

Building Communities Through Islamic Social Finance: The Role of Philanthropy for Economic Development

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ABSTRACT: This paper examines the role of philanthropy in community development through Islamic social finance for sustainable economic development. This study highlights the importance of Islamic social finance as a powerful instrument for financial inclusion, poverty alleviation, and improving general welfare. This study uses a qualitative approach with data collection through interviews, literature review, and documentary analysis. The results show that philanthropy in Islamic social finance plays a significant role in community development by encouraging economic independence, empowering individuals and groups, and promoting the principles of social justice. In the context of economic development, Islamic philanthropy also makes significant contributions to job creation, increasing access to capital for micro and small businesses, and supporting innovation and sustainable business development. These findings provide valuable insights for practitioners, decision-makers, and financial institutions to understand and harness the potential of philanthropy in Islamic social finance to achieve inclusive and sustainable economic development.

Keywords: *Islamic social finance, philanthropy, economic development.*

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I. INTRODUCTION

Sustainable and inclusive development is a crucial goal for today's global community. This goal encompasses economic, social, and environmental aspects, with a focus on improving the quality of life and reducing inequality within society. In this context, the role of Islamic social finance has become a key focus as an instrument that can support sustainable and inclusive development (Hussein Azeemi Abdullah Thaidi et al., 2023).

Islamic social finance in Indonesia is currently experiencing rapid and sustained progress. This progress encompasses many aspects, both in academic research at universities and in operational practices within Islamic economic institutions. These developments encompass national economic policy, regional government economics, macroeconomics (such as fiscal policy, public finance, poverty and unemployment reduction strategies, inflation, and monetary policy), and other economic issues such as production, consumption, distribution, welfare, and so on (Adinugraha et al., 2023).

Islamic social finance is a concept that combines Islamic financial principles with social objectives. The principles of Islamic finance are based on Islamic teachings, which include the prohibition of *riba* (interest), speculation, and practices deemed detrimental to society (Kuanova et al., 2021). Islamic social finance emphasizes community

empowerment through providing fair, sustainable financial access based on the principles of social justice.

The importance of Islamic social finance in development is becoming increasingly apparent with growing global awareness of the social responsibility and environmental impact of economic activities. In this context, Islamic social finance offers holistic and inclusive solutions, taking into account economic, social, and environmental aspects in financial decision-making.

Islam teaches people to foster social awareness through mutual love, embracing, helping, and fostering generosity in community life. These values are reflected in Islamic philanthropic instruments, such as *zakat*, *infaq*, *shodaqoh*, and *waqf*, which serve not only a religious purpose but also a socio-economic function. These instruments play a role in fostering human solidarity, reducing social inequality, curbing materialistic tendencies, and strengthening the distribution of resources to needy groups (Dirie et al., 2024). In the context of community development, Islamic philanthropy can be an empowerment mechanism that helps address issues of poverty, limited access to education and health, and economic inequality.

As part of Islamic social finance, Islamic philanthropy emphasizes the principles of distributive justice, sustainability, social responsibility, and community empowerment. *Zakat*, *infaq*, *shodaqoh*, and *waqf* can be directed to finance social programs, education, and health, strengthening micro-enterprises, and community-based economic development. Thus, Islamic philanthropy functions not only as short-term charitable assistance but also as a strategic instrument in promoting economic independence and sustainable social development (Iskandar et al., 2021). However, the effectiveness of this instrument depends heavily on governance, distribution mechanisms, the accountability of the managing institution, and the program's suitability to the needs of the beneficiary community.

Based on these issues, this study aims to specifically analyze how Islamic philanthropic instruments, specifically *zakat*, *infaq*, *shodaqah*, and *waqf*, contribute to community development through Islamic social finance mechanisms. The study focuses on three main aspects: first, the function of Islamic philanthropy in strengthening community socio-economic empowerment; second, its contribution to community-based economic development; and third, the institutional challenges in managing and distributing Islamic philanthropic funds effectively, accountably, and sustainably. With this focus, this research is expected to provide a more focused understanding of the role of Islamic philanthropy as an instrument for community development and strengthening the economy of the community.

II. METHOD

This research uses a qualitative descriptive approach based on literature review and document analysis. This approach was chosen because the research aims to understand and explain the role of Islamic philanthropy in community development through Islamic social finance instruments, specifically *zakat*, *infaq*, *shodaqoh*, and *waqf*, and their relationship to economic development. The data used are sourced from secondary sources, including scientific journal articles, academic books, institutional reports, policy documents, and previous research relevant to the themes of Islamic philanthropy, Islamic social finance, community empowerment, and economic development.

