

# Implications of Waqf and Taxation in Public Finance : A Comparative Study between Islamic and Conventional Concepts

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**Abstract.** This comparative study examines the implications of waqf and taxation in public finance, focusing on the conceptual differences between Islamic and conventional economic systems. Waqf, a voluntary and spiritually driven instrument in Islam, plays a crucial role in financing social infrastructures such as education, healthcare, and public services. Taxation, on the other hand, is a mandatory contribution within conventional systems, essential for state revenue and the provision of public goods. The study explores the philosophical foundations, collection mechanisms, and social impacts of both instruments. Through case studies from various countries, the research highlights the effectiveness of waqf in Muslim-majority contexts like Indonesia, Turkey, and Saudi Arabia, and compares it with successful tax systems in non-Muslim countries such as Sweden, Germany, and Singapore. The findings suggest that both waqf and taxation have unique strengths in promoting social welfare and economic development. Integrating these systems could offer a more holistic and sustainable approach to public finance, particularly in Muslim countries, where combining the voluntary nature of waqf with the structured framework of taxation may lead to more equitable wealth distribution and stronger social cohesion.

**Keywords:** Waqf, Taxation, Public Finance, Muslim Countries

## 1 Introduction

Public finance is a crucial aspect of a nation's economic development and social welfare. In this context, governments require adequate sources of funding to finance various programs and projects aimed at improving the quality of life for their citizens. Two primary instruments often used to achieve these goals are waqf and tax.

Waqf, as an economic instrument in Islam, has long been recognized as a form of charitable endowment that provides sustainable benefits. In the Islamic context, waqf serves not only as a means of worship but also as an important mechanism for financing various social infrastructures, such as mosques, schools, hospitals, and other public facilities (Aziz et al., 2023; Mohsin, 2013; Shaikh et al., 2017). With proper management, waqf holds significant potential to support public finance, particularly in countries with a Muslim majority.

On the other hand, tax is the principal instrument used by countries with conventional economic systems to fund public needs. Taxes are compulsorily levied on individuals and corporations, with the proceeds used to finance various government programs, ranging from infrastructure development to the provision of health and education services. In conventional systems, tax is the main pillar that supports state finances and ensures the availability of funds for the sustainability of public programs.

Although both instruments share the common goal of supporting public finance, there are fundamental differences in their concepts, implementation, and impacts. Waqf, with its voluntary nature and focus on social welfare, significantly differs from tax, which is mandatory and oriented towards fulfilling the state's budgetary needs. These differences raise questions regarding the effectiveness of each instrument in supporting public finance and how the two concepts can be fairly and objectively compared.

This study aims to explore and compare the implications of waqf and tax in public finance, with a focus on the conceptual differences between Islamic and conventional economic systems. Through this analysis, it is expected to gain a deeper understanding of the roles of these two instruments in supporting sustainable and equitable economic development.

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## 2 Fundamental Concepts of Waqf and Taxation

### 2.1 Definition of Waqf

Waqf is a philanthropic instrument in Islam with social and religious purposes. Etymologically, the word "waqf" derives from the Arabic term "waqf," meaning to stop, restrain, or halt. In the context of Islamic law, waqf refers to the act of an individual who dedicates their property for the benefit of the public, while the ownership of the property remains with Allah SWT. Therefore, waqf property cannot be sold, inherited, or transferred, but its benefits can be utilized for the welfare of society (Kahf, 2016).

Waqf can take the form of movable or immovable property, such as land, buildings, money, or other assets that can provide continuous benefits. One of the key advantages of waqf is its sustainable nature, where the endowed assets continue to generate benefits over time without diminishing the principal value. Throughout Islamic history, waqf has played a significant role in funding public facilities, such as mosques, schools, hospitals, and water wells, which contribute to the social and economic well-being of the community (Cizakca, 2000).

### 2.2 Definition of Taxation

Taxation is a mandatory contribution by individuals or businesses to the state, based on law, without direct compensation, which is used to finance various public expenditures. Taxes serve as the primary source of state revenue, funding infrastructure development, public services, defence, education, healthcare, and various other welfare programs. In conventional economic systems, taxation is the main pillar supporting the national budget (Gashenko et al., 2019).

