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Research Article

Development of Muslim Economic Thinking in India in 20th Century

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Abstract. The evolution of Muslim economic thought in India throughout the 20th century signifies a notable intellectual response to the socio-economic and political changes instigated by colonial rule, the decline of traditional Islamic institutions, and the rise of modern capitalist and socialist ideologies. This study aims to explore the development of Islamic economic discourse among Indian Muslim scholars, reformers, and institutions during this period. Central to this discourse were the efforts to reconstruct a comprehensive economic system grounded in Islamic principles, including the prohibition of riba (usury), gharar (excessive uncertainty), maisir (gambling), and the principles of profit and loss sharing. This paper seeks to examine the foundational framework of Muslim economic thought in India during the 20th century. Key figures such as Manazir Ahsan Gilani, Muhammad Hamidullah, Hafizur Rehman Seohwari, Anwar Iqbal Qureshi, Shaikh Mahmud Ahmad, Abul Ala Mawdudi, M. N. Siddiqi, Muhammad Uzair, Ausaf Ahmad, F. R. Faridi, Abdul Hasib, M. H. Khatkhatay, Azim Ihsan Islahi, and M. Obaiduallah significantly contributed to presenting a systematic critique of Western economic models while proposing a comprehensive Islamic alternative. Furthermore, this

study analyzes the role of Islamic economists, bankers, and key figures in shaping this discourse, which ultimately led to the establishment of various interest-free cooperative credit societies, Islamic financial societies, financial associations, and Islamic financial investment companies located in both northern and southern India. The objective of this paper is to understand the indigenous roots of these developments

Keywords: Islam, Economics, Finance, India, Development.

INTRODUCTION

Since the onset of the second half of the 20th century, there has been a significant transition from a geo-political paradigm to a geo-economic framework on a global scale. During this period, numerous countries, particularly those with predominantly Muslim populations, achieved liberation from Western imperialist control. Each of these liberated nations was supported by its policymakers, intellectuals, and scholars, who actively sought to revitalize and reformulate their socio-economic, political, and religious doctrines to meet contemporary needs and counteract the decline and backwardness that had been instilled during the colonial era. In this context, Muslim scholars recognized the imperative to reevaluate and rejuvenate their political, social, and economic ideologies in alignment with the principles of Shari'ah. They aimed to convey to the Muslim populace that Islam is indeed compatible with the modern world. Following the challenges posed by colonialism, significant efforts were undertaken by Muslim scholars in the latter half of the 20th century to elucidate the principles and intricacies of Islamic economics and finance. This subject garnered substantial attention and recognition from major financial institutions globally, both in Muslim majority and non-Muslim majority countries, and has since been regarded as a safe, ethical, and resilient alternative to conventional financial systems. In Muslim-minority nations such as India, the theoretical underpinning of Islamic finance was established in the 20th century through the contributions of various Islamic scholars, intellectuals, and economists. This intellectual groundwork ultimately facilitated the establishment of Islamic financial institutions within India, manifested in the formation of Islamic financial societies, interest-free cooperative credit societies, financial associations, and Islamic financial investment companies. These institutions were developed in both northern and southern regions of India to serve the financial needs of individuals who were unwilling to either receive or pay interest. This paper endeavors to explore the development of Islamic thought in India with particular emphasis on the theoretical foundation and framework of Islamic finance established during the 20th century.

Research Methodology

The study employed 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.

Theoretical Foundation of Islamic Finance in India

The movement of Islamic finance has its origins in the time of Prophet Muhammad (ﷺ) and has gone through several distinct stages, particularly after the post-colonial period when various Muslim countries gained independence from colonial rule. The 20th century provided favorable conditions for the Islamic financial movement, as this was a time when Muslim scholars, especially from the Indian subcontinent, began to encounter new educational and financial centers in Europe, such as banks, joint stock markets, and insurance companies, all of which relied heavily on interest and Western economic philosophies. Prominent Islamic scholars who contributed to the movement include: Manazir Ahsan Gilani,¹ Muhammad Hamidullah,² Hafizur Rehman Seohwari,³ Anwar Iqbal Qureshi,⁴ Shaikh Mahmud Ahmad⁵ and Abul Ala Mawdudi⁶ maintained that this conventional economic philosophy has a materialistic bend and values neutrality⁷. These scholars highlighted that conventional economic philosophies often have a materialistic bias and are value-neutral. They argued that interest, which is a fundamental part of the conventional economic system, does not serve the social good and instead acts as a tool for exploitation. Such views were also echoed by John Maynard Keynes. Mawdudi, in particular, stated that the prohibition of *riba* (interest) aims to replace

¹ Manazir Ahsan Gilani was born in 1892 A.D. and died in 1956 A.D in Nalanda, Bihar. He was an Islamic scholar and reputed author who wrote some notable works which include, *The Last Prophet, The Political Life of Imam Abu Hanifa, Islami Muashiyat, Some Common Teachings of Islam and Hinduism* etc.

