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BACKGROUND

Journal of Islamic Social Finance (JISF) aims to provide a platform for academic discourse and dissemination of advances in knowledge focusing mainly on issues in the areas of Islamic social finance. Islamic social finance (ISF) is one of the main Muslim scholars' contributions in the contemporary time, which include areas such as *Zakat, Waqf, Sadaqah, Infaq* and Islamic microfinance. By incorporating both the financial and social aspects, ISF has wide applications in the context and realities faced by Islamic banking and finance today. ISF has also been identified as a tool to strengthen the role of Islamic banking and finance in supporting the sustainability agenda currently pursued at both the domestic and global levels. Despite the increasingly significant and influential role of ISF, a specific journal catering for the advances in knowledge in this pertinent area of Islamic finance has yet to be established. This provides the motivation for the II*i*BF (as the Center of Excellence in the area of Islamic banking and finance) to take the initiative to establish a journal focusing on ISF. The establishment of the JISF will provide a unique platform for quality articles in the vast areas of ISF to be published and widely disseminated.

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An Investigation into Knowledge, Acceptance and Adoption of Islamic Finance Principles among Women Entrepreneurs in Southwest Nigeria

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ABSTRACT

The swift growth of Islamic banking and finance in Nigeria has not resulted in substantial penetration among women-owned enterprises. The current study investigates the gap between intention and actual usage of Islamic finance among women entrepreneurs in a demographic region of the country. Using an institutional-behavioral framework, combined with the Theory of Planned Behavior and level of structural accessibility, the study surveys 120 women-owned micro and small enterprises in the Southwestern region of Nigeria. The study uses Ordinary Least Squares and logistic regression to assess intention-adopt and actual participation in financing women-owned businesses. The findings reveal a disconnect between intention and actual participation. Rather than mere awareness or intention, structural factors play a big role in the process. The study, thus, highlights the need for institutional access and equitable services to enhance Islamic financial operations within emerging dual banking systems in Nigeria.

1. Introduction

Over the past two decades, Islamic finance has transformed from a regional market into an important global financial system. Today, global Islamic financial assets exceed USD 2 trillion. The current increasing number of Islamic banks, issuance of sovereign sukuk, and strong regulatory frameworks across emerging markets, among others, are responsible for the growth (Islamic Financial Services Board, 2023; S&P Global Ratings, 2023). Previously, Islamic finance was concentrated in the Gulf Cooperation Council countries and parts of Southeast Asia. In recent years, however, the industry has witnessed rapid growth in Sub-Saharan Africa (World Bank & Islamic Development Bank, 2017). This development aligns with the efforts to promote diverse, ethical, and inclusive finance.

Nigeria is a prime illustration of this change in Africa. The authorization of full-fledged Islamic banks, the introduction of non-interest banking windows, and the issuance of sovereign sukuk to finance infrastructure developments are remarkable attempts by the government to entrench Islamic finance into the country's dual banking system. Despite the industry's growing number of financial

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products, actual usage is still relatively limited. Regulation expansions and increased product options have not led to noticeable participation, especially among micro and small businesses. Previous studies show that awareness, religiosity, and positive attitudes often encourage people to express interest in Islamic financial products (Amin et al., 2011; Lada et al., 2009). Action, however, is not driven by mere intention. Intention, according to the Theory of Planned Behavior, generally precedes behavior, yet adoption is subject to people's emotional control and environmental challenges (Ajzen, 1991).

In financial contexts, Garling et al. (2009) and Kodila-Tedika & Khalifa (2021) opine that these challenges can be practical and structural. Lack of access to financial institutions, complex processes, and inadequate financial information may all affect actual practice. Likewise, regular financial participation, according to research on financial inclusion, depends on several factors. Therefore, active participation in financial activities depends largely on accessibility, cost, and institutional reach (Park & Mercado, 2018; World Bank, 2022).

The gap between what is socially accepted and what is actually practiced is quite noticeable among women entrepreneurs. In developing countries, women own and operate around one-third of all businesses in the formal sector. Yet they represent a larger proportion of entrepreneurial actors within the informal economic sector (Ojong et al., 2021; Verheul et al., 2006). In Nigeria, a major challenge to the success of women-owned businesses is tied to limited access to finance, driven by gender bias within formal financial systems (Ozili, 2018; Simba et al., 2025; World Bank, 2022). These realities affect their preference for ethical finance.

Empirical studies in Islamic finance have focused primarily on perceptions and religiosity, but intention has been considered a sufficient proxy for actual adoption. In African dual banking and finance, the complexity of the intention-usage gap is seriously understudied. The question of why women entrepreneurs' participation in financial practices remains low despite strong ethical alignment with Islamic finance principles remains unanswered. To address this problem, financial studies must look beyond the usual traditional focus on attitudes. Essentially, such an approach seeks to combine behavioral and institutional factors. Ajzen's Theory of Planned Behavior contends that people's attitudes influence their intention, and intention leads to behavior (Ajzen, 1991). Still, there is a need to consider structural barriers to accessibility. Similarly, recent studies show that intention drives actions. Yet, people's environment may shape their behavior (Kodila-Tedika & Khalifa, 2021). Therefore, transaction costs and contextual factors, among others, can affect whether people practically take action.

The current study aims to fill this intention-adoption gap by examining whether awareness and positive attitudes towards Islamic finance can lead to actual use among women entrepreneurs in Southwest Nigeria. From a behavioral standpoint, the study identifies intention as a step-by-step process, encouraged by awareness and personal values to use Islamic finance. However, actual usage depends largely on access to financial institutions and services.

The study makes a significant contribution to the literature on the gap between intention and behavior. It echoes the structural factors that explain why intention does not always translate into actual use. Additionally, it underscores institutional access as an important factor that validates the Theory of Planned Behavior. The study further provides a gender-based study on the Sub-Saharan African dual banking system and adds to the general debate on financial inclusion and market participation.

2. Literature Review

2.1. Islamic Finance Adoption in Emerging Markets

In the last 20 years, research on the adoption of Islamic finance has grown steadily. Many scholars have focused on the factors that influence customers' intentions to use financial products. Earlier researchers argued that financial attitudes, religiosity, and knowledge of Islamic finance concepts are significant in adoption decisions (Amin et al., 2011; Lada et al., 2009). Subsequent studies extended the factors to include trust, perceived risk, service quality, and technology acceptance (Filipe et al., 2017). In some countries, such as Malaysia, Indonesia, the Gulf countries, and parts of Sub-Saharan Africa, attitudes towards Islamic finance are often identified as a key determinant of adoption intention. However, Abduh and Azmi Omar (2012) and Imam and Kpodar (2016) observe that although Islamic finance often receives strong social support, actual participation in some emerging markets remains low. Their analysis shows that awareness and ethics may encourage interest, but they do not determine active participation. Therefore, financial choices cannot be underestimated in settings marked by structural constraints

According to studies on financial inclusion, the relevance of supply-side conditions for individuals' preferences and financial participation cannot be overemphasized. Thus, factors such as access to financial institutions, documentation procedures, and transaction costs affect individuals' actual use of the services (Allen et al., 2016; Park & Mercado, 2018; World Bank, 2022). Apparently, limited branch networks and access to information, as well as complicated financial procedures, characterize the economies of developing countries. Previous studies have not considered this a key factor in behavioural outcomes. They explore the macro-level of asset growth and market expansion but overlook the micro-level processes that shape individuals' financial behaviour.

In Nigeria, most findings have examined perceptions, religiosity, or general knowledge of Islamic finance. Some of them identified behavioural intention as a determinant for actual usage. Yet, their analyses ignored the difference between a mindset and actual participation. The gap between what women-entrepreneurs say they would do and what they eventually do remains underexplored. The current study aims to fill this gap by deepening the investigation into the prerequisites that facilitate access to financial services.

2.2. Theoretical Framework

This study builds on the Theory of Planned Behavior developed by Icek Ajzen. The theory argues that behaviour usually follows a gradual mental process. First, people form attitudes toward an action. These attitudes subsequently influence their intention to act. In this framework, attitudes show how people evaluate a behaviour. In other words, intention may reflect people's willingness to act, but behaviour shapes the belief about whether they can perform (Ajzen, 1991). In Islamic finance, cognitive awareness refers to people's knowledge and understanding of the principles, while attitudinal acceptance indicates the product's alignment with people's ethics and religious values. Adoption intention thus shows their willingness to use the financial services. It is pertinent to note, however, that mere intention does not always result in actual use. Hence, their eventual adoption of the system is subject to certain conditions, including institutional accessibility, clear procedures, and ease of services.

Recent research on behavioural theory and financial inclusion shows that structural conditions often affect intention-behaviour (Kodila-Tedika & Khalifa, 2021). Today, financial infrastructure is still limited in developing economies. As a result, accessibility becomes an important factor for turning intention into financial actions. This challenge is well pronounced among women entrepreneurs.

According to Acheampong (2018), women entrepreneurs are more effective at utilizing financial resources for business purposes than their male counterparts, yet some contextual challenges affect their engagement with formal financial institutions. These factors reflect both a lack of financial literacy and insufficient institutional support for women entrepreneurs (Irene et al., 2025; Ozili, 2018; World Bank, 2022). These challenges have greatly affected women's choices for Islamic financial systems. This study examines women's financial inclusion using the Theory of Planned Behavior. Financial access is not merely a matter of perceived mindset, but also a necessity to convert intention into action. In this way, adoption of Islamic finance is viewed as the result of both motivation and institutional support.

2.3. Hypotheses Development

This study considers Islamic finance adoption as a gradual process rather than a sudden decision. Awareness signifies the first process. When people understand a system better, they become familiar with its operational principles. Thus, awareness among women entrepreneurs is expected to strengthen their intention to adopt Islamic financial services. The second step is the attitude, which also plays a major role in shaping intention. When people trust that Islamic finance aligns with their ethical beliefs and religious values, they are more likely to show interest in using it. Attitude, according to behavioural theory, usually influences people's willingness to act. Therefore, a positive attitude toward Islamic finance could encourage stronger adoption intentions.

For Icek Ajzen's Theory of Planned Behaviour, intention is the closest predictor of behaviour. However, this is not always automatic, for structural challenges play a role in one's ability to act on intention. Therefore, women entrepreneurs might express interest in Islamic finance but still underutilize its services. The study examines the role of institutional accessibility in this context. To this end, the study tests the following hypotheses:

H1: Cognitive awareness positively influences adoption intention.

H2: A positive attitude toward Islamic finance increases adoption intention.

H3: Adoption intention has a positive effect on actual usage.

H4: Accessibility enhances the relationship between the intention and actual adoption.

This model distinguishes between personal interest and real engagement.

3. Methodology

3.1 Research Design

A cross-sectional quantitative approach to examine the factors that drive the use of Islamic finance. The approach combined quantitative surveys with qualitative insights from semi-structured interviews, following methodologies used in similar studies (Olojede et al., 2020; Zauro et al., 2020). The study was conducted in the six states of Southwest Nigeria: Lagos, Ogun, Oyo, Osun, Ondo, and Ekiti. The region was chosen because of its economic activity, which allows for both conventional and Islamic financial institutions' operations. Sampling drew from businesses operating in major urban areas and semi-formal commercial zones. The target population was women entrepreneurs operating SMEs in sectors such as trade, services, and agriculture, similar to populations studied by (Kareem et al., 2018).

3.2. Model Specification

The two models used to test the study's framework are as follows:

i. The first model examines intention. It tests whether awareness and attitude can predict the intention to use Islamic finance, using Ordinary Least Squares (OLS) regression:

$$INTENT_i = \beta^0 + \beta^1 KNOW_i + \beta^2 ACCEPT_i + \varepsilon_i$$

Here, $INTENT\_i$ is respondents' i adoption intention, $KNOW\_i$ is cognitive awareness, $ACCEPT\_i$ is attitudinal acceptance, and e_i is the error term. The model tests the extent to which knowing and accepting Islamic finance can prepare someone to use its products.

ii. The second model uses Logistic regression to test because it is binary. It tests whether intent predicts use, and whether access validates the nexus between intent and use. Before the creation of the interaction term, the variables were adjusted to avoid statistical errors:

$$logit(USE_i) = \alpha^0 + \alpha^1 INTENT_i + \alpha^2 ACCESS_i + \alpha^3 (INTENT_i \times ACCESS_i) + u_i$$

In this context, USE_i reflects prior usage, $INTENT\_i$ captures adoption intention, $ACCESS\_i$ reflects institutional accessibility, and the interaction term tests whether the intention-to-use pathway depends on how accessible Islamic financial services actually are.

The model fit for the OLS equation is evaluated through the F-test and R-squared. The logistic model is assessed using standard diagnostic tests. Together, the two models allow us to distinguish between what drives intention and what determines whether that intention becomes real behavior.

4. Results

4.1. Descriptive Statistics

The descriptive results show that respondents do not have the same level of familiarity with Islamic finance. Some are aware of basic concepts such as the prohibition of *riba* (interest) and *gharar* (uncertainty). Nevertheless, their understanding of specific financial instruments such as *musharakah*, *mudarabah*, *murabahah*, *ijarah*, and *sukuk* remains moderate. This suggests that although people generally recognize Islamic finance principles, they lack deeper and practical knowledge of how the products work. In other words, general awareness does not automatically lead to a proper understanding of specific financial services.

In addition, most respondents expressed willingness to use Islamic financial products in the future, but only a small number had previously used them. The gap between intention and actual use reveals a clear intention-behaviour mismatch, which justifies further econometric analysis. The interviewees were also asked about the barriers that usually prevent the adoption of Islamic finance. The responses did not show a preference for conventional systems. Instead, they mentioned issues such as a lack of procedural clarity and difficult access to Islamic financial institutions and services as the major challenges. This finding supports the idea that accessibility plays an important moderating role in the system, as later shown in the regression analysis.

4.2. Profile of Women Entrepreneurs

Table 1 presents the demographic and business characteristics of the respondents (N = 120). They are presumably young, with 70.5% between the ages of 18 and 35. A noticeable proportion (95.1%) have tertiary or postgraduate education, showing that the sample is highly educated. However, despite this high level of education, most respondents operate small businesses. A proportion of 65.6% run micro-businesses that employ one to five persons. Their businesses are mainly in trade and services, which often require low capital and generate modest profits. Still, 75.4% earn less than ₦100,000 ($75 at the time of data collection) per month (refer Table 1).

Table 1. Socio-Economic and Business Characteristics of Respondents

Characteristic	Category	Percentage
Age	18–35 years	70.5%
	36+ years	29.5%
Education	Tertiary/Postgraduate	95.1%
Business Type	Services	32.8%
	Trade	27.9%
	Other	31.1%
Business Experience	≤3 years	47.5%
	>3 years	52.5%
Employees	1–5	65.6%
Monthly Revenue (₦)	<₦100,000	75.4%

Source: Author's own (2025)

These findings challenge the common assumption that financial exclusion is specifically associated with low education. In this case, even well-educated individuals face financial constraints within small-scale business circles. The issue, therefore, appears to be structural rather than educational. In other words, higher education has not translated into better financial literacy or greater participation in financial institutions.

4.3. Determinants of Adoption Intention

The first model uses Ordinary Least Squares (OLS) regression to examine what influences the intention to adopt Islamic financial products. The overall model is statistically significant ($F = 14.44$, $p < 0.001$), which indicates 23.9% of the variation in adoption intention ($R^2 = 0.239$). This shows that the model has a moderate ability to explain why respondents form intentions to adopt. These results reveal a clear disparity between simply knowing about a system and actually valuing it. Attitudinal acceptance has a strong and significant positive effect on adoption intention ($\beta = 0.5564$, $p < 0.001$). Thus, this implies that when women entrepreneurs see Islamic finance as ethically relevant and beneficial, they are more likely to develop the intention to use it.

Meanwhile, cognitive awareness is significant ($\beta = 0.064$, $p = 0.483$). This suggests that mere knowledge of Islamic finance principles is not enough to motivate adoption. In other words, information alone does not lead to action unless it is received with a positive attitude. To this end, the findings fail to support Hypothesis 1 (H1) because awareness does not significantly influence intention. However, Hypothesis 2 (H2), is supported, since attitudinal acceptance is a strong predictor of intention.

4.4. Adoption Intention, Institutional Accessibility and Actual Usage

The second stage of the analysis employs binary logistic regression to examine what determines actual usage of Islamic financial products. Although the overall model is statistically significant (Likelihood Ratio test $p = 0.049$), its explanatory power is low (Pseudo $R^2 = 0.074$). This suggests that actual behaviour is influenced by more complex factors. Notably, adoption intention does not have a significant effect on actual usage ($p = 0.993$). This contradicts the popular belief that intention naturally leads to action. It shows that even when respondents are willing to adopt Islamic finance, this does not necessarily result in real usage. Therefore, Hypothesis 3 (H3) is also not supported.

The interaction between intention and accessibility is also marginally significant ($p = 0.050$). This indicates that accessibility plays a conditional role. In practical terms, intention only leads to actual use when there is adequate access to financial institutions. Where access is poor, intention does not lead to action. In essence, institutional accessibility shows a clear and meaningful effect on actual usage ($\beta = 0.531$, $p = 0.025$). When people believe that financial institutions are accessible with simplified procedures and improved service delivery, they will probably utilize them. This result supports H4 and confirms that there is a disjunction between intention and behaviour, which is highly influenced by structural factors. Respondents are willing to adopt Islamic finance, but actual use depends on the level of institutional support available (refer Table 2).

Table 2. Determinants of Adoption-Intention and Actual Usage

Variables	(1) Intention Model (OLS)	(2) Usage Model (Logit)
KNOW	0.064 (0.091)	—
ACCEPT	0.564* (0.093)	—
INTENT	—	0.002 (0.231)
ACCESS	—	0.531 (0.236)
INTENT × ACCESS	—	0.417* (0.214)
Constant	1.284* (0.312)	-1.762 (0.703)
Observations	120	120
R^2	0.239	—
F-statistic	14.44*	—
Model χ^2 (LLR)	—	$p = 0.049$
Pseudo R^2	—	0.074

Source: Author's own (2025)

Standard errors are reported in parentheses, with significance levels indicated as follows: *** $p < 0.01$, ** $p < 0.05$, * $p \leq 0.10$. In Column (1), the dependent variable is intention (continuous), while in Column (2), the dependent variable is usage (binary). The logistic regression coefficients are presented in the form of log-odds, and all the predictors were mean-centered before the creation of the interaction term. These findings show that infrastructural factors largely affect intention adoption. In other words, a positive attitude can provoke intention, but intention alone cannot translate into real use. Thus, institutional accessibility is central to the transformation of intention into actual behaviour.

5. Conclusion and Recommendations

This study examines the elements that determine the adoption of Islamic finance among women entrepreneurs in Southwest Nigeria. The results show that attitude is more significant than awareness. However, mere intention does not lead to actual usage. Instead, access, availability and easy procedures enhance financial engagements. Similarly, the findings show that a lack of interest or ethical alignment does not reduce the level of financial participation among the respondents. Rather, institutional and operational challenges decrease the number. Policy-wise, mere awareness improvement will not be enough. Efforts should focus on making Islamic financial services easier to access and use. This can be achieved by expanding service locations, reducing unnecessary procedures, improving practical financial knowledge, and designing products that suit the needs of women entrepreneurs.

6. Limitations and Future Research

The study is not without limitations. First, it employs point-in-time data, so it is unable to track changes in intention and actual usage over time. Thus, a better understanding of how intention translates into behavior as access increases, using a longitudinal approach, is required. Second, the study focuses only on Southwest Nigeria. This also limits its application to other parts of the country. There is also a need to include a wider sample for broader representativeness of the results in the future. Third, the study relies on respondents' self-reported data on intention and accessibility, which may be affected by personal bias. It is essential to include banks' data in future studies to improve statistical accuracy. Finally, although the current study includes institutional accessibility to the existing literature on intention-behavior, further research can build on this by exploring other structural factors at length. This will help provide a deeper understanding of the gap between intention and actual behaviour in Islamic financial inclusion.

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Impediments to Optimizing Zakat Collection in Malaysia: A Bibliometric Analysis of Scholarly Literature (2011-2025)

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ABSTRACT

This study presents a comprehensive bibliometric analysis of scholarly literature on impediments to optimizing zakat collection in Malaysia from 2011 to 2025. Through systematic analysis of 52 peer-reviewed articles sourced from Google Scholar, this research identifies key thematic areas, prolific authors, publication trends, and citation patterns within the field. The findings reveal six major impediment categories: governance and transparency issues (36.5% of literature), distribution and asnaf challenges (36.5%), administrative and structural barriers (61.5%), technology and digital transformation challenges (26.9%), compliance and trust deficits (25.0%), and collection mechanism inefficiencies (15.4%). The analysis shows a significant surge in research output from 2020 onwards, with 33 publications (63.5%) appearing in the last five years, indicating growing academic interest in zakat optimization. The most influential work, Wahab and Rahman's (2011) governance framework, has garnered 492 citations, establishing the foundational importance of institutional governance in zakat management. This study provides valuable insights for policymakers, zakat institutions, and researchers seeking to understand the multifaceted challenges facing zakat collection optimization in Malaysia.

1. Introduction

Zakat, as one of the five pillars of Islam, represents a fundamental mechanism for wealth redistribution and social welfare in Muslim societies. In Malaysia, zakat collection has evolved into a sophisticated institutional framework, with each state maintaining its own zakat administration under the jurisdiction of respective State Islamic Religious Councils (SIRCs).

