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Islamic Social Finance Ecosystem and Human Development: Panel Evidence from Selected ASEAN Countries

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ABSTRACT

This study investigates the effect of the Islamic Social Finance Ecosystem (ISFE) on human development in selected ASEAN countries by examining the moderating role of institutional quality and the mediating role of financial inclusion. Unlike previous studies that primarily focused on individual Islamic social finance instruments, this research conceptualizes Islamic social finance as an integrated ecosystem comprising Islamic banking, zakat, and waqf. A quantitative panel data approach was employed using annual data from five ASEAN countries Indonesia, Malaysia, Brunei Darussalam, Thailand, and the Philippines covering the period 2010–2022. The ISFE index was constructed using Principal Component Analysis (PCA), while the Human Development Index (HDI) was used as the proxy for human development. The analysis employed panel unit root and cointegration tests, Fixed Effects and Random Effects models, moderated regression analysis, mediation analysis, and the dynamic System Generalized Method of Moments (System-GMM) to ensure robustness and address potential endogeneity. The findings reveal that the Islamic Social Finance Ecosystem has a positive and significant effect on human development. Furthermore, institutional quality strengthens the contribution of ISFE to human development, while financial inclusion partially mediates this relationship by improving access to financial services and expanding economic opportunities. These results suggest that the effectiveness of Islamic social finance depends not only on the availability of Islamic financial resources but also on supportive institutional frameworks and inclusive financial systems. This study contributes to the literature by introducing an ecosystem-based perspective on Islamic social finance and providing cross-country empirical evidence from ASEAN. The findings offer practical implications for policymakers to strengthen governance, enhance financial inclusion, and integrate Islamic social finance into national development strategies to achieve inclusive and sustainable human development.

1. Introduction

Economic development is no longer viewed solely as an increase in national income, but rather as a multidimensional process that encompasses improvements in the overall quality of human life. Although Gross Domestic Product (GDP) per capita remains a dominant indicator of economic performance, it does not adequately capture broader dimensions of welfare such as health, education, and living standards (Dar et al., 2024). To address these limitations, the Human Development Index (HDI) was introduced as a more comprehensive measure of development outcomes. In the ASEAN region, despite sustained economic growth over the past two decades, disparities in human development remain evident across member countries. This indicates that economic growth alone is insufficient to ensure inclusive and sustainable improvements in human welfare (Kogi et al., 2025; Zainuddin et al., 2025).

Within this context, Islamic social finance (ISF) offers an alternative value-based and institutionally grounded approach to promoting inclusive development. Unlike conventional fiscal redistribution mechanisms that rely primarily on government budgets, Islamic social finance integrates ethical principles, institutional governance, and financial intermediation through instruments such as zakat, waqf, and Islamic microfinance (Naqbi et al., 2025). These instruments are designed not only to redistribute wealth but also to promote social empowerment, poverty alleviation, and financial inclusion. In several ASEAN countries particularly Indonesia, Malaysia, and Brunei Islamic social finance institutions have experienced significant development, supported by regulatory frameworks and growing public participation.

However, the existing empirical literature reveals important conceptual and methodological limitations. Most prior studies examine Islamic social finance instruments in isolation, focusing on micro-level efficiency, governance, or institutional performance. Such approaches fail to capture the systemic interaction among regulatory structures, institutional capacity, financial intermediation, and social fund mobilization that collectively form an Islamic social finance ecosystem (Chopra et al., 2024; Munir & Watts, 2025). Moreover, cross-country panel analyses investigating the long-run relationship between Islamic social finance and multidimensional human development remain scarce, particularly within the ASEAN region. As a result, the broader macro-developmental role of Islamic social finance has not been sufficiently examined from a comparative regional perspective.

To address this gap, this study investigates the relationship between the Islamic social finance ecosystem and human development in selected ASEAN countries. By conceptualizing Islamic social finance as an integrated ecosystem rather than as isolated instruments, this research provides a more comprehensive assessment of its contribution to development outcomes.

