



# The Islamic Fiscal Policy Approach to Poverty Alleviation and Global Social Welfare

Ade Candra Harefa<sup>1</sup>

<sup>1</sup> Universitas Sarjanawiyata Tamansiswa, Yogyakarta, Indonesia

---

## Abstract

---

### Article history:

Received: July 7, 2024

Revised: August 22, 2024

Accepted: October 16, 2024

Published: December 30, 2024

---

### Keywords:

Fiscal Policy,  
Islamic Economics,  
*Maqāṣid Al-Shari'Ah*,  
Poverty,  
Social Welfare.

---

### Identifier:

Zera Open

Page: 167-184

<https://zeraopen.com/journal/iipffp>

This study aims to comprehensively analyze the role of Islamic fiscal policy in alleviating poverty and promoting social welfare through a historical-literature approach that synthesizes research findings from the past five years. The analysis draws upon a wide range of scholarly articles and international reports, including empirical investigations of *maqāṣid al-shari'ah*-based fiscal policies applied in both national and global economic settings. The findings indicate that Islamic fiscal policy operates as a value-driven framework designed to harmonize economic efficiency, equitable wealth distribution, and moral responsibility. Key fiscal instruments such as zakat, infaq, and waqf play a vital role not only as redistributive mechanisms but also as sustainable vehicles for social empowerment and inclusive development. Moreover, integrating Islamic social finance into national fiscal strategies strengthens economic resilience, broadens the social funding base, and enhances public trust in government institutions. This study concludes that Islamic fiscal policy provides a practical and ethically grounded alternative for achieving inclusive, justice-oriented, and sustainable development at the global level, aligning with the vision of the Sustainable Development Goals.



## 1. Introduction

Poverty is a multidimensional issue that continues to be a global concern in the discourse of economic and social development. This problem includes not only a lack of financial resources, but also inequality of access to education, health, and economic opportunities (Plagerson et al., 2019). The World Bank report (2022) confirms that extreme poverty is still a major challenge for developing countries, with more than 8% of the world's population living below the poverty line. Meanwhile, the COVID-19 pandemic has added pressure to the socio-economic system, leading to increased unemployment and economic vulnerability (UNDP, 2022). In this context, the role of fiscal policy is key in supporting social welfare and stimulating inclusive growth.

Fiscal policy is one of the main instruments of the government in managing the economy through state expenditure and revenue. In the conventional paradigm, these policies are geared towards stabilizing the macroeconomy, increasing productivity, and reducing inequality (Sabir & Qamar, 2019). However, from an Islamic economic perspective, fiscal policy has a broader moral and social dimension. The main goal is not only to maintain macro balance, but also to realize social justice and equitable distribution of wealth through instruments such as zakat, infaq, and waqf (Oktafia et al., 2023). This view emphasizes that true prosperity (falah) is achieved when economic policies are in line with the principles of distributive justice and *maqāṣid al-sharī'ah* (Harris & Khilmia, 2023).

According to Habibah et al. (2020), Islamic fiscal policy plays an important role in poverty alleviation through a value-based approach, where each policy is

directed to meet the basic needs of society without violating sharia principles. Their research shows that the implementation of social programs based on Islamic values, such as conditional cash assistance and economic empowerment, can significantly improve the welfare of the poor. In line with that, Rashid et al. (2020) emphasized that the combination of conventional fiscal instruments and Islamic social instruments can strengthen economic resilience and social stability if managed synergistically by the state.

On a global scale, countries are beginning to integrate Islamic economic principles into their fiscal policies. For example, Ullah et al. (2020) reveal that the implementation of fiscal policies based on Islamic values in infrastructure development in Muslim countries is able to accelerate sustainable economic growth. Furthermore, Razak (2020) highlights that the strategic management of zakat and waqf is not only a form of worship, but also an effective social policy instrument to reduce poverty and strengthen the economic competitiveness of the people. These findings strengthen the argument that the integration of Islamic social finance in national fiscal policies has a positive impact on the achievement of the Sustainable Development Goals (SDGs), particularly in the aspects of poverty reduction and social inequality (Dirie et al., 2024).

