



ISLAMIC DEVELOPMENT BANK
ISLAMIC RESEARCH AND TRAINING INSTITUTE

SUSTAINABLE DEVELOPMENT IN THE MUSLIM COUNTRIES

IDB Prize Winners' Lecture Series

No.16



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MONZER KAHF

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SUSTAINABLE DEVELOPMENT IN THE MUSLIM COUNTRIES

MONZER KAHF

Introduction

Sustainable development has two meanings: economic and environmental. In economics, sustainable development means the ability of an economy to meet a selected growth target and maintain it for a long-run steady state. For the environmentalists, it means development that maintains a steady supply of depletable natural resources. The maintenance of steady supply requires conservation in use and minimization of adverse effects especially pollution. Consequently the United Nations Committee on Sustainable Development defines sustainable development as sustainable increases of production and consumption in terms of "the use of goods and services that respond to basic needs and bring a better quality of life, while minimizing the use of natural resources, toxic materials and emissions of waste and pollutants over the life cycle, so as not to jeopardize the needs of future generations."¹ It is obvious that the two definitions overlap especially in economies that depend on oil and other un-reproducible natural resources. This paper deals with the economies of the Muslim countries. It will focus on the economic sustainability of development without neglecting the ecological aspect whenever it is relevant.

Selection of countries

There is no undisputable criterion for defining the Muslim countries. In the present paper, I take the approach of accepting as Muslim countries all the countries that identify themselves with the Organization of Islamic Conference regardless of the percentage of Muslims in their population. I add to them countries that are known as having Muslim majority in their

¹ The International Institute of Sustainable Development, The Commission on Sustainable Development, The International Work Programme on Changing Consumption and Production Patterns adopted in the Commission's third session 1995. An Internet Reference, <http://iisd.ca/susprod>

population, even though their present political circumstances do not warrant their membership in the OIC. Hence, I've added 5 to the 53 OIC countries. These five added countries are Bosnia and Herzegovina, Eritrea, Ethiopia, Nigeria and Uzbekistan. I did not include countries whose territorial independence is not internationally recognized such as the Federated Turkish Republic of Cyprus, Kashmir and Chechnya.

This paper aims at studying the Islamic economic view to sustainable development of the Muslim countries. It will attempt to find out what the Islamic economics literature offered in this regard and what it still has to offer. I will try to study the necessary requirement to sustain economic development processes in the Muslim countries and to suggest policies that need to be adopted to enhance development at a sustainable rate. As I happened to believe that the Islamic approach to economics in general and to economic (and social) development in specific is essentially institutional, because religion itself deals with the inner and the outer institutions of human beings, I am taking an institutional approach in this paper.

I divide the paper into four sections, in addition to this introduction and a conclusion. Section One lays the ground; it surveys some of the main indicators of the level of economic and social development of the Muslim countries. I select the presented indicators and economic data so that the objective of this paper can best be served and I will limit myself to making minimum comments in this section because its subject is very well dwelt on in the literature. Section Two will focus on the Islamic economic approach to the development theory in general and to sustainable development in specific. This will be derived from the existing literature on Islamic economics. Section Three will discuss the most important prerequisites for sustainable development in the Muslim countries in the light of the contribution of the Islamic economics' literature. Finally, Section Four will discuss policy recommendations. A conclusion summary is given at the end.

Section One

Main Indicators of the Present Situation on Economic and Social Development of the Muslim Countries

This section is devoted to presenting basic information about the present economic situation of the Muslim countries. All of us certainly realize that the Muslim countries are not economically homogeneous, which is a blessing as much as it creates difficulties in classification. The information presented in this Section is derived from the international sources, mainly the World Bank's Development Indicators 2001. I confined the information given in this Section to 1999 and the two decades from 1980 to 1999. I will add a few comments only on selected issues. Leaving my analysis to Sections Two – Four.

Table One provides the basic information. I have added life expectancy because it is an important indicator of the social aspect of the degree of economic progress achieved over the last two decades of the Twentieth Century.

Table One
Basic Information of the Muslim Countries

	Land Area km ² (000)	Population	Pop. Growth	Crude Birth Rate	Life Expectancy At Birth		
	1999	1999 (000)	1999	1999	1980	1990	1999
Afghanistan	652.1	25,869	3.21	46.72	40.29	42.69	46.13
Albania	27.4	3,375	1.08	16.23	69.33	72.28	72.08
Algeria	2,381.7	29,950	1.49	25.34	59.28	67.37	70.81
Azerbaijan	86.6	7,983	0.92	14.70	67.91	70.81	71.50
Bahrain	0.7	666	3.58	19.80	67.84	71.42	72.99
Bangladesh	130.2	127,670	1.61	27.98	48.47	54.68	60.74
Benin	110.6	6,114	2.75	40.08	48.44	51.87	53.13
Bosnia and Herzeg.	51.0	3,881	2.96	12.78	70.23	71.44	73.05
Brunei	5.3	322	2.09	20.86	70.97	74.16	75.83
Burkina Faso	273.6	10,996	2.44	43.92	44.01	45.39	44.88
Cameroon	465.4	14,691	2.67	37.52	49.96	54.18	50.86
Chad	1,259.2	7,486	2.75	44.58	42.16	46.16	48.50
Comoros	2.2	544	2.50	33.74	50.09	55.97	60.57
Djibouti	23.2	648	1.87	36.70	44.16	47.77	47.31
Egypt, Arab Rep.	995.5	62,655	1.82	25.50	55.54	62.81	66.82
Eritrea	101.0	3,991	2.85	39.10	44.27	48.88	50.41
Ethiopia	1,000.0	62,782	2.44	44.44	41.96	45.00	42.38
Gabon	257.7	1,208	2.35	35.86	48.20	51.88	52.62
Gambia, The	10.0	1,251	2.84	40.60	40.18	49.28	53.24
Guinea	245.7	7,251	2.29	39.62	39.81	43.71	46.37
Guinea-Bissau	28.1	1,185	1.99	40.92	38.62	42.31	43.97
Indonesia	1,811.6	207,020	1.63	22.42	54.81	61.71	65.72
Iran, Islamic Rep.	1,622.0	62,977	1.65	20.60	60.13	66.23	71.11
Iraq	437.4	22,797	2.08	31.82	61.98	61.25	59.21
Jordan	88.9	4,740	3.05	30.06	..	68.48	71.29
Kazakhstan	2,670.7	14,927	-0.97	14.20	66.62	68.34	64.83
Kuwait	17.8	1,924	3.08	21.60	70.78	75.30	76.62
Kyrgyz Republic	191.8	4,865	1.40	21.03	65.49	68.30	67.26
Lebanon	10.2	4,271	1.44	20.68	65.00	67.90	70.22
Libya	1,759.5	5,419	2.19	28.42	60.46	68.50	70.76
Malaysia	328.6	22,710	2.36	24.40	66.87	70.51	72.34
Maldives	0.3	269	2.52	28.96	56.11	61.71	67.85
Mali	1,220.2	10,584	2.39	46.24	42.10	44.99	42.62

Mauritania	1,025.2	2,598	2.70	39.12	46.66	50.66	53.94
Morocco	446.3	28,238	1.65	24.50	58.01	63.48	67.18
Mozambique	784.1	17,299	1.95	40.40	44.03	43.44	43.07
Niger	1,266.7	10,496	3.39	51.20	41.68	44.91	45.71
Nigeria	910.8	123,900	2.52	39.84	45.83	49.05	47.48
Oman	212.5	2,348	1.98	28.18	59.81	69.00	73.34
Palestine	..	2,839	2.41	40.98	..	..	71.81
Pakistan	770.9	134,790	3.73	34.48	55.12	59.10	62.54
Qatar	11.0	565	3.44	14.00	66.73	72.22	74.65
Saudi Arabia	2,149.7	20,198	2.57	33.66	61.12	69.01	72.21
Senegal	192.5	9,285	2.69	38.46	45.35	49.54	52.37
Sierra Leone	71.6	4,949	1.93	45.14	35.34	35.19	37.42
Somalia	627.3	9,388	3.38	51.38	42.56	41.55	47.76
Sudan	2,376.0	28,993	2.25	33.14	48.17	50.97	55.55
Suriname	156.0	413	0.30	23.68	66.39	68.66	70.15
Syrian Arab Republic	183.8	15,711	2.58	28.88	61.56	66.41	69.45
Tajikistan	140.6	6,237	1.98	22.03	66.09	69.29	68.64
Togo	54.4	4,567	2.42	38.16	49.33	50.48	49.14
Tunisia	155.4	9,457	1.31	16.80	62.42	68.08	72.53
Turkey	769.6	64,385	1.58	20.78	61.42	66.08	69.48
Turkmenistan	469.9	4,779	1.29	20.55	64.37	66.22	66.13
Uganda	199.7	21,479	2.75	46.26	48.45	46.75	42.14
United Arab Emirates	83.6	2,815	3.29	17.54	68.22	73.53	75.25
Uzbekistan	414.2	24,406	1.76	23.10	67.27	69.17	69.55
Yemen, Rep.	528.0	17,048	2.66	39.76	48.52	52.18	56.00

TOTAL Muslim Countries	32,265.9	1,310,204					
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High income	896,350	0.68	12.02	74.08	76.24	77.86
Low income	2,417,100	1.94	29.48	53.40	57.57	59.13
Middle East & North Africa	290,340	1.94	26.35	58.59	64.58	67.95
Middle income	2,664,500	1.07	18.11	65.61	68.26	69.35
Upper middle income	571,470	1.31	20.70	65.63	68.51	69.22
World	5,978,000	1.36	21.80	62.67	65.42	66.49

Table One indicates that there has been a substantial improvement in life expectancy at birth in all Islamic countries over the period covered. Yet in 1999 the Muslim world has 24 countries with life expectancy below the average of the world low income countries, half of them have life expectancy that is more than 20% below that average. Improvement in life expectancy is not a definite sign of increased income, but it certainly gives an overview indication of improvement in health care, nutrition, sanitation and reduction of absolute poverty. What is unfortunate is that during a period of two decades there has been very little improvement (less than 10%) in thirteen Muslim countries and a definite worsening in two countries, Iraq and Uganda.

The crude birth rate and the population growth rate declined together in all Muslim countries. It is really difficult to accept a decline in crude birth rate as an indicator of economic development. The same also applies to the growth rate of total population. They are both value-loaded and the newest trend in population development is to focus on human rights and improvement in labor productivity instead of the growth rate. Except for nine countries, the rate of population growth declined in all the Muslim countries over the period of two decades. However, it has risen in Afghanistan, Bosnia-Herzegovina, Chad and Eritrea while it remained stable in five other countries: Burkina Faso, Kazakhstan, Malaysia, Mauritania and Niger.

Table Two deals with some of the basic vital statistics. I have included in this table the available information on per capita health care expenditures and malnutrition.

Table Two
Some Vital Statistics, Health Care and Nutrition

	Fertility Rate	Mortality Rate	Mortality Rate	Infant Mortality	Mortality under 5	percapita health care	Malnutrition*
	1999	female 1999	Male 1999	1999	1999	1998* cur. US.\$	1998
Afghanistan	6.70	401	406	147	220	..	8
Albania	2.40	84	175	24	..	36	..
Algeria	3.36	117	153	34	39	..	..
Azerbaijan	2.02	98	205	8	12	..	..
Bahrain	3.25	103	174	16	21	358	..
Bangladesh	3.22	290	276	61	89	12	..
Benin	5.60	312	371	87	145	12	..
Bosnia & Herzeg.	1.60	90	166	13	18	..	..
Brunei	2.67	76	132	9	11	..	22
Burkina Faso	6.56	522	551	77	210	10	..
Cameroon	4.86	419	477	101	154	..	..
Chad	6.32	383	438	61	189	7	..
Comoros	4.38	243	268	109	86	..	11
Djibouti	5.16	524	556	47	177	..	..
Egypt, Arab Rep.	3.26	168	193	60	61	..	..
Eritrea	5.56	431	484	104	105	..	..
Ethiopia	6.26	523	567	84	180	4	..
Gabon	5.08	344	386	75	133	121	..
Gambia, The	5.46	349	411	96	110	13	..
Guinea	5.33	438	442	127	167	19	..
Guinea-Bissau	5.54	421	474	42	214	..	11
Indonesia	2.58	183	235	26	52	8	..
Iran, Islamic Rep.	2.66	139	156	101	33	128	..
Iraq	4.44	169	196	26	128	..	..
Jordan	3.74	118	156	22	31	..	..
Kazakhstan	2.00	166	380	26	28	86	..
Kuwait	2.75	64	122	26	13	..	..
Kyrgyz Republic	2.68	138	300	22	38	15	..
Lebanon	2.39	132	175	105	32	..	..
Libya	3.61	125	183	11	28	..	..
Malaysia	3.03	111	183	8	10	81	45

Maldives	4.30	187	193	29	35	150	..
Mali	6.36	406	470	120	223	11	..
Mauritania	5.26	294	346	88	142	19	..
Morocco	2.94	145	199	48	62	..	..
Mozambique	5.18	514	580	131	203	8	50
Niger	7.28	374	468	116	252	5	..
Nigeria	5.21	390	444	83	151	30	..
Oman	4.47	103	139	17	24	..	..
Palestine	5.81	106	164	23	26	..	..
Pakistan	4.78	153	186	90	126	18	..
Qatar	2.67	104	138	16	22	..	..
Saudi Arabia	5.54	129	160	19	25	..	..
Senegal	5.44	389	459	67	124	23	..
Sierra Leone	5.87	483	544	168	283	8	..
Somalia	7.13	342	400	121	203	..	..
Sudan	4.52	338	384	67	109	..	..
Suriname	2.36	117	197	27	34	..	..
Syrian Arab Republic	3.66	135	202	26	30	116	..
Tajikistan	3.30	140	232	20	34	13	25
Togo	5.08	435	478	77	143	8	..
Tunisia	2.21	133	159	24	30	108	8
Turkey	2.42	145	177	36	45	..	..
Turkmenistan	2.84	158	281	33	45	31	..
Uganda	6.36	590	597	88	162	18	..
United Arab Emirates	3.30	92	125	8	9	1428	..
Uzbekistan	2.70	125	227	22	29	..	..
Yemen, Rep.	6.16	283	307	79	97	..	..
High income grp		63	125	6	6	..	..
Low income grp		258	288	77	116	..	..
Middle East & North Africa		151	183	44	56	..	..
Middle income grp		135	199	31	39	..	..
Upper middle income grp		143	233	27	34	330	..
World		170	221	54	78	..	..

*Weight for age (% of children under 5)

Fertility rates declined in all Muslim countries during the last twenty years of the past century.² This decline took a long shot for Tunisia with the highest decline of 58% followed by Libya 50% and Bangladesh 48%, while it was a mild one for Niger 2% and Chad 8%. I wonder if the decline in fertility rate is a good measure of economic development although it is an observed phenomenon in a world spirited by the Western culture.

With regard to mortality rates, Table Two shows that 22 Muslim countries still have mortality rates of infants under 5 that are higher than the average World's low-income countries. Infants under 5 mortality rates in 4 of these countries are more than double this average. A similar pattern is also observed in the other three mortality rates: for infants, adult males and adult females where the number of Muslim countries with rates higher than the average world's low income countries is 20, 26 and 24 respectively.

However, when we look at the trend of mortality rates during the period under consideration we find a definite decline in all of them for all Muslim countries except for the unfortunate situation in Iraq where the embargo caused an across the board increase in mortality rates especially among infants. This general trend is a certain indication of increased income and increased health care and awareness. 20 Muslim countries have reduced their infants under 5 mortality rates by more than 50%, of them 11 have reduced it by more than 2/3. Along with the same trend pattern, infant mortality witnessed more than 50% improvement in 28 Muslim countries, of them 9 got a better than 2/3 improvement. With regard to adult mortality rates the progress is not as impressive. While 44 Muslim countries had improved their adult mortality at rates ranging from 69% (Oman) to 11% (Iraq) for males and 65% (Oman) to 5% (Iraq) for females during the two last decades of the past century, we still have 14 countries in which adult mortality rates had worsened for both females and males. Within this segment of the Muslim countries there exist the five Central Asian former Soviet Union Muslim countries. Noticeably, countries with better improvement on the two types of infant mortality fronts are either higher income or higher adult literacy countries. This pattern does not hold for the

² The only exception is Gabon that showed steady decline between 1990 and 1999 but showed a low rate of 4.46 for 1980 that is 1.45 below the 1999 fertility rate. It seems that the 1980 rate is not consistent with the pattern observed in countries with similar level of development in Africa. I attribute it to a statistical error.

five Central Asia Muslim countries; after a steady improvement in the 1980's, all five countries showed some worsening in adult mortality rates in the 1990's ranging from 2% (Kyrgyz Republic) for males to 23% (Tajikistan) for males too.

Table Three deals with adult illiteracy:

Table Three
Adult, Female/Male, Illiteracy in the Muslim Countries,
1999

Illiteracy rate, adult (% persons ages 15 and above)	Female			Male		
	1980	1990	1999	1980	1990	1999
Afghanistan	94.5	88.0	79.9	70.1	59.2	49.6
Albania	45.8	32.0	23.1	21.28	13.66	9.07
Algeria	76.1	59.2	44.3	45.7	32.3	22.6
Azerbaijan	..	..	..	..	..	..
Bahrain	40.7	25.3	17.8	21.4	13.1	9.5
Bangladesh	83.1	76.9	70.7	59.1	53.8	48.3
Benin	89.7	84.0	76.4	73.3	59.1	44.6
Bosnia and Herzegovina	..	..	..	..	..	..
Brunei	32.5	20.6	12.7	14.8	9	5.7
Burkina Faso	95.7	92.0	86.7	82.4	75	67
Cameroon	65.0	46.4	31.4	40.9	28	18.8
Chad	90.7	81.2	67.7	75.41	63.02	49.93
Comoros	60.5	53.7	47.9	43.8	38.6	33.7
Djibouti	74.4	60.3	47.2	43.61	33.2	25.14
Egypt, Arab Rep.	75.2	66.3	57.2	46.5	39.7	33.9
Eritrea	82.3	72.0	60.6	51.11	41.51	33.47
Ethiopia	88.7	79.6	68.2	72	64.2	57.2
Gabon	..	..	..	..	..	..
Gambia, The	88.3	80.4	71.5	78.8	68.2	56.9
Guinea	..	..	..	..	..	..
Guinea-Bissau	93.4	88.6	81.7	66.9	53.9	41.7
Indonesia	40.4	27.3	18.7	20.8	13.2	8.5
Iran, Islamic Rep.	60.7	44.9	31.3	38.3	27.1	17.3
Iraq	78.3	66.8	55.4	52.5	43	35.2
Jordan	46.1	28.4	16.6	17.9	10.1	5.5
Kazakhstan	..	..	..	..	..	..

