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Islamic Impact Investing: Islamic Finance Innovation in World Economic Transformation

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Abstract

This article examines the concept of Islamic Impact Investing as an innovation in Islamic finance that integrates Islamic principles with sustainable development goals. Amidst global challenges such as the climate crisis, social inequality, and digital disruption, Islamic Impact Investing is present as an investment approach that not only pursues financial returns, but also positive social and environmental impacts. This article uses a descriptive-qualitative approach based on literature studies and empirical data to explain how instruments such as green sukuk , cash waqf , productive zakat , and Islamic fintech play a strategic role in supporting the transformation of the world economy. The main findings show that Islamic impact investing has great potential in financing sustainable and inclusive projects, while maintaining ethical values and social justice. However, challenges such as limited regulations, lack of digital and Islamic financial literacy, and the need for cross-sector collaboration are important notes in the development of this model in the future.

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INTRODUCTION

In recent years, the world has been faced with increasingly complex and interconnected global crises: economic inequality, environmental degradation, structural poverty, and worsening energy and food crises . According to Oxfam's 2025 report released ahead of the World Economic Forum (WEF) in Davos, titled *"Takers Not Makers"* , it was noted that by 2024, the collective wealth of global billionaires will increase by USD 2 trillion (around Rp32,720 trillion), or three times the growth compared to the previous year. The report also revealed that the richest 1% of the population now controls 45% of the world's total wealth. Meanwhile, 44% of the world's population still survives on less than USD 6.85 (around Rp112,031) per day, and the global poverty rate has almost stagnated since 1990.

This inequality occurs alongside massive environmental destruction due to unsustainable exploitation of natural resources. Global temperatures have risen by 1.1°C since pre-industrial times, increasing the risk of extreme climate change such as droughts, flash floods and rising sea levels (IPCC, 2023). At the same time, the energy crisis is a very challenging problem, especially in developing countries, where access to renewable energy is very limited and gas and oil prices are volatile.

This condition is a reflection of the failure of the global capitalist economic system. This system focuses too much on capital accumulation, production efficiency, and GDP growth, but ignores aspects of wealth distribution, ecosystem balance, and social welfare. The multidimensional crisis that is currently hitting the world is the result of an economic structure that is not inclusive and not long-term oriented. This causes an urgent need for an alternative economic model that considers social, moral, and environmental aspects in addition to profit. The birth of the concept of impact investment is one real response to the failure of the conventional system.

This approach seeks to combine achieving financial returns with creating measurable social and environmental impacts. The Global Impact Investing Network (GIIN, 2022) defines impact investing as a type of investment that aims to generate positive and measurable social and environmental impacts, while still gaining financial returns. By 2022, the total value of global impact investing assets will reach USD 1.164 trillion, with significant growth in the renewable energy sector (17%), education and health (11% each), and sustainable agriculture

(14%). This shows that the global market is increasingly recognizing the value of profitable investments that support sustainable development.

Table 1. Global Impact Investing Assets by Sector (2022)

Sector	Percentage (%)
Renewable energy	17
Agriculture Sustainable	14
Education	11
Health	11
Other	47

Interestingly, the spirit of impact investing in fact has long been internalized in system Islamic finance. Islam emphasizes importance justice, benefit (maslahah), and not quite enough answer social in activity economy . Principles main in Islamic finance such as prohibition usury, gharar, and maisir , as well as obligation social such as zakat, infak , and waqf , are reflection values ethical in management property . Concept maqashid sharia becomes runway philosophy that ensures that activity economy No only legitimate in accordance with sharia (halal) but also has an impact positive for individuals, society, and the environment. In this framework, Islamic finance is not only a transaction tool, but also an instrument of social transformation.

From here born the concept of Islamic Impact Investing (III) as form integration between principles Islamic finance and approaches investment global impact. Islamic Impact Investing offers an approach that is not only halal-compliant, but also impact-compliant. III is not only aiming guard compliance to sharia principles, but also active chase achievement objective development sustainable development (SDGs) such as alleviation poverty, education quality, gender equality, and protection environment. In the middle uncertainty global economy and crisis multidimensional, III is present as solution a harmonious alternative with Islamic values and modern needs sustainability.

Various instrument Islamic finance has developed for support implementation of Islamic Impact Investing. Among them is green sukuk, waqf productive, and productive zakat. Green sukuk is sukuk based instruments Sharia principles are allocated in a way special For to fund conservation - oriented projects environment. Indonesia becomes pioneer in issuance of green sovereign sukuk since 2018, with a total accumulation publishing reach more from Rp 95 trillion until 2022. Projects financed covers energy renewable, transportation green, management waste, as well as infrastructure sustainable. Data from the Indonesian Ministry

of Finance shows that green sukuk contribution reaches 30% of total financing project development green in the State Budget.

