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ACCOUNTING FOR ISLAMIC SOCIAL FINANCE AND INCLUSIVE GROWTH IN INDONESIA

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Abstract

Indonesia faces multidimensional challenges in escaping the middle-income trap and attaining high-income status by 2045. Although economic growth has been relatively stable (averaging 4.9% from 2000 to 2022), poverty reduction has plateaued at around 10%, indicating that growth has not been sufficiently inclusive. In parallel, Indonesia—home to the world's largest Muslim population and ranked first in the 2021 World Giving Index—has substantial potential to scale Islamic Social Finance (ISF).Using a Systematic Literature Review (SLR), this article critically examines the strategic role of key ISF instruments—zakat, infaq/sadaqah, and waqf—in poverty alleviation, inequality reduction, and inclusive development in Indonesia, with particular emphasis on the accounting dimensions of recognition, measurement, reporting, and accountability. The review indicates that the estimated national zakat potential of IDR 327 trillion could finance up to 76% of the government's social protection budget. In addition, cash waqf provides a sustainable social investment model that can support long-term funding for education, health, and MSME empowerment. However, ISF optimization remains constrained by low literacy, fragmented governance, limited transparency, and weak policy integration—issues that are closely linked to the quality of financial reporting, disclosure practices, internal control systems, audit/assurance, and governance mechanisms within ISF institutions. This study concludes that ISF should be positioned not merely as philanthropy, but as an accountable, measurable socio-economic instrument that complements public fiscal policy, strengthens the social protection architecture, and supports the achievement of an equitable "Golden Indonesia 2045."

Keyword:
Accounting, Islamic Social Finance, Zakat, Waqf, poverty, Systematic Literature Review

INTRODUCTION

Indonesia is currently at a crucial juncture in its national development trajectory. As a middle-income country, Indonesia faces a serious challenge to escape the middle-income trap and transform into a developed nation—an ambition that aligns with the Golden Indonesia Vision 2045, which targets a high-income country characterized by a just, prosperous, and globally competitive society. Achieving this vision is determined not only by the magnitude of economic growth, but also by the quality of growth—namely, growth that is inclusive, sustainable, and capable of improving welfare across all segments of society. Empirically, Indonesia's economy has demonstrated resilience; average economic growth of 4.9% during 2000–2022 reflects macroeconomic stability despite global crises and the COVID-19 pandemic (BPS, 2023). However, these macro-level achievements are not fully matched by micro-level outcomes in poverty alleviation. Data from the Central Statistics Agency show that the national poverty rate remains around 10% (BPS, 2023), suggesting persistent, chronic, and structural poverty that is not resolved by conventional growth mechanisms.

This stagnation also challenges the assumption of the trickle-down effect—that the benefits of economic growth will automatically flow to lower-income groups—which, in practice, does not necessarily occur (Shabbir et al., 2018). Instead, Indonesia exhibits a "high growth, low prosperity" pattern, whereby growth gains are disproportionately enjoyed by middle- and upper-income groups, while poor households remain trapped in poverty cycles. Empirical findings support this view; for instance, Dartanto et al. (2020) confirm that Indonesia's growth tends to concentrate wealth within certain segments and widen socioeconomic disparities. From a development theory perspective, such patterns are consistent with structuralist arguments that poverty is rooted in unequal access to capital, skills, and infrastructure. Consequently, escaping the middle-income trap cannot rely solely on quantitative growth; more inclusive, direct, and targeted policies are required to empower low-income communities and reduce inequality (Shaikh, 2017). From an accounting standpoint, these challenges also imply the need for credible measurement, transparent reporting, and performance accountability for social and development programs—so that public resources and community-based funds can be evaluated for efficiency, targeting accuracy, and socio-economic outcomes.

