

Islamic Economics/Finance and Sustainable Development: An Analytical Framework

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Presentation Plan

- SDGs: Background and Status is OIC MCs
- Sustainable Development—An Analytical Framework
- Islamic Economics & Sustainable Development: Values & Reality

Sustainable Development—Background

- Sustainable development first introduced at the United Nations Conference on the Human Environment in 1972
- The Brundtland Report 1987 of World Commission on Environment and Development (WCED) formally initiated the concept
 - Sustainable development: “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs” (WCED, 1987: 43)
 - Sustainable development seeks to place social and environmental objectives on equal footing with economic objectives (the “triple bottom line”)



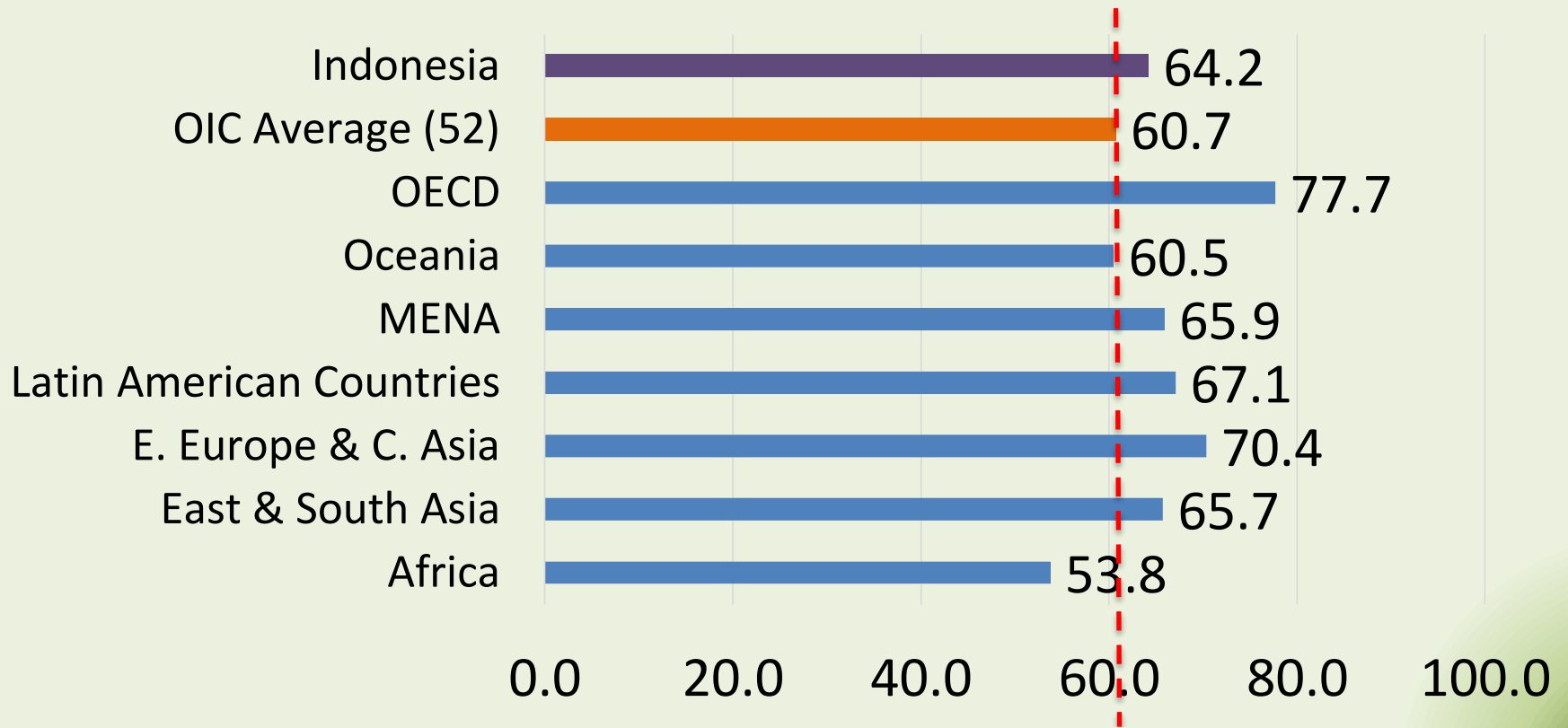
Sustainability in the SDGs-PA Era

2015: Launch of SDGs & Paris Agreement

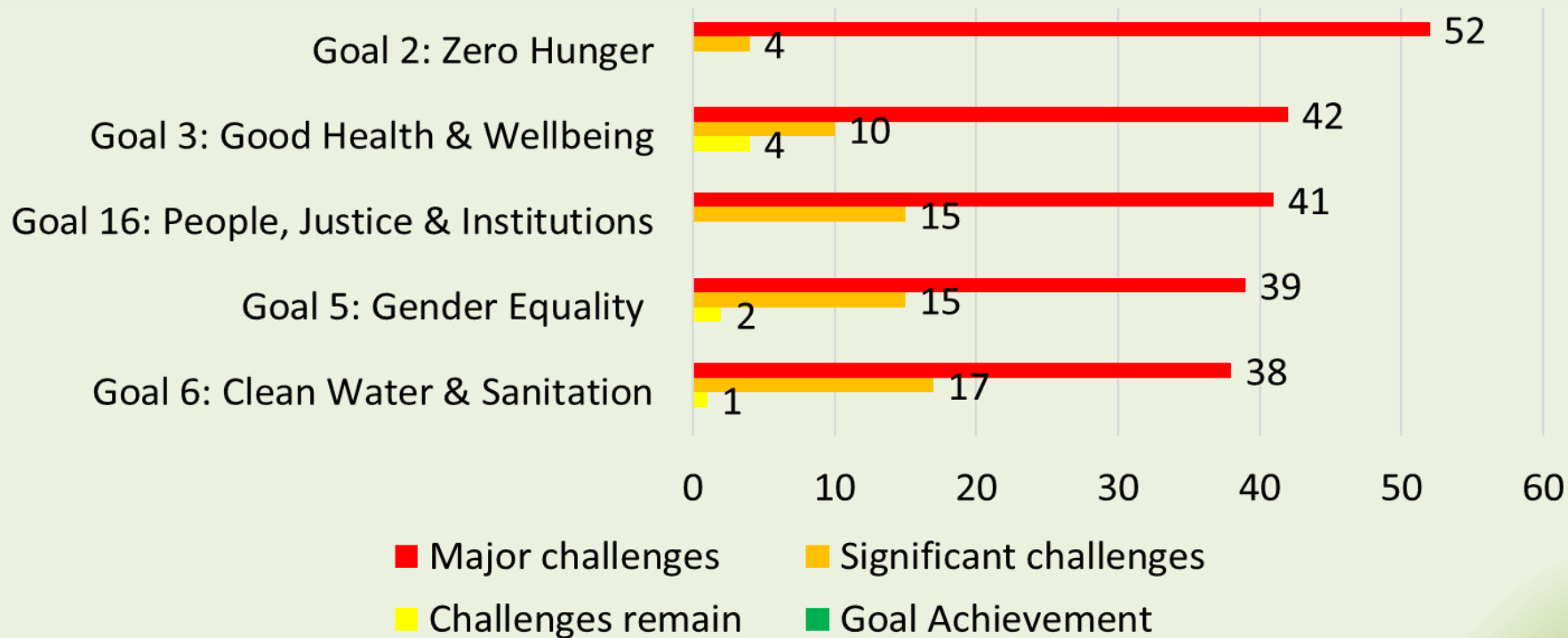
Cross-cutting multi-dimensional matrix of sustainable development



