



40TH ANNIVERSARY SPECIAL EDITION

NOVEMBER 2024



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PREFACE

The Standing Committee for Economic and Commercial Cooperation (COMCEC) is the highest consultation and decision-making platform for Islamic countries in economic and development-related issues. As one of the Standing Committees within the Organization of Islamic Cooperation (OIC), its foundation was laid during the Third Islamic Summit Conference that took place in Mecca/Taif in 1981. This initiative marked the onset of a concerted effort to foster economic and commercial cooperation among the OIC Member States. COMCEC became fully operational at the Fourth Islamic Summit Conference, which was held in Casablanca in the Kingdom of Morocco in 1984. This pivotal moment was further underscored by the election of the President of the Republic of Türkiye to its Chairmanship, a role that has since been integral to guiding the committee's activities. In the same year, under this new leadership, COMCEC convened its inaugural ministerial-level meeting, laying the groundwork for its future endeavours.

COMCEC's membership has grown to encompass 57 Member Countries, reflecting a broad geographical coverage of the Islamic world and its diverse economies. In addition to these members, COMCEC also includes 5 observer countries, allowing for a wider engagement and cooperation with other states and entities interested in its objectives. This inclusive and member-driven approach has been key to COMCEC's efforts to promote economic growth and development across its member states.

The year 2024 marks a significant milestone for COMCEC as it celebrates its 40th anniversary. Over the four decades of its existence, COMCEC has been instrumental in fostering economic cooperation and commercial collaboration among the member countries. Through its various programs, projects, and initiatives, COMCEC has worked tirelessly to address the economic challenges facing OIC Member Countries while also seizing opportunities for growth and development. This 40th-year celebration not only reflects on past achievements but also sets the stage for future initiatives to enhance the economic well-being of its member states and their people.

In line with its mission to develop a common understanding and approximate policies to address and find solutions to the economic and social challenges of the Islamic Ummah, one of the primary goals of the COMCEC is to provide OIC Member Countries with the enabling ground to share their knowledge and learn from each other's experiences in crucial cooperation areas.

In pursuit of this objective, in addition to a wide range of evidence-based analysis provided by its research reports and guidelines in many sectors, COMCEC has come up with this comprehensive book which has been meticulously crafted, benefiting from the insights and contributions of international experts across various fields from around the globe.

Celebrating COMCEC's 40th anniversary, this landmark publication is organized into different thematic sections, each corresponding to one of the cooperation areas identified by the COMCEC Strategy: trade, financial cooperation, poverty alleviation, agriculture, transport and communications, tourism, and digital transformation.

The book compiles 31 articles, each penned by renowned authors with deep expertise in their respective topics. These articles not only provide a rich source of information on the current state of affairs in each domain but also offer forward-looking perspectives and innovative solutions to drive progress within the OIC Member Countries. Through this comprehensive collection, the book aims to serve as a valuable input for policymakers, researchers, and practitioners. Valuable editorial contributions to these articles were made by Assoc. Prof. Dr. Belgi Turan, Prof. Dr. Çetin Gürel, Prof. Dr. Mehmet Asutay, Assoc. Prof. Dr. Mücahit Özdemir, and Dr. El Amri Mohamed Cherif.

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The Role of Islamic Social Finance in Socioeconomic Equity and Market Stability

Monzer KAHF¹ and Mohamed Cherif EL AMRI²

Abstract

This article analyzes the structure of Islamic social finance and its crucial function in mitigating socio-economic inequality and promoting ethical conduct in market economies. The modern financial system frequently fails to mitigate the escalation of poverty and inequality, as evidenced by data from Oxfam and other organizations. Islamic finance, grounded on principles of justice, social welfare, and ethical limitations, differs markedly from interest-based finance by integrating social and economic goals into its core activities.

