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# Islamic social finance in Indonesia: Opportunities, challenges, and its role in empowering society

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## Abstract

**Purpose –** This study identifies and analyzes Islamic social finance's potential, opportunities, challenges, roles, and impacts in empowering people in Indonesia.

**Methodology –** This research used descriptive and explorative qualitative methods with a systematic literature review. This study used data analysis techniques and content analysis.

**Findings –** This research shows enormous potential for Islamic social finance in Indonesia. Indonesia's opportunity as a country that has the largest Muslim population in the world and has a large market potential for Islamic social finance. Challenges in developing Islamic social finance, namely the low support for Islamic social finance, the absence of Islamic banks that have maximum assets, the lack of qualified Islamic economic, human resources in the field of Islamic social finance, and the low capacity of research and development of Islamic social finance. Islamic social finance is oriented toward social welfare. This is concrete evidence of its strategic role in community empowerment and poverty alleviation in Indonesia. Islamic social finance is proven to be the main instrument that has a central role in sustainable poverty alleviation that impacts the benefit of all society.

**Implications –** Islamic social finance should integrate with other Islamic philanthropic institutions domestically and globally to expand its impact in empowering people in Indonesia.

**Originality –** This highly structured and in-depth literature review examines and describes the potential, opportunities, challenges, roles, and impacts of Islamic social finance.

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## Introduction

Indonesia, the world's largest Muslim nation, has tremendous potential to empower society and community (Kasri & Ramli, 2019). Islamic social finance is implemented in the context of religion through mandatory zakat, infaq and *shadaqah*, waqf, and other good works (Maulana & Fanani, 2020). Islam strongly encourages charity to eradicate social inequity and ensure that riches do not solely benefit the wealthy. In the archipelago, Islam has a long history of charitable deeds that incorporate Islamic principles and regional values, particularly the steadfast nature of cooperation that has persisted for generations (Krisharyanto et al., 2019). As a result, it is no surprise that Indonesia was crowned the world's most-giving nation in 2020 by the Charities Aid Foundation, UK, which attributed Indonesia's high generosity index primarily to religion (Mujahidin, 2020).

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Being the nation with the largest Muslim population in the world, Indonesia's soft diplomacy objective is to take care of Indonesian Muslims, which even extends to Palestine (Bazzi et al., 2020). Generosity has become the character of Indonesian Muslims. National Amil Zakat Agency (BAZNAS) works to understand and maximize the potential of Indonesia's 300 trillion IDR national zakat. BAZNAS based on the three safe concepts (safe rules, safe Sharia, and safe The Unitary State of the Republic of Indonesia (IDR) promotes collaboration with all pertinent parties, especially Indonesian representatives overseas (BAZNAS, 2022).

Islamic philanthropy or Islamic social finance has enormous potential in helping economic growth. Nowadays, Islamic social finance and philanthropy are commonplace among Indonesians because Islam is practiced by most of Indonesia's population (Ascarya et al., 2022). However, socialization regarding the terms Islamic social finance and Islamic philanthropy is still needed because their use is still not well organized and has not been optimized to help economic growth, especially in micro-enterprises. Disseminating it requires cooperation between practitioners, social organizations, and the academic community (Hudaefi et al., 2022).

Islamic social finance is a development of new knowledge in Islamic economics, whose goal is to balance groups with excess funds and those lacking funds (Ascarya, 2018). Islamic social finance includes zakat, infaq, alms, and endowments. Zakat and waqf funds have enormous potential in Indonesia. Indonesia's Muslim population which covers 87.2 percent of the national population, coupled with rapid digitalization, opens up the potential for raising large zakat and waqf funds (Zuliansyah et al., 2022).

The amount of zakat, infaq, alms, and waqf funds in banking that exceeds the deposit insurance institution's guarantee threshold and also the risk of their distribution in the financing automatically opens up opportunities for financial system risk to zakat, infaq, alms, and waqf funds in the event of a bank failure (Iskandar et al., 2021). However, until now, there has been no specific regulation governing the guarantee of Islamic social finance. Therefore, adequate support is needed to encourage the development of Islamic social finance, including through appropriate legal and regulatory frameworks (Kholil et al., 2022).

In addition, it is necessary to pay attention to the risk of managing waqf assets (through commercial financing originating from cash waqf funds) because the potential for waqf assets in Indonesia is very high.

Islamic social finance is a financial instrument in the form of zakat, infaq, shadaqah, waqf, and so on (Fauziah et al., 2021). From the perspective of Islamic economics, infaq is a distribution of assets or spending expenditure of property in the way of Allah (Widodo, 2019). From the perspective of Islamic philanthropy, zakat, expiation, and *fidyah* must be fulfilled to be distributed to the eight *mustahiq ashnaf* (Yasmansyah & Iswantir, 2022). The many Islamic social finance and Islamic philanthropic institutions in Indonesia that have been established show rapid development in the practice of Islamic social finance and philanthropy, and this has an impact on improving the management of zakat and waqf, which can be one of the potentials for empowering the people (Apriyanti, 2017).

