

Social Inclusion: Practical Strategies to Promote Equality of Socio-Economics in Islamic Economic Framework*

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Abstract;

Indonesian economic condition for the last decade increases its rate of economic growth. Unfortunately, it also raises the rate of inequality of income distribution of people. In this case, needed any integrated strategy to slow down inequality to attain equality of socio-economics of community. Social inclusion in Islamic economic perspective is one of the key policy ingredients to attain stable and just economic development of society. Social inclusion is focusing on creating conditions for equal opportunities and equal access for all in all aspect of life. Social inclusion means full and active participation of every member of society in all aspect of life including; civic, social, economic, and political activities. This paper will examine the concept of social inclusion focused on economical aspect. In this context, social inclusion can be understood as the process by which society combatting poverty. Combatting poverty means to remove the main factor of social exclusion. Participation and inclusiveness should structure the new approach to combating poverty. This requires paradigm shift from exclusion to inclusion. More than that it should be; ethical norm, moral imperative, allowable principal and societal purpose, and hand in hand with economic system of Islam. One of the strategies to promote equality of socio-economic is consideration, the concern on needs of individuals and group. Integrated objective from this subject is to reduce poverty, employment opportunity, and sustainable development. This is in line with the objective of Islamic economic system to attain equality of income distribution of all of society. Methodology of paper on this subject is developmental research. In developmental research, the theory of social inclusion is reproduced, rectified, and perfected in line with Islamic economic framework. There are many researches regarding social inclusion, this paper specifically discusses social inclusion in promoting equality of socio-economic in Islamic economic perspective.

Keywords: Social inclusion, socio-economics, Islamic economic.

Abstrak:

Kondisi perekonomian Indonesia selama satu dekade terakhir meningkatkan laju pertumbuhan ekonominya. Sayangnya, hal tersebut juga meningkatkan tingkat ketimpangan distribusi pendapatan masyarakat. Dalam hal ini, diperlukan strategi terpadu untuk memperlambat ketimpangan untuk mencapai kesetaraan sosial ekonomi masyarakat. Inklusi sosial dalam perspektif ekonomi Islam merupakan salah satu bahan kebijakan utama untuk mencapai pembangunan ekonomi masyarakat yang stabil dan berkeadilan. Inklusi sosial berfokus pada penciptaan kondisi untuk kesempatan yang sama dan akses yang sama untuk semua dalam semua aspek kehidupan. Inklusi sosial berarti partisipasi penuh dan aktif dari setiap anggota masyarakat dalam semua aspek kehidupan termasuk; kegiatan

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sipil, sosial, ekonomi, dan politik. Makalah ini akan mengkaji konsep inklusi sosial yang difokuskan pada aspek ekonomi. Dalam konteks ini, inklusi sosial dapat dipahami sebagai proses yang digunakan masyarakat untuk memerangi kemiskinan. Memerangi kemiskinan berarti menghilangkan faktor utama pengucilan sosial. Partisipasi dan inklusivitas harus menyusun pendekatan baru untuk memerangi kemiskinan. Hal ini membutuhkan pergeseran paradigma dari eksklusivitas ke inklusi. Lebih dari itu seharusnya; norma etika, keharusan moral, prinsip dan tujuan masyarakat yang diperbolehkan, dan sejalan dengan sistem ekonomi Islam. Salah satu strategi untuk mendorong pemerataan sosial ekonomi adalah dengan memperhatikan kebutuhan individu dan kelompok. Tujuan terpadu dari mata pelajaran ini adalah untuk mengurangi kemiskinan, kesempatan kerja, dan pembangunan berkelanjutan. Hal ini sejalan dengan tujuan sistem ekonomi Islam untuk mencapai pemerataan distribusi pendapatan seluruh masyarakat. Metodologi penulisan pada subjek ini adalah penelitian pengembangan. Dalam penelitian pembangunan, teori inklusi sosial direproduksi, diperbaiki, dan disempurnakan sejalan dengan kerangka ekonomi Islam. Banyak penelitian mengenai inklusi sosial, tulisan ini secara khusus membahas tentang inklusi sosial dalam mempromosikan kesetaraan sosial ekonomi dalam perspektif ekonomi Islam.

Kata kunci: Inklusi sosial, sosial ekonomi, ekonomi Islam.

