



THE TRANSFORMATION OF ISLAMIC SOCIAL FINANCE IN TURKIYE: HISTORICAL TRAJECTORIES AND CONTEMPORARY DEVELOPMENTS

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Abstract

This research examines the evolution of Islamic social finance in Turkey, focusing on zakat and waqf, from both historical and contemporary perspectives. Historically, Islamic social financial management in Turkiye has developed since the Ottoman Empire, with waqf institutions playing a crucial role in social and economic empowerment. Following the establishment of the secular republic, waqf management was placed under government regulation through institutions such as Vakıflar Genel Müdürlüğü (VGM), which oversees the administration and distribution of waqf assets. Despite operating within a secular framework, Islamic principles continue to underpin the management of zakat and waqf in Turkiye. Furthermore, the potential of zakat and waqf in Turkiye is substantial, given that the majority of the population is Muslim and charitable giving is deeply embedded in the culture. This study finds that, if managed optimally, zakat and waqf can serve as effective instruments for poverty alleviation and reducing social inequality. Both government agencies and private institutions, including NGOs, have played a significant role in advancing Islamic social finance. With proper governance and strategic implementation, Islamic social finance has the potential to enhance public welfare and serve as a model for other Muslim-majority countries seeking to develop philanthropy-based economic empowerment.

Keywords: *Islamic Social Finance, Islamic Philanthropy, Waqf, Zakat, Turkiye.*

Abstrak

Penelitian ini mengkaji evolusi keuangan sosial Islam di Turkiye, dengan fokus pada zakat dan wakaf, dari perspektif historis dan kontemporer. Secara historis, pengelolaan keuangan sosial Islam di Turkiye telah berkembang sejak masa Kesultanan Utsmaniyah, di mana lembaga wakaf memainkan peran penting dalam pemberdayaan sosial dan ekonomi. Setelah berdirinya republik sekuler, pengelolaan wakaf berada di bawah regulasi pemerintah melalui lembaga seperti *Vakıflar Genel Müdürlüğü* (VGM) yang mengawasi administrasi dan distribusi aset wakaf. Meskipun berada dalam kerangka sekuler, prinsip-prinsip Islam tetap menjadi dasar dalam pengelolaan zakat dan wakaf di Turkiye. Selain itu, potensi zakat dan wakaf sangat besar, mengingat mayoritas penduduknya beragama Islam dan semangat berderma telah mengakar kuat dalam budaya. Studi ini menemukan bahwa jika dikelola secara optimal, zakat dan wakaf dapat menjadi instrumen yang efektif untuk pengentasan kemiskinan dan pengurangan kesenjangan sosial. Baik lembaga pemerintah maupun institusi swasta, termasuk LSM, telah memainkan peran penting dalam memajukan keuangan sosial Islam. Dengan tata kelola yang baik dan implementasi yang strategis, keuangan sosial Islam berpotensi meningkatkan kesejahteraan masyarakat dan menjadi model bagi

negara-negara mayoritas Muslim lainnya yang ingin mengembangkan pemberdayaan ekonomi berbasis filantropi.

Kata Kunci: Keuangan Sosial Islam, Filantropi Islam, Wakaf, Zakat, Turkiye.

A.INTRODUCTION

Islamic social finance is a financial system based on Islamic principles that includes several philanthropic and redistributive tools such as waqf, zakat, infaq, and sadaqah. These instruments play a key role in promoting social welfare and economic justice within Islamic economic systems. The aim of these instruments are to address poverty, reduce inequality, and encourage more equitable wealth distribution, offering long-term solutions through ethical and socially driven investment. Over time, integrating Islamic social finance principles into modern financial systems has shown real potential in tackling problems like financial exclusion, social disparities, and limited access to basic services (Ridha & Azzahra, 2024). The success and endurance of these mechanisms across various Muslim societies highlight their continued relevance in current development efforts.

