

Islamic Social Finance:

Exploring Zakat, Waqf, and Sadaqah in Economic Development

Keuangan Sosial Islam:

Menggali Zakat, Wakaf, dan Shadaqah dalam Pembangunan Ekonomi

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ABSTRACT

Islamic social finance has an important role in inclusive and sustainable economic development. In this context, zakat, waqf, and sadaqah become important instruments that can be used to mobilize resources and support economic development initiatives. However, challenges such as lack of public awareness, preference for conventional financial institutions, and lack of supportive regulations still need to be overcome.

Keywords: *Islamic Social Finance, Zakat, Waqf, Sadaqah, Economic Development, Inclusiveness, Sustainability, Challenges, Integration, Regulation.*

ABSTRAK

Keuangan sosial Islam memiliki peran penting dalam pembangunan ekonomi yang inklusif dan berkelanjutan. Dalam konteks ini, zakat, waqf, dan sadaqah menjadi instrumen penting yang dapat digunakan untuk memobilisasi sumber daya dan mendukung inisiatif pembangunan ekonomi. Namun, tantangan seperti kurangnya kesadaran masyarakat, preferensi terhadap lembaga keuangan konvensional, dan kekurangan regulasi yang mendukung masih perlu diatasi.

Keywords: *Keuangan Sosial Islam, Zakat, Waqf, Sadaqah, Pembangunan Ekonomi, Inklusif, Berkelanjutan, Tantangan, Integrasi, Regulasi.*

Introduction

Islamic social finance, which includes zakat, waqf, and sadaqah, can play a significant role in economic development. Zakat, as one of the pillars of Islam, can be used to achieve sustainable development goals (SDGs) and help eradicate poverty, meet the needs of the needy, and support education. Waqf, which is a form of endowment, can be used to fund economic stimulus packages and micro-business capital for farmers (Zakariyah,2020). Sadaqah, or voluntary charity, can also be used to benefit the community. Islamic cooperative societies can use various social finance instruments, including zakat, sadaqah, takaful, waqf, and sukuk, to mobilize resources and enhance their socio-economic development roles. Philanthropy based on the Qur'anic perspective, which includes zakat, infaq, sadaqah, and waqf, can be used to address economic disparities and empower people in the long term (Marwan,2021).

Zakat, waqf, and sadaqah are all forms of Islamic social finance, but they have different meanings and purposes. Zakat is one of the five pillars of Islam and is a mandatory charitable contribution that Muslims must give to help the poor and needy. Waqf is a form of endowment where a property or asset is donated to a charitable cause, and the income generated from it is used for charitable purposes (Olatubosun,2022). Sadaqah, on the other hand, is a voluntary charitable contribution that can be given at any time and for any amount. It is not mandatory but is encouraged in Islam as a way to help those in need. All three forms of Islamic social finance can be used to achieve sustainable development goals, support education, and benefit

the community. Islamic cooperative societies can use various social finance instruments, including zakat, sadaqah, takaful, waqf, and sukuk, to mobilize resources and enhance their socio-economic development roles (Majid,2022).

The role of zakat in Islamic social finance is significant, as it is one of the five pillars of Islam and a mandatory charitable contribution. Zakat aims to achieve sustainable development goals, such as eradicating poverty, meeting the needs of the needy, and supporting education. It is considered a means of meeting the needs of the community and achieving their life desires (Arief,2023). Zakat is also seen as a way to care for the community, including alleviating poverty, supporting the needy, and assisting students. Islamic social finance, which includes zakat, waqf, sadaqah, takaful, and sukuk, plays a crucial role in achieving sustainable development goals, as endorsed by the majority of countries worldwide. While zakat is governed by specific religious principles, its objectives are in line with the social, environmental, and economic aspects of sustainable development. Therefore, zakat is considered dominant and influential in achieving sustainable development goals (Zauro,2020).