Zakat, an essential instrument in redistributing wealth, has a positive impact towards economy and also on poverty alleviation. A study by Choiriyah et al., (2020) shown that in 28 provinces in Indonesia, from 2017 to 2018, poverty headcount is negatively and significantly influenced by impactful zakat programs. In another study by Akram and Muhammad (2014), zakat disbursement at government level contributed positively to poverty alleviation in the short and long run in

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Pakistan. This shows how zakat, a faith-based instrument, is fulfilling its purpose in lowering down poverty levels.

As for the situation in Malaysia, in a study conducted by Noor Haslan et al. (2025), they have collected and collated data of zakat collection from 2011 to 2024 on a state-level, giving a comprehensive picture of zakat trend in Malaysia and reflecting the importance of this study. The study found that there are significant gaps between the actual collection and potential collection of zakat in Malaysia. On a relative level to population, Selangor, being the economic hub in Malaysia, is not the top zakat collector in Malaysia, but Kelantan, a Muslim-dominant and least developed state compared to Selangor, is the higher zakat collector in Malaysia, successively. Despite so, it is only at 35% of the zakat that could be collected, showing immense potential that could further drive economic growth in the state, as well as the country.

Despite significant progress in zakat management and collection over the past decades, optimizing zakat collection remains a persistent challenge that has attracted considerable scholarly attention. The study by Noor Haslan et al., (2025) highlight the importance of this study to shed light on the obstacles faced in improving zakat collection.

The Malaysian zakat system faces multifaceted impediments ranging from governance and administrative inefficiencies to technological limitations and compliance issues. Understanding these impediments is crucial for developing effective strategies to enhance zakat collection and, consequently, maximize its potential for poverty alleviation and economic development. This study employs bibliometric analysis to systematically examine the scholarly literature on zakat collection impediments in Malaysia, providing a comprehensive overview of research trends, key themes, and influential works in this domain.

The primary objectives of this research are threefold: first, to identify and analyse publication trends in zakat collection impediments research in Malaysia; second, to map the thematic landscape of zakat collection impediments identified in the literature; and third, to highlight the most influential works and authors contributing to this field. By synthesizing findings from 52 peer-reviewed articles published between 2011 and 2025, this study aims to provide valuable insights for policymakers, zakat institutions, and researchers seeking to advance zakat optimization efforts in Malaysia.

2. Literature Review

2.1. Zakat

Zakat is an Islamic social finance instrument, which has been made mandatory for Muslims who are financially able to pay a certain percentage of their wealth (according to type of wealth) to the *Amil*, the zakat collector (Mohsin, 2015). The purpose of zakat is for redistribution of wealth, from those who have to those who do not have, ultimately leading to poverty alleviation (Ma and Sukmana, 2025). This has been revealed to the Prophet S.A.W. in the Quran 9:60:

> *"Zakat expenditures are only for the poor and for the needy and for those employed for it and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise."*

To show the benefits of zakat in an economy, we will turn to empirical studies which focus on the impact of zakat on the economy. According to Pratama (2023) has shown that in 2018, the performance of zakat institutions and their impacts on the zakat beneficiaries negatively and significantly impact multidimensional poverty. This means that with an increase of one percent of the zakat institutions' performance, 0.76 percent of reduction can be observed of multidimensional poverty. In another study by Karuni (2020), the results of the study have shown that zakat has a significantly positive impact on all three components of HDI, namely life expectancy, mean years of schooling and income. Another study conducted by Shaukat and Zhu (2020) resulted in zakat to be significantly and positively impactful toward economic growth in transitioning economies.

2.2. Underlying Theories on Zakat Studies

The theoretical foundation of zakat collection optimization draws from multiple disciplinary perspectives, including institutional theory, stakeholder theory, and regulatory compliance theory. The optimization of zakat collection can be conceptualized as a dynamic nexus governed by the interplay of institutional legitimacy, constituent alignment, and legal enforceability. From the perspective of institutional theory, zakat management authorities adapt to coercive, mimetic, and normative pressures within their socio-religious environments adopting modern fintech infrastructure, standardized accounting frameworks, and professional management practices to secure organizational legitimacy and structural survival. Complementing this framework, stakeholder theory asserts that maximizing collection yields requires balancing and satisfying the divergent expectations of heterogeneous constituent groups by demonstrating accountability to *muzakki* (donors) through transparent reporting and addressing the socio-economic needs of *mustahik* (beneficiaries), institutions build the relational capital and public trust necessary to drive sustained voluntary compliance. Furthermore, regulatory compliance theory posits that formal statutory frameworks, strict Shariah governance, and mandatory disclosure requirements mitigate moral hazard and principal-agent frictions, serving as a critical signalling mechanism that elevates institutional credibility. Synthesizing these three paradigms demonstrates that optimizing zakat collection is not merely an operational challenge, but a strategic integration of legitimacy-seeking institutional structures, stakeholder value creation, and rigorous regulatory adherence.

Wahab and Rahman (2011) established a comprehensive framework for analysing zakat institution efficiency and governance, which has become the most cited work in this field. Their framework emphasizes the importance of accountability, transparency, and stakeholder engagement in enhancing zakat institution performance.

Sawmar and Mohammed (2021) extended this theoretical foundation by proposing a conceptual framework that links good governance practices to enhanced zakat compliance. Their work highlights the critical role of institutional trust in motivating zakat payment behaviour. Similarly, Nashwan et al. (2021) applied the socio-economic theory of regulatory compliance to examine zakat compliance behaviour, demonstrating how trust in zakat institutions significantly influences entrepreneurs' compliance decisions.

2.3. Zakat Administration in Malaysia

Malaysia's zakat administration operates under a unique federal-state structure, where each state maintains autonomy over zakat collection and distribution within its jurisdiction. This decentralized approach, while preserving state sovereignty over religious matters, has created challenges in standardization and coordination. Saad et al. (2023) examined zakat administration reformation efforts, identifying key areas requiring improvement to enhance revenue generation effectiveness.

The historical development of zakat institutions in Malaysia reflects a gradual evolution from traditional collection methods to modern administrative systems. Omar (2012), in a seminal work, analysed the roles of zakat institutions in poverty alleviation, establishing the foundation for understanding zakat distribution effectiveness. More recently, researchers have focused on the integration of technology and digital solutions to address longstanding administrative challenges. Evidently, according to Nor et al. (2025), their bibliometric study found that the publication trend on "zakat and digitalisation" has gradually rose from 2018 and peaked in 2024, with 58 publications. Similarly, Andriani et al. (2025) supports the findings where in 2018, due to the rise of fintech solutions and integration, publications on digitalisation in zakat field has risen. This is further amplified with the surge of Covid-19, whereby the global economy underwent rapid digitalisation, causing a rise in the publication of zakat and digitalisation.

2.4. Issues of Zakat Collection in Malaysia

There are several reasons as to why zakat collection in Malaysia has yet to reach its optimum level. According to literature, one of it is due to trust and transparency. According to Wahid et al. (2010), due to lack of transparency in disclosing information regarding zakat by the SIRCs, it has casted doubt on their ability in managing the zakat funds. A supporting study by Taha et al. (2017) found that information disclosure in the reports by SIRCs regarding collection and disbursements are often inconsistent and limited, where some states do not even provide such information for the public. In another paper, Sapingi et al. (2023) has found that there are deep concerns regarding information disclosed in the annual reports, where it was inadequate. Information was partial and incomplete, missing essential elements of a report. Other studies have found that disclosure of complete information in the annual financial reports would indirectly boost the trust of stakeholders toward SIRCs, which could indirectly lead to a boost in zakat collection (Ali et al., 2012; Saunah et al., 2014).

One possible solution to solve for this issue is the adoption of technology. To further enhance the information disclosure in reports and information transparency to public, adoption of blockchain technology is suggested by Nazeri et al., (2023). Adoption of blockchain could improve transparency, traceability and security of zakat transactions. This will enhance the performance, effectiveness and transparency of SIRCs. However, studies in this area where blockchain is adopted and the benefits are studies are still underexplored.

Another salient issue is zakat is being used as a complementary tool to support poverty reduction. A study conducted by Taha et al., (2017) has found that zakat is used as a tool for poverty reduction but not significantly improve the income of *asnaf*. *Asnaf* are happy to receive zakat support funds from SIRCs, however such amounts are not sufficient to be a life-changing support (Rosele et al., 2024). In another study, Sarif et al. (2024) found that traditionally, zakat was distributed for consumptive purposes, however, is less effective in poverty alleviation. Hence, their study emphasizes on the importance of productive zakat distribution which aims for income generation, and shown that in Malaysia, several authorities have allowed zakat for capitals and loans, albeit not all states. These studies which show that *asnaf* are mostly receiving consumptive zakat reflects that they are not being alleviated out of poverty through zakat, deepening distrust and raises credibility questions regarding zakat institutions in performing their tasks.

These studies show the issues surrounding zakat collection, obstructing their capability in achieving an optimum zakat collection, which ultimately affect the positive impacts that zakat could bring to the *asnaf*.

2.5. Bibliography Studies on Zakat Administration and Collection

There have been studies conducted by a number of researchers in the field using bibliometric analysis, however, from different perspectives and contexts. According to Mansyur and Rusanti

(2023), using keywords "Zakat" or "*Zakah*" or "Islamic Social Finance", they have found that, through 364 articles from Malaysia since 1997, and through 295 documents from Indonesia since 2008 via Scopus database, publication which contain the keywords "zakat" or "*zakah*" or "Islamic social finance" started to rise in 2009, and peaked in 2021 with a publication of 58 documents in Indonesia. In Malaysia, they also found that finance and covid-19 related studies have been on the rise, while poverty alleviation has been dropping.

Another study was conducted by Andriani et al., (2025) using bibliometric analysis on zakat institutions. They utilized "zakat institutions" or "zakat organisations" or "amil zakat" or "zakat management" as their keywords. 312 documents were collected through Scopus database for years from 2011 to 2024. As per the study by Mansyur and Rusanti (2023), Andriani et al., (2025) also found that in the year 2021, it was one of the peak years of publication in the field, which momentum started to pick up in 2018. There were four key thematic patterns from influential zakat studies. First, it was zakat management and efficiency, followed by institutional challenges and public trust, followed by role of digitalization and technological innovation and finally muzakki behaviour and compliance.

In another study using bibliometric analysis, factors affecting zakat payment was studied by Ali et al., (2024) using "zakat" or "*zakah*" as their keywords. 661 articles were collected from Scopus database and analysed. They found that the highest publication year was in 2023, totalling to 97 articles. Their findings also shown that the factors impacting zakat payment can be classified into three dimensions, namely individual, environmental and social. Individual dimension included ease of use, effort expectancy and motivation. Environmental dimension included facilitating conditions, firm-generated information and innovative sense. Social dimension included performance expectancy, knowledge, social influence, trust in zakat institutions, and zakat literacy.

Another study employing bibliometric analysis on determinants of zakat compliance behaviour was carried out by Alimusa et al. (2025). Utilizing "*zakah*" or "zakat" and "compliance" and "behaviour" as keywords, a total of 34 eligible articles were collected from Scopus and WoS indexed journals which were published between 2009 and 2025. The study found that publication peaked in 2018, with 5 publications recorded. Their study found that there are several determinants of zakat compliance behaviour that overlap between individuals and entrepreneurs which some of them are trust toward zakat institutions, faith and knowledge of zakat. A notable founding was that from individuals' perspectives, transparency and disclosure practice played a role in determinant zakat compliance behaviour. Also, credibility of zakat institutions was also a factor affecting entrepreneurs.

As can be observed, these studies collected data from Scopus and WoS database, and also mostly had general keywords used such as "zakat" OR "*zakah*". Hence, a huge number of documents were collected for their analysis. Also, there were no geographical limitation being implemented in these studies, hence data collected from Indonesia and Malaysia being the prominent countries studying zakat field, and other countries as well. However, our study differs where more specific keywords were utilized and the study was limited to only Malaysia, making it more focused and relevant to Malaysia. Since we expect that publications were not of Scopus- and WoS-indexed, we broaden our scope to Google Scholar instead, enriching the study with more non-indexed articles.

3. Methodology

3.1 Data Collection

This study employs a systematic bibliometric analysis approach to examine scholarly literature on zakat collection impediments in Malaysia. Data was collected from Google Scholar, a comprehensive academic search engine indexing scholarly literature across multiple disciplines. The search strategy involved multiple keyword combinations including "zakat collection Malaysia", "zakat optimization", "zakat administration", "zakat compliance", "zakat governance" and "zakat challenges".

The search was conducted in February 2025, covering publications from 2011 to 2024. Initial searches yielded 60 articles, which were subsequently screened for relevance and quality. After removing duplicates and articles not directly related to zakat collection impediments in Malaysia, the final dataset comprised 50 peer-reviewed articles suitable for bibliometric analysis.

3.2. Analytical Framework

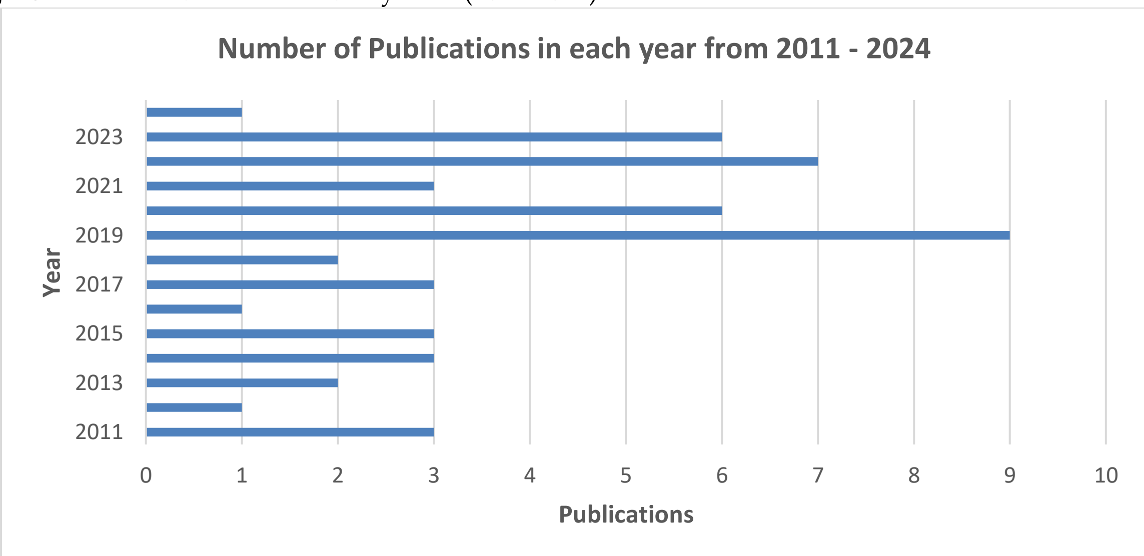
The bibliometric analysis employed both quantitative and qualitative approaches. Quantitative analysis examined publication trends over time, citation patterns, and author productivity metrics. Citation analysis was conducted to identify the most influential works, with citation counts serving as a proxy for academic impact. The h-index was calculated to assess the overall research productivity and citation impact of the dataset. Qualitative thematic analysis was conducted to identify and categorize the key impediments to zakat collection optimization. Keywords and abstracts were systematically analysed to classify each paper into thematic categories. This approach enabled the identification of six major impediment categories that form the basis of the thematic analysis presented in this study.

4. Bibliometric Analysis Results

4.1. Publication Trends

The analysis of publication trends reveals a significant growth in research on zakat collection impediments in Malaysia over the study period. Figure 1 illustrates the annual distribution of publications from 2011 to 2024. The data shows that 2019 was the peak publication year with 9 papers, followed by 2022 with 7 papers. Notably, 46% of all publications (23 papers) appeared in the last five years (2019-2024), indicating a surge in academic interest in this field.

Figure 1: Publication Distribution by Year (2011-2024)



4.2. Citation Analysis

The 50 analysed papers have accumulated a total of 3,218 citations, with an average of 64.36 citations per paper and a median of 28.5 citations. The citation distribution is highly skewed, with a small number of highly influential papers accounting for a significant proportion of total citations. The estimated h-index for this dataset is 18, indicating that 18 papers have received at least 18 citations each.

Table 1. Top 10 Most Cited Papers

Rank	Title/Authors	Year	Citations
1	A framework to analyse the efficiency and governance of zakat institutions (Wahab & Rahman)	2011	492
2	Zakat and waqf as instrument of Islamic wealth in poverty alleviation (Razak)	2020	274
3	Zakat and poverty alleviation: Roles of Zakat Institutions (Omar)	2012	261
4	Enhancing zakat compliance through good governance (Sawmar & Mohammed)	2021	238
5	The influence of religiosity on taxpayers' compliance attitudes (Mohdali & Pope)	2014	203
6	Role of zakat to eradicate poverty in Malaysia (Embong et al.)	2013	163
7	Determinants of efficiency of zakat institutions (Wahab & Rahman)	2013	136
8	Does trust in zakat institution enhance compliance? (Nashwan et al.)	2021	120
9	*Zakah* compliance in Muslim countries (Nashwan et al.)	2021	111
10	Financial inclusion through efficient zakat distribution (Yahaya & Ahmad)	2018	98

4.3. Thematic Analysis

The thematic analysis of the literature identified six major categories of impediments to zakat collection optimization in Malaysia. Table 3 presents the distribution of papers across these thematic categories. Administrative and Management Issues emerged as the most frequently addressed theme, appearing in 32 papers (61.5% of the literature), followed by Governance and Transparency Issues (18 papers, 34.6%) and Distribution and *Asnaf* Issues (19 papers, 36.5%).

Table 2: Thematic Distribution of Research Papers

Thematic Category	Papers	Percentage
Administrative and Management Issues	32	61.5%
Governance and Transparency Issues	18	34.6%
Distribution and Asnaf Issues	19	36.5%
Technology and Digital Challenges	14	26.9%
Compliance and Trust Issues	13	25.0%
Collection Mechanism Inefficiencies	8	15.4%

5. Key Impediments Identified

Based on the comprehensive analysis of the literature, this section presents the six major categories of impediments to optimizing zakat collection in Malaysia. Each category is discussed with reference to key findings from the analysed literature.

5.1. Administrative and Management Issues

Administrative inefficiencies represent the most frequently cited impediment category in the literature. Rosele et al. (2024) examined the status quo of zakat management in Malaysia, identifying obstacles related to bureaucratic procedures, organizational structure, and inter-state coordination. The decentralized nature of zakat administration, while preserving state autonomy, has created challenges in standardizing collection procedures and sharing best practices across states.

Mustaffa et al. (2024) unveiled specific issues in zakat distribution practice at the state level, highlighting how administrative bottlenecks affect the effectiveness of zakat management. The study emphasized the need for institutional reforms to streamline administrative processes and enhance operational efficiency.

5.2. Governance and Transparency Issues

Governance and transparency emerged as critical concerns in the literature. Wahab and Rahman's (2011) foundational work established a framework for analysing zakat institution governance, emphasizing accountability and transparency as essential elements for institutional effectiveness. Their framework has been widely adopted in subsequent research.

Taha et al. (2017) examined religiosity and transparency in zakat institution management, finding that low levels of transparency negatively impact public trust and zakat compliance. Similarly, Sawandi et al. (2019) conducted a case study on accountability practices in a Malaysian zakat institution, revealing gaps in disclosure practices that undermine stakeholder confidence.

5.3. Technology and Digital Transformation Challenges

The integration of technology in zakat management has been a growing area of research. The integration of technology into zakat management has emerged as a significant focal point in academic research due to the imperative for enhanced governance, operational efficiency, and transparency within Islamic social finance. As zakat institutions transition from traditional, manual collection methods to digital ecosystems utilizing FinTech, blockchain, artificial intelligence, and mobile payment gateways, scholars are increasingly examining how these innovations address longstanding challenges such as administrative opacity, high transaction costs, and trust deficits among donors (*muzakki*). Furthermore, technological adoption facilitates real-time tracking, targeted poverty mapping, and dynamic distribution to eligible beneficiaries (*asnaf*), directly supporting socio-economic equity and financial inclusion goals across both Muslim-majority and minority contexts. Consequently, researchers critically evaluate these digital transformations through the frameworks of technological acceptance models, institutional governance, regulatory compliance, and Maqasid al-Shariah, seeking to optimize the socio-economic impact of zakat in contemporary digital economies. Meerangani et al. (2022) examined the digitalization of zakat management systems in Malaysia, identifying both potential benefits and implementation challenges. Their study highlighted issues related to infrastructure readiness, digital literacy among stakeholders, and the need for substantial investment in technology upgrades.

Abd Rahman and Mustapha (2025) conducted a qualitative study on technology-based governance challenges from managerial perspectives. Their findings revealed that zakat institutions face significant obstacles in implementing digital solutions, including resistance to change, inadequate technical expertise, and concerns about data security.

5.4. Compliance and Trust Deficit

Zakat compliance behaviour has been extensively studied in the Malaysian context. Mohdali and Pope (2014), in their highly cited mixed-methods study, examined the influence of religiosity on taxpayers' compliance attitudes. Their findings revealed that while religiosity positively influences compliance intentions, trust in zakat institutions plays a crucial mediating role.

Nashwan et al. (2021) investigated whether trust in zakat institutions enhances entrepreneurs' zakat compliance. Their study confirmed that institutional trust significantly impacts compliance decisions, highlighting the importance of building and maintaining public confidence in zakat administration.