Kuwait	39.3	26.6	20.6	25.7	19.8	16
Kyrgyz Republic	..	..	..	..	..	..
Lebanon	37.1	26.9	20.2	17.3	11.7	8.2
Libya	69.5	48.7	33.1	28.6	17.1	9.8
Malaysia	37.3	25.4	17.2	19.7	13	8.9
Maldives	10.2	6.1	3.8	9.1	6.1	3.7
Mali	91.5	81.3	67.3	80.7	67.1	52.7
Mauritania	79.0	73.6	68.6	59.2	53	47.8
Morocco	84.6	75.1	64.9	58	47.2	38.9
Mozambique	88.8	81.6	72.1	61.5	50.6	40.7
Niger	97.3	94.9	92.1	86.5	82	77
Nigeria	78.4	61.9	45.8	55.2	40.5	28.7
Oman	83.9	61.8	40.4	48.5	32.6	20.9
Palestine	..	..	..	..	..	..
Pakistan	86.0	79.1	70.0	59.4	50	41.1
Qatar	34.6	24.0	17.4	28.2	22.6	19.9
Saudi Arabia	67.1	49.4	34.1	32.9	22.4	16.5
Senegal	88.3	81.4	73.3	69.5	61.8	53.6
Sierra Leone	..	..	..	..	..	..
Somalia	..	..	..	..	..	..
Sudan	81.0	68.2	55.1	49	39.2	31.1
Suriname	..	..	..	..	..	..
Syrian Arab Republic	66.2	52.5	40.7	27.8	18.1	12.3
Tajikistan	6.5	2.8	1.3	2	0.8	0.5
Togo	80.5	71.1	60.4	47.5	36.1	26.4
Tunisia	68.8	53.5	40.7	41.7	28.4	19.6
Turkey	45.9	33.4	24.1	17	10.7	6.8
Turkmenistan	..	..	..	..	..	..
Uganda	68.6	56.6	44.5	39.4	30.7	23.2
United Arab Emirates	42.1	30.0	22.0	33.1	29.3	26.2
Uzbekistan	32.7	22.6	16.0	16.8	10.5	6.93
Yemen, Rep.	94.5	87.1	76.1	61.8	44.8	33.4
High income group	..	..	..	..	..	..
Low income group	65.30	56.42	48.03	42.51	35.19	29.14
Middle East & North Africa	72.00	59.07	46.69	43.71	33.15	25.16
Middle income group	35.11	25.96	19.77	18.75	12.94	9.37
Upper middle inc. group	19.07	14.45	11.06	14.00	11.12	8.91
World	..	..	..	..	..	..

Table Three shows a steady decline in illiteracy all over the Muslim countries. Keeping in mind that 13 countries did not report information, the rate of improvement in illiteracy over the two decades reached a high of 80% for females and 75% for males in Tajikistan; it also reached a low of 5% for females and 11% for males in Niger. Furthermore, all Muslim countries made it for an average of 1% per year or better improvement in male illiteracy but 7 countries fell shorter than this average improvement with regards to female illiteracy. Additionally, the number of Muslim countries that were able to slice their male illiteracy rates by more than one half is 19, and it goes down to 16 for female illiteracy.

Now comes Table Four that gives some basic economic statistics:

Table Four
Some Basic Economic Statistics of the Muslim Countries,
1999

	GDP*	GDP Growth	GDP per Capita	Gross D Saving**	Gross FDI**	Gross Capital formation
	1999	1999	1999*	1999	1999	1999
Afghanistan	..	..	..	..	..	..
Albania	2,912	7.25	00863	-1.67	0.38	16.80
Algeria	46,995	3.30	01569	31.69	..	27.39
Azerbaijan	3,665	7.40	00459	22.81	2.24	39.61
Bahrain	..	..	..	..	..	..
Bangladesh	46,164	4.88	00362	16.74	0.09	22.19
Benin	2,459	4.96	00402	6.37	..	17.64
Bosnia & Herzeg.	6,185	12.82	01594	0.07	..	34.92
Brunei	..	..	..	..	..	..
Burkina Faso	2,936	5.79	00267	9.75	..	27.85
Cameroon	9,640	4.40	00656	18.95	..	19.46
Chad	1,631	-0.70	00218	-3.04	..	10.34
Comoros	211	-1.44	00388	0.05	..	14.60
Djibouti	..	..	..	..	..	..
Egypt, Arab Rep.	74,610	6.04	01191	14.43	0.52	22.79
Eritrea	692	0.80	00173	-21.34	..	47.34
Ethiopia	7,045	6.21	00112	2.72	..	18.09
Gabon	5,279	-6.20	04369	34.81	..	28.04
Gambia, The	457	6.40	00365	1.71	..	17.80
Guinea	4,370	3.30	00603	15.44	0.45	17.49
Guinea-Bissau	217	7.80	00183	-2.16	..	16.30
Indonesia	199,120	0.31	00962	31.65	0.85	23.70
Iran, Islamic Rep.	99,920	2.52	01587	22.90	..	18.23
Iraq	..	..	..	..	..	..
Jordan	7,604	3.05	01604	2.56	0.87	20.78
Kazakhstan	20,318	1.70	01361	22.76	2.15	17.64
Kuwait	..	..	..	22.31	..	12.28
Kyrgyz Republic	4,143	3.66	00852	3.23	0.28	18.03
Lebanon	..	..	..	..	..	..
Libya	..	..	..	..	..	..
Malaysia	102,780	5.80	04526	47.32	0.83	22.25
Maldives	..	..	..	..	..	..
Mali	2,964	5.46	00280	10.10	..	21.20

Mauritania	1,255	4.09	00483	7.17	..	17.79
Morocco	38,387	-0.70	01359	20.08	0.91	24.17
Mozambique	3,417	7.30	00198	6.69	..	32.58
Niger	2,194	-0.57	00209	3.79	..	10.22
Nigeria	30,958	1.00	00250	18.43	0.95	24.24
Oman	..	..	..	..	..	..
Palestine	4,212	6.85	01484	-18.71	..	39.20
Pakistan	68,451	3.96	00508	10.06	..	14.96
Qatar	..	..	..	..	..	..
Saudi Arabia	135,700	0.40	06718	31.29	0.36	19.33
Senegal	5,487	5.11	00591	12.60	..	19.04
Sierra Leone	683	-8.10	00138	-6.01	..	0.29
Somalia	..	..	..	..	..	..
Sudan	..	5.20	..	..	..	..
Suriname	289	-1.00	00699	35.10	..	11.86
Syrian Arab Republic	19,446	5.25	01238	18.16	0.38	29.48
Tajikistan	1,940	3.70	00311	13.46	..	8.60
Togo	1,493	2.10	00327	3.63	..	13.43
Tunisia	22,600	6.25	02390	24.44	0.63	26.62
Turkey	190,880	-5.15	02965	19.60	0.35	23.26
Turkmenistan	4,628	16.00	00968	26.00	..	46.28
Uganda	7,458	7.40	00347	4.85	0.89	16.40
United Arab Emirates	..	..	..	..	..	..
Uzbekistan	18,513	4.40	00759	15.76	..	15.09
Yemen, Rep.	4,881	3.79	00286	11.81	..	18.59
total (44 countries)	1,215,189					
High income grp				..	7.17	25707.00
Low income grp				20.26	0.31	1918.40
Middle East & North Africa				24.23	0.52	5108.50
Middle inc. grp				26.11	1.58	5317.20
Upper middle income grp				23.39	2.6	8970.30
World				24.69	4.62	6940.70

* In million constant 1995 US\$.

** As % of GDP.

From Table Four we notice that 14 Muslim countries did not report their basic economic data. They include 7 oil producing countries. Of the remaining 44 countries, 17 countries have an average GDP of less than US\$ 1 a day and 9 more of between US\$ 1 and 2 a day. With a tax burden in some of these countries of 23% of GDP, about 77 Cent a day is left for the livelihood of 443 million, more than one third of the population of the Muslim countries, who live in these 17 countries.³ If we add the high level of inequality of income distribution the picture becomes much worse. Such a low income does not leave room for saving and domestic capital formation. The map remains gloomy when we add the other 9 countries, with 185 million people and a daily per capita income between US\$ 1 and 2.⁴ When we look at the growth rate of per capita GDP over the 20-year period, we find 25 out of the 44 reporting Muslim countries that have had negative growth in constant US\$ over the whole 20-year period. These countries include some oil producing countries, the former Soviet Union 6 Muslim Republics, some MENA countries and a large number of the African Muslim countries.

Let us take a look at the performing countries. Out of the 19 Muslim countries that had positive growth over the two decades, Malaysia scores the highest with 97% increase; it is followed by Indonesia with 91% increase and Bangladesh with 63%. Some countries had an average of less than 0.5% per annum over this period.⁵

The majority of these low-income people live on fragile lands. A fragile land gives poor and often unsustainable provision for the livelihood of its people. Fragile lands, sometimes called marginal, are mostly dry lands, arid, semi-arid and mountainous slopes or forests with little capability for agriculture. Yet, the bondage between people and their land is normally strong and plays a determining role in sustaining social and community life. 36% of the world estimated 1.4 billion people on marginal lands live in the

³ They are Bangladesh, Burkina Faso, Chad, Eritrea, Ethiopia, The Gambia, Guinea Bissau, Mali, Morocco, Mozambique, Niger, Nigeria, Sierra Leone, Tajikistan, Togo, Ugandan and Yemen.

⁴ They are Azerbaijan, Benin, Cameroon, Comoros, Guinea, Mauritania, Pakistan, Senegal and Suriname.

⁵ The first five-year development plan of the United Arab Republic, 1960-1964 anticipated doubling its GDP in ten years at an annual rate of growth of 7.1%! It did not materialize, even back then!

Muslim countries. These make about 501 million or 39% of the total population of the fifty-eight Muslim countries covered in this study. The regional distribution of ‘people on fragile land’ in the Muslim World is given in Table Five below:

Table Five
Regional Estimates of the Muslim World’s People on Fragile Lands⁶

Region	millions	% of population
MENA	110	38%
Sub-Sahara	160	40%
Central Asia	15	29%
South Asia (A, B, I & P)	168	48%
East Asia (I & M)	48	31%
Total	501	39%

In addition to water shortage, large area of the dry land is threatened by land degradation and desertification. Desertification is one of the mostly feared dangerous threats in the twenty-first century; it is as dreadful as the warming effect and water shortage. The majority of fragile lands’ people live

⁶ This information is constructed on the basis of the world population on fragile land as shown hereunder:

Regional distribution of people living on fragile lands

Population on fragile lands	Region Population in 2000 (millions)	Number of people on F land (millions)	Share of total (percent)
Latin America and the Caribbean	515.3	68	(13.1)
Europe and Central Asia	474.7	58	(12.1)
Middle East and North Africa	293.0	110	(37.6)
Sub Saharan Africa	658.4	258	(39.3)
South Asia	1,354.5	330	(24.4)
East Asia and Pacific	1,856.5	469	(25.3)
OECD Group	850.4	94	(11.1)
Other	27.3	2	(6.9)
Total	6,030.1	1389	(24.7)
Total less OECD	5,179.7	1295	(26.9)

Source: www.un.org/esa/population/demobase

on periphery agriculture and a large number is roving nomads who derive their livelihood from herding on grassland and from seasonal farming.

The next table is Table Six; it gives background basic information on land and labor in agriculture.

Table Six
The Muslim Countries' Labor and Land in Agriculture

	Rural Population % total Population		Arable Land %Land Area		Female Labor in Agriculture		% active W
	1980	1999	1980	1998	1980	1990	1999
Afghanistan	84.40	78.50	12.1	12.1	86.00	84.50	..
Albania	66.20	58.98	21.4	21.1	62.30	60.10	..
Algeria	56.50	40.44	2.9	3.2	69.30	57.20	..
Bahrain	19.50	8.18	..	19.3	42.40	..	..
Azerbaijan	47.20	43.02	2.9	4.3	0.00	0.30	..
Bangladesh	85.60	76.04	68.3	61.4	80.90	84.90	..
Benin	72.70	58.48	13.6	15.4	68.90	65.20	..
Bosnia & Herzeg.	64.50	57.42	..	9.8	37.50	15.60	..
Brunei	40.10	28.40	0.6	0.6	6.20	0.00	..
Burkina Faso	91.50	82.02	10.0	12.4	92.80	93.50	..
Cameroon	68.60	51.94	12.7	12.8	86.60	82.90	..
Chad	81.20	76.52	2.5	2.8	95.30	91.00	..
Comoros	76.80	67.36	33.6	35.0	93.40	90.00	..
Djibouti	26.40	16.94	..	..	..	..	..
Egypt, Arab Rep.	56.20	54.96	2.3	2.8	59.50	52.00	..
Eritrea	86.50	81.62	..	4.9	87.50	84.80	..
Ethiopia	89.50	82.84	..	10.0	88.70	85.90	..
Gabon	50.40	19.70	1.1	1.3	73.60	58.70	..
Gambia, The	80.40	68.20	15.5	19.5	92.60	91.80	..
Guinea	80.90	67.92	2.9	3.6	96.50	91.90	..
Guinea-Bissau	83.10	76.70	9.1	10.7	97.50	96.20	..
Indonesia	77.80	60.16	9.9	9.9	54.20	56.30	..
Iran, Islamic Rep.	50.40	38.92	8.0	10.4	50.00	..	..
Iraq	34.50	23.66	12.0	11.9	61.90	39.00	..
Jordan	40.10	26.36	3.4	2.9	..	..	..
Kazakhstan	46.00	43.60	..	11.2	20.10	22.30	..
Kuwait	9.80	2.52	0.1	0.3	0.00	0.50	..
Kyrgyz Republic	61.70	66.38	..	7.0	32.90	..	..

Lebanon	26.30	10.74	20.5	17.6	20.00	9.90	..
Libya	30.70	12.86	1.0	1.0	62.90	27.70	..
Malaysia	58.00	43.34	3.0	5.5	43.80	25.30	..
Maldives	77.70	73.98	3.3	3.3	37.90	28.20	..
Mali	81.50	70.64	1.6	3.8	92.40	89.00	..
Mauritania	72.60	43.60	0.2	0.5	79.20	62.50	..
Morocco	58.90	44.70	16.9	20.2	72.20	63.10	..
Mozambique	86.90	61.08	3.7	4.0	97.10	96.00	..
Niger	87.40	79.88	2.8	3.9	5.70	4.50	..
Nigeria	73.10	56.90	30.6	31.0	57.40	44.00	..
Oman	68.50	17.68	0.1	0.1	23.80	19.20	..
Palestine	..	..	..	..	..	..	..
Pakistan	71.90	63.54	25.9	27.8	..	72.20	..
Qatar	14.40	7.72	0.4	1.3	0.00	0.00	..
Saudi Arabia	34.10	14.88	0.9	1.7	25.00	12.00	..
Senegal	64.30	53.32	12.2	11.6	89.90	85.80	..
Sierra Leone	75.90	64.06	6.3	6.8	82.00	80.50	..
Somalia	77.80	72.88	1.6	1.7	90.20	87.40	..
Sudan	80.00	64.86	5.2	7.0	88.40	84.10	..
Suriname	45.00	26.58	0.3	0.4	17.90	2.20	..
Syrian Arab Republic	53.30	45.96	28.5	25.6	..	..	..
Tajikistan	65.70	72.50	..	5.4	53.90	..	..
Togo	77.10	67.22	35.9	40.4	67.10	64.50	..
Tunisia	48.50	35.22	20.5	18.7	52.60	..	..
Turkey	56.20	25.92	32.9	31.8	87.90	75.80	..
Turkmenistan	52.90	55.26	..	3.5	45.90	41.40	..
Uganda	91.20	86.14	20.4	25.3	90.80	88.40	..
United Arab Emirates	28.50	14.52	0.2	0.5	0.00	0.00	..
Uzbekistan	59.20	62.78	..	10.8	45.50	35.50	..
Yemen, Rep.	80.80	75.52	2.6	2.8	98.30	87.80	..
High income grp			11.98	11.76			
Low income grp			11.82	13.02			
Middle East & North Africa grp			4.46	5.16			
Middle income grp			7.93	8.87			
Upper middle income			6.14	7.23			
World grp			10.18	10.61			

Following the normal world-wide trend of urbanization the rural population in the Muslim countries declined. However, four of the six former Soviet Union Muslim countries, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, witnessed an increase in their rural population at rates that range from 4% to 11%. Rural population increase in these four countries is a trend that continued from the early 1980's until 1999 without being interrupted by the break of the Soviet Union. The other two former Soviet Union Countries, Kazakhstan and Azerbaijan share with the rest of the Muslim countries the general trend of decline of the percentage of rural to total population. The rates of this relative decline in rural population range from 2% and 5% in Egypt and Uganda to 75% and 74% in Oman and Kuwait respectively. The oil-producing low-population-density countries witnessed the highest rate of urbanization as the percentage of their rural population declined over the two decades between a high of 75% in Oman and a low of 50% in Qatar. Interestingly Lebanon and Turkey had also high rate of decline in rural population, 60% and 55% respectively.

On the other hand, the scene of the arable land is not encouraging, or it is at least mixed. Of the 46 countries that reported data on arable land 32 countries have expanded their arable lands at a minimum of 1% (Niger) and a maximum of 225% (Qatar). Except for Oman that maintained its arable land stable throughout the whole period, the Gulf countries scored very high expansion of arable land. But that has little effect on food and agricultural production in the Muslim world because the absolute acreage of reclaimable lands in these countries is small anyway. Other countries with small areas of reclaimable land that score high on the rate of expansion of arable lands are Malaysia (88%), Mauritania (150%) and Mali (137%). Additionally four countries of high agricultural potential, Egypt, Iran, Sudan and Uganda, were able to increase their arable lands by 22% to 34% over the period of study. Finally, Pakistan increased its arable/total land ratio by 7% from 25.9% to 27.8%.

In 9 Muslim countries the ratio of arable to total land declined, these include some traditional food producers like Turkey (- 3%), Bangladesh and Syria (- 10), Tunisia (-9%) and Iraq (- 1%). In the six remaining countries arable land rates remained unchanged.

As for the percentage of women in agriculture to the economically active women, there is little amount of information available after 1990.

However, for the 1980's, changes are mild in almost all Muslim countries with a general trend of decline at a slow motion. Surprisingly, in Bangladesh, Burkina Faso and Indonesia the percentage of women in agriculture increased by 5%, 1%, and 4% respectively. For all other countries the rate of women working in agriculture declined by a minimum of 1% in The Gambia and a maximum of 52% in Saudi Arabia.

The last table is Table Seven. It provides labor information.

