

Achieving Economic Growth through Islamic Social Finance

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Abstract

Islamic Social Finance is deeply rooted in fulfilling the Maqasid Shariah through alleviating the poverty and suffering of the Ummah. Consequently, Islamic Social Finance holds the key to unlocking the door to economic growth and ensuring sustainability. In the pursuit of realizing all three goals of Brunei Darussalam Vision 2035, Islamic Social Finance has the potential to expedite the process of achieving these goals. However, the potential of Islamic Social Finance remains untapped as challenges and issues occur that hinder its development. In the context of nations and regions with a significant Muslim population, this paper analyzes the significance of Islamic social finance to stimulate economic growth. This study aims to clarify the effect of waqf as one of the Islamic social finance tools on economic growth by studying the key features that are essential to their implementation and effectiveness. To establish the theoretical foundations of Islamic social finance and its potential for driving economic growth, this paper employs an extensive literature analysis and creates a framework to identify the key elements within this area of study. To evaluate and analyze the relevant variables and determine their ability to influence the economy, data is collected from a variety of sources. By case study from Indonesia, it provides some suitable recommendations that focus on maximizing the potential of Islamic social finance to support the development of the economy. Hence, this further provides organizations in seeking ways to employ one of the Islamic social finance tools for sustainable and equitable growth with practical insights.

Keywords; *Islamic Social Finance, Waqf, Maqasid Shariah, Economic Growth, Brunei Vision 2035*

Introduction

In the realm of the economic system, where Conventional economics promotes the notion of hoarding wealth without regard for societal welfare, Islamic Social Finance emerges from the Islamic Economic system as a distinctive paradigm whose objective is to fulfil the Maqasid Shariah (Objective of Islamic Law). This then will create a ripple effect that encourages the fulfilment of the needs of the Ummah or the Society.

This research is organized into five sections. This paper is then structured as follows. It is initiated with an introduction section that discusses the research background, statement of the problem, research objectives and the significance of the research. Followed by a literature review section that examines the definition of Islamic Social Finance, Islamic Social Finance contributions to human development and Islamic Social Finance in Brunei Darussalam. Subsequently, the next section discusses methods that explore the type of research and data sources. The succeeding section is the result and discussions about the implementation of Islamic Social Finance in Indonesia and possible implications for Economic growth. Finally, the paper ends with an insightful conclusion and recommendations.

Research Background

The foundation of this research is based on the *Titah* of His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddin Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan of Brunei Darussalam, during the occasion of the new year 1445 Hijrah celebration. His Majesty *Titah* is as follows: (Ali Rahman, 2023)

"Similarly, in matters of waqf management and Baitulmal assets, efforts will be focused towards diversifying the management and utilization of Waqf, in addition to managing and developing *Baitulmal* assets,"

His Majesty emphasized on the importance of the administration of Waqf and Baitulmal properties, as well as enriching the effort in diversifying the management and utilization of Waqf, while also managing and developing *Baitulmal* assets. This encapsulates the importance of diversification in Waqf management and utilization, as well as putting a concentrated effort into managing and developing *Baitulmal* assets, furthermore, to put forth a holistic approach to Waqf and *Baitulmal*.

Waqf is one of the significant instruments of Islamic Social Finance, and exploring the potential is important to examine the full potential of Islamic Social Finance as a whole. Hence, this research shall focus more on Waqf, because the advancement of Waqf can lead to a transformative impact in understanding the full potential of Islamic Social Finance. This research shall explore the use of Islamic Social Finance in Indonesia, as part of the comparative study and shall draw an insightful conclusion and formulate recommendations to advance economic growth potentially.

Statement of the Problem

Islamic Social Finance has been around since the early history of Islam and, accordingly has been growing rapidly ever since. However, there is still a lack of understanding of what Islamic Social Finance truly is and the broad potential they have. This knowledge gap could lead to dire consequences, such as an unrealized economic growth potential. Furthermore, to advance the economy and achieve the desired economic growth, there is a need to understand how Islamic Social Finance instruments should be managed and utilized. This is because a good understanding of Islamic Social Finance, complete with well-managed and well-utilized Islamic Social Finance instruments, brings the nation a wealth of potential that could support achieving sustainable economic growth.

Research Objectives

1. To encourage further understanding of Islamic Social Finance.
2. To identify the differences and similarities between countries in their management and utilization of Islamic Social Finance.
3. To propose recommendations for enhancing the effectiveness of Waqf as a tool for Islamic Social Finance in Brunei Darussalam.