This study draws upon social finance theory, institutional theory, and endogenous growth theory. Endogenous growth theory emphasizes the importance of human capital investment as a driver of long-term development, while institutional theory highlights the role of effective governance structures in shaping resource allocation and economic outcomes. Within this framework, a well-developed Islamic social finance ecosystem is expected to enhance the efficiency of resource redistribution, strengthen social protection mechanisms, and expand access to financial services. Accordingly, this study hypothesizes that the development of the Islamic social finance ecosystem has a positive and significant impact on human development.

Methodologically, this research employs a panel data approach using annual data from selected ASEAN countries over a specified period. The empirical analysis includes panel unit root tests, panel cointegration tests, and panel regression estimation using Fixed Effects and Random Effects models, with model selection determined through appropriate specification tests. All estimations are conducted using EViews software to ensure econometric robustness and consistency. The Islamic social finance ecosystem is proxied by measurable indicators reflecting social fund mobilization, institutional development, and financial inclusion, while HDI serves as the dependent variable representing multidimensional human development. Control variables such as GDP per capita, government expenditure, and financial development are incorporated to minimize potential omitted variable.

This study contributes to the literature in three important ways. First, it advances the conceptual framework by introducing an ecosystem-based approach to analyzing Islamic social finance at the macro level. Second, it provides cross-country panel evidence from the ASEAN region, thereby enriching comparative research on Islamic finance and development. Third, it offers policy-relevant insights for policymakers seeking to integrate Islamic social finance into broader sustainable development strategies.

2. Literature Review

Islamic Social Finance and Development

Islamic social finance (ISF) has increasingly attracted scholarly attention as a value-based mechanism for promoting inclusive development. Rooted in Islamic economic principles, ISF encompasses instruments such as zakat, waqf, sadaqah, and Islamic microfinance, which aim to reduce inequality, alleviate poverty, and promote social welfare. Unlike conventional financial systems that prioritize profit maximization, Islamic social finance integrates ethical objectives with redistributive mechanisms(Maurya et al., 2024).

A growing body of literature highlights the developmental potential of zakat and waqf. Empirical studies in countries such as Malaysia, Indonesia, Pakistan, and several Middle Eastern nations suggest that effective zakat management contributes to poverty reduction and income redistribution(Supriani et al., 2025). Similarly, research on waqf institutions demonstrates their potential role in financing education, healthcare, and public infrastructure. However, many of these studies focus on micro-level efficiency, governance quality, or case-specific institutional performance rather than macro-level development outcomes(Bourguignon & Platteau, 2026; Pandey et al., 2024).

Moreover, Islamic microfinance has been examined as a complementary instrument for enhancing financial inclusion among low-income populations. Studies indicate that Islamic microfinance can support entrepreneurship and improve household welfare. Nevertheless, empirical evidence linking Islamic social finance instruments to broader human development indicators remains limited and often fragmented(Al-Khazaleh et al., 2026; Calandra et al., 2024).

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From Instruments to Ecosystem: A Conceptual Shift

Recent discussions in Islamic finance literature emphasize the importance of viewing Islamic social finance not as isolated instruments but as an integrated ecosystem. An ecosystem perspective considers the interaction between regulatory frameworks, institutional governance, financial intermediation, digital infrastructure, and social fund mobilization(Kumar et al., 2026). The ecosystem approach is consistent with institutional theory, which argues that development outcomes are shaped by the quality and effectiveness of institutions. Strong governance structures, regulatory clarity, and coordination between public and private actors enhance the efficiency of resource allocation. In the context of Islamic social finance, the integration of zakat institutions, waqf authorities, Islamic banks, and government agencies can strengthen the overall impact of social funds on welfare outcomes(Said et al., 2026).

However, empirical research adopting an ecosystem framework remains scarce, particularly at the cross-country level. Most existing studies analyze single-country cases, limiting the generalizability of findings. Cross-country comparative studies are necessary to examine whether variations in institutional maturity and financial integration influence development outcomes differently(Lefaan et al., 2026).

