

## **Islamic Development Concept: A Proposal For Betterment of Muslim Ummah in the Post-Pandemic Episode**

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### **Abstract**

Islamic civilization was the pearl of the world with multidimensional aspects of achievements, especially during the Dark Age of West civilization. In stark contrast to this, the Muslim world nowadays is experiencing a marginalized society on this planet. The majority of Muslim countries are backward educationally, socially, economically, and politically. Furthermore, the world nowadays is suffering an economic crisis due to the impact of the COVID-19 pandemic. This study tries to investigate the economic development concept from an Islamic perspective, compare it with current data on OIC member countries and provide recommendations for policymakers to stave the disaster off. The study adopts a quantitative approach in form of a literature review, discourse, and critical content analysis. It found that economic development in an Islamic perspective can be defined as a multidimensional process to improve welfare, in both material and spiritual aspects. However, In reality, OIC member countries have potentials and obstacles for growth. Strengthening the education sectors, infusion of Islamic values, support SMEs' development with ICT are some recommended policies. The main contribution of this study is to assess the current condition of Muslim Ummah represented by OIC member countries, by the development concept of Islam and deliver some policies for the betterment of the ummah.

**Keywords:** *Economic Development, OIC Countries*

### **Abstract**

Peradaban Islam adalah mutiara bagi dunia dilihat dari segala aspek pencapaian multidimensi, terutama pada era kegelapan peradaban barat. Hal ini sangat kontras, dunia Muslim saat ini, mereka masyarakat yang terpinggirkan. Mayoritas negara-negara Muslim terbelakang secara pendidikan, sosial, ekonomi, dan politik. Apalagi, dunia saat ini sedang dilanda krisis ekonomi akibat dampak pandemi COVID-19. Kajian ini mencoba mengkaji konsep pembangunan ekonomi dari perspektif Islam, membandingkannya dengan data terkini di negara-negara anggota OKI dan memberikan rekomendasi bagi pembuat kebijakan untuk mencegah bencana tersebut. Penelitian ini menggunakan pendekatan kuantitatif berupa tinjauan pustaka, wacana, dan analisis isi kritis. Ditemukan bahwa pembangunan ekonomi dalam perspektif Islam dapat didefinisikan sebagai proses multidimensi untuk meningkatkan kesejahteraan, baik dalam aspek material maupun spiritual. Namun pada kenyataannya, negara-negara anggota OKI memiliki potensi dan hambatan untuk berkembang. Penguatan sektor pendidikan, penanaman nilai-nilai Islam, mendukung pengembangan UKM dengan ICT adalah beberapa kebijakan yang direkomendasikan. Kontribusi utama dari penelitian ini adalah untuk menilai kondisi umat Islam saat ini yang diwakili oleh negara-negara anggota OKI, dengan konsep pembangunan Islam dan menyampaikan beberapa kebijakan untuk kemajuan umat.

**Kata-kunci:** *Pembangunan Ekonomi, Negara OKI, COVID-19*

## INTRODUCTION

According to Bernard Lewis in his magnum opus of *What Went Wrong? Western Impact & Middle Eastern Response*, during the ninth to the thirteenth century Islamic society underwent the triumph of civilization. Two Islamic metropolitan, Damascus and Baghdad, became the two great cities for learning centre of human knowledge in that golden age. "House of Wisdom" established in Baghdad, when Caliph Harun Al-rasyid came to power, was the most famous library for academic communities from different background, culture and religion mandated to translate all of world's classical knowledge into Arabic. During that time, Muslim world produced many prominent scholars mastering in various scientific disciplines such as philosophy, mathematic, astronomy, medic, chemistry, geography, art and many others. At the same time the armed force of Islam was the greatest military power on the earth, which conquered more than a half of ancient world. When it comes to economic aspect, at this moment in world history, Islam represented the most economic power, where Muslim merchant dominated the international trade from western end of Mediterranean to India. They had implemented economic specialisation, like Persia, Bukhara and Azerbaijan specialised in carpet weavers, Egypt produced sumptuous linens and cotton textiles, glassware, ceramics, and metal working were created by superb craftsmen and artisans of Baghdad (Venardos, 2005).

In stark contrast to this, Muslim world nowadays are experiencing marginalised society in this planet. Majority of Muslim countries (country dominated by Muslim population) are backward educationally, socially, economically and politically. United Nations estimated in 2020, world population is about 7.87 billion people with OIC countries has combined population of 1.9 billion people or 24.4% of world population. Instead, the nominal GDP of OIC countries is about USD 7.3 trillion or around 8.4 % of World current price GDP. This condition is relatively worse compared to 2016 when OIC 23.77% of population but only contributed to 8.51% world's GDP (Halim, 2017).



Figure 1

### Comparison between Population and GDP of OIC Countries and World in 2016

Previous explanation shows that huge population number of Muslim countries is not parallel with their contribution to world economy. Furthermore, based on the data from World Bank, almost of OIC countries are categorised as Low Income Countries (LICs) and Lower Middle Income Countries (LMCs) whereas only some of them are Upper Middle Income Countries (UMCs) and High Income Countries (HICs).

In educational aspects, 20 out of 25 countries with lowest literacy rates in the world are Muslim nations. Same condition as political and social aspect, referring to 2021 Fragile States Index, 19 Muslim Countries are placing at top 20 states with the most vulnerable to be separated (The Fund for Peace, 2020). This phenomenon of Muslim's world today is extremely contrasted to the one millennium before when Muslim world reached a peak of civilisation.

Moreover, this condition is worsened by COVID-19 pandemic. The pandemic spreads fast, kills people, and destroys their socioeconomic activities. According to OIC Statistical report 2020, the pandemic is affecting all economic sectors and segments of the population in member countries. Unemployment and poverty levels are

estimated to rise significantly around the world, where many OIC countries are suffering in adverse impact. The pandemic is particularly detrimental to the vulnerable social groups in the society, like elderly persons, the poorer, children and disabilities people. People without access to running water, refugees, or displaced persons stand to suffer enormously due to the pandemic and its consequences. This is because the limited movement, fewer job opportunities, conflict, exposure and amongst others prejudice and intolerance.