Data collection was conducted through a search, selection, and critical review of relevant literature based on the appropriateness of the theme, the recency of the discussion, the credibility of the sources, and their contribution to the discourse on Islamic social finance and the development community. Data were analyzed descriptively and qualitatively through the processes of identification, classification, description, interpretation of findings, and drawing conclusions, as commonly used in qualitative data analysis (Miles et al., 2013).

III. RESULT AND DISCUSSION

Poverty Alleviation through Islamic Philanthropy

Development economics is a branch of applied economics that emerged after World War II. The goal of development economics is to find solutions to the various problems faced by independent nations (Kuanova et al., 2021). These developing countries face various problems such as poverty, ignorance, unemployment, underdevelopment, and backwardness in all areas of life. Meanwhile, the term economic development is usually associated with a country's economic development.

Economic development and economic development data have the same meaning; both are often used in parallel and with each other, although they have different meanings and directions. Economic development is the development of the economic wealth of countries or regions for the well-being of their inhabitants. The study of economic development, known as development economics, can be interpreted as the development of a country's economic prosperity for the benefit of its people. The study of economic development is known as development economics.

Economists define development economics as research aimed at improving the standard of living of people in developing countries by solving their main problems, namely poverty, unemployment, and inequality. According to Almizan, the development of developing countries in their implementation has given rise to differences in models, methods, or patterns among them.

Economic growth from an Islamic economic perspective concerns not only issues related to increasing goods and services, but also morality, moral quality, and the balance of secular and spiritual goals. As Ibn Qayyim stated, the basic principles of sharia in this regard are wisdom and human well-being in this world and the hereafter. (Hermanto et al., 2026). These benefits encompass several aspects, including justice, happiness, mercy, and wisdom. When justice turns into oppression, mercy into need, prosperity into misery, and wisdom into foolishness, it has nothing to do with Sharia.

In Islam, philanthropy has existed and been practiced since the time of the Prophet Muhammad, 15 centuries ago. Based on theological and sharia principles, the practice of philanthropy in Islam holds a strategic and decisive position and role. Islam is a perfect religion. This perfection can be seen, among other things, in its comprehensive teachings. It not only regulates the relationship between humans and God (*habluminallah*) but also regulates the relationship between humans and other humans (*habluminanas*), which must be carried out properly, correctly, and in balance. All of this is intended to enable humans to achieve happiness in this world and the hereafter, as is the prayer continually offered by every Muslim (Akhter et al., 2025).

One of the Islamic teachings commanded by Allah to His followers is caring and sharing. This teaching is not only a virtue, but is also inherent in one of the pillars of Islam, which is obligatory. Philanthropy plays a crucial role in bridging social gaps and helping address complex social issues (Sofyani, 2018). By helping strengthen charities, non-profit organizations, and social initiatives, philanthropy contributes to creating a more just and sustainable world.

The primary goal of philanthropy is to benefit society at large, alleviate suffering, improve quality of life, and create positive change in society (Asiyah et al., 2019). Philanthropy can also have long-term effects by helping build community capacity and creating sustainability in social solutions.

Zakat, Infaq, and Waqf for Community Economic Welfare

Islamic social finance is a form of finance based on Islamic sharia principles. These principles are based on justice, support for those in need, and sustainable economic empowerment (Mahadi, 2025). In the context of development economics, Islamic social finance can play an important role in helping to address the problems of poverty and economic inequality, as well as promoting inclusive economic growth.

To strengthen the role of Islamic social finance in the development economy, collaboration between the government, the private sector, and civil society is needed. The government can provide regulations that enable the development of the Islamic social finance sector. In contrast, the private sector and civil society can play a key role in the development and implementation of Islamic social finance products (Hussein Azeemi Abdullah Thaidi et al., 2023).

Types of Islamic social finance, namely:

1. Zakat

Zakat, as a form of social worship, is a specific right that Allah obligates upon the wealth of wealthy Muslims. This right is intended for the poor and other needy as a sign of gratitude for all blessings, a way to draw closer to Him, and to purify oneself and one's wealth. *Zakat* has two aspects: the relationship between humans and Allah SWT (*hablum minallah*) and the relationship between humans and others (*hablum minannas*). (Cut Mutia Muqhniy et al., 2026).

The most fundamental Islamic state financial instrument for wealth development is *zakat*. In Indonesia, the majority of the population is Muslim, meaning the potential for wealth development through *zakat* is enormous. *Zakat* is one of the political tools of Islamic finance for collecting income for wealth development, namely by developing production (Hussin et al., 2024). If we assume the relationship between *zakat* and income as the starting point, then *zakat* is an effort to increase income by utilizing *zakat* to continue production. Increasing community income will lead to higher economic growth.

