



The Role of Islamic Economics in Promoting Inclusive and Sustainable Development

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ABSTRACT

Purpose: This study aims to examine how Islamic economics contributes to fostering inclusive and sustainable development in Indonesia. It explores the extent to which Islamic economic principles—grounded in justice, balance, and public welfare—can address contemporary economic challenges such as inequality and market volatility.

Design/Method/Approach: A descriptive qualitative method is employed, relying on an extensive literature review. The analysis focuses on key Islamic economic instruments, including Islamic banking, zakat, waqf, and sovereign sukuk, to assess their roles in promoting equitable and sustainable economic growth.

Findings: The study finds that Islamic economics holds substantial potential to widen financial inclusion, strengthen development financing, and mitigate social disparities. Nonetheless, constraints in public literacy regarding Islamic finance, limited innovation in financial products, and regulatory bottlenecks pose significant challenges that require strategic attention.

Originality/Value: This research provides an integrated assessment of how Islamic economic tools can be optimised to support inclusive, sustainable development in Indonesia. It highlights the necessity of policy enhancement, improved financial literacy, and digital innovation as critical pathways to maximising the impact of Islamic economics

INTRODUCTION

Current global economic development emphasises not only quantitative growth but also the quality of growth, including equity, social justice, and environmental sustainability.¹ Conventional economic systems, as demonstrated by various international studies, have created income distribution gaps, financial speculation, and vulnerability to economic crises. These conditions have prompted the search for alternative economic systems that are more ethical and oriented towards social justice, one of which is Islamic economics.²

Islamic economics³ Emerges as an alternative that emphasises principles such as justice (*al-'adl*), balance (*tawazun*), public interest (*maslahah*), and the prohibition of *riba*, *maysir*, and *gharar*. Conceptual and empirical studies indicate that these principles encourage more ethical, transparent, and profit-sharing-based financial practices.⁴ thereby reducing speculative activities and strengthening the stability of the financial system⁵.

The advantages of the Islamic economy are reflected in the availability of diverse financial instruments, such as Islamic banking and the sukuk market, as well as philanthropic tools, such as zakat and waqf.⁶ Each contributes to financial inclusion, wealth redistribution, and development financing. Empirical studies and reviews highlight the tangible role of Islamic banking in expanding service outreach to MSMEs, the potential of zakat/waqf in poverty alleviation and social financing, and the effectiveness of sukuk in financing sustainable

¹ Khusnul Hatimah, Adi Sulistiyono, and Al Sentot Sudarwanto, "Legal Consequences of Establishing a Limited Liability Company by a Foundation in Violation of the Law," *International Journal of Law and Society (IJLS)* 2, no. 1 (2023): 68–76, <https://doi.org/https://doi.org/10.59683/ijls.v2i1.30>.

² Hasanuddin Ingka et al., "Fatwa DSN MUI Klausul Denda Dan Ganti Rugi Pada Skim KPR Syariah," *LAA MAISYIR Jurnal Ekonomi Islam* 7, no. 2 (2020): 261.

³ M. Kabir Hassan et al., "A Survey on Islamic Finance and Accounting Standards," *Borsa Istanbul Review* 19 (2019): S1–13, <https://doi.org/10.1016/j.bir.2019.07.006>.

⁴ Ria Jayanthi and Anggini Dinaseviani, "Kesenjangan Digital Dan Solusi Yang Diterapkan Di Indonesia Selama Pandemi COVID-19," *JURNAL IPTEKKOM Jurnal Ilmu Pengetahuan & Teknologi Informasi* 24, no. 2 (2022): 187–200, <https://doi.org/10.17933/iptekkom.24.2.2022.187-200>.

⁵ Rindawati Maulina, Wawan Dhewanto, and Taufik Faturrohman, "The Integration of Islamic Social and Commercial Finance (IISCF): Systematic Literature Review, Bibliometric Analysis, Conceptual Framework, and Future Research Opportunities," *Heliyon* 9, no. 11 (2023): e21612, <https://doi.org/10.1016/j.heliyon.2023.e21612>.

