

INNOVATION IN ISLAMIC SOCIAL FINANCE FOR SUSTAINABLE IMPACT

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Abstract: *Islamic social finance generates a positive social and economic impact by utilizing instruments that align with Maqasid Shariah. Instruments such as waqf, zakat and sadaqah offer unique benefits in addressing the socio-economic needs. One of the key abilities of Islamic social finance instruments is innovation. Innovation in Islamic social finance practices was identified as a key driver to sustain the development of Islamic finance. Adapting to new market growth and opportunities is vital for institutions to thrive in a dynamic and competitive environment and enhance their effectiveness and impact. This study therefore identifies and maps zakat innovation research. The method used is a qualitative analysis using a systematic literature review to investigate research trends, major topics of interest, critical lessons learned and future research opportunities on Islamic social finance theme. The secondary data from the 30 selected articles from the year 2017-2024 were analyzed using the Nvivo 14 Plus software. The findings reveal that various focus of discussion and cluster analyses that describe research lines in Islamic social finance innovation include management, development, social welfare, system and SDGs. This study contributed to the enrichment of Islamic social finance literature. From a practical viewpoint, the study results can be used by institutions, regulators and government to improve the effectiveness of Islamic social finance instruments and determine required strategies.*

Keywords: *Islamic Social Finance, Innovation, Sustainable, Waqf, Zakat.*

Introduction

The global finance industry remains challenging for financial sectors to sustain their development. However, Islamic financial services industry demonstrated soundness and resilience and also recorded structural development due to their dynamic practiced (Islamic Financial Services Board, 2023). Malaysia is one of the leading global hubs for Islamic finance due to its innovative practices, robust regulatory framework and expertise in the field. Islamic finance strives to promote inclusion within the financial services industry through several key mechanisms in accordance to Shariah principles (Tahiri Jouti, 2018). It covers banking and microfinance, capital market, insurance and Islamic fintech. Besides, Islamic finance practices cover a holistic approach that contributes to sustainable economic development that includes economic, social and environmental factors (Siregar et al., 2023).

Islamic social finance is one type of finance that is based on Islamic principles and aims to create a successful community by assisting the poor and the weak. It includes philanthropic instruments (zakat, infaq, alms, waqf), cooperative instruments (qard and qard hassan) and contemporary-based instruments (microfinance). Application of Islamic social finance instrument to help the B40 group eliminate poverty and bridge the financial gap. Besides, it is an important driver to support the implementation of world Sustainable Development Goals (SDG) which are to end poverty, protect the planet and ensure prosperity. The statistic shows that Malaysia's absolute poverty is at 6.2% in 2022 which means almost 6 out of 100 households in Malaysia still could not afford to meet basic needs for food (Department of Statistics Malaysia). The gap between the lowest-earning and highest-earning income groups is still high, especially during bad economic conditions (Narayan et al., 2022). Thus, Islamic social finance tools can effectively support social objectives if they are properly developed, managed and utilized with transparency, accountability and efficiency.

Innovation is indeed crucial for ensuring the efficiency and effectiveness of Islamic social finance instruments. Integrating technologies and methodologies creates new opportunities for financial sectors to address complex challenges and align them with contemporary needs and global trends. According to Widiastuti et al., (2022), technology advancement in finance sectors can reach broader community groups and broader social goals. Besides, integrating value-based methodologies in Islamic social finance can contribute to sustainable funding (Jouti, 2019). Different approaches to Islamic social finance instruments can help define and implement initiatives that enhance their effectiveness. Thus, this paper aims to identify the innovation in Islamic social finance institutions.

Literature Review

Islamic social finance utilizes Shariah principles to meet the Maqasid Shariah goals. Maqasid Shariah serves as a benchmark for assessing the success of Islamic social finance instruments. The preservation and protection of Maqasid Shariah is to secure the interest (maslahah) and avoid any evils (mafsadah). The Islamic social finance instruments can protect and preserve the six essential matters which are religion, life, lineage, intellect and property (Razinah et al., 2017). The unique approach in Islamic social finance instruments includes compelling factors that align with contemporary global trends and societal needs. Instruments such as zakat, waqf, sadaqah, Qard and microfinance are able to provide long-term solutions for economic problems such as poverty and inequality in wealth distribution (Awang & Wan Chik, 2023).

Zakat is a compulsory obligation for Muslims to pay a certain part of surplus wealth to specific beneficiaries every year. Zakat is the act of purification and growth through giving. It plays a vital role in Islamic finance and serves as a social safety net for the Muslim community (Suprayitno, 2019). In practice, zakat is more on the act on giving money to the right beneficiaries. However, a more strategic approach in zakat management is required to maximize the long-term impact of zakat funds. According to Ahmed Shaikh et al., (2017), expanding the application of zakat to include environmental sustainability can ensure resilient and sustainable communities.

