a "State Bank" and under Umayyad reign it acted a role of commercial and agriculture credit bank, lending loans free of interest rates⁶ and provides a pivotal force in the activities of trade and commerce. In order to ease the business and trade activities, the merchants could return their amount of loans to any nearby branch of Bait ul-mal. Regarding the cheques in the early period of Islam, it is maintained that Sayf al-Dawlah (governor of Aleppo) was the first person to issue cheques in the field of Islamic finance. The governor is reported to write cheques to a few persons as a gift and on their advent to Baghdad they displayed these cheques to the exchanger of Baghdad and the exchanger after seeing the signature of the governor en-cash the cheques.⁷ In addition, there was also a sophisticated money exchange system, which is obvious from the various Ahadith of Prophet Muhammad (SAAS) where he stressed the exchange of different currencies should be hand to hand and prompt.⁸ It is analyzed from the above discussion that the economic and financial concepts, ideas, instruments, and tools that exist in modern Islamic banking like intermediary or third party, interest-free loans, safe deposits, trade, bill of exchange, Bait al-Mal, cheques, money exchange, profit sharing tools, etc., were not new to Muslims but Muslims were in familiar with these tools and concepts from the early period of Islam.

Second Phase

This period spanned approximately four centuries, from the 8th century to the 11th century, and is commonly referred to as the Translation Period. During this

³ Cf. Sami Hasan, Hamoud, *Concept and Operation of Islamic Banks*, in Khan, M. Fahim (ed.). *Islamic Financial Institutions*, Jeddah, IRTI, IDB, First edition, 1995, p. 36.

⁴ Zubair b. al-Awwam was a pious companion of Prophet Muhammad (SAAS) and fearless commander of the Muslim Army who took part in numerous battles like, Battle of Badr, Uhud, Trench and Khyber.

⁵ Sami Hasan, Hamoud, *Islamic Banking: The Adaptation of Banking Practice to Conform with Islamic Law*, London, Arabian Information Limited, 1985.

⁶ Choudhury, M. A., Rasheed (ed.), *Thoughts on Islamic Economics*, Dhaka, Islamic Economics Research Bureau, First edition, August 1980, p. 182.

⁷ Sami Hasan, Hamoud, *op.cit.*, p. 37.

⁸ al-Hajjaj, Muslim, *Sahih Muslim*, (Tr. English), Nasiruddin al-Khattab, vol.4, , Maktaba Darussalam, Riyadh Saudi Arabia, 2007, p.306.

time, a substantial number of Greek and Persian works were translated into the Arabic language, particularly under the reign of Caliph al-Mamun, who established Bait al-Hikmah specifically to promote translation activities. This institution emerged as an intellectual center that facilitated interactions between the Eastern and Western worlds. As a result, Muslims were exposed to a diverse range of external literature, which they actively utilized. They became acquainted with Greek economic ideas and subsequently elaborated on and refined these concepts through their own commentaries and treatises.

Joseph A. Schumpeter posited that Greek economic thought was largely constrained to a limited set of concepts, including need fulfillment, division of labor, the functions of money, barter, and the economy of self-sufficient households, as articulated in Aristotelian narratives, which are often referred to as pure Greek economics.⁹ Under Islamic influence, economics evolved as a distinct branch of knowledge, significantly surpassing the aforementioned Greek themes. New areas of inquiry were embraced, including price mechanisms, taxation, market dynamics, supply and demand, as well as economic laws and regulations that laid the groundwork for modern economic thought. During the golden era of Islam, a variety of economic and financial instruments emerged within early Islamic banking, such as promissory notes, bills of exchange, transactional accounts, cheques, limited partnerships (Mudaraba), capital accumulation (nama al-mal), treasury bills, free markets, trusts, and the institution of agency.¹⁰ The translation movement, however, came to an end in the 11th century.¹¹

Subsequently, many of the ideas and concepts cultivated during this period were adopted and further developed in medieval Europe. Abraham L. Udovitch argued that certain practices, concepts, and institutions that were fully developed within Islamic shari'ah and existed in the late 8th century were notably absent from European civilization for centuries. The potential and virtues of these commercial institutions endured, I believe, far most of the Islamic Middle Ages".¹²

By the medieval period, Muslims had successfully established a comprehensive financial system that facilitated trade and commerce between Muslims and non-Muslims, effectively characterized as mercantilist in nature.¹³ This system functioned efficiently for centuries during the height of Islamic civilization, notably without the inclusion of interest-based transactions. In the view of Professor

⁹ Schumpeter, Joseph A., *History of Economic Analysis*, Routledge Press, 2006, p. 56.