Table Seven
Dependency and Labor Participation Data of the Muslim Countries

	Age De- pendency*	LFAR, Female**	LFAR, Male**	wom/LF***	unemploy ment
	1999	1999	1999	1999	1998
Afghanistan	0.86	30.5	53.20	35.36	..
Albania	0.57	41.9	57.10	41.20	..
Algeria	0.68	18.1	47.70	26.98	..
Azerbaijan	0.57	38.7	50.20	44.42	..
Bahrain	0.51	21.5	62.80	20.44	1.10
Bangladesh	0.73	45.4	58.60	42.34	..
Benin	0.96	42.7	47.30	48.30	..
Bosnia & Herzeg.	0.41	35.2	58.30	38.08	..
Brunei	0.57	33.2	55.10	35.26	..
Burkina Faso	0.99	46.0	53.10	46.54	..
Cameroon	0.91	30.7	50.80	37.90	..
Chad	1.16	42.7	54.20	44.64	..
Comoros	0.89	39.2	51.80	42.32	..
Djibouti	0.77	..	..	..	..
Egypt, Arab Rep.	0.66	23.1	52.00	30.06	..
Eritrea	0.92	47.1	53.10	47.40	..
Ethiopia	0.97	35.4	50.70	40.88	..
Gabon	0.82	40.4	51.40	44.62	..
Gambia, The	0.84	45.1	56.30	45.04	..
Guinea	0.91	45.1	49.80	47.22	..
Guinea-Bissau	0.88	37.4	56.80	40.46	..
Indonesia	0.55	38.9	57.10	40.58	5.46
Iran, Islamic Rep.	0.66	16.6	44.30	26.52	..
Iraq	0.77	10.8	43.60	19.36	..
Jordan	0.73	14.5	43.80	23.94	..
Kazakhstan	0.53	44.4	53.10	46.94	13.70

Kuwait	0.57	26.1	52.10	31.26	..
Kyrgyz Republic	0.69	39.8	46.20	47.16	..
Lebanon	0.62	19.9	50.20	29.32	..
Libya	0.71	13.4	42.60	22.62	..
Malaysia	0.62	31.2	50.70	37.68	..
Maldives	0.88	35.7	45.10	43.26	..
Mali	1.01	44.5	53.30	46.24	..
Mauritania	0.88	40.0	52.40	43.68	..
Morocco	0.60	27.6	51.80	34.68	..
Mozambique	0.91	49.7	54.20	48.40	..
Niger	1.05	41.3	53.10	44.28	..
Nigeria	0.88	28.6	50.80	36.38	..
Oman	0.84	9.3	42.10	16.42	..
Palestine	1.03	..	..	..	..
Pakistan	0.83	21.7	51.80	28.14	..
Qatar	0.37	22.9	71.30	14.56	..
Saudi Arabia	0.78	11.4	50.10	15.46	..
Senegal	0.91	38.1	51.30	42.58	..
Sierra Leone	0.92	26.8	48.10	36.68	..
Somalia	1.01	36.9	49.00	43.40	..
Sudan	0.74	23.3	55.90	29.26	..
Suriname	0.56	24.8	50.40	33.36	..
Syrian Arab Republic	0.81	17.0	45.60	26.74	..
Tajikistan	0.80	34.6	43.20	44.62	..
Togo		32.8	50.00	39.98	..
Tunisia	0.59	24.9	53.00	31.44	..
Turkey	0.53	35.8	59.00	37.30	6.20
Turkmenistan	0.70	39.1	47.20	45.78	..
Uganda	1.04	46.6	51.80	47.62	..
United Arab Emirates	0.42	19.6	66.80	14.46	..
Uzbekistan	0.74	39.0	45.10	46.76	..
Yemen, Rep.	1.03	17.8	45.10	28.04	..
High income grp	0.49			43.10	
Low income grp	0.72			37.79	
Middle East & North Africa grp	0.71			27.30	
Middle income grp	0.53			41.99	
Upper middle inc. grp world	0.56			36.51	

* Number of dependents/working age population (15-64)

** female/male in labor force/ female/male in population (15-64)

***percentage of women in the labor force.

Table Seven indicates that 34 Muslim countries have rates of dependency higher than the average of the world low income countries while only Bosnia-Herzegovina and United Arab Emirates maintain a rate of dependency that is below the average of high income countries. When we look at the change in dependency rates over the two decades under our study, we find a general trend of decline. Noticeably, dependency rates increased in 13 countries and remained stable in The Gambia and Mauritania. High dependency rates are consistent with the known fact that most Muslim countries have young and youthful population.

Keeping this fact in mind, a low rate of women in labor force to active women population (ages 15-64) becomes consistent with what we expect because more women are busy in reproduction and family care. Also consistent with our expectation a low rate of men in labor force to active men population because many young men are in schools instead of being in the labor force. The actual data of Table Seven confirms these expectations. However these are not the only reasons of low rates of labor force participation. There are economic and cultural factors too. These include disguised unemployment, lack of desire to work and preference of idleness, malnutrition and low health care, a culturally narrowed scope of economic activity for women, etc.

Among the 54 Muslim countries that reported labor force activity rates over the twenty-year period from 1980 to 1999, 30 countries had an increase in the female participation and 24 in male participation. Higher increases are seen in countries with small population especially those that had initial low female participation rates such as Qatar, UAE and Oman that witnessed more than doubling their rates. We have also several cases of impressive increases in the female labor force activity rates of larger Muslim countries with high initial rates too such as Pakistan (28%), Egypt (22%), Malaysia (20%) and Turkey and Sudan (18%). The increases in male labor force activity rates are normally more moderate, especially that starting rates are usually much higher but here again some densely populated countries have increased their rates by 9% - 11% (Bangladesh, Indonesia and Turkey). On the other hand, 20 Muslim countries had a decline in female labor force activity rate and 30 in the male rates. The decline in female labor force participation rates ranged between 3% in Nigeria and 13% in Gabon while the decline in the male rates was between 1% in Pakistan and 10% in the UAE. Interestingly, almost all countries that witnessed a decrease in the

female rates did have similar decreases in the male rates. Additionally, a new group is added which consists of countries that increased their military spending during the same period.⁷

⁷ Military Service is not reported within the labor force in all these countries.

Section Two

Islamic Economic Approach to Sustainable Development

There is a number of writings on development from an Islamic perspective, and it comes as no surprise that most of them focus on the prohibition of interest and issues of distributive justice, including Zakah. However, although it appeared in the Islamic writings at an early date compared with writings on other subjects, the issue of economic development in Islam has not yet received the full attention of Islamic economists. Three stages can be detected in the contemporary history of Islamic economics' writings on economic development. They can loosely be dated as the early stage from the 1950s up to 1980. The second stage goes from 1980 to the middle of the 1990s and the current stage follows. The early development literature deals with fundamental issues of Islamic values and their compatibility with the personal and social motivation for material development. That Islam and Islamic values and ideals do not hinder economic development nor create obstacles to material growth is very much the main focus point in the writings of Jacque Austroy, Al Fanjari, al Mubarak and the early writings of Khurshid Ahmad.⁸ The main ideas floating during this period may be summarized in the following:

- Islam urges people to seek Rizq [sustenance] by spending their efforts throughout the tracts of the earth. Seeking sustenance is itself an ethical value and a religious obligation,

⁸ See as examples: Jacque Austroy, Islam and Development [French], Arabic translation by Nabil al Tawil, Dar al Fikr, Damascus 1960; C. R. Sutcliff, "Is Islam an obstacle to Development"? Ideal Patterns of Belief Versus Actual Pattern of Behavior, in the Journal of Developing Areas, V 10, No. 1, 1975; Muhammad al Mubarak, Basic Principles of Islamic Economics, Dar al Fikr, Beirut 1977; Muhammad Shawqi al Fanjari, "The Economic Doctrine in Islam," paper presented at the First International Conference on Islamic Economics, Makkah 1977, published in al Iqtisad al Islami, International Center for Research in Islamic Economics, King Abdulaziz University, Jeddah 1980; and Khurshid Ahmad, "Economic Development in an Islamic Framework," paper presented at the First International Conference on Islamic Economics, Makkah 1977, published in Khurshid Ahmad ed., Studies in Islamic Economics, International Center for Research in Islamic Economics, King Abdulaziz University, Jeddah 1980.

- The Islamic approach to development is, like its approach to economics, a holistic one, an approach that looks at the human being from all aspects and corners at the same time,
- It is purposive and value-loaded as it aims at the Falah [success] in this life and in the Afterlife,
- Developmental change must begin from inside the heart up and it must reach the social and material surrounding and environment,
- Development in Islam is comprehensive, it is moral and spiritual as much as it is material and social,
- Human being is both the tool and the objective of development, human being is the one who can effectuate development through expending her/his efforts, and improvement in the moral, spiritual, social and economic fate and surroundings of the human being is the all about aim of development,
- Optimum utilization of resources and equitable distribution of their fruits and output are the two main principles that govern and characterize the Islamic approach to development,
- Developmental effort is the responsibility of individual private persons as well as governments in a manner that must be coordinated within societies at local and regional levels and without societies at the international level among the Muslim countries and states and among Muslim and non-Muslim countries;
- Developmental efforts must aim at improving human resources, increasing the supply of food and other goods that satisfy basic needs, ameliorating the quality of life, reducing regional and generational economic and social inequalities and imbalances, developing new domestic-friendly technology, enhancing national self-reliance by reducing dependency on external markets without neglecting pan Islamic integration and complementarity;⁹

⁹ Khurshid Ahmad and Shawqi al Fanjari, Op. Cit.

The second stage of writings on economic development in Islam is marked by a shift from dogma and principles to the discussion of developmental planning, priorities of public and private investments, internal and external resource mobilization and, saving potential in Islamic framework. Some of the Ideas chewed on during this period can be summarized in the following manner:

- If economic development is necessary and a major objective of the Islamic system for the economy, and if planning is a necessary tool for development, economic planning must then be obligatory on the Muslim societies and governments.
- Priorities for investment must follow the same classification of human wants that is suggested by Islamic scholars in regard to different weights the Shari'ah assigns for these wants. Al Shatibi and al Ghazali classify human wants in three categories: necessities, needs and improvements. Accordingly, Islamic economists argue that priorities of investment must follow the same classification: Projects that satisfy human necessities such as food, shelter and defense must come on the top. Next come projects that substantially increase conveniences and/or remove hardships, and finally come projects that improve the quality of life and introduce better facilities and pleasures.
- Some Islamic economists add that there must be a distinction between public and private investments. The above-mentioned priorities must apply to public sector investment only because the public sector must be governed by the interest of the whole society. On the other hand, individuals should be let free to pursue their own private interests, be they profitability or personal satisfaction. Therefore while the public sector investment must give priority to the production of food over perfume, private investment may freely select perfume production because it may be more profitable or because it happens that the owner of a specific investment potentiality likes perfume more than wheat.
- Discussion of the resource gaps in development occupies a central theme in this stage. Along the conventional lines of thinking, Islamic economists argue that economic development requires additional resource mobilization because it creates two important resource gaps. One gap is between saving and investment, and the other is between

imports and exports. Solutions offered by Islamic economists for bridging the saving/ investment gap do not digress from conventional propositions, namely, voluntary saving, tax increase especially on the primary sector, and monetary expansion as a last resort though undesirable. Even if the internal gap is bridged, a foreign exchange gap may remain because foreign capital goods and technology needed for development tax on the foreign exchange resources available for imports. Here again the traditional propositions are advanced, namely, foreign direct investment, borrowing from abroad and foreign aid and grants.

- We also find argument that the Islamic pattern of consumption, as it calls for modesty and avoidance of extravagance, produces higher rates of saving. This helps provide more internal resources for developmental investment than when the Western type's consumption patterns prevail.
- On the side of investment, we find talks that the Islamic system provides added incentives and motivation to entrepreneurs to venture new projects. As the religion makes it a form of worship to traverse through the tracts of the earth and hunt for the great bounties God has placed for men and women to extract. Additionally the principle of profit sharing in finance encourages entrepreneurship because the adversities of failure are going to be distributed between the financier and the entrepreneur instead of being borne by the latter alone under debt-based financing. One more encouragement is derived from the distribution of Zakah that covers people under the burden of debts because this kind of support reduces the 'fear' of failure in the heart of potential entrepreneurs.
- We also find discussion of the resources assigned to the public sector in the Islamic system through the allocation of natural resources to the Islamic State or the Islamic Ummah as a public property that must be invested for the benefit of the whole society. The size of the public sector is supposed to be sizable in the Islamic economic system, theoretically at least as can be derived from the kinds of natural resources that the system assigns as public ownership. These include all minerals and energy sources in addition to the surplus of the output of the public sector itself.

- The discussion of the effect on development of the principle of ‘dead-land revivification’ comes in this period too. As the principle provides for a rewarding prize in the form of land ownership for those who bring un-utilized land into productive economical use, it encourages all individuals to participate directly in the developmental activities of their societies. The new use of such lands can be agricultural, industrial, residential or any other productive use.¹⁰

In the third stage, Islamic Economics’ writings on development are scanty and mostly scattered within the writings on Islamic banking, Islamic modes of finance, distribution and other subjects with little direct and independent attention given to the issue of economic and social development on its own merits. In this stage we find ideas like:

- ▶ Because Islamic modes restrict financing to helping the processes of commodity exchange and production, they are inclined towards development by their nature as compared with conventional modes, basically interest-based lending. Interest-based financing permits financing debts (rescheduling and discounting) and general budgetary and personal expenses. In other words, whether it is done by means of sharing, sale or lease contracts, Islamic financing is bound by the extent of transactions in the goods market. The Islamic modes of financing, by virtue of their very nature, are incompatible and inapplicable for debt rescheduling, debt exchange, provision of speculative cash balances, inter-bank liquidity speculative transfers and other purely monetary

¹⁰ AbulHasan Muhammad Sadeq, "Economic Growth in an Islamic Economy" and Munawar Iqbal, "Financing Economic Development" in AbulHasan Muhammad Sadeq, Ataul Haq Pramanik, Nik Mustapha bin Hj Nik Hassan ed., Development and Finance in Islam, International Islamic University Press, Selangor, Malaysia 1991; Hatem al Qaranshawi, "Mobilization of Public Revenues for Development", Abd al Rahman Yusri, "Islamic State's Mobilization of External Resources" and Monzer Kahf, "the Size of the Economic Public Sector and its Effects of Development" the three articles in Monzer Kahf, ed., Financial Resources of the State in Contemporary Societies from Islamic point of View, IRTI of the IDB, Jeddah 1989; Muhammad Fahim Khan, "Investment Demand Function in Profit-Loss Sharing Based System" and "Growth Stability and Inflation in an Islamic Macro Framework" and Munawar Iqbal, "Macro-consumption Theory in an Islamic Framework" in Monzer Kahf, ed., Lessons in Islamic Economics, IRTI of the IDB, Jeddah 1998; Mahmud al Muzaffar, Revivification of Dead Land, al Matba'ah al 'Alamiyyah, Cairo 1973 and Hatem al Qaranshawi, "Employment and Resources Utilization Policies in Islamic Economics, in Monzer Kahf, ed., Economic Policy in the Islamic System Framework, IRTI of IDB, Jeddah 1997.

activities. Therefore, Islamic financing modes tend to be developmental by virtue of their contractual foundation.

- ▶ While the main objective of the Islamic economic system is to achieve distributive justice, the profit-loss sharing in finance provides sufficient impetus for efficiency and growth.
- ▶ A high rate of growth is necessary to achieve justice with little pain on the part of the rich because at a higher rate of growth, appropriating more than proportional rate to the misfortunate becomes easier and more bearable.
- ▶ The motivation of self-interest is either necessary or at least accommodated and tolerated provided it is controlled by a belief in ultimate accountability, an internal screening, that can attach a social humanistic dimension to the pursuit of profit and self-interest. Such a combination is necessary to overcome the evil of greed and savage disregard of the interests of others.
- ▶ Saving, crucial as it were to development, is discussed in the context of distribution and modes of financing. On the one hand, the profit sharing-based modes of financing make all savings available for capital accumulation in productive projects by withholding or eliminating finance from seeping to personal consumption and/or non-productive public sector's activities. On the other hand, equitable distribution requirement and basic needs fulfillment tap these 'saved' savings and reduce the amount that is actually available to go toward new investment. Consequently, the outcome becomes indeterminate because it depends on empirical magnitudes of these two effects.
- ▶ With regards to investment, entrepreneurial activities are also encouraged by profit and loss sharing in finance. This system of financing removes an injustice caused by the interest-based system and distributes risks in a fair manner that encourages venturesome entrepreneur to take more projects with the same level of risk-taking attitude he/she already has.¹¹

¹¹ Monzer Kahf, "Islamic Banks at the Threshold of the Third Millennium" Thunderbird International Business Review, V 41, No. 4/5, July-October 1999; Shamim Ahmad

Why are Some Countries Underdeveloped?

Now, we need to come down from the generality of pure untested ideas and theoretical formulation to discuss what is needed in terms of institutions and policies for an economic takeoff in the Muslim countries. To do so a look at a few historical experiences is rather essential. It is important to assert that the historical experience of both developed and developing countries indicate that differences in natural resources, labor forces, technology and capital investment cannot alone explain the observed differences in economic performance of nations. Additionally, the conventional theory of diminishing returns to a given factor of production (labor, capital and/or natural resources) is not able to explain these differences. Furthermore, technological transfers have not been a 'do or break' factor. In South Korea (1973-1979), less than one thousandth of GDP can be attributed to transferred technology imported in terms of capital goods. "Even if we treat all profit on foreign direct investment as solely a payment for knowledge and add to them all due royalties, the total is still less than 1.5% of the increase in South Korean GDP over the period."¹² Studies on migration and labor force show that opening borders for substantial inflow of guest workers did not lower domestic wages, both in the short run, and in the long run. Further the geo-economics of our world tells us that "most economic activity can now readily be separated from deposits of raw materials and arable lands London and Zurich are not great banking centers because of fertile land"¹³ or deposits of iron ore and coal, the same probably applies to Bahrain and Dubai in the Arab world today.

Olson argues that scarcity of capital is not responsible for the low economic performance in low-income countries inasmuch as most abundant capital countries are not characterized by high rates of growth of income.

Siddiqi, "A Suggested Methodology of Political Economy of Islam" in Journal of King Abdulaziz University-Islamic Economics, V 13, 2001; M. Umer Chapra, Islam and the Economic Challenge, and The future of Economics "An Islamic Perspective" Both published by The Islamic Foundation, Leicester, U K 1992 and 2000 respectively and Monzer Kahf, Ausaf Ahmad and Sami Homud, "Islamic Banking and Development, an Alternative Banking Concept?" Unpublished paper, IRTI 1998.

¹² M. Olson Jr., "Economics in Government: Variations in Performance Across Countries," Journal of Economic Perspective, Spring 96, V. 10, No. 2, pp. 3-24.

¹³ Ibid.

“Sometimes the shortcomings of economic policies and institutions of the low income countries keep capital of these countries from earning rates of return appropriate to its scarcity ... and it is not rare for capital and labor to move in the same direction ... out of some countries and into some countries.”¹⁴ The effects of skills, as a representative of traditional human capital, and physical capital on economic development, measured as an income differential was studied by Hendricks. He experimented on immigrants from different socio-political cultural background into one single labor market. Hendricks examined the productivity of immigrants in the US to find that only 40% of the productivity differential between immigrant and endogenous labor can be explained by the total differences of both human capital and physical capital. The remaining 60% must have come from other sources.¹⁵

By process of elimination, we are left with a large part of the explanation of poverty and richness of countries and nations to be done by **differences in economic policies and institutions**. Olson asserts that such differences are “surely the main determinants of international differences in per capita income.”¹⁶

North re-examined the role of institutions. He asserted that “neo-classical theory is simply an inappropriate tool to analyze and prescribe policies that will induce development” because of an essential defect in its ignoring the structure of incentives “embodied in institutions”. The study of the economic history of the world indicates that it is not sufficient to focus on technologies embodied in both human and physical capitals, and that studying the evolution of institutional arrangements and policies over time is **indispensable to understand the historical evolution of economic performance across political boundaries**.¹⁷ Expressing development in micro terms, economic performance may be looked at as incremental and continuous increases in the total productivity of a factor of production.

¹⁴ Ibid.

¹⁵ Lutz Hendricks, “How Important Is Human Capital for Development,” American Economic Review V. 92, No. 1, March 2002, pp 198-219.

¹⁶ Ibid.

¹⁷ Douglas C. North, “Economic Performance through Time”, American Economic Review, V. 84, No. 3, June 94, pp. 359-3368.

