

THE ROLE OF THE STATE IN ACHIEVING ECONOMIC  
PROSPERITY THROUGH STRENGTHENING  
THE SHARIA ECONOMY IN INDONESIA

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**ABSTRAK**

Penelitian ini bertujuan menganalisis peran negara dalam mewujudkan kesejahteraan ekonomi melalui penguatan ekonomi syariah di Indonesia. Penguatan tersebut menjadi urgensi struktural di tengah tantangan ketimpangan pendapatan, kemiskinan, keterbatasan fiskal negara berkembang, dan kebutuhan akan sistem ekonomi yang lebih berkeadilan dan berkelanjutan. Metode penelitian menggunakan pendekatan kualitatif deskriptif-analitis dengan studi pustaka yang mengintegrasikan regulasi, data empiris, serta literatur akademik terkait ekonomi syariah, filsafat keadilan sosial (Al-Fārābī, Ibn Khaldun, Rawls), dan *maqāṣid al-sharī'ah*. Hasil penelitian menunjukkan bahwa negara memiliki peran strategis sebagai regulator, fasilitator, katalisator, dan akselerator dalam membangun ekosistem syariah. Kinerja ini didukung oleh pertumbuhan aset perbankan syariah yang mencapai 9,88% pada 2024 dan pembiayaan yang tumbuh 9,92% secara tahunan (Year-on-Year/YoY). Namun, penelitian ini mengidentifikasi dua tantangan kritis: (1) Optimalisasi wakaf produktif masih terhambat oleh kurangnya integrasi dengan kerangka insentif fiskal, meskipun wakaf berperan sebagai pelengkap mekanisme pajak dalam mengurangi ketimpangan; dan (2) Inkonsistensi alokasi dana *Green Sukuk* yang hampir nihil pada sektor energi terbarukan, melemahkan klaim negara sebagai katalisator transisi energi dan pelanggaran terhadap prinsip *Hifz al-Bī'ah*. Analisis filosofis menegaskan bahwa peran negara selaras dengan *Difference Principle* John Rawls dan tujuan *maqāṣid al-sharī'ah* dalam menjaga harta dan jiwa, yang secara operasional diikat oleh prinsip *Good Governance Business Sharia* (GGBS). Penelitian ini menyimpulkan bahwa sinergi kebijakan negara harus lebih strategis, khususnya dalam harmonisasi fiskal wakaf dan reorientasi alokasi *green finance*, untuk mewujudkan kesejahteraan ekonomi yang adil, inklusif, dan berkelanjutan.

**Kata Kunci:** Peran Negara; Ekonomi Syariah; Kesejahteraan; Keadilan Sosial; *Maqāṣid Al-Sharī'ah*; *Green Sukuk*; Wakaf Produktif.

**ABSTRACT**

*This study aims to analyse the role of the state in achieving economic welfare through the strengthening of the Islamic economy in Indonesia. This strengthening is a structural urgency amid challenges of income inequality, poverty, fiscal constraints in developing countries, and the need for a more equitable and sustainable economic system. The*

*research method uses a descriptive-analytical qualitative approach with a literature study that integrates regulations, empirical data, and academic literature related to Islamic economics, social justice philosophy (Al-Fārābī, Ibn Khaldun, Rawls), and maqāṣid al-sharī'ah. The results of the study show that the state has a strategic role as a regulator, facilitator, catalyst, and accelerator in building a sharia ecosystem. This performance is supported by the growth of sharia banking assets, which reached 9.88% in 2024, and financing, which grew 9.92% year-on-year (YoY). However, this study identifies two critical challenges: (1) The optimisation of productive waqf is still hampered by a lack of integration with the fiscal incentive framework, even though waqf plays a complementary role to the tax mechanism in reducing inequality; and (2) The inconsistency of Green Sukuk fund allocation, which is almost non-existent in the renewable energy sector, weakens the state's claim as a catalyst for energy transition and violates the principle of Ḥifẓ al-Bī'ah. Philosophical analysis confirms that the role of the state is in line with John Rawls' Difference Principle and the objectives of maqāṣid al-sharī'ah in protecting property and life, which are operationally bound by the principles of Good Governance Business Sharia (GGBS). This study concludes that the synergy of state policies must be more strategic, particularly in the fiscal harmonisation of waqf and the reorientation of green finance allocation, to achieve fair, inclusive, and sustainable economic welfare.*

**Keywords:** Role Of The State; Sharia Economy; Welfare; Social Justice; Maqāṣid Al-Sharī'Ah; Green Sukuk; Productive Waqf.

