

INTEGRATING ISLAMIC SOCIAL FUNDS IN SHARIA BANKING FOR EMPOWERING INDONESIA'S PRODUCTIVE POOR

Khotibul Umam and Berlian Widya Tama

Faculty of Law, Universitas Gadjah Mada, Indonesia

e-mail: khotibulumam@ugm.ac.id (corresponding author); berlian.widya.tama@mail.ugm.ac.id

Submitted: 2 August 2025 - Last revised: 26 October 2025 - Accepted: 22 December 2025

Abstract

The enactment of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (the DSFS Law) expands the role of Sharia banks beyond collecting social funds to managing and distributing them. However, challenges remain, including limited financial inclusion, limited use of social contracts such as *qardh al-hasan*, and underutilisation of commercial contracts like *salam* and *istishna*, which could benefit the micro, agricultural, and manufacturing sectors. This study examines the compatibility of Islamic social funds (ISF) with a bank's role as a financial intermediary and with the expected function of Sharia banking in financing a productive poor society. This study uses normative legal research, emphasising secondary data, and employs three approaches: the statutory approach, the conceptual approach, and the comparative approach. The DSFS Law (Law No. 4/2023) provides a clear legal basis for Sharia banks and Sharia business units not only to collect but also to manage and distribute ISF. The DSFS Law broadens Sharia banks' role in (ISF). However, gaps remain in waqf management and zakat coordination, creating challenges for integration with Sharia banking. To overcome this, more substantial regulatory alignment and support from Bank Indonesia (BI) and the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) are needed to fully connect sharia banks' intermediation role with ISF.

Keywords: *social islamic fund, sharia banking, productive poor society*

I. INTRODUCTION

Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (the DSFS Law) amends various laws governing the financial sector, including Law Number 21 of 2008 concerning Sharia Banking (the SB Law). A key change concerns the social function of Sharia banks, extending their functions beyond collecting *zakat*, *infaq*, *sadaqah*, and cash *waqf* to also managing and distributing Islamic Social Funds (ISF). This reform aligns with the Sharia Banking Development Roadmap 2020–2025, which calls for integrating commercial and social functions to enhance competitiveness, support national development, and contribute to achieving the United Nations Sustainable Development Goals (SDGs).

Despite this legal shift, challenges remain. *Firstly*, the Sharia Banking Law mandates that Islamic banks perform a social function. However, the law remains weak in the absence of detailed implementation regulations that specify how this social function should be carried out. Moreover, the use of the phrase “may” in the law creates ambiguity, suggesting that an obligation is non-binding, reducing the enforceability of the social function for Islamic banks.

Secondly, Sharia financial literacy and inclusion levels are still low, product diversity is limited, and access for the productive poor society (individuals engaged in small-scale productive work but excluded from formal financing) remains constrained. Social contracts like *qardh al-hasan* are still underutilised, even though they could significantly benefit very small-scale business activities. In this context, *qardh* refers to any loan given with the expectation of repayment, which may or may not include interest. In contrast, *qardh al-hasan* is an interest-free loan given purely out of kindness or charity, with no expectation of profit or benefit.

Sharia Banking Statistics as of January 2025 show the composition of Sharia financing products from Sharia banks and Sharia business units in billions of rupiah. The allocation of funds for various types of financing is as follows: *musyarakah*-based financing (314,527), *murabahah* (254,497), *qardh* (18,615), *mudharabah* (14,698), *ijarah* (12,274), *istishna* (5,433), and *salam* (1000).¹ *Qardh* funds are generally used for taking over conventional loans into Sharia financing; direct access to funds for individuals with microeconomic capacity is limited for micro-business development purposes.

Thus, this study examines the compatibility of the ISF with the bank’s function as a financial intermediary institution and to identify the expected role of Sharia banking in financing for a productive society after the DSFS Law while also identifying ambiguities in the scope of “management” of social funds, the absence of clear safeguards to prevent commingling of social and commercial funds, unresolved tensions between DSN-MUI Fatwa No. 19/2001 and the 2021 Ijtima’ Ulama Bank Indonesia (macroprudential) and the role of OJK and Bank Indonesia to effectively integrate Sharia Banking and ISF institutions. This study addresses the following research questions:

1. How compatible are Islamic social funds with the financial intermediation function of Sharia banks?
2. What is the expected role of Sharia banking in financing a productive society after the DSFS Law?

¹ Otoritas Jasa Keuangan, *Statistik Perbankan Syariah - Januari 2025* (2025).

II. LITERATURE REVIEW

II.A. Social Function of Sharia Banks in Indonesia

Under the SB Law, as amended by the DSFS Law, Sharia banking carries both intermediate and social functions, mobilising savings and channelling them into financing. This process not only links surplus and deficit units but also drives economic growth by stimulating production and increasing the monetary value of productive sectors. Sharia banking also carries out social functions by receiving, managing, and distributing funds such as *zakat*, *infaq*, alms, grants, and cash *waqf* for social purposes. In this role, Sharia banks may serve as Sharia Financial Institutions for money *waqf* (*Lembaga Keuangan Syariah-Penerima Wakaf Uang/LKS-PWU*), both collecting funds and acting as managers (*naẓir*), or channelling them through other appointed managers according to the donor's wishes. Instruments of Islamic social fund, like *zakat*, *infaq*, alms, grants, and *waqf* have been recognised as key tools in sustainable poverty alleviation, contributing to broader social welfare.²

The social function policies of Sharia banks, as outlined in the SB Law, involve helping to reduce poverty by providing alms to those in need. A report by the United Nations Development Program/UNDP (2018) shows that the implementation of this can be seen through the partnership between the National Zakat Regulatory Agency (*Badan Amil Zakat/BAZNAS*), Bank Jambi, and UNDP on renewable energy, which aims to reduce poverty in Merangin and Sarolangun, Jambi Province. With funding from *zakat* and Bank Jambi's corporate social responsibility (CSR) program, the collaboration is helping establish four micro-hydroelectric plants to increase access to energy and improve livelihoods in rural areas.³ Another example is Bank Syariah Indonesia (BSI), which already channels its CSR funds through the BSI Maslahat Amil Zakat Foundation, focusing on three key areas: education (providing scholarships and support for students in need), SME empowerment (offering interest-free loans and assistance with production equipment), and humanitarian aid (helping disaster-stricken communities), helping the poor.⁴

Sharia banking operates as a profit-driven business, but it also has a social function focused on the community, which can sometimes conflict with

² Nun Harrieti et al., "The Role of Sharia Banking in Strengthening the Assets of Village-Owned Enterprises in Indonesia," *Cogent Social Sciences* 10, no. 1 (2024): 2350557, <https://doi.org/10.1080/23311886.2024.2350557>.

³ UNDP, *Unlocking the Potential of Zakat and Other Forms of Islamic Finance to Achieve the SDGs in Indonesia* (UNDP and Baznas, 2018), <https://www.undp.org/sites/g/files/zskgke326/files/migration/id/INS-Unlocking-the-Potential-of-Zakat-and-Other-Forms-of-Islamic-Finance-to-Achieve-SDGs-in-Indonesia.pdf>.

⁴ Muhammad Farhan et al., "Corporate Social Responsibility in Islamic Banking: A Practical Evaluation," *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)* 7, no. 2 (2024).

traditional business models. This issue arises from the dual responsibilities of Sharia banking because it operates as a company, required to follow the regulations in Law Number 40 of 2007 on Limited Liability Companies, which mandates the allocation of corporate social responsibility (CSR) funds, while these banks are also tasked with collecting *zakat* funds from both the company and its employees, as outlined in the SB Law.⁵

II.B. Legal Limits on The Management of Zakat/Waqf by Banks

Indonesia, home to the world's largest Muslim population, faces unique challenges in *zakat* management due to its geographic, demographic, and cultural diversity. The enactment of Law No. 23 of 2011 on Zakat Management demonstrates the state's commitment to strengthening zakat administration for poverty alleviation. Zakat is managed by both state institutions, such as BAZNAS, and private organisations (*Lembaga Amil Zakat/LAZ*), with a decentralised model tailored to local contexts. However, issues of coordination and standardisation persist, prompting ongoing efforts to improve institutional capacity and integrate technology for more effective management.

