

THE ROLE OF ISLAMIC EKONOMICS IN REDUCING SOCIAL INEQUALITY: A LITERATUR REVIEW ON THE EFFECTIVENESS OF ISLAMIC FINANCIAL INSTRUMENTS IN SOCIAL DEVELOPMENT

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Abstract

Islamic economics has gained significant attention in recent years as a solution to address social inequality and promote sustainable development. Islamic finance, with its principles of social justice, equitable wealth distribution, and responsible management of natural resources, offers a unique approach to economic and social development. This literature review aims to explore the role of Islamic economics in reducing social inequality and the effectiveness of Islamic financial instruments in driving social development. Key instruments in Islamic economics, such as zakat, waqf, and Islamic banking, have proven effective in addressing poverty, promoting financial inclusion, and funding social programs and infrastructure development. This study employs a **literature review methodology**, gathering and analyzing various relevant sources, such as journal articles, books, and research reports, that discuss the application of Islamic economic principles, particularly zakat, waqf, and Islamic microfinance, in the context of poverty alleviation, welfare equality, and social development. The findings indicate that while Islamic financial instruments have great potential, their implementation still faces challenges related to uncoordinated management, infrastructure limitations, and socio-political barriers. Therefore, a more **coordinated, integrated, and community-driven approach** that considers local social and cultural contexts is necessary. The study also highlights the importance of **increasing public awareness** about the benefits of Islamic financial instruments in supporting sustainable social development.

Keywords: Islamic economics, Islamic finance, zakat, waqf, financial inclusion, social inequality, sustainable development.

Introduction

The concept of Islamic economics has gained significant attention in recent years as a potential solution to address social inequality and promote sustainable development.¹ Islamic finance, with its principles of social justice, equitable distribution of wealth, and responsible management of natural resources, offers a

¹ Ghani, S. R. A., Omar, R., Enh, A. M., & Kamarudin, R. (2020). Peranan Koperasi dalam Dakwah Ekonomi Gerakan Islam di Malaysia Sehingga Tahun 2019. In العبقري مجلة الثقافة الإنسانية (Vol. 23, Issue 1, p. 84). <https://doi.org/10.33102/abqari.vol23no1.186>

unique approach to economic and social development.² This literature review aims to explore the role of Islamic economics in reducing social inequality and the effectiveness of Islamic financial instruments in driving social development.

Islamic economics is grounded in the principles of social justice, equitable distribution of wealth, and the wise management of natural resources. These principles are rooted in the teachings of Islam and are designed to create a more inclusive and sustainable economic system. The Islamic financial system, which includes instruments such as zakat (mandatory charitable giving), waqf (endowments), and Islamic banking, is a key component of this approach.

According to (Septiani, Fasa and Suharto, 2022), the application of Islamic economics is necessary to overcome various problems in the economic sector, including the issue of social inequality. Islamic economists believe that the implementation of Islamic economic principles can build the benefit of society in the context of efficient and equitable economic development.³

Islamic financial instruments, such as zakat and waqf, have the potential to play a significant role in social development and the reduction of inequality. Zakat, a mandatory charitable contribution, is a key instrument in Islamic economics that can be utilized for poverty alleviation, healthcare, and education.⁴ Similarly, waqf, which refers to the endowment of assets for charitable purposes, can be used to fund social programs and infrastructure development.

However, as noted in (Kamal et al., 2021), statistical data shows that the Gini coefficient, a measure of income inequality, in various countries with Muslim populations is between 30 and 50, indicating that income inequality in Muslim countries remains relatively high.

According to, the role of Islamic finance is to increase social sustainability, such as financial inclusion and the reduction of vulnerability. These activities include poverty

² Budiman, T., Satyakti, Y., & Febrian, E. (2021). Islamic Bank Sustainability: An Econometric Approach. In *Asian Economic and Financial Review* (Vol. 11, Issue 2, p. 141). <https://doi.org/10.18488/journal.aefr.2021.112.141.159>

³ Kamal, A. H., Purbowisanti, R., Sani, A. A., & Setiorini, K. R. (2021). DO THE DISTRIBUTION OF ZAKAT AND ISLAMIC BANK FINANCING AFFECT INCOME INEQUALITY IN INDONESIA? In *Amwaluna Jurnal Ekonomi dan Keuangan Syariah* (Vol. 5, Issue 1, p. 90). Bandung Islamic University. <https://doi.org/10.29313/amwaluna.v5i1.5854>

⁴ Ibid

alleviation, ending hunger, promoting healthy living, equitable equity education, sustainable management of water and sanitation, inclusive growth, sustainable growth in cities, addressing climate change, sustainable forest management and development of partnerships for sustainable development.

