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Impact of Islamic Economics in Social Development: An Exploration

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Abstract

Islamic economics is a kind of economics that is value-oriented, moralistic and oriented towards material fulfillment along with social justice, human dignity, equitable distribution and collective welfare. The Islamic economic approach differs from the other approaches, which are mainly based on income, production, or consumption to evaluate economic performance, in the fact that it considers moral responsibility, distributive justice, social solidarity and accountability in economic decisions. This paper examines the effect of Islamic economics on social development in the context of Zakat, Waqf, Sadaqah, Qard Al-Hasan, Islamic microfinance, risk sharing, Islamic banking and maqasid sariah. The study is basically qualitative, conceptual and analytical approach with the critical review of scholarly works, institutional reports and recent research on Islamic economics and socioeconomic development studies. The analysis shows that Islamic economic institutions have the potential to help reduce poverty, provide social protection, facilitate financial inclusion, provide education, healthcare, livelihood and community empowerment. With a bit of reform, zakat can be used for redistribution and immediate social protection, and productive waqf can yield perpetual resources for education, health, housing and economic development. Qard al-hasan and Islamic microfinance can help in restoring livelihoods and be a source for entrepreneurship without reliance on interest-based loans. Islamic banking and Islamic capital market tools can also be used to direct investments toward productive economic activities. But the developmental impact of Islamic economics is not to be taken for granted. It can also have a limited social impact when institutions are fragmented, lack good governance, have insufficient transparency, lack professional capacity, have low financial literacy, and when the commercial and Islamic social finance sectors are separated. Recent studies also suggest that the development of Islamic finance can be linked to sustainable-development in the Muslim world countries, with contextual and institutional factors playing a key role. The paper suggests a possible model of integration between Islamic social finance, commercial Islamic finance, public policy, human-capital development and a maqasid-oriented governance to enhance the role of Islamic economics in inclusive and sustainable social development.

Keywords: Islamic economics, Social development, Zakat, Waqf, Islamic finance, Maqasid al-Shariah and poverty alleviation.

1. Introduction

Economic development is now viewed as more than just growth in national income; it is an improvement in people's capabilities, opportunities, security, dignity and quality of life. Islamic economics has adopted this approach using an ethical paradigm wherein economic activity relates to justice, social responsibility, wealth circulation and human welfare (Chapra, 2008; Siddiqi, 2004). Among its institutional mechanisms are: zakat, waqf, sadaqah, qard al-hasan and Islamic finance, risk-sharing and socially responsible investment. These mechanisms can help tackle poverty, inequality, financial exclusion, and inadequacies in social services. The World Bank has also recognized zakat, waqf, qard hasan and sadaqah as instruments that can contribute to social safety nets and human development, and social goods provision, if properly developed and managed. Thus, this study investigates the impact of Islamic economics on social development and the institutional frameworks that can convert the Islamic economic concepts into tangible social impacts. (a) Research Problem: How is Islamic Economic to lead the socioeconomicsocioeconomic development ? (b) Aim and Objective: To build a poverty free society and to create a dynamic balance in society.

1.1 Conceptual Understanding of Islamic Economics

Islamic economies can be interpreted as a system or a field of economics based on moral, legal and social Islamic values. It takes care not simply of the legality of individual financial contracts but of the organization of economic life as a whole. In Chapra's view (2000), economic activity has moral and social goals which must not be ignored when discussing the Islamic economic vision. Likewise, Naqvi (1994) puts it that Islamic economics is not about 'dealing with ethics outside economic life, but it is about making such values an integral part of economics'.The primary issue of Islamic economics is obtaining falah which is commonly interpreted as well-being and success in both worlds: worldly and eschatological. Justice, moderation, social responsibility and responsible ownership are related to this objective. Wealth is acknowledged as legitimate but with responsibilities towards society also. Thus, Islamic Economics aims at balancing between individual economic freedom and collective welfare (Chapra, 1992). A key difference between Islamic economics and mainstream economics is the role of ethics. Traditional economics can only look at markets from an efficiency, incentives, pricing and resource allocation perspective. Islamic economics takes these into account and provides with moral accountability and social justice. Chapra (2008) indicates that ethics should be an integral part of economic theory as economic choices have a direct impact on human beings and social relationships. Private ownership does not have an alien concept in Islamic Economics, but ownership is related with responsibility. The owner is expected to use productive and responsibility the resources and fulfill social obligations. Therefore, the concept of economic freedom is understood as a freedom to use resources and other people – but not an unlimited right. Islam also frowns upon any economic activity that involves exploitation, unjust enrichment, gambling, too much uncertainty and interest (riba). Meanwhile, it fosters trade, entrepreneurship, investment, partnership, charitable spending and productive economic activity (Iqbal & Mirakhor, 2011).

