


The Role of Islamic Banking in Promoting Sustainable Development: A Case Study of ZISWAF Mechanism in Southeast Asia

Dewi Sundari Tanjung^{1*}
Universitas Al-Washliyah Medan
Jl. Sisingamangaraja, Harjosari I, Medan Amplas, Medan City, North Sumatra
dewisundari437@gmail.com

Dini Vientinay²
Universitas Islam Negeri Sumatera Utara.
Jl. William Iskandar Ps. V, Medan Estate, Kec. Percut Sei Tuan, Kabupaten Deli Serdang, Sumatera Utara
dini1100000167@uinsu.ac.id

Riny Viri Insy Sinaga³
Universitas Al-Washliyah Medan
Jl. Sisingamangaraja, Harjosari I, Medan Amplas, Medan City, North Sumatra,
riny30vinsi@gmail.com

<p>Accept: 20/09/2024</p> <p>Revised 25/09/2024</p> <p>Accepted: 15/10/2024</p> <p>Publishing: 21/10/2024</p> <p><i>Korespondensi*</i></p>  <p>This work is licensed under the Creative Commons Attribution 4.0 International License.</p>	<p>Abstrak - Islamic banking in encouraging sustainable development through Islamic financial instruments, namely ZISWAF in the Southeast Asia region. This study uses a qualitative method by using literature studies as references and obtaining sources through journals, books, websites, and other supporting sources. The results of the study state that Islamic Banking plays an important role in encouraging sustainable development in Southeast Asia through the ZISWAF mechanism (Zakat, Infak, Sedekah, and Wakaf). The implementation of which must be based on sharia principles such as the prohibition of usury and emphasizing social justice makes Islamic banking in line with the achievement of the Sustainable Development Goals (SDGs). Although it has an important role, there are challenges both from society and the government, for this reason coordination is needed between the two and maintaining relations with countries in the Southeast Asia region in order to find a middle ground.</p> <p>Keywords: Islamic Banking, Sustainable Development, ZISWAF</p>
--	--

Introduction

Sustainable development is one of the main focuses for the whole world whose impact greatly influences the development of a country. Sustainable Development Goals (SDGs) is one of the United Nations programs that has been agreed upon and is a driver of sustainable economic development. SDGs are implemented to achieve global welfare that must be achieved by every country including Indonesia. With the intention of emphasizing the importance of balance between economic growth, social welfare, and environmental preservation, SDGs can create a sustainable life for present and future generations. In the midst of efforts to achieve these goals, Islamic banking is juxtaposed in encouraging sustainable development with the underlying sharia principles. Islamic banking offers a different financial approach from conventional banking. One of the main instruments in the Islamic banking system that has great potential to support sustainable development is the ZISWAF mechanism (Zakat, Infak, Sedekah, Wakaf).

The ZISWAF mechanism functions as a wealth redistribution and social financing tool that can play a strategic role in reducing economic disparities and promoting community welfare. ZISWAF has a strategic role in encouraging sustainable development by financing infrastructure projects. In addition, productive management of zakat funds also contributes significantly to improving community welfare, especially for underprivileged groups (Fitri & Nasution, 2023) . In Southeast Asia, there are several countries with a Muslim majority population such as Indonesia and Malaysia. With a Muslim majority population, ZISWAF is an important instrument in supporting the social and economic development agenda. Indonesia and Malaysia have implemented innovative policies to optimize the role of ZISWAF in financing sustainable social, economic and environmental projects.

Therefore, this article will analyze the role of Islamic banking through the ZISWAF mechanism in promoting sustainable development in Southeast Asia. By reviewing case studies of ZISWAF implementation in several countries in the region, it is hoped that this article can provide insight into how Islamic financial instruments can contribute to achieving sustainable development goals.

Literature Review

In the study, there are several articles that are references related to the role of Islamic banking in promoting sustainable development, after being reviewed there are two literature reviews related to the discussion of the study. First, in the article entitled "ZISWAF's Contribution to Poverty Alleviation in Sustainable Development" by Haliza, SN, et al. The article aims to find out whether ZISWAF can contribute to promoting sustainable development in the context of poverty alleviation? By obtaining data through literature review, the research found that ZISWAF has an important role in inclusive economic development in Indonesia which can strengthen the micro economy. Second, the article entitled "Zakat as an Inclusive Sharia Financial Instrument in Realizing Sustainable Development Goals" by Rokhlinasari, S., et al. (2023). The conclusion is obtained Through independence, education, religious, health, and social programs, Baznas has shown its commitment to implementing the SDGs. These programs are in line with the principles of Maqashid Syariah, which aim to realize goodness for all humanity.

Methodology

The method used in this article is a descriptive qualitative method. This method contains an explanation of a phenomenon based on related sources. This article obtains data through literature reviews through books, journals, websites, and other supporting sources. Which is expected to produce conclusions about the role of Islamic banking in encouraging sustainable development, especially in Indonesia and Malaysia, which are the largest Muslim countries in Southeast Asia.

Results and Discussion

Islamic banking has a significant role in promoting sustainable development because it operates based on sharia principles that emphasize ethics, social justice, and economic well-being. One of the main characteristics of Islamic banking is the prohibition of riba (interest) and unfair practices, and a commitment to supporting activities that are socially and economically beneficial. In the context of sustainable development, Islamic banking provides a financial platform that can support investment in sectors that support the achievement of the Sustainable Development Goals (SDGs), such as poverty alleviation, education, health, and environmental sustainability.