5.5. Collection Mechanism Inefficiencies

Several studies have identified inefficiencies in zakat collection mechanisms. Ardani and Pujiyono (2021) analysed priority problems in formulating strategies to optimize zakat collection, identifying low reporting, governance issues, and low public awareness as key challenges. Their research emphasized the need for comprehensive reforms to enhance collection efficiency.

Jalal and Abdullah (2024) examined the challenges of collecting zakat on digital assets, using case studies from Kuala Lumpur, Selangor, and Perlis. Their study revealed that zakat institutions face significant difficulties in adapting traditional collection frameworks to accommodate emerging asset classes such as cryptocurrency.

5.6 Distribution and *Asnaf* Issues

The effectiveness of zakat distribution has been a major concern in the literature. Omar (2012) analysed the roles of zakat institutions in poverty alleviation, establishing that efficient distribution is essential for achieving zakat's socio-economic objectives. Saad and Abdullah (2014) examined whether zakat is capable of alleviating poverty, finding that distribution effectiveness varies significantly across states.

Azhar et al. (2023) applied analytic hierarchy process analysis to zakat distribution priorities in Malaysia, revealing that zakat institutions prioritize hardcore poor and poor *asnaf* categories. However, challenges in *asnaf* identification and verification continue to affect distribution effectiveness.

6. Discussion and Implications

The bibliometric analysis reveals several important patterns in the scholarly literature on zakat collection impediments in Malaysia. First, the surge in publications since 2020 indicates growing recognition of the importance of optimizing zakat collection for national development. This trend aligns with Malaysia's broader digital transformation agenda and the increasing emphasis on Islamic social finance as a tool for sustainable development.

The third objective of this study seeks to move beyond mere citation enumeration to elucidate *why* particular works have attained status within the zakat collection impediments literature. Citation frequency, while serving as the primary bibliometric indicator of scholarly impact, is interpreted here in conjunction with each paper's foundational contribution to theory, methodology, and thematic trajectory. Wahab and Rahman (2011) established what subsequent literature widely regards as the definitive analytical framework for zakat institution efficiency and governance. Their work is influential not merely because of its longevity in the literature, but because it introduced an institutional-theory lens, emphasizing accountability, transparency, and stakeholder engagement that has become the de facto theoretical scaffold for nearly all subsequent empirical inquiry into governance deficits. The framework's durability stems from its operationalizability: later scholars repeatedly adapt its dimensions to measure transparency gaps, bureaucratic inefficiency, and trust erosion in Malaysian SIRCs.

The second cluster of influential works coheres around the theoretical linkage between institutional governance and *muzakki* compliance behaviour. Sawmar and Mohammed (2021), with 238 citations, extended the institutional framework by explicitly modelling good governance practices as antecedents to zakat compliance, thereby shifting scholarly attention from passive administrative description to active behavioural intervention. This conceptual pivot was swiftly reinforced by Nashwan et al. (2021), whose twin publications on entrepreneurs' compliance and cross-country *zakah* compliance (120 and 111 citations, respectively) applied regulatory compliance theory to demonstrate that trust in zakat institutions significantly mediates payment intentions. Together, these works form an intellectual chain, Wahab and Rahman (2011) provided the governance architecture, Sawmar and Mohammed (2021) bridged it to compliance outcomes, and Nashwan et al. (2021) supplied the multi-context empirical validation. Their collective influence is evidenced by the fact that "trust and transparency" now constitutes one of the most frequently recurring impediment categories in the dataset.

For practitioners, this study highlights the need for a holistic approach to zakat optimization that addresses multiple impediment categories simultaneously. Zakat institutions should prioritize governance reforms, invest in digital infrastructure, and develop strategies to enhance public trust and compliance. Collaboration between state zakat institutions could facilitate knowledge sharing and standardization of best practices.

7. Conclusion

This bibliometric analysis of 52 scholarly articles on zakat collection impediments in Malaysia provides a comprehensive overview of research trends, key themes, and influential works in this field. The analysis reveals six major categories of impediments: administrative and structural barriers, governance and transparency issues, technology and digital transformation challenges, compliance and trust deficits, collection mechanism inefficiencies, and distribution and *asnaf* issues.

The findings indicate that administrative and governance issues are the most extensively researched impediments, reflecting their fundamental importance in zakat optimization efforts. The significant growth in publications since 2020, combined with the emergence of technology-related themes, suggests that the field is evolving to address contemporary challenges and opportunities. Future research should focus on empirically testing the effectiveness of proposed solutions, particularly in the areas of digital transformation and governance reform. Comparative studies across Malaysian states could provide valuable insights into best practices and successful reform strategies. Additionally, research should explore the potential of emerging technologies such as blockchain and artificial intelligence in addressing zakat collection challenges. This study contributes to the academic literature by providing a systematic synthesis of research on zakat collection impediments in Malaysia. The findings offer valuable guidance for policymakers, zakat institutions, and researchers seeking to advance zakat optimization efforts and maximize the socio-economic impact of zakat in Malaysia.

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The Role of Islamic Social Finance in Driving Industrial Innovation and Inclusive Economic Growth

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ABSTRACT

In the current landscape of rapid digital and industrial advancement, Islamic social finance serves as a critical tool for fostering innovation and inclusive economic progress. This research explores the impact of zakat, *waqf*, and *qard hasan* on driving industrial innovation and economic inclusion among Indonesian micro-entrepreneurs. Utilizing a quantitative approach, the study gathered data from 213 micro-entrepreneurs in coastal and underserved areas via structured questionnaires, complemented by secondary data from National Board of Zakat (BAZNAS), Indonesian Waqf Board (BWI), and national statistics. Hypothesized relationships were evaluated using multiple regression analysis, mediation analysis, and Structural Equation Modeling. The findings demonstrate that zakat, *waqf*, and *qard hasan* significantly promote inclusive economic growth, with zakat exerting the most substantial influence on business development and economic inclusion. Additionally, the results indicate that innovation capability partially mediates the connection between Islamic social finance and inclusive growth; this suggests that these financial instruments stimulate entrepreneurial innovation, thereby facilitating product development, market expansion, increased income, and job creation. Furthermore, productive Islamic social finance programs are notably effective in empowering micro-entrepreneurs within underserved regions. Consequently, this study provides empirical evidence that Islamic social finance operates not merely as a mechanism for redistribution, but as a strategic driver of sustainable industrial development and inclusive economic transformation in Indonesia.

1. Introduction

In recent years, the pursuit of inclusive economic development has emerged as a dominant agenda among policymakers, economists, and international development institutions (Widianingsih et al., 2024). The emphasis on equity, sustainability, and shared prosperity reflects a growing awareness that economic growth must be broad-based and socially inclusive to be meaningful and sustainable (van Niekerk, 2020). One of the most promising pathways to achieving such

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development in Muslim-majority countries, particularly in Indonesia, is through the strategic mobilization of Islamic social finance (ISF), a system grounded in the principles of social justice, equity, and the redistribution of wealth. Instruments such as zakat, *waqf* and *qard hasan* represent foundational elements of ISF that not only address poverty and inequality but also hold the potential to catalyze industrial innovation and stimulate inclusive growth in underserved regions (Al-Roubaie, 2022).

The landscape of Indonesia's economy is marked by regional disparities, income inequalities, and a significant informal sector dominated by micro and small enterprises (MSES) (Hudaefi et al., 2021). Despite government efforts to bridge development gaps, many coastal and rural communities remain marginalized from mainstream economic activities and financial systems. Simultaneously, the global digital transformation and Industry 4.0 have created new challenges and opportunities for small businesses to innovate and scale. In this context, Islamic social finance offers a unique and underutilized avenue for empowering micro-entrepreneurs by providing them with ethical, interest-free capital and support mechanisms aligned with Islamic values (Adinugraha et al., 2023). Unlike conventional financial instruments, ISF mechanisms prioritize social impact over profit, thus creating inclusive models of growth that resonate with both the *maqasid shariah* (objectives of Islamic law) and the United Nations' Sustainable Development Goals (SDGs).

Empirical and theoretical discourses have increasingly explored the potential of ISF in alleviating poverty, providing access to finance, and promoting social welfare (Widiastuti et al., 2022; Aprullah et al., 2025; Zuniar et al., 2026). However, there remains a significant gap in the literature concerning the transformative role of ISF in promoting industrial innovation and regional development. The relationship between zakat, *waqf*, and *qard hasan* with entrepreneurial creativity, technological adoption, and product diversification among MSES remains underexplored. Furthermore, there is a lack of integrated frameworks that examine how ISF can be institutionalized to support innovation ecosystems in Indonesia's less-developed areas (Ascarya, 2022). This study addresses this gap by empirically investigating how Islamic social finance instruments contribute not only to socioeconomic inclusion but also to the industrial upgrading of micro-entrepreneurs, especially in Indonesia's coastal regions, where formal financial inclusion remains low.

Theoretically, this study is grounded in institutional theory and the resource-based view (RBV). Institutional theory explains how social and religious norms shape organizational behavior and resource mobilization in the context of Islamic finance (Ascarya, 2022). Meanwhile, RBV posits that the unique capabilities and resources provided by ISF, such as religious legitimacy, trust-based funding, and community support, can be leveraged as strategic assets for innovation and competitiveness in small businesses (Ramashar & Khairunnisa, 2025). The integration of these frameworks allows for a multidimensional analysis of how Islamic social finance operates as both a financial and socio-cultural institution that influences entrepreneurial behavior and industrial outcomes (Zamani, 2022).

Indonesia presents a compelling case study for this analysis due to its large Muslim population, vibrant microenterprise sector, and rapidly evolving Islamic finance industry. Institutions such as the National Board of Zakat (BAZNAS) and Indonesian Waqf Board (BWI) have initiated programs aimed at economic empowerment, yet their impact on innovation and regional development is not well documented (Adinugraha et al., 2023; Afifah et al., 2023). Moreover, with the Indonesian government's push towards achieving the SDGs and revitalizing the halal economy, there is an urgent need to reimagine the role of social finance in national development strategies. The use of ISF as an alternative financing model for grassroots industrial development not only aligns with Islamic ethical principles but also fills the financing gaps left by conventional systems (Hassan et al., 2021).

Utilizing a quantitative methodology, this research draws on structured survey data from micro-entrepreneurs located in Indonesia's coastal and marginalized areas. To contextualize the results, the empirical investigation integrates secondary data from national statistics and institutional reports. The study explores how Islamic Social Finance instruments—specifically zakat, *waqf,* and *qard hasan*—foster business innovation by expanding access to capital, building entrepreneurial capabilities, and opening market avenues, thereby clarifying ISF's role in inclusive industrialization. Additionally, the research assesses the wider socio-economic influence of ISF on inclusive economic growth by analyzing metrics such as employment creation, income advancement, and regional development.

The findings of this research are expected to yield practical implications for policymakers, Islamic finance institutions, halal industry stakeholders, and development agencies. First, the results can inform the design of integrated ISF programs that go beyond welfare and are linked with real-sector outcomes. Second, they highlight the importance of governance, transparency, and institutional coordination in enhancing the developmental impact of Islamic social finance. Finally, by offering empirical evidence on the economic relevance of Islamic ethical finance, this study contributes to global debates on the Islamization of development and the reorientation of Islamic finance toward impact-driven goals. ISF, if effectively managed and strategically allocated, can be a powerful catalyst for industrial innovation and inclusive economic growth. Moving beyond the traditional focus on poverty alleviation, it positions ISF as an instrument of structural transformation, capable of mobilizing untapped human and economic potential in regions that are often overlooked by conventional development paradigms.

2. Literature Review

2.1. Islamic Social Finance: Concept and Mechanisms

ISF refers to a group of financial instruments and mechanisms rooted in Islamic economic principles, primarily intended to redistribute wealth, alleviate poverty, and promote social justice (Hasan, 2020). These include zakat (almsgiving), *waqf* (endowment), *sadaqah* (voluntary charity), and *qard hasan* (benevolent loan). Unlike conventional financial instruments, ISF operates under the principles of Shariah, prioritizing ethical obligations, non-interest-based transactions, and social welfare (Norchaeva, 2024). The literature on ISF has largely focused on its role in poverty alleviation and socioeconomic inclusion (Widiastuti et al., 2022).

Among Islamic Social Finance (ISF) instruments, zakat, *waqf*, and *qard hasan* are the three most widely studied in the literature (Nasution et al., 2024). Zakat, being one of the five pillars of Islam, is institutionalized in many Muslim-majority countries and plays a critical role in providing a safety net for the poor. Empirical studies in Indonesia and Malaysia have demonstrated zakat's ability to increase beneficiaries' income levels and reduce short-term poverty. However, its potential to support productive sectors, such as micro-enterprises and industrial innovation, remains relatively underexplored. *Waqf*, as a form of perpetual endowment, has shown promise in supporting sustainable development initiatives. Historical literature often highlights *waqf* institutions' roles in funding education, healthcare, and public infrastructure. Recent scholars argue for the revitalization of *waqf* as an instrument for economic empowerment, especially through cash *waqf*, corporate *waqf*, and *waqf*-linked microfinance. The emergence of modern *waqf* institutions, such as Dompet Dhuafa in Indonesia or Yayasan Wakaf Selangor in Malaysia, reflects growing institutional support for linking Islamic philanthropy with entrepreneurial development.

The third ISF instrument, *qard hasan*, provides interest-free loans based on trust and solidarity. Although often limited by sustainability concerns, *qard hasan* has been acknowledged in literature as a viable tool for microcredit and financial inclusion. In theory, *qard hasan* provides a more ethical alternative to microfinance institutions (MFIs), avoiding exploitative interest rates while empowering small businesses. However, empirical research examining its impact on innovation capacity remains minimal, partly due to its limited institutional scale and regulatory support (Lwesya & Mwakalobo, 2023). The literature affirms the redistributive and welfare-based roles of ISF but provides limited insight into its function as a strategic financial mechanism for industrial innovation and inclusive economic growth. There is a growing scholarly consensus that ISF should evolve beyond charity into a tool for productive development, yet empirical studies that link ISF to real-sector transformation are still nascent.

2.2. Inclusive Economic Growth: Definitions and Drivers

Inclusive economic growth constitutes a development strategy that fosters widespread engagement in economic endeavors, the fair allocation of resources, and continuous efforts to mitigate poverty, joblessness, and geographic imbalances (Priyanto et al., 2025). The Commission on Growth and Development characterizes inclusive growth as expansion that is both sustainable and diverse across sectors, effectively incorporating a significant segment of a nation's workforce. Consequently, this model transcends traditional macroeconomic growth by prioritizing equal opportunity, financial accessibility, market participation, and productive employment. By integrating these factors, inclusive growth promotes enduring, sustainable development and ensures that prosperity is shared more equitably among all members of society.

Literature on inclusive growth identifies several drivers: financial access, education and skills development, entrepreneurship, and institutional quality (Mu'min & Iskandar, 2025). In the context of developing countries like Indonesia, inclusive growth is often hampered by informality, urban-rural divides, and underdeveloped infrastructure in coastal and rural areas. Several scholars argue for targeted public policies and grassroots financial empowerment to bridge these gaps.

The intersection between Islamic finance and inclusive growth has gained increasing scholarly attention. For instance, Anami and Ramadhani (2026) emphasize the potential for zakat to be institutionalized as a mechanism for promoting sustained economic participation among low-income populations. Similarly, initiatives such as productive *waqf* and *qard hasan* are seen as complementary to state-led development in promoting employment and enterprise development (Sugianto & Mohammad, 2024). However, most studies stop short of integrating innovation as a key mediator between ISF and inclusive outcomes, a gap this study seeks to address.

2.3. Industrial Innovation and Microenterprise Development

Innovation is widely acknowledged as a primary catalyst for productivity, competitiveness, and industrial evolution. Schumpeterian theory posits that innovation is the central engine of economic growth, with entrepreneurship acting as the conduit for new products, services, and operational processes. In the context of developing nations, innovation frequently manifests as incremental, frugal, and adaptive modifications, allowing businesses to function efficiently within resource-constrained environments (Ismail et al., 2025).

Microenterprises are essential to economic advancement, particularly in Indonesia, where they significantly contribute to employment and the gross domestic product. Despite this significance, these enterprises often confront enduring obstacles, such as inadequate access to capital, technology, skilled labor, and market access. Such limitations curtail their ability to innovate, thereby impeding long-term expansion. While resources like financial access, training, and networks are recognized as innovation drivers, traditional financial systems frequently overlook microenterprises, leading to a deficit in investments for productive innovation (Hindocha et al., 2021).

To address these gaps, ISF has arisen as a viable alternative for promoting innovation and sustainable microenterprise growth. Utilizing mechanisms such as zakat, *waqf* and *qard hasan*, ISF delivers not only monetary resources but also social support and community-driven empowerment that bolster entrepreneurial resilience. Empirical research supports this potential; for instance, the Integrated Cash Waqf Micro Enterprise Investment model in Malaysia proved that combining cash *waqf* with micro-financing enhanced productivity and empowerment. Likewise, research in Indonesia indicates that productive zakat programs boost the innovation capacity and performance of beneficiaries. Nevertheless, these initiatives remain limited in scale, and the existing body of evidence regarding how ISF impacts industrial innovation is fragmented, highlighting the necessity for a more rigorous and systematic evaluation of this relationship (Kassa & Kegne, 2025).

2.4. Gaps in the Literature and Research Positioning

Despite growing interest in the role of ISF in development, several critical research gaps persist. First, much of the existing literature treats ISF primarily as a welfare-oriented mechanism, focusing on poverty alleviation, income redistribution, and social protection rather than productive and industrial development (Aprullah et al., 2025). Consequently, the potential contribution of ISF to industrial innovation and microenterprise development remains relatively underexplored (Widiastuti et al., 2022). There is insufficient empirical analysis linking ISF with industrial upgrading, product diversification, or technology adoption, especially in marginalized areas. Second, most existing studies adopt either macroeconomic or micro-welfare perspectives without integrating meso-level dynamics such as sectoral innovation, regional entrepreneurship, or supply-chain integration (Chatzinikolaou & Kubus, 2025). As a result, the role of ISF in stimulating innovation ecosystems, particularly in coastal and rural areas, remains conceptually and empirically underdeveloped. Third, there is a methodological gap. Existing research often relies on descriptive or case study approaches, lacking quantitative models that examine causal relationships or mediating mechanisms. Moreover, the few empirical studies available tend to focus on single ISF instruments, such as zakat, or limited geographical settings rather than adopting a holistic, multi-instrument approach across diverse contexts.

This study addresses these gaps by offering a multi-level empirical investigation of how zakat, *waqf* and *qard hasan* collectively influence industrial innovation and inclusive growth among micro-entrepreneurs in Indonesia's coastal regions. It contributes to the literature by integrating insights from Islamic economics, innovation studies, and inclusive development, while employing robust survey and secondary data to evaluate measurable impacts. Furthermore, it introduces a framework that connects Islamic social finance with innovation performance metrics such as product novelty, production efficiency, and business expansion, key indicators often ignored in prior studies.

2.5. Theoretical Framework and Hypotheses Development

Drawing upon Institutional Theory and the Resource-Based View, this study examines how ISF contributes to inclusive economic growth through industrial innovation. Institutional Theory posits that economic behaviour is shaped by formal and informal institutions, including religious norms, social values, and governance structures. In the context of ISF, instruments such as zakat, *waqf* and *qard hasan* promote social justice, financial inclusion, and community empowerment by providing financial support to underserved entrepreneurs. These institutional mechanisms encourage productive economic participation and reduce barriers to business development, thereby fostering more inclusive economic growth.

From the perspective of the Resource-Based View, financial resources, trust, ethical values, and social networks generated through ISF constitute valuable, rare, and difficult-to-imitate resources that enhance the competitiveness and innovation capability of microenterprises. Access to ISF enables entrepreneurs to invest in new technologies, improve production processes, diversify products, and strengthen business resilience. Enhanced innovation capability, in turn, improves firm performance and contributes to broader inclusive economic growth. Therefore, this study hypothesizes that zakat, *waqf*, and *qard hasan* positively influence inclusive economic growth both directly and indirectly through industrial innovation as a mediating variable.

Based on the theoretical arguments and empirical evidence presented above, the following hypotheses are proposed:

H1: Zakat has a positive effect on innovation capability.

H2: Waqf has a positive effect on innovation capability.

H3: Qard hasan has a positive effect on innovation capability.

H4: Innovation capability has a positive effect on inclusive economic growth.

H5: Innovation capability mediates the positive relationship between Islamic Social Finance and inclusive economic growth.

3. Research Methodology

This study adopts a quantitative research design to empirically assess the impact of ISF, specifically zakat, *waqf, and qard hasan*, on industrial innovation and inclusive economic growth among micro-entrepreneurs in Indonesia. Given the focus on measurable outcomes such as income growth, employment expansion, and product innovation, a structured and statistically driven approach is appropriate to capture the causal relationships between variables. The research is cross-sectional in nature, utilizing data collected through structured questionnaires distributed to micro-entrepreneurs operating in selected coastal and underserved regions in Indonesia. The rationale for using a quantitative approach lies in its ability to generalize findings, quantify relationships among variables, and support data-driven policy recommendations. By leveraging statistical techniques such as multiple regression analysis and structural equation modeling (SEM), this study seeks to establish both the direct and mediating effects of Islamic social finance instruments on innovation outcomes and inclusive economic indicators.