1.2 Islamic Economics and the Concept of Social Development

Social development is the improvement in the social, economic, institutional and human conditions of individuals and communities. It includes poverty reduction, education, health, employment, equality of opportunity, social protection, participation and human security. The Islamic economics deals with these goals in terms of an integrated idea of human welfare. Chapra (2008) relates development to the maqasid al-Shariah which is the objectives of islamic law at the higher level. The goals are traditionally: protection and promotion of religion, life, intellect, lineage/family and property, though there are varying versions from the classical scholars. The debate now broadened to dignity, justice, welfare and social development (contemporary scholarship).This view is that economic growth is not enough.

Growth and inequality, deprivation, exploitation or exclusion goes hand-in-hand. Development should be more capable of enhancing the capacities of human beings and offer opportunities for vulnerable groups.The implications for poverty policy are very relevant. A conventional welfare system can give the power of transferring wealth temporarily, while Islamic social finance can give the power of productive empowerment in addition to those of transfer. The fund of Zakat can be used for helping in short-term needs and the fund of waqf can be used for providing social infrastructure in the long term. Islamic microfinance can finance the financially excluded households while Qard al-hasan can be a source of support for the small businessmen.The recent systematic literature review also shows that systematic reselection of zakat as redistributive and stabilizing mechanism of welfare and systematic reselection of productive waqf as financing mechanism of education, health, microenterprise and community infrastructure are required.

1.3 Zakat and Poverty Reduction

One of the most important Islamic social finance institutions is Zakaat. It is a process in which the wealth of those eligible is transferred to certain groups of individuals. It therefore also has a social impact which goes beyond individual charity. Zakat can serve a number of developmental functions. One obvious application is that it can give consumption support for poor households. Second, it can enable in-vulnerable households to access productive assets. Third, it can be used for educational and health programmes if there are institutions that can make those disbursements. Fourth, good governance of zakat can establish a social protection system. Ali and Hatta (2014) have conducted a study on zakat in Bangladesh, Malaysia and Indonesia and have found that the zakat is an underutilized tool for poverty alleviation and has also addressed a few issues of zakat's potential role in poverty alleviation policy in Muslim community. Targeting is very critical to the developmental impact of zakat. Zakat can be used to alleviate people's deprivation provided the money reaches the poor who are destitute of enough resources. But, if the beneficiaries are not identified well, it can reduce impact. Therefore, professional administration, reliable databases, transparent reporting and monitoring are essential. The concept of Zakat could also be converted from a consumptive mechanism to a productive mechanism. E.g. Beneficiaries can be provided with equipment, livestock, working capital, vocational training or other productive resources. These are for the purpose of transitioning households from dependence to self-support. But, productive Zakat shall not be done instead of giving to those facing dire need. There can be a balance of emergency support and longer term empowerment. Recent studies on Islamic social finance also highlight that if the zakat is to have a continued impact on poverty, it must be managed based on the quality of the institutions and on the outcomes.