⁶ Evi Aninatin Ni'matul Choiriyah et al., "Zakat and Poverty Alleviation in Indonesia: A Panel Analysis At Provincial Level," *Journal of Islamic Monetary Economics and Finance* 6, no. 4 (2020): 811–32, <https://doi.org/10.21098/jimf.v6i4.1122>.

infrastructure projects.⁷

Indonesia's position as the country with the largest Muslim population offers significant opportunities for the development of Islamic economics. National planning documents (the Islamic Economy Masterplan) and institutional reports highlight the growth of Islamic assets, the expansion of the Islamic capital market, and the mainstreaming of Islamic economics into national strategies to achieve the Sustainable Development Goals (SDGs).

However, the development of Islamic economics in Indonesia faces several obstacles identified in the literature⁸: low literacy and financial inclusion in specific segments, limited product innovation (including digitalisation), challenges in waqf governance and the professionalisation of *nazhir* (waqf managers), as well as the need to strengthen regulations and institutional synergy between commercial and social sectors. Meta-reviews and empirical studies recommend policy interventions, educational programs, and governance improvements to address these barriers.⁹

Cross-country empirical studies and systematic reviews show a positive correlation with the development of Islamic finance.¹⁰ (market share of Islamic banking, sukuk issuance, effective management of zakat/waqf) and indicators of social inclusion, investment financing, and macroeconomic stability. Nevertheless, some studies also underline context-specificity (heterogeneity of outcomes across countries), making local policies and institutional capacity key determinants of effectiveness.¹¹

As the country with the largest Muslim population in the world, Indonesia has strategic potential in the development of Islamic economics. The government, through KNEKS and various financial-sector regulations, has begun to integrate Islamic economics into national agendas, such as the SDGs,

⁷ Khodijah Ishak, "Maqosid Syari'ah Sebagai Dasar Sistem Ekonomi Berkeadilan," *Jurnal Neliti* 2 2, no. 1 (2016): 591–606.

⁸ Khoirudin, Abu Darim, and Muhammad Husnur Rofiq, "The Strategy of The Head of Madrasah in Improving Teacher Professionalism," *Chalim Journal of Teaching and Learning (CJOTL)* 2, no. 2 (2022).

⁹ Dzikrulloh Dzikrulloh, "Transformasi Nilai Tauhid Dan Filosofis Ibadah Pada Pengembangan Ekonomi Islam," *Izdihar: Jurnal Ekonomi Syariah* 1, no. 1 (2021): 35–68, <https://doi.org/10.32764/izdihar.v1i1.1687>.

¹⁰ Ahmad Jawad and Klein Christian, "Islamic Banking and Economic Growth: Applying the Conventional Hypothesis," *Journal of Islamic Monetary Economics and Finance* 5, no. 1 (2019): 37–62, <https://doi.org/10.21098/jimf.v5i1.1047>.

¹¹ Pradina Anugrahaeni, "Analysis of Indonesian Sovereign Green Bond and Green Sukuk Initiatives," *Kajian Ekonomi Dan Keuangan* 1, no. 1 (2017): 1–24, <https://doi.org/10.31685/kek.v1i1.266>.

the green economy, and the strengthening of MSMEs. However, challenges remain in governance, professionalism, and the digitalisation of the Islamic finance ecosystem.

RESEARCH METHOD

Design and Research Approach

This study adopts a qualitative design using a descriptive–analytical approach. This design was chosen because it enables an in-depth, contextual understanding of how Islamic economics contributes to inclusive and sustainable development in Indonesia. The qualitative orientation allows the researchers to interpret key concepts, institutional frameworks, and practices within the Islamic economic system comprehensively.

Data and Data Collection

The study is based on secondary data gathered through library research. The data were sourced from academic books, peer-reviewed journal articles, official government reports, relevant laws and regulations, and institutional publications from organisations such as the Financial Services Authority (OJK), the National Zakat Board (BAZNAS), and the National Committee for Islamic Economy and Finance (KNEKS). These sources were selected for their relevance, credibility, and ability to support the examination of the research variables. Data validity was ensured through source triangulation by comparing information across multiple reputable references.