Apart from the backwardness of present-day Muslim nations, the emergence of Islamic financial industries with its various ranges of institutions and services is attracting the world's attention. The growth of Islamic financial services in its motherland of Middle East and South-East Asia are increasing significantly. Likely, some non-Muslim countries like the United Kingdom, the United States and Canada have been accepted Islamic financial services by opening Islamic unit or Islamic windows in order to attract oil-wealth from Middle (Mansoor Khan & Ishaq Bhatti, 2008). Therefore, this significant growth of Islamic financial services could be effective alternative to providing large fund for boosting the development Muslim nations today. In parallel way to that, Islamic Economics Education is also growing in some part of the world, which generate skilled human resources to flourish the industry.

However, Muslim world today needs a holistic Islamic approach to develop their countries (Fatoni et al., 2019). This is because according to Ibn Khaldun's dynamic theory of development, the rise or decline of an economy and societies is not caused by one factor only, but it involves many interaction factors namely moral, social, economic, political and historical (Chapra, 2008). Muslim world should improve every aspect in order to manifest the revival of Islam. The objective of this study is to examine the concept of economic development from Islamic perspective and compare it with the current data on OIC member countries as well as generate policy recommendations for stakeholders, particularly government in Muslim countries and Muslim Ummah in general in the Post-Pandemic Episode.

This study is divided into five sections. Section 1 is Introduction, describe the background and objective of the study as well as the sections within this study. Section 2 will deliberate the method used in the research. Section 3 is the elaboration of the current data of OIC member countries prior to and during the pandemic. The elaboration on definition of economic development, its main philosophical foundations, process, and its major determinants, will be investigated on section 4-discussion. This section also provides recommendation assessed by the concept of economic development, particularly policy implication and lessons learned for Muslim world to follow. Section 5 concludes the discussion.

## **METHOD**

Prior to presenting the analysis and discussion, the author attempts to deliberate the proposed methodology used in this study. The study adopts a quantitative approach in form of a literature review, discourse and critical content analysis. Qualitative research is engaged in finding answers to the questions that begin with: Why? How? In which way? Qualitative research aims at comprehending a problem that is being studied from the perspective of a local population. This type of research is particularly useful for getting specific information about the beliefs, opinions, behaviour and social context of individual populations. Qualitative methods are also useful for the recognition of intangible factors, such as social norms, socio-economic status, gender roles and others, whose place in research may not be so obvious (Radović-Marković & Alecchi, 2016). The study will focus on examining the concept, philosophy and aspects of development from Islamic perspective. Furthermore, the data collection is mainly derived from written texts, relevant books, journals, bulletins, report documents, and magazines, etc.

## **THE RESULT**

To observe growth potentials of Muslim countries, particularly Organization of Islamic Cooperation (OIC) member countries data from various sources are taken to get insights and current condition of Muslim countries in the

light of aforementioned concepts:

### Natural Resources

For natural resources, one good example is proven oil reserves. Some OIC countries are famous for their huge oil reserves although it is concentrated in the Gulf Cooperation Council (GCC) countries which are also (Organization of the Petroleum Exporting Countries) OPEC members. Here are the current condition of proven oil reserves in some OIC member countries:

Gabon	0.1%
Libya	2.8%
Nigeria	2.1%
Sudan	0.1%
Brunei	0.1%
Indonesia	0.2%
Malaysia	0.2%
<b>Total OIC</b>	<b>57.3%</b>

Source: British Petroleum Statistical Review of World Energy 2019

**Table 1. Proven Oil Reserves Share of OIC Member Countries in 2019**

Country	Oil Reserves Share
Azerbaijan	0.4%
Kazakhstan	1.7%
Iran	9.0%
Iraq	8.4%
Kuwait	5.9%
Oman	0.7%
Qatar	1.5%
Saudi Arabia	17.2%
Syria	0.1%
United Arab Emirates	5.6%
Yemen	0.2%
Algeria	0.7%
Chad	0.1%
Egypt	0.2%

Table 1 shows us that OIC member countries hold 57.3% of world proven oil reserves. It means Muslim world has potential to control global energy since fossil fuel is still dominant energy source in the world today. However, the distribution among OIC member countries are not equal, with GCC member countries (Saudi Arabia, Qatar, Kuwait, United Arab Emirates) dominate oil reserves along with Iraq and Iran, which all of them have at least 5% share of world proven oil reserves. Other important commodities in world's economy today are gold and iron. Gold as a precious metal and symbol of wealth, while iron is important to build many forms of machines and electronic appliances. Following table shows production of gold and iron ore in OIC countries and their rank at the global stage:

**Table 2. Top Five Producers of Gold Mine and Iron Ore in OIC Member Countries in 2016**

Gold			Iron Ore		
Rank	Country	Production (kg)	Rank	Country	Production (Metric Tonnes)
12th	Uzbekistan	100,000	11th	Iran	48,000,000
13th	Sudan	93,400	13th	Kazakhstan	35,417,000
14th	Indonesia	80,868	17th	Mauritania	13,268,061
16th	Kazakhstan	74,626	19th	Turkey	7,800,000
20th	Mali	47,000	21th	Sierra Leone	6,576,576

Source: British Geological Survey World Mineral Statistics Database, 2016

Table 2 shows us enormous amount of minerals, gold and iron that have been produced by OIC member countries. From here, we can conclude that OIC countries have

huge potential from natural resources. Apart from oil and minerals, other natural resources such as forest, biodiversities, oceans and others are also abundant in OIC member countries.

