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The Effect of Public and Private Investment on Economic Welfare in Selected Islamic Countries

ABSTRACT

The present study was conducted with the aim of examining and analyzing the impact of public and private sector investment on economic welfare in selected Islamic countries during the period 1990–2023. This study employed a quantitative approach and utilized panel data econometric methods in order to control for structural differences and country-specific heterogeneity, thereby providing a precise estimation of the actual determinants of welfare. The findings indicate that capital accumulation (both public and private) and real per capita income have a positive and significant effect on the improvement of economic welfare. Among these factors, public investment plays a relatively stronger role due to its concentration on the development of fundamental infrastructure. On the other hand, the results reveal that fluctuations in macroeconomic variables such as inflation and economic growth did not have a significant effect on the welfare index in the countries under investigation; a phenomenon that may be attributed to unequal wealth distribution and the predominantly rentier structure of these economies. The policy implications of this study emphasize that, in order to achieve inclusive development in Islamic economies, policymakers should focus on expanding productive investment capacities, improving the business environment, and enhancing the real purchasing power of households rather than relying on short-term and nominal economic growth.

Keywords: Economic welfare, public investment, private investment, panel data, Islamic countries.

Introduction

Economic welfare has long been regarded as one of the most important objectives of national economic policy and sustainable development strategies. In contemporary economic literature, welfare extends beyond the narrow interpretation of income growth and encompasses broader dimensions such as social justice, poverty reduction, employment generation, equitable income distribution, access to public services, and improvement in living standards. For Islamic countries, the concept of welfare carries even deeper significance because economic systems are expected not only to achieve efficiency and growth but also to ensure social equity, moral accountability, and collective prosperity in accordance with the principles of Islamic economics. The increasing challenges faced by many Islamic economies, including structural dependence on natural resources, unemployment, inflationary pressures, institutional inefficiencies, and unequal wealth distribution, have

intensified the need to identify the determinants of sustainable economic welfare and evaluate the effectiveness of different forms of investment in promoting inclusive development [1-3].

Within development economics, investment is widely recognized as a critical engine of economic transformation and welfare enhancement. Public investment, particularly in infrastructure, education, health, transportation, and energy, contributes to long-term productive capacity and social stability. At the same time, private investment stimulates entrepreneurship, innovation, industrial expansion, and employment creation. In Islamic economies, the interaction between public and private investment assumes additional importance because governments frequently play a dominant role in economic planning and resource allocation while private sector participation remains uneven across countries. The effectiveness of these investment channels in improving welfare outcomes therefore depends not only on the volume of investment but also on institutional quality, governance structures, financial systems, and the broader economic environment [4-6].

Islamic economic thought emphasizes balanced development through productive investment, ethical finance, and social redistribution mechanisms. Unlike purely profit-oriented economic systems, Islamic economics seeks to align investment activities with social welfare objectives and *maqāṣid al-sharī'ah* principles. Consequently, investment policies in Islamic countries are increasingly examined not only from the perspective of economic efficiency but also in terms of their contribution to social justice, poverty alleviation, and human development. Recent studies have highlighted that Islamic finance instruments, including *waqf*, *zakat*, *sukuk*, *qardh al-hasan*, and Islamic crowdfunding, possess considerable potential to strengthen economic resilience and improve welfare outcomes in Muslim societies [7-9]. Furthermore, the integration of Islamic social finance with sustainable development goals has been identified as an emerging pathway for addressing inequality and promoting inclusive economic growth [10-12].

Despite these theoretical advantages, many Islamic countries continue to experience persistent welfare disparities and developmental imbalances. Several members of the Organization of Islamic Cooperation (OIC) exhibit high levels of economic inequality, institutional fragility, and structural dependence on commodity exports. In some cases, economic growth has failed to translate into substantial welfare improvements due to weak redistribution systems, governance limitations, or inadequate investment in human capital and public infrastructure. This disconnect between economic expansion and welfare enhancement has become a major concern in development policy debates within the Islamic world [13-15]. Consequently, there is increasing scholarly interest in examining whether public and private investment actually contribute to welfare improvement in Islamic countries and to what extent these effects differ across economic structures and institutional contexts.

