

ISLAMIC SOCIAL FINANCE AND POVERTY REDUCTION: THE COMPLEMENTARY ROLES OF ZAKAT AND WAQF IN INCLUSIVE ECONOMIC DEVELOPMENT**KEUANGAN SOSIAL ISLAM DAN PENGENTASAN KEMISKINAN: PERAN KOMPLEMENTER ZAKAT DAN WAKAF DALAM PEMBANGUNAN EKONOMI INKLUSIF****Cholid Fadil**

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Poverty and structural inequality remain among the most persistent development challenges in Muslim-majority countries, and conventional fiscal and market-based instruments have frequently proven insufficient to achieve inclusive outcomes. This study examines the complementary roles of zakat (obligatory almsgiving) and waqf (Islamic endowment) as instruments of Islamic social finance (ISF) in reducing poverty and promoting inclusive economic development. Using a systematic literature review and synthesis of empirical, conceptual, and institutional studies published between 2008 and 2026, this article analyzes how zakat functions as a short-term redistributive and consumption-smoothing mechanism, while waqf particularly cash waqf and productive waqf provides a sustainable, asset-based platform for long-term human capital formation, micro-enterprise financing, and public-goods provision. The findings indicate that integrating zakat and waqf into a single complementary framework, rather than managing them as separate and competing instruments, produces stronger and more sustainable poverty-reduction outcomes than either instrument used alone. Evidence from Indonesia, Malaysia, Pakistan, Bangladesh, and other Organisation of Islamic Cooperation (OIC) member countries shows that zakat has reduced poverty headcounts and poverty gaps among recipients, while productive and cash waqf have financed education, health, and micro, small, and medium enterprise (MSME) development. However, optimization remains constrained by low financial literacy, fragmented governance, weak regulatory integration, and limited digitalization. This study contributes a conceptual model of zakat-waqf complementarity for inclusive development and offers policy recommendations for regulators, zakat and waqf authorities, and multilateral development institutions seeking to mainstream Islamic social finance within national poverty-reduction and Sustainable Development Goals (SDGs) strategies.

Keywords: Islamic social finance; zakat; waqf; poverty reduction; inclusive economic development; Sustainable Development Goals

ABSTRAK

Kemiskinan dan ketimpangan struktural masih menjadi salah satu tantangan pembangunan yang paling persisten di negara-negara mayoritas Muslim, sementara instrumen fiskal konvensional dan mekanisme berbasis pasar seringkali belum mampu menghasilkan pembangunan yang benar-benar inklusif. Penelitian ini bertujuan menganalisis peran komplementer zakat dan wakaf sebagai instrumen keuangan sosial Islam (Islamic Social Finance/ISF) dalam mengurangi kemiskinan serta mendorong pembangunan ekonomi yang inklusif. Penelitian menggunakan metode systematic literature review dengan sintesis terhadap berbagai studi empiris, konseptual, dan kelembagaan yang dipublikasikan pada periode 2008–2026. Analisis menunjukkan bahwa zakat berfungsi sebagai mekanisme redistribusi jangka pendek dan penyangga konsumsi masyarakat, sedangkan wakaf khususnya wakaf uang dan wakaf produktif menyediakan platform berbasis aset yang berkelanjutan untuk pembentukan modal manusia, pembiayaan usaha mikro, serta penyediaan barang publik dalam jangka panjang. Temuan penelitian menunjukkan bahwa integrasi zakat dan wakaf dalam satu kerangka yang saling melengkapi, alih-alih dikelola sebagai instrumen yang terpisah dan saling bersaing, menghasilkan dampak pengentasan kemiskinan yang lebih kuat dan berkelanjutan dibandingkan apabila masing-masing instrumen

digunakan secara terpisah. Bukti dari Indonesia, Malaysia, Pakistan, Bangladesh, serta negara-negara anggota Organisasi Kerja Sama Islam (Organisation of Islamic Cooperation/OIC) lainnya menunjukkan bahwa zakat berkontribusi terhadap penurunan tingkat kemiskinan dan kesenjangan kemiskinan di kalangan penerima manfaat, sementara wakaf produktif dan wakaf uang berperan dalam pembiayaan sektor pendidikan, kesehatan, serta pengembangan usaha mikro, kecil, dan menengah (UMKM). Namun demikian, optimalisasi kedua instrumen tersebut masih menghadapi berbagai kendala, seperti rendahnya literasi keuangan, tata kelola yang terfragmentasi, lemahnya integrasi regulasi, serta terbatasnya digitalisasi. Penelitian ini memberikan kontribusi melalui pengembangan model konseptual mengenai komplementaritas zakat dan wakaf dalam pembangunan inklusif serta menawarkan rekomendasi kebijakan bagi regulator, otoritas pengelola zakat dan wakaf, serta lembaga pembangunan multilateral untuk mengarusutamakan keuangan sosial Islam dalam strategi nasional pengentasan kemiskinan dan pencapaian Tujuan Pembangunan Berkelanjutan (Sustainable Development Goals/SDGs).
Kata Kunci: *keuangan sosial Islam; zakat; wakaf; pengentasan kemiskinan; pembangunan ekonomi inklusif; Tujuan Pembangunan Berkelanjutan (SDGs).*

