

Islamic Social Finance in Fragile Contexts

What is Islamic social finance

Islamic social finance refers to the flow of financial resources mobilised for social impact which is compliant with Islamic law and ethics. It can be divided into two categories: grants from Islamic philanthropy and finance from financial institutions with development or commercial objectives.

Islamic philanthropy is raised through instruments such as *zakat* (obligatory charity/“social tax”), *sadaqa* (voluntary charity), and *waqf* (endowments). Islamic finance instruments with social-impact objectives include Islamic microfinance, *sukuk* (Islamic bonds), *kafala* (loan guarantee), *qard hassan* (interest-free loans) and *takaful* (insurance). Shariah-compliant blended finance combines philanthropic, social and commercial financing instruments.

Why it matters

Across humanitarian, conflict, migration, development and peacebuilding contexts, Islamic social finance can support 1) immediate protection (e.g. cash assistance, safe spaces), 2) medium-term recovery (e.g. debt relief, psychosocial support) and 3) long-term inclusion (e.g. vocational training, *waqf*-funded education). It aims to empower communities to move from crisis to long-term empowerment.

Key principles

The principles of **Islamic finance** include no interest, no excessive uncertainty, risk sharing, redistribution, prohibition to finance gambling or alcohol/intoxicants.

In humanitarian contexts, drawing on Islamic law and ethics, the principles

extend to adapting assistance to diverse needs, preventing harm and safeguarding dignity, ensuring meaningful participation and strengthening accountability.

Key instruments

Islamic social finance offers locally trusted and legitimate financing model that as ethically grounded can complement global humanitarian systems.

Zakat is one of core pillars of Islam – an obligatory social tax from more affluent to disadvantaged people- around 2.5% of wealth above a threshold (*nisab*). It is estimated to be worth between US\$200 billion and US\$1 trillion annually (IRIN, 2012; Obaidullah and Shirazi, 2015). Zakat eligible recipients include categories such as the poor, needy, *zakat* administrators, people subjected to slavery, debtors and wayfarers.

For example, in 2017 the Majlis Agama Islam dan Adat Istiadat Melayu Perlis (MAIPs), Malaysia provided US\$1.2 million in *zakat* to the Kenya Red Cross Society (KRCS) and the IFRC to support the drought response in Kitui County. The funds supported water infrastructure and certified green-gram seed for 175,000 households, and more than one million people benefited through water access and livelihood opportunities (KRCS, 2026).

Sadaqa is a voluntary and highly flexible form of charity, not limited to specific categories. It allows donors to support unearmarked interventions in any amount, at any time, and to anyone in need - fitting both emergency relief and long-term recovery. International charities such as Islamic Relief and Muslim Aid use *sadaqa* to fund a range of humanitarian and development programmes.

Globally, *sadaqa* contributions are substantial. In 2025 alone, UNHCR received nearly US\$16 million in *sadaqa*, supporting more than 453,000 beneficiaries across 18 countries (UNHCR, 2026).

Waqf is a perpetual endowment where the income of assets, such as land and properties, is dedicated for charitable causes. Globally, *waqf* assets are estimated to be worth between US\$100 billion and US\$1 trillion (Al-Amine et al., 2019). In the UK alone, National *Waqf* raised *waqf* shares, estimated to be worth over £645,000 to date, to fund sustainable development projects (National *Waqf*, n.d.). In the UK, many *waqf*-based institutions are registered as charities because of the similarities between *waqf* and European charitable trusts.

For its perpetual and sustainable value, notably, majority of Islamic givers donate to *waqf* funds (for instance, 73% in the USA - Siddiqui et al., 2025). A range of *Waqf projects* support communities worldwide.

In a nutshell, Zakat provides immediate support to address urgent humanitarian needs, *sadaqa* offers flexible resources that can adapt to changing contexts, and *waqf* represents institutional, long-term investment aimed at sustainable development.

Other tools include **qard hasan** (interest-free loan), a benevolent loan without interest and **takaful** which stands for Islamic cooperative insurance. The latter is a mutual-guarantee scheme where participants contribute to a pooled fund for mutual support.

Shifts in the international humanitarian system

Diverse partnerships demonstrate the value of cross-sectoral engagement between secular and faith-inspired humanitarian actors. For example, in 2013, a US\$240 million shortfall in UNHCR's Jordan operations was partially offset by nearly US\$140 million in donations from Islamic organisations based in Saudi Arabia, Kuwait and Qatar, channelled through local Islamic charities (Iqbal, 2022: 37).

While multiple leading humanitarian FBOs have been mobilizing Islamic charitable giving and financial mechanisms for decades, a range of mainstream aid agencies have set out to build *zakat* collection campaigns and policies in recent years (Save the Children, WaterAid, MSF, Oxfam and others). While doing so, humanitarian actors seek to ensure Shariah compliance by gathering fatwas from respected scholars to endorse their initiatives.

See more:

Pertek, S. and Paszkiewicz, N., with Al Jasem, N. (2026) [*\(Dis\)connects between Islamic philanthropy and the international humanitarian system: Implications for women*](#). Making Aid Work Working Paper 1. University of Birmingham.

Pertek, S. and Nabil, M. (2026) [*Financing Women's Resilience: A Conceptual Framework from Islamic Philanthropy*](#). Making Aid Work Working Paper 2. University of Birmingham.

Acknowledgements: Making Aid Work team wishes to thank all supporters from UNHCR, IRW, Kenya Red Cross, IFRC Africa, BRC, IsDB and FCDO.