### Financial Capital

Financial capital potential can be seen from domestic saving as percentage of GDP. The top and bottom five of this category in OIC member countries is shown below:

**Table 3. Top and Bottom Five of Saving in OIC Member Countries in 2019**

Country	Saving Rate (% of GDP)
Turkmenistan	80.1
Qatar	58.1
Brunei	54.5
Suriname	50.2
Gabon	50.4
Sierra Leone	-8.5
Palestine	-10.7
Guinea-Bissau	-13.3
Yemen	-18.2
Afghanistan	-20.9

Source: OIC Statistics (OICStat) Database by SESRIC

Table 3 shows us that there is huge disparity within OIC member countries when it comes to saving rate. While top five countries experienced high number of saving rate, even Turkmenistan at the top with 80.39%, other countries experienced huge dissaving rate, even more than 15% as the case of Afghanistan and Yemen. High dissaving rate will hinder nations' potential for growth since less fund available to be invested. Potential financial capital in OIC member countries can also be seen from existence of Islamic banks as shown on table below:

**Table 4. Top Ten of Islamic Banks Outreach in OIC Member Countries in 2017**

Country	Number of Domestic Islamic Bank Branches
Iran	20,775
Saudi Arabia	7,729
Malaysia	2,196
Pakistan	1,395
Bangladesh	1,068
Turkey	1,029
Sudan	830
Indonesia	471
United Arab Emirates	293
Kuwait	176

Source: OIC Statistics (OICStat) Database by SESRIC

Table 4 indicates that Islamic banks as part of Islamic financial institutions have set up many branch offices in many OIC countries. However, same source also found that out of 57 OIC member countries, only 17 countries already have established Islamic banks. This condition needs promotion by Muslim countries government and society in order to enhance saving among Muslim ummah.

### Physical Capital

Physical capital existence in OIC member countries can be seen through proportion of Gross Fixed Capital Formation (GFCF) over GDP, or in short is investment rate. Top and bottom five of investment rate in OIC member countries is shown on table below:

**Table 5. Top and Bottom Five of Investment in OIC Member Countries in 2016**

Country	Investment Rate (% of GDP)
Algeria	50.71
Turkmenistan	49.76
Qatar	45.24
Mozambique	42.66
Suriname	42
Egypt	15.05
Guinea-Bissau	13.95
Comoros	13.70
Nigeria	12.56
Yemen	9.66

Source: OIC Statistics (OICStat) Database by SESRIC

### Labour Force

Labour Force play important role as operator of production process and provide income for household that can be used for consumption and saving. Following table shows number of labour force in OIC countries as potential generator of growth:

**Table 6. Top and Bottom Five of Labour Force Amount in OIC Member Countries in 2019**

Country	Total Labour Force (in million)
Indonesia	134.8
Pakistan	73.9
Bangladesh	70.0
Nigeria	59.9

Turkey	33.4
Guyana	0.3
Maldives	0.3
Brunei	0.2
Suriname	0.2
Comoros	0.2

Source: OIC Statistics (OICStat) Database by SESRIC

Table 6 shows us that OIC member countries have huge amount of labour force potential in terms of quantity. This is influenced by population and geographical area of the country. This huge amount of labour force is potential mobilizer of natural resources in OIC countries. However, this potential can be constrained by high unemployment rate. Unemployment rate condition in OIC member countries is shown on table below:

**Table 7. Top and Bottom Five of Least Unemployment Rate in OIC Member Countries in 2019**

Country	Unemployment Rate (%)
Qatar	0.1
Niger	0.5
Bahrain	0.7
Uganda	1.8
Chad	1.9
Sudan	16.5
Tunisia	16.0
Libya	18.6
Gabon	20.0
Palestine	26.2

Source: OIC Statistics (OICStat) Database by SESRIC

Table 7 shows us that despite huge amount of labour force in OIC member countries, unemployment is still a problem. Although few countries have very low level of unemployment rate below 1% (Qatar and Niger), but other countries even have more than 20% of unemployment rate (Gabon and Palestine).

### Entrepreneurship

To measure entrepreneurship state in OIC member countries, we refer to Global Entrepreneurship Monitor (GEM) data that

provide various indicators on entrepreneurship environment. In this report, we will focus on three variables that centered around SMEs supportive environment in an economy: i) Financing support for Small Medium Enterprise (SMEs), including grants and subsidies; ii) Public policy support to encourage SMEs; iii) Availability of legal and professional assistance to support SMEs. The data is obtained from GEM's National Expert Survey (NES) with five points scale, with 1 being completely non-supportive and 5 being completely supportive. The data displayed is on average. However, only 54 countries data are available in up to 2017. The data on perception of expert on financing support in OIC member countries is shown below:

**Table 8. Top and Bottom Five OIC Member Countries on Financing Support for SMEs in 201**

Country	Experts Average Score
Indonesia	3.71
Malaysia	3.48
United Arab Emirates	2.96
Kazakhstan	2.78
Lebanon	2.75
Egypt	2.46
Bosnia and Herzegovina	2.34
Saudi Arabia	2.34
Morocco	2.02
Iran	1.74

Source: Global Entrepreneurship Monitor (GEM) National Expert Survey (NES) Database

Table 8 shows us that some OIC countries have quiet strong financing support for development of SMEs in their country. Even Indonesia in this survey is in the first position as the most financially supportive country for SMEs. However, country like Iran is still lack financial support for SMEs. Meanwhile, the data on perception of experts on public policy support in OIC member countries is shown below:

**Table 9. Top and Bottom Five OIC Member Countries on Public Policy Support for SMEs in 2017**

Country	Experts Average Score
United Arab Emirates	3.56
Indonesia	3.42
Qatar	3.03
Kazakhstan	2.58
Malaysia	2.5
Saudi Arabia	2.23
Bosnia and Herzegovina	1.92
Lebanon	1.91
Egypt	1.88
Iran	1.28

Source: Global Entrepreneurship Monitor (GEM) National Expert Survey (NES) Database

Table 9 shows us that some OIC countries such as United Arab Emirates (UAE) (listed first on this category), Indonesia and Qatar have considerable concern on public policy making for SMEs, other countries such as Lebanon, Egypt and Iran are still left behind. Lastly, the data on perception of experts on legal and professional support in OIC member countries is shown below:

**Table 10. Top and Bottom Five OIC Member Countries on Legal and Professional Support for SMEs in 2017**

Country	Experts Average Score
Bosnia and Herzegovina	3.48
United Arab Emirates	3.45
Indonesia	3.32
Kazakhstan	3.13
Qatar	3.07
Malaysia	2.98
Morocco	2.9
Egypt	2.36
Saudi Arabia	2
Iran	1.26

Source: Global Entrepreneurship Monitor (GEM) National Expert Survey (NES) Database

In general, OIC member countries have moderate legal and professional infrastructure to support SMEs. Even Iran is also weak in this category. It means professional and legal institutions in OIC member countries must have more attention to SMEs development in order to optimize development of entrepreneurship in OIC member countries.