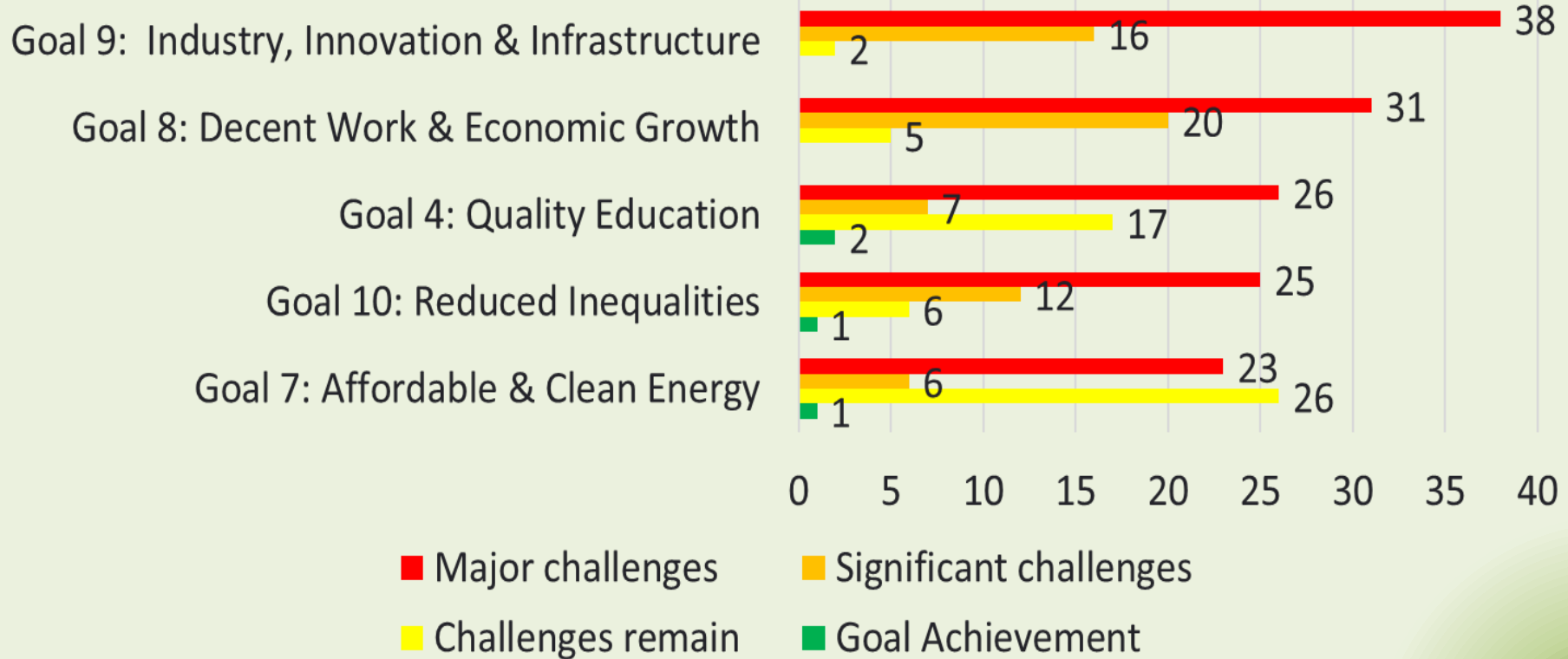
SDG Index Scores (0-100)



Top Five Challenges facing OIC Countries in Achieving SDGs



Challenges facing OIC Countries in Achieving SDGs



Indonesia: Status in Achieving SDGs

Goal achievement

Challenges remain

Significant challenges

Major challenges

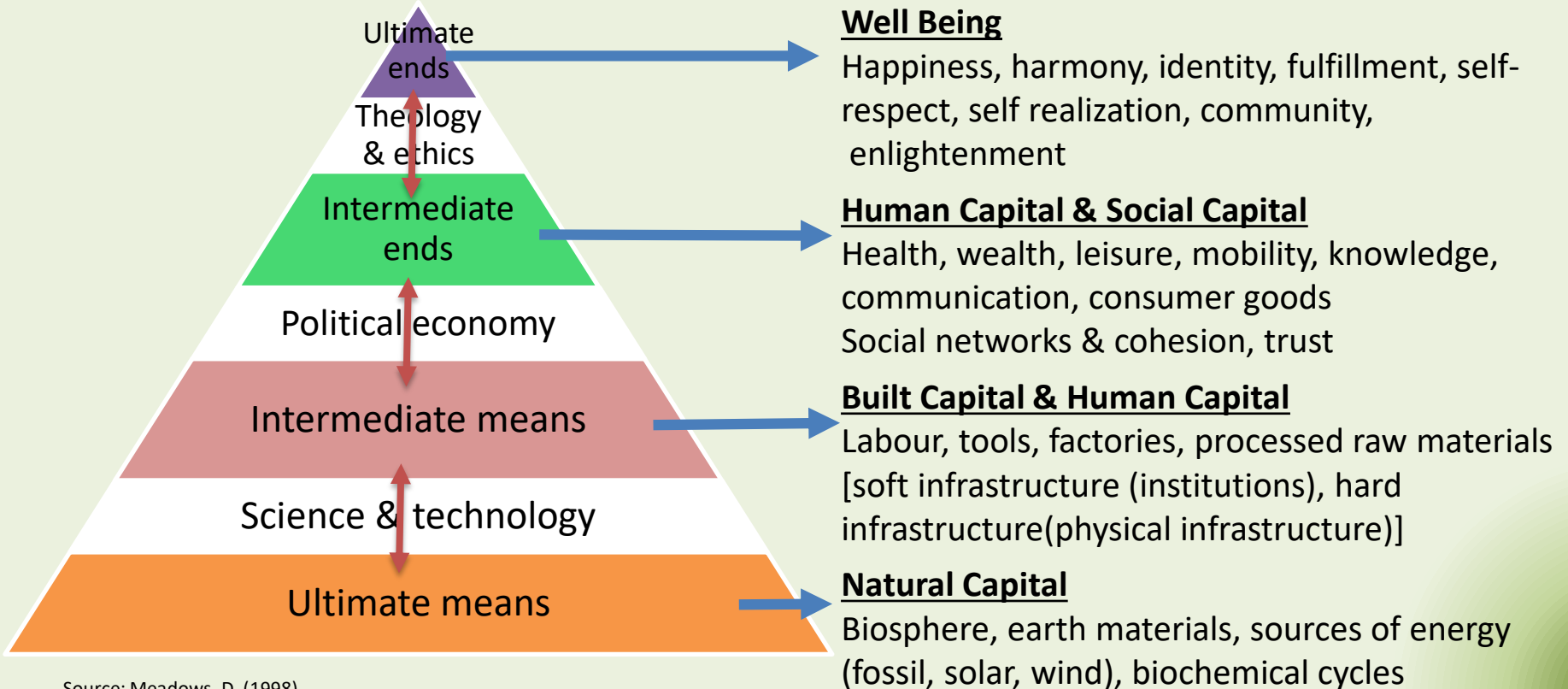


Presentation Plan

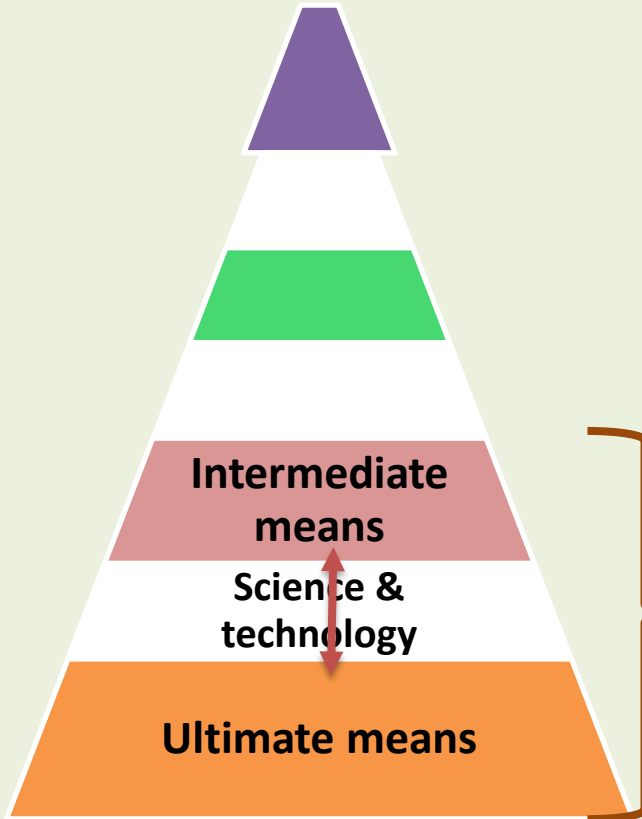
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Sustainable Development: A Framework of Analysis