The importance of this research, researchers are very interested in the theme of Islamic social finance and Islamic philanthropy. Because it is different from the capitalist economic system which focuses on the market, and also the socialist economic system which examines the role of the state in the economy, the Islamic economic system is centered on society as an economic driver (Pepinsky, 2013). Indonesia, as the leading mouthpiece in studies related to economics and business, should have held a research discourse like this that waqf should bring the spirit of a welfare society to be echoed again because so far, it seems as if it has been covered up by discussions about banks and other financial institutions, as well as zakat and infaq, in discussions on Islamic economics.

Differences in prosperity standards between the mainstream and Islamic economic systems. Compared to the mainstream economic system, which uses the GDP indicator to determine a country's prosperity level, the Islamic economic system uses the zakat indicator to determine the level of prosperity of a society (Masrul & Huda, 2021). The higher the amount of payment of zakat, the more prosperity is achieved in that country.

This research is different from previous research. Several previous researchers have criticized the central bank's policy in overcoming the money supply to avoid inflation (Mukhibad et al., 2019; Maulida et al., 2020; Malini, 2021; Ascarya, 2022). It is strange to want to reduce money by increasing interest. The interest system causes a lot of money to circulate in society because the interest is used as the 'price' of the money deposited in the bank. However, to reduce it, the central bank instead issued Bank Indonesia Certificates for public purchase by providing a stimulus in the form of high interest.

Concerning waqf, the movement for giving zakat, infaq, alms, and waqf should be spread to all levels of society so that people are accustomed to donating their wealth. As a concrete example in Indonesia, what has been done by Baitul Mal Barbatee, which can manage a waqf of 1550 date palms (inspired by the waqf of the Khalifah Uthman bin Affan Dates Garden), which is planned as funding for scholarships for people in need in the future. The costs spent on education, health, and other public facilities can be managed by the waqf, which will automatically reduce the expenditure burden for each head of the family and the state (Adinugraha, 2022).

Based on the data and phenomena above, waqf should have become the lifestyle of a Muslim worldwide, especially in Indonesia. According to the current census, only 2% of waqf is developing globally, so this waqf is still included in the category of the Sleeping Giant. The potential for waqf in Indonesia, even though only India (due to legal demands) is valid according to the census, reaches USD 60 billion. Aceh already has many examples of successful waqf models, such as The Bait al-Asyi Waqf in Mecca, Lebuh Aceh Malay Mosque (Sayyed Hussein's waqf) in Penang, Malaysia, and also the Blang Padang Field as waqf land for the Baiturrahman Grand Mosque in Banda Aceh. The challenge in waqf implementation that has been faced so far is the management of the waqf. Most of this is due to the large number of *nazirs* who still need to be more professional in managing waqf funds. Because becoming a *nazir waqf* requires not only honesty but also professionalism (Yusoff et al., 2021). Even the Malaysian state is amazed when it sees Indonesia because Islamic social finance in Indonesia reaches down to the village level (Caraka et al., 2022). Indonesia has human resources reaching all corners of the village to collect zakat, infaq, alms, and waqf funds, the main task at this time is just to increase their capacity and professionalism.

Currently in Indonesia, the application of waqf in productive funding and financing has been helped by the publication of the Waqf Core Principles which explain the basics and principles of waqf (Fauzi & Tanjung, 2021). The development and implementation of Islamic social finance in Indonesia cannot progress in a positive direction without the support of policymakers. This can be realized by taking their side to make laws or other legal provisions, which support the implementation of the habit of giving zakat, infaq, alms, and endowments in Indonesian society, with the hope that Islamic social finance in Indonesia can re-emerge as Islamic philanthropy. in its role as a solution to empower micro-enterprises and improve people's welfare (Adinugraha, 2017).

Islamic social finance is part of *maliyah ijtima`iyah* worship, which has a very important and decisive social position in the field of property. Islamic social finance should be used as a necessity and a Muslim lifestyle. Islamic social, and financial facilities, such as awareness of giving zakat, giving donations, giving charity, and waqf require strengthening and compliance in their management to achieve the expected results, which impact the life of the wider community. Zakat, infaq, alms, and waqf are Islamic social financial instruments that actively alleviate community poverty. This role needs to be maximized in the role of zakat, infaq, alms, and waqf institutions, both managed by the government and the private sector (Fauzia et al., 2021). The development of increasingly significant Islamic social finance has attracted the attention of many groups. This is reasonable because in practice elements of Islamic social finance such as zakat, infaq, alms, and endowments have been proven to be able to help alleviate community poverty. Islamic social finance's role is expected to maximize the potential of zakat, infaq, alms, and endowments and integrate them into the real economic system (Mahomed, 2022).

Knowing the existence of the problems above, researchers conducted studies related to opportunities, challenges, and the role of Islamic social finance in empowering micro-enterprises in Indonesia. This study discusses the Islamic social financial guarantee system, especially zakat and waqf, both within the financial system (banking) and outside the financial system. This research has several purposes or objectives, namely: 1) to identify potentials and opportunities for Islamic social finance in empowering people in Indonesia; 2) to describe the challenges of Islamic social finance in empowering people in Indonesia, and 3) to analyze the role and impact of Islamic social finance in empowering people in Indonesia.

## Literature Review

This literature review provides analysis and generalizations from relevant journals and books on studies related to opportunities, challenges, and the role of Islamic social finance in developing society in Indonesia.