¹⁰ Brian, Kettell, *The Islamic Banking and Finance Work Book*, John Wiley and Sons, United Kingdom, 2011, p. 24.

¹¹ Lewis, Bernard, *The Muslim discovery of Europe*, W. W. Norton, New York, 1982, p. 221.

¹² Udovitch, Abraham L., *Partnership and Profit in Medieval Islam*, Princeton, NJ: Princeton University Press, 1970, p. 261.

¹³ Basov, Suren & M. Ishaq, Bhat, *Islamic Finance in the Light of Modern Economic Theory*, Palgrave Macmillan, London, 2016, p. 49.

S. D. Goitein, trade and commerce in the Mediterranean region during the 12th and 13th centuries operated primarily on the basis of profit-sharing and partnerships, rather than interest-based lending.¹⁴ The robustness and reach of this financial system remained influential until European countries developed their own banking systems, which were significantly reshaped by Islamic practices.. Maurice Lombard further elucidated the considerable contributions of Muslim scholars and practitioners to the fields of economics and finance in the following words:

When the West was in ignorance and dark ages all economic and intellectual activities stopped with the decline of the Roman empire and it was the Muslim East that provided the pivotal force behind economic and cultural activities...great ports in the Muslim world harbored by ships, maritime population, dockyards etc., with three massive complexes...caravan towns, were having carriage system which dominated the Arab routes, Mesopotamian routes and trading roads of Berber crossing Sahara... Commercial uniformity rested on one main currency, which was the Muslim dinar and one official language which was Arabic.¹⁵

In addition, Muslim coins were found in the 9th- 11th century in many parts of the world like Russia, Finland, Sweden, Norway, etc., and in other parts of Europe. Economic growth was so rapid, that cash could be seen in the smallest townships where barter was the only method in the experiment.¹⁶

Third Phase (12th-15th century)

This period is aptly termed the transmission and re-translation period, as a substantial corpus of Greek-Arab works was translated into Latin and other European languages. In Constantinople, large-scale translation efforts were undertaken by the conclusion of the 11th century.¹⁷ Consequently, the time preceding the Western Renaissance is referred to as the 'translation period'. During this era, Europe acquired economic, scientific, and various other academic insights from Muslim scholars, akin to the spoils of war.¹⁸ In this manner, the economic insights of Muslim scholars permeated into Europe, thereby establishing a connection between Greek economic thought and subsequent socialist economists. Islamic scholars played an indispensable role in the systematic evolution of economic thought. Scholastic scholars capitalized on the ideas presented by

¹⁴ Goitein, S.D., *A Mediterranean Society*, Vol. 2, Berkley and Los Angeles, University of California Press, 1971.

¹⁵ Lombard, Maurice, *The Golden Age of Islam*, Markus Wiener, 2003, pp. 8,9.

¹⁶ Kramers, J.H., *Geography and Commerce*, in Arnold, T. and Guillaume, A. (eds.), *The Legacy of Islam*, London, Oxford University Press, 1952, p. 100.

¹⁷ Islahi, Abdul Azim, *op. cit.*, p. 5.

¹⁸ *Ibid.*, p. 14.

eminent Muslim thinkers, as these ideas were more rooted in rationality and revelation, rendering them particularly applicable to the context of the time.