A. INTRODUCTION

Indonesia with its population around 260 millions peoples, the largest economy in southeast Asia, a diverse archipelago nation of more than 300 ethnic group, has the fifth largest concentration of poor in the world. More than 28 millions Indonesia still live below the poverty line. Approximately 40 % of the entire population remain vulnerable of falling into poverty. From employment side, employment growth is slower than population growth. Eventough, by its political stability, Indonesia is one of Asia Pacific's most vibrant democracies and is emerging as a confident middle-income country.² More than 7 millions people does not have any vacation. As one of the biggest country in Asia especially South East Asia, said has successes in reducing its poverty. In facts rate of inequality is remaining high. It is responsible of all to attain to socio-economic justice for society. Inclusion is critical to help poor people have an easy access and equal opportunity in accessing financial resources to increase their economic productivity so that it can help reduce poverty and lower income inequality.

Financial inclusion is the process that ensures the ease of access, availability, and usage of formal financial system for all member of society³. Inclusion ensuring equity and justice and respecting and maintaining the Indonesian people's diversity. From general meaning Inclusion is equal opportunities and full participation of every individual among society in all aspect of life, including civic, social, economic, and political activities. From economic aspect of social inclusion, inclusion widely understood by its financial aspect, known as financial inclusion.

² <http://www.worldbank.org/en/country/indonesia/overview>, accessed on 18th October 2017.

³ Cyn-Young Park and Rogelio V. Mercado, jr., Financial Inclusion, Poverty, and Income inequality in Developing Asia, Asian Development Bank Working Papers Series No 426, Manila, 2015. <http://hdl.handle.net/10419/109508>. P. 1

National survey of otoritas jasa keuangan Indonesia (financial services authority of Indonesia) conducted on 2016. Financial inclusion indexes in 2016 is 67.82%. this number raises from 2013 with amount of index 59.74 %. While financial literacy index also increases from 21.84% in 2013 to 29.66 in 2016. Indexes in Islamic finance literacy in 2016 is 8.11 %. And index in Islamic finance inclusion is 11.06 %. This survey is conducted to 8.000 respondent in 20 provinces. With majority of muslim in Indonesia 8.11% of Islamic finance literacy and 11.06 in islamic finance inclusion is far enough from an ideal number.

Social inclusion in term of 'Inclusive society' as a society for all is not a new concept this issue has taken place of discussion since year 1995 in the world summit for social development in Copenhagen. There are many issues discussed, some of those issues are; commitment to promote full respect for human dignity and to achieving equality, equity between women and men, and to recognizing and enhancing the participation and leadership in political, civil, economic, social, and cultural life development. Commitment to promoting and attaining goals of universal and equitable access to quality education, the highest attainable standard of physical and mental health care, making particular efforts to rectify inequalities relating to social conditions and without distinction as to race, national origin, gender, age, or disability; respecting and promoting our common and particular cultures; striving to strengthen the role of culture in development; preserving the essential bases of people-centered sustainable development; and contributing to the full development of human resources and to social development. The purpose of these activities is to eradicate poverty, promote full and productive employment, and foster social integration.⁴

Creating inclusive society have been initiated since 22 years ago In the World Summit for Social Development, in March 1995. The Copenhagen Declaration and Programmed of Action has a key outcome of the Summit, and are; pledged to make the eradication of poverty, full employment and social integration overriding objectives of development. The result has not satisfying, even the data showed the decrease in the poverty rate, and increase in GDP, rate the rate of inequality increases as well.

Some points from the world summit for social development in Copenhagen declaration on social development 1995 are; 1) Commitment to creating an economic, political, social, cultural and legal environment that will enable people to achieve social development, 2) Commitment to the goal of eradicating poverty in the world, through decisive national actions and international cooperation, as an ethical, social, political and economic imperative of humankind, 3) Commitment to promoting the goal of full employment as a basic priority of our economic and social policies, and to enabling all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work.

⁴ Creating an Inclusive Society: Practical strategies to promote social inclusion", organized by DPSD/UNDESA, 23 May – 17 June, 2007.

Three points of the world summit for social development goals above, creating socio-economic that will enable people to achieve social development, eradicating poverty, and achieving full of employment are the socio-economic goals in Islam. Goals of Social Inclusion are Equity in the distribution of wealth and resources, how the resources are allocated and utilized will significantly affect the orientation of society. There are similar and common goals between the goal of social inclusion and the goals of socio economic justice in Islam.

Besides inclusive society, in the economic the concept inclusive development is also widely used. The concept of inclusive development is based on two inclusion and development. Inclusion means development without barriers which discriminate or exclude certain individuals/groups of society, 'high quality of economic development', economic growth with equal economic opportunities for all member of community. The basic meaning of inclusion is to be inclusive it self. Inclusion and development, and inclusion is a process and also a goal. Inclusion is about society changing to accommodate differences by removing all barriers which discriminate or exclude certain individuals/groups within society. it is stated that inclusive development is understood to refer to economic opportunities and making them accessible to everyone in society at all levels.⁵ From above elaboration practical strategies to promote equality of socio-economics among society in Indonesia, goals and concept of inclusion, will be discussed and elaborated.

