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Optimizing Islamic Social Finance and Philanthropy for Sustainable Economic Empowerment and Community Welfare: A Comprehensive Approach

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ABSTRACT

This review explores the optimization of Islamic social finance instruments such as *zakat, waqf, sadaqah*, and *infaq* to advance sustainable economic empowerment and community welfare. It highlights innovative models, including productive *zakat*, green *waqf,* and digital fundraising, that enhance social impact and environmental sustainability. The literature underscores challenges like institutional trust, financial literacy, and regulatory complexities, while proposing solutions through technology, capacity building, and collaborative frameworks involving government, private sector, and community stakeholders. The review emphasizes the role of Islamic social finance in fostering MSME development, poverty reduction, and alignment with SDGs, advocating for strategic policies that leverage innovation and sustainability to maximize social and economic benefits.

INTRODUCTION

Islamic social finance encompasses key instruments such as *zakat, waqf, sadaqah*, and *infaq,* which are vital for promoting economic empowerment and enhancing community welfare. These instruments operate under Islamic economic principles, emphasizing justice, equitable distribution, and social solidarity. *Zakat*, for instance, functions both as a religious obligation and a structured socio-economic tool designed to redistribute wealth from the affluent to the less fortunate, thereby reducing poverty and fostering social inclusion (Makhrus et al., 2024; Abdullah et al., 2022). *Waqf* represents a long-term endowment mechanism supporting public goods and community development projects, effectively mobilizing resources that

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facilitate sustainable growth (Rusydiana & Ramdia Ningsih, 2024). Complementing these are *sadaqah* and *infaq*, forms of voluntary charity that address immediate social welfare needs and reinforce communal ties.

The role of philanthropy within Islamic economics is contextually multidimensional, serving as a vehicle for socio-economic justice and poverty alleviation. Research highlights the potential of philanthropic funds to uplift marginalized communities through social services, education, health, and empowerment programs aligned with Islamic ethical frameworks (Umpusinga et al., 2024; Rusydiana & Ramdia Ningsih, 2024). Particularly in Indonesia, where Islamic philanthropic organizations are integral to social service delivery, these instruments contribute to reducing reliance on state welfare and enhancing civil society engagement.

The contemporary significance of Islamic social finance is further underscored by its alignment with the global Sustainable Development Goals (SDGs). Islamic financial instruments have been increasingly recognized for their capacity to address multi-faceted socio-economic challenges, including poverty eradication, inequality reduction, and economic resilience, especially in the wake of the COVID-19 pandemic (As-Salafiyah, 2022). Studies during the pandemic reveal that Islamic financial institutions played critical roles in social relief efforts, facilitating access to finance for vulnerable groups, and restructuring debt to alleviate economic hardship (Abdurrizqi et al., 2024). This demonstrates the operational flexibility and social responsiveness of Islamic social finance systems in crisis and post-crisis recovery contexts.

Research also highlights the intersection between Islamic social finance and technological innovations, which facilitate more efficient fundraising and distribution mechanisms. For example, integrative digital platforms and community-based fundraising models optimize the mobilization of *zakat, infaq*, and *sadaqah* funds, enabling transparency and broader participation (Solihin & Latifah, 2021). The importance of enhancing Islamic financial literacy and inclusion—especially among micro, small, and medium enterprises (MSMEs)—has been emphasized to maximize the developmental impact of these social finance instruments (Tubastuvi & Rusydiana, 2024; Asnafi & Choiri, 2024).

Furthermore, a body of work focuses on the challenges faced by Islamic philanthropic institutions, such as trust deficits among contributors, literacy gaps, and regulatory complexities, all of which can limit the effectiveness and sustainability of philanthropic efforts (Fatmawati & Anggraini, 2022; Rusydiana & Ramdia Ningsih, 2024). Addressing these challenges is essential to foster confidence in Islamic social finance mechanisms and encourage productive utilization of funds which ultimately contribute to sustainable empowerment and community welfare.

Objectives and Scope

This review aims to explore optimization strategies for Islamic social finance with an objective to maximize its contribution toward sustainable economic empowerment and community welfare. The scope of this study encompasses theoretical foundations underlying Islamic social finance instruments, the mechanisms for their effective implementation, contemporary challenges faced by these philanthropic systems, and emerging solutions including technological, institutional, and policy-level interventions.