The 15th century marked the emergence of a prominent Muslim intelligentsia, producing distinguished figures such as Ibn al-Azraq, al-Dawani, Ibn Khaldun, and al-Maqrizi, among others. Ibn Khaldun articulated fundamental economic concepts, emphasizing the importance of a free market while discouraging government intervention through excessive taxation and active participation in the production and distribution sectors. He posited that such government interference poses a significant barrier to economic growth.¹⁹ He also called for the safety of capitalists and supported, optimal taxation to acquire more revenue from taxes,²⁰ so that encouragement to work will remain intact and people will pay in return with ease. He further argued government should make wise public expenditure policy²¹ and also gave theory of value of labor before Adam Smith, in which significance was given to specialized labor and the specialized labor was considered more precious and profitable than natural resources. He viewed labor as a vital factor of production.²² Moreover, he anticipated the theory of population prior to Malthus, and the normative role of the government just like J.M. Keynes argued.²³ His contributions to the field of economics are remarkable, as he explored a wide array of themes related to Islamic economics and finance, including market dynamics, trade, agriculture, capital formation, taxation, the monetary value of labor, pricing, demand and supply, free economies, public expenditure, and the doctrine of values.

Fourth Phase (16th-18th century)

This epoch is referred to as the latent period, which lasted approximately three centuries. During this phase, significant advancements in economics were notably absent, particularly when contrasted with the contributions of earlier scholars. Although Muslim scholars did engage in extensive writing on various economic and financial topics such as pricing, public finance, monetary systems, and taxation, these works primarily reiterated previously established ideas and themes. Only a few rare texts, such as Fadl-Allah Khunji's treatise on Islamic finance titled

¹⁹ Ayoub, M., *op. cit.*, p. 28.

²⁰ Jaafar, A.B.& A.G., Ismail, Tax rate and its determinants: An opinion from Ibn Khaldun, *International Journal of Academic Research in Business and Social Sciences*, 2017, 7(4), 881-899, p.1.

²¹ Islahi, A. A., Ibn Khaldun's Theory of Taxation and Its Relevance Today, In Conference on Ibn Khaldun, Madrid, 2006, November, p. 2.

²² Ibn Khaldun, *al-Muqaddimah Ibn Khaldun*, Maktab al-Usrah, Kairo, 2006. Also in Ibn Khaldun's Economic Thought Mujahidin, Muhamad, p.5. Online at <https://mpa.ub.uni-muenchen.de/87192/>

²³ Boulakia, J.D.C., Ibn Khaldun: A Fourteenth Century Economist, *Journal of Political Economy*, Vol. 79, No. 5, 1105-1118, 1971, Chicago Press, p. 1., Also in Ayoub, M., *Op.cit.*, 2007, p. 27.

Suluk al-Muluk and Abu'l-Fazl's *A'in-i Akbari*, provided unique insights into Islamic economics and finance. Scholars during this period largely replicated and imitated insights that had already been formulated. This phase represented a significant decline for Islamic thought, which became increasingly overshadowed by Western civilization, particularly evident in the early 16th century, as the Western Renaissance gained momentum. It was a period when there was rapid movement of mercantilism²⁴ in the Western world. Western scholars assimilated foundational insights from Greek and Islamic thought, fostering a vibrant intellectual culture.²⁵

The intellectual stagnation persisted into the 17th century, during which Muslim scholars neglected key economic elements, including trade, industry, and agriculture. Simultaneously, they continued to address various socio-economic issues such as equity in taxation, exploitation, justice, hoarding, and monopoly.

The 18th century witnessed the full emergence of Western civilization, paired with the sharp onset of colonialism in Islamic countries. In contrast to the sophisticated commercial banking systems that developed alongside the Industrial Revolution in Europe, Muslim civilization became increasingly dormant

Despite these challenges, several visionary Muslim scholars emerged during this period, including Shah Wali-Allah²⁶, a respected Muhaddith and Islamic reformer; Mohammad bin Abd al-Wahab²⁷, a prominent religious leader from Najd and founder of the Wahabi Movement; and Uthman Dan Fodio²⁸, a noted religious reformer and educator. These individuals dedicated themselves to guiding the Muslim populace in religious matters and reintroducing the original teachings of Islam concerning economy and society, thereby laying the groundwork for the modern period in the Muslim world.