The effectiveness of Islamic financial instruments in driving social development has been explored in various studies. According to the study, the financial strategies of the Islamic Waqf society are very relevant in creating a wide range of educational institutions, libraries, hospitals, sports fields, as well as new road construction and the government of the Islamic religion. Additionally, the study emphasizes the importance of zakat and waqf in addressing shari'ah-compliant Maqasid sectors, which are related to the objectives of Islamic law.

The development of Islamic microfinance has also been identified as a promising approach to poverty reduction and social inclusion. According to the study, Islamic microfinance is provided with a view to fulfill two tools simultaneously, i.e., social and financial inclusion. In this case, credits and Zakah can be given to the extreme poor people for satisfying basic needs.

Literature Review

The literature review has revealed the potential of Islamic economics and financial instruments in reducing social inequality and driving sustainable development. Islamic economics is rooted in the principles of social justice, equitable distribution of wealth, and the wise management of natural resources, which are essential for achieving inclusive and sustainable growth.⁵

The key Islamic financial instruments, such as zakat and waqf, have demonstrated their effectiveness in addressing poverty, promoting financial inclusion, and funding social programs and infrastructure development.⁶

However, some studies suggest that a more systematic and comprehensive approach to the implementation of Islamic financial instruments may not be necessary to ensure their maximum impact on social development. While a coordinated strategy

⁵ Budiman, T., Satyakti, Y., & Febrian, E. (2021). Islamic Bank Sustainability: An Econometric Approach. In *Asian Economic and Financial Review* (Vol. 11, Issue 2, p. 141). <https://doi.org/10.18488/journal.aefr.2021.112.141.159>

⁶ Ghaffour, A. R. (2020). Maximising Islamic finance for inclusive growth - from crisis to opportunity. <https://www.bis.org/review/r201007c.htm>

can certainly enhance the effectiveness of these instruments, the literature also highlights the inherent flexibility and adaptability of Islamic finance, which allows it to be tailored to the unique needs and cultural contexts of different communities.

A one-size-fits-all approach may not be the most effective, and a more decentralized, community-driven implementation of Islamic financial instruments could be equally, if not more, impactful in reducing social inequality.⁷

The review highlighted the effectiveness of Islamic financial instruments, such as zakat and waqf, in addressing poverty, improving access to education and healthcare, and promoting financial inclusion. Despite the potential of these instruments, the review also indicates that income inequality remains relatively high in various countries with Muslim populations, suggesting the need for a more comprehensive and coordinated approach to the implementation of Islamic economic principles.⁸

However, some researchers argue that the effectiveness of Islamic economics and financial instruments in reducing social inequality may be limited. While these instruments have the potential to promote social justice and equitable distribution of wealth, their impact may be constrained by the complex social, cultural, and political realities of different communities. A one-size-fits-all approach may not be sufficient, and a more nuanced and context-specific implementation that takes into account the unique needs and circumstances of each community may be necessary to achieve the desired outcomes.⁹

The literature also emphasizes the role of Islamic microfinance in supporting sustainable development goals by providing financial and social inclusion to the underprivileged. However, the review also identifies financing constraints and

⁷ Muhammad, H. (2016). Risk Mitigation and Financing Constraints: Towards the Development of Sustainable Islamic Microfinance Institutions in Bangladesh. In *ISRA International Journal of Islamic Finance* (Vol. 8, Issue 2, p. 137). Emerald Publishing Limited. <https://doi.org/10.55188/ijif.v8i2.233>

⁸ Obaidullah, M., & Khan, T. (2008). Islamic Microfinance Development: Challenges and Initiatives. In *SSRN Electronic Journal*. RELX Group (Netherlands). <https://doi.org/10.2139/ssrn.1506073>

⁹ Movsisyan, A., Arnold, L., Evans, R., Hallingberg, B., Moore, G., O’Cathain, A., Pfadenhauer, L. M., Segrott, J., & Rehfuss, E. (2019). Adapting evidence-informed complex population health interventions for new contexts: a systematic review of guidance [Review of Adapting evidence-informed complex population health interventions for new contexts: a systematic review of guidance]. *Implementation Science*, 14(1). BioMed Central. <https://doi.org/10.1186/s13012-019-0956-5>

customer default as challenges that affect the sustainability of Islamic microfinance institutions.¹⁰

The Principles of Islamic Economics and Their Role in Reducing Social Inequality

At the core of Islamic economics are the principles of social justice, equitable distribution of wealth, and the wise management of natural resources. These principles are deeply rooted in the teachings of Islam and have the potential to address various aspects of social inequality, such as poverty, lack of access to education and healthcare, and unequal distribution of resources.¹¹

Zakat, a mandatory charitable contribution, is a key instrument in Islamic economics that aims to redistribute wealth and provide support to the less fortunate members of society. Waqf, or religious endowments, are another important tool that can be used to fund social programs, educational institutions, and infrastructure development.¹²