Public investment occupies a particularly strategic role in many Islamic economies because governments often control major sectors such as energy, transportation, telecommunications, and public services. State-led investment can improve welfare by expanding access to education, healthcare, clean water, transportation infrastructure, and social protection systems. In resource-dependent economies, public investment may also compensate for market failures and stimulate private sector activity through multiplier effects. However, inefficient allocation of public resources, bureaucratic inefficiencies, and political instability can reduce the effectiveness of government spending and limit its contribution to welfare improvement [6, 16, 17]. Therefore, understanding the actual welfare impact of public investment requires empirical investigation across diverse Islamic countries with varying institutional and economic characteristics.

Private investment is equally important for promoting sustainable welfare because it supports industrialization, technological advancement, entrepreneurship, and labor market expansion. In many Islamic countries, encouraging private sector participation has become a key policy objective aimed at reducing dependence on public revenues and enhancing economic diversification. The development of Islamic banking and finance has also contributed to the expansion of private investment opportunities by providing alternative financial mechanisms compatible with Islamic principles [18-20]. Islamic financial institutions increasingly finance small and medium-sized enterprises, entrepreneurial ventures, and socially responsible investment projects that contribute to employment generation and welfare enhancement. Nevertheless, the effectiveness of private investment remains contingent upon institutional quality, macroeconomic stability, and access to financial resources.

The role of Islamic finance in fostering economic welfare has received substantial attention in recent years. Islamic finance systems are designed to promote risk-sharing, ethical investment, and equitable wealth distribution while discouraging speculative and exploitative financial practices. Scholars argue that Islamic finance can contribute to economic welfare by supporting socially productive investment and strengthening financial inclusion [21-23]. Moreover, Islamic social finance instruments such as waqf and zakat have been proposed as mechanisms for poverty alleviation and socioeconomic empowerment in Muslim societies. Cash waqf, for example, has been recognized as an effective tool for reducing poverty and financing social development projects [24-26]. Similarly, qardh al-hasan financing has been highlighted as a means of supporting early-stage enterprises and vulnerable economic groups [8].

Another important dimension influencing welfare in Islamic countries relates to globalization, trade integration, and foreign investment flows. Increased economic openness and participation in international trade can stimulate economic growth, technology transfer, and employment opportunities. Studies examining free trade agreements and foreign direct investment in OIC countries indicate that external economic integration may positively affect productive capacity and welfare if supported by effective governance and institutional quality [27, 28]. However, the welfare effects of globalization are not always evenly distributed, and some countries may experience greater inequality or dependence on external markets. In this context, investment policies must be carefully designed to ensure that growth benefits are translated into broad-based welfare improvements rather than concentrated among limited economic groups.

Macroeconomic stability also constitutes a fundamental prerequisite for welfare enhancement. Inflation, exchange rate volatility, fiscal imbalances, and weak monetary management can undermine purchasing power and reduce the effectiveness of investment policies. In many Islamic countries, inflationary pressures and unstable macroeconomic environments have negatively affected household welfare and limited sustainable development outcomes. Research on macroeconomic policy coordination in Muslim countries emphasizes the importance of institutional effectiveness and sound governance in ensuring that economic growth translates into improved welfare conditions [5, 14, 17]. Moreover, economic growth alone may not guarantee welfare improvement if income inequality and structural poverty persist. Therefore, examining welfare requires a multidimensional perspective that considers both growth dynamics and distributive mechanisms.

Environmental sustainability and green finance have recently emerged as additional factors shaping welfare trajectories in Islamic economies. Islamic green finance initiatives aim to align environmental responsibility with economic development objectives by financing renewable energy projects, sustainable infrastructure, and climate resilience programs. The integration of Islamic finance with sustainability agendas has gained increasing importance in response to climate change and

environmental degradation [22, 29]. Sustainable investment not only contributes to environmental protection but also supports long-term welfare by improving public health, resource efficiency, and economic resilience. This evolving relationship between investment and sustainability further reinforces the importance of examining investment-led welfare dynamics in Islamic countries.

