THE IMPACT OF ISLAMIC SOCIAL FINANCE ON POVERTY ALLEVIATION AND WELFARE

Zuniar[1*], Nilam Sari[2], Muhammad Abrar [3] Ali Azis Usman Harahap[4]
[1234] State Islamic University Ar-Raniry Banda Aceh, Aceh 23111, Indonesia

***e-mail**: 251104003@student.ar-raniry.ac.id

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Abstract: This study examines the impact of Islamic Social Finance (ISF) on poverty alleviation, welfare improvement, and financial inclusion using a systematic literature review approach. ISF instruments, including zakat, waqf, and Islamic philanthropy, are increasingly recognized as strategic tools for addressing socio-economic inequality. This study synthesizes empirical findings from recent literature to evaluate the effectiveness of ISF in achieving inclusive economic development. The results indicate that zakat significantly contributes to income redistribution and poverty reduction, while productive waqf supports long-term welfare through asset-based development. Furthermore, ISF enhances financial inclusion by providing access to financial services for underserved populations. However, challenges remain in governance, institutional capacity, and integration with formal financial systems. From the maqāṣid al-sharīʿah perspective, ISF contributes to achieving ḥifẓ al-māl through equitable wealth distribution and sustainable economic welfare. The study proposes an integrative framework linking redistribution, empowerment, and inclusion pathways to strengthen the role of ISF in poverty alleviation.

INTRODUCTION

Poverty remains a complex structural issue in global economic development, particularly in developing countries (World Bank, 2022; United Nations Development Programme [UNDP], 2023). Despite the implementation of various fiscal policies and social programs, inequality in income distribution and limited access to financial services continue to constitute major obstacles to improving societal welfare (Stiglitz, 2012; Demirgüç-Kunt et al., 2018). Conventional financial systems that are primarily profit-oriented often fail to optimally reach low-income communities, thereby creating a gap between economic growth and equitable welfare distribution (Chapra, 2000; Yunus, 2007). Consequently, there is an increasing need for alternative financial mechanisms that are not only economically efficient but also socially inclusive and distributivity just.

In response to these challenges, Islamic Social Finance (ISF) emerges as an alternative financial instrument that integrates economic and social dimensions within a system oriented toward distributive justice (Ahmed, 2004; Hassan & Ashraf, 2010). ISF instruments such as zakat, waqf, infaq, and ṣadaqah possess unique characteristics as wealth redistribution mechanisms grounded in Sharīʿah values (Obaidullah, 2008; Ascarya, 2017). Unlike conventional approaches, ISF not only emphasizes increasing economic output but also focuses on equitable access to economic resources and improving the welfare of vulnerable communities (Alam et al., 2019; Umar et al., 2021). As a result, ISF has increasingly attracted scholarly and institutional attention as a strategic instrument for promoting inclusive economic development.

The development of ISF over the past few decades demonstrates significant potential in supporting poverty alleviation and enhancing social welfare (Kasri & Ahmed, 2015; Razak, 2020). Various zakat and waqf management institutions have developed distribution models that are not merely consumptive in nature but also productive through economic empowerment programs (Beik & Arsyianti, 2016; Abdullah, 2018). Furthermore, the integration of ISF with Islamic microfinance and financial technology has begun to create new opportunities for expanding financial inclusion among communities previously underserved by formal financial systems (Shaikh, 2017; Zulkhibri, 2016). These developments indicate that ISF possesses the capacity not only to provide short-term social assistance but also to foster sustainable socio-economic transformation.

Nevertheless, the substantial potential of Islamic Social Finance has not yet been fully optimized within the context of economic development. The main challenges lie in governance limitations, institutional fragmentation, and the lack of integration between ISF instruments and the formal financial system (Ali et al., 2019; Razak, 2020). These conditions have limited the contribution of ISF to poverty alleviation and welfare enhancement, despite its strong theoretical capacity (Ahmed, 2004; Hasan, 2015). Therefore, the gap between the theoretical potential and practical implementation of ISF remains an important issue that requires further academic attention.

