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Income Inequality and It's Contribution to Market Failure and Solutions from an Islamic Perspective

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Abstract

This study explores the intricate dynamics of income inequality and its impact on market failure, with a particular focus on the Islamic perspective and the Gambian context. The persistence of income inequality poses significant challenges, particularly in developing nations, affecting consumption, production, savings, and investment levels, thereby impeding optimal resource allocation and productive efficiency. This market failure is further exacerbated by the concentration of resources among a small economic segment. Islam offers robust mechanisms, such as zakat and waqf, to address poverty and enhance income equality, promoting a more equitable and progressive society. The research encompasses a comprehensive literature review, examining various studies on income inequality, poverty, and market failure from both conventional and Islamic perspectives. It also highlights the detrimental effects of income inequality on economic growth. Furthermore, the study explores the fiscal policies and their impact on poverty and income inequality in The Gambia, revealing a complex relationship between these factors. Furthermore, the research investigates absolute poverty and its contribution to market failure. The study utilizes various measures, such as the Gini Coefficient, to assess income inequality and explores the economic and social implications of this disparity. By integrating both conventional and Islamic approaches, the study offers a multifaceted understanding of the mechanisms to curb income inequality and promote economic growth and social equity.

***Keywords**: Income inequality, economic growth, zakat, waqf, Gambia*

1. Introduction

Society encompasses a diverse array of individuals with various social backgrounds, racial identities, religious beliefs, and opportunities. Nevertheless, these disparities typically enhance social solidarity, foster brotherhood, and promote mutual support among individuals. Income inequality serves as a crucial measure in any economy to assess income disparity between the affluent and disadvantaged. Governments and stakeholders have implemented various initiatives, regulations, and charitable endeavors in different countries to mitigate income disparities. Despite various initiatives taken to address income inequality, it continues to pose a significant challenge, especially in developing nations. Income inequality significantly affects not only income levels but also consumption, production, savings, and investment levels. This presents a major challenge to resource allocation and productive efficiency, as a majority of a country's resources are controlled by a small segment of the economy, which tends to underutilize these economic resources. Consequently, the optimal level of production is not attained, leading to a decline in the country's GDP and per capita income. This market failure occurs because the market does not fulfill the needs of society.

Income inequality is particularly significant in the context of Islam, which places strong emphasis on mechanisms that have proven effective in reducing inequalities throughout history. A more equitable and progressive society is highly valued in Islam, making it a central focus for policymakers and philanthropists, particularly in the Muslim world. Thus, Islam has established rules and regulations to eradicate poverty and

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enhance income equality. The institutions of zakat and waqf, which are regarded as the third sector in the Islamic economic system, can serve to promote income equality by providing additional resources and opportunities to those in need. In addition, the participation of non-governmental organizations, philanthropy, and other non-profit institutions can facilitate resource mobilization and income distribution to those who are financially challenged.

Given that capitalism continues to function as a prevalent economic system within society, it tends to exacerbate economic disparities by enriching the wealthy and impoverishing the disadvantaged. Consequently, it is crucial to adopt a distinct approach to addressing and reducing income inequality. Accordingly, this study examines the factors contributing to income inequality and poverty from both the conventional and Islamic perspectives. Furthermore, this study aims to examine the prevalence of income inequality in the Gambian context and its detrimental impact on market outcomes. Finally, it examines the mechanisms and tools delineated by Islam to mitigate poverty and income inequality.

2. Literature Review

This section offers an empirical analysis of poverty and income inequality, as well as their role in contributing to market failure in the economy, by examining a range of scholarly studies and viewpoints.

Polacko (2021) examined the reasons for and effects of global income inequality. He noted that income inequality has primarily been influenced by factors such as globalization, executive pay, union regulation, and tax progressivity. However, these factors are subject to political and policy shifts implemented by governments across the globe. According to Polacko (2021), the repercussions of income inequality extend to economic factors such as growth, investment, and innovation, as well as social indicators such as health, social mobility, and crime rates. Dufour (2008) conducted a study of market failure, inequality, and income redistribution. He contends that market failure alone is insufficient to justify income redistribution because policies aimed at rectifying market failure do not necessarily result in improved income distribution. However, redistributive measures can help alleviate market failures and promote economic output efficiency, thereby enhancing income redistribution. In another study, Kawachi (1997) cross-sectional data from 39 US states were analyzed to assess the linkage between income inequality and mortality rate. After controlling for cause-specific mortality rates, levels of social trust, and per capita density of group memberships in each state, the study revealed that income inequality exhibited a significant correlation with per capita group membership, as indicated by a negative coefficient. However, the study also reveals a positive correlation between income inequality and public trust.

