

ISLAMIC SOCIAL FINANCE AND THE SUSTAINABLE DEVELOPMENT GOALS (SDGs): A STRATEGIC FRAMEWORK FOR INCLUSIVE DEVELOPMENT**KEUANGAN SOSIAL ISLAM DAN SUSTAINABLE DEVELOPMENT GOALS (SDGs): KERANGKA STRATEGIS UNTUK PEMBANGUNAN INKLUSIF****Cholid Fadil¹, Gyska Indah Harya²**Universitas Pembangunan Nasional Veteran Jawa Timur^{1,2}

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The achievement of the Sustainable Development Goals (SDGs) faces significant challenges due to a global financing gap estimated at USD 4.2 trillion annually. This study aims to formulate a strategic framework for Islamic Social Finance (ISF), which includes zakat, infaq, sadaqah, and waqf (ZISWAF), as an instrument for financial inclusion and sustainable development. This study employs a narrative review method with a comprehensive approach by synthesizing literature published over the last ten years from the Scopus, Web of Science (WoS), and Google Scholar databases, with a comparative focus on the ISF ecosystem in Indonesia, Malaysia, and the Gulf Cooperation Council (GCC) countries. The findings indicate that the effectiveness of ISF in supporting the achievement of the SDGs, particularly poverty alleviation (SDG 1) and inequality reduction (SDG 10), is highly dependent on governance reforms. Digital transformation through fintech and blockchain is identified as a key catalyst in strengthening transparency (shafafiyah) and accountability (mas'uliyah). In addition, the shift from consumptive assistance models toward productive economic empowerment and waqf-based investment has been shown to generate more measurable long-term social impacts. This study concludes that the integration of maqasid al-shariah principles with modern governance constitutes a fundamental prerequisite for ISF institutions to create inclusive, equitable, and sustainable welfare distribution.

Keywords: Islamic Social Finance, SDGs, Sharia Governance, Digital Transformation, Financial Inclusion, Productive Empowerment.

ABSTRAK

Pencapaian Sustainable Development Goals (SDGs) menghadapi tantangan besar akibat kesenjangan pembiayaan global yang mencapai USD 4,2 triliun per tahun. Penelitian ini bertujuan untuk merumuskan kerangka strategis Islamic Social Finance (ISF), yang mencakup zakat, infak, sedekah, dan wakaf (ZISWAF), sebagai instrumen inklusi keuangan dan pembangunan berkelanjutan. Menggunakan metode Narrative Review yang komprehensif, studi ini menyintesis literatur sepuluh tahun terakhir dari database Scopus, WoS, dan Google Scholar dengan fokus komparatif pada ekosistem ISF di Indonesia, Malaysia, dan negara-negara GCC. Hasil penelitian menunjukkan bahwa efektivitas ISF dalam mendukung SDGs, khususnya pengentasan kemiskinan (SDG 1) dan pengurangan ketimpangan (SDG 10), sangat bergantung pada reformasi tata kelola (governance). Transformasi digital melalui fintech dan blockchain teridentifikasi sebagai katalis utama dalam memperkuat transparansi (shafafiyah) dan akuntabilitas (mas'uliyah). Selain itu, pergeseran model distribusi dari bantuan konsumtif ke pemberdayaan ekonomi produktif dan investasi wakaf terbukti meningkatkan dampak sosial jangka panjang secara terukur. Studi ini menyimpulkan bahwa integrasi antara prinsip Maqasid al-Shariah dengan tata kelola modern merupakan prasyarat mutlak bagi institusi ISF untuk menciptakan distribusi kesejahteraan yang inklusif dan adil.

Kata Kunci: Islamic Social Finance, SDGs, Tata Kelola Syariah, Transformasi Digital, Inklusi Keuangan, Pemberdayaan Produktif.

1. INTRODUCTION

Achieving the Sustainable Development Goals (SDGs) still faces significant challenges, particularly related to limited global development financing, rising economic inequality, and

the low effectiveness of social welfare distribution. The United Nations reports that the post-pandemic SDG financing gap has increased to approximately USD 4.2 trillion per year, significantly higher than the pre-pandemic period of around USD 2.5 trillion per year. At the same time, the World Bank notes that approximately 700 million people globally still live in extreme poverty and more than 3.5 billion people live on less than USD 6.85 per day (United Nations, 2023; World Bank, 2024). This situation indicates that global economic growth has not yet fully achieved an inclusive and sustainable distribution of prosperity. Conversely, the concentration of global wealth is actually increasing. An Oxfam report indicates that the wealth of the world's billionaires has increased by approximately USD 2 trillion in the past year alone, while the majority of the global population still faces economic vulnerability and limited access to basic social services (Oxfam, 2025). This phenomenon demonstrates the paradox of modern development, where economic growth goes hand in hand with increasing social inequality and unequal distribution of wealth.

In the context of developing countries, including Indonesia, the challenges of sustainable development remain quite complex. The World Bank reports that approximately 68.3% of Indonesians will still fall below the upper-middle income poverty line in 2024, while the national poverty rate reaches 8.57% (World Bank, 2024). Furthermore, public access to formal financial services remains suboptimal, particularly for the poor, micro-entrepreneurs, and vulnerable communities in rural areas. Amidst these conditions, reliance on debt-based financing to support social development and post-pandemic economic recovery is further increasing the country's fiscal pressure. Consequently, alternative development financing is needed that is not only oriented towards economic growth but also able to strengthen the distribution of social welfare in a more inclusive and sustainable manner.