Islamic social and economic integration comes in five flavors: ownership, institutional, operational, bottom line, and mandated. It has been demonstrated that each of the five categories of Islamic social and commercial integration can assist the government in achieving social welfare (Tamanni, 2022). Kuanova's research (2021) findings have elicited and summarized five leading future research questions in the social aspects of Islamic finance that will explain its position, role, and purpose, particularly in light of the growing social concerns. The results of Jouti's (2019) study demonstrate that creating a social finance ecosystem favors resolving social issues. According to Umar's research, (2022), understanding Islamic social finance mechanisms and being aware of them are directly tied to and may significantly help reduce poverty during the Covid-19 epidemic.

Islamic social finance in Indonesia plays a significant role in addressing the country's socioeconomic issues, as evidenced by its success in assisting the government in resolving the Covid-19 issue and its ability to maximize the impact of Islamic social funds administered by Islamic philanthropic institutions (Ahmadan, 2020). By employing zakat monies, donations, and alms to cover consumptive demands and endowment funds to support health infrastructure, Islamic social finance can help manage Covid-19 (Putra et al., 2020).

Islam instills in people a sense of social responsibility through Islamic philanthropy and social finance teachings. The Islamic social finance component, which emphasizes social responsibility and obedience, has been able to address the economic and social financial crisis that has affected Indonesian society (Fitriani, 2021). The findings of Iskandar's study demonstrate that Islamic social finance has offered remedies for society (Iskandar et al., 2020).

In Ahmad's study, (2020), the evidence of the influence of Islamic social finance in Jintap Hamlet as a way to care for the locals and as a way to fight poverty was examined. This study demonstrates that zakat might be one of the most effective tools for reducing poverty, especially among Indonesia's Muslim population. These conclusions are confirmed by Billah's research findings, (2020), which showed that funding sources through Islamic social financial instruments, such as replication of sukuk development initiatives, waqf, and zakat monies, have been successful in assisting the community.

The book "Empowering Islamic Microfinance in Indonesia" has explained four unique characteristics of Islamic microfinance institutions in Indonesia, namely banking, customary, regional, and cooperative based. This book has analyzed sharia microfinance sharply and systematically from different sides: history, philosophy, maps, characters, types, opportunities, challenges, and their role in poverty alleviation (Darsono et al., 2017).

The development of Islamic finance in Indonesia has increased rapidly so it has become a challenge and an opportunity for the business world and has great potential to improve the economy and business in Indonesia (Rokhmah et al., 2022). Islamic social finance is a revolution in the method of economic growth that is meant to benefit society. Islamic social finance has strategically contributed to community empowerment and poverty reduction by facilitating access to financial services and goods (Komite Nasional Ekonomi Keuangan Syariah, 2019).

## Research Methods

### Types of Research

Qualitative descriptive and explorative methodologies are used in this study. Via a literature review, data and information are gathered. The possibilities, prospects, problems, roles, and impacts of

Islamic social finance in empowering people in Indonesia are described and explained in clear, objective, systematic, analytical, and critical detail via descriptive and explorative analysis methodologies. The first phase of a qualitative method is to gather the necessary data, followed by classification, description, and exploration (Jolley & Jolley, 2020).

### Data Source

There are two categories of research data sources used in libraries: primary sources and secondary sources (Tilleczek, 2020). This study's primary sources were journals, articles, and books relevant to studying potentials, opportunities, challenges, roles, and impacts of Islamic social finance in empowering people in Indonesia. At the same time, the secondary sources in this study are used to supplement and support the primary sources by providing documentation and news about the research issue.

### Method of Collecting Data

In library research, library data that has been chosen, searched, presented, and analyzed serves as the method for gathering research data. This research's data came from searching libraries for information whose content called for philosophical and theoretical processing. This is a literature review rather than an empirical investigation (Cresswell, 2018). The material that is being presented is data that must be processed concisely and methodically because it is in the form of words. For this study's data collection, literature was gathered on the potential, possibilities, difficulties, roles, and effects of Islamic social finance in empowering people in Indonesia. Then, the information is chosen, presented, examined, and processed to make it succinct and orderly.

### Data Analysis Technique

This study uses data analysis techniques and content analysis. The analysis is a collection of straightforward actions that show how research data is created and then processed into a straightforward framework (Watling et al., 2016). After gathering the data, it is evaluated to provide information, but only after the data is chosen based on its dependability. Content analysis in this study is used to scientifically analyze the information contained in a data message as analytical and comparative material for researching the potential, prospects, roles, and effects of Islamic social finance in empowering Indonesian citizens so that description and interpretation can be understood in full and in their whole.

## Results and Discussion

### Forms of Islamic Social Finance in Indonesia

Several forms of Islamic social finance in Indonesia are under the management of the government or community organizations. Among them are the Indonesian Amil Zakat Agency, the Amil Zakat Institution, the Indonesian Waqf Agency, the Sharia Microfinance Institution or Baitul Mal wa Tamwil, and mosques (Iskandar et al., 2021).

