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THE IMPORTANCE OF ISLAMIC SOCIAL – FINANCE - INTEGRATION IN LOWERING POVERTY AND ECONOMIC INEQUALITYM

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ABSTRAK

The level of poverty in the world continues to increase. Countries affected by the COVID-19 epidemic are still being swept by the vortex. Indonesia's annual efforts to reduce this number.Poverty loses its meaning, and even advancement and success vanish out of thin air. Of course, poverty and inequality are worldwide issues, but the fact that they are getting worse poses a serious challenge. Lack of money is a sign of poverty, which calls for measures to raise one's level of living. By aiding society or individuals, Islamic Social Finance has significantly contributed to lowering levels of poverty and inequality. Consequently, an exploratory literature-study-methodology is used in this work. The function of Islamic Social Finance as a substitute strategy for lowering inequality and poverty. Additionally, this is anticipated to support the nation's economic growth.

Keywords: Islamic social finance ; poverty ; Islamic economic inequality

A. INTRODUCTION

Poverty and inequality continue to be global issues that affect many nations' economies. Und this state would undoubtedly worsen in a pandemic age such as the present one. The primary barrier to economic progress is poverty, and one of its causes is the dearth of chances for economic engagement, which raises the amount of poverty in households and among individuals. Inequality has grown as a result of this lack of opportunity. Experts have investigated the necessity for proper techniques via programs for poverty reduction, in order to tackle the issues of poverty and inequality and enable the Impoverished to profit from them (Dikuraisyin, 2020). According to a 2017 World Bank estimate, 1.4 billion people worldwide live on less than $1 a day. From a more general perspective, the MPL (Multidimensional Poverty List) comprises approximately 1,75 billion individuals across 104 UNDP-administered countries. Diese means that one-third of the population lives in multidimensional poverty, which is characterized by inadequate access to health care, education, and living standards. Nutrition, education, security, health, dignity, and empowerment deficits are all parts of povertyfont

Twenty million more people are ensnared in poverty with every 1% drop in developing nations' level of development, according to research by the World Bank (WB). Thus, a slowdown in economic progress may have a detrimental effect on the rate of poverty (Badan Pusat Statistik Indonesia, 2023). Institutions such as the United Nations (BDUN), Multilateral Development Banks (MDB), and bilateral donors have invested billions of dollars over the past 70 years to support economic growth in poor nations. Over USD 500 billion has been disbursed by the World Bank (WB) to fund initiatives in poor nations. There is little doubt that this battle has produced significant outcomes in terms of increasing access to health care, education, infrastructure growth, capacity building, and better access to power, water, and sanitary facilities.

Nonetheless, it is ironic for Indonesia, the most economically powerful nation in Southeast Asia. According to World Bank data, Indonesia will be the country with the highest gross domestic product (GDP) in ASEAN in 2022, referring to data from the International Monetary Fund or IMF with a reach of US$1.32 trillion. Followed by Thailand, which reached US$536.16 billion. Singapore with a GDP of US$ 466.79 billion, Malaysia which produces a GDP of US$ 407.92 billion. Vietnam with a value of US$406.45 billion, the Philippines with a value of US$404.26 billion, Myanmar with a value of US$56.76 billion, Cambodia with a value of US$28.54 billion, Brunei Darussalam with a value of US$16.64 billion and Laos with a value of US$15 billion. .53 billion (Kusnandar, 2022). Even with a stronger economic situation, the percentage of poor people in March 2023 was 9.36 percent, decreased by 0.21 percentage points compared to September 2022 and decreased by 0.18 percentage points compared to March 2022. The number of poor people in March 2023 was 25.90 million people, decreasing 0.46 million people compared to September 2022 and decreasing 0.26 million people compared to March 2022.

Table 1.Poor Population, 2019–2023

Tahun	Angka Kemiskinan (dalam jutaan)	Angka Kemiskinan (Prosentase)
2019	24,78	9,22
2020	27,55	10,19
2021	26,50	9,71
2022	26,36	9,57
2023	25,90	9,36

Source: www.bps.go.id (data processed, 2023

Nonetheless, a sizable portion of the population still lives in poverty. Thus, if you contrast it with the „Riding the Waves: The East Asian Miracle in the 21st Century" World Bank Study. Whereas the Impoverished from different Nations are divided in categories in the World Bank Report. Each country is divided into five categories: middle class, secure, vulnerable, severe poverty, and moderate poverty. The impact is quite worrying for Indonesia because Indonesia's extreme poverty rate of 9.5% is only slightly better than Cambodia when compared to other ASEAN countries. However, Thailand is included in the poor group at only 6.6%. Malaysia 6.2 and Vietnam 6.1%, have succeeded in

alleviating severe poverty. Furthermore, in line with the situation of extreme poverty, it is different from other ASEAN countries (Yusuf, 2018).