In this context, Islamic Social Finance (ISF), which encompasses zakat, waqf, infaq, and sedekah (ZISWAF), is beginning to be viewed as a strategic instrument with the potential to support the achievement of the SDGs through an Islamic-based approach to wealth redistribution and social solidarity. The literature shows that ISF has strong relevance to the achievement of SDG 1 (No Poverty), SDG 10 (Reduced Inequalities), and various other development goals such as SDG 2, SDG 4, SDG 6, and SDG 11 (Dirie et al., 2023; Al-Jayyousi et al., 2022; Purwanto et al., 2021; Awang & Chik, 2023). With characteristics that emphasize equitable welfare, social protection, and economic empowerment of marginalized communities, ISF has the potential to become an inclusive development mechanism capable of complementing the limitations of conventional financing systems.

This potential is increasingly relevant for Indonesia, the country with the world's largest Muslim population and significant potential for collecting Islamic social funds. Various national reports indicate that Indonesia's zakat potential is estimated at over IDR 327 trillion per year, but the actual collection remains far below the actual available potential. A similar situation exists in the waqf sector, where Indonesia possesses vast waqf land assets, but most of them remain non-productive and have not been optimized to support sustainable economic and social development. Yet, various innovations such as productive waqf, cash waqf-linked sukuk, and waqf crowdfunding demonstrate significant potential in supporting financing for education, health, social housing, and SDG-based infrastructure development (Purwanto et al., 2021; Awang & Chik, 2023; Ascarya et al., 2022).

However, there is a significant gap between the theoretical potential of the ISF and its actual impact on the ground. Various studies have shown that weak governance of zakat and waqf institutions remains a major obstacle to optimizing the ISF's contribution to sustainable development. Problems such as low transparency in fund management, weak accountability mechanisms, institutional fragmentation, poor reporting quality, and the dominance of informal governance practices have resulted in relatively low distribution effectiveness of Islamic social funds and low levels of public trust in ISF institutions (Dirie et al., 2023; Napitupulu et al., 2024; Ramadhan et al., 2023; Faisal et al., 2022). This situation results in low

distribution efficiency, limited beneficiary reach, and a suboptimal contribution of the ISF to poverty reduction and social inequality.

Various empirical studies also show that the main challenge in implementing ISF lies not only in the fundraising aspect, but also in the effectiveness of the governance framework implemented by the managing institution. Recent studies have identified several key dimensions of ISF governance that influence institutional effectiveness and the resulting social impact, including accountability and performance measurement mechanisms, transparency of funding sources and uses, the implementation of enterprise risk management (ERM), the integration of sharia accounting in institutional reporting, stakeholder involvement in building public trust, and strengthening regulations and oversight systems to minimize moral hazard in the management of Islamic social funds (Napitupulu et al., 2024; Mustaqim, 2024; Hudaefi et al., 2025; Widiastuti et al., 2022). Thus, ISF governance can no longer be understood merely as an administrative mechanism, but must be positioned as a strategic foundation in creating effective, inclusive, and sustainable social development.

In contemporary literature, ISF governance reform is increasingly linked to the need to integrate the principles of maqasid al-shariah (the protection of religion, life, mind, descendants, and property) with the SDGs agenda. Maqasid al-shariah, which encompasses the protection of religion, life, mind, descendants, and property, is seen as substantive alignment with sustainable development goals, particularly those related to poverty alleviation, improving social welfare, and distributive justice (Harahap et al., 2023; Shahid et al., 2023; Abdullah, 2018; Arsyi, 2024). Within this framework, zakat, waqf, and sadaqah (charity) are positioned not only as instruments of religious philanthropy but also as social development instruments capable of strengthening economic inclusion and creating a more equitable distribution of welfare.

To strengthen the implementation of the Islamic Social Fund (ISF) in supporting the SDGs, a theoretical foundation capable of integrating Islamic spiritual values with modern governance principles is needed. In this context, Shariah Governance Theory (SGT) is an important conceptual framework because it not only emphasizes sharia compliance but also integrates the principles of transparency (shafafiyah) and accountability (mas'uliyah) in the management of zakat, sedekah, and waqf institutions (Awang & Chik, 2023; Nashoh et al., 2024; Dirie et al., 2023). Sharia governance is seen as not only based on legal-formal compliance but must also reflect moral responsibility to Allah SWT and the community as beneficiaries. Therefore, the implementation of sharia-based governance is crucial to ensure that ISF institutions are able to carry out their socio-economic functions transparently, fairly, and oriented towards public welfare.

From an organizational behavior perspective, the management of Islamic social funds can also be explained through Agency Theory and Stewardship Theory. Agency Theory views fund managers as rational actors who require strict oversight mechanisms to minimize opportunistic behavior. However, this approach is considered less than fully aligned with the characteristics of ISF institutions, which are based on trust and social services. In contrast, Stewardship Theory offers a perspective more aligned with Islamic values because it positions organizational managers as stewards with an intrinsic orientation to serving the public and organizational interests collectively (Wiryanto, 2018; Dewi et al., 2023; Julia & Kassim, 2020). In the context of ISF, the stewardship approach is believed to strengthen public trust, increase the effectiveness of social fund distribution, and reduce conflicts of interest in zakat and waqf management.

Furthermore, the development of digitalization and technological innovation in the Islamic Social Finance (ISF) sector also demonstrates a significant transformation toward a more modern and scalable social financing model. Various innovations such as cash waqf-linked sukuk, Islamic fintech, digital zakat platforms, and waqf crowdfunding have opened up new opportunities to expand public access to Islamic social financial services (Trimulato et

al., 2023; Hai et al., 2022; Azman et al., 2023; Arsyi, 2024). However, this digitalization also presents new challenges in the form of moral hazard risks, cyber risks, weak digital oversight, and suboptimal standardization of reporting and measurement of ISF social impact. Most ISF institutions still focus on measuring outputs such as the amount of funds raised and the number of beneficiaries, while measuring outcomes and long-term social impacts towards the SDGs remains relatively limited.