² Muhammad Hamidullah was born in Hyderabad in 1908 A.D. and died in 2002 A.D. at Jacksonville, United States. He was a scholar of *Hadith* and Islamic Law. He was well versed in 22 languages and wrote number of books like *Introduction to Islam, Islam: A General Picture, The Prophet of Islam: The Prophet of Migration, Emergence of Islam, Islam in Nutshell, Life and Work of the Prophet of Islam* etc.

³ Hafizur Rahman Seoharwi was born in 1900 A.D. and died in 1962 A.D. He was an Islamic scholar and an activist of the Indian Freedom Movement. For about 25 years he fought against British rule and he was imprisoned for 8 years by British Govt. He acted as 4th general secretary of Jamiat Ulama-e-Hind and he was also a member of the Indian National Congress.

⁴ Anwar Iqbal Qureshi is an Islamic economist and notable author who wrote number of books on Islamic economic and financial system like *Islam and Theories of Interest, Fiscal System of India, Agriculture Credit, State banks for India, The Economic Development of Hyderabad, The Future of Cooperative Movement in India* etc.

⁵ Shaikh Mahmud Ahmad is an Islamic economist and notable author. He wrote a number of works on Islamic economic system like, *Towards Interest Free Banking, Economics of Islam: A Comparative Analysis, Man and Money: Towards an Alternative Basis of Credit, Social Justice in Islam* etc.

⁶ Abul Aal Mawdudi was a reputed Islamic scholar, activist, journalist, jurist, historian etc. He was born in 1903 A.D. and died in 1979 A.D.. He was founder of Jammāt-e Islami movement. He authored various books which include *Soud, Islam-i- Mishaayat, Towards Understanding Islam, Khilafat o Mālukiyyat, Al-Hijab, Al Jihad fil Islam* etc. He also wrote a famous commentary of the Qurān into six volumes titled as “*Tafhim-ul-Qurān*”.

⁷ Islahi, Azim Ihsan, “The Genesis of Islamic Economics Revisited”, *Journal of Islamic Studies*, vol.23 (2), Nov. 2015, p. 13.

the selfish and competitive instincts inherent in capitalism with values of generosity, love, and cooperation.⁸

Prominent Islamic scholars, including Abul Ala Mawdudi, Hafizur Rahman Seoharwi, Manazir Ahsan Gilani, and Anwar Iqbal Qureshi, criticized both capitalism and socialism, proposing an alternative economic system known as the "Islamic financial system." This system is based on the core teachings of Islam, seeking to embrace virtues while avoiding the extremes of the other two systems.

It is important to note that Muslims historically hesitated to engage in interest-based transactions, even during the colonial period. Evidence of this can be seen in the existence of several interest-free cooperative credit societies that functioned during that era.⁹ A significant portion of the Muslim population opted out of the interest-based conventional financial system, choosing not to accept interest on their deposits.¹⁰ During this period, Islamic scholars, economists, and experts began to awaken the masses to Islamic economic ideas through their writings and speeches, addressing the challenges faced by Muslims at the time. It was during the 20th century that Islam was perceived by dominant European powers as a backward and outdated religion, especially in the context of economic guidance. Many believed there was a fundamental incompatibility between Islam and the modern world. To confront these challenges, visionary Islamic scholars emerged, striving to bring about an intellectual revolution that would lay the groundwork for a modern Islamic period in the Indian subcontinent. They asserted that overcoming economic backwardness required the optimistic application of science and technology in agriculture, commerce, and trade—essential components for economic advancement. Their efforts paved the way for the revival and development of the Islamic finance movement in India, which can be characterized by distinctive phases.

