

Islamic Social Finance as a Catalyst for Inclusive and Sustainable Growth: Regional Best Practices from Asia

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Abstract: Islamic Social Finance (ISF), encompassing zakat, waqf, sadaqah, and Qard al-Hasan, has demonstrated measurable contributions to poverty alleviation, education, healthcare access, and economic empowerment across Asia. This study employs a qualitative content analysis approach, reviewing peer-reviewed articles, institutional reports, policy papers, and case studies from Indonesia, Bangladesh, Pakistan, and Malaysia (2010–2025). A structured coding protocol was used to extract information on governance models, fintech integration, waqf monetization, microfinance designs, outcomes/KPIs, enablers/barriers, and linkages to Sustainable Development Goals (SDGs). The analysis identifies transferable best practices: Indonesia's BAZNAS digitized zakat collection via QR payments and e-commerce partnerships, improving transparency and coverage; Malaysia's centralized SIRC governance mobilized over RM 2.5 billion in zakat in 2020 for scholarships, healthcare, and entrepreneurship programmes; Pakistan's Akhuwat disbursed over four million interest-free microloans, enhancing household incomes; Bangladesh's SIBL cash waqf funds financed schools and clinics, delivering scholarships and subsidised healthcare in rural communities; and Malaysia's AI-assisted targeting of beneficiaries improved allocation efficiency and impact measurement. These interventions align with SDGs 1, 3, 4, 8, and 10, demonstrating how Digital Centralization, Cash Waqf PPP Models, Holistic Qard al-Hasan, Data-Driven Targeting, and Standardized Governance and Audit can be adopted across contexts. In conclusion, integrating ISF instruments within coherent governance, digital, and operational frameworks enhances their scalability and effectiveness, offering policymakers and practitioners actionable strategies for advancing inclusive and sustainable socio-economic development globally.

Keywords: Islamic social finance, Sustainable development, Zakat, Waqf, Sadaqah, Poverty reduction, Economic empowerment, Digital revolution, Policies.

INTRODUCTION

The zakat, waqf and sadaqah elements of Islamic social finance have been conventionally observed as a powerful instrument that can be employed to address poor individuals and their independence in terms of the economy. However, despite its incomparable high potential, its application in most of the Muslim countries where the Muslim-majority nations are not the only ones such as those found in Asia leave much to be desired and this can be attributed to factors such as ineffective government and the institutions, lack of transparency, fragmented institutional systems and limited compatibility to new financial technologies. In addition, in spite of some instances of Islamic social finance in Indonesia, Bangladesh, Pakistan, and Malaysia, their effectiveness, feasibility, and alignment with the global development agenda, particularly, the United Nations SDGs have not been studied yet. Previous literature has rather been more of a theory based study or a case study analysis of a specific Islamic social finance structure without providing an outlook in the same context of a comparative analysis of effective models of the Islamic social finance that have been established in other countries. Another issue to look into is the possibility of enhancing

efficiency and reach of Islamic social finance through the use of digital transformation and policy reform. The fact that these gaps need filling in to enable the potential of Islamic social finance realise its full potential in sustainable development (Andriyanto & Islamiah, 2024).

The paper suggests that comparative, theme based synthesis of Islamic social finance (ISF) in Indonesia, Bangladesh, Pakistan, and Malaysia would be able to produce actionable and transportable frameworks that would be applied in scale up and governance reforms beyond country stories. We present cases of cross case best practice in digital centralization, waqf monetization and microfinance design, and connect them to SDG consistent results through an open qualitative content analysis protocol, which is often used to present single country or instrument specific cases. We illustrate that the activities of institutions and technology have extended their area of influence (e.g., QR based zakat payments), that cash waqf funds have facilitated infrastructure in education and healthcare systems, and that qard al hasan models have encouraged entrepreneurship on a big scale.

LITERATURE REVIEW

Role of Islamic Social Finance In Addressing Socio-Economic Inequalities

Islamic social finance may refer to a collection of financial instruments that are founded on Islamic

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precepts including: zakat and waqf and sadaqah. These outfits specialise in redistributive social finance, *i.e.* alleviation of poverty and social-economic growth. Unlike the conventional finance, the Islamic social finance is concerned with the morality of society, social fairness, and economic inclusion. The importance of Islamic social finance is also very high particularly in the Muslim poverty stricken countries. This is the primary goal of the Islamic charity like Zakat, Sadaqah and Waqf to ensure that the needs of the needy are met and the relative poverty is kept at bay. To achieve this dream, it is noteworthy that there should be a review of the scale of how Islamic social funds can meet the needs of resources in cutting down the levels of poverty as well as the efficiency of its management and distribution among the needy populations (Hamed, M. 2020).

The Islamic social finance is very significant in Islam economic system where in the past such instruments as the zakat and waqf have been the most significant in provision of the public services. Indonesia is the largest and the most generous Muslim majority country; hence, its potential in this industry is high. However, Muslim nations also face a serious challenge when attempting to develop their potential in comparison to high- and middle-income states, particularly, when it comes to such aspects of life as economy, education, and healthcare. To address such challenges, Sharia economy should not only contract business-based photographs. Shulhoni (2023) displayed social and economic expenses and opinionated consciousness regarding these parameters. Instead, they ought to apply the various social instruments of the Islamic economic system which are collectively referred to as Islamic social finance to enhance the development indicators even of the Muslim communities in the entire Muslim-majority countries inclusive of Asian countries.

The Islamic approach of poverty alleviation, which is referred to as poverty alleviation as described in the teachings of the Holy Quran and Sunnah of the Prophet (PBUH), does not only look at the proscription of all accumulation of wealth by some, but also on the fair distribution of resources, which is based on equality. The society must have prosperity circulating so that all people can be able to enjoy their living and be productive economic development players. Islam advocates the application of such mechanism as; the use of zakat, sadaqah and waqf, which may be employed as a tool of bringing the gap between the poor and the rich members of the society nearer hence becoming financial inclusive and socially coherent. (Hamed, 2020). The reason is that this holistic approach does not only imply poverty reduction but also empowerment of the people as they can now

benefit access to the services they require such as education, health and economic activity that results to overall evenness and fairness in the society (Akram & Afzal 2014).