From the perspective of Islamic economics, optimizing the role of Islamic Social Finance is not only assessed in terms of economic efficiency but also in relation to its ability to realize the objectives of Sharīʿah (maqāṣid al-sharīʿah), particularly in the dimension of ḥifẓ al-māl, namely the protection and equitable distribution of wealth (Hasan, 2015; Chapra, 2008). In this regard, ISF should be understood not merely as a philanthropic mechanism, but as an integrated socio-economic development instrument grounded in Islamic ethical values. Therefore, more comprehensive studies are required to understand the extent to which Islamic Social Finance can make a tangible contribution to reducing poverty, improving welfare, and expanding financial inclusion within society.

Although numerous studies have demonstrated that Islamic Social Finance (ISF) contributes to poverty alleviation, welfare enhancement, and the expansion of financial inclusion (Beik & Arsyianti, 2016; Kasri & Ahmed, 2015; Zulkhibri, 2016), existing studies still reveal several important gaps. First, most studies discuss Islamic Social Finance instruments only partially, such as zakat, waqf, or Islamic microfinance separately (Ahmed, 2004; Obaidullah, 2008; Ascarya, 2017). Consequently, the contribution of Islamic Social Finance as an integrated Islamic socio-financial ecosystem has not yet been comprehensively illustrated (Umar et al., 2021).

Second, previous studies tend to emphasize the economic impacts of ISF in terms of increased income, consumption, or access to financing (Beik & Arsyianti, 2016; Razak, 2020), but have not thoroughly linked these impacts to the normative objectives of Islamic economics, particularly maqāṣid al-sharīʿah (Hasan, 2015). In fact, the effectiveness of ISF should not merely be assessed from quantitative economic perspectives, but also from its ability to realize distributive justice, wealth protection, and societal welfare enhancement, as reflected in the dimension of ḥifẓ al-māl (Chapra, 2008; Hasan, 2015).

Third, existing studies remain limited in explaining the contribution pathways of Islamic Social Finance in a systematic manner (Alam et al., 2019; Umar et al., 2021). ISF operates not only through income redistribution but also through economic empowerment and the expansion of financial inclusion (Shaikh, 2017; Zulkhibri, 2016). Therefore, a comprehensive analytical framework is required to explain how zakat, waqf, infaq, ṣadaqah, and Islamic microfinance can complement one another in reducing poverty and improving welfare sustainably.

Based on these gaps, this study seeks to contribute to the academic discourse by developing an integrative synthesis regarding the impact of Islamic Social Finance on poverty alleviation and social welfare. This study positions maqāṣid al-sharīʿah, particularly ḥifẓ al-māl, as a normative analytical framework for assessing the effectiveness of ISF not merely as a philanthropic instrument, but as a mechanism of Islamic socio-economic development oriented toward justice, empowerment, and public welfare (maṣlaḥah).

LITERATURE REVIEW

A number of empirical studies have examined the role of Islamic Social Finance in poverty alleviation, welfare enhancement, and financial inclusion. A study conducted by Beik and Arsyianti (2016) demonstrated that zakat distribution has a significant impact on reducing poverty levels through income redistribution mechanisms. This finding is consistent with the study of Hassan and Ashraf (2010), which emphasized that zakat functions as an effective wealth distribution instrument within the Islamic economic system. These findings suggest that Islamic Social Finance, particularly zakat, plays an essential role in addressing socio-economic inequality through distributive mechanisms grounded in Islamic principles

Beyond zakat, studies on waqf also indicate its important contribution to long-term economic development. Ascarya (2017) and Haneef et al. (2015) found that productive waqf can support the provision of social and economic assets, such as education, healthcare, and micro-enterprises, which contribute to improving societal welfare. On the other hand, Shaikh (2017) and Zulkhibri (2016) highlighted that Islamic Social Finance also plays a role in expanding financial inclusion by providing financing access to communities underserved by formal financial systems. These studies demonstrate that the contribution of ISF extends beyond short-term redistribution toward sustainable economic empowerment and broader financial accessibility.

