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Islamic social finance and socioeconomic development: A systematic literature review

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ABSTRACT

Islamic social finance has increasingly been discussed as a complementary framework for addressing poverty, inequality, financial exclusion, and development financing gaps. Yet the literature remains dispersed across studies of zakat, waqf, digital governance, institutional performance, and the Sustainable Development Goals (SDGs). This article develops a more integrative synthesis by reviewing peer-reviewed studies published mainly between 2013 and 2024 and by organizing the evidence around four linked questions: how zakat contributes to poverty alleviation, how productive waqf supports long-term development, how Islamic social finance aligns with the SDGs, and which governance factors condition institutional effectiveness. The review follows a structured PRISMA-informed process and uses thematic synthesis rather than meta-analysis because the literature contains conceptual papers, case studies, bibliometric mapping, framework-building research, and empirical analyses with heterogeneous designs. The review shows that Islamic social finance performs at least three distinct but interrelated functions. First, zakat operates as a redistributive and welfare-stabilizing instrument that can improve household resilience and reduce selected poverty indicators when targeting and institutional quality are strong. Second, productive waqf creates a longer time horizon by converting endowed assets into sustainable income streams for education, health, microenterprise, and community infrastructure. Third, integration across social and commercial Islamic finance broadens scale, sustainability, and policy relevance. At the same time, the literature consistently identifies governance weaknesses, fragmented databases, weak reporting, limited professionalism among managers, and uneven digital adoption as the main obstacles to impact. The article concludes that Islamic social finance has real developmental value, but its contribution becomes stronger when institutions move beyond charity administration toward integrated governance, data transparency, and outcome-oriented social investment.

Keywords: Islamic social finance; zakat; productive waqf; governance; socioeconomic development; SDGs; systematic literature review

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1. INTRODUCTION

Socioeconomic inequality remains one of the most persistent development problems in contemporary political economy. The issue is not simply that poverty continues to exist, but that poverty is reproduced through structural differences in access to income, assets, education, health care, and financial services. Conventional fiscal redistribution, public welfare systems, and development assistance have all played important roles, yet they continue to confront budget limitations, targeting problems, and institutional inefficiencies. These limitations have encouraged scholars to revisit alternative or complementary models of welfare and development finance, including models grounded in faith-based economic ethics. Within this broader discussion, Islamic social finance has emerged as one of the most important fields of inquiry because it links redistribution, solidarity, and social justice to formal institutional mechanisms rather than leaving them solely at the level of moral exhortation (Kuanova et al., 2021; Dirie et al., 2023).

Islamic social finance generally refers to a cluster of Shariah-based instruments designed to mobilize and allocate resources for public welfare. The most widely discussed instruments are zakat, waqf, sadaqah, and qard hasan. What distinguishes these instruments from many conventional welfare arrangements is not merely their religious origin, but the fact that they combine ethical obligation, institutional design, and developmental purpose. Zakat is a compulsory redistribution mechanism tied to wealth purification and social entitlement. Waqf operates as an endowment mechanism that can preserve assets while generating continuing benefits for public use. Sadaqah and related instruments complement these functions by widening voluntary giving and community-level solidarity. Recent literature increasingly treats these instruments not as isolated charitable practices but as components of a broader ecosystem capable of supporting financial inclusion, livelihood resilience, and social development (Adinugraha et al., 2023; Napitupulu et al., 2024).

The relevance of this discussion has grown for at least three reasons. First, the literature on zakat has moved well beyond doctrinal obligation and now asks whether zakat measurably reduces poverty, improves welfare indicators, and supports economic recovery. Empirical work from Indonesia and comparative studies from Muslim contexts suggest that zakat can strengthen income support and consumption smoothing, but the magnitude of impact depends heavily on institutional targeting, fund mobilization, and beneficiary design (Ali & Hatta, 2014; Choiriyah et al., 2020; Meerangani, 2019). Second, waqf scholarship has increasingly shifted from static discussions of religious endowment toward the concept of productive waqf, where endowed assets are managed professionally to create long-term socioeconomic returns. This shift makes waqf highly relevant to debates on sustainable financing, especially in education, health, and microenterprise development (Rusydia et al., 2020; Ascarya et al., 2023).

Third, the development debate itself has changed. Since the adoption of the Sustainable Development Goals, development financing has been discussed not only in terms of macroeconomic growth, but also in terms of inclusion, sustainability, resilience, and institutional partnerships. Islamic social finance has entered this debate because scholars increasingly argue that its moral foundations of justice, redistribution, and social care align with major SDG priorities, especially those related to poverty, hunger, health, education, decent work, reduced inequalities, and partnerships (Muneeza & Hassan, 2020; Shahid et al., 2023; Dirie et al., 2023). This framing has made Islamic social finance relevant not only to Islamic economics but also to public policy, social protection, and sustainable development studies.