In his studies of activities and performance on areas of economic development in both developed and developing countries, Harberger argues that there are thousand and one ways to increase total factor productivity. He prefers to call it “real cost reduction,” and it lies in the center of the ‘new’ approach to understanding the development process.¹⁸ All such ways are invented by managers in response to their zeal to pursue their economic objectives. This process is drastically influenced and essentially shaped by the existence around them of ‘enabling institutional and policy environment.’ The role of government in creating, enhancing and expanding such an environment is rather pivotal.¹⁹

The Implication of the Process of Change

The question of “enabling policies and institutions” is touched upon indirectly in the literature on Islamic economics. For instance, the emphasis on creating banking facilities without interest is an institutional matter. Also an institutional issue is the subject of change, in ways of explanation and commentaries, of the Qur’anic Verses 13: 11 and 8: 53 “ Verily never will God change the condition of a people until they change it inside their own souls, *إن الله لا يغير ما بقوم حتى يغيروا ما بأنفسهم*, ” and “Because God will never change the grace which He bestowed on a people until they change what is in their own souls, *ذلك بأن الله لم يك مغيراً نعمه أنعمها على قوم حتى يغيروا ما بأنفسهم*.” Yet the main issue in developmental economics is not addressed directly. **The central issue is the creation of institutions, policies and socio-political environment that help “enable” people to launch their productive and innovative capacities and empower them to unleash their original potentials.** Two types of institutions can be distinguished. Formal institutions that can be created by laws and regulations such as Islamic banks, laws of corporate and personal property rights; and informal institutions that define, direct and induce internal perceptions of behavioral patterns and codes of conduct. These two types of institutions can be put in terms of legal and psychological reforms in Capitalism that Mawdudi called for in his almost century-old article “the Economic Problem of Man and its Islamic Solution.” We also find the psychological institution in the “Internal Screen” Chapra sees as a part of a Muslim’s internal perception and

¹⁸ Arnold C. Harberger, “A Vision of the Growth Process”, *American Economic Review*, V. 88, No. 1, March 1998, pp. 1-32.

¹⁹ *Ibid.*

judgment system of the world around her/him. Together, they discuss changes in the formal institutions of the economy and the informal institutions within the economic agents in the Muslim countries.

Formal and informal institutions together shape the external behaviors of persons and determine inter-relations between individual economic agents, including natural persons, corporations and governmental bodies. They also define the incentive structure in the Muslim economies. Formal and informal institutions interlock and create channels of feedback effects so that laws and regulations reformulate personal norms and the latter creates pressure feedback-effects to change laws, policies and regulations.

Al Mawardi differentiates between two types of “ordaining the good and forbidding the bad”: individual and public. Public “ordaining the good and forbidding the bad” is a process of changing policies and institutions that affects the public interests of the society.²⁰ In other words, while individual “ordaining and forbidding” reaches personal conducts and their internal incentives and motives, the public type reaches policy-making, institutions creating and the personal norms and values that influence public institutions and policies such as consciousness about other people’s safety, accessibility to proper education and distributive equity. On a similar line, Olson distinguishes between two kinds of human capital: personal human capital and public-good human capital. Personal, or Max Weber’s type, human capital is what Olson calls “marketable human capital”. It determines and shapes the individual performance of economic agents in the market place.²¹

This kind of informal institutions can be called a personal culture. It is indeed an important factor in explaining a substantial part of the differential in per capita incomes of different nations. Taking the observation and the experience of migrants in the United States, the personal culture may explain only a fraction of the differential in per capita income between rich and poor nations. In a thoughtful experiment, Olson argues that “Haiti with its present institutions and economic policies, and with West German levels of marketable human capital, assumed embodied in Haiti’s individual economic agents, would have about twice the per capita income that it currently has.

²⁰ Al Mawardi, al Imam AbulHasan, al Ahkam al Sultaniyyah, al Babi al Halabi Publishers, Cairo, 1973, p.245.

²¹ M. Olson Jr., Op. Cit.

But the actual level of Haitian per capita income is only about a tenth of the West German level!"²² That is after isolating the effect of physical capital and embodied technology.

The second type of cultural elements deserves our attention. That is knowledge about what public policies should exist, what economic institutions are needed and how to work them out. This is a kind cultural element that Olson calls "public-good human capital" and al Mawardi calls "public ordaining of the good and forbidding of the bad". Its effects on income are channeled through creating, shaping, and implementing appropriate public policies and institutions.

Observing that "the fastest growing countries are never the countries with highest per capita income but always a subset of the lower income countries." Olson concluded that "all countries actually perform below their potential production frontiers and the fastest growing countries are those that "adopt better economic policies and institutions" that "enable" their peoples to narrow the huge gap between their actual and potential income."²³

The process of changing institutions and policies is discussed by Henry J. Aaron.²⁴ In a nut-shell, changing the personal culture in its two branches that Olson called marketable and public good human capitals requires changes of "*the embodied values*" of people. These values are formed through lessons taken from families, friends and communities. These embodied values are in fact the internalized foundations of marketable and public human capitals as they create and shape public institutions and policies (in addition to informal institutions). In a continuous social feedback process, these internalized values themselves are also modified and influenced by policies, institutions and environment they help create and formulate. Not the least of such feedback effect comes through the educational and information systems, let alone laws and policies.

A distinction is necessary between embodied values and ideal values. The latter exists in books, preaching and teachings, e. g., in the Qur'an and the Sunnah, in Friday sermons and the like while the former is the personal

²² Olson, Op Cit.

²³ Ibid.

²⁴ Henry J. Aaron, "Public Policy, Values and Consciousness", Journal of Economic Perspective, V. 8, No. 2, Spring 1994, pp. 3-22.

internalization of the ideals that sets the kind, direction and volume of human action and reaction. Aaron as well as North place great emphasis on the process of learning that creates and shapes embodied values. For Aaron, learning is an endogenous factor that is shaped within the social-cum-economic institutions and policies. It is said: “knowledge is what people think they know.” This kind of knowledge is what affects people’s behavior and constitutes their marketable and public human capitals.²⁵ Aaron argues that “the assertion that values are stable (stagnant) at any level more closely resembles an axiom of a metaphysical religious faith than it does a defensible scientific hypothesis.”²⁶ In other words, embodied values are dynamic, they always change with changes in socio-political environment, educational and other learning systems and challenges a society faces.

As far as economic development and its sustainability are concerned, two important implications flow from the preceding argument. First, we need to change our perception of learning. Instead of looking at learning as a means to merely qualify a learner to earn higher income and better living we have to look at it as a process that changes embodied values. Learning changes both marketable human capital that improves the developmental abilities of an economic agent in the exchange arena and public goods human capital that affects the society’s institutions and policies. And second, we need to realize that embodied values are an indigenous variable in economic development. Hence, public ‘ordaining the good and forbidding the bad,’ i.e., public-goods human capital can influence economic development in different directions. There is a direct effect on the marketable human capital that wises up the market performance of the agents. There are also the effects caused by the reformulation of public policies and institutions and the feedback effects on the shape and direction of embodied values themselves. The latter in turn is siphoned, once more, through a Max Weber type of marketable human capital to improve the performance of an economy through incremental increases in the productivity of the economic agents.

²⁵ Notice the extent of error when writers compare Islam with the West. We always tend to put ideal values against actual behavior in the West. This is certainly not to question the superiority of embodied Islamic values in comparison with embodied Western values if one can explicitly compare, as some of us rarely do actuality in the Muslim world with actuality in the West. But what must be recognized is that Islamic ideal values are rarely embodied in our contemporary societies today.

²⁶ Ibid.

In brief, **“the social learning pressures may be a slow poison or the lost-found cure”** as Aaron puts it.²⁷ Codes of conduct are created within an inseparable econo-ideological process of learning; and the reconstruction of such a process makes a **prerequisite for economic development, even more so for its sustainability**. The change of condition mentioned in the Qur’an can take either direction. It can be a change from “Jahiliyyah” to rationalism or from Islam to irrationalism or to agnosticism. It can be toward economic advancement or toward economic decay. Ideally, Islam, as a comprehensive religion, provides a framework of economic rationalism based on Divine Revelation. But the actual perception and internalization of Islam’s ideals by people, individually and in groups, is subject to many factors that may end up, at times, creating versions of Islam which are not conducive to economic development. Hence, all that is needed is “to wise up to be able to inculcate a version of the Islamic ideal values that is most conducive to development.” The “necessary wisdom” that is institutional by definition, cannot be found in either old or new theories of economic development. The necessary wisdom requires a vivid ideology that goes beyond the existing economic dogmas. Olson observes that “none of the familiar ideologies is sufficient to provide the needed wisdom.” The desired ideology should be able to provide a coherence of actions on the social level that is based on productive co-operation among the “many” and that allows institutions such as contracts, private ownership, public interest, and market to function properly without being handicapped or misguided.

²⁷ Ibid.

Section Three

Prerequisites for Sustainable Development in the Muslim Countries

With no attempt to break loose the focus on the material measurement of economic development we need to distinguish between growth as a quantitative concept and development as a qualitative concept of economic performance.²⁸ Economic development must include all materially measurable elements of human performance whether they are in the personal advancement area such as health care, student educational performance and relief from stress, loneliness and despair; or in social relations and social/community environment such as personal and family security, reduction of personal and economic crimes, etc., or in the conventional quantitative terms of GDP and personal income. In this regard, it is not sufficient to rely on the traditional UN descriptives and indicators of quality of life that include, inter alia, life expectancy, literacy, health care and child mortality. These indicators still miss to cover personal and social areas such as stress, child development, divorce, family relations, suicide and personal and economic crimes.²⁹ However, even an expanded definition of economic

²⁸ I do not intend to follow a common argument that prevails in the ranks of Islamic economists. It proceeds as: 1) a comprehensive approach to measuring economic development must be adopted so as to include ideas, inter-personal relations and unmeasurable feelings, happiness and joys of the beauty of a virgin nature in a desert or in a forest; 2) by such hypothetical presumed-to-be comprehensive measure, the Muslim world level of development must be not bad, may be even good! This line of thinking generates in the reader's mind a false satisfaction with the status quo, a kind of satisfaction that paralyzes the inside change engine and dries out motivation to improve. It seems that this kind of satisfaction echoes the old Sufist's mystical attitude and wishful hope that 'they have the earthly world but we have the Afterlife world.'

²⁹ In their book, The Genuine Progress Indicator: Summary of Data and Methodology, Clifford Cobb, Ted Halstead and Jonathan Rowe (San Francisco, CA: Redefining Progress, 1995) construct a new measure of the economic well-being of the nation from 1950 to present. The GPI expands traditional national accounting system by including a measure for the economic contributions of family and community and a measure for the natural environment, in addition to conventional quantitative measure of production and income. The GPI indicated a decline since 1970 until the end of the 1990s. However, there is a need to enrich the GPI by adding indicators from social statistics and personal attitudes.

development alone is not sufficient. Economic development has always to be coupled with cultural, ideological and faith development. After all, internalized faith and culture are necessary pre-requisites to determine the ultimate Hereafter's success or failure of men and women in their earthly "trial and test" span of life as much as they also determine personal satisfaction and happiness women and men derive during the earthly span itself. But, as economists, we like to leave this aspect of development, both as research projects and as application, outside the limit of our own arena and of course off this paper too, as this kind of research and application need to be tackled by specialized experts.

The enabling approach to sustainable development is an approach that aims at empowering people, as individuals and groups, to use all their potentials for economic development by allowing them to pursue their economic objectives within an institutional and policy environment that is conducive to enhance effective developmental efforts. There are a few issues that must be recognized and tackled before discussing any recommendations for sustainable development in the Muslim countries. These issues make necessary pre-requisites for sustainable development. The most important of them are listed below:

- The need for changing existing institutions and creating new ones.
- The priority of human capital, especially youth and women, in sustaining development.
- The role of leadership is to pull up developmental effort from above.
- The role of the societal civil organizations to push development from down upward.
- Importance of human rights and their expanded scope and meaning.
- Integrating development with cultural and social structure.
- Interrelation between sustainability of development and self-reliance.
- It is a small world after all!

Transforming Existing Institutions and Creating New Institutions

One of the stated advantages of al Madinah al Munawwarah, as the birthplace of the first Islamic state is that it did not have a heritage of government that may hinder the creation of new institutions or risk pre-shaping them on already existing patterns. The Prophet, pbuh, had a free hand in constructing the institutions he needed and in the form or shape that was most appropriate. Today, we have a huge heritage of formal and informal institutions that are formulated not only by the Message as revealed to the Prophet Muhammad, pbuh, but also by ages of practices under social and economic environments, pressures and influences that are very different from ours today and that may not be suitable for the future, and the development, of our societies. Such historical formulation of our existing institutions has not been at many times reflective of the standards and/or objectives of the original institutions themselves as set up in the earlier stage of the Islamic society in Madinah. We need to reconstruct, transform or change existing institutions, at the legal level as much as at the attitudes and behavioral patterns level so that we can make them conducive to sustainable development under the relevant social and economic circumstances that prevail in the Muslim countries.

Another factor contributed to shaping our existing institutions in the Islamic world. It is the long period of colonization that dominated most of our countries. The colonizers built legal institutions and introduced behavioral norms and patterns that continue to have negative affects on our economic development. Some of these colonial institutions are the existing political boundaries of the Muslim countries and the geo-political realities between several Muslim countries and their neighbors. Both are often neither compatible with the population ethnic and religious composition nor consistent with the economic mix in several areas, including the Asian Muslim countries that recently gained independence after the dissolution of the Soviet Union. The immediate results were to tie the economic resources of these countries in political and military projects that are anti developmental. The negative effect of military and political colonization on our institutions was furthered by the type of ideas (policy inspirers) that introduced the Muslim countries to a new phase of internal inferno for more than half a century after independence, and it is still blazing in more than one area. I will only mention two main policy formulators or inspirers that caused a loss of identity, a loss of direction and resulted in wasting several

decades of developmental potentialities: Nationalism and economic centralism. The latter took the form of central ownership and management of a large portion of the economy sometimes under the name of socialism, sometimes under the name of state responsibility for economic development and sometimes under the ownership of a few dominant families. Nationalism caused the market to remain fragmented, delayed economic cooperation between the Muslim countries and did not inject strength in the inspired attempts for creating any pan Islamic or pan Arabic common market.

Leadership vision and commitment play a crucial role in restructuring informal institutions. This is not to forget the common saying “The way you would be, so your leaders will be كما تكونوا يُؤلّ عليكم”³⁰. The attitude towards the idea of Islamic banks can be taken as a case study. Before the establishment of Islamic banks the majority of Muslim businessmen were convinced of an impossibility theorem of running banks without interest. The visionary adventures of the early leading Islamic bankers forced an institutional change on business attitudes and behaviors. Islamic banking has become part of the monetary/financial systems in several Muslim countries. Now, the discussion turns to efficiency of management, profitability, adequacy of central banking supervision, etc., while workability of Islamic banks and their ability to provide comparable services have become faits accomplis.

Empowering Human Capital

Human capital has ever been the objective and the means of economic development. The experience of seventy years of the Soviet Union provides a dramatic lesson that whenever this basic fact is forgotten or neglected the result will not only be a great deal of human sufferance but also lagging behind on the scale of economic development. The same conclusion can be learned, to a large extent from the experience of decades of socialism in the Arab countries.

³⁰ Take as examples the cases of women voting and candidacy to the parliament and of women driving in some Muslim countries. Such practices persisted despite the almost unanimous and clear-cut positions of Muslims and Muslim scholars outside these Muslim countries on the permissibility of both. This is in contrast with the way the girls' education was introduced in the 1960s in some Muslim countries even with strong opposition from the ranks of Mashayekh.

There are several implications of this basic fact. One of them is distributional; it emphasizes the interrelation between improving the level of distributive equity in an economy and its dynamic movement on the steps of economic development. The feedback effects of better standards of living of the poor on economic development are tremendous as discussed and known in the literature. In this paper, I intend to focus on other implications that are often overlooked in the Islamic economic writings and/or often missing in the economic development processes in the Muslim countries. Three points will be covered in this subsection, namely, the emphasis on entrepreneurship, the role of youth and women involvement and activation.

Entrepreneurship and Economic Development

There are two contradicting signals in the Islamic Banking Literature on the effects of Islamic modes of finance on entrepreneur. I have referred earlier in this paper to the theoretical argument that Mudharabah encourages the entrepreneurs to take more ventures and more risk. The counter argument comes from an empirical study by Bandar al Hajjar.³¹ In his questionnaire-based study, al Hajjar concludes that most Saudi businesses prefer fixed-cost financing, whether it takes the form of Murabahah or interest-based borrowing, over sharing modes. The reason is simple: an expression of adverse selection. Good entrepreneurs don't want bankers to share with them the fruits of their innovations. Additionally, the claim that interest, as a fixed cost of financing, is counter-conducive to economic development has been challenged in many circles.

It seems that the effect on economic development of the elimination of interest from an economy must essentially be looked for in what Islamic financing does not do rather in what Islamic financing does. In other words, from the point of view of financing economic activities and consequently development the similarity is unquestionably tremendous. Islamic financing and interest-based lending, both, help in the production and exchange of goods and services. But interest-based loans allow financing to "leak" or "drain" out of the market of production and exchange to personal unproductive finance, rescheduling of debts and inter-financial institutions refinancing. On the other hand, Islamic modes of financing do restrict all

³¹ Bandar al Hajjar,

(to be continued)

financing to the production and exchange of goods and services, even when they finance consumption goods. If this helps development by eliminating what can be tagged as competing uses of financing, so let this be the unique contribution of Islamic financing to economic development.

However, empowering entrepreneurs requires institutions and policies that facilitate their jobs in expanding the domestic market with new products, improvement on existing ones, new sources of goods and inputs, new routes, new methods of production and adding new geographical dimensions. Reducing government red tape, bureaucracy and corruption is an essential step to create an entrepreneurship-inducive environment. Increasing privatization is another. Most important is increasing openness at all and every level and enabling businesses to take initiatives. In other word, the key to enabling business is the reduction of restrictions. Chapra argues that the ‘import-substitution/export-enhancement’ controversy turned futile.³² What failed in fact is the government policy not the entrepreneurial efforts. Governments have failed in enabling businesses to take initiatives to substitute imports or to increase exports. On the other hand, despite all the odds, experiments of opening-up-to-business have proved paying off even in a country that is said to be ridden with all kinds of internal and external political and economic problems.³³ Of course, opening up to business does not necessarily entail loss of cultural and religious identities. It does not mean licensing more McDonalds and Pizza Huts! I don’t argue the case of such culturally symbolic fast foods, and ultimately it does really matter whether we have them in the Muslim counties or not, but I argue the case of all business men and women in our countries who are deprived the freedom to initiate intelligent and profitable projects because of bureaucratic and sometimes fiscal hand-cuffing restrictions. Opening up means eliminating the licensing system itself and removing the control of the government officers who manage it, except for the health and environmental control!

The enabling policies and institutions introduced by the Prophet, pbuh, upon his arrival in al Madinah are astonishing, given the tremendous fiscal needs of a new country under military threat from all sides. Some of his

³² M. Omer Chapra, *Islam and the Economic Challenge*, pp. 307-8.

³³ The example of telecommunication industry in the Sudan is indicative as it grows from absolute inefficiency to become the fastest growing and most rewarding industry in that country.

earlier measures include: establishing a new market place, eliminating all kinds of restrictions, financial and physical on the movement of goods and people, distribution of land to expand agriculture, increasing the plantation even by his own hands and respect of exchange contracts as the only means of market-based acquisition of property.