While the original Law on Zakat provides a regulatory framework, inconsistencies and ambiguities in its provisions have resulted in varied interpretations and uneven implementation. Moreover, according to Widiyono, the enactment of Law Number 23 of 2011 on Zakat Management (Zakat Management Law), the role and function of Sharia banking face several challenges. For one, Article 7, paragraph (2) of the Zakat Management Law does not explicitly mention collaboration between BAZNAS and Sharia banks, causing uncertainty regarding the form of cooperation in zakat management and creating a gap in the legal framework for the social functions of Sharia banks in assisting zakat management.⁶ The lack of clarity in the SB Law regarding social functions has led to a lack of commitment from Sharia banks to fulfil these roles, evidencing that some Sharia banks neglect their social functions.⁷

Islamic banking in Indonesia serves a dual role, performing intermediation functions for profit-oriented activities, while also acting as a social entity, fulfilling the mandate as a Baitul Mal institution, including the collection of

⁵ Ishandawi and Djafri Khalil, "Ziswaf Fund Management Development Strategy in Islamic Banking," in *proceedings of the Medan International Conference on Economics and Business 1* (2023).

⁶ Try Widiyono, "The Role of Sharia Banking Institution in Zakat Collection as a Source of Economic Development," in *Proceedings of the International Conference on Community Development (ICCD 2020)*, Atlantis Press, 2020, <https://doi.org/10.2991/assehr.k.201017.165>.

⁷ Adiyes Putra and Nurnasrina Nurnasrina, "Analisis Kelembagaan Pengelolaan Zakat dan Fungsi Sosial Perbankan Syariah," *Journal of Sharia Economics* 2, no. 2 (2020): 182–203, <https://doi.org/10.35896/jse.v2i2.140>.

social funds such as *waqf* funds. The challenge lies in optimising these dual functions, commercial and social, particularly in developing *waqf* funds as a tool for enhancing public welfare. These efforts may be carried out directly by the *wakif* or managed by the *nazhir* as custodians of *waqf* assets. Previously, the Law on Waqf restricted Islamic banks from acting as *nazhir*. However, this limitation has been addressed by the DSFS Law, which expands Islamic banks' mandate to assume this role. Nevertheless, the Law on Waqf does not yet permit Islamic banks to serve as *nazhir*.⁸

Based on previous research, there are several practices regarding Islamic social funding across countries, especially in Malaysia and Indonesia, in both the banking sector and microfinance institutions. Research conducted by Saad *et al.* provides an example of the role of *waqf* in the contemporary international setting, including the Islamic Development Bank (IDB) Waqf, also known as the Special Account Resources Waqf Fund, established by the IDB to reach 1 billion Islamic Dinars.⁹ Research by Sulistiani *et al.* states that in Indonesia, the inception of Micro Waqf Bank was spearheaded by the Financial Services Authority (*Otoritas Jasa Keuangan* / OJK), which prioritised the Islamic Microfinance Institutions (IMIs) model as a key program for fostering economic development among the populace.¹⁰ In 2017, the government conceptualised the utilisation of *waqf* for Micro Waqf Banks, catering to the financial needs of the lower-middle class. The establishment of Micro Waqf Banks (*Bank Wakaf Mikro/BWM*) within the Islamic boarding school (*pesantren*) environment serves dual purposes: providing financial services and fostering banking education among students.¹¹

III. FINDINGS

III.A. The Integration of Islamic Social Fund Management into Sharia Banking

Sharia banks serve not only as financial institutions that manage the collection and distribution of funds in accordance with Islamic principles, but also as institutions that carry out a socio-religious mission aimed at enhancing

⁸ Neni Sri Imaniyati *et al.*, "The Function of Sharia Banks in Optimizing Waqf as the Integration of the Commercial Economy and Social Economy to Improve Public Welfare," *KnE Social Sciences*, ahead of print, August 15, 2024, <https://doi.org/10.18502/kss.v9i24.16848>.

⁹ Norma Md Saad *et al.*, "Best Practices of Waqf: Experiences of Malaysia and Saudi Arabia," *Journal of Islamic Economics Lariba* 2, no. 2 (2016): 57–74, <https://doi.org/10.20885/jielariba.vol2.iss2.art5>.

¹⁰ Siska Lis Sulistiani *et al.*, "Micro Waqf Bank: New Sharia Financial Instruments in Indonesia," in *Proceedings of the 2nd Social and Humaniora Research Symposium (SoRes 2019)*, Atlantis Press, 2020, <https://doi.org/10.2991/assehr.k.200225.001>.

¹¹ Sulistiani *et al.*, "Micro Waqf Bank."

community welfare.¹² Many Islamic scholars believe that Sharia-compliant banking should foster and support an economic system that promotes a just, fair, and balanced society.¹³ To uphold these values, Sharia banks should ensure that their daily operations adhere to core principles, placing equal emphasis on justice and social responsibility alongside financial profit. Islamic social finance refers explicitly to providing financial services to vulnerable members of society to promote socio-economic well-being.¹⁴

Sharia banks are financial intermediary institutions that operate without elements prohibited by Islam, such as *maysir* (gambling), *gharar* (uncertainty), and *riba* (interest or usury). These banks primarily collect funds from the public, expecting them to be utilised to meet financing needs.¹⁵ In their fund distribution activities, Sharia banks focus on investment and financing, which are crucial to generating primary sources of income and ensuring the sustainability of their business. In addition to their intermediation role, Sharia banks perform vital social functions, including receiving, managing, and distributing social funds such as *zakat*, *infaq*, and cash *waqf*.¹⁶ As outlined in Article 4 of the DSFS Law, Sharia banking serves not only an intermediation function but also a social function. The intermediation role of Sharia banking connects individuals with access to funds to those in need of financing. By collecting deposits from the community and lending them, Sharia banking acts as a driving force for the economy. This continuous flow of funds from surplus to deficit areas stimulates production and increases the value of money when invested in productive sectors.¹⁷ In addition, the social responsibility of Indonesian banking is also outlined in the Financial Services Authority Regulation No. 51/POJK.03/2017, requiring banks to consider environmental, social, and governance (ESG) aspects in all their operations. Integrating ESG principles into Sharia banking is important for promoting societal welfare since it encourages social responsibility, ethical investment, stakeholder involvement, effective risk management, and sustainable development.¹⁸

¹² Lucky Nugroho et al., "The Contribution of Islamic Bank in Poverty Alleviation," *Al-Ahkam* 30, no. 1 (2020): 19, <https://doi.org/10.21580/ahkam.2020.30.1.5387>.

¹³ M. Luthfi Hamidi et al., "The Prospects for Islamic Social Banking in Indonesia," *Journal of Islamic Monetary Economics and Finance* 5, no. 2 (2019), <https://doi.org/10.21098/jimf.v5i2.1062>.

¹⁴ Hamidi et al., "The Prospects for Islamic Social Banking."

¹⁵ Havis Aravik et al., "Basic Concepts of Sharia Finance and Practices in Sharia Banking in Indonesia," *Islamic Banking: Jurnal Pemikiran dan Pengembangan Perbankan Syariah* 9, no. 1 (2023): 17–34, <https://doi.org/10.36908/isbank.v9i1.842>.

¹⁶ Harrieti et al., "The Role of Sharia Banking"

¹⁷ *Ibid.*

¹⁸ Fitrianty Adirestuty et al., "Sustainable Finance in the Islamic World: A Comparative Study of ESG Reporting in Indonesia, Malaysia, and Brunei Darussalam," *al-Uqud: Journal of Islamic Economics* 9, no. 1 (2025): 18–32. <https://doi.org/10.26740/al-uqud.v9n1.p18-32>.

The social function outlined in the SB Law, as amended by the DSFS Law, states that Islamic banks are permitted to take on social roles through mechanisms such as a *baitul maal*, which involves collecting and distributing social funds like *zakat*. Although the law uses the phrase “may carry out”, which implies that banks have the option to either perform or not perform this function, it nevertheless grants Islamic banks the legal authority to engage in such social activities.¹⁹ ZISWAF, in this context, can be a powerful tool for enhancing productivity and welfare, particularly in consumptive activities by allocating funds to productive activities that align with the SDGs, reducing poverty and inequality through helping to establish small businesses.²⁰ The integration of *zakat* and *waqf* into microfinance allows these funds to be recycled and used continuously, rather than just for one-time consumption. This approach maximises the wealth-generating potential of *zakat*, transforming it into a productive fund that contributes to poverty alleviation through integrated microfinance.²¹

Currently, numerous Sharia banks have incorporated *zakat* into their financial operations. The pioneering institution in merging Islamic Commercial Finance (ICF) with Islamic Social Finance (ISFin) was Social Islami Bank Limited (SIBL) in Bangladesh, founded in 1995. SIBL developed a three-tiered banking framework consisting of: (1) voluntary banking dedicated to ISF management; (2) non-formal banking for Islamic microfinance activities; and (3) corporate banking for conventional Islamic commercial services. In Indonesia, the implementation of the Sharia Banking Act No. 21 of 2008 authorises Sharia banks to manage ISF instruments such as *zakat*, *infaq*, and *waqf* through the establishment of a distinct Baitul Maal as their social arm. The partnership between Sharia banks and their respective Baitul Maal institutions has yielded mutual benefits by enhancing financial intermediation, safeguarding stakeholder interests, and reinforcing and expanding social outreach.²²

¹⁹ Putra and Nurnasrina, “Analisis Kelembagaan Pengelolaan Zakat.”