Despite this rapid growth, the literature is still fragmented. Bibliometric reviews show that zakat and waqf scholarship has expanded significantly, but the field remains dispersed across different journals, disciplines, and methodological approaches (Alshater et al., 2021; Uluyol et al., 2021). Many studies focus narrowly on one instrument, one country, or one institutional problem. Others propose models of integration without sufficiently clarifying governance preconditions. As a result, the field contains rich but uneven evidence: some papers are doctrinal or conceptual, some are empirical, some are bibliometric, and others are policy-oriented. This diversity is valuable, but it also creates a synthesis problem. Without

structured review, it becomes difficult to identify which conclusions are robust, which are context-dependent, and which remain aspirational rather than operational.

This article addresses that synthesis problem by expanding the discussion into a more comprehensive systematic literature review. Rather than treating zakat, productive waqf, governance, digitalization, and SDG alignment as separate conversations, the article places them within a single analytical frame. The review asks four main questions. First, how does the literature explain the contribution of zakat to poverty alleviation and welfare improvement? Second, what does the literature suggest about the developmental role of productive waqf? Third, how is Islamic social finance connected to the SDG agenda and to integrated models of Islamic finance? Fourth, which governance and institutional conditions most strongly influence effectiveness? By answering these questions, the paper aims to make two contributions. Academically, it provides a more coherent map of the literature. Practically, it highlights why developmental impact depends not only on fund collection, but also on governance quality, professional management, digital infrastructure, and policy integration.

2. LITERATURE REVIEW

2.1. Conceptual foundations of Islamic social finance

The conceptual foundation of Islamic social finance rests on the idea that economic life is inseparable from social accountability. In this view, wealth is not merely a private entitlement but also a trust that carries obligations toward others. That is why Islamic social finance is frequently interpreted as a distributive justice framework rather than a narrow charity mechanism. [Kuanova et al. \(2021\)](#) describe the field as an expanding domain of research that links social welfare, redistribution, and ethical finance. [Adinugraha et al. \(2023\)](#) similarly emphasize that Islamic social finance should be understood as a system with potential, opportunities, institutional challenges, and social roles. This broader conceptualization matters because it shifts the analytical focus from piety alone toward institutional design, social outcomes, and developmental capability.

A major strength of this conceptual shift is that it makes Islamic social finance legible to contemporary development debates. Instead of discussing zakat and waqf only in classical jurisprudential categories, recent scholarship asks how these instruments function in modern states, nonprofit organizations, digital ecosystems, and hybrid financing structures. [Tamanni et al. \(2022\)](#) push this discussion further by arguing that social and commercial Islamic finance should not be treated as separate worlds. Their argument is important because welfare instruments often struggle when they rely solely on charitable flows, whereas long-term development requires institutional continuity, investment logic, and operational scale. In that sense, Islamic social finance is increasingly framed as a bridge between ethical redistribution and sustainable financing.

At the same time, the conceptual literature warns against romanticization. The existence of religiously grounded instruments does not automatically translate into effective poverty reduction or equitable development. [Napitupulu et al. \(2024\)](#) show that governance remains central to whether Islamic social finance generates public trust and development impact. Likewise, [Widiastuti et al. \(2022b\)](#) argue that integration, regulation, human resources, and data systems must be treated as part of the model itself rather than as secondary implementation details. In other words, the field has matured enough to move beyond the assumption that religious legitimacy alone is sufficient. The more demanding question is whether Islamic social finance institutions can transform moral legitimacy into measurable developmental outcomes.

2.2. Zakat, Redistribution, And Poverty Alleviation

Among all Islamic social finance instruments, zakat has received the most sustained attention because it directly concerns redistribution. Zakat is often presented as a tool that can transfer resources from wealth holders to eligible beneficiaries, thereby reducing deprivation and inequality. Comparative and country-specific studies generally support this claim, but they also show that outcomes vary significantly. [Ali and Hatta \(2014\)](#), in a comparative study covering Bangladesh, Malaysia, and Indonesia, argue that zakat can function as a poverty reduction mechanism when it is institutionalized rather than left

entirely informal. Their analysis remains influential because it frames zakat as part of a social policy apparatus rather than a private act of almsgiving.

Empirical work from Indonesia reinforces that insight while also introducing important nuance. [Choiriyah et al. \(2020\)](#) find that impactful zakat significantly reduces the poverty headcount ratio at the provincial level, though its effect on deeper poverty indicators is less clear. This is a crucial finding because it suggests that zakat may be particularly effective in reducing the incidence of poverty, but not automatically sufficient for resolving poverty depth or severity. In practical terms, this means zakat institutions may succeed in helping vulnerable households remain above the poverty line without fully transforming structural deprivation. Such findings challenge simplistic narratives and indicate that the design of assistance matters as much as the amount collected.