Youth in Rural and Urban Areas

Youth in several Muslim, especially Arab, countries are kept under-productive by restricting government policies and institutions. Restrictive policies and institutions range from educational systems to employment programs to restrictions on movement, information and political thinking and grouping. Youth are normally defined as high school and university age level. For the purpose of this paper the same that will be said in this subsection of the youth also applies to the few years following university graduation, which is very often a period of extended unemployment.³⁴ In most Muslim countries, the education system is not reconciled with the market requirement and often tends to focus on theoretical issues.³⁵ Even when universities are keen to respond to market, there exist three elements that hinder the implementation of such desired recommendations and resolutions. First, dependable scientific studies about the needs of the market are lacking and whatever attempts in this direction lacks financial support from both governments and businesses. This does not help paving the way for adequate educational curricula adjustment. For instance, there are no professional projections and extrapolations of trends of the economy in the most of Muslim countries, in spite of the presence of consecutive “five year” development plans in most of them. Second, Universities have little abilities to adjust because of organizational, procedural, and staff capability limitations. Third, in most Muslim countries, the market itself is too thin to absorb the output of the educational system and there are unlimited political limitations and hassles that hinder inter-Muslim countries effective futurist economic cooperation and coordination! Such lack of cooperation is equally found in their labor force and expatriate workers policies. Most Muslim

³⁴ The rate of unemployment is very high among the university graduates in countries like Jordan, Egypt, Saudi Arabia, Algeria, Morocco, and several others.

³⁵ For instance, almost all the fourteen universities or so in Morocco have schools of “Droits et Economie” but only one university has a school of medicine and another has a school of pharmacy.

countries have some sort of youth training programs that are more symbolic than real and that do not involve university and high school students in any serious on-job training employment.

Employment programs can afford a great deal of reform and openness, especially in countries that have relatively better opportunities of success in this area such as the labor importing Muslim countries. These countries suffer two kinds of dichotomies in the labor market; both of them are counter stimulant to economic development. The immigration policies or labor import policies create a dichotomy between the labor market of citizens and expatriates in such a way that leads to loss of competitiveness and consequently low efficiency. This renders policies of substitution of domestic labor for expatriate ineffective and costly. The result is political and regulatory pressure on domestic employers to sacrifice economy for patriotism. But the actual result is a sacrifice of efficiency and competitiveness for the whole economy in contrast with the rest of the world.³⁶ The second dichotomy in the labor market is created within the citizenry labor force. This time the dichotomy is between security related employment and civil production employment. Because of 'true or false' security arguments that center around the protection of the country from external and internal 'enemies', employment in external and internal security forces is given an edge over jobs offered in the other sectors of the economy. As most Muslim countries still live 'true or false' series of internal and external continuous security crises, the unavoidable result is more thinning of the productive sectors of their domestic economies.

Youth in the rural areas is often more integrated with the farming-based local economy, through seasonal paid employment and/or unpaid all-year-round family employment. But the rural system of education remains aloof to the local economy and whatever know-how is given to the youth is often governed by traditional methods of peasantry and animal husbandry.

The experience of Malaysia is very enlightening in proclaiming a reform of education as a first pre-requisite of its enabling policy of economic development. The focus of education is shifted from producing university graduates to middle level apprentices and technical workers coupled with

³⁶ There are several empirical studies in immigrants host countries such as the USA that indicates that the wage rate level of indigenous labor has actually increased as a result of immigration and competition with immigrant laborers.

emphasis on excellence in higher level of applied technology. After more than three decades of educational policy reorientation, 70% of Malaysian export came to be products of its electronics sector.³⁷

Women in both Urban and Rural Areas

The issue of role of woman in the economic life in the Muslim world has to be faced in an innovative **Islamic** manner. If Muslims ignore the role of women they may find their own role drastically reduced.³⁸ Then, they may not have time to catch up with the actual developments that will take place on the ground.

It is not any more satisfactory to hang on to the memories of the reforms that Islam introduced fourteen hundred years ago. They are indeed glorious reforms that came about as a result of a Divine Revelation and Divine Guidance that are still accessible to our hands today. We need to come down to earth and look after the actual position and role of the Muslim women in our societies, not in the very thin elite strata of Islamists and secularists alike, but in the grass root working class in villages and crowded urban metropolises. There is a real, serious and dangerous discrepancy between our Islamic ideals on the issues related to women and the actual behavioral patterns of treating women in the overwhelming majority of our families, including the elitists, in all Muslim countries. There is also, very often, a considerable discrepancy between our elitist ideals on this matter and the Islamic ideals as can be understood from what prevailed at the time of the Prophet Muhammad, pbuh.³⁹

³⁷ UN Data Base, International Trade.

³⁸ The experience of Bangladesh indicates that reforms in women role in the economy and the society at large are coming in high speed anyway. There are forces, internal and external, with a great deal of logistic power, finance and support from international NGOs that want to introduce such reforms. Obviously they either oppose the Islamic norms or at least don't have any interest in reforms on Islamic lines. This has been happening in other countries like Morocco, Egypt, and Indonesia and will expand to all other Muslim countries unless the Muslims take an Islamic progressive approach.

³⁹ Abd al Halim Muhammad Ahmad Abu Shuqqah, pointed out to many of these discrepancies in his volumatic book, *تحرير المرأة في عصر الرسالة* [Liberation of Women at the Epoch of the Message], 4th ed., Dar al Qalam, Kuwait and Cairo 1995. With almost no comments, he re-narrated the Sayings and Verses in historical context under titles that relate them to our contemporary circumstance.

In most of the Muslim countries women's contribution to the informal economy is very high. Women provide most of the unpaid agricultural labor in our farming and peasantry families, they put up with the sale of agricultural products, milking the cow, making cheese and yogurt, taking care of children and the elderly, fetching for water and firewood, in addition to cooking and household work. For instance, in South Asia and the Sub-Saharan regions it is estimated that about 80% of women who work outside the household are in the sector of livestock and agriculture, most of them in subsistence farming and unskilled day workers. A World Bank study of several Muslim and non-Muslim societies, indicates that women's role in growth and development is very important. Women are usually their families' nutritional gatekeepers, saving stimulators, and well-being moderators.⁴⁰

Energizing this segment of our societies requires redefining women's role and contribution in the light of the original Islamic values as derived from "Women are the equal halves of men (who are the other halves) إنما النساء شقائق الرجال"⁴¹ instead of adhering to the traditional behaviors that, at their best, marginalize women and very often overlook their societal role and contribution. Certain civic agencies have come to recognize the importance of the contribution of women to economic development in some of the poorest Muslim communities in the Sub-Saharan region. Direct Aid (formerly the Committee for Muslims in Africa) started in the early 1990s to establish Women training and rehabilitation centers. By the mid 2002, it had 204 centers in Kenya, Somalia, Sudan, Mozambique, Tanzania, Uganda, South Africa, Angola, Sierra Leone, Ghana, Togo, Benin, Senegal, Chad, Niger, Burkina Faso, Mali and Guinea. They provide training on sewing, embroidery and needlework, secretarial work and computer data processing with certificates officiated by local authorities to facilitate paid employment. By the mid 2002 these centers had more than 146,800 graduate women

⁴⁰ The World Bank, Engendering Development-- through Gender Equality in Rights, Resources, and Voice, 2001.

⁴¹ Reported by Tirmidhi, Abu Dawud, Ibn Majah and Ahmad from 'A'ishah and al Bazzar from Anas. Al Suyuti in al Jami' al Saghir said: it is correct, he added "Shaqa'iq means their like شقائق الرجال أي أمثالهم." Al fairuzabadi in al Qamus said: "every thing that is cut in two halves each half is a Shaqiq كل ما شق نصفين فكل منهما شقيق" See www.almuhaddith.org

trainees.⁴² It also started distributing small equipments and tools to their graduates for productive self-employment.⁴³ It is often not easy for economists to follow all the social and economic effects of increasing the productive base of women in remote areas. In remote and subsistence living areas a small amount of spending may have considerable sustainable developmental effect. For instance, at a cost of about US\$ 5,000, Direct Aid is able to establish a women training center and run it for a year with the number of trainees exceeding 100 women in its four training sessions per year. This is achieved while the cultural values of the community especially in clothing and family structure are respected and preserved.

The role of leadership to pull up developmental effort from above

A full description of a case study of government-pulled change in the Islamic history is found in the Book of the Two Gardens on the History of the Two States by Abu Shamah (circa 665H) كتاب الروضتين في أخبار الدولتين لأبي شامة. There is no doubt that a drastic social and economic change took place at the time of Nur al Din Zanki and continued until the liberation of al Quds in 583H. This change is described by Abu Shamah, and witnessed by Ibn Jubair, the Andalusian historian who paid two visits the Eastern Mediterranean land during the reign of Salahuddin (circa 589H). Most of the reform was done by Nur al Din in his kingdom that covered what is today Syria, Lebanon, Jordan, Palestine (of course except the crusaders' pockets on the coastal line and in most of Palestine) and Western Saudi Arabia. Beginning in the year 541H, he launched a full-scale fiscal and economic reform program. It included a system of support for agriculture and farmers, uprooting corruption and favoritism, strengthening education and restoring the Awqaf as a main source of its financing, reinforcing internal security, expanding roads and constructing roadside rest areas and inns on the highways, strengthening the markets and enlarging them, and increasing and strengthening the army.⁴⁴ He also established a social security system for military servicemen and their children, built hospitals in every city that

⁴² Information obtained by direct email from Direct Aid Chief Executive Officer Dr. Abdul Rahman H. Al-Sumait.

⁴³ www.directaid.org

⁴⁴ Muhammad bin 'Aqil Musa al Sharif, مختصر كتاب الروضتين في تاريخ الدولتين [Summary of the Book of the Two Gardens in the History of the Two States] by Abu Shamah (circa 665H), Dar al Andalus al Khadra', Jeddah 1999, p 27.

provided free health care and medicines to the poor and rich equally and built orphanages with necessary Awqaf properties to provide income that covered their running expenses and salaries for their teachers.⁴⁵ When he re-captured Egypt from the Fatimites, his new governor Salahuddin followed his steps. He was not only able to repeat the economic and social reform programs taught by his master but he was also able to add Yemen to their kingdom and destroy the remnants of the Fatimites' who regrouped in south Egypt.⁴⁶

The lesson we derive from the case study of Nur al Din and Salahuddin is how development can be initiated from above even in a society that was militarily defeated, politically fragmented, economically debased and socially disoriented. Nur al Din was able to re-empower his community by revitalizing their sense of belonging and participation through the reforms he introduced in the economic, educational, transportation and health sectors. He could re-establish a long lost trust between the government and the society through his deliberate and strong attacks on corruption in government,⁴⁷ especially in the fiscal area [al Jibayat] that directly touched the life of every member in the society.⁴⁸ The history of these two states of Nur al Din and Salahuddin also tells us about one of the important conditions of sustainability of development, the condition of continuous empowerment of people. After the death of Nur al Din, his children divided the kingdom between themselves and failed to maintain the public support their father enjoyed, Salahuddin came to the different cities of Syria as a savior invited by public opinion and the social leaders in each and every city-kingdom established by the sons of Nur al din. He went there to continue the reforms of Nur al Din and to raise Nur al Din children the way he himself would have done had he been alive.⁴⁹ In all stories of success in sustaining economic development the key element seems to be competent macro-economic management, i. e., good enabling policies and institutions.

⁴⁵ Ibid. pp 35-39.

⁴⁶ Ibid. pp 182-184.

⁴⁷ When he re-conquered the town of Jazirat ibn 'Umar, one of his commanders confiscated a house of a Jew, Nur al Din then ordered withdrawal from the town and established his camp in its outskirts. Ibid. p. 71.

⁴⁸ He prevented his officers from owning real estates and said: If members of the court of the Sultan own real estate, they will start doing injustice to people, transgress on their properties and tax and confiscate them. Ibid.

⁴⁹ Ibid. p. 183.

This applies to all Muslim countries whether they have depletable or non-depletable natural resources.

Muslim governments must learn how to balance the different objectives and interests of government budget and agencies, corporate business, local community and the culture of the society. Transparency, cooperation, and attention to the views of the public should be recognized as key elements of sustainable development. The 1990s witnessed an important change in the world that transformed the Second World into 'countries in transition.' This must give an added example to the Muslim world to move toward more transparency and better accountability.

The role of societal civil organizations to push development from down upward

Government institutions in Pakistan and government red tape could have blocked the activities of Lodhi Trust, but the little openness the late president Zia ul Haq introduced allowed the Trust to find room to grow. In fact at the peak of the application of Zakah and Ushr in Pakistan the Lodhi Trust was one of the mechanisms the Zakah administration used to reach out to the needy segment of the society to provide training and other rehabilitation assistance.

The organizations of civil society, at the level of villages and small towns, can help in the areas of mobilizing investible savings and recruiting voluntary labor and channeling them into small enterprises whose effects touch the life of the local community. That is what we call 'pushing development from the bottom.' The first experiment of Islamic banks in countryside Egypt is an example. The Faisal Islamic Bank in Sudan has a micro-financing program that proved efficient in initiating development in a sustainable way from the bottom.⁵⁰ Three elements can make or break the efficiency of micro-finance program: cost, cohesion with local culture and persistence. Under the pretense that it is costly to reach out to the poor families and organize them, some of the World Bank's supported micro financing programs charge the poor more than 22% in a market that charges the import and export industries between 12 and 14% for financing. This is

⁵⁰ Othman Babikr, Financing micro-industries, the experience of the Sudanese Faisal Islamic Bank, IRTI, Jeddah 19997.

in contrast with Islamic banks that charge the clients of their micro-financing programs rates within the range of market rates.⁵¹ In Morocco with liberalization in the 1990s some NGO's were able to launch community-supported school programs in remote areas addressing specially girls in school age.⁵² Direct Aid, with the aim of creating nucleus developmental cores in the African countries where it functions, was able to establish 840 primary and secondary schools and two universities.⁵³ It supports full tuition and living expenses of 95,000 students from primary to graduate schools. In the year 2000 alone it had supported 455 undergraduate and Ph. D. students⁵⁴.

Human Rights and Development

In the age of global super communication when the whole world has become one single mega network, every body needs new technology and innovative skills. Teachers, doctors, farmers and businesspersons need to always be updated on advancements in their field in order to be able to perform and compete. Information and updated knowledge have become a survival recipe for all professions and businesses. The key to any country's success in sustaining economic development is unleashing the creative abilities of its people. It must be realized that a mind that is forced to succumb in one area may succumb in may other areas. Nurturing creativity requires flexible, competitive, dynamic economic and political environments. This requires openness and respect of human rights in the economic arena as well as in the information and political arenas. Information, media and communications restrictions and government monopolies isolate countries not only from external political influences but also from economic and investment innovations. Regulations must be limited to ethical and legal issues that gain unanimity of the community.

Promotion of human rights is an essential pre-requisite of sustainable economic development because unless people realize that they are going to

⁵¹ The annual report of Grameen Bank, 1998 and the annual reports of Bangladesh Islamic Bank and the Arafat Bank of 1999 and 2000.

⁵² Fatema Mernissi, Les Ait Débrouille, Interviews, field visits with Association Ait Iktel du Développement, the World Bank 2000.

⁵³ Information by email from Direct Aid Chief Executive Officer, Dr. Abdul Rahman H. Al-Sumait

⁵⁴ The Direct Aid website, op. cit.

enjoy the fruits of their efforts, they don't expend them. If this is not so visible for a hand to mouth laborer, it is eye-pocking when it comes to innovation and dream-realization. Human rights must not only be appreciated from a humanistic point of view, though it is fundamentally important, but they must be appreciated for their pure economics too.

Freedom of speech, assembly and travel are very important to enable individuals to develop innovative initiatives. They are pre-requisites to empower the community to work together. Equally important is the freedom to criticize what is believed wrong. In his Commentary on the Qur'an when he introduces Chapter five, Surah al Ma'idah, Ibn 'Ashur mentions that the Prophet, pbuh, used to include in the pledge of faith taken from new Muslims the following statement "and be advice-full to every Muslim والنصح لكل مسلم". Advice in public affairs can only be public because these are matters that relate to all members of the community or society. Of course there is a big difference between advice and defaming, slandering or libel. While slandering or libel is a moral/legal crime, advice that aims to correct public institutions and policies is part of the pledge of faith. Some claim that "the advice to government and its agencies must be in private" applies only to personal matters of the individuals in those agencies, not to issues and matters of public concern. It is incorrect that 'Nasihah' that aims at improvement of public policies and institutions should be given in private because all members of the community are equally addressed with it and relate to its substance.

Moreover, the rule of self-determination is not only a principle for across-borders' application between nations, it is also a principle that applies within nations and countries. The Qur'an registers the unfairness and destructive outcome of imposing on nations the views of their rulers: "pharaoh said: I only get for you as opinion what I see (myself) and I only guide you to the path of wisdom قال فرعون ما أريكم إلا ما أرى وما أهديكم إلا سبيلاً" (40: 29) and "And Pharaoh led astray his people, and he did not guide them aright وأضل فرعون قومه وما هدى" (20: 79). Formation of public opinion cannot be done in vacuum. It cannot be done when people only hear one viewpoint through all available domestic public media. Fortunately, the information age broke the old and perpetual silence and what one cannot find in local newspaper one started hearing from international media and through the superhighway. There ought to be equal loosening of the tight

grip of governments in the Muslim countries to enable individuals and organizations to take charge of their economic fate.

The scope of human rights covers the private individuals' right to pursue their own economic well-being the way they see it. The Shari'ah emphasizes that income (as acquired property) can only be earned by giving labor in exchange or through the growth of one's own property. The Qur'an and the Sunnah, in several texts, encourage people to put their efforts in seeking the bounties of good sustenance and good joys God created for them to enjoy in this life. Education and accessibility to water are also part of human rights. In our world of information networking the right to proper education is one of the basic human rights. Besides the need for creating mechanisms to guarantee that basic education is provided to all children of school age, our education system must be geared to enhance the use of new technology and information. It must be restructured around the aim of implanting knowledge of success in the life after and skills of economic production and growth.

The right to access safe water is essential in today's world "in which over a billion people [most of them live in the Muslim countries] lack access to even a minimal supply of clean water. Many governmental and institutional approaches to solving this enormous problem have failed – causing unnecessary human suffering and death... Acknowledgement of water as a human right may prove to be the most valuable path to addressing the challenge of providing people with the most basic element of life."⁵⁵

Additionally, exercising the right to create business, pursue economic reward, and venture economic endeavors is often hampered by a state of mind created by the existence of 'easy ways to get income'. Once individuals are convinced that there are faster and easier ways to get income and become rich other than real projects and exchange business, it becomes irrational, for the smart one, to take the hard approach! Putting an end to corruption in government cannot be graded except on the top of priorities as a pre-requisite for enabling policies. The prevalence of the law of exchange, "O You who believe, fulfill the contracts/pledges يا أيها الذين آمنوا أوفوا بالعقود" as a basis of earning and of economic relations is very important. The most dangerous effect when rulers and governors indulge in business that is not in

⁵⁵ The Center for Economic and Social Rights • 162 Montague Street • Brooklyn, NY 11201, Right to Water, Fact Sheet No. 1. an Internet reference, www.cesr.org

the area of distributive equity but in the area of production. It creates nepotism and favoritism, eats away the inner enthusiasm to work hard and to venture new projects and ideas,⁵⁶ corrupts the exchange system and corrodes the business mind and drives it to the easy way to make money.⁵⁷ Governing corruption is directly linked to increasing poverty and increasing the inability of breaking its vicious cycle. In a recent study on the effect of governing corruption on poverty and income inequality, S. Gupta, H. Davoodi and R. Alonsa-Terme attempt to come up with some estimate or measure of the effect of corruption and to look into the channels of such effect. They argue that corruption in government leads to creating a biased taxation and custom duties system that privileges the “well connected” who normally are the rich. It also empties social programs from their ‘really helping the poor’ content and make them tools for the distribution of favors. Corruption in education makes it attainable more to the children of the rich than to the poor children and it consequently perpetuate poverty. Further, the licensing and violation check systems provide short-term profiteering opportunities and overlook the quality standards of goods served to the public and especially the poor as the rich can afford pay for high quality consumables. The authors estimated that one standard deviation point worsening in a corruption index “increases the Gini Coefficient by 11%, given an average Gini value of 39, and reduces income growth of the poor by 4.7% per year,”⁵⁸ both are substantial effects.