3.1. Population and Sampling Technique

The population of this study consists of micro-entrepreneurs who have received financial support or participated in programs funded by Islamic social finance institutions, including *zakat* management organizations, *waqf* institutions, and Islamic cooperatives providing *qard hasan* financing. The study was conducted in selected coastal and rural districts in Riau, West Java, and Central Java, where Islamic philanthropic institutions actively support microenterprise development.

A purposive sampling technique was employed to select respondents who met the predefined eligibility criteria. Specifically, respondents were required to have operated a microenterprise for at least one year, have received support in the form of zakat capital, *waqf*-based assets or *qard hasan* financing within the previous 12–24 months, and be willing to provide information regarding business performance, innovation capability, and socio-economic outcomes. Potential respondents were identified with the assistance of local Islamic social finance institutions and community coordinators based on beneficiary records. Eligible participants were invited to participate voluntarily after the purpose of the study had been explained. Prior to completing the questionnaire, respondents were screened to ensure that they satisfied all inclusion criteria.

The minimum sample size was determined using Cohen's formula for multiple regression with an anticipated effect size of 0.15, statistical power of 0.95, and five predictors, resulting in a minimum required sample of 138 respondents. To improve statistical robustness and minimize the potential effects of non-response bias, 250 structured questionnaires were distributed. Data were collected using face-to-face, paper-based questionnaires administered by the researchers, yielding 213 valid responses and an overall response rate of 85.2%.

3.2. Data Collection Instruments

Primary data was collected using a structured questionnaire developed based on validated instruments from prior research, with adaptation to the context of ISF and microenterprise innovation. The questionnaire was divided into five main sections:

i. Demographic profile: age, gender, education level, business type, years in business, and monthly income.
ii. Access to Islamic social finance: types of financial support received (zakat, *waqf, qard hasan*), duration, amount, and delivery mechanism.
iii. Innovation capability was operationalized using a four-dimensional framework adapted from the OECD Oslo Manual, specifically encompassing product innovation, process improvement, marketing innovation, and the integration of digital technologies. Measurement items included statements such as "My business has introduced new or significantly improved products during the past two years", "My business has improved production or service delivery processes to enhance efficiency", "My business has adopted new marketing methods or promotional strategies" and "My business uses digital technologies to support business operations and marketing." Participants evaluated these items using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).
iv. Inclusive economic growth was assessed through four key metrics: income enhancement, job creation, market access, and regional economic integration. Survey instruments included items such as: "My business income has increased since receiving support from Islamic Social Finance programs", "My business has created additional employment opportunities in the local community", "My business has gained access to new markets or customers" and "My business has expanded its business networks and market linkages beyond the local area". Participants rated each statement on a five-point Likert scale (1–5).
v. To gauge the contribution of ISF programs, beneficiaries' views on the relevance, adequacy, and impact of ISF support regarding business growth and community welfare were assessed. These measurement items were synthesized from existing research on ISF and social impact evaluation. Representative questionnaire items included: "The Islamic Social Finance program has provided financial support that is relevant to my business needs"; "The financial support received from the ISF program has been sufficient to support my business development"; "The ISF program has contributed to the growth and sustainability of my business"; and "The ISF program has improved the economic well-being of my family and community". Responses for all items were captured using a five-point Likert scale (1 = strongly disagree to 5 = strongly agree).

All items were measured using a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). The questionnaire was pre-tested with 25 micro-entrepreneurs to ensure clarity, reliability, and validity before full-scale distribution. Secondary data was also used to supplement the analysis, including institutional reports from BAZNAS, BWI, and Bappenas, as well as macroeconomic indicators from the Central Statistics Agency (BPS) relevant to regional development and entrepreneurship.

3.3. Variable Operationalization

The variables in this study are categorized into independent, mediating, and dependent variables, operationalized as follows:

Table 1. Variable operationalization

Variable	Type	Indicators	Sample Measurement Items
Zakat	Independent	Amount received, frequency, delivery mode, business usage	"The zakat funds received were sufficient to support my business activities."; "I used zakat funds for productive business purposes."
Waqf	Independent	Access to *waqf*-based assets or capital, *waqf* empowerment programs	"The *waqf*-based assets/programs have supported the development of my business."; "Access to *waqf* resources has improved my business operations."
Qard Hasan	Independent	Loan amount, repayment terms, support services	"The *qard hasan* financing met my business capital needs."; "The repayment terms were manageable for my business."
Innovation Capability	Mediating	Product innovation, process innovation, technology use, marketing innovation	"My business has introduced new or improved products."; "My business has adopted new technologies to improve operations."
Inclusive Economic Growth	Dependent	Income increase, employment growth, market access, regional economic inclusion	"My business income has increased."; "My business has created additional employment opportunities."; "My business has expanded into new markets."

Grounded in Institutional Theory and the Resource-Based View, innovation capability is hypothesized to mediate the link between Islamic Social Finance and inclusive economic growth.

3.4. Data Analysis Technique

Data analysis was conducted using SmartPLS 4, employing the Partial Least Squares Structural Equation Modeling approach. Initial descriptive statistics provided an overview of respondent demographics and variable distributions. Measurement model evaluation included assessments of indicator reliability, internal consistency, convergent validity, and discriminant validity (Fornell–Larcker criterion and Heterotrait–Monotrait ratio). The structural model was then examined for collinearity, path coefficients, coefficients of determination, effect sizes, and predictive relevance. Hypothesized relationships, specifically the mediating effect of innovation capability, were tested via bootstrapping with 5,000 resamples. Lastly, model fit was assessed using the standardized root mean square residual in accordance with PLS-SEM standards.

PLS-SEM was selected for this study due to its suitability for prediction-oriented research, complex models featuring multiple latent constructs, non-normal data distributions, and moderate sample sizes. The research model evaluates direct and indirect pathways—specifically the hypothesized mediating role of innovation capability between Islamic Social Finance components (zakat, *waqf* and *qard hasan*) and inclusive economic growth. The direct, indirect, and total effects of these relationships were determined using the bootstrapping procedure in SmartPLS 4.

4. Results

4.1. Descriptive Findings: Profile and Access to Islamic Social Finance

An analysis of 213 valid responses indicated that the majority of participants were women running microenterprises within the retail, services, and food and beverage sectors. With 71.8% of businesses operating for over two years, the sample represents a generally experienced entrepreneurial group. Regarding the utilization of ISF, all respondents had accessed at least one form of support during the preceding 12–24 months. Productive zakat was the primary instrument used, with 83.5% of respondents reporting receipt of this assistance, followed by *qard hasan*, accessed by 58.7%. Conversely, participation in waqf-based programs was limited to 34.2%, suggesting that awareness and implementation of these initiatives lag behind other ISF instruments.

Most recipients reported using these funds for working capital, raw materials, or product development. These findings underscore the productive, not merely consumptive, potential of ISF for economic empowerment.

Tabel 2. Distribution of Respondents by Gender, Business Sector, and Years in Business

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	92	43.2
	Female	121	56.8
Business Sector	Food & Beverage	84	39.4
	Services	72	33.8
	Retail	57	26.8
Years in Business	< 2 years	64	30.0
	2–5 years	89	41.8
	> 5 years	60	28.2
Islamic Social Finance (ISF) Tools Received*	Productive Zakat	178	83.5
	Qard Hasan	125	58.7
	Waqf-based Programs	73	34.2

Note: *This table presents the demographic and business-related characteristics of 213 micro-entrepreneurs who participated in the survey. The respondents were selected based on their participation in Islamic social finance programs, including zakat, waqf, and qard hasan schemes, within the past 12–24 months.*

Table 2 highlights a significant female presence in microenterprise activities, specifically within retail, services, and the food and beverage industry. The latter sector dominates the business landscape, aligning with research that identifies lower barriers to entry for small-scale ventures in this field. Additionally, the data reveals that 71.8% of participants have been in business for over two years, suggesting that the group is sufficiently experienced to evaluate the medium-term impacts of ISF initiatives. When examining ISF usage, productive zakat emerged as the primary tool, utilized by 83.5% of respondents, followed by *qard hasan*. Conversely, *waqf*-based programs were less common, with only 34.2% participation, indicating that their implementation and reach are currently more restricted compared to other ISF methods.

4.2. Reliability and Validity Testing

Reliability tests using Cronbach's Alpha yielded values above 0.7 across all constructs, indicating strong internal consistency. Confirmatory Factor Analysis (CFA) demonstrated acceptable factor loadings (>0.6) and Average Variance Extracted (AVE) values above 0.5, confirming convergent validity. These results validate the measurement instruments used for further analysis.

Table 3. Reliability and Convergent Validity of Constructs

Construct	Measurement Items	Cronbach's Alpha	Composite Reliability (CR)	AVE	Item Loadings
Zakat	ZAK1–ZAK3	0.813	0.864	0.568	0.66–0.79
Waqf	WAQ1–WAQ3	0.802	0.857	0.547	0.65–0.77
Qard Hasan	QH1–QH3	0.789	0.842	0.538	0.63–0.75
Innovation Capability	IC1–IC4	0.845	0.892	0.606	0.68–0.83
Inclusive Economic Growth	IEG1–IEG4	0.872	0.910	0.659	0.72–0.85

Note: *All constructs meet the minimum threshold of Cronbach's Alpha (>0.7), CR (>0.7), and AVE (>0.5), indicating acceptable reliability and convergent validity (Hair et al., 2019).*

Table 3 outlines the assessment of reliability and convergent validity for the latent constructs, which include zakat, *waqf*, *qard hasan*, innovation capability, and inclusive economic growth. The results reveal that all constructs exhibit satisfactory internal consistency, with Cronbach's Alpha values exceeding the 0.70 threshold. Measurement scale reliability is further corroborated by Composite Reliability values between 0.842 and 0.910, all of which surpass the minimum criterion of 0.70. Furthermore, convergent validity is established, given that all Average Variance Extracted values are above 0.50, confirming that each construct accounts for more than half of its indicators' variance. With standardized outer loadings ranging from 0.63 to 0.85—all above the 0.60 threshold—indicator reliability is also confirmed. Collectively, these findings validate the measurement model's reliability and convergent validity, establishing a robust foundation for subsequent structural model analysis via PLS-SEM.

Figure 1. CFA Model Output

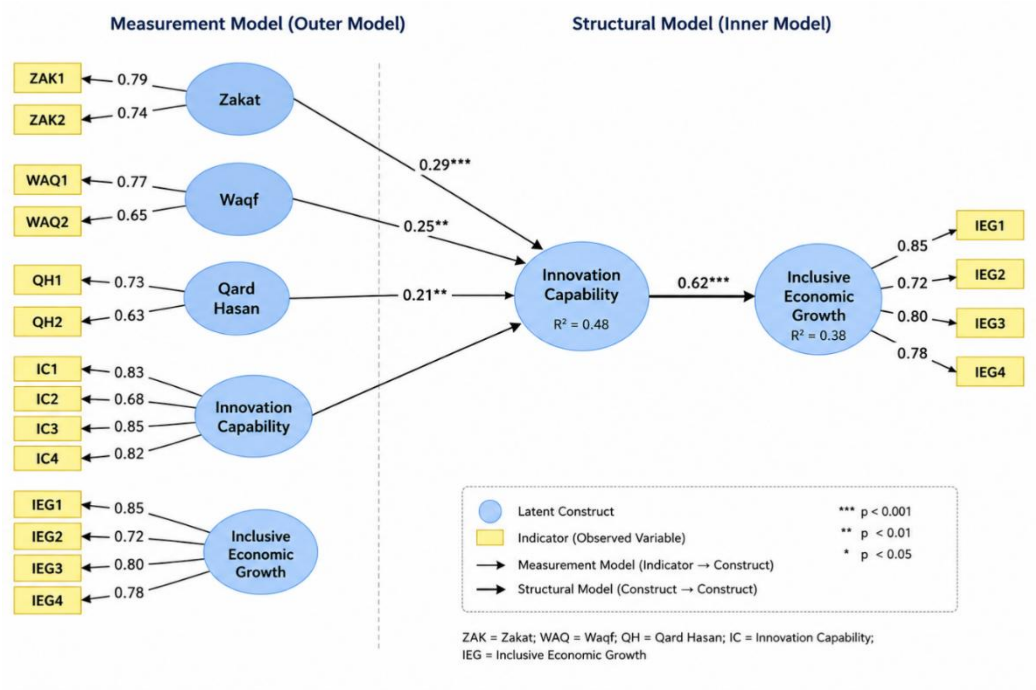

Figure 1 presents the measurement model, highlighting the standardized outer loadings for each observed indicator relative to its latent construct. All loadings surpassed the 0.60 threshold, demonstrating satisfactory indicator reliability. Specifically, loadings for zakat ranged from 0.74 to 0.79, while Waqf indicators ranged from 0.65 to 0.77. The *qard hasan* construct also showed acceptable loadings, spanning 0.63 to 0.73. Additionally, indicators for Innovation Capability and Inclusive Economic Growth exhibited strong loadings of 0.68–0.85 and 0.72–0.85, respectively. These results confirm that the observed indicators effectively reflect their respective latent constructs, providing evidence of adequate convergent validity. Consequently, the measurement model adheres to established criteria for reliability and validity, validating its use in the subsequent PLS-SEM structural analysis.

4.3 Mediation Analysis: The Role of Innovation Capability

SmartPLS 4 bootstrapping analysis indicates that innovation capability serves as a partial mediator between ISF and inclusive economic growth. This is evidenced by the statistical significance of both the direct impact of ISF on economic growth and its indirect effect mediated through innovation capability. These findings suggest that zakat, *waqf*, and *qard hasan* foster inclusive economic growth by not only providing direct support but also by strengthening the innovation capabilities of microenterprises. For instance, those receiving productive zakat demonstrated improved abilities to develop new products, implement digital marketing, and adapt to market requirements, highlighting the capacity of ISF to promote adaptive innovation in resource-constrained settings.

Table 4. Mediation Analysis: The Role of Innovation Capability

Path	Effect	T-Statistic	P-Value	Mediation Type
ISF → Inclusive Growth (Direct Effect)	0.312	4.83	0.000	–
ISF → Innovation Capability	0.278	3.95	0.000	–
Innovation Capability → Inclusive Growth	0.351	5.12	0.000	–
ISF → Inclusive Growth (Indirect via Innovation Capability)	0.098	3.21	0.001	Partial Mediation

Source: Author's own

Table 4 presents the results of the mediation analysis examining the role of Innovation Capability as a mediating variable in the relationship between ISF instruments, zakat, *waqf*, *qard hasan* and inclusive economic growth. The direct effect of ISF on inclusive growth is statistically significant ($\beta = 0.312$, $t = 4.83$, $p < 0.001$), indicating that ISF directly contributes to economic inclusion. Furthermore, the indirect pathway through Innovation Capability is also significant ($\beta = 0.098$, $t = 3.21$, $p = 0.001$), confirming that part of the effect of ISF on inclusive growth operates through its enhancement of innovation practices among micro-entrepreneurs. The path from ISF to Innovation Capability ($\beta = 0.278$, $p < 0.001$) and from Innovation Capability to Inclusive Growth ($\beta = 0.351$, $p < 0.001$) are both statistically significant.

These findings confirm a partial mediation effect, as both the direct and indirect effects remain significant. This implies that while ISF has a direct influence on inclusive growth, its effectiveness is further amplified through improvements in innovation capability. The results align with the theoretical framework of the RBV, which posits that financial and intangible resources—such as skills, innovation, and knowledge—mediate the relationship between input mechanisms (e.g., ISF) and firm-level performance outcomes.

4.4 Structural Model: SEM-PLS Analysis

The Structural Equation Modeling analysis using SmartPLS 4 achieved a satisfactory model fit, characterized by an SRMR of 0.061, an NFI of 0.912, and an R^2 value of 0.58 for inclusive economic growth. All hypothesized relationships were found to be statistically significant ($p > 0.05$). Notably, zakat positively influenced innovation capability, followed by *qard hasan* and *waqf*. Furthermore, innovation capability had a significantly positive impact on inclusive economic growth, implying that strengthening this capability promotes greater economic inclusion among microenterprises. These results provide empirical validation for the proposed structural model and confirm the efficacy of ISF instruments in enhancing both innovation capability and inclusive economic growth.

Notably, the direct effects of ISF instruments on inclusive growth remained significant even after accounting for the mediation pathway, confirming a partial mediation model.

Table 5. Structural Model Results and Path Coefficients

Path	Standardized Coefficient (β)	P-Value	Significance
Zakat → Innovation Capability	0.29	< 0.001	Yes
Waqf → Innovation Capability	0.22	< 0.001	Yes
Qard Hasan → Innovation Capability	0.24	< 0.001	Yes
Innovation Capability → Inclusive Growth	0.35	< 0.001	Yes
Zakat → Inclusive Growth	0.31	< 0.001	Yes

Waqf → Inclusive Growth	0.22	0.002	Yes
Qard Hasan → Inclusive Growth	0.26	< 0.001	Yes

Note: *All path coefficients are statistically significant at the 0.05 level, indicating strong support for the hypothesized relationships.*

Table 5 presents the results of the full structural model estimated using Partial Least Squares Structural Equation Modeling (PLS-SEM). All path coefficients were found to be positive and statistically significant at $p < 0.01$, confirming the robustness of the hypothesized relationships between Islamic Social Finance (ISF) instruments, innovation capability, and inclusive economic growth.

The analysis shows that Zakat ($\beta = 0.29$, $p < 0.001$), Waqf ($\beta = 0.22$, $p < 0.001$), and *Qard Hasan* ($\beta = 0.24$, $p < 0.001$) each have significant direct effects on Innovation Capability, suggesting that these financial instruments enhance the entrepreneurial capacity for innovation among micro-entrepreneurs. Moreover, Innovation Capability significantly influences Inclusive Growth ($\beta = 0.35$, $p < 0.001$), indicating that improvements in innovation behavior can drive broader developmental outcomes.

Importantly, all three ISF instruments also demonstrate direct effects on Inclusive Growth, with Zakat ($\beta = 0.31$), *Waqf* ($\beta = 0.22$), and *Qard Hasan* ($\beta = 0.26$) all yielding significant coefficients. This confirms a partial mediation model, where Innovation Capability does not fully account for the relationship between ISF and Inclusive Growth, but instead acts as an intermediate mechanism that enhances their overall impact.

These findings are theoretically consistent with both institutional theory and the RBV, which emphasize the role of ethical financing and capability-building in fostering inclusive, sustainable development. The simultaneous presence of significant direct and indirect paths supports the multifaceted role of ISF in promoting innovation and economic inclusion in low-resource environments.

Figure 2. Structural Model Results

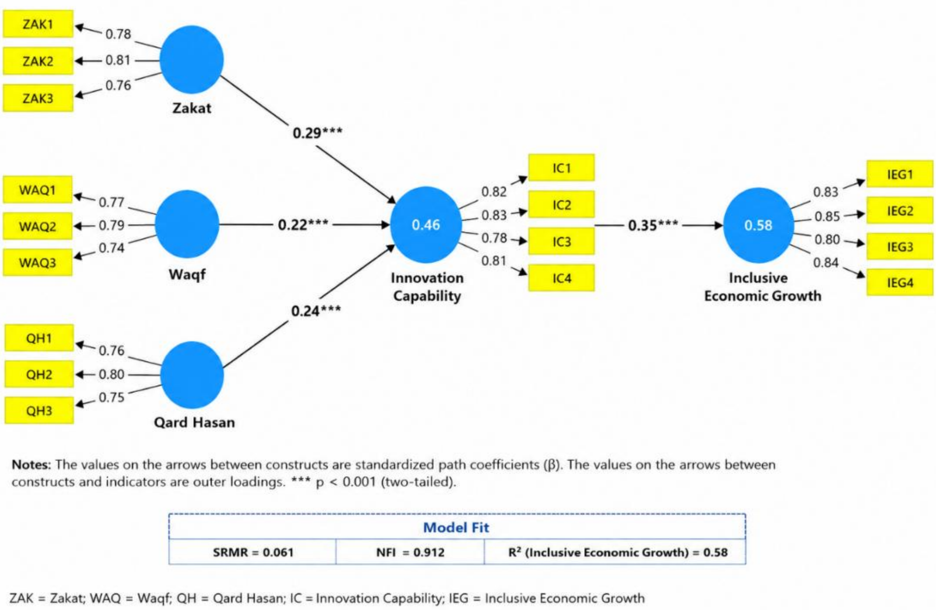

Figure 2 illustrates the full structural equation model (SEM) using SmartPLS, depicting the standardized path coefficients (β) between ISF instruments zakat, w*aqf* and *qard hasan*—their influence on Innovation Capability, and ultimately their contribution to Inclusive Growth. The model demonstrates that all three ISF constructs significantly influence Innovation Capability, with standardized coefficients of $\beta = 0.29$ (Zakat), $\beta = 0.22$ (Waqf), and $\beta = 0.24$ (Qard Hasan), indicating that each plays a substantial role in promoting entrepreneurial innovation among beneficiaries. Innovation Capability, in turn, significantly predicts Inclusive Growth ($\beta = 0.31$), confirming its role as a partial mediator in the model.

Additionally, direct effects of ISF instruments on Inclusive Growth (not shown in the current figure) remain significant, validating the presence of partial mediation. The model supports theoretical frameworks such as the RBV and institutional theory, emphasizing how access to ethical and inclusive financing mechanisms enhances both innovation capacity and equitable economic outcomes. These results are further supported by satisfactory model fit indicators (SRMR = 0.061, NFI = 0.912), confirming that the model is well-specified and empirically robust.