In addition, waqf productive also experienced development significant as instrument funding social term length. Potential endowment cash in Indonesia reaches Rp. 180 trillion per year, but new part small mobilized in a way effective. Productive waqf used for to finance education, services health, agriculture, and development of sharia- based MSMEs.

No less important, the use of technology allows the expansion of financial services on a global scale. By utilizing digital platforms, the financial sector can effectively expand its reach to a wider international market, thereby encouraging increased financial inclusion (Mawardi et al., 2024). In addition, technology also supports Islamic Impact Investing through the development of sharia fintech and the application of blockchain in the management of zakat and waqf. Indonesia is a country with a very high fintech industry development (after China) because fintech is here to facilitate more loans for small and medium enterprises (SMEs) throughout the archipelago (Suryono et al., 2021). However, the development of FinTech also allows for greater innovation in providing more efficient financial services compared to traditional banking activities. Therefore, the banking industry may suffer losses due to the presence of FinTech. For example, FinTech can replace traditional banking services through online peer-to-peer (P2P) lending platforms without applying strict credit standards to borrowers (Yudaruddin et al., 2023).

Meanwhile, the use of blockchain increases accountability and public trust in the distribution of Islamic social funds. Studies (Yudaruddin et al., 2023)show that the growth of Islamic fintech directly contributes to increasing the stability of the Islamic financial sector in Indonesia and the Southeast Asian region.

Although Islamic Impact Investing has potential big, its implementation Still face challenge significant. First, the low literacy Muslim society and investors towards The concept of sharia- based impact investing causes lack of participation in sector this. Second, not yet existence global standards that are specific arrange measurement impact social and environmental based on Islamic values become obstacle main in development framework comprehensive evaluation. Third, the limitations regulation and lack of incentive from authority Islamic finance in various countries causes perpetrator industry Islamic finance reluctant take risk in to design product innovative based on impac. Fourth, capacity

institutional, good from aspect source Power man and technology, still need strengthened so that it can manage investment impact in a way professional and appropriate sharia principles.

Based on reality said, the study This focuse for discuss in a way deep draft the basis of Islamic Impact Investing, innovation product Islamic finance that supports its implementation, challenges and opportunities its development at the level national and global, as well as policy strategies that can strengthen contribution Islamic finance in the process of transformation sustainable world economy. This study is also expected capable give understanding theoretical and practical that can used by academics, regulators, and practitioner industry Islamic finance in to design ecosystem investment have an appropriate impact with Islamic values and demands globalization economy sustainable.

METHOD

Study This use approach qualitative-descriptive with method studies library research. Approach This chosen Because Topic *Islamic Impact Investing* Still relatively new and in need excavation literature conceptual as well as practice empirical from various source trusted. Data source in study This consists of from:

1. Literature academic like journals national and international indexed by SINTA, Scopus, and DOAJ.
2. Report institution official such as the Islamic Development Bank (IsDB), Indonesian Waqf Board (BWI), BAZNAS, OJK, and the World Bank.
3. Secondary data sources in the form of article news econom, Islamic finance white paper, and reports annual green sukuk issuer and sharia fintech.

Data collection techniques were carried out with:

1. Review digital and printed documents related the concept and practice of Islamic impact investing.
2. Analysis studies casez, such as implementation of Green Sukuk in Indonesia, management endowment productive by institutions waqf, and the development of sharia fintech.

RESULT AND DISCUSSION

1. Product and Instrument Innovation Islamic Finance

a. Green Sukuk

Green Sukuk is a financial instrument based on Islamic sharia principles and Green Sukuk, as a sharia-based financial instrument, is not only designed to support the sustainable development agenda, but also has the ability to align financial aspects with ethical principles in environmentally friendly projects. With these characteristics, Green Sukuk is a strategic solution that contributes to improving the welfare of society as a whole. The sharia principles that form the basis of Sukuk guarantee that the benefits for its holders do not come from interest, but from profit sharing or fees that are in accordance with sharia principles (Arifudin et al., 2024).

Green Sukuk, like Green Bonds, is an innovative financial instrument designed to raise funds from various sources to support environmentally friendly and sustainable projects, such as the transportation sector, renewable energy, and marine resource conservation. Its main objective is to finance the transition to a low-carbon economy and drive net-zero emissions (Billah & Adnan, 2024).