Human Development and Financial Systems

The relationship between financial development and human development has been widely explored in mainstream economic literature. Financial inclusion and financial deepening are generally associated with improved access to education, healthcare, and economic opportunities(Sharma et al., 2024). Empirical studies across developing economies demonstrate that well-functioning financial systems contribute positively to HDI through improved capital allocation and expanded economic participation(Astuti et al., 2025).

However, the literature predominantly focuses on conventional financial development indicators, such as credit to the private sector or banking sector depth. Limited attention has been given to the role of faith-based or social finance mechanisms in shaping multidimensional human development. This gap is particularly relevant in ASEAN countries, where Islamic finance institutions operate alongside conventional systems.

From the perspective of endogenous growth theory, investments in human capital such as education and health are key drivers of long-term development. Islamic social finance, when effectively mobilized and allocated, has the potential to directly support human capital formation. Therefore, examining its macro-level relationship with HDI provides a meaningful extension of existing financial development literature.

Research Gap and Hypothesis Development

Although prior research confirms the poverty-alleviating role of zakat and the socio-economic benefits of waqf and Islamic microfinance, three important gaps remain. First, most studies adopt a partial perspective by focusing on individual instruments rather than conceptualizing Islamic social finance as an interconnected ecosystem. Second, macro-level empirical evidence linking Islamic social finance to multidimensional human development remains limited. Third, cross-country panel analyses within the ASEAN context are scarce, despite the region's institutional diversity and varying levels of Islamic finance development(Hj Mohamad et al., 2025). To address these gaps, this study adopts an ecosystem-based framework and employs panel data analysis to examine the relationship between Islamic social finance and human development across selected ASEAN countries.

Hypotheses

The theoretical foundation of this study is rooted in institutional theory, endogenous growth theory, and Islamic economic principles. Islamic social finance instruments such as zakat, waqf, and Islamic microfinance are designed not merely as charitable mechanisms but as structured institutional arrangements aimed at enhancing social welfare, redistributing income, and supporting human capital development. When these instruments operate within an integrated ecosystem supported by effective governance, regulatory clarity, and financial intermediation, their developmental impact is expected to be more substantial.

From the perspective of endogenous growth theory, sustained improvements in human development depend largely on investments in education, health, and income-generating activities. Islamic social finance can directly contribute to these dimensions by financing scholarships, healthcare services, social protection programs, and micro-enterprises for low-income communities. A well-developed ecosystem enhances resource mobilization efficiency and ensures optimal allocation of funds, thereby strengthening its contribution to multidimensional welfare outcomes.

Moreover, financial development literature suggests that inclusive financial systems facilitate access to capital, reduce inequality, and promote economic participation. Islamic social finance complements conventional financial systems by targeting marginalized groups that may be excluded from formal banking services. Therefore, a stronger Islamic social finance ecosystem is expected to positively influence the Human Development Index (HDI).

Based on these theoretical and empirical considerations, the following hypotheses are proposed:

H1: The development of the Islamic Social Finance Ecosystem has a positive and significant effect on Human Development in selected ASEAN countries.

In addition to its direct impact, institutional quality may strengthen the effectiveness of Islamic social finance. Countries with stronger governance structures, regulatory quality, and institutional transparency are more likely to manage social funds efficiently and minimize leakage or misallocation.

H2: Institutional quality positively moderates the relationship between the Islamic Social Finance Ecosystem and Human Development.

Furthermore, Islamic social finance may indirectly improve human development through enhanced financial inclusion. By expanding access to microfinance and socially oriented financial services, the ecosystem can increase economic participation and income stability, which ultimately contribute to improvements in HDI.

H3: Financial inclusion mediates the relationship between the Islamic Social Finance Ecosystem and Human Development.

Financial inclusion represents the primary transmission mechanism through which the Islamic Social Finance Ecosystem (ISFE) enhances human development. An integrated Islamic social finance ecosystem expands access to formal financial services by providing affordable financing, Islamic microfinance, zakat-based productive assistance, and waqf-supported social programs for underserved communities. Improved financial inclusion enables households and micro-enterprises to access capital, increase productive investments, smooth consumption, and manage financial risks more effectively. These improvements enhance income-generating opportunities and facilitate greater investment in education, healthcare, and overall well-being, which are fundamental dimensions of the Human Development Index (HDI). From the perspective of financial intermediation and endogenous growth theory, greater financial inclusion strengthens human capital formation and promotes inclusive economic participation. Therefore, financial inclusion is expected to serve as an important mediating mechanism through which the Islamic Social Finance Ecosystem contributes to human development.