The difference between zakat, infaq, alms, and waqf. The law of zakat itself is obligatory, while infaq, alms, and endowments are sunnah (Pamuncak et al., 2021). The amount for zakat is 2.5% for infaq a maximum of 33%, a maximum of 33% for alms, and 33% for waqf. The time taken to carry out waqf is every year, while infaq, alms, and endowments are at any time. The provisions in infaq follow the *nishab* while infaq, alms, and endowments do not have *nishab*. In addition, in carrying out zakat there is no *sight* (pledge) different from infaq and alms which may or may not have *sighat*. As for waqf, it is obligatory to carry out *sighat* (Pamuncak et al., 2021).

Zakat etymologically, there are four: purify, grow, develop, and grace. In addition, the person who tithes will purify his property, soul, and behavior (Al Matar, 2015). Zakat is not philanthropy because zakat is obligatory and is a pillar of Islam. Zakat existed before the Prophet Muhammad. Zakat already existed at the time of the Prophets Abraham, Ishaq, and Yaqub found in QS Al-Anbiya, 21:73. Prophet Isa is found in QS Maryam, 19: 30-31, Prophet Imail is found in QS Maryam, 19: 54-55, and Children of Israel in QS Al-Baqarah, 2:83.

The purpose of zakat law is education and purification of the soul, upholding justice, and realizing human benefit (Kusriyah, 2020). As for the evidence and urgency of zakat, namely proof of faith, implementation of gratitude to Allah, minimizing behavior: miserly, materialistic, selfish, and selfish, cleaning, purifying, and making *muzakki* happy, as proof that Muslims love others. The economic benefits of zakat law are one of the instruments of the income distribution. Assets will grow, encouraging every Muslim to have high enthusiasm for work, a financial resource to build infrastructure, and to promote proper business ethics. It also explained the types of zakat stated in the Qur'an. There are four types of zakat assets: good business, corporate, and professional.

Islamic social finance has two types of instruments that are important in supporting the welfare of society, namely finance and social security. The most prominent form of Islamic Social Finance is Zakat, which functions as a wealth tax and is the only part of the economy considered a pillar of Islam. Another important instrument to be discussed is the waqf, which has historical significance in providing public goods to society (Ma'ruf et al., 2020). Social finance is the capital and ethos that goes into projects, initiatives, and organizations intending to positively impact social and environmental (Kuanova et al., 2021). Microfinance, crowdfunding, and social impact bonds are examples of social finance institutions and procedures. The ILO describes social security as "policies and initiatives aiming to minimize and eliminate poverty and vulnerability throughout the life cycle" as a human right. Social security covers health care, old age, unemployment, and family benefits. Tax or contribution plans can fund Social Security (Jouti, 2019).

The third pillar of Islam is zakat, a form of worship in the form of obligatory alms. Zakat is defined as an obligation on a certain property of a certain group of people to be paid at a certain time. Zakat is obligatory on assets that provide a living, can increase in number, and generate profits, especially gold and silver, cash, trade supplies, livestock, and agriculture (Nor Paizin, 2021). The amount of zakat varies depending on the wealth category, ranging from 2.5% (cash) to 20% (treasure), depending on the effort required to manage it. Zakat recipients are limited to eight categories specified in the Qur'an. Among the eight categories, the priority of zakat is to alleviate poverty by assisting the poor (Fathoni et al., 2021).

Historically, zakat was a social welfare tax organized by the state as part of the Islamic fiscal system. Currently, countries have different approaches to zakat, some countries regulate it as an obligation, some make it voluntary through formal organizations, and some governments do not regulate it at all (Retnowati, 2018). However, zakat is usually given between individuals, and by 2022 it is estimated that only a quarter of total zakat contributions go through formal zakat organizations. Zakat, infaq, alms, and endowments have different designation targets. In addition to zakat funds, infaq and alms can also be used to stimulate the community's economy.

*Qardul hasan* is financing provided by Islamic social financial institutions to people who are physically able to develop a business but have difficulty with capital to start a business or develop a business. If the people who get *qardhul hasan* are successful, they can return the principal financing (S. Ahmad et al., 2019). Meanwhile, the Indonesian Waqf Board can encourage the movement of the community's economy through waqf assets. Especially recently, in addition to developing waqf of goods or objects as well as cash waqf (Rusydiana & Devi, 2018).

Islam's finance and social security concept follows Sharia rules and principles and includes Islamic microfinance and various types of alms (Mutiara et al., 2021). The Qur'an mentions the term infaq 167 times, along with synonyms and derivatives, demonstrating its significance. Infaq is divided into four categories. The first is an absolute obligation, such as zakat, regardless of social or community needs. The second is obligations based on certain circumstances or relationships, such as family needs. Third, community-based obligations must be met by at least some community members, such as building infrastructure. Lastly are voluntary expenses, either one-time, such as giving food, or long-term expenses, such as endowments (Zulkarnaen et al., 2021).