Unlike zakat, waqf is a voluntary charity that is unique in Islam. It is a voluntary act of charity under the general terms of sadaqah and infaq. The purpose of waqf is to endow a portion of wealth for charitable purposes and to provide financial aid to those in need (Laluddin et al., 2021). Traditionally, waqf can be seen as a religious activity. Indeed, innovation in waqf management can transform it into a powerful economic tool for socio-economic benefits. The unique characteristic and significant function of waqf can reach out to broader areas of social welfare sectors (Abdullah, 2018).

Innovation in Islamic social finance is vital for addressing complex social and environmental challenges. Innovation is a new change in the form of ideas, concepts, practices or objects that are specific in nature, intentionally created through planned programs and designed to achieve specific objectives. Innovation in the organization can be obtained through learning something new or improvement of existed products using a new method (Alharbi et al., 2019). According to Othman et al., (2024), innovation in Islamic social finance can be significantly advanced through technology integration and impact-based approaches. The integration model in Islamic social finance can improve and maintain its fund management process including fundraising, collecting, managing, distributing, utilizing and investing (Maulina et al., 2023).

Methodology

This study involves qualitative research by conducting a systematic literature review based on the title Islamic social finance. The results obtained are 30 selected articles from Google Scholar, Scopus and ScienceDirect from years 2017-2024. The selection of articles from 2017 to 2024 reflects the yearly trend of innovation in Islamic social finance publications and citations between 2017 to 2024 especially on Islamic Fintech. The research objectives are to review and map literature to investigate research trends, major topics of interest, critical lessons learned and future research opportunities on Islamic social finance. The research process used Nvivo 14 plus software. Data were then coded and analyzed to search for patterns and emerging themes.

Findings

Word Frequency Query



Figure 1: Word Frequency Query

The analysis through the word frequency tool aims to identify and highlight the most dominating and frequently occurring research issues in the literature reviewed. Often used words and terms in the text are shown in Figure 1 based on automatic coding. The word size in the word frequency results shows a higher frequency of occurrence than others. From the results of the word frequency analysis on 30 publications focusing on Islamic social fiancé, information was found through mapping, and percentages were automatically calculated by Nvivo software.

The words with the highest frequency in the published research after the word Islamic social finance are “Economic” with a percentage of 2.47%, followed by “Waqf” at 2.36% and the word “zakat” at 1.85%. In addition, the automatic coding results show some other interesting terms such as sustainable, technology, poverty, and others. These results provide a clear picture of the focus and important aspects of Islamic social finance discussion in the scholarly literature. Besides, other interesting terms reflect the variety of issues related to Islamic social finance research.

Cluster Analysis

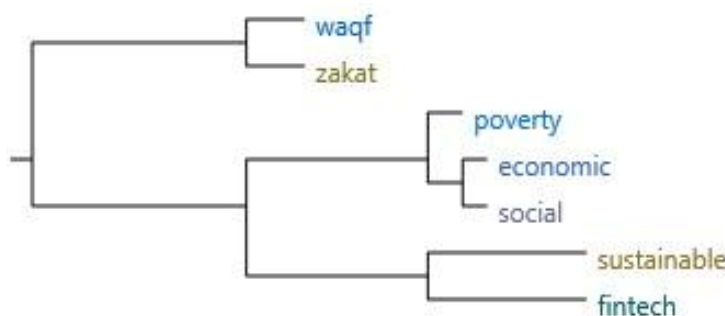


Figure 2: Cluster Analysis

Figure 2 shows the cluster analysis which is a technique used in exploring and visualizing patterns in the theme of Islamic social finance by grouping related sources or words using automatic codes from Nvivo software. This is used to obtain detailed and comprehensive results and to determine the research path related to Islamic social finance. There are 2 main clusters in general that group words and their interrelationships.

Cluster 1 Islamic Social Finance Instruments

The Islamic social finance instruments cluster discusses the application of zakat and waqf management. Waqf and Zakat are Islamic philanthropic instruments meant for the overall well-being of humans. In Malaysia, zakat and waqf are administered by the Islamic Religious Council (SIRC) in every state. However, some states have corporatized their zakat and waqf institutions such as in Selangor, Federal Territory and Pulau Pinang. According to Nahar (2018) and Ibrahim et al., (2016), managing the zakat and waqf fund through specialized and professional by institutions can enhance their effectiveness. Zakat institutions hold their positions by eventually achieving equitable income, after transmitting assistance, to the less fortunate through zakat. Even though the development of zakat institutions in Malaysia is getting better, especially in terms of zakat collection, the issue of zakat distribution is still questioned by all parties (Tuan Mahmood et al., 2021). Society wants to look at the efficient and effective management of zakat that solves current issues and problems. The strategy for integrating zakat institution management in the existing economic system can provide a variety of benefits, including improved efficiency, financial performance and resource mobilization (Muda et al., 2024).