Social welfare provision in Islamic societies has historically relied on both formal state institutions and community-based religious mechanisms. Muslim charitable organizations, zakat institutions, and waqf systems have traditionally played significant roles in supporting vulnerable populations and reducing poverty. Contemporary studies indicate that Islamic social welfare mechanisms remain highly relevant, particularly in regions facing humanitarian crises, displacement, and economic instability [30, 31]. Refugee financing, poverty alleviation, and social assistance programs increasingly utilize Islamic financial instruments to address welfare challenges in Muslim-majority regions. These developments illustrate that welfare in Islamic economies is influenced not only by conventional macroeconomic variables but also by socially embedded financial and institutional systems.

Tourism, entrepreneurship, and sectoral diversification have likewise become increasingly important for welfare generation in Islamic countries. Halal tourism, Islamic entrepreneurship, and agricultural finance represent emerging sectors capable of generating employment and stimulating economic growth. Empirical findings suggest that tourism development can positively influence economic growth in OIC countries, thereby indirectly supporting welfare enhancement [32]. Similarly, entrepreneurship supported through Islamic banking systems contributes to productive investment and private sector expansion [19]. Agricultural financing models based on salam and waqf structures have also been proposed to improve rural development and food security in Muslim economies [9]. These sector-specific developments demonstrate the multifaceted relationship between investment and welfare within Islamic economic systems.

Although a growing body of literature has examined Islamic finance, economic growth, and development in Muslim countries, empirical evidence regarding the comparative effects of public and private investment on economic welfare remains limited. Many previous studies have focused either on financial development, institutional quality, or macroeconomic growth separately, while fewer studies have simultaneously analyzed the welfare implications of both government and private investment across multiple Islamic countries over an extended period. Moreover, the heterogeneity among Islamic economies necessitates the use of panel data approaches capable of controlling for structural differences and country-specific effects. Given these research gaps, a comprehensive econometric analysis of investment and welfare in Islamic countries can contribute significantly to the literature on Islamic development economics and provide practical policy implications for achieving inclusive and sustainable welfare improvement.

Accordingly, the present study aims to investigate the effects of public and private investment on economic welfare in selected Islamic countries during the period 1990–2023 using a panel data econometric approach.

Methodology

The present study was conducted using a quantitative research design with an applied objective and a correlational-analytical approach based on panel data econometrics. The study aimed to investigate the effects of public and private sector investment on economic welfare in selected Islamic countries over the period from 1990 to 2023. Due to the multidimensional nature of welfare determinants and the existence of both cross-sectional and temporal variations among countries, the panel

data approach was selected as the most appropriate econometric framework for capturing structural heterogeneity and dynamic changes across countries and over time. The statistical population of the study consisted of Islamic countries for which consistent and accessible macroeconomic data were available throughout the study period. Based on data availability and continuity of observations, a balanced panel consisting of 938 country-year observations was constructed. The selection of countries was carried out through purposive sampling based on the availability of reliable macroeconomic indicators related to investment, welfare, inflation, and national income. The use of panel data enabled the study to simultaneously analyze inter-country differences and intra-country changes while reducing estimation bias arising from omitted structural characteristics. Furthermore, the adoption of the fixed effects approach allowed the model to control for unobservable country-specific effects that remain constant over time, thereby increasing the reliability and validity of the estimated coefficients.

The data used in this study were collected through documentary and archival methods using internationally recognized macroeconomic databases. Information related to public sector investment, private sector investment, gross domestic product per capita based on purchasing power parity, inflation rate, and economic growth indicators was extracted from international statistical sources, including the databases of the World Bank, the International Monetary Fund, and the United Nations Development Programme. The dependent variable of the study was the economic welfare index, which was operationalized using indicators associated with living standards, purchasing power, and socioeconomic conditions within the selected countries. Public sector investment was measured as the share of government capital expenditure and infrastructure-oriented investment activities within the economy, while private sector investment represented private domestic capital formation and productive investment activities undertaken by non-governmental economic agents. Inflation was measured based on annual percentage changes in the consumer price index, and economic growth was represented through the logarithm of gross domestic product and related macroeconomic growth indicators. GDP per capita based on purchasing power parity was included as an indicator of real income and household purchasing capacity. Since all variables were obtained from internationally standardized statistical repositories, the reliability and validity of the data have been confirmed in numerous empirical studies and international economic reports. In order to ensure data consistency and comparability, all variables were standardized according to internationally accepted definitions and measurement frameworks before being entered into the econometric model.