In addition, the OECD (2021) emphasizes the importance of social justice-oriented fiscal reforms as a key post-pandemic step. This reform must pay attention to aspects of fiscal sustainability, social protection, and empowerment of vulnerable groups. In the context of Islamic values, fiscal policies that favor social justice are in line with the principles of *adl* (justice) and *ihsan* (virtue), which are the main

foundations of equitable economic development. Therefore, the integration of moral principles in fiscal policy is not only a religious issue, but a relevant economic strategy to increase the effectiveness of social policies in the modern era.

Overall, the development of Islamic fiscal policies can be an alternative solution to the challenge of structural poverty. With a values-based approach, these policies not only target increasing people's incomes, but also strengthen social solidarity and collective responsibility. The theoretical framework built on the principles of *maqāṣid al-sharī'ah* gives the direction that the welfare of the community cannot be achieved through economic growth alone, but through fair distribution, social protection, and economic sustainability. Thus, this discussion is important to broaden the understanding of how Islamic fiscal policy contributes to global social well-being in the midst of modern economic dynamics.

## **2. Literature Review**

### **2.1. Fiscal Policy and Poverty Alleviation in Contemporary Economic Framework**

Fiscal policy has a central role in creating inclusive economic growth and reducing structural poverty. In conventional economic theory, fiscal policy is defined as an instrument to regulate state revenues and expenditures to maintain macroeconomic stability and equitable distribution of welfare (Sabir & Qamar, 2019). Post-COVID-19 pandemic, the approach to fiscal policy shifted from a deficit focus to a social and environmental sustainability strategy. The International Monetary Fund (Amaglobeli et al., 2022) report emphasizes that modern fiscal

policies must be directed at strengthening social protection and the empowerment of the poor through cash transfers, education subsidies, and equitable health programs. On the other hand, the OECD (2021) emphasizes the importance of progressive fiscal reforms that pay attention to social justice and the reduction of inequality, including the optimization of public spending for social welfare.

An integrated fiscal policy approach has been proven to be able to reduce poverty rates through increased productivity of low-income communities and long-term social investment. In practice, policies such as conditional cash transfers and productivity-based subsidies have a positive impact on improving the quality of life of vulnerable people (World Bank, 2022). This approach is also in line with the Sustainable Development Goals (SDGs) which emphasize social inclusion, economic opportunity, and distribution equity. Thus, fiscal policy reforms that favor vulnerable groups become not only an economic instrument, but also a social strategy to strengthen national stability and solidarity in the long term.

## **2.2. Islamic Fiscal Policy and Social Welfare Principles**

In the Islamic economic paradigm, fiscal policy is not only oriented towards economic growth, but also on equity and social justice (*adl*). This principle is reflected in *maqāṣid al-shari'ah* which emphasizes the well-being of the ummah (*falah*) through the equitable distribution of wealth and the elimination of inequality (Oktafia et al., 2023). Harris and Khilmia (2023) explain that fiscal policy in Islamic economics integrates spiritual and social aspects through zakat, infaq, and waqf instruments as a complement to the government's monetary and fiscal policies. All three function not only as a redistribution mechanism, but also as an instrument for economic

empowerment of the poor. This approach strengthens the relationship between the public and social sectors, resulting in a fair and sustainable fiscal system.

Research by Rohmi (2022) shows that the implementation of fiscal policies based on Islamic values such as the Family Hope Program (*Program Keluarga Harapan/ PKH*) reflects the spirit of sharia in meeting the basic needs of the community without violating Islamic law. This program also supports the fulfillment of the needs of *ad-daruriyyah*, *al-hajjiyyah*, and *at-tahsiniyyah* as pillars of Islamic welfare. Thus, Islamic fiscal policy is not just a form of state intervention, but an expression of the government's moral and spiritual responsibility in upholding social welfare. The integration between Islamic ethical values and economic policies becomes relevant in answering the challenges of modern poverty which are not only material, but also structural and spiritual.