Building upon these findings, several contemporary studies emphasize the importance of an integrative approach in the management of Islamic Social Finance. These studies indicate that the combination of zakat, waqf, and Islamic microfinance can generate a more significant impact on community economic empowerment compared to the use of these instruments separately. Nevertheless, most existing studies still focus on partial analyses of individual instruments, thereby failing to provide a comprehensive understanding of the contribution of Islamic Social Finance as an integrated system. As a consequence, the broader systemic role of ISF in promoting inclusive economic development remains insufficiently explored in the literature.

In addition, empirical studies that explicitly link the impact of Islamic Social Finance with the framework of maqāṣid al-sharīʿah, particularly in the dimension of ḥifẓ al-māl (wealth protection), remain relatively limited. In fact, the maqāṣid al-sharīʿah approach can provide a deeper normative perspective in assessing the effectiveness of Islamic Social Finance, not only from an economic standpoint but also in terms of distributive justice and social welfare. Therefore, integrating empirical findings with the normative framework of maqāṣid al-sharīʿah is important for developing a more comprehensive understanding of the role of Islamic Social Finance in sustainable socio-economic development.

CONTRIBUTION / NOVELTY

This study provides scholarly contributions in three main aspects. First, the study presents an integrative synthesis regarding the impact of Islamic Social Finance on poverty alleviation, welfare enhancement, and financial inclusion. Unlike previous studies that generally discuss ISF instruments separately, such as zakat, waqf, or Islamic microfinance (Ahmed, 2004; Ascarya, 2017; Umar et al., 2021), this study positions zakat, waqf, infaq, ṣadaqah, and Islamic microfinance as a mutually reinforcing socio-financial ecosystem. Therefore, this study offers a more comprehensive understanding of the role of Islamic Social Finance in inclusive economic development.

Second, this study integrates the Systematic Literature Review (SLR) approach with the perspective of maqāṣid al-sharīʿah, particularly within the dimension of ḥifẓ al-māl. This approach represents both a methodological and conceptual novelty, as most previous studies have been limited to either empirical or conceptual analyses conducted separately (Hasan, 2015; Alam et al., 2019). By combining empirical synthesis with a normative framework, this study evaluates the effectiveness of Islamic Social Finance not only from an economic perspective but also in terms of its contribution to distributive justice and wealth protection within the framework of Islamic economics (Chapra, 2008; Hasan, 2015).

Third, this study proposes an integrative conceptual framework that explains the mechanisms through which Islamic Social Finance contributes through three primary pathways, namely the redistribution pathway, empowerment pathway, and inclusion pathway. This framework provides a theoretical contribution by explaining how Islamic Social Finance systematically functions in reducing poverty and improving societal welfare (Shaikh, 2017; Zulkhibri, 2016). In addition, the framework also offers practical implications for strengthening Islamic Social Finance policies and governance in order to achieve greater effectiveness and sustainability.

Therefore, this study not only enriches the literature on Islamic Social Finance but also strengthens the position of ISF as a strategic instrument in maqāṣid al-sharīʿah-based economic development oriented toward social justice and societal welfare.

LITERATURE REVIEW

Theoretical Framework

Islamic Social Finance (ISF) constitutes an integral part of the Islamic financial system that functions to realize social justice through wealth distribution mechanisms. Unlike conventional financial systems that are primarily profit-oriented, ISF places social welfare as its primary objective through instruments such as zakat, waqf, infaq, and ṣadaqah (Ascarya, 2017; Alam et al., 2019). Within the framework of Islamic economics, ISF serves as a redistributive instrument capable of reducing economic inequality and enhancing societal welfare (Umar et al., 2021). Therefore, ISF is increasingly viewed not merely as a charitable mechanism, but as a strategic instrument for promoting inclusive and sustainable socio-economic development.