### Technological Progress

To see technological progress in OIC member countries, we refer to International Telecommunication Union (ITU) ICT Development Index (IDI) 2017 that include 176 countries. The value of the index is between 0 and 10 and include assessment on access, use and skills related to ICT. The data on OIC countries IDI in 2017 is shown below:

**Table 11. Top and Bottom Five OIC Member Countries on ICT Development Index in 2017**

Rank	Country	IDI Score
39th	Qatar	7.21
40th	United Arab Emirates	7.21
52nd	Kazakhstan	6.79
53rd	Brunei Darussalam	6.75
54th	Saudi Arabia	6.67
162nd	Burkina Faso	1.9
164th	Comoros	1.82
166th	Guinea	1.78
173rd	Guinea-Bissau	1.48
174th	Chad	1.27

Source: Global Entrepreneurship Monitor (GEM) National Expert Survey (NES) Database

Table 11 shows us that technological progress in OIC countries have been considerably well with some countries scored more than 6. However, there are some countries that still left with IDI score below 2. Furthermore, technological progress in OIC countries in general is still left behind since highest position among OIC countries is Qatar but it is 39th globally. It means, OIC countries is still lacking on technological progress compared to other parts of the world.

### Institutional Set-up

It is difficult (if not impossible) to measure institutional set-up as stated in theoretical part of this report, which included level of taqwa and so forth. So, to see institutional set-up of OIC countries, we refer to Fragile State Index (FSI) developed by a US think tank organization named Fund for Peace. This index is built upon twelve indicators of state vulnerability and grouped by four categories: i) Cohesion; ii) Economic; iii) Political; and iv) Social. Higher index score means higher tendency of that state to be vulnerable to conflict or collapse. This index can indicate institutional set-up level of a country, especially to see effectiveness of the state as a main institution in an Islamic economy. The data on OIC countries FSI scores in 2020 is shown below:

**Table 12. Top and Bottom Five OIC Member Countries on Fragile State Index in 2020**

Rank	Country	FSI Score
1st	Yemen	111.7
2nd	Somalia	110.9
3rd	Syria	110.7
7th	Chad	105.8
8th	Sudan	105.2
124th	Brunei Darussalam	56.3
129th	Kuwait	52.9
136th	Oman	50.4
144th	Qatar	44.1
151st	United Arab Emirates	40.3

Source: Fund for Peace Fragile State Index Database

Table 12 shows us that top five of most fragile countries in the world are OIC member countries and typically under conflict and severe economic condition. Meanwhile, least fragile Muslim states are all monarchies with strong power of the sovereign and rich resources. This implies that strong leadership of political figure is still dominant force in determining position of Muslim countries' stability, although this institutional set-up is not as stable as in some western advanced countries with lower FSI score.

### DISCUSSION

Definition of Economic Development from Islamic perspective.

Development has been comprehended to include economic growth, enhancement, in diversity of indicators such as: literacy rates, life expectancy, and poverty rates. Also, implies achieving long-term and sustainable growth in GDP per capita to improve equality of life in a nation.

When come to religion or any other ideology, there is an overview, which sketch the paradigm of a person who believe or follow. Sciences in general have space in each of the religions. Islam also one of them have its own perception and paradigm about any-thing the world. It has its own world view to sketch the follower's way. Economics development is one of those disciplines which we need to understand in our daily life and life career. Therefore, Islam also has a point of view in such discipline (economic development). Islam is a rules-based system, with rules prescribed by Allah for His Worship and for socioeconomic affairs of humankind and the primary basic source of Islamic rulings are Holly Quran and prophet tradition (Sunnah). Islamic rulings are watering from the two main sources. In the main time, economic development, when refer to these sources actually emphasize on the balance and sustained sanitation in the material and non-material well- being of human and development as multi-dimensional process that include improvement of welfare through advancement of economics system and the Establishment of human and economics in Islam are properly defined. The Islamic system of economics can be as a rule-based system with well-defined principles, rules, and institutions. Compliance with this rule-based system leads to material and non-material progress of society as a complete. Abdulhasan M Sadeq suggested the definition of economic development as:

*“Economic development in Islam may be defined as balanced and sustained improvement in the material and non-material well-being of man, and development as a multidimensional process that involves improvement of welfare through advancement, reorganization and reorientation of the entire economy and social systems, and through spiritual uplift, in accordance with Islamic teaching”.* (Sadeq, 2006)

In Islamic teachings, it is clearly seen that special attention has been paid to improving



human well-being and there are strong and rational guidelines in each sectors, and in particular in improving the situation of society in a sustainable manner, with a view to fairness and distribution of resources on the basis of equality and emphasis to the consideration of collective interest and benefit.

So, economic development in Islam is one of the key issues that is include from both stages welfare to economic growth, equity in the distribution of wealth and income, health, environmental issues and social betterment. The meaning and concept of development can be clearly seen that Islam has emphasized it more :

*“The concept of development in Islam has three dimensions: individual self-development called *rushd*, the physical development of the earth called *isti’mar*, and the development of the human collectivity, which includes both. The first specifies a dynamic process in the growth of the individual toward perfection. The second specifies the utilization of natural resources to develop the earth to provide for the material needs of the individual and all of humanity. The third concept refers to the progress of the human collectivity toward full integration and unity. Fundamental to all three is the belief that the Supreme Creator has provided the ways and means to facilitate the achievement of all three dimensions of development”.* (Askari et al, 2014)

It can be understood that In Islam, peace and development are in the first place and have great guidelines for improving the community and humanity also development and its process that promotes human wellbeing would mean expansion of capabilities of people to flourish and maintain human sustainability with fairness and equity of distribution income and wealth.

