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Islamic Social Finance and Global Inequalities: The Case of COVID-19❖

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Abstract
Islamic social finance plays a key role in reducing inequalities among and within nations. It adheres to the Islamic principles of equity, justice, and freedom, therefore, providing the tools for alleviating poverty, reducing socio-economic inequalities, and sharing prosperity. Instruments such as *zakat*, *waqf*, and voluntary donations empower the society to create new opportunities and build capacity for development. The COVID-19 pandemic has widened income and wealth inequalities among and within nations. This paper analyses the global income and wealth inequalities and examines the contribution of Islamic social finance in reducing inequalities and supporting future sustainability. Islamic social finance promotes inclusion by offering equal opportunity to participate in the economy and contribute to development. The paper uses Lorenz Curve to highlight the existing income and wealth gaps both globally and within nations.

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Keywords
Inequality, poverty, sustainable development, Islamic social Finance, COVID-19.

Introduction

There has been ongoing debate worldwide about the causes and consequences of the COVID-19 pandemic. More than 200 countries have reported coronavirus infections which are inflicting a devastating impact on the way of life of billions of people. The pandemic could have lasting social and economic consequences for decades to come. The virus originated in the city of Wuhan, China in December 2019 and quickly spread to infect people across the globe. The number of people who have been infected with coronavirus are estimated to exceed 550 million and it is continuing to rise despite of the precautionary strict measures which nations worldwide have taken to combat the disease. Among nations, the vaccine against the virus is unevenly distributed, leaving millions of people especially in poor countries unable to obtain adequate health services in order to remedy the illness of the pandemic and alleviate human suffering.

Countries have decided to undergo lockdown, limiting factor mobility and forcing millions of workers to operate from home. During the pandemic, as many as 1.6 billion students are out of the school system, receiving their educational courses online. For those students, not having adequate Information and Communication Technology (ICT) infrastructure could negatively impact the quality of teaching and learning, particularly in poor countries where online educational services including electricity and the internet, are still lacking. Poverty and income inequality are positively correlated to skill acquisition and the ability of the educational system to graduate students with adequate knowledge to participate in development.[1]

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1. Amel Karboul, *COVID-19 put 1.6 Billion Children out of School. Here's How to Upgrade Education Post-Pandemic*, https://www.weforum.org/agenda/2020/12/covid19-education-innovation-outcomes/ (accessed on 29th Nov 2022).

Islamic social finance underlines the importance of alleviating poverty and reducing income and wealth inequalities. Not only Islamic finance funds socially-friendly projects and embraces risk-sharing investments to reduce market imperfections and minimize business failures, it also offers equal opportunity for people across the social divide to participate in market activities and generate income, i.e., inclusion provides an opportunity for the poor and non-privileged groups in society to participate in market activities and contribute to development. Islamic social finance encourages entrepreneurship and diversifies productivity, especially in countries where large number of poor people live.

This paper sheds light on the role that Islamic social finance plays in promoting equal opportunity, pursuing social equity, fostering economic prosperity, and reinforcing development sustainability. The paper examines the contribution of Islamic social finance to socio-economic development during an economic crisis and the potential impact that financial inclusion could have on distribution of income and wealth resources. Not only COVID-19 pandemic widens income inequalities among and within nations, it also hits hard the most vulnerable groups in society, including the poor, young people, informal workers, rural population, and women. Guided by the principles of the Shari'ah, Islamic social finance endorses social and economic prosperity by funding socially-and-environmentally-friendly projects.

The COVID-19 Pandemic

The COVID-19 pandemic crisis currently sweeping across the world has been of extraordinary magnitude, impacting every aspect of human activities. The COVID-19 pandemic has been responsible for overwhelming socio-economic consequences by disrupting financial markets, interrupting global trade, imposing travel restrictions, eliminating jobs, and widening income and wealth inequalities among and within nations. It is causing substantial social, economic, political, and psychological disparities which threaten the livelihoods of millions of people, especially in low-income countries where most people live under the poverty line. The pandemic is also likely to write off the progress that nations were able to achieve over the last decade from implementing the United Nations Sustainable Development Goals (SDGs). In poor countries, poverty, income inequality, unemployment, and economic growth could worsen due to weak development capabilities and ineffective institutions to correct market imbalances and support recovery. This implies that in most developing countries,

> Policy choices have become more difficult, confronting multidimensional challenges – subdued employment growth, rising inflation, food insecurity, the setback to human capital accumulation, and climate change – with limited room to maneuver.[2]