Specifically, the review will analyze the roles and impacts of *zakat, waqf, infaq*, and *sadaqah* within different socio-economic contexts, considering their interface with modern financial systems, socio-political landscapes, and sustainable development agendas. It will also discuss strategies to overcome barriers such as trust, literacy, institutional capacity, and regulatory gaps to enhance the mobilization and productive use of Islamic social funds.

Additionally, this review incorporates insights related to the contribution of Islamic philanthropy to mitigating the socio-economic impacts of COVID-19, as well as the integration of digital technologies to improve access and efficiency in fund management. By encompassing multifaceted aspects of Islamic

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social finance, the study aspires to provide a comprehensive perspective on optimizing these instruments to advance broader socio-economic objectives and align with global development priorities.

ISLAMIC SOCIAL FINANCE INSTRUMENTS AND THEIR OPTIMIZATION

Zakat: Distribution, Impact, and Productive Utilization

Zakat, one of the primary pillars of Islamic social finance, plays an essential role in wealth redistribution and socio-economic justice, targeting poverty alleviation and sustainable community welfare. Rusydiana and Ningsih (2024) discuss *zakat* as an indispensable financial instrument that not only serves as a form of obligatory almsgiving but also as a tool for sustainable economic development. Abdullah and Qoyum (2022) emphasize its vital categorization into zakat mal (wealth *zakat*) and *zakat* fitrah (charitable mandatory alms), each with specific mechanisms for collection and distribution contributing to social finance resilience.

The productive utilization of *zakat* is critical for economic empowerment. Abdullah et al. (2022) advocate for shifting *zakat* from mere consumption-based distribution to productive *zakat*, which involves investment and financing activities that generate sustainable income streams for recipients (*mustahik*). They argue this transformative use enhances the impact of *zakat* on poverty reduction. Supporting this notion, Abdurrouf (2022) proposes a synergistic model linking productive *zakat* with halal industrial development through joint ventures *(syirkah)* where zakat recipients engage as active stakeholders, increasing their welfare sustainably.

Extending the optimization discourse, Ramadhani et al. (2023) provide a bibliometric analysis highlighting the advancement of research in *zakat*'s effect on poverty alleviation, urging development of specialized *zakat* institutions to amplify its economic empowerment potential. They underline four promising research directions centred on *zakat* implementation within Muslim countries, impact assessments on *mustahik*, effectiveness evaluation, and socio-economic sustainability.

Despite zakat's immense potential, several challenges hinder optimal utilization. Fatmawati and Anggraini (2022) identify obstacles including low institutional capacity, lack of standardized professional *zakat* calculation methods, and varied literacy among Muslim communities, which constrict *zakat'*s contribution to economic empowerment. Tubastuvi and Rusydiana (2024) reinforce these points, using the Delphi method with expert opinions in Indonesia, to prioritize the need to enhance Islamic financial literacy and institutional strengthening, particularly for Micro, Small, and Medium Enterprises (MSMEs) engagement with *zakat* funds.

Waqf: Development, Management, and Green *Waqf* Innovations

Waqf represents a sustainable, long-term Islamic social finance instrument with the potential to catalyze community development through endowment assets. Rusydiana, Sari, and Maysyaroh (2023) conduct scientometric mapping on cash *waqf* linked *sukuk* (CWLS) revealing growing scholarly attention toward innovative *waqf* financing schemes that combine traditional social finance with contemporary capital market instruments. CWLS exemplifies how *waqf* funds can be mobilized for impactful economic projects, blending liquidity and mobilization efficiency.

In the pursuit of environmental sustainability, green *waqf* models are emerging as promising solutions to address Universal Sustainable Development Goals (SDGs), especially environmental preservation. Rusydiana, Ramdia Ningsih, and others (2023) propose a modified green *waqf* scheme aligning with Maqasid al-Shariah principles, underscoring *waqf's* role in maintaining terrestrial ecosystems (SDG 15).

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Such innovation illustrates *waqf's* evolving functions beyond traditional charity towards socially responsible and environmentally conscious financial intermediation.

These strategic approaches underscore *waqf's* potential in both socio-economic upliftment and environmental stewardship, reinforcing the instrument as a pillar of sustainable Islamic finance.