²⁰ Purwanto Purwanto et al., “The Role of Islamic Social Finance Through Ziswaf and BMT During the Covid-19 Pandemic,” *MALLA: Journal of Islamic Banking and Finance* 5, no. 2 (2021): 81, <https://doi.org/10.21043/malia.v5i2.11911>.

²¹ Vita Arumsari and Rikawati Rikawati, “Islamic Social Funds: Enabling the Unable to Be Able,” *Journal of Applied Business Administration* 4, no. 1 (2020): 88–97, <https://doi.org/10.30871/jaba.v4i1.1902>.

²² Ascarya Ascarya et al., “Proposed Model of Integrated Islamic Commercial and Social Finance for Islamic Bank in Indonesia,” *Eurasian Economic Review* 12, no. 1 (2022): 115–38, <https://doi.org/10.1007/s40822-022-00201-z>.

III.B. Productive Ziswaf for Economic Development and its Challenges

In general, several views support the development of zakat funds through productive distribution, particularly by providing capital to *mustahiq* (zakat recipients). The distribution of productive *zakat* in the form of investment, particularly providing capital to *mustahiq*, operates under the principle that this capital is not owned by individuals or institutions, including the *Amil* (zakat administrators). Instead, the funds belong collectively to the *mustahiq* and are not meant to be kept in the *Bait al-Mal* treasury. The institution's role is simply to facilitate the distribution of zakat to the recipients. This distribution can occur through contracts such as *qard al-hasan*, *mudarabah*, or *murabahah*.²³ Nevertheless, the practice is often done using the *qard al-hasan* contract, where funds are given as interest-free loans. According to M. Arif Muftahin, *qard al-hasan* is a loan where no profit or return is expected from the principal amount. Similarly, Antonio defines *Al-Qardh* as the lending of assets that can be requested for repayment, but without the expectation of any benefit or profit. In classical Islamic jurisprudence (*fiqh*), *qardh* is viewed as a form of mutual assistance, not a commercial transaction.²⁴

In practice, *qardhul hasan* financing begins with collecting data on community members or groups identified as *mustahiq*. Afterwards, these individuals are introduced to empowerment programs where they can register if they have the desire and economic potential to benefit from productive funding. Since the program aims to promote business sustainability and improve living standards, IMIs conduct a selection and analysis process to ensure that *mustahiq* have the capacity and responsibility to manage a business. Once selected, the *mustahiq* receive 100% of the required funds as initial capital through *qardhul hasan*, which is an interest-free loan. A *mustahiq* is then empowered to run a business with ongoing support and supervision from IMIs. Repayments are made in stages according to terms agreed upon by both parties before the contract is signed. This ensures that *mustahiq* are still responsible for repaying the loan, allowing IMIs to redistribute the funds to other borrowers, and any profits generated from the business fully belong to the *mustahiq*.²⁵

Indonesia's *zakat* management laws, however, do not explicitly allow this method of distribution. While the regulation permits the management of *zakat* through productive means, as stated in Article 27 of the Zakat

²³ Rizky Wibowo et al., "Management of Zakat Funds as a Source of Qardh Financing in Baitul Maal Wat Tamwil (BMT) in Indonesia Zakat Regulations," *International Journal of Law* 7, no. 2 (2021): 98–103, <https://www.lawjournals.org/assets/archives/2021/vol7issue2/7-2-13-535.pdf>.

²⁴ Wibowo, et al., "Management of Zakat Funds."

²⁵ Ega Rusanti et al., "Zakat Empowerment Model Trough Islamic Corporate Social Responsibility of Bank Syariah Indonesia," *Al-Infraq: Jurnal Ekonomi Islam* 14, no. 1 (2023): 104, <https://doi.org/10.32507/ajci.v14i1.1866>.

Management Law, it does not address the use of *zakat* in loan-based patterns or impose any obligation on *mustahiq* to repay the *zakat* funds that they receive. Furthermore, there is an ongoing debate about whether *zakat* funds should be distributed as loans, as some believe *zakat* should be purely charitable and not require repayment. The matter of using *zakat* for loans, even interest-free loans (*al-qardh*), has been a topic of discussion among contemporary Islamic scholars. Some argue that *zakat* should not be used for loans, as it may place additional pressure on those in need. Others contend that *zakat* can be given as an interest-free loan, with the expectation of repayment if the recipient is capable. The Qur'an, in Surah At-Tawbah: 60, outlines the eligible recipients of *zakat*, who include those in debt.²⁶

The National Sharia Board – Indonesian Ulama Council (DSN-MUI) Fatwa Number 19/DSN-MUI/IX/2001 regarding *al-Qardh* (DSN-MUI Fatwa No. 19) outlines that *qardh* funds originate from the capital of Islamic financial institutions (IFIs), profits set aside by these institutions, or from other entities or individuals who entrust *infuq* (charitable contributions) to IFIs for distribution. Notably, the fatwa clarifies that *qardh* financing should not come from *zakat* funds. According to DSN-MUI Fatwa No. 19, if a customer is unable to repay their *qardh* loan on time and the IFI confirms their inability, the IFI can enter into a forbearance agreement with the recipient of the *qardh* funds. In the context of productive *zakat* distribution, if an IFI's customer fails to repay a *qardh* loan, it means they have taken from the shared *zakat* funds that belong to other *mustahiq*. Therefore, using *zakat* funds for *qardh* financing is not permitted, as IFIs must adhere to *zakat* regulations in Indonesia and operate in accordance with Sharia principles, following Majelis Ulama Indonesia (MUI) guidelines.²⁷

Nevertheless, the 2021 MUI Ijtima' Ulama report mentions that *zakat* can be distributed in the form of *al-Qardh al-Hasan* to educate *mustahiq* to work hard and improve their businesses' success, thereby transforming *zakat* into productive *zakat*. The Ijtima' Ulama allows the distribution of *zakat* in the form of *al-Qardh al-Hasan* after ensuring that *zakat* funds are fundamentally given to *mustahiqs* for immediate ownership and disbursement. Certain conditions must be followed: 1) the recipients must be *zakat*-eligible *mustahiq*; 2) if the recipient cannot repay, the repayment period may be extended or the loan forgiven; 3) the loan must be interest-free (*al-Qardh al-Hasan*); and 4) the loan should be aimed at fulfilling basic needs. The *qard al-hasan* promissory note

²⁶ Mohammad Nizarul Alim, "Utilization and Accounting of Zakat for Productive Purposes in Indonesia: A Review," *Procedia - Social and Behavioral Sciences* 211 (2015): 232–36, <https://doi.org/10.1016/j.sbspro.2015.11.028>.

²⁷ Alim, "Utilization and Accounting."

operates in a non-commercial manner. This means that there is no expectation of profit from the donor, whether it is an individual, institution, or IFI. IFIs like *Baitul Maal wa Tamwil* (BMT) or Sharia banks often serve as intermediaries, facilitating the distribution of *infaq* and *sadaqah* funds.²⁸

Zakat, *infaq*, and *sadaqah* are forms of wealth given as a right of Allah to those who are eligible to receive them. *Zakat* has specific conditions where its recipients must belong to one of the eight designated categories (*ashnaf*). In contrast, the rules for *infaq* and *sadaqah* are more flexible, allowing such funds to be distributed to anyone in need. Generally, the distribution of *zakat*, *infaq*, and *sadaqah* follows different patterns. As a moral responsibility, a Muslim must first fulfil the obligation of *zakat*. If *zakat* does not fully meet the community's needs, *infaq* and *sadaqah* serve as additional moral obligations for those who are financially able.²⁹ The term "*sadaqah*" means an act of truthfulness. A person who frequently gives *sadaqah* is considered sincere in their faith. In Islamic terminology (*syar'i*), *sadaqah* refers to giving sincerely to those who are entitled to receive it, accompanied by the hope for reward from Allah. Unlike *infaq*, which primarily focuses on material aspects, *sadaqah* has a broader meaning that includes non-material acts such as kindness and good deeds.³⁰

Sharia banks as intermediary institutions also play a strategic role in the economic system and in the management of *waqf*, particularly due to the social functions inherent in Sharia banking. *Waqf* is one of the functions of Sharia Finance Institution-Cash Waqf Recipients (*Lembaga Keuangan Syariah-Penerima Wakaf Uang/LKS-PWU*).³¹ Sharia banks, through their role as intermediary institutions, hold a key position in the economic system, as well as in collecting and managing *waqf* funds in line with their social functions.