1.4 Waqf and Long-Term Social Development

Another significant Islamic economic institution that has a high developmental potential is Waqf. Traditionally, the waqf funds have been used for mosques, schools, hospitals, water facilities, roads and other services for the benefit of the public. The basic development benefit of waqf is that it can generate an on-going revenue from endowed assets. Productive Waqf is different from one-time transfer as it can have a recurring income. This renders it especially relevant to the longer scenario of social development. Awqaf have been singled out by the World Bank as instruments that can conserve assets and create flows of resources for education, healthcare and other social services. Cash waqf, agricultural waqf, real-estate waqf, educational waqf, healthcare waqf and business oriented waqf can be regarded as modern waqf. Proper governance can enable these assets to produce sustainable social returns. For instance, there is waqf land that gives income from renting out and this is utilized for scholarships. Waqf can be used to produce food or income for community initiatives. Cash waqf may be placed in such a productive activity which is sharia compliant and the benefits of the investment can be channeled into social programs. However, the management of waqf assets is essential to the

developmental effect of waqf. When resources are unproductive or ill-managed, they are not capable of creating a huge social impact. Therefore, professional trusteeship, professional auditing, investment knowledge, transparency and legal security are necessary.

1.5 Sadaqah and Social Solidarity

Sadaqah is a form of voluntary charity as opposed to compulsory charity (Zakat), so it is different from Zakat as a form of charity. Its flexibility makes it useful for individuals, and groups and organisations, to respond to emergencies and social needs. Sadaqah can help in food security, disaster relief, medical assistance, education, housing, and help the vulnerable households. Voluntary giving can supplement the formal public welfare agency in times of crisis. From the social development dimension too, Sadaqah fosters the sense of togetherness among people. It asks people to think of their economic resources 'as if' they have social responsibilities. However, goodwill efforts are no substitute for good institutions. Coordinating between voluntary giving, public policy, professional nonprofit organizations and economic empowerment programs are necessary for a sustainable social-development framework. Rosman et al. (2022) conclude that although Islamic Social Finance, such as Zakat, Waqf and Sadaqah, can contribute to SDGs, there are also challenges to be considered in terms of definition, implementation, governance and institutional effectiveness.

1.6 Qard al-Hasan and Economic Empowerment

An interest-free benevolent loan is called qard al-hasan. When considering its developmental importance, it is the fact that financing can be done without any interest-bearing debt that makes it significant. By offering cheap capital, extending access to capital is vital for poor households to facilitate new or re-commenced economic activity. Micro-loans may be used for purchases of livestock, farm inputs, implements, small trading businesses, conveyance or home companies. A case in point in Bangladesh is the Fael Khair Waqf programme with application of qard al-hasan in post disaster livelihood restoration. The program can be seen as an instance of interest-free microfinance targeted towards the Cyclone Sidr affected population, as described by Muneer and Khan (2019). In conjunction with trainings and market access, the developmental potential of qard al-hasan is especially great. There is more to entrepreneurship than just credit. Borrowers also need knowledge, infrastructure, market access and proper risk management. Hence, the integration of financing and capacity building would be the ideal approach towards an effective Islamic microfinance programme.

1.7 Islamic Microfinance and Financial Inclusion

Financial exclusion is one of the greatest challenges towards social development. Poor households may not have good access to formal financial institutions due to inadequate collateral, irregular incomes, geographic isolation, or religious reasons. Some of these barriers can be resolved by Islamic microfinance through the application of shariah-compliant contract and social-finance instruments. Its models can include the mechanisms of qard al-hasan, financing through murabahah, financing through mudarabah, financing through musharakah, financing in the form of zakat financing, or a mixture of both commercial and social finance models.

Its goal must not be to merely obtain more borrowers. Beyond access to finance, financial inclusion should enhance productive capacity and household resilience. Especially notable is the linkage of zakat and waqf with microfinance. Zakat can be used to meet the immediate needs of the extremely poor families, whereas the financing supported by waqf can provide productive opportunities. Then commercial Islamic finance can step in to service the households that have emerged from social-finance schemes. The latest study on integrated models of zakat and waqf also suggests that integration with social finance and sustainable microfinance for asset ownership and income generation is proposed.