Other Philanthropic Instruments: *Infaq* and *Sadaqah*

Complementing *zakat* and *waqf*, voluntary contributions like *infaq* and *sadaqah* also play substantial roles in enhancing welfare and supporting vulnerable communities. Makhrus et al. (2024) explore the activism of Islamic philanthropic organizations in Indonesia, articulating how *infaq* and *sadaqah* funds are effectively deployed in multiple sectors including education, health, and social empowerment, facilitating poverty alleviation and community welfare enhancements.

Moreover, the integration of technology and community social capital in fundraising mechanisms significantly optimizes management of *Zakat*, *Infaq*, and *Sadaqah* (ZIS) collections. Solihin and Latifah (2021) discuss innovative models leveraging digital platforms, including QR codes, mobile apps, online *zakat* calculators, and community-driven fundraising efforts, which improve effectiveness, transparency, and institutional accountability of ZIS management organizations like LAZIS. This integration addresses traditional challenges of organizational governance, boosting collection efficiency and donor engagement.

Such technological advancements provide essential pathways for modernizing and optimizing Islamic philanthropic instruments, enabling them to address contemporary socio-economic challenges effectively while increasing inclusivity and financial accessibility.

Together, these Islamic social finance instruments, when optimized through innovative use, institutional strengthening, and technological integration, hold significant promise for sustained economic empowerment and enhanced community welfare.

ECONOMIC EMPOWERMENT THROUGH ISLAMIC SOCIAL FINANCE

Empowerment of MSMEs and Community Enterprises

Islamic social finance plays a critical role in empowering Micro, Small, and Medium Enterprises (MSMEs) and community enterprises by fostering financial inclusion and enhancing financial literacy specific to the Islamic context. Rusydiana (2024) identify that improving Islamic financial literacy among MSMEs is a priority, notably in Indonesia, where MSMEs suffer from lower levels of awareness and access to Sharia-compliant financial products compared to conventional financial services. Their study highlights that establishing MSMEs as agents of Sharia financial literacy, expanding their access to Islamic financial institutions, and encouraging these institutions to develop simple, affordable products are essential steps toward sustainable empowerment.

Complementing this, Asnafi and Choiri (2024) find that digital Islamic financial literacy significantly increases the profitability of MSMEs in Bantul. Their quantitative analysis indicates that while digital financial inclusion alone does not significantly impact profitability, combined awareness and inclusion boost enterprise performance. This underscores the importance of education in leveraging financial technology innovations for MSME growth.

In a broader scope, Hidayat and Taqiyyuddin (2024) examine macroeconomic variables influencing MSME performance and find that productive zakat, entrepreneurial experience, and information technology affect MSME productivity and sustainability. Particularly, productive *zakat* acts as a capital injection, supporting MSME operational continuity, while entrepreneurial experience equips business owners with practical

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skills necessary for growth. However, the study also notes low levels of technology adoption, limiting the full potential of digital tools.

The productive utilization of *zakat* funds acts as a critical driver of sustainable business growth. Rusydiana, Sari, and Maysyaroh (2023) emphasize the transformation of *zakat* into productive capital that fuels entrepreneurship and business empowerment. They argue that a well-managed distribution system can bolster economic resilience in marginalized communities by providing start-up capital or working capital to qualified entrepreneurs. This is supported by case studies from Rusydiana and Haron (2022), who document effective entrepreneurship empowerment programs via *zakat* institutions, illustrating that financial assistance leads to measurable improvements in recipients' income levels and business viability.

Integration with Halal Industry and Economic Sectors

Islamic social finance also integrates with broader economic sectors, particularly the halal industry, which presents significant potential for economic empowerment and poverty alleviation. Abdurrouf (2022) proposes a model connecting productive *zakat* distribution with the development of halal industrial zones. By involving *zakat* recipients as active stakeholders, including managers and shareholders, in synergy with halal business consultants, this model facilitates the upliftment of economically disadvantaged populations and promotes industrial growth aligned with Islamic principles.

Similarly, Tubastuvi and Rusydiana (2024) highlight the importance of leveraging *zakat* and related instruments to empower MSMEs within the halal value chain ecosystem. They stress strategic priorities including strengthening local markets and institutional frameworks to support product diversification and supply chain development. These findings echo the emphasis by Maulida et al. (2024), who identify that halal certification and consumer awareness significantly influence purchasing decisions and satisfaction in halal food industries, implying economic empowerment through market expansion.