At the regulatory level, various Muslim countries, including Indonesia and Malaysia, have begun developing governance frameworks such as the Shariah Governance Framework (SGF), Value-Based Intermediation (VBI), and Value-Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) to strengthen the social orientation and sustainability of Islamic financial institutions (Markom, 2018; Shahrom & Kunhibava, 2023; Hoque et al., 2023). However, the implementation of ISF governance across countries still shows significant variation due to differences in interpretation of maqasid al-shariah, regulatory readiness, and institutional capacity. Regulatory fragmentation and coordination between ISF management institutions also remain major challenges in creating an integrated and effective Islamic social fund management system.

Based on these various phenomena, it is understandable that optimizing Islamic Social Finance in supporting the achievement of the SDGs requires a more comprehensive, standardized, and digitally-based governance transformation. Strengthening transparency, accountability, a culture of stewardship, measuring social impact, and integrating the maqasid al-shariah with modern governance are crucial elements for increasing the effectiveness of Islamic social fund distribution and strengthening its contribution to inclusive development. Therefore, research on the strategic framework of Islamic Social Finance to support the SDGs is crucial, particularly to address the need for an ISF governance model capable of integrating spiritual, social, economic, and technological dimensions within a sustainable development framework.

2. METHODS

This research uses the method Narrative Review comprehensive to synthesize the literature on governance Islamic Social Finance (ISF) and its relationship to the SDGs. Unlike a simple literature review, this approach is systematic in selecting sources to ensure analytical depth and objectivity of the findings.

2.1. Search Strategy

Data were collected through literature searches in internationally reputable academic databases, namely Scopus, Web of Science (WoS), and Google Scholar. The publication period was limited to the last ten years (2016 - 2026) to capture contemporary developments following the adoption of the Sustainable Development Goals (SDGs) in 2015, as well as the rapid advancement of financial technology (fintech) within the Islamic Social Finance (ISF) ecosystem.

The search process employed combinations of Boolean operators using keywords such as "Islamic Social Finance" AND "Governance", "Zakat/Waqf Management" AND "SDGs", and "Financial Inclusion" AND "Shariah Accountability". The inclusion criteria focused on peer-reviewed journal articles, policy reports published by international institutions (such as UNDP and IsDB), and national case studies that provided both theoretical and practical contributions to the discourse on ISF and sustainable development.

2.2. Analytical Approach

The analytical approach in this study was conducted using a Narrative Synthesis method combined with comparative analysis techniques. This approach not only synthesized the existing literature but also critically examined governance models implemented in regions

with well-developed Islamic economic ecosystems. The comparative analysis focused on three major contexts. In Indonesia, the study emphasized the coordination model between regulatory institutions such as BAZNAS and BWI, as well as the expanding role of digital philanthropy in the management of Islamic Social Finance (ISF). In Malaysia, the analysis examined the structured integration of zakat management under state religious authorities through the State Islamic Religious Councils. Meanwhile, in the GCC (Gulf Cooperation Council) countries, the study explored philanthropy models that are closely linked to sovereign wealth structures and corporate waqf institutions. Through this synthesis process, the study aimed to identify recurring patterns, best practices, and governance failures that influence the effectiveness of ISF as an instrument for inclusive development. By conducting cross-jurisdictional comparisons, the research provides broader generalizations while remaining sensitive to differences in local institutional contexts and governance logics.

3. RESULTS AND DISCUSSIONS

3.1. Islamic Social Finance Governance as a Foundation for Financial Inclusion and SDG Achievement

The results of the literature synthesis indicate that strengthening governance within Islamic Social Finance (ISF) institutions has a significant relationship with increased financial inclusion, particularly in expanding access and distribution of benefits to mustahik groups as recipients of zakat, infaq, sedekah, and waqf funds. The literature consistently places governance as a core element that determines the effectiveness of Islamic social fund distribution, the quality of institutional services, and the ability of ISF institutions to support the Sustainable Development Goals (SDGs) agenda. Strong governance enables ISF institutions to reduce operational fragmentation, improve institutional coordination, strengthen public accountability, and expand distribution reach to poor and vulnerable groups in a more targeted manner (Shahid et al., 2023; Ascarya, 2021; Alfitri, 2018; Dahlawi et al., 2022; Hani & Sukma, 2024; Tamanni et al., 2022; Ladiku & Kasim, 2021).

These findings demonstrate that governance is no longer understood merely as an administrative mechanism or formal compliance, but has evolved into a strategic instrument for creating inclusive social development. In the context of the ISF, good governance enables the creation of a more transparent, efficient, and impact-oriented fund distribution system. Therefore, strengthening governance is a key prerequisite for ISF institutions to optimally contribute to poverty reduction, increased access to education and health care, and the economic empowerment of marginalized communities, the primary targets of the SDGs.

3.2. Governance as a Key Determinant of ISF Effectiveness and Inclusiveness

Several studies confirm that governance quality directly impacts institutional performance and the capacity of Islamic Social Funds (ISFs) to deliver inclusive development. Napitupulu et al. (2024) identified six key dimensions of governance within ISFs: accountability, governance practices, performance, efficiency, Islamic accounting, and governance awareness. These six dimensions are seen as essential foundations for creating an Islamic social fund management system capable of generating sustainable social impact.