It is notable that even under colonial rule, interest-free credit societies and cooperatives operated in various regions,²⁹ reflecting a substantial segment of the Muslim population's reluctance to engage in modern, conventional banking systems

²⁴ Mercantilism is a national policy of economy that stresses on trade and commerce. It states that trade is the main instrument to generate the revenue of the country.

²⁵ Islahi, Abdul Azim, In Reply to Kuran, *The Genesis of Islamic Economics: Revisited*, *Islamic Economic Studies*, Vol. 23, No. 2, November, 2015(1-28).

²⁶ Shah Wali-Allah (1703-1762) was a reputed Muhaddith, Islamic Scholar and reformer of Islam. He memorized the Holy Quran at the age of 7 years. He wrote various valuable works like, *Hujjat Allah al-Baligha*, *Sata`at*, *Lamhat*, *Al- Tafhimat* etc.

²⁷ Mohammad bin Abd al-Wahab (1703-1792) was a pious religious leader from Najd. He was the propounder of the Wahabi Movement. He helped Ibn Saud in the establishment of the Emirate of Diryah.

²⁸ Uthman Dan Fodio (1754-1817) was a notable religious reformer, teacher, writer and stalwart. He wrote on various themes encompassing *Fiqh*, *Hadith*, criticism, poetry and purity of soul etc., largely in Arabic languages.

²⁹ Iqbal, Munawar & Philip M., Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects*, Palgrave Macmillan, New York, 2005, p.37.

predicated on interest, or did not accept interest on their deposits³⁰ which is considered contrary to Islamic principles. Therefore, the proliferation of interest-based financial systems in most Muslim countries did not progress with the same rapidity as observed in Western contexts. Concurrently, Muslim scholars expressed their dissatisfaction with the emerging conventional interest-based economic and financial systems, advocating for alternative models founded on Islamic principles.

Fifth Phase (19th to early20th century)

The 19th century marked a pivotal phase in the awakening and re-birth of Islamic economics, as a new intellectual and economic renaissance emerged. During this era, a significant portion of the Muslim world found itself under colonial domination. Muslim scholars, particularly from the Arab and Indian subcontinents, had the opportunity to observe the developments occurring in the Western world. Over time, they became increasingly aware of European ideas, recognizing how their own societies had become stagnant and outdated. This exposure enabled them to engage with new Western concepts, including financial institutions based on interest, such as the stock market, banking systems, insurance companies, and joint-stock corporations.

In response to these challenges, these scholars endeavored to guide the broader Muslim populace toward overcoming economic backwardness and addressing various socio-economic issues, thereby reclaiming their lost wisdom and dignity. A multitude of esteemed works emerged from prominent figures such as al-Tahtawi (d. 1873), Khayr al-Din al-Tunisi (d. 1890), Mohammad Abudh, al-Kawakibi, and Sayyid Ahmad. These scholars sought to enlighten Muslims on Islamic economic principles while advising against engaging in activities deemed un-Islamic (haram) by Shari'ah, emphasizing the importance of science and technology in advancing industry, trade, agriculture, and commerce, which constitute the backbone of a thriving economy.

The work of al-Tahtawi, specifically "Aqam al-Masālik Takhlīṣ al-Ibrīz," provided a comprehensive examination of industry, commerce, communication, trade, and employment. He posited that these elements were essential for the economic advancement of Muslims, observing that the prosperity of the French stemmed from their progress in these areas. Furthermore, Muhammad Abudh performed thorough analyses of various economic and financial themes, including demand, supply, interest rates, poverty alleviation, and the abolition of bonded labor, alongside the significance of relevant education.³¹

³⁰ Cf. Ausaf, Ahmad, *Evolution of Islamic Banking*, n.p., n.d., pp. 14,15.

³¹ Islahi, Abdul Azim, In Reply to Kuran: The Genesis of Islamic Economics, *Revisited, Islamic economic studies*, Vol. 23, No. 2, November, 2015(1-28).

Similarly, Sir Sayyid Ahmad Khan expressed deep concern for the economic status of Muslims. He advocated for a value-based economic and financial system and asserted that economic improvement could be attained by eradicating selfishness, idleness, illiteracy, dishonesty, and exploitation—factors that he identified as critical to the backwardness of the Muslim community.