#### Main Philosophical Foundations that Form Economic Development from Islamic Perspective

Hasan (2006) emphasized that Islamic concept of development rooted from two aspects of its belief system, human aspect and divine aspect. Human aspect is represented by man’s mundane desires and lower passions, while divine aspect is represented by spiritual role and ability that Allah has given to man,

including self-awareness, will power and creativity. Two aspects of belief system can be derived into two broad types of wants. First, mundane type of wants, that lead to consumption of material things and also facilitation of their production in abundance. Second, spiritual type of wants, where lead to environment which allows for optimum expression of man of his ideals (moral, ethics, and/or social) and progress to achieve them. Also within this category, cultivate love in form of willingness to sacrifice in the highest order.

Aforementioned types of wants seem to be contradict each other. But Hasan (2006) argued that they are interrelated and formed the unity of man’s existence. Development or progress, as Islam is concern, means these types of wants can grow in harmonious, supportive, and balanced manner such that human personality is developed into higher level. To ensure progress and development can be achieved as mentioned earlier in accordance with Islamic teachings, (Ahmad, 2006) mentioned four philosophic foundations or principles of Islamic approach to development.

First, Tawhid or Allah’s oneness and sovereignty. This foundation is the most important foundation since it is the basis for Allah-man relationship and relationship between man. Obligation to follow revelation and teachings from Allah as guidance for development lays within this principle.

Second, Rububiyah or divine arrangements for nourishment, sustenance, and directing things toward perfection. This principle is the basis of fundamental laws of universe that divine arrangement has provided man with resources and environment to pursue development. In this context, divine arrangement of human efforts take place.

Third, Khilafah or man’s role as Allah’s vicegerent on Earth. This concept defines man’s role and status, as well as man’s responsibility as individual Muslim or even as an Ummah where their role khilafah must be maintained. This principle also become basis for man’s trusteeship in political, economic and social aspects of life.

Fourth, Tazkiyah or purification plus growth. (Ahmad, 2006) argued that all Prophets sent to Earth by Allah to perform tazkiyah of

man to all his relationship, with Allah, with man, with environment and with society. Furthermore, Islamic concept of development is coming from tazkiyah notion, because it addresses human problem in development, in all its dimension to achieve perfection through betterment in attitudes and relationships. A successful tazkiyah will lead to falah or prosperity in this world and hereafter.

Following aforementioned philosophical foundations, there are five essential features of development in Islam. First, Islamic concept of development is comprehensive, including moral, spiritual and material aspects. Second, focus for development effort is man, which can interpreted as betterment of man and his physical (such as natural resources and institutions) and socio-cultural environment (attitudes, preferences, tastes, incentives etc). Third, economic development is a multi-dimensional activity and even more within Islamic framework. Fourth, economic development involves a number of change, both quantitative and qualitative. Fifth, there are two dynamic principles of social life in Islam. One of them is optimal utilization of resources that Allah has endowed to man and his physical environment. The other one is equitable use, distribution as well as promotion of all human relationships on the basis of justice.

#### Development as a Concept and as A Process from Islamic Perspective

Human's life contains of two successive stages permanent life: Life (from birth until death), which is interim and life of that begins after death, which is everlasting and permanent. Islam is a religion that desire welfare of composite life along these lines. The composite life of a person is an eternal, which unceasing, albeit separated into two stages. And the welfare (W) is a function of welfare in the temporary phase (W<sub>t</sub>) and in the permanent stage (W<sub>p</sub>) of life.

In functional form:

$$W = f_1(W_t, W_p) \dots (1)$$

W<sub>p</sub> and W<sub>t</sub> are function of apart sets of variables that determine welfare in both stages permanent and temporary. They are both determined by level of economic development (D) and other variables (X) that unrelated to

economic development but also related to welfare level, either in temporary and/or permanent stage of life, as shown below:

$$W_t = f_2(X_t, D) \dots (2)$$

$$W_p = f_3(X_p, D) \dots (3)$$

$$f'_t, f'_p, f'_d > 0$$

According to (Sadeq, 2006), X<sub>t</sub> depends on satisfaction level of man that derived from accomplishments in this world, such as philanthropic contributions, compassion in human relationship, environmental conduciveness, etc. Meanwhile, X<sub>p</sub> depends on ibadah, services to community, etc. An individual must maximize both types of welfare to gain optimum joint welfare level (W).

Economic development (D) plays important role to achieve both temporary and permanent welfare level, which is unique to Islamic system. To measure economic development achievements in an Islamic economy, there are three processes of economic development to be considered. They are economic growth (G), equity distribution (E) and Islamic values development (V). In mathematical notation, it is written as:

$$D = f_4(G, E, V) \dots (4)$$

$$f'_g, f'_e, f'_v > 0$$

First, economic growth (G). According to (Sadeq, 2006), economic growth is important and even encouraged in an Islamic economy because Allah has provided man with resources on Earth and utilization of resources in production and consumption is important to fulfill needs, eradicate poverty and achieve growth of income and wealth. With regard to poverty eradication, since poverty hinder someone to perform his individual, social and moral duties, thus economic growth as a means for poverty eradication is highly encouraged. Islam also encourage development of any economic sectors, such as agriculture, industry, and trade. Islam prohibits someone to let a land to be idle and instead instruct Muslims to cultivate such land. Pursuing economic gains through economic activities even regarded as fard or obligation after fard al-ibadah because rightful businessman is together with Prophet in the Day of Judgment.