These findings align with various studies showing that good governance enables Islamic Social Funds (ISF) institutions to allocate resources more effectively to support poverty alleviation, social protection, healthcare, education, and economic empowerment of the poor (Dirie et al., 2023; Tok et al., 2022; As-Salafiyah & Fatoni, 2021; H et al., 2022). From this perspective, governance serves as an integrative mechanism linking the management of Islamic social funds with sustainable development goals.

Furthermore, systematic reviews of ISF governance also show that reporting transparency, strengthened Shariah governance, and a strict oversight system are crucial

factors in determining institutional legitimacy and public trust in Islamic social fund management institutions (Napitupulu et al., 2024; Hassan & Muneeza, 2022; Dahlawi et al., 2022). A high level of public trust will increase the participation of zakat payers and expand the collection of social funds, thereby increasing the distribution capacity to those entitled to receive them.

3.3. Operational Efficiency and Cost Reduction through Governance Reform

Literature analysis shows that one of the main problems in traditional Islamic Social Fund (ISF) management is high operational costs due to overlapping bureaucratic procedures, weak standardization, and poor data integration between institutions. This condition results in less efficient distribution of Islamic social funds and reduces the proportion of funds that can be channeled directly to mustahik. In this context, the implementation of a modern Shariah Governance Framework is seen as capable of improving operational efficiency through standardization of procedures, data integration, and more systematic performance audits (Ghaouri et al., 2023; Widiastuti et al., 2022; Napitupulu et al., 2024; Aisyah & Muiz, 2022; Hassan & Muneeza, 2022).

Strengthening governance also impacts the optimization of amil costs and increases the effectiveness of the distribution of Islamic social funds. When ISF institutions have a better governance system, funds previously absorbed by administrative costs can be redirected to productive financing that directly targets asnaf groups and marginalized communities in remote areas. These findings demonstrate a strong relationship between governance efficiency and expanding social inclusion within the ISF system.

Furthermore, several studies highlight that the use of technologies such as blockchain and Islamic fintech can enhance transparency, traceability, and efficiency in the collection and distribution of zakat and waqf. Omar and Khairi (2021) assert that blockchain can increase transparency in fund distribution and reduce the risk of data manipulation in ISF management. These findings are reinforced by other studies showing that ICT-enabled governance can improve operational efficiency, strengthen public accountability, and expand the distribution of Islamic social funds to communities previously unreachable by conventional systems (Widiastuti et al., 2022; Susanto et al., 2024; Dahlawi et al., 2022; Tamanni et al., 2022; Ladiku & Kasim, 2021).

3.4. Data Integration, Performance Measurement, and Social Accountability

Research also shows that integrating data systems and performance measurement is a crucial element in creating accountable and impact-oriented ISF governance. Hudaefi et al. (2025) demonstrated that a performance measurement framework integrating financial ratios, sharia compliance indices, risk management, and social impact measurement can strengthen the legitimacy of ISF institutions in carrying out their welfare distribution function more effectively.

These findings indicate that measuring the success of ISFs should not simply focus on the amount of funds raised or the number of beneficiaries, but should also encompass the outcomes and social impact generated on improving community well-being. Therefore, modern governance in ISFs requires an evidence-based performance management approach that allows institutions to measure program effectiveness more objectively and measurably.

Digitizing governance through the implementation of sharia accounting systems such as PSAK 409, Management Information Systems (MIS), and a collection model based on Zakat Collection Units (UPZ) is also seen as a concrete form of governance strengthening that can increase transparency and public trust (Hani & Sukma, 2024; Tamanni et al., 2022; Ladiku & Kasim, 2021). The higher the level of transparency and accountability of ISF institutions, the greater the level of participation of muzakki (recipients of zakat) in the collection of Islamic social funds.

3.5. The Role of Regulation and Institutionalization in Strengthening ISF Governance

The literature also emphasizes that effective governance is inseparable from adequate policy and regulatory support. Harmonization of governance standards, strengthening of sharia regulations, accounting standardization, and integration of reporting systems are crucial factors in creating credible and sustainable ISF management (Hassan & Muneeza, 2022; Alfitri, 2018; Hani & Sukma, 2024; Ladiku & Kasim, 2021).

In this context, the state plays a strategic role as a regulator, supervisor, and facilitator of the integration of community social data to support the effective distribution of Islamic social funds. Several studies have shown that collaboration between the government and Islamic Social Funds (ISF) institutions in utilizing social data can improve the accuracy of targeting poor and underserved communities (Alfitri, 2018; Ibrahim & Chek, 2020; Tamanni et al., 2022). This demonstrates that ISF governance requires a collaborative governance approach that simultaneously involves the state, Islamic social institutions, communities, and the digital technology sector.

3.6. ISF Governance and SDGs Policy Coherence

Various studies on Islamic Social Finance (ISF) and the SDGs confirm that Islamic social finance instruments have significant capacity to support the achievement of the SDGs, particularly in poverty reduction, improving healthcare, education, and social protection. However, this capacity can only be realized if ISF institutions have strong, transparent governance systems that are integrated with national and global development agendas (Dirie et al., 2023; Tok et al., 2022; As-Salafiyah & Fatoni, 2021; H et al., 2022).

Policy coherence between ISF governance and the SDGs is crucial because it determines the extent to which Islamic social funds can be strategically directed to support sustainable development targets. In this context, the integration of maqasid al-shariah, social impact governance, and the sustainable development framework is a crucial element in building an ISF management model that is more adaptive to modern development challenges.

3.7. Contextual Nuances and Challenges of Governance Implementation

Although most literature agrees that strong governance can enhance the inclusiveness of ISF, some studies indicate variations in governance implementation across countries and institutions. Napitupulu et al. (2024) emphasize that governance reform must consider the institutional context, organizational capacity, and characteristics of ISF instruments in each country. In other words, an effective governance model in one country may not be identically applicable in another.