While zakat aims to realize the social and individual welfare, waqf is an effort to provide benefits to society through the provision of education, training and business activities. Waqf instrument is a combination of a form of charity and a means for economic development. Due to its perpetual nature, waqf activities have resulted in the accumulation of waqf assets devoted to providing an increasing flow of revenue to help in the socio-economic development of Muslim (Kamarubahrin et al., 2019). In the modern economy, the potential of waqf extends beyond its traditional roles which address contemporary economic and social needs (Daud, 2022). An integrated and modern approach in waqf system can be transformed and maximize the potential of waqf assets to be a valuable and effective form of contribution to the well-being of the ummah. Therefore, in the current challenging economic condition, zakat and waqf institutions need to adapt and innovate to sustain their impact.

Cluster 2 Innovations for Impactful Islamic Social Finance

This cluster explores the current innovations in Islamic social finance and their benefits on the socio-economic development of Muslims. According to Widiastuti et al., (2022), Islamic social finance instruments which include zakat, waqf and sadaqah has a potential to overcome poverty issues and open the opportunity to generate economic growth in a country. For example, the redistribution of zakat fund can increase aggregate demand so that it can affect economic growth and investment. Besides, zakat and economic growth also associated with several variables such as the human development index, income and expenditure (Suprayitno et al., 2017). However, the relationship between zakat and economic growth is indeed influenced significantly by efficient management. Efficient management can maximize its potential economic and social benefit.

Waqf can also be used as a source of strength to realize the welfare of people and drive potential economic empowerment sectors. Waqf could be regarded as a fundamental economic institution to generates economic activities by providing support in the form of infrastructure, education, healthcare and employment (Aliyu, 2019). The dynamic nature of the waqf institutions and their mechanisms can significantly contribute to both immediate and long-term economic and social benefits. According to Amirah et al.,(2022), the significant impact of waqf are to alleviate poverty, to restoring wealth and to reduce government expenditure. Thus, Waqf plays a prominent role in social, political and economic life of Muslim society as it fosters community welfare and promotes sustainable development.

Innovation in Islamic social finance is needed to realize their potential role in economic development. Thus, integrating technology and an impact-based approach in Islamic social finance instruments can enhance their effectiveness. Technology and sustainability are the current innovation approaches in Islamic social finance. Firstly, technological innovation changing the Islamic social finance landscape. As beneficiaries continue to seek faster and more personalized assistance from zakat and waqf institutions, technologies play a vital role in meeting these expectations. According to Alam et al., (2019), recent development in financial service-based technology or known as ‘fintech’ offers some potential benefits to consumers, such as cost reduction, improvement in efficiency, greater transparency and a contribution to the goal of financial inclusion. For example, technology use in zakat fund management can increase distribution performance through efficient fund allocation. Besides, waqf institutions have recently engaged in the productive management and collection of cash waqf by leveraging on technological advancements. Digital cash waqf can establish trust of waqf management institutions, raising community satisfaction and ensuring continuation in intention to donate (Iqmal et al., 2023).

Secondly, sustainability approaches can reshape and further the Islamic social finance philanthropic goals. The focal point of Maqasid Shariah and SDGs is sustainable and inclusive development. Islamic social finance can fill the gaps and address the issue of the sustainable development goals (SDGs) which is to end poverty (Rosman et al., 2022). Besides, the Value-Based Intermediation (VBI) concepts introduced by Bank Negara Malaysia in 2017 enhance the role of Islamic social finance and its instruments in delivering sustainability goals. Islamic social finance instruments such as zakat, waqaf and sadaqah may provide a wide opportunity to deliver the social and environmental impact. For example, productive zakat distribution programs effectively empower the poor and reduce economic disparities in society. Moreover, waqf resources can encourage and improve community economic development through generating income, creating jobs and improving living standards. Reforming Islamic social finance is important to support society and achieve sustainable development goals.

Conclusion

This study aims to explore the evolving landscape of Islamic social finance and its role in alleviating the socio-economic challenges. Islamic social finance has played a significant role in Muslim communities for a long time. Recently, the study found that the researchers have closely linked Islamic social finance, sustainability, economic development and technology in their publications. The study found that innovation through technology and impact-based approaches seems to be the future of Islamic social finance. These approaches can be the drivers to enable the Islamic social finance sector to achieve its higher goals of inclusive development, equitable prosperity, positive and resilience social impact. The Islamic social finance

instruments especially zakat and waqf have the potential to achieve sustainability goals while adhering to the Maqasid Shariah goals.

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