The same pattern appears in studies that distinguish between consumptive and productive approaches to zakat. Consumptive distribution is essential for immediate relief, especially during shocks, crises, or extreme vulnerability. However, productive zakat is expected to generate longer-term welfare gains through livelihood support, asset formation, entrepreneurship, and capacity building. [Meerangani \(2019\)](#) and related literature suggest that zakat contributes more sustainably when recipients are not treated only as passive recipients but as economic agents capable of strengthening livelihoods. This transition from relief to empowerment is one of the most important themes in the literature, yet it is also one of the hardest to implement because it requires better beneficiary assessment, mentoring, and monitoring systems.

Recent studies also show that zakat effectiveness is inseparable from governance and technology. [Kasri and Sosianti \(2023\)](#) demonstrate that digital channels affect the intention to pay zakat, which has implications for collection efficiency and public engagement. [Widiastuti \(2021\)](#) likewise shows that governance and technology can improve the management of zakat institutions by making prioritization, coordination, and reporting more systematic. This means the literature on zakat is no longer only about theological obligation or welfare philosophy; it is now also about database quality, service design, transparency, and institutional trust. Put differently, zakat has redistributive power, but that power is mediated by organization.

2.3. Productive Waqf and Long-Term Development

Where zakat is typically associated with redistribution of liquid resources, waqf is increasingly discussed as an instrument for preserving and activating assets over time. The contemporary debate focuses especially on productive waqf, which refers to the professional management of endowed assets so that they generate recurring returns while preserving the principal asset base. This is what makes productive waqf especially relevant for sustainable development discourse. Rather than funding only one-off transfers, productive waqf can finance schools, clinics, scholarships, social housing, microenterprise support, and community infrastructure over longer horizons. [Rusydiana et al. \(2020\)](#) show that cash waqf in Indonesia is widely viewed as a promising instrument for strengthening the Islamic economy, especially when supported by institutional innovation.

The literature on productive waqf also highlights that the real challenge is not conceptual justification but operationalization. Endowed land may be idle, records may be incomplete, governance may be fragmented, and nazhir capacity may be weak. [Ascarya et al. \(2023\)](#) address this problem by proposing models of cash waqf integrated with Baitul Maal wat Tamwil structures, thereby linking philanthropic funds with community-oriented microfinance. Their work is important because it demonstrates how waqf can be converted into a more functional source of social and commercial support. In a similar spirit, [Tamanni et al. \(2022\)](#) argue that the divide between social and commercial finance can be narrowed through institutional design, making long-term impact more feasible.

A second theme in the waqf literature concerns accountability. Endowed assets are supposed to serve public welfare over time, which means the loss, underutilization, or opaque management of those assets is not simply an administrative problem but a developmental failure. [Mohaiyadin et al. \(2022\)](#) highlight how blockchain-based systems may improve traceability, accountability, and transparency in waqf management. Whether or not blockchain becomes widely adopted, the broader insight is clear: waqf

institutions need auditable, interoperable, and transparent systems. Without them, productive waqf remains a rhetorical aspiration rather than a scalable development instrument.

The waqf literature also pushes the conversation beyond immediate poverty relief. Productive waqf is attractive because it supports intergenerational welfare. A scholarship fund, rental property, clinic, or agricultural project financed through waqf creates recurring public value. This makes waqf especially useful for sectors where returns unfold over time, such as education, health, and community infrastructure. Yet this strength also explains why waqf requires stronger governance than ad hoc charity. Since the purpose is sustainability, institutions must ensure asset preservation, financial discipline, risk management, and beneficiary alignment. The literature therefore treats productive waqf as both a financing mechanism and a governance test of Islamic social finance institutions.

2.4. Islamic Social Finance, The SDGs, And Integrated Development

The relationship between Islamic social finance and the SDGs has become one of the most dynamic areas in recent scholarship. The attraction is obvious. The SDGs provide a globally recognized development language, while Islamic social finance provides ethically grounded instruments for redistribution and public benefit. [Muneeza and Hassan \(2020\)](#) argue that zakat can contribute meaningfully to sustainable development because it directly supports poverty reduction, food security, social welfare, and related goals. [Shahid et al. \(2023\)](#) extend this line of reasoning by showing that Islamic social finance and SDGs share deep normative commonalities around justice, dignity, inclusion, and public good.

[Dirie et al. \(2023\)](#) offer one of the most comprehensive syntheses of this question and conclude that Islamic social finance can meaningfully contribute to a large share of the SDGs, although not all goals can be fully addressed by social finance alone. This is a crucial qualification. Islamic social finance is not a substitute for macroeconomic policy, industrial development, or public infrastructure financing on a national scale. Rather, it can complement them by filling social protection gaps, supporting vulnerable groups, mobilizing ethical capital, and financing targeted development interventions. This framing is more realistic than claims that zakat or waqf alone can solve all development challenges.