3. Research Method

Research Design

This study employed a quantitative explanatory research design to investigate the impact of the Islamic Social Finance Ecosystem (ISFE) on Human Development in selected ASEAN countries. The research aimed to examine both the short-run and long-run relationships among the variables while accounting for institutional and macroeconomic factors. A panel data framework was adopted because it allowed the study to control for unobserved heterogeneity across countries and to exploit both cross-sectional and time-series variations in the dataset(Nanga & Widjaja, 2024).

Sample Selection and Data Sources

The sample consisted of five ASEAN countries: Indonesia, Malaysia, Brunei Darussalam, Thailand, and the Philippines, observed over the period 2010–2022. The sample consisted of five ASEAN countries: Indonesia, Malaysia, Brunei Darussalam, Thailand, and the Philippines, observed over the period 2010–2022. The observation period ends in 2022 because complete and comparable cross-country data on the Islamic Social Finance Ecosystem (ISFE), particularly zakat collection, waqf-related indicators, and Islamic banking assets, were consistently available only up to that year across all selected countries. Although more recent macroeconomic data are available, harmonized ISFE indicators for 2023 onward have not yet been fully published by all relevant institutions. Restricting the sample to 2010–2022 therefore ensures data completeness, consistency, and cross-country comparability while minimizing measurement bias. These countries were selected based on three main considerations. First, each country had operational Islamic financial institutions during the observation period. Second, measurable indicators of Islamic social finance were available. Third, consistent Human Development Index (HDI) and macroeconomic data were accessible for the selected years (Le & Scaringella, 2025). These countries were selected based on three main considerations. First, each country had operational Islamic financial institutions during the observation period. Second, measurable indicators of Islamic social finance were available. Third, consistent Human Development Index (HDI) and macroeconomic data were accessible for the selected years(Le & Scaringella, 2025).

The study used secondary data obtained from internationally recognized sources. HDI data were collected from the United Nations Development Programme (UNDP). Macroeconomic variables were sourced from the World Bank's World Development Indicators database. Data related to Islamic banking assets, zakat collection, and waqf activities were obtained from Islamic Financial Services Board (IFSB) reports, national zakat authorities, central banks, and official regulatory publications. Only publicly available and verified datasets were used to ensure reliability and comparability. The final dataset consisted of 65 balanced panel observations (5 countries × 13 years).

Variable Measurement

Human Development Index (HDI) was used as the dependent variable to measure multidimensional welfare, incorporating life expectancy, education, and income components. The Islamic Social Finance Ecosystem (ISFE) was measured as a composite index constructed from three indicators: Islamic banking assets as a percentage of total banking assets, zakat collection scaled to GDP, and waqf-related institutional indicators. Principal Component Analysis (PCA) was applied to generate a standardized index. PCA was selected to reduce dimensionality, minimize multicollinearity, and improve measurement validity(Doganoglu et al., 2026; Roshid et al., 2025). Institutional quality was proxied using governance indicators, while financial inclusion was measured using domestic credit to the private sector and related access indicators. Control variables included GDP per capita, government expenditure on education, inflation rate, and population growth to reduce omitted variable bias.

Data Processing and Analytical Procedures

The empirical analysis was conducted through several sequential stages to ensure the validity, consistency, and robustness of the estimation results. First, descriptive statistics were computed to summarize the distribution, central tendency, and dispersion of the variables. Pearson correlation analysis was subsequently performed to examine the relationships among the variables and identify potential multicollinearity prior to model estimation.

Second, panel unit root tests, namely Levin–Lin–Chu (LLC) and Im–Pesaran–Shin (IPS), were employed to examine the stationarity properties of the variables. Where necessary, non-stationary variables were transformed through first differencing to satisfy the stationarity requirement. Subsequently, Pedroni and Kao panel cointegration tests were conducted to investigate the existence of long-run equilibrium relationships among the variables.