The structure of Islamic finance encompasses profit-driven financial models that promote societal welfare, a charitable sector focused on philanthropy and endowments, and market corrective mechanisms that emphasise ethical norms and mitigate wealth inequality. This study examines five fundamental elements of Islamic social finance: for-profit Islamic finance, Zakah, Awqaf, charitable activities in the third sector, market correction procedures, pre-market wealth distribution methods, and a fiscal structure founded on communal solidarity. Collectively, these elements form a comprehensive system that promotes economic justice, environmental sustainability, and a diminished wealth disparity, so offering an alternative framework to interest-based financial systems.

This study elucidates how the principles of Islamic finance foster socially responsible finance, economic stability, and equitable wealth distribution, thereby providing insights into remedies for modern economic difficulties.

1. Introduction

In an era of growing global wealth inequality and financial instability, the spotlight on economic systems has intensified. According to Oxfam's 2023 report presented at the World Economic Forum, the stark contrast between rising poverty rates and the increasing concentration of wealth among the highest earners underscores a serious flaw in the current global financial structure. As reported by OXFAM (2023), the wealthiest 1% of the global population has accumulated \$26 trillion in new wealth since 2020, which is nearly double the amount amassed by the rest of the world combined. This period has also witnessed a simultaneous rise in both extreme wealth and extreme poverty for the first time in 25 years. Additionally, in the UK, it was found that the top 1% of the population holds more wealth than the combined total of 70% of the population (Oxfam, 2022). These inequalities are not just the result of economic mismanagement; they are deeply rooted in systemic biases that favor capital accumulation at the expense of the marginalized segment of the society. The capitalist-driven market economies often prioritize maximizing profits and shareholder value, side-lining the broader social and ethical implications of wealth distribution.

Islamic social finance offers an alternative framework designed to address these pressing issues. Unlike conventional financial systems, which are often divorced from

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ethical considerations, Islamic finance is deeply intertwined with religious principles that emphasize justice, equity, and social responsibility to support the underprivileged. This financial system incorporates mandatory mechanisms, such as zakat (obligatory almsgiving), and voluntary instruments, such as Awqaf (endowments), to promote wealth redistribution and ensure that the needs of the most vulnerable members of society are met. In this way, Islamic finance acts as both a market participant and a social reformer at the same time, encouraging financial growth and fostering community solidarity at the same time.

Islamic finance fundamentally prohibits exploitative practices such as excessive speculation, interest-based transactions (riba), and investments in unethical industries, distinguishing it from secular financial systems. Rather than viewing wealth as a tool to empower individuals, Islamic finance promotes the idea that wealth should be traded and shared for the common good, with special attention to the social and economic upliftment of the poor and marginalized. This article delves into the core principles of Islamic social finance and analyzes its potential to reshape economic systems by integrating social, environmental, and ethical goals into its financial practices. Through this exploration, we aim to provide a comprehensive understanding of how Islamic finance can serve as a socially responsible alternative, addressing modern economic challenges such as poverty, wealth inequality, and market instability.

2. For-Profit Islamic Finance and Social Responsibility

For-profit Islamic finance serves as a foundational element within the broader framework of Islamic social finance, effectively challenging the prevalent assumption that Islamic social finance is predominantly charity-driven. In 2023, the global Islamic Financial Services Industry (IFSI) demonstrated consistent year-over-year growth of 4%, resulting in a total asset valuation of USD 3.38 trillion. This growth was characterized by a distribution of assets, with 70.21% attributed to Islamic banking assets, 25.16% to outstanding Sukuk, 3.92% to Islamic funds, and 0.71% to contributions from Islamic insurance (IFSB, 2024).

The principal contracts employed in for-profit Islamic finance encompass a variety of types, including cost-plus profit sales (Murabaha), manufacturing contracts (Istisna'), deferred delivery sales (Salam), leasing agreements (Ijarah), partnership contracts (Sharikah), and profit-sharing contracts (Mudharabah) (AAOIFI, 2017).

For-profit Islamic finance stands on 4 principles which distinguishes it from conventional finance namely asset ownership, realism, moral commitment, environmental and social responsibility.