The literature review suggests that the implementation of these Islamic financial instruments has had a positive impact on reducing social inequality in various Muslim-majority countries. However, the review also highlights the need for a more systematic and coordinated approach to the implementation of these instruments, as well as a consideration of the unique cultural and socioeconomic contexts of different communities.¹³

In understanding the principles of Islamic economics and its role in reducing social

¹⁰ Begum, H., Alam, A. S. A. F., Mia, M. A., Bhuiyan, F., & Ghani, A. B. A. (2018). Development of Islamic microfinance: a sustainable poverty reduction approach. In *Journal of economic and administrative sciences*. (Vol. 35, Issue 3, p. 143). Emerald Publishing Limited. <https://doi.org/10.1108/jeas-01-2018-0007>

¹¹ Machmud, A., & Hidayat, Y. M. (2020). Characteristics of Islamic Entrepreneurship and the Business Success of SMEs in Indonesia. In *Journal of Entrepreneurship Education* (Vol. 23, Issue 2). Allied Academies. <https://www.abacademies.org/articles/Characteristics-of-islamic-entrepreneurship-1528-2651-23-2-534.pdf>

¹² Budiman, T., Satyakti, Y., & Febrian, E. (2021). Islamic Bank Sustainability: An Econometric Approach. In *Asian Economic and Financial Review* (Vol. 11, Issue 2, p. 141). <https://doi.org/10.18488/journal.aefr.2021.112.141.159> and Zen, F., & Setiadi, I. (2018). Applying Islamic Economics in order to Improve Prosperity in Indonesia. <https://doi.org/10.2991/icied-17.2018.31>

¹³ Obaidullah, M., & Khan, T. (2008). Islamic Microfinance Development: Challenges and Initiatives. In *SSRN Electronic Journal*. RELX Group (Netherlands). <https://doi.org/10.2139/ssrn.1506073>

inequality, there are several important aspects that need to be considered. Islamic economics focuses on how to obtain wealth, manage wealth made by humans, and distribute that wealth among the people fairly.¹⁴

Socio-economic justice in Islam is one of the important pillars underlying the implementation of a sharia-based economic system. The concept of justice in Islam is not only based on spiritual commitment, but also on the concept of universal brotherhood among humans.¹⁵ The principles of Islamic economics, such as ownership, the role of the state, and distribution, are aimed at realizing welfare and social justice.¹⁶

In addition, Islamic economists are divided into three categories; Islamic legal experts who tend to be legalistic and normative, modernist groups who are more daring in interpreting Islamic teachings to answer the issues faced by society today, and Muslim practitioners or economists who have a Western educational background.¹⁷ They combine Islamic law and an integrated economic approach to produce an Islamic economy.

Islam encourages economic justice as an effort to ensure that all basic human needs, such as food, clothing, shelter, education, and health, can be met. In addition, instruments of zakat, infaq, sedekah, taxes, and others are used to distribute wealth more evenly.¹⁸ Unlike capitalism which tends to ignore aspects of justice, the concept of socio-economic justice in Islam is comprehensive and oriented towards the

¹⁴ Muhalling, R. (2009). Sejarah Pemikiran Ekonomi Islam (Vol. 2, Issue 2, p. 53). <https://doi.org/10.31332/aladl.v2i2.866>

¹⁵ Suryani, S. (2014). Keadilan Ekonomi dalam Perspektif Ekonomi Syariah: Sebuah Tinjauan Teori. In MAKSIMUM (Vol. 2, Issue 1, p. 39). Universitas Muhammadiyah Semarang. <https://doi.org/10.26714/mki.2.1.2011.39-60>

¹⁶ Santoso, S. (2016). SEJARAH EKONOMI ISLAM MASA KONTEMPORER. In An-Nisbah Jurnal Ekonomi Syariah (Vol. 3, Issue 1). State Institute of Islamic Studies (IAIN) Tulungagung. <https://doi.org/10.21274/an.2016.3.1.59-86>

¹⁷ Sulaiman, F., Lutfi, M., & Muin, R. (2022). KARAKTERISTIK DAN RANCANG BANGUN EKONOMI ISLAM. In Tadayun Jurnal Hukum Ekonomi Syariah (Vol. 3, Issue 2, p. 163). <https://doi.org/10.24239/tadayun.v3i2.84>

¹⁸ Humaida, N., Sa'adah, M. A., Huriyah, H., & Nida, N. H. (2020). PEMBANGUNAN BERKELANJUTAN BERWAWASAN LINGKUNGAN (SUSTAINABLE DEVELOPMENT GOALS) DALAM PERSPEKTIF ISLAM. In Khazanah Jurnal Studi Islam dan Humaniora (Vol. 18, Issue 1, p. 131). The Graduate School of Antasari State Islamic University of Banjarmasin. <https://doi.org/10.18592/khazanah.v18i1.3483>

welfare of society as a whole.¹⁹

The characteristics of Islamic economics also prioritize principles such as aqidah, morals, and laws derived from the Qur'an, Sunnah, Ijma, and Qiyas (Sulaiman et al., 2022). The presence of Islamic economics is expected to be an alternative to reduce social inequality and encourage the creation of economic justice in society.