'Daly Triangle', modified by Meadows (1998)

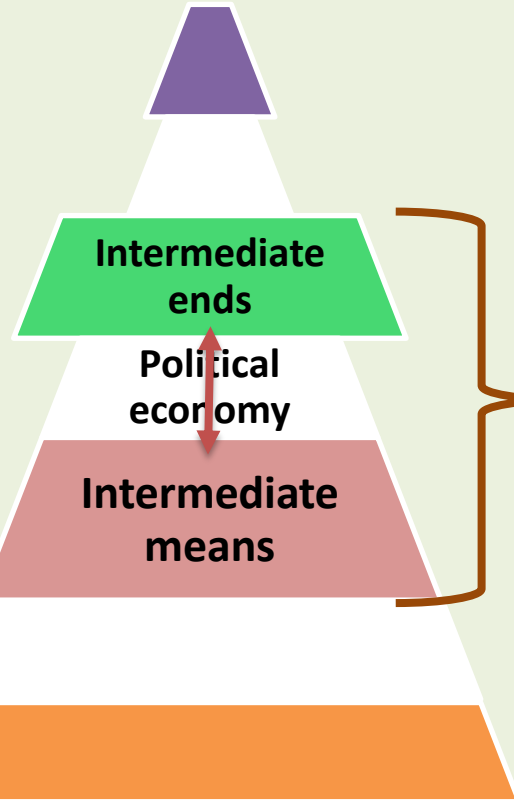


Sustainable Development: Ultimate & Intermediate Means



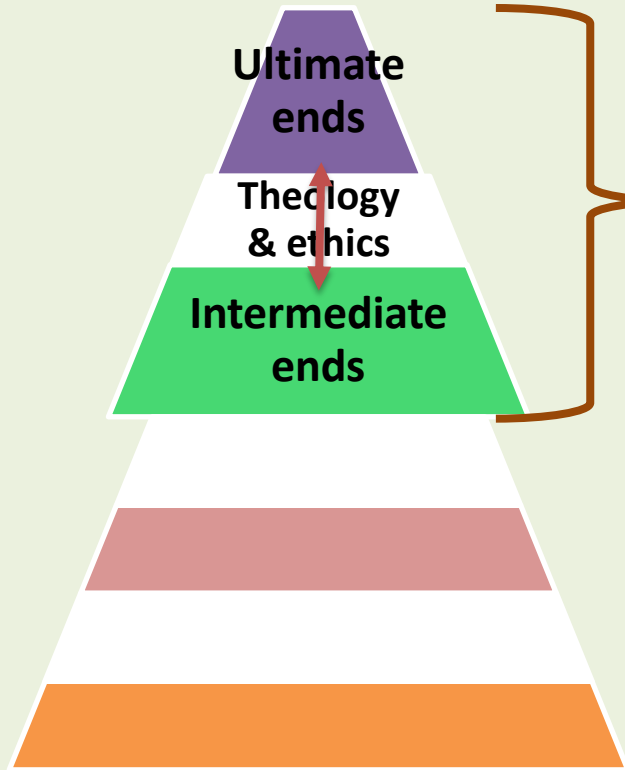
- **Ultimate means** (natural capital) provides raw material and environmental services to produce built capital
- **Intermediate means** (built capital & human capital) are inputs to produce goods & services
 - Fraction of built capital used to produce more built capital determines economic growth rate and sustainability
- **Science & technology** determines how natural capital are used for production
 - Determines the productive capacity of the economy

Sustainable Development: Intermediate Means & Intermediate Ends



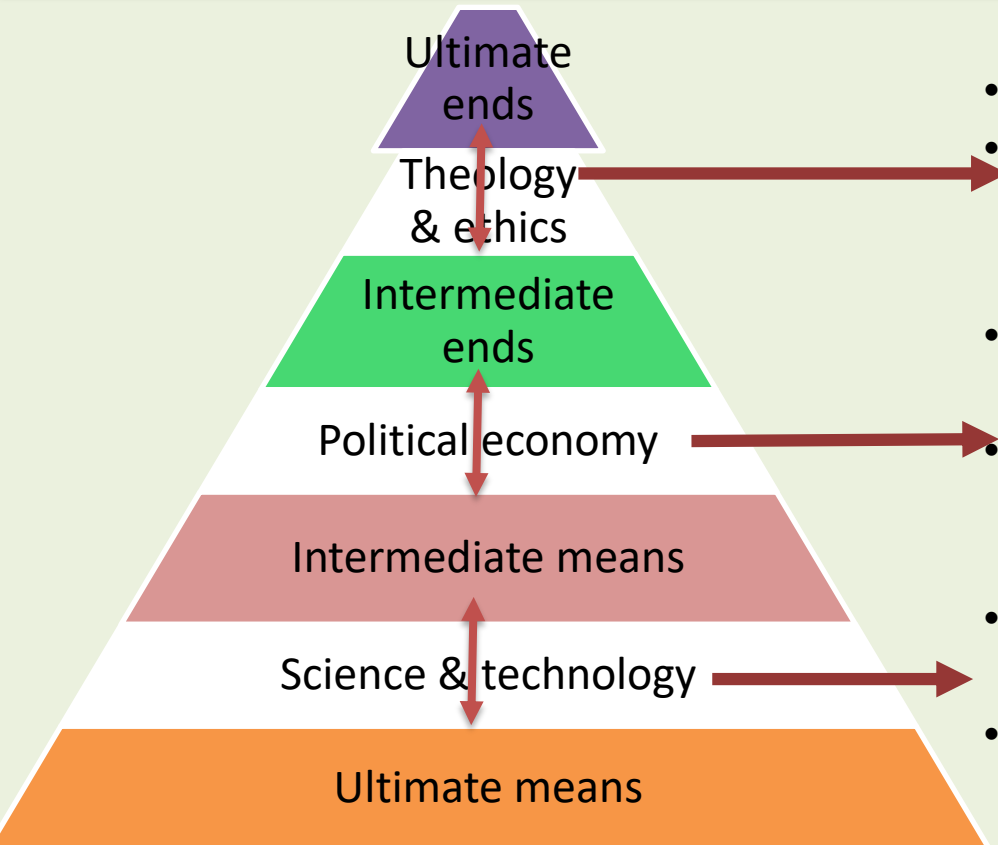
- **Intermediate ends** are outputs in an economy (consumer goods, health, wealth, knowledge, etc.) to enhance
 - **Human capital** is both means and ends (e.g., good health and knowledge)
 - **Social capital** implies good human relations and cohesion (trust, honesty, etc.) that enables truthful information flows and efficient functioning of economy
- **Political economy (and institutions)** determines how intermediate means are used to produce outputs and how these are managed and distributed

Sustainable Development: Intermediate Ends & Ultimate Ends



- **Intermediate ends** are not ends in themselves, but instruments for achieving higher ultimate ends
- **Ultimate ends** determined by theology and ethics that answer fundamental questions of life
 - What is the goal of life?
 - What is wealth, health, education for?
 - What is happiness, fulfillment, enlightenment?