1. INTRODUCTION

Global and national poverty-reduction agendas continue to confront the limitations of purely market-based and conventional fiscal redistribution mechanisms, particularly in developing and Muslim-majority economies where informal sectors are large and social-protection coverage remains thin (World Bank, 2022). Indonesia illustrates this problem clearly: despite average annual economic growth of roughly 4.9 percent between 2000 and 2022, the national poverty rate has stagnated at around 10 percent, indicating that aggregate growth alone has not translated into inclusive outcomes (Alhempri et al., 2025). Similar patterns of slow or uneven poverty reduction persist across other OIC member countries, prompting renewed scholarly and policy interest in indigenous, faith-based redistributive institutions as complements to state welfare systems.

Islamic social finance (ISF) comprising zakat, waqf, sadaqah, infaq, and qardhul hasan has re-emerged as a policy-relevant instrument for addressing this gap (Ishak et al., 2024; Widiastuti et al., 2022, as cited in Alhassan & Kabiru, 2025). Zakat, one of the five pillars of Islam, mandates that eligible Muslims transfer a fixed proportion of qualifying wealth to defined categories of recipients, functioning simultaneously as a religious obligation and a socio-economic redistribution mechanism (Bukhari, 2025). Waqf, by contrast, is a perpetual, irrevocable endowment of an asset whose usufruct or income is dedicated to charitable or religious purposes, and it has historically financed mosques, schools, hospitals, and public infrastructure across the Muslim world (Ahmad, 2015). While zakat operates primarily as a short-term, flow-based redistributive instrument, waqf operates as a long-term, stock-based instrument capable of generating a sustainable and perpetual income stream (Kahf, 1998).

A growing body of literature has examined zakat and waqf separately as poverty-alleviation tools, documenting positive impacts on income, consumption, education, health, and entrepreneurship (Lahuri et al., 2021; Mohammed & Razak, 2013). However, comparatively fewer studies have systematically analyzed how the two instruments function together as complements rather than substitutes within a single inclusive development framework (Maulida et al., 2023). This gap is significant because zakat's short-term relief function and waqf's long-term asset-building function address different dimensions of poverty: zakat alleviates immediate consumption deficits among the poor and needy (asnaf), while productive and cash waqf build the physical, human, and financial capital base needed to prevent the recurrence of poverty across generations (Ismail Abdel Mohsin, 2013; Pramanik et al., 2015).

This study addresses that gap by asking three research questions: (1) How does zakat function as a redistributive instrument for poverty reduction, and what does the empirical evidence show about its effectiveness? (2) How does waqf, particularly cash waqf and productive waqf, function as an asset-based instrument for inclusive and sustainable development? (3) How can zakat and waqf be structured as complementary rather than

competing instruments to maximize inclusive economic development outcomes? The objective of this article is to synthesize empirical and institutional evidence on zakat and waqf, to develop a conceptual model of their complementarity, and to derive policy implications for zakat and waqf authorities, regulators, and development institutions in OIC member countries.

The remainder of this article is organized as follows. Section 2 describes the systematic literature review method used to identify and synthesize relevant studies. Section 3 presents the results and discussion, organized around the individual roles of zakat and waqf, their complementarity, and the institutional and governance challenges to optimization. Section 4 concludes with policy recommendations and directions for future research.

2. METHODS

2.1 Research Design

This study employs a systematic literature review (SLR) approach combined with qualitative content synthesis, following procedures broadly consistent with the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) protocol as applied in recent Islamic social finance literature (Lahuri et al., 2021; Islamic Studies Journal, 2024). This design was selected because the research questions concern the synthesis of dispersed empirical findings on zakat and waqf across multiple country contexts, rather than the generation of new primary data.