The COVID-19 pandemic is pushing a billion people into poverty and causing a devastating damage to people worldwide. People living in low-income countries are more vulnerable because of inadequate infrastructure and lack of medical services necessary for protecting the poor. The Economist points out that "poor countries on average have spent just $4 a head on programmes to help the poor during the COVID-19 crisis, compared with an average of $695 per head of the population in rich countries such as Britain, France, and America."[3] In member countries of the Organization of the Islamic Cooperation (OIC), where most Muslims live, the value of the human development index, a measure of a nation well-being, is lower than both the world average and the developing countries. The index for members of the OIC measures 0.636 compared to the

2. International Monetary Fund, *World Economic Outlook 2021, Recovery During A Pandemic: Health Concerns, Supply Disruptions and Price Pressures*, https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021 (accessed on 29th. Nov 2022).
3. *The Economist*, September 26, 2020.

world average of 0.717 and 0.668 for developing countries.[4] Low human development index shows that the livelihood of a substantial number of people depended heavily on the natural environment for survival. Without paying attention to policies that support the poor by creating well-paying jobs, reducing inequalities, and promoting inclusion, the ability of these people to contribute to development will continue to fall short. Without strong public support to invest in human capabilities including, the skills and education, health, and job creation, the poor will not be able to benefit from government policies and improve their socio-economic well-being. Collectively, poor countries need strong institutional reforms to enhance capabilities and reduce income and wealth inequalities among and within their nations to guarantee that the poor people will be provided with the services needed to ensure quality and improve living standards.

Similarly, disruption in the international trade system hinders the ability of the developing countries to overcome the challenges posed by the pandemic and reduce the risk of economic vulnerability. Most poor countries may not benefit from participation in international trade because the goods they produce are subject to highly elastic demand, besides the low quality that does not meet international standards. Several policy measures, including participation in the global value chains, can expand opportunities for these countries to integrate in the global markets and gain access to finance, technology, and investment. Furthermore, global income inequalities weaken access of developing countries to global markets to obtain the necessary health facilities to vaccinate their people. For example, in advanced countries, almost 60% of their population are fully vaccinated, while in low-income countries 96% of their population remain unvaccinated.[5] However, if access to global

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4. UNDP Human Development Report (2016), *Organization of Islamic Cooperation (OIC): Statistical Briefing on the 2016 Human Development Report*, https://www.oicstatcom.org/event-detail.php?id=1781 (accessed on 29th. Nov 2022).

5. IMF, *World Economic Outlook 2021*.

trade remains unfavourable to developing countries, it is likely that divergences in inequalities among and within nations will continue to widen.

Countries with heavy reliance on exports of primary products for financing their budgets, such as oil-producing countries including Malaysia, fall in commodity prices could have far-reaching and damaging macroeconomic consequences. In the case of Malaysia, for example, the 2020 Budget was based on the oil price of around $69 a barrel, which is more than double the market price. Not only does fall in oil prices reduce the country's ability to meet its international obligations, it also weakens government-support programs to finance public projects and maintain the social peace at home. Every $1 drop in price of oil per barrel accounts for RM300 million fall in government revenues.[6] This puts the government in a difficult position to finance its expenditures and support programs aiming at promoting equity and reducing inequalities among social groups.

The impact of the pandemic on the economies of the developing countries could be devastating. There are two billion people working in the informal sector with little or no protection against economic hardship. In low-income countries, 90% of employment is in the informal sector reflecting the financial vulnerability of these people and their inability to protect themselves against the pandemic crisis.[7] In the informal sector, mostly women, underprivileged groups and unskilled workers are employed, representing the most vulnerable groups in society. These groups are most noticeable in Muslim countries where the informal sector remains an important source of employment

6. Malaysiakini 15th April 2020, *For every US$1 drop in oil price, gov't loses RM300 million – Mustapa*, https://www.malaysiakini.com/news/518915 (accessed on 29th. Nov 2022).
7. Matthew Martin, et al., OXFAM International (2020) *Fighting inequality in the time of COVID-19: The Commitment to Reducing Inequality Index 2020 | Oxfam International*, https://www.oxfam.org/en/research/fighting-inequality-time-covid-19-commitment-reducing-inequality-index-2020 (accessed on 29th. Nov 2022).

