

THE ROLE OF ISLAMIC SOCIAL FINANCE IN ADDRESSING POVERTY AND INEQUALITY IN INDONESIA: A SYSTEMATIC LITERATURE REVIEW

Muhammad Putra Aprullah¹

Yossi Diantimala²

Muhammad Arfan^{3*}

Irsyadillah⁴

Raida Fuadi⁵

Muhammad Sayuthi⁶

Agus Adria⁷

Salsabilla Julnadi⁸

¹ Management, Economics and Business Faculty, Syiah Kuala University, Aceh, Indonesia

^{2,3,4,5} Accounting, Economics and Business Faculty, Syiah Kuala University, Aceh, Indonesia

⁶ Mechanical, Engineering Faculty, Malikussaleh University, Aceh, Indonesia

⁷ Electrical, Engineering Faculty, Syiah Kuala University, Aceh, Indonesia

⁸ Bahasa Indonesia, Economics and Business Faculty, Politeknik Negeri Lhokseumawe, Aceh, Indonesia

*¹Corresponding email: aprullahmuhammad145@gmail.com

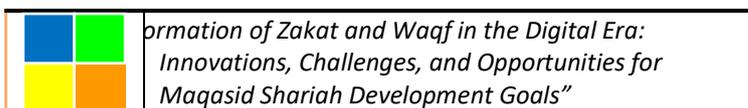
ABSTRACT - Indonesia faces multidimensional challenges to escape the middle-income trap and achieve high-income status by 2045. Despite relatively stable economic growth (averaging 4.9% from 2000 to 2022), poverty reduction has stagnated at around 10 %, indicating that conventional economic growth is insufficiently inclusive. On the other hand, Indonesia, with the world's largest Muslim population and ranked first in the 2021 World Giving Index, has tremendous potential for developing Islamic Social Finance (ISF). This article uses a Systematic Literature Review (SLR) method to critically analyze the strategic role of ISF instruments—particularly Zakat, infaq/sedakh, and waqf—in accelerating poverty alleviation, reducing inequality, and supporting inclusive economic development in Indonesia. The study revealed that the estimated national zakat potential of IDR 327 trillion could fund up to 76% of the government's social protection budget. Meanwhile, cash waqf offers a sustainable social investment model for long-term financing in the education, health, and MSME empowerment sectors. However, the optimization of ISF remains hampered by challenges in literacy, governance, transparency, and policy integration. This study concludes that ISF is not merely a philanthropic instrument, but rather a powerful complementary policy to strengthen the government's fiscal policy towards achieving a sovereign and equitable Golden Indonesia 2045.

Keywords: Islamic Social Finance, Zakat, Waqf, poverty, Systematic Literature Review.



ABSTRAK – Indonesia menghadapi tantangan multidimensi untuk keluar dari jebakan pendapatan menengah dan mencapai status pendapatan tinggi pada tahun 2045. Meskipun pertumbuhan ekonomi relatif stabil (rata-rata 4,9% dari tahun 2000 hingga 2022), penurunan angka kemiskinan telah stagnan di sekitar 10%, menunjukkan bahwa pertumbuhan ekonomi konvensional tidak cukup inklusif. Di sisi lain, Indonesia, yang memiliki populasi Muslim terbesar di dunia dan menduduki peringkat pertama dalam Indeks Kedermawanan Dunia 2021, memiliki potensi besar untuk mengembangkan Keuangan Sosial Islam (ISF). Artikel ini menggunakan metode Systematic Literature Review (SLR) untuk menganalisis secara kritis peran strategis instrumen ISF—terutama zakat, infaq/sedekah, dan wakaf—dalam mempercepat pengentasan kemiskinan, mengurangi ketimpangan, dan mendukung pembangunan ekonomi inklusif di Indonesia. Studi ini mengungkapkan bahwa potensi zakat nasional yang diperkirakan sebesar IDR 327 triliun dapat membiayai hingga 76% anggaran perlindungan sosial pemerintah. Sementara itu, waqf tunai menawarkan model investasi sosial berkelanjutan untuk pembiayaan jangka panjang di sektor pendidikan, kesehatan, dan pemberdayaan UMKM. Namun, optimalisasi ISF masih terhambat oleh tantangan dalam literasi, tata kelola, transparansi, dan integrasi kebijakan. Studi ini menyimpulkan bahwa ISF bukan sekadar alat filantropi, melainkan kebijakan pelengkap yang kuat untuk memperkuat kebijakan fiskal pemerintah dalam mewujudkan Indonesia Emas 2045 yang berdaulat dan adil.