## A. INTRODUCTION

The urgency of the state's role in sharia economic development in Indonesia is growing stronger in line with the increasing need for a more stable, inclusive, and equitable economic system (Djati & Rosadi, 2025). As the country with the largest Muslim population in the world, Indonesia has great potential to develop the Islamic economy as a national economic architecture that supports the welfare of society (Dahlan, 2021). However, this potential is overshadowed by pressing structural challenges. The issue of distributional inequality remains a major obstacle to welfare, as evidenced by Indonesia's Gini ratio of 0.375 as of March 2025, with significant disparities between urban (0.395) and rural (0.299) areas (Isro, 2025). This disparity highlights the limitations of conventional economic approaches in ensuring equitable economic opportunities (Ferreira et al., 2022). In addition, the fiscal constraints faced by developing countries, with the average debt burden in emerging markets reaching 57% of GDP (Gross Domestic Product) in 2023, further narrow the policy space for governments to finance social welfare and public

protection programmes in the conventional manner (Isro, 2025; Pearlman, 2023).

These structural conditions implicitly justify the urgent need for alternative value-based funding mechanisms, regardless of conventional fiscal pressures (Ostry et al., 2014). The Islamic economy offers a value framework that emphasises balance, justice ('adl), and benefit (maṣlahah) through maqāṣid al-sharī'ah, thus positioning itself as a powerful instrument in promoting social welfare and overcoming inequality (Muhammad Sholihin & Hafas Furqani, 2020; Vidiati, 2012). The role of the state in upholding justice is not only a political mandate, but also in line with the divine mandate in QS. An-Naḥl verse 90: *إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ* 'Verily, Allah commands you to be just and to do good...' Instruments such as Zakat, Infak, Sedekah, and productive Waqf (ZISWAF), as well as financing Micro, Small and Medium Enterprises (MSMEs) based on sharia contracts, contribute significantly to the distribution of wealth and the reduction of speculative economic risks (Judijanto & Rusdi, 2025; Otoritas Jasa Keuangan, 2024).

The state's commitment to the Islamic economy has been strengthened through institutional consolidation and a robust regulatory framework. Since the establishment of KNEKS (National Committee for Islamic Economics and Finance), development policies have been implemented in a structured manner, integrating initiatives from various sectors (Ashfaq & Wolters, 2018). The legal framework has been significantly strengthened through the 2023 Financial Sector Development and Strengthening Law (UU PPSK) 2023 (Otoritas Jasa Keuangan, 2024), which provides a more solid regulatory foundation, not only for banking but also for the Islamic non-bank financial industry. This consolidation shows that the state has moved from mere normative recognition to the implementation of mandatory and coordinated policies, affirming its multifunctional role: as a Regulator, Facilitator, Catalyst, and Accelerator.

Although there is abundant literature on Islamic economics, most of it focuses on partial analyses such as the performance of Islamic banks or local zakat management, and there is still a significant research gap. Studies that integrate the role of the state holistically, covering normative dimensions, philosophical justice, and cross-pillar empirical evaluations (commercial finance, social, and environmental/green) are still very limited. Therefore, this research is crucial to fill this gap in the literature.

## **B. RESEARCH METHODE**

This study uses a descriptive-analytical qualitative approach with a normative and philosophical orientation to understand the role of the state in realising economic welfare through the strengthening of the Islamic economy in Indonesia (Matta, 2022). This approach was chosen because the research focuses on the analysis of concepts, regulations, and Islamic economic values that require in-depth interpretation of texts, policies, and social justice theories (Inayat, 2025).

Data collection techniques were carried out through library research by compiling data from primary and secondary sources. Primary sources included legislation such as the 2023 PPSK Law, fatwas from the DSN-MUI (National Sharia Council - Indonesian Ulema Council), and official documents from the OJK, Bank Indonesia, BAZNAS, BWI, and KNEKS. Empirical data includes Islamic finance sector performance reports up to the first quarter of 2025, including the Ministry of Finance's Green Sukuk Allocation and Impact Report. The data is analysed using content analysis, thematic analysis, and policy analysis to assess the effectiveness and consistency of state policies, enriched by comparing policy practices with the principles of social justice from the thoughts of Al-Fārābī, Ibn Khaldun, and John Rawls.

## **C. RESULTS AND DISCUSSION**

### **1. The Role of the State in Strengthening the Sharia Economy**

#### **The Role of Regulators, Facilitators, and Normative Foundations**

The role of the state as a regulator is one of the vital elements in creating a legal framework that ensures economic activities are conducted in accordance with sharia principles (Syarif, 2019). The state, through institutions such as the Financial Services Authority (OJK), Bank Indonesia (BI), and KNEKS, has an obligation to formulate and oversee regulations that support fair and transparent sharia economic practices. For example, the PPSK Law (2023) provides a stronger legal basis for strengthening the sharia financial sector, enabling the state to facilitate stricter supervision of sharia financial institutions, including sharia-based financing and other financial products (Hasanah & Noor Sayuti, 2024). This is important for creating stability and consumer protection, which is in line with the principle of

maqāṣid al-sharī‘ah in protecting property and life.