B. METHODS

The authors use a qualitative approach that is also used as the basis for research conclusions in the fields of Shari'a, social sciences and humanities. Qualitative research focuses on the creation of knowledge through exploration and interpretation of circumstances, both textually and contextually. Qualitative study attempts to examine the social phenomena that emerges from the cause of the event, including the ideals and norms of society, and also the issues that occur in human life. Using the qualitative approach, the authors attempt to create a positive, nuanced and detailed report, to examine the word from the viewpoint of many respondents and to study natural circumstances in an exploratory manner.

C. RESULTS

1. Financial Inclusion, Poverty, and Unemployment in Indonesia

A social inclusion strategy should be the starting point identifying a series of practical objectives and action that can positively impact processes to decrease

⁵ Tulus T.H. Tambunan, Indonesia; Building an Inclusive Development Model, Moving Toward a New Development Model for East Asia-The Role of Domestic Policy and Regional Cooperation, Eria Research Project Report, Jakarta, 2011. P. 230

the levels of social exclusion and poverty, in order to improve the quality of life of every member of society.

Social inclusion after initiated in World Summit in 1995 is affirmed by the financial inclusion by G20 Pittsburgh Summit 2009, and reaffirmed by Toronto Summit in 2010, with 9 principles for innovative financial inclusion reference for inclusion financial development namely; leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality, framework. So what is financial inclusion? There are many definitions of financial inclusion, "It is a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers. Effective access involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options", "financial inclusion involves providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector", "It is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players".⁶

From the all the definition about financial inclusion, why is it really matter? There are many reasons for financial inclusion becomes so important. The reasons are; increases economic efficiency, support financial system stability, reduce shadow banking or irresponsible finance, supports deepening of financial market, giving new market potential for new banking, support the increment of human development index of Indonesia, contributing positively toward local and national economic growth which is sustainable and continues, reduce inequality and rigidity of low income trap, and increase the welfare of people in case to reduce the rate of poverty.⁷

In Indonesia there are three approaches of national strategies in accelerating of financial inclusion. Those are; availability of adequate public services availability of suitable product, responsible finance through financial education and consumer protection. Financial inclusion implementation is stages from a clear target with recipient of government social helping program or migrant worker can be used by society at a whole. The program is not the responsibility of a government alone but the responsibility of all of society.

Interesting research done by Bedjo Santoso and Khalid Ahmad in their paper 'Islamic Microfinance Branchless Banking Mode in Indonesia'. He concludes

⁶ <http://www.bi.go.id/id/perbankan/keuanganinklusif/Indonesia/Contents/Default.aspx>, Accessed on 24th October 2017.

⁷ *Ibid.*

“to develop Branchless Banking (BB)⁸, Indonesia should consider the value in society, religion, benefits, community willingness, tradition, local wisdom, and culture as well. Besides, the wide Area, number of tribes, and the biggest archipelago with long distance should be considered as an important factor to develop Financial Inclusion in Indonesia. Therefore the community model based on Islamic microfinance and cooperatives is the appropriate model as an alternative to deal with the problem.⁹

All of about inclusion is an effort to reduce poverty and unemployment in Indonesia. as both of poverty and unemployment are the main issue in inclusive society. and as the rate of poverty and unemployment is still remaining high. There are estimated around 28 million of poor people in the society, they are around 11 % from all of population. And there are more than 7 million unemployed people which is about 5.5 % of unemployed people.

According to the world bank standar, poverty is people living with income under 2\$ a day, the fact shows that amount of poor people of Indonesia is a quarter of its population estimated amount up to 65 million.¹⁰ Poverty is the inability to satisfy one's basic needs because one lack income to buy goods and services. Basic needs are; foods, shelter, water, house, education, health, and comfortless etc. ¹¹

Indicator of poverty according to BPS (Statistic Centre Institution) such as; the inability to fulfil basic consumption needs, the lack of access to other basic necessities of life, there are no guarantee of future, the low quality of human resources and limited natural resource, lack of acces to employment and sustainable livelihoods, susceptibility to shock the individual and the masses, disability and social independence, inability to strive for physical or mental disability, and the lack of appreciation in social activities.¹² But Islam assert unambiguously that poverty neither caused by scarcity and paucity of natural resources, nor is due to the lack of proper synchronization between the mode of production and the relation of distribution, but as a result of a waste, opulence, extravagance and nonpayment of what rightfully belongs to the less able segment of society.¹³

⁸ A mechanism that allows customer to deposit, withdraw and transact their funds in secure and efficient manner through non-branch customer channels-such as mobile phone, terminals or agents. Branchless banking is part of the financial inclusion concept that has the main objective for removing obstacle for the poor/unbanked people to access financial services backed by ICT.