Carrasco et al. (2022) assessed the fiscal system's impact on poverty and income inequality in The Gambia as of 2015. To gather relevant data, the researchers utilized the Integrated Household Survey (IHS) of 2015, which provides information on household income and consumption rates. Additionally, data was collected from government parastatals and agencies to determine the state's fiscal conditions. The researchers employed the Commitment to Equity (CEQ) method to evaluate the effects of fiscal policy on poverty and inequality rates. The findings reveal that the fiscal system, including taxes and expenditures, contributed to a reduction of 1.2 Gini points in income inequality and an increase of 5.3 percent in the national poverty headcount. Meanwhile, Ogbeide and Agu (2015) examined the relationship between income inequality and poverty by employing the Granger Causality technique and found that there is a direct and indirect connection between these two variables. This indirect relationship was linked to unemployment and life expectancy. Another study by Ibrahim and Uchechi (2020) investigated the effects of income inequality on poverty levels in Nigeria from 1960 to 2018. They applied an Autoregressive Distributed Lag model and found that income inequality contributed to a 75% increase in poverty levels. Furthermore, the research demonstrated that additional significant indicators such as unemployment and inflation also play a role in exacerbating poverty levels.

In a study conducted by Lee (2014), the impact of trade openness and financial integration on income inequality and the poverty rate was investigated. Utilizing data from World Bank indicators, the findings reveal that financial globalization has a negative effect on income distribution and poverty levels, while trade openness exhibits a significant relationship between income inequality and poverty. Ayuniyyah et al. (2017) analyzed the effect of zakat on consumption and production in alleviating poverty and income inequality. The research utilized the decile model, Gini Coefficient approach, and Atkinson Index. Data were gathered from 1,309 Zakat beneficiaries from three distinct cities across Indonesia. Following extensive examination, the researchers found that one-year post-Zakat distribution programs pertaining to production exhibited significant advancements in both material and spiritual dimensions by a factor of 300 percent. The findings also indicate a significant increase in household consumption-based programs, amounting to a 20 percent increase. Nevertheless, the Gini Coefficient experienced a decline of 0.017 points, while the Atkinson Index showed a decrease of 0.042 points. These findings suggest an improvement in the inequality gap and reduction in poverty

3. Research Methodology

This study adopts a structured literature review methodology by examining scholarly works relevant to income inequality, poverty, market failure, and Islamic economic principles. The study focuses on research studies and articles published within the last two decades, ensuring a balanced perspective between contemporary findings and foundational economic theories. The literature sources focus on works that address both conventional and Islamic approaches to mitigating income inequality and its impacts on economic stability.

The literature review is conducted in three stages. First, the conceptual frameworks around income inequality and market failure are identified and defined. Second, relevant economic and social studies exploring income redistribution, fiscal policies, and Islamic tools such as zakat and waqf were reviewed to provide a comparative analysis. Finally, empirical studies examining income inequality in The Gambia and similar developing economies were synthesized to provide a contextual understanding of how these issues manifest in real-world settings. This approach facilitated a comprehensive view of income inequality's root causes, impacts, and potential solutions, grounding the findings within both theoretical and applied economic perspectives.

4. Results and Discussion

4.1 Absolute Poverty

Todaro and Smith (2015) defined poverty as "the situation of being unable or only barely able to meet the subsistence essentials of food, clothing, shelter, and basic healthcare". The United Nations has set a target to eliminate absolute poverty by 2030 by implementing Sustainable Development Goals (SDGs). Despite the efforts made by the Millennium Development Goals to alleviate extreme poverty, they have not been entirely successful, leading to the need for a new program to address this issue. Eradicating extreme poverty is one of the key objectives of SDGs.