In this regard, each ISF instrument possesses a distinct yet complementary role in achieving socio-economic welfare. Conceptually, zakat functions as a mechanism for transferring wealth from affluent groups to mustahik (eligible beneficiaries), thereby increasing the purchasing power of poor communities (Beik & Arsyianti, 2016). Meanwhile, waqf possesses the characteristics of a long-term asset that supports economic development through the provision of social and economic services, such as education and healthcare (Abdullah, 2018). In addition, the integration of ISF with Islamic microfinance provides opportunities to enhance financing access for communities underserved by formal financial systems (Shaikh, 2017). Collectively, these mechanisms demonstrate that ISF operates not only through redistribution, but also through empowerment and financial inclusion pathways.

From the perspective of maqāṣid al-sharīʿah, the effectiveness of Islamic Social Finance is not solely measured by improvements in economic indicators, but also by its ability to realize distributive justice and societal welfare. One of the central dimensions of maqāṣid al-sharīʿah is ḥifẓ al-māl (protection of wealth), which emphasizes the importance of equitable wealth distribution and efficient resource management (Hasan, 2015). Accordingly, the implementation of ISF should be directed not only toward economic efficiency, but also toward achieving social justice, sustainable welfare, and the broader objectives of Islamic economic development.

Prior Studies

A number of empirical studies have demonstrated the contribution of Islamic Social Finance to poverty alleviation and the enhancement of societal welfare. A study by Beik and Arsyianti (2016) revealed that zakat has a significant impact on reducing poverty levels through income redistribution mechanisms. This finding is further supported by the study of Umar et al. (2021), which stated that Islamic Social Finance plays an important role in improving societal welfare through the strengthening of economic distribution. These findings indicate that ISF serves as an effective redistributive mechanism capable of addressing socio-economic inequality and supporting social welfare improvement.

Beyond the role of zakat, studies on waqf also indicate its long-term impact on economic development. Productive waqf has been proven to provide sustainable social and economic assets, such as educational and healthcare facilities, which contribute to improving the quality of life of communities (Abdullah, 2018; Haneef et al., 2015). In addition, the integration of zakat and waqf in several studies demonstrates that the combination of these instruments can enhance the effectiveness of community economic empowerment programs (Ascarya, 2017). These studies suggest that Islamic Social Finance is not only oriented toward short-term charitable assistance but also toward sustainable socio-economic development through productive asset creation and community empowerment.

In line with these developments, Islamic Social Finance also contributes significantly to financial inclusion. In the context of financial inclusion, ISF plays a role in expanding financial access for communities underserved by formal financial systems. Studies indicate that the integration of ISF with Islamic microfinance is capable of providing financing for micro and small enterprises, thereby promoting more inclusive economic growth (Zulkhibri, 2016; Shaikh, 2017). This demonstrates that ISF possesses the capacity to bridge financial access gaps and strengthen the participation of marginalized communities in economic activities.

Nevertheless, despite its significant potential and positive contributions, several studies also highlight limitations in the implementation of Islamic Social Finance, such as weak governance, lack of transparency, and the suboptimal integration between ISF management institutions and the formal financial system (Ali et al., 2019; Razak, 2020). These challenges indicate that the effectiveness of ISF is influenced not only by the availability of financial instruments, but also by institutional quality, governance capacity, and the degree of integration within the broader financial system.

State of the Art

Based on the existing literature, it can be concluded that Islamic Social Finance possesses substantial potential in supporting poverty alleviation and enhancing societal welfare. However, most existing studies remain partial in nature and have not integrated various ISF instruments within a single comprehensive analytical framework (Ascarya, 2017; Umar et al., 2021).

In addition, studies linking Islamic Social Finance with maqāṣid al-sharīʿah are still limited, thereby failing to provide a holistic understanding of the effectiveness of ISF in achieving the objectives of Islamic economic development (Hasan, 2015). Therefore, this study positions itself as an effort to address this gap by developing an integrative approach that combines empirical analysis through a Systematic Literature Review with the normative framework of maqāṣid al-sharīʿah.