Data Analysis

The collected data were analysed using content analysis techniques. This process involved identifying, categorising, and interpreting information related to key Islamic economic instruments—such as Islamic banking, *zakat*, *waqf*, and sovereign *sukuk*—and their roles in promoting inclusive and sustainable development. The analysis emphasised mapping contributions, exploring opportunities, and identifying challenges within Indonesia’s Islamic economic landscape. Through this analytical procedure, the study aims to provide a comprehensive and insightful understanding of the potential and dynamics of Islamic economics in the context of national development.

RESULT AND DISCUSSION

The research findings show that the Islamic economy makes a tangible contribution to inclusive and sustainable development in Indonesia through several key instruments, namely Islamic banking, *zakat*, *waqf*, and sovereign *sukuk*. These four instruments synergistically strengthen financial stability,

enhance economic equity, and provide sustainable financing for national development.

The Role of Islamic Economics in Inclusive Development

The findings indicate that Islamic economics plays a significant role in expanding financial access for society. Through Islamic banking, communities that were previously reluctant to engage with or excluded from conventional banking services can now obtain financing aligned with Sharia principles. Contract-based products such as *murābahah*, *muḍārabah*, and *mushāarakah* have proven effective in financing small and medium-sized enterprises (SMEs), which are vital to job creation and community welfare. Thus, Islamic economics directly contributes to financial inclusion while simultaneously reducing social inequality.

First, cross-country evidence shows that the presence of Islamic banking indeed enhances financial inclusion, particularly for groups with strong religious preferences. A study across 14 countries found that the share of Islamic bank assets is positively associated with the probability that an individual has an account or access to formal financial services; the effect is most pronounced in middle-income countries. This finding confirms that Sharia-compliant products can reduce religious barriers to using banks, thereby expanding the customer base.¹²

Second, regarding SME financing, micro-level evidence demonstrates that Islamic banks are more actively engaged in channelling credit to the micro, small, and medium enterprise segment, and they derive a larger portion of income from SME services without significant differences in portfolio quality compared to conventional banks (case study: Turkey). This aligns with other research findings in Indonesia, which show that the trustworthiness of small business actors is negatively correlated with the margins charged in Sharia financing, underscoring the importance of partnership mechanisms and monitoring within contracts such as *murābahah*, *muḍārabah*, and *mushāarakah* to ensure affordable capital costs for SMEs.¹³

Third, the contribution of Islamic economics to inclusive development also manifests through channels of SME growth and innovation. In developing

¹² Alan Bevan, Saul Estrin, and Klaus Meyer, "Foreign Investment Location and Institutional Development in Transition Economies," *International Business Review* 13, no. 1 (2004): 43–64, <https://doi.org/10.1016/j.ibusrev.2003.05.005>.

¹³ Mustafa Disli and Shakir Jalaly, "The Performance of Islamic and Conventional Microfinance Loans in Afghanistan: The Taliban and Beyond," *Emerging Markets Review* 59 (2024): 101104, <https://doi.org/10.1016/j.ememar.2023.101104>.

African countries (e.g., Cameroon), Sharia-based financing has been shown to enhance SMEs' capacity for innovation (n=1,358). At the macro level, a quantile-panel study of OIC countries demonstrates that Islamic financial inclusion contributes positively to growth across quantiles, meaning the benefits extend not only to the average but also to both low- and high-performing groups of countries. In Indonesia, determinants of the banking inclusion index (both conventional and Islamic) include regional GDP and income, as well as branch network availability, confirming that the expansion of access points for Islamic banking contributes to broader financial outreach.¹⁴

Fourth, a pro-SME and pro-inclusive Sharia ecosystem is supported by sound governance of financial products/contracts, and by the integration of social and commercial finance. A study in *Borsa Istanbul Review* reaffirmed the role of trust in lowering financing margins for small-scale loans. At the same time, bibliometric analyses and literature mapping reviews highlighted the integration of *zakat* and *waqf* (social finance) with commercial financing as a catalyst for inclusion and resilience among small business actors, as well as the importance of designing effective performance frameworks for Islamic microfinance institutions in Indonesia. Thus, profit-sharing products and Sharia compliance are not only compatible with commercial objectives but also support more equitable development through expanded access to productive financing.¹⁵

Empirically, literature shows that Islamic banking contributes to expanding financial access, especially among communities with religious preferences. A comparative study between Indonesia and Malaysia shows that penetration rates are higher in Malaysia due to integrated regulatory support, while Indonesia still faces obstacles in literacy and product innovation. This confirms that Sharia instruments do not automatically increase financial inclusion without strong institutional support.

