

Research Article

Relationship between Islamic Social Finance and Sustainable Development Goals: A Conceptual Framework

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Abstract.

The success of a country's economic development can be assessed by the extent to which the Sustainable Development Goals (SDGs) are achieved. However, many developing countries face challenges in attaining the SDGs, often due to budget constraints. To overcome these obstacles, the presence of Islamic social finance, also known as ZISWAF (Zakat, Infaq, Sadaqat, and Waqf), is expected to play a significant role. Islamic social finance aims to address social and economic issues such as poverty and income inequality.

This study aims to analyze the role of Islamic social finance (ISF) in the context of the SDGs. As Islamic social finance adheres to principles that align with the SDGs, it is essential to investigate whether ISF can support the achievement of the SDGs through its funding activities. The role of Islamic social finance in relation to the SDGs can be observed by examining the programs funded by ISF and assessing their alignment with the SDGs.

The analytical approach employed in this study is descriptive and qualitative, aiming to explain the role of Islamic social finance in the SDGs. The analysis draws insights from relevant literature and data, and a conceptual framework is formulated to illustrate the relationship between Islamic social finance and the SDGs.

The findings highlight the important role of Islamic social finance, including zakat, in contributing to the achievement of the SDGs. Through several case studies in various countries, Islamic social finance has demonstrated its potential to support the attainment of SDGs 1, 2, 3, 4, 8, 9, 11, and 12. These results emphasize the significant contribution of Islamic social finance in the success of SDGs programs, underscoring its potential as a tool for achieving the SDGs.

Keywords: Islamic social finance, SDGs, relationship

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1. Introduction

The existence of Islamic social finance is a hope in realizing public welfare. As the name implies, Islamic social finance focuses on social goals[1]. The existence of Islamic social finance can support government programs in social fields such as poverty alleviation. The orientation of Islamic social finance has similarities with the goals of the SDGs which also focus on social aspects. Sustainable Development Goals (SDGs) aim to improve the quality of people's lives, maintain the quality of people's lives, as well as maintain an inclusive quality of the environment and implement good governance that is able to improve the quality of life from one generation to the next [2]. In addition to having similarities in terms of principles and goals with the SDGs, Islamic social finance is also an instrument that can support the achievement of the SDGs.

One of the obstacles in achieving the SDGs is budget constraints. 5 to 7 trillion USD every year is needed to achieve the 17 SDGs. Despite the global consensus of the goals, the levels of financing for sustainable development were already stagnant and had even witnessed drops in some areas before the world was hit by the COVID-19 crisis [3]. Conditions that occurred in developing countries during the last few years prior to the COVID-19 pandemic, had experienced an income gap of 2.5 trillion USD to achieve the SDGs.

Other funding sources are needed that can be used to support the SDGs. Islamic social finance can be utilized to achieve the goals of the SDGs. There are a number of reasons why Islamic social finance can be used to support SDGs programs, such as the principles of SDGs not contradicting Islamic values, which are inherent in Islamic social finance. Meanwhile, the objectives of the SDGs program also have similarities with the mission of Islamic social finance[4].

Islamic social finance system has advantages in its application. The advantage is budget discipline. In zakat management, the guidelines are quite clear, where zakat funds are taken from affluent people (muzaki) and given to eight groups of recipients (mustahik) [5]. Likewise in the case of waqf management, where the owner of asset (wakif) submits it to the manager (nadzir) so that it can be used for the needs of the wider community. If the wakif makes a contract for certain purposes for the community, such as specifically for clinics, schools or other purposes, then the nadzir is obliged to fulfill [3].

Islamic social finance is now starting to be relied upon as a source of funding for social and humanitarian purposes. Considering that Islamic social finance continues to grow, and is proven to be able to overcome various problems[6]. At the world level, Islamic

social finance has become a new financial resource in overcoming various social and humanitarian issues such as hunger, poverty, and refugee problems. Alleviating hunger, poverty and inequality; promoting peace; and protecting the environment are central to Islamic principles and are embodied in the Islamic social financing instruments of Zakat, Waqf, an Sadaqa [3].

Islamic social finance and SDGs are related in basic principles. Islamic social finance adopts many sustainability criteria. For example is the prohibition of excessive use of wealth. This principle has the aim that the assets owned by a person can guarantee their needs both for now and in the future. Islamic social finance also has the principle of conformity in the use of wealth. The principle of the use of wealth in Islamic social finance adjusts to the priority of needs, by relying on the principle of maqashid al-syariah where the fulfillment of needs starts from the needs that are dharuriyat, then hajiyat, and tahsiniyat. Fulfillment of needs must be in line with the objectives of Islamic law which are summarized in al-mabaadi' al-khamsyah, namely the protection of religion (hifzd al-din), soul (hifzd al-nafs), mind (hifzd-'aql), lineage (hifzd al-nasl), and property (hifzd al-maal). According to Al-Ghazali, maintaining the five points mentioned above (protection of religion, soul, mind, lineage, and property) is the rank of al-Dharurat (very urgent) [7].