Islamic social finance, which includes zakat, waqf, and sadaqah, can bring several benefits to economic development. These benefits include (Hassan,2017) (Yusroni,2021): (1) Meeting the needs of the community: Islamic social finance can help meet the needs of the community, including eradicating poverty, supporting education, and assisting the needy. (2) Achieving sustainable development goals: Islamic social finance can be used to achieve sustainable development goals, such as social, environmental, and economic aspects of sustainable development. (3) Mobilizing resources: Islamic social finance can mobilize resources and enhance socio-economic development roles. (4) Funding economic stimulus packages: Islamic social finance instruments, such as zakat, waqf, and sadaqah, can be used to fund economic stimulus packages, which are necessary for the protection and well-being of the people and to ensure that economic operations remain intact. (5) Empowering people in the long term: Philanthropy based on the Qur'anic perspective, which includes zakat, infaq, sadaqah, and waqf, can be used to address economic disparities and empower people in the long term. Overall, Islamic social finance can play a significant role in economic development by providing financial resources to support various initiatives and programs that benefit the community and achieve sustainable development goals.

While Islamic social finance can bring several benefits to economic development, there are also some challenges in implementing it. Some of these challenges include (Atia,2021) (Adzkiya',2023): (1) Lack of awareness: One of the major challenges facing the development of Islamic social finance is the lack of awareness among the public about its principles and benefits. (2) Customers' preference for conventional banks: Many people still prefer to use conventional banks, which offer interest-based transactions, over Islamic social finance institutions. (3) Mix-up in operations: Some Islamic social finance institutions still adopt instruments used by conventional banks, which can lead to confusion and undermine the principles of Islamic social finance. (4) Government regulation: There is a need for proper government regulation mechanisms to enhance the socio-economic development roles of Islamic social finance institutions. (5) Financial record keeping: Proper financial record keeping is essential for Islamic social finance institutions to ensure transparency and accountability. Overall, these challenges can hinder the effective implementation of Islamic social finance for economic development. However, with proper awareness, education, and regulation, these challenges can be overcome, and Islamic social finance can play a significant role in achieving sustainable development goals and benefiting the community.

Islamic social finance can be integrated into existing economic systems in several ways, offering potential benefits for economic development. Some of the key integration strategies and their implications are as follows (Ibrahim,2015) (Alfiani,2020): (1) Efficiency and Eco-System Design: Research suggests that integrating Islamic social finance into the current financial framework can lead to economic and social benefits. This integration can involve the

development of an optimal eco-system design for countries with a dual financial system based on conventional and Islamic finance. Such an eco-system can promote societal benefits through regulations that encompass not only civil law and human frameworks but also the principles of Islamic Law. (2) Impact on Financial Performance: Studies have shown that Islamic social finance instruments, such as zakat, waqf, and sadaqah, can have a positive significant impact on the financial performance of Islamic banks. This indicates that the integration of Islamic social finance can contribute to the overall financial performance of financial institutions. (3) Resource Mobilization and Financial Performance: Islamic cooperative societies can integrate various social finance instruments, including zakat, sadaqah, takaful, waqf, and sukuk, to mobilize resources and enhance their socio-economic development roles. This integration can positively impact asset management, savings growth, and loan management, which are crucial for the economic development of societies. These findings suggest that integrating Islamic social finance into existing economic systems can lead to positive outcomes, including improved financial performance and resource mobilization for economic development.

Several examples of how Islamic social finance has been integrated into existing economic systems in various countries are as follows (1) Efficiency and Eco-System Design: Research has been conducted to assess the efficiency of Islamic social finance and suggest potential improvements in the current financial framework. The focus is on assessing the economic and social outcomes of integrating Islamic finance principles into micro-businesses, as a means to promote economic development and involve communities in solving social issues. The paper seeks to develop an optimal eco-system design for countries with a dual financial system based on conventional and Islamic finance. (2) Impact on Financial Performance: Studies have shown that integrating Islamic social finance, such as zakat contributions, can have a positive significant impact on the financial performance of Islamic banks. This indicates that the integration of Islamic social finance can contribute to the overall financial performance of financial institutions. (3) Resource Mobilization and Financial Performance: Islamic cooperative societies have integrated various social finance instruments, including zakat, sadaqah, takaful, waqf, and sukuk, to mobilize resources and enhance their socio-economic development roles. This integration has positively impacted asset management, savings growth, and loan management, which are crucial for the economic development of the societies. These examples demonstrate how Islamic social finance has been integrated into existing economic systems, leading to potential improvements in financial performance, resource mobilization, and economic development (Marwan,2021) (Majid,2022) (Zakariyah,2020).