To achieve economic growth, natural

resources must be utilized by mankind in optimal and efficient way. In this regard, the role of capital and entrepreneurship is also acknowledge by Islam, unlike socialism. But, unlike capitalism which relying on interest rate as signal for capital allocation, Islam promotes profit-loss sharing mechanism. Higher level of growth through technological progress is also acknowledge by Islam, so Research and Development (R&D) activities should also be maintained in an Islamic economy as part of seeking bounty of Allah on Earth (Sadeq, 2006).

Second, equity distribution of income (E). High economic growth will be meaningless when wealth accumulated from growth is concentrated on little portion of population. Such inequality will hinder welfare betterment and create instability in economy as well as sociopolitical life of the nation which will reduce welfare level. Equitable distribution of income can be achieved by two means. One is fair distribution of share for each factor that involve in production processes. This condition can be realized in a profit-loss sharing business environment, where given profit sharing percentage of each party, increase number in capital accumulation, which will generate growth will not resulted in exploitation by capital owners to other factors which is happened in capitalist system. But each party will have fair share of income. Also, Islam has promoted transfer payment mechanisms, both obligatory and voluntary from relatively better section of population to relatively worse-off population, such as zakat, sadakah, etc (Sadeq, 2006).

Third, establishment of Islamic values (V). Although higher economic growth and equitable distribution may appear in a society, but without establishment of Islamic values, those achievements will be meaningless in the context of development and welfare from Islamic perspective. Establishment of Islamic values is important to avert Muslim society from social problems such as lawlessness, fetishism, and hedonistic pursuits, thus creating a sufficient and holistic for welfare advancement in both temporary and permanent stages of life (Sadeq, 2006a:68).

Lastly, development in Islam is perceived as a process of social change that have some requirements as guidelines for policy makers

(Ahmad, 2006:42-43). First, social change is not a result of totally pre-determined historical forces, but rather should be planned and engineered well. Second, man is the active agent of change since divine arrangements have put mankind as khalifah or vicegerent of Allah on Earth and provide environment to support this role. So man will take responsibility on actions he did. Third, changes consist of environmental changes as well as changes within heart and soul of man, such as attitudes, motivation etc. Fourth, life is a network of inter-relationships. Change and progress on one aspect of life may cause damage or harm for other aspect, such as economic growth that may affect environmental quality. Islamically-oriented social change must involve least-disequilibria possible with proper planning and coordination such that revolutionary changes can be achieved in evolutionary trajectory.

#### 4. Major Determinants of Economic Growth Potentials from Islamic Perspective.

Two scholarly works have examine possible economic growth potentials for an Islamic Economy. Sadeq (2006b:106) stated four major determinants of economic growth in an Islamic economy as follows: i) investible resources; ii) human resources; iii) entrepreneurship; and iv) technology.

Investible resources means financing sources that can be converted into physical assets such as industrial plant and machinery which will generate economic growth in a country. There are three process conducted to generate economic growth from investible resources. First, mobilization of adequate investible resources. The mobilization may come from either domestic or foreign sources. Second, conversion into productive physical assets and other factors. Third, efficient and optimum utilization. One important notice on this topic is prohibition of riba and other forms of exploitation that usually conducted by capitalists in capitalist system must be avoided in an Islamic economy, especially from foreign entities. Voluntary savings will be important source of investible fund, given low tax base in many Muslim countries that prevent optimum public saving to be generated (Sadeq, 2006b:107).

With regards to saving potential in an

Islamic economy, there are two considerations: a) level of economic development already attained; b) degree of equity of income distribution in the economy. Given a level of economic development and equitable income distribution that enable people to have surplus of its income after consumption, people is expected to have higher Marginal Propensity to Save (MPS) as suggested in macroeconomic theory. Also, with prohibition of interest, incentive for saving will be replaced by sharia-compliant profit-loss sharing mechanism which also provide return for ones who save (Sadeq, 2006b:109).

Mobilization of saving potential in Islam can be realized due to two incentives. First is moral incentives because Islam encourages productive resource mobilization, discourage hoarding and idle/unitilized resources. Second, economic incentives through zakat. Zakat rate at 2.5% will act as penalty for those who keep his savings idle. But, if the savings is used for productive channels, no zakat is imposed (Sadeq, 2006b:110). Mobilization of saving potential should also consider allocative efficiency, either through built-in system in an Islamic financial system that based on profit-loss sharing mechanism or through public policy. In both channels, growth oriented and productive sectors must be prioritized (Sadeq, 2006bb:111-112).

Human resources is an important factor of growth. Human beings are the agents who utilize natural resources, accumulate capital, establish social and political institutions and provide two important factors of growth, labour and entrepreneurs. Labour force in an Islamic economy must be professional and behave morally. Education that provide advancement of human resources should not only focus on professional aspect of human resources but also moral quality. Moral quality is the missing link between professional quality of labour and productivity growth because existence of moral quality will give provide moral incentive, apart from economic incentive to carry out one's job in highest possible level of efficiency together with honesty and sincerity (Sadeq, 2006b:113).

Entrepreneurship, as a factor of growth that also comes from human resources, played a crucial role in economy. Through

their innovative behavior and endurance in developing enterprises, mobilization and utilization of investible resources and labour forces can be realized, then combine them to be productive and generate growth. There are some motivations for entrepreneurship in Islam: i) profit motive as long as halal requirement is fulfilled; ii) achievement motivation in both temporary life today and hereafter and iii) religious motivation as mentioned by Prophet that righteous businessman will be together with the Prophet in the Day of Judgment. Islam also provides protection for entrepreneurs from risk uncertainty through profit-loss sharing mechanism where capital owners will borne all losses and entrepreneurs go unrewarded (Sadeq, 2006b:115-117).