2.1 Asset Ownership and Value Creation

Islamic finance stipulates that financing must involve the ownership of a tangible asset or service that contributes real economic value. This essential requirement for ownership distinguishes Islamic finance from conventional lending models, where interest is frequently charged on borrowed funds without generating any additional value. By concentrating on assets that add value, Islamic finance inherently fosters developmental projects that yield long-term social benefits.

Earning by Owning: The Foundational Principle

In Islamic finance, the right to earn is fundamentally tied to asset ownership. Profit is justified by possessing an asset that generates increments or added value. Therefore, in order to earn financially, one must own an asset. Without asset ownership, there is no entitlement to financial gain. Moreover, the asset itself must have specific characteristics, as dictated by its intrinsic nature. To produce returns, the asset must generate utility, value, or material wealth. If the asset does not create added value, it is not considered a valid basis for earning (Kahf, 2022).

The principle also emphasizes that profit can only be claimed if the asset itself contributes to generating that added value. Additionally, the asset must not cause harm, as harmful assets are excluded from consideration in Islamic finance.

The legitimacy of earning (halal) depends on two key factors: asset ownership and the nature of the asset itself. For an asset to qualify for generating earnings, it must meet three essential criteria: it must be capable of producing added value, it must be tangible (not fictitious or virtual), and it must be moral. If an asset does not meet these criteria, it is deemed unsuitable for financing. The validity of these characteristics can be evaluated using rational, scientific methods alongside moral considerations (Kahf, 2022).

Ownership and Risk

Ownership encompasses the inherent risk associated with property rights, which represents a fundamental aspect of entitlement. A property owner is entitled to any increments produced by their asset while simultaneously bearing responsibility for any loss, damage, liability, or depreciation in value. In summary, ownership legitimizes the right to earn within the financial landscape. This concept of ownership encompasses two dimensions: the risks to which the property is exposed and the entitlement to any increments generated by the property. Notably, risk is not the cause of entitlement but rather an essential feature accompanying it (Kahf, 2022).

Unfortunately, contemporary financial instruments allow individuals to generate earnings without asset ownership, utilizing mechanisms such as futures, derivatives, short sales, and contracts for differences. Such practices distort market discipline and can precipitate financial bubbles, as evidenced during the 2008 global financial crisis.

2.2 Realism in Islamic Finance

Realism within Islamic finance pertains to the nature of transactions involved. For instance, when analyzing debt sales, one must consider the transaction's impact on the economy. Such transactions merely alter the identity of the creditor or debtor without modifying the overall quantity of goods and services within the economy, failing to create any increment or utility. Conversely, transactions involving the sale of goods or services inherently generate added value, as the exchange yields greater value to the buyer than what is relinquished. Consequently, any reforms in the existing financial sector should preclude virtual transactions, including options, derivatives, and index trading (Kahf, 2022).

Islamic finance emphasizes that financial assets must derive their legitimacy from real assets rather than fictitious or virtual representations, such as contracts for differences (CFDs), indices, or cryptocurrencies like Bitcoin.

2.3 Moral Constraints on Financing

Moral commitment is a fundamental tenet in Islamic finance, dictating that the assets utilized in financial transactions must not cause harm. This principle prohibits the ownership, purchase, or sale of any harmful or immoral items. Furthermore, contracts must be devoid of misinformation, deception, ambiguity, or any imbalance. Only assets deemed morally acceptable can be financed within the framework of Islamic finance. Investments in sectors considered harmful to individuals or communities, such as alcohol, tobacco, and gambling, are strictly prohibited. This moral constraint functions as a safeguard for society, ensuring that financed goods and services are aligned with the well-being of the community (Kahf, 2022).