In this context, one relevant complementary instrument is Islamic Social Finance (ISF) (Aprullah et al., 2026). ISF is a social finance system grounded in Islamic principles that emphasizes justice, equitable wealth distribution, and social responsibility. ISF comprises three main pillars: (1) zakat, a mandatory transfer that must be distributed to eligible recipients; (2) infaq and sadaqah, voluntary contributions in various forms; and (3) waqf, a perpetual endowment whose benefits are sustainably dedicated to public interest (Odeduntan et al., 2016). Unlike conventional fiscal instruments, ISF operates through a bottom-up mechanism driven by community participation and targeting vulnerable groups, thereby offering potential solutions to both market failure and government failure in reaching people experiencing poverty (Aprullah et al., 2026). This orientation is consistent with Islamic economic thought, which frames development objectives through maqasid sharia—protecting religion, life, intellect, descendants, and property—by strengthening equity and empowerment (Kahf, 1999). In accounting terms, the distinct nature of ISF requires robust frameworks for recognition, measurement, fund classification (restricted vs. unrestricted), disclosure, and assurance to ensure that the collection and distribution of funds are verifiable, traceable, and aligned with Sharia mandates and stakeholder expectations.

The potential of ISF in Indonesia is considerable. First, Indonesia has the world's largest Muslim population, approximately 237 million people (87% of the total population). Second, public generosity is strong, as indicated by Indonesia's first rank in the 2021 World Giving Index. Estimates from the National Zakat Agency indicate that national zakat potential

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reached IDR 327 trillion in 2023 (Zaenal et al., 2024), yet realized collection is only around IDR 26 trillion—less than 10% of its potential. A similar opportunity exists for waqf, particularly with the growing popularity of cash waqf, which can broaden participation and expand funding sources. Empirical evidence suggests that ISF can contribute meaningfully to poverty reduction; Syauqi Beik & Arsyianti (2016) found that productive zakat programs can increase mustahik income by up to 2.6 times. Other studies also indicate that productive waqf can finance education and health initiatives and support micro, small, and medium enterprises (MSMEs) (Aprullah et al., 2024). Beyond Indonesia, evidence from Malaysia shows that integrating zakat with government social policies can reduce poverty in several regions (Azhar et al., 2023), while Bangladesh's waqf management model has supported sustainable financing for public services (Faruque et al., 2023). From an accounting perspective, this body of evidence underscores the importance of impact-oriented reporting, in which institutions report not only financial inflows and outflows but also disclose outcomes (e.g., income uplift, business survival, and graduation from mustahik to muzakki), enabling stakeholders to assess effectiveness and value creation.

Despite these prospects, implementing ISF in Indonesia remains challenging. Low public literacy regarding ISF leads many Muslims to distribute zakat individually rather than through formal institutions, limiting aggregation and program scalability. In addition, ISF institutions continue to face governance, transparency, and accountability issues (Febriandika et al., 2023). Furthermore, fund utilization remains largely consumptive, not sufficiently directed toward productive sectors capable of sustainably empowering low-income households. Within a policy and managerial framework, optimizing ISF thus requires strategic measures: strengthening regulations and governance so that ISF institutions meet high accountability standards; stimulating innovation in collection and distribution through digitalization (e.g., digital zakat platforms or blockchain-based waqf) to enhance transparency and efficiency; and integrating ISF with national development priorities such as MSME empowerment, vocational education, and public health (Sawmar & Mohammed, 2021). In accounting terms, these steps translate into strengthening internal controls, standardized reporting, audit/assurance practices, digital audit trails, and integrated reporting that aligns ISF objectives with broader development indicators (Aprullah et al., 2026).

Based on the above, it is evident that Indonesia needs additional instruments that complement conventional development strategies in pursuit of the Golden Indonesia Vision 2045. Islamic Social Finance has significant potential to reduce structural poverty and narrow socioeconomic gaps, but its effectiveness depends heavily on the quality of governance and the credibility of accounting information produced by ISF institutions. Therefore, a systematic and critical review of the literature and empirical evidence on ISF's role in Indonesia's development is essential. Using a Systematic Literature Review (SLR) approach, this study aims to provide an evidence-based synthesis relevant to academics, practitioners, and policymakers for formulating inclusive, equitable, and sustainable development strategies, supported by stronger accounting, transparency, and accountability mechanisms.

METHOD

This article uses a Systematic Literature Review (SLR) method designed following the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol to ensure transparency and reproducibility (Hanif & Zafar, 2020). The SLR stages include:

1. Identification: A literature search was conducted in academic databases (Scopus, Google Scholar, DOAJ) and institutional repositories (BPS, BAZNAS) using the following keywords: "zakat Indonesia", "cash waqf", "Islamic social finance poverty", "inclusive Indonesia development".