Lastly, technological change is the most important factor for economic growth for some economists. For example, Schumpeter argued that economic growth occurs in a discontinuous spurts in a dynamic world. Such dynamism exists thanks to innovation from entrepreneurs that leads to technological change. Islam does not against technological progress. Technological progress that come from R&D activities can be seen as part of seeking bounty of Allah in the Universe. However, technological progress must consider condition of a nation, especially factor endowments. A labour abundant economy should develop capital-saving and labour-using technology, while capital abundant economy may develop capital-using and labour-saving technology. This is important to avoid side-effect of technological progress that may cause inequality and hinder economic growth potentials of the nation (Sadeq, 2006b:117-118).

Another scholarly on potential growth determinants of an Islamic economy is written by Akhtar (2006) that focus on modeling economic growth in an Islamic economy. There are four factors of production that asserted in this work: i) physical assets; ii) labour; iii) capital; and iv) bounty of Allah.

Physical assets is characterized by: a) inclusion of all forms of natural resources under group of "land" or "capital", including machinery; b) assets that can be rented; c) asset that depreciates over time during production process. In Islam, land utilization

has invited many discussions among scholars, especially regarding its ownership and tenurial arrangement. Islam prohibits small group of people become landlords and promote whole society's role in utilization of land. This is proven with promotion of *ihya'ul mawat* or ownership right for those who cultivate the land. With regard to tenurial arrangement, many scholars have talked on the issue since Islam has provided some schemes such as sharecropping (*muzara'ah*), cost sharing and cooperative farming. In other words, Islam provides ways to increase land productivity without harming the principle of equity (Akhtar, 2006:136).

Labour is a factor of production who provides human services, both physical and mental. Islam has some injunctions to ensure harmonious relationship between labour and employer, such as: i) predetermined wage for labour to let the labour know how much he/she will be paid; ii) just wage rate and should not be withheld by employer; iii) wage should be immediately after work by labour is done; iv) minimum wage must be set to ensure equal livelihood for every labour force at certain level. This protective injunctions for labour is also accompanied by injunctions that set obligations for labour such as: i) Labour must be accountable (*hisbah*) for his/her work; ii) property of the employer that related to production must be protected by labour; iii) labour must be strong and trustworthy to ensure workload can be managed by the labour (Akhtar:137-138).

Capital is a factor of production that finances production process and can be in form of assets and monetary terms. In this context, capital means monetary capital. Islam has two main injunctions related to this type of capital: i) should not be remain idle; and ii) cannot expect fixed return without participation in production process. Islam prohibits interest payment in the conventional banking system as way of capital provision because: i) violation of justice spirit in Islam; ii) major cause of income inequality because transfer of wealth from poor to rich; and iii) investment will be restrained due to collateral requirement. Islamic teachings have provide basis for establishment of interest-free banking system as alternative with following

potential benefits to the economy: i) Islamic banking will provide alternative scheme for small businesses with lack of collateral; ii) Islamic banking can provide higher supply of risk capital to finance innovative concepts; iii) Islamic banking will participate in business activities, seek to increase productivity of the firms and enhance allocative efficiency of banks' funds (Akhtar, 2006:138-139).

Bounty of Allah is part of belief in Islam. worldly success is linked and related to this factor according to Quran and Sunnah. Bounty of Allah affects material activities and economic through two ways. First, autonomous reflection that represented by divine creations in form of sun, moon, rain, air, oceans, fertility of the soil and so on. Inability to generate growth due to natural disaster, drought, crop failure, death of livestock and many more are proofs of autonomous reflection of bounty of Allah. Second, induced behavior through internal reformation of individuals. Allah helps individuals and helps him/her to find the right path and protects him/her from devils. Induced behavior also appear in form of Islamic values such as *taqwa* (pious), *sabr* (patience) and *shukr* (gratitude). Manifestation of bounty of Allah in induced behavior within individuals will determine internal factor and strengthen human resources to promote growth in the nation (Akhtar, 2006:139-143).

Economic activities in an Islamic economy should be supported by proper institutional settings. Two main institutions must be set up in an Islamic economy. First, the mosque to socio-cultural environment of Muslim Ummah. There three main roles of mosque in an Islamic economy: i) moral development of individuals through *ibadah*; ii) social harmony and cohesion to shape cooperation and brotherhood; and iii) and mass education and communication to prevent ignorance in society. Second, the state that has crucial role in strengthen social and cultural environments such that shariah injunctions can be applied, such as maintaining justice and law enforcements, provide minimum living standard for citizens, and propagating faith (Akhtar, 2006:143-145).

From aforementioned explanations, Akhtar (2006:147) has come up with a model of economic growth in an Islamic economy as

shown below:

$$Y_t = Y(P_t, K_t, L_t, F_t) \dots (5)$$

$$L_t = (F_t) \dots (6)$$

$$F_t = (T_t) \dots (7)$$

$$T_t = (I_t) \dots (8)$$

Where:

Yt : Output rate at time t

Pt : Physical assets, including machinery and land employed, at time t

Kt : Amount of monetary capital at time t

Lt : Amount of labour at time t

Ft : Level of bounty of Allah at time t (moral factors)

Tt : Level of taqwa at time t

It : Institutional set-up at time t

Take total differential of equation (5) with respect to t and we will get:

$$\frac{dY}{dt} = Y_P \cdot \frac{dP}{dt} + Y_K \cdot \frac{dK}{dt} + Y_L \cdot \frac{dL}{dt} + Y_F \cdot \frac{dF}{dt} + Y_{LI} \left( \frac{dL}{dt} \cdot \frac{dF}{dt} \cdot \frac{dT}{dt} \cdot \frac{dI}{dt} \right)$$

$$\equiv Y = Y_P \cdot P + Y_K \cdot K + Y_L \cdot L + Y_F \cdot F + Y_{LI} \cdot L' \dots (9)$$

$$L' = \left( \frac{dL}{dt} \cdot \frac{dF}{dt} \cdot \frac{dT}{dt} \cdot \frac{dI}{dt} \right)$$

Where:

YP : Marginal product of physical assets

YK : Marginal product of financial capital

YL : Marginal product of labour

YF : Marginal product of bounty of Allah (autonomous)

