INTEGRATING ZAKAT AND WAQF WITH ISLAMIC BANKING FOR SUSTAINABLE SME DEVELOPMENT

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BACKGROUND: The strategic integration of zakat and waqf with Islamic banking is designed to systematically enhance the financial support for the development of Small and Medium Enterprises (SMEs) sustainability. This area represents one of the numerous opportunities to utilize Islamic social finance. The proposed business model has yet to be the subject of a comprehensive investigation. The application of Islamic social finance within the proposed business model, as implemented in the real world, has the potential to contribute to the improvement of financial inclusion, poverty alleviation, and sustainable SME development, in addition to the enhancement of the Halal economy and the ecosystem.

METHOD: This research employs a qualitative systematic literature review, adhering to the PRISMA guidelines for integrating projects within a single case study. A total of 45 scholarly articles published within the five-year period from 2015 to 2024 were retrieved from the Scopus and Web of Science databases. The research materials were imported for further analysis, during which thematic analysis was conducted to identify prevalent integration models, identify barriers to implementation, and ascertain the conditions that facilitate success.

RESULTS & DISCUSSION: Examination of innovative financing models, including cash wakaf-linked sukuk, zakat-based venture capital, and cooperative financing models. These models are examined as a means of providing Shariah-compliant financing opportunities to SMEs. The analysis indicates that these models can foster financial and social returns in accordance with the *Maqasid al-Shariah* framework. The primary obstacles impeding the widespread implementation of this initiative pertain to the disorganized regulatory framework, the absence of financial education for stakeholders, and the suboptimal effectiveness and efficiency of operations. The case studies of Indonesia and Malaysia illustrate the efficacy of financing models in enhancing SMEs' resilience and empowering the surrounding population. The following text is intended to provide a comprehensive overview of the subject matter.

CONCLUSION: The integration of zakat, waqf, and Islamic banking has resulted in a multifaceted framework that has the potential to accelerate sustainable financing for SMEs. The integration of a more centralized line index is a crucial step in addressing this issue. It is the considered opinion of the author of this study that the development of a more diverse array of Shariah-compliant products, as well as the implementation of active educational promotion, are appropriate steps for policymakers to take. The implementation of this initiative will facilitate the realization of the developmental objectives of Islamic financial institutions in a more suitable manner. Further studies are required to empirically assess the models that are currently in place and to conduct comparative research with other countries. The following text is intended to provide a comprehensive overview of the subject matter.

KEYWORDS: Zakat, Waqf, Islamic Banking, SME development, Sustainable Financing, Islamic Social Finance, and Financial Inclusion.