⁹ Bedjo Santoso and Khaliq Ahmad, Islamic Microfinance Banking Model in Indonesia, Intellectual Discourse; Special Issue IIUM Press, 2016, P.429.

¹⁰<https://www.indonesia-investments.com/id/keuangan/angka-ekonomi-makro/kemiskinan/item301>, accessed on 24th October 2017.

¹¹ Dwi Sulastyawati, Islam, Globalization, and poverty Alleviation, Al-Iqtishad; Jurnal Ilmu Ekonomi Syariah, Fakultas Syariah dan Hukum, UIN Syarif Hidayatullah, Jakarta, Vol 5, No.2 2013, P. 302

¹² <http://factsofindonesia.com/poverty-in-indonesia>, accessed on 24th October 2017.

¹³ Mahmoud Mohieldin and friends, The role of Islamic Finance in Enhancing Financial Inclusion in Organizing of Islamic Corporation (OIC) Countries, The World Bank Islamic Economic and Finance

Poverty phenomena around the world really touching our sensibility, where we see around the children in schooling age should fight with the reality they are facing, war with the time and obsession, for fulfilling their hope and imagination. In fact the children is human capital of the country should be given adequate education, and fair state of health. But the reality shows that many of the children in developing country should become labor in their childhood time. Lack of clean water is killing 5000 children a day in developing country. This News is really pathetic. As most of the poor they have lack accesses to sanitary and watery necessities.¹⁴

Poverty is indeed not a new issue. It was, and is current economic problem. It was not a problem of developing countries alone, but it was a problem of developed countries as well. From this point of view there should be new international monetary system which is just, equitable and sustainable. An interesting quotation taken from Ikram Azam is that 'poverty alleviation is not enough. The only way to do that is to uproot and eradicates poverty. And according to him that it is not possible under the present colonial capitalistic imperialistic system. A new model and paradigm is needed to be shifted. The end of poverty is not possible without critical social change toward egalitarian and redistributive justice, in perpetual peace, sovereign selfhood, and fraternal freedom to create general human welfare, and even prosperity for one and all, globally¹⁵.

Even tough it is said that the poverty decreased. In Contrast to equality is inequality, inequality often measured by gini coeffition. The gini ratio or coeffition which measures income distribution ieneuqality, is an important indicator to assess the degree of righteousness in a coutry (although this indicator does have flaes). A gini coefficient of 0 indicate perfect equality, while a coefficient of 1 indicates perfect inequality. Indonesia's Gini ratio stood at 0.41 in the years 2011-2015, little reduce at 0.40. in 2016. Even tough the increase in inequality really felt among society. A world Bank report that was released in December 2015 claims only the richest 20 percent of Indonesia's population have enjoyed the fruits of a decade-long economic growth, implying 80 % of the population (or 200 million people in absolute term) are left behind.¹⁶

From Islamic point of view alleviation of poverty and achievement of full rate of employment are the goals of socioeconomi justice. And two main issues of inclusion are the main purposes and goals of Islam. Poverty rate is not only the

Working Group, presented at 8th Intenational Conference on Islamic Economics and Finance in Qatar, 2011, P. 6

¹⁴ Dwi Sulastyawati, *Op.Cit.*, P. 301

¹⁵ Azam, Ikram. 2003. *The New Political Economy Paradigm*. Pakistan Futuristics Foundation & Institute. Islamabad. P.19

¹⁶ <https://www.indonesia-investments.com/id/keuangan/angka-ekonomi-makro/kemiskinan/item301>, accessed on 24th October 2017.

main problem of society. Unemployment is also a big problem and a main issue of inclusion. In order to achieve adequate income, suitable and adequate vacation should be available for society. Unemployment is a problem for all nations in the world. In this case a new policy to remove unemployment around the world is critical to be created.