Kata Kunci: Keuangan Sosial Islam, Zakat, Wakaf, Kemiskinan, Tinjauan Literatur Sistematis



INTRODUCTION

Indonesia is currently at a crucial juncture in its national development journey. Indonesia's status as a middle-income country presents the nation with a serious challenge to escape the middle-income trap and transform into a developed nation. This condition aligns with the Golden Indonesia Vision 2045, which targets the realization of a high-income country with a just, prosperous, and globally competitive society. However, achieving this vision is determined not only by the magnitude of economic growth, but also by the quality of growth that is inclusive, sustainable, and able to improve the welfare of all levels of society equally. Empirically, data show that the Indonesian economy is relatively resilient. Average economic growth of 4.9% throughout the 2000–2022 period confirms macroeconomic resilience despite the global crisis and the COVID-19 pandemic (BPS, 2023). This stability reflects Indonesia's success in maintaining its economic fundamentals over the long term. However, these macroeconomic achievements are not fully aligned with microeconomic achievements in poverty alleviation. According to data from the Central Statistics Agency (BPS, 2023), the national poverty rate remains around 10%. This stagnant situation indicates the existence of chronic and structural poverty that cannot be addressed through conventional growth mechanisms. This phenomenon confirms that the assumption of the trickle-down effect—that the benefits of economic growth will automatically flow to lower-income groups—is not actually occurring (Shabbir et al., 2018). Instead, what is observed is a phenomenon of high growth, low prosperity, where high economic growth is enjoyed only by the middle and upper classes. At the same time, the poor remain trapped in a cycle of poverty. Several studies, such as that by (Dartanto et al. (2020), confirm that economic growth in Indonesia tends to result in wealth accumulation in certain segments and widen socioeconomic disparities. As a result, vulnerable groups are increasingly marginalized, and their access to productive resources, education, and healthcare is limited. From a development theory perspective, this condition can be explained through a structuralist approach, which states that poverty is structural due to unequal access to capital, skills, and infrastructure. Therefore, to escape the middle-income trap, Indonesia cannot simply rely on a quantitative growth strategy. More inclusive, direct, and targeted policies are needed to empower people with low incomes and reduce inequality (Shaikh, 2017).

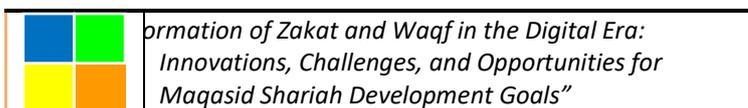
One relevant alternative instrument in this context is Islamic Social Finance (ISF). ISF is a social finance system based on Islamic principles that



emphasizes justice, equitable wealth distribution, and social responsibility. ISF consists of three main pillars: (1) zakat, a financial obligation of Muslims to be distributed to deserving recipients; (2) infaq and sadaqah, voluntary contributions in various forms; and (3) waqf, a perpetual endowment with sustainable benefits for the public interest (Odeduntan et al., 2016).

Unlike conventional fiscal instruments, ISF has a bottom-up approach, stemming from community participation and targeting vulnerable groups. Thus, ISF has the potential to provide a solution to both market failure and government failure in reaching people experiencing poverty. This instrument aligns with Islamic economic theory developed by (Kahf, 1999), which emphasizes that the primary goal of development in Islam is to achieve the *maqasid sharia*—protecting religion, life, intellect, descendants, and property—through equitable distribution and economic empowerment.

The potential of ISF in Indonesia is enormous. First, Indonesia has the largest Muslim population in the world, approximately 237 million people (87% of the total population). Second, the culture of public generosity is very strong, as demonstrated by Indonesia's first ranking in the 2021 World Giving Index. According to the National Zakat Agency (Zaenal et al., 2024), the national zakat potential is estimated to reach IDR 327 trillion in 2023. However, realized zakat collection is only around IDR 26 trillion, or less than 10% of the potential. The potential for Waqf is similar, with the innovation of cash waqf becoming increasingly popular and able to mobilize broader public participation. Empirical studies show that ISF can make a significant contribution to poverty alleviation. Syauqi Beik & Arsyianti (2016), for example, found that a productive zakat program can increase the income of those entitled to receive Zakat by up to 2.6 times. Other studies confirm that the utilization of productive Waqf can finance the education and health sectors, as well as support the empowerment of micro, small, and medium enterprises (MSMEs). Other studies confirm that the use of productive Waqf can finance the education and health sectors, as well as support the empowerment of micro, small, and medium enterprises (MSMEs). In Malaysia, the integration of Zakat with government social policies has been proven to reduce poverty in several regions (Azhar et al., 2023). Meanwhile, in Bangladesh, the waqf management model has supported the sustainable financing of public services (Faruque et al., 2023). However, implementing the Islamic Fund for the Poor (ISF) in Indonesia faces several challenges. Low public literacy regarding ISF means that most Muslims still distribute Zakat individually and not through official institutions. ISF management institutions still face issues of governance, transparency, and accountability (Febriandika et al., 2023). Furthermore, ISF



management is still predominantly consumer-oriented, not fully directed towards productive sectors that have the potential to sustainably empower people with low incomes. Within a policy framework, optimizing the ISF requires strategic steps. First, regulations and governance must be strengthened to ensure that ISF management institutions meet high accountability standards. Second, encouraging innovation in the collection and distribution of ISF through digitalization, for example, digital zakat or blockchain waqf, to increase transparency and efficiency. Third, ISF should be integrated with priority national development programs, such as MSME empowerment, vocational education, and public health (Sawmar & Mohammed, 2021).