Islamic Economic Instruments and Their Contribution to Development

The instrument of *zakat* demonstrates significant capacity to redistribute wealth and alleviate poverty when managed professionally. The national zakat

¹⁴ Risma Fahrul Amin and Ari Wibowo, "Culture- Based Da'wah Digitalization to Strengthen Social Harmony in Religion on Plural Nnetizens," *Mawai'izah: Jurnal Dakwah Dan Pengembangan Sosial Kemanusiaan* 14, no. 1 (2023): 61–74, <https://doi.org/10.32923/maw.v14i1.3282>.

¹⁵ ahmad kamil dan M. Fauzan, "Kitab Undang-Undang Hukum Perbankan Dan Ekonomi Syariah," *Buku*, no. cet 1 (2007).

potential in Indonesia¹⁶ It is estimated to reach around IDR 300 trillion per year; however, actual collection remains far below this potential. Reports and statements from BAZNAS/Ministry of Religious Affairs officials, as well as media coverage, note that collection is only in the tens of trillions (around IDR 40–41 trillion in the most recently reported period), leaving a substantial gap between potential and realisation. This gap could be leveraged to support poverty alleviation programs if zakat were managed more effectively.¹⁷

Empirical evidence from the literature shows that well-targeted zakat distribution can reduce local poverty levels and improve income inequality.¹⁸ Literature reviews and case studies in Indonesia have found a positive correlation between effective zakat management and community welfare indicators, including evaluation results from BAZNAS programs in sanitation, education, and microeconomic empowerment.¹⁹ Bibliometric findings also reveal the abundance of studies examining the role of zakat in poverty alleviation across Muslim countries, underscoring the strong academic track record of this topic.²⁰

Productive *waqf* (cash *waqf*/commercially managed endowments) has the potential to serve as a long-term financing source for the education, health, and social infrastructure sectors.²¹ Policy analyses and *waqf* management models suggest that with strengthened governance, regulation, and investment instruments, productive *waqf* can finance socially oriented projects and enhance the sustainability of public services. Structured studies, including the national *waqf* index and productive *waqf* models, highlight the opportunities of *waqf* as an alternative source of development financing.²²

On the Islamic capital market side, *sukuk* (Islamic bonds) have proven effective financial instruments for supporting sustainable infrastructure

¹⁶ Uus Ahmad Husaeni, “The Variables Effects of Murabahah in Islamic Commercial Banks,” *International Journal of Nusantara Islam* 04, no. 02 (2016): 1–16.

¹⁷ Boubaker Dhehibi et al., “A Contextual ICT Model to Explain Adoption of Mobile Applications in Developing Countries: A Case Study of Tunisia,” *Plos One*, 2023, <https://doi.org/10.1371/journal.pone.0287219>.

¹⁸ Janine P Holc et al., *ETIKA BISNIS DALAM ISLAM, Angewandte Chemie International Edition*, 6(11), 951–952., vol. 21, 2017.

¹⁹ Holc et al.

²⁰ Saputro, “Saqifah : Jurnal Hukum Ekonomi Syariah Islamic Economic Law as Fiqh Muamalah Iqtishadiyyah .”

²¹ Dzikrulloh, “Transformasi Nilai Tauhid Dan Filosofis Ibadah Pada Pengembangan Ekonomi Islam.”

²² Faizi Faizi and Mohd Sollehudin Bin Shuib, “Fatwa on Sharia Products and Its Role in the Development of Islamic Finance Industry,” *Islamadina Jurnal Pemikiran Islam*, 2021, <https://doi.org/10.30595/islamadina.v22i2.11859>.

financing. International literature and systematic reviews show that the development of a mature *sukuk* market is linked to enhanced financing capacity for infrastructure projects in several countries (e.g., Malaysia, UAE). In addition, variants such as *green sukuk*²³ have emerged, specifically designed for environmentally friendly and sustainable projects, thereby aligning infrastructure development goals with environmental and SDG targets²⁴.