2. Islamic Banking and Social Development

Islamic banking is often referred to as the 商务 (commercial) part of Islamic economics. Islamic banks are based on contract systems which are shariah-compatible. These are those such as trade-based financing, leasing, partnership arrangements and other structures. Islamic banking can make its contribution to society in different ways. The first is that Islamic banks mobilize savings. Secondly, they invest in businesses and investment. Third, they can offer financing opportunities for SMEs. Fourth, they can engage in socially responsible investing and sustainable projects. But, the fact that there is an Islamic bank does not necessarily mean a high level of social development. The real development gains will depend on both whom and which sectors get the financing and whether financing is for productive investment. The Islamic financial system has grown significantly. According to the LSEG–ICD Islamic Finance Development Report 2024, the total Islamic finance assets worldwide amounted to around US$4.9 trillion in 2023, reflecting the industry's current size and scope. In the following 2025 report, it was reported that there were about US$5.98 trillion worth of Islamic finance assets in the world in 2024. This scale presents opportunity and responsibility. Large financial industry can mobilise potentially significant resources for sustainable development, the social impact of which is dependent on institutional priorities and governance.

2.1. Risk-Sharing and Inclusive Economic Activity

Risk-sharing is one unique aspect of Islamic finance. For instance, musharakah, which is a partnership that joins capital with the entrepreneurial efforts, and mudarabah, where a financier provides capital to a trustee who handles the business in exchange for a share of profits, are examples of such partnerships where capital and entrepreneurial activity are united. In theory, risk sharing can promote entrepreneurship that is productive, as economic activity success is tied to financial returns. It can also help in eliminating certain types of debt dependence. But, in the actual practice of Islamic finance, it is rare for industry to move away from instruments that are either debt like or based on trade and avoid any equity-based products. This raises an important research and policy question as to whether the organizational framework of Islamic finance adequately addresses the social and development goals of Islamic economics in general. Notwithstanding, Iqbal and Mirakhor (2011) state that Islamic finance should be viewed in a broader perspective as a part of a larger framework of moral finance, sharing of risk and economic justice and not simply an alternative set of financial contracts. Partnership financing, which requires more monitoring and governance, may be able to support entrepreneurship, innovation and small-business development if it can be done with genuine partnership financing.

2.2. Maqasid al-Shariah and Development

Maqasid al-Shariah is a crucial framework in bridging the aspects of Islamic Economics and Social development. Chapra (2008) expounds an Islamic perspective of development explicitly that is shaped by maqasid. He states that assessment of economic policy must be done based on its impact on human welfare, not on aggregate economic measures. A maqasid oriented framework can thus present the following questions: Is an economic policy for the protection of human life? Does it enhance access to education and knowledge? Does it uphold family and social institutions? Does it safeguard legitimate property and economic security? Does it promote justice and human dignity? These questions are meant to expand the definition of economic development. In today's era, Shariah scholarship in Islamic finance is increasingly focusing on going beyond formality of Shariah compliance to achieving Shariah outcomes consistent with maqasid. This recent study suggests that the use of maqasid based evaluation is a path that can connect Islamic financial governance and poverty alleviation and sustainable development. Therefore, maqasid can be used as an evaluative framework and this is not just a theoretical idea.

2.3. Islamic Economics and Education

One of the most solid relationships between Islamic Economic institutions and Long-Term Social Development is education. Traditionally the Waqf was used to fund educational institutions, and nowadays, the funds of zakat/charitable institutions can be used to fund education, scholarships and school materials or even to educate orphan children or provide higher education or vocational education to the needy. Educational investments have an inter-generational impact. An educated person can get better job, can earn more within the family, can be better sensitized to health issues, and can be more effective in the development of the community. Thus, the Islamic economic institutions can play a role in human-capital formation. This is specially true in developing nations where government education expenditures may be inadequate for all the needs. The contemporary application of Islamic social-finance is to create education endowments, scholarship funds, vocational-training programs, and waqf for the support of research. In doing so, such programmes would turn charity into longer term investment in human capital.

