

ABSTRACT

This study aims to analyze the determinants of structural inequality in member countries of the Organization of Islamic Cooperation (OIC) by integrating three main dimensions, economic, social, and political structures. The research focuses on the role of Islamic finance, human development, and governance. This study uses panel data from 53 OIC member countries for the period 2017-2023. The analysis was conducted using two panel regression models, the difference between which lies in the Islamic finance variable indicator and the measurement of the regime variable. Both models were analyzed using a fixed effect model with cross-section SUR (PCSE) to obtain estimates that are robust against autocorrelation and heteroscedasticity.

The results show that Islamic Finance in the first model does not significantly affect income inequality between countries that adopt Islamic finance and those that do not, but has a positive and significant effect in the second model. Conversely, average length of schooling has a negative and significant effect on inequality. This is supported by the capability approach theory, which emphasizes the importance of education in expanding economic opportunities. The unemployment variable has a positive but insignificant effect on inequality. Furthermore, control of corruption has a negative and significant effect, confirming the important role of strengthening institutions in reducing inequality. Analysis of the electoral autocracy regime shows no significant effect, while the electoral democracy regime has a positive and significant effect on inequality. In the second model, the regime also has a positive and significant effect on inequality. Furthermore, there is a non-linear relationship between GDP and inequality, in the form of a U-curve, which does not correspond with the Kuznets hypothesis.

The findings confirm that income inequality in OIC member countries is determined not only by economic factors, but also by the quality of institutions, human development, and political structures. Thus, strategies to reduce inequality need to be implemented through a multidimensional approach that includes optimizing the role of Islamic finance, improving the quality of education, and strengthening governance.

Keywords: Income inequality, Islamic finance, human development, governance, political regime, cross-section SUR (PCSE)