Based on the above description, it is clear that Indonesia requires additional instruments that can complement conventional development strategies in its efforts to achieve the Golden Indonesia Vision 2045. Islamic Social Finance has a significant potential role, both in reducing structural poverty and in narrowing socioeconomic disparities. Therefore, a systematic and critical review of the literature and empirical evidence regarding the role of ISF in Indonesia's economic development is crucial. Through a Systematic Literature Review (SLR) approach, this research is expected to provide an evidence-based synthesis that will benefit academics, practitioners, and policymakers in formulating inclusive, equitable, and sustainable development strategies.

LITERATURE REVIEW

Conceptualization of Islamic Social Finance (ISF)

Islamic Social Finance (ISF) is a crucial instrument in the Islamic economic system, serving primarily as a mechanism for wealth redistribution and strengthening social solidarity (Iskandar et al., 2021). In Islamic economics literature, the Islamic Fund for Stability (ISF) is often positioned as a third-sector financing instrument, a funding sector sourced directly from the community, distinct from state fiscal instruments (public sector) and market instruments private sector (Ascarya, 2021). The existence of the ISF is capable of addressing the issues of economic inequality and market failure, while simultaneously strengthening social resilience.

Conceptually, the ISF is based on the principle of maqasid al-Shariah, namely the effort to safeguard and maintain the five main objectives of sharia: religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-'aql), progeny (hifz al-nasl), and wealth (hifz al-mal). Thus, the ISF is not only philanthropic but also



has a developmental dimension (Odeduntan et al., 2016). The ISF instrument seeks to create distributive justice, strengthen social cohesion, and increase the economic capacity of poor and vulnerable groups. In general, the ISF has three main pillars: Zakat, Waqf, and infaq/sadaqah.

a. Zakat

Zakat is a mandatory instrument in Islam that is redistributive. The Qur'an (Surah At-Taubah: 60) explains that Zakat is intended for eight categories of recipients (asnaf): the poor, the needy, the amil (managers), the converts (mu'allaf), the slaves (riqab), the debtors (gharim), the people who are in the service of Allah (fi sabilillah), and the sons of the poor. Through this mechanism, Zakat is not merely a ritual but also has a significant socioeconomic function (Owoyemi, 2020).

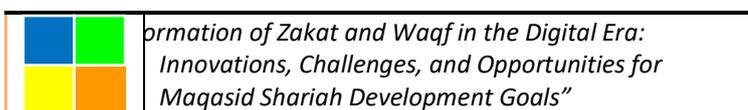
From a tazkiyah perspective, Zakat serves to purify the wealth and souls of those who give Zakat and strengthen social solidarity between the rich and the poor. Meanwhile, from a development perspective, Zakat can be an instrument to address structural poverty by increasing the purchasing power of people experiencing poverty, expanding access to productive capital, and strengthening social protection networks (Syauqi Beik & Arsyianti, 2016).

In the modern context, Zakat is managed by official institutions such as BAZNAS (National Zakat Agency) and the Zakat Collection Institution (LAZ), allowing for more systematic collection and distribution. The national zakat potential, as reported by Zaenal et al. (2024), reaches IDR 327 trillion per year. However, the actual collection remains far below this potential, making optimizing zakat management a crucial part of strengthening the ISF's contribution to national economic development.

b. Waqf

Waqf is a perpetual instrument of Islamic philanthropy. Assets donated (mauquf) may not be sold, inherited, or transferred, but must be safeguarded so that their benefits continue to flow to the recipients (mauquf 'alayh). This concept emphasizes sustainability in resource utilization (Saiti et al., 2021). The tradition of Waqf in Islamic history has made a significant contribution to the development of civilization. In classical times, Waqf was used to fund the construction of schools, hospitals, libraries, and other public infrastructure (Azizah & Khanifa, 2021). Thus, Waqf became a development instrument that provided long-term socioeconomic benefits.

Modern innovations in Waqf, namely cash waqf, have expanded the scope of community participation. Through cash waqf, the community can contribute small amounts, but if managed collectively and productively, it can have a significant impact (Hakim, 2021). Cash waqf funds can be invested in



halal and safe sharia-compliant instruments, with the proceeds distributed for education, health, and the economic empowerment of the community. With this approach, Waqf is no longer passive but has become a source of productive development funding (Uluyol et al., 2021).

c. Infaq/Alms

Infaq and alms are voluntary instruments within the Islamic Social Finance System (ISF) that offer high flexibility (Purbasari et al., 2020). Infaq can take the form of money, goods, or services given for social, humanitarian, or religious purposes. Although similar, alms have a broader spiritual dimension, encompassing all forms of good deeds performed by a Muslim.

The characteristics of infaq and alms are their responsive and contextual nature. Unlike Zakat, which has specific nisab (statute of limitations), haul (haul), and target recipients, infaq and alms are more flexible in their distribution. These instruments can be used to respond to emergencies, such as natural disasters, or other social needs not covered by the zakat recipient categories (Hamzah & Yudiawan, 2023).

Within a development framework, infaq and alms can function as complementary instruments to Zakat and Waqf. The three form a complementary Islamic social finance ecosystem: Zakat for obligatory redistribution, Waqf for sustainable financing, and infaq/alms for spontaneous and emergency needs (Hermawan & Rini, 2018).