and income for substantial number of households. Lack of manufacturing production, inadequate skills, poor infrastructure, and weak public institutions are imposing constraints on market activities and excluding youth, women, and underprivileged groups from participating in the economy and contributing to the national output. Under these circumstances, governments, civil groups, and international institutions need to take extraordinary measures to protect workers against the spread of the disease across countries. According to the United Nations, the developing countries need the equivalent of $2.5 in order to save trillion their economies and sustain development.[8]

Income and Wealth Inequalities

Among nations, inequalities in income and wealth are widely common, reflecting the failure of the global economic system to promote inclusion and establish equity in the distribution of income among and within countries. Inequalities reduce incentive to invest in the economy and weaken human capabilities to foster economic growth and create job opportunities. High concentration of wealth in the hands of a few negatively impacts the aggregate demand and lowers the value of the multiplier which creates linkages and stimulates market activities. Inequalities are of multi-dimensional layers representing income, gender, wealth, racial, and technological features, existing in the national, regional, and global levels. However, never inequalities have been greater as of at present, globally reflecting the inability of the global community to endorse a scheme for bridging inequalities and narrowing the socio-economic gaps among and within nations.

Globally, total wealth per capita underlines the wide discrepancies in the distribution of resources among world nations. According to the World Bank, the global average of wealth accounts for $245,516 per person. Among nations, the

8. Ibid.

average wealth per person varies from $1,092,628 in Singapore to $872,400 in the United States, $726,435 in Saudi Arabia, $420,520 in Malaysia, $144,303 in Indonesia, $93,317 in Egypt, $81,347 in Nigeria, $55,569 in Pakistan, and $26,475 in Chad. Worldwide, the wealth of the top 0.001% of the world population increased by 14% between 2019 and 2021 while average global wealth increased by just 1%. In most Muslim countries, the average wealth per person falls far below the world average, reflecting not only the global discrepancies in the distribution of the earth resources but also the non-productive economies of these countries to generate wealth and reduce inequalities. Production of wealth is related to economic productivity and government macroeconomic policies. This is possible through enhancing productive capabilities and encouraging entrepreneurship.

In the 21st century, the income and wealth gaps between the poor and rich nations are to widen further due to the rise of frontier technologies, including artificial intelligence, robotics, Internet of Things (IoT), nanotechnologies, automation, and renewable energy. The countries that will be participating in the new economy are likely to obtain the biggest share of the global income in the 21st century. Currently, ten countries own 91% of the frontier technologies, leaving many countries far behind in taking part in the new economy and fostering socio-economic transformation.[9] Advancement in frontier technologies is likely to widen inequalities further due to the lack of knowledge and skill capabilities in many countries needed to build technological capacity and catch up with the industrialized nations. Such inequalities are likely to weaken social inclusion, preventing people from reaching their full potential, and eroding people's trust in government and institutions. To this end, inequalities could reduce public participation in the political process by allowing a particular interest group to make decisions that serve few wealthy and influential groups.

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9. United Nations Conference on Trade and Development (UNCTAD) 2021, *Technology and Innovation Report 2021*, https://unctad.org/system/files/official-document/tir2020_en.pdf (accessed 29th. Nov 2022).

Muslim countries suffer from unevenly distributed resources as well as from exclusion of private enterprises in taking active role in market activities. Building capacity for development entails government investment in education, infrastructure, ICT, and research and development (R&D). A major bulk of government expenditures in many Muslim countries is devoted towards imported consumer products, armaments, luxury goods, and non-productive projects. Narrowing the income, wealth, gender, racial, and technological gaps must ensure public participation in decision makings so as to improve the social capital and increase trust among various groups in society. Inclusivity provides opportunities for various groups in society to enhance their human capabilities via greater access to health services, higher quality of skills, access to technology, and effective use of social networks. Conversely,

> Income inequality reflects the exclusion or marginalization of certain groups from economic life, it also limits the consumer base and strife business growth. Additionally, excessive levels of inequality may undermine the political stability and social cohesion that allow economies to function smoothly and for people to work together constructively.[10]

The wealth of a nation is a measure of all assets available for use to generate income and improve the quality of life. Along with gross domestic product (GDP), wealth influences economic performance and enhances the nations capabilities to increase productivity and sustain growth. As a measure of a nation's assets, wealth increases through investment in human capital, produced capital and sound management of natural capital, especially non-renewable resources. In 2021, two thirds of the global wealth attributed to human capital, and therefore, investment