One of the verses that reinforces the role of the state as a regulator is reflected in QS. An-Nisā’: 59

يَا أَيُّهَا الَّذِينَ ءَامَنُوا أَطِيعُوا اللَّهَ وَأَطِيعُوا الرَّسُولَ وَأُولِي الْأَمْرِ مِنْكُمْ

“O ye who believe! Obey Allah, obey the Messenger, and those in authority among you.” This verse gives legitimacy to the state to formulate policies in accordance with the principles of Sharia and to ensure that the economy operates within the framework of Islamic morals and law. (Otoritas Jasa Keuangan, 2024).

In addition, the state also acts as a facilitator by providing adequate infrastructure and access to strengthen the Islamic economic sector (Wibowo, 2025). The development of an Islamic payment system by Bank Indonesia and the promotion of Islamic fintech services are clear examples of this. In this case, the state plays an important role in creating an ecosystem that makes it easier for the public to access economic services that are in accordance with sharia principles (Tahiri Jouti, 2019). This is in line with the hadith of the Prophet SAW: “Allah loves servants who work and strive well” (HR. Thabrani). Through this principle, the state demonstrates its responsibility in encouraging productive and innovative economic activities, both in the Islamic banking sector and other economic sectors that can improve the welfare of the community (Otoritas Jasa Keuangan, 2024).

### **The Role of Catalysts, Accelerators, and Macro Performance**

As a catalyst, the state has a role to play in encouraging innovation in the Islamic finance sector, including through instruments such as Green Sukuk and Sharia-compliant fintech (Septiana & Dewi, 2022). The state acts to ensure that the Islamic finance sector not only develops but also has a positive impact on sustainable development and energy transition. Green Sukuk, as an instrument designed to finance environmentally friendly projects, is an important example of the state's role as a catalyst (Septiana & Dewi, 2022). However, a major challenge that must be addressed is how to ensure that the funds raised are actually allocated to projects that are in line with environmental sustainability goals, such as renewable energy, which is in accordance with the principle of ḥifz al-bī‘ah in maqāṣid al-sharī‘ah.

As an accelerator, the state expedites the process of integrating Islamic

economics into the national economic system. KNEKS (National Committee for Islamic Economics and Finance) plays a crucial role in facilitating and coordinating various institutions to accelerate the adoption of Islamic economics in Indonesia. The collaboration between these various institutions reflects Allah's command in QS. Al-Hajj: 41, which reminds leaders to establish prayer, pay zakat, and enjoin what is good and forbid what is evil. This principle serves as a moral and social incentive for the state to ensure that every policy taken is not only beneficial, but also fair and in accordance with sharia principles.

The macro performance of Indonesia's Islamic banking industry in 2024 shows stable growth, reflected in total assets reaching Rp980.295 billion and Islamic financing disbursed amounting to Rp643.546 billion, with annual growth rates of 9.88% YoY and 9.92% YoY, respectively (BSI, 2024). This indicates that the Islamic banking sector is functioning effectively in channelling funds to the real sector, which is a key prerequisite for increasing employment and community income. The faster growth of financing than assets indicates that the Islamic financial sector has significant leverage in advancing the real sector, increasing community access to financing, and creating new jobs (Setiawan et al., 2024).

Thus, the state acts not only as a regulator and facilitator, but also as a catalyst and accelerator, ensuring that the policies adopted will spur more inclusive and sustainable Islamic economic development and have a tangible impact on the social welfare of the community.

## **2. Pillar I: Sharia MSME Financing**

Strengthening the sharia economy has a significant direct impact on the real sector, particularly through financing for Micro, Small and Medium Enterprises (MSMEs). Sharia financing, which is based on the principle of profit sharing (*musyarakah* or *mudhārabah*), is a highly relevant model for supporting this sector, given that it avoids usury and provides a fairer solution for both Islamic banks and customers (Lesmana et al., 2024). This is an important alternative to conventional debt models, which often burden MSMEs with high fixed interest rates.

Sharia-based financing ensures that business risks are not borne entirely by one party, but are shared proportionally according to each party's contribution and capacity. This model facilitates the creation of real added value for MSMEs, which in turn contributes to the development of the real

sector more broadly, not only driving local economic growth but also strengthening the economic independence of the community.