2.4. Healthcare and Human Welfare

Another field where Islamic social finance can be helpful for social development is healthcare. Hospitals, clinics, medical scholarships, pharmaceuticals, healthcare facilities can be created with Waqf. Zakat and sadaqah may help the impoverished families to cover their medical costs within the range of the existing institutional and legal frameworks. Protection of human life is an important aspect of the maqasid approach. Thus, financing of healthcare is in line with the overall developmental goals of Islamic Economics. The development of modern healthcare waqf can be achieved by a professionally managed hospitals, waqf of drugs, community hospitals, as well as waqf of insurance and takaful. Recently, the OECD pointed out that Islamic social-finance instruments, including zakat, waqf, takaful, and Islamic micro-finance can play a role in targeted social-finance investment aimed at poverty alleviation and combating inequality, and meet the needs of health systems and economic resilience.

2.5. Employment and Entrepreneurship

Transfers are not enough to ensure sustainable social development. Productive entrepreneurship and employment are at the heart of household independence. Islamic economics may aid entrepreneurship by way of Partnership Finance, Microfinance, qard al-hasan, productive program funded by zakat, Waqf investing and SME financing. The ultimate aim shall be capability creation. One-time, long-term transfer of a productive asset combined with appropriate training to a poor person can lead to economic independence, while repeated short-term transfers are not necessarily likely to have a long-term positive effect. Thus, there is a need for Islamic social finance to become more redistributive and empowerment. This is also in line with the general concept of wealth circulation. Islamic economic institutions want economic resources to be allocated to a broader section of the society and not concentrated among a few.

3. Islamic Economics and Inequality

Social development has to deal with the issues of income/wealth inequality. Islamic economics offers some mechanisms to tackle inequality. Zakat is directed towards certain individuals and is a re-distribution of a certain percentage of the wealth that is fit to be given. Sadaqah is a voluntary re-distribution. Through Waqf, social assets are established. Family law provides for inheritance among family members. Bans on predatory economic activity impose other moral limitations.The differences in wealth do not have to be eradicated by these mechanisms. Instead, they want to reduce the possibility of a lack to the very extremes and they want to promote a socially responsible economic behavior.The redistributive aspect of Islamic economics might thus be used in addition to public social policy.

However, thelevel of impact is contingent upon collection efficiency, institutional coverage, compliance, governance and integration with national development strategies.

3.1. Islamic Finance and Sustainable Development

The significance of Islamic finance and sustainable development has been growing. Islamic finance has some similarities with finance geared towards sustainability, such as ethical investment, social responsibility, avoiding harmful activities and finance geared towards real economic activity.In a study that analysed the data of 15 Islamic finance countries for the period 2016–2022, Muhammed et al. (2024) established the positive relationship between Islamic finance development and sustainable development and the presence of other economic variables that reflect sustainable-development outcomes. Green sukuk, sustainability-linked instruments, and other tools can also play a role in Islamic finance to support environmental projects. Overall, green Islamic finance establishes a linkage between religiously motivated financial values and current eco-policies. But Islamic finance is not necessarily sustainable. Measureable environmental and social results, transparency of reporting and responsible governance are essential for sustainability.

3.2. Islamic Social Finance and the Sustainable Development Goals

The Sustainable Development Goals represent a global blueprint for poverty eradication, health, education, gender equality, decent work, inequality reduction and environmental sustainability. There are several instruments in Islamic economy which can help out these objectives. Zakat can be used for poverty alleviation and to help social protection. Waqf could be used for education and health care. Qard al-hasan has the potential to contribute to financial inclusion and entrepreneurship. Takaful is a tool that can enhance social and economic resilience. Islamic Microfinance can foster livelihood development. Islamic social finance has conceptual alignment with several Sustainable Development Goals and challenges in definition and institutional application and governance, as pointed out by Rosman et al. (2022). This implies that alignment should be evidenced in measurable outcomes and not be stated.