Cash *waqf* refers to the endowment of a specific sum of money by donors—which may include individuals, organisations, corporations, or public and private institutions—whose generated returns are dedicated to sustaining community welfare. Before being utilised for productive *waqf* initiatives, the donated funds must first be deposited with an IFI that has been officially authorised to manage cash *waqf*. The management of cash *waqf*, known as a

²⁸ Bakhrul Huda, "Analisis Keabsahan Penyaluran Harta Zakat Dalam Bentuk Al-Qardh al-Hasan: Studi Atas Materi Ijtima' Ulama Komisi Fatwa MUI 2021," *Management of Zakat and Waqf Journal (MAZAWA)* 3, no. 2 (2022): 66–86, <https://doi.org/10.15642/mzw.2022.3.2.66-86>.

²⁹ Desta Asih Ivan Saputri, "Dana Infaq, Shodaqoh, dan Zakat untuk Kesejahteraan Masyarakat," *Jurnal Hamfara* 1, no. 2 (2023).

³⁰ Ubabuddin and Umi Nasikhah, "Peran Zakat, Infaq, dan Shadaqah dalam Kehidupan," *Jurnal Ilmiah Al-Muttaqin: Jurnal Kajian Dakwah dan Sosial Keagamaan* 6, no. 1 (2021): 60–76, <https://doi.org/10.37567/al-muttaqin.v6i1.368>.

³¹ Syifa Salsabila et al., "Penghimpunan Wakaf Uang pada Perbankan Syariah berdasarkan Hukum Positif Indonesia," *Iqtisad: Reconstruction of Justice and Welfare for Indonesia* 9, no. 1 (2022): 19, <https://doi.org/10.31942/iq.v9i1.6428>.

nazir, must be a legally registered organisation or entity with the Indonesian Waqf Board (*Badan Wakaf Indonesia/BWI*).³² Currently, cash *waqf* is regulated under Indonesian law, specifically through several legal frameworks such as Law No. 41 of 2004 on Waqf, Government Regulation No. 42 of 2006 on the Implementation of the Waqf Law, and the Minister of Religion Regulation No. 4 of 2009 on Cash Waqf Administration. Additionally, there is a Fatwa from DSN-MUI issued on May 11, 2002, regarding cash *waqf*. According to these regulations, cash *waqf* is defined as a lawful act in which the *wakif* (donor) designates or transfers a certain amount of money to be utilised either permanently or for a specified duration, for purposes related to religion or public welfare, in compliance with Sharia principles. The scheme is that customers visit LKS PWU to deposit their funds and donate them for either a fixed or temporary period. The investment returns from these deposits are managed by the *Nazir* (*waqf* manager) for various social and charitable purposes. At present, only the BWI is authorised to manage cash *waqf* funds.³³

Waqf holds substantial potential to be transformed into productive assets that can extend beyond supporting socio-religious activities to fostering social justice and educational initiatives. Nowadays, cash *waqf* is increasingly associated with *sukuk* issuances, linking it to broader financial instruments. There are two types of *sukuk*-based *waqf* instruments: *sukuk*-linked *waqf* and *waqf*-linked *sukuk*. *Sukuk*-linked *waqf* focuses on investment and commercial activities, such as *sukuk* issued by corporations for the development of commercial assets on *waqf* land or for projects tied to *waqf*. In contrast, *waqf*-linked *sukuk* is based on cash *waqf* used to develop social assets, with repayment sources potentially coming from *waqf* crowdfunding or government budgets, especially if a project aligns with a government initiative.³⁴ In 2020, Indonesia launched an innovative Islamic social financial instrument specifically targeted at supporting the development of cash *waqf* called Cash Waqf Linked Sukuk (CWLS). CWLS is a system that allows cash *waqf* to be invested in sovereign *sukuk* (*Surat Berharga Syariah Negara/SBSN*) to support the government's program for developing social facilities.³⁵ In Indonesia, CWLS represents a form of social investment

³² Muhammad Nurul Alim et al., "Model of Sukuk Waqf with Wasiyyah Contract as a Cash Waqf Fundraising Strategy," *IQTISHODUNA: Jurnal Ekonomi Islam* 11, no. 1 (2022): 17, <https://doi.org/10.54471/iqtishoduna.v11i1.895>.

³³ Alim et al., "Model of Sukuk Waqf."

³⁴ *Ibid.*

³⁵ Rozaq Muhammad Yasin, "Cash Waqf Linked Sukuk: Issues, Challenges and Future Direction in Indonesia," *Jurnal Ekonomi dan Bisnis Islam (Journal of Islamic Economics and Business)* 7, no. 1 (2021): 100, <https://doi.org/10.20473/jebis.v7i1.24818>.

where cash *waqf* collected by the BWI through LKS-PWU is managed and invested in SBSN issued by the Ministry of Finance.³⁶

The CWLS often operates under a *mudarabah* contract, which is a profit-and-loss sharing partnership. In this setup, investors provide funds to the entrepreneur (*mudharib*), who manages the investment, with profits distributed based on a pre-agreed ratio. The *mudarabah* process in CWLS involves the following steps: *Firstly*, the issuer issues *mudarabah* sukuk to raise capital; and *secondly*, the *mudharib* and investors (*shahibul maal*) agree on a profit-sharing ratio. A specified amount of capital is collected, and then the funds are invested in promising commercial projects³⁷. In the CWLS process, the *wakif* (endower) begins by depositing *waqf* funds into the account of a *nazhir* partner, which temporarily holds these funds in the *nazhir's wadi'ah* account before transferring them to the BWI account at the IFI that receives LKS-PWU. When the cumulative funds reach a certain amount, BWI invests them in SBSN. Periodic returns from SBSN, called coupons, are paid by the Ministry of Finance to the BWI. These returns are partly used for *nazhir's* management costs, while the rest is allocated to develop *waqf* assets and public infrastructure. Once the SBSN matures, the Ministry of Finance returns the cash *waqf* funds to BWI, which then directs the *nazhir* and LKS-PWU to return the funds to the *wakif* based on the agreed terms. Several contracts are used in SBSN issuance in Indonesia, such as *ijarah*, *mudharabah*, *musyarakah*, *wakalah*, and *istishna*, with *ijarah* and *wakalah* being the most commonly used.³⁸

The OJK also introduced a new product at the end of 2023 called “the Cash Waqf Linked Deposit” (CWLD) in collaboration with BWI.³⁹ CWLD is a temporary cash *waqf* product designed to combine both the social and business functions of Sharia banks, specifically LKS-PWU, allowing individuals to donate cash, which is then invested in banking products or other investments

³⁶ Achmad Fauzi and Hendri Tanjung, “Risk Management in Cash Waqf Linked Sukuk Based on the Waqf Core Principle: A Preliminary Study,” *BWI Working Paper Series*, BWPS No. 7/PKTD/BWI/IX/2021, <https://www.bwi.go.id/wp-content/uploads/2021/09/20210930-07-BWI-Working-Paper-Series-September-2021.pdf>.

³⁷ Muchtim Humaidi et al., “The Role of Cash Waqf Linked Sukuk Based on Mudarabah Contract (Trustee-Partnership) as MSME Capital Solution,” *El Barka: Journal of Islamic Economics and Business* 6, no. 1 (2023): 108–31, <https://doi.org/10.21154/elbarka.v6i1.3550>.

³⁸ Salma Rahmani and Yoyok Prasetyo, “Cash Waqf Linked Sukuk: Sharia Financial Innovation for Productive Waqf Management in Indonesia,” *Syarab: Jurnal Hukum Islam dan Ekonomi* 13, no. 1 (2024): 63–80, <https://doi.org/10.47766/syarah.v13i1.3087>.