Early Modern Phase

In the 1920s, various articles were produced by scholars to enrich the Islamic financial movement in India. The central discourse during this phase mainly focused on the concept of *riba*¹¹ (usury) and aimed to rediscover Islamic values and legacies. This is why earlier writings placed significant emphasis on **riba** and related issues. By the 1930s, the initiatives of scholars from the Indian subcontinent gained further momentum, culminating in the publication of the first comprehensive work on Islamic economics titled **Islam ka Iqtisadi Nizam** (The Economic System of Islam), authored by Maulana Hafizur Rehman, a graduate of Darul Ulum, Deoband. He was encouraged to write this work by Abdul Kalam Azad.¹² Abdul Kalam Azad (1888–1958) was a senior leader of the Indian National Congress and became India's first

⁸ Mawdudi, Abul Ala. *Economic System of Islam*, 4th ed., Khurshid Ahmad (ed.), Islamic Publication, Lahore, 1999, p. 107.

⁹ Iqbal, Munawar, and Molyneux, Philip, *Thirty Years of Islamic Banking: History, Performance, and Prospects*, Palgrave Macmillan, New York, 2005, P. 37.

¹⁰ Cf. Ausaf Ahmad, *Evolution of Islamic Banking*, n.p., n.d., pp. 14, 15.

¹¹ Global Islamic Finance Report (GIFR 2010), p. 232. http://gifr2010/contents/ch_24.pdf

¹² Abdul Kalam Azad (1888-1958) was a senior leader of Indian National Congress. After independence of India, he became the first education minister of India.

Education Minister after independence. Before Maulana Hafizur Rehman authored his work in 1939, students often asked Azad if there was an economic system in Islam. To guide them, he urged Maulana Hafizur Rehman to explore this subject.¹³ They met each other in Bengal. The book presented a detailed picture of the Islamic economic system and critically analyzed Capitalism, Socialism, and Communism.¹⁴

Maulana Hafizur Rehman argued that the Islamic economic system is not exclusive to Muslims but aims for the welfare and socio-economic well-being of all humanity.¹⁵ He contended that the Islamic economic system embraces the virtues of other economic systems while rejecting their shortcomings. He argued that the Islamic economic system accepts the virtues of all other economic systems and shuns their shortcomings. Additionally, prominent leader Zakir Husain, who became the President of India in 1967, had written a doctoral thesis on economics and was interested in the Islamic economic system. He included the economic ideas of notable Islamic scholars in his lectures titled *Maashyat: Maqsad aur Minhaj* (Economics: Purpose and Methodology)

In the 1940s, efforts intensified further, leading to the production of several significant works, including *Islami Ma'ashiyat* (Islamic Economics) by Manazir Ahsan Gilani¹⁶, who belonged to the same school of thought. His work highlighted various aspects of Islamic economics with references to the Qur'ān and the Ḥadīth, addressing topics such as labor, capital, factors of production, the concept of wealth, and equal economic rights for both men and women. Due to this work, Syed Salman Nadvi referred to him as the "sultan al-qalam" (king of the pen).¹⁷

Sir Muhammad Iqbal¹⁸ had a keen interest in the Islamic economic system, as reflected in his poetry and prose. The complexities of the Islamic economic system can be found in several of his poetic couplets, which later formed the foundation of Islamic economics. His first book on economics, titled *Ilm al-Iqtisad*¹⁹ (Science of Economics), was originally an assignment from the Textbook Committee in Punjab.

Anwar Iqbal Qureshi²⁰ a professional economist was deeply interested in Islamic economic system and he authored a pioneering work in English language, entitled, *Islam and the Theory of Interest*. It is interesting to mention that the foreword of the book was written by a Hindu economist, Professor Gyan Chand. The main thrust of Qureshi was that interest is more detrimental than good to the whole society. Anwar Iqbal Qureshi argues:

¹³ Usmani, Muhammad Shah, Mawlana Hifzur-Rehman, *Monthly Zad-e Safer*, August 2001, p.18.

¹⁴ Rahman, Hifzur, *Islam ka Iqtisadi Nizam (Economic System of Islam)*, Nadwatul Musannifin, Delhi, 1969, pp. 18, 19, 60.

¹⁵ Ibid., P. 393.

¹⁶ Manazir Ahsan Gilani was a professor and former Dean of the Faculty of Theology at Osmania University Hyderabad.