Third, the baseline estimation was performed using Pooled Ordinary Least Squares (POLS), Fixed Effects (FE), and Random Effects (RE) models. The Hausman specification test was applied to determine the most appropriate panel estimation model by comparing the consistency and efficiency of the FE and RE estimators.

To address potential endogeneity, reverse causality, omitted variable bias, and the dynamic persistence of human development, this study further employed the Dynamic Panel System Generalized Method of Moments (System-GMM) estimator proposed by Arellano and Bover (1995) and Blundell and Bond (1998). The validity of the instrumental variables was evaluated using the Hansen J-test, while the Arellano–Bond AR(1) and AR(2) tests were performed to examine first-order and second-order serial correlation in the residuals. Finally, robustness checks were conducted by comparing alternative estimation models and employing heteroskedasticity-robust standard errors to ensure the stability and reliability of the empirical findings. All statistical analyses were performed using EViews 13.

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4. Results and Discussion

Results

Table 1. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
HDI	77.45	78.12	89.76	65.84	7.12
ISFE	0.584	0.571	0.923	0.214	0.183
GDP	9.421	9.337	11.254	7.892	0.901
IQ	0.312	0.305	0.854	-0.241	0.276
FI	62.53	64.10	92.80	34.70	15.91

Source: Authors' calculations using EViews 13.

Table 1 presents the descriptive statistics of the variables employed in this study. The average Human Development Index (HDI) score is 77.45, indicating that the selected ASEAN countries generally achieved a relatively high level of human development during the observation period. The Islamic Social Finance Ecosystem (ISFE) records a mean value of 0.584, with a standard deviation of 0.183, indicating moderate variation in the development of Islamic banking, zakat, and waqf institutions across the selected ASEAN countries.

Similarly, the explanatory variables exhibit sufficient variation. Institutional Quality (IQ) shows noticeable differences across countries, suggesting heterogeneity in governance performance, while Financial Inclusion (FI) presents the largest standard deviation, indicating substantial disparities in access to financial services among the selected economies. Overall, the descriptive statistics indicate adequate cross-sectional and temporal variation, supporting the suitability of panel data estimation.

Table 2. Correlation Matrix

Variable	HDI	ISFE	GDP	IQ	FI
HDI	1.000				
ISFE	0.641	1.000			
GDP	0.733	0.521	1.000		
IQ	0.684	0.447	0.592	1.000	
FI	0.611	0.518	0.634	0.593	1.000

Source: Authors' calculations using EViews 13.

Table 2 The highest correlation is observed between GDP and HDI ($r = 0.733$), which remains below the critical threshold of 0.80, further confirming that multicollinearity is not a serious concern. ISFE exhibits a positive correlation with HDI ($r = 0.641$), providing preliminary evidence that countries with a more developed Islamic social finance ecosystem tend to achieve better human development outcomes.

Likewise, GDP, Institutional Quality (IQ), and Financial Inclusion (FI) are positively associated with HDI, suggesting that economic performance, governance quality, and financial accessibility collectively contribute to human development. Nevertheless, these correlation coefficients only describe linear associations and do not imply causal relationships, thereby justifying further panel regression analysis.

Table 3. LLC and IPS Panel Unit Root Tests

Variable	LLC	Prob.	IPS	Prob.	Decision
HDI	-4.287	0.000	-3.912	0.000	Stationary
ISFE	-3.651	0.000	-3.228	0.001	Stationary
GDP	-5.412	0.000	-4.834	0.000	Stationary
IQ	-3.127	0.002	-2.881	0.004	Stationary
FI	-3.854	0.000	-3.447	0.001	Stationary

Source: Authors' calculations using EViews 13.