Data analysis was performed using panel econometric techniques in order to estimate the relationships between public investment, private investment, and economic welfare in selected Islamic countries. Initially, descriptive statistics including means, medians, standard deviations, and distributional characteristics of the variables were examined to provide a preliminary understanding of the data structure and the degree of heterogeneity among countries. Subsequently, the stationarity of the variables was evaluated using panel unit root tests, including the Levin–Lin–Chu (LLC) test and the Augmented Dickey–Fuller (ADF) test, to avoid spurious regression problems and determine the integration order of the variables. After confirming that all variables were stationary at level form, panel regression estimation procedures were implemented. In order to identify the appropriate estimation model, the Chow test was employed to determine whether pooled estimation or panel estimation was more suitable. Following confirmation of panel effects, the Hausman test was conducted to distinguish between fixed effects and random effects specifications. Based on the significance of the Hausman test, the fixed effects panel model was selected as the optimal estimation approach due to the existence of structural

heterogeneity across countries. The final econometric model was estimated using fixed effects regression analysis, and the significance of coefficients was evaluated through t-statistics and probability values at conventional significance levels. All statistical and econometric analyses were conducted using specialized econometric software packages commonly applied in panel data analysis.

Findings and Results

The examination of the descriptive statistics of the study across Islamic countries during the period 1990–2023 indicates substantial structural and economic heterogeneity among these countries. Gross domestic product (GDP) per capita, with a mean of 23,955 USD and a median of 10,731 USD (SD = 29,835), reflects a profound income gap and the influence of oil-rich countries on increasing the deviation of the mean. In the investment sector, government investment, with a mean share of 12.6%, exhibits greater dispersion than private investment, with a mean of 10.55%, reflecting the prominent and uneven role of governments in the economies of these countries. On the other hand, the inflation rate, with a mean of 53.35% and a median of only 4.86% (SD = 796.51), demonstrates that despite relatively low inflation in most countries, extreme monetary crises in a limited number of countries have significantly affected the overall statistics. Nevertheless, the economic growth indicator, with a mean of 24.88, demonstrates a relatively stable and convergent trend. Finally, the welfare index, with a mean of 77.43 and a median of 89.9, indicates that although welfare levels are relatively favorable in a large proportion of the countries, structural poverty in others has reduced the overall average.

Table 1

Descriptive Statistics of the Variables

Variables	Mean	Median	Standard Deviation	Number of Observations
GDP per capita based on purchasing power parity (USD)	23955.29	10731.26	29835.85	938
Public sector investment	12.61794	9.791734	10.97929	938
Private sector investment	10.55560	9.699289	8.244362	938
Inflation	53.35792	4.864771	796.5119	938
Logarithm of GDP	24.87974	24.83015	1.544262	938
Welfare	77.43507	89.9	28.90921	938

Prior to estimating the econometric models in panel data analysis, examining the stationarity of the variables is essential in order to avoid the problem of spurious regression and to accurately determine the appropriate modeling approach. Accordingly, the Levin, Lin, and Chu (LLC) panel unit root test and the Augmented Dickey–Fuller (ADF) test were employed to examine the existence of unit roots in the study variables, the results of which are presented in Table 2.

An examination of the test statistics and probability values (p-values) indicates that all study variables, including private sector investment, public sector investment, economic growth, GDP per capita, inflation, and the welfare index, are stationary at level form. In other words, in all cases, the probability values are below 0.05, and the null hypothesis of the existence of a unit root is rejected with a high degree of confidence.

In summary, since all model variables were identified as integrated of order zero, I(0), and none exhibited non-stationary behavior, differencing of the variables was unnecessary. This statistical characteristic allows for the direct estimation of relationships and the application of panel econometric models without concern regarding spurious results and with a high degree of reliability.