In addition, this green sukuk shows that Indonesia is helping to expand the domestic and international green sukuk and green bond markets, especially in Southeast Asia. Funds obtained through the issuance of green sukuk are specifically allocated to finance sustainable projects that meet environmental criteria. The classification of green projects refers to guidelines set by government authorities, which include strategic sectors such as energy efficiency, renewable energy development, environmentally friendly development, sustainable tourism, disaster risk mitigation, waste and energy management, and natural resource conservation.

The Indonesian Economists Association (IAEI) estimates that ESG sukuk issuance will increase by 14.5% to $15.2 billion (around Rp248.94 trillion) in 2024. Since the ESG sukuk market began in 2017, ESG sukuk issuance has reached record issuance for eight consecutive years. It accounts for 6.2 percent of total sukuk issuance and 1.8 percent of total ESG bond issuance, with the increase in ESG sukuk issuance mainly driven by the financial sector in 2024. According to LSEG report, institution finance contribute fifty five percent from publishing, with 93 percent originate from banks in the GCC (Gulf Cooperation Council) region.

Increasing sukuk issuance, including social and related sukuk sustainability, is one of the development largest. GCC countries' ESG sukuk issuance plays a role role important in market growth, accounting for 69% of total ESG sukuk issuance in 2024, up from 42% in 2023. This trend the more reinforced with entry to new markets such as Qatar and Kuwait, especially after COP28, which prompted more Lots GCC companies for involved in ESG sukuk.

One of objective development of sukuk in Indonesia is for organize development programs economy government and society. Government mean to issue government bonds for to finance development economy through the APBN. In addition, green sukuk make it easier public for participate in objective development sustainable.

This sukuk give more lots of funds for development national rather than direct debt (Beik, 2011). Equality and sovereignty national see matter This. Donor countries that have direct debt Possible demand various provisions that can be detrimental to Indonesia. There is no doubt again, because of its "stamp" debtor status, Indonesia's position in diplomacy international a little " low ". Unlike Sukuk, where the relationship between Indonesia and investors more visible. In addition, the state can to obtain more control big on potential source its power If intervention foreigners who are detrimental they reduce.

Its publishing funds in a way special allocated For sector development with consider aspect friendly environment, Green Sukuk is considered relevant For reach objective government and allows government For take action For overcome problem change climate. The market responds green sukuk issuance with good. Green Sukuk This show Indonesia's commitment to expanding the green sukuk and green bond market domestic and international, especially in Southeast Asia (Pujiantoro et al., 2021).

b. Cash Waqf and Productive Zakat

Cash waqf is done with cash. The problem is whether the money can be waqf or not. Waqf goods that are valid to be waqf are objects that are clearly determined by the wakif, become the full property of the wakif, are valuable, and durable, and are not lost or damaged if used. Unlike waqf of fixed or non-fixed objects, cash waqf can be done by everyone, both rich and poor (Mukri, 2004).

The Indonesian Waqf Board (BWI) has a mandate to manage and develop waqf productively to improve community welfare. The main focus of this institution is to encourage the optimization of waqf potential, both in the form of movable and immovable assets, as an

instrument in strengthening the people's economy (Syamsuri et al., 2020). The Indonesian Waqf Board (BWI) should ideally be formed as a lean but resilient institution, whose members are cross-disciplinary experts who have competence in developing productive waqf. The composition of the membership should include Islamic legal experts, especially in the field of waqf law, as well as sharia economic experts, sharia banking practitioners, and academics who are concerned with issues of waqf management and development.

Waqf has enormous potential, according to data and research conducted by various authorized institutions. With an area of 57,763 hectares, there are 440,512 thousand waqf land locations recorded by the Waqf Information System (SIWAK) of the Indonesian Ministry of Religion. According to various studies, one of which was conducted by BWI , in Indonesia the potential for cash waqf or cash waqf reaches around 180 trillion rupiah each year.

Empowerment of waqf is one way to utilize waqf results sustainably and strategically for waqf allocation (Siagiana & Nasution, 2024). Efforts to empower productive waqf are efforts to empower the targeted community through the results of productive waqf such as land waqf or cash waqf or cash waqf. Efforts to develop waqf are not solely focused on optimizing waqf assets, but also include increasing the capacity of nazir in terms of management, development, and distribution of waqf results effectively. In this context, aspects of empowerment, community participation, institutional strengthening, and group formation are key elements that must be integrated into a sustainable waqf management strategy (Saprida, Setia Andini Risma Sari Winti, 2025).