Among these instruments, zakat stands out as one of the most significant. It obliges Muslims to donate a portion of their wealth to support disadvantaged groups (Mellyan & Inayatillah, 2022). Beyond its role in wealth purification, zakat functions as an economic equalizer by channeling resources to those most in need. Research shows that an effective zakat system can play a major part in reducing poverty, particularly when its distribution is well-organized and targets the economically marginalized (Ansori, 2023). For example, findings from BAZNAS in Sidoarjo indicate that systematic zakat collection and distribution have improved local poverty indicators and enhanced the quality of life for vulnerable communities. In many Muslim-majority countries, zakat has evolved into an institutionalized mechanism that supports a range of sectors, including education, healthcare, and microfinance. However, its success depends heavily on how well these institutions are managed, the strength of governance, and the public's trust in how funds are allocated.

Waqf is another important pillar of Islamic social finance, historically contributing to economic empowerment and social progress. A waqf involves donating assets like land, buildings, or money for long-term charitable or social purposes (Sofuoğlu & Iskandar, 2024). Unlike zakat, which focuses on redistribution, waqf is more of a generative tool. It creates sustainable impact by turning endowed assets into productive ventures that benefit communities over time (Iskandar, Kurlillah, et al., 2023; Fitriani et al., 2024). These can include income-generating projects like schools, hospitals, or commercial properties, all of which illustrate waqf's ability to support economic resilience and community development.

Turkiye has a long-standing tradition of Islamic social finance, particularly in establishing waqf as a culture and outstanding waqf management. During the Ottoman Empire, waqf has served as a key institution for delivering social services, including education, healthcare, and infrastructure development. The substantial waqf system of that era have significantly contributed to social welfare and economic stability (Fitriani et al., 2024; Iskandar, 2020). Today, the historical legacy of waqf remains evident across various cities in Turkiye such as Istanbul, Bursa, Konya Kayseri, Izmir, and so on. Waqf institutions

have actively supporting social programs, such as scholarship and financial aids (Buluş, 2009; Kayadibi et al., 2017).

As one of the largest Muslim-majority countries in the European region, Türkiye has become as a focal point for the study of Islamic social finance (Göçmen, 2014). Economic reforms and financial modernization have influenced the regulation and practice of Islamic social finance, particularly in the governance of waqf and zakat. In Türkiye, waqf continues to be effectively managed, ensuring its sustainability as a core element of the Islamic social economy. Waqf assets established during the Ottoman period have been preserved and remain beneficial to society, demonstrating the resilience of the waqf system. Various waqf properties, including land, buildings, and facilities for education and healthcare, continue to fulfill their intended social functions (Mubarrak et al., 2024). Furthermore, modern regulatory frameworks have been implemented to safeguard waqf assets, ensuring their continued contribution to social welfare without the risk of degradation or misuse (Ertunç, 2014).

Despite the prominence of waqf in Türkiye's Islamic social finance system, other instruments such as zakat and qard hasan remain underdeveloped. Unlike in some Muslim-majority countries with centralized zakat institutions, zakat in Türkiye is primarily distributed at an individual level, lacking a structured national management system. Similarly, qard hasan, an interest-free loan designed for social purposes, has not seen significant development within Türkiye's contemporary financial system (Parlakkaya & Çürük, 2015). Therefore, while Türkiye has a rich history and supportive regulatory environment for Islamic social finance, the practical implementation of non-waqf instruments continues to face various challenges.

This study aims to examine the historical evolution and current state of Islamic social finance in Türkiye, focusing on the roles of waqf and zakat in economic empowerment and social welfare. By analyzing the development and contemporary dynamics of Islamic social finance in Türkiye, this research seeks to offer insights into the sustainability, opportunities, and challenges associated with managing Islamic social finance instruments in the modern era.

B. LITERATURE REVIEW

1. The Concept of Islamic Social Finance

Islamic social finance is an integral part of the Islamic economic system that aims to improve the welfare of society through various instruments, such as zakat, waqf, alms, and qard hasan. Zakat is an obligation for Muslims to set aside some of their wealth to help the eight recipient groups (asnaf) as mentioned in the Qur'an (QS. At-tawbah: 60). Besides serving as a form of worship, zakat also plays a role in wealth redistribution and poverty alleviation (Najmul Hasan, 2008; Shah, 2023). Meanwhile, sadaqah is a voluntary gift given to the needy or entitled parties, solely for the pleasure of Allah SWT. By Islamic law, zakat is obligatory, while sadaqah is *sunnah (optional)* and is more of a short-term aid (Ahmad & Ahmad, 2017).