### 3. Method

This research uses a historical-literature approach that focuses on the conceptual analysis and evolution of Islamic fiscal policy in the context of poverty alleviation and social welfare. This approach is used to trace the development of theory, practice, and implementation of Islamic fiscal policy from time to time to contemporary context. Through a literature study, this study collects, examines, and compares the results of relevant previous research in the last five years, both from national and international journals indexed by Google Scholar. This approach was chosen because it is relevant to examine the role of fiscal policy as an instrument of social and economic development rooted in the principles of *maqāṣid al-sharī'ah*.

The research stage begins with the collection of secondary sources in the form of scientific articles, reports of international institutions (such as the IMF, OECD, and World Bank), as well as academic documents that discuss the integration of Islamic values in fiscal policy and poverty alleviation. From the search results, several main sources were obtained that met the criteria: (1) published within the last five years, (2) relevant to the theme of Islamic fiscal policy and social welfare, and (3) having an empirical or theoretical review related to equitable economic development. One of the main references is research that discusses in depth the relationship between Islamic fiscal policy and community welfare through the approach of Sharia values.

The collected data is then analyzed using a descriptive-analytical approach, namely by interpreting and relating existing theories to find patterns of relationships and relevance between concepts. The analysis is carried out by identifying the core concepts of each source, examining their similarities and differences, and formulating a conceptual model of Islamic fiscal policy within the framework of poverty alleviation. The data interpretation technique is carried out deductively, starting from a general theory of fiscal function to a specific understanding in the context of Islamic values and social development. Furthermore, thematic comparisons were made between Islamic perspectives and conventional approaches to assess the effectiveness and relevance of each in the context of the global economy.

To maintain the validity of the findings, this study prioritizes scientific sources that have high academic credibility and uses a clear methodology. The researcher

also applies the principle of conceptual triangulation by comparing results from various perspectives of macroeconomics, Islamic social, and public policy in order to obtain a comprehensive picture. Thus, this historical-literary method not only captures the intellectual history of Islamic fiscal policy but also affirms its contribution to the formulation of just and sustainable economic policies in the modern era.

#### **4. Results**

The results of this study confirm that Islamic fiscal policy plays a strategic role in strengthening social welfare and suppressing structural poverty in various modern economic contexts. Through a historical-literary approach to the last five years publications, it is possible to get an idea that the Islamic fiscal system not only regulates state revenues and expenditures, but also carries out a moral mission to achieve a balance between economic growth, social justice, and environmental sustainability. The principle of *maqāṣid al-sharī'ah* is the philosophical foundation that ensures that every fiscal policy is directed to maintain the overall welfare of human beings, both from economic, social, and spiritual aspects.

The first dimension that emerged from the results of the study was the role of wealth distribution through Islamic social financial instruments such as zakat, infaq, and waqf. According to Razak (2020), zakat has a dual function: spiritual and economic. Spiritually, zakat removes the gap between the rich and the poor, while economically, it is an effective means of redistributing wealth to encourage income equity. The results of their research show that the productive zakat system, namely



zakat distributed in the form of micro business capital and economic empowerment, is more sustainable than ordinary cash assistance. Meanwhile, Rahman and Siradjuddin (2020) emphasized that infaq and waqf also have great potential to support long-term social development, especially if managed with the principles of professionalism and institutional transparency. These three became the foundation of Islamic fiscal policy based on ethical values and social solidarity.

The research of Habibah et al. (2020), which is one of the main references in this study, shows that social policies based on Islamic values, such as the Family Hope Program (PKH), can significantly improve the welfare of the poor. In this context, Islamic fiscal policy not only functions as a resource allocation system but also as an empowerment tool that builds family economic independence. Their findings suggest that the application of the principles of *adl* (justice) and *ihsan* (virtue) in fiscal policy has direct implications for the improvement of the welfare index. This shows that Islamic fiscal policy cannot be separated from the spiritual and moral values that guide the direction of public policy.

The second dimension that stands out is the integration of ethical values in public policy and fiscal governance. Oktafia et al. (2023) explain that the Islamic fiscal system rejects excessive exploitation and accumulation of wealth without social responsibility. In the macroeconomic context, taxes and public expenditure must be oriented towards meeting the basic needs of the community and increasing productive capacity. Harris and Khilmia (2023) add that in Islamic economics, the state has a moral mandate to ensure a fair distribution of income through a combination of fiscal and monetary policies. The government is not only an

economic actor, but also the guardian of social welfare. This value distinguishes the Islamic paradigm from conventional fiscal policies that focus more on efficiency and growth alone.