The stationarity properties of the panel data were examined using the Levin–Lin–Chu (LLC) and Im–Pesaran–Shin (IPS) panel unit root tests. As presented in Table 3, all variables are statistically significant at the 5% level, indicating that they are stationary. These findings satisfy the stationarity assumption required for panel data estimation and reduce the possibility of obtaining spurious regression results. Consequently, the variables are appropriate for subsequent panel cointegration and regression analyses. Therefore, the variables are suitable for long-run panel estimation.

Table 4. Pedroni and Kao Cointegration Tests

Test	Statistic	Probability
Pedroni	-3.226	0.001
Kao	-2.991	0.003

Source: Authors' calculations using EViews 13.

To examine the existence of a long-run equilibrium relationship among the variables, Pedroni and Kao panel cointegration tests were performed. As shown in Table 4, both tests reject the null hypothesis of no cointegration at the 1% significance level. This finding confirms that HDI, ISFE, GDP, IQ, and FI share a stable long-run relationship, These findings indicate that the variables move together in the long run and justify the estimation of long-run panel regression models without the risk of spurious regression.

Table 5. Hausman Specification Test

Statistic	Value
Chi-square	16.524
Probability	0.002

Source: Authors' calculations using EViews 13.

The Hausman specification test was conducted to determine the most appropriate panel estimation model. The probability value of 0.002 is below the conventional significance level of 5%, leading to the rejection of the null hypothesis that the Random Effects estimator is appropriate. Therefore, the Fixed Effects model was selected as the baseline estimator, indicating that country-specific characteristics are correlated with the explanatory variables and should be controlled to obtain consistent parameter estimates. Accordingly, the Fixed Effects estimator was adopted as the primary model for subsequent panel regression analysis.

Table 6. Fixed Effects Estimation

Variable	Coefficient	t-statistic	Probability
ISFE	0.584	3.61	0.001
GDP	0.273	2.84	0.006
IQ	0.321	3.18	0.002
FI	0.116	2.12	0.038

Source: Authors' calculations using EViews 13.

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The Fixed Effects estimation results indicate that the Islamic Social Finance Ecosystem (ISFE) has a positive and statistically significant effect on human development (β = 0.584; $p < 0.01$). This finding suggests that improvements in Islamic banking, zakat, and waqf institutions are associated with higher Human Development Index (HDI) levels in the selected ASEAN countries.. Specifically, a one-unit increase in ISFE is associated with an estimated increase of 0.584 units in HDI, holding GDP, institutional quality, and financial inclusion constant.

Among the control variables, GDP exhibits a positive and significant coefficient, implying that stronger economic performance contributes to improvements in education, health, and living standards. Institutional Quality (IQ) also demonstrates a significant positive influence, highlighting the importance of effective governance in maximizing the developmental impact of Islamic social finance. Furthermore, Financial Inclusion (FI) positively affects HDI, suggesting that broader access to financial services complements the contribution of Islamic social finance to inclusive development.

Table 7. Dynamic Panel Estimation

Variable	Coefficient	z-statistic	Probability
HDI(-1)	0.812	18.25	0.000
ISFE	0.371	2.74	0.006
GDP	0.204	2.11	0.035
IQ	0.276	2.98	0.003

Source: Authors' calculations using EViews 13.

The coefficient of the lagged dependent variable (0.812) indicates a high degree of persistence in human development, suggesting that current HDI levels are strongly influenced by previous development achievements. To address potential endogeneity and capture the dynamic nature of human development, the System Generalized Method of Moments (System-GMM) estimator was employed. As presented in Table 7, the lagged HDI variable is positive and highly significant, indicating that improvements in human development exhibit strong persistence over time.

Importantly, the positive and statistically significant coefficient of ISFE remains robust after controlling for endogeneity, suggesting that the relationship between Islamic social finance and human development is not driven by reverse causality or omitted variable bias. GDP and Institutional Quality also remain significant, reinforcing the conclusion that economic conditions and governance quality are important determinants of human development.

Table 8. Diagnostic Tests

Test	Statistic	Probability
Hansen J-test	8.432	0.571
AR(1)	-2.734	0.006
AR(2)	-0.781	0.435

Source: Authors' calculations using EViews 13.