In the context of The Gambia, numerous individuals and families face the challenging situation of absolute poverty, particularly those residing in rural areas. Many families are unable to meet their fundamental needs for survival and sustenance. One reason for this distressing reality is the high levels of unemployment and dependency ratios prevalent in the country. Many Gambian families live in large households with limited numbers of individuals. Consequently, this trend exacerbates the dependency ratio, making it increasingly challenging for households to access the essential requirements for a basic standard of living. The aforementioned individuals are also affected by the scarcity of marketplaces for their agricultural outputs during the harvest season. Owing to their reliance on local equipment and small-scale farming practices, they generate substandard and low-yielding crops that are unlikely to be traded, especially in international markets. Furthermore, these crops may be infested with diseases that negatively impact overall farm output. These obstacles led to reduced sales for rural farmers at the conclusion of the season, perpetuating extreme poverty. This situation also contributes to market failure by preventing the realization of potential growth in farm produce as a result of the use of outdated equipment, adoption of small-scale farming practices, and prevalence of local agricultural methods. The market demand for these products is greater than supply, resulting in an inefficient market.

4.1.1. Measurement of Poverty

i. Income Poverty: Poverty may be assessed by the number of individuals who cannot obtain fundamental necessities, such as food, shelter, clothing, and basic healthcare. Globally, the World Bank uses a standard of $2 per day in purchasing power parity to measure extreme poverty (Todaro & Smith, 2015). People falling below this income threshold are considered to be living in extreme poverty, regardless of their location. In accordance with the data gathered by David Locke and Touray (2022) in The Gambia, the percentage of the population living in extreme poverty was 1.5% in 2015, which rose to 21% in 2020. The poverty threshold for extreme poverty was set at $2.15 per person. However, the poverty headcount indicated that 4.8% of the population was living in poverty in 2015, which increased to 53.4% by 2020, resulting in an estimated 1.1 million people living in poverty. Despite significant government investments and social programs, millions of people continue to endure extreme poverty. This figure was recorded prior to the COVID-19 pandemic, which also had a negative impact on poverty rates in The Gambia. The pandemic has caused a decrease in economic growth and an increase in unemployment, resulting in an increase in the poverty rate to 53.4 percent. This represents an increase of eight percentage points since the beginning of the pandemic. Prior to the pandemic, the poverty rate stagnated slightly from 2010 to 2015 and was expected to decrease to 45.8 percent by 2019. Despite occasional growth in GDP per capita, the rate of poverty remained high. David Locke and Touray (2022) further assert that the GDP per capita growth rate in The Gambia decreased from 1 percent in 2016 to 4 percent in 2019.

ii. The Gini Coefficient Index: The Gini coefficient is a commonly used index that measures income inequality among the poor. This index is frequently referenced in the academic literature. The Gini coefficient is effective in capturing the varying effects of economic shocks on different individuals within the poor population based on the resources they share. For instance, a reduction in the purchasing power of rice producers at the poverty level can lead to increased market sales. As a result, economic conditions improve, as do income levels and living standards of these individuals. This may even lead to them moving above the poverty line (Todaro & Smith, 2015).

4.1.2. Poverty and Economic Growth

From an economic perspective, one might posit that growth in per capita income reduces the prevalence of poverty in a specific region. This is because when real GDP increases, individuals' share of national income rises, enabling them to allocate more resources towards necessities such as food, clothing, and housing, which subsequently enhances their living standards. Consequently, many individuals are lifted out of poverty. The disbursement of government funds towards welfare schemes such as cash transfers, particularly during calamities, serves as a significant factor in stimulating real income growth. These initiatives also play a role in wealth redistribution, thereby fostering consumption. However, certain studies have indicated that economic growth does not necessarily decrease or eliminate poverty, but instead exacerbates it. For instance, studies conducted by Nuruddeen and Sani Ibrahim (2014) and Lee (2014) revealed that the upsurge in GDP in Nigeria and Korea, respectively, does not exhibit a statistically significant negative correlation with the poverty rate.