5. Discussion

This study provides empirical evidence that ISF instruments—namely zakat, *waqf* and *qard hasan* have significant direct and indirect effects on inclusive economic growth, particularly through the mediation of innovation capability among micro-entrepreneurs in Indonesia's coastal regions. These findings contribute to the growing discourse that positions ISF not merely as a charity-based mechanism but as a strategic development tool with transformative economic potential.

The multiple regression and SEM-PLS results confirm that all three instruments significantly influence innovation capability, aligning with the RBV, which argues that unique, valuable, and inimitable resources—such as ethical capital, religious legitimacy, and social trust—can become sources of competitive advantage. Zakat, with its relatively mature institutional framework and distribution mechanisms, demonstrates the strongest impact. This suggests that productive zakat programs are increasingly being utilized not only for immediate consumption support but also for business enhancement and industrial upgrading.

Furthermore, the mediation analysis indicates that innovation capability serves as a critical pathway through which ISF influences broader inclusive growth. These findings support prior conceptual arguments by Haneef et al. (2020), Haneef et al. (2015), and Zauro et al. (2020), who argue that ISF can foster enterprise productivity and innovation. However, the present study extends these arguments by providing robust empirical evidence through mediation analysis, an approach that remains underrepresented in the existing literature.

In addition, the positive and significant direct relationships between ISF and inclusive growth reinforce the relevance of institutional theory in this context. The findings suggest that Islamic financial institutions—when embedded within religious and community structures—gain legitimacy and behavioural compliance that can strengthen developmental outcomes. This finding aligns with the notion proposed by DiMaggio and Powell (1983) that organizational behaviour is often shaped by social norms and institutional pressures, particularly in contexts where formal financial institutions are perceived as culturally or structurally inaccessible.

The limited uptake of waqf-based instruments, despite their theoretical potential, highlights structural and regulatory gaps. Unlike zakat, *waqf* mechanisms are still emerging in Indonesia's policy and financial ecosystem, often constrained by unclear governance, asset liquidity challenges, and lack of scalable implementation models. This finding is consistent with the observations of Cizakca (2004) and Kuran (2001), who emphasized the historical significance of *waqf* while also highlighting the institutional inertia that has constrained its contemporary development.

Although only 34.2% of respondents utilized *waqf*-based initiatives, the notable path coefficient indicates that these programs produce significant developmental effects for those who do participate. This modest engagement is likely due to obstacles such as asset liquidity issues, management difficulties within *nazhir* organizations, and a lack of scalable models for productive *waqf*. However, these programs differentiate themselves from simple financial aid by offering long-term assets, business infrastructure, mentorship, and comprehensive support. Thus, even with limited reach, *waqf* plays a vital role in fostering innovation and promoting inclusive economic development.

Interestingly, *qard hasan* exhibits a relatively strong impact despite its smaller scale, indicating that even low-cost, interest-free lending—when appropriately targeted—can stimulate innovation behaviors among resource-constrained entrepreneurs. This finding supports the ethical finance perspective advanced by Dusuki (2022) and El-Gamal (2006), while highlighting the need for renewed efforts to expand qard hasan through fintech integration and institutional subsidies to enhance its long-term sustainability.

From a policy perspective, these results emphasize the need for restructuring ISF from a welfare-centric to a productivity-oriented model. This requires not only funding but also complementary support services such as innovation training, market access facilitation, and digital literacy enhancement. The fact that over 81% of beneficiaries demanded additional training and better program transparency further underlines the need for institutional reforms.

This study also makes a theoretical contribution by integrating Islamic economic principles with contemporary development economics and innovation theories. This finding demonstrates that Islamic finance instruments, when effectively channelled, can serve as endogenous drivers of innovation and inclusive growth, echoing calls for the "Islamization of development economics" advanced by scholars such as Chapra (2000) and Ahmed (2007).

In sum, the findings challenge the traditional compartmentalization of ISF as a purely redistributive mechanism and instead position it as a proactive agent of structural transformation. The integration of zakat, *waqf* and *qard hasan* within national development strategies, particularly through innovation ecosystems in underserved regions, offers a path forward for ethical, inclusive, and sustainable development that aligns with both *maqasid shariah* and the UN SDGs.

6. Conclusion

This study empirically confirms the strategic role of ISF—particularly zakat, *waqf* and *qard hasan* in driving industrial innovation and inclusive economic growth among micro-entrepreneurs in Indonesia's coastal and underserved regions. By employing a robust quantitative framework that integrates multiple regression analysis, mediation modelling, and structural equation modelling (SEM-PLS), the research provides comprehensive evidence that ISF instruments not only directly contribute to inclusive economic indicators such as income growth and employment creation but also indirectly foster such outcomes by enhancing innovation capability.

Among the key findings, zakat emerged as the most impactful ISF instrument, indicating its maturity and institutional strength in addressing both social and productive dimensions of development. While *waqf* demonstrated statistically significant influence, its relatively limited outreach suggests the need for stronger regulatory frameworks, institutional capacity building, and integration with national innovation ecosystems. *Qard hasan*, though often overlooked in policy discourse, proved to be a viable tool for catalysing entrepreneurial innovation, particularly in liquidity-constrained environments.

The mediating role of innovation capability offers important theoretical and practical insights. It bridges the traditionally segregated domains of Islamic finance and industrial development by demonstrating how financial empowerment, when ethically grounded and strategically designed, can contribute to transformative economic outcomes. Accordingly, ISF should be understood as more than a charitable intervention; it represents a structured financing mechanism that is aligned with the objectives of *maqasid Shariah* and broader sustainable development goals.

From a policy standpoint, the study highlights the urgent need to reorient ISF frameworks from traditional redistribution models to innovation-led development agendas. Integrating business training, digital literacy, and market facilitation into ISF programs can maximize their developmental impact. Moreover, enhancing institutional collaboration between zakat agencies, *waqf* boards, microfinance institutions, and digital platforms will be key to scaling ISF's reach and effectiveness.

To drive this transformation, policymakers are encouraged to expedite the integration of Islamic fintech as a foundational pillar for Islamic social finance. Leveraging digital platforms can optimize the collection, allocation, tracking, and assessment of zakat, *waqf* and *qard hasan* initiatives, fostering greater transparency and efficiency. For instance, digital cash waqf systems can boost asset liquidity and accessibility, while Shariah-compliant peer-to-peer lending can broaden the reach of *qard hasan* to marginalized micro-entrepreneurs. Moreover, digital monitoring tools can enhance governance, accountability, and impact measurement, empowering Islamic social finance institutions to improve their innovation capacity and foster inclusive economic growth.

Theoretically, this study contributes to the literature by embedding ISF within the broader context of institutional theory and the RBV, providing a multidimensional understanding of how ethical financial capital drives inclusive innovation. It also advances empirical inquiry by developing a structural model that links ISF with real-sector performance—an area that remains underexplored in current scholarship.

Future research could expand this study by adopting longitudinal designs to assess long-term impacts, applying mixed methods approaches to capture deeper behavioural insights, and exploring digital innovations such as Islamic fintech as new delivery channels for ISF. Given the evolving nature of the halal economy and Indonesia's commitment to inclusive development, such directions are not only timely but imperative.

In conclusion, this study reinforces the proposition that Islamic social finance, if systematically mobilized and innovatively delivered, has the potential to transform marginalized communities into hubs of innovation and inclusive growth. As such, ISF should be embraced not just as a religious obligation but as a strategic pillar in national development planning and Islamic economic policy.

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The Role of BAZNAS in Managing Zakat for Humanitarian Relief and Socio-Economic Recovery in Indonesia

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ABSTRACT

This study examines the role of BAZNAS (Badan Amil Zakat Nasional) in managing zakat to support humanitarian assistance and socio-economic recovery in Indonesia. Using a qualitative case study approach, the research explores how zakat has been used in crisis situations such as natural disasters, public health emergencies, and post-pandemic economic recovery. It also evaluates how zakat contributes to long-term poverty reduction and *mustahik* empowerment through targeted programmes and institutional transformation. Findings show that BAZNAS has made significant progress in using zakat for both relief and development, including lifting over 577,000 people out of poverty in 2023. The study highlights the importance of digital innovation, performance monitoring, and strategic planning in zakat management. Despite substantial growth in collection and outreach, zakat's full potential is still underutilized. Strengthening institutional capacity, digital adoption, and data-driven decision-making are key to maximizing zakat's role as an Islamic social finance instrument for inclusive development

1. Introduction

Zakat is one of the five pillars of Islam and a religious obligation for eligible Muslims. Beyond its spiritual value, zakat has increasingly gained recognition as an economic and social tool for addressing poverty, reducing inequality, and strengthening community resilience. In the Islamic economic framework, zakat is not simply a mechanism for wealth redistribution from the rich (*muzakki*) to the poor (*mustahik*), but also a means of empowering the underprivileged to achieve financial independence. This empowerment can support long-term development by enabling *mustahik* to actively participate in economic activities and eventually transform into *muzakki* themselves (Abdullah and Haqqi, 2017; Al Haqq and Wahab, 2017).

The Al-Quran clearly mentioned, in many verses, the responsibility of the rich to pay zakat. For instance, in Al-Quran Surah Al-Baqarah verse 43 explicitly identifies zakat as a religious duty,

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consistently associating its payment with the act of prayer. Surah At-Tawbah (9:103) of the Al-Quran establishes the obligation to collect a prescribed portion of Muslims' wealth as a means of purifying their wealth and spiritual selves. This obligation is further reinforced by the Prophetic directive concerning the collection of zakat from those with sufficient means and its distribution to those in need. Hence, this obligation shall not only be understood as merely the mechanism of transferring wealth from the rich to the poor. Zakat must also function as an economic mechanism that has implications in the form of increasing social welfare of the community, such as increasing lower-class economic productivity in society, increasing aggregate consumption, increasing aggregate investment, and subsequently increasing employment. In other words, zakat must also be an instrument that empowers the economic (economic empowerment) of the poor so that they can be liberated from the poverty chain and subsequently transforming themselves into *muzakki*.

In Indonesia, zakat plays a unique and strategic role. With the largest number of Muslim population in the world (Hackett et al., 2025), the country has significant zakat potential, estimated at around 3.4 to 3.5 percent of GDP, yet actual collection still lags far behind. National zakat collection has grown rapidly, from IDR 8.12 trillion in 2018 to IDR 32.32 trillion in 2023, driven by improvements in digital platforms, financial inclusion, and organizational performance (BAZNAS, 2024). However, this still represents only a fraction of its full potential. Meanwhile, Indonesia continues to face challenges such as post-pandemic economic recovery, rising living costs, recurring climate disasters, and persistent inequality, all of which demand innovative and scalable solutions, including zakat (Wibisono, 2015; Rusanti et al., 2023).

The presence of Amil Zakat Institutions (LAZ) and the National Board of Zakat (BAZNAS) as regulated under Law No. 23 of 2011 marks a transition toward more professional, accountable, and efficient zakat management. Zakat is now expected not only to be collected and distributed fairly but also to align with national development goals such as poverty alleviation, disaster response, and financial inclusion. BAZNAS has introduced a range of programmes across multiple sectors including; microfinance, health, education, and disaster relief that aim to support *mustahik* and improve welfare outcomes.

This paper aims to explore the role of zakat managed through BAZNAS as an instrument of humanitarian support and socio-economic transformation in Indonesia. It focuses on the extent to which BAZNAS's programmes contribute to poverty alleviation, especially in light of recent crises such as the COVID-19 pandemic, economic shocks, and natural disasters. Additionally, it investigates whether BAZNAS's innovations, such as digital zakat platforms and community empowerment models, have the capacity to strengthen Indonesia's social protection system and support inclusive development.

This study contributes to the existing literature in several ways. While previous research has broadly acknowledged zakat's potential to reduce poverty and promote social welfare (Al Arif, 2010; Dogarawa, 2009), much of it is either conceptual or focused on specific programme evaluations with limited recent data. Limited studies have comprehensively examined BAZNAS's role using the latest data (2020–2024), particularly in the context of post-pandemic recovery, digital transformation, and climate-induced crises. As a result, this paper addresses that gap by offering a timely, case-based analysis of BAZNAS's institutional performance and the strategic positioning of zakat as a tool for sustainable development. In doing so, it updates outdated frameworks and provides practical insights into the evolving landscape of zakat governance in Indonesia.

2. Literature Review

2.1. BAZNAS and Its Role in Zakat Management in Indonesia

The National Board of Zakat (BAZNAS) is Indonesia's official institution for managing zakat. It is a non-structural government entity that functions autonomously and reports to the President via the Minister of Religious Affairs. According to Law Number 23 of 2011, BAZNAS is in charge of planning, collecting, distributing, using, managing, reporting, and guaranteeing accountability in zakat administration. As a result, BAZNAS not only collects zakat from *muzakki*, or zakat payers, but also distributes and uses the monies to assist eligible beneficiaries known as *mustahik* (PPID BAZNAS RI, n.d.; UU No. 23 Tahun 2011, 2011).

In more detail, BAZNAS functions on a decentralized basis at the national, provincial, and district or municipal levels. At the national level, BAZNAS Republic of Indonesia creates national policies, maintains zakat programmes, organizes zakat institutions, and oversees national reporting. Provincial BAZNAS institutions oversee zakat in their respective provinces and work with district or municipal BAZNAS offices. Local BAZNAS institutions collect and distribute zakat in their respective localities. This local position enables them to better understand the situations of *muzakki* and *mustahik* and to build initiatives that address local social and economic requirements (PP No. 14 Tahun 2014, 2014).

Although these entities operate at distinct administrative levels, they are linked by coordination and reporting systems. District or municipal BAZNAS offices report to the provincial BAZNAS and local government, whereas provincial BAZNAS offices report to both the national and provincial governments. BAZNAS may also set up Zakat Collection Units, or UPZ, in government offices, businesses, educational institutions, mosques, communities, and other organizations. These entities support BAZNAS in collecting zakat from people and institutions, while the monies are managed and distributed by the local BAZNAS authority (PP No. 14 Tahun 2014, 2014).

BAZNAS varies from a Zakat Management Institution, also known as LAZ, primarily in its founding and institutional status. BAZNAS was formed by the government under national legislation and has operational and coordinating control over the national zakat system. In contrast, LAZ is formed by community organizations, Islamic charities, or other non-profit legal entities to aid BAZNAS in collecting, distributing, and utilizing zakat. A LAZ must gain formal license from the Ministry of Religious Affairs, receive a recommendation from BAZNAS, be subject to Sharia supervision, and meet financial and Sharia audit standards. Thus, BAZNAS symbolizes the state-based zakat management structure, whereas LAZ represents community engagement in the regulated national zakat system (UU No. 23 Tahun 2011, 2011; PP No. 14 Tahun 2014, 2014).

2.2. Concept of Zakat

Zakat is a mandatory form of almsgiving in Islam and one of its five fundamental pillars. It is not merely an act of charity, but an obligation that reflects a just and ethical redistribution of wealth from those who have surplus (*muzakki*) to those in need (*mustahik*). Zakat comes from the Arabic root meaning “to purify” and “to grow”, signifying its role in both spiritual and socio-economic development (Alfaizin et al., 2018). Islam views wealth as a trust from Allah, and zakat purifies that wealth while sustaining the dignity and welfare of the poor.

In economic terms, zakat functions as a fiscal mechanism that can reduce income inequality, alleviate poverty, and enhance economic participation among marginalized communities. By systematically transferring a portion of wealth (typically 2.5% of eligible assets annually), zakat injects liquidity into low-income sectors and supports consumption, investment, and microenterprise growth. This cyclical redistribution not only addresses immediate needs but fosters long-term financial independence among beneficiaries (Aliyu et al., 2018; Dogarawa, 2009).

Modern scholars emphasize that zakat should not be perceived only as a one-way transfer of funds but as a structured socio-economic tool embedded in Islamic economic policy. It can act counter-cyclically, meaning that in times of economic crisis, zakat distributions can support aggregate demand and stabilize consumption (Yusoff, 2010). This gives zakat an economic multiplier function. In recent studies, zakat has also been linked to broader development goals, such as increasing the Human Development Index (Rusanti et al., 2023; Akmal et al., 2020; Mongkito et al., 2026; Hamadou & Jallow, 2024) and reducing multidimensional poverty (Riani & Indra, 2026; Aziz et al., 2020; Siregar et al., 2025). These findings underscore its relevance beyond traditional charitable interpretations.

Furthermore, the integration of zakat into national financial systems, through professional institutions like BAZNAS, has made it possible to align zakat governance with broader public finance and social protection agendas. In Indonesia, innovations in digital zakat collection, regional zakat mapping, and the application of impact evaluation tools (e.g., National Zakat Index, Zakat Welfare Index) illustrate the modern evolution of zakat as a strategic development instrument (Kasri & Sosianti, 2023; BAZNAS, 2024).

2.3. Zakat in Humanitarian and Socio-economic Crises

Zakat is a key component of Islamic social finance and plays an essential role in supporting communities during economic hardship, humanitarian crises, and social disruptions. According to the maqasid shariah framework, zakat promotes human well-being by fulfilling basic needs such as health, education, justice, and livelihood (Haron et al., 2021). These principles are emphasized repeatedly in the Qur'an and Hadith, where zakat is framed as a tool for maintaining social balance and alleviating suffering.

Beyond its spiritual dimension, zakat has a practical role in addressing emergencies and social instability. In situations where government resources are overstretched, such as during natural disasters, economic downturns, or public health emergencies, zakat institutions can act swiftly to provide food, shelter, healthcare, and financial assistance. BAZNAS, Indonesia's national zakat body, has become increasingly central to this humanitarian role, responding to floods, earthquakes, fires, and displacement in various regions. For example, in March 2025, BAZNAS distributed *sahur* meal packages to over 2,200 flood victims in Jakarta, demonstrating how zakat can be mobilized quickly in times of distress (BAZNAS, 2025).

Furthermore, several studies have shown that zakat contributes not only to short-term relief but also to long-term socio-economic recovery. According to BAZNAS (2024), its zakat empowerment programmes contributed to poverty alleviation among approximately 577,000 beneficiaries in Indonesia in 2023. These initiatives encompassed education, microfinance, livelihood development, and health assistance, with the broader objective of strengthening the economic resilience and self-reliance of *mustahik*. This shows that zakat is not only reactive but also transformational when used strategically.

Although the COVID-19 pandemic was a major test of Islamic social finance, it also revealed zakat's wider utility. During the pandemic, zakat institutions in Southeast Asia expanded their interpretations of *asnaf* to include informal workers, the newly unemployed, and low-income families affected by lockdowns (Nasiruddin, 2020; Ainaa Aiman, 2020). This adaptive approach set a precedent for responding to other emerging crises, such as rising inflation, food insecurity, and environmental displacement.

Compared to traditional government aid, zakat has certain advantages. It can be distributed rapidly through trusted religious institutions, it fosters community solidarity, and it operates on faith-based motivations that often transcend bureaucracy. However, it also faces challenges such as ensuring equitable coverage, improving targeting mechanisms, and scaling up impact without diluting religious values (El Hassan, 2016; Hamed, 2020). In recent years, the discourse around zakat has expanded to include its role in sustainable development, social protection, and crisis resilience. Institutions like BAZNAS have adopted national zakat indexes, digital platforms, and performance evaluations to better align their humanitarian programmes with the needs of modern society. This shift signals a broader understanding of zakat and not merely as spiritual charity, but as an organized response mechanism in both national and global crises.

2.4. Zakat Approaches Which Relate to Humanitarian Programmes

In Islam, the distribution of zakat is prescribed for eight categories of eligible recipients (*asnaf*), as specified in the Qur'an (Surah At-Tawbah, 9:60). These include the poor (*al-fuqara*), the needy (*al-masakin*), zakat administrators (*amilin*), new Muslims (*muallaf*), those in debt (*gharimin*), those striving in the way of Allah (*fi sabilillah*), captives (*riqab*), and stranded travelers (*ibn sabil*). Each category reflects a broader social function such as: poverty relief, support for social transition, or enabling mobility and security. Over time, these categories have been interpreted in line with evolving social needs. For instance, zakat for *ibn sabil* (travelers) is now often applied as scholarship aid, while *fi sabilillah* is extended to support healthcare, disaster relief, and public infrastructure (Hafidhuddin, 2018).

In recent years, zakat institutions have begun to focus not only on who receives zakat, but also on how it is delivered. Many scholars now emphasize the 'transformational' nature of zakat. Its ability not only to meet basic needs but to help recipients achieve financial independence and eventually become zakat givers themselves (Hassan, 2016). This view promotes zakat as a tool for economic inclusion and empowerment, rather than short-term relief. For example, programmes under BAZNAS such as Zakat Community Development (ZCD) and *Mustahik* Economic Empowerment Institute (LPEM) are designed to train and equip *mustahik* with the skills, capital, and market access needed to build sustainable livelihoods.

One of the challenges in modern zakat management is how to evaluate performance across thousands of programmes and multiple sectors. To address this, zakat institutions in Indonesia and elsewhere should apply performance frameworks like the "Three E's": Efficiency, Effectiveness, and Economy. Efficiency refers to minimizing input costs per output (e.g., how many beneficiaries per rupiah spent). Effectiveness looks at how well zakat programmes achieve their goals, such as improving incomes or educational attainment. Economy evaluates whether programme costs align with planned budgets and whether resources are used wisely (Yusoff, 2018).