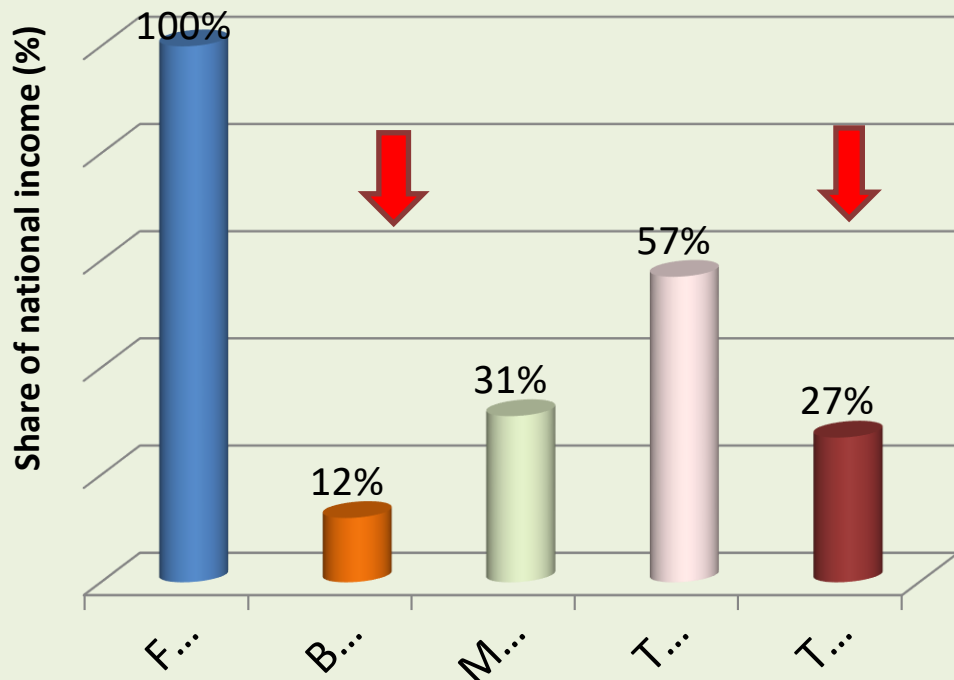
Neoclassical Economics Notion of Growth



- Focuses on intermediate means and ends
- Consumerism—Goals and happiness defined by utility and profit maximization
- **Economic** growth is the goal, driven by market economy
- Not much attention paid to distribution of fruits of growth (**social** goals absent)
- Natural capital is not priced when used in production—overuse of natural capital
- Environmental degradation and climate change (**environmental** goals are absent)

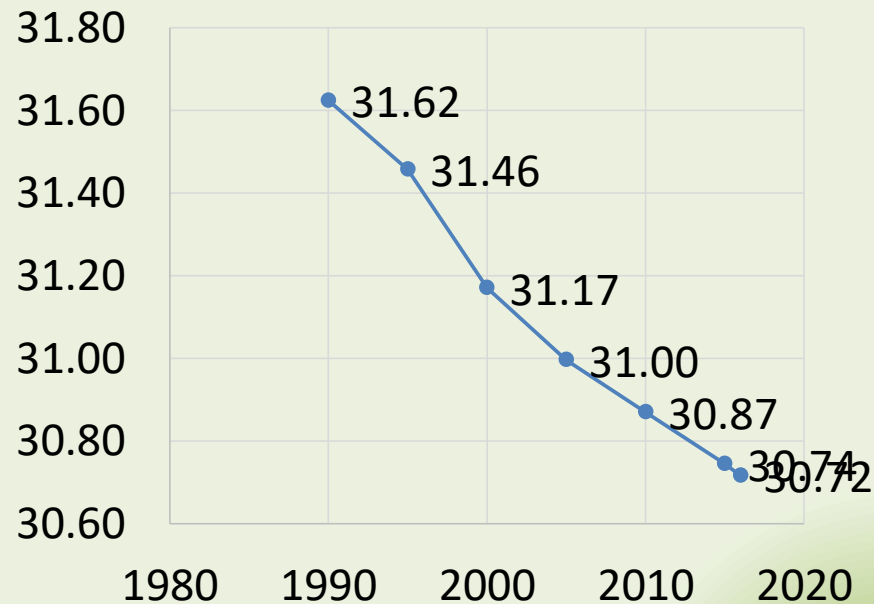
Implications of Neoclassical Growth Models

Share of Global Growth Captured by Income Groups 1980-2016



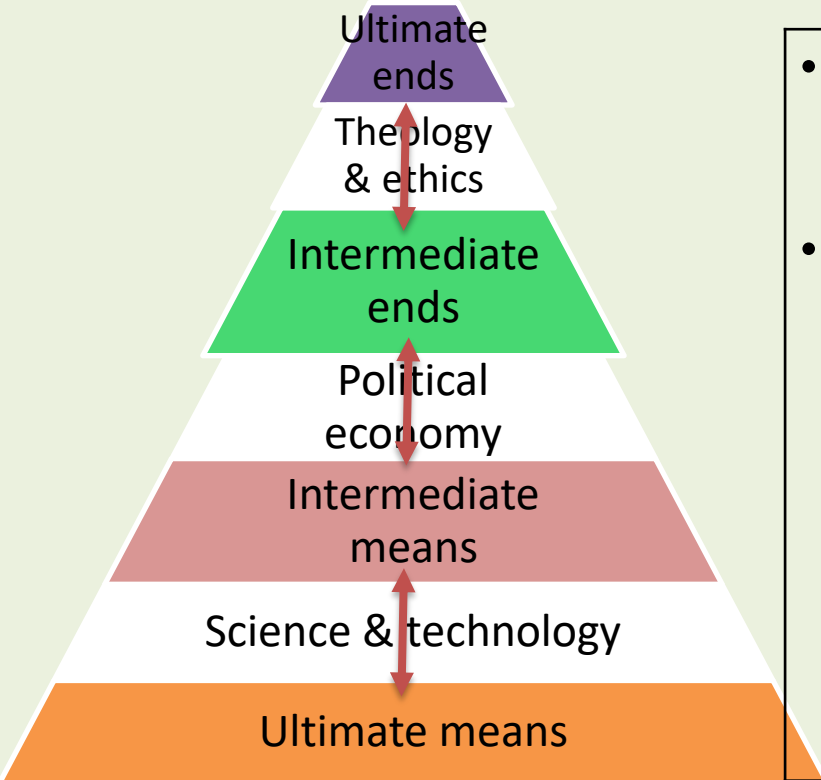
Source: World Inequality Report 2018 (p. 46)

Forest area (% of land area)