While interest-free financial systems could not be institutionalized during this period, the essential principles of the Islamic financial system persisted through a range of significant works produced by Islamic scholars, despite facing numerous formidable challenges. These scholars meticulously delineated the detrimental consequences of interest-based economic systems and rigorously critiqued practices associated with them. Noteworthy figures such as Abd al-Rehman al-Kawakibi³², along with Khayr al-Din al-Tunisi³³, critiqued the abandonment of Islamic laws by rulers,³⁴ citing examples such as the Ottoman Sultan Abdul Majid, who permitted various illegitimate practices, including *riba* (interest), and sanctioned the establishment of interest-based banks in 1850 to strengthen the empire—a move that was met with significant criticism from scholars like al-Kawakibi. Al-Tahtawi similarly admonished that the French could have achieved greater economic success had they refrained from engaging in interest-driven activities. He urged the affluent segments of society to support the economically disadvantaged through the principle of 'al-Salam,' shunning *riba*-based transactions and participating actively in economic engagements.

Thus, Islamic scholars in this transformative period conducted comprehensive studies on crucial economic and financial themes, which later became key topics of discourse in the 20th century, such as banking and interest, value-oriented systems, taxation, public finance, the relationship between Islam and business, insurance, surplus, demand and supply, poverty, and the government's role in economic transactions. These contributions ultimately laid the foundational framework for the modern discipline of Islamic economics and finance.

Sixth Stage (20th century)

This period is recognized as the developmental phase of modern Islamic economics and finance. It provides an apt foundation for the advancement of Islamic economics and finance, particularly as several Muslim nations gained independence from European colonial rule following World War II. Additionally, this era was

³² Abd al-Rehman al-Kawakibi (1855-1902) was a notable Syrian intellectual. He delineated on Muslim identity and working for Pan-Arabism. He authored two important works: *The Mother of villages and The Nature of Despotism*.

³³ Al-Tunisi was an Islamic Modernist and acted grand vizier of Ottoman Empire in 1878. He was much worrisome about the downfall of Muslim Ummah and played a key role in its revival.

³⁴ Tunisi, Khayr Al-Din, *The Surest Path*, Centre for Middle Eastern Studies of Harvard University, United States, 1968, pp. 134-6.

marked by a prolonged contest between Socialist and Capitalist systems. Encountering these two distinct ideologies, Muslim intellectuals posited that Islam offers a moderate path that reconciles the extremes of both systems. They expressed dissatisfaction with the Western economic model, critiquing its value neutrality and materialistic inclinations that tend to foster selfishness and avarice, which they argued do not necessarily promote social welfare. This critique was not solely articulated by Islamic scholars; it resonated with numerous esteemed Western economists, including John Maynard Keynes.³⁵

During this phase, the dominant European civilization regarded Islam as backward³⁶, suggesting a deficiency of guidance in the domains of economics and finance. Islam was perceived as incompatible with modern scientific advancements. Prominent figures such as Qutb, Yusuf ud-din, Maulana Mawdudi, Dr. Muhammad Hamidullah, and Baqir al-Sadr contended that the political and economic hegemony of Europe during the colonial period had deprived them of divine guidance, particularly in socio-economic matters. These scholars embarked on the task of addressing these challenges and dispelling myths that had infiltrated the Muslim world during colonialism. They sought to rediscover and revive the Islamic intellectual heritage through their writings and lectures, aiming to enlighten the Muslim populace about the socio-economic principles rooted in Islam and the necessity of developing a comprehensive economic and financial system to address pressing socio-economic issues.

The foundation of the modern Islamic economic and financial system began to take shape in the early 20th century when various Islamic scholars in the Arab world engaged in discussions on diverse economic and financial themes, which ultimately provided the groundwork for contemporary Islamic economic thought. Scholars such as Rashid Rida addressed financial matters like Zakah and interest, while others, including Salih, explored Arab-Islamic economic thought of the fifteenth century. Additionally, al-Hashimi contributed insights on Biruni's economic perspectives, Shaltut focused on Zakah and taxation, and Ali examined the concept of al-Hisbah. Khan pursued a Ph.D. on usury and the Laws of Muhammadan Law, while Nizami researched income tax and Zakir Hussain delivered lectures titled "Ma`ashiyat: Maqсад aur Minhaj," analyzing the economic ideas of historical Muslim scholars. These significant contributions established a theoretical framework for the burgeoning field of Islamic economics and finance, paving the way for future scholarship previously lacking in the preceding centuries.