Empirical Studies on the Role of Islamic Social Finance (ISF) in Poverty and Inequality Alleviation

Empirical studies on the role of Islamic Social Finance (ISF) in economic development have shown significant results, particularly in reducing poverty, narrowing disparities, and strengthening social resilience. In both the Indonesian and global contexts, various studies confirm that Zakat, Waqf, and infaq/sedakh have a significant contribution to inclusive development.

a. Zakat and Poverty Alleviation

Several studies in Indonesia have found that Zakat can improve the welfare of those who are entitled to receive it, both through consumptive and productive programs. Syauqi Beik & Arsyianti (2016) showed that productive Zakat distributed in the form of business capital and training can increase the income of those who are entitled to it by up to 2.6 times. Another study by Ascarya (2022) concluded that Zakat acts as an automatic stabilizer in the economy because it helps maintain the purchasing power of people



experiencing poverty during crises. At the macro level, Zakat can also contribute to reducing inequality. According to Khoirunniswah et al. (2023), the distribution of productive Zakat by zakat institutions in Indonesia has been proven to reduce the Gini index in intervention areas. This finding strengthens the argument that Zakat is not only a social instrument, but also a relevant development instrument in the national poverty alleviation strategy.

b. Productive Waqf and Sustainable Development

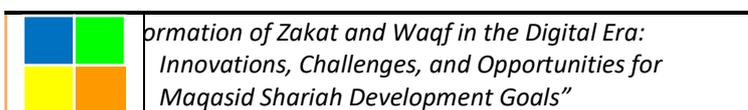
Waqf, particularly cash waqf, has developed as a sustainable financing instrument in various Muslim countries. Hakim (2021) noted that historically, Waqf contributed significantly to the provision of public services such as education, health, and social infrastructure during the classical Islamic civilization. In the modern context, a study by Saad et al. (2013) shows that productive Waqf has significant potential to finance the education and health sectors, thereby reducing the government's fiscal burden. In Indonesia, research by Siswantoro (2022) shows that managing cash waqf through a sharia-compliant investment model can generate surpluses that are then used to fund economic empowerment programs for people with low incomes. Furthermore, the integration of Waqf with the Islamic financial sector, such as the cash waqf-linked sukuk (CWLS) introduced in Indonesia in 2020, opens up new opportunities for innovation in sustainable development financing (Adinugraha et al., 2023). This policy demonstrates that Waqf can transform from a passive philanthropic instrument into an active development instrument that supports the national development vision.

c. Infaq and Social Responsibility

Infaq and charity, although voluntary in nature, play a significant role in supporting social solidarity. A study by Iskandar et al. (2021) on Islamic philanthropy in Indonesia shows that alms and charity play a significant role in responding to emergency needs, such as natural disaster relief, informal education, and healthcare for people experiencing poverty. The Charities Aid Foundation (2021) report ranked Indonesia as the most generous country in the world. A key indicator is the high level of community participation in almsgiving. This fact confirms that Indonesia's culture of generosity can serve as strong social capital in supporting inclusive development.

d. Global Practice: Lessons for Indonesia

In addition to domestic experience, several other countries have also demonstrated the success of ISF. In Malaysia, the integration of Zakat with government welfare programs has been shown to reduce poverty rates in several regions (Owoyemi, 2020). In Bangladesh, the cash waqf model managed by Social Investment Bank Limited (SIBL) has successfully funded



the construction of educational and healthcare facilities for people with low incomes (Faruqe et al., 2023).

This global experience demonstrates that the quality of governance, product innovation, and integration with national development policies largely determines the success of the ISF. Indonesia, with its vast Zakat and waqf potential, can learn from these good practices to strengthen the ISF's contribution to achieving sustainable development goals (Tuan Mahmood et al., 2021).

An empirical study in Indonesia, by (Sari et al., 2019) in West Sumatra, demonstrated that professional zakat interventions can reduce the time required to reduce poverty from 6 years (relying on 6% economic growth) to just 2.8 years. This finding demonstrates the accelerating effect of Zakat.

Research by (Ayuniyyah et al., 2018) in West Java showed that zakat distribution significantly increased the income of the bottom 40% and reduced the gap with the top 20%, as reflected in a decrease in the Gini coefficient. Dartanto et al. (2020) identified the existence of chronic poverty in Indonesia, where around 22.5% of households that were poor in 1993 remained poor in 2014. This group requires more direct and transformative interventions, which ISF-based empowerment programs can meet.

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METHODOLOGY

This article uses a Systematic Literature Review (SLR) method designed following the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol to ensure transparency and reproducibility (Hanif & Zafar, 2020). The SLR stages include:

1. Identification: A literature search was conducted in academic databases (Scopus, Google Scholar, DOAJ) and institutional repositories (BPS,



BAZNAS) using the following keywords: "zakat Indonesia", "cash waqf", "Islamic social finance poverty", "inclusive Indonesia development".

2. Screening: Literature was selected based on the following inclusion criteria: (a) publications between 2015 and 2024; (b) focus on the Indonesian context; (c) discussing Zakat, Waqf, or infaq/sedekah; (d) related to poverty, inequality, or economic development. Opinion and non-empirical literature were excluded.