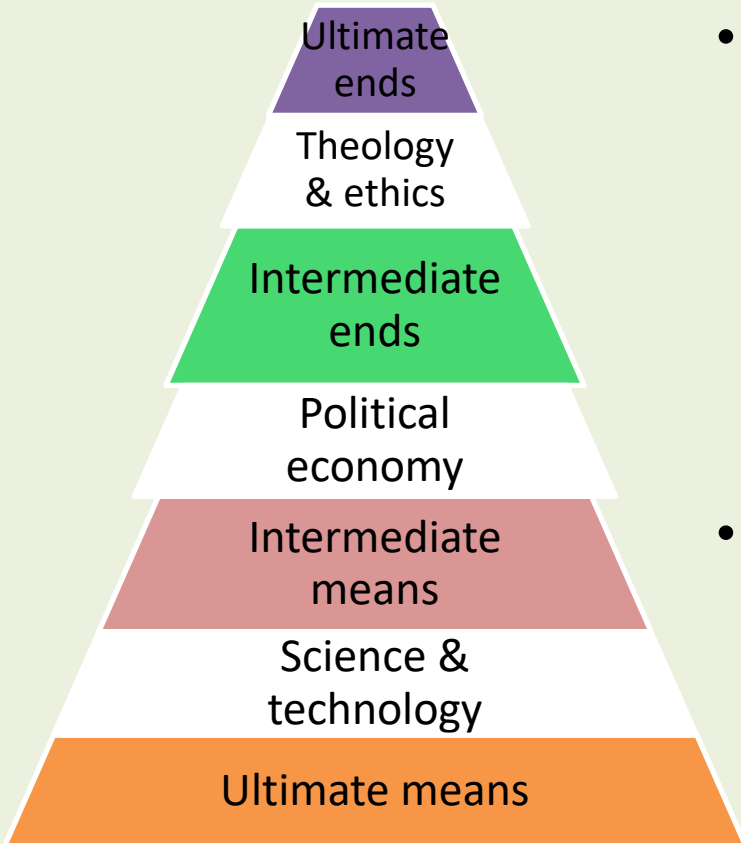
Source: World Bank indicators Database

Sustainable Development Framework



- **Sustainable development:** Expand economic calculus to include the top (development) and the bottom (sustainability) of the triangle
- Aggregate measures of sustainability
 - **Sufficiency** (not maximization) with which **ultimate ends** are realized for **all** people (economic & social goals)
 - **Efficiency** with which **ultimate means** are transformed into **ultimate ends**
 - **Sustainability** of the use of **ultimate means** (environmental goals)

Economic Growth/Sustainable Development Dilemma?



- **Fundamental Problem**
 - Economic Growth: Focus is on intermediate ends of maximizing consumption (unlimited wants)
 - With limited natural capital this is not a feasible goal
 - Move to Sustainable Development: Ultimate ends need to be balanced with ultimate means (natural capital)
- Way to resolve this dilemma—incorporate **‘cultural capital’** to mediate between ultimate ends and ultimate means
 - Theology & ethics which is a part of the culture determines ultimate ends and attitudes towards ultimate means

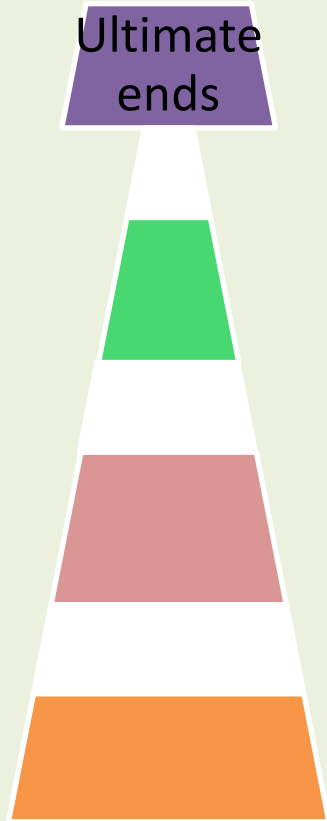
Cultural Capital—Nature & Concept

- Culture & Cultural capital
 - ‘Software of the mind’ (Hofstede & Hofstede 1986)
 - ‘Rules of society’ or factors that provide human societies with the means and adaptations to deal with the natural environment (Berkes & Folke)
- Cultural capital includes values and needs, social preferences, environmental ethics, etc.
 - Determines the nature of demand for different goods and services
 - Affects the interactions between other forms of capital and production processes
- Culture is formed by various factors
 - Capitalism (consumerism), traditions, religion
 - In religious societies, religion will have a strong imprint on culture

Presentation Plan

- SDGs: Background and Status is OIC MCs
- Sustainable Development—An Analytical Framework
- **Islamic Economics & Sustainable Development: Values & Reality**

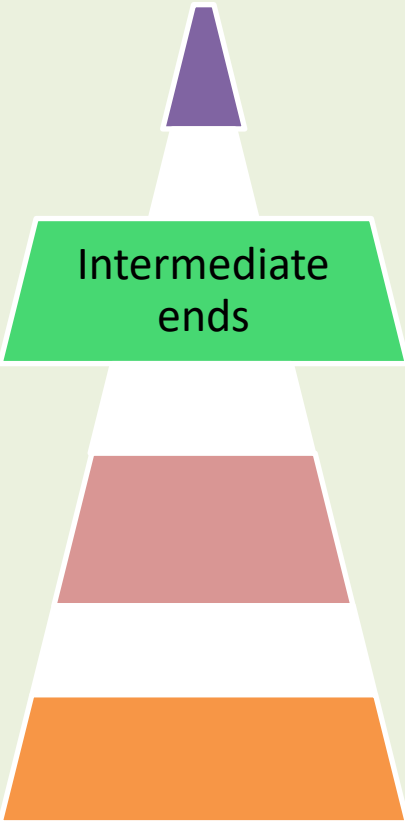
Ultimate Ends : Islamic Perspectives



Wellbeing:

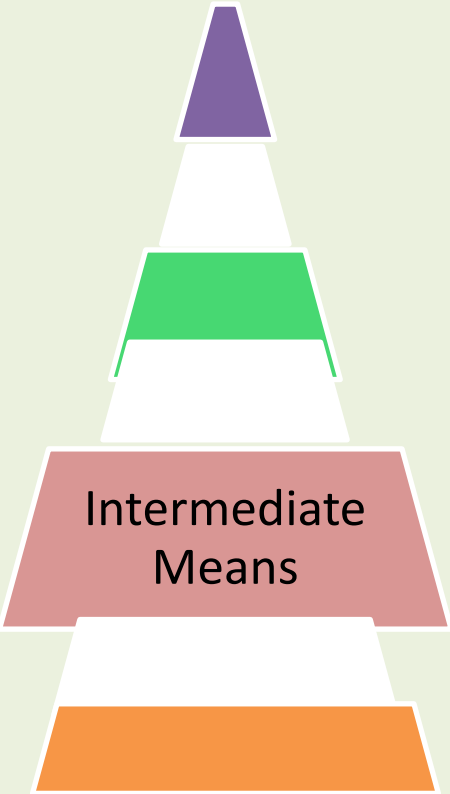
- Individual level—achieving *falah* (success both in the world and hereafter)
 - The Prophet (ﷺ) said, "Riches (wealth) does not mean, having a great amount of property, but riches is self-contentment." (Sahih al-Bukhari 6446)
- Societal level—Human dignity for all
 - Quran (17: 70) “We have honoured the sons of Adam; provided them with transport on land and sea; given them for sustenance things good and pure; and conferred on them special favours, above a great part of our creation”

Intermediate Ends: Islamic Perspectives



- Achieving *maqasid al Shariah* for **all**
 - Protection of religion, life, intellect, progeny, wealth
- **Human capital:** Good religion, life and intellect
- Goods & services—*halal & tayyib*
 - “O mankind! Eat of that which is lawful (halal) and wholesome (tayyib) in the earth, and follow not the footsteps of the devil. Lo! he is an open enemy for you” (Quran 2: 168)
- **Social Capital:** Brotherhood
 - The Prophet (ﷺ) said, "The one who looks after a widow or a poor person is like a Mujahid (warrior) who fights for Allah's Cause, or like him who performs prayers all the night and fasts all the day." (Sahih al Bukhari 5353)

Intermediate Means: Islamic Perspectives



- **Human capital:**
 - “And We have given you (mankind) power in the earth, and appointed for you therein livelihood. Little give ye thanks! (Quran 7:10)
 - “Allah loves to see one’s task done at the level of *itqan* (excellence)” (Al-Tabarani, Volume 1, Hadith No. 901)
- **Built Capital:** Mostly Shariah neutral, but should reflect Islamic values and principles
- Other contributing sectors
 - Islamic finance
 - Islamic social finance