Research by Kahf (2003) strengthens the view that waqf can function as an innovative financing solution in meeting public infrastructure needs. In his study, Kahf found that waqf has great potential to reduce the burden on the government in providing public services, by allowing the community to participate directly in development through donations of assets of economic value. Thus, waqf acts as an alternative source of funds that can increase economic development without burdening the government budget. This study highlights the success of several cash waqf and stock waqf models in various countries that have proven effective in financing important infrastructure projects and providing real economic impacts for the community (Aldeen et al., 2022).

Furthermore, research by Hoexter (1998) revealed that waqf also has a strategic role in the development of urban areas, especially in the context of the modernization of cities in the Muslim world. Hoexter stated that the use of waqf assets for the development of strategic

economic areas such as markets, commercial centers, and business areas can strengthen the local economy while creating new jobs. In Egypt, for example, productive waqf management has supported funding for the development of markets and commercial centers that not only provide economic needs but also serve as a driver for local business activities. This study shows that waqf has the potential to be a major driver of economic development through the provision of infrastructure that encourages the growth of the private sector and small and medium enterprises (Fauzia et al., 2023).

If zakat is used well and implemented properly, it will increase income equality. In addition, zakat does not eliminate the circulation of wealth or the balance of wealth among human activities (Sri, 2024).

Table 2. National Collection Growth in 2024 by Type of Zakat Manager

Types of Zakat Management	2023 Collection (Rp Trillion)	2024 Collection (Rp Trillion)	Growth (%)
BAZNAS Center	0.456	0.512	12.28
BAZNAS Province	1,017	1,124	10.53
BAZNAS Regency/City	3,509	3,872	10.36
National LAZ	6,803	7,495	10.17
LAZ Province	0.642	0.703	9.50
LAZ Regency/City	0.726	0.841	15.85
Total	13,153	14,547	10.61

Source: National Zakat Management Report 2024

This is proven by the fact that Muslims in Indonesia continue to crowd and queue to receive zakat during the fitrah season, Eid al-Fitr. In fact, zakat will help anticipate social problems if managed professionally. Human nobility can be restored with zakat, in other words by freeing humans from slavery to wealth and slavery, by removing all bonds of slavery, and by removing all evidence of slavery that exists. Zakat should be able to combat poverty, ignorance, and backwardness.

It is possible that zakat funds will greatly assist in the development of the community's economy and poverty alleviation (Syamsuri et al., 2020). Education and understanding of zakat and productive waqf have a strategic role in encouraging the improvement of the community's economic welfare, considering the potential of both as Islamic social financial instruments that can overcome inequality and poverty (Sundari, 2023). If the community has an adequate understanding of the concept and basic principles of zakat and waqf, then funds from both instruments can be optimally utilized to alleviate poverty, encourage the growth of micro and

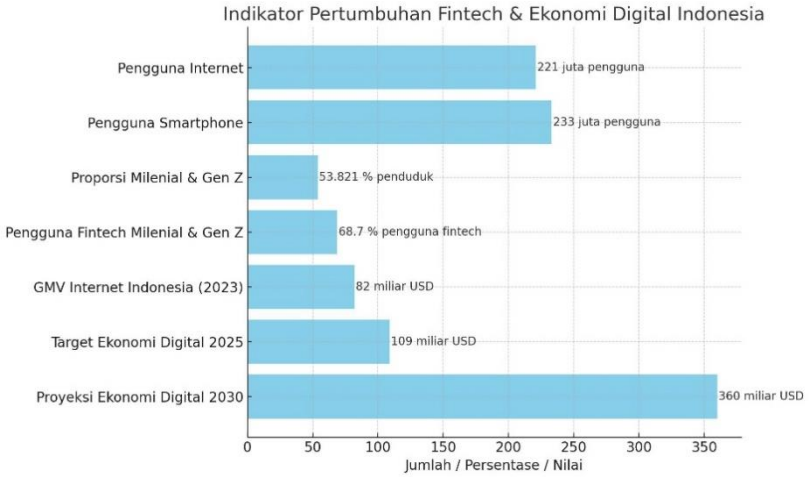
small businesses, and strengthen community-based economic empowerment (Fitriani, Anis Nur Cholimah & Salima Rumatoras, Sri Ayu Ciptaningsih, 2024).

c. Sharia Fintech and Sharia Blockchain

Fintech is combination from term finance and technology. There are several definition of Fintech. For example, Arner et al. (2015, p. 1) classify it as a “solution” financially supported technology”, while Schueffel (2017, p. 45) describes it as a “combination technology that will applied to industry finance for increase activity finance”. Oseni and Ali (2019, p. 3) provide definition additional stating that service based on technology used in industry service finance as well as offline-to-online (O2O) applications and the Internet-of-things (IoT)”. Sanicola (2019) characterizes it as “business technology new offering technology new and suitable service finance for consumer and business” technology to in service finance for increase its quality.