3. Eligibility: The final selection was based on methodological quality and relevance. A total of 37 journals and conference proceedings, 4 institutional reports, met the criteria and were analyzed.

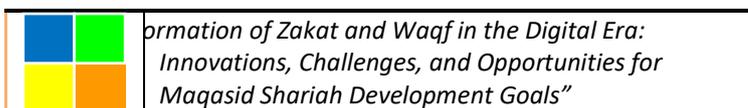
4. Synthesis: The selected data were analyzed thematically to identify patterns, challenges, opportunities, and policy recommendations related to Islamic Social Finance (ISF) in Indonesia.

RESULT AND DISCUSSION

Macro Contribution of Islamic Social Finance (ISF) to State Fiscal Policy and Social Protection

One of the main advantages of Islamic Social Finance (ISF), particularly Zakat, is its potential as a significant and sustainable source of social funding. In Indonesia, Zakat occupies a highly strategic position, not only as a religious obligation but also as a complementary fiscal instrument for the state in providing a social safety net (Owoyemi, 2020). Data from the National Zakat Agency (BAZNAS) shows that national zakat collection will reach IDR 32.3 trillion in 2023 (Zaenal et al., 2024). This figure is only equivalent to 7.3% of the total social protection budget in the state budget for the same year, but the growth trend is very significant. For comparison, in 2013, Zakat's contribution to social protection was only around 1%. In other words, over the past decade, Zakat has demonstrated an increasingly significant role in strengthening the national social protection system.

Furthermore, studies on the potential of Zakat reveal even more astonishing figures. Zaenal et al. (2024) estimates that the national zakat potential could reach IDR 327 trillion per year, equivalent to 76% of the total social protection budget in 2022. This data means that if zakat potential can be optimally mobilized, it can become a very significant alternative fiscal instrument (Purbasari et al., 2020). Funds of this size can not only strengthen the social safety net but also reduce the state's dependence on debt-based financing and encourage more inclusive development programs.



From a public economics perspective, Zakat has a similar function to taxes in terms of income redistribution, but with fundamental differences in its normative and religious aspects. Zakat is religiously obligatory and has spiritual legitimacy, thus tending to have a higher level of public compliance (Kahf, 1999). Furthermore, because it is distributed directly to the mustahik (recipients of the Zakat), Zakat can be more effective in reaching people experiencing poverty, who are often excluded from state social protection schemes.

Empirical studies also support this. Syauqi Beik & Arsyianti (2016) found that productive Zakat distributed through amil institutions can significantly increase the income of mustahik and encourage their transformation from zakat recipients to zakat payers (muzakki). This finding demonstrates that Zakat is not only charitable but also has an economic empowerment function. Therefore, optimizing Zakat's potential can support the achievement of inclusive growth and more sustainable poverty alleviation (Mawardi et al., 2023). With such enormous potential, the main challenge lies in building a modern, transparent, and integrated ISF management ecosystem, particularly Zakat, with a focus on the country's fiscal system .

Effectiveness of Micro ISF in Poverty Alleviation and Empowerment

At the micro level, Islamic Social Finance (ISF) plays a crucial role in poverty alleviation and community economic empowerment. The effectiveness of ISF can be seen from two main dimensions: direct assistance (consumptive) and empowerment programs (productive-transformative) (Siswantoro, 2022). First, direct and consumptive assistance. Zakat funds distributed in the form of consumer assistance serve as a safety net to meet the basic needs of those entitled to receive it, particularly people experiencing poverty. This function aligns with the basic needs theory (Adinugraha et al., 2023), which emphasizes the importance of meeting primary needs (food, clothing, shelter, health, and education) as a prerequisite for participation in economic development. The distribution of consumer zakat also aligns with the principle of hifzh al-nafs (protection of the soul) within the maqasid al-shariah, which states that the survival of the entitled mustahik must be guaranteed before further empowerment is directed (Adinugraha et al., 2023).

Second, transformational empowerment programs. The trend in ISF management in Indonesia over the past decade has shown a shift from a charitable approach to an empowerment model. BAZNAS, for example, initiated various programs such as Santripreneur, ZMart, and ZChicken, which provide not only business capital but also managerial mentoring, skills training,



and market access (Hermawan Adinugraha et al., 2023). This model reflects an asset-based community development approach (Jihadi et al., 2021), where mustahik are seen not merely as recipients of aid but as subjects of development with potential that can be optimized.

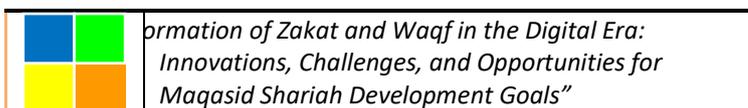
Recent data shows significant results. In 2023, the zakat empowerment program managed by BAZNAS successfully lifted 577,138 people out of poverty, including 321,757 people in the extreme poverty category (Zaenal et al., 2024). This achievement confirms that ISF is not only capable of addressing short-term poverty through consumptive assistance but also contributes to long-term economic transformation by enhancing the capabilities and independence of mustahik.