¹⁷ <https://iib.umt.edu.pk/IBFR-Vol.-1.aspx>

¹⁸ Sir Muhammad Iqbal (1877-1938 A.D.) was Islamic scholar, philosopher, poet etc. His poetry is in Urdu language is deemed as greatest in 20th century.

¹⁹ Tahir, Pervez, Introducing Iqbal the Economist, *The Pakistani Development Review*, 40:4 Part ii (winter 2001), p. 1167.

²⁰ Anwar Iqbal Qureshi was a professor and head of the Department of Economics at Osmania University Hyderabad.

Islam proscribes interest and permits profit and partnership. If the financial institutions become the partners of industry on profit and loss share basis instead of lending loans to the industry, there is no restriction against such banks in Islam.²¹

It is elucidated from this statement that partnership- based financial instruments called *mushārah* and *mudārah*, is more conducive for Islamic financial system.

Shaikh Mahmud Ahmad, an Islamic economist, produced a remarkable work on Islamic economy entitled, *Economics of Islam: A Comparative Study*. It was written in English language before the partition of India. In the 'preface' of this book, it is elucidated that in writing this book he was assisted by Abul Kalam Azad and P. N. Dhar. P. N. Dhar was a professor of economics in Delhi. Shaikh Mahmud Ahmad states in his work:

The Shirakat banks would advance funds to industry and commerce on the Shirakat basis and thereby they would share the profit and loss with the debtors rather than shifting the risk to the industry and commerce by charging a fixed rate of interest.²²

The early contributions to the field of Islamic economics and finance predominantly emerged from the region of southern India, specifically from the Hyderabad state. It is important to note that during this period, Islamic economists made significant strides, producing numerous publications that addressed various aspects of Islamic finance, including the concepts of money, banking, the fundamentals of the Islamic economic system, insurance, and public finance. Prior to this phase, the subject had largely been explored by scholars referred to as 'ulama.

Muhammad Hamidullah²³ authored a wide array of esteemed works in multiple languages, including English, Urdu, Arabic, and French, focusing on topics such as Islamic history, science, culture, and civilization. Hamidullah is particularly noted for his translation of the Qur'ān into French. A pupil of Manazir Ahsan Gilani, he developed a keen interest in the Islamic financial system, contributing several articles on Islamic banking and finance in both Urdu and English. He is recognized as one of the early proponents of Islamic economics and is credited with coining the term "Islamic economics" in his paper titled "Islam's Solution to the Basic Economic Problems-the Position of Labor."²⁴ Hamidullah's works encompassed various topics within the Islamic economic system, including the International Financial Crisis, the Political Significance of Zakāh, Islamic Insurance, Budgeting and Taxation during the time of the Holy Prophet (ﷺ), the Economic System of Islam, and the comparative

²¹ Qureshi, Anwar Iqbal, *Islam and Theory of Interest*, Muhammad Ashraf, Lahore, 1945, p. 158.

²² Ahmad, Mahmud, *Economics of Islam: A Comparative Study*, Muhammad Ashraf, Lahore, 1947, p.170.

²³ Muhammad Hamidullah was born in Hyderabad in 1908 and died in 2002. He was a notable scholar of *Fiqh*, *Muhaddith*, and Islamic law. He authored various reputed works in multi-languages like English, Urdu, Arabic, French, etc., on Islamic History, Islamic science, culture, and civilization, etc. He is generally known for his translation of The Qur'ān into the French language. He was a disciple of Manazir Ahsan Gilani.

²⁴ Islahi, Abdul Azim, "The Legacy of Muhammad Hamidullah in Islamic Economics", *King Abdul-Aziz University*, Jeddah, KSA, 2017. Also available online at <http://mpra.ub.uni-muenchen.de/80149/>

analysis between Islam and Communism. He argued that both Capitalism and Communism have failed to address fundamental societal issues, leading to extremes where moral values are overlooked and materialism is prioritized. He asserted that the pursuit of materialism in both systems constitutes a root cause of societal evils.²⁵ Furthermore, Hamidullah posited the necessity for a new economic order characterized by moderation and balance, which the Islamic economic framework strives to achieve. This framework prevents cutthroat competition and market monopolies, advocates for economic freedom and private ownership, while also recognizing the government's positive role in the economic affairs of society.