According to Todaro and Smith (2015), the reason for this discrepancy between conflicting theories are as follows:

i. Limited financial resources can hinder access to credit, a critical determinant of economic growth. In addition, it can impede families' ability to invest in their children's education, thereby limiting their future economic potential. The absence of credit financing can result in several disadvantages for individuals from low-income backgrounds, including the inability to pursue business and entrepreneurial opportunities, which could contribute to increased national output.

ii. Research has demonstrated that individuals with higher levels of wealth tend to have lower levels of motivation to save and invest their additional income, opting to allocate a significant portion of their resources to maintain a luxurious lifestyle. This behavior can impede the growth of per capita income, as funds are not redirected towards sectors that offer the potential for profitability. Consequently, poverty rates may not be significantly reduced.

iii. The income level of individuals residing in poverty is typically below $2 per day, leading to reduced expenditure on healthcare, nutrition, and education. Consequently, this situation results in reduced life expectancy and lower productivity, which, in turn, causes a decline in overall income and impedes economic growth.

iv. A significant increase in the income of impoverished individuals leads to an increase in aggregate demand. When the income level of disadvantaged individuals increases, they tend to purchase locally produced goods. This results in an upswing in the country's economic output, which subsequently boosts the production level of businesses and firms. Consequently, more job opportunities are created to meet the desired output level. As a result, the surge in aggregate demand fuels a rapid expansion of the economy and a significant rise in aggregate output while also maintaining a high degree of labor employment during the growth process.

v. Incentives play a crucial role in promoting economic growth through psychological and material means. When the poverty rate is low, individuals are more likely to participate in economic activities, either through labor or material contributions, which ultimately stimulates growth. Nonetheless, high levels of economic disparity and absolute poverty rates can hinder a nation's ability to develop and grow. Individuals' attitudes towards development and the desire for higher per capita income are critical. However, some individuals may be deterred from embracing progress because of psychological or material barriers, such as impatience with slow growth or a lack of faith in their ability to improve their material conditions.

4.2 Inequality

The gap in income levels is typically assessed by examining the discrepancy between earnings of high- and low-income individuals across different societal levels, racial groups, age ranges, or populations. Income disparity is a fundamental element of social classes and political dominance. Those in higher socioeconomic positions often have more authority and influence than those in lower socioeconomic positions. Income is a primary factor contributing to inequality, but other disparities, such as wealth, political power, and social standing, persist. For instance, in The Gambia, individuals who hold political offices are often valued more than those working in the informal sector, leading to wider income disparity between these groups. Income is an essential factor that enables individuals to attain a decent standard of living, quality of education, and healthcare services. However, the distribution of income varies among individuals of different sexes, ages, races, and ethnicities. In The Gambia, income distribution is typically skewed towards a small percentage of the population, thereby creating a significant disparity between the wealthy and the rest of the population.

A World Bank study conducted in 2020 to determine the inequality rate in The Gambia used the Gini coefficient. This study revealed that the Gini coefficient increased by three points from 2010 to 2020. Additionally, the study indicated that the inequality rate was higher among rural Gambians than among urban centers before 2020. However, rural areas showed a significant decline in inequality, dropping by 31 points compared with their urban counterparts, which demonstrated a coefficient of 36 points in 2020. The findings suggest that a contributing factor to this disparity may be the influx of rural inhabitants into urban centers as well as the exodus of youth from rural regions seeking better opportunities in Europe. The research further reveals that the Janjanbureh area exhibits the highest level of inequality in The Gambia, followed by Kanifing, Basse, and Brikama. The Gambia exhibits a lower level of income inequality compared to other countries in the subregion, including Senegal, Rwanda, Uganda, Comoros, Togo, and Guinea-Bissau. Unfortunately, there is a significant disparity in access to education between children from wealthy and poor households. Households in the upper 60% of the expenditure distribution tend to have higher rates of school attendance than those in the lower 40% of the distribution. Urban areas consistently demonstrated higher levels of school attendance for children from 2012 to 2020 than rural areas. In contrast to other African countries, rural households in The Gambia showed slightly better performance than those in Mali, Liberia, and Mauritania. However, urban areas in The Gambia have a lower attendance rate than Senegal, Rwanda, Guinea, and Comoros, with the exception of Liberia and Mauritania.