Furthermore, the implementation of digital governance, such as blockchain and Sharia-compliant fintech, also faces challenges related to regulatory readiness, compliance with Sharia principles, and resistance to institutional change (Omar & Khairi, 2021; Dahlawi et al., 2022; Tamanni et al., 2022). Therefore, governance transformation in the ISF must not solely focus on technological aspects but also requires strengthening human resource capacity, developing data systems, and providing adequate regulatory support.

Several studies also emphasize that without strong capacity building, governance reform risks becoming an administrative formality that fails to produce substantive changes in Islamic social fund distribution practices (Widiastuti et al., 2022; Napitupulu et al., 2024; Tok et al., 2022; H et al., 2022). Therefore, the success of ISF governance is crucially determined by the simultaneous integration of institutional reform, regulatory strengthening, technological development, and organizational capacity building.

3.8. Fintech, Blockchain, and the Transformation of Transparency in Islamic Social Finance

The results of the literature synthesis show that fintech and blockchain have developed into strategic instruments in strengthening transparency, traceability, and accountability in the Islamic Social Finance (ISF) ecosystem, especially in the management of zakat, waqf, infaq, and alms. Various studies consistently position digital transformation as the main catalyst in overcoming classic problems of ISF governance, such as information asymmetry, limited oversight of fund distribution, low transparency in reporting, and the potential for moral hazard in the management of Islamic social funds (Susanto et al., 2024; Sairally, 2021; Azzahro & Indra, 2024; Billah, 2021; Zulfikri et al., 2021; Hasan et al., 2020; Fajri et al., 2023; Mutmainah et al., 2021; Al-Jayyousi et al., 2022; Nazeri et al., 2023; Nor et al., 2021; Amoumri, 2025; Harahap et al., 2023; Santoso & Kusuma, 2023; Kunhibava et al., 2024; Maulina et al., 2023; Alshater et al., 2022; Nienhaus, 2020; Mohd et al., 2024; Wahyudi et al., 2024; Billah, 2019; Salleh et al., 2022; Aisyah & Muiz, 2022; Maulida, 2024; Purwatiningsih et al., 2024).

The literature shows that the main mechanism of blockchain lies in its ability to provide an immutable and decentralized distributed ledger, allowing real-time monitoring of all fund flows, from the zakat payer to the mustahik. This characteristic enables the creation of a distribution monitoring system that is more transparent, accountable, and difficult to manipulate. Thus, blockchain can reduce information asymmetry and minimize the risk of misuse of Islamic social funds, a key challenge in ISF governance.

These findings demonstrate that digitalization in the ISF is not only related to technological modernization but also serves as an instrument for governance reform aimed at increasing institutional legitimacy and public trust. In this context, blockchain and fintech are positioned as mechanisms for creating trust-based governance architecture that can strengthen the relationship between zakat payers, managing institutions, regulators, and mustahik.

3.9. Blockchain as a Mechanism for Transparency and Reducing Agency Problems

Various studies confirm that blockchain implementation has significant potential to reduce agency problems in zakat and waqf management. The blockchain system allows for permanent transaction recording and can be verified by all relevant parties, thereby reducing the potential for data manipulation, fund distribution leaks, and abuse of authority in ISF management (Susanto et al., 2024; Mutmainah et al., 2021; Sairally, 2021; Amoumri, 2025; Harahap et al., 2023; Nazeri et al., 2023; Azzahro & Indra, 2024; Wahyudi et al., 2024; Nor et al., 2021; Zulfikri et al., 2021).

From an agency theory perspective, blockchain functions as an automated monitoring mechanism that can reduce oversight costs and mitigate information asymmetry between principals and agents within ISF institutions. A blockchain-based reporting system allows zakat payers to directly monitor the distribution of their funds, thereby enhancing perceived accountability and institutional trust in zakat and waqf management institutions.

Furthermore, smart contracts on blockchain also enable automated fund distribution based on predetermined Sharia criteria and program provisions. This mechanism enhances operational efficiency while minimizing manual intervention that could potentially create moral hazard. Therefore, blockchain is viewed not only as a technological innovation but also as a governance infrastructure that supports the creation of more accountable and trustworthy Islamic social governance.

3.10. Indonesia and Malaysia as Models for ISF Digital Implementation

The study results show that Indonesia and Malaysia are the two countries most frequently used as references for implementing fintech and blockchain in ISF management. Both countries are considered successful in developing various models for digitalizing zakat and

waqf through cash waqf platforms, blockchain crowdfunding, digital zakat wallets, and fintech-enabled social finance ecosystems (Susanto et al., 2024; Hasan et al., 2020; Fajri et al., 2023; Mutmainah et al., 2021; Sairally, 2021; Harahap et al., 2023; Nazeri et al., 2023; Azzahro & Indra, 2024; Billah, 2021; Zulfikri et al., 2021).

In the Indonesian context, the digitalization of zakat and waqf (Islamic charity) is growing rapidly through the integration of Islamic fintech platforms with digital payment services and social crowdfunding. This model enables faster and more efficient social fundraising and reaches communities previously disconnected from formal zakat management institutions. Meanwhile, Malaysia demonstrates strengthened governance through regulatory support and integration between Islamic financial institutions, regulators, and Sharia-compliant digital platforms.

The experiences of these two countries demonstrate that the success of the ISF's digital transformation is heavily influenced by regulatory support, institutional readiness, the quality of digital infrastructure, and the alignment of technological innovation with Sharia principles. Therefore, digital governance within the ISF requires an ecosystem approach that simultaneously involves regulators, Sharia financial institutions, fintech companies, and the public.