Waqf is a form of permanent donation, which is a gift of wealth that is utilized for the benefit of the community with the aim of obtaining the pleasure of Allah. Waqf assets allow the assets to be used productively in the long term, such as the construction of hospitals, schools, and other public facilities (Al-Hanafi, 1997). In addition, qard hasan is an interest-

free loan scheme provided to individuals in need, with the aim of promoting economic independence without burdening recipients with usury-based debt (Ab Latif et al., 2024). These four instruments reflect the principles of social justice (*'adalah*) and solidarity (*ta'awwun*) in the Islamic economy, which aim to create sustainable welfare for society.

In practice, Islamic social finance is based on the key principles of social justice, solidarity and wealth distribution. The principle of social justice ensures that economic disparities can be minimized by distributing resources more equitably. Solidarity or *ta'awun* emphasizes the importance of a helping attitude in society, where well-off individuals are encouraged to help those who are less fortunate. Meanwhile, the wealth distribution mechanism in Islam is designed so that economic assets and resources do not only circulate in certain circles, but can benefit all levels of society (Zauro et al., 2020).

Historically, Islamic social finance has played an important role in the development of Muslim societies. During the time of the Prophet and the caliphs, zakat and waqf were the main sources of funding for various social programs, including the care of the poor, infrastructure development, and providing assistance to the needy. During the Ottoman Empire era, the waqf system flourished and became the main foundation in the provision of public services, such as hospitals, schools, bridges, and markets, which were funded through the proceeds of waqf asset management (Iskandar, Irsyamuddin, et al., 2023). To this day, the legacy of waqf from the Ottoman era still survives and continues to benefit the people of Turkiye (Buluş, 2009).

In the modern era, various Muslim countries continue to develop and reform Islamic social financial management to make it more effective and relevant to the challenges of the times. Zakat management institutions have now been organized more systematically, such as BAZNAS in Indonesia (Afifah et al., 2023), Jabatan Wakaf, Zakat and Haji (JAWHAR) in Malaysia (Razak, 2020), and Majlis Ugama Islam Singapura (MUIS) (Abdullah & Saiti, 2016), which play a role in collecting and distributing zakat more professionally. On the other hand, waqf management has also modernized, with the concept of productive waqf that allows waqf assets to be used in profitable economic activities, so that the benefits can be sustained.

Although waqf instruments have developed well, other Islamic social finance instruments, such as zakat and qard hasan, still face challenges in their implementation in Turkiye, which is still dominated by the conventional economic system. However, recent years have seen efforts to integrate qard hasan into the financial system in Turkiye, with some financial institutions starting to implement it. Based on research conducted by Ozdemir et al. (2023), only a few non-governmental organizations (NGOs) have practiced qard hasan in providing financing to the community. Therefore, stronger regulations are needed to optimize the role of Islamic social finance in Turkiye in supporting welfare and sustainable economic development (Kalkavan & Baş, 2021; Ülev, 2022).

2. Historical Overview of Islamic Social Finance in the Islamic World

Islamic social finance has been an integral part of economic and social development since the time of the Prophet Muhammad. The earliest recorded instance of waqf, a foundational element of Islamic social finance, dates back to the establishment of the Prophet's Mosque in Medina. The land for the mosque was acquired from an orphan in Quba, signifying the practice of endowment as an essential form of social welfare in Islam

(Omer, 2024). This historical precedent highlights that waqf was not merely an individual act of charity, but a structured mechanism aimed at sustainable community development.

Furthermore, the Prophet Muhammad actively encouraged his companions (*Sahabah*) to engage in social financial contributions. One of the most notable examples is the waqf established by Umar ibn al-Khattab. Upon acquiring a piece of land in Khaibar following a military expedition, Umar sought the Prophet's guidance on its optimal use. The Prophet advised him to endow the land in such a way that its benefits would continuously serve society without being subject to sale or inheritance (Umar, 2021). This act laid the foundation for the concept of inalienability in waqf, ensuring that endowed assets remain perpetually dedicated to public welfare.