Recent studies, hence, suggest that traditional efficiency frameworks must be expanded. For example, a 2023 study of data from 14 zakat organizations in Indonesia discovered that only two were relatively efficient and positioned on the estimated DEA efficiency frontier, while the remaining organizations demonstrated relative inefficiencies in either collection or distribution (Prakoso et al., 2023). These findings suggest that the two firms were more efficient than the other businesses in the sample, rather than being efficient in absolute terms. The findings point to the need to increase institutional capability and operational management. Improvements in data openness and professional training may also aid in improved zakat management, albeit these aspects cannot be inferred only from DEA results. BAZNAS responded by creating the National Zakat Index and the Zakat Welfare Index, which are instruments for monitoring institutional performance, assessing the welfare effect of zakat, and guiding planning.

3. Methodology

This research adopts a qualitative approach using a case study design, focusing specifically on BAZNAS as Indonesia's national zakat institution. The goal is to examine how BAZNAS programmes support humanitarian needs and socio-economic development, particularly during times of crisis such as natural disasters, economic hardship, and post-pandemic recovery. A case study approach is appropriate because it allows for an in-depth understanding of zakat governance, operational strategies, and impact within a specific institutional context.

The study uses secondary data collected from various credible sources published between 2020 and 2024. These sources include official BAZNAS documents, such as annual reports, zakat outlook publications, and performance summaries, as well as scholarly articles published in indexed journals, including Scopus- and SINTA-indexed journals. Additional supporting data comes from the Indonesian Central Statistics Agency (BPS), relevant government regulations, and research from Islamic economic scholars. Sources were selected based on their relevance, recency, and accuracy in covering BAZNAS's role in zakat collection, distribution, and programme outcomes.

Lastly, thematic analysis was used to organize findings into major discussion areas, including poverty alleviation, humanitarian response, empowerment programmes, and digital zakat transformation. By analyzing and comparing data across reports, institutional practices, and literature, the study aims to highlight how BAZNAS contributes to national development goals through zakat.

4. Finding and Discussion

4.1. BAZNAS's Role in Crisis and Humanitarian Response

BAZNAS has taken an active role in responding to various humanitarian and crisis situations in Indonesia. As a country that frequently experiences natural disasters such as floods, earthquakes, volcanic eruptions, and storms, Indonesia requires fast and flexible support systems. BAZNAS has developed programmes that allow zakat to be used for direct crisis response, including emergency relief, health support, and recovery for affected communities. One of BAZNAS's dedicated programmes is the Disaster Response Unit, known as BAZNAS Tanggap Bencana (BTB). This unit is mobilized to deliver aid in times of natural and non-natural disasters.

In March 2025, for example, BAZNAS distributed more than 2,200 sahur meal packages to families affected by flooding in DKI Jakarta during Ramadan. This is part of the Hidangan Berkah Ramadhan programme, which also includes food security and shelter aid during emergencies (BAZNAS, 2025). These quick-response actions show that zakat can be used beyond traditional purposes, helping people survive in crisis situations while preserving dignity and social justice.

BAZNAS also worked intensively during the COVID-19 pandemic. Although this health crisis has passed its emergency phase, its economic and social impact continues to be felt. During the pandemic period, BAZNAS channeled zakat funds to provide masks, protective equipment, basic food, and cash assistance to informal workers and poor families. According to the Outlook Zakat Indonesia 2021 report, BAZNAS classified its COVID-19 support into four sectors: economic, education, social-humanitarian, and health (Puskas BAZNAS, 2021). This flexible use of zakat helped vulnerable groups stay afloat and prevent further decline into poverty.

The effectiveness of BAZNAS during humanitarian crises is also supported by its cooperation with government agencies and other civil society organizations. In 2021 alone, BAZNAS participated in 49 humanitarian response activities across Indonesia, from volcano eruptions to flash floods

(BAZNAS, 2021). This collaboration reflects that zakat can complement state relief programmes and fill gaps where government services are delayed or unavailable.

Moreover, Zakat funds are not only used during immediate emergencies. BAZNAS also assists communities in rebuilding livelihoods and infrastructure after disasters. This includes supporting the reconstruction of damaged schools, providing health services, and offering education scholarships to children affected by crises. This long-term view aligns with the idea of zakat as a tool for resilience, not just relief.

These activities show that BAZNAS is not limited to routine zakat distribution but is able to operate as a humanitarian actor with a national presence. As summarized in Table 1, "BAZNAS's Role in Crisis Response through Zakat-Based Humanitarian Programmes," BAZNAS has utilized zakat in humanitarian settings to respond to different types of crises, including floods, multi-disaster events, the COVID-19 pandemic, earthquakes, storms, and volcanic eruptions. The strategic use of zakat in humanitarian settings also proves that Islamic social finance can play a critical role in crisis response, especially in countries like Indonesia that are vulnerable to frequent emergencies. The programmes presented in the table further illustrate how BAZNAS provides not only immediate assistance, such as food packages and emergency kits, but also health support, financial assistance, medical aid, and post-disaster recovery. Overall, these activities demonstrate the broader humanitarian role of BAZNAS in supporting vulnerable communities during times of crisis.

Table 1. BAZNAs's Role in Crisis Response through Zakat-Based Humanitarian Programmes

Year	Type of Crisis	Programme Name / Description	Type of Zakat/ Islamic Social Finance and Aid Provided	Reported Impact / Output
2025	Flood (Jakarta)	Hidangan Berkah Ramadhan	Sahur meal packages	2,200 meals distributed to flood victims
2021	Multi-disaster (nationwide)	BTB – BAZNAS Tanggap Bencana	Emergency kits, food, tents	49 disaster response actions across Indonesia
2020–2021	COVID-19 Pandemic	Health and economic relief via zakat	PPE, food packages, financial assistance	Nationwide outreach to informal workers, poor families
Ongoing	Earthquakes, storms, volcanic eruptions	Collaboration with BNPB, local BAZNAS units	Medical aid, reconstruction, cash relief	Post-disaster recovery projects (no. varies by event)

Sources: BAZNAS (2026)

4.2. Empowerment and Poverty Reduction through Zakat

One of the most important goals of zakat in the modern context is to reduce poverty in a sustainable way (Riani & Indra, 2026; Aziz et al., 2020; Siregar et al., 2025). In Indonesia, BAZNAS has positioned itself not only as a provider of short-term relief but also as a strategic actor in long-term poverty alleviation and *mustahik* empowerment. BAZNAS has historically provided direct aid alongside productive and community-based empowerment programmes. Rather than replacing consumption aid, these projects supplement it by addressing *mustahik*'s long-term economic and social needs. Official BAZNAS records reveal that the Zakat Community Development project was already operational in 2018, employing an integrated strategy that addressed economic empowerment, education, health, religious development, and humanitarian help (BAZNAS, 2019). BAZNAS has also used zakat to support larger development initiatives, such as providing electricity infrastructure to impoverished rural communities, demonstrating that zakat empowerment goes beyond direct cash or food assistance (BAZNAS, 2018).

Moreover, BAZNAS offers business funding, training, mentorship, and community help through programmes such as Zakat Community Development, BAZNAS Microfinance, economic empowerment, livestock development, and micro-enterprise support. The major goal is to increase *Mustahik*'s capability and economic independence. In the long run, these projects seek to assist recipients in transitioning from zakat dependence to self-reliance and, when feasible, becoming *muzakki* themselves (BAZNAS, 2021). Research on BAZNAS initiatives also demonstrates that productive zakat and continued aid may increase beneficiaries' companies and wellbeing, however, programme effects rely on the quality of mentorship, human resources, and beneficiary engagement (Khatimah et al., 2024). All this idea is rooted in the "transformational zakat" concept, where zakat is not just about giving, but enabling people to exit poverty permanently through empowerment and economic inclusion.

Based on official reports, the impact of BAZNAS empowerment programmes has started to show measurable results. According to BAZNAS's (2024) *Capaian Kinerja BAZNAS Tahun 2023*, zakat programmes managed by BAZNAS contributed to lifting more than 577,000 people out of poverty in 2023. This progress was made through various initiatives, including skills training, capital support for small businesses, and sustainable livelihood programmes such as Zakat Community Development (ZCD), *Mustahik* Empowerment Institute (LPEM), and the Farmer Empowerment Institute (LPPM). These initiatives are particularly important in regions with limited access to formal banking or government subsidies, offering *mustahik* the tools and knowledge they need to become self-sufficient.

To improve targeting and efficiency, BAZNAS applies a prioritization framework that ensures zakat is directed toward the most vulnerable groups based on urgency and need. In addition to economic support, BAZNAS also invests in social programmes related to education, health, and basic services. The 2023 *Outlook Zakat Indonesia* report shows that empowerment-based distribution has increased steadily in recent years, particularly in the productive zakat sector, which represents a significant portion of total zakat disbursement (Puskas BAZNAS, 2023). These findings suggest that zakat is evolving beyond a predominantly charitable function toward greater investment in human capital and community development.

Furthermore, Zakat's long-term role is compatible with Indonesia's overall poverty alleviation policy. Data from Statistics Indonesia show that poverty increased during the early stage of the COVID-19 pandemic. The national poverty rate grew from 9.78% in March 2020 to 10.19% in September 2020, representing roughly 27.55 million individuals. After reaching this pandemic high, the rate steadily dropped to 10.14% in March 2021, 9.54% in March 2022, 9.36% in March 2023, 9.03% in March 2024, and 8.47% in March 2025. The percentage of Indonesia's population living in poverty increased during the early stages of the COVID-19 pandemic, before gradually declining in subsequent years, reaching 8.25% in September 2025, equivalent to approximately 23.36 million people (Badan Pusat Statistik, 2020, 2021a, 2021b, 2022, 2023, 2024a, 2025, 2026). Hence, the poverty rate reduced by 1.94 percentage points, while the number of poor people decreased by nearly 4.19 million between September 2020 and September 2025. However, the recovery has not been equal across regions, since the poverty rate in rural areas remained greater than that in urban areas in September 2025.

This nationwide drop cannot be attributed to zakat alone because poverty is impacted by various economic and social variables. Nonetheless, zakat may be used as a supplemental social protection and poverty reduction tool, particularly for impoverished and disadvantaged Muslim households who qualify as zakat beneficiaries. Empirical research in Indonesia has revealed that zakat distribution is connected with decreased poverty levels and improved recipient wellbeing, especially throughout the COVID-19 era (Arbi et al., 2024; Choiriyah et al., 2020). To strengthen this contribution, BAZNAS has developed monitoring and evaluation systems such as the National Zakat Index, the Zakat Impact Assessment, regular programme evaluations, and digital reporting through the BAZNAS Management Information System. These methods allow BAZNAS to examine institutional effectiveness, programme outcomes, and the influence of zakat on beneficiaries more systematically (BAZNAS, 2024a, 2025b).

With good targeting, accurate reporting, and regular programme review, zakat has the ability to complement government poverty reduction efforts and foster more equitable development. However, zakat should be presented as one aspect of Indonesia's overall poverty reduction system rather than as the major reason of the national drop in poverty.

4.3. Institutional and Digital Transformation in Zakat Management

In recent years, BAZNAS has undergone significant institutional changes that reflect a shift from traditional zakat collection and distribution toward a more professional, accountable, and digitally integrated organization. As the official body mandated by the Indonesian government to manage national zakat, BAZNAS has adopted several modernization efforts to improve governance, transparency, and impact. These changes are not only administrative but also strategic, with a strong emphasis on using technology to expand outreach, improve efficiency, and strengthen public trust in zakat institutions.

One of the most important developments is the rapid digital transformation of zakat collection. According to Outlook Zakat Indonesia 2023, more than 70 percent of zakat donors aged 25 to 44 in urban areas preferred digital channels for their contributions. BAZNAS has responded by integrating its payment systems with mobile applications, e-wallets, and digital banking services. Zakat can now be paid through QR codes, BAZNAS's official website, and digital platforms like Cinta Zakat, Tokopedia, Gopay, ShopeePay, and LinkAja. These options make zakat more accessible and convenient, especially for younger, tech-savvy Muslims. As a result, National ZIS-DSKL collection in Indonesia grew from roughly IDR 40.81 trillion in 2024 to IDR 44.70 trillion in 2025, showing a 9.54% yearly growth rate (BAZNAS Republic of Indonesia, 2026). This amount accounts for zakat, *zakat fitrah, infaq* and *sadaqah, qurban* funds, other religious social funds, and off-balance-sheet collections. This growth shows the effectiveness of digitalization in boosting public participation.

Moreover, to support this transformation, BAZNAS also launched new performance tools such as the Indeks Zakat Nasional (National Zakat Index) and the Indeks Kesejahteraan Mustahik (Zakat Welfare Index). These indexes are designed to evaluate the efficiency of zakat institutions and the real impact of zakat on the welfare of its beneficiaries. They help ensure that programmes are not only well funded but also well targeted and monitored. In the 2023 performance report, BAZNAS recorded that over 700 zakat management units including provincial and city-level BAZNAS and official LAZ (Lembaga Amil Zakat) are now actively reporting their data using standardized digital platforms (BAZNAS, 2024). This national coordination system improves consistency, transparency, and accountability in zakat governance.

Another important strategy is the introduction of a zakat potential mapping system. This tool helps BAZNAS set realistic collection targets based on demographic, economic, and religious data.

For example, BAZNAS set an ambitious on-balance collection target of IDR 13 trillion for 2025, with projections divided across different zakat institutions such as central, provincial, and municipal units. These strategic targets are aimed at unlocking the full national zakat potential, which is estimated to be more than three percent of GDP. However, despite the rapid growth in collection, the actual figure remains far below this potential. Therefore, continuous institutional improvement and innovation are needed to close the gap between zakat potential and realization (Puskas BAZNAS, 2023).

The shift toward digital zakat and data-driven planning is not just a technical upgrade but a reflection of how Islamic social finance is adapting to modern societal needs. With increasing public awareness, improved regulation, and strong digital infrastructure, BAZNAS is better positioned to serve as both a religious institution and a development agency. The progress so far shows that zakat management in Indonesia is evolving into a modern, responsive, and professional system capable of contributing to broader economic and social development goals.

5. Conclusion

This study has explored the role of zakat in responding to humanitarian and socio-economic crises in Indonesia, using BAZNAS as a case study. As the government-recognized national zakat institution, BAZNAS has evolved from a conventional charity-based organization into a more structured and strategic institution. Its programmes now address both short-term humanitarian needs and long-term development challenges such as poverty, disaster recovery, and social protection. Through initiatives like disaster relief distribution, economic empowerment, and digital transformation, BAZNAS has positioned zakat as a vital tool for building community resilience and economic inclusion.

Results demonstrate that zakat has significantly improved social welfare and reduced poverty in Indonesia. Programmes run countrywide by BAZNAS and LAZ were anticipated to have lifted 1,350,227 persons beyond the applicable poverty limits in 2024, including 721,748 from extreme poverty, according to the 2024 Zakat Impact Assessment. This number represented around 5.61% of Indonesia's 24.06 million impoverished people in September 2024 and was 133% more than the 577,138 individuals reported in 2023 (BAZNAS, 2025). After recipients received zakat aid, the evaluation also noted decreases in the quantity, severity, and depth of poverty.

In 2025, the scope of national zakat administration kept expanding. ZIS-DSKL, the national collection of zakat, *infaq*, *sadaqah*, and other religious social funds, increased by 9.54% from IDR 40.81 trillion in 2024 to over IDR 44.70 trillion. Additionally, national distribution and utilization rose from IDR 40.08 trillion to IDR 44.29 trillion, a 10.50% rise. Approximately IDR 4.65 trillion of this sum, a 43.41% yearly increase, was given out through humanitarian initiatives (BAZNAS, 2026). With a 97.33% reporting compliance rate, 748 zakat management institutions were included in the national reporting system. These results show zakat management's expanding scope, accountability, and coordination as an Islamic social finance tool promoting national development.

However, the study also shows that zakat's full potential remains underutilized. Collection levels are still far below the estimated national zakat potential, and institutional performance varies across regions. To enhance impact, future strategies should focus on scaling up digital adoption, improving targeting mechanisms, and strengthening collaboration with local and international partners. Zakat must also continue to adapt to new challenges such as climate change, food insecurity, and economic inequality. With the right policies, innovation, and public trust, zakat, under the leadership of BAZNAS, can continue to play a central role in addressing Indonesia's humanitarian and development challenges.

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Promoting Islamic Social Finance: A Step Towards Inclusive and Sustainable Growth

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ABSTRACT

In any nation, inclusive and sustainable growth plays a vital role in helping to achieve long-term economic growth and guaranteeing a better life for the present and future generations. In Nigeria, progression towards achieving sustainable growth has been constrained due to challenges like poverty, hunger, disease, scarcity of resources, corruption, illiteracy, environmental degradation and poor framework implementation. This study examines the role of Islamic social finance in bringing about inclusive and sustainable growth in Nigeria. A descriptive survey design was adopted where data were gathered through a structured questionnaire and focus group discussion. Findings revealed that Islamic social finance has been functioning as a potential means of enhancing financial inclusion and sustainable growth through *zakat* (obligatory almsgiving), *sadaqah* (voluntary almsgiving), *waqf* (endowment), *infaq* (almsgiving for God's sake), *qard hasan* (interest-free loan), and Islamic microfinance. These instruments of Islamic social finance play an important role in the circulation of financial resources that stimulate growth while ensuring stability and equitable distribution of wealth, among others. However, irregularity in the payment of *zakat*, embezzlement, stakeholders' negligence of responsibilities, inadequacy of Islamic cooperative societies and banks, lack of knowledge and public awareness of *waqf*, and the need for product innovations were identified as major challenges. The study concluded that the regulatory environment should be developed further to fully support the unique aspects of Islamic social finance and to integrate them into the broader financial system of Nigeria.

1. Introduction

Poverty, stemming from prohibited economic practices, corruption, unfair wealth distribution, extravagant spending, corruption, embezzlement, misappropriation of funds, unjust measures, cheating, injustice, unemployment, and refusal to pay zakat, is a major global challenge (Adebayo,

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2011; Abdulkareem, 2017; Shittu, 2013). Islam, a comprehensive way of life addresses these issues through mechanisms such as *zakat, waqf, sadaqah, infaq, qard hasan*, and Islamic microfinance (collectively known as Islamic social finance instruments), all rooted in Shariah principles. It has been ordained by God that not every person on earth will possess enough material wealth to cater for his or her basic needs and necessities of life. Allah has set the pace for spiritual growth and put in place all necessary mechanisms to fill the inevitable vacuum such "law of nature' might create (Shittu, 2013). In this regard, the Qur'an says: "Is it they who would portion out the mercy of your Lord? It is We who portion out between them their livelihood in this world, and We raised some of them above others in ranks, so that some may employ others in their work…" (Qur'an 43:32). In essence, this verse shows the inability of human to possess wealth equally. Thus, poverty is one of the vacuums the law of nature creates as a result of disparity in the destiny of mankind. Unlike the conventional economic system which is strive to maximize self-satisfaction and rationality, Islamic social finance emphasizes on sharing of resources through philanthropical instruments (such as *zakat, waqf, sadaqah, infaq* and cooperative mechanisms (*qard hasan*, microfinance) to foster sustainable growth.

Islamic financial system rooted in ethical and social principles prescribed by Islam that prohibits *riba* (interest) and *gharar* (excessive uncertainty), and investments in harmful industries, which lay a foundation for social equity and ethical investment practices (Al-Qaradawi, 1960; Abdur Rahman, 1984; Saeed, 1996; Afzalur, 2002; Iqbal & Abbas, 2006; Ismail & Arshad, 2009; Adigun, 2022). This distinguishes Islamic finance from its conventional counterparts. Islamic social finance as a component of the Islamic financial system offers unique insights into inclusive and sustainable development of the nation through *zakat* , *waqf, sadaqah* , *infaq, qard hasan* and Islamic microfinance (Iqbal & Abbas, 2006). These instruments contribute to job creation and, infrastructure development in social sectors including education and healthcare, which are aligned with the Sustainable Development Goals (SDGs). These philanthropic mechanisms (non-refundable mechanism) and cooperative mechanisms (refundable mechanism) bring about inclusive and sustainable growth through job creation, establishment of schools and hospitals, provision of water supply and construction of roads and bridges resulting in improvement in the socio-economic status of the society, thereby addressing complex challenges facing contemporary societies. Since the motive of Islamic social finance is similar to the goal of the SDGs, the existence of Islamic social finance is thus, a hope in realizing public welfare when properly promoted and practiced (Notolegowo et al., 2023).

2. Literature Review

The review of related literature is inevitable for any study to create ideas that are pertinent to the problem formulated. It is seen throughout diverse academic spheres which enable the researchers to choose different approaches to help them effectively and efficiently organize their work. The review literature in this study centers on three major areas: conceptual, theoretical and empirical review.