### **Partnership Based Financing Mechanism**

This partnership-based financing model intrinsically encourages the creation of real added value, unlike conventional debt models that focus on fixed interest rates. In Islamic financing, risks are shared between both parties, namely the bank and MSMEs. With this profit-sharing principle, the financial burden usually borne by MSMEs can be significantly reduced. In this model, financing is more flexible, and its success is determined not only by financial luck, but also by the performance and joint efforts of the bank and the customer (Lesmana et al., 2024).

This partnership-based financing encourages productive and sustainable economic growth, far from speculative activities. By sharing risks, this model reduces the potential uncertainty that could threaten business sustainability. As emphasised in QS. Al-Mā'idah: 2, "*And help one another in righteousness and piety...*" The principle of cooperation in righteousness is in line with the values of Islamic economics, which emphasises fairness and mutual benefit, and avoids exploitative practices that are detrimental to either party.

Therefore, this partnership model strongly supports the creation of a more equitable relationship between Islamic banks and MSMEs, which ultimately promotes more equitable economic prosperity within society. (Dessy Kurnia Mulyani, pitri yulianti, 2024). In addition, this partnership model is highly relevant in the context of the value-based approach found in Islamic teachings, which focus not only on material gains, but also on humanitarian and social sustainability aspects.

### **Empirical Impact on Employment and Welfare**

A tangible contribution to community welfare can be seen through the principles of Ḥifẓ al-Nafs (protection of life) and Ḥifẓ al-Māl (protection of property). Sharia-compliant MSME financing directly contributes to the creation of new jobs, especially in labour-intensive sectors such as trade, services and small-scale industry (Otoritas Jasa Keuangan, 2025).

In addition, this increase in partnership-based MSME financing has a direct impact on reducing poverty and income inequality. Many MSME players who

previously had difficulty accessing capital through conventional channels can now obtain financing with a more equitable and affordable profit-sharing system (Sari et al., 2025). This model strengthens the economic independence of the community, especially for those in the lower economic strata. In this context, Islamic banks act as agents of economic empowerment that not only consider financial profits, but also broader social impacts.

This improvement in welfare is also linked to the strengthening of the principle of social justice in Islam, whereby wealth is distributed more evenly and economic disparities between rich and poor communities are reduced. Sharia-based MSME financing thus becomes a means of improving people's quality of life, creating more job opportunities, and reducing existing social inequalities.

### 3. Pillar II: Policies for Optimising Productive ZISWAF

The ZISWAF (Zakat, Infak, Sedekah, and Wakaf) instrument is an important pillar in the redistribution of wealth, which normatively aims to achieve *maqāṣid al-sharī'ah*, particularly in terms of social justice and economic welfare (Ash-Shiddiqy et al., 2025). The principle of distribution reflected in ZISWAF, which prioritises wealth equality, is very much in line with John Rawls' Difference Principle, which stipulates that inequality in society is only permissible if it benefits the least fortunate groups (*mustaḍ'afīn*) (Shabnam, 2025). This is clearly reflected in QS. Al-Ḥasyr verse 7:

كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ

*“So that wealth does not circulate only among the rich among you.”* This verse provides guidance on the importance of fair distribution of wealth in society. ZISWAF, as an instrument of redistribution, plays a role in creating prosperity for disadvantaged groups and minimising existing social and economic disparities.

#### The Dual Function of ZISWAF and Institutional Role

ZISWAF has two main functions that complement each other in promoting economic equality:

1. Zakat serves as a means of redistributing wealth directly from the rich to the needy, which in turn can reduce poverty and economic inequality. As a social instrument, zakat also functions as an economic

filter, ensuring that wealth is not concentrated in the hands of a small group of individuals (Ash-Shiddiqy et al., 2025).

2. Productive Waqf serves to create sustainable socio-economic assets that provide long-term benefits. Unlike zakat, waqf not only distributes wealth directly, but also builds social infrastructure that can improve the quality of life of the community in the long term, such as the construction of clinics, schools, business centres, and other infrastructure that can be utilised by the wider community (Ash-Shiddiqy et al., 2025).

To ensure the success of ZISWAF optimisation, the role of management institutions is crucial. BAZNAS (National Zakat Agency) and BWI (Indonesian Waqf Board) play an accelerating role in the management of zakat and waqf funds. The professionalism of Amil (zakat administrators) and Nazir (waqf administrators) in identifying and implementing targeted empowerment programmes is key to success. For example, sharia-based microfinance using zakat can revitalise the micro-economy at the local level, while the development of productive waqf assets such as health centres, schools, and skills training centres will have a significant long-term impact in reducing poverty and improving the quality of life of the community (Shabnam, 2025). This success must be supported by transparency and accountability in the management of ZISWAF, which must ensure that the funds collected are actually used for effective empowerment programmes.