4.2.1. Measurement of Inequality

i. Size Distribution: The distribution of income by size is used to represent the various income levels received by a group of people, regardless of the source of their income. Individuals can be divided into different sections of the population and varying income levels, from the highest-income earners to the lowest-income earners. One of the methods used to categorize individuals is percentile and decile percentage. Individuals in this income category receive a portion of their total income. Individuals in the upper class of the distribution received a larger percentage than most individuals at the lower end of the distribution. According to the table below, the top 20% of the income distribution controls 51% of the total earnings, while the bottom 20% receives only 5% as a share of the total earnings. This reveals a substantial disparity in income levels between groups. The third column indicates that each individual in the top 10% earns 28.5% of total earnings, which is more than the earnings received by the least 60% group combined.

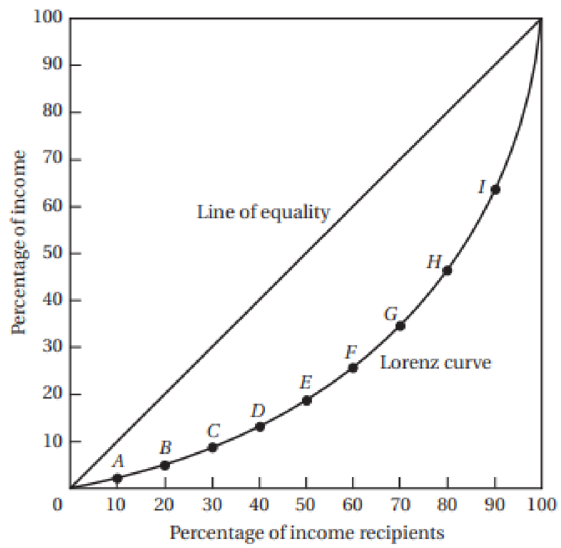
TABLE 5.1 Typical Size Distribution of Personal Income in a Developing Country by Income Shares—Quintiles and Deciles

Individuals	Personal Income (money units)	Share of Total Income (%)	
		Quintiles	Deciles
1	0.8		
2	1.0		1.8
3	1.4		
4	1.8	5	3.2
5	1.9		
6	2.0		3.9
7	2.4		
8	2.7	9	5.1
9	2.8		
10	3.0		5.8
11	3.4		
12	3.8	13	7.2
13	4.2		
14	4.8		9.0
15	5.9		
16	7.1	22	13.0
17	10.5		
18	12.0		22.5
19	13.5		
20	15.0	51	28.5
Total (national income)	100.0	100	100.0

Source: Todaro & Smith (2015)

ii. Lorenz Curve: The Lorenz curve is another effective means of illustrating income inequality. This curve measures the degree of income distribution disparity by demonstrating the proportion of income received by the different income groups. It plots recipients of income against the income received, and its slope indicates the level of income inequality within a population. By examining the curve, one can assess the elasticity of the income distribution and identify individuals or groups that are disproportionately affected by income inequality. Overall, the Lorenz curve provides a comprehensive visual representation of the income distribution and can be used to inform policy decisions aimed at addressing income inequality. At points A and B on the graph, the difference in the percentage of income is smaller than that at points H and G. This can be attributed to the steeper curve as population size increases, resulting in individuals in the top percentage of the population earning a higher income than those earning a lower percentage. However, the diagonal line or equality curve reflects the proportion of the income received by each group. From the graph, it is evident that the bottom 25% of the population received exactly 25% of the income distribution, while the top 25% of the population received the same proportion, or 25%, of the income.