Sayed Abul Ala Mawdudi emerged as another key figure in the development of Islamic economics within the Indian subcontinent, significantly influencing the understanding of Islamic finance. Mawdudi ardently promoted the Islamic financial system and authored numerous publications, including *Ma'ashiyat e Islam* (The Islamic Economics), *Sud* (Interest), *Insan ka Ma'ashi Mas'lah aur uska Islami hall* (*The Economic Problem of Man and Its Islamic Solution*), *Islam Aur Jadid Ma'ashi Nazariyat* (*Islam and Modern Economic Ideologies*), and *Economic Teachings of the Qur'an*. He critiqued both Capitalism and Socialism, asserting that Capitalism serves individual interests at the expense of societal welfare, while Socialism fosters regimentation and stifles individual freedom. Mawdudi called for an economic system devoid of exploitative and selfish elements.²⁶

Mawdudi provided a comprehensive representation of the Islamic economic framework in 20th century South Asia.²⁷ His critical analysis of modern financial institutions included suggestions for reform. He acknowledged the role of government in wealth redistribution while also denouncing fiscal policies aimed at bridging socioeconomic disparities within a capitalist context. Furthermore, he emphasized the integral role of *zakāh* in the equitable distribution of income within society.²⁸

In summary, a lineage of Islamic scholars has significantly advanced the promotion of the Islamic economic system in the Indian subcontinent. This system aspires to foster socio-economic development for all individuals, regardless of their backgrounds. Its underlying objective is to establish a society characterized by the equitable distribution of wealth, thereby facilitating socio-economic justice, economic growth, and overall development. Additionally, these scholars sought to construct a self-sufficient society free from poverty and inequities.

The scholars of the Islamic economic system set out to create a self-sufficient society capable of withstanding issues such as poverty, unemployment, inequitable wealth distribution, inflation, and starvation. They emphasized the importance of sharing resources and risks as a foundational aspect of the Islamic economic model,

²⁵ Hamidullah, Muhammad, *Islam and Communism: A Study in Comparative Thought*, Paris, 1981, p. 17.

²⁶ Mawdudi, Abul Ala, *opcit.*, 1999, p. 107.

²⁷ Nasr, S. V. R., *Mawdudi and Making of Islamic Revivalism*, Oxford University Press, New York, 1996, P.103.

²⁸ Mawdudi, Abul Ala, *The Economic Problem of Man and Its Islamic Solution*, Islamic Publication Lahore, 1975, p. 16.

promoting a harmonious balance between spirituality and materialism. Thanks to their dedicated efforts, the theoretical framework for the Islamic economic system was firmly established in India, paving the way for future economists to explore and expand upon these ideas.

Subsequent Developments

In the latter half of the 20th century, the movement for Islamic finance scholarship gained significant momentum, thanks to the contributions of scholars like M. N. Siddiqi, Muhammad Uzair, Ausaf Ahmad, F. R. Faridi, Abdul Hasib, M. H. Khatkhatay, Azim Ihsan Islahi, and M. Obaidullah in India. These scholars produced a wealth of literature addressing various aspects of Islamic finance, such as interest-free banking, government roles in the market, public finance, monetary policies, and economic growth. Their work, presented in books and articles, was later translated into multiple languages, including Urdu, English, Arabic, and French, providing accessible insights into an alternative economic paradigm. For instance, M. N. Siddiqi, a notable Indian economist, made substantial contributions through his works, including *Ghair Soodi Bankaari (1968) (Banking Without Interest)*, *Recent Theories of Profit: A Critical Examination (1971)*, *Muslim Economic Thinking (1981)*, *Economic Enterprise in Islam (1992)*, *Issues in Islamic Banking: Selected Papers (1983)*, *Teaching Economics in Islamic Perspective (1996)*, *Role of State in Islamic Economy (1996)*, *Insurance in an Islamic Economy (1985)*, *Partnership and Profit Sharing in Islamic Law (1985) etc.* He posited that an interest-free economic system could serve as a viable alternative to conventional models by harnessing various financial instruments, such as: *mushārahah*²⁹, *mudāraba*,³⁰ *murābhaha*,³¹ *ijārah*³², *salam*.³³ These financial instruments not only present a practical alternative to interest-based systems but also promote equitable and sustainable growth, benefiting both individuals and society as a whole.³⁴

M. N. Siddiqi also highlighted the potential of Islamic financial instruments to foster economic growth and nurture an entrepreneurial spirit within society, thereby helping individuals to escape the cycle of debt. To further this vision, he engaged with the then Finance Minister of India, Palaniappan Chidambaram³⁵, to discuss the vast

²⁹ *Mushārahah* refers to a joint partnership in which both partners share profit and loss.