³⁹ Muhamad Afifullah and Irwan Triadi, “Peluang dan Tantangan Manfaat Cash Waqf Linked Deposit pada Sektor Hijau dalam Hukum Lingkungan Indonesia,” *Amandemen: Jurnal Ilmu Pertahanan, Politik dan Hukum Indonesia* 1, no. 2 (2024): 206–21, <https://doi.org/10.62383/amandemen.v1i2.159>.

to generate profits.⁴⁰ These profits are used for social purposes, specifically *waqf*. CWLD offers several benefits, such as increasing third-party funds from *waqf* deposits, generating income from financing activities, improving the reputation of Sharia banks in fulfilling social functions, promoting sustainable finance, and attracting new customers. In 2023, one Sharia bank that launched the CWLD product is Bank Syariah Indonesia (BSI).⁴¹

Compared to Indonesia, cash *waqf* has gained significant attention in Malaysia. The State Islamic Religious Council (MAIN) has initiated the development of a cash *waqf* system and *waqf* shares. Donors contribute money to MAIN, which is then placed in a *waqf* fund and used for social activities, including investments. In addition to cash *waqf* managed by MAIN, there are also *waqf* stock trust institutions operated through banks. These institutions offer shares to the public at a set price, where buyers do not receive any profits, and the funds used to purchase the shares are fully entrusted to the manager without the option for reimbursement.⁴² In 2012, Bank Mu'āmalāt Malaysia Bhd and Selangor Waqf Agency (Perbadanan Wakaf Selangor/PWS) also collaborated to boost *waqf* collection through the Waqf Selangor Mu'āmalāt initiative. The Selangor Stock Waqf has successfully attracted increasing contributions each year. PWS, in partnership with Bank Mu'āmalāt Malaysia Bhd, developed the Waqf Selangor Mu'āmalāt, focusing on health and education, as well as investment.⁴³ In December 2020, as part of IFIs' efforts to provide social financing solutions, Bank Islam Malaysia Berhad (BIMB) launched the BangKIT Microfinance program, an innovative initiative funded by *sadaqah*. This program aims to offer affordable microfinancing to low-income and underbanked individuals. Furthermore, SadaqaHouse has been facilitating microfinancing through the BangKIT Microfinance project.⁴⁴ Generally, ISF mechanisms, such as ZISWAF, align with Sharia banking principles of ethical financing, social justice, and avoiding *riba*. Moreover, Sharia banks can create Shariah-compliant products, such as microfinance

⁴⁰ Dian Valentina Tumanggor, "Integrated Maqasid Al-Shariah in Cash Waqf Linked Deposit: A Study Approach to Sustainable," *Jurnal Penelitian Ilmu Ekonomi dan Keuangan Syariah* 2, no. 4 (2024): 91–105, <https://doi.org/10.59059/jupiek.v2i4.1724>.

⁴¹ Ainiyatuz Zulfa, Ahmad Fauzan Mubarak, and Zahrotun Nafisah, "Analisis Cash Waqf Linked Deposit (CWLD) Perspektif Empat Mazhab," *JES (Jurnal Ekonomi Syariah)* 9, no. 2 (August 2024): 153–65, <https://doi.org/10.30736/jes.v9i2.895>.

⁴² Hardianti Yusuf and Muspita Sari, "CASH WAQF PRACTICES IN MALAYSIA AND INDONESIA," *Jurnal Al-Dustur* 5, no. 2 (November 2022): 212–27, <https://doi.org/10.30863/aldustur.v5i2.2960>.

⁴³ Hardianti Yusuf and Muspita Sari, "Cash Waqf Practices in Malaysia and Indonesia," *Jurnal Al-Dustur* 5, no. 2 (November 2022): 212–27, <https://doi.org/10.30863/aldustur.v5i2.2960>.

⁴⁴ Norazlina Abd Wahab et al., "Islamic Social Finance Initiatives: An Insight into Bank Islam Malaysia Berhad's Innovative BangKIT Microfinance Product," *ISRA International Journal of Islamic Finance* 15, no. 1 (2023): 22–35, <https://doi.org/10.55188/ijif.v15i1.483>.

schemes, *waqf*-based investments, or *zakat*-distribution platforms, leveraging ISF resources for community development. By integrating these funds into banking products, financial institutions can offer Shariah-compliant financing solutions that not only generate profit but also contribute to the social good.

III.C. The Role of Sharia Banks in Supporting Social Welfare and MSMEs

IFIs, encompassing both banking and non-banking entities, have brought a distinct social and ethical perspective to the global financial landscape.⁴⁵ In Indonesia, the expansion of Sharia banking aligns with the nation's broader objective of achieving equitable and prosperous development grounded in economic democracy. Collaboration between Sharia banks and micro, small, and medium enterprises (MSMEs) is essential to strengthening the real sector and empowering micro-level businesses, reflecting the fundamental role of Sharia banks in serving the welfare of society. Unlike conventional banks, Sharia banks are guided by unique legal and philosophical foundation (*maqāṣid al-shari'a*) with their principles derived from the Qur'an and Hadith.⁴⁶ Thus, their operations are bound by Sharia values that emphasise not only financial gains but also social responsibility. As Islam promotes holistic well-being in both worldly and spiritual aspects, Sharia banks aim to contribute to human prosperity while maintaining a strong ethical and community-oriented focus.

Sharia banks, as Islamic financial institutions, have a dual responsibility to both their commercial operations and the fulfilment of Sharia objectives, particularly in the distribution of financing. The primary goal of Sharia-compliant financing is to benefit the community, and this benefit is realised when the financing contributes to overall welfare, thereby reducing poverty levels.⁴⁷ However, Sharia banks have not yet prioritised financing the MSME sector, resulting in a relatively limited impact on MSME welfare. In line with their fundamental principles (*kebiṭṭah*), Sharia banks are expected to be concerned with social and environmental aspects. This is because Sharia banks act as agents of change, promoting financial transactions that adhere to the principles of *maqāṣid al-shari'a*, including: (i) preserving religion; (ii) preserving life; (iii) preserving intellect; (iv) preserving lineage; (v) preserving wealth; and (vi) preserving the environment.⁴⁸

⁴⁵ Sofyan Abbas, "The Role of Financial Intermediary and the Contribution of Islamic Banking in Financing Micro, Small and Medium Enterprises in North Maluku," *Jurnal Manajemen Bisnis* 9, no. 2 (2022): 453–74.

⁴⁶ *Ibid.*

⁴⁷ Nugroho et al., "The Contribution of Islamic Bank."

⁴⁸ *Ibid.*

In their role in reducing poverty, Sharia banks effectively fulfil their intermediary function by successfully raising surplus funds and efficiently channelling them to deficit parties in the form of financing, thereby contributing to poverty alleviation. The optimisation of this intermediation function in Sharia banks broadly reduces poverty through increased financial access, providing capital that fosters long-term economic welfare, which is a key objective of the Islamic financial system. Sharia bank financing helps the poor improve their standard of living by providing capital to start or expand their businesses.⁴⁹

Furthermore, in this context, BI as the monetary authority, also plays a strategic role in optimising the contribution of Islamic banking to national economic development, particularly in supporting MSMEs and alleviating poverty. Through macroprudential policies and the development of Islamic financial system infrastructure, BI not only ensures financial system stability but also actively promotes financial inclusion in line with the principles of *maqāṣid al-shari'a*. In pursuing its macroprudential policy objectives, BI promotes broader access to banking services and financing across all segments of society, including MSMEs, by formulating a blueprint for Islamic economic and financial development built on three main pillars, which one of them is the Empowerment of the Islamic Economy.⁵⁰ This pillar is implemented through the strengthening of the halal value chain by encouraging the development of *pesantren*-based economies, optimising the productive use of ZISWAF, and enhancing Islamic business models for MSMEs, including the empowerment of the *mustahiq*.⁵¹ To further support MSMEs through ZISWAF, BI also acts as an accelerator, fostering synergy among Islamic Microfinance Institutions, Islamic Rural Banks, and zakat or waqf management institutions to channel Sharia-compliant financing to MSMEs originating from the *mustahiq* group, facilitated by innovations such as CWLS.⁵² These demonstrate how the integration of Islamic financial instruments and ISF can be utilised productively to expand financial inclusion and sustainably empower the broader Muslim community.

III.D. Challenges and Opportunities in Fulfilling Social Functions in Sharia Banking

The religious or social sector can play a significant role in Islamic finance, which in turn can contribute to poverty reduction in Indonesia. Moreover,

⁴⁹ Achmad Tohirin, and Fauzan Husaini, "Does Islamic Banking Financing Help the Poor?," in the *Proceedings of the UII-ICABE* 1, no. 1 (2020): 41–50.

⁵⁰ Ja'ih Mubarak et al., *Buku Ekonomi Syariah bagi Strata 1*, 1st ed. (Bank Indonesia, 2021), 231.