In Indonesia the rate of unemployed people is 7.02 millions, and it is 5.5 % of all population in 2016. With categorize of individual who employed is above 15 years of age and who works at least one hour per week as an employed person.¹⁷ Rate of open unemployment is 5.33% in February 2017 there is slight reduction in unemployment rate.¹⁸

Full employment, self-employment or adequately remunerated work is an effective method of combating poverty and promoting social integration and social inclusion. When members of society have work, they automatically become stakeholders in the economic realm. Engagement in and access to the labor market is therefore the first and most important step in participation in the economic processes of society, and employment and self-employment are the most salient aspects of economic inclusion. Employment also acts as a source of identity and gives access to a social network.¹⁹ When a people have good access to social network and employed. It will be easier for individual to get to their own status and identity in the society, and out from unemployment label which is a barrier for people especially a household responsible. In addition there should be a focus on providing poor people with the necessary skills and asset that will enable them to take full advantage of any expansion in employment potential, as commonly their case is lower level of education, lack of skill, lack of vocational training, lack of information, lack of social network and lack of work opportunity. High rate of unemployment will hurt pride, dampen their faith in the future, increases their hostility toward society, and damages their personal capacities and potential contribution.²⁰

2. Socio-Economic Justice in Islamic Economic System

The world Islam intentionally, literally, and proverbially means 'peace' thorough submission to the will of Allah. Islam aims at Islamic democracy in Islamic welfare state and society through peaceful progress in fraternal freedom on the basis of moderation and balance in the worldly and other worldly. It is strictly against all extremes and excesses, including fanatic, terrorism, and obscurantism. Islam provides an integrated system of life. It creates integration between all

¹⁷ <https://www.indonesia-investments.com/id/news/todays-headlines/unemployment-rate-indonesia-falls-to-5.5-of-labor-force/item6788>, accessed on 24th October 2017.

¹⁸ <https://www.bps.go.id/linkTabelStatis/view/id/981>, accessed on 24th October 2017.

¹⁹ "Creating an Inclusive Society: Practical strategies to promote social inclusion", organized by DPSD/UNDESA, 23 May - 17 June, 2007.

²⁰ Muhammad Umed Chapra, Monetary Management in Islamic Economy, Islamic Economic Studies, Vol 4, no 1, December 1996, P. 13

aspects of human life; it may be social, economic, and politic. It create a guidance for its believer to interact each other, how to respect each other. It gives strong identity for its believer that they are not supreme upon another in respects of tribal, sect, nation, and religion. Mutual consultation, tolerance and resorting to persuasive measure are the guiding principle for resolving the social and political issues²¹.

Islam is a comprehensive religion. It covers all aspects of life including economic, politic, etc. Economic is part of Islam that cannot be apart from Islam itself. Islamic economic is existed since the existence of Islam to the world. One unique characteristic of Islamic economic is Zakah. Zakah is an instrument of redistribution of income from the rich to the poor. Zakat means purifying. It purifies the wealth of a Muslim. And zakat is compulsory for all Muslim and as one of the five pillars. It can be used on eight purposes. Among them are the poor, the needy, the debtor, the slaves, and the travelers in need, administrative of zakat, those whose hearth are made inclined (to Islam), and in the way of Allah. And waqf is voluntary giving, it means hold, confinement. "The objective of zakah is enabling the poor to stand on their own feet. Zakah should become a permanent income supplement of only those who cannot be enabled to earn enough through their own feet. This requirement should make a valuable contribution to the expansion of self-employment opportunities and ti the reduction of inequalities".²²

Potential amount of zakat and waqf is so fantastic. In Indonesia it amounts up to trillions rupiah. Even not alleviating poverty it can help reducing poverty. Unfortunately, awareness in paying zakat is very low for almost all Muslim countries. And no wonder why poverty is become continuous problem. Poverty in principle is the responsibility of the state. Even it is mentioned in constitutional law. "The destitute and the poor are protected by a state.

Principally, all the people in the world will live in prosperous way when there is equal distribution of income among people. It happens in history where no people found to be poor, as all are living in welfare. This is happening trough equal redistribution of income mechanism. It also means that creating equal opportunities for accumulating income is obligatory.

Overall accumulation of capital prevented income to be distributed equally. While Islam's tenets that everyone should be given equal opportunity in accumulating capital to obtain fair and just income. It means that should be there a formula and strategy in restructuring socio-economic condition. One of its strategies is "reducing the existing concentration in the ownership of means of production as much as possible to complement the role of moral transformation in minimizing the influence of wealth and power in the allocation and distribution of resources".²³

²¹ Khalid Nazir, 2003. In Search of Justice. Ammar Publication. Islamabad, p.80

²² M Umer Chapra, Islam and Economic Development; A Strategy for Development with Justice and Stability, Islamic Research Institute Press, Islamabad, 1993, p. 83

²³ M Umer Chapra, *Loc.Cit.*, p. 62

Socioeconomic status indicates one's access to collectively desired resources, be they material goods, money, power, friendship networks, healthcare, leisure time, or educational opportunities. And it is access to such resources that enable individuals and/or groups to prosper in the social world.²⁴