Theoretically, since waqf cannot be sold and cannot be neglected, they will be cumulative and increase investments. Waqf is part of the infaq which functions as *shadaqah jariyah* (sustainable), which continues to provide benefits even after the donor dies, such as income or infrastructure for social welfare activities (Nurdany, 2019). Waqf assets can b managed to generate income, and/or directly provide services to the public (Ascarya et al., 2022). Historically, waqf has successfully served the poor and increased social welfare. The permanent nature of the waqf creates continuous accumulation. Its flexibility allows it to support various religious and philanthropic activities, including educational, social, healthcare, and even animal care (Nour Aldeen et al., 2022). Therefore, waqf does more than meet needs, but also helps provide long-term empowerment. The current understanding of waqf is limited to religious activities, and global knowledge and practice of waqf are lacking. Many waqf properties still exist in the Islamic world, but most of the original deeds were lost, and their purpose still needs to be discovered. On the other hand, technological developments and modern financial institutions have opened many avenues for innovative waqf applications. For example, Investment waqf can be created by investing cash waqf into a portfolio of assets, similar to endowments in the west. In addition, corporate waqf can be done in the form of the endowment of company shares, with dividends that will be given for charitable purposes (Mutmainah et al., 2021).

Goods or another waqf can absorb labor by providing labor-intensive programs, business land development, MSME business development, or other economic driving projects. As for cash waqf, it can also be used to stimulate additional business capital for members of the public who wish to develop their business or open a new business. The pattern can also be with *qardhul hasan* financing (Iman et al., 2021). Islamic social finance can help a community remain viable in the short term and expand its economy over time. These Islamic social financial institutions work together in harmony to support the neighborhood's economy and keep it active (Thariq, 2020).

Islamic social finance is a practical, long-term approach to financial and health issues. Islamic social finance must be able to empower MSMEs to save the people’s economy so that a healthy society is built both physically and spiritually. Zakat, infaq, alms, and waqf funds do not only accumulate as balances in Islamic socio-religious institutions, but a viable, long-term solution to financial and health difficulties is Islamic social finance.

**Opportunities and Potentials of Islamic Social Finance in Indonesia**

The Muslim community in Indonesia needs to respond to the sharia economy’s accelerating globalization. Under information from the Status of the Global Islamic Economy Report (SGIE) 2020/2021, it can be seen that Indonesia is ranked 4th in the Halal Food Industry (halal food), ranked 6th in the Islamic Financial sector, and ranked 6th -6 for the Muslim Friendly Travel field (Fauziah et al., 2021).

According to information from the State of Global Islamic Economy Report 2020/2021, the halal food industry is projected to grow by 3.5% and reach a value of 1.38 trillion US dollars in 2024, while the Muslim fashion industry is projected to grow by 2.4% and reach a value of US$311 billion. Similarly, there is a rise in interest in halal goods. This is consistent with the rise in the world’s Muslim population, which surpassed 1.9 billion in 2019 and is expected to climb twice as quickly as the rest of humanity. The Muslim population will reach 3 billion in 2060 or an increase of 70% from 2015, representing 31% of the world population. Meanwhile, it is interesting that it is estimated that in 2050 the Muslim population will experience an increase dominated by young people, with 60% aged 15-59 years while 24% are under 15 (Dinar Standard, 2021).

Opportunities for the Islamic economy in Indonesia are also increasingly open after the Government of Indonesia through the policy “Sharia Economic Master Plan 2019-2024”. The government will provide economic support for developing four leading sectors, such as the Islamic social finance sector and the Islamic MSME sector. The market opportunity in Indonesia is currently also getting more significant with the number of 180 million Muslim people who will need halal food, halal tourism, sharia hotels, and other halal products, which will be an extensive marketplace or business opportunity to be seized (Rusydiana et al., 2020).

An essential component of Islamic economics and finance is Islamic social finance. This refers to a mode of finance meant for social gain. Fiqh has discussed and defined these modes based on the Quran, Sunnah, and collective Ijtihad for hundreds of years, the most important of these modes being obligatory zakat. In addition, there are various other types of social finance, such as; wills, endowments, alms, *qardhul hasan*, and *kaffarat* (Vercelli, 2019). These models are rooted in fiqh rules and controls, which bring many solutions to support the global community's need for sustainable development goals.

Stakeholders in Islamic social finance reached a significant milestone in 2018 by coordinating their efforts with sustainable objectives. Based on data from the Islamic Development Bank Group (IsDB), it is estimated that the potential for zakat alone can reach US$ 1 trillion per year. In addition, endowment assets are likely to exceed US$2.5 trillion in commercial Islamic finance sector assets. At the IMF and World Bank Annual Meetings in Bali in October, the fundamental tenets of the International Waqf are scheduled to be unveiled. These standards for disclosure and transparency were created in collaboration with the Indonesian Waqf Agency and the United Nations Development Program (UNDP). To improve the efficient use of Waqf land, UNDP is collaborating with the Waqf Agency on the first blockchain-enhanced digital platform.

A report titled "Unlocking the Potential of Zakat and Other Forms of Islamic Finance to Achieve SDGs in Indonesia" was also published by UNDP and BAZNAS. In addition to providing a statistical analysis report on zakat and its impact, the paper also reveals the findings of a conceptual analysis of Islamic finance and the SDGs, such as the fact that after taking part in zakat-based assistance programs, the average monthly effect of Zakat recipients increased by 27% (Paul et al., 2021). Therefore, aligning Islamic social finance with socially sustainable development goals can be a solid momentum to empower MSMEs in Indonesia.