3.3. Governance and Institutional Effectiveness

Perhaps the most crucial condition is governance, which is the crucial one for Islamic economics (IE) to yield appreciable effects on social-development outcomes. Poor governance can lead to poor allocation, duplication of programmes, corruption, a lack of transparency and loss of public confidence. The Islamic social-finance institutions thus need:
professional management; transparent financial statements; independent auditing; reliable beneficiary databases; measurable development indicators; digital payment and collection systems; monitoring and evaluation; Human resources qualified to perform the work; and Public institutions to be coordinated with. Based on recent systematic studies, the four main challenges of Islamic social finance are weak reporting, fragmented data bases, lack of managerial professionalism, and unequal digitalization. Therefore, the social effect of Islamic economics is greatly affected by institutional quality.

3.4. Digitalization and Islamic Social Finance

Since the management of zakat and waqf can be revolutionized by digital technologies. The platform of digital zakat can be used to make it easy to gather and identify for the recipients, trace and record payments, and report. Digital waqf platforms can help to involve more donors and enhance the information regarding projects. Technological solutions such as blockchain could also help enhance traceability, but technological implementation must be complemented by suitable governance and privacy controls. Digitalization can be of particular value in countries with a large spread out Muslim population. It can help to lessen administrative hurdles and enable clear reporting. Digital systems alone, however, will not be able to solve institutional issues. Technology has to be governed by regulating management, cyber security, accountability, etc.

3.5. Islamic Economics and Social Protection

Social protection also encompasses institutions and strategies that help to mitigate poverty, unemployment, disease, natural hazards, and economic stress. Islamic social finance can be a complement to social-protection systems provided by the government. Zakat can be used to provide assistance to the eligible poor, waqf can be used for social infrastructure and sadaqah can be utilized for emergencies, while qard al-hasan can be given for livelihood recovery. Islamic banking and finance mechanisms are potentially useful in addressing basic needs and social-safety nets, according to the World Bank. The Bangladesh livelihood recovery programme under Fael Khair Waqf is a good example for interest-free financing to support livelihood recovery in the aftermath of a natural disaster. Such models indicate that Islamic social finance can not only help in poverty reduction but also in resilience too.

4. Challenges to the Social Impact of Islamic Economics

But Islamic economy is beset with several challenges.

4.1 Institutional Fragmentation

Zakat, waqf, and Islamic banking, microfinance and charitable organizations are often operated on a separate basis. This fragmentation may make efficient use of resources impossible.

4.2 Limited Transparency

Lack of public knowledge of collection, investment, beneficiaries and outcomes can decrease levels of trust.

4.3 Weak Data

Institutions need good information on poverty, beneficiaries, assets and outcomes to effectively assess their programs.

4.4 Human-Capital Constraints

For effective Islamic economic institutions, they must have economics, finance, shariah, law, accounting, technology and development management expertise.

4.5 Limited Financial Literacy

There is a lack of knowledge on Islamic financial products among potential beneficiaries and donors.

4.6 Formalism

Overemphasis on contract compliance may be a distraction from the general goal of Islamic economics which is social service.

4.7 Limited Integration

Islamic finance and social finance are often considered as two different types of finance although they share the same goals and purposes. All these challenges illustrate that the social-development potential of Islamic economics is not merely about augmenting the number of Islamic financial transactions, but rather institutional reform at the very core of Islamic economics.

5. Toward an Integrated Islamic Economic Development Model

Five parts can be combined in an integrated model: First, redistribution, the zakat and the sadaqah are for the short term solution to poverty and vulnerability. Secondly, asset development, waqf generates long term social and productive assets. Third: Empowerment – qard al-hasan and Islamic microfinance offer capital for livelihood development. Fourth, commercial finance: Islamic banks, sukuk and investment funds involve larger corpuses of capital. Fifth, public policy: governments create regulation, social protection, infrastructure, education and health and care. These components can complement each other. An example of this is to accept zakat assistance at first in the case of a very poor household. This could then be done through a waqf institution, which offers vocational training.