As the social investment continues to pour into the social finance markets, it then becomes necessary that the Islamic Social Finance (ISF) industry should assume the role of ensuring that these investments that they make are with a good purpose of having social impact. ISF plays a pivotal role in distributing funds in poverty eradication efforts, financial inclusion, and sustainable development with such instruments as zakat, sadaqah, waqf, and Islamic microfinance (Azman and Ali, (2019). Hence, Islamic Social Finance may also be a tool of social investment that may not only temporarily assist the financially disadvantaged by relying on such tools, but also empower the poor on an economic level in the long-term. One such case is the establishment of social business and medical facilities and educational institutions using waqf which will benefit the community permanently. Along the same line, zakat and Islamic microfinance can encourage entrepreneurship and generation of jobs opportunities in order to help individuals come out of the poverty trap. Meanwhile, by aligning with impact based investment strategies, ISF will be positioned to not only align with the SDGs, but also promote social justice, collaborative prosperity and ethical finance.

Successful Cases of Islamic Social Finance in Selected Asian Countries

The force is exerted in the Islamic social finance by eliminating poverty using Islamic concepts of Zakat, Sadaqah, Waqf, and Qard al-Hasan (interest-free loans). Such projects have been found to be highly effective towards alleviating poverty in various sections. Part of the effective measures undertaken in the Islamic social finance and its contribution to poverty alleviation is as follows.

Indonesia (Baznas & Civil Society)

The world has been witness to long distance exploitation of the Islamic social finance by Indonesia, which has the largest number of Muslims in the world. Institutional mechanisms established in the country are very strong such as Badan Amil Zakat Nasional (BAZNAS) and Dompot Dhuafa which play a significant role in collection and delivery of zakat. Additionally a strong NGO partner (*e.g.* Dompot Dhuafa) yet gaps and variation in governance due to the distribution of the organization arises, internal controls and audit/reporting focus assists in increasing trust. One of the most significant areas of the zakat expenditure in Indonesia on which such organisations as Dompot

Dhuafa and BAZNAS use money to provide scholarships to the poor students of all levels and to finance the construction of educational institutions in the remote areas. These education programmes that have been funded through zakat have benefited over one million students and currently, access to quality education has tremendously been increased to the marginal communities. Another method of encouraging zakat collection as a form among millennial muzakki, BAZNAS has also collaborated with local e-commerce websites or portals including Elevenia.co.id, Blibli.com, Shopee.co.id, Tokopedia.com, Lazada.com, Mataharimall.com, JD.id and Bukalapak.com to make zakat collection easier by working through local millennial-friendly, contactless methods of payment. This partnership has had the capacity to streamline contributions in zakat and therefore, payment has become more accessible and efficient. Moreover, BAZNAS also embraced the fintech technology by partnering with the payment service providers such as Go-Pay, OVO, and LinkAja to enable payment of the zakat using the QR code that has transformed the way the zakat is paid in the country (Hudaefi, *et al.*, 2019). With digital transformation, BAZNAS has been able to make sure that it reaches more individuals when it comes to collection of the zakat so that it stays within the modern trend of finances besides enhancing transparency and efficiency in the disbursement of funds.

Waqf has ensued itself in the center stage of socio-economic growth of Indonesia particularly in healthcare and entrepreneurship. The first organization that tries to include waqf-based healthcare services in Indonesia is Indonesian Waqf Board (BWI) and constructed hospitals such as Rumah Sehat Terpadu Dompot Dhuafa in Jakarta that provides free or subsidised healthcare services to the low-income population. Those hospitals annually have thousands of patients and offer them with the required care during the period of the maternal and childcare or the chronic illnesses treatment or during the emergency cases. These have proven to be effective and today the prototype of the waqf-based hospital is emulated elsewhere and has helped significantly to the trend of access to healthcare among the marginalised groups and reduce the number of financial burden to poor families (Indonesian Waqf Board).

Waqf has also been significant in entrepreneurship in Indonesia other than in the healthcare sector. On a lesser plane the Indonesian Waqf Board (BWI) has provided the waqf based entrepreneurship programme that had been put in place to train and capitalize small business, particularly in the agricultural sector, the

retail and technologies where thousands of entrepreneurs have been benefited. Such projects have not only generated viable jobs but also centralised the local economy because they enable the development of viable businesses (Indonesian Waqf Board). Through these strategic instruments of the waqf, Indonesia advances the Islamic social finance in which such funds can be used to support the inclusion in the economic development and social well-being.

Digital transformation has been a great help in Indonesia in terms of efficiency, accessibility, and outreach of managing zakats. With the implementation of digital payment platform and mobile apps, it is now easy to make the payment of the donation hence, more potential zakat payers have shown interest in millennials who are interested in cashless methods of payment. Online platforms made zakat collection more modern and accessible (E commerce partnerships (Shopee, Tokopedia, etc.) and QR based payments (GoPay, OVO, LinkAja) and the transparency and financial inclusion were also improved. The sites such as Lazismu, Kitabisa and GoZakat have played an invaluable role in the application of technology in ensuring that the process of giving and receiving zakat is made transparent and efficient. A report by United Nations Development Programme (UNDP) indicated that online platforms have done a tremendous development regarding financial inclusion as it is now possible to trace money in real time and the donation process has been streamlined. However, despite these changes and the attempts to digitalise the process of dealing with zakat, deficit of the digital infrastructure in rural areas and resistance to the use of the modern tools remain the major obstacles in the full digitalisation of the selected process. These are the barriers that will be critical in order to eliminate through the increase in digital literacy and infrastructure expansion to maximise the social potential of zakat.