The SDG discussion has also revitalized the issue of integration. [Ascarya \(2021\)](#) shows that during crisis conditions such as the Covid-19 period, Islamic social finance can support economic recovery by mobilizing zakat, waqf, and related instruments in more coordinated ways. [Widiastuti et al. \(2022a, 2022b\)](#) likewise argue that sustainability requires integration across governance, regulation, databases, and institutional collaboration. These studies converge on a major insight: fragmented Islamic social finance tends to produce fragmented outcomes. Institutions may collect funds effectively, but without coordination they struggle to scale impact, prevent duplication, or sustain long-term development pathways.

This is why the integrated finance literature matters. [Ascarya et al. \(2022\)](#) propose models that connect Islamic commercial and social finance within banking structures, while [Tamanni et al. \(2022\)](#) conceptually defend the marriage between social and commercial finance. The main implication is that Islamic social finance should be seen as part of a development ecosystem, not a peripheral charitable appendage. When integrated carefully, social finance can de-risk vulnerable groups, expand access, strengthen microenterprise, and enhance resilience. When isolated, it is more likely to remain small-scale, short-term, and administratively stretched.

An adjacent stream of literature also indicates that Islamic microfinance can broaden the development relevance of Islamic social finance, particularly in agricultural economies. [Asetya \(2025\)](#) reviews the emerging agricultural market in ASEAN and argues that Shariah-compliant microfinance can expand financing access for small producers and underserved rural communities. Although Islamic microfinance is not identical to redistributive instruments such as zakat and waqf, the study remains relevant to this review because it shows how Islamic finance principles can be connected to livelihood support, productive inclusion, and regionally grounded socioeconomic development.

2.5. Governance, Digitalization, And Institutional Effectiveness

The strongest point of convergence across the literature is governance. Whether the topic is zakat, waqf, SDG alignment, or integrated finance, the same institutional variables recur: transparency,

accountability, managerial competence, reporting quality, regulatory clarity, stakeholder coordination, and technological capacity. Napitupulu et al. (2024) explicitly synthesize the governance literature and show that Islamic social finance performance depends not simply on financial potential but on the quality of organizational systems. This is an important corrective to discussions that focus heavily on collection potential while paying insufficient attention to institutional delivery.

Digitalization now occupies a central place within this governance agenda. Kasri and Sosianti (2023) show that online zakat payment is shaped by behavioral and trust-related factors, which means digital adoption is not merely technical but social. Mohaiyadin et al. (2022) show that digital traceability may help resolve accountability problems in waqf administration. Widiastuti (2021) further indicates that technology can improve prioritization and governance in zakat management. Together, these studies suggest that digitalization matters in at least three ways: it widens access for payers, improves administrative efficiency, and enhances transparency for stakeholders. However, the benefits are contingent on institutional readiness, interoperable systems, and trustworthy governance.

The literature also points to an unresolved tension. Many Islamic social finance institutions have strong moral legitimacy and social acceptance, but they often remain weak in managerial professionalization. Reporting systems are uneven, impact measurement is limited, and data are frequently fragmented across organizations and jurisdictions. This makes it difficult to compare performance, identify best practices, or demonstrate outcome-level impact to regulators and the public. For that reason, governance reform in the literature is rarely confined to compliance; it increasingly includes social impact measurement, beneficiary tracking, digital reporting, and cross-institutional interoperability. In short, institutional credibility in Islamic social finance is now tied to evidence, not only to mission.

3. METHODOLOGY

This article adopts a systematic literature review design to synthesize fragmented scholarship on Islamic social finance and socioeconomic development. A systematic approach was chosen because the field contains a growing number of studies across different instruments, sectors, and disciplinary entry points, making narrative overview alone insufficient. The review is informed by PRISMA 2020 reporting principles and by the broader methodological guidance on literature reviews in business and social science research (Page et al., 2021; Snyder, 2019). The goal is not to produce a statistical meta-analysis, because the reviewed literature is too heterogeneous in research design, units of analysis, and outcome indicators. Instead, the review uses structured thematic synthesis to identify recurring arguments, empirical tendencies, institutional bottlenecks, and research gaps.

The search strategy focused on peer-reviewed English-language journal articles that discuss Islamic social finance in relation to poverty alleviation, socioeconomic development, governance, digitalization, sustainable development, or integration with commercial Islamic finance. Search terms combined key concepts such as “Islamic social finance,” “zakat,” “productive waqf,” “cash waqf,” “poverty alleviation,” “governance,” “sustainable development goals,” “digital zakat,” and “integrated Islamic finance.” The review prioritized studies published between 2013 and 2024 because this period captures the strongest recent expansion of scholarship on institutional governance, digitalization, and SDG alignment. Earlier foundational works were considered only when they remained directly relevant to contemporary conceptual debates.