There are various types of taxes imposed, including income tax, value-added tax (VAT), property tax, and motor vehicle tax. Taxes are compulsorily levied by the government on individuals and businesses based on income, asset ownership, or specific transactions. The obligation to pay taxes is binding, and non-compliance with this obligation may result in legal penalties. Taxation plays a crucial role in wealth redistribution and the creation of social justice through the equitable provision of public services.

## 3 The Role of Waqf in Public Finance

### 3.1 The Mechanism of Waqf in Public Finance

Waqf has long been recognized as an important instrument in supporting public finance, particularly in countries with a Muslim majority. Waqf functions as a mechanism where endowed assets are utilized for social and public welfare purposes, such as education, healthcare, infrastructure development, and other social services. In this context, waqf not only provides direct contributions to society but also helps alleviate the financial burden on the government in providing public services (Budiman, 2014).

The basic mechanism of waqf involves the dedication of property, with the benefits or returns used for public purposes. For example, endowed land can be used to build schools, hospitals, or other public facilities. The benefits derived from the use of this property are then continuously distributed to the community without reducing the principal value of the endowed assets. Additionally, professional and transparent management of waqf can generate sustainable income that can be used to finance various social projects and public infrastructure.

### 3.2 Economic and Social Contributions of Waqf

Waqf has a significant impact on the economic and social aspects of society, particularly in providing quality public services (Alam et al., 2018; Pamungkas & Zaki, 2020; Shaikh et al., 2017). Waqf plays a crucial role in the development of the economy by providing a sustainable financial foundation for various social and economic initiatives. Through the dedication of assets, such as land, buildings, or cash, waqf can generate continuous income to support essential services like education, healthcare, and public infrastructure, which are vital for economic growth (Budiman et al., 2024). Waqf can also be utilized to fund small and medium-sized enterprises (SMEs), creating job opportunities and fostering entrepreneurship within communities (A. Y. Q. Saad et al., 2022). By investing in social welfare projects and community development, waqf helps reduce poverty and inequality, ultimately contributing to a more inclusive and resilient economy. The perpetual nature of waqf ensures that its benefits extend across generations, making it a powerful tool for achieving long-term economic stability and prosperity. Moreover, waqf can also significantly contribute to the development of the agromaritime sector, which encompasses agriculture, fisheries, and maritime industries (Khan et al., 2021; Majid, 2021; Rafianti et al., 2023).

In the education sector, waqf has played a crucial role in funding the construction of schools, universities, and scholarship programs for underprivileged students (Ab Ghani et al., 2019; Azha et al., 2013; Aziz et al., 2023). In

the healthcare sector, waqf is often used to establish hospitals and clinics that provide free or highly affordable healthcare services to the poor (Pamungkas & Zaki, 2020; Sulistyowati et al., 2022). Furthermore, waqf can also be used to finance public infrastructure projects, such as the construction of roads, bridges, and clean water facilities, all of which contribute to the overall welfare of society.

The social impact of waqf is also significant, as it is often focused on objectives that support social justice and reduce economic disparities. By providing broader access to education and healthcare services, waqf helps create more equal opportunities for all segments of society. Additionally, waqf can serve as a tool for economic empowerment, for example, through the provision of capital for small and medium enterprises, which in turn can increase income and improve the welfare of the community (Laila et al., 2023; A. Y. Q. Saad et al., 2022).

Waqf, as a form of Islamic philanthropy, can play a vital role in environmental preservation (Budiman, 2011). By dedicating land or resources as waqf for environmental purposes, communities can ensure the protection of natural habitats, the sustainable management of forests, and the preservation of biodiversity (Ali & Kassim, 2020). Waqf can be used to establish and maintain green spaces, reforest degraded lands, and support eco-friendly initiatives, creating a lasting legacy that benefits both current and future generations (Anam et al., 2022). This approach aligns with Islamic teachings on stewardship and the responsibility to care for the Earth, making waqf an effective tool for promoting environmental sustainability.

### 3.3 Limitations and Challenges in Optimizing Waqf

Despite its great potential in public finance, there are several limitations and challenges that need to be addressed to optimize the role of waqf. One of the main challenges is the issue of management and administration. In many countries, waqf assets are often managed inefficiently, resulting in a decline in the benefits that can be provided to society. This may be due to a lack of transparency, accountability, and professionalism in the management of waqf assets.