Similarly, Uthman ibn Affan purchased a well in Medina and endowed it for public use, ensuring that all members of society, regardless of status, had access to clean water (Azrai Azaimi Ambrose et al., 2018). These early instances of waqf illustrate how Islamic social finance was institutionalized as a means of wealth redistribution, addressing societal inequalities while fostering long-term socioeconomic stability. Unlike mere charitable donations (*sadaqah*), waqf was designed to provide continuous, sustainable benefits rather than immediate, one-time relief.

Following the era of the Prophet, Islamic social finance continued to evolve and was systematically implemented across various Islamic empires, including the Abbasid, Umayyad, Mamluk, Seljuk, and Ottoman dynasties. These governments institutionalized zakat, waqf, and other financial instruments to build public infrastructure and enhance social welfare. The waqf system, in particular, became a crucial economic tool for funding public projects such as mosques, schools, libraries, hospitals, and water supply systems. During the Ottoman period, the waqf system reached an unprecedented level of sophistication, with endowments financing the construction and maintenance of essential public services (Iskandar, Irsyamuddin, et al., 2023; Karavardar & Akar, 2022). Notable examples include the Suleymaniye Mosque in Istanbul, built by Sultan Suleyman the Magnificent, and Al-Azhar University in Egypt, which remains a global center for Islamic education (Rashid et al., 2022). These waqf-funded institutions were not merely religious centers but also hubs for education, healthcare, and social services, demonstrating the multi-dimensional impact of Islamic social finance on society.

The significance of these waqf-based initiatives lies in their sustainability. Unlike tax-funded public projects that rely on fluctuating state revenues, waqf properties were self-sustaining. The revenue generated from waqf assets, such as rental income from endowed commercial properties, ensured the continuous operation of social services. This long-term economic model provided financial stability to public institutions, reinforcing the role of waqf as a fundamental pillar of Islamic economic governance.

In the modern era, Islamic social finance has undergone significant transformation, adapting to contemporary economic structures while retaining its fundamental principles. Today, zakat, sadaqah, and waqf are managed through structured institutions that employ modern financial instruments and governance mechanisms to maximize their social impact (Rahim et al., 2020). A key innovation in this regard is the shift from passive waqf assets—where properties remain idle—to productive waqf management, where endowed assets generate sustainable income through investment and commercial utilization. For instance, waqf funds are now used to finance hospitals, educational institutions, and social

enterprises, ensuring both social and economic benefits for communities (Ascarya & Tanjung, 2021; Mutaqin & Guntoro, 2023). In several countries, waqf assets have been integrated into national development strategies, demonstrating their potential to support infrastructure projects and alleviate poverty.

Additionally, Islamic financial institutions have introduced hybrid models that combine traditional Islamic social finance instruments with modern financial products. The integration of *qard hasan* (benevolent loans) into microfinance initiatives has provided interest-free capital to small businesses and entrepreneurs, promoting financial inclusion (Kunhibava et al., 2024). Similarly, *sukuk* (Islamic bonds) have been utilized to fund large-scale public infrastructure projects, leveraging public investments while adhering to sharia-compliant financial principles (Salam & Iskandar, 2021).

Another noteworthy development is the emergence of cash waqf as a flexible and scalable alternative to traditional waqf models. Unlike fixed asset waqf, which primarily consists of immovable properties such as land and buildings, cash waqf allows for the mobilization of liquid assets that can be invested in productive sectors (Mutaqin & Guntoro, 2023). This model enables waqf institutions to generate returns that fund social initiatives, such as scholarships, healthcare programs, and poverty alleviation projects.

The evolution of Islamic social finance reflects its adaptability in addressing contemporary socioeconomic challenges. By integrating traditional charitable mechanisms with modern financial instruments, Islamic social finance continues to play a crucial role in fostering economic justice, financial inclusion, and sustainable development.