Accordingly, this study not only enriches the literature on Islamic Social Finance but also contributes to the development of a more comprehensive analytical framework for understanding the role of ISF as an instrument of sustainable and equitable economic development.

MATERIAL AND METHOD

Type of Research

This study employs a qualitative approach with a Systematic Literature Review (SLR) design. This approach was selected to systematically synthesize empirical findings related to the impact of Islamic Social Finance on poverty alleviation, welfare enhancement, and financial inclusion. The SLR method enables researchers to identify, evaluate, and integrate previous research findings in a comprehensive and structured manner, thereby producing more robust conclusions compared to conventional narrative literature reviews (Tranfield et al., 2003; Snyder, 2019).

Data Sources

The data used in this study consist of secondary data obtained from both international and national scientific journal articles. The primary data sources include academic databases such as Scopus, ScienceDirect, Google Scholar, and SpringerLink. The selection of articles focuses on publications from the last ten years (2016–2026) to ensure the relevance and novelty of empirical findings, while also considering several earlier studies as theoretical foundations.

The inclusion criteria for article selection are as follows:

1. The article discusses Islamic Social Finance (zakat, waqf, infaq, ṣadaqah, or Islamic microfinance).
2. The article examines the impact on poverty, welfare, or financial inclusion.
3. The article is published in indexed journals (Scopus, Sinta, or other reputable journals).
4. The article employs empirical approaches or relevant conceptual analyses.

Meanwhile, articles that do not meet these criteria, such as non-academic publications or studies irrelevant to the research topic, are excluded from the analysis.

Method (Systematic Literature Review Procedure)

The Systematic Literature Review process in this study was conducted through several systematic stages based on the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) approach, namely:

1. Identification
   The literature search was conducted using combinations of keywords such as "Islamic Social Finance," "zakat," "waqf," "poverty alleviation," "welfare," and "financial inclusion" through Boolean search techniques.

2. Screening
   The collected articles were screened based on their titles, abstracts, and relevance to the research topic.
3. Eligibility
   Articles that passed the screening stage were further evaluated based on methodological quality, relevance of findings, and alignment with the research objectives.
4. Inclusion
   Articles that fulfilled all inclusion criteria were included in the final analysis and used as the basis for the research synthesis.

Analysis Technique

The analysis technique employed in this study is descriptive qualitative analysis using a thematic synthesis approach. The analysis process was conducted through several stages, namely:

1. Classification of research findings based on the focus of the studies (poverty, welfare, and financial inclusion).
2. Identification of patterns and relationships among studies to understand the contribution of Islamic Social Finance systematically.
3. Synthesis of research findings to generate comprehensive conclusions.
4. Interpretation from the perspective of maqāṣid al-sharīʿah, particularly within the dimension of ḥifẓ al-māl, to assess the contribution of Islamic Social Finance in realizing distributive justice and economic welfare.

This approach enables the study not only to produce an empirical synthesis but also to provide a normative analysis that enriches the understanding of the role of Islamic Social Finance in value-based Islamic economic development.

RESULTS AND DISCUSSION

The results of the Systematic Literature Review indicate that Islamic Social Finance (ISF) has made a significant contribution to poverty alleviation, welfare enhancement, and the expansion of financial inclusion. To provide a more systematic overview, the synthesized research findings are presented in Table 1 below.

Table 1. Synthesis of Islamic Social Finance Studies

No.	Author(s)	Study Focus	Method	Main Findings
1.	Beik & Arsyianti (2016)	Zakat and poverty	Quantitative	Zakat reduces poverty levels
2.	Hassan & Ashraf (2010)	Zakat and distribution	Conceptual	Zakat is effective in wealth redistribution
3	Shaikh (2017)	ISF and financial inclusion	Empirical	ISF enhances financial inclusion
4	Ascarya (2017)	Productive waqf	Case study	Waqf supports economic development
5	Ahmed (2004)	ISF and poverty	Conceptual	ISF serves as a poverty alleviation tool
6	Kasri & Ahmed (2015)	Zakat and welfare	Empirical	Zakat improves social welfare
7	Obaidullah (2008)	Islamic microfinance	Conceptual	ISF supports MSMEs