In line with the theory of inclusive growth Siswantoro (2022), ISF at the micro level ensures that marginalized groups not only receive the benefits of growth but also have real access to production factors (capital, skills, and market networks). Thus, ISF serves as a strategic instrument in addressing the high growth, low prosperity phenomenon that often characterizes Indonesia's development.

Waqf as an Engine of Sustainable Development

In addition to Zakat, Waqf also has significant potential as an Islamic Social Finance (ISF) instrument that can support sustainable development. Waqf is unique among other Islamic social instruments due to its perpetual nature. Waqf assets cannot be sold, inherited, or donated; instead, they must be managed productively for the benefit of the wider community. Therefore, Waqf can function as an engine of sustainable long-term financing.

Based on data from the Ministry of Religious Affairs' Waqf Information System (Siwak) as of September 2022, the number of waqf lands in Indonesia reached 440,512 locations, covering an area of 57,263 hectares. Of this amount, approximately 57.42% have been certified, while the remainder still face legal challenges (Ministry of Religious Affairs, 2022). On the other hand, the development of cash waqf shows a positive trend. The value of cash waqf collections grew by 51.7%, from IDR 269.08 billion in 2021 to IDR 557.33 billion in September 2022. Overall, accumulated cash waqf increased from IDR 1,487.78 trillion (December 31, 2021) to IDR 1,776.03 trillion (September 30, 2022) (BWI, 2023). As of 2022, there were 311 active cash waqf administrators and 36 Sharia Financial Institutions Receiving Cash Waqf (LKS-PWU) appointed as collection partners.



This growth indicates that Waqf, especially cash waqf, is beginning to be considered as an alternative source of social financing. Cash waqf offers advantages over land waqf because it is more liquid, easier to collect, and can be invested in various productive sharia instruments. Proceeds from cash waqf management can then be allocated for permanent scholarships, the construction of waqf hospitals, research funding, and even Islamic venture capital financing for MSMEs. Thus, Waqf serves not only a spiritual function but also a tangible instrument in supporting economic and social development.

When linked to the global development agenda, Waqf is strongly relevant to the Sustainable Development Goals (SDGs). For example, the use of Waqf for scholarships aligns with SDG 4 (Quality Education), while hospital waqf supports SDG 3 (Healthy and Prosperous Lives). Moreover, the use of cash waqf to finance MSMEs can contribute to SDG 8 (Decent Work and Economic Growth). Thus, Waqf can bridge Islamic spiritual values with the universal global development agenda.

However, the utilization of productive Waqf still faces several challenges. The first is low waqf literacy among the public. Most people still understand Waqf in its traditional form (land for mosques or graves), while the concept of productive Waqf, such as cash waqf, is not yet popular. Second, public trust in Nazir institutions remains low due to limited transparency and accountability. However, waqf management requires professional management to achieve optimal and sustainable results. Third, regulatory and coordination barriers remain, both at the central and regional levels, preventing optimal waqf utilization.

Referring to the endowment fund theory in public economics (Khoirunniswah et al., 2023), Waqf can be viewed as an endowment fund that, if managed effectively, can generate a sustainable flow of social benefits without eroding the principal. Therefore, the required strategy is to encourage the professionalization of Nazir (Islamic administrators), increase public literacy, and integrate productive Waqf into national development financing strategies (Tunai & Syariah, 2020).

Management of Zakat, Infaq, and Waqf in Indonesia

The management of Zakat, Infaq, and Waqf (ZISWAF) in Indonesia is developing quite complex dynamics involving various actors and institutions. Funding sources come from muzakki (zakat payers), wakif (waqf providers), and donors (infaq/alms contributors) (Hakim, 2021). The collected funds are then managed by formal institutions such as the National Zakat Agency



(BAZNAS), the Zakat Agency (LAZ), the Indonesian Waqf Agency (BWI), as well as zakat management units under Islamic community organizations, Islamic boarding schools (pesantren), mosques, and sharia cooperatives such as the Baitul Maal wat Tamwil (BMT) (Azizah & Khanifa, 2021).

In general, ZISWAF funds are distributed primarily to fund ultra-micro businesses and community empowerment programs. Recipients include small business groups, Islamic boarding schools, mass organizations, small business associations, and those entitled to receive assistance (Saad et al., 2013). This distribution model demonstrates a shift from a charity-based approach to empowerment, moving from simply providing for consumption to creating economic independence (Syaikhu et al., 2021).

To strengthen ZISWAF governance, modern, professional, and globally standardized management is required. Current development efforts include:

1. Human Resource Development (HRD):

Through formal education, training, certification, and the establishment of a Professional Certification Institute (LSP) specifically for zakat collectors and waqf administrators. This aims to produce ZISWAF managers who possess both technical competence and moral integrity (Uluyol et al., 2021).

2. Research and Development (R&D):

Based on Halal Science and Islamic finance, research is directed at finding effective ZISWAF distribution models, waqf product innovations (e.g., sukuk waqf), and the integration of Islamic social funds into national development (Saiti et al., 2021).