10. International Organization of Employers, (2014) Understanding Income Inequality, p. 1. https://www.ioe-emp.org/index.php?eID=dumpFile&t=f&f=111040&token=9da6e4f99b9578d3e406155022f18e42f4ab5a03 (accessed 29th Nov. 2022)

in education could have positive impact on the distribution of wealth among nations. According to the World Bank, the global wealth estimated at US$1,152 trillion in 2018, the share of high-income Organization for Economic Cooperation and Development (OECD) countries accounted for 58% whereas low-income countries received only 1% of the global wealth. On average, a person in high-income-OECD countries receives US$621,278 of the global wealth compared to US$11,426 for an average person in low-income countries.[11]

In recent decades, globalization has contributed to global inequalities by increasing the concentration of global wealth in the hands of few rich and powerful multinational players. "Globalization has unleashed market forces that by themselves are so strong that governments, especially in the developing world, often cannot control them."[12] The inability of the developing countries to compete in the global markets has weakened their position to cultivate the benefit of globalization. Among other things, trade liberalization has left these countries without adequate protection to mitigate global risks and obtain access to technology and foreign direct investment. As a consequence, a small, but wealthy minority has amassed a vast amount of wealth at the expense of the rest of the global population. Statistical data shows that the world's richest 1% own 44% of the world's total wealth. Such divergence in global distribution of income could have a damaging effect on the social peace in society.[13] However, focusing on inequalities should not be defined in terms of disparities in income and wealth, but also in terms of inequalities in human development, i.e., lack of

11. The World Bank Group, *The Changing Wealth of Nations 2021: New World Bank Report Launched*, https://www.indrastra.com/2021/10/the-changing-wealth-of-nations-2021-new.html (accessed on 29th Nov 2022).x
12. Joseph E. Stiglitz, *Making Globalization Work* (London: Penguin Books, 2007), 20.
13. Luca Ventura, *World Inequality Ranking by Country 2022*, https://www.gfmag.com/global-data/economic-data/world-inequality-ranking (accessed 29th. Nov 2022).

capabilities, including health, education, dignity, and respect for human rights to qualify people exerting their equal rights and improve their livelihoods.[14]

Concerning Muslim countries, on average the productivity per person is low compared to the rest of the world. A study by OIC illustrates that a worker in OIC countries produces 29.4% of the output produced by an average worker in the developed countries, manifesting low human capabilities to support rapid growth and diversify output. In other words, low productivity undermines the ability of nations to speed up the process of transformation and catch up with the rest of the industrialized world. The share of manufacturing production in OIC countries accounts for about 15% of the total collective output, which is low for generating production linkages and fostering economic growth. On average, income per capita in OIC countries varied widely ranging from $65,000 in Qatar to $23,000 in Saudi Arabia to 2,000 in Nigeria to $400 in Niger in 2019.[15] COVID-19 has negatively affected the total output in OIC member countries. According to the OIC Economic Outlook 2021, the GDP of OIC member countries contracted by 5.6% from $7.3 trillion in 2019 to $6.9 trillion in 2020. Accordingly, the share of OIC countries in total global GDP fell by 0.2% in 2020 compared to 2019.[16]

Theoretical Framework

A widely used method for examining the distribution of income among various groups in society is the Lorenz curve. It measures

14. Deepa Narayan-Parket, et al., *Voices of the Poor: Can Anyone Hear US?* (Oxford: Oxford University Press, 2000).
15. Wikipedia, *List of countries by GDP (nominal) per capita)*, https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita) (accessed on 29th. Nov 2022).
16. Organization of Islamic Cooperation, *OIC Economic Outlook 2021: Trade, Transport and Tourism amidst the COVID-19 Pandemic*, https://sesricdiag.blob.core.windows.net/sesric-site-blob/files/article/787.pdf (accessed 29th. Nov 2022).

the percentage share of the total income received by various income groups, ranked according to income they receive from the lowest to the highest, i.e. the share out of the total income received by diverse groups of the country population. As shown in Figure 1, the cumulative percentages of households are plotted on the horizontal axis whereas the cumulative percentages of the total income received are drawn on the vertical axis. Having two points on the Lorenz curve (i.e., 90 percent on the horizontal axis and 10 percent on the vertical axis) indicate that the poorest 90 percent of the population receives 10 percent of the total income while the richest 10 percent receives 90 percent of the total income. If all individuals in society enjoy the same income, then Lorenz curve would be a straight line connecting zero-point (households have zero income) and 100 (100 percent of households receiving all income). The line connecting these two points is called line of perfect equality, i.e., the 45-degree represents a line of complete income equality and any deviation below the 45 line represents a measure of inequality within nations or groups Inequality of distribution is measured along the Lorenz curve showing the existing income or wealth gaps among various groups in society.[17]