³⁵ John Maynard Keynes (1883-1946 A.D.) was British eminent economist and journalist. He wrote an important work on economics which is considered magnum opus titled *The General Theory of Employment, Interest and Money*.

³⁶ Visser, Hans, *op. cit.*, 2009, p. 2.

The first authentic and complete comprehensive work was composed on Islamic economics by Hafiz-ur-Rehman Seoharwi³⁷ titled *Islam ka Iqtisadi Nizam* (The Economic system of Islam) in Urdu language in 1939 A.D. The main thrust of this work is to analyze the credibility and viability of Islamic economic system. The another comprehensive and complete work was penned down by Prof. Manazir Ahsan Gilani³⁸ entitled *Islami Ma`ashiyat* in Urdu language (Islamic economics) and the first blazing work on Islamic economics in English language, was authored by reputed economist Anwar Iqbal Qureshi entitled *Islam and the Theory of Interest*, who has gone through various theories of interest developed from the period of Adam Smith. He also made exhaustive study of the plethora works of prominent Western scholars like Keynes, Bowerk Samulson, and many others and concluded that there had been no theory that justifies interest. Additionally, prior to the partition of India, another significant contribution to Islamic economics was made by Shaikh Mahmud Ahmad, whose work, "Economics of Islam: A Comparative Study," has been regarded as pivotal. Muhammad Hamidullah extensively explored Islamic economics in both Urdu and English, producing an extensive body of writing that enriched the discourse on Islamic economics and finance during the early 20th century. It is noteworthy that many of these contributions came from scholars who operated independently of the influence of Sayed Abul A`la Mawdudi, thus challenging the notion that Mawdudi was the sole proponent of Islamic economics, which he purportedly utilized to advance political Islam or Islamism, as noted by Timur Kuran.³⁹ Prominent figures such as Sayed Abul A`la Mawdudi in the Indian subcontinent, Sayyid Qutb in Egypt, and Baqir al-Sadr in Iraq significantly contributed to the development of Islamic economic thought. Initially, Mawdudi undertook a critical examination of Socialism, Communism, and Capitalism. He posited that Capitalism fosters self-interest, selfishness, and stinginess while limiting social welfare. Conversely, he asserted that Socialism engenders social regimentation and dictatorship. Consequently, he advocated for a comprehensive economic and financial system operating within the framework of Shari'ah.⁴⁰

³⁷ Hafiz-ur-Rehman Seoharwi was a eminent sunni Islamic scholar, born in 1900 A.D. and died in 1962 A.D. He was a prominent political activist who fought for the cause of Indian freedom. He was also elected as a member of Indian National Congress in Lok Sabha.

³⁸ Prof. Manazir Ahsan Gilani (1892 A.D.-1956 A.D.) was reputed Islamic scholar and act as Dean of the Faculty of Theology in Osmania University, Hyderabad. Muhammad Hamidullah is one of his notable disciples.

³⁹ Timur, Kuran, Islamic Economics and The Islamic Sub-Economy, *Journal of Economic Perspective*, Volume 9, Number 4, 1995, p.2.

⁴⁰ *Ibid.*, pp. 5, 27.