2. Screening: Literature was selected based on the following inclusion criteria: (a) publications between 2015 and 2024; (b) focus on the Indonesian context; (c) discussing Zakat, Waqf, or infaq/sedehatan; (d) related to poverty, inequality, or economic development. Opinion and non-empirical literature were excluded.
3. Eligibility: The final selection was based on methodological quality and relevance. A total of 37 journals and conference proceedings, 4 institutional reports, met the criteria and were analyzed.
4. Synthesis: The selected data were analyzed thematically to identify patterns, challenges, opportunities, and policy recommendations related to Islamic Social Finance (ISF) in Indonesia.

RESULTS

Macro Contribution of Islamic Social Finance (ISF) to State Fiscal Policy and Social Protection

One of the main advantages of Islamic Social Finance (ISF), particularly Zakat, is its potential as a significant and sustainable source of social funding. In Indonesia, Zakat occupies a highly strategic position, not only as a religious obligation but also as a complementary fiscal instrument for the state in providing a social safety net (Owoyemi, 2020). Data from the National Zakat Agency (BAZNAS) shows that national zakat collection will reach IDR 32.3 trillion in 2023 (Zaenal et al., 2024). This figure is only equivalent to 7.3% of the total social protection budget in the state budget for the same year, but the growth trend is very significant. For comparison, in 2013, Zakat's contribution to social protection was only around 1%. In other words, over the past decade, Zakat has demonstrated an increasingly significant role in strengthening the national social protection system.

Furthermore, studies on the potential of Zakat reveal even more astonishing figures. Zaenal et al. (2024) estimates that the national zakat potential could reach IDR 327 trillion per year, equivalent to 76% of the total social protection budget in 2022. This data means that if zakat potential can be optimally mobilized, it can become a very significant alternative fiscal instrument (Purbasari et al., 2020). Funds of this size can not only strengthen the social safety net but also reduce the state's dependence on debt-based financing and encourage more inclusive development programs.

From a public economics perspective, Zakat has a similar function to taxes in terms of income redistribution, but with fundamental differences in its normative and religious aspects. Zakat is religiously obligatory and has spiritual legitimacy, thus tending to have a higher level of public compliance (Kahf, 1999). Furthermore, because it is distributed directly to the mustahik (recipients of the Zakat), Zakat can be more effective in reaching people experiencing poverty, who are often excluded from state social protection schemes.

Empirical studies also support this. Syauqi Beik & Arsyianti (2016) found that productive Zakat distributed through amil institutions can significantly increase the income of mustahik and encourage their transformation from zakat recipients to zakat payers (muzakki). This finding demonstrates that Zakat is not only charitable but also has an economic empowerment function. Therefore, optimizing Zakat's potential can support the achievement of inclusive growth and more sustainable poverty alleviation (Mawardi et al., 2023). With such enormous potential, the main challenge lies in building a modern, transparent, and integrated ISF management ecosystem, particularly Zakat, with a focus on the country's fiscal system .

Effectiveness of Micro ISF in Poverty Alleviation and Empowerment

At the micro level, Islamic Social Finance (ISF) plays a crucial role in poverty alleviation and community economic empowerment. The effectiveness of ISF can be seen from

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two main dimensions: direct assistance (consumptive) and empowerment programs (productive-transformative) (Siswantoro, 2022).

First, direct and consumptive assistance. Zakat funds distributed in the form of consumer assistance serve as a safety net to meet the basic needs of those entitled to receive it, particularly people experiencing poverty. This function aligns with the basic needs theory (Adinugraha et al., 2023), which emphasizes the importance of meeting primary needs (food, clothing, shelter, health, and education) as a prerequisite for participation in economic development. The distribution of consumer zakat also aligns with the principle of hifzh al-nafs (protection of the soul) within the maqasid al-shariah, which states that the survival of the entitled mustahik must be guaranteed before further empowerment is directed (Adinugraha et al., 2023).