### **Critical Critique and Fiscal Integration**

Although the potential for cash waqf reaches Rp180 trillion per year (Anggraini et al., 2024), Its utilisation to date has not been optimal. Several major issues that pose obstacles are:

1. Inadequate regulations governing the management and utilisation of productive waqf. There is no clear legal framework governing tax incentives or other policy support to encourage active participation from the community, particularly from wāqif (waqf donors).
2. Management and literacy issues. Although the potential of waqf funds is enormous, the lack of understanding and professional management of productive waqf is a major obstacle. Communities, especially in

remote areas, often lack understanding of the benefits and potential of productive waqf in improving their socio-economic welfare.

This study emphasises the need to integrate waqf with state fiscal policy, whereby productive waqf can serve as a complement to a fairer and more efficient taxation mechanism. With clear tax incentives for waqif, public participation in wealth redistribution through waqf can increase significantly. The state needs to provide a fiscal framework that supports and encourages individuals and legal entities to participate more actively in waqf.

Several countries, such as Malaysia and Turkey, have successfully integrated fiscal policy with productive waqf management by providing tax incentives for people who participate in waqf, thereby increasing community participation in waqf-based socio-economic empowerment (Alfian et al., 2025). Therefore, Indonesia needs to emulate these successful practices to optimise the utilisation of waqf, reduce economic inequality, and ease the burden on the state in providing public services.

In addition, the productive integration of ZISWAF with fiscal policy can also reduce the country's dependence on debt and general taxation, which in turn can strengthen the country's fiscal resilience and ensure the availability of resources for more sustainable social programmes.

#### **4. Pillar III: Sustainable Finance (Green Finance) and Critical Analysis of Green Sukuk**

Indonesia has positioned itself as a global leader in Green/Ethical Finance, through the issuance of its first Sovereign Green Sukuk in 2018. The issuance of Green Sukuk is part of Indonesia's commitment to supporting environmental sustainability, while providing innovative financing solutions for environmentally friendly projects. However, although Green Sukuk shows great potential in supporting sustainable project financing, there are several challenges and criticisms regarding its implementation and allocation of funds, which do not yet fully reflect its main objectives (Septiana & Dewi, 2022).

#### **The Failure of Ḥifẓ al-Bī'ah and the Challenges of Risk Profiling**

Although Green Sukuk is normatively in line with the principle of Environmental Protection (Ḥifẓ al-Bī'ah), which is one of the main objectives in maqāṣid al-sharī'ah, analysis of the implementation of fund allocation shows

significant contradictions. Explicitly, the prospectus for Green Sukuk issuance often lists renewable energy and energy efficiency as the main sectors that will receive fund allocation (Khanifa et al., 2024). More funds are allocated to sustainable infrastructure projects that are safer and easier to implement, such as water management and other green infrastructure.

This situation indicates a discrepancy between the ideal objectives of Green Sukuk and the reality of its implementation. One of the main reasons for this discrepancy is the higher risk profile of renewable energy projects. The renewable energy sector often requires new, sophisticated technologies and carries greater financial risks, as well as requiring more time to deliver the desired results in terms of return on investment (Septiana & Dewi, 2022). This poses a particular challenge for countries that act as catalysts in promoting investment for sustainability.

The state's unwillingness to take financial risks to achieve the objectives of *maqāsid al-sharī'ah*, especially those related to environmental sustainability, demonstrates a weakness in its commitment to policy implementation. Although Green Sukuk provides a great opportunity to finance environmentally friendly projects, the realisation of safer and lower-risk fund allocations often sacrifices long-term goals related to climate change and renewable energy (Khanifa et al., 2024).

Criticism of this policy grows stronger when we refer to the mandate of the Qur'an in QS. Al-A'rāf verse 56:

وَلَا تُفْسِدُوا فِي الْأَرْضِ بَعْدَ إِصْلَاحِهَا

*“And do not cause corruption on earth after it has been set right.”* This verse commands humankind, especially countries, to preserve the earth and the environment. Fiscal policies adopted by countries, in this case the issuance of Green Sukuk, should truly support the achievement of environmental sustainability, and not only focus on projects that are easier to implement and carry less risk.

### **Relevance to Maqāsid al-Sharī'ah**

The issuance of Green Sukuk and the allocation of funds for environmentally friendly projects should prioritise the principle of *Ḥifẓ al-Bī'ah* (environmental protection) as one of the important *maqāsid al-sharī'ah*. *Maqāsid al-sharī'ah*, which encompasses the fundamental objectives of Islamic economics,

emphasises the welfare of humanity and the preservation of the earth (Ahmad et al., 2024). In this case, the state must be able to direct the funds collected through Green Sukuk to renewable energy projects that are riskier but have a long-term positive impact on the environment and society at large.