Moral commitment is manifested in Islamic finance contracts in two primary ways. The first relates to the characteristics of the assets involved in the contracts. It is a fundamental requirement of Islamic finance that the contracted goods, services, or assets do not inflict harm upon human beings, property, or the environment. The purchase and sale of items deemed harmful are expressly forbidden under Islamic law, with such items lacking recognition as legitimate properties. For example, transactions involving scientifically established harmful substances, such as alcoholic beverages and cigarettes, are not eligible for financing, as they do not constitute legitimate goods. In Islamic finance, the financing of assets that pose risks to individuals and the environment is prohibited, as assets or transactions forbidden by Shari'ah lack any real value and must be avoided (Kahf, 2022).

The second aspect of moral values in contracts pertains to the fundamental structure, terms, and clauses of the contracts themselves. Contracts within Islamic finance should be free from incomplete or false information, deception, suspicion, or ambiguity. There must be coherence between the contract's substance and its form. This indicates that moral commitment should be integral to both the content and structure of the contract. The conditions outlined in the contract must align with the contract itself, preventing any terms or ambiguities that disproportionately advantage one party over the other. A classical example of ambiguity in Islamic law is the sale of an unborn calf within a pregnant cow; such a transaction is rendered void due to uncertainty regarding the calf's viability upon birth (Kahf, 2022).

2.4 Double Intermediation in Islamic Finance

The double-intermediation model utilized in Islamic finance serves to not only connect savers and investors but also align suppliers of tangible assets with consumers. This mechanism empowers banking institutions to acquire ownership of an asset prior to its sale to the end-user, thereby introducing layers of transparency and ethical responsibility. By integrating social considerations into profit-driven activities, Islamic finance models pave the way for broader, socially-oriented economic development.

Environmental and Social Responsibility

Islamic finance is recognized as a unique form of socially responsible investment. It actively supports socially inclusive and environmentally sustainable activities. The moral commitment inherent in Islamic finance conveys an obligation to develop and engage in protective and considerate practices towards all living entities. Specifically, Islamic finance refrains from financing any product or activity deemed harmful. The definition of “harmful” within Islamic finance encompasses a broad spectrum of considerations, including detrimental effects on mental well-being, human health, children, animals, plants, nature, society, and overall peace and prosperity. Any entity classified as harmful is excluded from the operational domain of Islamic finance.

Islamic finance contributes to positive transformations in the environment and society by eschewing harmful practices and offering its services exclusively to beneficial endeavors.

3. The Islamic Third Sector

The third sector in Islamic finance, encompassing Zakat, Awqaf (endowments), and general charity, is another dimension of Islamic social finance addresses economic disparities and enhances community welfare through a robust system of redistribution.

3.1 Zakat as a Mechanism for Wealth Redistribution

Zakat constitutes a mandatory financial duty, functioning as a direct means of wealth redistribution, ensuring that a portion of each eligible Muslim’s income supports the disadvantaged. Unlike voluntary charitable donations, Zakah is a fundamental component of the Islamic economic system. It is often levied on both income and wealth, so reaching a wider economic base than income taxes alone.

Historically, Zakat has been seen as an efficacious tool for poverty alleviation within Muslim communities. Historical evidence from early Islamic societies indicates the possibility of entirely eradicating “visible” poverty through Zakat. An often referenced declaration of the Prophet (pbuh) asserts: “Indeed, Allah SWT has instituted Zakat as a duty for wealthy Muslims to alleviate poverty.” The destitute cannot suffer from hunger or lack of clothing unless it is provoked by the greed of wealthy Muslims.

Historical records indicate a consistent surplus of Zakat in early Islamic caliphates, contrasting mobilised revenues with distributable quantities, despite efforts to locate destitute recipients, which have often been cited as evidence for this claim. The caliphates of Umar bin al Khattab (13-22H) and Umar bin Abdul Aziz (99-101H) are characterised by a notable deficiency of Zakat recipients, indicating the possibility of eradicating “visible” poverty entirely. The present situation is, nevertheless, somewhat confusing. Zakat and poverty are interconnected. Poverty is more evident in Islamic countries than in other worldwide regions.