Integrating Development with Cultural and Social Cohesion

One of the important reasons for the failure of outside developmental aids has been its inability to recognize the importance of culture values in development. Provided by the First World, external aid to developing

⁵⁶ In collaboration with a Canadian franchise an acquaintance of mine established an industrial project for poultry feed in a certain country. After two years his license was terminated by the ministry of agriculture. A few months later he found out that a leading local intelligence officer got the license and franchise for his son! Stories of this kind fill the ears of potential entrepreneurs.

⁵⁷ Enron is the best example from outside the Muslim world. Thought it is not government, it's used a vast government coverage to create an empire (à la Mao's tiger) of 'shredded' paper. The Muslim world is not devoid of such examples.

⁵⁸ S. Gupta, H. Davoodi and R. Alonsa-Terme, “Does Corruption Affect Income Inequality and Poverty?” *Economics of Governance Review*, Berlin and Irvine, Ca, V. 3, No. 1, 2002. The authors are IMF professionals.

countries very often has only one pattern of development process in mind. For instance, when it deals with the development of women in the Muslim society, the first things emphasized are ‘the need for changing the master/servant’ relation of husband and wife into ‘a partnership relation’ and the need for introducing ‘family planning’ and contraceptives. By the same token, developmental attempts that repress dominant cultural norms could not be sustained.⁵⁹ It is true that many of our social behavioral patterns in the area of economic development, community work, youth participation and women social and political roles are in dire need to be improved. But unless changes come from within and on the basis of views that are considered with high regard, such as religious and national pride views, they are no less than pure failure. Implanted changes are not effective and may sometimes fire back in a regressive rather than progressive manner.

In community developmental work, we always need ‘mediators’ or “catalysts” elements of change. The mediators are persons who can express desired changes in informal institutions into exemplary behavioral patterns derived from the basic beliefs and ideals of the community. To put it differently, mediators or catalysts are individuals who can externalize needed changes in capsules that do not threaten community culture and values and are consequently acceptable to other members of the community. Such change catalysts play a specially important role in the Muslim countries because of the high level of sentimental attachment to religion which over the past three quarters of a century has been strengthened and redirected against external “imported” influences due to the effects of an active and ever expanding Islamic revivalist movement. Mediators or catalysts can fulfill their role because of high level of confidence and trust people usually have in them. Take the example of Islamic banks, the Ulama who associated with Islamic banks performed the mediators’ role in convincing the general public that these new banking institutions really make a difference and relate to the ideals and beliefs of the people.⁶⁰ It can

⁵⁹ For instance, in one Muslim country one of the 5-year economic plans executed by the government contains two liquor brewery plants in an environment that looks down on liquor drinking. The result was that farmers started pulling grape trees and substituting them with less economical trees and lower income cultivated crops.

⁶⁰ Monzer Kahf, “Strategic Trends in the Islamic Banking and Finance Movement” paper presented at the Fifth Harvard Forum on Islamic Banking and Finance, Harvard, Cambridge, MA, April 6-7, 2002.

be argued that the continuous expansion of Islamic banking, in spite of a handful of failure stories and an overwhelming agreement between experts that Islamic banks can use a lot of managerial improvement, is due in part to the performance of their catalyst ‘moderators.’ The moderators of Islamic banks have touched the right tone when they ably related the support of these banks to the faith of the general public in the Islamic countries and communities.

In addition to the moderators, sustainable development requires business innovators and managers who can translate new norms and patterns of behavior into actual developmental projects that assimilate their social and cultural values and ideals without losing their developmental fervor. Innovators are always forward looking at the same time remain consistent with their cultural and economic environment. The Example of Lodhi Trust in Pakistan is helpful in this regard. It was able to create a network of support to the poor and needy that started with only one man who had vision, enthusiasm and commitment to improve income distribution in his community through providing quality social services where they are needed most, helping poor families, providing ambulance services, founding crafts training centers, etc. Once the Lodhi Trust became able to provide its services from within, outside aid becomes supplemental, and it began to pour in. These forward looking managers are sometimes called translators because they are able to translate pure ideas and dreams into real projects that respond to and communicate with real people in their socio-cultural environment, and that what makes these kinds of developmental projects sustainable and expandable. They come from the community, use its resources and associate with it. Outside-forced development is not sustainable, nor expandable! One lesson from the so-called ‘Islamic funds placement companies must be learned by heart. This is the importance of translators who can create projects that associate with the needs of the community and collect for them internal resources without betraying the community’s objectives. Capital is never the obstacle or the scarce factor!

Interrelation between Sustainability and Self-reliance

Sustainability and self-reliance in development are interlocked. To sustain a steady rate of growth you need to expand domestic resources and assets. Granted that self-reliance does not imply closing an economy to

foreign investment and markets, Muslim countries must take seriously the issue of utilizing local potentials as a main source to nourish their development. The era of large foreign inflow of developmental inputs is gone and not going to be repeated. Self-reliance requires enabling the domestic entrepreneurship to develop profitable projects that use available technology and inputs. By definition this can't be done by means of a governmental plan and governmental implementation because there are too many variables that determine both profitability of projects and availability of their resources. Only the instinct, effort and research of entrepreneurs can detect and pursue feasible profitable projects. It is true that there are strategic products/sectors such as basic food items where self-reliance may be more enhanced than in other sectors. But even the policy of stimulating self-reliance in such sectors/products should be wise enough to avoid falling in a trap of ineffectiveness and back firing . In strategic products and industries entrepreneurs should be encouraged through government-supported development research, information and communication, governmental measures to deepen and broaden the market, credit and fiscal policy incentives, etc. but without distorting the market structure or impeding the market forces and without creating false opportunities to make profits.

As self-reliance does not imply economic self-contentment, we must realize that expanding the market for local entrepreneurs is one of the most stimulating measures the government can take to help entrepreneurs undertake sustainable developmental projects. Hence, both regional and pan-Islamic agreements that broaden the markets are of great effect on reducing dependency as well as on increasing sustainability of economic growth. However, intra-Islamic governmental cooperation seem to get marginal attention. The Muslim governments seem to prefer national development policies that are internationally 'uncommitted.'

In this regard, the Internet market must be given attention as a vehicle to expand trade and enhance entrepreneurship especially in terms of setting adequate institutional framework, establishing rules of transactions, creating enhanced and stimulating infrastructure and protecting the actors on the Internet market.

Economic self-reliance, as much as it is politically desired, must ride realistic economic vehicles that can pay off at the end of the tunnel. We must realize that self-reliance does not come about simply by transforming our

banking sector into a non-Riba sector, dear to our hearts as it should be, but by unleashing the creative power of people in each field and sector and by letting them decide and create their own income, wealth and economic projects. In its sector-wise recommendations for self-reliance, the report of Pakistan's Prime-Minister Committee, April 1991, repeatedly emphasized this 'wise-up' policy change and ascertained that the key to self-reliance is by getting the hands of government off the throat of the creative potentiality of the private initiatives in each and every sector including export/import, agriculture, energy, industry and defense. Categorically, the committee called for a free participation of the private sector in the defense industry and for political efforts to expand its market to other Muslim countries. It further emphasized that the government direct involvement can do best in supporting developmental research, providing extension services, easing up the export of labor and import of foreign exchange remittances and reorienting the educational system towards more technological content.⁶¹

It is a Small World After All!

The world has become small the day four small countries in the Far East were able to navigate through its straits and sustain an astonishing cumulative economic growth. It has become even smaller when Malaysia, Thailand and to some extent Indonesia were able to follow the same path. Our world has really become much smaller in the age of the information revolution!⁶² Unless people are empowered other nations are going to force-export their own political, economic and cultural environment on those countries that fail to take initiatives. This applies not only to whatever immorality they are exposed to on the little screen and when they travel abroad, but also to economic actions and reactions. The only defense that we, as Muslims and Muslim countries, have is our own inner selves. The weaker our inner selves are the more flattened we are economically, politically and culturally. On the other hand, if we can build ourselves and empower our entrepreneurs, we can assimilate all economic, technological

⁶¹ The Report of the Prime Minister's Committee on Self-reliance, April 1991, pp 28-40.

⁶² This is in a sense an application of the famous Saying of the Prophet, pbuh, "there is going to be a really near time when nations will invite each other 'to come and get you' the way eaters invite each other to their dished food. . .".

and informational advancements and use them for our growth and progress. The key to it all is **self-empowerment** because by definition it works on all fronts together. Self-empowerment can unleash the creativity and innovative capacity of our human resources, the only effective input for sustained development. This will enable us to navigate in today's small world. Unless this fact is recognized as a basis of our policies we will remain as powerless as 'suds on the surface of running streams.'

On the other hand, the issue of import substitution and export augmentation can be tackled by the market forces if we can wise up in using the abundant human resources the Muslim countries are endowed with. Government regulations on foreign exchange, export/import licensing and other regulatory impediments, pricing of agricultural products and other bureaucratic measures have actually led to an increase of illegal practices and corruption of government officials rather than protecting the country's real interests or promoting its economic growth.

Section Four

Policy Recommendations

Studies of countries, regions and the global economies offer concrete indication of the emergence of an interdependent world economy. Interdependency is neither egalitarian nor exploitative. It is a destiny through which every national economy must sail towards its developmental objectives. Economic globalization may be an aggressive expression of interdependency, at the present advanced stage of “informational” capitalism. With globalization, the role of the national state is undoubtedly reduced. In the three decades that followed World War Two, the concept of “development through industrialization” among other things gave impetus to both an enlarged role of the state in the economy as well as an understatement of the importance of human rights in economic and social advancement. The experience of the Newly Industrialized Countries (NICs), both in import-substitution industries as in Brazil, Argentina and Turkey, as well as the export oriented industries as in Korea, Malaysia and Taiwan, points to the importance of the role of the state and the state-owned enterprises in industrial development. In as much as that is true, the enlarged role of state backfired in all these countries, in a manner that is similar to what happened in the former Soviet Union, in terms of holding on to obsolete technology, corruption, and loss of private initiatives as a main drive for development. **The turn of the century brought in not only a new reality but also a new wisdom and a new vision.**

The debate about the direction of development will remain intense for many years. The liberals argue that increasing international trade promotes prosperity and both prosperity and trade promote peace. On the other hand, all the Third World countries along with many people in the First World cry for protection from the ‘invading mega giants’ in business and especially the financial sector. They outcry too for upcoming losses of economic opportunities of employment and production as globalization is going to make the fat fatter and make the skinny work for the strong.

Priorities that Help Sustain the Developmental Process in the Muslim Countries

God gave the Muslim World not only diversified climates, lands and ethnicities, but also diversified economies. It is therefore impractical to talk about global priorities for all Muslim countries together. However, the issue of poverty is an important one and it is very pertinent to the sustainability of development. Unless we can break the cycle of poverty, there will be no way economic development can be sustained. Actually, one of the major objectives of Islam is the implementation of justice on earth. It is obvious that this goal is reflected in making the creation of an egalitarian economy a pivotal thought in all writings on Islamic economics. The Prophet, pbuh, himself in his prayers used to associate seeking God's protection from poverty and disbelief together,⁶³ and he almost equates poverty with denial of faith by saying "poverty would almost be [equal to] disbelief."⁶⁴ Hence, it is expected that reduction of poverty, as a process of sustainable development must be the first priority all over the Muslim countries. With variation between countries, the Muslim world is endowed with abundance of both rural poverty and urban poverty. We have on hand two facets of poverty reduction that must be addressed at the same time: Increasing productivity and employment in rural areas and creating means to increase the income of urban poor.

In his study on the connection of the poor to economic growth, Timmer points to an important relationship between structural changes in the sectoral weights in an economy and poverty reduction. In a 1997 paper, he addressed the phenomenon of increased poverty with economic growth and observed that although economic growth increased the per capita income of the bottom 20% of the population in most countries, there are several countries and situations in which the number of the poor increased and the gap between the bottom 20% and the top 20% increased too. Two important structural factors affect the low connection to economic growth of the poorest quintile of the population in a country; these are: "the share of agriculture in the economy and the relative size of the income gap between the poor and the rich." In countries of small income gap, agricultural labor

⁶³ Reported by Abu Dawud, al Nasa'i and Ahmad.

⁶⁴ Reported by Abu Na'im in al Hilyah from Anas, See al Suyuti, al Jami' al Saghir, Dar al Fikr Printing, Beirut 1981, V. 2 Saying No. 6199.

productivity is effective in increasing the per capita income of all five quintiles. Similar results are observed in countries with a small share of agriculture in the economy. On the other hand, in countries with a large income gap, the poorest quintile connection to growth is much lower than the richest quintile. This is reflected in much larger share of the rich in the benefits of economic growth than the poor. In a simulated example of 5% annual rate of growth for 25-year, Timmer shows that with a 13.1 top/bottom ratio of per capita income, the income of the poor increased by 73% while the income of the rich increased by 273%, thus deteriorating the income gap to 28.4. A similar trend is also observed when the share of agriculture is high.⁶⁵ Two implications can be derived from Timmer's study. First, if we aim at reducing poverty in both the short-run and the long-run we need to introduce structural changes that work on reducing the income gap especially in rural areas. And second, we also have to address the issue of increasing the share of manufacturing and other non-agricultural sectors in the economy. In other words, rural and urban poverties are structurally connected and must be addressed together at the same time.

Poverty Reduction in Agriculture

Agriculture makes the largest source of income and the largest employer all over the Muslim world. It is also the main infesting bed-ground of poverty about whose reduction Islamic economics hover. There is no denial that, with a limited number of exceptions that are mainly caused by internal and external wars with entailed destruction of infrastructure and creation of huge pockets of refugees, the second half of the twentieth century witnessed a substantial reduction of poverty in the Muslim countries, both in relative and absolute terms. Yet in the last decade the pace of poverty reduction was slowed down in most of Asia, poverty even increased in several African Muslim countries. Mellor argues that both these effects came as a result of the neglect of agriculture, a neglect that must be corrected if we hope for reducing poverty in the twenty first century.⁶⁶ Additionally,

⁶⁵ Peter Timmer, "How Well Do the Poor Connect to the Growth Process" CAER II Discussion Paper 17, December 1997, Harvard Institute for International Development, Cambridge, MA, USA. It is on line at: www.cid.harvard.edu/caer2

⁶⁶ John W. Mellor, "Faster More Equitable Growth: The Relation between Growth in Agriculture and Poverty Reduction" CAER II Discussion Paper No. 70, Assistance and Development; HIID, Cambridge, September 30, 1999 - October 1, 1999. the Conference

reduction of poverty in all countries that have high share of agriculture in the economy must focus on reduction of rural poverty, that is, poverty in agriculture and in the agriculture-related service sector as observed by Ravallion and Datt.⁶⁷ Mellor quoted their argument as follows, because the output and employment multipliers in agriculture are substantially higher than the multipliers in urban sectors, growth in rural areas can reduce both urban and rural poverty, while growth of urban sector has negligible effect of rural poverty and it only reduces urban poverty. There is another factor of importance influencing this equation that is: the multiplier effects of agricultural growth tend to affect more the goods produced and consumed in the rural areas and to use the available abundant asset and rural labor. Hence, they reduce poverty by increasing output of food and by increasing employment income at the same time. In other words, raising the rate of growth in agriculture enhances a sector of the economy that can't be much affected by external demand and it uses resources that would otherwise remain idle.⁶⁸

There are four key areas that determine the growth of agriculture and its effect on poverty reduction in decades to come, namely: **adjusting the asset distribution** in favor of the rural poor, creating **technological changes** that benefit small holders especially in marginal and arid lands, improving **water infrastructure**, and **reclaiming lost and desertificated lands**.

Adjusting assets distribution in agriculture must cover land, equipment and human capital. Adjustment in assets distribution doesn't have to be through abrupt measures that proved little effectiveness in several Muslim countries that took such measures in the 1960s. Adjustment can be introduced through an educational system that is specifically designed to increase the productivity of the poor.⁶⁹ Zakah distribution can play an important role if a certain percentage of its proceeds is given in terms of

on Development Assistance in the 21st Century; Challenging the Conventional Wisdom on

⁶⁷ As quoted by Mellor from a recent study on poverty in India. Ibid.

⁶⁸ Ibid.

⁶⁹ In this regard, the Dini Madrasas, that are subjected to tremendous pressure since September 2001, contributed to increasing the productivity of the poorest rural population by qualifying their children to government employment and preparing for their emigration to urban areas. Adjustment in their curricula may be done by adding agricultural technology and livestock husbandry.

equipment for agriculture, livestock and agro services and inputs. Other means to improve asset distribution include caps on land ownership, financing policy and taxation. Failure to introduce substantial asset adjustment in countries with highly skewed income distribution may result in the benefits of economic growth being reaped by the rich as Timmer pointed out. For that reason Mellor argues that any economic growth in skewed income-distribution countries is bound to do little for the poor if it is not accompanied by asset adjustment.⁷⁰

Rural development in the Muslim countries, especially in the Middle East, North and Sub-Saharan Africa requires the development of a special technology that suits small producers in dry marginal land. This includes biogenetic research, farming techniques and advanced techniques of raising livestock. The point is that most of the research in biogenetic is done by large corporations and for their own use. There are experiments in Algeria and some other Arab countries that warrant successes in developing seeds that adjust to dry land and introducing cultivation cycles that reduce the size of fallow land. We must recognize that the dry lands are not homogenous and cannot be made to sustain development the same way as non-dry lands. Since large numbers of people are likely to remain in the dry grasslands in those parts of the Muslim world, a range of strategies are needed that identify the particular attributes of the land that can be harnessed to provide sustainable improvement in the economic means of livelihood. Such strategies include adjustment in the use of fertilizers; adult education programs on better farming and grazing practices and emphasis on drought-resistant crops.

Innovative thinking and approaches come always from private initiatives. Some arid lands in the MENA, Sahil, Central Asia, Afghanistan and western Pakistan can take advantage of potentials of solar energy, tourism industries and fish and shrimp artificial lakes. Enabling policies that focus on linking farming, grazing and other small scale economic activities with vegetation cycles are important to sustain vulnerable ecosystems while increasing productivity.

Although water is not scarce in several Muslim countries, more than 600 million Muslims live in areas of scarce water resources in the MENA,

⁷⁰ Mellor, Op. Cit.

the Sahil countries, Central Asia, Afghanistan and Western Pakistan. Developing the existing water wells and salt water agriculture is an indispensable process for the reduction of poverty in those areas.

Most of the arable land in the MENA countries, Pakistan, Iran and West and Sub-Sahara African countries have either been used in agriculture or lost from agriculture to other uses or to desertification and other forms of land degradation. There is a need for projects to hold land degradation and to reclaim lands already delivered to desert and salt. The experiment of Niger farmers and small peasants in land reclamation is rather eye opening. The process is called Zais and it consists of stimulating termite-made softening of hard land so that rain can reach its depth and then use it again for crop production. These kinds of techniques that use local assets, labor, and do not depend on outside resources are very effective in growth and poverty reduction in the rural areas.