With the aforementioned realities in mind, the welfare of the populace attained by economic progress will seem hollow. Poverty, social and economic injustice, wealth and income disparity, economic instability, and asset inflation are all maladies of economic progress that are at odds with the Islamic value system, according to Nadal El-Gattis (El-Galfy & Khiyar, 2012).

As a result, this paper outlines the tools that Islamic Social Finance offers to lessen inequality and poverty. Utilizing the ISF formula, the strategy incorporates Zakat, Waqf, and Alms. It has the power to lift the mud of poverty and lessen inequity among the least fortunate.

B. LITERATURE REVIEW

Numerous earlier research works have addressed Islamic Social Finance. Overall, the findings of several research recognize the significant significance that Islamic Social Finance plays. According to Iskandar et al.'s research, „The Role of Islamic Economics and Finance". During the Covid-19 Pandemic, the Islamic Social-Financial-System has evolved into a tool that can lessen the burden on society, even in the midst of disasters or pandemics like the one we are currently experiencing. The researchers took pictures of the pandemic conditions and what is happening with the current social-financial-system. The findings of this study include the following: Muslims may play the greatest role in Sharia Economics and Finance through a variety of philanthropic forms or models, particularly during the (Iskandar et al., 2020).

In addition, Ahmadan’s research from 2020 included an assessment of Islamic social finance. „Islamic Social Finance in Facing the Covid-19 Outbreak" is the title of the study. He claims that, by enhancing the role of the ISF during this pandemic, the impacts of the outbreak – which paralyze the economic foundations – are felt most keenly by the lower classes, on whose behalf this organization has the most influence. Ahmadan claims that under these circumstances, the ZIS Fund is authorized to supply necessities for the community, including hygienic practices, basic food, and personal protective equipment. Waqf assets or cash can be used to support the provision of clean water sources and hygienic amenities for the community. Waqf monies may also be able to assist in the provision of medical equipment (Ahmadan, 2020).

Researchers Suzuki and his colleagues expressed this in their research titled „Islamic Microfinance and Poverty Alleviation Program: Preleminary Research Findings From Indonesia", arguing that the poor essentially have sufficient capacity to escape the quagmire of poverty. Poverty is viewed as a complex universe by placing ethics as a basis for policy and framed as a vital issue that must be handled seriously. Programs for community development are the means of eradicating them. Furthermore, Islamic Microfinance, particularly in places where Muslims predominate, can be a significant tool in the battle against poverty (Suzuki et al., 2016). As a result, it is still very fascinating to

research Islamic Social Finance from this perspective, so that social funds are not just.

C. METHOD

The present study employs a qualitative descriptive methodology. A more complete picture may be acquired, if the subject of the study – Islamic Social Finance – is presented in a methodical and correct manner. Because the data sources for this study include written works of literature, including books, papers, articles, and so on, a book survey approach was employed. Library research is a term frequently used to describe a study that makes use of this data-collecting method (Sugiyono, 2018). The type of data used in this study is qualitative. A descriptive approach was used to examine and characterize the data collected..

D. RESULT & DISCUSSION

If social funds are used wisely, Indonesia, which has the world's biggest Muslim population, is undoubtedly highly relevant. Using Islamic Finance – that is, zakat, waqf, and sadaqah – as a vehicle for social change. These are all types of philanthropy, but they have distinct definitions and forms. Zakat is an obligatory income tax, but Waqf is the term for charitable contributions made through a charitable waqf trust. Aside from that, sadaqah is a more altruistic and voluntary practice that entails providing for the poor without anticipating anything in return. Though mostly in informal institutions, these tools are utilized to sustain social welfare benefits for the destitute and underprivileged, build infrastructure, and offer health and education services (Jouti, 2019).

This research demonstrates how to maximize the advantages of sharia social funds to enhance people's quality of life. Sharia-social-funds may be utilized to support these funds, which can then be used to help the Impoverished learn business skills in addition to receiving financial assistance or food. Makes it possible for underprivileged populations to make money by combining money with economic activity.

According to Islamic beliefs, it is mandatory for every Muslim to pay zakat, since it is believed to purify the heart and spirit. Giving Zakat also fulfills duties and promotes many forms of kindness.