In addition, the lack of adequate regulations and strong legal support also hinders the development of waqf as a source of public finance. In some countries, existing regulations are insufficient to provide adequate protection and incentives for the development of waqf assets. As a result, the great potential of waqf in supporting public development is not fully realized. Another challenge is the low public awareness of the importance of waqf and effective ways to implement it. Without adequate awareness, public participation in waqf tends to be low, reducing the contributions that can be made to public finance. Therefore, more intensive efforts are needed in educating and raising awareness about the benefits of waqf, both among individuals and institutions.

To overcome these challenges, a more integrated approach is needed in waqf management, including enhancing managerial capacity, developing supportive regulations, and increasing public awareness. In this way, waqf can function more optimally as a sustainable and effective public finance instrument.

## 4 The Role of Taxation in Public Finance

### 4.1 The Mechanism of Taxation in Public Finance

Taxation is the primary instrument used by governments to finance various public needs. In the context of conventional economics, taxes are compulsory contributions levied by the state on individuals, households, and businesses based on prevailing laws. Taxes are collected from various sources, including income, consumption, wealth, and business transactions, and are then used to finance various government programs aimed at improving public welfare.

The basic mechanism of taxation involves the government setting tax rates and bases, collecting taxes from taxpayers, and allocating the funds collected to finance various public expenditures. Taxes are binding, and non-compliance with tax obligations can result in legal penalties, including fines and imprisonment. In practice, governments use tax revenues to finance infrastructure development, education, healthcare, defence, security, and other public services necessary to support the functioning of the state and improve the quality of life for citizens.

### 4.2 Taxation's Contribution to Development

Taxation plays a crucial role in the economic and social development of a country. As the primary source of state revenue, taxes enable governments to provide various facilities and services needed by society. Through the use of tax revenues, governments can build and maintain essential infrastructure such as roads, bridges, airports, ports, and transportation systems that are vital for economic growth. This infrastructure not only supports economic activities but also facilitates access to markets, education, and healthcare, ultimately contributing to the improvement of public welfare.

Additionally, taxes are used to fund education and healthcare programs, which are key pillars in human development. By providing quality education and affordable healthcare services, governments can improve the quality of human resources, which in turn enhances the productivity and competitiveness of a country's economy. Taxes also function as a tool for wealth redistribution, where funds collected from wealthier segments of society can be used to finance social welfare programs that assist the less fortunate.

In terms of economic stability, taxation also plays a vital role in regulating the economic cycle. During periods of rapid economic growth, governments can increase tax rates to control inflation and prevent the economy from overheating. Conversely, during recessions, governments can reduce tax rates or provide tax incentives to stimulate consumption and investment, thereby helping to accelerate economic recovery.

### 4.3 Criticisms of the Taxation System

Despite its importance in public finance, the taxation system faces several criticisms, particularly regarding the fairness of distribution and the effectiveness of its use. One of the main criticisms is that the tax system is often perceived as unjust, especially for low-income groups. Some types of taxes, such as consumption taxes (e.g., value-added tax or VAT), tend to be regressive, meaning they impose a heavier burden on low-income individuals compared to high-income individuals. This can exacerbate economic and social inequality.

Another common criticism is related to the efficiency and transparency of tax revenue management. In some countries, tax revenues are often poorly managed, leading to waste, corruption, and budget misappropriation. The inability of governments to manage tax revenues effectively can undermine public trust in the taxation system, resulting in decreased taxpayer compliance and reduced revenue collection.

The complexity of the tax system is also a significant concern. In many countries, tax regulations are highly complex and difficult for ordinary taxpayers to understand. This complexity can lead to confusion, errors, and even tax evasion. Moreover, the costs associated with tax compliance, including time and resources spent on understanding and filing taxes, can be burdensome for individuals and businesses.

To address these criticisms, efforts are needed to reform the tax system, including improving fairness in tax distribution, increasing transparency and accountability in tax revenue management, and simplifying tax regulations. In this way, the taxation system can function more effectively and gain greater public trust.

## 5 Philosophical Differences between Waqf and Taxation

### 5.1 Philosophical Foundations and Objectives

Although waqf and taxation both aim to support public welfare, there are fundamental differences in the nature and philosophy of these two instruments. Waqf is voluntary and driven by religious and social motives, where individuals consciously choose to allocate a portion of their wealth for the public good. Conversely, taxation is obligatory and enforced by the state based on applicable laws. In conventional economic systems, taxation is the primary tool for achieving social justice and more equitable wealth distribution through government intervention.