Investment and financing mechanisms based on Islamic contracts further support sectoral integration and economic development. Riani and Rusdianto (2024) analyze the contribution of *mudharabah* and *musyarakah* financing to Islamic banks' profitability, demonstrating that these profit and loss sharing contracts not only promote financial sector stability but also enhance economic growth by facilitating productive investments.

Furthermore, Amijaya et al. (2023) underscore the critical role of *musyarakah* financing within Bank Syariah Indonesia, finding a significant positive relationship with bank profitability. This contract type aligns with the profit-and-risk-sharing ethos of Islamic finance, encouraging sustainable financial intermediation that supports economic actors beyond traditional debt-based financing.

Extending support to agricultural enterprises, Fitriana and Kadri (2024) report very high customer satisfaction with Sharia microfinance institutions that provide financing to farmers, emphasizing the importance of service quality grounded in Sharia principles such as fairness and honesty. This sector is vital for economic empowerment in rural and agrarian contexts.

In summary, Islamic social finance mechanisms including enhanced financial literacy, productive *zakat*, and profit-sharing financing models actively empower MSMEs and integrate with key economic sectors like the halal industry and agriculture to promote sustainable economic development and poverty alleviation.

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COMMUNITY WELFARE AND SUSTAINABLE DEVELOPMENT

Social Impact and Poverty Alleviation

The distribution of *Zakat*, *Infaq*, and *Sadaqah* (ZIS) funds plays a critical role in poverty alleviation and enhancing community welfare in Indonesia and broader Muslim contexts. Batubara and Cahyani (2024) demonstrate through a bibliometric analysis that the productive use of ZIS can significantly contribute to reducing poverty by providing necessary capital and support to *mustahik* (zakat recipients), promoting sustainable economic growth. Ramadhani et al. (2023) further underline that optimizing productive *zakat* through specialized institutions not only increases the living standards of beneficiaries but also helps prevent the persistence and emergence of poverty. Their findings affirm that productive *zakat* distribution stimulates the socio-economic upliftment of communities when effectively managed.

Abdurrizqi et al. (2024) investigate the broader development impact of Islamic philanthropy in Indonesia, revealing that Islamic philanthropic organizations engage in integrated assistance and empowerment programs across social, economic, educational, and health sectors. These programs contribute to improved community welfare by changing beneficiaries' attitudes and behaviours towards self-sufficiency, thus ensuring sustainable empowerment. This aligns with the necessity to integrate *zakat* and other Islamic social finance instruments into holistic poverty alleviation policies.

Connecting Islamic charitable giving to the Sustainable Development Goals (SDGs), Rusydiana and Ramdia Ningsih (2024) emphasize the strategic role that Islamic social finance plays in achieving socio-economic justice and poverty reduction. They argue that *zakat, infaq*, and *sadaqah,* when aligned with the SDGs, become effective drivers of sustainable welfare improvement. As-Salafiyah (2022) highlights the importance of Islamic economic instruments during the COVID-19 pandemic recovery and their potential for advancing inclusive development, addressing both economic and social challenges.

The literature identifies trust and literacy gaps as persistent barriers to maximising the social impact of ZIS. Tubastuvi and Rusydiana (2024) report that low Islamic financial literacy among Micro, Small and Medium Enterprises (MSMEs) limits their ability to effectively utilize *zakat* and philanthropic funds, thereby constraining economic empowerment. Addressing these gaps is essential for enhancing the efficacy of Islamic social finance in community welfare.

Environmental Sustainability and Green Finance

Incorporating environmental objectives within Islamic social finance frameworks is increasingly critical for sustainable development. Rusydiana et al. (2023) explore innovative green waqf models designed to support environmental preservation, specifically aligning *waqf* instruments with SDG Goal 15 on terrestrial ecosystem conservation. They propose a modified Green *Waqf* scheme tailored to Indonesia's context, offering a novel pathway to leverage Islamic philanthropy for climate action and ecological sustainability.

Cash *Waqf* Linked *Sukuk* (CWLS) represents another major innovation combining *waqf* with Sharia-compliant financial instruments, offering sustainable and ethical funding alternatives for social and environmental projects. Rusydiana, Sari, and Maysyaroh (2023) provide an extensive analysis of CWLS literature, indicating that such instruments significantly contribute to advancing both social welfare and environmental objectives by mobilizing long-term funds for green investments.