Many countries, including Indonesia, Malaysia, Singapore, Dubai, etc., want to become the center of Islamic world finance (Fauziah & Kassim, 2022). Indonesia's opportunity as a country that has the largest Muslim population in the world and abundant natural resource wealth and also has a large market potential for Islamic social finance. Indonesia has a huge potential for Islamic social financing. This is evident from the growth of the financial inclusion index, which has increased and is backed by all financial assets that adhere to sharia law. Additionally, it is backed by the availability of Sharia People's Business Credit and the rising number of Islamic debtors.

Integrating every pillar of the Islamic economy, reflected in a robust Islamic economic ecosystem, is vital to maintaining the Islamic social, economic, and financial ecosystem. The expansion of social financing through zakat and waqf, tokenization of Sukuk, digitization and development of Islamic Fintech, regulation of Islamic finance, and impact investing are only a few of the potential recognized as enablers in the development of Islamic finance. Also, the Indonesian government must provide regulatory support and incentives to stimulate the development of the halal industry for it to assist the country's economy (Jailani & Adinugraha, 2022).

Positive policy assistance and program integration are also necessary to support sharia business operations' development to increase MSME operators' capacity (Hilman, 2018). In the meantime, building the ecosystem infrastructure is necessary for the growth of the sharia business and calls for the cooperation of strategic coordination between stakeholders. Also, Indonesia's abundance of Islamic boarding schools offers tremendous economic opportunities. According to information from the Ministry of Religion, there will be 28,194 Islamic boarding schools in Indonesia in 2020, of which 44.2% have the potential to be profitable. This quantity of Islamic boarding schools can potentially propel the Islamic economy and Indonesian halal MSMEs.

Islamic social finance continues to advance and develop in line with the economic developments in Indonesia and the world. McKinsey projects that Indonesia will become a developed country and a country with the world's top seven powers through inclusive and sustainable high economic growth in 2030. Islamic social finance assets continue to grow, including the BAZNAS.

### Challenges of Islamic Social Finance in Indonesia

Islamic productive social finance is an instrument in Islamic finance that can realize efficiency and equity in economic activity. Islamic productive social finance can synergize Islamic social finance and commercial finance and can encourage the real sector. Islamic productive social finance waqf instruments have characteristics that greatly distinguish them from other Islamic social instruments. When waqf is paid, there is a shift in private ownership towards joint ownership, which is expected to be eternal and provide sustainable benefits. Through Islamic productive social finance, it is hoped that there will be a process of distributing benefits to society more broadly and shifting private benefits to social benefits. The strategic role of Islamic productive social finance is a manifestation that the Ummah urgently needs in an increasingly complex and dynamic era. Thus, productive Islamic social finance can play a role in alleviating poverty and increasing welfare and equity (Syarifuddin, 2022).

Islamic social finance as a new source of economic growth and a form of support for the stability of the financial, economic, and sharia financial system participates in encouraging the creation of a physically and spiritually healthy social environment that maintains a sustainable natural environment. The Islamic economic and financial sector has the potential to become a leading sector that can contribute significantly to national economic recovery. This positive potential is not only from the performance of the Islamic economic and financial industry itself but also from policy alternatives that use sharia principles (Fauziah, 2021).

Islamic social finance, *tabarruat*, and waqf. Islamic social finance refers to capital investment in productive economic activities, which can generate positive social or environmental solutions. Islamic social finance can come from zakat, endowments, alms, grants, cooperatives, and microfinance institutions. The role of the *mukallaf* in Islamic socio-economics can be in the form of *tabarru'*, namely the expenditure of assets or benefits for other parties at this time or in the future, without compensation, and is usually based on the intention to do good deeds and do good. The potential for *tabarru at* Islam is very large, but it has yet to be explored optimally. Likewise, with waqf. That is, holding property that can be used by maintaining the integrity of the property by deciding the ownership of the item from the owner for what is permissible. The goal is to get closer to Allah SWT and give kindness to others (Hafsa & Oumaima, 2021).

Waqf is an activity that is usually carried out by Muslims in the world (Saad et al., 2018; Ascarya et al., 2020; Fauziah, 2021; Mahomed, 2022). Research and journals related to waqf dominate the study of Islamic social finance. This shows that public acceptance of Islamic social economics is increasing.

Indonesia still needs to optimize its large potential to develop Islamic social finance. There are five challenges in Indonesia in developing Islamic social finance, namely the low support for Islamic social finance, the absence of Islamic banks that have Buku 4 assets, the lack of qualified Islamic economic and human resources in the field of Islamic social finance, the previous research and development capacity of Islamic social finance which is still low.

## The Role and Impact of Islamic Social Finance in Indonesia

Islamic social finance has a major role in sustainable economic development through its instruments. The gap between the realization of collection and the potential occurs because there are still various problems faced in the management of Islamic social finance (Iskandar et al., 2021). The various problems faced include, first, issues related to sustainability. Second, Islamic social finance is still managed partially. This is reflected in the voluntary nature of Islamic social finance instruments, regulations that are not yet mandatory, and the non-integration of Islamic social finance into state fiscal policy. Third, policies and regulations are less supportive. The regulation of zakat and waqf in Indonesia is still voluntary. In addition, zakat and waqf have different regulations. Zakat is regulated in Law No. 23 of 2011, while waqf management is regulated in Law No. 41 of 2004. Fourth, lack of coordination and synergy between stakeholders. Fifth is the lack of ability and motivation of human resources to develop, both managing and receiving human resources. Sixth, there needs to be more public trust in Islamic social finance managers. Seventh, low literacy related to Islamic social finance. Eighth, the required infrastructure is not complete. Integration is the right strategy for solving these problems to create a sustainable Islamic social finance management ecosystem (Widiastuti et al., 2022).