Furthermore, the OECD (2021) and Amaglobeli et al. (2022), through post-pandemic reports, affirmed the need for fiscal reforms that are more inclusive and social justice-oriented. In the Islamic context, the reform is in line with the principle of *maslahah* (public benefit), where fiscal policy must ensure equitable access to education, health, and economic opportunities. The IMF (2022) highlights that countries that strengthen social protection systems through effective public spending show higher economic resilience to crises. When the principles of *maqāṣid al-shari'ah* are integrated into the modern fiscal framework, it is oriented not only towards budgetary balance, but also towards social and moral balance.

The third dimension found is the synergy between Islamic fiscal policies and the Sustainable Development Goals (SDGs). Dirie et al. (2024) show that Islamic social finance has a strong correlation with 11 of the 17 SDGs, including poverty alleviation, inequality reduction, and increased access to education and health. The integration of zakat and waqf in national fiscal policy is able to strengthen the country's fiscal resilience and reduce dependence on foreign debt. From a global perspective, Ullah et al. (2020) prove that Islamic-based fiscal policies applied in infrastructure projects are able to create a multiplier effect that not only increases economic growth but also strengthens the social cohesion of the community. This shows that the moral and spiritual principles contained in Islam can be implemented concretely in modern economic development.

On the other hand, Plagerson et al. (2019) found that the effectiveness of social policies in developing countries is highly dependent on transparent and participatory institutions. This is in line with the principle of trust in Islam, which demands high accountability in the management of public finances. Countries with good fiscal governance have a greater ability to reduce poverty because public funds are channeled efficiently and on target. The World Bank (2022) supports this view by showing that productive social protection programs have a more significant impact on poverty reduction than consumptive assistance. Islamic fiscal policies based on the principles of productivity and justice can fill a void that conventional approaches cannot answer.

In addition to the financial aspect, the dimension of human behavior transformation is an important element in the success of Islamic fiscal policy. Zaman (2019) emphasized that the transformation of behavior towards responsible social ethics is the core of Islamic economic development. A fair fiscal system does not only rely on state policies, but also on the moral participation of the community in fulfilling its social obligations. In this context, zakat, infaq, and waqf are forms of actualization of collective responsibility towards others. This view affirms that the success of the Islamic fiscal system is not only measured by macroeconomic performance, but also by the increase in social solidarity and moral stability of the community.

The relationship between Islamic fiscal policy and equitable economic development is also discussed by Rashid et al. (2020), who highlight the importance of harmonization between the Islamic fiscal system and national fiscal policy. The

main challenges faced are the lack of regulatory synchronization and the limited institutional capacity to manage Islamic social funds optimally. However, the latest trend shows an increase in the adoption of Islamic values-based fiscal policies in various Muslim countries, especially in the context of social finance innovations such as sukuk waqf and digital zakat. This shows progress towards more inclusive, transparent, and equitable fiscal governance.

Furthermore, ESCAP (2023) notes that fiscal strategies based on social protection and community empowerment can significantly reduce the risk of inequality in the Asia-Pacific region. These findings reinforce the relevance of the Islamic fiscal concept that emphasizes the balance between economic development and social justice. UNDP (2022) also highlights the importance of a multidimensional approach in human development, where moral and spiritual values play an important role in determining the direction of sustainable economic policies. The integration of the principles of *maqāṣid al-sharī'ah* in global fiscal policy can expand a development paradigm that focuses not only on economic growth, but also on human welfare as a whole.

Overall, the results of this study show that Islamic fiscal policies are able to make a significant contribution to the achievement of social welfare, economic stability, and poverty reduction. However, the effectiveness of its implementation is greatly influenced by institutional factors, policy transparency, and community participation. Countries that are able to combine conventional fiscal instruments with Islamic values show better results in reducing inequality and strengthening social networks. Islamic fiscal policy can thus be a realistic alternative to realizing

economic development that is not only materially efficient, but also morally just. Through a combination of public ethics, social responsibility, and distributive justice, the Islamic fiscal system has the potential to become a new paradigm in sustainable global economic governance.