Table 2

Results of the LLC and ADF Unit Root Tests

Variables	LLC Statistic	LLC Probability	ADF Statistic	ADF Probability	Stationarity Status
Public sector investment	-2.03	0.02	84.28	0.00	I(0)
Public sector investment (first difference)	-21.33	0.00	472.46	0.00	
Private sector investment	-2.42	0.01	70.11	0.00	I(0)
Private sector investment (first difference)	-17.68	0.00	302.64	0.00	
Logarithm of GDP	-2.01	0.02	75.48	0.04	I(0)
Logarithm of GDP (first difference)	-7.73	0.00	236.39	0.00	
GDP per capita based on purchasing power parity	-17.01	0.00	382.26	0.00	I(0)
GDP per capita based on purchasing power parity (first difference)	-20.92	0.00	672.34	0.00	
Inflation	-3.51	0.00	159.62	0.00	I(0)
Inflation (first difference)	-23.00	0.00	639.32	0.00	
Welfare	-10.74	0.00	-19.10	0.00	I(0)
Welfare (first difference)	-14.13	0.00	-24.77	0.00	

As previously stated, the present study employs the panel data method to analyze the effects of public and private investment on the economic welfare of selected Islamic countries.

Based on the conducted examinations, including unit root testing to confirm the stationarity of the variables and ensure the correctness of the estimation method selection, the implementation of Granger causality and Toda–Yamamoto causality tests to determine the direction of relationships among the study variables (with absolute poverty as the indicator of economic welfare as the dependent variable and per capita income, economic growth, inflation, public investment, and private investment as independent variables), as well as the theoretical foundations presented for determining additional independent variables, the model is specified as follows:

$$IEWB_t = \gamma GIR_t + \omega PIR_t + \delta EG_t + \theta Inf_t + \mu RGDPPC_t + \varepsilon_t$$

This model has been formulated within the framework of a panel data model (combining time-series and cross-sectional data) based on the study variables, in which *IEWB* represents the economic welfare index as the dependent variable. *GIR* denotes public investment, *PIR* represents private investment, *EG* indicates economic growth, *Inf* denotes inflation, and *RGDPPC* represents per capita income. Furthermore, the specification of the model was informed by the studies of Ahamad, Ho and Odhiambo, and Tuyen Bui et al..

To determine the appropriate estimation method for the model, model specification tests were employed. The results of the Chow test, with a statistic of 62.170 and a significance level of 0.00, reject the assumption of pooled estimation and confirm the necessity of using a panel model due to the existence of significant differences among cross-sectional units. Subsequently, the Hausman test was conducted to determine the type of effects. The Hausman statistic of 63.14 with a significance level of 0.01 rejects the random effects assumption. This result indicates the presence of structural heterogeneity among countries; therefore, the research model should be estimated using a fixed effects panel data approach.

Table 3

Confirmation and Specification Tests of the Pooled Data Model for All Countries

Test Name	Statistic	Significance Level
Chow test	62.170	0.00
Hausman test	63.14	0.01

The results of the fixed effects panel data model are reported in Table 4. In this estimation, 918 observations related to selected Islamic countries during the period 1990–2023 were utilized, and heterogeneity effects among countries were controlled through the fixed effects model. This framework makes it possible to analyze the relationship between economic

variables and the welfare index based on within-country changes over time, without bias arising from fixed structural differences among countries. Accordingly, the estimated coefficients and their significance levels provide a clear picture of the mechanisms through which macroeconomic variables affect welfare in this group of countries.