2.1. Conceptual Review

2.1.1 Concept of Inclusive and Sustainable Growth

Inclusive and sustainable growth is an idea that embodies all attempts to improve the conditions of human existence in all ramifications. In the view of Hasan (2006), Sustainable growth improves the quality of life by addressing economic, social, and environmental dimensions without compromising future generations. Islam integrates spiritual and material development, emphasizing cooperation and fairness for societal transformation. Repetto (1986) in his definition refers to sustainable development as the one that aims at managing all-natural, human and financial resources of a country to increase its wealth and welfare over long-run. It implies improvement in the social, economic, political, educational and physical well-being of all citizens in such a way that today's consumption does not imperil the future. Many scholars are of the opinion that inclusive and sustainable growth is usually taken to involve economic development, provision of health care, education, housing and other essential services all with a view to improve the quality of life of individual and collective means (Repetto ,1986; Munawar & Ausaf, 2005; Adigun, 2022; Masoud, 2015; Notolegowo et al., 2023). This also reduce poverty and inequality by improving the living standards and well-being of present and future generations. It is an economic development that cater for all segments of society by meeting their needs in the present situation without compromising the ability of future generations to meet their own needs, the environment and the needs of future generations. It is a link between environmental sustainability and social justice. Inclusive growth works on an equitable development strategy based on the notion that every individual and community, of all diverse identities and experiences, is instrumental in the transformation of their societies (Masoud, 2015). Their participation in the overall development process leads to better outcomes. This idea is today considered a standard concept because it is noteworthy that future generations should have the same right to a healthy environment as the present. Sustainable growth as viewed in Islam embodies all aspects of human development in the present and future. This has to do with spiritual, economic, social, political and environmental development that bring about happiness in this world and the next world. In this connection, the growth and development process is grounded based on unity between the universe, life, mankind and God as the Sovereignty. The universe is created by God with specific purposes and for a limited time. Man, on the other hand as viceroy of God whose lives constituted part of the lives of other creations in the universe, needs to cooperate and work with fellow humans in their communities in the same way that they cooperate with other creatures of God (Said et al., 2018).

2.1.2. Concept of Islamic Social Finance

Islamic social finance rooted in *zakat*, *waqf, sadaqah*, and *infaq* are potent instruments to redistribute wealth to alleviate poverty and empower the needy. Modern applications include Islamic microfinance, social sukuk, and social takaful. They address social justice, economic equity, and poverty reduction (Omar, 2015; Rahman, 1990; Cattelan, 2019). Its components include: *zakat*, *waqf, sadaqah*, *infaq, qard* and *qard hasan*. Islamic social finance functions with the cooperative, wealthy and philanthropic process (IRTI, 2020; Jouti, 2019). The concepts of *zakat, infaq, sadaqah* and *waqf* which form the core fundamentals of Islamic social finance are not new financial developments. These are concepts and foundations that are firmly rooted in the teachings of the Qur'an and the teachings of Prophet Muhammad (pbuh), for over 1400 years. They are classical instruments based on the principles of redistribution of wealth for the benefit of the poor and needy in society. Most scholars attribute the function of Islamic social finance to all institutions, products and services that involve the collection and distribution of funds through the use of instruments like *zakat, infaq, sadaqah* and *waqf*, which are predominantly philanthropy-based and not-for-profit for the benefit of the poor, needy and destitute segments of society. The primary objective is to remove these groups of people from the vicious cycle of poverty and improve their well-being not only by offering funds for consumption needs but also through training, education, scholarships or provisions of micro-funds to kick start an entrepreneurial venture or business. The right promotion of Islamic social finance plays a vital role in achieving sustainable growth (Abdullah, 2018; Fauzi et al., 2022). The goal of Islamic social finance is the reduction of poverty caused by prohibited economic practices, extravagant spending, corruption, embezzlement, misappropriation of funds, unjust measures, cheating, injustice, unfair distribution of wealth, high cost of essential commodities, unemployment and refusal to pay zakat (Jouti, 2019; Hamed, 2020; Faturohman et al., 2021; Ascarya, 2022). Thus, Islamic social finance helps to build the socio-economic conditions of the poor and downtrodden segment of society, realizing social justice, growing the economy, distribution of income and wealth fairly, and filing the humanitarian funding gap through Islamic social finance instruments (Ascarya, 2022). Legal framework due to lack of awareness among members of the community, overlapping distribution and lack of coordination from stakeholders become a few of the obstacles in enriching the poor (Muhammad et al., 2018; Widiastuti et al., 2022). Each of the instruments of Islamic social finance has its role and function in realizing the welfare of society and achieving inclusive and sustainable growth. Most of the previous studies describe *zakat, waqf, infaq, qard*, microfinance, *mirath*, social sukuk and social takaful as components of Islamic social finance. In this study, Islamic social finance covers *zakat*, *waqf*, *sadaqah*, *infaq*, *qarda hasan* and Islamic microfinance.

2.1.3. Role of Islamic Social Finance in Ensuring Inclusive and Sustainable Growth

i. *Zakat*

Zakat is an Arabic word that means to "purify or cleanse" (Abdalati, 1983; Al-Qaradawi, 1960; Abdur Rahman, 1984). *Zakat* purifies the heart of the payer from selfishness and greed, and makes his wealth grow as he pays zakat, while in return purifies the hearts of the recipients of *zakat* from envy and jealousy, hatred and uneasiness and thereby fosters love and goodwill in the society (Adejumo, 2007; Adigun, 2014). *Zakat* is the third pillar of Islam and became obligatory in the month of *Shawal*, the 10th month of the Islamic calendar, in 2 A.H. (Oloso, 2008). *Zakat* fills the gap between the rich and the poor if properly managed (Bakar & Ghani, 2011). Before *zakat* can be properly collected and disbursed to the rightful individuals, there must be proper institutions in place to carry out such tasks as stipulated by the Qur'an. The assets of *zakat* are wealth or property derived from earnings (cash, coin, currency, etc.), livestock, gold and silver, business and trade, agriculture, mineral and sea products, building (factories, industries, etc.), shares and bonds, animal products such as honey, milk, silk etc. The Qur'an enumerates the categories of people entitled to receive *zakat* (the beneficiaries) (Qur'an 9:60). The collectors and distributors of *zakat* should be people of proven integrities because, the purpose of *zakat* is that, wealth should not be concentrated or accumulated in a few hands. It should be taken from the rich to the poor and make the distribution fair and equitable (Oloso, 2008; Al-Qaradawi, 1999).

For inclusive and sustainable growth, Islamic social finance prioritizes inclusive economic growth by ensuring wealth is distributed evenly across society. This is achieved through *zakat*, an obligatory form of almsgiving that requires Muslims to donate a portion of their wealth to support the less fortunate. *Zakat* plays a crucial role in poverty reduction, wealth redistribution and social cohesion (Ariyan, 2016; Dogarawa, 2021). Furthermore, it discourages hoarding of wealth and encourages investments in productive activities. Wealth is seen as means of serving society rather than merely accumulating personal riches. Such principles foster a sense of social responsibility among entrepreneurs and investors, creating a more balanced and harmonious economic ecosystem. The historical evolution of Islamic social finance in Nigeria was traced to the jihad of Uthman Dan Fodiyo in 1804 which aimed at purging the area of un-Islamic practices in Sokoto Caliphate. The war was fought in getting rid of the heathen practices and excesses of the Hausa rulers (Muhammad et al., 2018).

ii. *Waqf*

The concept of *waqf* in Islam denotes a non-obligatory, permanent, irrevocable dedication of one's wealth or property, cash and kind for the seeking of Allah's pleasure which is to be utilized for welfare and any other good that is Shariah-compliant (Adamu, 2022). It is an asset set aside such that its usufruct is dedicated in perpetuity to a charitable cause (Yusuf et al., 2021). *Waqf* is one of the instruments of Islamic social finance which is an inalienable charitable endowment under Islamic law which involves the donation of property such as a building, factory, plot of land, or other assets for Islam and charitable purposes with no intention of reclaiming the assets (Zuki, 2012; Masoud, 2015; Muhammad et al., 2022). The evolution of this instrument is traceable to the story of Prophet Musa and Khidr. The two as described by the Qur'an (18:82) found a wall about to collapse and Khidr notified Prophet Musa that the father of two orphans left some treasure for his heirs under the wall. Another traceable origin of *waqf* emanated from the hadith, which stated that "When a man dies, three deeds will intercede for him: continuous charity, beneficial knowledge, and a pious child who prays for him" (Sahih Muslim, 1631).

From the time of Prophet Muhammad through the period of his successors up to this present time the *waqf* has been acting as a source of human sustainable development used for the establishment of educational institutions, libraries, traveler's lodges, hospitals, medical bills, job creation, security, construction of roads, bridges, provision of water supply and many other sustainable developments (Muhammad et al., 2022; Masoud, 2015). Thus, historically, *waqf* have funded mosques, schools, hospitals, and other public utilities without seeking profit. The *waqf* system enables sustainable growth by providing continuous benefits, as corpus of endowment remains intact while the income generated is used for charitable purposes. Modern applications of waqf have expanded to include cash *waqf* that support microfinance initiatives for the poor or fund educational scholarships and research in technology. Innovations such as waqf-based real estate investment trusts (REITs) have also emerged, demonstrating *waqf*'s potential to contribute to social and economic spheres.

The impact of the *waqf* instrument of Islamic social finance is evidenced in its ability to less tax burden and budget deficits as well as increase public good and combat issues of inequality and poverty reduction (Aliyu, 2018). During the Ottoman Empire, Islamic social finance instruments such as waqf played a vital role in bringing about social welfare in terms of education, health, finance and employment opportunities (Zuki, 2012). In Nigeria, *waqf* institutions face challenges such as poor administration, poor participation, lack of trust and confidence, stakeholders' negligence of their obligations and lack of knowledge and awareness (Muhammad et al., 2022). The absence of federal law that oversees the management and administration of *waqf*, however, its impact is reflected in the religious activities through the establishment and maintenance of mosques (Aliyu, 2018). *Waqf*, an Islamic endowment of property or money for a specified philanthropic cause, serve as a durable vehicle for social welfare. Many scholars' attribute *zakat* and *waqf* to measures used in solving the problems of insecurity, income inequality and unemployment by increasing the income level of the poor thus increasing their chances to invest and grow their wealth through using potentials and *zakat* and *waqf* funds for tackling insecurity (Dogarawa, 2022).

iii. *Sadaqah/ Infaq*

Sadaqah is an Arabic word from the root word "*sadq*" or "*sidq*". It means 'to speak the truth' or 'to be sincere', or 'righteousness' (Dasar & Sujimon, 2018). So, it is considered a sign of sincere faith. In Islamic terminology, the word denotes charity or benevolence (Abdul, 2019). Based on the Qur'anic interpretation, it means voluntary charity whose amount or giving is at the will of the benefactor. It is something a person gives from his possession without expecting its return from the beneficiary but hoping to get the reward from God. *Zakat* and *sadaqah* are used interchangeably for alms. However, *zakat* is compulsory alms that has been stated in Islamic Law, and which is paid only once a year while *sadaqah* is non-obligatory alms that has no fixed percentage. One is free to pay it as many times as one can afford and at any time, helping others in any form without expecting anything in return. The latter is voluntary. *Infaq* on the other hand is an Arabic word that is derived from the root word '*nafaqah*' which means support and maintenance. The Qur'an makes it known that the aim of *infaq* is the welfare of the poor, without any expectation of reward, and that it should not be given for the purpose of showmanship (Qur'an 2:177, 2:262). It is also better given secretly than openly (Qur'an 2:271). It is generally known as spending in the way of Allah and giving to the poor, supporting charitable causes, or contributing to the community. Some of the companions of the Prophet and the early Muslims were incredibly generous in giving *sadaqah*. It averts calamity and increases sustenance and blessings in one's life. All philanthropic works are part of *sadaqah* and *infaq*. In the view of Dasar & Sujimon (2018), *sadaqah* has certain requirements to be fulfilled before it can be recognized. These are:

a. *al-Mutasaddaq* (Donor). There must be a donor who will volunteer to donate his property for *sadaqah*. The donor must be mature (*baligh*) and sane (*'aqil*), and must be the owner of the properties to be donated.
b. *al-Mutasadaq 'alayha* (Recipient). There must be a recipient of the money or property, who will accept it from the Donor, who must not be an insane or immature.
c. The property or money to be donated must exist. It can be movable or immovable and must be obtained from legal sources (legally recognized as a permissible source within the Shariah).

iv. *Qard Hasan*

Qard is an Arabic word translated as 'loan'. It means 'to cut' since the lender cut off part of his or her property to give to the borrower as a loan for the purpose of relieving him or her from suffering. *Hasan* which takes its root from *ihsan* (good, splendid or beautiful) is taking to be part of *qard* and thus, *qard hasan* became a term frequently used in the Qur'an to mean a beautiful loan or interest-free loan. For instance, the Qur'an says: "If you loan Allah a beautiful loan (*tuqridullaaha qardan hasanan*), He will double it to your (credit), and He will grant you forgiveness" (Qur'an 64:16–17). *Hasan* means good or acceptable or good faith. In Islamic social finance, it means a contract involving a loan with two parties based on social welfare. In modern-day Islamic finance and banking, it refers to a unique financial contract expressing the principle of interest-free benevolent loans. It is often translated as benevolent lending. It is a form of financial assistance where a lender provides funds to a borrower without expecting any interest in return.

Qard Hasan originated over 1,400 years back when Prophet Muhammad (SAW) was commissioned as God's messenger. After his *hijrah* (migration from Makkah to Madinah), the Muslim was consolidated and *qard hasan* was in use primarily to promote economic growth and sustainable development. During this period, *qard hasan* was used to set up economic activities such as trade and agriculture to improve the condition of the poor (Abdulkareem, 2017). The distinguishing feature of *qard hasan* is the absence of collateral and this makes it a loan extended purely based on goodwill and benevolence (Abidin et al., 2011;

Zenkov, 2024). This type of loan is granted on a good faith basis to extend the spirit of love, compassion and help to those in need without imposing unnecessary or additional burden on the borrower. This type of instrument of Islamic social welfare plays a crucial role in fostering social cooperation and addressing financial needs within the community. Unlike conventional loans that involve interest payments, *qard* aligns with Islamic principles which aim at establishing a strengthened relationship between the poor and the rich, contributing to the welfare of the society, distributing the national income fairly between citizens, reducing poverty and promoting financial inclusion and sustainable growth. Characteristics of *qard* or *qard hasan* include: interest-free; voluntary payment of addition; agreement from both parties, there should be fixed term repayment and fulfilment of agreement.

v. Islamic Microfinance

Microfinance as defined by the micro-credit Summit 1997, is a programme that is extended to the poor for self-reliance and employment projects that generate income thus allowing them to cater for not only themselves but also their families (UN, 2004). The phenomenon was brought up in 1990 to replace the consistent use of the word micro-credit (UN, 2004). It is used for the activities of providing financial services, including loans, savings, and insurance available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan (Hassan & Alamgir, 2003; Noibi, 2008; Jafar et al., 2016). Microfinance plays a vital role in providing sustainable livelihoods to disadvantaged groups most especially women all over the world (IsDB, 2024). When microfinance emerged as a new saving grace for poverty reduction, it was surrounded by *riba* (interest) which was frowned upon by the Shariah. However, Muslims in Nigeria, have been clamoring to live their lives according to the tenets of Islam which include the removal of *riba* from their financial transactions (Noibi, 2008). With a significant portion of the population having limited access to traditional banking services, Islamic microfinance has been identified as a potential means to enhance financial inclusion. It provides microcredits to small businesses and entrepreneurs in rural and underserved areas without interest payments, which are forbidden in Islam. For inclusive and sustainable growth in Nigeria, the study (Noibi, 2008) suggested that Muslim women's organizations need to complement the efforts of the existing microfinance banks by organizing themselves into groups in every locality, especially in the areas to be covered by the new financial institutions so that, each of the groups could form a larger group in each local government and elect leaders.

The Islamic products of finance such as *mudarabah* and *musharakah* among others have been playing as loans took the form of inputs with the Islamic financial principle of joint liability for profit and loss in financial transactions. A part of the loans advanced is made to serve consumption smoothening with no bargaining for financial gains in the financial institutions (Bello, 2019; Adigun, 2019). This only entails the normal service charge which is not directly proportional to the loan advanced and this is *qard hasan* as emphasized by the Qur'an. Islamic cooperative societies and non-governmental organizations, such as Al-Birr Islamic Cooperative Society, Al-Muhasasa Foundation (NGO), Yewande Ogunlade Foundation (NGO), FOMWAN (NGO), and other faith-based organizations, use Islamic social finance instruments to cater to the needs of the downtrodden in Ondo and Ekiti States, Southwestern Nigeria. The organizations embarked on this project through sourcing funds from the proceeds of *zakat, sadaqah, infaq* and *qard hasan* from individuals, philanthropists, corporate bodies and grants from international collaboration and other Islamic donor agencies. The operational system of Al Birr and al-Muhasasa is in line with the Islamic principles which eschew *riba* and entail linkage with self- help Groups. The effective implementation and transmission of the funds for the needs of the target group have faced difficulty due to various factors including management inefficiencies, inadequacies in legal framework and authority, lack of data integrity, weakness in infrastructure for collection and distribution of funds and many other shortcomings.

2.1.4. Islamic Social Finance as Viewed in Different Parts of the World

Islamic social finance is practiced globally, with countries like Indonesia, Saudi Arabia, Malaysia, and Bangladesh leveraging instruments such as *waqf* and *zakat* for socio-economic development. Since Islamic social finance originated from the principles of Islam, many countries of the world have been engaging in it to abide by the commandments and worship of God which is the motive of existence (Qur'an 51:56). Resultantly, *zakat* and philanthropic endowment have been practiced by several countries as instruments to solve socio-economic problems for inclusive and sustainable growth. Several studies showed the existing of Islamic social finance instruments practiced in different countries of the world (Ascarya, 2022; IRTI, 2020; Jouti, 2019; Shuaib & Sohali, 2022; Widiastuti et al., 2022). For instance, Saudi Arabia, Malaysia, Pakistan, Indonesia, Bangladesh, Sudan, United Kingdom (UK), Kazakhstan and Uzbekistan. The country with highest level of philanthropic endowment is Indonesia because of her great potential in developing Islamic social finance instruments (Widiastuti et al., 2022; Fauzi et al., 2022). Different countries prefer different mechanisms for their practice. For instance, Nigeria and almost all Arabs countries like Saudi Arabia, Lebanon, Jordan, Palestine, Iraq, United Arab Emirates are familiar with the term *waqf,* while the term *habs* are commonly used in North Africa like Algeria, Egypt, Libya, Tunisia, Morocco, Mauritania, Guinea, and the term *vakif* or *evkaf* is used in Turkey, and the term *waqf* is usually spelt as *wakaf* in Malaysia, Indonesia, and Bangladesh (Muhammad et al., 2022). All these terms are synonymous in meaning. Chabbal (2020) noted that, the *waqf* instrument is used and governed by the law in Malaysia and other countries except Nigeria where its practice is left to the trustees. This is attributed to its failure in the Northern part of Nigeria (Aliyu, 2018), as challenges in terms of awareness, transparency, and regulatory frameworks need improvement to maximize impact.

Several studies opined that Muslims are likely to donate and contribute in cash to *waqf* if there should be adequate public enlightenment and awareness (Abubakar, 2014; Ahmad, 2019). Many countries around the world are using the proceeds of *zakat*, *waqf, sadaqah*, *infaq*, *qarda hasan* and Islamic micro finance in bringing about an inclusive and sustainable growth in the establishment of skills acquisition centers for training of less privileges in the societies and acquisition of relevant tools for those who are trained on some particular skills, establishment of schools for education and capacity buildings and micro entrepreneurial growth, building of houses and provision of water and sanitation for community development, provision of scholarship to acquire basic or higher education in areas of need, establishment of hospitals for free health care of less privilege members of the society, construction of roads and bridges for community use, provision of resources and start-up capital for small scale entrepreneurs and organizing donations to orphanages (Aliyu, 2018; Jouti, 2019).

The historical development of *zakat* institutions in Malaysia reflects a gradual evolution from traditional collection methods to modern administrative systems. Omar (2015), in a seminal work, analysed the roles of *zakat* institutions in poverty alleviation, establishing the foundation for understanding *zakat* distribution effectiveness. More recently, researchers have focused on the integration of technology and digital solutions to address longstanding administrative challenges. Evidently, the publication trend on "*zakat* and digitalisation" has gradually increased since 2018 and peaked in 2024. This increase may be associated with the rise and integration of fintech solutions, which have contributed to the growing application of digitalisation in the *zakat* field. This trend was further amplified by the emergence of COVID-19, during which the global economy underwent rapid digitalisation, contributing to increased scholarly attention to *zakat* and digitalisation.

2.2. Theoretical Framework

Theory indicates a starting point for expressing prepositions about behaviour and performance. Malthus (1820) propounded the theory of economic development. This theory is concerned with how the wealth of a nation could be enhanced through the combination of production and distribution. Malthus (1820) emphasizes maximum production and optimum allocation of resources for increasing the wealth of a country in the short run. In his concept of development and growth, Malthus (1820) did not regard the process of economic growth as automatic. Rather, it requires consistent efforts on the part of the people. This study also adopted the Islamic economic theory that existed hundreds of years ago. This theory based human welfare on the promotion of economic growth and productive equity (Siddiq, 1981). In the last two decades of the 20th century, Islamic economists presented several conceptions of economic development in Islam. Despite some differences in points of view or presentations, there was no lack of consensus among Islamic economics over two main points: The first is, the happiness of mankind which forms the focus and target of economic growth. The second is that, this happiness can only be achieved with the total development of man in all dimensions, that is, with the due balance between material growth on the one hand and moral and spiritual growth on the other (Chapra, 1992; Said et al., 2018).