Another important measure used to capture inequality is the Gini coefficient. It is a statistical measure of economic inequality ranging from zero meaning perfect distribution, i.e., all individuals have the same income whereas 100 implying that the entire income is owned by one person. In countries with score closer to one, income is unevenly distributed in favor of small groups in the society. The Gini coefficient is based on the Lorenz curve and measured by the area below the 45-degree Lorenz line of perfect equality. Based on the value of the Gini coefficient, income inequalities in most Muslim countries are high reflecting the uneven distribution of income and wealth among and within these countries. For example, Malaysia has

17. United Nations, *Human Development Report 2019* (New York: United Nations, 2019), 136.

registered one of the highest Gini coefficients of 41.1 reflecting the wide income dispersion among various ethnic groups. The top 1% of the population in Malaysia earns 14.6% of the total income whereas the share of the poorest 40% in total income accounts for 15.9%. the Gini coefficient also shows high values for such countries as Morocco 39.5, Pakistan 31.6, Turkey 41.9, and Egypt 31.5. With Gini value of 63.0, South Africa has shown to have the highest income inequalities among all nations. High inequalities among nations reflect the failure of national policies to allocate resources in a productive manner so as to ensure fairness in inclusion and equal opportunity to all citizens. Not being able to tackle inequality implies that countries will continue to be vulnerable to economic, financial and health crises.

Figure 1 illustrates the Lorenz curve for global income and wealth inequalities in 2021. Among nations, wealth distribution is extremely uneven. The bottom 50% of the global population earned 2% of global wealth whereas the top 10% of the global population earned 76% of the total global wealth. The richest 1% of the world population owned 38% of global total wealth. The distribution of income is no better, showing that the bottom 50% of the global population owning 8% of the total income compared to 52% earned by the top 10% of the total population. The 2022 World Inequality Report presents striking data about inequalities among and within nations not only in terms of average income, but also about the share of the total wealth by the richest 10% of the world. The share of the top 10% ranges from 59% in Europe to 77% in Latin America and in the Middle East and North Africa region, the bottom 50% accounts for 1% of the total wealth.[18]

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18. Lucas Chancel, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, *World Inequality Report 2022*, https://wir2022.wid.world/www-site/uploads/2021/12/WorldInequalityReport2022_Full_Report.pdf (accessed 29th Nov 2022).

Figure 1

Lorenz Curves for Income and Wealth, 2021

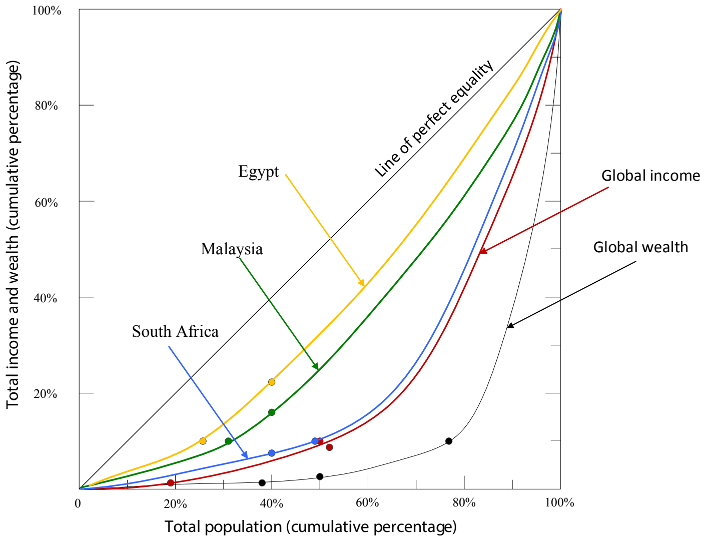
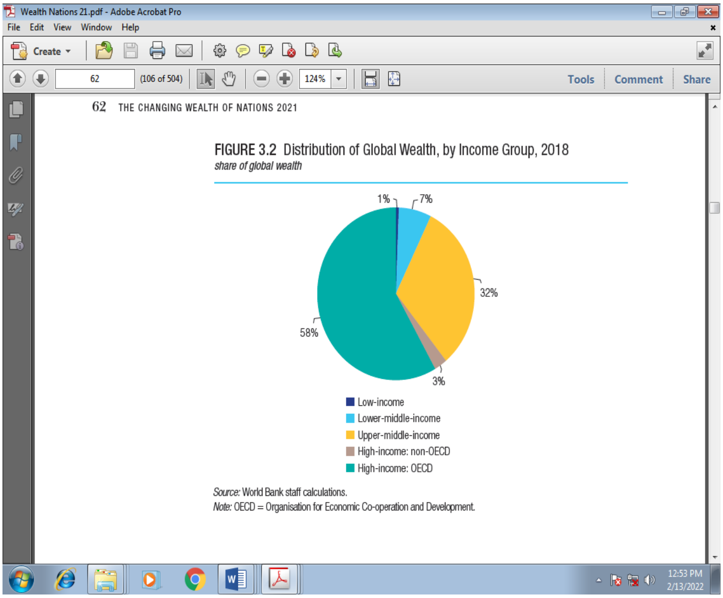