8	Ali et al. (2019)	Waqf and development	Empirical	Waqf improves access to education
9	Razak (2020)	Productive zakat	Empirical	Productive zakat is more effective
10	Ismail & Possumah (2013)	Zakat and economic growth	Empirical	Positive impact on the economy
11	Hasan (2015)	ISF and maqāṣid	Conceptual	ISF supports ḥifẓ al-māl
12	Alam et al. (2019)	ISF and SDGs	Empirical	ISF is relevant to the SDGs
13	Zulkhibri (2016)	Islamic financial inclusion	Empirical	ISF expands financial access
14	Abdullah (2018)	Social waqf	Empirical	Waqf improves social welfare
15	Haneef et al. (2015)	Integration of zakat and waqf	Conceptual	Integration enhances overall impact

Based on Table 2, it can be concluded that the majority of studies demonstrate that Islamic Social Finance plays an important role in reducing poverty through redistribution mechanisms, economic empowerment, and the enhancement of financial inclusion. These findings indicate that ISF contributes not only to short-term poverty reduction but also to long-term socio-economic development through various interconnected mechanisms.

In general, the research findings can be classified into three main roles, namely redistribution functions, economic empowerment, and the expansion of financial access. First, in terms of the redistribution function, zakat has proven effective in reducing poverty levels through direct income transfers to mustahik groups. Beik and Arsyianti (2016) demonstrated that zakat distribution is capable of increasing the consumption and purchasing power of poor communities, thereby contributing to poverty reduction. This finding is reinforced by Umar et al. (2021), who stated that Islamic Social Finance has a significant impact on reducing economic inequality. These studies suggest that the redistributive mechanism of ISF serves as an important instrument in addressing income disparities and improving social welfare.

Beyond its redistributive role, Islamic Social Finance also contributes to economic empowerment through productive and sustainable programs. In terms of economic empowerment, productive waqf and productive zakat play important roles in generating long-term income sources. Productive waqf enables the provision of sustainable economic assets such as educational facilities, healthcare services, and micro-enterprises (Abdullah, 2018). This finding indicates that ISF is not merely consumptive in nature, but is also capable of generating sustainable economic impacts. Accordingly, ISF can support community self-reliance by strengthening productive capacities and promoting sustainable livelihood development.

In addition to redistribution and empowerment, Islamic Social Finance also plays a strategic role in promoting financial inclusion. In the context of financial inclusion, ISF expands financing access for communities underserved by formal financial systems. The integration between ISF and Islamic microfinance enables the provision of Sharīʿah-based financing for micro and small enterprises, thereby increasing community economic participation (Zulkhibri, 2016; Shaikh, 2017). Therefore, ISF has the potential to bridge financial access gaps while simultaneously encouraging more inclusive and equitable economic growth.

Synthesis of Findings

Based on the synthesis of the research findings, Islamic Social Finance operates through three main and interrelated pathways. The first is the redistribution pathway, in which zakat and ṣadaqah function as mechanisms for wealth transfer to fulfill the basic needs of poor communities. The second is the empowerment pathway, in which productive waqf and productive zakat are utilized to enhance the economic capacity of communities through business empowerment and the development of productive assets. The third is the inclusion pathway, in which the integration of ISF with Islamic microfinance expands access to financial services.

These three pathways demonstrate that Islamic Social Finance adopts a more comprehensive approach compared to conventional financial systems, as it not only addresses poverty in the short term but also contributes to sustainable welfare improvement.

Comparison with Previous Studies

Compared to previous studies, the findings of this study confirm that Islamic Social Finance plays a significant role in poverty alleviation and welfare enhancement. However, prior studies have generally focused on a single instrument, such as zakat or waqf, and therefore have not provided a comprehensive understanding of the contribution of ISF as an integrated system. As a result, the interconnected roles of redistribution, empowerment, and financial inclusion within the broader ISF framework have not been sufficiently explored in existing literature.