Second, transformational empowerment programs. The trend in ISF management in Indonesia over the past decade has shown a shift from a charitable approach to an empowerment model. BAZNAS, for example, initiated various programs such as Santripreneur, ZMart, and ZChicken, which provide not only business capital but also managerial mentoring, skills training, and market access (Hermawan Adinugraha et al., 2023). This model reflects an asset-based community development approach (Jihadi et al., 2021), where mustahik are seen not merely as recipients of aid but as subjects of development with potential that can be optimized.

Recent data shows significant results. In 2023, the zakat empowerment program managed by BAZNAS successfully lifted 577,138 people out of poverty, including 321,757 people in the extreme poverty category (Zaenal et al., 2024). This achievement confirms that ISF is not only capable of addressing short-term poverty through consumptive assistance but also contributes to long-term economic transformation by enhancing the capabilities and independence of mustahik.

In line with the theory of inclusive growth Siswantoro (2022), ISF at the micro level ensures that marginalized groups not only receive the benefits of growth but also have real access to production factors (capital, skills, and market networks). Thus, ISF serves as a strategic instrument in addressing the high growth, low prosperity phenomenon that often characterizes Indonesia's development.

Waqf as an Engine of Sustainable Development

In addition to Zakat, Waqf also has significant potential as an Islamic Social Finance (ISF) instrument that can support sustainable development. Waqf is unique among other Islamic social instruments due to its perpetual nature. Waqf assets cannot be sold, inherited, or donated; instead, they must be managed productively for the benefit of the wider community. Therefore, Waqf can function as an engine of sustainable long-term financing.

Based on data from the Ministry of Religious Affairs' Waqf Information System (Siwak) as of September 2022, the number of waqf lands in Indonesia reached 440,512 locations, covering an area of 57,263 hectares. Of this amount, approximately 57.42% have been certified, while the remainder still face legal challenges (Ministry of Religious Affairs, 2022). On the other hand, the development of cash waqf shows a positive trend. The value of cash waqf collections grew by 51.7%, from IDR 269.08 billion in 2021 to IDR 557.33 billion in September 2022. Overall, accumulated cash waqf increased from IDR 1,487.78 trillion (December 31, 2021) to IDR 1,776.03 trillion (September 30, 2022) (BWI, 2023). As of 2022, there were 311 active cash waqf administrators and 36 Sharia Financial Institutions Receiving Cash Waqf (LKS-PWU) appointed as collection partners.

This growth indicates that Waqf, especially cash waqf, is beginning to be considered as an alternative source of social financing. Cash waqf offers advantages over land waqf because it is more liquid, easier to collect, and can be invested in various productive sharia instruments.

Proceeds from cash waqf management can then be allocated for permanent scholarships, the construction of waqf hospitals, research funding, and even Islamic venture capital financing for MSMEs. Thus, Waqf serves not only a spiritual function but also a tangible instrument in supporting economic and social development.

When linked to the global development agenda, Waqf is strongly relevant to the Sustainable Development Goals (SDGs). For example, the use of Waqf for scholarships aligns with SDG 4 (Quality Education), while hospital waqf supports SDG 3 (Healthy and Prosperous Lives). Moreover, the use of cash waqf to finance MSMEs can contribute to SDG 8 (Decent Work and Economic Growth). Thus, Waqf can bridge Islamic spiritual values with the universal global development agenda.

However, the utilization of productive Waqf still faces several challenges. The first is low waqf literacy among the public. Most people still understand Waqf in its traditional form (land for mosques or graves), while the concept of productive Waqf, such as cash waqf, is not yet popular. Second, public trust in Nazir institutions remains low due to limited transparency and accountability. However, waqf management requires professional management to achieve optimal and sustainable results. Third, regulatory and coordination barriers remain, both at the central and regional levels, preventing optimal waqf utilization.

Referring to the endowment fund theory in public economics (Khoirunniswah et al., 2023), Waqf can be viewed as an endowment fund that, if managed effectively, can generate a sustainable flow of social benefits without eroding the principal. Therefore, the required strategy is to encourage the professionalization of Nazir (Islamic administrators), increase public literacy, and integrate productive Waqf into national development financing strategies (Tunai & Syariah, 2020).