When zakat is properly collected, handled, and dispersed, it has a significant potential to lower poverty rates. Zakat encourages people to spend their money in a way that is profitable (Widiastuti & Kosasih, 2021). The statistics on ZIS collection from 2010 to 2019 are shown below.

Table 2. BAZNAs Fund Collection

Tahun	Penghimpunan
2019	296.234.308.349

2020	385.126.583.224
2021	513.200.000.000
2022	26.000000.000.000
2023	33.000.000.000.000

According to Table 2. It is evident that BAZNAS is continuing to raise more money each year. This demonstrates that Zakat Collection is the best way to lower poverty and promote faster economic growth in Indonesia. Poverty levels are influenced by economic growth. Economic development initiatives demonstrate the strength of the Indonesian economy. Welfare societies can emerge from higher economic growth, which raises societal income. Therefore, the rate at which impoverished families are disintegrating will be impacted by rising economic development and income dispersion. Other Variables, such as Unemployment, can also have an impact on the amount of poverty. Reducing unemployment is crucial and a top goal for the developing world's.

According to Chapra (Islamic Economic Thought and the New Global Economy, 2001), if the aim of Islamic Finance is to achieve development for society as a whole, then the focus needs to extend beyond economic factors. This is because development is associated with social goals, such as reducing poverty, enhancing quality of life, and creating more opportunities for improved health and education. Law Number 41 of 2004 concerning waqf and Government Regulation Number 42 of 2006 concerning the Implementation of a New Paradigm Concerning Waqf have been issued, supporting the waqf system in Indonesia; The emphasis is on empowering waqf to provide social benefits in a productive manner (welfare for the community). According to Obaidullah and Khan's research findings, impoverished individuals (Ahmed, 2012).

Islamic distributive methods including Zakat, Sadaqah, and Waqf, as well as social financing mechanisms, can help to lessen poverty and inequality. Poor individuals in society are the target. The Islamic financial system, according to Muazir and Musari (2016), is a novel strategy whose duty is to carry out distributive justice through the allocation of wealth. This will lessen the issue of inequality in society and help to alleviate poverty (Zuchroh, 2021).

Ackerman and Frank (1998) argue that wealth circulation is the key to overcoming welfare disparity. Furthermore, the primary goal of Islamic Finance is to establish a decent economic system that will lessen poverty, inequality, and unemployment while also having long-term benefits on wealth (Ackerman, 2000).

Furthermore, according to Musari (2016), equal opportunity guarantees and an education system can help reduce distributive inequality. Poor communities can get microfinance through zakat, waqf, and alms. Hassan (2010) highlighted that zakat and waqf, two Islamic financial tools, can help Islamic financial institutions address issues of poverty and inequality in society. If Islamic finance is properly structured, it may produce greater results, since it encourages equality, social justice, and forbids interest (Musari, 2016).

Therefore, the contribution of Islamic Social Finance, or Islamic Social Finance, will be long-lasting, when the money raised is used for more than just

short-term relief. Financial firms may take the lead by using sharia methods to extend loans. In order to fulfill the aspirations of those who wish to engage in business, but are limited by funds and encounter obstacles when submitting bank applications due to collateral. Apart from that, the agricultural business sector deserves financing attention just as much as any other, since it may employ the workforce impacted by Layoffs or Job Loss. Including farmers is one way, that governments of all stripes can support them. In addition to raising production, this will guarantee that agricultural goods reach markets at.

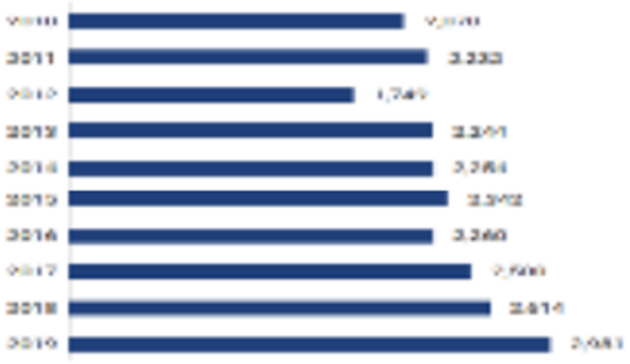
The Role of Islamic Social Finance Globally

From the foregoing explanation, it appears that there is reason to be optimistic about Islamic Social Finance. Several Muslim nations have contributed to Islamic societal strengths, even while discussing the global scene. Before this power's treatment of Islamic social groups becomes a worldwide problem. The World Bank also knows this, as shown at the Meeting Forum between the World Bank and the Islamic Development Bank held in Kuala Lumpur in 2022. The two-day conference discussed Islamic Social Finance which was said to be consistent. with the Sustainable Development Goals (SDGs) of the World Bank program, which aim to end hunger and poverty and promote women's equality (asean-international-conference, 2022).