In addition, most previous studies have assessed the effectiveness of ISF based on quantitative economic indicators, such as income or consumption, without linking them to the normative dimensions of Islamic economics. In this study, this approach is expanded by incorporating the perspective of maqāṣid al-sharīʿah, thereby providing a more comprehensive understanding of the role of ISF in promoting societal welfare. Through this perspective, the effectiveness of Islamic Social Finance is evaluated not only in terms of economic performance, but also in relation to distributive justice, wealth protection, and sustainable social welfare.

Nevertheless, although Islamic Social Finance demonstrates a significant contribution to poverty alleviation and welfare enhancement, various studies have also identified a number of structural challenges that hinder the optimization of ISF's role. These challenges include weak governance, institutional fragmentation, limited integration with formal financial systems, and the dominance of consumptive approaches in ISF programs. To provide a more systematic overview, these issues and phenomena are presented in the following table.

Table 2. Issues and Phenomena of Islamic Social Finance in Poverty Alleviation

No.	Issue/Phenomenon	Problem Description	Impact on Poverty & Welfare	Academic Implications
1	Dominance of consumptive approaches	Zakat/ISF distribution is primarily directed toward direct assistance (charity)	The impact is only short-term and does not transform the structure of poverty	A shift toward productive models is necessary
2	Weak governance	Transparency and accountability of ISF institutions remain limited	Reduces public trust and distribution effectiveness	The need for governance models based on good governance principles
3	Institutional fragmentation	Zakat, waqf, and Islamic microfinance	Lack of synergy leads to suboptimal impact	The need for an integrated ISF system

		institutions operate separately		
4	Limited integration with the formal financial system	ISF is not optimally connected with banking and fintech sectors	Financial access for poor communities remains limited	The need for hybrid finance models
5	Low utilization of productive waqf	Waqf is still dominated by passive assets (land/mosques)	Does not generate significant economic multiplier effects	Optimization of productive waqf is highly necessary
6	Limited human resource capacity	ISF managers lack professional managerial capabilities	Programs become ineffective and unsustainable	The need to strengthen institutional capacity
7	Lack of data and impact measurement	Absence of outcome-based evaluation systems	Difficulties in measuring poverty alleviation success	The need for evaluation models based on maqāṣid indicators
8	Low public literacy	Communities do not fully understand the potential of ISF	Low participation and fund collection	The need for education and Islamic financial literacy
9	Dependence on zakat	ISF relies excessively on zakat with limited diversification	The potential of ISF is not fully optimized	The need to strengthen other instruments (waqf, microfinance)

The table above demonstrates that Islamic Social Finance still faces various structural challenges that hinder its optimal contribution to poverty alleviation and welfare enhancement. The primary issues do not lie in the potential of the instruments themselves, but rather in aspects of governance, institutional integration, and program approaches that remain predominantly consumptive in nature. In addition, the lack of integration with the formal financial system, as well as the absence of the explicit application of the maqāṣid al-sharīʿah framework, has limited the ability of Islamic Social Finance to generate sustainable impacts. Therefore, a more integrative and empowerment-based approach is required to enhance the effectiveness of Islamic Social Finance in economic development.

Critical Analysis

Although Islamic Social Finance demonstrates substantial potential, the analysis also identifies several structural weaknesses that hinder the optimization of ISF's role. First, weak governance and limited transparency in the management of ISF funds constitute major obstacles to enhancing public trust and distribution effectiveness (Ali et al., 2019). Second, institutional fragmentation has resulted in a lack of coordination among various zakat, waqf, and Islamic microfinance institutions, thereby reducing the effectiveness of economic empowerment programs. These conditions indicate that the challenges faced by ISF are not merely related to financial capacity, but also to institutional and managerial effectiveness.