3.11. Fintech, Blockchain, and Contribution to the SDGs

The literature consistently emphasizes that fintech and blockchain are strongly linked to achieving the Sustainable Development Goals (SDGs), particularly in poverty reduction, increased financial inclusion, and strengthened social development governance. Digital technology is seen as capable of improving the efficiency of resource allocation, expanding access to Islamic social services, and enhancing the transparency of fund distribution for poor and vulnerable groups (Al-Jayyousi et al., 2022; Harahap et al., 2023; Nienhaus, 2020; Salleh et al., 2022; Wahyudi et al., 2024; Zulfikri et al., 2021).

In the context of the SDGs, blockchain enables ISF institutions to create a more auditable and measurable reporting system, allowing for more objective monitoring of the social impact of zakat and waqf distribution. This is crucial because one of the main challenges in implementing the SDGs is the limited monitoring mechanisms for the effectiveness of social financing distribution.

Furthermore, Islamic fintech also expands financial inclusion for the unbanked and underserved through digital payment services, waqf-based crowdfunding, and technology-based Islamic microfinance. Thus, ISF's digital transformation not only strengthens the institution's internal governance but also expands its socio-economic impact on marginalized communities, the primary targets of inclusive development.

3.12. Regulatory Challenges, Sharia Compliance, and Digital Risks

While most research supports digital transformation as a catalyst for transparency in the ISF, several studies also highlight the various challenges still faced in implementing fintech and blockchain. Key challenges include regulatory readiness, harmonization of governance standards, Sharia compliance, cybersecurity, and human resource capacity in managing digital systems (Hasan et al., 2020; Sairally, 2021; Billah, 2021; Zulfikri et al., 2021).

Several studies emphasize that blockchain implementation does not automatically result in good governance without the support of clear regulations, system standardization, and robust oversight mechanisms (Sairally, 2021; Salleh et al., 2022; Billah, 2021; Nor et al., 2021). In this context, digital transformation still requires a governance framework capable of ensuring that technology use remains aligned with the maqasid al-Shariah and the principle of stakeholder protection.

Furthermore, several studies have warned that the digitalization of ISFs has the potential to create new risks, such as cyber vulnerability, digital exclusion, and inconsistencies

in technology implementation with Sharia principles if system design is not carried out carefully (Hasan et al., 2020; Sairally, 2021; Wahyudi et al., 2024; Nor et al., 2021). Therefore, the successful implementation of fintech and blockchain in ISFs depends heavily on the integration of technological innovation, Sharia governance, regulatory strengthening, and institutional capacity development.

3.13. Theoretical and Conceptual Implications

Conceptually, these findings demonstrate that fintech and blockchain have shifted the governance paradigm in Islamic Social Finance from a traditional model based on interpersonal trust to an institutionalized digital trust model. From the perspective of Shariah Governance Theory, digital technology strengthens the implementation of the principles of shafafiyah (transparency) and mas'uliyah (accountability) through a real-time, open, and verifiable reporting system.

Meanwhile, from the perspective of Stewardship Theory, blockchain-based digital governance can strengthen a culture of trust and social responsibility in the management of zakat and waqf funds. Technology serves not only as a control tool but also as a mechanism to strengthen moral legitimacy and public trust in ISF institutions.

Thus, the integration of fintech, blockchain, and sharia governance shows a new direction for the development of Islamic Social Finance that is more modern, transparent, scalable, and relevant to the needs of sustainable development in the digital economy era.

3.12. Socio Economic Impact: Critical Analysis of Capital Distribution

Capital Distribution in Islamic Social Finance: From a Consumptive Approach to Productive Empowerment. The results of a literature synthesis indicate that capital distribution to marginalized groups within the Islamic Social Finance (ISF) framework should not be solely oriented toward short-term consumptive assistance, but rather directed toward productive empowerment that can create economic sustainability and improve long-term welfare. A productive approach is considered more effective because it not only meets basic needs temporarily but also builds community economic capacity through the creation of business activities, skills development, and strengthening income sources for poor households (Al-Daihani et al., 2023; Maulana & Violita, 2020; Ahmed et al., 2015; Belouafi, 2020).

Literature shows that zakat, waqf, and sadaqah have significant potential to be developed as productive social finance instruments that support micro-enterprise financing, education, skills training, and entrepreneurship development among the poor. From a sustainable development perspective, a productive approach provides a more permanent social impact than a consumptive distribution model, which tends to be temporary and does not create long-term economic transformation.

These findings indicate a paradigm shift in ISF management, from a charity-based orientation to empowerment-based development. In the context of the SDGs, this transformation is crucial because poverty reduction requires not only social assistance but also economic empowerment mechanisms capable of sustainably increasing the productive capacity of marginalized groups.

3.13. Waqf and Microfinance as Instruments of Inclusive Development

Various studies have positioned waqf, particularly cash waqf, as a key instrument in supporting inclusive development through Sharia-compliant financing of education, health, social services, and microfinance. The literature shows that waqf has high flexibility to be developed into various productive social investment models that can support long-term development (Hariri, 2023; OECD, 2020; Al-Daihani et al., 2023; Furstenberger et al., 2017; Maulana & Violita, 2020; Introduction, 2016).

In various Muslim contexts, waqf (Islamic waqf) is transforming from a traditional, static asset-based model to a productive investment model that utilizes cash waqf, financial asset investment, and integration with Islamic microfinance instruments. This approach allows Islamic social funds to be used not only for direct assistance but also as productive capital that can create a cycle of economic empowerment for the poor.

However, the literature also shows that the successful implementation of productive waqf is heavily influenced by the quality of governance, investment transparency, regulatory certainty, and adherence to Sharia principles. Without a robust governance framework, productive waqf management has the potential to lead to inefficiency, moral hazard, and low public trust in Islamic social fund management institutions.