The transparency and accountability in manner of administering zakat is also a big need hence the application of internal control systems will be of the utmost priority in regard to allocation and utilization of such funds. Another measure undertaken by BAZNAS is its reporting system of finance and audit to make it more accountable. However, problems of inefficiencies and vulnerability have been emerging with regard to such systems (Nawaf, *et al.*, 2023). An example is that the distribution systems of zakat have been challenged as lacking adequacy in reporting financial statements, particularly the allocation of money to some reinforcement initiatives. It is these challenges that should be countered by combining the internal control mechanisms with technology. An analytics supported by the primary ideas of justice, transparency, and

accountability of zakat in the real-time will be of significant help in the whole process. With the capabilities of data analytics, the zakat institutions can know the needs of mustahik in real time that would assist in the allocation of funds, but not on assumptions, but rather on data. This kind of systemic way of dealing would not only enhance the efficiency in the operation but also enhance the confidence in the populace in the institutions of zakat. Attractive zakat organisation has a difficult potential to operate to societal prosperity and support to the greater economy. Proper management of zakat can alleviate poverty, improve education opportunities, and health services particularly to the marginalised groups in addition to reducing the disparity between the poor and the rich as well as, inclusive economy.

Similarly, waqf has also been quite crucial in social and economic growth of Indonesia particularly in infrastructure and service based projects. Waqf organizations already have conducted massive operations on a large scale in hospitals and schools, and this has demonstrated the concept of following constructive waqf in meeting the social welfare demands. This is exemplified by the high profile waqf hospitals such as the Rumah Sakit Wakaf in Bandung which provides low cost quality care to disadvantaged groups and enhances the economic burden of poor households in terms of living. Educational institutions also such as the Gontor Islamic Boarding School are also financed through waqf and they still provide quality education to thousands of learners. Examples of sustainable service distribution are Waqf based hospitals (e.g., Rumah Sehat Terpadu Dompot Dhuafa; Rumah Sakit Wakaf Bandung) and waqf funded schools (e.g., Gontor). The projects aid in bringing out the sustainability and growth of waqf in terms of long-term operations in contribution of social amenities. However, Indonesia continues to bear the heavy burden of such issues of waqf administration as the divided policy, little awareness among the donors, and ineffective distribution of funds. Increasing the coordination of regulation between the regional and the federal governments is also important in optimising the adult waqf supervision by improving the mechanisms of governance. Moreover, the implementation of the latter could contribute to the transparency and effectiveness even further, since the blockchain technology can support the personification of the transactions of waqf assets in an indelible record and, therefore, improve accountability in terms of funds and resources allocation and utilization (Millatina, *et al.*, 2022). By addressing these challenges of governance and technology, Indonesia stands in a greater stance to use maximum opportunities of zakat and waqf in sustainable social and economic development.

Islamic Social Finance in Bangladesh (Voluntary Zakat, Ngo Partnerships)

Bangladesh has managed to include the idea of Islamic social finance in their poverty reduction and micro financing schemes and zakat is highly imperative in narrowing down the socio-economic gap. Together with the NGOs, e.g. BRAC and Islamic Relief, the Bangladesh Zakat Board has established systematized zakatization schemes that are controlled around education, healthcare and livelihood. There can be effective co-operation of the NGOs (e.g. BRAC, Islamic Relief) but voluntary collection limits the scale; greater incentives of the policy and digitalization can enhance mobilization. This kind of guided programs has improved well-being of the low-income earners in a great extent. The money gathered under Zakat has been diverted to awarding education grants to the needy students in a way that the needy children will get quality education. In addition, the low-income families will be able to be assisted in the area of receiving proper medical services because of the existence of healthcare assistance programmes based on the savings provided by zakat help. Other than that, livelihood support program applies zakat money in the development of entrepreneurship to offer financial and resourcefulness support to people who have planned to establish small businesses. The attempt of women empowerment through the medium of the organisations such as Islamic Aid Bangladesh through the zakat funds is also observed through the vocational trainings programme under the medium of microloan trains that is offered to women. Through these initiatives, women have managed to empower themselves with businesses such as poultry farming, tailoring or handicraft business thus enhancing household equality and gender equality (Islamic Aid). Though the success of such zakat based programmes has been achieved, there is the concern of the voluntary nature of the zakat collection in Bangladesh. The social campaigns and the government incentives would be better organised as a policy and be much help in mobilising zakat and therefore optimise its impact on the society. In addition, digitalizing the process of zakat collection and giving is also a practice that can be enhanced in the future because the technological layer can enhance the performance, transparency, and reach.

Similarly, the waqf has revolutionized the Bangladesh socio-economic development particularly the integration of the cash waqf in other basic services and micro finance. The Social Islami Bank Limited (SIBL) has been in the forefront in the application of cash waqf in the establishment of funds which would be used to support education, healthcare and livelihood initiative systems (Social Islamic Bank Limited). Waqf

Cash through SIBL funds schools, clinics/hospitals and vocational training and expands access to services in rural areas. These types of funds under waqf have led to the establishment of schools, hospitals and vocational training centres that has significantly increased the access to the low-income groups to much needed services. As an education project, the cash waqf of SIBL has been utilized to construct the educationally disadvantaged areas with schools, to provide scholarships to thousands of children and to advance and increase the teacher training, which implies that the poor households are getting a better quality education at this point in time. On another note in the healthcare the cash waqf funds have been very instrumental in setting up hospitals and clinics in rural regions, therefore expanding the jurisdictions of delivering healthcare services, as well as, offering free or subsidised medical services to thousands of patients. There is no location in Bangladesh that does not incorporate waqf with microfinance as one of the most innovative uses. The Islamic Bank foundation has been on forefront in proposing ideology of waqf based micro finance program that enables the bank to provide interest free finances to small scale businesses hence providing sustainable discharge to poverty trap. Entrepreneurs who have such programmes find it easy to flourish particularly those who are part of the marginalised groups by virtue that it provides capital and business development without any interest attached to it as dictated by the ideals of Islamic finance. Even though these projects have been successful proved, some problems such as their regulatory fragmentation and lack of awareness on the potential of waqf still exist. The further optimization of the waqf management can be accomplished by enhancing the structures of the governance, curb the awareness of the population, and apply the digital technologies, such as blockchain, to make the process of managing the funds more transparent and efficient. After these hurdles are surmounted, the possibility of zakat and waqf to become an effective instrument of sustainable socio-economic growth of Bangladesh specifically, and the world at large will be explored.