⁵¹ *Ibid.*, 232.

⁵² Badan Wakaf Indonesia, *Cash Waqf Linked Sukuk*, n.d., <https://www.bwi.go.id/cash-waqf-linked-sukuk/>.

Sharia banking can support this by expanding access and providing assistance to MSMEs that are currently underserved by traditional banking, utilising ISF instruments such as ZISWAF benevolent funds and CSR initiatives.⁵³ This can also be achieved through ESG, which goes further by outlining the specific impact and the methods to achieve it. At the same time, Islamic finance focuses on social benefits in its transactions.⁵⁴

In the meantime, one of the main challenges Sharia banks faces in fulfilling their social function is the psychological barrier of institutionalisation. The use of the phrase “may” in the law creates ambiguity, suggesting that the obligation is not binding, which clouds the enforceability of the social function obligation of Islamic banks. Sharia banks often struggle to balance their business and social roles. According to the theory of financial intermediation, banks exist because they help reduce risks, lower transaction costs, and connect depositors with borrowers more efficiently than markets alone.⁵⁵ Since Sharia banks rely on depositors who expect returns, they tend to focus on commercial products rather than social programs such as *qardh al-hasan*. This creates mission drift, a shift from serving social goals to prioritising financial ones, as mission drift refers to a situation where a social enterprise gradually shifts away from its original social mission. Specifically, it occurs when an organisation begins prioritising financial gains over its intended social objectives.⁵⁶ Even though the DSFS Law grants Sharia banks the authority to manage social funds, their primary identity as financial intermediaries makes them more commercially driven than socially oriented.

Moreover, Zakat Management Law does not explicitly address collaboration between BAZNAS and Sharia banks, leaving uncertainty about the form of cooperation in Zakat management and creating a gap in the legal framework for the social function of Sharia banks in assisting Zakat management. Additionally, although the limitation has been addressed through the DSFS Law regarding the role of Sharia banks as *naẓhir*, Law Number 41 of 2004 concerning Waqf does not yet specifically permit Islamic banks to serve as *naẓhir*, demanding further regulatory provisions to address this limitation.⁵⁷

⁵³ Harrieti et al., “The Role of Sharia Banking”

⁵⁴ Ni Putu Gita Rahmaniati and Erni Ekawati, “The Role of Indonesian Regulators on the Effectiveness of ESG Implementation in Improving Firms’ Non-Financial Performance,” *Cogent Business & Management* 11, no. 1 (2024): 2293302, <https://doi.org/10.1080/23311975.2023.2293302>.

⁵⁵ Franklin Allen and Anthony M. Santomero, “The Theory of Financial Intermediation,” *Journal of Banking & Finance* 21, nos. 11–12 (1997): 1461–85, [https://doi.org/10.1016/S0378-4266\(97\)00032-0](https://doi.org/10.1016/S0378-4266(97)00032-0).

⁵⁶ Ignas M. Bruder, “From Mission Drift to Practice Drift: Theorizing Drift Processes in Social Enterprises and Beyond,” *Organization Studies* 46, no. 3 (2025): 385–407, <https://doi.org/10.1177/01708406251314591>.

⁵⁷ Imaniyati et al., “The Function of Sharia Banks.”

Furthermore, scholarly debates have emerged regarding the permissibility of lending *zakat* funds for income-generating purposes, particularly following the issuance of the 2021 *Ijtima*. Some scholars contend that *zakat* may be provided in the form of a loan to beneficiaries, as borrowers are included among the categories of individuals eligible to receive *zakat*.⁵⁸

However, ZISWAF can be distributed through the following mechanism. A bank acts as a provider of ZISWAF funds and the primary source of financing, channelling excess *zakat* funds through CSR initiatives to be managed by IMIs, which are deemed capable of optimal fund distribution. BAZNAS or other *amil* (charitable) institutions would play a role in identifying and recommending *mustahiq* who require assistance and have productive potential, while also overseeing the distribution to ensure compliance with Sharia principles. ZISWAF funds are distributed as interest-free loans to support productive endeavours, such as agriculture, and fisheries businesses, and other MSMEs. These loans are provided on a flexible basis, making it easier for *mustahiq* to initiate or expand their businesses.

As the funds managed are corporate social funds without profit motives, this financing model can be operated under the *Qardhul Hasan* contract. In various countries, microfinance institutions have successfully assisted low-income communities in addressing economic challenges. In Iran, the *Qardhul Hasan* Microfinance (QHMF) scheme has enhanced productivity among small farmers and entrepreneurs, while in Bangladesh, informal microloan programs have aided small business owners and urban street vendors facing financial difficulties.⁵⁹ Under this approach, the *Qardh* or *Qardhul Hasan* contract allows *zakat* funds to be used without profit to support micro-enterprise groups, with IMIs responsible for loans to individuals or groups. Each IMI and recipient is pre-selected through a rigorous process, and the *qardh* contract also allows the use of a *hawalab* contract in cases of default, providing relief to borrowers. Through these types of contracts, ZISWAF funds are provided as business loans with an agreed repayment period. If the recipient encounters repayment difficulties, the Sharia bank can offer an extension or, in some instances, forgive the debt. To ease repayment, a Sharia bank may implement a staggered repayment scheme based on the recipient's business capacity, allowing the funds to be circulated back to support other *mustahiq* in need.⁶⁰ This initiative can be further strengthened with BI's support by developing and promoting

⁵⁸ Abdul Baasith Asdjazzi, "Concept and Basis of Sharia Law for Distribution of Zakat in the Form of Microfinance with Qard Hasan Contract," in *Proceedings of the 6th Indonesian Conference of Zakat (ICONZ)*, April 2023, <https://doi.org/10.37706/iconz.2022.492>.

⁵⁹ Rusanti et al., "Zakat Empowerment Model."

⁶⁰ *Ibid.*

financial instruments that bridge ZISWAF with productive financing through the social leverage scheme, in which ZISWAF funds act as seed capital, enabling IFIs to provide additional financing to productive micro-entrepreneurs from underprivileged communities. To enhance its impact, BI can also foster inter-agency collaboration by initiating the creation of an integrated digital platform that connects ZISWAF with MSMEs, facilitating more efficient fund distribution, business development, and financial inclusion.

The opportunities and challenges highlighted above demonstrate both the potential and the hurdles Sharia banks face in fulfilling their social function. On the opportunity side, Sharia banks can tap into the growing MSME sector by offering financing products that support small businesses and entrepreneurs, especially within the religious and social framework of Islamic finance, such as ZISWAF. However, the challenges are still significant, especially the psychological barriers within Sharia banks themselves. The dual role of IFIs, balancing social objectives and financial profitability, can lead to mission drift, in which Sharia banks may prioritise commercial gains over social impact. Moreover, ESG policies remain voluntary and don't specifically address ESG integration in Sharia banking,⁶¹ though some Sharia banks in Indonesia have already implemented it. BSI, for example, has developed the BSI sustainability *sukuk*, designed to finance sustainable projects.⁶² Furthermore, ESG implementation in Sharia banking remains primarily focused on environmental issues, while social and governance aspects receive less attention.⁶³

To effectively integrate Sharia banking with ISF Institutions, several regulatory actions by the government are necessary. Firstly, the permissive wording in the DSFS Law should be revised to mandate obligations, making the social function binding rather than optional. Moreover, BI should play a role through macroprudential policies that encourage the integration of social financing into national financial inclusion agendas. BI, as the monetary authority, can also help to further strengthen the link between ZISWAF and productive financing by advancing the social leverage scheme and developing an integrated digital platform that connects ZISWAF resources with MSMEs.

⁶¹ Hery Purwanto, "Integrasi Prinsip ESG (Environmental, Social, Governance) dalam Perbankan Syariah," *Studia Economica: Jurnal Ekonomi Islam* 10, no. 2 (2024): 240-50, <https://jurnal.uinsu.ac.id/index.php/studiaeconomica/article/view/21738>.

⁶² Jerry Wardiman et al., "Integration of ESG (Environmental, Social, Governance) Criteria in Islamic Finance: A Systematic Review," In *Proceedings of the 2nd International Collaboration Conference on Islamic Economics (ICCEIS)*, Laa Maisyir: *Jurnal Ekonomi Islam*, November 2024, 344-63, <https://doi.org/10.24252/lamaisyir.v1i1.53133>.