In this era of globalization, Islamic social finance is increasingly attracting attention as an alternative for promoting inclusive and sustainable economic development. Islamic social finance includes various instruments, including zakat, waqf, and sadaqah. This research aims to explore the contribution of Islamic social finance, especially zakat, waqf, and sadaqah, in economic development (Sudrajat, 2023). The research method used in this research is a systematic literature review. Research on Islamic social finance, especially zakat, waqf and sadaqah, is important because the phenomena that occur in various countries with a majority Muslim population show that the potential of Islamic social finance has not been fully utilized in economic development. Even though zakat, waqf and sadaqah have great potential to make a positive contribution to economic development through community empowerment, education, health and other fields, there are still challenges in their implementation and management (Roslan, 2020). This phenomenon indicates a research gap that needs to be filled to gain a deeper understanding of the potential, challenges and opportunities of Islamic social finance in the context of economic development.

Although there is research on Islamic social finance, there is still a lack of comprehensive studies on the contribution of zakat, waqf, and sadaqah in systematic economic development. Some studies only focus on one Islamic social finance instrument or only look at

it from a certain perspective without paying attention to the relationship between the three. Apart from that, there is also research that is less in-depth in analyzing the implementation and effectiveness of zakat, waqf, and sadaqah in the context of economic development, especially in the literature available in Indonesian. In filling this research gap, this research will conduct a systematic literature review to collect, review, and analyze relevant research on zakat, waqf, and sadaqah in the context of economic development. Thus, it is hoped that this research can provide a deeper understanding of the contributions, challenges and opportunities of Islamic social finance in advancing economic development.

Research Methods

To achieve the research objectives described previously, this research used a systematic literature review method. The first step is to identify relevant keywords, such as "Islamic social finance", "zakat", "waqf", "sadaqah", and "economic development". Then, these keywords are used to search academic databases such as Google Scholar, JSTOR, Scopus, Web of Science, ScienceDirect, IEEE Xplor.

After conducting an initial search, articles relevant to this research topic were identified. Then, articles were filtered based on predetermined inclusion and exclusion criteria. Inclusion criteria include articles that discuss zakat, waqf, and sadaqah in the context of economic development, as well as articles that are available in Indonesian and English. Meanwhile, exclusion criteria include articles that are not relevant to the research topic or articles that cannot be accessed in full.

After screening, the selected articles are then analyzed in depth to extract information about the contributions, challenges and opportunities of zakat, waqf and sadaqah in economic development. This analysis was carried out systematically and structured to ensure the validity and reliability of the research results.

By using this systematic literature review method, it is hoped that this research can provide a more comprehensive understanding of the role of Islamic social finance, especially zakat, waqf, and sadaqah, in advancing economic development.

Results and Discussion

1. Contribution of Zakat in Economic Development

Zakat's contribution to economic development is very significant. Zakat has a role that cannot be ignored in the Muslim economy, because the funds collected from zakat can be used to meet the basic needs of society. For example, zakat funds can be allocated to support the education sector by providing educational assistance to underprivileged children. Apart from that, zakat funds can also be used to improve public health access by providing affordable health services for those in need. Apart from that, zakat can also be used to fulfill other basic needs, such as food, clothing and shelter, which are important factors in maintaining community welfare. As one of the main pillars of Islam, zakat has a clear goal of providing assistance to those in need. With proper management, zakat funds can be used to empower the community and improve overall economic welfare (ASHAFA, 2021) (Abdullah, 2018).

Hypothesis:

1. The greater the amount of zakat funds collected, the greater the overall economic welfare of society will be. This is based on the assumption that proper management of zakat funds will enable efficient and effective allocation, which in turn will empower society through assistance provided to the needy.

2. The Role of Waqf in Economic Development

The role of Waqf in Economic Development is very important and has great potential to make a significant contribution. Waqf is an institution in Islam where individuals or

institutions hand over part of their property or assets for charitable purposes. Endowed property may not be sold or inherited, and the proceeds must be used for public purposes, such as infrastructure development, education, or community economic empowerment. In the context of economic development, donated assets can be used for productive investments, such as building micro businesses or providing business capital to farmers or small entrepreneurs. Thus, waqf can be a sustainable source of funding for economic development projects aimed at improving community welfare (Miah, 2019) (Muhammad, 2019).