The reluctance to divert funds to riskier renewable energy projects not only undermines environmental sustainability goals, but also demonstrates a lack of commitment to the principles of social justice contained in *maqāsid al-sharī'ah*. Therefore, the state needs to review its Green Sukuk fund allocation policy to ensure that its commitment to sustainability is not neglected for the sake of short-term gains.

## **5. Analysis of the Philosophy of Social Justice and Maqāsid Governance Application of Classical Philosophy of Justice in Policy**

The role of the state in the Islamic economy is not only based on law, but also has a strong philosophical foundation that leads to the goals of social justice and public welfare. In this context, there are two great philosophers who provide views relevant to state policy in the Islamic economy:

a. Al-Fārābī and al-Madīnah al-Fāḍilah:

In his view, the state must act as a 'guide to virtue,' meaning that the state is not only responsible for maintaining stability, but must also ensure that economic policies lead to the common good for all its citizens. Al-Fārābī emphasised the importance of the state in creating a fair and harmonious social system, where the distribution of wealth is carried out to achieve a common goal, namely shared happiness. The state as a sharia economic regulator is tasked with ensuring that all economic policies support the common good, in accordance with the sharia principles that underpin Islamic economics. This is in line with the state's function of regulating the fair distribution of wealth and preventing exploitation that could harm society. This approach underlines the importance of the state's role in ensuring that the policies adopted are not only beneficial to a handful of people, but to all levels of society (Amirullah et al., 2025).

b. Ibn Khaldun and 'Aṣabiyyah:

Ibn Khaldun, in his magnum opus *Muqaddimah*, emphasises the importance of the concept of 'aṣabiyyah or social solidarity in maintaining

the stability and welfare of a society. According to him, the state is obliged to provide economic protection to vulnerable groups in society to prevent the erosion of social solidarity, which can lead to economic and social collapse. In the context of the Islamic economy, state policies must support the strengthening of social solidarity through instruments such as MSME financing and ZISWAF (Zakat, Infak, Sedekah, Wakaf), which serve to redistribute wealth. The implementation of this policy aims to reduce social and economic inequality that can damage social cohesion in society. This shows that state policy in Islamic economics must be consistent and sustainable in preventing inequality that has the potential to weaken social solidarity, which is the foundation of sustainable coexistence (Nurkaromah et al., 2025).

### **Contemporary Justice and *Difference Principle***

Within the framework of contemporary social justice, productive ZISWAF can be analysed as a corrective justice mechanism that aims to redress existing inequalities in society (Ash-Shiddiqy et al., 2025). One relevant theory of justice is the Difference Principle proposed by John Rawls. This principle states that inequality in society is only acceptable if it provides the greatest benefit to the most disadvantaged group (mustad'afin). This principle provides justification for wealth redistribution policies that aim to reduce inequality, such as through ZISWAF.

In line with the Difference Principle, productive ZISWAF serves to ensure that wealth collected from zakat, infaq, sadaqah, and waqf does not only circulate among the wealthy, but is also used to improve the conditions of disadvantaged groups. This is in accordance with the commandment of the Qur'an in Surah Al-Hasyr verse 7: 'So that wealth does not circulate only among the wealthy among you.' Thus, productive ZISWAF supports the goal of creating a more just and equitable economic system, which is in line with the principle of social justice in Islam. Effective management of this instrument will reduce economic inequality, which can exacerbate social injustice, and provide tangible benefits to those most in need.

### **Operational Bridge: Good Governance Business Sharia (GGBS)**

Achieving the objectives of maqāsid al-sharī'ah, particularly in terms of social justice and welfare, requires ethical and accountable governance in the

implementation of economic policies. One framework that can be applied to ensure the achievement of maqāṣid is the principle of Good Governance Business Sharia (GGBS). This principle requires financial institutions and governments to prioritise transparency, accountability, and sharia compliance in all aspects of operations and decision-making (Djayusman & Ibnu, 2025).

GGBS emphasises the importance of clean and equitable governance, whereby economic policies and practices must ensure that the results can be enjoyed by all levels of society, especially the most vulnerable groups. Failures in governance, such as a lack of transparency in the allocation of funds or inconsistent reporting, can directly undermine the state's efforts to achieve the objectives of maqāṣid al-sharī'ah, namely to protect the interests of the people. Therefore, GGBS is very important in ensuring that economic policies, including fiscal and financial policies, truly promote social justice and sustainable development in the Islamic economy.

### **Critical Supporting and Inhibiting Factors**

The strengthening of the Islamic economy in Indonesia has a number of critical supporting and inhibiting factors that need to be considered to ensure its successful implementation. These factors are not only related to existing policies and regulations, but also to the capacity and awareness of the community and the effectiveness of state policy implementation (Septiana & Dewi, 2022).