Furthermore, the integration of ISF with the formal financial system remains suboptimal, limiting the realization of Islamic Social Finance's full potential in expanding financial inclusion. In addition, most ISF programs still emphasize consumptive approaches, resulting in limited long-term impacts on societal welfare (Razak, 2020). Consequently, despite the significant theoretical potential of ISF, its practical contribution to sustainable socio-economic development has not yet been fully realized.

From the perspective of maqāṣid al-sharīʿah, these conditions indicate that the implementation of ISF has not yet fully realized ḥifẓ al-māl, particularly in terms of equitable and sustainable wealth distribution. This highlights the need for strengthening governance, institutional integration, and innovation in the management of Islamic Social Finance. Therefore, a more comprehensive analytical framework is required to evaluate ISF not only from an economic perspective but also from the broader normative objectives of Islamic economics.

Research Gap

In this regard, the findings of this study reinforce the existence of gaps within the literature on Islamic Social Finance. Although numerous studies have demonstrated the positive impact of ISF, there are still limitations in integrating various ISF instruments within a single comprehensive analytical framework. In addition, studies linking Islamic Social Finance with maqāṣid al-sharīʿah remain limited, thereby failing to provide a holistic understanding of the effectiveness of ISF in achieving the objectives of Islamic economic development. As a consequence, the relationship between redistribution, empowerment, financial inclusion, and normative Islamic economic objectives remains insufficiently explored in prior studies.

To address these limitations, this study develops an integrative synthesis based on a Systematic Literature Review that connects the aspects of redistribution, empowerment, and financial inclusion within the framework of maqāṣid al-sharīʿah. Through this integrative approach, the study aims to provide a more comprehensive understanding of the role of Islamic Social Finance in promoting sustainable and inclusive socio-economic development.

CONCLUSION

This study demonstrates that Islamic Social Finance plays a strategic role in poverty alleviation, welfare enhancement, and the expansion of financial inclusion. Based on the findings of the Systematic Literature Review, Islamic Social Finance operates through three main mechanisms, namely wealth redistribution, economic empowerment, and the expansion of financial access. Instruments such as zakat contribute to fulfilling the basic needs of poor communities through direct transfer mechanisms, while productive waqf and productive zakat generate long-term impacts through the development of sustainable economic assets. Furthermore, the integration of Islamic Social Finance with Islamic microfinance contributes to enhancing financial inclusion for communities underserved by formal financial systems. These findings indicate that ISF possesses a multidimensional role that extends beyond charitable assistance toward sustainable socio-economic development.

Nevertheless, despite its significant potential, this study also identifies that the effectiveness of Islamic Social Finance continues to face various structural challenges, such as weak governance, institutional fragmentation, and limited integration with the formal financial system. These conditions indicate that the potential of Islamic Social Finance has not yet been fully optimized in supporting inclusive and sustainable economic development. As a result, the gap between the theoretical capacity and practical implementation of ISF remains an important issue that requires institutional and policy improvements.

From the perspective of maqāṣid al-sharīʿah, Islamic Social Finance makes a significant contribution to the realization of ḥifẓ al-māl, particularly in terms of equitable wealth distribution and the enhancement of societal welfare. However, optimizing this role requires stronger governance, institutional integration, and innovation in the management of Islamic Social Finance instruments. Accordingly, the effectiveness of ISF should not only be evaluated through economic indicators, but also through its ability to achieve distributive justice and sustainable social welfare based upon the broader objectives of Islamic economics.

The implications of this study suggest that Islamic Social Finance should be positioned not merely as a philanthropic instrument, but as part of an integrated economic development system. Therefore, policies are needed to encourage synergy between Islamic Social Finance management institutions and the formal financial system, as well as to strengthen economic empowerment models based on zakat and productive waqf. Future studies are recommended to develop more comprehensive empirical models for measuring the sustainable impact of Islamic Social Finance on societal welfare. Through these efforts, ISF can play a more effective role in promoting inclusive, equitable, and sustainable economic development.

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