Modern Developments in Islamic Finance in the 20th Century

The modern developments in Islamic finance during the 20th century witnessed significant growth propelled by prominent Islamic scholars, including Nejatullah Siddiqi, Abbas Mirakhor, Azim Ahasan Islahi, Hussein Askari, Umer Chapra, and many others. These scholars produced a wealth of literature on diverse aspects of the Islamic financial system and advocated for an economic structure predicated on the principles of profit and loss sharing, devoid of interest (*riba*). This system is characterized by its inclusivity, aiming to serve humanity without discrimination based on caste, color, creed, or religion. The prevailing viewpoint among these scholars is that interest constitutes a barrier to economic growth and development.⁴¹

Efforts to transition theoretical frameworks into practical applications were evident, exemplified by the establishment of the first Islamic bank in Egypt, Mit Ghamar, in the 1960s. This institution allowed individuals from varied backgrounds to deposit their savings in accounts that did not yield interest for depositors. In return, the bank provided interest-free loans for productive purposes, facilitating investment opportunities based on profit and loss sharing through a variety of investment instruments. Subsequent to this, the "Nasser Social Bank" was established in Egypt in 1971 through government initiative, functioning on an interest-free model. This was followed by the establishment of Dubai Islamic Bank in 1974, which was the first commercial bank founded by a group of entrepreneurs.⁴²

The establishment of the Islamic Development Bank (IDB)⁴³ in Jeddah in 1975 marked a significant milestone in the evolution of Islamic finance. This institution was created with the primary goal of promoting optimal economic growth and development in alignment with the principles of Shari'ah, following a declaration signed by 23 Islamic countries, which constitute the permanent members of the Organization of Islamic Cooperation (OIC). The IDB has served as the central international Islamic financial institution.

From 1975 to 1990, the Islamic financial industry experienced substantial growth, transitioning from a nascent sector to a global industry. It demonstrated itself as a viable alternative to conventional financial intermediation, successfully attracting considerable funds through various means, including savings deposits, investment deposits, and funds related to Hajj and Umrah. During this period, the

⁴¹ Mirakhor, Abbas, *Progress and Challenge of Islamic Banking*, Leicester, *Review of Islamic Economics*, Vol. 4, No. 2, 1997, pp. 1-4.

⁴² Iqbal, Munawar & Philip M., Molyneux, *op. cit.*, p. 37.

⁴³ Kettell, B. *The Islamic Banking and Finance Workbook*, John Wiley & Sons, USA, 2011, p. 24.

industry achieved a consistent annual growth rate of 10-15 percent,⁴⁴ notwithstanding numerous challenges..

In the 1980s, conventional banks began to offer Islamic financing options through designated "Islamic windows," mimicking Islamic principles. Notable initiatives emerged from countries such as Pakistan, Iran, and Sudan, which undertook comprehensive reforms of their national economic systems by eliminating interest-based practices and establishing optimal financial systems within the framework of Islam. A variety of financial instruments and products were developed to comply with Shari'ah requirements, which contributed to rapid growth in this sector.⁴⁵

The Islamic financial industry gained recognition and endorsement from major global financial entities, including the International Monetary Fund (IMF), the World Trade Organization (WTO), and the World Bank (WB).⁴⁶ To facilitate a thorough understanding of the profit and share loss (PLs) model within the Islamic financial sector, the International monetary fund (IMF) conducted studies to examine the macroeconomic implications of an interest-free financial system on the global economy.

In the 1990s, efforts to establish institutions aimed at supporting the Islamic financial industry, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), and the Liquidity International Islamic Financial Market (IIFM), further enhanced the credibility and scope of Islamic finance on the global financial stage.

Currently, the Islamic financial industry operates in over 75 countries, encompassing 550 Islamic financial institutions, including investment funds and insurance companies, with a combined net worth of approximately USD 5 trillion in 2024. During the financial recession of 2008 and the COVID-19 pandemic, the Islamic financial industry demonstrated itself to be a superior, ethical, and secure alternative to traditional financing methods.⁴⁷ It is noteworthy to highlight that the subject of Islamic finance has garnered significant attention within academic circles globally, including esteemed institutions such as Rice University (United States), Durham University, Loughborough University (United Kingdom), Harvard University, the International Islamic University in Malaysia, and the London School of Economics. Additionally, several reputable publishing houses, including The Islamic Foundation,

⁴⁴ Askari, Hossein, Z., Iqbal & A. Mirakhor, *New Issues in Islamic Finance and economics Progress and challenges*, John Wiley & Sons, USA, p. 1.

⁴⁵ Munawar, Iqbal, M. Molyneux, Philip *op. cit.*, p.38.