³⁰ *Mudāraba* refers to a business partnership in which one partner runs the business and the second one is acts a sleeping partner and he pays only capital (rabal-maal).

³¹ It is an important instrument of Islamic financing, which is called cost-plus financing. It is a special kind of transaction in which both seller and purchaser agrees to the cost and reasonable markup of the commodity.

³² It means to give something on rent.

³³ It is a special contract in which the purchaser buys the commodity from the seller by paying the full price in advance and receiving the commodity in the future.

³⁴ Nejatullah, Siddiqi, *Some Aspects of Islamic Economy*, Markazi Maktaba Islami, New Delhi, 1981, p.126.

³⁵ <https://www.siasat.com/nejatullah-siddiqui-the-scholar-who-opened-the-door-of-islamic-economics-and-interest-free-banking-2458588/>

possibilities Islamic finance could offer. He elaborated on the two-tier *mudārabah* theory and its application in relationship to central banks and commercial banks.³⁶

Muhammad Uzair, a distinguished economist, authored a seminal paper on Islamic banking in 1951 entitled "Interestless Banking: Will It be Success?". In this work, he introduced the concept of *mudārabah*³⁷, which later became recognized as double-tier *mudārabah*. The core objective of his concept was to incorporate two *mudārabah* transactions within a single framework. Initially, the bank (acting as *mudarib*) and the depositor (*rabb al-māl*) would engage in a *mudārabah* contract. Subsequently, the bank (acting as *rabb al-māl*) would enter into a second *mudārabah* contract with the borrower (*mudārib*). In the first contract, the bank would share in the profits, while in the second contract, the borrower would share the profits. This innovative mechanism facilitates optimal allocation of funds from depositors to borrowers.

Ausaf Ahmad³⁸ was a prominent Islamic economist. He made substantial contributions to the literature on Islamic financial systems, with many of his works translated into various languages, including French and Italian. He was deeply committed to advancing Islamic finance and authored several respected works, including *Challenges Facing Islamic Banking*, *Towards an Islamic Financial Market*, and *Instruments of Regulation and Control of Islamic Banks by the Central Banks*, among others.

Numerous scholars have also contributed significantly to the field of Islamic finance. It is largely due to their collective efforts that Islamic finance, once an aspirational concept at the academic level, has achieved substantial growth and stability. Today, it is a subject of study at esteemed academic institutions such as the London School of Economics, Rice University, Durham and Loughborough Universities, Harvard University, and the International Islamic University in Malaysia and Pakistan. Annual seminars, conferences, webinars, and workshops on Islamic finance are conducted across the globe, emphasizing the international potential of this financial system. Countries such as Pakistan, Malaysia, Indonesia, Saudi Arabia, and India now offer diplomas and degree programs in Islamic finance.

Growth at the Global Level

In the latter half of the 20th century, Islamic financial institutions began to emerge within the global financial framework. Following 1960, notably with the establishment of the Islamic Development Bank in Jeddah³⁹, which serves as a central

³⁶ Nabi, Nasir, *Development of Islamic Economic Thought in Modern Times: A Study of Muhammad Nejatullah Siddiqi*, Ph.D. Thesis, University of Kashmir, 2015, p. 68, 69.

³⁷ Uzair, Muhammad, *Interest Free Banking*, Royal Book, Karachi, 1978.

³⁸ Ausaf Ahmad was a notable Islamic economist born in India in 1945 A.D. and died in 2022 A.D.. He wrote number of works on Islamic financial system which were translated into different languages like French, Italian etc. He was associated with the Islamic Development Bank (Jeddah) as a senior economist for about two decades. He also served at Jamia Millia Islamia University, Delhi and Aligarh Muslim University.