From the above theory, inclusive and sustainable growth is directly linked with Shariah and adherence to Islamic ethical values. Application of Shariah is a necessary condition for an Islamic economic system, adherence to Islamic ethical values, which relates to *Aqidah* (Islamic ideology), is a sufficient condition for an Islamic economic system. Thus, Shariah and holding fast to *Aqidah* will bring about the required development (Chapra, 1992; Said et al., 2018). In the Qur'an, Allāh says: Verily never will Allah change the condition of a people until they change what in themselves (Qur'an 13: 11). Also, Al-Qaradawi, an Islamic economist, uses the above theory to ground his understanding of economic growth in his interpretation of the Qur'an. He refers to the Qur'anic verses which state: "O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye, do it not, take notice of war from Allah and His Messenger; but if ye repent, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly" (Qur'an 2:278–279). The repentance meant here is keeping original capital and refraining from taking any increase made without effort or joint investment. Islam prohibited depositing one's wealth and taking specified increases without the risk of either loss or profit making. This theory of Islamic economic growth indicates inclusive and sustainable growth where structural change in the socio-economic environment takes place concurrently with the adoption of Islamic laws and adherence to ethical values. Thus, inclusive and sustainable growth requires righteousness, economic development and equitable distribution which in turn facilitate the significant changes in the lives of the downtrodden communities.

2.3. Empirical Literature

Many studies have been carried out on Islamic Social finance in Nigeria, few studies have empirically investigated the link between Islamic Social finance and inclusive and sustainable growth in Ondo and Ekiti Southwestern part of Nigeria. This study closes this gap by empirically exploring the link between Islamic Social finance and inclusive and sustainable growth. A study conducted in Sokoto, Northern part of Nigeria looked into the youth and women empowerment programs of the *zakat* and endowment committee which was converted by the government into a commission to make it independent. The study found that, the two instruments of Islamic social finance practiced have helped the youth and women to harness their potential and skills to improve their welfare (Muhammad et al., 2018). This study may have investigated the prospect of and challenges of the two instruments of Islamic social finance in Nigeria, the study was limited in scope and since it was not extended to the Southwestern part of Nigeria which this study intends to do, this study will fill the gap left as it focuses on Ondo and Ekiti states which are out of the coverage of many studies. The study of Amuda (2015) examined the application of cash *waqf* as an instrument for socio-economic development in Nigeria. The study concentrated on Zamfara, Sokoto, Kano, Kaduna, Kwara, Kogi, Oyo, Osun, Ogun and Jos excluding Ondo and Ekiti. The study also limited its discussion and analysis to cash *waqf* as a modern instrument for socio-economic development in solving social issues and the challenges confronting Nigerians at large and Nigerian Muslims in particular. After discussing the conceptualization of cash *waqf* and others like corporate cash *waqf* and *waqf* shares model, it concluded that *waqf* played a commendable effort in empowering Nigerian Muslims through *mudarabah, musharakah, muzaraha, qard hasan* and *sukuk* instrument.

Yusuf et al. (2021) study on *waqf* effectiveness in Nigeria: problems and solutions, found out whether perceived mismanagement of *waqf* properties due to lack of capacity or corruption discourages prospective *waqf* donors from engaging in *waqf* donation in Nigeria and inquiring whether there is lack of awareness among Muslims in Nigeria about *waqf* and its characteristics. The study findings concluded that *waqf* institutions can be relevant in contemporary society if only the challenges like awareness, transparency and inadequate expertise in *waqf* practice are addressed in Nigeria. The study of Shuaib (2020) which was on the role of Islamic social finance instruments in providing services in Nigeria concentrated on Islamic Faith-Based Organizations (IFBOs) alone. His findings showed that funding strategies used by IFBOs to improve access to social services in Nigeria include *zakah*, *sadaqah*, *waqf* and impromptu payments which are collected at meetings and social gatherings, and levies for special projects and gifts. The study also revealed that challenges in implementing their social services intervention projects are intolerance of beneficiaries, demands being more than supply, inadequate funding, dearth of full-time staff and apathy among philanthropists and hostile communities.

Findings from the study (Ashafa, 2021) showed that poor management is one of the challenges facing *waqf* management in the southern part of Nigeria. The study attributed the problem to government agencies, and lack of enough qualification on the part of those in charge. However, many strategies could be adopted to enhance the effective management of *waqf* in the area by perceiving Mosque as a centre of attraction that serves as a forum for fundraising to execute welfare projects like *waqf* and thus proposed a seven-layer framework consisting of: steering committee, awareness and exhortation, mobilization of funds, itemization of project, implementation of the project, commencement of operation and supervision of implementation. The study recommended that the Muslim *Ummah* of South West Nigeria (MUSWEN) swing into action by initiating a wide consultation on the subject matter of *waqf* under the control of the organization. The study is limited in scope as it considers only one instrument of Islamic social finance. The study carried out in Ekiti by Bello (2019) examined the role played by *Al-Birr* Islamic Cooperative Society in meeting the financial needs of the Muslims in Ekiti State as a micro–Islamic Financial Institution. In his study, records like ledgers, annual financial records, minutes of monthly and general meetings, loan books, dividend books, general correspondence and membership record books were accessed to evaluate the impacts on the Muslims in the State. His findings showed that *Al-Birr* Islamic Cooperative Society is having a great positive impact on the economic lives of the Muslims of Ekiti through its interest-free loans and other services it is offering to its members. These studies correlate with our studies to show the causal relationship between Islamic social finance and inclusive and sustainable growth concerning service rendering purely to please Allah via the provision of non-refundable cash to improve the general welfare of the poor widows, needy, poor orphans, prison inmates, oppressed and physically challenged in the community. This study sought to discuss this lacuna using a broader approach.

3. Research Methodology

3.1 Data Collection

A sample of two hundred and eighty-eight (288) respondents consisting of members and beneficiaries of Al-Birr Islamic Cooperative Society, Al-Muhasasa Foundations (NGO), Yewande Ogunlade Foundations (NGO), FOMWAN (NGO), philanthropists and wealthy individuals from the general public in Ondo and Ekiti States of Nigeria. Six rounds of participant observations of six hours (4 in Ondo and 2 in Ekiti) were also carried out. The method was adopted to allow freedom of expression as well as to enable the researcher to obtain accurate and elaborate information. Thus, interviews, focus group discussions and observations were used to augment and authenticate the information gathered from secondary sources, such as book materials and journals, reports, magazines, theses, seminar papers and programmes of events with additional internet sources.

3.2. Data Analysis Technique

Since interviews, focus group discussions constituted the major methods of data collection in this study, the data collected in responses from interviews and focus group discussions were subjected to descriptive analysis and simple percentage statistical method.

4. Results

Table 1. Which of the Islamic Social Finance Instrument have you benefited?

S/n	Responses	Yes	%	No	%	Neutral	%
1.	*Zakat*	276	95.8	12	4.2	0	0
2.	*Waqf*	116	40.3	172	59.7	0	0
3.	*Sadaqah/Infaq*	286	99	2	1	0	0
4.	*Qard Hasan*	280	97	8	3	0	0
5.	Microfinance	278	96.5	10	3.5	0	0

Table 1 above revealed that 276 respondents representing 95.8% agreed that *zakat* impacted them positively, while 172 respondents representing 59.7% agreed that they have not benefited much from the *waqf* instrument. 286 of the respondents representing 99% view that *sadaqah* or *infaq* impacted them positively while 2 of the respondents representing 1% disagreed. While 280 respondents representing 97% agreed that they have benefited greatly from *qard hasan*, 8 of the respondents representing 3% disagreed. In the case of microfinance, 278 of the respondents representing 96.5% agreed that they benefited from Islamic microfinance while 10 of the respondents representing 3.5% disagreed with the opinion. This proved that, the respondents prioritize Islamic social finance for inclusive economic growth, ensuring wealth is distributed more evenly across society. The table also revealed that wealth is distributed more evenly across society through *zakat*, an obligatory form of almsgiving that requires Muslims to donate a portion of their wealth to support the less fortunate. *Zakat* plays a crucial role in poverty alleviation, wealth redistribution, and promoting social cohesion. The practice of *waqf, sadaqah, infaq, qard hasan* and microfinance also discourage hoarding of wealth and encourage investments in productive activities indicating that wealth is seen as a means of serving society rather than mere accumulation of personal riches. These principles create a more balanced and harmonious economic ecosystem.

Table 2. Islamic Social Finance and Inclusive and Sustainable Growth

S/n	Responses	Yes	%	No	%	Neutral	%
1.	Access to grants and funding to encourage skill development	280	97	8	3	0	0
2.	Employment opportunities	286	99	2	1	0	0
3.	Building infrastructure	284	98.6	4	1.4	0	0
4.	Bringing about monetary policies that stimulate growth while ensuring stability and equitable distribution of wealth	281	97.6	7	2.4	0	0
5.	Supporting economic activities	278	96.5	10	3.5	0	0
6.	Community building collaboration	283	98.3	5	1.7	0	0
7.	Utilizing halal investments and financial contract	279	97	9	3	0	0
8.	Management of resources responsibly	216	75	72	25	0	0
9.	Investment in education, healthcare and social protection that ensure equal opportunities.	276	95.8	12	4.2	0	0
10.	Building the capacity of individuals, communities and systems to adapt to economic, social and environmental changes	282	98	6	2	0	0
11.	Ensuring fair opportunities regardless of gender, race, ethnicity, religious or economic background	286	99	2	1	0	0
12.	Bringing about steady GDP growth, high employment levels, and a broad-based increase in living standards	283	98.3	5	1.7	0	0
13.	Reducing inequality through enhanced social mobility, and improved quality of life for all segments	276	95.8	12	4.2	0	0

Source: Researcher's own

Result in table 2 above showed that majority of the respondents were of the opinions that, Islamic social finance is linked with an inclusive and sustainable growth in the areas of access to grants and funding which encourages skill development (97%) , Employment opportunities (99%), Building infrastructure (98.6%), monetary policies that stimulate growth while ensuring stability and equitable distribution of wealth 281 (97.6%), economic activities (96.5%), Community building collaboration (98.3%), halal investments and financial contract (97%), responsibility in the management of resources (75%), Investment in education, healthcare and social protection that ensure equal opportunities (95.8%), capacity building of individuals, communities and systems to adapt to economic, social and environmental changes (98%), fair opportunities regardless, of gender, race, ethnicity, or religious background (99%), steady GDP growth, high employment levels and a broad-based increase in living standards (98.3%), Reducing inequality through enhance social mobility and improved quality of life for all segments (95.8%). A minority have counter opinions as it is reflected in the number of percentages of respondents in this regard (3%, 1%, 1.4%, 2.4%, 3.5%, 1.7%, 3%, 1%, 4.2%, 2% 1%, 1.7%, 4.2%).

Table 3. Challenges Faced in the Practice of Islamic Social Finance in Nigeria?

S/N	ITEM	YES	%	NO	%	NEUTRAL	%
1.	Members default in paying back loans at stipulated time	280	97	8	3	0	0
2.	Sundry debtors	284	99	4	1	0	0
3.	Embezzlement by the executive	281	97.6	7	2.4	0	0
4.	Irregularity of members except when aiming to obtain a loan from a cooperative society	282	98	6	2	0	0
5.	Islamic financial literacy, regulatory frameworks, and the need for product innovation	279	97	9	3	0	0
6.	Irregularity in the payment of *zakat*	263	91	25	9	0	0
7.	Inadequate knowledge of *waqf*	172	59.7	116	40.3	0	0

Source: Researcher's own

Table 3 above revealed that, the challenges faced in the practice of Islamic social finance include: members' default in paying back loans at stipulated time 280 (97), sundry debtors 284 (99), embezzlement by the executive 281 (97.6), irregularity of members except when aiming to obtain loan from cooperative society 282 (98), Islamic financial literacy, regulatory frameworks, and the need for product innovation 279 (97), irregularity in the payment of *zakat* 263 (91), and inadequate knowledge of *waqf* 172 (59.7)

Table 4. Best Way in which Islamic Social Finance can be promoted in Nigeria

S/N	ITEM	YES	%	NO	%	NEUTRAL	%
1.	Regularity in the payment of *Zakat*	286	99	2	1	0	0
2.	Establishment of more Islamic Cooperative Society	283	98	5	2	0	0
3.	Stipulating interest-free loans and allowing *halal* investment and contract by Government	276	95.8	12	4.2	0	0
4.	Islamic Cooperative Society staff should be people of proven integrities	261	91	27	9	0	0
5.	Central *Baitul Mal* (public treasury) should be available in each community	250	87	38	13	0	0
6.	*Waqf* should be the priority of philanthropists	215	75	73	25	0	0
7.	Islamic financial literacy and awareness campaigns are crucial to broadening its appeal	277	96	11	4	0	0

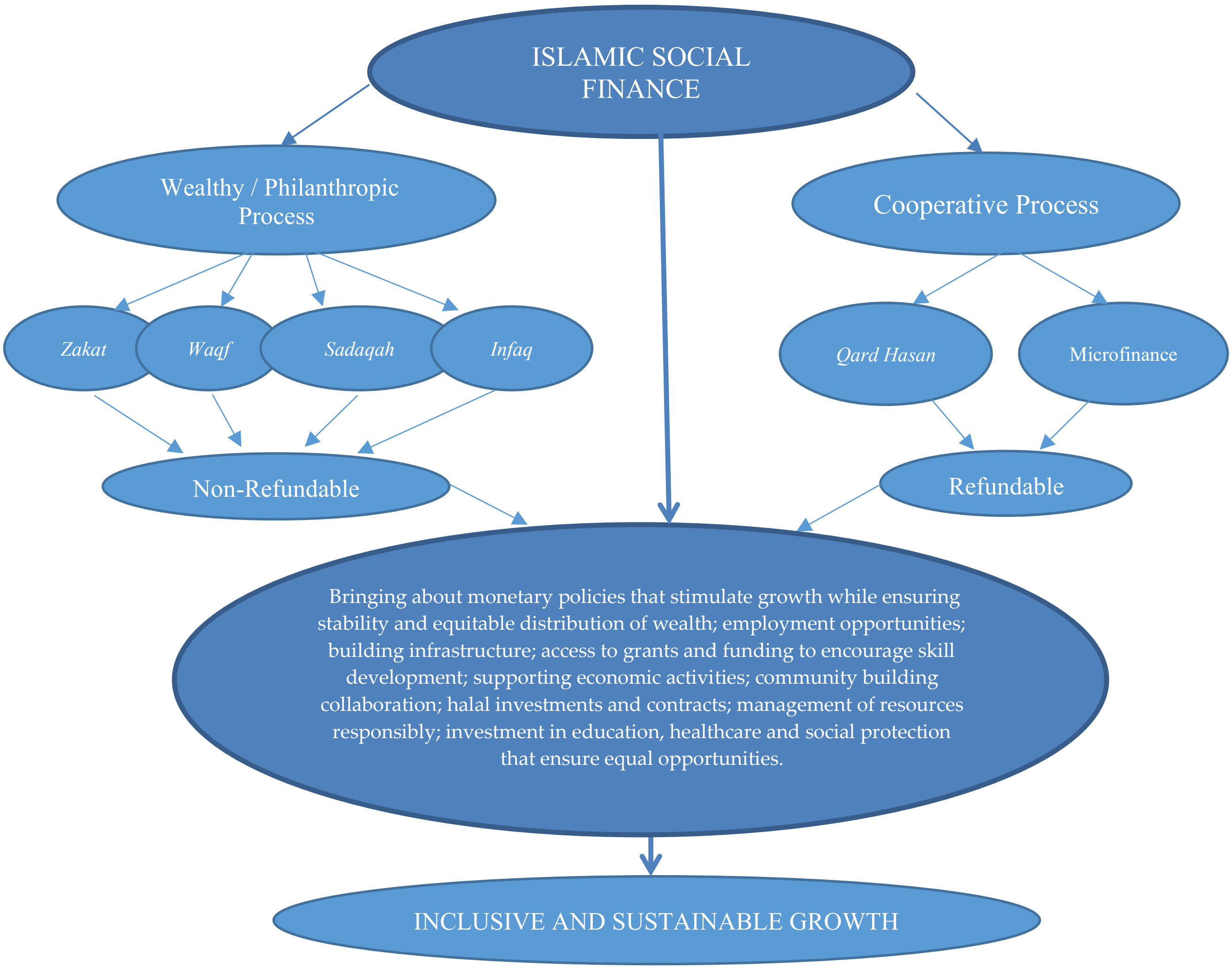
Source: Researcher's own

Table 4 above shows that two hundred and eighty-six (99%) of the respondents are of the view that inclusive and sustainable growth in Nigeria depends on the regular payment of *zakat*, two hundred and eighty- three (98%) suggest that there should be more Islamic Cooperative societies in the states to give room for more access to *qard hasan* (benevolent loan) for inclusive and sustainable growth. Two hundred and sixty-one (91%) agreed that the staff to be appointed to work in Islamic cooperative societies should be people of proven integrity to discourage embezzlement of public funds, two hundred and fifteen (75%) suggested that *waqf* (endowment) should be the priority of the philanthropists in the states. This is why it was reflected in table 4 also that Islamic financial literacy and awareness campaigns are very vital in promoting Islamic social finance most especially *waqf* (endowment) for more enhancement of inclusive and sustainable growth. The table also revealed that *bait-al Mal* (public treasury) is important in every community so that funds accumulated from *zakat, qard hasan, sadaqah* and *infaq* will be made available to the downtrodden when the need arises. This will further enhance inclusive and sustainable growth in the states.

5. Discussion

The study, based on the findings, revealed that, Islamic social finance instruments, such as *zakat*, *sadaqah* or *infaq* and *qard hasan* play a vital role in addressing social and economic inequality. *Zakat*, one of the five pillars of Islam, requires Muslims to donate a portion of their wealth to support the less fortunate. This redistribution mechanism helps alleviate poverty, provide access to education and healthcare, and promote social cohesion within Muslim communities. The major impact of Islamic social finance promoted by Al-Birr, Al-Muhasasa, FOMWAN, YOF and philanthropists or wealthy individuals in Ondo and Ekiti States of Nigeria included the provision of education, employment via skill-acquisition and provision of small-scale investment machines and access to credit for trading activities and provision of essential needs. Provision of small-scale investment machines enhances the incomes of vulnerable widows. The capacity building of FOMWAN includes training in subsistence and mechanized farming to develop the skills of the poor who are working as farmers through *sadaqah* and *infaq* resources. The skill enhancement not only developed them as trained farmers, but also enhanced their wages and ensured sustainable livelihood opportunities. Having realized that a structural change in the socio-economic conditions is directly linked with economic development and its equitable distribution in the right proportion as early propounded in Malthusian theory and the application of Shariah and adherence to Islamic ethical values, Al-Birr Islamic Cooperative society, Al-Muhasasa Foundations, Yewande Ogunlade Foundations , FOMWAN, the wealthy and philanthropic individuals from general public in Ondo and Ekiti states are connected to improve the standard of living of disadvantage of the society through economic development seasoned with joint efforts, time, resources, lobbying, collaboration and *da'wah* (disseminating the message of God to make it supreme) by using the instruments of Islamic social welfare in bringing about monetary policies that stimulate growth while ensuring stability and equitable distribution of wealth; halal investments and contract to gain access to grants and funding that encourage skill development; economic activities; community building collaboration; investment in education, healthcare and social protection that ensure equal opportunities. Al-Birr Islamic Cooperative Society has been taking care of the welfare of members to keep savings and disburse loans in Ekiti. The society also partners with some individuals and corporate bodies for *halal* (permissible) transactions. It also invests accumulated funds, manages potential business projects and shares the profits accordingly. The study carried out by Bello (2019) and reports from focus group discussion proved that, Al-Birr Islamic Cooperative Society is having a great positive impact on the economic lives of the Muslims of Ekiti State through its interest-free loans and other services it is offering to its members and beneficiaries. Through the principles of profit-sharing, *musharakah*, *mudarabah*, and *murabaha* were put into practice by the cooperative society as it partners with other investors to provide succour to the disadvantaged and downtrodden Muslims (Bello 2019). However, Bello (2019) noted that the embezzlement by the executives of the Cooperative Society is a serious challenge.

Figure 1. The Link between Islamic Social Finance and Inclusive and Sustainable Growth



Source: Researchers' Own

6. Conclusion

This paper has analyzed the multifaceted role of Islamic social finance in fostering economic empowerment, self-employment, entrepreneurial skills, social equity, and environmental stewardship for the promotion of inclusive and sustainable growth in Nigeria. Findings on the activities of Al-Birr Islamic Cooperative Society, Al- Muhasasa Foundations, Yewande Ogunlade

Foundations, FOMWAN, the wealthy and philanthropic individuals from the general public in Ondo and Ekiti states, it was found that, the integration of Islamic social finance offers a holistic approach to promoting inclusive and sustainable growth by aligning financial practices with ethical principles, which fosters greater financial inclusion, particularly among underserved populations such as women, youth, and rural communities. However, irregularity in the payment of *zakat*, members' default in paying back loans at the stipulated time, embezzlement, stakeholders' negligence of responsibilities, the inadequacy of Islamic cooperative societies and banks, lack of knowledge and public awareness of *waqf*, and the need for product innovations were identified as major challenges. Overcoming these challenges requires concerted efforts from individuals and stakeholders across the public and private sectors in Nigeria.

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