The implementation of Islamic economic principles in contemporary economic practices still faces challenges, especially in integrating sharia aspects with established business practices. However, there is also a view that states that the application of Islamic economics in the context of contemporary business can cause obstacles and resistance. Some argue that sharia rules and norms can hinder the flexibility and competitiveness of businesses in a competitive environment. However, the continued development of Islamic financial and economic institutions, as well as increasing public awareness, provide hope for the realization of a fairer and more prosperous economic system.

Explore the principles of Islamic economics and their role in reducing social inequality in greater depth. Delve into the intricacies of how Islamic economic principles, such as fairness, equitable distribution of wealth, and the role of the state, are aimed at realizing social welfare and justice. Additionally, examine the different perspectives and approaches of Islamic economists, from the legalistic and normative views of Islamic scholars to the more modernist interpretations and the integrative efforts of Muslim practitioners, in developing a comprehensive Islamic economic framework. This deeper analysis should provide a more nuanced understanding of the potential of Islamic economics to address issues of socioeconomic disparity.

It can be concluded that the principles of Islamic economics play an important role in reducing social inequality. The focus on justice, equitable distribution of wealth, and the role of the state in ensuring the fulfillment of basic needs of society are the foundations of an Islamic economic system that is oriented towards social welfare.

The Role of Islamic Financial Instruments in Social Development

¹⁹ Nafi'ah, B., & Haerianingrum, S. (2021). IMPLEMENTASI NILAI-NILAI ISLAM DALAM DISTRIBUSI KEKAYAAN DAN PENDAPATAN. In *Al-Infaq Jurnal Ekonomi Islam* (Vol. 12, Issue 1, p. 24). <https://doi.org/10.32507/ajei.v12i1.809>

The literature review has revealed the significant potential of Islamic financial instruments, such as zakat and waqf, in promoting social development and reducing social disparities. Zakat, as one of the pillars of Islamic economics, has proven effective in reducing poverty and promoting equitable distribution of wealth.²⁰

Research shows that zakat can be used to limit the state budget, become a social welfare tool, and increase economic productivity.²¹ On the other hand, waqf also has an important role in social development, such as mosque management, school development, and productive investment. However, the effectiveness of these instruments is highly dependent on the role of the government in collecting, managing, and distributing equitably.²²

in other literature, it is revealed that Islamic financial instruments such as sukuk and cash waqf can also be used to finance the international trade sector and economic development more broadly.²³ On the other hand, there are still challenges in implementing Islamic financial instruments optimally for social development. This shows the need for stakeholder collaboration to maximize the potential of Islamic financial instruments in reducing social inequality.

Social development is a multidimensional process involving major changes in social structures, attitudes, and institutions, including accelerating economic growth, reducing inequality, and eradicating poverty.²⁴ Islam emphasizes the principle of justice that ensures the fulfillment of basic needs of each individual and the ability to meet secondary and luxury needs.

²⁰ Rahman, M. R. (2019). Peran Zakat Dalam Mengentaskan Kemiskinan Di Indonesia. In *Hukum Islam* (Vol. 19, Issue 2, p. 130). Universitas Islam Negeri Sultan Syarif Kasim Riau. <https://doi.org/10.24014/jhi.v19i2.8060>

²¹ S, N. M. (2020). ANALISIS KINERJA DAN EFISIENSI PENGELOLAAN DANA ZAKAT: STUDI BAZNAS YOGYAKARTA PERIODE 2015-2018. In *LAA MAISYIR Jurnal Ekonomi Islam* (Vol. 7, Issue 1, p. 45). <https://doi.org/10.24252/lamaisyir.v7i1.13975>

²² Ali, E. M. T. E., Nordin, N., Adam, F., & Halim, M. S. A. (2018). Waqf Assets Management: Harnessing Tool for Muslims' Welfare. In *International Journal of Academic Research in Business and Social Sciences* (Vol. 8, Issue 11). <https://doi.org/10.6007/ijarbss/v8-i11/4907>

²³ Tanjung, H., & Windiarto, A. (2021). Role of Cash Waqf Linked Sukuk In Economic Development and International Trade. In *Signifikan Jurnal Ilmu Ekonomi* (Vol. 10, Issue 2, p. 275). Jakarta State Islamic University. <https://doi.org/10.15408/sjie.v10i2.20493>

²⁴ Waluyo, A. (2017). Kebijakan fiskal dan upaya mengatasi disparitas ekonomi perspektif Islam. In *IJTihad Jurnal Wacana Hukum Islam dan Kemanusiaan* (Vol. 17, Issue 1, p. 19). Institut Agama Islam Negeri (IAIN) Salatiga. <https://doi.org/10.18326/ijtihad.v17i1.19-38>