Ultimate Means: Islamic Perspectives

Natural Capital

- Allah SWT the ultimate Owner of resources
 - Quran (15: 19) “And the earth We have spread out (like a carpet); set thereon mountains firm and immovable; and produced therein all kinds of things in due **balance**”
 - Quran (55: 7-8) “And the heaven He raised and imposed the balance. That you not transgress within the **balance**”

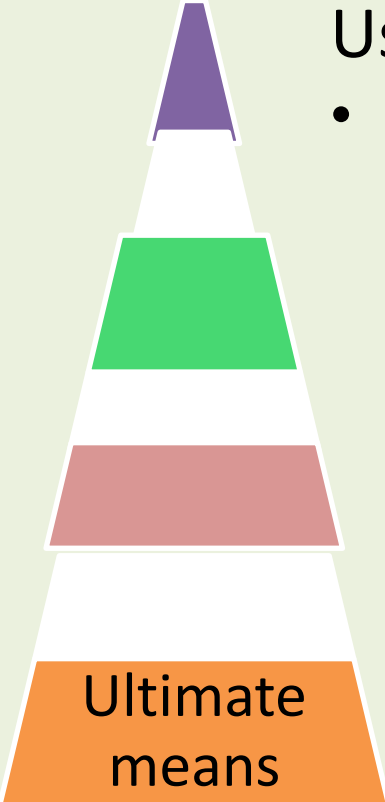


Ultimate
means

Ultimate Means: Islamic Perspectives

Use of Natural Capital

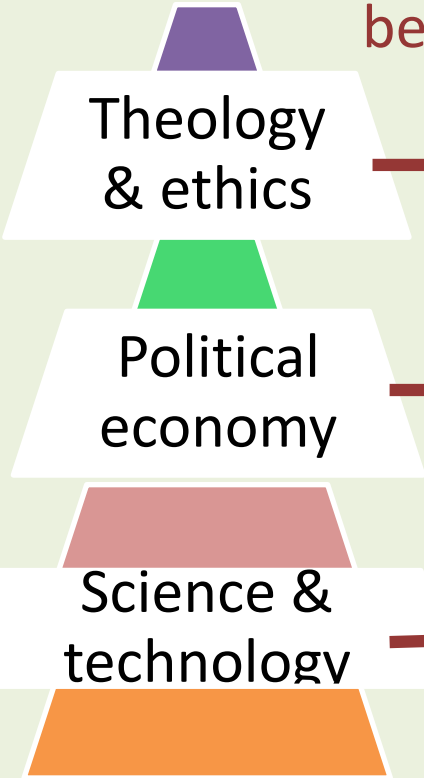
- Humans are vicegerents and trustees—should preserve, promote and not misuse the natural capital
 - Allah's Messenger (ﷺ) said, "There is none amongst the Muslims who plants a tree or sows seeds, and then a bird, or a person or an animal eats from it, but is regarded as a charitable gift for him." (Bukhari Vol. 3, Book 39, Hadith 513).
 - The Messenger of Allah passed by Sa'd when he was performing ablution, and he said: 'What is this extravagance?' He said: 'Can there be any extravagance in ablution?' He said: 'Yes, even if you are on the bank of a flowing river.' (Sunan Ibn Majah Vol 1, Book 1, Hadith 425)



Ultimate means

Islamic Economics & Sustainable Development?

Fundamental Questions: How Islamic values and principles should be translated into implementable models?



Theology
& ethics

- How can religious values/principles be integrated with culture and reflected in economic choices?

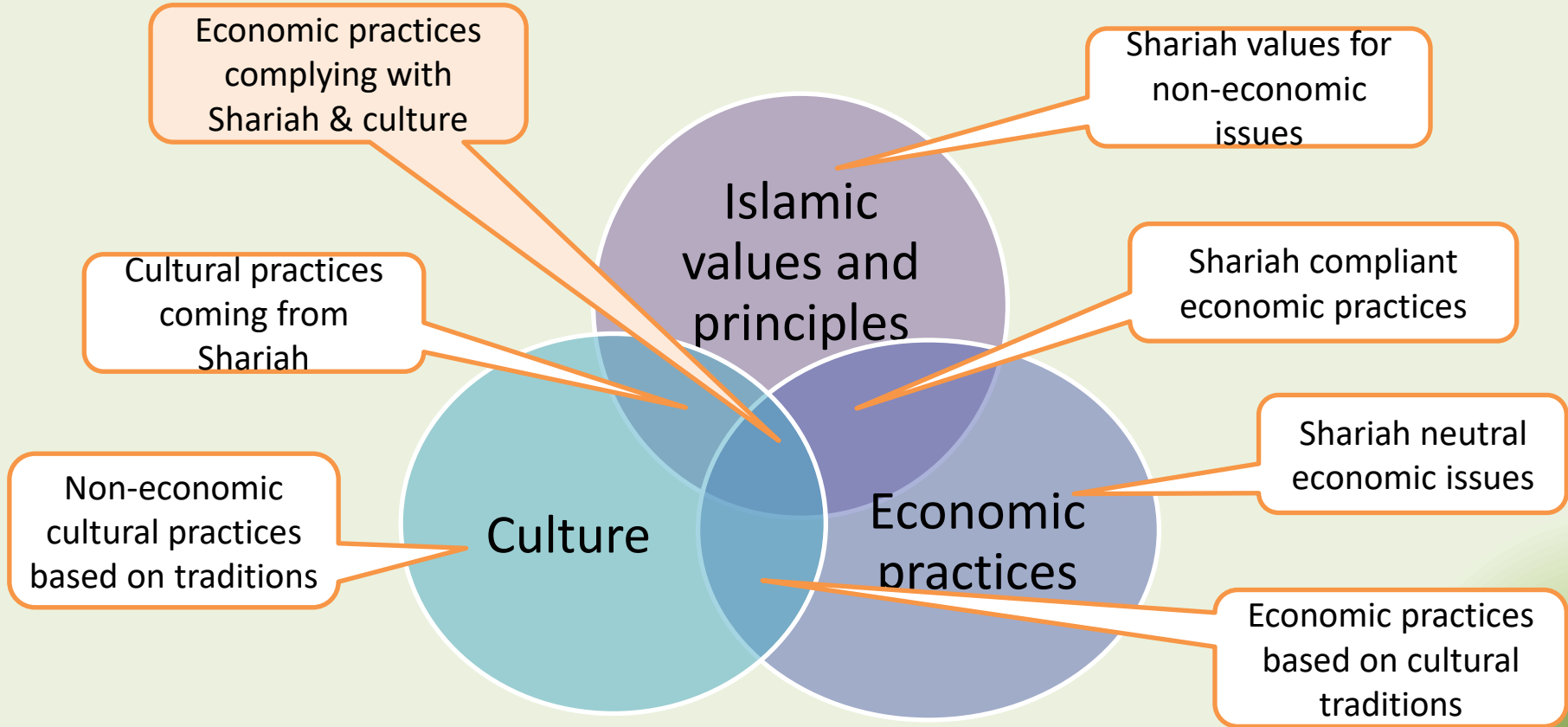
Political
economy

- How can the political/economic institutions produce results reflecting Islamic values and principles?