Qard al-hasan is used in a small business. Later, commercial Islamic finance may be able to provide financing to enable expansion. Government programs might be able to offer infrastructure and market access. It is this pathway that makes Islamic social finance move from being a set of charitable activities into an integrated development ecosystem.

6. Discussion

As observed in this paper, Islamic economics possesses some mechanisms that can provide social development. But it is not mechanical or the same for everyone. This seems to happen when Islamic economic institutions try to solve concrete development issues, by introducing professional and responsible management. The concept of Zakat is very relevant to concepts of redistribution and social protection. Waqf is especially appropriate to long duration social resources. Qard al-hasan can support the rehabilitation of livelihoods. Reducing financial exclusion is a role that can be fulfilled by Islamic microfinance. Islamic commercial finance has the capacity for mobilising investments. Meanwhile, the scope and impact of such instruments varies from country to country. Outcome differences are influenced by regulatory, governance, economic, poverty, religious, institutional and financial market development differences. Islamic finance is expanding in the modern era and it is a worthwhile opportunity. The world industry has billion times the assets which shows that Islamic finance is not a marginal financial phenomenon anymore. The key point is not, thus, whether Islamic finance can be of enough size to impact development but rather how its resources can be better leveraged to the social goals. One possible approach is a maqasid-oriented approach. Rather than an institution's profitability or even formal compliance, institutions might judge them according to measurable outcomes like poverty reduction, employment creation, access to education, access to healthcare, financial inclusion, and resilience. But profitability would not be excluded in such an approach. Instead, it would make profitability a part of an even more general social-development context.

6.1. Policy Implications

The analysis yields a number of policy implications. Firstly, government should implement clear and coordinated regulations for zakat and waqf institutions. Second, there is a need to publish standardized and common financial and social impact reports by the Islamic social-finance organizations. Thirdly, National Beneficiary Databases should be created with safeguard to personal information. Fourth, in addition to giving emergency aid, it is necessary to think of productive-empowerment plans that are carefully formulated in zakat institutions. Fifthly, inactive waqf assets shall be developed professional and legally and ethically. Sixthly, Islamic banks need to increase the funding for SMEs, entrepreneurship, agriculture, education, health care and infrastructure projects that help the society. The seventh is that the universities should launch interdisciplinary programmes between Islamic economics, finance, development studies, data science and public policy. Eighth, there should be a better use of digital technology for collection, distribution, monitoring and transparency. Ninth, there is a need to embed Islamic social finance, if applicable, with national development plans and SDGs. Last, the measure of development evaluation should be outcomes, not money collected and/or distributed.

7. Conclusion

Islamic Economics is an unique approach to linking the economy with social responsibility, justice, human dignity and the welfare of the community. There are various complementary and different mechanisms in its institutions (zakat, waqf, sadaqah, qard al-hasan, Islamic microfinance, Islamic banking and risk sharing) to operate in the field of social development. According to the literature, these instruments have the potential to alleviate poverty, provide social protection, offer education, health care, financial inclusion and livelihood development, and provide for sustainable economic activity.

Recent studies also highlight the potential of Islamic social finance in complementary relationship with Sustainable Development Goals and the positive relationship between Islamic finance development and sustainable-development outcomes. However, theIslamic economics must not be viewed as a magic bullet to poverty or inequality. The developmental impact will be influenced by institutional quality, governance, transparency, professional management, effective targeting, reliable data and by integration with the over-arching development policy. Fragmented institutions, weak reporting, lack of professionalism, and data are important identified challenges in recent systematic research. Thus, a combination of these, where redistribution, productive assets, entrepreneurship, commercial finance, public policy and human-capital development can be combined is the most promising. Maqasid al-Shariah can become a model in determining whether economic activity is able to improve human welfare or not. In short, the impact of Islamic economics on social development can be gauged based on tangible improvement of the lives of people and not just the volume of the Islamic finance industry. Islamic economic institutions when managed transparently, professionally, inclusively and with explicit attention to social outcomes, can become important complementary mechanisms, creating more inclusive and sustainable societies.

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