The role of Islamic social finance in the Islamic economic system. Zakat and Waqf have historically been essential in providing various public services. As the largest and most generous Muslim country, Indonesia has significance in this sector (Fauziah et al., 2021). Compared to other countries, especially high- and middle-income countries, Muslim countries still have a long way to go to meet their development targets, including in the economic, educational, or health fields. To deal with this, it is not enough for Muslims in Indonesia to rely on business-based contracts from the sharia economy. However, the Islamic economic system has many social instruments, widely known as Islamic social finance, which can help improve indicators of community development in Indonesia (Sardiyo & Martini, 2021).

According to the World Bank and Islamic Development Bank Group, the annual potential for zakat collection is estimated at US$200 million to US$1 trillion per year, a substantial amount to create an economic impact. On a macro level, zakat acts as a redistribution mechanism that directly reduces inequality because it directly transfers wealth from the rich to the poor. For people with low incomes, zakat will act as a form of social security, ensuring a continuous transfer of resources to support and uplift them. Zakat will also create an economic boost, as demand will increase as the poor receive more money to spend, while the rich will receive incentives to invest and work to counter the worldly costs of zakat. Zakat will also increase social cohesion as the poor feel supported by the rich. With good zakat management, the state's economic burden for poverty alleviation will be reduced, thereby reducing taxes.

Moreover, compared to other Islamic social funds, zakat is more sustainable as it is obligatory for every Muslim every year. Zakat is also highly correlated with SDGs (Sustainable Development Goals) because SDGs are very aligned with Islamic values and *maqashid sharia*. Therefore, the distribution of zakat will help encourage the realization of the SDGs (Batorshyna et al., 2021).

The role of waqf in society is as a provider of various public services that are currently being produced by the state. Because the use of waqf funds is flexible, they can provide a variety of public services to a variety of beneficiaries, develop communities and alleviate poverty. This flexibility allows waqf to directly fulfill each of the SDGs because the SDGs are very much in line with Islamic values. What's more, these services can also be adapted to the community's development needs. Historically, waqf services have varied and can be very specific, with specific endowments for wives experiencing violence, furnishing houses, repairing river banks, and strengthening borders. Poor people will benefit from waqf by meeting their needs and gaining empowerment and enrichment, including through income, education, and health care. The economic burden on society will also be reduced because the waqf will care for the elderly and disabled. For the state, waqf will reduce its financial burden in providing public goods, thereby creating jobs and reducing the tax burden. From an economic standpoint, waqf assets are prohibited from being consumed, it will increase capital accumulation and future output of services and income (Bayinah, 2017).

Development of Islamic social finance in Indonesia. According to the World Giving Index, 8 in 10 Indonesians donated money this year, and the voluntary rate is more than three times the global average. In 2020, the recorded zakat collection in Indonesia reached more than 12 trillion and was projected to increase to 17 trillion in 2021. Waqf assets in Indonesia are also quite large, with around 550 square kilometers of waqf land, according to the ministry of religion, most of which are mosques or schools. In several jurisdictions including Indonesia, zakat and waqf have been distributed to reduce the impact of Covid-19.

Digitalizing zakat and waqf is one of the main focuses of the Ministry of Religion of the Republic of Indonesia. Zakat collection through the BAZNAS increased by 30% YoY during the 2020 pandemic year, even though many Indonesians are facing a decline in income. This is partly due to the increase in digital collection channels, such as collaboration with digital platforms such as e-commerce. Developments in Indonesia's digital payment infrastructure, such as QRIS, coupled with social restrictions, are helping further to support the shift of zakat payments to digital payments. In addition, this aligns with the trend that the crisis will increase giving behavior because people's psychology to donate is affected. One of the interesting innovations in Indonesia regarding waqf is Cash Waqf Linked Sukuk (CWLS) (Sari & Adinugraha, 2021). The CWLS program is a direct link between Sukuk and Waqf, creating programs supporting the country's finances and development while improving society through philanthropy. Conclusion Zakat functions as a wealth tax with significant potential as a redistribution and social security mechanism. Zakat will also boost the economy through demand and incentives and increase social cohesion. In contrast, waqf has successfully provided public services in the past (Hafandi & Handayati, 2021).

The inherent flexibility of waqf makes it capable of fulfilling whatever services the community requires. It has many economic impacts, such as reducing the burden on the state and the economy. The two instruments will also be able to support the SDGs because both have functions that are highly correlated with the SDGs. Indonesia has been a good example in terms of almsgiving. Indonesian people are the most generous donors in the world, their social institutions have collaborated and innovated to optimally support society during a pandemic, while the government has introduced innovations such as CWLS. Looking ahead, several aspects can still be improved in Indonesia's Islamic Social Finance, such as achieving total zakat potential, optimizing existing waqf assets30, and improving certification and databases on zakat and waqf.