Selection was guided by five criteria. First, the article had to address Islamic social finance substantively rather than mention it only in passing. Second, it had to contribute either empirical evidence, conceptual development, bibliometric mapping, or policy-relevant framework building. Third, the article needed to be published in a peer-reviewed outlet with accessible bibliographic details. Fourth, studies were preferred when they offered direct relevance to zakat, waqf, or integrated models of Islamic social finance. Fifth, because this review is concerned with socioeconomic development rather than purely theological exposition, studies centered exclusively on jurisprudential classification without institutional or developmental implications were excluded. This criterion helped maintain analytical focus on how Islamic social finance operates in real institutional settings.

After screening for relevance and removing tangential works, the analytical corpus was organized into four clusters: redistributive welfare and zakat; productive waqf and long-term social investment; SDGs and integrated Islamic finance; and governance, accountability, and digitalization. This clustering strategy allows the review to compare studies that use very different methods but still speak to a common development question. For example, a panel study on zakat and poverty cannot be directly merged statistically with a bibliometric mapping paper or a conceptual governance framework. However, they can still be read together to identify how evidence, institutional assumptions, and policy implications converge or diverge.

Data extraction emphasized author, year, country context, instrument focus, research method, and principal finding. The synthesis then proceeded in two stages. The first stage produced a descriptive map of the literature by instrument, geography, and methodological orientation. The second stage involved analytical coding of recurrent themes such as institutional trust, targeting mechanisms, productive asset management, digital infrastructure, stakeholder coordination, and outcome measurement. This procedure makes it possible to move from isolated findings to broader interpretive conclusions about what Islamic social finance can do, under what conditions, and with which limitations (Figure 1)

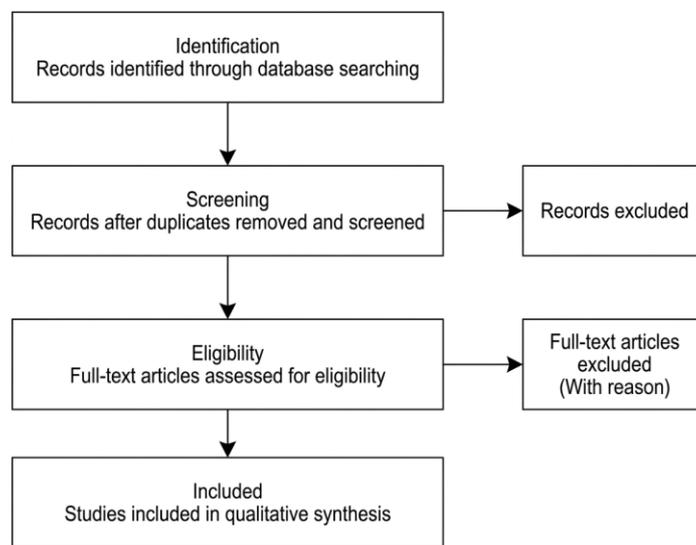


Figure 1. PRISMA flow diagram of the study selection process

Source: Prepared by the author based on the PRISMA framework (Page et al., 2021)

Two limitations should be acknowledged. First, the field is still heavily concentrated in Indonesia and Malaysia, which means the literature provides more insight into institutional development in Southeast Asia than in many other Muslim-majority or Muslim-minority settings. Second, many studies continue to use conceptual or framework-building approaches, so strong causal evidence remains less common than normative or strategic analysis. These limitations do not reduce the importance of the field, but they do shape the kind of conclusions that can be drawn. The review therefore interprets the literature cautiously, distinguishing between demonstrated outcomes, plausible institutional mechanisms, and aspirational claims (See Table 1)

Table 1. Review protocol

Component	Description
Objective	To synthesize the literature on how Islamic social finance contributes to socioeconomic development, with emphasis on zakat, productive waqf, SDGs, governance, and digitalization.
Coverage	Peer-reviewed English-language journal articles, especially studies published between 2013 and 2024, plus methodological references used to structure the review.

Core keywords	Islamic social finance; zakat; productive waqf; cash waqf; poverty alleviation; governance; digital zakat; sustainable development goals; integrated Islamic finance.
Inclusion criteria	Substantive focus on Islamic social finance; empirical, conceptual, bibliometric, or framework-building contribution; accessible bibliographic information; direct relevance to development outcomes or institutional effectiveness.
Exclusion criteria	Tangential references to Islamic philanthropy; purely devotional or classificatory discussions without institutional implications; non-peer-reviewed material without clear scholarly contribution.
Synthesis approach	PRISMA-informed review design combined with thematic synthesis to compare heterogeneous studies without forcing statistical aggregation.