3. Islamic Social Finance in the Turkish Context

Islamic finance in Turkiye was officially recognized in 1983 with the introduction of the concept of Special Finance Institutions (SFIs), which allowed Islamic financial institutions to operate within the country's legal and economic framework. This development led to the establishment of several pioneering Islamic financial institutions, including Faisal Finance, Albaraka Türk, Kuveyt Türk, Anadolu Finance, İhlas Finance, and Asya Finance (Kaplan, 2020). However, due to Turkiye's strong adherence to secularism, the term "Islamic finance" is not formally used. Instead, these financial entities are referred to as "Participatory Banks" (*Katılım Bankaları*). Despite the absence of explicit Islamic terminology, these banks operate based on Islamic financial principles, particularly the prohibition of interest (*riba*), which is a fundamental tenet of Islamic finance.

Over time, Participatory Banks in Turkiye have expanded their scope beyond commercial finance by incorporating various Islamic social finance instruments. One such instrument is *qard hasan*, an interest-free loan designed to provide financial assistance without imposing a repayment burden on the recipient, thereby aligning with the ethical and social objectives of Islamic finance (Aysan et al., 2013).

Islamic social finance in Turkiye continues to grow, primarily through the preservation and productive management of waqf (endowments) inherited from the Ottoman era. Unlike conventional charitable donations, waqf assets often in the form of land, real estate, or financial resources are structured to generate continuous and long-term benefits for society. The effective governance of these assets ensures their sustainability, enabling them to support various socio-economic initiatives across generations.

Thanks to Türkiye's well-organized waqf management system, communities continue to benefit from these assets through various programs, including cash assistance for vulnerable groups, scholarship programs for students, and in-kind distributions such as food and educational materials. This model demonstrates that waqf is not merely a philanthropic instrument but serves as an integral component of the nation's social welfare system, helping to alleviate poverty and reduce economic inequality.

Beyond waqf, other Islamic social finance instruments, such as zakat (obligatory almsgiving), sadaqah (voluntary charity), and qard hasan (benevolent loans), continue to play a vital role in Türkiye's economic and social landscape. Zakat is primarily collected and distributed through official institutions, such as Diyanet (the Presidency of Religious Affairs), as well as various Islamic philanthropic organizations, including IHH (İnsani Yardım Vakfı), Hayrat Vakfı, İlim Yayma Cemiyeti, and Türk Kızılay (the Turkish Red Crescent) (Azrak, 2022; Kayadibi et al., 2017). These institutions ensure that zakat funds reach their intended recipients, including the economically disadvantaged, orphans, and those in need of educational support.

In Türkiye, voluntary almsgiving (*sadaqah*) is more commonly referred to as bağış (donations), a broad term encompassing charitable contributions to mosques, humanitarian organizations, and social institutions. The inclusivity of this terminology allows individuals from diverse backgrounds to participate in philanthropic activities. However, zakat and sadaqah specifically linked to Islamic teachings are generally managed by Muslim-focused institutions to ensure their proper allocation in accordance with Shariah principles.

The concept of qard hasan is a relatively recent addition to Türkiye's Islamic financial landscape. It was first introduced in 2018 by the NGO İKSAR as an initiative to provide interest-free loans for individuals in need of business capital or emergency financial relief. Although still in its early stages, qard hasan has the potential to become a powerful tool for financial inclusion and poverty alleviation. Efforts are currently underway to expand this model through partnerships with institutions such as MÜSİAD (Independent Industrialists and Businessmen's Association) and Türk Kızılay (Ozdemir et al., 2023). With growing awareness of Islamic social finance, qard hasan is expected to play an increasingly significant role in promoting economic empowerment and social justice in Türkiye.

C. METHODOLOGY

This research utilized qualitative methods with a historical approach and policy analysis to examine the evolution of Islamic social finance in Türkiye. The historical approach is used to understand the development of Islamic social finance from the Ottoman era to the modern era, including changes in regulations and practices that occurred over time. Meanwhile, policy analysis is conducted to evaluate the role of the government and related institutions in managing Islamic social finance instruments such as waqf, zakat and qard hasan. This approach allows the research to delve deeply into how policy and regulatory transformations have affected the effectiveness of Islamic social finance in supporting community welfare.