2.2 Data Sources and Search Strategy

Relevant literature was identified through structured searches of Scopus-indexed and Sinta-indexed journal databases, including Emerald (Journal of Islamic Accounting and Business Research; International Journal of Islamic and Middle Eastern Finance and Management), the Journal of Islamic Monetary Economics and Finance, the International Journal of Islamic Economics and Finance (IJIEF), and institutional reports from the Islamic Research and Training Institute (IRTI), the United Nations Development Programme (UNDP), and the World Bank. Search terms combined the keywords "zakat," "waqf," "Islamic social finance," "poverty alleviation," "poverty reduction," and "inclusive economic development," consistent with search strategies used in comparable reviews (Hasibuan et al., 2024).

2.3 Inclusion and Exclusion Criteria

Studies were included if they (a) were published in peer-reviewed journals, institutional working papers, or reports between 1998 and 2026; (b) addressed zakat, waqf, or both in relation to poverty alleviation, micro-enterprise financing, or inclusive development; and (c) reported empirical findings, institutional case data, or conceptual frameworks relevant to the research questions. Studies were excluded if they addressed zakat or waqf purely from a jurisprudential (fiqh) perspective without an economic-development dimension, or if they were not accessible in full text.

2.4 Analytical Approach

Following extraction, studies were thematically coded into three analytical categories: (1) the redistributive and short-term poverty-alleviation function of zakat; (2) the asset-based and long-term development function of waqf, including cash waqf and productive waqf; and (3) institutional and governance factors affecting the integration of the two instruments. This thematic synthesis approach is consistent with prior systematic reviews in the Islamic social finance literature (Al-Amwal, 2026; Perisai, 2023) and enables the construction of an integrative conceptual model linking zakat and waqf to inclusive economic development outcomes.

3. RESULTS AND DISCUSSIONS

3.1 Zakat as a Short-Term Redistributive Instrument for Poverty Reduction

Empirical evidence across multiple OIC member countries consistently indicates that zakat distribution reduces poverty incidence and narrows the poverty gap among recipient households. A meta-analytic synthesis of 45 empirical studies published between 2000 and 2025 across Southeast Asia, Africa, and the Middle East found that zakat reduces poverty incidence by an average of 20 to 25 percent among recipient households, alongside measurable improvements in consumption, education, health, and entrepreneurial participation (Veredas do Direito, 2026). In Malaysia, zakat distribution in Kelantan was found to meaningfully reduce the incidence of poverty among recipients, with productive zakat programs additionally supporting income-generating activity (Mohd Ali et al., 2015). Provincial-level panel analysis in Indonesia similarly found that zakat contributes to improvements in the BAZNAS Welfare Index (Indeks Kesejahteraan BAZNAS), a composite measure of recipient well-being across 28 provinces (Choiriyah et al., 2020).

At the institutional level, Indonesia's national zakat potential has been estimated at approximately IDR 327 trillion annually, a sum theoretically capable of funding up to 76 percent of the government's social-protection budget if fully collected and efficiently distributed (Alhempri et al., 2025). This estimate underscores both the scale of zakat's potential contribution to national poverty-reduction strategy and the magnitude of the current collection gap, since actual zakat collection in most OIC countries remains a small fraction of estimated potential (Nurhalima, 2024). Productive zakat models, in which zakat funds are allocated as working capital rather than direct consumption transfers, have shown particular promise: a study of Baitul Mal Aceh's productive zakat program found measurable increases in recipient income and business sustainability (Akmal et al., 2021), while a comparable Acehese case study of the Baitul Mal wat Tamwil model found that Islamic microfinance-linked zakat distribution reduced poverty among borrowers relative to non-recipients (Hasan & Ashraf, 2013, as cited in Tazkia Islamic Finance and Business Review).

Nevertheless, the effectiveness of zakat as a poverty-reduction instrument is not uniform across contexts. A systematic review and bibliometric analysis of zakat and poverty alleviation research in Malaysia found that while zakat implementation and effectiveness are consistently the dominant research themes, empirical findings on the magnitude of poverty impact vary considerably depending on distribution model, governance quality, and target-group selection accuracy (Hasibuan et al., 2024). Similarly, in Pakistan, Zakat and Waqf have historically played an important redistributive role, but institutional fragmentation and inconsistent targeting have limited their poverty-reduction potential relative to their theoretical capacity (Bukhari, 2025). These findings collectively suggest that zakat's redistributive function is real and measurable, but that its full poverty-reduction potential is contingent on professionalized governance, accurate beneficiary targeting, and a shift from purely consumptive to productive distribution models.