Science &
technology

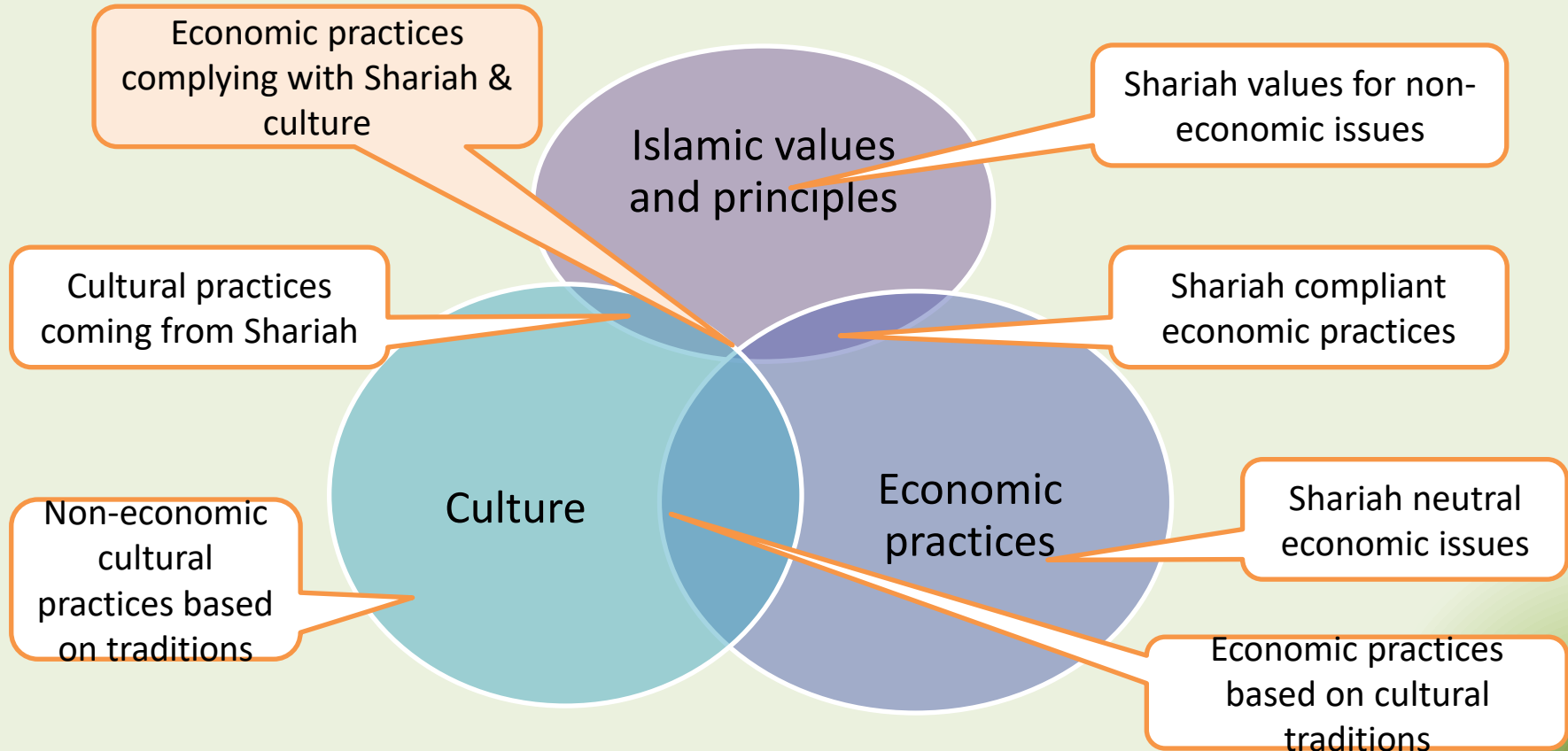
- What technologies need to be developed to use natural capital in efficient and optimum ways reflecting Islamic values & principles?

Islamic Values, Culture & Practice



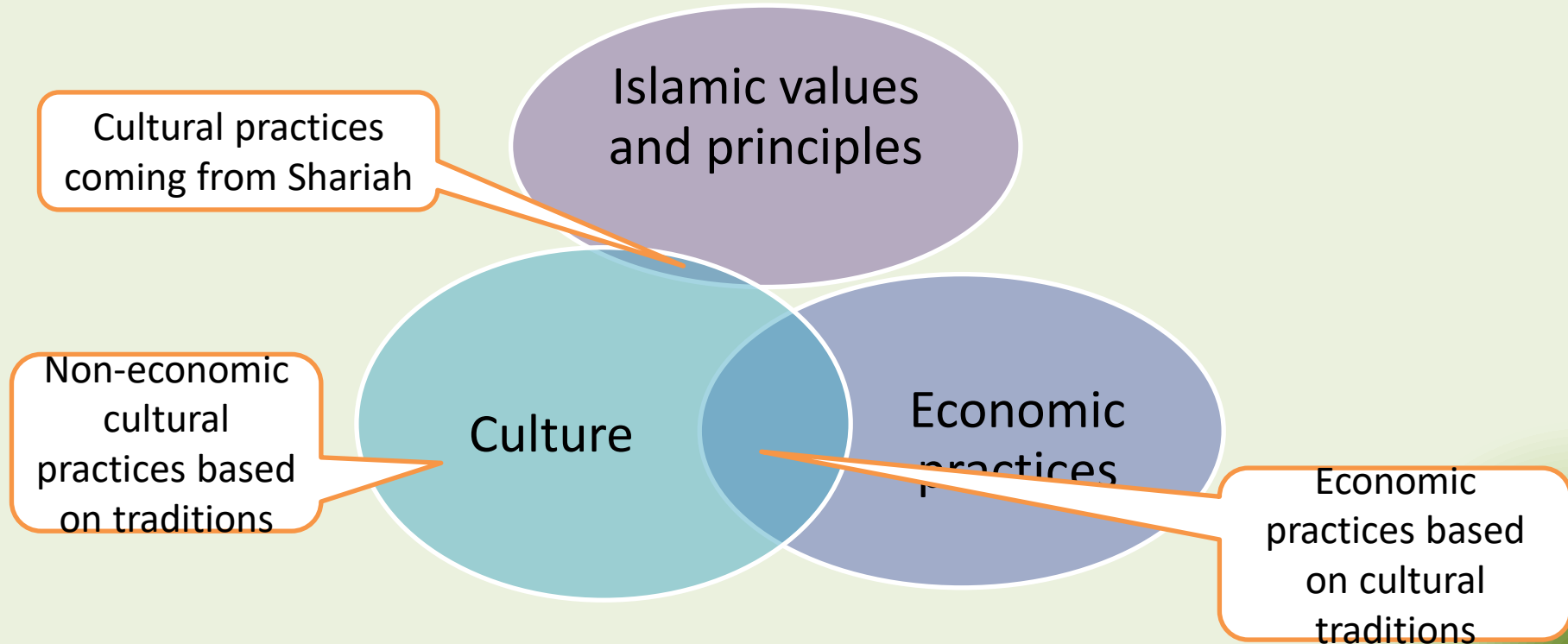
Distance between Islamic Values & Practice