Data collection was conducted through a literature study and analysis of legal documents relating to the regulation and practice of Islamic social finance in Türkiye. The literature study included academic research, institutional reports, as well as publications that discuss the Islamic social finance system in various historical periods. Meanwhile, the

legal document analysis focuses on the regulations related to waqf and zakat management implemented in Turkiye, both during the Ottoman period and after economic modernization. The analytical techniques used are historical and thematic analysis to identify patterns, changes, and challenges faced in the implementation of Islamic social finance. With this combination of methods, the research can provide a comprehensive understanding of the role of Islamic social finance in the social and economic context of Turkiye.

D. RESULTS AND DISCUSSION

1. Historical Analysis of Islamic Social Finance in Turkiye

Waqf played a crucial role in the economic and social development of the Ottoman Empire, serving not only as an instrument of worship but also as a fundamental pillar in the construction of public infrastructure. Various facilities, including mosques, schools, hospitals, libraries, roads, public baths, soup kitchens, and water kiosks (çeşme), were established through waqf funds. This highlights that Islamic social finance was deeply integrated into the Ottoman economic system and played a vital role in enhancing societal well-being.

One of the key innovations within the Ottoman waqf system was the introduction of cash waqf, which provided financial support to individuals in need of business capital. Although its legitimacy was debated among scholars, its benefits led to widespread acceptance and continued practice. The support of the Ottoman nobility and sultans further strengthened the cash waqf system, ensuring its sustainability within the broader Islamic social finance framework. Regardless of the underlying motivations of the elite, the contribution of cash waqf to economic empowerment remains undeniable.

The administration of waqf in the Ottoman era was overseen by key Islamic institutions, including the Şeyhülislam, Sadrazam, Darüssaade Ağası, and Kadi Istanbul, who were appointed by the Sultan to ensure the proper management and optimization of waqf assets. Whether managed by official institutions or private individuals, all waqf properties were required to be registered with the qadi (Islamic court) and documented in a vakfiye to establish their legal status. This documentation system played a crucial role in ensuring transparency and sustainability in waqf management. The impact of effective waqf administration was not limited to major urban centers but also extended to rural areas, where it contributed significantly to public welfare. The surplus generated from well-managed waqf assets became a notable source of state revenue, demonstrating that waqf was not only a social welfare tool but also a contributor to economic stability.

In 1826, the Ottoman Empire introduced a significant reform in waqf administration by establishing the Evkaf-ı Hümayun Nezareti, a ministry-level institution responsible for waqf governance. This marked the transition from decentralized to more professional and centralized management. Over time, waqf assets that were previously administered by small institutions or individuals were gradually integrated into this centralized system, ensuring more effective management and investment for the benefit of society. Through this structured approach, waqf evolved beyond a philanthropic mechanism and became a key component of state economic policy. The administrative model developed during this period continues to influence waqf management practices in many Muslim-majority countries today.

The establishment of the Evkaf-ı Hümayun Nezareti also enhanced the efficiency of cash waqf management. One notable reform was the introduction of avarız vakfı (a form of land tax categorized as cash waqf), which significantly increased waqf funds. This allowed the government to expand financial assistance to those in need. However, despite these reforms, irregularities in waqf management persisted. To address this issue, the Ottoman government issued a waqf governance regulation in 1863, which granted waqf administrators the authority to take legal action against individuals or groups found guilty of misappropriating waqf assets. Those convicted of mismanagement faced severe penalties, including imprisonment or exile, reflecting the government's strong commitment to preserving the integrity of the waqf system.

Following the collapse of the Ottoman Empire and the establishment of the Republic of Türkiye in 1923, the waqf system underwent a drastic transformation. The modern Turkish government assumed control of waqf assets previously managed by the Evkaf-ı Hümayun. According to Özsaraç (2019), the capital accumulated from cash waqf during the Ottoman period was later utilized to establish VakıfBank, a state-owned financial institution. However, despite its name, VakıfBank operated on a conventional, interest-based financial model, which diverged from the original principles of cash waqf in Islam. The profits generated by the bank were directed to the General Directorate of Turkish Foundations (Vakıflar Genel Müdürlüğü, VGM) and other government entities, marking a shift in the role of waqf from an Islamic philanthropic mechanism to a state-controlled financial resource.