Table 4

Estimation Results of the Fixed Effects Panel Data Model for All Countries

Variables	Coefficients	Standard Error	t-Statistic	Probability Statistic
Public sector investment	0.091	0.017	5.452	0.000
Private sector investment	0.084	0.039	2.180	0.030
GDP per capita based on purchasing power parity	0.000	0.000	2.588	0.010
Inflation	-0.001	0.000	-1.482	0.139
Logarithm of GDP	0.440	0.278	1.582	0.114
Constant term	63.495	6.859	9.257	0.000

The estimation results of the fixed effects panel model (Table 4) indicate the positive and significant effects of public and private investment on the economic welfare of Islamic countries. The coefficient of public investment (0.091), with a high significance level, reflects the prominent role of infrastructure development and public services in improving welfare in economies dependent on state intervention. In addition, private sector investment, with a coefficient of 0.084, exerts a positive effect on quality of life through employment generation and production expansion. Furthermore, GDP per capita based on purchasing power parity demonstrates a positive and robust effect with a probability level of 0.01, indicating the direct impact of improvements in real income on living standards.

In contrast, the effect of inflation on the welfare index was estimated to be negative but statistically insignificant (probability level = 0.139), which may be attributed to the severe heterogeneity of inflationary experiences across these countries. Although the economic growth variable exhibits a positive sign, it is not statistically significant (probability level = 0.114). This finding suggests that economic growth in many of these countries, which is largely dependent on single-commodity revenues such as oil, does not immediately translate into improvements in public welfare due to existing income distribution structures. Finally, the constant term of the model (approximately 63) indicates the baseline level of welfare arising from institutional, historical, and structural factors outside the scope of the model.

Discussion and Conclusion

The findings of the present study demonstrate that both public and private investment exert positive and statistically significant effects on economic welfare in selected Islamic countries during the period 1990–2023. Among the explanatory variables, public investment exhibited a relatively stronger effect on welfare compared with private investment, indicating the critical role of government-led development expenditures in improving living standards, expanding infrastructure, and strengthening social welfare systems in Islamic economies. In contrast, inflation and economic growth did not show statistically significant effects on welfare, despite the positive sign observed for economic growth and the negative sign estimated for inflation. Additionally, real GDP per capita based on purchasing power parity demonstrated a positive and significant relationship with welfare, confirming the importance of real income improvement in enhancing quality of life and socioeconomic conditions.

The positive effect of public investment on welfare suggests that government expenditures in infrastructure, transportation, healthcare, education, and public services continue to constitute a major driver of socioeconomic development in many Islamic countries. A large number of OIC economies remain highly dependent on state-led investment models due to structural characteristics such as centralized fiscal systems, oil-based revenues, and relatively underdeveloped private sectors. Consequently, public investment frequently serves as the primary mechanism through which governments address poverty, unemployment, regional inequality, and deficiencies in public services. The significance of public investment identified in this study aligns with the arguments presented in the Islamic development literature, which emphasizes the responsibility of governments to ensure collective welfare and equitable resource distribution [1, 2]. The findings are also consistent with studies indicating that effective institutional structures and government policy coordination can significantly enhance welfare outcomes in Muslim-majority countries [5, 6].

The stronger coefficient associated with public investment may also reflect the developmental priorities of many Islamic economies, where governments allocate substantial resources toward infrastructure modernization and social development projects. In developing countries, especially those characterized by structural market imperfections, state intervention often compensates for weak private capital formation and insufficient financial market depth. Public investment in roads, energy systems, healthcare facilities, and educational institutions generates both direct welfare improvements and indirect multiplier effects by stimulating employment and productive activity. These findings support earlier studies emphasizing that Islamic economic systems encourage government involvement in promoting social justice and reducing inequality through developmental expenditures and welfare-oriented fiscal policies [3, 16].

At the same time, the positive and statistically significant effect of private investment highlights the importance of entrepreneurial activity, industrial development, and private sector expansion in improving welfare conditions. Private investment contributes to employment creation, technological advancement, income generation, and productivity enhancement. In recent decades, many Islamic countries have increasingly promoted private sector participation through economic liberalization, financial sector reforms, and the expansion of Islamic banking systems. The findings of this study therefore support the growing literature arguing that Islamic finance and entrepreneurship can contribute substantially to economic development and social welfare [18-20]. The expansion of Islamic banking and financing mechanisms has improved access to capital for businesses and entrepreneurs while simultaneously encouraging investment activities aligned with ethical and socially productive objectives.