Significance of the Research

Islamic Social Finance is a powerful weapon that could support a nation in achieving sustainable economic growth. This is demonstrated by its ability to first fulfill the *Maqasid Shariah* (Objective of Islamic Law), which alone indicates the powerful ability of Islamic Social Finance to fulfil the needs of the people. Consequently, excellent recommendations play a crucial role in enhancing the effectiveness of Islamic Social Finance instruments in Brunei Darussalam. Ultimately, this research is not only to demonstrate the powerful potential of Islamic Social Finance but also to contribute to the literature of Islamic Social Finance.

Literature Review

Definition of Islamic Social Finance

Social Finance encompasses a structure of investment strategies to have good effects on both social and environmental results for investors as well as society. As a result, it encompasses a broad range of initiatives such as community investment, microfinance, social impact bonds, community lending funds, and some philanthropic investment programmes (VISIZ, 2016). In general, Islamic Social Finance bears the same semblance as Social Finance, Islamic Social Finance however differs in terms of their objective to fulfill and achieve Maqasid Shariah (Objective of Islamic Law) (Razak & Dawami, n.d.). It is a form of social and faith-based funding that provides financial aid and support to people in need to alleviate human suffering and protect the environment from conflict and disaster (World Humanitarian Summit, 2016). Subsequently, Islamic Social Finance operates structured investment strategies to gain the best possible benefits for the Ummah, as well as prevent harm that could befall the Ummah.

According to (Zain & Ali, 2018), the objective of Islamic Social Finance is to provide financial help in eradicating poverty, improving school and hospital facilities, and preserving and protecting communities and the environment. Islamic Social Finance has been around since the early history of Islam and, accordingly has been growing rapidly ever since (Razak & Dawami, n.d.). Islamic Social Finance can be categorized into three categories (Razinah et al., 2017):

- I. Islamic traditional instruments based on philanthropy. Examples: Zakat, Sadaqah and Waqf.
- II. Cooperative-based foundations. Examples: Qard and Kafala (Islamic Social Finance Report, 2015:8).
- III. Other modern forms of Islamic financial services. Examples: Islamic Microfinance, Sukuk and Takaful (Razinah et al., 2017).

Contributions of Islamic Social Finance to Human Development

Human Development refers to “the process of enlarging people's freedoms and opportunities and improving their well-being” (Choudhury, 2018). In Islam, taking care of oneself and fulfilling every need for human survival is essential and a must. This can be understood from the *Maqasid Shariah* (Objectives of Islamic Law). Maqasid Shariah refers to the preservation of six essential factors that are critical to

human survival and must be protected and preserved. Those factors are (i) Deen (religion), (ii) Nafs (life), (iii) Nasl (progeny), (iv) 'Aql (intellect), (v) Maal (property) and (vi) Ard' (honour). All of these are ultimately essential and must be protected and preserved through Islamic Social Finance (Razinah et al., 2017).

As contributed by the esteemed authors (Razinah et al., 2017), the following are a few of the examples that symbolize the ability of Islamic Social Finance to preserve Maqasid Shariah:

- I. Islamic Microfinance: A small-scale, interest-free microcredit can be established. This generates enterprises and employment opportunities, which in turn generates jobs for the people in the society. Simultaneously, it reduces unemployment and ensures public survival. It safeguards and preserves Nafs (life).
- II. Zakat, Sadaqah & Waqf: Through Zakat, Sadaqah, and Waqf, educational infrastructures such as schools and universities can open the ultimate golden gate of knowledge, allowing the preservation and protection of 'Aql (intellect). Education opportunities and employment enable the elimination of violence against women and children through prostitution. Thus ensuring the protection and preservation of Nasl (progeny) and Ard' (honour).

Islamic Social Finance can be one of the supporting structures in achieving Sustainable Development Goals; this can be observed from the significant involvement of Waqf in the SDGs in the United Nations Development Programme (UNDP) working with Saudi Arabia in practicing waqf and assisting Indonesia in developing the waqf programme to fulfil an SDG goal - ending poverty (Ismail et al., n.d.).

Brunei Darussalam and Islamic Social Finance

Islamic Social Finance is not foreign to Brunei Darussalam, with Islamic Microfinancing, Zakat, Waqf, Sadaqah and other Islamic Financial instruments that are well integrated into Islamic Banking in Brunei Darussalam. Generally, zakat, sadaqah, and waqf are widely encouraged in Brunei as the facilities to contribute are always readily available to the people.