Development The digital economy in Indonesia is driven by various existing innovations. This includes the growing fintech industry, growth rapid e-commerce, digitalization more many MSMEs, and policies and regulations government that encourages growth digital (Mohamed et al., 2024) economy, In addition, sharia fintech is very helpful increase inclusion finance, especially in difficult areas reached by service banking conventional (Hafidz et al., 2024). With 221 million internet users and 233 million user mobile phone smart, there is opportunity big for growth fintech industry in Indonesia.

In addition, as the Report shows, Member Annual Indonesian Fintech Association (AFTECH) 2024, the majority fintech users are generation Millennials and Generation Z, which includes around 53.821% of population Indonesia. A report by Google, Temasek, and Bain shows increase in Indonesia's internet Gross Merchandise Value (GMV) to USD 82 billion. The government is also targeting Indonesia's digital economy can reach USD 109 billion by 2025, according to East Ventures Digital Competitiveness Index data from 2023. Furthermore, in 2030, this digital economy could reach USD 360 billion.



Source: Processed data (OJK) 2024

Putera and Nisa (2024) explain that sharia fintech has potential big in push growth economy in a way overall. With use technology financial sharia- based, funds can be distributed with more efficient and transparent, which contributes to growth sustainable economy. Their study emphasizes the importance of technological advancement to maintain the competitiveness of the Islamic financial industry in the digital era.

Amrullah and Hasan (2021) also emphasized that sharia principles are very important for the development of fintech. They emphasized that fintech innovation must follow Islamic values, which prohibit usury, maisir, and gharar. This is important to ensure that the development of sharia fintech meets moral and spiritual demands in addition to monetary benefits. Therefore, further research is needed to understand how financial technology can drive the growth of sharia investment as a whole. The purpose of this study is to analyze the impact of financial technology on sharia investment, evaluate current opportunities and obstacles, and provide strategic suggestions for further steps.

Blockchain can help sharia economic transactions become more transparent and efficient. According to research conducted by (Bahanan & Wahyudi, 2023), the function of blockchain is to record digital transactions that cannot be deleted or changed permanently and cannot be changed. Therefore, blockchain is very helpful in ensuring that sharia standards such as honesty and security of transactions are adhered to.

Sharia-based blockchain technology has significant potential in strengthening compliance with sharia principles in Islamic financial transactions. In addition, this technology also provides transparency that allows all parties involved to independently and in real-time

verify the validity of transactions. Transactions carried out with a distributed verification system are much safer than those carried out by hackers. Sharia blockchain has the potential to be an effective instrument in promoting an inclusive and sustainable financial system for all levels of society. The use of this technology in the management of zakat and waqf allows for the recording of each donation in a transparent and accountable manner, thereby facilitating the audit process and ensuring that the distribution of funds is in accordance with the intent and purpose of the donors.

2. Challenges and Opportunities of Islamic Impact Investing

Digital transformation has push creation innovation in products and services Islamic finance. Through utilization applications, digital banking platforms, as well as technology latest, institution Islamic finance today capable provide various more products and services diverse as well as still in line with sharia (Sudarmanto et al., 2024) principles. As part from the digital transformation process, institutions Islamic finance has develop mobile banking application that allows Customer For access various service banking in a way efficient and practical. Application the generally equipped with Features like payments, fund transfers, and monitoring balance and activity accounts. In addition, digital platforms such as internet banking also expand accessibility service finance with give convenience in management account online. On the other hand, the application of blockchain technology in Islamic banking applications has the potential to increase transparency and security of transactions. The use of *smart contracts* also opens up opportunities for the development of financial products that are fully in accordance with Islamic principles.

Blockchain technology can improve the security and transparency of Islamic financial transactions and build public trust. This enables the development of Islamic crowdfunding platforms and peer-to-peer financing services, which help SMEs raise capital as they often struggle to get support from conventional financial institutions (Hassan, 2017). The use of big data and analytics enables Islamic financial institutions to gain a deeper understanding of customer behavior and needs. Through the analysis of transaction patterns and individual preferences, institutions can design and offer more personalized and relevant financial services. In addition, digitalization also expands access to financial literacy at a more affordable cost. In this context, Islamic financial institutions have the opportunity to utilize

digital platforms as a means of Islamic education, in order to increase public understanding of the Islamic principles underlying Islamic financial products and services.