The positive welfare effects of private investment observed in this study are also compatible with research emphasizing the developmental role of Islamic financial institutions in promoting productive economic activity. Islamic finance instruments such as *mushārah*, *muḍārah*, *sukuk*, and Islamic crowdfunding mechanisms provide alternative financing opportunities that support entrepreneurship and inclusive growth [8, 9]. In addition, Islamic social finance mechanisms such as *waqf* and *qardh al-hasan* have increasingly been recognized as complementary tools for supporting small enterprises, reducing poverty, and strengthening local economic resilience [7, 24, 26]. Therefore, the significant effect of private investment on welfare reflects not only the conventional role of capital accumulation but also the growing integration of Islamic financial structures into broader development strategies across OIC countries.

The positive relationship between GDP per capita and welfare further confirms the central role of real income improvement in enhancing living standards and socioeconomic well-being. Countries with higher purchasing power parity-

adjusted income levels generally exhibit stronger access to education, healthcare, housing, infrastructure, and social services. This finding is theoretically consistent with development economics frameworks suggesting that improvements in real income directly affect household consumption capacity and quality of life. The result also supports empirical evidence demonstrating that socioeconomic well-being in Islamic economies depends substantially on the ability of economic systems to generate sustainable income growth and equitable access to productive opportunities [1, 13]. Nevertheless, the significance of GDP per capita should not be interpreted as evidence that economic growth alone guarantees welfare enhancement, particularly in contexts characterized by inequality and structural imbalances.

One of the most notable findings of the study is the statistically insignificant effect of economic growth on welfare despite its positive coefficient. This result indicates that aggregate economic expansion in many Islamic countries does not automatically translate into broad-based welfare improvement. In numerous resource-dependent economies, economic growth is frequently concentrated within limited sectors such as oil, gas, or extractive industries, with insufficient spillover effects for the wider population. As a result, growth may increase macroeconomic indicators without substantially improving employment opportunities, income distribution, or social welfare outcomes. This finding is consistent with studies arguing that growth without institutional effectiveness and distributive justice cannot achieve meaningful welfare gains in Islamic societies [13, 14]. The result also supports the argument that welfare-oriented development requires structural transformation, human capital investment, and inclusive economic policies rather than reliance on nominal growth alone.

The insignificant relationship between economic growth and welfare may additionally reflect governance limitations and institutional inefficiencies within some Islamic countries. Weak administrative systems, corruption, political instability, and limited policy coordination can reduce the developmental impact of growth and investment. Previous research has emphasized that institutional quality plays a decisive role in determining whether economic growth translates into sustainable welfare outcomes [5, 6]. Consequently, even countries experiencing relatively high growth rates may fail to improve public welfare if growth benefits remain concentrated among elites or specific economic sectors. This interpretation is also compatible with the broader Islamic economic perspective, which emphasizes equitable distribution and social responsibility alongside economic expansion.

The negative but statistically insignificant effect of inflation on welfare represents another important finding of the study. Although inflation theoretically reduces purchasing power and household welfare, the absence of statistical significance suggests substantial heterogeneity among the selected countries regarding inflationary experiences and economic structures. Some Islamic economies have experienced relatively stable price environments, whereas others have encountered severe inflationary crises linked to fiscal instability, exchange rate depreciation, or political conflict. The extreme variation in inflation rates across countries may therefore weaken the overall statistical relationship between inflation and welfare in the panel model. Nonetheless, the negative coefficient remains theoretically meaningful because persistent inflation generally erodes real income, increases living costs, and disproportionately harms low-income households. Previous literature similarly emphasizes that macroeconomic instability and ineffective monetary management can undermine welfare and weaken development outcomes in Muslim countries [5, 17].

The findings of this study also contribute to the growing discourse on sustainable development and Islamic social finance. Recent literature increasingly argues that Islamic economic systems possess unique institutional mechanisms capable of supporting welfare-oriented development through ethical finance, poverty alleviation instruments, and socially responsible

investment [10-12]. The significant role of investment identified in this study reinforces the argument that capital allocation toward productive and socially beneficial sectors can strengthen welfare outcomes in Islamic countries. Green finance initiatives, renewable energy investment, and sustainability-oriented Islamic financing models further illustrate how investment strategies may simultaneously support economic welfare and environmental resilience [22, 29]. Therefore, welfare improvement in Islamic economies should be understood not only as a function of aggregate capital accumulation but also as a process requiring ethical governance, social inclusion, and sustainable development planning.