Waqf and taxation, while both are important tools in public finance, differ significantly in terms of concept, objectives, and mechanisms. Waqf, rooted in Islamic law, is a voluntary act of philanthropy where individuals dedicate their property for the benefit of the public, with the intention of achieving spiritual rewards and social welfare. This voluntary nature allows waqf to be a form of worship with high spiritual value. In Islam, public financing tools such as waqf, zakat, and sadaqah are based on principles of social justice, collective responsibility, and sustainability. The main objective of waqf is to create a sustainable source of benefits for the community, particularly in areas such as education, healthcare, and social services.

In contrast, in the conventional system, taxes are viewed as a legal obligation that must be fulfilled by every citizen and economic entity. Taxation is a mandatory contribution imposed by the state, aimed at generating revenue to finance various public expenditures needed by society, including infrastructure development, public services, and welfare programs, with an emphasis on efficiency, distributive justice, and economic stability. Taxation is not only a legal obligation but also considered a moral duty to contribute to the financing of the state. The primary objective of taxation is to ensure the government has sufficient resources to maintain the functioning of the state and to provide for the needs of its citizens. Taxation is also used as a tool for wealth redistribution and economic regulation.

### 5.2 Collection and Distribution Mechanisms

In the Islamic system, instruments such as waqf and zakat are collected voluntarily or mandatorily (in the case of zakat) and distributed for the benefit of the public. Waqf, for example, involves the dedication of assets for a specific use that generates sustainable benefits for society. The returns from waqf assets are channeled to support

social projects such as education, healthcare, and public infrastructure, without diminishing the principal value of the assets. Meanwhile, zakat is an obligation for every eligible Muslim, with the aim of helping the underprivileged, strengthening social solidarity, and reducing economic disparities.

In the conventional system, taxes are mandatorily collected from the income, consumption, and wealth of individuals or business entities. The government has the authority to set tax rates and distribute the collected funds according to public policy priorities. Taxes are used to finance various public needs, ranging from infrastructure development to the provision of healthcare and education services. The distribution of tax funds is carried out through the state budget process, where allocation decisions are made based on economic and political interests, as well as considerations of social justice.

### 5.3 Role in Wealth Redistribution and Social Welfare

The fundamental difference between the Islamic and conventional systems lies in their approach to wealth redistribution. In Islam, wealth redistribution through instruments such as zakat and waqf is an effort to achieve social justice, focusing on supporting those in need. Zakat, as one of the pillars of Islam, is obligatory for every eligible Muslim and aims to purify wealth while helping those in poverty or economic difficulty. Waqf, on the other hand, significantly contributes to supporting sustainable social projects, such as education and healthcare services, which function to strengthen the overall social order.

In the conventional system, wealth redistribution is carried out through a progressive taxation mechanism, where individuals or entities with higher incomes are subject to higher tax rates. The collected taxes are then used to finance social welfare programs, such as social assistance, subsidies, and public services, which are aimed at reducing economic and social disparities. Although effective in providing funds for development and welfare, this system often faces challenges in ensuring distributive justice, particularly when the tax system is regressive or when taxes are not managed transparently.

### 5.4 Efficiency and Implementation Challenges

From an efficiency perspective, the waqf system in Islam offers a sustainable public financing model with a focus on the appropriate and long-term management of assets. However, the main challenges in implementing waqf are management issues, inadequate regulations, and low public awareness. Without professional management and strong regulations, the potential of waqf as a source of public financing is often not optimized.

Meanwhile, the tax system in the conventional economy provides a more structured and comprehensive framework for the collection and distribution of public funds. However, this system also faces challenges in terms of tax compliance, administrative complexity, and the potential for distributive injustice. The complexity of the tax system can create opportunities for tax evasion and corruption, which ultimately reduces the effectiveness of taxes as a tool for wealth redistribution.

## 6 Case Studies of Waqf

### 6.1 Case Study of Waqf in Indonesia

Indonesia has great potential in utilizing waqf as a public financing instrument. One successful example of waqf utilization is the development of the Islamic University of Indonesia (UII) in Yogyakarta. Established in 1945, the university has grown rapidly with the support of waqf funds (Mukharrom et al., 2022). The waqf assets used to establish this university have continued to grow, including in the form of land, buildings, and other educational facilities. Professional and transparent management has enabled the university to provide quality education while generating additional funds that are used for social activities and community development.