3. Regulation and Standardization:

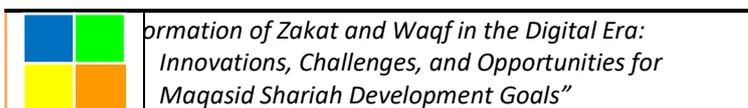
Drafting regulations based on standard fatwas issued by the Indonesian Ulema Council (MUI) and related institutions. In addition, Bank Indonesia (BI), the Ministry of Finance (Kemenkeu), the Ministry of Religious Affairs (Kemenag), and the Indonesian Board of Trustees (BWI) actively maintain transparency and governance of waqf funds through the implementation of the Waqf Core Principles (WCP)—an international standard framework used to ensure accountable and sustainable waqf management (Syaikhu et al., 2021).

4. Branding and Socialization:

This method involves public promotions, community education, and waqf and zakat literacy campaigns. Branding is crucial for increasing public trust and expanding the donor base (Hanif & Zafar, 2020).

5. Digital Technology:

Several ZISWAF management institutions have begun adopting technologies such as big data, blockchain, the Internet of Things (IoT), and artificial intelligence (AI). This technology allows for increased transparency,



strengthens fund traceability, and improves the efficiency of aid distribution. For example, digital Zakat and waqf applications are now integrated with online payment systems, facilitating wider community participation (Rosele et al., 2022).

6. Consumer Protection and Public Education:

Efforts to improve Islamic financial literacy are crucial to ensuring the public understands their rights and obligations as muzakki (recipients of Zakat), wakif (donors of Zakat), and mustahik (recipients of Zakat). Furthermore, consumer protection is implemented to ensure that disbursed funds are appropriately targeted, in accordance with Islamic principles and the public trust (Rosman et al., 2022).

The involvement of Bank Indonesia and the Ministry of Finance is also significant in developing innovative instruments such as Sukuk Waqf and other Islamic social financing instruments. These innovations play a dual role: expanding sources of development financing while strengthening the community's role in supporting social projects such as the construction of madrasas, hospitals, and Sharia-based financing for MSMEs (Paolo Pietro Biancone; Maha Radwan, 2019).

With a continuously evolving ecosystem—integrating human resources, research, regulation, branding, digital technology, and public education—ZISWAF management in Indonesia is expected to transcend its traditional role.

Challenges and Criticisms of ISF Management

Despite the enormous potential of Islamic Social Finance (ISF) in Indonesia, its optimization still faces various structural and technical challenges. Some key issues frequently criticized in academic literature and practical reports are as follows:

1. Governance and Accountability

Issues of transparency and accountability in the collection and distribution of ISF funds remain a major obstacle to increasing public trust. Independent audit reports on zakat and waqf institutions have not been fully published, making it difficult for the public to assess the effectiveness of fund distribution. According to research by Syauqi Beik & Arsyianti (2016), public perception of the professionalism of zakat collectors significantly influences the public's willingness to pay for Zakat through formal institutions rather than directly. Therefore, the implementation of international governance standards



such as the Waqf Core Principles (WCP) and a sharia accounting system based on PSAK (Indonesian Accounting Standards) is urgent.

2. Sharia Financial Literacy and Inclusion

Public literacy regarding ISF is relatively low. Zakat, for example, is still perceived as merely an annual ritual obligation, not a strategic instrument for economic development. A 2022 OJK survey showed that the level of Islamic financial literacy in Indonesia only reached 9.1%, far below conventional financial literacy (49.6%). This condition impacts low public participation in utilizing zakat institutions, cash waqf, and other innovative instruments. Weak Islamic financial inclusion means that the national zakat potential, estimated at IDR 327 trillion (Zaenal et al., 2024), has only been realized at around IDR 32.3 trillion (10%).

3. Fragmentation and Weak Institutional Synergy

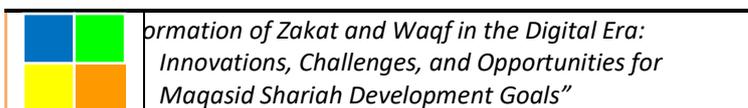
The coordination between Islamic Financial Fund (ISF) management institutions in Indonesia is still fragmented. BAZNAS, as a state institution, LAZ, as a civil society organization, BWI, as a waqf regulator, and the government and private sector often partially implement programs. This results in overlapping programs, a lack of data integration, and weak synchronization with national fiscal policy. A study by (Ascarya, 2021) emphasized the importance of integration between Islamic commercial finance and Islamic social finance to create inclusive economic development. Without institutional integration, the potential of Islamic Social Finance (ISF) will be difficult to optimally mobilize.

4. Digitalization and Technological Risks

Digital transformation in ISF management—such as zakat fintech, Islamic crowdfunding platforms, and cash waqf applications—has expanded public access to contributions. However, digitalization also presents new risks, including:

- Fraud and misuse of funds through unofficial platforms.
- Sharia non-compliance, for example, in payment or distribution mechanisms.
- Data security of zakat payers and waqif payers, which is vulnerable to hacking if a strong oversight system is not in place.

Regulations from the Financial Services Authority (OJK), Bank Indonesia, and the Ministry of Religious Affairs are essential to ensure that the development of Islamic fintech is in line with Sharia principles while protecting consumers.