Figure 2 illustrates the distribution of global wealth among various income groups. For example, low-income group representing 8.5% of the world population earned 1% of the total global wealth whereas OECD high income group accounting for 14.4%, earned 58% of the global wealth in 2018. The average income per capita also vary among income groups.

Figure 2

Distribution of Global Wealth by Income Group, 2018



Low- income 1%
Lower-middle- income 7%
Upper-middle-income 32%
High-income: non-OECD 3%
High-income: OECD 58%

Source: The Changing Wealth of Nations, 2018

Government response to COVID-19 pandemic can be a true test for national policies to undergo structural transformation which aims to promote inclusion and reduce inequalities. It is likely that COVID-19 will widen the gap in income among various groups in society, especially in poor countries where high unemployment, inadequate government support programs, and unsatisfactory health services will hinder government efforts to narrow the income, gender, racial and technological gaps. According to the United Nations, the COVID-19 pandemic have pushed 100 million people into extreme poverty, the worst set back in a generation.[19] It is unethical that a few and rich people are owning so much of the planet's resources whereas the rest of humanity receives very little share of the global income and wealth. The heavy dependence of poor countries on the global markets has increased their economic vulnerability by subjecting their economies to the instability of commodity prices and financial markets volatility.

Islamic Social Finance

The term Islamic social finance refers to the principle of inclusiveness in the distribution of income and wealth in a manner to promote equity and justice among all members of the society. Social inclusion is important because it increases the ability of the society to make collective decisions that involve the participation of all citizens. It represents "the Process of improving the ability, opportunity, and dignity of people disadvantaged on the basis of their identity to take part in society."[20] Islamic social finance promotes economic equity and endorses social justice through sharing of resources and boosting participation in economic activities. From an Islamic perspective, not only project financing has to be selective to enhance production linkages and stimulate entrepreneurship, it must also ensure that allocation of resources meet people essentials. In the Islamic economy, investment in real assets

19. United Nations Development Programme (UNDP), *Human Development Report 2020*, https://report.hdr.undp.org/, 6 (accessed on 29th Nov 2022).
20. Maitreyi Bordia Das and Sabina Anne Espinoza, *Inclusion Matters in Africa* (Washington: The World Bank Group, 2020), 40 (accessed 29th. Nov 2022).

strengthens the country capacity to produce goods and services, create new job opportunities, encourage innovation, and diversify output. Being advocate to poverty alleviation, equal opportunity and social welfare, the Islamic economy endorses sustainable development to ensure fairness in the distribution of income and wealth. "Islamic redistributive instruments such as *zakat*, *waqf* (endowment) and *sadaqat* (charity) have also played vital role in alleviating poverty and achieving wider social and financial inclusion."[21]

Inclusiveness connects people across the social, cultural, financial, and political divides in sharing ideas and exchange information for the interest of all members of the community. Having diverse views about management of resources through inclusive participation improves decision making and strengthens policy-making to achieve the society social and economic objectives. Women, for example, are vital for development and without their contribution the society will not be able to make progress. In most Muslim societies, women are not equal because their status prevent them from having equal opportunity to study, work, own land, obtain credit, and start business. Today, rapid advancement in technology and changes in traditional jobs require society to alter conventional cultural attitudes to promote inclusiveness and overcome inequality.

The Islamic social finance exhibits the principle of equity by imposing constraints on production, consumption, and distribution of resources to reduce waste, alleviate poverty, encourage work, provide incentives, and entail zakat payment. In other words,

> Islamic finance, through its core principle, advocates for the just, fair, and equitable distribution of income and wealth during the production cycle and provides mechanisms for redistribution to

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21. Organization of Islamic Cooperation (OIC), *OIC Economic Outlook 2019*, https://www.sesric.org/publications-detail.php?id=490, 127 (accessed 29th Nov 2022).