Financial development's environmental impact in the Organization of Islamic Cooperation (OIC) countries is a complex issue. Fajri et al. (2024) analyze how financial institution development influences carbon dioxide emissions, finding that while financial institutions may increase emissions by facilitating economic activities, financial markets can contribute to emissions reduction, likely through promoting sustainable

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investments. This dichotomy underscores the imperative for Islamic financial sectors to enhance environmentally responsible financing practices.

Complementing this, Kenneh (2024) delineates how Sharia-compliant finance principles emphasize risk sharing, prohibition of harmful investments, and social responsibility, aligning closely with sustainability goals. He highlights the growth of Islamic financial tools such as *Sukuk* and Islamic loans in promoting green energy and infrastructure projects, contributing positively to the environmental sustainability agenda.

The integration of Islamic philanthropy and social finance with environmental stewardship thus emerges as a promising strategy for supporting sustainable development. It reflects a holistic approach that combines socio-economic upliftment with ecological preservation, consonant with the maqasid al-shariah principles of welfare and justice.

Collectively, these studies illustrate the multifaceted contributions that Islamic social finance and philanthropy make toward enhancing community welfare, reducing poverty, and promoting environmental sustainability. The growing body of research signals important avenues for policy-makers, practitioners, and scholars to optimize these instruments' potential within the framework of comprehensive, sustainable development strategies.

Institutional, Regulatory, and Social Barriers

A significant challenge in the optimization of Islamic social finance lies in institutional trust and societal behaviors related to *zakat* collection and distribution. Research by Khairina Nur Said (2023) highlights the issue of trust deficiencies in *zakat* management organizations (OPZ) in Indonesia, finding inconsistencies in the application of professional *zakat* calculations among many organizations, undermining public confidence. This trust deficit often leads to the community's preference for paying *zakat* through trusted public figures rather than official institutions, as documented by Fathul Khair (2021), who underscores the pivotal role of public figures in enhancing *zakat, infaq,* and *sadaqah* (ZIS) collection by bridging the trust gap between communities and zakat agencies. This reliance signifies a critical challenge for formal *zakat* institutions in strengthening their legitimacy and efficiency.

Moreover, the problem of Islamic financial literacy remains a substantial barrier, particularly among micro, small, and medium enterprises (MSMEs), which are key target beneficiaries of Islamic social finance. Tubastuvi and Rusydiana (2024) emphasize that Islamic financial literacy in Indonesia, especially among MSMEs, is still low, limiting the effective use and outreach of Islamic financial products. Similarly, Abdurrizqi et al. (2024) point out that despite positive attitudes and some behavioral influences, Muslim communities' intentions to save at Islamic banks are affected by gaps in financial knowledge and perceptions of profit-sharing, signaling a need for targeted educational interventions. The gaps in literacy constrain the adoption and utilization of Islamic finance, impairing the empowerment potential of such instruments.

Overlaying these social and institutional challenges is the regulatory and jurisprudential complexity inherent in Islamic finance. Kenneh (2024) outlines multiple challenges faced by Islamic banking, including the interpretation of Sharia law, regulatory disparities across jurisdictions, and the limited awareness of Islamic financial principles among practitioners and consumers. These complexities hinder the uniform development and innovation within Islamic social finance, posing risks of misalignment with Sharia objectives and reduced public confidence.

Technological and Innovation Opportunities

Concurrently, opportunities emerge from technological advancements, which can address several of the identified barriers and facilitate broader reach and efficiency in Islamic social finance operations. Solihin

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and Latifah (2021) demonstrate the effectiveness of integrating digital technologies with community social capital in enhancing the fundraising capabilities of *zakat* institutions, such as LAZIS. They describe the use of digital tools like QR codes, zakat calculators, and mobile applications that increase convenience and transparency, potentially overcoming trust and accessibility issues.

Further, Fatoni et al. (2023) provide a Sharia-compliant review of digital mutual fund selling platforms, exemplified by the Ajaib application, confirming that technological platforms can align with Islamic contractual principles while supporting investor engagement and complaints handling. This indicates a growing trend towards digitization that meets religious requirements and modern consumer expectations.

In the context of financial inclusion, Asnafi and Choiri (2024) observe that Islamic financial literacy and inclusion positively influence MSME profitability, although digital inclusion specifically did not show a significant effect in their case study of Bantul MSMEs. Nonetheless, this points to the potential of technology-enabled financial literacy programs to enhance productivity and empowerment if widely adopted and effectively designed.