⁴⁶ *Ibid*, p. 38.

⁴⁷ Ahmed, A., Global financial crisis: An Islamic finance Perspective, *International Journal of Islam and Middle Eastern Finance and Management*, 2010, 3, 306–320.

Edward Elgar, John Wiley, and Euro Money, are actively engaged in promoting this field.

Islamic Finance in the West

The Islamic financial industry has received commendation not only in Muslim-majority countries but also in non-Muslim nations. The viability and potential of this sector have established its presence within the global financial landscape. Recognizing the success of Islamic finance, many conventional banks have begun offering Islamic banking services through dedicated Islamic windows.⁴⁸ Countries such as the United Kingdom have demonstrated substantial interest in Islamic finance, enacting supportive policies through favorable taxation frameworks and market-friendly regulations. A notable milestone in this domain was the establishment of the Islamic Bank of Britain, which operates numerous branches and stands as the first full-fledged Islamic bank in the country. It is particularly significant that the inaugural account holder at this landmark institution was a non-Muslim, who traveled a considerable distance, motivated by the transparency and ethical principles inherent to the Islamic banking system.⁴⁹ Gordon Brown, in his discourse, expressed aspirations for London to emerge as the global hub of Islamic finance.⁵⁰

Prominent Islamic banks have been established around the world, including HSBC Amanah, Clifford Chance, European Finance House, J.P. Morgan, Manzil USA, Norton Rose, The Bank of Whitter, American Finance House, and Al-Buraq, all of which offer a diverse array of Islamic products and services to both Muslim and non-Muslim clientele. Furthermore, Japan and Hong Kong have expressed significant interest in Islamic finance.⁵¹ In Malaysia, data indicates that approximately 40% of Islamic bank customers are non-Muslims, underscoring the notion that the Islamic financial system is designed to cater to the needs of all humanity, devoid of sectarian bias. Esteemed Islamic economists, such as Nejatullah Siddiqui, Umer Chapra, Shaikh Muhmud Ahmad, and Azim Ahasan Islahi, argue that the economic challenges facing the contemporary world are pertinent to both Muslims and non-Muslims. Consequently, they advocate for the adoption of an Islamic economic framework that is universally applicable.⁵² It is crucial to emphasize that one of the principal objectives of Islamic economics is to promote the well-being of all individuals. Contemporary themes such as green financing, socially responsible investments,

⁴⁸ Wilson, Rodney *Islamic Financial Market*. Also in M. Fahim Khan (Ed.), *Islamic Financial Institution*, Islamic Research and Training Institute, IDB, Jeddah, 1995, P.7.

⁴⁹ M., Ayoub, 2007, p. 16.

⁵⁰ Brown, Gordon, *Brown Speeches, 1997-2006*, Bloomsbury, UK, 2006, pp. 11, 15.

⁵¹ A., Hossein, Z., Iqbal & A. Mirakhor, *New Issues in Islamic Finance and economics: Progress and challenges*, John Wiley & Sons, USA, 2009, p. 39.

⁵² Ahmad, Shaikh Muhmud, *Economics of Islam: A Comparative Study*, M. Ashraf, Lahore, 1952, p. IV.

and ethical financing, which are currently emerging within conventional economics, originally stem from Islamic financial principles, thereby expanding the scope of the Islamic financial industry

Conclusion

In conclusion, this paper endeavors to analyze the genesis and evolution of Islamic economics and finance, tracing its roots back to the early periods of Islam. The analysis presented indicates that Islamic economics and finance have systematically developed through various stages, akin to the conventional economic and financial systems, owing to the persistent efforts of distinguished Islamic economists. Today, it represents a vibrant alternative to conventional financial systems in both Muslim and non-Muslim countries, affirming that the Islamic financial system is inclusive and dedicated to the welfare of all humanity. This evolution reflects not only a rich historical legacy but also an ongoing commitment to delivering ethical and sustainable financial solutions that are sensitive to the needs of diverse communities. As the industry continues to grow, it holds the potential to address contemporary economic challenges while fostering social justice and equity in financial dealings.

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