⁶³ Abdur Rahman et al., "The Challenges of Green Sukuk Policy Implementation for Achieving Sustainable Environment," *Malaysian Journal of Social Sciences and Humanities (MJSSH)* 7, no. 11 (2022): e001987, <https://doi.org/10.47405/mjssh.v7i11.1987>.

Meanwhile, the OJK should focus on microprudential supervision by requiring ring-fenced ledgers or separate legal entities for social funds, formulating more precise regulations and guidance for Sharia banks, and standardising accounting and reporting systems for *zakat*, *waqf*, and *qardh al-hasan*. Lastly, more precise coordination mechanisms with BAZNAS for *zakat* and an expanded mandate in *waqf* management would close current legal gaps. Together, BI and OJK can ensure that Sharia banks fulfil both their financial intermediation roles and their social missions, with transparency and accountability.

IV. CONCLUDING REMARKS

In conclusion, the integration of ISF with the financial intermediation function of Sharia banks is compatible and complementary under the SB law as amended by the DSFS Law. Explicitly recognises the dual role of Sharia banks; not only as financial intermediaries mobilising and channelling funds but also as institutions with a social function through the management of ZISWAF. Furthermore, the DSFS Law expands the mandate of Sharia banks to strengthen their role in ISF, including designating them as *nazhir*. Although the DSFS Law expands its mandate, gaps in *waqf* management and *zakat* coordination remain and can pose challenges to implementing integration between ISF and Sharia banking. To address this, more substantial regulatory alignment is needed to ensure that Sharia banks can fully integrate their financial intermediation role with ISF, with the support of BI and the OJK. In this context, further research is needed to develop standardised reporting frameworks for social funds in Islamic banks, covering ZISWAF and their compatibility with *qardh al-hasan*. Clear reporting standards would not only enhance transparency and comparability across institutions but also strengthen regulatory oversight, mitigate the risks of fund mismanagement, and build public trust.

REFERENCES

- Abbas, Sofyan. "The Role of Financial Intermediary and the Contribution of Islamic Banking in Financing Micro, Small and Medium Enterprises in North Maluku." *Jurnal Manajemen Bisnis* 9, no. 2 (2022): 453–74.
- Abd Wahab, Norazlina, Saeed Awadh Bin-Nashwan, Mohd Nazri Chik, and Mohd Yahya Mohd Hussin. "Islamic Social Finance Initiatives: An Insight into Bank Islam Malaysia Berhad's Innovative BangKIT Microfinance Product." *ISRA International Journal of Islamic Finance* 15, no. 1 (2023): 22–35. <https://doi.org/10.55188/ijif.v15i1.483>.

- Adirestuty, Fitranty, Ririn Tri Ratnasari, Egi Arvian Firmansyah, Rumaisah Azizah Al Adawiyah, Indah Nur Chazanah, and Tia Yuliawati. "Sustainable Finance in the Islamic World: A Comparative Study of ESG Reporting in Indonesia, Malaysia, and Brunei Darussalam." *al-Uqud: Journal of Islamic Economics* 9, no. 1 (2025): 18-32. <https://doi.org/10.26740/al-uqud.v9n1.p18-32>.
- Alam Choudhury, Masudul. "The 'Impossibility Theorems' of Islamic Economics." *International Journal of Islamic and Middle Eastern Finance and Management* 5, no. 3 (2012): 179–202. <https://doi.org/10.1108/17538391211255197>.
- Alim, Mohammad Nizarul. "Utilization and Accounting of Zakat for Productive Purposes in Indonesia: A Review." *Procedia - Social and Behavioral Sciences* 211 (2015): 232–36. <https://doi.org/10.1016/j.sbspro.2015.11.028>.
- Alim, Muhammad Nurul, Djaka Suryadi, and Farhan Kamiluloh. "Model of Sukuk Waqf with Wasiyyah Contract as a Cash Waqf Fundraising Strategy." *IQTISHODUNA: Jurnal Ekonomi Islam* 11, no. 1 (2022): 17. <https://doi.org/10.54471/iqtishoduna.v11i1.895>.
- Allen, Franklin, and Anthony M. Santomero. "The Theory of Financial Intermediation." *Journal of Banking & Finance* 21, nos. 11–12 (1997): 1461–85. [https://doi.org/10.1016/S0378-4266\(97\)00032-0](https://doi.org/10.1016/S0378-4266(97)00032-0).
- Aravik, Havis, Achmad Irwan Hamzani, and Nur Khasanah. "Basic Concepts of Sharia Finance and Practices in Sharia Banking in Indonesia." *Islamic Banking : Jurnal Pemikiran dan Pengembangan Perbankan Syariah* 9, no. 1 (2023): 17–34. <https://doi.org/10.36908/isbank.v9i1.842>.
- Arumsari, Vita, and Rikawati Rikawati. "Islamic Social Funds: Enabling the Unable to Be Able." *Journal of Applied Business Administration* 4, no. 1 (2020): 88–97. <https://doi.org/10.30871/jaba.v4i1.1902>.
- Ascarya, Ascarya, Ugi Suharto, and Jardine A. Husman. "Proposed Model of Integrated Islamic Commercial and Social Finance for Islamic Bank in Indonesia." *Eurasian Economic Review* 12, no. 1 (2022): 115–38. <https://doi.org/10.1007/s40822-022-00201-z>.
- Asdjazzi, Abdul Baasith. "Concept and Basis of Sharia Law for Distribution of Zakat in the Form of Microfinance with Qard Hasan Contract." In *Proceedings of the 6th Indonesian Conference of Zakat (ICONZ)*. April 2023. <https://doi.org/10.37706/iconz.2022.492>.
- Badan Wakaf Indonesia. *Cash Waqf Linked Sukuk*. n.d. <https://www.bwi.go.id/cash-waqf-linked-sukuk/>.
- Bruder, Ignas M. "From Mission Drift to Practice Drift: Theorizing Drift Processes in Social Enterprises and Beyond." *Organization Studies* 46, no. 3 (2025): 385–407. <https://doi.org/10.1177/01708406251314591>.

- Farhan, Muhammad, Achmad Soediro, Media Kusumawardani, Fardinant Adhitama, and Eogenie Lakilaki. "Corporate Social Responsibility in Islamic Banking: A Practical Evaluation." *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)* 7, no. 2 (2024).
- Fauzi, Achmad, and Hendri Tanjung. "Risk Management in Cash Waqf Linked Sukuk Based on the Waqf Core Principle: A Preliminary Study." *BWI Working Paper Series*, BWPS No. 7/PKTD/BWI/IX/2021. <https://www.bwi.go.id/wp-content/uploads/2021/09/20210930-07-BWI-Working-Paper-Series-September-2021.pdf>.
- Hamidi, M. Luthfi, Andrew Worthington, Tracey West, and Rifki Ismal. "The Prospects for Islamic Social Banking in Indonesia." *Journal of Islamic Monetary Economics and Finance* 5, no. 2 (2019). <https://doi.org/10.21098/jimf.v5i2.1062>.
- Harrieti, Nun, Isis Ikhwanasyah, and Azlin Alisa Ahmad. "The Role of Sharia Banking in Strengthening the Assets of Village-Owned Enterprises in Indonesia." *Cogent Social Sciences* 10, no. 1 (December 2024): 2350557. <https://doi.org/10.1080/23311886.2024.2350557>.
- Huda, Bakhrul. "Analisis Keabsahan Penyaluran Harta Zakat Dalam Bentuk Al-Qardh al-Hasan: Studi Atas Materi Ijtima' Ulama Komisi Fatwa MUI 2021." *Management of Zakat and Waqf Journal (MAZAWA)* 3, no. 2 (2022): 66–86. <https://doi.org/10.15642/mzw.2022.3.2.66-86>.
- Humaidi, Muchtim, Syamsuri Syamsuri, and Farah Khoirunnisa. "The Role of Cash Waqf Linked Sukuk Based on Mudarabah Contract (Trustee-Partnership) as MSME Capital Solution." *El Barka: Journal of Islamic Economics and Business* 6, no. 1 (2023): 108–31. <https://doi.org/10.21154/elbarka.v6i1.3550>.
- Imaniyati, Neni Sri, Arif Firmansyah, Indra Fajar Alamsyah, and Anita Kamilah. "The Function of Sharia Banks in Optimizing Waqf as the Integration of the Commercial Economy and Social Economy to Improve Public Welfare." *KnE Social Sciences*, ahead of print, August 15, 2024. <https://doi.org/10.18502/kss.v9i24.16848>.
- Ishandawi, and Djafril Khalil. "Ziswaf Fund Management Development Strategy in Islamic Banking." *In Proceedings of the Medan International Conference on Economics and Business* 1 (2023).
- Md Saad, Norma, Salina Kassim, and Zarinah Hamid. "Best Practices of Waqf: Experiences of Malaysia and Saudi Arabia." *Journal of Islamic Economics Lariba* 2, no. 2 (2016): 57–74. <https://doi.org/10.20885/jielariba.vol2.iss2.art5>.
- Mubarok, Jaih, Khotibul Umam, Destri Budi Nugraheni, Veri Antoni, Kesumawati Syafei, and Shandy Primandasetio. *Buku Ekonomi Syariah bagi Strata 1*. 1st ed. Bank Indonesia, 2021.