The *combination* of instruments: *zakat*, productive *waqf*, and *sukuk*—demonstrates that Islamic economics is not solely profit-oriented but also capable of generating broad social benefits when supported by sound regulation, professional governance, and improved public literacy.²⁵

Islamic Economics and Sustainable Development

Islamic economics has strong principled alignment with the goals of the Sustainable Development Goals (SDGs)²⁶. Principles such as the prohibition of *riba* (usury), risk-sharing, and an emphasis on economic justice are consistent with the objectives of reducing poverty and inequality (SDG 1 & 10). Literature reviews and bibliometric studies highlight that the relationship between Islamic finance and the SDGs has become a rapidly growing research area, with many studies affirming the positive role of Islamic instruments in achieving socio-economic development goals²⁷.

Islamic social-financial instruments, particularly *zakat*, *waqf*, and *infaq*, have been proven to contribute to poverty alleviation and wealth redistribution when managed effectively.²⁸. Several empirical studies and bibliometric analyses

²³ Mhd Zulkifli et al., “Pengenalan Dasar Ekonomi Syariah Bagi Siswa SMA Nurul Hasanah Basic Introduction to Sharia Economics for Nurul Hasanah High School Students Dalam Meningkatkan Literasi Keuangan Syariah Di Kalangan Siswa . Dengan Pemahaman Yang,” no. 5 (2023).

²⁴ Yong-Jik Lee, Robert O. Davis, and Sun Ok Lee, “University Students’ Perceptions of Artificial Intelligence-Based Tools for English Writing Courses,” *Online Journal of Communication and Media Technologies* 14, no. 1 (February 2024): 1–11, <https://doi.org/10.30935/ojcm/14195>.

²⁵ Zulkarnaen Zulkarnaen, Yetti Supriyati, and I Ketut R. Sudiarditha, “Pengaruh Budaya Sekolah, Gaya Kepemimpinan Transformasional, Dan Motivasi Kerja Terhadap Kinerja Guru SMK,” *Jurnal Akuntabilitas Manajemen Pendidikan* 8, no. 2 (2020): 175–85, <https://doi.org/10.21831/jamp.v8i2.33867>.

²⁶ Lia Kiladze, Natia Surmanidze, and Zurab Mushkudiani, “Social Entrepreneurship & Corporate Social Responsibility Driving Sustainable Solutions: Comparative Analysis,” *Access Journal - Access to Science, Business, Innovation in the Digital Economy* 5, no. 1 (2023): 85–101, [https://doi.org/10.46656/access.2024.5.1\(6\)](https://doi.org/10.46656/access.2024.5.1(6)).

²⁷ M. Yahya Harahap, *Hukum Acara Perdata: Tentang Gugatan, Persidangan, Penyitaan, Pembuktian, Dan Putusan Pengadilan* (Jakarta: Sinar Grafika, 2017).

²⁸ Choiriyah et al., “Zakat and Poverty Alleviation in Indonesia: A Panel Analysis At Provincial Level.”

in Muslim countries (including Indonesia) indicate that organised zakat distribution and productive *waqf* can reduce poverty burdens and expand social services (education, healthcare) that support inclusive development.²⁹ However, their effectiveness depends on governance, management capacity, and integration with national development programs.³⁰

Islamic banking and financial institutions also enhance financial inclusion and strengthen financial system stability, two key aspects for SDGs focused on inclusive economic growth and decent work (SDG 8).³¹ Systematic reviews of Scopus-based studies show a positive relationship between the development of Islamic banking and indicators of financial inclusion and macroeconomic resilience, particularly during economic shocks, driven by risk-sharing mechanisms and asset-backed financing³².

