The prohibition of *riba* (interest) is mentioned in four different revelations in the Qur'an. The first revelation emphasizes that interest deprives wealth of Allah's blessings. The second revelation condemns it, placing interest in juxtaposition with wrongful appropriation of property belonging to others. The third revelation enjoins Muslims to stay clear of interest for the sake of their own welfare. The fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and to forgo even this sum if the borrower is unable to repay. It is further declared in the Qur'an that those who disregard the prohibition of interest are at war with Allah and His Prophet. The prohibition of interest is also cited in no uncertain terms in the *Ahadith* (sayings of the Prophet). The Prophet condemned not only those who take interest but also those who give interest and those who record or witness the transaction, saying that they are all alike in guilt.

Since prohibition of interest had closed the door on exchange of more money for less money, even when a period of time intervenes. Muslims had always felt uncomfortable with the current practices of the Modern Banks worldwide. As soon as the Muslims started getting free from the clutches of their ruling masters they tried to manage their affairs in accordance with their own religious principles. Islamic economics and banking is the reflection of those desires of the Muslims in their economic affairs.

The present work is an attempt to examine the beginning and growth of a significant aspect of Islamic economics, namely its financial sector. Within a period of hundred years since publication of *Ilmul Iqital* by none other than Allama Iqbal in 1902 Islamic economics has made commendable progress in the wake of Islamic resurgence. Efforts to establish financial institutions on Islamic principles are however preceded this work by a few years when Muslims of Hyderabad South tried to establish an interest free institution to save their Muslim brethren from the ruthless and greedy moneylenders.

However, the first effort 'Mit Shamr' that drew the notice of others could start in 1963 in the Egyptian delta town that lasted for four years only. This is widely accepted as the first Islamic Bank of the modern era. Another Islamic financial institution of prominence 'Tabung Haji' also started in the same year, which is still doing well. During the same period a failed attempt was made by S.A. Irshad in Pakistan in 1965 in the form of a cooperative bank. In India
the most successful attempt was made in 1973 with the establishment of Bait-
un-Nasr Cooperative Credit Society at Bombay.

Within a time span of forty years, Islamic banking and financial
institutions have been fast to establish themselves in all parts of the world in
the form of Islamic Commercial Banks, Investment and Holding Companies
Takaful (Insurance) Companies, Development Banks, and Islamic Equity Funds
etc. Over 100 Islamic equity funds have now been launched since 1995 with
assets under management in excess of $7 billion. It is estimated that there are
over 200 Islamic financial institutions operating in over 70 countries managing
funds over $300 billion around the world, from commercial banks, investment
banks, investment companies to leasing, and insurance companies. These
institutions, that are growing at the handsome rate of 15% annually, invest
money according to the Islamic economic principles like Musharakah, Mudarabah,
Murabahah, Salam, Istisna and Ijara, The popularity of Islamic banking
continues to grow as the number of depositors increase.

There are countries like Pakistan, Iran and Sudan that have tried to
Islamize whole of their economy on Islamic principles, though significant
complimentary steps are yet to be taken. Nevertheless these efforts are
important in their entirety. No doubt there are some countries, which have
serious reservations about the functionality of the Islamic institutions as
financial intermediary, there are other that have expressed their desire to
favor these Islamic institutions in no uncertain terms. The beauty of Islamic
economics and banking is that within so short period of time it has won the
friend and the foe in good numbers.

From a modest beginning of an academic discourse to the corridors of
power, Islamic banking has traveled at a remarkable pace that nobody could
ignore. Albeit there are issues still left to be resolved but whatever Islamic
banking has already achieved, is no less important. It has become one of the
most popular subjects of discussion at social and academic gatherings.

Sharif Naair
Algark
December 2002