Source: Prepared by the author from the reviewed literature.

4. RESULTS AND DISCUSSION

4.1. Descriptive Profile of The Literature

The reviewed literature demonstrates a clear thematic expansion of Islamic social finance research. Earlier studies tend to focus on basic questions of redistributive potential, collection, poverty, and institutional legitimacy. More recent studies move toward questions of integration, digitalization, performance measurement, and development strategy. Bibliometric reviews confirm this trajectory by showing that zakat and waqf scholarship has become more visible, more international, and more interdisciplinary over time (Alshater et al., 2021; Uluyol et al., 2021). At the same time, the center of gravity remains strongly concentrated in Indonesia and Malaysia, which function as the dominant empirical and institutional laboratories for current research (Adinugraha et al., 2023; Dirie et al., 2023).

Methodologically, the field is mixed. It includes panel data studies, case studies, interviews, ANP and Delphi model-building, bibliometric mapping, doctrinal and conceptual analysis, and policy reviews. This diversity is useful because it captures multiple dimensions of Islamic social finance, from household outcomes to institutional architecture. Yet it also explains why the literature often feels fragmented. Articles may agree normatively while using different evidence standards. Some measure poverty indicators, some assess governance challenges, some propose institutional models, and others examine payment behavior. The strength of a systematic review, therefore, lies not in forcing artificial uniformity but in clarifying how these different strands relate.

A second descriptive pattern is that the literature increasingly treats Islamic social finance as an ecosystem rather than a set of separate instruments. This is one of the most important developments in the field. Older debates often treated zakat, waqf, and Islamic banking as separate policy arenas. Recent studies are more likely to ask how they can be connected through common governance, shared databases, blended financing, or coordinated development goals (Ascarya, 2021; Ascarya et al., 2022; Tamanni et al., 2022). This shift suggests a transition from instrument-centered scholarship to system-centered scholarship.

4.2. Zakat And Welfare Improvement

The strongest empirical case in the literature concerns zakat's contribution to welfare stabilization and poverty reduction. Evidence from panel and comparative studies suggests that zakat can improve socioeconomic conditions, especially where institutions are formalized and where distribution programs are designed with clear beneficiary priorities. Choiriyah et al. (2020) show that impactful zakat can reduce the headcount ratio of poverty at the provincial level in Indonesia. Ali and Hatta (2014) similarly indicate that zakat can function as a meaningful poverty reduction mechanism across multiple Muslim contexts. These findings matter because they move the conversation beyond normative desirability and toward measurable development performance.

However, the literature also makes clear that zakat is not equally effective across all poverty dimensions. The difference between reducing poverty incidence and reducing poverty depth is analytically important. Households close to the poverty line may benefit substantially from direct transfers or short-term support, while chronically poor households may require multi-dimensional interventions involving

livelihood assistance, education, health services, and longer-term mentoring. This distinction helps explain why some empirical studies report significant positive results while others remain cautious. Zakat works, but it works differently depending on who receives it, how it is delivered, and whether it is tied to empowerment-oriented programming.

Another important insight is that zakat institutions are increasingly expected to justify outcomes, not only outputs. Collection totals, distribution totals, and number of beneficiaries are no longer enough if institutions seek developmental credibility. The literature increasingly favors outcome-oriented questions: Did income improve? Did consumption stabilize? Did children stay in school? Did microenterprises survive? This shift is significant because it aligns zakat management with modern social policy evaluation. It also pressures institutions to develop better data systems, baseline indicators, and beneficiary monitoring mechanisms. In practical terms, this is where many institutions still face capacity gaps.

Digital payment and platformization add another layer to this discussion. Online payment mechanisms reduce transactional friction, but they also expose institutions to new expectations around transparency and service quality. [Kasri and Sosianti \(2023\)](#) show that the intention to pay zakat online is shaped by trust and user considerations, while governance-oriented studies emphasize that technology must be matched by credible reporting and data protection. Thus, digital zakat is not simply a modernized collection channel; it is part of a broader institutional transformation that can either strengthen or weaken legitimacy depending on implementation quality.

4.3. Productive Waqf and Long-Horizon Social Investment

If zakat addresses urgent redistribution, productive waqf addresses sustainability and asset-based social investment. The reviewed literature consistently frames productive waqf as one of the most promising mechanisms for translating Islamic philanthropy into durable development infrastructure. [Rusydia et al. \(2020\)](#) and [Ascarya et al. \(2023\)](#) show that cash waqf models can support Islamic economic development when institutions are capable of mobilizing, investing, and distributing returns effectively. The developmental logic here is different from zakat. Productive waqf is less about immediate transfer and more about constructing a continuing stream of public benefit.