Moreover, the work of Hidayat and Taqiyyuddin (2024) finds that macroeconomic variables affect the profitability of Islamic commercial banks in Indonesia, implying that enhancing technological innovation in banking services could improve profitability and resilience amidst economic fluctuation's. Coupled with expanded digital financial literacy, technology innovation may improve the operational efficiency and accessibility of Islamic financial services.

Additionally, Abdurrizqi et al. (2024) emphasize the necessity of digital payment systems and technical management in optimizing *zakat* fundraising efforts, particularly in urban areas, while strategically focusing on basic education and religious leader collaboration in rural areas. This bifurcated approach leverages technology where feasible and reinforces community trust through credible local actors.

Overall, the literature suggests that while institutional, regulatory, and social challenges impede optimal deployment of Islamic social finance, technological innovations present promising avenues for overcoming these barriers through enhanced transparency, accessibility, and engagement. Digital transformation equipped with Sharia-compliant frameworks and embedded within community contexts can bolster fundraising and distribution efficiency, contributing to sustained economic empowerment and community welfare.

STRATEGY FRAMEWORKS AND POLICY RECOMMENDATIONS

Optimizing Fundraising and Distribution Mechanisms

The optimization of Islamic social finance fundraising mechanisms is critical to unlocking the full potential of *zakat, infaq*, and *sadaqah* (ZIS) as sustainable tools for economic empowerment. Recent research underscores the pivotal role of digital tools in revolutionizing fundraising efforts. For instance, Solihin and Latifah (2021) highlight the integration of digital technologies such as QR codes, online payment platforms, *zakat* calculators, and dedicated apps in enhancing the efficiency and transparency of ZIS collections. These technological innovations reduce transaction costs, improve outreach, and facilitate seamless contributions, thereby increasing donors' willingness and capability to participate.

Complementing technology adoption is the importance of community-based approaches that leverage social capital and local networks. Solihin and Latifah (2021) advocate for fundraising models that combine digital access with the mobilization of community trust and support, allowing traditional and modern strategies to coexist synergistically. This approach builds on the communal and spiritual fabric central to Islamic philanthropy by involving religious leaders, influencers, and grassroots organizations to foster regular and sustained giving behaviors.

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However, technological advancements alone are insufficient without robust attention to transparency, institutional credibility, and strategic distribution. Fachri and Etika (2024) emphasize that optimizing fundraising must coincide with ensuring transparency in fund management and responsible allocation to maximize the productive use of collected funds. Transparent reporting, accountability mechanisms, and data-driven decision-making are essential to build and maintain public trust, which remains a recurring challenge across many Islamic social finance institutions. Only through this trust can donors be confident that their contributions directly contribute to poverty alleviation and economic development, enhancing the sustainability of philanthropic finance.

Encouraging Collaborative Approaches

Effective Islamic social finance frameworks require collaboration across government, philanthropic agencies, and the private sector to create an enabling ecosystem. Makhrus et al. (2024) illustrate that Islamic philanthropic organizations have enhanced community welfare by coordinating their charitable and empowerment programs with government initiatives and private sector participation. Such collaboration allows the pooling of resources, expertise, and networks, amplifying the impact of social finance efforts.

Moreover, integrating Islamic social finance into mainstream economic planning and the broader Sustainable Development Goals (SDGs) agenda offers a strategic framework for alignment with national and global development priorities. Rusydiana and Ramdia Ningsih (2024) stress the importance of embedding ZIS and *waqf* programs within socio-economic frameworks to harmonize efforts towards poverty alleviation, health, education, and environmental sustainability. This integration fosters policy coherence and enhances resource allocation efficiency, ensuring Islamic social finance contributes to structural development rather than isolated welfare provisions.

Enhancing Capacity and Literacy

Islamic financial literacy and inclusion are fundamental to the effective utilization and expansion of Islamic social finance, especially among micro, small, and medium enterprises (MSMEs) and marginalized communities. Tubastuvi and Rusydiana (2024) identify low levels of financial literacy as a primary barrier that limits access to and proper usage of Islamic financial instruments among MSMEs, restricting their productive potential.