Islamic Social Finance In Pakistan

In Pakistan, Islamic social finance is old and has a highly established zakat system and an increasing interest in waqf-based initiatives. The role of the state in institutionalisation of Islamic social finance is through state controlled programmes. Pakistan has excelled with regard to applying Islamic social finance in its socio-economic predicament; the Islamic microfinance has been the order of the day in alleviating poverty. The presence of state anchored programmes, supplemented by NGOs; legal frameworks of waqf are

diffuse (many forms of registration), and which may hinder homogenization of governance in higher education financing. Akhuwat is one of the non-profit organisations established in 2001 that has been the first to introduce the interest-free microloan model (Qard al-Hasan) to low-income people and families, particularly to women, so that they can start or expand a small business (Akhuwat Annual Reports). By not charging the interest, Akhuwat empowers the economically disadvantaged individuals without placing them under the stress of the traditional microfinance. All these have seen the organisation give over four million loans since its inception at the beginning and thousands of households have been enabled to begin business in areas such as tailoring, agriculture and trade. Through this initiative, the poverty rates were minimized and the household income among the target populations rose substantially and it is an indication that work can be done using the Islamic microfinancing which enhances economic self-sufficiency. Furthermore, Akhuwat is not considered to be comprehensive in terms of monetary provisions only, as the organisation creates holistic programmes of education, healthcare, and housing to further empower marginalised populations Djalaluddin, *et al.*, (2023).

Zakat is also a subject that has presented another significant resource in the social welfare frameworks in Pakistan whereby both the government and the non-governmental organisations (NGOs) have played potent roles in the distribution of this subject. Pakistani government also uses zakat funds in maintenance of the Islamic schools (madrasas) and conventional schools and ensures that the poor students get free education, food and school uniforms. Through this program the rate of enrolment particularly in the rural areas and among the girls who are bound to be deprived of access to education has increased immensely. Moreover, the use of zakat in elevating healthcare has been applied in Pakistan. The examples of such organisations are Al-Khidmat Foundation that utilise zakat funds to conduct free medical camps, hospitals, and ambulance service, which is necessary in the disadvantaged communities (Al-Khidmat Foundation). The promising opportunities of Islamic social finance in enhancing the inclusive development and social welfare are brought to the fore by the successful spending of the zakat funding in education in healthcare.

In Pakistan, Islamic philanthropy is founded on Waqf that has a long history of giving colossal sums of money to various sectors particularly higher education by the medium of public awqaf and private awqaf. Research confirms that waqf is one of the most powerful Islamic social financing instruments that are

applied to finance higher education institutions (HEIs) in Pakistan. In place of real estate property, which is the most important asset of conservatory facilitated by traditional waqf, the cash waqf was made more flexible and advantageous in financing numerous activities related to university construction and sustainability of its operation (Fauziaha *et al.*, 2021). Higher education Waqf financing is high; but there is a legal fragmentation on wider use of cash waqf models. However, cash waqf has not received the attention it should in Pakistan, but it can potentially be the alternative source of funding the HEIs. The law governing waqf remains diffuse, with the private waqf organizations being considered to part of the greater not-for-profit and registered as either a society, a foundation, trusts or a company limited privately. These regulation predicaments have not deterred the contribution of the private waqf institutions in funding higher education through their in-house funds as well as revenues collected by their stores (waqf). A large proportion of waqf possess a defined investment criteria the area of interest of which is pegged around real estate, and the area of interest of Islamic financial services industry and Halal business whose business model is long-term and sustainable in financing. The same could also be bettered by further developing more on the legal system and management structure of waqf in Pakistan to help fund education and other vital sectors.

Islamic Social Finance in Malaysia

Malaysia is considered to be the global leader in Islamic finance, well-developed zakat and waqf. With the help of well-developed regulatory platforms and institutional capacity, the state could also make Islamic social finance a national development strategy.

The Malaysian Zakat regime is highly institutional with the proceeds being collected and distributed by five State Islamic Religious Councils (SIRCs) to introduce a controlled and transparent disbursement. The involvement of the government in the centralised management of zakat has been considerable with the outcome being good distribution to alleviate poverty, education and health, or develop entrepreneurs. To illustrate, in 2020, the amount of the revenue gathered in zakat was over RM 2.5 billion in Malaysia, with millions of beneficiaries directly receiving financial assistance and scholarships and medical care (Abd). In this study, it was not revealed that the use of weed as a type of supplementation decreased the amount of tau in the brains of probable Alzheimer disease patients (Wahab and Abdul Rahman 2011). They have also proven useful in providing health care services like free check ups, surgeries and the required medication mainly to the marginalised communities in the rural set

up. In addition, through zakat the entrepreneurship programmes have been implemented through business grants, business training to the small scale entrepreneurs hence rendering the low-income groups financially autonomous. The efficacies of the collection and distribution of zakat have also grown due to the combination of digitized payment systems, and now it is possible to trace them in real-time and have a better experience when giving donations as well, which further enhances the status of Malaysia in Islamic financial and social welfare (Rahman, *et al.*, 2012).

In the same breath, Waqf has been successfully integrated in Malaysia particularly in education and health sector. The government in collaboration with the private institutions, has designed some of the waqf-based funds such as Kumpulan Wang Wakaf (KWWD) to meet the learning needs of scholarship holders and the school building and teacher training programmes. These programmes have been used to increase the literacy levels and higher education rate of the rural and urban underprivileged people. Waqf system has also been successful in its application in case of infrastructural application as it is indicated in the example of real estate and healthcare development. Some examples of prominent projects include waqf based hospitals, such as waqf an jawharaAMC, waqf an-nur hospital, which operates on a waqf based system of subsidised medical services to low income families, driwaqf sponsored universities, such as the International Islamic University Malaysia (IIUM) which operates on a waqf based system of operation. These efforts indicate that the contemporary Malaysians are interested in the socio-economic potential of waqf realisation, and, thus, this organisation has become firmly rooted as an element of the national development strategy.