D. DISCUSSION

SM. Umer Chapra as one of the prominent scholar in Islamic economic and used to be a reference in Islamic monetary policy. Setted some of the most important goal of the Islamic economic goals. Some of the most important goals of socio economic in Islam are;²⁵

1. Economic well-being with full employment and high rate of growth

The inevitable outcome of the Islamic belief that human beings are the vicegerents of God is that they must lead a life that be fits their status. The divine guidance embodied in Islamic teaching is intended to help them in the realization of this objective. Muslim jurist has unanimously held the view that the welfare of the people and relief of their hardship is the basic objective of the shariah. This view would, in the economic field, necessitate economic well-being trough satisfaction of all basic human needs, removal of all major sources of hardship and discomfort, and improvement in the quality of life, morally as well as materially. Hence full ad efficient employment of human resources would be an indispensable goal of the Islamic system, because it would help realize not only the objective of broad-based economic well-being but also impart to human beings the dignity demanded by their status as God vicegerent. Full and efficient employment of material resources would also be an essential goal because, according to Islam, all resources in the heavens and the earth meant for human welfare and need to be exploited adequately, without excess or wastefulness, for the purpose for which they have been created.

2. Socio-economic justice and equitable distribution of income and wealth

The goals of socio economic justice and equitable distribution of income and wealth are an integral part of the moral philosophy of Islam and are based on its unflinching commitment to human brotherhood. The capitalist system's conversion to socio-economic justice and equitable distribution of income is, on the contrary, not based on a spiritual commitment to human brotherhood. It is rather the outcome of group pressures. Accordingly, the system as a whole, particularly its money and banking arrangement, is not geared to these goals and glaring disparities of income and wealth continue to be some of these inequalities are being partly reduced by taxation and transfer payment. In contrast to this, Islam tries to uproot the causes of

²⁴ http://www.esourceresearch.orgPortals0UploadsDocumentsPublicOakes_FullChapter.pdf.pdf, accessed 10th October, 2017.

²⁵ M Umer Chapra, *Monetary Policy in an Islamic Economy*, International Centre for Research in Islamic Economics, Jeddah, 1983, P. 2, <http://www.muchapra.com/b4.2.html>

gross inequalities at their source and also uses of zakah, taxation and transfer payments as additional measures to reduce inequalities even further to bring about a distribution of income which is in conformity with its concept of human brotherhood. Hence it is essential that even the money and banking system and monetary policy are so designed that they are finely interwoven in to the fabric of Islamic values and contribute positively to the reduction of inequalities.

Goal-oriented allocation of credit, Since bank credit comes out of the deposits of all section of the population, its allocation may be able to satisfy the norm of socio-economic justice in Islam only if its benefit goes to satisfy the norm of socio economic justice in Islam only if its benefit goes to an optimum number of businesses and leads to the production of goods and services needed by all section of population. This is unfortunately not the case. The appropriate way to achieve this objective may not be an elaborate network of controls. Since, the operation of market forces has been recognized by Islam. It may perhaps be better to overcome the reasons for the less than desired contribution of commercial banks for the realization of these objectives.²⁶

Another paper written by M. Umer Chapra, 'the case against Interest; Is It Compelling?' it is written that "The entire international financial system now is based on interest in spite of its prohibition but four of the world's major religions. However the Muslim world is now trying to replace the conventional interest based system with the one where the greatest reliance on profit and loss sharing (PLS) and where the debt is created not to by pure lending and borrowing but by the sale or lease of real asset".²⁷

Financial intermediation on the basis of interest tends to allocate financial resources among borrowers primarily on the basis of their having acceptable collateral to guarantee the repayment of principal and sufficient cash flow to service the debt. End use of financial resources does get considered but does not constitute the main criterion. Even though collateral and cash flow are both indispensable for ensuring repayment of loans, giving them undue weight leads to a relative disregard of the purpose for which borrowing takes place. Hence financial resources go mainly to the rich, and to government, who, it is assumed, will not go bankrupt. However, the rich borrow not only for conspicuous consumption and speculation while government borrow not only for development and public well being, but also for excessive defence build up and productive project. This is not merely accentuate macroeconomic and external imbalances, but also squeezes the resources available for need fulfilment and development. A decline in bank lending for speculative and unproductive projects, which a PLS system carries the potential of bringing about, can therefore be very healthy.²⁸

And he found that there is a strong rationale behind the prohibition of interest

²⁶ Muhammad Umed Chapra, Monetary Management in Islamic Economy, Islamic Economic Studies, Vol 4, no 1, december 1996, P. 27