3.14. Transformation of Corporate Waqf and Social Funds in the GCC Countries

Literature reviews show that Gulf Cooperation Council (GCC) countries are beginning to develop more strategic corporate waqf and social fund models by integrating Islamic social funds into priority development sectors such as affordable education, healthcare, and social development. This transformation demonstrates a shift from traditional, ad hoc philanthropic practices to more structured, strategic social investment oriented toward long-term social impact (Hariri, 2023; Kadherova, 2019; Introduction, 2016; Belouafi, 2020).

The corporate waqf model in the GCC region demonstrates how business institutions, Islamic social institutions, and governments can collaborate to build a more sustainable and scalable social financing ecosystem. Furthermore, the development of cash waqf crowdfunding and Islamic social digital platforms is also beginning to be used to raise liquidity more broadly to support the financing of education, healthcare, and other social projects (Al-Daihani et al., 2023; Introduction, 2016).

However, several studies warn that integrating social funds into strategic sectors risks creating philanthropic elitism if governance is not designed inclusively. This occurs when access to social financing is limited to certain groups with better access to information and institutional networks, while the extreme poor continue to struggle to benefit from programs (Hariri, 2023; Al-Jayyousi et al., 2022; Jamali & Safadi, 2019).

Thus, the effectiveness of the corporate waqf and social funds models depends heavily on the governance framework's ability to ensure transparency, accountability, equitable access, and inclusive distribution of benefits.

3.15. Inclusive Governance and Social Impact Measurement

The synthesis results show that governance inclusivity is a crucial factor in ensuring that the distribution of Islamic social capital truly reaches the poorest and most vulnerable groups in society. The literature confirms that without inclusive governance mechanisms, the distribution of Islamic social funds is prone to elite capture, a condition where program benefits are concentrated only on certain groups and fail to reach the broader grassroots (Hariri, 2023; Jamali & Safadi, 2019).

In this context, measuring social impact has become a crucial part of modern governance in ISF. Several studies have highlighted the importance of using Social Return on Investment (SROI) as a tool to measure, evaluate, and report on the welfare impact of ISF programs (Hariri, 2023; Al-Jayyousi et al., 2022; Weber et al., 2016; Pericoli, 2025).

SROI allows ISF institutions to measure program contributions not only in terms of outputs, such as the amount of funds disbursed, but also in terms of outcomes and social impact, such as increased household income, micro-enterprise success, improved education quality, and access to healthcare for the poor. This approach aligns with the SDGs paradigm, which emphasizes the importance of measurable impact in social development.

Furthermore, the OECD (2020) and Weber et al. (2016) emphasize that social impact measurement is a crucial tool for aligning Islamic finance with the global development agenda.

Through standardized measurement mechanisms, ISF institutions can demonstrate tangible contributions to achieving the SDGs targets, while simultaneously increasing legitimacy and public trust in the management of Islamic social funds.

3.16. Islamic Finance and SDGs as a Framework for Sustainable Development

The literature consistently positions Islamic finance as a strategic development finance alternative that can complement conventional development financing systems. Waqf, zakat, and various Sharia-based social impact financing instruments are seen as having significant potential to support the achievement of the SDGs, particularly in poverty reduction, education development, healthcare, and basic infrastructure development (OECD, 2020; Weber et al., 2016; Hassan, 2019).

From a development perspective, Islamic finance is positioned not as a replacement for traditional development aid, but as a complementary financing mechanism capable of expanding social funding sources through a more inclusive and ethically based approach. The development of instruments such as waqf-based financing, social impact investing, and social sukuk demonstrates efforts to diversify Islamic social financing to make it more adaptive to modern development needs.

Furthermore, the integration of the SDGs into ISF governance also encourages increased transparency, accountability, and more systematic measurement of social impact. Thus, the SDGs serve not only as development targets but also as a framework for evaluating the effectiveness of the distribution and management of Islamic social funds.

3.17. Implications for Governance Policy and Practice

Research findings indicate that governance design in ISF must be oriented towards the principles of inclusivity, transparency, accountability, and measurable welfare outcomes to prevent philanthropic elitism. In this context, the integration of SROI or other social impact measurement models is crucial so that each ISF program can be evaluated based on its contribution to improving the welfare of the poor (Hariri, 2023; Al-Jayyousi et al., 2022; Jamali & Safadi, 2019).

Furthermore, practitioners and regulators need to consider the integration of waqf, crowdfunding, cash waqf, microfinance, and Islamic capital market instruments such as sukuk to create a more productive and scalable social financing ecosystem (Hariri, 2023; Al-Daihani et al., 2023; Introduction, 2016; Ahmed et al., 2015). This integration must be supported by regulatory harmonization, strengthened sharia supervision, and partnership building between the government, Islamic financial institutions, the private sector, and civil society.

These findings also indicate that the successful implementation of productive Islamic social finance is highly dependent on the institution's ability to build a governance ecosystem that is able to balance social objectives, economic efficiency, sharia compliance, and development sustainability.

3.18. Contextual Nuances and Implementation Variations

Although the literature supports the productive empowerment and SDG-aligned Islamic finance approaches, there is considerable variation in implementation across countries regarding waqf management and the use of Islamic social investment instruments. Some countries still maintain traditional philanthropic approaches focused on consumer assistance, while others have begun developing cash waqf models, investment-based waqf models, and integration with Islamic capital market instruments to enhance productive impact (Hariri, 2023; OECD, 2020; Al-Daihani et al., 2023; Barakat et al., 2019; Introduction, 2016).