Finally, it must be realized that the expanding globalization creates a great potential for poverty-reduction agricultural development as it not only expands the market for high valued commodities but it makes the flow of capital and agricultural knowledge easier and faster. Both Malaysia and Indonesia benefited from this opportunity in the past decade. African Muslim countries are good candidates to use their agricultural potentials especially in tropical high valued commodities in the coming two decades if they can create a socio-political environment of enabling their people at the level of the village and small holders.⁷¹

Poverty Reduction in Uurban Areas

Urban poverty has different characteristics. The urban poor are either migrant from rural areas who were not adequately prepared for their migration and end up in ghettos and tin cities or youth that missed education. The problem of urban poverty is more acute than the rural poverty in a few Muslim countries such as Iran, Pakistan and Egypt. However the traditional approach of dealing with urban poverty through excessive employment in government did not pay off in the long-run. Malaysia started with changing its educational objectives and system. The objective of urban education must

⁷¹ It should be noted that at least six sub-Saharan countries have moved toward pluralism in the political system and more openness in the economic management.

give priority to technological training in a way that prepares the youth to jobs in fast growing industries such as electronics and chips.⁷² The switch takes ten to fifteen years and Malaysia has become a major young tiger exporter of electronics. Available technical know how makes Pakistan, Iran and Egypt good candidates for such an urban development endeavor and the governments need only to follow an enabling policy based of preparing the youth for the jobs of tomorrow! This is in contrast to riksha growth on which urban micro finance embarked in Bangladesh, India and Southern Pakistan. The latter provides a non-growth-oriented source of income to the urban poor while it hides a great deal of unemployment. It does not build cumulative production know how and consequently it does not begin a first step on a sustainable development approach.

It is true that urban micro finance can help in poverty-reducing employment. But it helps better when it is oriented toward sectors whose growth has a multiplier effect on the whole economy such as small manufacturing including clothing, jewelry, house building with traditional materials and electronic parts as the income and employment multiplier of these and similar sectors is high.

What Next?!

The Muslim governments and people need to realize that winning the battle of development is a national non-partisan objective. Our governments cannot afford to continue representing and serving partial agendas. It is no more acceptable to give only a lip service to the essential national objectives while continuing the inherited self-glorifying and self-serving style of governing. Although history doesn't always repeat itself, the most recent development in economic policies in the fast growing economies support the

⁷² In a paper titled "Geographical Localization of International Technology Diffusion" Wolfgang Keller (*American Economic Review*, V 92, No. 1, March 2002, pp 120-143) tested the diffusion and spillovers of R&D spending on a distance scale and found that the magnitudes of productivity gains from other countries R&D is reduced by one half at 1200 km. This put a constraint on the ability of developing countries to catch up with newest technologies. Certainly we must take into consideration the technology embodied in imported consumer and capital goods. But there are special circumstances that affect the Muslim countries in specific such as the language, cultural and political barriers, especially in the world after 9/11. All these things point out to the importance of pan-Islamic cooperation and diffusion in the field of technology as an indispensable approach to overcome the restrictions on technology imports.

view that policies and institutions matter most in any process of sustainable economic development. In a 1995 article, George Shultz argues that both technological and political changes in the 90s suggest the presence of a tremendous opportunity for economic development and “rapid rates of growth in many less developed countries”; such opportunities can be grabbed through “the validation and acceptance of ideas about what it takes for economic development to take off.”⁷³

Upon his arrival in al Madinah al Munawwarah, the Prophet, pbuh, established a new market and set the rules of transactions on the basis of freedom, transparency and fairness. The needed new development approach must also believe in the market as an institution of human economic interaction. A new common denominator is emerging in the most recent observations of economic development of nations, consisting of policies and institutions that believe in, and depend on, the functions of the human factor in the market place. Laying the institutional grounds for promoting exchange, developing “incentives” and enhancing “entrepreneurship” is the key to putting to work our magic human resources. The stories of both economic failures and economic successes over the past three decades emphasize this trio of “market”, “incentives” and “workmanship.” To enhance exchange, the market needs to be deepened and expanded. Therefore, the side effects of the expansion of domestic and international trades can only be cured by more expansion of domestic and international trade. This requires a stronger emphasis on democratization of the Islamic economies through enhanced privatization and adjustments of the Islamic international financing institutions to be geared towards supporting the private initiatives and more faith in the individual and atomic human element in taking the most suitable economic decisions with the least amount of restrictions, regulations and procedures. In his study, Shultz emphasizes that the threshold of economic development of the 21st century requires more emphasis on market expansion through privatization and a reduction of regulations. This brings us to the first chapter after World War II economics, when Ludwig Earhart declared that the best policy for taking Germany out

⁷³ George P. Shultz, “Economics in Action: Ideas, Institutions, Policies”, AER, V.85, No.2, May 1995.

of the ruins and destruction was to allow people to take initiatives with the least amount of regulatory hindrances.⁷⁴

Development policy for the 21st century must emphasize the role of the government in laying the **ground rules** for the operation of the market. This is what Arnold C. Harberger calls “enabling policy”.⁷⁵ Such policy does not give its fruits without integrating political, social and economic objectives together in such a way that satisfies the necessary conditions discussed in Section III. We need to create incentives to increase the supply of savings, both internally and externally, and the demand for investment within the economies of the Muslim countries. Corruption and favoritism are pointed out as particularly important impediments to attracting capital from within as well as from without a given country, in addition to political risk and laxity on contract enforcement. When the laws of contract do not apply to everybody, entrepreneurial instincts tend to take advantage of favoritism instead of venturing productive projects, and both domestic and foreign savings shy away.

If the Islamic governments are serious about sustaining long-term economic development, and having recognized the partial and tilted government approach of the past half a century, they must embark on a process of comprehensive development. This process must tackle the formation of an appropriate level of human capital, both the type that is embodied in individual market conduct and the type that is essential for creating developmental institutions and policies. This must be recognized as an indigenous and essential cumulative process of economic development.

In this section of the paper I will try to identify selected areas of government functions that can be considered as main areas of activism in building enabling policies and institutions. Pivotal to all these areas is the basic concept of “let people work” or the “enabling policy” that provides the right environment and incentives for the individual private efforts to bring their fruits. These areas are of course inter-linked. Therefore, each of the policy tools and necessary institutions has repercussions on more than one developmental objective. These areas are:

⁷⁴ Ludwig Earhart, Prosperity for all, Arabic translation by Ratib al Shallah, printed by Ratib al Shallah, Damascus, 1968.

⁷⁵ A.C. Harberger, “A Vision of the Growth Process” Op Cit.

- Contract Enforcement,
 - Formation of Marketable Human Capital,
 - Formation of Public-good Human Capital,
 - Improving the Functioning of the Market,
 - Enhancing Output Growth,
 - Increasing Labor Force Participation,
 - Changing the Patterns of Consumer Behavior.
- **Contract Enforcement:** We need to create a state of law instead of the prevalence of the 'law of state.' No accountability process can be established as long as the state is the law. It is mentioned that Jefferson once said: If I am given the choice of having a government without newspapers or newspapers without government, I will choose the newspapers. Free and critical media is the key to enhance the human mind to invent, innovate and create an environment of check and balance in any society. Without free media we will keep exporting brains and creativity and importing tertiary products. Contract enforcement is also related to elimination of favoritism and corruption. It is the major single pre-requisite that promotes exchange as the basis for earning. Standardization and creation of common norms for professional business practices are also of great help. Contract enforcement also means making free-willed contracts the only means to exchange goods and services in the economy and consequently eliminating, or at least drastically reducing favoritism as an earning means.
 - **Formation of Marketable Human Capital:** A Proactive approach must be followed to set behavioral targets and recruit all possible implementation tools. An objective oriented, efficiency conscientious, non-conforming, critical and innovative pattern of behavior need to be promoted and inculcated in our youth. For this purpose none of the potential tools should be spared. These may include special media programs, advertisements and managed peers programs that cover boy scouts, girl scouts, neighborhood youth programs, etc. They also include revamping

our educational objectives and curricula to change their effective objective from providing information to character building and leadership apprenticing. This includes changing the education's main tool from a master-teacher to an analysis catalyst and thinking provoker/promoter. It also includes changing the school environment from a place of learning to a center of training and preparation amenable to a futurist outlook in creating useable technological skills compatible with the future needs of the market. This requires changing the focus of education from general knowledge to two main branches. 1) applied sciences and middle-of-the-way technology that build easy to accommodate marketable skills; and, 2) excellence in advanced technological applications through the creation of institutions of technological excellence that take breaking new technological grounds as the focus of their concern and activities. Mosques and other places of worships can also help in the formation of marketable human capital. After all one of the basic outcomes of a closer relation with God, the Almighty, must always be an increase in the distance away from abhorred and detested manners and actions [al Fah'sha' wa al Munkar]. Islam, as a matter of fact all monotheistic religions, can be a great stimulus to development, but when they are misunderstood the behavioral pattern that stems out of such misunderstanding can be unpredictably destructive, anti growth and anti-developmental.

Formation of marketable human capital also requires a clear system of incentives and rewards. One of the beautiful things in our religion is that the Qur'an does not shy from stating a clear incentive and reward system for following the desired/prescribed pattern of behavior. It counts the pleasures of heaven, one after the other and the pains of the hellfire one after the other. A stable reward and incentive system is essential to induce entrepreneurs to take lead in economic endeavors and to promote the creation of new economic opportunities. An essential component of the system of incentives is the protection of property rights and income earnings. There ought to be an exerted effort to eradicate parasitic income earning and wealth creation. Corruption in government is the most major disincentive to entrepreneurial strife because it obscures the incentive and reward system, so is a

loose and inconclusive judiciary process. An incentive and reward system is itself a cultural product. The very teachings of Islam create a cultural environment that instills in the minds and hearts of Muslims its own cultural framework of rewards and incentives. Therefore, it helps if the Islamic values of honoring work, responsibility, right and wrong, “a human shall have only the result of his/her effort,” advancement and improvement, etc. are made vivid in the minds of the citizenry of the Muslim countries. This kind of cultural refinement is a necessary step in improving the capability of our societies to generate entrepreneurs and motivate them to put new ideas into action.

The formation of marketable human capital also requires the deepening of a system of redistributions that assures individual persons of the basic needs of livelihood so that a failure in the economic struggle does not become suicidal. The Awqaf institution and system helped taking care of the needs of the poor in our history, but the Awqaf system is long wasted and forgotten in most Muslim countries. Wherever some of its remnants still exist they are confined to servicing mosques and places of worship with very little social and economic role or contribution. Revitalization of old Awqaf properties and creation of new ones is a developmental step that helps create an assuring environment of income redistribution. Zakah is another important institution of redistribution of income and wealth that must be unleashed to provide assurances and guarantees of the livelihood of the poor to carry on with the society. Both institutions need to be functionalized and activated. They are precious jewels of the Islamic socio-economic system.

- **Formation of Public-good Human Capital:** To create the type of human capital that can push towards the setting-up and promotion of proper institutions you need to emphasize the ability of taking collective social action and cultural pressure. Only proactive people can develop institutions and set up cultural frameworks of policies. The inculcation of a futurist culture dictates that “if some one appears to one of you who has in his hand a small tree, he should plant it.” This in the inner judgment of women and men

is the job of Prophets. When there are no Prophets awakened or enlightened people together can do the job. Only responsible, motivated and will-freed persons can create and boost public institutions and can institute public policies that will sustain development. The emphasis on the public-good type of ‘Nasihah’ and “ordaining the good and prohibiting the bad in public affairs” has a classical appearance we are accustomed to in our traditional literature on the history of the Muslim countries. But besides such a bright picture we also have practices that pass uncorrected or unhelped by any public "Nasihah". This is something that grows in a society separate from the law itself and can sometimes render a law inactive. Take the example of inheritance law in Islam. We have the most beautiful, just and responsive to the human nature law of inheritance that ever exists anywhere in the world. Yet, local man-chauvinist culture does not allow women to take part in land inheritance in many areas of the Muslim countries and because of social and cultural pressure women cannot reach the courts and legal system to defend their God-given rights. Similarly, when land records started in the Ottoman Empire around the end of the 19th century, many small farmers and peasants recorded their lands in the names of village chieftains and other influential leaders out of fear of taxes and other duties. The result was that this fear wiped out small farmers’ properties because the second-generation of leaders inherited the land and denied the unwritten agreements their fathers had with the real owners.

The experiences of economic development since independence in the MENA, African and South Asian Muslim countries indicate that negative submission of the public is economically counter-productive. Economists, as well as political futurists realize that creating and nourishing the kind of human capital that can set up developmental institutions and policies is like reformulating the conscience of men and women to make them not only active on the social-cum-political-cum-economic theater but also positively productive and efficient. This change requires a kind of political leadership that acts on the basis of Abu Bakr’s famous principle “by God, you are of no good if you don’t say it *والله لا خير فيكم إن لم تقولوها*”. It also requires a kind of citizenry that

implements the suggestion of the Prophet, pbuh, in his saying “and you must forcefully bend them to the right things ولتأطرنهم على الحق أطرا”.⁷⁶ There is a need to make the institutions of law enforcement and judiciary more effective in protecting properties and earnings. We need to improve the socio-political communication between governments and government officials on the one hand, and individual entrepreneurs and income earners on the other hand for the purpose of creating effective social responsibility. We need to eradicate favoritism and dishonesty in governing because such eradication allows people to come out with calls for changes that take charge of the encompassing interests of the public [Maslahatu al Jumhur] as compared with private narrow interests.

Poverty reduction institutions, especially the Awqaf and Zakah, require an environment of openness and transparency if we hope for them to win the hearts of potential donors. They have to be run and managed on participatory basis rather than condescending basis. Even our Fiqh had fallen in the trap of supporting managerial decay when it expands the political authority of the government to include the direct management of the Awqaf properties that were specifically assigned to private sector’s management by the founders. This extension of power was founded on a dubious excuse that includes the Awqaf properties under the “overall authority-cum-responsibility of the government حق الولاية العامة”.⁷⁷ In fact, such an overall authority or responsibility can be satisfied by limiting the governmental rights to a regulatory and supervisory role only, while the management of Awqaf may remain in the private hands as decreed by the founders.⁷⁷ The revivification of both institutions of Awqaf and Zakah can’t be achieved as long as they are dealt with under a bureaucratic governmental framework. There is a general consensus between researchers that these two institutions have the capability to substantially reduce poverty in the Muslim countries if their redistributive power can fully be enabled. They

⁷⁶ Reported by Tirmidhi, Ibn Majah, Abu Dawud and Ahmad.

⁷⁷ Monzer Kahf, Islamic Waqf: Its Evolvement, Management and Development, (in Arabic) Dar al Fikr, Damascus Syria 2000.

have achieved this objective in the past, as least as the authentic reports indicate in Yemen at the time of Umar bin al Khattab and in Egypt at the time of Second Umar.⁷⁸ The revitalization of Zakah and Awqaf can also help reduce poverty and increase productivity from the angle of health services they can make available to the poor in addition to creating new jobs and employment opportunities.

On the other hand, transferring the management of these two institutions to private hands, especially the Awqaf affects the Ulama class that used to be paid essentially from the Awqaf revenues, as independent from government authorities. In the Islamic history such independence contributed to the freedom of the Ulama and to their stands in propagating progress and defending the public interests against the personal interests and decisions of rulers.⁷⁹ The historical experience of the Muslim countries indicates that such independence has been vital to the promotion of public-good human capital.

- **Improving the Functioning of the Market:** For better market functioning we need to reduce the red tape and the excessive presence of the government in and around the market, even in one's cup of coffee as the late Poet Kabbani once put it. Downsizing of government releases a great deal of tax pressure and enables more resources to be channeled toward economic development. It is true that the tax burden in many Muslim countries is not as high as we see it in most developed countries. But we must realize that while marginal increments in taxes reduce luxurious personal spending in the developed countries they eat up from the essential personal budget of food, shelter and health care in the developing countries. In other words, taxes in the Muslim countries replace personal spending on basic necessities while a great chunk of government public spending

⁷⁸ Abu Ubaid, al Qasim Ibn Sallam (Circa 224 H), *Kitab al Amwal*, al Maktabah al Tijariyyah al Kubra Publishers, Cairo 1353 H. p. 596 (details) and Sirat ibn abd al Aziz (details)

⁷⁹ Monzer Kahf, "Islamic Banks: The Rise of a New Power Alliance of Wealth and *Shari'ah* Scholarship" coming in Rodney Wilson and Clement Henry, the Political Economy of Islamic Capital, 2003.

can be done away with without substantial losses in the benefits and services of governments.

One major area of government trimming is the military. While military industry made important stimuli for the economic growth in the United States at least since the beginning of the twentieth century, the same does not apply to the contemporary Muslim countries. The United States has both the necessary infrastructure and the production inputs for its military industry while the Muslim countries, with very few exceptions, lack the military infrastructure and the industry's basic material inputs. This leaves imports as the source that nourishes military expenditure in the Muslim countries. Besides, military spending heavily taxes domestic savings and over-burdens the budget in most Muslim countries. Consequently, military expenditure is a major contributor to the weakness of domestic investment and the enlargement of the external and internal gaps that choke economic development. Reducing military expenditure requires political reform to help prioritize government actions and rationalize public expenditures.⁸⁰

Additionally, expanding the market functioning necessitates increasing the pace of privatization. Several Muslim countries started ambitious privatization programs in the last decade of the past century but these programs slowed at the end of the decade and some countries had only cosmetic privatization programs in which the management is kept in the hands of the minister! It is unfortunate that even in some economically "liberal" Muslim countries, the government still plays a major role in the direct management of the economy. It is still the direct owner, runner, and manager of most industries.

⁸⁰ In fact, one of the important lessons we can learn from the developments in Palestine since 1948 until today, including the Intifada, is the ineffectiveness and counter-productiveness of conventional armies and weapons not only in the process of liberation of Palestine but also in the defense of neighboring countries. All Arabs would have been many folds better off had the huge military spending over the last half a century been used for development . The history of Palestine itself would have been drastically different!.

Enhancing the functioning of the market also requires strengthening its financial sector. Over the last half a decade of the twentieth century, several Muslim countries embarked on a process of reorganizing their capital markets and setting up their own exchanges including Oman, Bahrain and Sudan. This is a step in the right direction. Yet, in most Muslim countries there is a need to deepen their respective stock exchanges and create some sort of a pan-Islamic or at least regional, direct communication between national capital markets as a step toward opening them to investors and traders from other Muslim countries. Additionally, creating a legal and economic framework that motivates the entrepreneurs to establish Islamic banks would help incorporating a large segment of economic agents in the process of saving and investment, those who for religious reasons do not like to deal with interest-based banks. To a large extent this category of economic agents represents the majority of middle-class income earners and smaller size economic enterprises who can usually add quick points to the rate of economic growth.

A major area where the government can help improve the market functioning is the activation of the Hisba. The Hisba, as an organized systemic effort to protect market agents and transactions through standardization and other tools from becoming edgy counterproductive or fraudulent, can add confidence in the market and transactions. No wonder why the Qur'an emphasized 'right measures and right scales.' The Hisba may remove a major handicap or a detrimental defect in market functioning that takes the form of an inducement to find 'another way to make money.'