3.2 Waqf as a Long-Term, Asset-Based Instrument for Inclusive Development

Where zakat provides short-term relief, waqf functions as a stock-based instrument capable of generating a perpetual income stream for long-term development financing (Kahf, 1998). Productive waqf in which the endowed asset itself is invested and only its returns are disbursed has been shown to transform otherwise stagnant assets into sustainable social-investment instruments across multiple national contexts, converging toward the shared objectives of wealth redistribution, poverty alleviation, and ummah economic empowerment despite significant cross-country variation in regulatory and institutional models (Al-Amwal, 2026). In Bangladesh, waqf-based Islamic microfinance models have been proposed and piloted as mechanisms for addressing the multi-dimensional aspects of poverty in a Shariah-compliant manner, integrating waqf capital with microfinance delivery to reach borrowers excluded from conventional credit markets (Haneef et al., 2015).

Cash waqf, an innovation permitting endowments in liquid monetary form rather than only fixed real assets, has substantially expanded the accessibility and scalability of waqf as a development-financing tool. In Malaysia, cash waqf investments channeled through mosque institutions (*tabung masjid*) were found to play a positive role in increasing recipient communities' capacity for poverty alleviation, based on structural equation modeling of 100 mosques across Melaka and Terengganu (Hasan et al., 2019). Cash waqf has similarly been proposed as a financing mechanism for refugee-focused microfinance funds, reflecting its flexibility in addressing acute humanitarian as well as chronic development needs (Kachkar, 2017, as cited in *International Journal of Islamic Economics and Finance*, 2020). In the Indonesian and Nigerian contexts, integrated cash-waqf and Islamic microfinance models have demonstrated potential to serve as financing facilities for micro, small, and medium enterprises (MSMEs), positioning cash waqf as a complementary source of capital alongside conventional microfinance institutions such as Baitul Maal wat Tamwil (Ahmad et al., 2021).

The complementarity between zakat's flow-based redistribution and waqf's stock-based asset accumulation is explicitly recognized in recent literature. Zakat serves as an urgent form of assistance covering food and shelter needs while waqf is intended to finance long-term infrastructural initiatives in education, health, and enterprise development, with this functional division aligning directly with SDG 1 (no poverty), SDG 4 (quality education), and SDG 10 (reduced inequalities) (Widiastuti et al., 2022, as cited in Ishak & Rahman, 2025). Waqf's contribution to SDG 4 and SDG 8 (decent work and economic growth) operates specifically through sustainable financing of education and inclusive economic growth, whereas zakat's contribution to SDG 1 and SDG 2 (zero hunger) operates through direct redistribution and social protection (Maulida et al., 2023). This division of labor between the two instruments rather than treating them as substitutes is the central theoretical proposition this study advances.

3.3 Zakat-Waqf Complementarity: Toward an Integrated Model for Inclusive Development

Synthesizing the evidence above, this study proposes that zakat and waqf should be conceptualized as sequential and complementary stages of a single poverty-reduction pathway rather than as parallel, independently managed instruments. In the first stage, zakat addresses the immediate consumption deficit of the poor and needy (*asnaf*), stabilizing household welfare and preventing destitution (Bukhari, 2025). In the second stage, productive zakat and waqf-based microfinance provide working capital and business development support, enabling recipients to transition from dependency toward income-generating activity (Akmal et al., 2021; Haneef et al., 2015). In the third stage, productive and cash waqf finance the public infrastructure schools, health clinics, vocational training centers needed to sustain human-capital development across generations, addressing the structural determinants of poverty rather than only its symptoms (Al-Amwal, 2026).

Integrated models along these lines have already been proposed in the literature. The Integrated Waqf-based Islamic Microfinance Model (IWIMM) was designed specifically to combine waqf capital with microfinance delivery mechanisms in order to address the practical and Shariah-compliance challenges facing conventional microfinance in Muslim communities, explicitly targeting the multi-dimensional aspects of poverty (Haneef et al., 2015; Mohammed, 2014). Comparative institutional analysis across multiple jurisdictions further shows that although regulatory and governance models for zakat and waqf vary considerably by country, all converge toward the same underlying objectives of wealth redistribution, poverty alleviation, and economic empowerment, suggesting that a common complementarity framework is transferable across national contexts despite institutional heterogeneity (Al-Amwal, 2026).

Indonesia's experience illustrates both the promise and the constraints of this integrated approach. With the world's largest Muslim population and a first-place ranking in the 2021 World Giving Index, Indonesia possesses considerable latent capacity for Islamic social finance mobilization (Ishak & Rahman, 2025). Estimated zakat potential of IDR 327 trillion, combined with a rapidly growing cash-waqf market supporting education, health, and MSME empowerment, positions Islamic social finance as a powerful complementary policy instrument to strengthen the government's fiscal capacity toward achieving equitable, high-income development status (Alhempri et al., 2025). However, the same evidence base indicates that optimization of this complementarity remains hampered by persistent challenges in financial literacy, institutional governance, transparency, and policy integration across zakat and waqf authorities (Ishak & Rahman, 2025).