2. Contemporary Dynamics of Islamic Social Finance in Türkiye

The development of Islamic social finance in Türkiye presents a compelling subject of study due to its rich historical legacy and evolving economic policies. Türkiye inherits the financial traditions of the Ottoman Empire, which for centuries implemented an Islamic-based financial system, particularly through waqf (Islamic endowments) and zakat (obligatory almsgiving). However, the transition from a sultanate to a secular republic led to significant transformations in the management and institutional framework of Islamic finance. Even though Türkiye's population is predominantly Muslim, the integration of Islamic economic principles into national financial policies has faced numerous challenges.

A pivotal moment in Türkiye's Islamic finance sector was the introduction of regulations permitting the establishment of Participatory Banks, which operate under an interest-free financial model. These banks (katılım bankaları) have provided an avenue for Islamic finance to develop within a secular regulatory framework, albeit under different conditions compared to other Muslim-majority countries. On the philanthropic side, the legal framework governing waqf in modern Türkiye has undergone substantial shifts. During the Ottoman era, waqf was strictly managed under Islamic principles, ensuring its permanence and non-transferability. However, contemporary Turkish law has redefined waqf under a broader classification as vakıf (foundations), many of which are not necessarily based on Islamic law. This shift has led to a dilution of the traditional Islamic identity of waqf, aligning it more closely with secular charitable organizations regulated under Turkish civil law.

The 1936 regulation on community waqf (cemaat vakfı) marked a significant turning point, enabling the establishment of new waqf institutions under a foundation-based model. This transition facilitated greater involvement from both communities and

corporations in waqf management, fostering the growth of large philanthropic institutions such as Vehbi Koç Vakfı, Sabancı Vakfı, TUSEV, and Aydın Doğan Vakfı. These institutions have played a transformative role in modern waqf management, leveraging diversified funding sources, including corporate profits and private donations. The impact of these waqf-based foundations is substantial, particularly in sectors such as education and healthcare, where numerous universities, schools, hospitals, and social service centers have been established through waqf funds.

Additionally, the Turkish government continues to oversee historical waqf assets through Vakıflar Genel Müdürlüğü (VGM), the Directorate General of Foundations, which manages endowments inherited from the Ottoman period. As of 2024, VGM reported a revenue of 660 million Turkish Lira (approximately IDR 299.95 billion) from waqf asset management. This revenue underscores the continuing relevance of waqf as both an economic and social instrument. The funds are allocated across various social programs, including scholarships for underprivileged students, direct cash assistance for low-income families, and microfinance initiatives to support small businesses. The role of VGM highlights how waqf remains a cornerstone of Turkiye's philanthropic economy, contributing to social welfare and philanthropy-driven economic development.

Beyond waqf, zakat management in Turkiye is administered through both public and private institutions. The Presidency of Religious Affairs (Diyanet) serves as the primary national authority overseeing zakat collection and distribution. In 2024, Diyanet reported the collection of 354 million Turkish Lira (approximately IDR 161.42 billion) from zakat fitrah and zakat mal, which was subsequently distributed to over 2.046 million beneficiaries through various social programs, including financial aid for impoverished families, educational scholarships, and healthcare support. Despite Turkiye's secular governance structure, these figures reflect the sustained importance of Islamic philanthropy in addressing socio-economic disparities.

In addition to Diyanet, several prominent private institutions actively manage and distribute zakat and other forms of Islamic charitable contributions. Organizations such as İHH (İnsan Hak ve Hürriyetleri İnsani Yardım Vakfı), Türk Kızılay (Turkish Red Crescent), Hayrat Foundation, Beşir Foundation, and Yetim Vakfı play a crucial role in providing humanitarian aid, disaster relief, and economic assistance to vulnerable populations. The presence of these institutions underscores the resilience of Islamic social finance in Turkiye despite its secular legal framework.

3. The Potential and Challenges of Islamic Social Finance in Turkiye

The evolution of Islamic social finance in Türkiye demonstrates how Islamic financial principles can adapt within a secular economic system. During the Ottoman era, waqf was deeply rooted in Islamic jurisprudence and served as a cornerstone of social welfare. In contrast, contemporary waqf institutions have shifted toward a more corporate-oriented philanthropic model, aligned with modern governance standards. This shift brings both opportunities and challenges. On the positive side, incorporating waqf into the broader national economic structure has led to more professional management, greater transparency, and broader reach in philanthropic initiatives. However, the move away from traditional Islamic norms, such as the emergence of interest-based institutions like VakıfBank raises valid concerns about the erosion of core Islamic values in the management of waqf and zakat.