According to (Rose, 2014), waqf is usually primarily perceived in the context of land endowment for the construction of mosques, burial grounds, religious schools, and

items like prayer rugs, Qurans, and sandals for mosque use, which indicate waqf in Brunei usually only limited to mosque related facilities and religious purposes. During the current time, this perception poses challenges as the ability to purchase land is limited due to the price of land being high in Brunei which in turn limits the ability to contribute to waqf assets (Mas et al., n.d.). Furthermore, regulations require at least 5 acres of land to contribute to mosque construction, making smaller plots of land unacceptable (Mas et al., n.d.). This results in the need to raise awareness of waqf, so that the potential of waqf can be unlocked.

Islamic Social Finance is a powerful weapon that could support Brunei Darussalam in achieving Brunei Vision 2035. This can be realized through its ability to fulfil the *Maqasid Shariah* (Objective of Islamic Law), this alone indicates the powerful ability of Islamic Social Finance. Naturally, excellent policies in implementing Islamic Social Finance play a vital role as this will result in the advancement of the education sector, and employment sector which is directly linked to economic growth that could promote an excellent standard of living.

Methods

Types of Research

Qualitative comparative methodology is mainly used in this study. All the information and data are gathered to compare the progress of Islamic social finance in Brunei Darussalam with comparison to Indonesia. In this way, the potential strategies from the country can be suggested to be implemented into Brunei's current situation and potential growth.

Data Sources

In this research, the study's references include journals, articles, and books relevant to investigating common potentials, opportunities, roles, and impacts of waqf as one of Islamic social finance tools in economic growth in listed countries. Meanwhile, the secondary sources such as the analysis and findings from other research papers are used to support the theory and data from primary sources by providing stronger evidence of documentation and news to prove the relevancy of the research topic.

Table 1: Summary of Data Sources

Sources	Brunei Darussalam (2021)	Indonesia (2021)
Total Population	Brunei Key Development Indicator (2021)	Statista
Muslim Proportion		World Population Review
Gross Domestic Product (GDP)		World Bank

Result and Discussions

The table below shows the summary of Brunei Darussalam and Indonesia's economic profile which are derived from sources stated in the data source.

Table 2: The Socio-Economic Profile of Brunei Darussalam and Indonesia as of 2021

The Socio Economic Profile of Brunei Darussalam and Indonesia		
	Countries	
Profile	Brunei Darussalam	Indonesia
Total Population	441,000	272.3m
Muslim Proportion	289,737	229.6m
GDP	14.01bn	1.186tn
Institutional Structure		
Zakat	Islamic Religious Council of	Government and Private
Sadaqah		

Waqf	Brunei Darussalam (MUIB)	Badan Wakaf Indonesia
Islamic Microfinance		Baitul Maal wat Tamwil

The Implementation of Islamic Social Finance in Indonesia

Indonesia is Southeast Asia's largest economy consisting of 273.8 million population with 238.8 million of it embodied by Muslims in 2021 (Statista, 2021). The prior ten years have seen a significant start to the application of Islamic financing in microfinance procedures. Indonesia is entitled to the world's largest Muslim population. Therefore, it meets the high demand for Islamic financial products and services by using Islamic financing effectively there (Abdul Razak, Eldodo, Ali, & Abdulkadir, n.d) In Indonesia, the way zakat is managed has been trending upward. Over the past ten years, the total amount of zakat collected has increased by 32 times, reaching nearly US 231.6 million in 2012. The four primary programs that receive funding from zakat are the education, health, humanitarian aid, and economic sectors, according to BAZNAS.

According to Osman, Htay, & Muhammad (2012), Indonesia also has a significant potential for waqf according to its large Muslim population. Indonesian Waqf Board (BWI) is one of the independent organisations under a state institution which was created by *Waqf* Law Number 41 of 2004 (Badan Wakaf Indonesia, n.d). The Indonesian *Waqf* Board (BWI) was established as a response to the need for modern, professional management of Indonesian *waqf* to provide *waqf* advantages that can benefit the populace. Moreover, the institution plays a very vital role in assisting the *Nazhir* in financing, developing, and overseeing their ability to undertake waqf administration more effectively (Aziz, 2017).