3.4 Institutional and Governance Challenges to Optimization

Despite the demonstrated poverty-reduction potential of both instruments, several structural constraints limit their combined impact. First, financial and waqf literacy among the Muslim population remains comparatively low in several OIC countries, constraining both zakat compliance and cash-waqf participation (Ishak & Rahman, 2025). Second, impact evaluation of waqf institutions remains largely unstandardized, with most institutions relying on qualitative, narrative-based reporting rather than rigorous quantitative outcome indicators, which limits the ability of regulators and donors to compare institutional performance and allocate capital efficiently (Lestari et al., 2023, as cited in Integrating Waqf and Islamic Social Finance for Inclusive Development, 2025). Where quantitative frameworks have been developed such as an SDG-indicator-based impact-evaluation approach incorporating literacy rates and poverty-reduction metrics their adoption has remained limited, constraining the broader use of such evaluation tools (Widiastuti et al., 2022, as cited in Ishak & Rahman, 2025).

Third, zakat and waqf institutions in many countries continue to operate under separate legal, regulatory, and administrative frameworks, which impedes the kind of sequential complementarity proposed in Section 3.3. Institutional restructuring that formally links zakat's redistributive function with waqf's asset-building function has been recommended as a policy priority for maximizing poverty-alleviation outcomes (Zarqa, 2008). Fourth, digitalization and financial-technology integration including ICT-based collaborative frameworks for zakat management organizations and Shariah-compliant crowdfunding platforms for zakat, infaq, and shadaqah collection have shown promise for improving collection efficiency and donor trust, but remain unevenly adopted across institutions and countries (Mutamimah et al., 2021; Nurhalima, 2024).

Taken together, these institutional findings suggest that the poverty-reduction potential of Islamic social finance is not primarily constrained by the theoretical design of zakat and waqf as instruments, but by the governance, regulatory, and technological infrastructure surrounding their implementation. This distinction carries important implications for policymakers: interventions aimed at improving zakat and waqf outcomes should prioritize institutional and regulatory reform, harmonized legal frameworks, standardized impact-evaluation metrics, and digital collection infrastructure rather than relying solely on increased public awareness of the instruments' religious obligation.

4. CONCLUSION

This study has examined the complementary roles of zakat and waqf as instruments of Islamic social finance for poverty reduction and inclusive economic development. The evidence reviewed indicates that zakat functions effectively as a short-term, flow-based redistributive mechanism, reducing poverty incidence and improving recipient welfare across multiple country contexts, particularly when distributed through productive rather than purely consumptive models. Waqf, and cash waqf in particular, functions as a long-term, stock-based

instrument capable of financing sustainable human-capital and enterprise-development infrastructure, addressing the structural determinants of poverty that zakat alone cannot resolve. The central contribution of this study is the proposition that zakat and waqf should be structured as sequential, complementary stages of a single inclusive-development pathway immediate relief through zakat, productive capital through zakat- and waqf-based microfinance, and structural investment through productive and cash waqf rather than managed as parallel and unconnected instruments.

The practical implications of this study are threefold. First, zakat and waqf authorities should pursue harmonized regulatory and administrative frameworks that formally enable the transfer of beneficiaries from zakat-based relief programs into waqf-financed productive and educational programs. Second, national and institutional stakeholders should invest in standardized, SDG-aligned impact-evaluation frameworks to enable rigorous comparison of institutional performance and evidence-based capital allocation. Third, governments and multilateral development institutions should support digitalization of zakat and waqf collection and distribution systems to improve transparency, donor trust, and collection efficiency, thereby narrowing the substantial gap between estimated and actual zakat and waqf mobilization observed in several OIC countries.

This study is subject to limitations inherent to a literature-synthesis design: it draws primarily on secondary empirical findings rather than new primary data, and the heterogeneity of methodologies, contexts, and measurement approaches across the reviewed studies limits the precision of cross-country generalizations. Future research should pursue harmonized, cross-country empirical designs ideally longitudinal and quasi-experimental that directly test the proposed sequential complementarity model linking zakat-based relief to waqf-financed structural investment, and should further examine the role of financial technology and digital platforms in narrowing the zakat and waqf collection gap identified in this review.

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