Innovations in environmentally friendly Islamic financial instruments, such as *green sukuk*, illustrate how Islamic economics can support environmental goals (SDG 13, 7, 11)³³. Indonesia pioneered the issuance of sovereign green *sukuk* in 2018 (valued at approximately US\$1.25 billion). Since then, the development of both sovereign and corporate green *sukuk* has shown real potential in financing climate change mitigation and adaptation projects.³⁴ Market analyses further indicate that Indonesia holds a significant share of the regional green *sukuk* market, reinforcing its capacity for sustainable financing through Shariah-compliant instruments.³⁵

Maximising the contribution of Islamic economics to the SDGs requires policy reform, strengthened governance, improved literacy, and integration of

²⁹ Loso Judijanto et al., “Analysis of Challenges and Prospects for Dispute Resolution Through the National Sharia Arbitration Board in the Indonesian Legal Context,” *WSIS*, 2024, <https://doi.org/10.58812/wsiss.v2i01.587>.

³⁰ Elfira Elfira, Andi Agustang, and Muhammad Syukur, “Prinsip Masyarakat Adat Kajang Dalam Mempertahankan Adat Istiadat (Studi Kasus Dalam Kawasan Adat Ammatoa),” *JISIP (Jurnal Ilmu Sosial Dan Pendidikan)* 7, no. 1 (2023): 282–90, <https://doi.org/10.58258/jisip.v7i1.4230>.

³¹ Farid Budiman, “Karakteristik Akad FPembiayaan Al-Qardh Sebagai Akad Tabarru,” *Jurnal* 28, no. 3 (2013): 406–8.

³² Sitti Annisa Haerani and Nur Kholis, “Effect of Investment Returns , Risk-Based Capital , and Underwriting Results on the Profit of Islamic Life Insurance Company : A Case Study of PT . Takaful Keluarga 2017-2024” 10, no. 2 (2024): 1115–42.

³³ Ishak, “Maqosid Syari’Ah Sebagai Dasar Sistem Ekonomi Berkeadilan.”

³⁴ Mulyana Fitri, Frida Yanti Sirait, and Sugianto Sugianto, “Digitalization of Islamic Business: A Narrative Review,” *Journal of Islamic Economics Lariba* 9, no. 1 (2023): 255–67, <https://doi.org/10.20885/jielariba.vol9.iss1.art15>.

³⁵ Lee, Davis, and Lee, “University Students’ Perceptions of Artificial Intelligence-Based Tools for English Writing Courses.”

financial technology.³⁶ Recent literature suggests an integrated Islamic Social Finance model that combines zakat, *waqf*, and Islamic banking instruments within a clear regulatory framework to ensure measurable impact on the SDGs³⁷. Without improvements in governance and product innovation (including digitalisation and the standardisation of green *sukuk*), this vast potential will not be fully realised.³⁸

Although Indonesia's zakat potential exceeds Rp.300 trillion, actual collection remains far below its potential. Compared to Sudan and Pakistan, which have integrated zakat into their fiscal systems, Indonesia still adopts a voluntary-semi-state model, thus limiting its effectiveness. Productive *waqf* is beginning to develop, particularly through the *waqf*-linked *sukuk* model, which distinguishes Indonesia as a global innovator in Islamic Social Finance.

Challenges in Implementing Islamic Economics

One of the most persistent barriers documented in the literature is low public Islamic financial literacy.³⁹ Empirical studies and bibliometric reviews indicate that although ownership of Islamic banking products has increased, understanding of their characteristics (e.g., profit-sharing vs. interest, *zakat/waqf* mechanisms) remains limited. This results in low adoption of more complex products and limited trust in product innovations. These findings align with field research and literature reviews that identify knowledge gaps as a primary obstacle to Islamic financial inclusion.⁴⁰

From a regulatory perspective, the development of laws and policies in Indonesia has provided an essential foundation, including the Islamic Banking Law and several OJK regulations.⁴¹ However, gaps in implementation and the

³⁶ Tika Widiastuti et al., "Developing an Integrated Model of Islamic Social Finance: Toward an Effective Governance Framework," *Heliyon* 8, no. 9 (2022): e10383, <https://doi.org/10.1016/j.heliyon.2022.e10383>.

³⁷ Tariqullah Khan, "Reforming Islamic Finance for Achieving Sustainable Development Goals," *Journal of King Abdulaziz University, Islamic Economics* 32, no. 1 (2019): 3–21, <https://doi.org/10.4197/Islec.32-1.1>.