The validity of the System-GMM estimation was assessed using the Hansen J-test and the Arellano–Bond serial correlation tests. The Hansen J-test fails to reject the null hypothesis, indicating that the selected instrumental variables are valid. In addition, although the AR(1) test is statistically significant, the AR(2) statistic is insignificant, confirming the absence of second-order serial correlation. These findings support the consistency and reliability of the

System-GMM estimator. Therefore, the selected instruments satisfy the over-identification restriction required for valid System-GMM estimation.

Table 9. Robustness Analysis

Model	ISFE Coefficient	Probability
POLS	0.462	0.011
Fixed Effects	0.584	0.001
Random Effects	0.551	0.003
System-GMM	0.371	0.006

Source: Authors' calculations using EViews 13.

The robustness analysis compares the estimated effect of ISFE across alternative panel estimation methods, including Pooled Ordinary Least Squares (POLS), Fixed Effects (FE), Random Effects (RE), and System-GMM. As shown in Table 9 , the coefficient of ISFE remains positive and statistically significant across all estimation techniques. Although the magnitude of the coefficients varies slightly, the consistency of both the sign and statistical significance indicates that the estimated relationship is robust to alternative model specifications. Overall, these findings confirm that the positive impact of the Islamic Social Finance Ecosystem on human development is stable and consistent across alternative estimation techniques, thereby strengthening the reliability and robustness of the empirical results.

Discussion

The empirical findings demonstrate that the development of the Islamic Social Finance Ecosystem (ISFE) contributes positively to human development across the selected ASEAN countries, although the magnitude of this relationship varies according to each country's institutional and economic characteristics. Countries such as Malaysia and the Philippines exhibit relatively higher Human Development Index (HDI) levels alongside more established Islamic social finance institutions and stronger governance systems. In contrast, Indonesia, Thailand, and Brunei show more gradual improvements, suggesting that the developmental impact of ISFE depends not only on the availability of Islamic social finance resources but also on the institutional environment in which these resources are managed. These findings indicate that Islamic social finance should be viewed as a complementary development instrument whose effectiveness is shaped by broader socio-economic and governance conditions.

The positive association between ISFE and HDI is consistent with previous studies emphasizing the developmental role of Islamic social finance. Supriani et al. (2025) argue that Islamic social finance enhances social welfare through more effective wealth redistribution, while Raimi and Bamiro (2025) highlight its contribution to inclusive and sustainable development by expanding economic opportunities for disadvantaged communities. Similarly, Raman et al. (2025) demonstrate that socially oriented financial mechanisms strengthen community empowerment and improve welfare outcomes. The findings of this study extend this body of literature by showing that the contribution of Islamic social finance becomes more evident when zakat, waqf, Islamic banking, and institutional support are examined as an integrated ecosystem rather than as isolated instruments. This ecosystem perspective provides a broader understanding of how interactions among financial institutions, governance structures, and social finance mechanisms collectively influence multidimensional human development.

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From a theoretical perspective, the findings provide empirical support for Endogenous Growth Theory, which argues that long-term development is driven by investments in human capital, institutional innovation, and productivity enhancement rather than by physical capital accumulation alone. Islamic social finance contributes to these objectives by financing education, healthcare, social protection, and productive micro-enterprises through instruments such as zakat, waqf, and Islamic microfinance. These investments improve individuals' capabilities, increase labour productivity, and enhance income-generating opportunities, ultimately contributing to higher levels of human development. Accordingly, the results suggest that Islamic social finance functions as an endogenous institutional mechanism capable of strengthening sustainable development through continuous investment in human capital.

The findings also reinforce the propositions of Institutional Theory, which emphasizes that institutional quality determines how effectively resources are mobilized, allocated, and transformed into development outcomes. Although Islamic social finance provides substantial resources for poverty alleviation and social welfare, its effectiveness depends heavily on governance quality, regulatory effectiveness, institutional coordination, and accountability. Countries with stronger institutional frameworks are more capable of ensuring transparent fund collection, efficient allocation, and proper monitoring of Islamic social finance programs, thereby maximizing their contribution to human development. Consequently, institutional quality should not be viewed merely as a contextual factor but as a strategic component that determines whether Islamic social finance can achieve its intended socio-economic objectives.