Malaysia is among the leaders of the digitalization of Islamic social finance, and in this case, digital technologies contribute to efficiency, transparency, and effects. Waqf asset management and AI-assisted zakat distribution blockchain pilots had a positive effect on targeting and governance. Other technologies such as blockchain which is applied to administer waqf property have contributed significantly to transparency so that the asset can be utilized well and it should not be abused (Oseni and Ali, 2019). Moreover, AI-based models of zakat distributions changed the mechanism of funds disbursement that is currently being examined on the basis of current socio-economic data according to which it can be more precisely and efficiently given to the needy people (Hassan, 2021). This has improved governance, minimized inefficiencies and created more confidence on the Islamic social finance institutions by people. The online payment services

Table 1: Comparative Overview of ISF Mechanisms, Innovations, and Outcomes

Country	Key Instruments	Innovations	Governance Model	Reported Outcomes / KPIs
Indonesia	Zakat, Waqf	E-commerce partnerships; QR payments; online platforms improving transparency and inclusion	BAZNAS + NGOs; emphasis on internal control and audit	Scholarships (>1 million students); waqf hospitals/clinics serving thousands; waqf entrepreneurship programmes
Bangladesh	Zakat, Cash Waqf, Microfinance	Cash waqf funds via SIBL; waqf-linked interest-free microfinance; women's vocational training	Voluntary zakat; NGO partnerships; needs policy incentives and digitalization	Schools/clinics expansion; scholarships; rural health access; entrepreneurship for marginalized groups
Pakistan	Zakat, Waqf, Qard al-Hasan	Akhuwat's interest-free microloans (>4 million); holistic services	State programmes + NGOs; diffuse waqf legal frameworks	Poverty reduction via microenterprise; improved enrolment and healthcare through zakat-funded services
Malaysia	Zakat, Waqf	Blockchain for waqf; AI for zakat allocation; digitized payments and real-time tracking	Centralized SIRC; strong regulatory platform	>RM 2.5b collections (2020); targeted grants in education, health, entrepreneurship; waqf hospitals and university support

have facilitated the payment zakat process to the extent that individuals and even corporations can now easily and relatively readily take part in charity and hence expand the effects of social finance in the Islamic tradition (Rahman and Kassim, 2020). Besides this, policy environments that have given rise to the embracing of fintech has provided an enabling environment where innovation has bloomed to make scalability and consistency with the national development ambitions (Bank Negara Malaysia, 2022). Always updating its digital strategies and the ethos of cooperation between regulatory bodies, Islamic financial institutions, and technology actors, Malaysia is on the forefront in terms of how fintech could be used effectively to contribute to the achievement of Sustainable Development Goals (SDGs).

METHODOLOGY

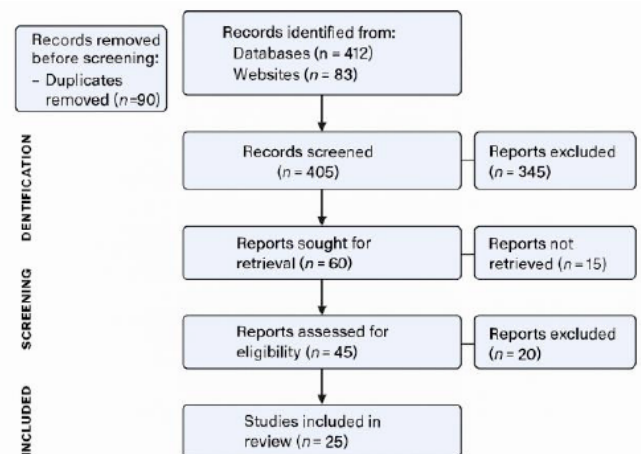
Research Design and Scope

The paper used qualitative content analysis to investigate the design, governance, innovation, and performance of the Islamic Social Finance (ISF) instruments namely zakat, waqf, and Qard al-Hasan programmes in Indonesia, Bangladesh, Pakistan, and Malaysia (2010-2025). The purpose of the analysis was to find transferable best practices and policy-relevant lessons through the synthesis of evidence based on peer-reviewed journal articles, policy papers, institutional reports and case studies (Elo and Kyngas, 2008; Schreier, 2012).

Search Strategy

Sources were located in Scopus, Web of science, Google scholar and institutional databases (BAZNAS),

Indonesian Waqf Board, Social Islami Bank Limited (SIBL), Akhuwat, Malaysian State Islamic Religious Councils (SIRCs) as well as UNDP. The search terms will include country-specific and instrument-specific ones, including Indonesia AND zakat fintech, Bangladesh AND cash waqf, Pakistan AND qard al hasan, and Malaysia AND waqf blockchain. The search strategy was used to guarantee the coverage of academic as well as institutional perspectives based on past content-analytic research of ISF and financial inclusion (Khalil and Haron, 2010; Obaidullah and Shirazi, 2015).



Document Screening and Selection Process

Inclusion and Exclusion Criteria

Inclusion criteria comprised documents that:

1. Described the design or governance of ISF instruments;
2. Reported digital or fintech innovations;

3. Presented measurable outcomes or KPIs (e.g., number of beneficiaries, funding volumes, infrastructure delivered); or
4. Discussed alignment with Sustainable Development Goals (SDGs).

Exclusion criteria omitted purely theoretical or conceptual papers without empirical data, duplicate records, and studies from non-Asian contexts unless they offered insights directly transferable to the focus countries.

Selection and Coding

Two-phase screening was used firstly, title and abstract screening then full-text screening to determine the eligibility. A structured template of six dimensions (including (1) ISF instrument, (2) governance model, (3) innovation (digital or monetisation mechanisms), (4) outcomes/KPIs, (5) enablers and barriers, and (6) linkages to SDGs) was used to identify documents to be coded. This was followed by cross-case synthesis in four broad thematic categories (governance centralisation, institutional capacity, digital innovation, and impact measurement) by applying existing methods of qualitative synthesis in policy studies (Patton, 2015; Vaismoradi *et al.*, 2013).