³⁸ Kelemu Zelalem Berhanu, "The Relationship between Principals' Pedagogical Leadership Practices and Teachers' Job Performance: The Role of Sociodemographic Characteristics," *BMC Psychology* 13, no. 1 (2025): 89, <https://doi.org/10.1186/s40359-025-02415-7>.

³⁹ Destya Dwi et al., "Five Years of Islamic Financial Literacy Research in Indonesia in Sinta Indexed Journals: A Bibliography Study" 22, no. 3 (2024): 141–52.

⁴⁰ Lee Rainie and Maeve Duggin, "Privacy and Information Sharing," *Pew Research Center Internet Project* 15, no. December 2015 (2016): 47.

⁴¹ Juniarti Iryani and Nurwahid Syam, "Peran Media Sosial Dalam Menyebarkan Pesan Agama Dan Perubahan Sosial," *Pusaka: Jurnal Khazanah Keagamaan* 11, no. 2 (2023): 359–72, <https://doi.org/https://doi.org/10.31969/pusaka.v11i2.1242>.

need to strengthen governance, Shariah compliance, and consumer protection remain evident. Studies examining the impact of the spin-off policy (conversion of Islamic banking units into full-fledged Islamic banks) and regulatory developments suggest that legal reforms play a significant role in driving market expansion, but also demand enhanced supervisory capacity and harmonised rules to enable product innovation without compromising Shariah compliance.⁴²

Digitalisation presents both significant opportunities and challenges for Islamic financial institutions.⁴³ Recent articles highlight that digital transformation (including Islamic mobile banking, Shariah-compliant e-wallets, and Islamic fintech) can accelerate financial inclusion and improve service efficiency. However, many Islamic banks face constraints in IT infrastructure, skilled human resources, and digital risk management. Research on Indonesia's digital business ecosystem underscores that technology adoption by Islamic banks is influenced by organisational factors, regulatory frameworks, and environmental readiness; immature implementation poses operational and compliance risks if digital governance is not strengthened.⁴⁴

Sectoral data and official reports reinforce these academic findings: reports on the development of the national Islamic finance industry record asset and product growth, but also highlight gaps in market penetration, particularly among MSMEs and low-income communities, as well as the need to enhance literacy and digitalisation to maximise the potential of *zakat*, *waqf*, and *sukuk* as instruments for sustainable development financing. Official reports (e.g., OJK's Islamic Finance Development Report).⁴⁵ Recommend strengthening policy coordination, implementing targeted literacy programs, and accelerating digital infrastructure for Islamic banks.⁴⁶

Strategies for Strengthening the Islamic Economy

To optimise its role, the Islamic economy requires strengthened

⁴² Anugrahaeni, "Analysis of Indonesian Sovereign Green Bond and Green Sukuk Initiatives."

⁴³ Abdurrahman Abdurrahman and Azizah Firdausi, "Peran Kepemimpinan Kepala Madrasah Dalam Pengendalian Mutu (Studi Kasus Di MTs Az-Zainiyah 1 Paiton, Probolinggo)," *Al-Fikrah: Jurnal Manajemen Pendidikan* 7, no. 1 (2019): 1, <https://doi.org/10.31958/jaf.v7i1.1269>.

⁴⁴ Muh Rizal Masdul, "Komunikasi Pembelajaran Learning Communication," *Iqra: Jurnal Ilmu Kependidikan Dan Keislaman* 13, no. 2 (2018): 1–9.

⁴⁵ Ahmad Satori Ismail and Dkk, "Fikih Zakat Kontekstual Indonesia," *Fikih Zakat Kontekstual Indonesia*, 2018.