The hope of social development to solve several problems of poverty, hunger, health, education, and inequality can be realized through the optimization of Islamic financial instruments such as zakat, waqf, and sukuk waqf.²⁵

To that to overcome this problem, several programs will be created that can be utilized such as establishing schools, increasing access to health, providing food and improving livelihoods, so that it can reduce social inequality.²⁶ and from zakat and waqf funds to meet the essential needs of the community.²⁷

In addition, Islamic fiscal policy can also play an important role in overcoming economic inequality through instruments such as the implementation of zakat, the prohibition of usury, and the use of sukuk for productive projects. These instruments can contribute significantly to financing infrastructure development, increasing productivity, and reducing poverty.

Although the literature highlights the great potential of Islamic financial instruments, their implementation is still constrained by various factors, such as public awareness, adequate infrastructure, and a supportive regulatory framework.²⁸

So it can be concluded that Islamic financial instruments have great potential in driving social development and addressing inequality. However, stakeholder support and intensive efforts are needed to optimize the use of these instruments.

Effectiveness of Islamic Financial Instruments in Social Development: Challenges and Opportunities

The literature review has highlighted the significant potential of Islamic financial instruments, such as zakat and waqf, in driving social development and reducing

²⁵ Fuadi, N. F. Z. (2018). Wakaf sebagai Instrumen Ekonomi Pembangunan Islam. In *Economica Jurnal Ekonomi Islam* (Vol. 9, Issue 1, p. 151). Universitas Islam Negeri Walisongo. <https://doi.org/10.21580/economica.2018.9.1.2711>

²⁶ Sakti, L. I. E., & Fahrullah, A. F. (2022). Pengelolaan ZIS Sebagai Upaya Meningkatkan Kesejahteraan Masyarakat (Studi Pada Baznas Kabupaten Jombang). In *Jurnal Ekonomika dan Bisnis Islam* (Vol. 5, Issue 1, p. 106). Universitas Islam Negeri Sunan Ampel Surabaya. <https://doi.org/10.26740/jekobi.v5n1.p106-119>

²⁷ Songgirin, A., & Pradana, R. (2020). ZAKAT FOR BUSINESS INVESTMENT AS SOCIAL SECURITY. In *Jurnal Surya Kencana Satu/Surya Kencana Satu* (Vol. 11, Issue 2, p. 129). <https://doi.org/10.32493/jdmhkdmmhk.v11i2.8036>

²⁸ Rezeki, S. G., Ferdiansyah, V., Adisa, Y., Ginting, D. C. A., & Amelia, R. (2023). FAIR WEALTH DISTRIBUTION THROUGH INSTRUMENTS IN ISLAMIC ECONOMICS. In *CASHFLOW CURRENT ADVANCED RESEARCH ON SHARIA FINANCE AND ECONOMIC WORLDWIDE* (Vol. 2, Issue 3, p. 439). <https://doi.org/10.55047/cashflow.v2i3.657>

social inequality.

Zakat, in particular, has been shown to be an effective tool in addressing poverty and supporting the basic needs of the underprivileged. Studies have found that the distribution of zakat funds can improve access to education, healthcare, and other essential services, thereby enhancing the overall well-being of the community.²⁹

Moreover, the concept of waqf, or religious endowments, has been utilized to fund social programs, educational institutions, and infrastructure development projects that benefit the wider community.³⁰

The main challenge faced in implementing these Islamic financial instruments is optimizing their management and distribution so that they can achieve a broader and more sustainable impact.³¹ Commitment and coordination are needed from the government, philanthropic institutions, and civil society to ensure proper resource allocation and fair distribution. The following challenges;

1. Increase public awareness and participation.³²
2. Build infrastructure and systems that support efficient management of Islamic financial instruments.³³
3. Strengthen the legal and regulatory framework that is conducive to the development of Islamic financial instruments.³⁴

²⁹ Mohamad, S. (2014). Is Islamic Finance, Social Finance? In *Journal of Emerging Economies and Islamic Research* (Vol. 2, Issue 2, p. 1). <https://doi.org/10.24191/jeeir.v2i2.9619>

³⁰ Yuspin, W., & Fauzie, A. (2018). Administrative Challenges of WAQF Institution in the Contemporary World: Future Prospects. In *The Journal of Social Sciences Research* (Issue 6, p. 294). <https://doi.org/10.32861/jssr.spi6.294.299>

³¹ Fuadi, N. F. Z. (2018). Wakaf sebagai Instrumen Ekonomi Pembangunan Islam. In *Economica Jurnal Ekonomi Islam* (Vol. 9, Issue 1, p. 151). Universitas Islam Negeri Walisongo. <https://doi.org/10.21580/economica.2018.9.1.2711>