> address any imbalances that may occur. Islamic finance's approach to redistribution is based on a balanced blend of income-based redistribution through redistributive instruments and asset-based redistribution through the notion of risk sharing.[22]

The Islamic modes of investment empower the poor by permitting equity participation, which allow them gaining access to real assets in the economy. Development in Islam is driven by set of ethically backed rules and guidelines, aiming not only at serving the material needs of man but also for strengthening the spiritual needs.[23]

Islamic finance is a branch of the Islamic intellectual heritage aiming at promoting the objectives of the Islamic economy, including justice, equity, and freedom. Islamic finance and financial services could play a key role in economic development of Muslim nations by fueling economic growth and sustaining development. These financial institutions empower deficit units to invest in productive activities and increase the economy ability to produce goods and services for meeting the basic needs of the people. Investment expenditure increases the circulation of money which stimulates the process of money creation and encourages productive agents to invest in various sectors of the economy. Islamic finance contributes to economic development by funding socially and environmentally-friendly projects that promote productivity growth and increase supply of natural capital. The Islamic economy views natural resources as God-given bounty, collectively shared for the betterment and survival of all living beings. In this regard, management of resources must comply with the Islamic principles to ensure fairness in production, consumption, and distribution of resources among and with nations. Establishing monopolies, excessive

22. World Bank Group, *Global Report on Islamic Finance 2016*, 2.
23. Detailed explanations about the Islamic Economic System and its contribution to the development of Muslim societies can be found in Shafiq Alvi and Amer al-Roubaie, *Islamic Economics* (London: Routledge, 2013).

exploitation of natural resources, and waste are in violation of the core fundamentals of the Shariah principles. In compliance with these principle, Islamic finance provides financial support for productive investment, not only to promote social and economic development but also to protect the environment and endorse sustainable growth.

Adherence of Islamic finance to redistributive principles has the potential to empower the poor and other marginalized groups in society to participate in the market economy and contribute to the social, economic, and environmental principles of sustainable development. Post COIVD-19, there is a need to protect low-income groups from falling behind via funding projects with high spillover effects that stimulate demand and sustain growth. Balanced development must be inclusive to enhance the economy productive capabilities achieving self-sufficiency and reducing the risk of economic vulnerability. Islamic social finance contains the ethical component which orient finance projects towards poverty reduction, social equity, jobs opportunity and shared economic prosperity. Guided by these objectives, the Islamic social finance endorses inclusive development that provides equal opportunity to participate in the economy and contributes to development.

Under such a scheme, the distribution of output among factors of production exhibits equity instead of being concentrated in a few hands of capital owners in the form of profits.

> Islamic social finance advocating a sharing economy and prompting redistribution could play a significant role in helping achieve the twin development objectives of ending extreme poverty globally by 2030 and promoting shared prosperity by raising the incomes of the bottom 40 percent of the population. The institutions and instruments of Islamic social finance are rooted in redistribution and philanthropy.[24]

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24. World Bank Group, *Global Report on Islamic Finance 2016*, 5.

Islamic principles, therefore, can provide an effective business model for achieving SDGs. The Islamic financial model underscores the importance of alleviating poverty, ensuring food security, promoting clean environment, endorsing affordable energy, and preserving human dignity through just and fair social, economic and political practices. In Muslim-populated countries such as Indonesia, Pakistan, Bangladesh, Egypt, and Nigeria, Islamic finance could strengthen development fundamentals by correcting market imperfections through investment in infrastructure and in production of goods and services that are essential for economic sustainability. This decreases the concentration of wealth in the hands of a few, reducing monopolistic power and spreading benefits across wider spheres. Lack of collateral, prohibition of interest payment, and low transaction costs of the Islamic financial services provide incentives for investors to participate in the economy and reduce income inequality. Muslim countries have unique mechanisms including such Islamic financial instruments as zakat, voluntary donation, and waqaf funds to promote development and make a significant positive contribution to distribution of resources among and within nations.[25] The Islamic economic system is a market-driven system guided by the principles of Islamic law and individual choices to produce goods and services. Similarly, Islamic social finance could serve the new economy by endorsing investment in human capital and supporting innovation. Knowledge acquisition and lifelong learning are mandatory according to the Shariah. Despite of the fact that Muslims account one fourth of humanity, their productive output represents less than 10% of the global GDP. In addition, Muslims suffer from poverty to the extent that one fourth of Muslims live under the global poverty line.