One of the innovative waqf assets that Indonesian *Waqf* Board (BWI) managed is cash waqf. Indonesian Waqf Board regulates and expands *waqf* assets nationally and internationally strives to invent a cash waqf program based on a secure, beneficial, and compliant with the Sharia and statutory laws. This resulted in the invention of *Cash Waqf Linked Sukuk* through their cooperation with the Ministry of Religion, Ministry of Finance, Bank Indonesia, “Productive *Waqf* Forum”, and Financial Institutions Recipients of Cash *Waqf*. In this way, the *waqf* funds will be accumulated

and invested in a secure and riskless investment (*sukuk*) by which the returns gained from *Cash Waqf Linked Sukuk* will be utilised in assisting the people by supplying the Indonesian as well as developing nonproductive *waqf* assets to productive *waqf* assets (Yasin, 2021).

Possible Implications to Economic Growth

Several of the impacts come from the implementation of Islamic social finance tools from other countries which have acted as the stimulus for their economic growth are highlighted below:

1. Creating Job Opportunities

Normalizing the usage of Islamic social finance in many aspects such as property development can also increase the opportunities for people to seek jobs. This may not fully reduce the rate of unemployment in Brunei Darussalam but it may enhance the productivity of the country. This may also be a solution to reduce poverty in a way that people can have jobs to support themselves. With that, an increase in utilising the tools in property development may also increase economic growth in terms of employment and decrease poverty. This is also aligned with sustainable development goals number 1 and 8 which are eradicating poverty and promoting sustainable economic growth and productivity respectively.

2. Unlocking the Potential of Under-Utilized Resources

Allocating under-utilized resources such as land, agriculture, etc according to its opportunity cost can enhance property development as well as increasing efficiency (Jeff, 2016). As an example, an institution owns 10 plots of land which can be used to build 5 buildings in total. In this case, the 10 plots of land can be allocated either to develop hospitals and schools in different areas. In this case, not only the institution lessens the burden of government to expense community needs but also impacts the gross domestic product (GDP) of the country. This shows that by Islamic social finance tools, they have the potential to develop the under-utilized assets rather than letting the land or buildings be left abandoned without purpose. This is aligned with sustainable development goals number 8 and 9 which are related to economic development and the innovation of the country respectively.

3. Providing the Product of Property Development

In common, the product of property development falls under the second necessity among living things. Property development yields real estate products such as shelter, housing, facilities, and more. Furthermore, by looking into the drivers of economic growth, the relationship between housing and development and economic growth can be better understood. As a result, it can lower the government's budget and spending on supporting public interests because the original financing plan can be more effectively allocated to other development projects. The products are giving a significant impact and fulfill the necessities for livelihoods and the government to operate (Uwatt, 2019). This is aligned with sustainable development goals number 10 and 11 which are reducing inequality within the countries and making sure that the countries are safe and maintain their sustainability respectively.

Conclusion and Recommendation

Islamic social finance instruments are important to the social, political, and economic aspects of Muslim society and are meant to significantly enhance the situation for Muslims worldwide. Examining Islamic social finance as a catalyst for the growth of the economy has shown a complex environment in which Islamically-based financial products support social welfare as well as financial prosperity. The potential for sustainable development is demonstrated by the present situation of operations in Indonesia, where Islamic social finance has been implemented into standard economic activity. Even though Brunei has a solid Islamic financial infrastructure and a stable economic environment, there is always scope for enhancements, particularly in the areas of diversification and equitable growth.

In addition, communities, financial institutions, and governments ought to work together to foster innovation in social finance instruments, enhance public perception of Islamic finance concepts, and enhance the regulatory framework. Potential implications for Indonesia can help shape Brunei Darussalam's particular strategies as it attempts to use Islamic social finance to support its economy. The process of implementing Islamic social finance to achieve economic growth, as mentioned in the *titah* of His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddien Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan of Brunei Darussalam, will be taken into consideration. All parties involved must be dedicated, flexible, and committed to the values of social welfare and economic justice that are essential to Islamic finance. The inclusion of Islamic

social finance into mainstream economic policy is a promising avenue to promote sustainable and equitable growth as the global economy evolves. By means of cooperative endeavors and pragmatic moves, states are able to utilize Islamic social financing, enhancing both the economic growth and the welfare of Brunei's citizens. Hence, there are some points to highlight certain policy recommendations with respect to improving some areas in Islamic social finance tools,

1. In relation to Waqf, the utilization of *ibdal* and *istibdal* shall be considered according to the country's needs in order to reduce the amount of abandoned waqf land.
2. Public involvement on Islamic social finance tools shall be exposed to avoid misunderstanding and lack of awareness among the communities.
3. Introduce innovative waqf such as cash waqf in countries that do not implement them as it is essential for economic growth.

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