³² Novian, M. N., & Machdum, S. V. (2021). PEMBANGUNAN PARTISIPATIF DI KOTA TANGERANG SELATAN MELALUI PROGRAM TANGSEL YOUTH PLANNER. In *EMPATI Jurnal Ilmu Kesejahteraan Sosial* (Vol. 9, Issue 2, p. 173). <https://doi.org/10.15408/empati.v9i2.18690>

³³ Rezeki, S. G., Ferdiansyah, V., Adisa, Y., Ginting, D. C. A., & Amelia, R. (2023). FAIR WEALTH DISTRIBUTION THROUGH INSTRUMENTS IN ISLAMIC ECONOMICS. In *CASHFLOW CURRENT ADVANCED RESEARCH ON SHARIA FINANCE AND ECONOMIC WORLDWIDE* (Vol. 2, Issue 3, p. 439). <https://doi.org/10.55047/cashflow.v2i3.657>

³⁴ Rahman, M. R. (2019). Peran Zakat Dalam Mengentaskan Kemiskinan Di Indonesia. In *Hukum Islam* (Vol. 19, Issue 2, p. 130). Universitas Islam Negeri Sultan Syarif Kasim Riau. <https://doi.org/10.24014/jhi.v19i2.8060>

4. Ensuring transparency and accountability in the process of collecting and distributing funds.³⁵
5. Integrating Islamic financial instruments into a comprehensive national development framework.³⁶

By addressing these challenges, Islamic financial instruments can be a very effective tool for achieving economic justice and building a more inclusive and sustainable society . With the right efforts and supportive policies, Islamic financial instruments have great potential to be an effective tool in improving social justice and promoting sustainable development in Indonesia.

However, if implemented properly, Islamic financial instruments such as zakat and waqf have enormous potential to promote inclusive social development and reduce economic disparities in society.

Although there is still room for improvement, empirical evidence shows that Islamic financial instruments such as zakat and waqf play an important role in reducing social disparities and encouraging more inclusive and sustainable social development

Opportunities in several literatures reveal that Indonesia has great potential in developing and optimally utilizing zakat and waqf for social development and poverty reduction. The opportunities are;

1. The large Muslim population in Indonesia allows for more significant efforts to collect zakat and waqf funds.³⁷
2. The existence of policy support from the Indonesian government to encourage more professional and integrated management of zakat and waqf.³⁸

³⁵ Nissa, I. K. (2022). APAKAH BANK ISLAM MALAYSIA MENGELOLA PENGHASILAN DENGAN PROFIT EQUALIZATION RESERVE? In AL HUKMU Journal of Islamic Law and Economics (p. 12). <https://doi.org/10.54090/hukmu.75>

³⁶ Songgirin, A., & Pradana, R. (2020). ZAKAT FOR BUSINESS INVESTMENT AS SOCIAL SECURITY. In Jurnal Surya Kencana Satu/Surya Kencana Satu (Vol. 11, Issue 2, p. 129). <https://doi.org/10.32493/jdmhkdmmhk.v11i2.8036>

³⁷ Rahman, M. R. (2019). Peran Zakat Dalam Mengentaskan Kemiskinan Di Indonesia. In Hukum Islam (Vol. 19, Issue 2, p. 130). Universitas Islam Negeri Sultan Syarif Kasim Riau. <https://doi.org/10.24014/jhi.v19i2.8060>

3. The development of zakat and waqf management institutions that are increasingly innovative in utilizing this potential for social development.
4. The increasing awareness of the Muslim community in Indonesia regarding the obligation of zakat and the benefits of waqf is an important social capital.
5. Collaboration between philanthropic institutions, government and civil society is increasingly strong, supporting the optimization of zakat and waqf potential.³⁹
6. There is great potential for land and building waqf in Indonesia which, if managed properly, can fund various social and economic programs for the community.⁴⁰

By taking advantage of existing opportunities and overcoming challenges in their management, Islamic financial instruments such as zakat and waqf can be catalysts for the social transformation needed to achieve equitable and sustainable development in Indonesia.

While the literature highlights the effectiveness of these Islamic financial instruments, it also suggests that their impact may be constrained by the complex social, cultural, and political realities of different communities.⁴¹ A more comprehensive and coordinated approach to the implementation of these instruments, as well as a consideration of the unique needs and circumstances of each community, may be necessary to maximize their impact on social development and inequality reduction.

Lack of robust mechanisms for the management and distribution of zakat and waqf funds, which can lead to inefficiencies and missed opportunities for social impact.