It is critical that Muslims must invest in education and R&D to promote innovation and increase productivity. Not

25. Organization of Islamic Cooperation (OIC), *OIC Economic Outlook 2019*, 7.

only human capital is crucial for empowering people and fostering participation in market activities, it also plays a key role in productivity increases and wealth creation. Statistical data show that human capital was responsible for the creation of 65% of the global wealth in 2018. In high income countries, the share of human capital in total wealth accounted for 70% compared to 41% in low-income countries and the 35% in the Middle East and North Africa, the lowest among all world regions.[26] Low contribution of human capital underlines the weakness of the educational system in producing quality skills and adequate knowledge to support productivity growth and encourage innovation. In other words, investment in human capital enhances people capabilities to become productive, creative, and innovative which contribute to redistribution of income and improve inclusion. In other words,

> deprivation of individual capabilities can have a close links with the lowness of income… There are good reasons for seeing poverty as a deprivation of basic capabilities, rather than merely as low income.[27]

In Islam, inequality arising from poverty is not only about social, financial, political, economic, and environmental issues, but also about spiritual and moral issues rooted deeply in the teachings of the Shariah. Economic development in Islam endorses both material and spiritual initiatives which men must pursue to fulfill their religious duties and achieve al-Falah (success). Production, consumption, and distribution in the Islamic economy are subject to certain constraints that ensure environmental protection, poverty allocation, distribution of income and public welfare. Thus, Islamic social finance could

26. Facundo Alvaredo, et al., *World Inequality Report 2018*, https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf (accessed 29th Nov 2022).
27. Amartya Sen, *Development as Freedom* (London: Oxford University Press, 1999), 19.

provide a model for social and economic development in the face of the challenges posed by such crisis as COVID-19 pandemic and rapid technological advancement. Shared prosperity requires inclusion of all productive agents in society to strengthen the ability of the economy generating production linkages and sustaining growth. It is essential that Islamic countries integrate the Islamic financial system into the national strategy for development to ensure that utilization of resources are to achieve the society's objectives for sustainable growth as well as to guarantee people's right to live in a dignified way. To this end, policy intervention could play a significant role in harnessing the productive capabilities of the poor and other underprivileged groups in society to participate in development and reduce inequality. Thus, building capacity for infrastructure, investment in human capital, and financing human-centered projects are important for promoting equity and providing new opportunities for people to engage in productive activities and reduce the risk of economic vulnerability.

Conclusion

The COVID-19 pandemic has disrupted market activities, increased unemployment, worsened food insecurity, reduced manufacturing production, increased the gender gap, and widened income inequalities between rich and poor nations. To overcome the challenges of the pandemic, the developing countries, including Muslims, require far more resources than they currently possess to correct market imbalances and restore financial and economic stability. Income inequalities are to worsen among and within nations due to the exclusion of nations form having equal opportunity to participate in global decision making and protect their interest against the rich and powerful. High unemployment, low productivity and social exclusion increase income gaps between rich and poor people across the globe, forcing millions of people to go below the poverty line. The failure of the global economic system to respond to the COVID-19 pandemic and protect people from falling into poverty has increased the call for a new business model to restore financial stability and reduce economic vulnerability.

Significant percentage of Muslim countries are poor with limited financial resources to increase public services and promote equity in the distribution of resources. Low expenditure services such as education, health and social safety nets hinder the state's ability to reduce inequality between rich and poor people in society. Not only poor people are lacking to equal opportunity and access to resources, they also suffer from discriminatory practices that keep them isolated from taking part in policy formulation and investment decision making. The market economy is usually biased towards businesses with capital which increases profit and widen the income gap between individuals, regions, and nations. Under such circumstances, government support programs are essential for providing those in lower income brackets the opportunity to participate in the market economy and reduce inequalities. There are wide range of policy measures that the government can implement to reduce inequalities including increased spending on public services, introducing new taxes, improving digital connectivity, and building infrastructure that support the creation of suitable business environment to encourage foreign direct investment and support regio0nal development.

The Islamic modes of investment empower the poor by permitting equitable participation, which allow them gaining access to real assets in the economy. Development in Islam adheres to a set of ethically-backed rules and guidelines which aims to serve the material needs of man and strengthen the spiritual need for the hereafter. Islamic social finance empowers human capabilities to actively participate in market activities and create new business opportunities. The non-exclusive nature of Islamic social finance enables individuals and groups to share knowledge, skills, and information, fostering economic growth and sustaining development.

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