Management of Zakat, Infaq, and Waqf in Indonesia (Accounting Perspective)

The management of Zakat, Infaq, and Waqf (ZISWAF) in Indonesia has evolved into a complex ecosystem that involves multiple actors and institutions, creating increasing demands for accountability, transparency, and standardised financial reporting. Funding sources originate from muzakki (zakat payers), wakif (waqf providers), and donors (infaq/alms contributors) (Hakim, 2021). These funds are subsequently administered by formal institutions such as the National Zakat Agency (BAZNAS), Zakat Agencies (LAZ), the Indonesian Waqf Agency (BWI), as well as ZISWAF management units within Islamic community organisations, Islamic boarding schools (pesantren), mosques, and sharia cooperatives such as Baitul Maal wat Tamwil (BMT) (Azizah & Khanifa, 2021). From an accounting standpoint, this institutional diversity requires consistent practices in recognition, measurement, classification, disclosure, internal controls, and audit/assurance to maintain stakeholder confidence and safeguard fiduciary responsibilities.

In general, ZISWAF funds are distributed primarily to support ultra-micro businesses and community empowerment programs. Beneficiaries include small business groups, Islamic boarding schools, mass organisations, small business associations, and eligible recipients (mustahik) (Saad et al., 2013). This distribution pattern reflects a shift from charity-based consumption support to empowerment-oriented programs that aim to create economic independence (Syaikhu et al., 2021). In accounting terms, this transition increases the need for program-based budgeting, cost attribution, outcome reporting, and performance accountability, so that stakeholders can evaluate not only compliance in disbursement but also the effectiveness of ZISWAF in achieving socio-economic objectives.

To strengthen ZISWAF governance, modern, professional, and globally standardised management is increasingly required. Current development efforts can be articulated—within an accounting and governance lens—as follows:

1. Human Resource Development (HRD)

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Strengthening competencies through education, training, and certification, and establishing a Professional Certification Institute (LSP) for zakat collectors and waqf administrators, are essential. This ensures that ZISWAF managers have both technical expertise and moral integrity (Uluyol et al., 2021). From an accounting viewpoint, such capacity-building is critical for improving financial statement preparation, internal control execution, risk management, and compliance reporting.

2. Research and Development (R&D):
   Grounded in halal science and Islamic finance, research initiatives focus on developing effective ZISWAF distribution models, innovating waqf products (e.g., sukuk waqf), and integrating Islamic social funds with national development priorities (Saiti et al., 2021). In accounting terms, innovation requires clear measurement frameworks, reporting boundaries, Sharia-compliance assurance, and impact reporting, especially when hybrid instruments combine philanthropic and investment features.
3. Regulation and Standardisation:
   Regulatory development is guided by standardised fatwas issued by the Indonesian Ulema Council (MUI) and related authorities. Moreover, Bank Indonesia (BI), the Ministry of Finance (Kemenkeu), the Ministry of Religious Affairs (Kemenag), and BWI play important roles in strengthening transparency and governance of waqf funds through the implementation of the Waqf Core Principles (WCP), an international framework designed to ensure accountable and sustainable waqf management (Syaikhu et al., 2021). From an accounting perspective, regulation and standardisation are foundational for improving uniform disclosure requirements, governance reporting, assurance mechanisms, and comparability across ZISWAF institutions.
4. Branding and Socialisation:
   Public promotion, education, and literacy campaigns on zakat and waqf help strengthen legitimacy and expand the donor base (Hanif & Zafar, 2020). In an accounting context, branding ties to transparent reporting, timely disclosure, and verifiable accountability reports. These elements shape public trust and help retain donors.
5. Digital Technology:
   Several ZISWAF institutions have begun adopting big data, blockchain, the Internet of Things (IoT), and artificial intelligence (AI) to enhance transparency, improve traceability, and increase distribution efficiency. For example, digital zakat and waqf applications integrated with online payment systems have expanded participation and improved transaction documentation (Rosele et al., 2022). From an accounting lens, digitalisation strengthens audit trails, real-time reporting capabilities, fraud prevention, and data-driven internal control, while also introducing new challenges related to data governance, cybersecurity, and system assurance.
6. Consumer Protection and Public Education:
   Improving Islamic financial literacy is critical so that the public understands the rights and obligations of the roles of muzakki, wakif, and mustahik. Consumer protection also ensures that disbursed funds are appropriately targeted in line with Islamic principles and public trust (Rosman et al., 2022). In accounting terms, this reinforces the importance of transparent allocation reporting, governance disclosures, complaint-handling records, and assurance practices to demonstrate faithful stewardship.