#### **a. Key Supporting Factors**

##### **1) Strong Regulations (PPSK Law 2023):**

One significant supporting factor in strengthening the Islamic economy is the existence of robust and clear regulations. The 2023 Financial Sector Development and Strengthening Law (PPSK Law) provides a very important legal basis for strengthening the Islamic financial sector. This law provides a clear legal basis for the development of the Islamic finance sector in Indonesia, ranging from Islamic banking to non-bank Islamic-based financial institutions. These regulations ensure that the Islamic finance industry operates in accordance with Islamic principles that can support a more equitable and inclusive economy.

2) Political Will of the Government through KNEKS:

The National Committee for Sharia Economics and Finance (KNEKS) plays a strategic role in coordinating policies and initiatives that support the strengthening of the sharia economy. Strong political will from the government, both at the central and regional levels, is essential to drive change and innovation in the sharia economy. Through KNEKS, the government has demonstrated its commitment to integrating the Islamic economy into the national economic architecture by formulating more inclusive policies, such as the development of productive waqf and sharia-based MSME financing. This helps to optimise the potential of economic sectors that were previously underserved by the conventional economic system.

b. Critical Inhibitors

1) Fiscal Regulation Barriers to Waqf

Although productive waqf has great potential to support social and economic welfare, the biggest obstacle to its implementation is the issue of inadequate fiscal regulations on waqf. Currently, regulations governing the management of productive waqf are still relatively weak and do not fully support the optimisation of waqf as an effective instrument for wealth redistribution. Alfian et al., (2025) highlights that the lack of fiscal incentives, such as tax reductions for wāqif (waqf donors), hinders public participation in productive waqf. This means that waqf funds that should be used for social development, such as education, health, and economic infrastructure, are not being maximised. Therefore, there is a need for fiscal regulatory reform that regulates incentives for waqif so that they are more motivated to participate in productive waqf, similar to policies implemented in other countries such as Malaysia and Turkey, which have successfully integrated tax incentives for productive waqf.

2) Inconsistency in the Implementation of Green Sukuk

Green Sukuk is a sharia financial instrument that should focus on financing projects that support environmental sustainability (*hifz al-bī'ah*) (Khanifa et al., 2024). Although Indonesia has successfully issued Sovereign Green Sukuk as an important step towards sustainable finance, the implementation of Green Sukuk fund allocation still faces several problems. Critical analysis reveals inconsistencies in the distribution of funds, particularly in relation to renewable energy projects, which should be one of the main priorities. Much of the funding has been allocated to sustainable infrastructure projects that are relatively safer and easier to implement, such as water management, while riskier renewable energy projects have not received adequate funding (Alcorta et al., 2024). The reluctance of countries to take risks in financing renewable energy projects demonstrates an inability to fully meet the objectives of *maqāṣid al-sharī'ah* in environmental conservation. Therefore, it is necessary to evaluate policies to ensure that Green Sukuk funds are actually directed towards projects that can have a long-term positive impact on environmental sustainability.

### 3) Quality of Sharia Financial Literacy

One of the biggest challenges in developing the Islamic economy is the relatively low level of Islamic financial literacy among the majority of Indonesians. Although the Islamic finance sector has grown rapidly, many people do not yet fully understand Islamic financial products, such as Islamic MSME financing, sukuk, and productive waqf (Rahmatia et al., 2022). The Financial Services Authority (OJK), in collaboration with the Central Statistics Agency (BPS), has conducted a National Survey of Financial Literacy and Inclusion (SNLIK) to map the level of financial literacy and inclusion in Indonesia. The results of this survey show that despite an increase, Islamic financial literacy is still relatively low when compared to the conventional financial sector (Muninggar et al., 2025). This shows the need for more intensive

education and outreach programmes for the public so that they can better understand the benefits and economic potential of sharia. By improving sharia financial literacy, the public will have more confidence and become more involved in various sharia financial instruments, which in turn will support more inclusive and sustainable sharia economic growth.

Overall, strengthening the Islamic economy in Indonesia requires attention to several supporting and inhibiting factors. The existence of strong regulations, government commitment, and the development of appropriate Islamic financial instruments can be key factors in driving the growth of this sector. However, obstacles such as weak fiscal regulations for waqf, inconsistencies in the implementation of Green Sukuk, and low Islamic financial literacy among the public are major challenges that must be addressed immediately. The state needs to overcome these obstacles by formulating better policies, strengthening fiscal governance, and increasing public awareness and understanding of the Islamic economy. With these steps, Indonesia can strengthen the position of the Islamic economy as a key pillar in a more inclusive and sustainable national economic development.