³⁸ Fuadi, N. F. Z. (2018). Wakaf sebagai Instrumen Ekonomi Pembangunan Islam. In *Economica Jurnal Ekonomi Islam* (Vol. 9, Issue 1, p. 151). Universitas Islam Negeri Walisongo. <https://doi.org/10.21580/economica.2018.9.1.2711>

³⁹ Fikriana, A. (2022). Manajemen Zakat Produktif dalam Meningkatkan Perekonomian Masyarakat. In *Matlamat Minda* (Vol. 2, Issue 1, p. 51). <https://doi.org/10.56633/jdki.v2i1.324>

⁴⁰ Tambunan, J. (2021). MEMAKSIMALKAN POTENSI ZAKAT MELALUI PENINGKATAN AKUNTABILITAS LEMBAGA PENGELOLA ZAKAT. In *Islamic Circle* (Vol. 2, Issue 1, p. 118). <https://doi.org/10.56874/islamiccircle.v2i1.498>

⁴¹ Trimulato, T., Nafis, M. C., & Amalia, E. (2022). The Role Sharia Fintech Support Sustainable Development Goals Program (SDGs). In *Jurnal ilmiah ekonomi Islam* (Vol. 8, Issue 1, p. 251). <https://doi.org/10.29040/jiei.v8i1.3911>

Inadequate integration of Islamic financial instruments with mainstream economic and social development policies, which can limit their reach and impact. Sociocultural and political barriers that hinder the widespread adoption and acceptance of these instruments, particularly in non-Muslim-majority contexts.

so it can be concluded that Islamic financial instruments such as zakat and waqf have great potential in supporting social development and eradicating poverty, but also face challenges that need to be overcome through strong commitment and coordination from various stakeholders.

Methodology

This study uses a literature review approach to explore the role of Islamic economics and Islamic financial instruments in reducing social inequality and promoting sustainable development. This study aims to identify and analyze various relevant literature sources, such as journal articles, books, and research reports, that discuss the application of Islamic economic principles, especially zakat, waqf, and Islamic microfinance, in the context of poverty alleviation, welfare equality, and social development.

The first step in this methodology is a search for relevant literature through academic databases and other reliable sources. Each article collected is then evaluated based on its contribution to the understanding of the role of Islamic financial instruments in reducing social inequality. The selected articles are analyzed to identify key themes, key findings, and differences and similarities in the application of Islamic instruments in various countries with Muslim populations.

This study also includes a review of the obstacles and challenges faced in the application of these Islamic financial instruments, as well as recommendations to overcome these challenges through more coherent policies and better coordination between government institutions, Islamic financial institutions, and the community.

Results

Based on the results of the literature review, it can be concluded that Islamic economics has great potential in reducing social inequality and supporting sustainable development. Islamic financial instruments, such as zakat and waqf, have proven effective in overcoming poverty, increasing financial inclusion, and funding social programs and infrastructure development. However, although these instruments

have great potential, their implementation still faces various challenges.

From this study on the role of Islamic economics in reducing social inequality and supporting sustainable development:

1. Great Potential of Islamic Financial Instruments in Reducing Social Inequality. Zakat and Waqf as the main instruments in Islamic economics have proven effective in overcoming poverty, promoting financial inclusion, and funding social programs and infrastructure development needed by the underprivileged. Islamic Microfinance also has a strategic role in providing financial access to marginalized groups, supporting entrepreneurship, and creating economic opportunities.
2. Coordinated and Integrated Approach to Zakat and Waqf Fund Management. Although Islamic financial instruments have great potential, their effectiveness is still limited by the lack of coordination between zakat and waqf management institutions. An integrated and transparent management system is needed to maximize the impact of zakat and waqf, and to avoid waste and inefficiency in their distribution.
3. The Need for an Approach that is Appropriate to the Social and Cultural Context. A “one-size-fits-all” approach to implementing Islamic economics may not be effective enough. Instead, a more decentralized and community-based implementation that takes into account local contexts can have a greater impact in reducing social inequality. Flexibility in the implementation of Islamic financial instruments allows for adjustments to the unique needs and challenges of each community, which is critical to ensuring long-term success.
4. Social, Cultural, and Political Challenges in Implementing Islamic Finance. Social and political barriers often hinder the acceptance and implementation of Islamic instruments, especially in non-Muslim countries or in communities that do not fully understand the benefits of these instruments. This study underscores the importance of public education and awareness about the benefits of zakat, waqf, and Islamic microfinance as effective tools for reducing social inequality and promoting sustainable development.