³⁹ Kettel, B., *The Islamic Banking and Finance Workbook*, John Willey & Sons, United States America, 2011, p. 24.

financial body aimed at promoting economic growth in compliance with *Shari'ah*, the Islamic finance industry transitioned from a nascent sector to a well-established global system, achieving an annual growth rate of 10-15 percent.⁴⁰ This development has garnered recognition and acceptance from leading global financial entities, including the International Monetary Fund (IMF) and the World Bank.⁴¹

Islamic finance has now gained acceptance in both Muslim and non-Muslim nations, including countries that previously doubted its viability. Presently, it operates in over 75 countries across Europe, North America, and Asia. Amid the global financial crisis of 2008, Islamic finance was regarded as a secure, ethical, and superior alternative.⁴² According to the 2021 report from the Islamic Financial Services Board, the cumulative value of the Islamic financial industry increased from USD 2.44 trillion in 2019 to USD 2.70 trillion in 2020.⁴³ Furthermore, in the same year, the Islamic financial industry consisted of three segments: Islamic banking, capital markets, and *takaful* (insurance), and it recorded a positive growth rate of 10.7% despite the challenges posed by the COVID-19 pandemic.

Growth of Islamic Financial Institutions in India

Islam and Islamic financial institutions are well-established in India, with reports indicating the presence of over 300 such entities across the country.⁴⁴ This reflects the enthusiasm and commitment of Indian Muslims toward Islamic finance. The inception of Islamic financial institutions in India as a distinct economic entity can be traced back to the 1890s when an interest-free loan institution was established in southern India.⁴⁵

Before this period, various forms of Islamic financial institutions existed in the country, including *bait-ul-Māl*, trusts, and financial associations. *Bait-ul-Māl* primarily served to collect and distribute *zakāh* and *sadaqah*, and it was occasionally utilized for *qard-e-hassan* (interest-free loans)⁴⁶ to individuals. While it was predominantly employed for charitable and philanthropic purposes, it was not only accessed by the Muslim populace but also utilized by Muslim rulers.

The first official initiative to offer interest-free loans occurred in 1920 during the Aasfia Government's reign in Hyderabad. The Land Development Department's employees established a financial institution known as *Anjuman Imdad-e-Bahmi Qard Bila Sood*⁴⁷ (Association of Mutual Cooperation for Interest-free Loans).

⁴⁰ Askari, Hossein, et al, *New Issues in Islamic Finance and Economic progress and Challenges*, John Wiley & Sons, USA, p. 1.

⁴¹ Iqbal, Munawar and Philip, M. Molyneux, op. cit., p. 38.

⁴² Ahmad, A. "Global Financial Crisis, An Islamic Finance Perspective", *International Journal Islam Middle East Finance*. *gcManag.* 3, 306-320.

⁴³ Islamic Financial Service Board Report 2021. Also in https://www.org/press_full..php?id=570&submit=more

⁴⁴ Bagsiraj, Mohammad Ghous ikhtiyaruddin, op.cit., 2003, p.1.

⁴⁵ Raqeeb., H. Abdur, et al., *Islamic Finance in India: Financial Regulation Challenges and possible Solutions*, IGI Global, USA, 2016, p. 264.

⁴⁶ Hakim, Sayyed Abdul Hai, *India in the Islamic Period*, Nadwat ul Ulma, Lucknow, 1973, pp. 81, 110. Also in M. Ghous Ikhtiyaruddin Bagsiraj, op.cit., p 9.

Subsequently, various Islamic financial institutions emerged, including the Patni Co-operative Credit Society Ltd., established in 1938, and the introduction of the first Muslim fund in Uttar Pradesh in 1941, which later expanded its branches throughout northern India. Notably, the model for the Muslim fund was developed by Hussain Ahmad Madani⁴⁸, an eminent Islamic scholar and principal of Darul Uloom Deoband, during a time when Muslims experienced significant economic hardships, poverty, and stagnation. He recognized the potential of an Islamic financial system to alleviate the financial conditions of Muslims in India and promote a departure from interest, which is deemed illegitimate in Islam.

Following India's independence, the momentum of Islamic financial institutions increased, particularly in the 1960s, with the establishment of various Islamic welfare societies, predominantly by Jamaat-e-Islami Hind, in different regions of southern India. These institutions operated based on Islamic finance principles and led to the formation of numerous Islamic financial investment companies such as Al-Baraka Finance House Limited in Mumbai, Seyad Shariat Finance Limited in Tamil Nadu, and Al-Najib Milli Mutual Benefits Ltd. in Najibabad, among others were established in both the *southern* and the *northern* parts of India in 1980s.