Collaboration between Islamic financial institutions and fintech companies opens up strategic opportunities to accelerate the progress of the Islamic financial industry. Such partnerships have the potential to improve the operational efficiency of institutions, while facilitating the integration of the latest technologies into the Islamic financial system (Hassan & Muhamad, 2018). Fintech is often able to provide financial services with greater speed and efficiency than conventional institutions, thanks to the use of cutting-edge technologies such as big data, artificial intelligence (AI), and blockchain. Another advantage lies in the user-friendly interface design, thus attracting the interest of customers and potential customers to use fintech applications and platforms widely (Arner et al., 2015).

Fintech has the potential to reach groups of people who have previously been neglected by the conventional financial system, including those who live in remote areas or do not have access to formal financial institutions. Through innovative business models, fintech is able to provide inclusive financial services. Especially for Small and Medium Enterprises (SMEs) who often experience obstacles in obtaining financing from traditional financial institutions, peer-to-peer (P2P lending)-based financing platforms are an effective alternative to expand access to funding sources.

Due to the rapid development of digital technology around the world, Islamic financial institutions must compete globally to retain and attract clients. The advancement of the fintech industry worldwide has caused a significant change in the way people view and use financial services (Pujiantoro Gading et al., 2021). The development of technologies such as artificial intelligence (AI), big data, and blockchain have accelerated the transformation of financial services and driven the emergence of new business models. Amid rising global consumer expectations for innovative, fast, and easily accessible financial services, conventional fintech has responded by providing appropriate solutions. This condition has pushed the Islamic financial sector to adapt and develop similar innovations to remain competitive. In addition, pressure on Islamic financial institutions is increasing as conventional financial institutions adopt advanced technologies in order to expand their reach and improve the quality of their services.

Sharia crowdfunding, peer-to-peer (P2P) financing, and other sharia-based financial instruments should be the main foundation in the development of fintech in the Islamic

finance sector. To produce technological solutions that are in line with sharia principles and Islamic law, continuous research and innovation efforts are needed. In this context, the existence of clear, adaptive, and responsive regulations is very important to support technological progress without deviating from sharia provisions. Therefore, the development and implementation of technology in this sector must be carried out carefully and in a targeted manner, in order to comply with the principles of Islamic finance. Regulators play a key role in forming and updating the legal framework that can guarantee the sustainability and success of technology integration in the sharia financial ecosystem.

Technological innovation will be more easily understood and accepted if it involves active community participation in the development process. Through a participatory design approach, where the community participates in designing and developing solutions, technology can be produced that is more relevant to local needs and in line with the values and principles adopted. This community involvement not only increases social acceptance, but also ensures that the resulting innovation is more contextual and sustainable.

Technology developers have a responsibility to ensure transparency and clarity at every stage of the design, development, and implementation of new technologies, taking into account ethical, privacy, and social impacts. Involving communities in discussions about the ethical dimensions of technology plays a critical role in increasing understanding of the potential benefits and risks of innovation. In this regard, increasing digital literacy in the community is a crucial factor. Digital literacy programs should include training in the use of hardware and software, as well as strengthening critical skills in evaluating information online. In addition, ensuring that new technologies are inclusive and accessible to all levels of society, including marginalized groups, is an important step in promoting equitable digital understanding and awareness.

CONCLUSION

Islamic Impact Investing is an innovative approach in Islamic finance that integrates sharia principles with sustainable development goals. In facing global challenges such as social inequality, climate crisis, and digital disruption, sharia-based investment with social and environmental impact is a strategic solution to drive the transformation of the world economy towards a more just, ethical, and inclusive direction. Through instruments such as *green sukuk* , *productive waqf* , *productive zakat* , and *sharia fintech* , Islamic Impact Investing not only

contributes to financing sustainable development, but also strengthens Islamic-based community finances. However, its implementation still faces a number of challenges such as lack of literacy, limited regulations, and the need for standardization and ecosystem support. Collaboration between the government, Islamic financial institutions, regulators, academics, and the community is needed to accelerate the adoption and strengthening of Islamic Impact Investing at the global level. If developed optimally, Islamic Impact Investing will not only be a means of empowering the people's economy, but also a real contribution of Muslims in creating a more sustainable and civilized world economic order.

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