The role of the state remains central in Türkiye's Islamic social finance landscape. Institutions such as the General Directorate of Foundations (VGM) and Diyanet continue to play key roles, illustrating that despite the country's secular framework, Islamic philanthropy remains deeply embedded in its social and economic fabric. What has emerged is a pluralistic model of Islamic social finance: a combination of state-regulated waqf assets, corporate-led charitable foundations, and private humanitarian organizations. This hybrid model could offer useful insights for other Muslim-majority countries undergoing similar socio-economic transitions.

With approximately 99.8% of the population identifying as Muslim and a strong cultural emphasis on charitable giving, Türkiye has significant potential to expand the reach and impact of Islamic social finance. Instruments like zakat and waqf could be instrumental in reducing poverty and promoting economic empowerment. For example, estimates suggest that if only 2.5% of the income of the wealthiest 20% of Turkish society were distributed through zakat, it could lead to a considerable reduction in the national poverty rate. This underlines the latent capacity of Islamic social finance as a mechanism for sustainable economic justice.

Realizing this potential, however, requires improvements in efficiency, transparency, and system integration particularly in Zakat Administration. A major limitation is the absence of centralized data on zakat collection and distribution, which makes it difficult for policymakers and the public to assess the effectiveness of existing programs. Türkiye's current decentralized zakat structure limits its utility as a systematic Islamic economic instrument. In contrast, the waqf system remains highly regulated by the state, with limited involvement from independent Islamic financial institutions. Moreover, the shift of waqf from a specifically Islamic endowment to a more generalized philanthropic tool raises questions about whether its original religious and economic purposes are being preserved.

Despite these challenges, Türkiye's Islamic social finance framework has evolved into a robust system with institutional backing from both public and private sectors. The VGM continues to be a key actor in funding education, healthcare, and humanitarian programs. Zakat is managed through a mix of state religious bodies like Diyanet and private charitable organizations, which together contribute meaningfully to poverty alleviation. Prominent philanthropic institutions such as the Vehbi Koç Foundation and the Sabancı Foundation further bolster this landscape, supporting a wide array of social welfare programs.

To maximize the benefits and unlock the potential of Islamic social finance, Türkiye would benefit from a more integrated and accountable management model for zakat and waqf. Strengthening inter-institutional coordination, building public trust, and ensuring that funds are allocated to initiatives with measurable social impact will be essential. Such reforms would not only enhance the role of Islamic philanthropy in addressing economic disparities but also reaffirm its relevance in contemporary Turkish society.

E. CONCLUSION

The conclusion of this study highlights that the evolution of Islamic social finance in Türkiye, from both historical and contemporary perspectives, demonstrates significant progress despite operating within a secular framework. The management of waqf and zakat, rooted in the Ottoman Empire, has undergone a profound transformation, particularly with the establishment of institutions such as Vakıflar Genel Müdürlüğü (VGM),

which oversees waqf assets in a centralized and professional manner. Additionally, both public and private institutions play a crucial role in the collection and distribution of zakat. While these transformations have been influenced by Turkiye's secular governance, they have largely retained the core Islamic principles of social empowerment, education, and public welfare.

Despite challenges related to transparency and efficiency in fund distribution, Turkiye's Islamic philanthropy sector holds immense potential for optimization. With over 99% of the population being Muslim and a deeply ingrained culture of charitable giving, zakat and waqf have the capacity to serve as key instruments in alleviating poverty and reducing social inequality. Strengthened regulations, enhanced governance, and the integration of technology to ensure transparency in fund management will be critical in maximizing their impact on economic empowerment.

Overall, Islamic social finance in Turkiye has the potential to significantly contribute to social and economic development through both waqf and zakat. With the right reforms emphasizing transparency, accountability, and efficient management Turkiye's system could serve as a model for other Muslim-majority countries. This study underscores that, when managed effectively, Islamic social finance can be a powerful tool for promoting social justice, economic equity, and long-term sustainability through philanthropy.

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