This longer horizon gives productive waqf a distinctive place in socioeconomic development. It can finance scholarships, health services, MSME support, community facilities, and other sectors where one-off charity is insufficient. Yet the literature also reveals that productive waqf remains underperforming in many settings because assets are not properly inventoried, legal structures are fragmented, and managerial professionalism is uneven. In that sense, the challenge is not lack of potential but lack of institutional conversion. Endowed assets only become developmental assets when governance systems are capable of preserving value, generating returns, and linking those returns to clear social programs.

The issue of professionalism appears repeatedly. Productive waqf requires skills in finance, law, administration, community engagement, and sometimes real estate or business development. This makes it a more demanding institutional form than traditional charity collection. When nazhir capacity is weak, the result is often idle assets, opaque reporting, or overly conservative management that preserves form but loses developmental opportunity. Conversely, where waqf institutions adopt stronger governance, clearer investment rules, and better information systems, the literature suggests that waqf becomes more scalable and more policy-relevant. This is why the recent governance turn in waqf scholarship is so important.

Digital technology is especially relevant here because productive waqf depends on trust over long time horizons. Donors, regulators, and beneficiaries need confidence that assets are recorded accurately, income is traceable, and decisions are auditable. [Mohaiyadin et al. \(2022\)](#) show how blockchain-based thinking responds to this accountability problem. Even where blockchain itself is not adopted, the underlying governance demand remains the same: waqf institutions need robust systems for traceability, reporting, and oversight. Without those systems, the promise of productive waqf remains institutionally fragile.

4.4. Islamic Social Finance, SDGs, and Integrated Finance

The literature linking Islamic social finance and the SDGs provides a broader developmental frame for interpreting the evidence. Instead of asking only whether zakat or waqf work in isolation, these studies ask where they fit within global development agendas and financing gaps. [Muneeza and Hassan \(2020\)](#) argue that zakat can support a range of SDG-related outcomes because it mobilizes resources toward basic needs, welfare, and social justice. [Dirie et al. \(2023\)](#) strengthen this argument by showing that Islamic social finance contributes most clearly to a large cluster of social goals, especially those tied to poverty, inequality, welfare, and community resilience.

Yet the most valuable contribution of this strand is not rhetorical alignment but analytical differentiation. The literature makes clear that Islamic social finance is especially strong where development needs are socially targeted, community-based, and ethically sensitive. It is less plausible as a stand-alone solution for capital-intensive sectors requiring large-scale public or commercial investment. This is why integration has become a major theme. By combining Islamic social finance with commercial Islamic finance, institutions may create more durable pathways from emergency support to productive inclusion. [Ascarya et al. \(2022\)](#) and [Tamanni et al. \(2022\)](#) are especially important here because they show how blended models can increase scale, efficiency, and developmental continuity.

The integrated finance literature also helps explain why some Islamic social finance interventions remain trapped at the level of distribution rather than transformation. Redistribution can reduce hardship, but transformation often requires credit, markets, mentoring, infrastructure, and institutional follow-through. When commercial and social Islamic finance remain disconnected, beneficiaries may receive initial assistance without access to the next stages of economic inclusion. Integrated models aim to solve this discontinuity by linking welfare support to financing, entrepreneurship, community institutions, and risk-sharing mechanisms. In that sense, integration is not merely a financial design choice; it is a theory of social mobility within an Islamic development framework.

The literature also suggests that integration requires public policy support. Social finance institutions cannot scale developmental impact if regulations, tax treatment, data systems, and institutional mandates are inconsistent. That is why the strongest articles in this area do not discuss integration only as a product innovation but as a governance challenge involving regulators, Islamic banks, philanthropic institutions, and digital intermediaries. The developmental potential of Islamic social finance, therefore, depends not only on instruments but on policy coherence.

4.5. Governance, Digitalization, And Institutional Effectiveness

Governance is the main explanatory variable that cuts across the reviewed literature. Studies on zakat, waqf, integration, and SDG alignment all converge on the same conclusion: weak governance reduces impact even when financial potential is large. [Napitupulu et al. \(2024\)](#) synthesize this insight directly, while [Widiastuti et al. \(2022a, 2022b\)](#) demonstrate that governance must be understood broadly to include regulations, institutional collaboration, human resources, databases, and technological support. This broader definition is analytically useful because it explains why some institutions with similar religious legitimacy or fundraising potential perform very differently.

One recurring governance issue is fragmentation. Separate databases, separate reporting standards, and separate institutional mandates create duplication, inefficiency, and poor impact measurement. This fragmentation is especially costly in Islamic social finance because beneficiaries often face overlapping vulnerabilities that cannot be addressed through a single instrument or institution. A household may need immediate income support, debt relief, health assistance, and productive financing at different moments. Fragmented institutions struggle to respond coherently to these layered needs. Integrated governance, by contrast, improves matching, sequencing, and continuity.