In addition, the implementation of SDG-aligned Islamic finance is also influenced by regulatory factors, institutional capacity, technological readiness, and interpretation of the

maqasid al-shariah principles in each jurisdiction (OECD, 2020; Al-Jayyousi et al., 2022; Introduction, 2016; Hassan, 2019).

Thus, the development of Islamic Social Finance for inclusive development requires a contextual, adaptive, and social impact-based governance approach to create a fairer and more sustainable distribution of welfare.

4. CONCLUSIONS

4.1. Synthesis Summary

This research shows that Islamic Social Finance (ISF), which encompasses zakat, waqf, infaq, and sedekah, has a strategic capacity to support the achievement of the Sustainable Development Goals (SDGs), particularly in poverty reduction, strengthening financial inclusion, social development, and reducing economic inequality. Amidst the growing global development financing gap estimated at USD 4.2 trillion per year, ISF has emerged as an alternative social financing that is oriented not only towards wealth redistribution but also towards sustainable and inclusive welfare development.

However, the literature synthesis indicates that this significant potential has not been fully realized due to weak institutional governance within the various institutions managing the Islamic Social Fund (ISF). Issues such as low transparency in fund distribution, weak accountability mechanisms, regulatory fragmentation, limited reporting systems, and suboptimal digital technology integration have resulted in the distribution of Islamic social funds remaining unequal and unable to optimally reach marginalized groups. In this context, governance cannot be positioned merely as an administrative instrument, but as a strategic foundation that determines the legitimacy, efficiency, and sustainability of the social impact of the Islamic Social Fund (ISF).

This study also confirms that strengthening the Shariah Governance Framework, based on the principles of transparency (shafafiyah), accountability (mas'uliyah), and maqasid al-shariah, is a key element in improving the quality of ISF management. The integration of sharia governance values and the Stewardship Theory approach demonstrates that ISF institutions can develop into more inclusive, trustworthy, and collective welfare-oriented public development institutions. Within this framework, Islamic social fund managers function not only as fund administrators but also as stewards responsible for creating long-term social value.

Furthermore, this study found that digital transformation through fintech, blockchain, waqf crowdfunding, and digital zakat platforms has the potential to strengthen the transparency, traceability, and efficiency of Islamic social fund distribution. Digital technology enables real-time reporting and monitoring processes, thereby reducing information asymmetry, moral hazard, and the potential for misuse of funds. With strong governance support, ISF digitalization can expand distribution reach to mustahik groups in remote areas and increase community participation in the modern Islamic philanthropic ecosystem.

This research also shows that the distribution of Islamic social funds needs to be oriented towards a productive empowerment model rather than a short-term consumptive approach. The productive waqf approach, cash waqf-linked sukuk, Islamic microfinance, and small business empowerment-based financing have been shown to have greater potential for creating sustainable socio-economic impact. Therefore, the success of the ISF in supporting the SDGs depends heavily on the institution's ability to simultaneously integrate strong governance, technological innovation, social impact measurement, and a productive development orientation.

4.2. Practical Implications

Based on the research results, there are several practical implications that can be considered by regulators, ISF management institutions, and other stakeholders.

First, there is a need for regulatory harmonization and standardization of ISF governance by strengthening the Shariah Governance Framework, which integrates zakat, waqf, infaq, and sedekah instruments. This standardization is crucial to minimize moral hazard, improve reporting comparability, and strengthen coordination among Islamic social fund management institutions.

Second, digital transformation needs to be accelerated through the integration of fintech, blockchain, and digital-based reporting systems to increase transparency and accountability in fund distribution. Implementing digital technology can also expand social financial inclusion and increase public trust in ISF institutions.

Third, the paradigm for Islamic social fund distribution needs to be reoriented from a consumptive approach to productive economic empowerment. Models such as productive waqf, cash waqf linked sukuk, crowdfunding waqf, and Islamic micro-enterprise financing need to be developed as long-term development instruments that support the economic independence of the poor.

Fourth, strengthening institutional capacity is crucial, particularly through enhancing the competency of amil and nazhir (Islamic charity administrators) in risk management, social investment management, social impact measurement, and the use of digital technology. Strengthening human resources will determine the effectiveness of governance implementation and the success of professional management of Islamic social funds.

Fifth, social impact measurement based on SDGs indicators and the Social Return on Investment (SROI) approach needs to be integrated into the ISF evaluation system so that the resulting socio-economic contributions can be measured objectively, standardized, and oriented towards the outcomes of the beneficiary community.

4.3. Future Research Directions

This research still has several limitations that open up opportunities for further study development.

First, future research needs to develop quantitative data-based empirical analyses to more specifically measure the relationship between ISF governance quality and SDG indicator achievement. Using the Social Return on Investment (SROI) approach, structural equation modeling (SEM), or cross-country panel data could provide stronger empirical evidence regarding the effectiveness of ISF in inclusive development.

Second, further research is needed on the behavioral aspects and public acceptance of the use of fintech and blockchain in the digital Islamic philanthropy ecosystem. This study is crucial for understanding factors such as trust, data security, digital literacy, and cyber risk that may influence the success of technology implementation in the Islamic Social Fund (ISF).

Third, future research should explore differences in ISF governance implementation across countries and jurisdictions, particularly regarding variations in regulations, interpretations of maqasid al-shariah, levels of technological readiness, and institutional capacity. A comparative study approach can enrich our understanding of the most effective ISF governance models in different socio-economic contexts.

Fourth, further studies can develop an integration model between Islamic social finance, ESG (Environmental, Social, and Governance), and sustainable finance to expand ISF's contribution to the broader global development agenda, including the green economy transition, social resilience, and community-based sustainable development.

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