Real evidence or concrete facts of the positive impact of Islamic social finance in Indonesia is that it plays a major role in mitigating the impact of Covid-19. The role of Islamic social finance can be seen because Islam has already recognized zakat, infaq, alms, and endowments. The Islamic model of social compensation and financial obligations should be preserved to overcome the economic problems and social inequality caused by Covid-19. Zakat grows and develops from the smallest base in society. The epicenter of the zakat movement is the mosque and pesantren. One of the goals is to realize community welfare and reduce poverty. Zakat has been proven to have helped people in need, especially during the Covid-19 pandemic (Pati et al., 2021).

Islamic financial institutions can carry out various productive activities directly or indirectly with a benevolent attitude that is flexible, structured, and measurable. Islamic social finance also plays a role as an agent of asset distribution that can empower the people's economy, especially mothers or women. In social finance business activities, Islam can contribute and play a role in communities that need capital support, and serve people who want to entrust their funds to Islamic financial institutions with the concept of sharia in the Covid-19 situation (Purwanto et al., 2021). Regarding current and post-covid-19 economic problems, Islamic social financial institutions in Indonesia have a very important position. Islamic social financial institutions in Indonesia have proven to be able to overcome the socioeconomic problems of the people affected by Covid-19. Zakat, infaq, and alms funds collected by institutions such as BAZNAS, LAZ, Baitul Mal-BMT, or mosques can be used to provide for the community's basic needs. These basic needs can be the provision of staple food, health-protective equipment, and personal and environmental hygiene. In its implementation, everything is sorted according to its designation (Maulida et al., 2020).

As for the current conditions, if people want to do business, they need venture capital. Islamic social financial institutions have provided financing with a *qardhul hasan* contract for Indonesian citizens (Lawal & Ajayi, 2019). Islamic social finance has been proven to have an important position in overcoming socioeconomic problems in society and helping the government overcome these problems (Faturohman et al., 2021). Two main tasks can be done to fight the Covid-19 pandemic, namely preventive measures and solutive actions. Empowerment of zakat, infaq, alms, and waqf funds can be maximized to help people survive. The role of Zakat, Infaq, Alms, and Waqf Management Organizations can help with *gharimin*, for debt relief and empowerment of productive zakat funds to help micro businesses.

The three elements of Islamic social finance can work together to provide a large, short- and long-term economic contribution. The role of BMT is to provide a financial stimulus such as channeling benevolent loans or *qardhul hasan*, concessions in cooperation agreements (*mudharabah*) that can help people run micro-businesses again. Waqf institutions can also play a development role by providing labor-intensive programs to absorb labor, and land for MSME business development and commercial projects. If all of this can be implemented, it will provide a positive atmosphere for the community facing health and economic problems at the same time. Slowly but surely, the wheels of the economy of the lower class will not stop if this solution is implemented.

## Conclusion

The conclusion of this study summarizes the findings when conducting a literature review on the potential, opportunities, challenges, roles, and impacts of Islamic social finance in empowering people in Indonesia. Key conclusions from the study's findings and analysis include the great potential for Islamic social financing in Indonesia. The expansion of social finance through zakat, infaq, alms, and endowments, tokenization of sukuk, digitization, and development of Islamic Fintech, regulation of Islamic social finance, and sustainable sharia investments that benefit the entire Indonesian society-Muslim and non-Muslim-include some of the opportunities identified as enablers in the development of Islamic social finance. It must be admitted that Indonesia has not been able to optimize its large potential and opportunities to develop Islamic social finance. Based on the content analysis, several challenges have been found in developing Islamic social finance, namely the low support for Islamic social finance, the absence of Islamic banks that have maximum assets, the lack of qualified Islamic economic human resources in the field of Islamic social finance, and the low capacity of financial research and development. social Islam. Islamic social finance has been proven to have a strategic role in community empowerment and poverty alleviation in Indonesia. The Islamic social fund is an instrument of social finance in Islam that plays an important role in overcoming the problem of income inequality and in a broad sense, also makes a significant contribution to poverty alleviation in Indonesia. Islamic social finance is the main instrument that is central to alleviating poverty in Indonesia. The role of Islamic social finance is not only limited to financial institutions but also as a humanitarian task, namely strengthening the weak through giving charity to them. The role of Islamic social finance has a positive impact on empowering the people of Indonesia. Islamic social finance plays a role in increasing the standard of living and creating new jobs for the people of Indonesia. Islamic social finance is oriented toward social welfare. This is concrete evidence that Islamic social finance has played a large role in the national economy, this can be seen from its contribution to income distribution, and rural economic development and as a driving force for increasing poverty alleviation and social welfare. Islamic social finance also plays its role as an agent of assets that can empower the people's economy, especially the people in Indonesia. Islamic social finance also has a significant role and function as an instrument for economic development. The presence of Islamic social finance can also be felt to improve people's living standards in the economic field, especially if zakat, infaq, alms, and waqf are managed neat, orderly, and professional.

The limitation of this research is that it only examines Islamic Social Finance in literature. Researchers suggest that further research examine this study practically and factually.

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