2. Literature Review

Community involvement in Islamic social finance is a manifestation of Islamic teachings as stated in Q.S. An-Nisa verse 114:

لَا خَيْرَ فِي كَثِيرٍ مِّن نَّجْوَاهُمْ إِلَّا مَنْ أَمَرَ بِصَدَقَةٍ أَوْ مَعْرُوفٍ أَوْ إِصْلَاحٍ بَيْنَ النَّاسِ ۗ وَمَن يَفْعَلْ ذَلِكَ ابْتِغَاءَ مَرْضَاتِ اللَّهِ فَسَوْفَ نُؤْتِيهِ أَجْرًا عَظِيمًا 114

There is no good in most of their secret talks—except those encouraging charity, kindness, or reconciliation between people. And whoever does this seeking Allah's pleasure, We will grant them a great reward.

Verse 114 of Surah An-Nisa explains about the reward of good deeds. One of the good deeds is asking to give charity, which is a form of Islamic social finance practice. The interpretation in the Qur'an Surah An-Nisa verse 114 that there is absolutely no good from many secret talks or whispers that are done, but the good ones are those who tell to give charity, or to do kindness, that is, the act of virtue that is appropriate with religious guidance and is already known by the community as something good, or making peace between people who are in disputing and fighting [8].

3. Method

The method used in this paper is descriptive qualitative. Where the discussion is focused on providing a descriptive explanation of how the relationship between Islamic social finance and the SDGs. Furthermore, the discussion is continued by making a conceptual framework that explains how the role of Islamic social finance in encouraging the achievement of the SDGs.

4. Discussion

One of the Islamic social finance instruments that plays a significant role in determining people's welfare is zakat. Zakat is charged to the Muslim community who have been able to materially, to then be distributed to those in need. Zakat recipients are classified into fakir (Those who have almost nothing so they are unable to meet the basic needs of life), miskin (Those who have wealth but not enough to meet basic needs for life), amil (Those who collect and distribute zakat), mu'allaf (Those who are new to Islam and need help to strengthen in monotheism and sharia), slave (slaves who want to free themselves), gharimin (Those who are in debt for the necessities of life in maintaining their soul and izzah), fisabilillah (Those who struggle in the way of Allah in the form of da'wah activities, jihad and so on), and ibnus sabil (Those who run out of money on the way in obedience to Allah) [8]. Zakat aims to help poor people so they can improve their standard of living. Thus the existence of zakat can play a role in creating equitable distribution of welfare.

Zakat plays a role in ensuring the economic condition of the poor, so that their economic capacity increases through increased purchasing power. Zakat also plays a role in maintaining the ability of the poor to access the market. Zakat has a role in empowering the community in order to improve their standard of living.

In Islamic social finance, apart from mandatory instruments, there are also voluntary instruments. Zakat is an example of an instrument that is mandatory. The voluntary instruments are sadaqat, infaq, and waqf. Because of its more binding characteristics, zakat is a financial instrument that has the potential to grow.

Zakat is usually managed by an institution that is specifically tasked with managing zakat, both in collection and distribution. In practice, zakat institutions have different missions and programs in each country. This is in accordance with the conditions and needs of the people in the country. In general, zakat is used to meet the basic needs

of the community, but in its development, zakat can be used for various other purposes such as maintaining environmental sustainability and community empowerment. Besides that, zakat can be used for religious purposes, including to build mosques, and hold activities that are able to increase public knowledge in the field of religion. And besides that, zakat can be used to improve public education.

Zakat plays a role in realizing the 17 goals of the SDGs. Each country will have a different focus in achieving the SDGs goals through zakat. The management of zakat in Indonesia is carried out by the BAZNAS institution. BAZNAS has the objectives to:

1. The realization of BAZNAS as a strong, reliable, and modern zakat management institution;
 2. The realization of optimal national zakat collection;
 3. The realization of the effective distribution of ZIS-DSKL in alleviating poverty, improving the welfare of the ummah, and reducing social inequality;
 4. The realization of the competent, integrity, and prosperous national zakat amil profession;
 5. The realization of a management system and national zakat management database that adopts the latest technology;
 6. Realization of planning, control, reporting, and accountability of zakat management with good and standardized management;
 7. The realization of a relationship of mutual help in goodness and piety between muzakki and mustahik;
 8. The realization of synergy and collaboration of all relevant stakeholders in the development of national zakat;
 9. The realization of Indonesia as a center of excellence in world zakat management.
- Meanwhile, BAZNAS also has a number of targets, which can be explained as follows:
1. Improving the quality of service to muzakki, mustahik, and other stakeholders;
 2. Increase public awareness to pay zakat through official OPZ;
 3. Increase the growth of national zakat collection;
 4. Improving service quality to mustahik and ZIS-DSKL beneficiaries;
 5. Increasing the benefits of ZIS-DSKL in efforts to alleviate poverty, improve the welfare of the community, and reduce social inequality;
 6. Improving the quality and implementation of the Indonesian National Work Competency Standards (SKK-NI) in the Zakat Sector;