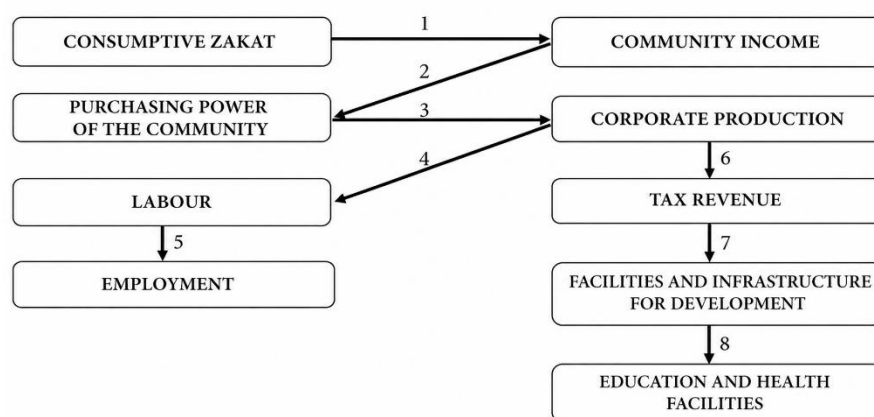


Figure 1. Zakat Influence Scheme on Community Economy

Distribution of *zakat* to those entitled to receive alms in the form of consumer assistance can increase their income and purchasing power, which in turn drives demand for goods and services. This encourages companies to increase production, thereby increasing employment and lowering the unemployment rate. Increased production activity also increases state tax revenues, including corporate tax, value-added tax, and income tax (Zaelani et al., 2025). With the increase in revenue, the state is able to provide development infrastructure and public facilities. If *zakat* is collected significantly, *zakat* can support the provision of free education and health services for the community.

2. *Infaq*

Infaq is linguistically derived from the word *anfaqa*, which means spending something for the benefit of something. According to Islamic law, *infaq* means spending a portion of one's wealth, income, or earnings for a purpose mandated by Islam. If *infaq* has a *nisab*, then *infaq* and *shodaqoh* are exempt from the *nisab*. Anyone can do *infaq*, whether they have a low or limited income. *Infaq* is spending assets that include *zakat* and *non-zakat*. According to the terminology of conditions, *infaq* means spending a portion of one's wealth or income/earnings for a purpose mandated by Islamic teachings (Abd Jalil et al., 2022).

Indonesia, as the country with the largest Muslim population in the world, has a tremendous opportunity to improve the welfare of its people through *zakat*, *infaq*, and *shadaqah*. However, a sense of concern and awareness of *zakat*, *infaq*, and *shadaqah* for those in need has not yet fully touched the hearts of those who have been blessed with abundant sustenance from Allah SWT. If this sense of concern were instilled in those who give *zakat*, *infaq*, and *shadaqah* to those in need, distribution of *zakat*, *infaq*, and *shadaqah* to those in need could certainly improve welfare and reduce poverty in Indonesia.

Apart from that, the word *infaq* means giving away the wealth given by Allah SWT, giving something to other people solely hoping for Allah SWT's approval. Thus, *infaq* is a form of sharing wealth in accordance with the guidance of the Shari'a (Saputra, 2025). In addition, *infaq* can also be defined as something spent outside, as an addition to *infaq*, which is voluntary and taken from one's wealth or assets for the benefit of or to help the weak. *Infaq* is spending a portion of one's wealth or income for a purpose mandated by Islamic teachings. *Infaq* means spending a portion of one's wealth for the benefit of humanity in accordance with Islamic teachings.

3. *Waqf*

A *waqf* is a form of gift or charity given by an individual or business entity for the public good or social benefit. A *waqf* is given by retaining ownership of an item or property, then utilizing it for the public good without any compensation or return. The purpose of a *waqf* is to improve the welfare of society and expand the benefits that can be obtained from the assets owned. The use of *waqf* assets must be carried out appropriately and in accordance with the wishes of the *waqif* (endower), which have been determined from the outset (Hassan et al., 2023).

In Malaysia, *waqf* has been developing since 2008, namely a 34-story commercial building built on 52,838 m² of land. This building is known as the Imara Wakaf Tower and has become one of the icons of *waqf* in Malaysia. The building is intended for lease by Bank Islam Malaysia Berhad. The rental profits are allocated to the *waqf* beneficiaries and also to hotels in several locations that are *waqf* assets (Md Nuruddin et al., 2019). The success of *waqf* has also been experienced in Turkey, namely, cash *waqf* in Bursa, a city in the Orhan Gazi region. The development of cash *waqf* at that time was managed through an interest-based system; that is, by lending to those in need and determining interest upon repayment (Bulut & Korkut, 2022). Therefore, the practice of cash *waqf* in Turkey has been widely debated among the Muslim community.