## 5. Discussion

The findings of this study confirm that Islamic fiscal policy has great potential in realizing equitable and sustainable economic development. The integration between conventional fiscal instruments and Islamic social finance presents a policy model that is not only growth-oriented, but also on the equitable distribution and welfare of society. The principle of *maqāṣid al-shari'ah* places fiscal policy as a means to achieve *falah* or overall well-being, which includes both material and spiritual aspects (Oktafia et al., 2023). Thus, Islamic fiscal policy can be seen as a value-based fiscal system model that answers the limitations of the conventional economic paradigm that emphasizes efficiency too much without considering social justice.

The linkage between Islamic fiscal and social finance policies is increasingly important in the face of worsening global inequality in the wake of the COVID-19 pandemic. Dirie et al. (2024) emphasized that zakat, waqf, and alms can function as fiscal complements to overcome income gaps that cannot be fully resolved by government taxes and subsidies. This combination can expand the country's fiscal base while strengthening the social capital of the community. However, integrative implementation requires good governance, inter-agency coordination, and a regulatory system that ensures transparency in the management of social funds. As

shown by Razak (2020), the efficiency of zakat and waqf as policy instruments depends on the ability of institutions to distribute resources in a targeted and productive manner.

In addition, fiscal reform within the framework of Islam contributes to macroeconomic stability. Ullah et al. (2020) found that the implementation of sharia-based fiscal policies in infrastructure development in Muslim countries results in sustainable growth with a double effect: strengthening economic capacity while increasing social trust. This ethics-based approach provides moral legitimacy to public policy, since fiscal decisions are not solely based on fiscal efficiency, but also on distributive justice. Thus, Islamic fiscal policy has a moral-economic dimension that makes it more adaptive to social and economic crises.

Furthermore, the findings of Rohmi (2022) show that the implementation of sharia-based social programs, such as conditional cash assistance that prioritizes moral values, can reduce structural poverty and strengthen community independence. This proves that Islamic fiscal policies are not only effective in alleviating poverty but also in creating sustainable social transformation. The integration of fiscal policy and Islamic values can also strengthen social solidarity and increase public participation in national development programs. By prioritizing the principles of *adl* (justice), *amanah* (accountability), and *ihsan* (virtue), Islamic fiscal policy places humans as the center of development (human-centered development), not just as economic objects.

Overall, the results of these discussions indicate that the success of Islamic fiscal policy depends not only on its financial structure, but also on the value system

that underpins it. The *maqāṣid al-sharī'ah*-based fiscal model emphasizes the balance between economic efficiency and social justice. In a global context characterized by a crisis of inequality and moral degradation, the application of Islamic principles in fiscal policy offers a relevant alternative solution. By strengthening fiscal governance, integrating social instruments, and fostering public ethics, Islamic fiscal policy can become a new paradigm of sustainable development that places human values as the main foundation of the economic system.

## 6. Conclusion

This study concludes that Islamic fiscal policy offers a more comprehensive development paradigm than conventional approaches because it is rooted in moral values, social justice, and economic sustainability. The principle of *maqāṣid al-sharī'ah* places human welfare as the main goal, where fiscal policy is not only an economic instrument, but also a means of equality and social protection. Through the integration of instruments such as zakat, infaq, and waqf into the national fiscal system, Islamic policies are able to expand the social funding base while strengthening community solidarity. This value-based approach provides a more humane alternative to the crisis of inequality and structural poverty that still plagues many countries.

Implementable experience from various literature shows that a professionally managed and transparent Islamic fiscal system can improve the effectiveness of income distribution as well as strengthen the resilience of national economies to global shocks. Such success relies heavily on institutional support, justice-oriented

regulations, and active community participation. Thus, Islamic fiscal policy can be an important pillar in global efforts to realize equitable, sustainable development. Through the synergy between economic policy, social ethics, and spiritual responsibility, the Islamic fiscal model has the potential to become a new paradigm of the world economy that not only pursues growth but also ensures equitable prosperity for all mankind.