Hypothesis:

1. The greater the amount of assets donated (waqf) for economic development purposes, the greater the local economic growth and community welfare. It is assumed that the use of waqf assets for productive investments and economic development projects will open up new opportunities to create jobs, increase incomes, and reduce poverty in the communities involved.

3. Benefits of Sadaqah in Economic Empowerment

The benefits of Sadaqah in Economic Empowerment are very significant in the context of poverty eradication and community empowerment. Sadaqah, or voluntary donations in Islam, has an important role in helping individuals or groups who need economic assistance. Even though sadaqah is given voluntarily and is not required like zakat, its contribution still has a significant positive impact. Direct assistance provided through sadaqah can help individuals or groups who are experiencing economic difficulties to meet their basic needs, such as food, clothing or education. Apart from that, sadaqah can also be used to provide business capital or skills training to those who want to start small or medium businesses, thereby strengthening the economic structure of society as a whole (Aliyu, 2019) (Nabi, 2019).

Hypothesis:

1. The greater the amount of sadaqah given, the greater the economic empowerment of the community will be. It is assumed that direct assistance provided through sadaqah can provide an economic boost to the individual or group that receives it, thereby helping them to escape the cycle of poverty and become more economically independent.

4. Challenges in Implementing Islamic Social Finance

Challenges in the Implementation of Islamic Social Finance are things that need to be overcome to maximize the contribution of Islamic social finance in economic development. One of the main challenges is the lack of public awareness about the principles of Islamic finance. Many people do not understand the concept and benefits of Islamic financial products, such as *riba*, and how it differs from the conventional financial system. In addition, customer preference for conventional banks is also a challenge, with some people preferring to use banks that offer interest or familiar financial systems rather than taking risks with relatively new Islamic financial products. The lack of supportive regulations is also an obstacle in developing the Islamic finance sector, because unclear or inadequate regulations can hinder growth and innovation in this industry (Rahman, 2023) (Rejab, 2022) (Khasandy, 2019).

Hypothesis:

- 1. The higher the level of public awareness about the principles of Islamic finance, the greater the acceptance and use of Islamic financial products in society.**
- 2. The greater the effort to overcome preferences for conventional banks, the higher the number of people using Islamic financial products.**
- 3. The better the regulations that support the growth of the Islamic financial sector, the more developed and innovative the Islamic financial industry will be, thereby making a greater contribution to economic development.**

5. Strategy for the Integration of Islamic Social Finance in the Existing Economic System

The Strategy for Integrating Islamic Social Finance in the Existing Economic System is an effort to incorporate Islamic financial principles into the existing economic system. This integration can provide a variety of benefits, including improved efficiency, financial performance, and resource mobilization. By optimizing the existing financial ecosystem to include Islamic financial principles, such as zakat, waqf, and sadaqah, we can increase the efficiency of the overall system. The use of Islamic social financial instruments by Islamic cooperatives can also contribute to improving their financial performance and mobilizing resources for sustainable economic development (Zailani, 2022) (Alias, 2022).

Hypothesis:

1. **The more optimal the development of a financial ecosystem that includes Islamic financial principles, the higher the efficiency of the financial system as a whole.**
2. **The use of Islamic social financial instruments by Islamic cooperatives will improve their financial performance, such as liquidity and profitability.**
3. **The integration of Islamic social finance in the existing economic system will mobilize greater resources for sustainable economic development, such as infrastructure and social programs.**

Conclusion

In conclusion, Islamic social finance has great potential to make a significant contribution to inclusive and sustainable economic development. Zakat, waqf, and sadaqah offer resources that can be mobilized to meet society's basic needs, support economic development initiatives, and reduce economic disparities. However, challenges in the implementation and integration of Islamic social finance still need to be overcome, such as lack of public awareness, preference for conventional financial institutions, and lack of supportive regulations. Joint efforts from governments, financial institutions and society are needed to raise awareness, address preferences and develop regulations that support the growth of the Islamic social finance sector. Thus, Islamic social finance can be an effective instrument in achieving sustainable and inclusive economic development goals throughout the world.

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