### **Conceptual Model of Welfare Based on Maqāṣid**

The conceptual model of the state's role in realising sharia-based economic welfare describes a logical and functional process in which the state acts as a Regulator, Facilitator, Catalyst, and Accelerator that strengthens the three pillars of key instruments in the sharia economy: MSMEs, ZISWAF (Zakat, Infak, Sedekah, Wakaf), and Green Finance. Through the integration of these three instruments, the state seeks to:

1. Expanding the real sector by encouraging MSMEs to grow, which in turn will create more jobs and strengthen the local economic base (Setiawan et al., 2024).
2. Realising equitable distribution of wealth by utilising ZISWAF instruments, which can reduce economic inequality through the

redistribution of wealth from the rich to the poor and vulnerable (Alfian et al., 2025).

3. Promoting environmental sustainability through Green Finance, which supports environmentally friendly projects, particularly in energy transition and more sustainable green infrastructure development (Septiana & Dewi, 2022).

Thus, this model aims not only to improve overall economic conditions, but also to ensure that social justice and social welfare are the main objectives of economic development. Each pillar has a mutually supportive function, whereby strengthening one pillar will have a positive impact on the strengthening of the other pillars.

### **The Role of the State: Regulator, Facilitator, Catalyst, and Accelerator**

1. Regulator: The state is responsible for establishing policies and regulations that support the Islamic economy, such as through the 2023 PPSK Law, which provides a legal basis for the Islamic finance sector.
2. Facilitator: The state provides infrastructure and ease of access for MSMEs, as well as strengthening the legal framework that enables ZISWAF and Green Finance to develop more effectively.
3. Catalyst: The state encourages innovation in Islamic MSME financing and optimises the role of Green Sukuk and productive waqf as resources for the sustainable sector.
4. Accelerator: The state accelerates the integration and expansion of the Islamic economy by supporting policies that focus on real sector development and environmental sustainability, such as KNEKS, which plays an important role in inter-agency coordination.

### **M-BWI (Maqāṣid-Based Welfare Index)**

To measure the success of state intervention in achieving welfare based on maqāṣid al-sharī‘ah, the Maqāṣid-Based Welfare Index (M-BWI) is used (Suliswanto et al., 2025). This index is a measuring tool that assesses the impact of Islamic economic policies on social welfare, with reference to the objectives of maqāṣid al-sharī‘ah, namely to protect religion, life, property, lineage, and intellect. The effectiveness of state intervention is validated by looking at welfare achievements in various provinces.

Empirical findings from the M-BWI show that several provinces in Indonesia have achieved a high level of maqāsid-based welfare. The provinces with the highest achievements include Aceh, West Nusa Tenggara, Gorontalo and West Sulawesi (Suliswanto et al., 2025). This proves that policy tailoring, namely the adjustment of local policies by taking into account the specific needs and conditions in each region, supported by the central policy framework of KNEKS, can effectively realise equitable welfare throughout Indonesia. Policy adjustments based on the local context ensure that the sharia economy can be accepted and developed in accordance with local social, cultural, and economic conditions.

### **The Influence of Three Pillars Synergy in Achieving Prosperity**

The synergy between the three main pillars (MSMEs, ZISWAF, and Green Finance) creates a mutually supportive cycle of reinforcement. For example:

1. State-driven sharia-compliant MSME financing will increase the economic independence of communities, which in turn will increase their ability to participate in ZISWAF (for example, as wāqif who give waqf or pay zakat) (Setiawan et al., 2024).
2. Effectively managed ZISWAF can reduce economic inequality and provide social capital that can be used to develop Green Finance projects, which support environmental sustainability (Ash-Shiddiqy et al., 2025).
3. Green Finance can create new jobs and reduce the negative impacts of climate change, ultimately improving the welfare of society at large (Khanifa et al., 2024).

This synergy enables the achievement of common goals, namely social sustainability, economic justice, and environmental protection, which do not only favour certain groups, but encompass all levels of society.

## **D. CONCLUSION**

This study comprehensively confirms that the state plays a strategic and multi-dimensional role in achieving economic prosperity through the strengthening of the Islamic economic ecosystem in Indonesia. This role is deeply rooted in the philosophical mandate of social justice and is operationalised through the GGBS framework to achieve the objectives of maqāsid al-sharī‘ah, with a strong normative foundation from the Qur'an and Hadith. Although policy synergies have driven the

growth of the Islamic finance sector (financing grew by 9.92% YoY), there are two implementation challenges that require critical attention: (1) The potential for productive waqf (Rp180 trillion/year) has not been integrated into a fiscal policy framework that provides tax incentives; and (2) Inconsistent allocation of Green Sukuk funds (7.7 billion) that are not specifically directed towards renewable energy projects, thereby violating the principle of *Hifz al-Bī'ah*.

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