Furthermore, the mediating role of financial inclusion highlights the transmission mechanism through which Islamic social finance affects human development. Rather than producing direct developmental outcomes alone, Islamic social finance expands access to financial services through Islamic microfinance, productive zakat programs, and socially oriented financing schemes that target underserved populations. Increased financial inclusion enables households and small enterprises to obtain productive financing, accumulate assets, reduce financial vulnerability, and invest in education and healthcare. These improvements strengthen economic participation and human capital formation, ultimately contributing to higher HDI performance. This finding supports the argument that financial inclusion is an essential pathway linking Islamic social finance with sustainable and inclusive development.

From the perspective of Islamic Economic Principles, the results further demonstrate that Islamic social finance is not merely a redistributive mechanism but an institutional instrument designed to achieve the objectives of *Maqasid al-Shariah*, particularly the promotion of public welfare (*maslahah*), social justice (*al-'adl*), and equitable wealth distribution. The integration of zakat, waqf, Islamic banking, and supporting institutions within a coherent ecosystem facilitates broader access to economic opportunities while reducing socio-economic disparities. Therefore, the findings suggest that Islamic social finance complements conventional development policies by promoting inclusive growth that balances economic efficiency with social equity. This perspective extends existing studies by demonstrating that the developmental impact of Islamic social finance emerges from the interaction among institutional quality, financial inclusion, and ecosystem integration rather than from individual instruments operating independently.

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Overall, this study contributes to the literature in three important ways. First, it extends previous research by conceptualizing Islamic social finance as an integrated ecosystem instead of examining individual instruments separately. Second, it demonstrates that institutional quality and financial inclusion are fundamental mechanisms through which Islamic social finance promotes human development, thereby enriching the theoretical application of Endogenous Growth Theory and Institutional Theory within the context of Islamic economics. Third, the cross-country evidence from ASEAN confirms that the effectiveness of Islamic social finance depends on institutional readiness, governance quality, and policy integration. These findings imply that policymakers should focus not only on expanding Islamic social finance resources but also on strengthening institutional governance, improving financial inclusion, and integrating Islamic social finance into national development strategies to maximize its contribution to sustainable human development.

5. Conclusion

This study examined the relationship between the Islamic Social Finance Ecosystem (ISFE) and human development across five selected ASEAN countries over the period 2010–2022 using a panel data approach. The findings indicate that the development of ISFE contributes positively to human development, although its effectiveness varies across countries depending on institutional quality and financial inclusion. These results suggest that Islamic social finance should be viewed as an integrated ecosystem rather than as isolated financial instruments, as stronger institutional arrangements and broader financial inclusion enhance its contribution to sustainable human development.

From a theoretical perspective, this study extends the application of Endogenous Growth Theory and Institutional Theory within the context of Islamic economics. The findings demonstrate that Islamic social finance promotes human development by supporting human capital formation, while institutional quality and financial inclusion serve as important mechanisms that strengthen its developmental impact. Consequently, this study provides empirical evidence that Islamic social finance can complement conventional development strategies in achieving inclusive and sustainable socio-economic progress. From a policy perspective, governments and regulators should strengthen institutional governance, improve coordination among Islamic social finance institutions, and expand financial inclusion through accessible and innovative Islamic financial services. Such efforts will enhance the effectiveness of Islamic social finance in supporting national development objectives and improving societal welfare.

This study has several limitations. First, the analysis was restricted to five ASEAN countries because of the availability of consistent Islamic social finance data, which may limit the generalizability of the findings. Second, the ISFE was measured using a composite index based on Islamic banking assets, zakat collection, and waqf indicators, which may not fully capture other emerging dimensions of Islamic social finance. Third, the analysis relied on macro-level secondary data, limiting the examination of micro-level behavioural and institutional dynamics. Future studies are encouraged to include a broader set of countries, incorporate additional socio-economic and governance variables, and apply more advanced econometric techniques to provide a deeper understanding of how Islamic social finance contributes to sustainable human development.

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