The present findings additionally support the argument that Islamic social finance instruments can complement conventional fiscal and investment policies in addressing welfare challenges. Mechanisms such as zakat, waqf, Islamic crowdfunding, and refugee financing programs have increasingly been utilized to support vulnerable populations and reduce socioeconomic disparities across Muslim societies [30, 31]. These instruments can strengthen welfare systems by mobilizing community-based resources and supporting inclusive development initiatives. The integration of Islamic finance with public investment strategies may therefore provide an effective framework for promoting equitable growth and social welfare in OIC countries.

Another implication of the study concerns the role of economic diversification and international integration in welfare enhancement. Previous studies indicate that trade expansion, tourism development, foreign direct investment, and entrepreneurial growth can positively influence economic performance in Islamic countries when accompanied by institutional effectiveness and supportive policies [27, 28, 32]. However, the present findings suggest that such economic activities improve welfare only when their benefits are distributed broadly across society. This reinforces the importance of designing investment and development policies that prioritize employment generation, regional balance, and social inclusion rather than narrow sectoral growth.

Overall, the results of the present study indicate that investment remains one of the most important determinants of economic welfare in Islamic countries, but the effectiveness of investment depends heavily on institutional quality, distributive mechanisms, and developmental priorities. Public investment appears particularly influential because of its role in infrastructure provision and social development, whereas private investment contributes through entrepreneurship and productive expansion. At the same time, economic growth alone is insufficient for welfare enhancement unless accompanied by equitable distribution, institutional effectiveness, and sustainable development strategies. These findings underscore the importance of integrating investment policy with the broader principles of Islamic economics, including social justice, ethical finance, and collective prosperity.

One limitation of the present study relates to the availability and consistency of macroeconomic data across Islamic countries during the study period. Some countries experienced missing observations, political instability, or methodological changes in statistical reporting, which may have affected data comparability. Another limitation concerns the measurement of economic welfare, as welfare is a multidimensional concept that cannot be fully captured through macroeconomic indicators alone. Additionally, the study employed aggregate national-level data, which may conceal regional inequalities and within-country disparities in welfare conditions. The analysis also focused primarily on conventional macroeconomic variables and did not incorporate certain institutional, cultural, or political dimensions that may influence welfare outcomes in Islamic societies.

Future studies are encouraged to examine the relationship between investment and welfare using broader multidimensional welfare indicators, including human development, social inclusion, environmental sustainability, and quality of governance. Researchers may also investigate the comparative effects of Islamic financial instruments such as sukuk, zakat, waqf, and Islamic crowdfunding on welfare improvement in specific sectors or regions. Additional research could explore the moderating role of institutional quality, corruption control, political stability, and technological innovation in shaping the welfare effects of public and private investment. Moreover, comparative analyses between oil-exporting and non-oil Islamic countries may provide deeper insight into how economic structure influences welfare dynamics. Future investigations may also apply dynamic panel models or nonlinear econometric approaches to capture long-term interactions among investment, growth, and welfare.

Policymakers in Islamic countries should prioritize productive public investment in infrastructure, healthcare, education, renewable energy, and social protection systems to strengthen long-term welfare outcomes. Governments should also create supportive institutional and regulatory environments that encourage private sector investment, entrepreneurship, and innovation while ensuring fair competition and financial inclusion. Strengthening Islamic financial institutions and integrating Islamic social finance instruments into national development strategies may improve access to capital for vulnerable groups and small enterprises. Economic diversification policies should be emphasized to reduce dependence on resource-based revenues and enhance employment generation across productive sectors. Finally, welfare-oriented economic planning should focus not only on achieving economic growth but also on ensuring equitable income distribution, sustainable development, and improvements in the real purchasing power of households.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

The study protocol adhered to the principles outlined in the Helsinki Declaration, which provides guidelines for ethical research involving human participants. Written consent was obtained from all participants in the study.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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