The Islamic Development Bank is, in fact, a global provider of sharia money, specifically for the nations that make up its membership. Apart from that, though, this institution's mission also involves a great deal of concern for social, humanitarian, and economic concerns. If you go all the way back, the Organization of Islamic Cooperation (OIC) established this organization with the intention of giving its members access to sharia financing. First discussed during the Second Conference of Finance Ministers of Islamic Countries in Jeddah, 1974, certain goals and pledges were made (Warde, 2014).

In the years that followed, the Islamic Development Bank's growth was more varied, and it provided support for public sector initiatives that improved welfare and reduced poverty more broadly. The IDB's help through Islamic Social Finance is shown in the following table. addressing the fundamentals via initiatives to reduce poverty across the world. The average amount of funding disbursed increases yearly.

Table 3. Islamic Development Bank Funding from 2010-2019 (in USD Billion)



Source: Development Effectiveness Report, 2019

The aforementioned table suggests that throughout the previous ten years, financing for humanitarian reasons has been steadily increasing from the Islamic Bank Development. If USD 2,078 billion was disbursed in 2010, then USD 2342 billion, or 15% more, was disbursed in the next five years. This Number keeps creeping upward. In 2017, 2018, and 2019, the increases were very large, accordingly. USD 2,500 billion, USD 2,614 billion, and USD 2,981 billion, in that order (Chain & For, 2020).

The World Bank claims that there is a significant amount of money available in Islamic Social Finance for humanitarian initiatives. The programs that were financed, were also included in the Report from the prior year. In 2018, 272 Grant Operations were finished and 71 Projects were financed in total. The IDB has contributed almost USD 6,5 billion, across many nations, to these initiatives. 31% of approvals came from the energy sector, with the remaining sectors being transportation (19%), health and agriculture (13% each), and water, sanitation, and urban services (9% each) (IsDB, 2018).

The 2020 Islamic Social Finance Report (ISFR), which contains statistics on zakat, waqf, and Islamic Microfinance, demonstrates the enormous potential of this mainly unexplored industry. It is made clear that there is a large potential for Zakat worldwide – more than USD 600 billion may be collected annually. In reality, the value of zakat will continue to climb internationally, according to a research issued by the Islamic Research and Training Institute (IRTI). Since their data indicates that the predominant population of a number of nations, including Morocco, Tunisia, Algeria, and Libya, is Muslim. The amount of money collected through Zakat is rising annually. Based on their respective GDPs, a number of nations looked at the proportion of zakat revenues. As in Morocco (ISDB, 2020).

The strength of Islamic Social Finance appears to be immense, as evidenced by its annual appreciation. Therefore, it is certain that the ability of Islamic social finance will be a hope for reducing poverty and fostering national development. In fact, a number of studies seem to cast doubt on the contribution of Islamic organizations to humanitarian efforts. According to Pericoli (2020), one of them, the priority scale is not the primary component of the help given, as donor institutions – in this example, the Islamic Development Bank – still pick which nations to assist (Pericoli, 2020). Alternatively, Hernandez (2017) uses „Religious Politics“ to color the borrower’s motivation. It

was discovered that this study was not based on Muslims or non-Muslims, but rather that judgments on grants and assistance from the Islamic Development Bank (of which Saudi Arabia was the primary donor) were influenced by Disperities between Sunni and Shia sects (Hernandez & Chaitanya, 2016). This Study, however, is predicated on the idea that Islamic Social Finance is highly effective in solving humanitarian issues.

E. CONCLUSION

The attitude of generosity in Islam has a long history of success, as demonstrated by Caliph Umar Abdul Aziz's recognition of the enormous benefits generated by Islamic social finance. This Promise may now be realized, as evidenced by BAZNAS' revenue statistics on Islamic Social Finance. The revenue received from shadaqah, infaq, and zakat keeps rising. There is a Distinction, nevertheless, between Distribution for Production of more useful items and Distribution for consumption, where social finance may be quite important. This Study's primary contribution to the fight against poverty and inequality is still the Islamic viewpoint. In summary, the idea of Islamic Social Finance is expanding and has great potential to be a tool for lowering inequality and poverty. According to earlier research, there are.

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