To address this, prioritizing educational initiatives and capacity-building programs tailored to stakeholders' needs is essential. Such initiatives may involve training in financial management, understanding of Islamic finance principles, and practical knowledge about accessing and leveraging Islamic social finance products. Asnafi and Choiri (2024) demonstrate the positive effects of digital Islamic financial literacy on MSME profitability, reinforcing the notion that well-designed literacy programs can empower entrepreneurs to harness social finance for sustainable business growth.

Furthermore, Hidayat and Taqiyyuddin (2024) indicate that despite the significant role of productive zakat in supporting MSME performance, inadequate knowledge and low technology adoption remain significant challenges. Hence, specialized training programs that combine Islamic finance education with modern digital tools and entrepreneurial skills can significantly enhance the efficacy of Islamic social finance mechanisms.

Promoting Innovation and Sustainability

Innovation within Islamic social finance is critical to addressing contemporary socio-economic and environmental challenges. Rusydiana, Sari, and Maysyaroh (2023) identify Cash *Waqf* Linked *Sukuk* (CWLS) as an innovative financial instrument that merges traditional *waqf* funds with modern *sukuk*

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financing. This novel instrument mobilizes cash *waqf* into productive assets, expanding investment opportunities and enabling sustainable impact projects beyond the immediate philanthropic realm.

Additionally, green *waqf* models that align with environmental sustainability and SDG 15 (Life on Land) are emerging as viable approaches for Islamic social finance to contribute to ecological preservation (Rusydiana et al., 2023). These models promote responsible environmental stewardship by channelling *waqf* funds into conservation, reforestation, and sustainable agricultural initiatives, thereby linking financial development with environmental outcomes.

These financial innovations not only diversify the instruments available within Islamic social finance but also create avenues for wider participation from socially and environmentally conscious investors. Furthermore, addressing challenges such as regulatory complexities, Sharia compliance, and institutional readiness remains necessary to mainstream such innovative solutions effectively (Kenneh, 2024).

In summary, these strategy frameworks and policy recommendations collectively emphasize the need for integrated, technology-driven, socially inclusive, and innovative approaches to optimize Islamic social finance. Enhanced fundraising mechanisms, collaborative governance, capacity-building programs, and pioneering financial products serve as the pillars to advance economic empowerment and community welfare in a sustainable and Sharia-compliant manner.

CONCLUSION

The review underscores the transformative potential of optimizing Islamic social finance instruments such as *zakat, waqf, infaq*, and *sadaqah* to foster sustainable economic empowerment and enhance community welfare. Innovations like green *waqf*, digital fundraising, and strategic collaborations have emerged as vital for overcoming challenges related to trust, literacy, and regulatory complexities. The findings advocate for strengthened governance, increased financial literacy, and integrated policies aligning with SDGs to maximize impact. Continued emphasis on technological advancement, capacity building, and sustainability-focused models is essential for realizing the full potential of Islamic social finance in promoting inclusive growth and socio-economic justice.

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CONFLICT OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

AUTHORS' CONTRIBUTIONS

The author was responsible for the entire research process, including conceptualization, data collection, methodology, data analysis, interpretation of results, and manuscript writing.

DECLARATION OF GENERATIVE AI IN THE WRITING PROCESS

Artificial Intelligence (AI) tools were used in a limited capacity during the preparation of this manuscript for language refinement, grammar assistance, structural organisation, and academic writing support.

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However, all conceptual development, interpretation of findings, analysis, and final academic decisions remain entirely the responsibility of the author.

The author carefully reviewed and validated all generated content to ensure academic integrity, originality, and compliance with scholarly research standards.

DATA AVAILABILITY/SUPPLEMENTARY MATERIALS

The data supporting the findings of this study are available from the corresponding author upon reasonable request. Due to confidentiality and ethical considerations involving parents, teachers, and educational institutions associated with autism related educational experiences, raw interview transcripts and identifiable institutional information are not publicly available.

ETHICS STATEMENT

This study was conducted in accordance with appropriate academic and ethical research standards involving human participants. Ethical approval was obtained from the relevant institutional authority before the data collection process began. Participation in the study was entirely voluntary, and all participants were informed regarding the objectives of the study, confidentiality procedures, and their right to withdraw from participation at any stage without penalty. Information consent was obtained from all participants before surveys and interviews were conducted. To protect participant privacy, all names of individuals, schools, and institutions were anonymised throughout the research process. All collected data were stored securely and used strictly for academic purposes only.

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