Finally the external expansion of the market, especially to other Islamic countries, should be a policy that should occupy the highest priority in the foreign policy of the Muslim countries. There are a few premises that used to be taken for granted in the traditional theory of foreign trade. Among these premises are the 'protection or infant industries' and the 'ever deteriorating terms of trade of primary goods' which make the main export items of developing countries. The professional policy recommendations

traditionally emphasized the encouragement of import substitution industries and protectionism in order to provide conditions for an industrial takeoff in the developing countries. Accordingly, development practices of the mid-twentieth century till the late 80's carried long lists of red tape procedures of licensing, restrictions and requirements in addition to high tariffs to protect new industries in the developing countries and intensive programs for import substituting projects and basic industries that aim at changing the structure of the domestic economies of the developing countries. In a late-nineties' paper Anne O. Krueger argues that misapplication of theories and assuming counter-situations are the two main reasons why professional economists and developmental policy went wrong. The challenging performance of the four tigers and the recent performance of Malaysia, even with its financial crisis, indicate that outer economies can succeed in achieving high rates of growth even with "overpopulation and middle-of-the-road technology." The terms of trade pessimism and foreign exchange shortages subsided ... giving way to export orientation, privatization and less protectionism.⁸¹

- **Enhancing Output Growth:** All measures that hammer on stimulating entrepreneurial incentives, reducing obstacles and restrictions and improving the productivity of labor input fall under the policies of enhancing the rate of growth of output. Reducing the tax burden is one important policy measure that Muslim countries need to consider again and again. One important approach is to bang on the religious fervor of people by transferring the job of helping the poor to the institutions of Zakah and Awqaf and take the hands of government off. This does not only reduce taxes that are spent on social projects intended for the poor; it also reduces the bureaucratic waste that is usually associated with government services. It also taps on voluntary resources, including manpower and donations that can't otherwise be mobilized.

⁸¹ Anne Krueger, "Trade Policy and Economic Development: How We Learn," The American Economic Review, V 87, No. 1, March 1997, pp. 1-22.

Stability of economic policy is another important measure for enabling the entrepreneurs to create new projects and increase the rate of growth. Stability of economic policy is a manifestation of political maturity or mature approach to governance. Looking at our Fiqh heritage in the area of governance we may notice the great emphasis classical Fuqaha put on weighing instability against reforms and insisting that any attempt to reform must be rejected if it leads to creating a chaotic situation and/or a loss of stability in governance. Al Mawardi is even willing to go to the extent of granting legitimacy to regimes taken over by mere exercise of power on the ground of the need for stability in governance. Byeongju Jeong discusses the effect of political and governing instability on long-term investment and output. In a 2002 paper, he argued that under policy uncertainty investors favor short-term investment over long-term and immaturely abandon projects, this leads to a higher capital cost. According to Jeong's measurement, policy uncertainty lowers long term investment and increases capital cost by a factor of 3; it also lowers long-term output by a factor of 2.⁸² A phenomenon of capital flight either overseas or to hoarding and non-productive use is observed in many developing countries during period of policy instability. Capital flight can add further explanatory rationale to the high cost of capital caused by this kind of instability-induced loss of development opportunity.

On sectorial basis, improving the communication and transportation infrastructure is double rewarding in terms of rate of output growth as infrastructure projects add to output and employment and they serve as a facilitator catalyst for output enhancement in other sectors. The government doesn't have to be the investor in communication and transportation infrastructure. Such task can be left to the private sector if the government can only take the helpful measure in reducing the red tape, licensing and other barriers most Muslim countries are accustomed to. A special credit and finance policy can boost investment in the communication and transportation, the experience of the Sudan in

⁸² Byeongju Jeong, "Policy Uncertainty and Long Run Investment and Output Across Countries," The International Economic Review V. 43, No. 2, May 2002.

the 1990's tells a good deal how this sector can play a pivotal role in the economy. No doubt, International Islamic institutions such as the Islamic Development Bank, Arab Development funds of the Gulf countries and Islamic banks can do a lot in stimulating output growth in the Muslim countries if they can put special effort in this area.

Additionally, agriculture is the main candidate to induce a prompt increase in output within a short period of time. This applies to almost all Muslim countries especially The Mediterranean Arab countries, Iraq, Iran and the sub-Saharan African countries. Readjustment in the methods of providing agricultural extension may effect a 10-15% increase of the farming output without additional capital investment. There is a need for a clear long-term policy of land revivification (Ihya' al Ardh al Mawat). The central idea in Islamic law with regard to land revivification is to encourage the private sector to invest its own resources in bringing idled lands into productive use. This principle must be allowed to activate the spirit of agricultural entrepreneurship with the least amount of red tape and public investment. To do this there is a need to enact new laws of Ihya' al Mawat and to revise the governmental procedures of licensing, fees and other obstacles that exist in those countries that already has certain provisions for land reclamation and/or revivification. Expansion of land reclamation must also include the lands lost to desertification and desalinization especially in countries like Somalia, Pakistan, Iran, Libya and Algeria.

Furthermore, there is a need to reinvent the same old wheel of a domestic policy that encourages a shift to more sustainable patterns of productive use of agricultural lands and to reverse their degradation, especially through traditional labor-intensive, foreign-exchange-free methods of the type that already started in Niger, Burkina Faso and their neighboring countries. Such labor-intensive methods can be experimented in land desalinization in central and southern Pakistan and Iran. In most Muslim countries, policies to expand the domestic urban market and to enhance the pace of poverty reduction, especially in rural areas, can absorb the potential increment in agricultural output. Yet, it is important

that foreign policy be tied to a vision of expanding the external market of the agricultural output, especially in countries that specialize in certain items such as Basmati rice in Pakistan.

Additionally, in the era of information superhighway, developing countries have an increasing capability to jump-start developmental stages that were thought necessary just twenty years ago. The Ireland's experience in the 1990's is very indicative in this regard. By providing a legal framework and policy incentives, Ireland was able to attract domestic and foreign entrepreneurs to an information industry that has become one of the fastest growing industries in Europe with more than a hundred thousand new jobs created in less than 7 years in such a small country of 3.75 million people. Riding the information revolution is neither a specialty of big countries with large resources nor of the already developed countries. It is a function of wising-up policies that enable a highly qualified entrepreneurial human element to extend its applied capability. This is an area where enabling policies can be most effective both in terms of the rate of growth and the time frame in which it can be achieved.

Finally, once more there is a need to realize that education is a most important key to increase the rate of output growth. It is only recently observed that improving skills through the reorientation of the educational system is very effective in speeding up the rate of development. The Muslim countries need to focus on creating a skill pool amenable to be used in middle-of-the road manufacturing technologies and higher information technology.

- **Increasing Labor Force Participation:** The government is the largest single employer in all countries, developed and developing alike. In most Muslim countries the government is the employer of last resort that does not only hide a great deal of disguised unemployment but also distorts the labor market. Labor is both the greatest asset nations have and the heaviest burden they carry too and Muslim countries are abundantly endowed with both. There still exists a great lag in the provision of employment

opportunities to the large number of young men and women who are added to the labor market every year in every Muslim country, including the oil-producing countries. This keeps the consumption burden on the working person very high compared with the developed countries. Therefore, reducing poverty and increasing per capita output both depend around increasing the labor force participation.

The recipe normally prescribed to Muslim and other developing countries by international agencies for increasing labor force participation has always been: reduce population growth and increase the number of women working outside home. The first part of the recipe proved difficult to implement and its second part has always been interpreted as anti-cultural. Over the last decade, economic research points out that the rate of natural population growth is not the most important one single factor that reduces labor force participation across nations. Dasgupta studied the population problem and the factors that shape it across borders and under different cultural axioms and social institutions including inheritance systems, patterns of personal and family conduct, parental values, etc. He concluded that political and civil liberties, incentives to employment, fighting illiteracy and increasing women and youth participation are more effective in increasing the overall labor force participation and that such approaches to the population problem have a spill-over effect on reducing the natural rate of population growth in the long run. Hence, Dasgupta's policy recommendations are centered on improving the political and civil rights performance, providing adequate incentives for employment especially of women and youth, and enhancing adult literacy.⁸³

Fighting adult illiteracy and reformulating a skill oriented educational policy are basic tools for increasing labor force participation. Learning is an indigenous factor in economic growth. The experience of several developing countries in Asia and Latin America indicates that appropriate educational policies

⁸³ Partha Dasgupta, "The Population Problem Theory and Evidence, *Journal of Economic Literature*," V. XXXIII, No. 4, December 1995, pp. 1879-1902.

raised both the rates of labor force participation and work intensity per hour. Increasing labor force participation and work intensity per hour are dominant factors in determining the efficiency of the human engine in converting a mix of inputs into outputs. Over a period of two centuries of British economic growth since 1790, it is estimated that 50% of the increase in output is accounted for by this kind of increase in human efficiency.⁸⁴

The second part of the traditional recipe is certainly culturally loaded. Due to its Roman Jewish roots, the Western culture is exclusive and conflict-based. This is in direct contrast with the Islamic culture that is nature friendly and reconciliation-based. Women participation in the labor force came in the Western countries as a result economic pressure from two angles: the firms seeking cheap labor to stand competition and women needing resources after men neglected their financial responsibility and left to work in urban factories. Because of its exclusiveness that always leads to prejudices, along with participation in labor force came centuries of anti-women discrimination, sufferance and struggle. The Western women revolt was expectedly devastating, out of proportion and uncompromising.

Women in the Muslim world are under-valued and prejudiced against too, but the Islamic cultural background is essentially supportive of women rights and equality because women rights and equality are established in the sources of our religion. They are a manifestation of human nature-friendliness and reconciliation of our Islamic culture. That is why existing and inherited injustices in the Muslim societies with regard to the women matters are an outcome of the inherited social decay and backward institutions not of a basic cultural bias. There is certainly a need to recognize that in Islam and in real life too women are not only mothers, sisters, daughters and wives (i.e.,

⁸⁴ Robert W. Fogel, "Economic Growth, Population Theory and Physiology: The Bearing of Long-Term Process on the Making of Economic Policy", American Economic Review, V. 84, No. 3, June 1994, p.388.

valued in relation to a man) as many of our contemporary renaissance writers thought!⁸⁵ Women are, first of all, human persons, Muslims and citizens. The need to increase women participation in labor force in the Muslim countries must be understood against this cultural background. Consequently, women participation in labor force must be approached within the objective of promoting family life, the rights of children to mother-care, and the men's financial responsibility to provide for the family. Further, if we really want women participation in the labor force to come about in a way that is consistent with our culture, contemporary Islamic economics must carry the torch and pioneer socio-economic activism to open up our society to this necessary change. We need to realize that to produce balanced and culturally responsive new social institutions and patterns of conduct women must be present and active in the social and political decision making arenas. Without women's social and political presence and participation male chauvinism is bound to pop out intentionally and unintentionally.⁸⁶ We would, then, fall back to social institutions and patterns of conducts that are inconsistent with the implication of applying the Islamic principles to our time and consequently inadequate to generate a development oriented change. I believe that unless Islamic economists take the lead and present their own model the Western model of women participation in the labor force shall remain the only growth-motivating model available to women in the Muslim countries.

- **Changing the Patterns of Consumer Behavior:** Economists rightly speak about the demonstration effect and the influence of social and cultural environment on the behavior of the consumers. In fact, the Muslim countries have a very strong cultural background that they can lean on to effectively influence consumption behavior in the direction of reducing waste and increasing saving

⁸⁵ For instance Mustafa al Siba'I in Woman between Fiqh and Law (Arabic) and Jamal Badawi in Women in Islam.

⁸⁶ The example of unintended prejudice is when 'Umar' declared an upper limit on Mahr at marriages and he was corrected by a woman who was not only present but also knew the Law and knew her rights to the extent that she was able to confront Umar and refute his argument with a support and evidence from the Qur'an.

provided proper policies are undertaken. There is a huge heritage of sayings in addition to the many Qur'anic Verses that promote moderation, rationalize consumption and discourage extravagance, imitation of others, and wasteful use. Why is it not working? What is missing? Isn't it the real life example? Can a new covenant between the governing class, Ulama and opinion leaders work? Can it work to promote a new pattern of consumption, condemn waste and encourage "investment-oriented" saving? To be effective such a covenant should be coupled with leadership exemplary attitude/pattern. It is apparent that consumption patterns all over the world are also influenced by the superhighway, mass media transmission and movement of information, ideas, behavioral standards, advertisement and exposure of goods. The high and unprecedented rate of personal human contacts through travel, rural-urban and inter-countries migration also affect the consumption patterns of both the host and source countries/areas. The consumption patterns of all countries have become so much linked together that all traditional barriers have become ineffective and the whole world is developing a new interactive world culture. Protection of a pan-Islamic culture and national subcultures and behavioral patterns, both in social and economic fields, can only be achieved through inculcating the Islamic values and raising personal awareness that strengthen the inner filtering and inner check and control systems in every Muslim. What the Prophet, pbuh, called "the caller for God in the heart of every Muslim داعي الله في قلب كل مسلم"⁸⁷ In other words, we need to work within a world culture and reconstruct the Muslim personality in a way that makes it effective in enriching the world culture with Islamic behavioral and consumption patterns. Islam as a religion constructs its motivation system inside men and women by relating one's faith and destiny to the adoption and implementation of desired guidelines in one's behavioral patterns, refer for instance to Verses 1-5 of Surah 83.

One other important area of policy change that affects the behavior of consumers is to put an end or to eliminate the 'bias

⁸⁷ Part of a Hadith reported by Ahmad.

toward urban areas' in government spending. This bias takes sometimes a direct form but it very often takes the form of indirect subsidies to city dwellers at the expenses of justice and rather affirmative action to enhance poverty reduction in rural areas. One of the forms of direct subsidies is manifested in underpricing city utilities such as water and electricity in most Muslim countries while the overwhelming majority of their rural areas lacks drinking water and healthy sanitation. Privatization of public utilities helps remove this kind of counter developmental prejudice. But privatization must also be implemented in such a manner that does not exclude the development of rural areas and their provision with basic public utilities under the excuse that rural dwellers are poor, scattered and can't afford paying for the required initial infrastructure. Indirect subsidies to urban areas are very often made through the education budgets, usually tilted towards urban schooling and urban university teaching facilities and through the prevailing government supported transportation system. Only the case of transportation system is discussed here. City streets and city and suburban highways are normally constructed and maintained by the government and very often financed through the main national or regional budget. Additionally, gasoline prices are often maintained under market prices in several Muslim countries. Private car owners are double subsidized in a way that is not only destructive to the environment and costly to the economy but also counter developmental as it reverses the priority of poverty reduction. They are subsidized once through city street construction and maintenance, gas prices, etc. and once more when they are under-taxed. In most Islamic capitals private vehicles fill public highways and crowd out public transportation! The result is continuously repeated calls for further indirect subsidies to urban highways and city streets!

Additionally, poverty creates a pattern of consumption that erodes resources and negatively affects the sustainability of production, let alone development. Under such circumstances, policies that aim at changing the consumption behavior must be accompanied by providing alternative patterns and resources. In several Muslim countries low income rural families are often

driven to unproductive and fragile areas, in which their survival depends on extracting maximum current capacity from the land. Their source of household energy is burning wood they collect from their natural surrounding. This contributes to soil erosion, desertification, land degradation and climate change. Natural vegetation is disappearing at an alarming rate in fragile lands in East Mediterranean Arab countries and North and Sub-Sahara Africa. Policies to reach fragile areas with education, fuel and vegetation conservation methods help not only provide a lifeline for the poor in rural fragile areas but help their survival within their environment and reduce the overburdening consequences of economic migration to urban poor areas.

Conclusion⁸⁸

Section One of this paper reviewed the basic indicators of economic development in the Muslim world. It depicted poor achievement at the level of economic development, little improvement in the agricultural sector and low rates of labor force participation in general and of women in specific. In Section Two I pointed out that Islamic economists focused on Islamizing the economy more than its development. Economic development has been looked at in a way similar to the familiar way of conventional economics, two gaps, take off, full employment, etc. The exceptions are few among them the discussion of *Ihya' al Mawat* as a legal framework of an enabling and incentive-creating institution for agricultural development.

In Section Three an attempt was made to figure out the main pre-requisites for a steady sustainable development. I discussed eight points that are: The need for changing existing institutions and policies and creating new ones, the priority of developing human capital especially youth and women in sustaining development, the role of leadership to pull up developmental effort from the top, the role of societal civil organizations to push development from down upward, the importance of human rights and their expanded scope, integrating development with cultural heritage and social structure, interrelation between sustainability and self-reliance, and, the implications of the smallness of our contemporary world. All evidence from conventional economic rationale, empirical experience of other countries and of a few Muslim countries, and from the implications of the Islamic teachings and principles points out to the direction of enabling policies and institutions that put the human element in the driver's seat with no guardianship imposed from our self-serving and self-perpetuating governments.

The last Section argued that poverty reduction is not merely a redistribution policy, it is rather a developmental policy that must aim at, and it actually effects, increasing the productivity of the poor and empowering

⁸⁸ After writing this paper, in July 2002, the United Nations issued its report on development in the Arab Countries. All that is in the report confirms the results and recommendations of this paper. I therefore did not find need to make any addition.

them with better education and capital assets. Consequently poverty reduction must be given primary priority and must always top the list of economic objectives of every, and all, Muslim countries. Poverty reduction is essential for the sustainability of development because it enables the human element that is the only indispensable factor to sustain development. The Prophet, pbuh, swears that knowingly neglecting the hungry deprives a person of the essence of faith.⁸⁹ In this section I also discussed seven areas of policy change that need to be adopted, and can be put into immediate action, in order to set our Muslim societies on the path of sustainable development. These seven policy/institutional changes are: contract enforcement and eradication of favoritism and corruption of governing, processes for the formation of marketable human capital, means for the formation of public-good human capital, improvement of functioning of the market, enhancing output growth and increasing productivity, increasing labor force participation especially of women and changing the patterns of consumption and consumer behavior. To put these policies into action there is a need for improving governance in the Muslim countries.

Since the beginning of the mid-twentieth century when the Muslim countries began to gain their independence, both the rulers who are in power and the opposition in most Muslim countries did not learn to coexist and co-work to lay down the necessary requisites of economic development. Instead the same behavioral attitude of struggling against the occupation forces continued to be used against each other. The real challenge in the Muslim countries today is to develop new behavioral patterns of governance. This requires that both government and opposition revert to the reconciliatory foundation of the Islamic culture and to focus their combined efforts on the challenge of development. This is the long run that requires giving a priority to establishing culture-friendly development-motivating societal institutions and policies that can enhance growth with justice.

No economic development can ever be sustained unless the human element is enabled to carry it forward and only free-willed women and men who carry their own economic-cum-political fate in their own hands can be in charge of bearing the responsibility of their own economic development

⁸⁹ The meaning came is a saying reported by al Tabarani and al Bazzar and marked by al Mundhiri as having good chain. Al hafiz al Mundhiri (Circa 656 h), al Targhib wa al Tarhib, Mustafa al Babi al Halabi Publishers, Cairo 1968, V. 3 p. 358.

and sustain its rate of growth. This must be considered the cornerstone of Islamic economics and the Islamic approach to societal change. It is an institutional approach that always begins with changing the behavioral attitudes that reconstruct the marketable and the public human capital, the inside and outside institutions and policies and reformulate them as human machines of progress and improvement as the Qur'an repeatedly calls it good action *العمل الصالح*. The collapse of the Soviet Union and the experience of Indonesia in the late 1990's confirm that any oversight of this basic principle of human societization *العمران البشري*, to coin an English literal translation of Ibn Khaldun's term, takes us only to the plain of nowhere.

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