The ZISWAF (Zakat, Infak, Sedekah, and Wakaf) mechanism is one of the main instruments in Islamic banking that has great potential to support sustainable development. ZISWAF enables the redistribution of wealth from the wealthy to those in need, with the aim of improving social welfare, reducing inequality, and encouraging the development of social infrastructure such as education, health, and sustainable micro-economic projects. In Southeast Asia, Islamic banking has shown an important role in mobilizing ZISWAF funds for social and economic development, especially in countries such as Indonesia and Malaysia.

As an Instrument of Sustainable Development, ZISWAF has a mechanism for each of its products. First, Zakat as a religious obligation for Muslims, is a very significant source of funds in supporting sustainable development in many Muslim countries, including in Southeast Asia. The implementation of productive zakat has proven effective in supporting the achievement of the Sustainable Development Goals (SDGs). Funds obtained from productive zakat have been allocated to various programs that are in line with the SDGs (Fitri & Nasution, 2023) . Zakat is collected from eligible individuals or entities and then distributed to the less fortunate. In the context of sustainable development, zakat has the potential to contribute to several SDGs goals, such as poverty alleviation (SDG 1) and reducing inequality (SDG 10). In Indonesia, the National Zakat Agency (BAZNAS) has played an active role in collecting zakat and allocating it to various social programs, such as education, health, and economic empowerment. For example, zakat funds are used to fund scholarship programs for students from underprivileged families and to support health initiatives for the poor. With a more structured and transparent mechanism, zakat can become a stable source of financing to support sustainable development in developing countries.

Second, Infaq and sedekah are voluntary contributions from individuals or entities who are able, without any specific amount or obligation such as zakat. Infaq and sedekah can fund various social projects, including the construction of social infrastructure such as orphanages, hospitals, and educational facilities, all of which play a role in achieving sustainable development. In Malaysia, Islamic banking institutions and charitable organizations have managed infaq and sadaqah funds to support humanitarian and social development programs. One successful example is the Tabung Sedekah initiative, which is managed by Islamic banks to support rural poverty alleviation programs. The funds are also used to support small and medium

enterprises (SMEs), which can help boost local economic growth. Third, Waqf is one of the most unique and important Islamic financial instruments in supporting sustainable development. Waqf is an asset donated for the public interest with a long-term goal. Unlike zakat or sadaqah, waqf assets cannot be sold, inherited, or transferred; only the proceeds or benefits of the asset can be used. Waqf assets are often land, buildings, or other properties that can be managed to support social projects such as schools, hospitals, or community centers.

In Southeast Asia, waqf has great potential to support sustainable infrastructure projects. In Indonesia, the concept of Productive Waqf has grown rapidly, where waqf land is used to build hospitals, schools, and markets that provide direct benefits to the community. Malaysia has also used waqf to support green infrastructure projects, such as the construction of environmentally friendly health facilities and financing renewable energy projects. Although ZISWAF has great potential, there are challenges in terms of governance, accountability, and public understanding. In some countries, regulations that support ZISWAF management are still limited, making it difficult to optimize the potential of this instrument. On the other hand, opportunities continue to grow with the support of digital technology that can facilitate the collection and distribution of ZISWAF funds more efficiently. Thus, the ZISWAF mechanism in Islamic banking in Southeast Asia has great potential to support sustainable development. With good management and proper regulatory support, ZISWAF can be an important instrument in mobilizing resources for projects with social and environmental impacts, and contributing to the achievement of SDGs in the region.

Conclusion

Islamic banking plays an important role in driving sustainable development in Southeast Asia, especially through the ZISWAF (Zakat, Infak, Sedekah, and Wakaf) mechanism. Islamic banking in its implementation must be based on sharia principles such as the prohibition of usury and emphasizing social justice, making Islamic banking in line with the achievement of the Sustainable Development Goals (SDGs). Zakat, infak, sedekah, and waqf are financial instruments that support social and economic projects, such as poverty alleviation, education, health, and environmental sustainability. The challenges are mainly related to governance and regulation, but technological developments can facilitate more efficient

management of ZISWAF funds , making it an important instrument in sustainable development in Southeast Asia, especially Indonesia.

Reference

Islamic Social Finance and The SDGs: Zakat and Waqf's Role in Poverty Alleviation, (2020).

Dewi, S., Yaswirman, Helmi, & Henmaidi. (2023). The Role of Islamic Banking in Enhancing Sustainable Development in Indonesia. *Journal of Taxation & Business* , 4 (2).

Fitri, M., & Nasution, YSJ (2023). Utilization of Productive Zakat in Sustainable Development Goals (SDGs) in Indonesia. *Scientific Journal of Islamic Economics Students* , 5 (2).

Haliza, SN, Yossuaji, A., Amelia, BH, Hafizhya, SN, & Wafi, MR (nd). *Contribution of ZISWAF to Poverty Alleviation in Sustainable Development* .

Islamic Finance and Sustainable Development. (2020). *Journal of Islamic Finance* .

Rokhlinasari, S., & Widagdo, R. (2023). Zakat as an Inclusive Sharia Financial Instrument in Realizing Sustainable Development Goals. *Journal of Economics and Business UBS* , 12 (6).

Waqf and Economic Development in Malaysia. (2019). *Internasional Journal of Islamic Studies*.