CONCLUSIONS

Islamic Social Finance (ISF), which encompasses Zakat, infaq/sedah, and Waqf, has been empirically and theoretically proven to be a powerful and strategic instrument for promoting inclusive development in Indonesia. Numerous studies have shown that ISF functions not only as a social safety net but also as an effective wealth redistribution mechanism to reduce inequality. Zakat, for example, is normatively designed to purify the wealth of those who receive Zakat while meeting the basic needs of those who mustahik. Infaq and sedekah provide flexibility in responding to more contextual needs, while Waqf provides a sustainable financing basis through the management of productive assets. If optimized, these three instruments can accelerate poverty alleviation, narrow economic disparities, and create more just and equitable growth.

However, the vast potential of ISF in Indonesia has not been fully mobilized. The national zakat potential is estimated at IDR 327 trillion, but the actual collection in 2023 was only around IDR 32.3 trillion, or 10% of the total potential (BAZNAS, 2023). This data indicates a wide gap between the ISF's fiscal potential and its actual management capacity. This low realization is due to several factors, including minimal Islamic financial literacy, weak institutional governance, and limited innovation in developing ISF products that meet the needs of modern society. Therefore, optimizing the ISF requires a comprehensive strategy, ranging from strengthening regulations and institutional synchronization to utilizing digital technology.

Furthermore, a paradigm shift is needed in the management of the ISF, from a charitable-consumptive approach to an empowering-productive-sustainable approach. To date, the distribution of zakat and infaq funds has been predominantly in the form of direct assistance (consumptive charity) with only a short-term impact. For the ISF to truly function as a development instrument, distribution programs must be directed at breaking the cycle of chronic poverty. Models such as Santripreneur, ZMart, and ZChicken implemented by BAZNAS demonstrate that productive Zakat can transform recipients of Zakat into independent entrepreneurs, even enabling them to become muzakki (recipients of Zakat) in the long term.

Ultimately, integrating the ISF into national fiscal and development policies is no longer an option, but a necessity. The Islamic Social Finance (ISF) must be positioned as a complementary policy that synergizes with the



State Budget (APBN) and Regional Budgets (APBD), particularly in supporting the achievement of the Sustainable Development Goals (SDGs) and realizing the vision of Golden Indonesia 2045. By mobilizing the ISF's substantial fiscal potential, strengthened by transparent governance and innovative empowerment programs, Indonesia has a significant opportunity to escape the middle-income trap and achieve developed country status with inclusive and equitable growth.

Implications and Recommendations

Optimizing the role of Islamic Social Finance (ISF) in national development requires a more strategic, systematic, and evidence-based policy approach. Given the enormous yet under-mobilized fiscal potential of ISF, as well as the institutional and literacy challenges still faced, several policy recommendations are needed to guide the government, regulators, and ISF management institutions.

First, strengthening institutional governance, BAZNAS, the Zakat Collection Institution (LAZ), and the Indonesian Waqf Board (BWI) need to strengthen their institutional governance through professionalization, improving human resource quality, and implementing global accountability standards. Transparency can be improved through regular public audits and the standardization of empowerment models that can be replicated nationally. With more credible governance, public trust will increase, maximizing the potential for ISF collection.

Second, massive education and literacy campaigns need to be intensified to raise public awareness that ISF is not merely a religious ritual instrument, but a modern economic instrument with significant leverage for development. Literacy campaigns can be conducted through collaboration with Islamic boarding schools (pesantren), universities, Islamic organizations, and the mass media. Education based on empirical data—for example, the success of the productive zakat program that elevates mustahik to become muzakki—will further convince the public of the ISF's effectiveness.

Third, synchronization between policies and regulations must be strengthened. The government needs to issue regulations that enable the integration of ISF mustahik data with the Integrated Social Welfare Data (DTKS), so that distribution programs can be more targeted and avoid overlapping. Furthermore, fiscal policy needs to provide tax incentives for corporations that distribute Zakat through official institutions. Thus, Zakat can

function as a tax credit while expanding the base of muzakki (payers of Zakat) from the business community.

Fourth, digital innovation and Islamic finance must be prioritized. The development of Islamic fintech, zakat blockchain, and digital waqf instruments will increase efficiency, transparency, and public trust. However, these technological developments must be balanced with strict regulations and oversight to ensure compliance with Sharia principles and avoid the risk of fraud.

Fifth, a roadmap for further research needs to be developed to support evidence-based policymaking. Longitudinal research can measure the long-term impact of the ISF empowerment program on the transformation of mustahik into muzakki. Furthermore, comparative studies with ISF management models in other countries, such as Malaysia and Saudi Arabia, will enrich best practices that can be adopted in Indonesia. With the implementation of these policies and recommendations, the ISF has the potential to become not only a religious instrument but also a complementary fiscal pillar.

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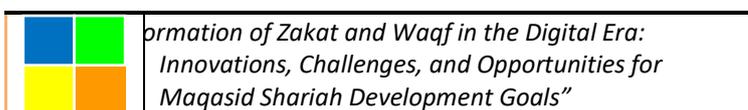
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