²⁷ M.Umer Chapra, The Case Against Interest: Is It Compelling?, Thunderbird International Business Review Vol 49, 2007. P. 161

²⁸ *Ibid.*, P. 177

by major religion of the world. The rationale is not merely to prevent the exploitation of the poor but also to make the financial system healthier and more stable by injecting greater discipline into it. If the share of equity is increased and that of debt is reduced substantially, the volatility now prevailing in the international financial markets will hopefully be substantially reduced. The result may be even better if credit is confined primarily to the purchase or lease of real goods and services. As a result of this, a great deal of the speculative expansion of credit may be eliminated. The ultimate outcome may not be only in reduction in financial instability and greater socioeconomic justice but also better allocation of resources and faster economic growth.²⁹

The inequitable allocation of financial resources in the conventional interest based financial system is now widely recognized. According to Arne Bigsten “the distribution of capital is even more unequal than that of land” and “the banking system tends to reinforce the unequal distribution of capital”. The reason, as already indicated, is that the interest-based financial intermediation relies heavily on collateral, giving inadequate consideration to the strength of the project or the ultimate use of financing. Hence, while deposits come from a cross-section of society, their benefit goes mainly to the rich.³⁰

3. Practical Strategies to Promote Inclusion through Islamic Finance Instruments

Financial inclusion initially referred to the delivery of financial services to low-income segment of society at affordable cost. As financial accessibility is playing a more positive role in eradicating poverty. Improving access and making basic financial services available to all members of the society is one goal of inclusive society. Enhancing the access to and the quality of basic financial services such as availability of financing, mobilization of savings, small and medium scale enterprises can facilitate an adequate income and employment opportunities. Many poor families in the developing world have limited access to formal financial services, including credit, savings, and insurance.

The central tenet of Islam is to develop a prosperous, just, egalitarian economic and social structure in which all members of society can maximize their intellectual capacity, preserve and promote their health and actively contribute to the economic and social development of society. Socioeconomic justice is a fundamental element of an Islamic economic system. All members of Islamic society must be given the same opportunities to advance themselves; in other words, a level playing field, including access to the natural resources provided by God. For those whom there is no work and for those who cannot work (such as the handicapped), society must afford the minimum requirement for a dignified field life; shelter, food, healthcare and education.³¹

²⁹ *Ibid.*, P. 181

³⁰ *Ibid.*, P. 13

³¹ Mahmoud Mohieldin and friends, *Loc.Cit*

Egalitarian economic and social structure in which all member of society can maximize their intellectual capacity, preserve and promote their health and actively contribute to the economic and social development of society is the very concept of inclusive society itself. From this point of view Islam since its beginning promote the concept of inclusion itself. From the point of agreement of World Summit for Social Development it was initiated since 22 years ago. From the point of Islamic view it was initiated since thousands years ago.

All member of Islamic society must be given the same opportunities to advance themselves is the same concept for social cohesion and social inclusion, where every individual of society given the same opportunity regardless of their background, so that they can achieve their full potential in life. And where all the elements of society brought and hold together in society.

For those whom there is no work and for those who cannot work (such as the handicapped), society must afford the minimum requirement for a dignified field life; shelter, food, healthcare and education. This concept is again I line with the concept of inclusion. Where the elements of inclusion are access to clean and safe places for living, work and recreation, access to public resources, access to public services including education health care, clean water and sanitation. Another element of inclusion is adequate income and employment opportunities, respect for diversity and social protection. All these elements of inclusion go hand in hand with the socio-economic concept of Islamic economics.

One of the most important economic institutions that operationalize the objective achieving social justice is that of the wealth distribution/redistribution rules of Islam. Islam aims for just distribution of resources by creating a balanced society that avoids extreme of wealth and poverty, a society in which all understand that wealth is a blessing provided by the creator for the sole purpose of providing support for the live of all mankind. To avoid a state of extreme wealth and extreme poverty, Islam prohibit unconstrained wealth accumulation and imposes limits on consumption through its rule prohibiting overspending, waste, contentious and opulent spending. It then ordains must be returned to the members of the society who, for a variety of reasons are unable to work, hence the resources they could have used to produce income and wealth were utilize by the abler. Islam considers the abler as trustee agents in using these resources on behalf of the less able. In this view, property is not a means of exclusion but inclusion in which the right of the less able in the income and wealth of the more are redeemed.³²

Islam is based on equality and opportunity, socio-economic of society, equity and justice, and the ability of person to actualize their potential liberty and opportunity. All these goals can be achieving through giving a society full and equal opportunity to participate fully in the society. From financial aspect, access to finance can be enhanced in Islamic economy through two approaches; the first, the risk sharing through micro-finance and micro insurance. And the second, through redistributive

³² *Ibid.*, P. 7

wealth of mechanism. The rights of the less able have in the wealth of those who have the greater ability to produce wealth impose on zakat, waqf, and sadaqat. Shirking from this obligation causes misdistribution of wealth, which Islam consider as a major source of poverty.