⁴⁶ Deputy of Economy Indonesian Ministry of National Development Planning, "Indonesian Ministry of National Development Planning," *Indonesian Ministry of National Development Planning*, 2019, 10–11.

regulations and fiscal policies to support Shariah-compliant product innovation and the integration of commercial and social instruments.⁴⁷ Several studies in the literature highlight the need for a regulatory framework that enables the integration of Islamic banking, *sukuk*, *zakat*, and *waqf* instruments into national development programs, making their benefits more synergistic and measurable. Bibliometric and systematic reviews show that the Integrated Islamic Social Finance–Commercial Finance (IISCF) model improves the effectiveness of both social and commercial fund allocation when backed by clear policies and inter-agency coordination.⁴⁸

Digitalisation of Islamic financial services (Islamic FinTech) is the second critical strategy: Islamic banks and social institutions must invest in digital platforms, payment rails, and data management systems to serve MSMEs, expand financial inclusion, and improve transparency in *zakat*/*waqf* distribution.⁴⁹ Recent literature highlights a surge in publications on FinTech and digitalisation in Islamic finance, recommending the adoption of technology (mobile banking, blockchain for *waqf*/*sukuk*, crowdfunding platforms for *zakat*/*waqf*) while addressing governance and data security risks.⁵⁰ Mapping studies suggest that Islamic FinTech can accelerate service penetration among the unbanked when accompanied by supportive regulations and sufficient capacity for digital infrastructure.⁵¹

Integrated collaboration between government, academia, industry, and civil society is essential to enhance Islamic financial literacy and inclusion. Empirical research and literature reviews confirm that collaborative programs, such as literacy curricula in schools, *halal*/fintech-based MSME training, and *zakat-waqf* awareness campaigns, strengthen public compliance and the use of Islamic products. Furthermore, case studies in Indonesia show that institutional capability mediates the effectiveness of *zakat* policies; in other words, multi-stakeholder interventions increase compliance and the socio-economic outcomes of *zakat*.

⁴⁷ Mavlutova et al., “Digital Transformation as a Driver of the Financial Sector Sustainable Development: An Impact on Financial Inclusion and Operational Efficiency.”

⁴⁸ Try Widiyono, “The Legal Position of the Indonesian Ulema Council in Applying the Principles of Islamic Law in Islamic Banking Operations in Indonesia,” *Journal of Social Research*, 2024, <https://doi.org/10.55324/josr.v3i9.2261>.

⁴⁹ Philip Alston et al., “International Law and Justice Working Papers,” *International Law and Justice* 6 (2009): 1–57.

⁵⁰ Ibrahim Musa Unal and Ahmet Faruk Aysan, “Fintech, Digitalization, and Blockchain in Islamic Finance: Retrospective Investigation,” *FinTech* 1, no. 4 (2022): 388–98, <https://doi.org/10.3390/fintech1040029>.

⁵¹ Destin Webb, *Sustainability Leadership: Mapping the Path To Net Zero and Beyond With Apple, Google, and Microsoft*, 2016.

The management of zakat and productive *waqf* must be professionalised through modern governance, performance measurement, and diversified investment instruments to maximise their contributions to socio-economic development. *Waqf* efficiency indices and integration studies of social instruments (zakat waqf) reveal great potential when managed productively, e.g., cash *waqf* for social infrastructure or *waqf-sukuk* schemes, but this requires enhanced capacity of nazhir (*waqf* managers), accountability, and performance auditing. Several quantitative studies also find that integrated management models significantly increase the effectiveness of economic empowerment compared to separate management.

CONCLUSION

The Islamic Economy has a strategic role in promoting inclusive and sustainable development through the principles of justice, sustainability, and commitment to the welfare of society at large. Grounded in Shariah values such as the prohibition of usury (*riba*), strengthening of the real sector, equitable wealth distribution, and support for small enterprises, the Islamic economy is capable of creating a fairer system and reducing socio-economic disparities. Its significant role is also reflected in the instruments of *zakat*, *infaq*, *sadaqah*, and *waqf* (ZISWAF), which function not only as acts of worship but also as effective mechanisms of income distribution that improve the living standards of the poor and vulnerable. On the other hand, innovations in Islamic financial products, integration of digital technology, and government regulatory support expand public access to Islamic financial services, thereby fostering broader financial inclusion. Moreover, the Islamic economy emphasises sustainability by prioritising environmentally friendly and ethical investments, in line with the Sustainable Development Goals (SDGs). This principle makes the Islamic economy highly relevant in addressing global challenges, including economic crises, inequality, and environmental issues.■

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