Culture Dominates Economic Practices

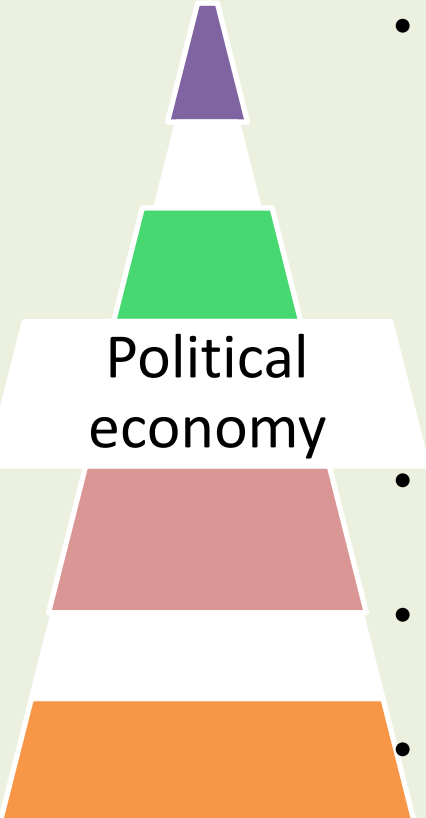


Distance Between Islamic Values & Practice

Culture Dominates Economic Practices



Political Economy: Islamic Values & Practice

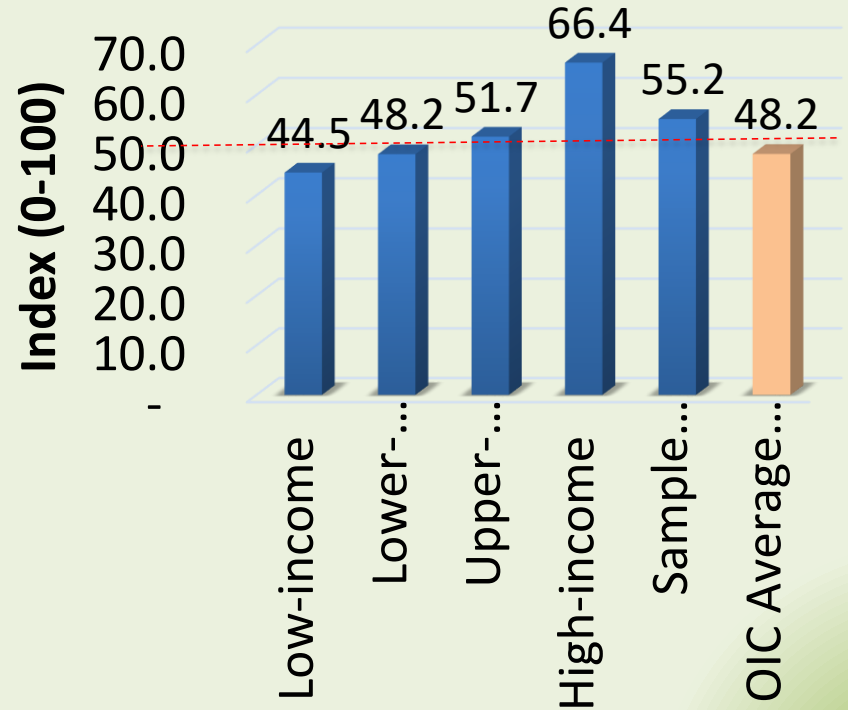


- Sustainable development would require sound institutional set-up
 - Institutions (legal systems, judiciary, etc.) define property rights and their protection, rule of law, investors' protection, etc.
 - Institutions determine incentives and constraints on economic actors and shape economic outcomes
- Institutions should reflect Islamic values and principles to promote an Islamic economic system
- Most Muslim countries have adopted Western legal systems and laws
- Literature in Islamic political economy and institutional economics from Islamic perspective is scant

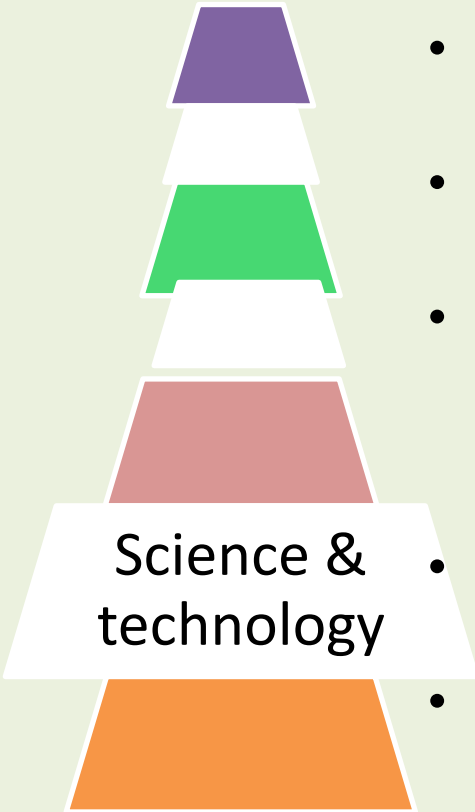
Political Economy—Institutional Setup (SDG 16)

Components of Institutions

- Security
- Social Capital
- Checks & balances
- Public-sector performance
- Transparency
- Property rights
- Corporate governance
- Future orientation of government



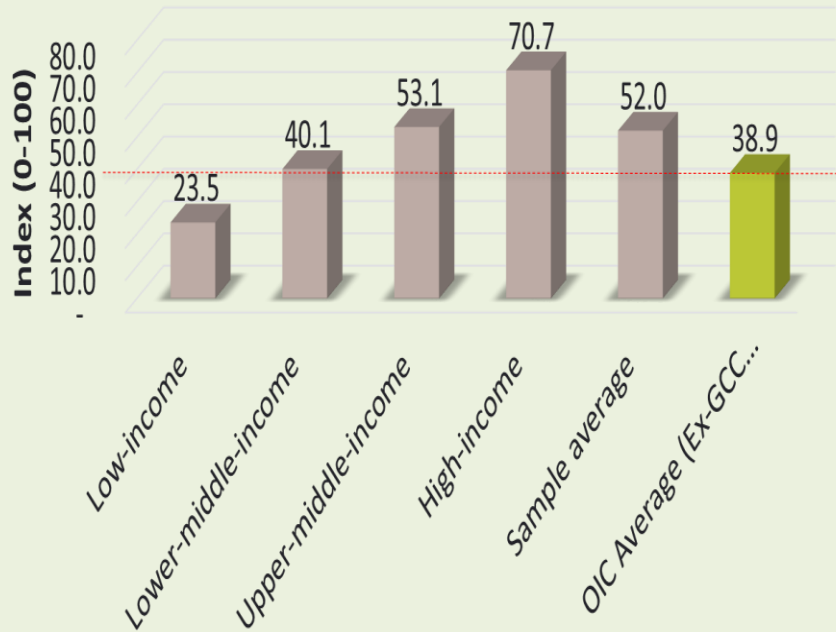
Science & Technology



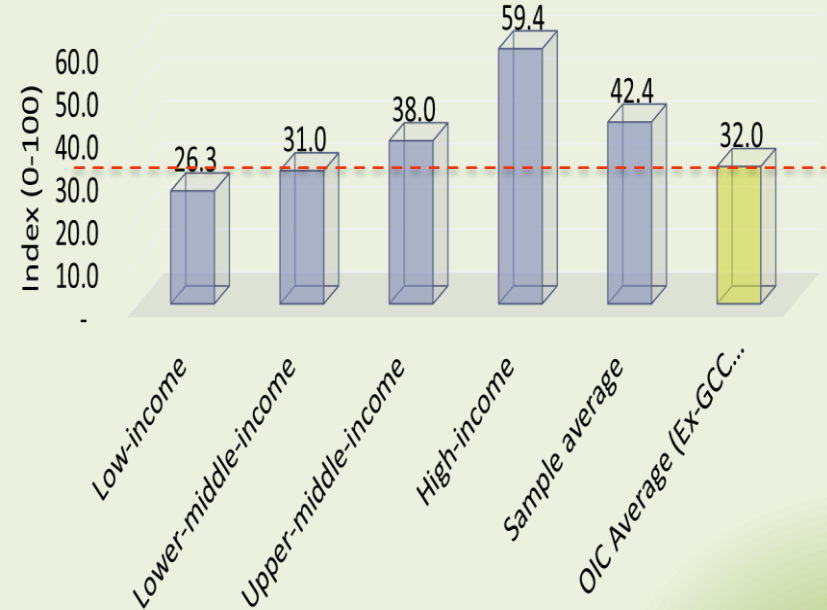
- **4th Industrial Revolution**—intellectual/informational capital is replacing physical capital
- **Opportunity:** What was not possible in the physical realm is possible in the digital economy
- **Issues**—need to increase innovative solutions using digital technology to achieve SDGs
 - Digital divide and exclusion—new form of exclusion
 - Invest in human capital by promoting technological education
- Shariah perspectives—technology mostly neutral, but should reflect Islamic values & principles
- Need contributions on Islamic perspectives on 4IR, Inclusive Growth, Sharing Economy, Circular economy

Readiness for 4IR: OIC MCs

ICT Adoption



Innovation Capability



Questions??

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