Table 1: PRISMA-style flow diagram illustrating identification, screening, eligibility assessment, and inclusion of records.

This diagram visualizes the document screening and selection process:

- **Identification:** Records from databases and institutional sources.
- **Screening:** Titles/abstracts reviewed; exclusions noted.

- **Eligibility:** Full-text assessment.
- **Included:** Final studies for qualitative synthesis.

Reliability and Bias Mitigation

Triangulation between academic and institutional sources was used to enhance reliability by providing clear information on data provenance. The sensitivity analysis was used to indicate the indicative as opposed to definitive measures, e.g. Akhuwat claimed to have disbursed more than four million loans or Malaysian zakat collection. This is done to provide transparency and care in interpretation (Silverman, 2020).

Comparative Thematic Analysis

The last synthesis studied differences and similarities in the cross-country governance models, adoption of innovation, and socio-economic contribution of ISF instruments. The analysis of centralisation and institutional requirements and capacity were discussed as relates to the digitalisation, the mobilisation of funds, and the effectiveness of service delivery. The extraction was standardised and replicable with the help of a coding template (Table 2).

DISCUSSION

Role of Islamic Social Finance in Achieving the Sustainable Development Goals (SDGs)

Several scholars have taken into account the role of the Islamic social finance in the Sustainable Development Goals (SDGs). Through these studies, it can be seen that properly administered funds of the institutions of zakat and waqf could contribute greatly in helping to alleviate poverty (SDG 1) and guarantee quality education, health, and economic (SDG 4, 3, and 8) growth. However, existing literature on the subject matter shows that there are volatile institutional frameworks and the lack of a strategic integration that limits the potential of the given instrumentation.

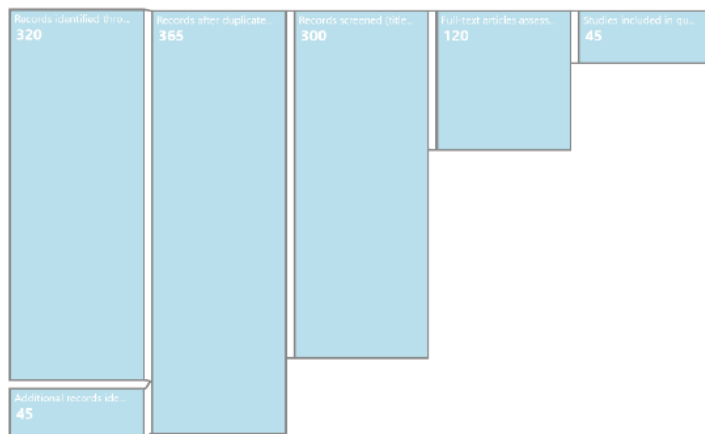


Table 2: Structured Coding Template, Including Instrument Type, Governance Model, Innovation, Outcomes/KPIs, Enablers/Barriers, and SDG Linkages

Instrument	Governance Model	Innovation	Outcomes/KPIs	Enablers/Barriers	SDG Linkages
Zakat	Centralized SIRC / BAZNAS	Digital payments, QR codes	Collection volume, beneficiaries	Regulatory support, tech adoption	SDG 1, SDG 10
Waqf	State + NGO partnerships	Blockchain asset registry	Hospitals built, scholarships	Legal harmonization	SDG 3, SDG 4
Qard al-Hasan	NGO-led (Akhawat)	Mobile app loan tracking	>4M loans disbursed	Funding sustainability	SDG 8

The Islamic social finance (ISF) plays an important role in contributing to the alleviation of the global socio-economic situation and, in particular, impacts the speed towards the realization of the Sustainable Development Goals (SDGs). Scholars and policy makers have touched on the potential usefulness of ISF instruments and zakat in particular as the instrument to offset the international development and humanitarian aid programmes. High-level seminars, which introduced this issue to the table, were repeatedly held by international organisations, including United Nations Development Programme (UNDP), Economic Community of West African States (ECOWAS), Islamic Development Bank (IsDB), United Nations International Children Emergency Fund (UNICEF), and the United Nations High Commissioner for Refugees (UNHCR) that would develop the globally-inclusive system of zakat distribution that would not be confined to the donor countries, including the Gulf states (Tok *et al.*, 2022). The improvement of the use of zakat in the international context can be used to assist in alleviating poverty, food security, education, medical care and economic empowerment of the Muslim and non-Muslim communities.

There is a need to maximise the impact of the Islamic social finance (ISF) on the Sustainable Development Goals (SDGs) through international cooperation. In both the aids, policy coherence and policy synergy is therefore important in bridging the gap between the policymakers in the Muslim majority countries and the West. Such collaboration would help the Islamic social finance to be integrated in the mainstream humanitarian and developmental aid and support the measures to address the most urgent global problems concerning the refugees crisis, poverty, and inequality. The relevance of humanities to support people could be extended by taking the Islamic organisations into the limelight alongside the secular aid agencies, rather than placing the aid services under Islamic and non-Islamic umbrellas (Tok *et al.*, 2022). The principles of sustainable and inclusive development can be singled out as sharing numerous areas of interconnectedness with the paradigm of

Maqasid al-Shariah that Islamic financial system is based on. This kind of complementarity makes Islamic social finance (ISF) mechanisms a potent tool that can be used to reduce socio-economic inequalities, environmental problems, and financial inclusion and ultimately result in the establishment of a more equal global economic system.

Zakat is one of the largest pillars of Islamic social finance that proved to be successful in the achievement of most Sustainable Development Goals (SDGs) particularly poverty eradication (SDG 1), zero hunger (SDG 2), good health and well-being (SDG 3), quality education (SDG 4), and reduced inequalities (SDG 10) (Dembele and Bulut, 2021). Organized zakat delivery enables the targeted societies to receive healthcare, nutritional factors and economic equilibrium. The right of deserving individuals to the funds implies, that they are in a better position to meet their fundamental needs, therefore, are better off in terms of well-being and can improve their economic position. In addition, institutional modifications regarding the approach to work with zakat can assist in improving its implications due to transparency, efficiency, and sustainability of the execution process (Dembele and Bulut, 2021).