FIGURE 5.1 The Lorenz Curve

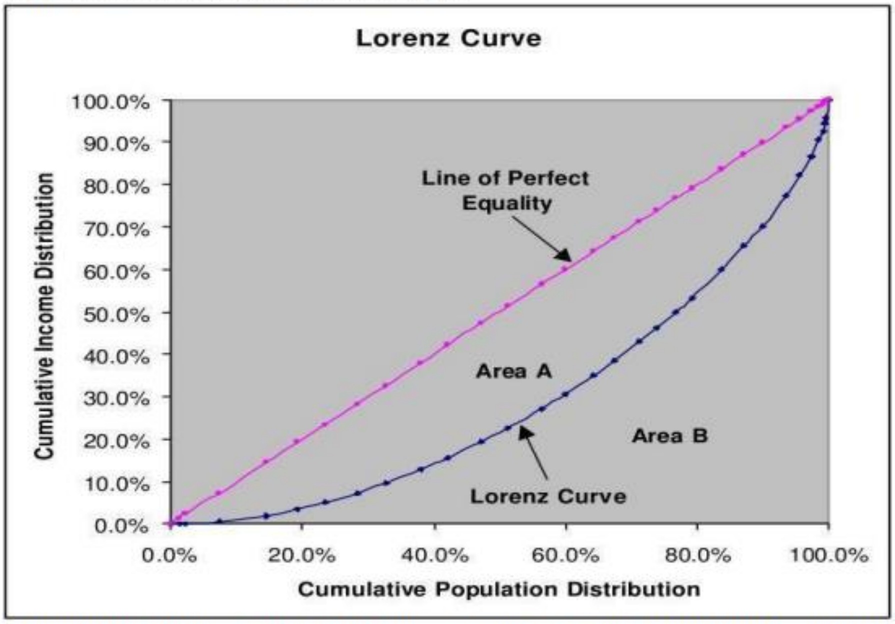


Source: Todaro & Smith (2015)

iii. Gini Coefficient: The Gini index, derived from the Lorenz curve, is a statistical measure of the variance in total earnings among the population. This measure is widely used by most researchers to gauge the level of economic disparity, with a degree of one indicating complete income inequality and a coefficient of zero indicating perfect income equality. The Gini coefficient can be measured in two ways to provide different angles for understanding what is being measured. The first method involves comparing the income of two individuals in relation to the mean income, whereas the second method compares the Lorenz curve to the equality line. By plotting the total number of people against the total number of earnings distributions, we capture the effects of elasticity and assess the level of income inequality in a population. The Lorenz curve is a commonly used technique to assess the Gini coefficient. According to the graph presented below, the total area (A + B) can be determined using the fundamental principles of a right-angle triangle, specifically, (base × height) /2. Because the total area was determined, the area of portion A can be calculated by subtracting the area under curve B from the total area. Therefore, it was necessary to determine the area of portion B. One possible method for calculating it involves dividing the area under the curve into several trapezoids and estimating the total area of these trapezoids to determine the area under curve B (Poverty Statistics SDG). Hence, the Gini coefficient is given as:

$$\textit{Gini coefficient} = \textit{area } A \,/\, \textit{total area}(A+B)$$

Figure 1: Illustration of the Lorenz Curve



Source: Deaton 1997. Analysis of Household Surveys. A Microeconomics Approach to Development Policy. John Hopkins University Press, Baltimore, Maryland.
The Gini is defined as A/ (A+B)

4.3 Islamic Dimensional Approach to Curbing Income Inequality

The issues of poverty and income inequality in Islam are longstanding. Many Muslims have experienced extreme poverty since the prophet (SAW). Poverty and income disparity were viewed as circumstances beyond an individual's control but were also considered a test of divine will (Bashir & Arabia, 2018). Allah, in his wisdom, provided varying levels of sustenance to humanity. Accordingly, Allah stated that, "*And Allah has favored some of you over others in provision*"

This implies that Allah has bestowed some individuals with wealth while making others poor. This disparity is intended to serve as a test for determining which believers are most faithful to Allah. Allah says: "*And we will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient*." (Quran 2:155).

Allah mentioned the reward for paradise, but it comes with a test of hardship and poverty, similar to the experiences of those who came before us. He states in the Holy Quran: "*Or do you think that you will enter paradise while such (trial) has not yet come to you as came to those who passed on before you? They were touched by poverty and hardship and were shaken until (even their) messengers and those who believed with him said, 'When is the help of Allah?' Unquestionably, the help of Allah is near*" (Quran 2:214).