Waqf in Egypt is managed by the Egyptian *Waqf* Agency, which is under the Ministry of *Waqf* (*Wizārah al-Awqāf*). One of the successes of the Egyptian *Waqf* Agency is the contribution of *waqf* assets to improving the community's economy. In addition, Al-Azhar University in Cairo also has productive *waqf* assets, including several hospitals, the Salah Kamil *waqf*, the al-Azhar Conference Center (AAC), the al-Azhar building, and the al-Azhar Gardens (*hadiqah al-Azhar*). This success is based on *waqf* investments in the form of property and movable property that are professionally managed. The collected *waqf* funds are invested in stocks and bonds of Islamic banks and large companies. The benefits of mediation are used to build places of worship, education, health, social services, and human life (Putri et al., 2025).

Cash *waqf* can be a source of funds that can be used to accelerate infrastructure development and improve social structures within the development process. Productively managed cash *waqf* funds can generate profits that can be reinvested in development or improving community welfare. However, proper and transparent management of cash *waqf* funds is also crucial to ensure effective and efficient use.

4. *Shodaqoh*

Shodaqoh is a crucial concept in Islam, teaching kindness and social responsibility. *Shodaqoh* is defined as the giving of wealth or possessions to those in need, with the aim of receiving blessings from Allah SWT and earning rewards in the afterlife. In addition to providing material benefits to the recipient, almsgiving also holds significant spiritual value. Through almsgiving, one can cleanse the heart of stinginess and selfishness and strengthen one's relationship with Allah SWT and fellow human beings.

Ibn Katsir interpreted that the verse of QS. Al-Hadid: 18 explains that Allah SWT mentions the reward given to people who give alms (both men and women), namely people who give their wealth to those in need such as the poor and needy with the intention of seeking Allah's pleasure without waiting for the smallest response from the person to whom he gives, even if it is only an expression of gratitude, the reward is multiplied, namely ten times more and seven hundred times more or even more (Sofyani, 2018).

The Potential of Islamic Finance through the Role of Philanthropy

Philanthropy in Islam aims to provide tangible benefits to society at large by alleviating suffering and improving the quality of life. Philanthropic activities are not only charitable but also directed towards creating positive social change. In the context of development, philanthropy has long-term effects because it can build the social and economic capacity of communities (Mahadi, 2025). Thus, philanthropy is a crucial instrument in creating sustainable solutions to various social problems. This role makes philanthropy an integral part of the Islamic financial system.

Zakat is a key pillar of Islamic philanthropy, possessing significant potential for economic empowerment. Productive and creative management of *zakat* is a strategic solution to addressing structural poverty. Through proper distribution and utilization, *zakat* not only meets the basic needs of those who are *mustahik* (recipients of *zakat*). Furthermore, *zakat* is expected to foster the economic independence of recipients. In the long term, *zakat* has the potential to transform those who *mustahik* into those who pay *zakat*.

In addition to *zakat*, *infaq* plays a crucial role in strengthening Islamic social finance. *Infaq* is the expenditure of a portion of one's wealth for purposes mandated by Islamic teachings. The flexible nature of *infaq* allows it to be used for various humanitarian needs. *Infaq* can be used in emergencies as well as ongoing social programs (Zaelani et al., 2025). Therefore, *infaq* contributes greatly to strengthening social solidarity and community welfare.

Waqf also shows enormous potential in supporting the economic development of the community. In Indonesia, the significant area of *waqf* land presents a strategic opportunity for developing productive assets. The experience of other countries, such as Malaysia and Turkey, demonstrates that *waqf* can be managed innovatively. Professional *waqf* management can generate sustainable economic benefits. However, *waqf* development must remain based on Sharia principles (Hussein Azeemi Abdullah Thaidi et al., 2023).

Shodaqoh complements Islamic philanthropic instruments by emphasizing a balance between material and spiritual aspects. Through *shodaqoh*, the needs of those in need can be directly met. Furthermore, *shodaqoh* also has a spiritual impact on those who give (Adinugraha et al., 2023). This practice fosters social awareness and cleanses the heart of individualistic tendencies. The synergy of *shodaqoh* with *zakat*, *infaq*, and *waqf* strengthens the potential of Islamic finance to achieve social justice.

IV. CONCLUSION

Based on this description, it can be concluded that Islamic philanthropy has enormous potential as a social financial instrument to promote social welfare. *Zakat*, *infaq*, *waqf*, and *shodaqoh* serve not only as means of social assistance but also as mechanisms for sustainable economic empowerment. Productive and professional management of Islamic philanthropy can reduce poverty and strengthen community independence. Furthermore, integrating philanthropy with the national financial system has the potential to support more inclusive social and economic development. The spiritual values inherent in Islamic philanthropy also strengthen social ethics and community solidarity. Thus, optimizing Islamic philanthropy is a strategic step in realizing social justice and sustainable development.

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