Alongside zakat, waqf was also used in traditions of subsidizing social services and infrastructure in Muslim societies in a way that is aligned with several Sustainable Development Goals (SDGs) well before their formulation. One such system was the Ottoman-era waqf system, which was one of the extraordinary examples of a regenerative social finance system, which provided health, education, accommodation, and social welfare (Dembele and Bulut, 2021). Even today, the waqf institutions can contribute to the economic growth and social welfare, though not in a broad variety of aspects, they still are capable of doing so. By enhancing the management of waqf and expanding new tools, such as cash waqf and waqf sukuk, the potential of waqf to add to the sustainable development can be expanded. In addition, the existing investments must be made regarding the

Islamic social finance (ISF) in which long-term social improvements are involved (primarily in the area of financial accessibility, green energy, and sustainable infrastructure).

On the side of the institution, the Islamic financial institutions must assure that their operations remain aligned with the objectives of the Islamic social finance and not profit maximisation based. The practices of Islamic banks will enable the establishment of the Islamic banking institutions as a venue of attaining social good as well as financial stability and economic fairness by application of the Maqasid al-Shariah. To ensure the Islamic social finance (ISF) has the greatest contribution to the achievement of the Sustainable Development Goals (SDGs), strengthening the institutional structure and enhancing the good financial behaviors should be encouraged. Infaq is another type of voluntary charitable giving that can turn into a source of sustainable human development and advocate the goals of the SDGs (Dembele and Bulut, 2021).

In summary, the Islamic social finance is the radical version of the sustainable development goals (SDGs) achievement since global socio-economic problems are resolved with the assistance of zakat, waqf, and other charity resources. Bringing it to parts of the world beyond the major Muslim world, strengthening its collaboration internationally, and adding strength to its governing structures will prove useful to realize all of its untapped potential as a resource of international development. An inclusion in the mainstream development programs will make the mainstreaming of the Islamic social finance (ISF) a method of enjoying a better financial system that is more sustainable, just and fair, and better placed to achieve social justice and economic empowerment.

From Comparative Insights to an Integrated Islamic Social Finance Delivery Framework

The comparative experience of Indonesia, Malaysia, Bangladesh and Pakistan suggests that the success of the Islamic Social Finance (ISF) is not based on the individual tools, but rather on the level of institutionalization of the digital infrastructure, financing systems, governance systems, and measuring impact. The results indicate that digital centralisation of zakat is an underpinning facilitator, establishing the data architecture of transparency, wider participation of contributors, and real-time tracking fund movements. Nationally coordinated digital systems with QR-based payments, e-commerce integration, as well as traceability systems in both Indonesia and Malaysia have not only increased the number of payers but have also produced trusted datasets that can support downstream allocation, governance and reporting roles.

This digital basis is the direct counterpart of the scalability of cash waqf-based public-private models of social infrastructure. In those cases where zakat systems are digitally centralised and institutionally coordinated, the cash waqf funds could be better mobilised by Islamic banks and directed into education and healthcare property in cooperation with the public agencies and non-governmental organisations. Based on the experiences of Bangladesh, Malaysia and Indonesia, it is shown that bank-related cash waqf systems take advantage of credibility, discipline of governance and financial intermediation ability to operate through regulated ISF institutions, and thus is able to maintain capital expenditure sustainability and at the same time maintain affordability of services to beneficiaries.

On the micro level, it is also possible to mention the coordination of Qard al-Hasan financing with social support services, which contribute to the system-wide effect of mobilisation of zakat and waqf. Instead of being a separate credit instrument, holistic Qard al-Hasan programmes like those which have been adopted by Akhuwat use zakat and waqf funds to supplement services through training skills, health services, and housing support. This combination practice enhances survivability of enterprises and stability of households, and is an example that demonstrates how it is possible to layer social pickings remunerating a multidimensional poverty even further than temporary income regions.

These interdependent mechanisms are greatly promoted with the data-driven targeting and impact reporting standards. The access to centralised digital records would allow centralised beneficiary selection with the use of AI, performance dashboards, and a set of standard key performance indicators, which will help institutions optimise disbursement decisions and show quantifiable results. Cases involving Malaysia of the use of AI in targeting and blockchain to develop waqf asset tracking, and Indonesia cases of advances in online disclosure contribute to the problem of data governance as the means between gathering funds, utilising services, and accountability. This diagram outlines the alignment of the five principal Islamic Social Finance practices with certain Sustainable Development Goals, viz.: Digital Centralization of zakat with SDG 1 (No Poverty), Cash Waqf PPP Models with SDG 3 (Good Health and Well-Being), Holistic Qard al-Hasan with SDG 4 (Quality Education), Data-Driven Targeting with SDG 8 (Decent Work and Economic Growth), and Standardized Governance with SDG 10 (Reduced Inequalities), which are summarized in Figure.