The obligation to pay Zakat is a religious duty for people, whereas governmental participation transforms it into a compulsory tax. In contemporary Muslim societies, Zakat is regarded as a discretionary contribution by devout Muslims.

The voluntary nature of modern Zakat may significantly contribute to its extraordinarily low collection levels. Recent research indicates that the actual Zakat collection in Muslim nations is well below its potential. Data on Zakat collection from selected countries indicate that the total Zakat collection varies from a mere 0.01 percent to 0.30 percent of GDP. The potential Zakat collection in Muslim nations, if efficiently mobilised, is anticipated to reach an annual range of 1.8 percent to 4.3 percent of GDP (Ashraf et al., 2021).

Two assessments by IRTI-IDB and WB project the potential global Zakat collection to range from USD 550 billion to USD 600 billion. The latest collection figures from various editions of the IRTI Islamic Social Finance Report indicate that Saudi Arabia collected USD 4 billion, Malaysia USD 600 million, Indonesia USD 270 million, Sudan USD 225 million, India and Pakistan USD 100-150 million each, Islamic Relief Worldwide from affluent Muslims USD 100 million, Singapore USD 20 million, Brunei USD 15 million, and South Africa USD 10 million, totalling approximately USD 5.5 – 6 billion. This constitutes only one percent of the anticipated potential (Ashraf et al., 2021).

Muslims in Russia, Commonwealth of Independent States (CIS), and African nations contribute limited Zakat (Russia: USD 5.9 million; Nigeria: USD 3.3 million). Algeria and Libya in the Maghreb yield around USD 10 million and USD 35 million, respectively, via their official agency. By integrating USD 3-4 billion from additional GCC countries, a plausible global estimate would range from USD 10 to 15 billion. As a result, just 2-3 percent of potential Zakat is being successfully collected (Ashraf et al., 2021).

The considerable gap between the potential and actual Zakat collection highlights the urgent necessity to improve Zakat mobilisation by expanding the reach of Zakat institutions and implementing supplementary initiatives. Comprehending the functions of various stakeholders in Zakat mobilisation is essential, as is recognising strategies for their efficient involvement in the process. The government and non-governmental charitable organisations are the principal actors, while other notable stakeholders encompass Islamic networks, religious scholars (ulama), activists, Zakat professionals (amil Zakat), Islamic banks, microfinance institutions, Zakat payers (muzakki), and Zakat beneficiaries (mustahiq).

A recent study on Indonesia indicates a significant increase in the number of Zakat institutions and the amount of Zakat funds mobilised, owing to enhanced and effective stakeholder contributions. The volume of Zakat funds escalated from USD 7.2 million in 2002 to USD 270 million in 2015, signifying a gain of about 36-fold over this interval, with annual increments occasionally nearing one hundred percent. Efficient rules and regulations enabled this swift expansion, which was accompanied by considerable institutional progress. A study reveals that the Zakat infrastructure, consisting of a network of Zakat institutions, has grown to

include one National Board of Zakat, eighteen national private Zakat institutions, thirty-three provincial boards of Zakat, and more than four hundred city/regency boards of Zakat. Malaysia is distinguished for its effective Zakat mobilisation, with latest data revealing that mobilised Zakat exceeds USD 600 million, signifying a sevenfold growth over the past 12 years and a thirty-sevenfold increase over the past 22 years. A sophisticated infrastructure of financial institutions and business entities has assisted this process as collecting agents for State Islamic Religious Councils (Ashraf et al., 2021).

3.2 Awqaf and Social Welfare

Awqaf, or Islamic endowments, are designated funds or assets used to benefit public causes, such as education, healthcare, and community infrastructure. Historically, Awqaf institutions have played an essential role in providing social services, ensuring that resources remain dedicated to public welfare and reducing dependence on fluctuating government budgets. The cumulative nature of Awqaf ensures that societal needs are continually addressed over generations.