The involvement of Bank Indonesia and the Ministry of Finance is important for advancing innovative instruments like Sukuk Waqf and other Islamic social financing models. These instruments play a dual role: they expand the sources of development financing and strengthen community participation in social project funding, such as madrasas, hospitals, and sharia-based MSME financing (Paolo Pietro Biancone; Maha Radwan, 2019). Such innovations require robust classification of funds (restricted vs. unrestricted), revenue and

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expenditure recognition, investment performance reporting, and integrated social and financial returns reporting from an accounting perspective.

Indonesia's ZISWAF management ecosystem continues to evolve by integrating human resources, research, regulation, branding, digital technology, and public education. As a result, ZISWAF is moving beyond its traditional role. It is now positioned as an accountable governance system for Islamic social funds. This system relies on credible accounting information, assurance, and transparent disclosure to strengthen legitimacy and maximise measurable socio-economic impact.

Challenges and Criticisms of ISF Management

Despite the enormous potential of Islamic Social Finance (ISF) in Indonesia, its optimization still faces various structural and technical challenges. Some key issues frequently criticized in academic literature and practical reports are as follows:

1. Governance and Accountability

Issues of transparency and accountability in the collection and distribution of ISF funds remain a major obstacle to increasing public trust. Independent audit reports on zakat and waqf institutions have not been fully published, making it difficult for the public to assess the effectiveness of fund distribution. According to research by Syauqi Beik & Arsyianti (2016), public perception of the professionalism of zakat collectors significantly influences the public's willingness to pay for Zakat through formal institutions rather than directly. Therefore, the implementation of international governance standards such as the Waqf Core Principles (WCP) and a sharia accounting system based on PSAK (Indonesian Accounting Standards) is urgent.

2. Sharia Financial Literacy and Inclusion

Public literacy regarding ISF is relatively low. Zakat, for example, is still perceived as merely an annual ritual obligation, not a strategic instrument for economic development. A 2022 OJK survey showed that the level of Islamic financial literacy in Indonesia only reached 9.1%, far below conventional financial literacy (49.6%). This condition impacts low public participation in utilizing zakat institutions, cash waqf, and other innovative instruments. Weak Islamic financial inclusion means that the national zakat potential, estimated at IDR 327 trillion (Zaenal et al., 2024), has only been realized at around IDR 32.3 trillion (10%).

3. Fragmentation and Weak Institutional Synergy

The coordination between Islamic Financial Fund (ISF) management institutions in Indonesia is still fragmented. BAZNAS, as a state institution, LAZ, as a civil society organization, BWI, as a waqf regulator, and the government and private sector often partially implement programs. This results in overlapping programs, a lack of data integration, and weak synchronization with national fiscal policy. A study by (Ascarya, 2021) emphasized the importance of integration between Islamic commercial finance and Islamic social finance to create inclusive economic development. Without institutional integration, the potential of Islamic Social Finance (ISF) will be difficult to optimally mobilize.

4. Digitalization and Technological Risks

Digital transformation in ISF management—such as zakat fintech, Islamic crowdfunding platforms, and cash waqf applications—has expanded public access to contributions. However, digitalization also presents new risks, including:

1. Fraud and misuse of funds through unofficial platforms.
2. Sharia non-compliance, for example, in payment or distribution mechanisms.
3. Data security of zakat payers and waqif payers, which is vulnerable to hacking if a strong oversight system is not in place.

Regulations from the Financial Services Authority (OJK), Bank Indonesia, and the Ministry of Religious Affairs are essential to ensure that the development of Islamic fintech is in line with Sharia principles while protecting consumers.

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CONCLUSION

Islamic Social Finance (ISF)—encompassing zakat, infaq/sedekah, and waqf—has been empirically and theoretically recognized as a powerful and strategic instrument for advancing inclusive development in Indonesia. The literature consistently indicates that ISF serves not only as a social safety net but also as an effective mechanism for wealth redistribution to reduce inequality. In normative terms, zakat is designed to purify the wealth of muzakki while meeting the basic needs of mustahik; infaq and sedekah provide flexibility to address contextual and urgent socio-economic needs; and waqf offers a sustainable financing base through the stewardship of productive assets. From an accounting standpoint, these features imply distinct requirements for fund classification (restricted vs. unrestricted), recognition and measurement, disclosure, and performance reporting, so that the social objectives and fiduciary responsibilities embedded in each instrument can be demonstrated transparently. If optimized, the three instruments can accelerate poverty alleviation, narrow economic disparities, and foster more just and equitable growth.