7. Encouraging the establishment and development of Indonesian amil zakat professional associations;
8. Build a merit system in the management of amil zakat human resources in OPZ;
9. Develop a management system and database of national zakat management;
10. Strengthening information technology infrastructure to support BAZNAS and LAZ service operations;
11. Strengthening the national muzakki, mustahik, and amil zakat databases;
12. Strengthening research for product development and zakat management policies nationally;
13. Develop a national zakat planning system with good and standardized governance;
14. Develop a national zakat control system with good and standardized governance;
15. Develop a reporting system and accountability for the management of national zakat with good and standardized governance;
16. Develop muzakki and mustahik participation programs in zakat management;
17. Develop synergy and collaboration of OPZ in the socialization and education of national zakat;
18. Develop synergy and collaboration of OPZ in the distribution and utilization of national zakat;
19. Develop synergy and collaboration in the management of national zakat with the central government and regional governments;
20. Develop synergy and collaboration in the management of national zakat with private parties and non-government institutions;
21. Increasing the world community's recognition of the management of Indonesian zakat

The relationship between zakat management and the SDGs can be seen from the BAZNAS programs that intersect with the SDGs targets. Overall, the programs in BAZNAS are classified into:

1. Humanity
 - BAZNAS Disaster Response
 - BAZNAS Active Service
2. Education
 - BAZNAS Scholarship Institute
 - BAZNAS Cendikia School

3. Health

- BAZNAS Healthy Home

4. Da'wah

- Muallaf Center BAZNAS

5. Economy

- Farmer Empowerment
- Economic Development
- Zakat Community Development
- BAZNAS Microfinance

When viewed from the five areas of the BAZNAS program, it can be seen that all of them coincide with the goals in the SDGs. BAZNAS program in the humanitarian field is in conformity with SDGs No. 11 (Sustainable Cities and Communities). BAZNAS program in the field of education is in conformity with SDGs No. 4 (Quality Education) and No. 8 (Decent Work and Economic Growth). BAZNAS program in the health sector is in conformity with SDGs No. 3 (Good Health and Well-Being). BAZNAS program in the field of da'wah is in accordance with SDGs No. 11 (Sustainable Cities and Communities) and No. 12 (Responsible Consumption and Production). BAZNAS program in the field of economics is in conformity with SDGs No. 1 (No Poverty), No. 2 (Zero Hunger), and No. 8 (Decent Work and Economic Growth).

BAZNAS programs mostly focus on social, economic, and religious fields. BAZNAS programs in the social sector are carried out by providing assistance to victims of natural disasters, providing scholarships, and establishing schools. Meanwhile, BAZNAS program in the economic sector is focused on economic empowerment activities. And, BAZNAS program in the field of religion is actualized by establishing a muallaf center.

Distribution of zakat in Indonesia can be in the form of productive zakat. Productive zakat can be used as business capital for zakat recipients (mustahik). With these zakat funds, the mustahik (productive zakat recipients) will get a steady income, increase their business, develop their business, and they can set aside their income for saving [2].

After analyzing the relationship between Islamic social finance and the SDGs in Indonesia, then another example is analyzed in Singapore. The link between Islamic social finance and SDGs in Singapore can be seen from the programs run by the Singapore Islamic Religious Council (MUIS). In [9], it is explained about the distribution of zakat funds to finance several programs. Zakat-funded programs include (1) Social Development & Assistance for Poor & Needy, (2) Religious Guidance, Islamic Education & Youth Engagement (includes Covert Administration), (3) Religious Programs, Mosque

& Amil Management, and Madrasah & Asatizah Development & Assistance. The amount of zakat allocation to finance these programs can be seen in Table 1 below.

TABLE 1: Expenses for major projects and grants

Social Development & Assistance for Poor & Needy	\$ 28,633,208
Religious Guidance, Islamic Education & Youth Engagement (includes Covert Administration)	\$ 13,115,866
Religious Programmes, Mosque & Amil Management	\$ 9,819,692
Madrasah & Asatizah Development & Assistance	\$ 4,703,358
TOTAL	\$ 56,272,124

Source: MUIS Annual Report 2021

Social Development & Assistance for Poor & Needy program is in line with the goals of SDGs No. 1 (No Poverty). While the Religious Guidance, Islamic Education & Youth Engagement Program (includes Covert Administration) is part of the goal of SDGs No. 4 (Quality Education) and the goal of SDGs No. 11 (Sustainable Cities and Communities). And for Religious Programs, Mosque & Amil Management, and Madrasah & Asatizah Development & Assistance have conformity with the goals of SDGs No. 9 (Industry, Innovation and Infrastructure).

There are a number of humanitarian issues that require financial assistance. Such as the issue of refugees who generally come from conflict-prone regions and countries. They need help so that their needs can be met in the areas where they are displaced. Aside from impeding efforts to alleviate poverty more broadly, forced evictions may also harm the economy, pollute the environment and otherwise jeopardize progress toward the Agenda 2030's Sustainable Development Goals (SDGs) [3]. Islamic social finance can play a role in addressing this problem.

5. Conclusion

Islamic social finance has targets and objectives that are in line with the SDGs. Therefore, Islamic social finance can support the achievement of the SDGs through a number of programs. In several countries, especially in Asian countries, there are a number of programs implemented through the use of Islamic social finance that focus on social, religious, and economic fields.

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