Despite the substantial presence of Awqaf assets in every Muslim country, there is a dearth of available statistics. A few estimates undertaken for India and Indonesia (countries with highest and second highest Muslim population) may be indicative of the potential of this institution. A 2006 estimate for India puts valuation of awqāf at USD 24 billion. A 2012 estimated for Indonesia puts the valuation of its awqāf at USD 60 billion. In a few cases, the Waqf assets have been developed with infusion of private profit seeking as well as not-for-profit capital. However, the potential of such vast awqāf properties in the Muslim world remains untapped for a variety of reasons (Ashraf et al., 2021).

3.3 Voluntary Charity as an Economic Stabilizer

Charitable giving is highly encouraged in Islam, with specific mention in religious texts of the value it brings to both the giver and the recipient. Voluntary charity supplements Zakah and Awqaf, enabling additional aid during times of crisis and providing a continuous resource for alleviating poverty and supporting marginalized groups.

3.4 Islamic Microfinance

Another important component of Islamic social finance is Islamic microfinance, which is distinguished by offering interest-free loans to individuals in need. This practice commonly employs the concept of *Qard Hasan*, meaning “benevolent loan.” A notable example is the Akhuwat Foundation in Pakistan, a nonprofit organization that raises funds through waqf and donations to provide microloans to low-income individuals without imposing any interest (Syeda Shehrbano & Haider, 2012).

4. Addressing Market Failures through Islamic Finance

The true role and place of finance are where it helps production and exchange. But within the context of financialization, an incorrect role has been assigned to the finance sector and the finance institutions. This incorrect positioning of finance diverted resources to wealth transfer instead of wealth creation transactions. Transferring wealth from one individual to another is possible, but it does not help in creating an added value or new wealth. Through virtual transactions, finance has been transformed into a gambling type of transactions and activities.

To execute correct financial reforms, we need to go back to the basic function of finance which is a supportive role for the real economy. In other words, we need to re-direct financial and human resources out of speculation and out of the virtual finance environment and out of interest-based debt back into wealth-creating activities. Upon such re-orientation, the financial institutions of the finance sector can then contribute to the process of wealth creation. They can deserve a part of the added wealth generated by their contribution to the efforts undertaken by other contributors in the real market. We need to reposition the finance sector in the whole economy as it should help and support real sector activities. This means we need a finance sector that facilitates channelling funds to the productive sectors instead of attracting funds and other financial and human resources from the productive sectors into speculation and a virtual contract environment.

Finance is naturally a subservient and supporter of the real economy. From this perspective, there is nothing wrong with finance or its earning if it contributes to value-creating and becomes part of the process of production and exchange. This is the correct place of the finance sector in the economy.

Islamic finance is built on simple and plain contracts based on common, pure business transactions consisting of sale, lease, and sharing contracts within the real economic activities, which are valid for all societies. In other words, these contracts are practiced in every society and every legal system. Islamic finance has made these contracts that exist in commercial laws of all societies throughout history, the core and the heart of finance.

Islamic finance incorporates several mechanisms to correct market imbalances, foster socioeconomic justice, and reduce wealth gaps.

4.1 The Role of Hisbah in Market Regulation

The concept of Hisbah, an Islamic ombudsman, regulates market practices to ensure ethical standards are maintained. Appointed to oversee fair market behavior, the Hisbah can address issues of unfair competition, monopolistic practices, and consumer exploitation. This approach contrasts with conventional market regulation by emphasizing both legal and moral accountability.

Macro-prudential measures are aimed at controlling and reducing risks that may arise in the financial system. The aim of implementing these measures is to limit the adverse effects of systemic risk that may arise due to financial problems on the financial system and or on the real economy. The risks that spread the problems in the financial system to the whole economy and bring the entire economy down are called systemic risks. While macro-prudential measures aim to ensure the stability of the financial system, micro-prudential measures aim to protect the financial stability of individuals and companies.