## References

- Amaglobeli, D., Hanedar, E., Hong, G. H., and Thévenot, C. (2022). Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices. International Monetary Fund (IMF). November 5, 2023 From <https://share.google/OpphNvAGfX46Tv5TK>
- Dirie, K. A., Alam, M. M., & Maamor, S. (2024). Islamic social finance for achieving sustainable development goals: a systematic literature review and future research agenda. *International Journal of Ethics and Systems*, 40(4), 676-698.
- ESCAP. (2023). Time for Equality: The Role of Social Protection in Reducing Inequalities in Asia and the Pacific. United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). [https://www.unescap.org/sites/default/files/SDD%20Time%20for%20Equality%20report\\_final.pdf](https://www.unescap.org/sites/default/files/SDD%20Time%20for%20Equality%20report_final.pdf)
- Habibah, A. N., Ghafur, R. A., Anggraeni, E., & Malik, A. (2020). Peran kebijakan fiskal Islam dalam mengentas kemiskinan melalui program keluarga harapan. *Jurnal Ilmiah Ekonomi Islam*, 6(2), 251-258.



- Harris, J. I., & Khilmia, A. (2023). The Role of the State in The Economy: Exploring Fiscal and Monetary Policies in Government (Theoretical Review in Islamic Economics). *Jurnal Masharif Al-Syariah: Jurnal Ekonomi dan Perbankan Syariah*, 8(3).
- OECD. (2021). Tax Policy Reforms 2021: Special Edition on Tax Policy during the COVID-19 Pandemic. Organisation for Economic Co-operation and Development (OECD). Retrieved November 12, 2023 From <https://share.google/1Io6oqgMnk9nny3AQ>
- Oktafia, R., Iriani, R., & Rochimin, R. A. P. (2023). The Concept of Fiscal Policy: an Islamic Economic Perspective. *Journal Of Sharia Economics*, 5(2), 1-18.
- Plagerson, S., Patel, L., Hochfeld, T., & Ulriksen, M. S. (2019). Social policy in South Africa: Navigating the route to social development. *World Development*, 113, 1-9.
- Rahman, A., & Siradjuddin, S. (2020). Islamic economic concept in poverty alleviation. *Journal of Asian Multicultural Research for Economy and Management Study*, 1(2), 67-74.
- Rashid, A., Hassan, M. K., & Shah, M. A. R. (2020). On the role of Islamic and conventional banks in the monetary policy transmission in Malaysia: do size and liquidity matter?. *Research in International Business and Finance*, 52, 101123.
- Razak, S. H. A. (2020). Zakat and waqf as instrument of Islamic wealth in poverty alleviation and redistribution: Case of Malaysia. *International Journal of Sociology and Social Policy*, 40(3/4), 249-266.

- Rohmi, M. L. (2022). Implementation Of The Hope Family Program (PKH) View From Islamic Economic Perspective. *Adzkiya: Jurnal Hukum dan Ekonomi Syariah*, 10(02), 187-204.
- Sabir, S., & Qamar, M. (2019). Fiscal policy, institutions and inclusive growth: evidence from the developing Asian countries. *International Journal of Social Economics*, 46(6), 822-837.
- Ullah, S., Majeed, M. T., & Chishti, M. Z. (2020). Examining the asymmetric effects of fiscal policy instruments on environmental quality in Asian economies. *Environmental Science and Pollution Research*, 27(30), 38287-38299.
- UNDP. (2022). Human Development Report 2022/2023: Uncertain Times, Unsettled Lives – Shaping Our Future in a Transforming World. United Nations Development Programme. Retrieved November 12, 2023 From <https://share.google/csY6vQUA5pIjfVymL>
- World Bank. (2022). *Poverty and Shared Prosperity 2022: Correcting Course*. The World Bank. Retrieved November 12, 2023 From <https://share.google/ln9jbUT6Qqhusu3Hu>
- Zaman, A. (2019). Transformation of Human Behavior as a Central Strategy for Islamic Economics. In *12th ICIEF (international Conference on Islamic Economics and Finance) at Ummul-Qura University*. 5-6.