Accordingly, optimizing ISF requires a comprehensive strategy with three key recommendations: (1) strengthen regulation; (2) enhance institutional alignment; and (3) leverage digital technology to improve traceability, audit trails, reporting timeliness, and stakeholder accountability.Furthermore, a paradigm shift is required in ISF management—from a charitable-consumptive approach toward an empowering-productive-sustainable approach. To date, zakat and infaq funds have been predominantly distributed as direct assistance (consumptive charity), with largely short-term impacts. For ISF to function as a true development instrument, distribution programs must be designed to break the cycle of chronic poverty and be accompanied by program-based budgeting, cost attribution, and outcome-oriented reporting that enables evaluation of effectiveness and value for money. Initiatives such as *Santripreneur*, *ZMart*, and *ZChicken* implemented by BAZNAS illustrate how productive zakat can transform mustahik into independent entrepreneurs and, over time, potentially enable them to become muzakki, thereby strengthening the sustainability of the ISF ecosystem. Integrating ISF into national fiscal and development policies is essential for Indonesia's advancement. ISF must serve as a strategic complement to the State Budget (APBN) and Regional Budgets (APBD), directly supporting the Sustainable Development Goals (SDGs) and the vision of Golden Indonesia 2045. Harnessing ISF's fiscal potential—through transparent governance, standardized reporting, and innovative empowerment—strengthens Indonesia's pathway out of the middle-income trap and toward developed-country status via inclusive and equitable growth.

Implications and Recommendations

Optimizing the role of Islamic Social Finance (ISF) in national development requires a more strategic, systematic, and evidence-based policy approach. Given the enormous yet under-mobilized fiscal potential of ISF, as well as the institutional and literacy challenges still faced, several policy recommendations are needed to guide the government, regulators, and ISF management institutions. First, strengthening institutional governance, BAZNAS, the Zakat Collection Institution (LAZ), and the Indonesian Waqf Board (BWI) need to strengthen their institutional governance through professionalization, improving human resource quality, and implementing global accountability standards. Transparency can be improved through regular public audits and the standardization of empowerment models that can be replicated nationally. With more credible governance, public trust will increase, maximizing the potential for ISF collection.

Second, massive education and literacy campaigns need to be intensified to raise public awareness that ISF is not merely a religious ritual instrument, but a modern economic instrument with significant leverage for development. Literacy campaigns can be conducted through collaboration with Islamic boarding schools (pesantren), universities, Islamic organizations, and the mass media. Education based on empirical data—for example, the success of the productive zakat program that elevates mustahik to become muzakki—will further convince the public of the ISF's effectiveness.

Third, synchronization between policies and regulations must be strengthened. The government needs to issue regulations that enable the integration of ISF mustahik data with the Integrated Social Welfare Data (DTKS), so that distribution programs can be more targeted and avoid overlapping. Furthermore, fiscal policy needs to provide tax incentives for corporations that distribute Zakat through official institutions. Thus, Zakat can function as a tax credit while expanding the base of muzakki (payers of Zakat) from the business community.

Fourth, digital innovation and Islamic finance must be prioritized. The development of Islamic fintech, zakat blockchain, and digital waqf instruments will increase efficiency, transparency, and public trust. However, these technological developments must be balanced with strict regulations and oversight to ensure compliance with Sharia principles and avoid the risk of fraud.

Fifth, a roadmap for further research needs to be developed to support evidence-based policymaking. Longitudinal research can measure the long-term impact of the ISF empowerment program on the transformation of mustahik into muzakki. Furthermore, comparative studies with ISF management models in other countries, such as Malaysia and Saudi Arabia, will enrich best practices that can be adopted in Indonesia. With the implementation of these policies and recommendations, the ISF has the potential to become not only a religious instrument but also a complementary fiscal pillar.

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