This indicates that the best among the earlier generations was tested with hardship, yet they remained steady and patient until the help of Allah came. Islam advocates Muslims to be productive and acquire legitimate wealth without resorting to begging and other idle pursuits. The prophet (SAW) has been reported to have said, "*The strong Muslim is better and more beloved to Allah than the weak Muslim*"

This hadith emphasizes the importance of productivity and self-sufficiency for Muslims. According to the hadith, those who work hard and earn a living are considered superior to those who are constantly beg. The prophet (SAW) referenced the example of prophet Dawud (AS), who supported himself through hard work, rather than relying on others.

Islam has established a systematic framework that addresses poverty and income inequality by highlighting effective distributive mechanisms that cater to society's needs. The mechanisms involved are as follows.

i. Employment: Self-employment and seeking employment are two effective methods for reducing poverty, as emphasized by Islam. Thus, Islam sees the labor market as a market that provides individuals with the opportunity to earn wages and salaries through the provision of goods and services, thereby fostering trade and employment, promoting economic growth, and increasing per capita income. The labor market is essential for individuals to participate in, and the prophet (SAW) is reported to have said: "*It is better for a person to cut wood, carry it on his back to sell them than asking people (for a charity)*." (Al-Bukhari, 1422H, 3:113; Hadith No. 2374). This implies that participation in the labor market is essential for individuals to seek a source of income and contribute valuable goods and services to the community. Such involvement is crucial for enhancing the overall well-being of society. In addition, Islam advocates that individuals invest their funds to generate employment opportunities for others to work and earn income. This approach is considered to be more virtuous than providing charity to a capable and able-bodied person. By investing this way, the economy can experience a multiplier effect through increased consumption and savings. This is in line with the hadith of the prophet (SAW), which states that: "*There is none amongst the Muslims who plants a tree or sows seeds, and then a bird, or a person or an animal eats from it, but is regarded as a charitable gift for him*."

Accordingly, it is strongly recommended to allocate resources either through personal effort or financial support for the betterment of individuals or living beings. Job opportunities serve to provide impoverished individuals with a means of earning a livelihood, thereby enhancing their subsistence and the well-being of their families. In turn, this can narrow the poverty gap and reduce income inequality, ultimately fostering progress and advancement.

ii. Zakat: Zakat is the annual tax paid by Muslims whose wealth has reached a minimum zakatable rate. This amount is paid to certain beneficiaries explicitly mentioned in the Quran. The Quran states: "*Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler – an obligation [imposed] by Allah. Allah is Knowing and Wise*" (Quran 9:60). Zakat is considered one of the essential pillars of Islam and is, therefore, mandatory for all Muslims who possess financial means. The assets used to pay zakat, including gold, silver, and merchandise, can be utilized for either consumption or production upon receipt of wealth. This contributes to stimulating the economy and aids poverty (Osman, 2023). Zakat serves to redistribute wealth from the affluent to the less fortunate, thereby reducing disparity between socioeconomic classes. Furthermore, textual evidence suggests that zakat has the potential to mitigate or eradicate extreme poverty within society. Historical evidence supports this, as it came in a narration during the caliphate of the Umar RA. The narration states: "*During the caliphate of Umar (RA), Mu'adh (RA) was sent to Yemen during the caliphate of Umar. One of his duties was to administer Zakat. He removed Zakat from the wealthy and redistributed it to the needy in Yemen. Initially, he sent a third of Zakat to Madinah, as he could not find any recipients in Yemen for Zakat. The following year, this increased to half. In the third year, Mu'adh (RA) sent the entirety of Zakat, collected from Yemen to Madinah. Umar (RA) inquired about this decision, and Mu'adh (RA) replied, I cannot find any single person in Yemen who is eligible to receive Zakat.' Within three years, Mu'adh (RA) could not find a single person in need of Zakat; this is an indication of the potential for Zakat to fully abolish poverty in a region*". Years after the implementation of zakat, which was successful in eradicating poverty, and after the era of Umar bin Abdul Aziz, the nature and scope of the economy has changed, raising the question of whether zakat can fully eradicate poverty. Studies have shown that zakat can help eradicate poverty in a specific region; however, it is difficult to estimate its effect on a global scale.