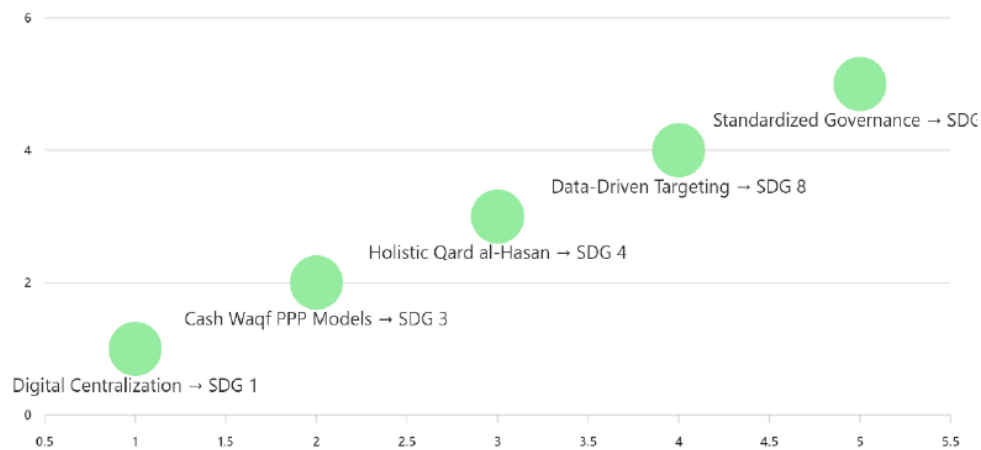


Figure 1: Five Best Practices and SDG Linkages

Combined, those comparative reflections imply the necessity of institutionally consistent and flexible Islamic Social Finance (ISF)-based digital infrastructure, financing tools, social services, data analytics and governance systems working as elements that mutually support each other. Instead of focusing on zakat, waqf and Qard al-Hasan as isolated interventions, the evidence highlights their potential combined when incorporated in the larger national policy agendas in terms of financial inclusion, social protection and sustainable development. This holistic approach offers sufficient grounds on which conclusions and practical recommendations can be drawn on how ISF can be systematically exploited to overcome socio-economic inequalities in various jurisdictions.

RECOMMENDATIONS

It is based on the comparative analysis of the Islamic Social Finance (ISF) activities in Indonesia, Malaysia, Bangladesh and Pakistan, that the presented work identifies the main aspects of interventions, which can effectively, efficiently and at a large scale increase the effectiveness, efficiency and scalability of zakat, waqf and Qard al-Hasan instruments. The proof indicates that the effect of ISF is optimized in the case when digital infrastructure, financing schemes, integration of social services, data-driven targeting, and governance arrangements are mutually reinforcing factors. The subsequent recommendations can be converted into viable measures to policymakers, regulators, and the ISF institutions.

1. Adopt a Digital National Zakat Core

To increase transparency, traceability, and trust in the government by the population, policymakers need to institutionalise centrally coordinated digital platforms, which combine QR/cashless payment, e-commerce

platforms, real-time dashboards and open data APIs. The introduction of such systems in high volume urban centres and subsequently extended to semi-urban and rural locations is inclusive and operational stability. The case of BAZNAS valuations and SIRC Malaysia highlights that digital centralisation is effective to expand the pool of contributors and facilitate knowledge-based administration (BAZNAS; SIRC Malaysia).

2. Institutionalise Cash Waqf -Based Public-Private Partnerships (PPPs)

Cash waqf funds that are run by banks ought to be formalised and professionally managed, must be co-funded with ministries of health and education and must have performance contracts at the level of service. These types of structures can allow the sustainable financing of social infrastructure and allow the deployment of waqf to be compatible with the quantifiable outcomes of development. The lessons of Bangladesh, Malaysia and Indonesia demonstrate the importance of the association of cash waqf with governmental bodies and NGOs in order to provide stability in capex and efficient service provision (SIBL; Waqf Malaysia; Waqf Indonesia).

3. Scale Holistic Qard al-Hasan Programmes

The skills training on complementary services, access to markets, healthcare, and housing should be combined with interest-free loans to enhance the survival of enterprises and the resilience of households. A way to measure income transitions and long-term socio-economic impact includes incorporating mechanism of beneficiary tracking and monitoring to enable such evaluation by institutions. The case studies of Pakistan have shown that Qard al-Hasan is more effective when implemented within an overall support system (Akhuwat).

Deploy AI and Data-Driven Targeting Socio-economic data, AI-assisted allocation and impact dashboards are used to reinforce targeting of mustahik and increase accountability. Public mistrust can be prevented by registering waqf assets on digital ledgers that are hard to tamper with. The experiences of Malaysia and Indonesia provide an example of using the digital and analytics systems to streamline the process of distributing funds and making evidence-based decisions (Malaysia AI Zakat; Indonesia Transparency Initiatives).

4. Standardise Audit Frameworks and Governance Systems

Standardised reporting practices, harmonised waqf laws and increased internal controls and independent audits lead to a lower institutional fragmentation and higher operational efficiency. It is possible to compare that centralised forms of governance (Malaysia) and audit reforms (Indonesia) enhance accountability and fragmented regulatory regimes (Pakistan) may inhibit the effectiveness of ISF interventions (SIRC Malaysia; Indonesia Waqf Reform; Pakistan Waqf Law).

Together, these suggestions emphasize the fact that the effectiveness of the ISF is rooted in the consistent combination of the digital, financial, social, and governance mechanisms. Zakat, waqf, and Qard al-Hasan instruments, when adopted as a connected ecosystem, can rise above the disjointed charity practices to be taken as an instrument of strategy in inclusive and sustainable growth. These practical courses of action give ground to further conclusion, which gives generalisation of the larger implications to the socio-economic development and policy-making.

CONCLUSION

Islamic social finance (ISF) has proved to be a practical instrument in the prevention of social-economic inequalities and generate an inclusive economic growth, not just in the Asian region. The case studies involving Indonesia, Bangladesh, Pakistan and Malaysia demonstrate that zakat, waqf and sadaqah can potentially play a crucial role in poverty reduction, education, health and economic development. Simple advances of digital zakat and waqf founded infrastructure undertakings and narrow microfinance programmes have been aggressive in ensuring that ISF endeavors are not only productive and efficient, but they are also made more pertinent to the overall policies of sustainable progress.

However, in the effective implementation of the Islamic social finance (ISF), there are bottlenecks that exist as a result of the shortcomings of a fragmented

institutional framework, transparency, challenging fund delivery processes, and presence of Indian financial technologies. Countries that have developed their policy frameworks and where digitalisation has begun have improved more in the efforts of development through the application of ISF. The given comparative analysis indicates the importance of the question of the regulatory support, the role of technology integration, and virtualisation of the institutions in achieving the optimal use of ISF instruments. As the development of Islamic social finance (ISF) continues, the significance of its role in achieving the objectives of the United Nations regarding Sustainable Development Goals (SDGs) is increasing. By the use of structural inefficiencies, enhancing the mechanisms of governance and creating a channel of cross-border collaboration, ISF can further be streamlined and optimised to become a viable and scalable tool of inclusive economic growth in the long run.

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<https://doi.org/10.65638/2978-8196.2025.01.09>

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