5. **Critical Role of Government and Stakeholder Collaboration.** The role of government is very important in creating policies that support more professional and coordinated management of zakat and waqf. Collaboration between the public sector, philanthropic institutions, and the community must be strengthened to optimize the potential of zakat and waqf in achieving more inclusive and sustainable social development.
6. **Utilization of the Great Potential of Waqf in Indonesia.** Indonesia has great potential in waqf management, especially land and building waqf, which can be utilized to fund various social and economic programs that benefit the community. If managed properly, land waqf can be used to fund infrastructure, education, health, and other poverty alleviation programs.
7. **Emphasis on Sustainability and Social Transformation.** Sharia financial instruments such as zakat and waqf have great potential to drive more inclusive social transformation by improving the quality of life of the community, creating fairer economic opportunities, and ensuring the sustainability of resources for the future. With the right policy support, sharia instruments can serve as a catalyst for achieving the sustainable development goals (SDGs).
8. **Effectiveness of Zakat in Improving Access to Education and Health.** Research shows that targeted distribution of zakat can improve access for underprivileged communities to education and health services, which in turn can reduce social inequality in the long run.

One of the main challenges is the lack of a strong mechanism in the management and distribution of zakat and waqf funds, which can lead to inefficiencies and missed opportunities for broader social impact. In addition, the integration of sharia financial instruments with major economic and social policies is still suboptimal, which limits their reach and impact.

Furthermore, social, cultural, and political constraints that exist in various communities can also hinder the acceptance and implementation of these sharia financial instruments, especially in non-Muslim countries. Therefore, a more comprehensive and coordinated approach is needed for the implementation of sharia

financial instruments, as well as adjustments to local needs and contexts in order to maximize their impact.

Discussion

The literature review reveals that Islamic financial instruments—specifically zakat, waqf, and Islamic microfinance—have significant potential to reduce social inequality and contribute to sustainable development. Islamic economics, grounded in social justice, equitable wealth distribution, and wise resource management, is uniquely positioned to address issues of poverty, access to education, healthcare, and overall economic inclusion.

One of the key findings in the literature is the effectiveness of zakat in redistributing wealth. Zakat, as a form of mandatory charitable giving, serves as a critical tool in alleviating poverty and providing financial support to the less fortunate. However, the full impact of zakat depends largely on its management and distribution mechanisms. While zakat is collected and distributed by various Islamic institutions, there is a need for better coordination and transparency to ensure that funds reach the communities in need.

Similarly, waqf—as a tool for endowing assets for charitable purposes—has proven highly effective in financing social programs, educational institutions, and infrastructure development. However, there is a growing concern over the sustainability of waqf institutions, particularly regarding the management of waqf assets and the need for professional and integrated management systems.

Furthermore, the literature highlights the role of Islamic microfinance in promoting financial inclusion, especially for the underprivileged and marginalized communities. Microfinance institutions based on Islamic principles offer financing with no interest, which ensures fairness and justice in lending. Despite the potential, challenges such as funding constraints, default risks, and insufficient infrastructure hinder the scalability and sustainability of Islamic microfinance institutions.

A critical observation emerging from the literature is the need for a decentralized, community-driven approach to the implementation of Islamic financial instruments. The literature points out that a one-size-fits-all model may not be effective in all settings. Instead, instruments like zakat and waqf should be tailored to fit the specific

socio-cultural and economic contexts of different communities. This approach would enhance the impact and reach of Islamic economic principles.

Additionally, public awareness and educational programs regarding the benefits of zakat, waqf, and Islamic microfinance are crucial. Many communities still lack an understanding of how these instruments can be used effectively to reduce social inequality and contribute to development. Therefore, efforts to increase awareness and engage communities in the process of zakat and waqf management are vital.

Conclusion

In conclusion, the study demonstrates that Islamic economics and financial instruments hold great promise for addressing social inequality and fostering sustainable development. Zakat, waqf, and Islamic microfinance are key drivers of financial inclusion and poverty alleviation, playing an instrumental role in the equitable distribution of wealth and resources. However, to maximize their impact, there must be a more coordinated and professional approach to their management and distribution.

While these instruments have been shown to be effective in various Muslim-majority countries, their implementation faces several challenges. These challenges include insufficient management infrastructure, lack of regulatory support, and socio-cultural barriers to widespread acceptance. To address these challenges, it is essential to adopt a community-driven approach that accounts for local contexts and engages local stakeholders in the process.

Moreover, public education about the importance and benefits of these Islamic financial instruments is key to improving participation and ensuring that these tools are used effectively. Governments, philanthropic institutions, and the civil society need to collaborate to enhance the capacity of Islamic financial institutions and promote more transparent management practices.

The future of Islamic economics lies in its ability to adapt to the modern world while staying rooted in its core principles of social justice and equity. By overcoming the existing barriers and optimizing the potential of Islamic financial instruments, societies can work towards achieving economic justice, reducing social inequality, and fostering sustainable development. As demonstrated by the experiences of various

countries, including Indonesia, Islamic financial instruments such as zakat and waqf can play a transformative role in addressing the pressing challenges of poverty, inequality, and socio-economic exclusion.

Ultimately, Islamic economics offers a comprehensive framework for creating a fairer and more sustainable economic system, where social welfare is prioritized and the benefits of growth are shared more equitably across society.

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