The closing decade of the 20th century witnessed rapid growth in Islamic financial products and practices across India, resulting in the establishment of many new institutions that catered to the financial needs of the populace, regardless of caste, creed, religion, region, or gender. In Kerala, for example, Alternative Investments and Credit Ltd. (an asset financing company) was founded in 2000, followed by the establishment of Al-Khair Cooperative Credit Society Limited in 2002. Moreover, the Secura India Real Estate Fund, an Islamic venture capital fund, was initiated in Kerala, alongside the successful introduction of the BSE-TASIS₅₀ Shari'ah Index⁴⁹, a collaborative effort between Taqwaa Advisory Shari'ah Investment Solutions and the Bombay Stock Exchange.⁵⁰ It is estimated that there are approximately 200 micro-interest-free financial institutions operating in Kerala alone.⁵¹ These Islamic financial institutions and cooperative societies aim to offer micro interest-free loans and a variety of transparent financial services and products, including hajj accounts, equity deposits, umrah accounts, and zakah accounts, accessible to all segments of society irrespective of caste, color, creed, region, or religion. The primary objective of these institutions is to foster socio-economic welfare and promote development with justice and equity. They provide a comprehensive array of financial services and transactions that align with *Shari'ah* principles, thereby contributing to economic growth.

⁴⁸ Hussain Ahmad Madani (1879-1957 A.D.) was an Islamic Scholar, who was principal of Darul Uloom Deoband. He was awarded with a civilian award Padma Bushan in 1954 A.D..

⁴⁹ BSE-TASIS Shari'ah Index refers to an index on the Bombay Stock Exchange that shows stocks that are in compliance with Shari'ah.

⁵⁰ Khan, Shabina, "Islamic Banking for the Development of the Indian Economy", *Global Journal of Finance and Management*, vol.6, Number 9 (2014), pp. 863-868.

⁵¹ Rinoj, P K, "An Overview of Islamic Banking and its Potential in India", *Indian Journal of Research*, vol.5, issue 1, 2016.

CONCLUSION

The discourse on the theoretical foundation of Islamic finance in India indicates that its inception occurred in the 20th century, primarily through the contributions of eminent scholars such as Abul Ala Mawdudi, Hamidullah, Maulana Hafizur Rehman, Manazir Ahsan Gilani, Anwar Iqbal Qureshi, and Shaikh Mahmud Ahmad. These scholars authored numerous works addressing Islamic economics and finance with the aim of reviving and revitalizing socio-economic doctrines in alignment with contemporary circumstances while simultaneously adhering to the principles of Sharī'ah. This scholarly groundwork facilitated the emergence of the Islamic finance movement in India.

In the latter half of the 20th century, this momentum was further propelled by distinguished economists such as Dr. M. N. Siddiqi, Muhammad Uzair, Dr. Ausaf Ahmad, F. R. Faridi, Abdul Hasib, M. H. Khatkhatay, Azim Ihsan Islahi, M. Obaidullah, among others. They produced a significant volume of esteemed works comprising books, research papers, pamphlets, and articles that encompassed diverse facets of Islamic finance. It is through the efforts of these scholars that the framework for Islamic finance was established in India.

Notably, in 1921, Kerala witnessed its first experiment with interest-free loans, followed by the establishment of the Patni Co-operative Credit Society in 1938. Subsequently, numerous Islamic financial institutions began to emerge throughout India in the form of Islamic Investment and Financial Companies (IIFCs), Islamic Cooperative Credit Societies (ICCS), Islamic Financial Societies (IFS), and Financial Associations of Persons (FAPs). Certain institutions, including Al-Baraka / Al-Barr Finance House Ltd. (ABFHL), Al Najib Milli Mutual Benefits Ltd. (AMMB), Seyad Shariat Finance Limited in Tamil Nadu, Bait-un-Nas'r Urban Cooperative Credit Society Ltd., and Parsoli Corporation Ltd., along with various Islamic welfare societies, have been established in both southern and northern regions of India. These institutions play a critical role in safeguarding communities from the exploitative practices of moneylenders, who often impose exorbitant interest rates on loans. The proliferation of these Islamic financial institutions predominantly occurred in the post-independence era, and they currently provide a comprehensive range of interest-free financial services and welfare initiatives to the entire Indian community, irrespective of caste, color, creed, region, or religion.

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