In other words, the macro-prudential policy is trying to prevent financial problems from turning into systemic risks and ultimately shrinking GDP, while micro-prudential measures aim to protect consumers and individual companies. But, in the finance market, the regulatory authority has been failing to check the behavior of individual institutions for a long time. Because there is always a natural time lag between the action of economic units and the action of the regulator. We need a quicker ombudsman mechanism which is a semi-judicial and semi-regulator market body whose role is to detect the defects of the market before it grows. This ombudsman mechanism detects what is happening in the market and individual financial institutions behind their balance sheets. It should be in all financial markets to check products and transactions. It should monitor market activities and give warnings of crises as early signs/trends appear. This institution also provides moral commitment checks (e.g., preventing gharar, deceiving in the contracts, etc.). It weighs the public interests over private interests as well. The Muhtasib (ombudsman) mechanism can take a role in directing both macro and micro-prudential measures (Kahf, 2022).

In this regard, the ombudsman mechanism that we offered can play a crucial role in the financial markets.

4.2 Wealth Redistribution and Diffusion Mechanisms

Wealth redistribution through Islamic inheritance laws and Zakah limits the accumulation of wealth by a select few, ensuring that assets are shared among a broader base. Islamic inheritance laws mandate that an individual's wealth be divided among their heirs according to predetermined guidelines, preventing the long-term concentration of wealth in fewer hands.

5. Pre-Market Wealth Diffusion and Islamic Inheritance Laws

Islamic inheritance laws prevent the concentration of wealth through the equitable distribution of assets upon death. Unlike conventional practices, where deceased individuals may exercise control over their estate through wills, Islamic law limits such power, encouraging broad wealth diffusion and economic opportunity.

Though Islamic inheritance laws grant different shares to male and female heirs, the distribution system aims to balance familial roles and responsibilities, with men typically tasked with broader financial obligations.

By enforcing compulsory inheritance distribution, Islamic finance discourages the hoarding of wealth. This policy supports capital circulation, stimulates consumption and investment, and enhances economic growth across various social strata.

6. Conclusion

Islamic social finance represents a compelling and ethically grounded alternative to conventional financial systems, offering solutions to the long-standing issues of wealth inequality, economic volatility, and market inefficiencies. In a world where economic power is increasingly concentrated among a privileged few, Islamic finance proposes a system that prioritizes the collective well-being of society over individual gain. It challenges the profit-driven models of modern finance by embedding principles of justice, compassion, and equity into its operations, ensuring that financial practices are not merely tools for wealth creation but also instruments for social good.

The integration of religious values into the financial sector is a key differentiator in Islamic finance. It does not view wealth as an end in itself but as a means to achieve social welfare and economic stability. Through instruments like Zakah, Islamic finance mandates the redistribution of wealth, ensuring that the needs of the poor and disadvantaged are addressed. Awqaf, or charitable endowments, further contribute to long-term social investments, supporting essential services such as education, healthcare, and community development. These mechanisms not only alleviate poverty but also create a more inclusive and resilient economic system, capable of withstanding global financial shocks.

Moreover, Islamic finance's emphasis on environmental and social responsibility aligns it with contemporary calls for sustainable finance. As the world faces mounting challenges from climate change, environmental degradation, and socio-economic disparities, the principles of Islamic finance offer a roadmap for creating financial systems that are not only profitable but also sustainable and just. The prohibition of investments in industries that harm individuals or the environment further underscores the system's commitment to ethical finance, ensuring that economic activities align with the broader moral and social goals of society.

In conclusion, the potential of Islamic social finance extends far beyond the Muslim world. Its principles of fairness, wealth redistribution, and ethical investment are universal in their appeal and could provide valuable insights for reforming global financial practices. As conventional financial systems struggle with recurring crises and fail to address growing inequality, Islamic finance offers a model that places human welfare, environmental sustainability, and economic justice at the forefront. By integrating these values into financial practices, Islamic social finance provides not only an alternative but a necessary paradigm shift toward building a more equitable and stable global economy. This shift, grounded in both religious and ethical imperatives, offers hope for a future where finance serves not just the wealthy, but the entirety of society.

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