YLI : Marginal product of labour (induced from bounty of Allah)

One may argue that it is difficult (if not impossible) to estimate the impact of bounty of Allah to the economic growth. But according to this model, it is possible by arranging equation (9) (Akhtar, 2006:149):

$$Y = Y_P \cdot P + Y_K \cdot K + Y_L \cdot L + Y_F \cdot F + Y_{LI} \cdot L'$$

$$\equiv Y = Y_P \cdot P + Y_K \cdot K + Y_L \cdot L + \varepsilon_t$$

$$\equiv \varepsilon_t = Y - (Y_P \cdot P + Y_K \cdot K + Y_L \cdot L) \dots (10)$$

$$\text{with } \varepsilon_t = Y_F \cdot F + Y_{LI} \cdot L' \dots (11)$$

The calculation shows that the impact of bounty of Allah, both autonomous and induced from econometric point of view is residual

of the model if model estimated only covers marginal product of physical capital, financial capital and labour as in economics per se.

### Policy Recommendation

Based on the discussion above, OIC member countries as as representation of Muslim countries' today have huge potential on natural resources and labour forces. These huge potential is strong basis to pursue higher level of economic development in all OIC member countries. Despite suffering due to the pandemic, Muslim countries are able to stave off from the immersed condition gradually, if the nations can utilize the considerable potential extensively. Since development in Islam is a multidimensional process to improve welfare, in both material and spiritual aspects, the government of member countries have to implement the policies with the aim of achieving such goals.

To utilize the huge number of labor force, the policy makers are recommended to strengthening the education sectors through a variety of alternative method of teaching during and after the pandemic. The COVID-19 pandemic causes the the widespread closure of schools, colleges, and universities around the world. Such policies are perceived to reduce the negative impact of the closures. The online method underwent today by education providers is actually the temporary solution to adapt this current situation. The impact of pandemic on the education sector has raised questions about the sustainability of the conventional education method. What we need to do is to reshaping the current education model for ongoing and future emergencies. OIC member countries should to pay more attention to develop innovative learning methods. The government need to revise the old-school curricula infuse the Islamic values as basis of development of human in order to anticipate and match the needs of human capital profile in industries. Investing in IT infrastructure is also urgent necessities to develop this sector. In addition, Pro-job policies such as promotion of investment and training should become government priority to increase employment rate and productivity.

Moreover, some OIC member countries

should give more support on entrepreneurship development, such as financing support, public policy making, and professional and legal infrastructure provision for SMEs development. This will help generate innovation in the nation. Small and medium sized enterprises consider as a place for huge volume of employment and share significant output in OIC countries. SMEs are severely affected by the restricted movement of the citizens. Therefore, accumulated debts, lost revenues and flow of essential inputs and final products is the impact undergone by them. The policy makers can implement the temporary support measures including reduction or delay of charges and taxes, rapid access to business financing, grants and subsidies. Other than those initiatives, structural measures should also be taken into consideration. The government can facilitate the SMEs to adapt the new work processes by building up digital infrastructure and supporting in finding new markets in overcoming the disrupted value chains. This would also contribute to recollecting labor and decreasing the unemployment effect of the pandemic.

High dissavings is still a problem in some Muslim countries. This will hinder economic development potential of those countries. Promotion of Islamic Finance and other forms of savings must be conducted by government to enhance investible fund availability in the nation. During the pandemic and its aftermath, Islamic social finance could be the alternative ways to solve the lack of needed fund in member countries facing COVID-19 crisis. The innovative mechanism of Islamic social finance can be a sustainable source of funding for OIC member countries. Insurance (Takaful), microfinance instruments such as Qard al Hasan (interest-free loan), Zakat (mandatory alms), Islamic Waqf, and Sadaqah (voluntary alms) are able to provide immediate healthcare funding for vulnerable people and finance recovery programs. A significant role in funding COVID-19 response efforts at a country level can be played by Islamic social finance.

Prior to the pandemic, some OIC member countries are still at conflict and institution of state is under dysfunction. International cooperation to stop conflict and rehabilitation

of conflicting nations must be promoted along with humanitarian mission to relief citizens' severe problems.

In general, international cooperation by OIC member countries must be stronger in the future. Huge resources potential but lack of available capital, technology and institution must be OIC countries' focus to achieve welfare together. OIC countries should also promote Islamic values as core of principles in developing their nations, at domestic and international level.

## CONCLUSION

The objective of this report is to examine the concept of economic development from Islamic perspective and relevant issues within this topic as well as generate policy recommendations for stakeholders. Based on previous discussions, economic development in an Islamic perspective can be defined as a multidimensional process to improve welfare, in both material and spiritual aspects as well as in temporary and permanent (hereafter) life through social changes in accordance with sharia. Development in an Islamic economy is built upon four philosophical foundations: i) Tawhid or Allah's oneness and sovereignty; ii) Rububiyah or divine arrangements; iii) Khilafah or man's role as Allah's vicegerent on Earth; iv) Tazkiyah or purification plus growth.

As a process, development in Islamic should be planned by policy maker and well managed through three process. First, promotion of economic growth with halal means. Second, equitable income distribution through fair share in production and transfer payments. Third, establishment of Islamic values.

On potential determinants of growth in an Islamic economy, two scholars (Sadeq, 2006b and Akhtar, 2006) have explained conceptually possible growth potentials. In general, natural resources, financial and physical capital, human resources as labour and entrepreneurs and institutions play important role in economic development. But, the inclusion of the bounty of Allah as a factor that determined economic development in an Islamic economy is a spiritual way to see residuals from estimation of economic growth determinants impact to the economic growth.

In reality, OIC member countries as representation of Muslim countries' today have potentials and obstacles for growth. Huge natural resources and labour force is not enough for a strong development in OIC countries due to current conflicts and lack of technological progress in many OIC countries. Therefore, behind all recommendations, cooperation between OIC countries and promotion of Islamic values as basis of development are keys for betterment of Muslim ummah in the future.

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