iii. Waqf System: In Shariah, Waqf refers to the act of holding a property with the specific intention of utilizing its benefits or usufructs to serve social, economic, and religious purposes. The Waqf system is a means by which income disparity and extreme poverty can be reduced (Abubakar, 2022). Waqf is a source of financial strength for funding social development and infrastructure, which tends to alleviate living conditions and provide opportunities for individuals in society in all aspects of life. Moreover, the Waqf system was established to promote the well-being of individuals and communities by supporting initiatives that enhance their living conditions. This encompasses endeavors aimed at advancing educational facilities, infrastructure such as borehole drilling, and healthcare facilities for disadvantaged populations. The Waqf system significantly contributes to the third-sector economy, which focuses on redistributing the income that the capitalist system does not adequately address. This sector operates on a non-profit basis and aims to provide essential services to people, particularly to those who are impoverished or disadvantaged. By doing so, it helps reduce the disparity between socioeconomic groups and tackle poverty through various means, such as cash transfers, initiating new projects, or providing aid.

5. Implications

This study's findings have significant implications across various domains. For research, it opens up avenues for further exploration into the effectiveness of Islamic economic tools, like zakat and waqf, in addressing income inequality in developing nations. Future studies could empirically evaluate the long-term impact of these mechanisms on poverty reduction, economic stability, and social mobility, especially in contexts where conventional economic systems have failed to alleviate these issues. Additionally, comparative studies could assess the scalability and adaptability of Islamic financial tools in non-Islamic contexts, potentially providing a novel framework for global poverty reduction strategies.

In practice, the study emphasizes the need for policymakers, especially in The Gambia and similar economies, to integrate Islamic economic principles into national poverty alleviation strategies. Zakat and waqf, as pillars of Islamic finance, can be used to create sustainable social safety nets, mobilizing local resources to support impoverished communities. For instance, expanding zakat distribution networks to include rural and underserved regions can enhance the inclusivity and effectiveness of poverty reduction programs. Moreover, establishing community-based waqf initiatives could provide long-term funding for infrastructure, education, and healthcare, addressing some of the systemic barriers that perpetuate poverty.

For society, the study highlights the role of Islamic social finance in fostering a sense of communal responsibility and social solidarity. Emphasizing charitable giving and wealth redistribution, these practices encourage a more equitable society by prioritizing the welfare of disadvantaged populations. This approach can shift public attitudes towards a more socially conscious economic model, wherein individuals and institutions actively participate in reducing inequalities. The adoption of these principles can ultimately lead to a more cohesive society, where economic growth is balanced with social justice and moral accountability.

6. Conclusion

The problem of income inequality is a significant concern in contemporary society and various strategies have been implemented to alleviate its negative impacts. Traditional approaches, such as the government's utilization of monetary and fiscal policies, have been the primary means of addressing this issue. However, these methods have proven ineffective as a considerable portion of the population continues to live in poverty. Traditional methods, including the free-market economic system, as outlined by classical economists, also strive to redistribute income and maximize societal welfare. However, such markets are vulnerable to economic disruptions such as externalities, natural catastrophes, government shortfalls, and taxes, which can significantly impact market outcomes. This results in market failure, as consumers fail to optimize their consumption and suppliers of goods do not achieve maximum profits. In turn, this situation has a more significant impact on income redistribution. Although the conventional viewpoint of poverty and income inequality is similar to the Islamic perspective, the methods employed to address these issues differ significantly.

The Islamic approach to addressing income inequality is characterized by a clear and tangible redistribution of wealth from the affluent to the disadvantaged. This is achieved through several key channels, including the employment, zakat, and waqf systems. The primary objective of these systems is to provide financial support to those who lack access to basic necessities, such as food, shelter, clothing, healthcare, and education. In the Islamic system of zakat, an annual payment is required, with no exemptions or holidays, as seen in the tax systems. This is intended to prevent the accumulation of funds, whereas others are required. In The Gambia, the Supreme Islamic Council is tasked with collecting zakats annually. Most of the funds are dispersed in urban areas, where the majority of the poor reside. In addition, the Waqf system is a significant charitable cause that can be supported at any time throughout the year. Donations primarily benefit widows, the physically disabled, and the community.

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