A second recurring issue is professionalism. The literature frequently notes that Islamic social finance institutions may enjoy public trust in moral terms while lacking sufficient technical capacity in financial management, monitoring, communication, or digital administration. This capacity gap matters because modern development institutions are judged on accountability and measurable outcomes. It also matters because digitalization increases the visibility of institutional weaknesses. Once donors can compare

platforms and track claims in real time, poor reporting or inconsistent service becomes easier to detect. Thus, digitalization raises the governance bar rather than removing it.

A third issue concerns impact measurement. Many institutions still emphasize collection and disbursement statistics, but the field increasingly demands evidence on livelihood outcomes, resilience, and social mobility. Without better outcome metrics, it is difficult to know whether Islamic social finance is merely softening deprivation or genuinely enabling upward movement. This is especially important for productive zakat and productive waqf programs, where the stated goal is not only relief but transformation. Stronger monitoring systems would also help distinguish which interventions work best for which groups and under which conditions.

4.6. Implications And Research Gaps

Three broad implications follow from this review. First, Islamic social finance has strongest developmental value when it is treated as institutionally governed social investment rather than episodic charity administration. Second, integration across instruments and institutions is increasingly necessary if the goal is sustainable inclusion rather than short-term relief alone. Third, digitalization should be understood as part of governance reform, not as a purely technical add-on. These implications are especially relevant for Indonesia and Malaysia, where institutional ecosystems are already relatively mature but still face coordination and standardization challenges.

The review also exposes important research gaps. More cross-country comparative work is needed outside Southeast Asia. More robust causal evidence is needed on productive zakat, productive waqf, and integrated models. More studies should examine beneficiary trajectories over time rather than relying only on institutional reporting or cross-sectional perceptions. Finally, the relationship between Islamic social finance and public policy deserves deeper attention, particularly in relation to social protection systems, digital public infrastructure, and national SDG strategies. The next phase of research should therefore move from asking whether Islamic social finance matters to asking how, for whom, and under what governance conditions it matters most (Table 2)

Table 2. Main thematic findings from the reviewed literature

Theme	Main synthesis	Representative studies
Zakat and poverty	Zakat is consistently associated with redistribution and welfare stabilization, but stronger effects are observed when targeting, institutional quality, and productive programming are in place.	Ali & Hatta, 2014; Choiriyah et al., 2020; Meerangani, 2019
Productive waqf	Productive waqf offers long-horizon development potential through sustainable asset management, yet implementation remains constrained by governance fragmentation and managerial capacity.	Rusydia et al., 2020; Ascarya et al., 2023
SDGs and integration	Islamic social finance aligns most clearly with socially oriented SDGs and becomes more scalable when integrated with commercial Islamic finance and public policy frameworks.	Muneeza & Hassan, 2020; Dirie et al., 2023; Tamanni et al., 2022
Governance and digitalization	Transparency, accountability, data integration, professional human resources, and digital tools are the most frequently cited conditions for improving institutional effectiveness.	Napitupulu et al., 2024; Widiastuti et al., 2022a, 2022b; Mohaiyadin et al., 2022

Source: Prepared by the author from the reviewed literature.

5. CONCLUSION

This review shows that Islamic social finance is best understood as a layered development framework rather than a set of isolated charitable tools. Zakat offers redistributive capacity and can reduce poverty incidence when institutions target beneficiaries effectively and manage funds professionally. Productive waqf extends the time horizon of Islamic philanthropy by transforming endowed assets into recurring sources of social benefit. Integrated models of Islamic social and commercial finance broaden scale and open pathways from immediate relief to longer-term inclusion. Across all of these areas, however, institutional quality remains decisive.

The central conclusion is straightforward: Islamic social finance has significant potential for socioeconomic development, but that potential is conditional. It is strongest where governance is transparent, reporting is credible, digital systems are functional, and institutions are able to coordinate across instruments and stakeholders. It is weakest where collection is emphasized more than outcomes, where assets remain idle, and where institutions operate in fragmented silos. Accordingly, the future of Islamic social finance depends less on proving its moral legitimacy and more on building its institutional maturity.

For scholars, the implication is the need for more comparative, outcome-oriented, and methodologically rigorous research. For policymakers and practitioners, the implication is the need to invest in data integration, managerial professionalism, impact measurement, and policy coherence. If these reforms are pursued seriously, Islamic social finance can contribute not only to poverty relief but also to more durable forms of inclusive and ethically grounded development.

Ethical Approval

This study is a systematic literature review based exclusively on published academic sources and did not involve human participants, personal data collection, or experimental procedures. Therefore, formal ethical approval was not required.

Informed Consent Statement

Not applicable because this study did not involve human participants.

Authors' Contributions

Conceptualization, methodology, formal analysis, data curation, writing – original draft preparation, and writing – review and editing, D.R.A.

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