- Muhamad Afifullah and Irwan Triadi. "Peluang dan Tantangan Manfaat Cash Waqf Linked Deposit pada Sektor Hijau dalam Hukum Linkungan Indonesia." *Amandemen: Jurnal Ilmu Pertahanan, Politik dan Hukum Indonesia* 1, no. 2 (2024): 206–21. <https://doi.org/10.62383/amandemen.v1i2.159>.
- Nugroho, Lucky, Akhmad Amien Mastur, Harnovinsah Harnovinsah, and Widya Aryanti. "The Contribution of Islamic Bank in Poverty Alleviation." *Al-Ahkam* 30, no. 1 (2020): 19. <https://doi.org/10.21580/ahkam.2020.30.1.5387>.
- Otoritas Jasa Keuangan. *Statistik Perbankan Syariah - Januari 2025*. 2025.
- Purwanto, Hery. "Integrasi Prinsip ESG (Environmental, Social, Governance) dalam Perbankan Syariah." *Studia Economica: Jurnal Ekonomi Islam* 10, no. 2 (2024): 240–50. <https://jurnal.uinsu.ac.id/index.php/studiaeconomica/article/view/21738>.
- Purwanto, Purwanto, Fitri Nurba Sari, Mona Burasukma, and Siti Nursolihah. "The Role of Islamic Social Finance Through Ziswaf and BMT During the COVID-19 Pandemic." *MALLA: Journal of Islamic Banking and Finance* 5, no. 2 (2021): 81. <https://doi.org/10.21043/malia.v5i2.11911>.
- Putra, Adiyes, and Nurnasrina Nurnasrina. "Analisis Kelembagaan Pengelolaan Zakat dan Fungsi Sosial Perbankan Syariah." *Journal of Sharia Economics* 2, no. 2 (2020): 182–203. <https://doi.org/10.35896/jse.v2i2.140>.
- Rahman, Abdur, Mohammad Abu Hanife, Asma Hakimah Ab Halim, and Ruzian Markom. "The Challenges of Green Sukuk Policy Implementation for Achieving Sustainable Environment." *Malaysian Journal of Social Sciences and Humanities (MJSSH)* 7, no. 11 (2022): e001987. <https://doi.org/10.47405/mjssh.v7i11.1987>.
- Rahmani, Salma, and Yoyok Prasetyo. "Cash Waqf Linked Sukuk: Sharia Financial Innovation for Productive Waqf Management in Indonesia." *Syarah: Jurnal Hukum Islam dan Ekonomi* 13, no. 1 (2024): 63–80. <https://doi.org/10.47766/syarah.v13i1.3087>.
- Rahmaniati, Ni Putu Gita, and Erni Ekawati. "The Role of Indonesian Regulators on the Effectiveness of ESG Implementation in Improving Firms' Non-Financial Performance." *Cogent Business & Management* 11, no. 1 (2024): 2293302. <https://doi.org/10.1080/23311975.2023.2293302>.
- Rusanti, Ega, Sri Herianingrum, Syarifuddin Syarifuddin, and Andi Syathir Sofyan. "ZAKAT EMPOWERMENT MODEL TROUGH ISLAMIC CORPORATE SOCIAL RESPONSIBILITY OF BANK SYARIAH INDONESIA." *Al-Infaq: Jurnal Ekonomi Islam* 14, no. 1 (June 2023): 104. <https://doi.org/10.32507/ajei.v14i1.1866>.
- Salsabila, Syifa, Nun Harrieti, and Helza Nova Lita. "Penghimpunan Wakaf Uang pada Perbankan Syariah berdasarkan Hukum Positif Indonesia."

- Iqtisad: Reconstruction of Justice and Welfare for Indonesia* 9, no. 1 (2022): 19. <https://doi.org/10.31942/iq.v9i1.6428>.
- Saputri, Desta Asih Ivan. "Dana Infaq, Shodaqoh, dan Zakat untuk Kesejahteraan Masyarakat." *Jurnal Hamfara* 1, no. 2 (2023).
- Sulistiani, Siska Lis, Muhammad Yunus, and Eva Misfah Bayuni. "Micro Waqf Bank: New Sharia Financial Instruments in Indonesia." Paper presented at 2nd Social and Humaniora Research Symposium (SoRes 2019), Bandung, Indonesia. *Proceedings of the 2nd Social and Humaniora Research Symposium (SoRes 2019)*, Atlantis Press, 2020. <https://doi.org/10.2991/assehr.k.200225.001>.
- Tohirin, Achmad, and Fauzan Husaini. "Does Islamic Banking Financing Help the Poor?" In the *Proceedings of the UII-ICABE* 1, no. 1 (2020): 41–50.
- Tumanggor, Dian Valentina. "Integrated Maqasid Al-Shariah in Cash Waqf Linked Deposit: A Study Approach to Sustainable." *Jurnal Penelitian Ilmu Ekonomi dan Keuangan Syariah* 2, no. 4 (November 2024): 91–105. <https://doi.org/10.59059/jupiekes.v2i4.1724>.
- Ubabuddin, and Umi Nasikhah. "Peran Zakat, Infaq, dan Shadaqah dalam Kehidupan." *Jurnal Ilmiah Al-Muttaqin: Jurnal Kajian Dakwah dan Sosial Keagamaan* 6, no. 1 (2021): 60-76. <https://doi.org/10.37567/al-muttaqin.v6i1.368>.
- UNDP. *Unlocking The Potential of Zakat and Other Forms of Islamic Finance to Achieve the SDGs in Indonesia*. UNDP and Baznas, 2018. <https://www.undp.org/sites/g/files/zskgke326/files/migration/id/INS-Unlocking-the-Potential-of-Zakat-and-Other-Forms-of-Islamic-Finance-to-Achieve-SDGs-in-Indonesia.pdf>.
- Wardiman, Jerry, M. Topit Hidayat, Zul Afdal, and Nofriansyah. "Integration of ESG (Environmental, Social, Governance) Criteria in Islamic Finance: A Systematic Review." In *Proceedings of the 2nd International Collaboration Conference on Islamic Economics (ICCEIS)*, *Laa Maisyir: Jurnal Ekonomi Islam*, November 2024. 344-63. <https://doi.org/10.24252/lamaisyir.v1i1.53133>.
- Wibowo, Rizky, Burhannudin Harahap, and Hari Purwadi. "Management of Zakat Funds as a Source of Qardh Financing in Baitul Maal Wat Tamwil (BMT) in Indonesia Zakat Regulations." *International Journal of Law* 7, no. 2 (2021): 98–103. <https://www.lawjournals.org/assets/archives/2021/vol7issue2/7-2-13-535.pdf>.
- Widiyono, Try. "The Role of Sharia Banking Institution in Zakat Collection as a Source of Economic Development." In *Proceedings of the International Conference on Community Development (ICCD 2020)*, Atlantis Press, 2020. <https://doi.org/10.2991/assehr.k.201017.165>.
- Yasin, Rozaq Muhammad. "CASH WAQF LINKED SUKUK: ISSUES, CHALLENGES AND FUTURE DIRECTION IN INDONESIA."

- Jurnal Ekonomi Dan Bisnis Islam (Journal of Islamic Economics and Business)* 7, no. 1 (June 2021): 100. <https://doi.org/10.20473/jebis.v7i1.24818>.
- Yusuf, Hardianti, and Muspita Sari. "Cash Waqf Practices in Malaysia and Indonesia." *Jurnal Al-Dustur* 5, no. 2 (2022): 212–27. <https://doi.org/10.30863/aldustur.v5i2.2960>.
- Zulfa, Ainiyatuz, Ahmad Fauzan Mubarak, and Zahrotun Nafisah. "Analisis Cash Waqf Linked Deposit (CWLD) Perspektif Empat Mazhab." *JES (Jurnal Ekonomi Syariah)* 9, no. 2 (2024): 153–65. <https://doi.org/10.30736/jes.v9i2.895>.