Islamic microfinance initiative may also mobilise funds thorough participatory models such as Musharakah and Mudarabah. There is a great potential to attract depositors among the rich who intend to docharity via Islamic participatory approach of risk and profit –sharing. In Musharakah model of fund raising, public can buy shares and become owners of the whole microfinance programme initiated by Islamic banks or choose specific financing project of their choice. Any profit realised shall be shared proportionate amount of capital contributed by each participant. In this regard, Islamic bank guarantee the participation of every segment of society. in particular, the adoption of Islamic participatory approach in fund mobilization and financing promotes justice, brotherhood, social equality and financial inclusion as apposed to the emerging financel exclusion which is becoming a common phenomenon in most developed countries.³³

Accordingly, Islamic bank can offer a wide-array of Shariah-Compliant financing instrument addressing various needs and demands of the client especially among the poor entrepreneur. These instrument can be broadly divided into; (1) participatory profit loss-sharing modes like mudharabah and musharakah; (2) sale-based modes like murabaha (cost plus sale), bay bithaman 'ajil (deferred payment sale), bay' al-salam (forward sale) and bay' al-Istisna' (commision to manufacture sale); (3) lease-based modes like Ijarah; (4)voluntary charitable contaract (tabarru') such as Pawning contract (ar-rahn) and benevolence loan (qard al-hassan) and (5) hybrid-modes like musharakah mutanaqisah (diminishing patnership), ijarah thumma al-bay' (hire purchase) ect.³⁴

Islamic finance highlights the significance of profit-sharing finance, which can have positive effects similar to direct investment leading to strong economic development. Promotion of entrepreneurship and risk-sharing are two key featuring of Islamic fiancé and given that SME (Small Medium Enterprise) require both encouragement to entrepreneurship and risk sharing, there is a natural fit for Islamic finance and SME financing. Islamic SME can be seen to provide a comprehensive asset-based economic and equitable model that fulfills expectation such as social justice and human centered sustainable development.³⁵ The use of Islam's redistributive institution such as zakah, Sadaqat, Qard-al-hasan, dan Waqf has enormous potential to enhance access to finance.

This does not mean that it is totally new source of poverty reduction mechanism using zakat it already distributed to the poor in several Islamic countries

³³ Asyraf Wajdi Dusuki, Banking for the poor; The Role of Islamic Banking in Microfinance Initiatives, Proceeding of th 24th Islamic Conference 2007 (iECONS2007) organized by faculty of Economics and Muamalat, Islamic Science University of Malaysia, P. 15

³⁴ *Ibid.*, P. 17

³⁵ *Ibid.*, P. 16

but we can make an argument that proper collection, streamlining, accountability, prioritization, and allocation to productive activities can have significant impact on enhancing access and opportunity for the poor segment of the society which will ultimately lead to reduction in poverty.³⁶

D. CONCLUSION

Creating an economic, political, social, cultural and legal environment that will enable people to achieve social development and goal of eradicating poverty in the world, through decisive national actions and international cooperation, as an ethical, social, political and economic imperative of humankind are goals of inclusion and socio economic justice in Islam. Promoting the goal of full employment as a basic priority of economic and social policies, and to enabling all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work are goals of inclusion and socio economic justice in Islam as well. All commitment and goal to achieve the ideal and inclusive society is still not sufficient from what is hoped and still needs a long process. To promote and to make inclusive society to be practical needs commitment and comprehensive task which must take place at all level of society. Inclusive society in its wide elements and objective takes many things in common with the tenet of Islam and it is to create a culture of harmony, equity, equality, brotherhood and justice in the society. Economically inclusion means full of employment and low of rate of poverty, these are two cores of socio-economics in Islam. And it can be achieved through Financial inclusion as a part of inclusion. Islamic financial instruments can be used in order to attain 'society for all', the same opportunity, adequate life, and full participation of all of society from economic aspect where all side participate and contribute to the risk, loss and profit. Financial inclusion in Islamic perspective is more explicitly shown in two distinct feature of Islamic finance, those are; the notion of risk sharing and redistribution of wealth, to bring socio-economic justice in the society.

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³⁶ *Ibid.*, P. 18

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