Additionally, there are productive waqf initiatives such as the Achmad Wardi Eye Hospital in Serang, Banten, which is managed by the Indonesian Waqf Board (BWI) in collaboration with Dompot Dhuafa. This hospital was established with waqf funds and provides free or subsidized healthcare services to the underprivileged (Yasin, 2023). This productive waqf model not only provides direct benefits to service recipients but also stimulates the local economy by creating jobs and providing affordable medical services.

### 6.2 Case Study of Waqf in Turkiye

Turkey has a long history of effective waqf management, especially during the Ottoman Empire (Cizakca, 2000). One of the most prominent examples is the Süleymaniye Complex in Istanbul, established by Sultan Suleiman in the 16th century. This complex includes a mosque, madrasa, hospital, public kitchen, and other social facilities, all funded and maintained through waqf (N. M. Saad et al., 2017). This model illustrates how waqf can be used

to support extensive and sustainable social infrastructure. In the modern era, Turkey continues to utilize waqf as an important tool in social development. The *Türkiye Diyanet Vakfi* (TDV), or Turkish Religious Foundation, is one of the largest waqf institutions in the country, focusing on the construction of mosques, schools, and healthcare facilities, as well as providing humanitarian aid both domestically and internationally. TDV is managed professionally and transparently, ensuring that waqf funds are optimally used for the benefit of society.

### 6.3 Case Study of Waqf in Malaysia

Malaysia has become one of the leading countries in the development of modern waqf. Johor Corporation (JCorp) is a successful example of corporate waqf implementation, where company assets are endowed and managed to generate income that is used to support social programs. JCorp has established various waqf projects focusing on education, healthcare, and social welfare, including the construction of hospitals and universities (Fary, 2017; Shapiee & Santoso, 2009). In addition, Malaysia has developed a Cash Waqf, which allows individuals to donate small amounts of money that are pooled and invested in social projects. This initiative increases public participation in waqf and allows for more flexible and transparent management of funds.

### 6.4 Case Study of Waqf in Egypt

Egypt has a long tradition of waqf management that has lasted since the Fatimid Dynasty era. One important example is the Al-Azhar Waqf, which was established to support the operation and development of Al-Azhar University, one of the oldest and most influential Islamic educational institutions in the world. The Al-Azhar waqf funds various academic activities, provides scholarships to students, and supports various social programs in Egypt. Moreover, in the modern era, the Egyptian Ministry of Waqf plays a central role in managing the country's waqf, overseeing thousands of waqf properties and ensuring that the revenues from these properties are used to fund various social and religious projects (Tawfiq, 1998). Egypt has also initiated reforms in waqf management to increase transparency and efficiency, including through the digitalization of waqf assets and strengthening the legal framework.

### 6.5 Case Study of Waqf in Saudi Arabia

Saudi Arabia has a highly structured waqf system that is an integral part of the country's social and economic policies (Muis, 2024; N. M. Saad et al., 2016). One of the most famous examples is the Waqf of the Grand Mosque and the Prophet's Mosque. This waqf not only funds the maintenance and development of the two holy mosques but also supports various services for Hajj and Umrah pilgrims, including housing, healthcare, and transportation. Saudi Arabia has also developed the General Authority for Awqaf (GAWA), a government body responsible for overseeing and managing waqf assets across the country (Farhan & Hasan, 2021). GAWA aims to optimize the utilization of waqf assets to support social and economic development, including education, healthcare, and social assistance, as well as contribute to the diversification of the national economy under the Vision 2030 framework.

These cases demonstrate that with proper management, waqf can play a significant role in supporting social and economic development and provide long-term positive impacts for the community.

## 7 Case Studies of Taxation

### 7.1 Taxation Case Study in Scandinavian Countries

Scandinavian countries, such as Sweden, Denmark, and Norway, are renowned for their high yet effective tax system (Kleven, 2014; Rogerson, 2007). High taxes in these countries are used to finance various social welfare programs, including free healthcare, education, unemployment benefits, and pensions (Gold, 1977). For instance, in Sweden, personal income tax rates can exceed 50%, but citizens receive significant benefits in the form of high-quality public services and comprehensive social security. This taxation model has successfully reduced economic inequality and created a society that is more socially and economically equitable. Transparency and public trust in the government play a crucial role in the success of this system. The public believes that the taxes they pay will be managed well and returned to them in the form of beneficial public services.

### 7.2 Taxation Case Study in Germany

Germany is known for its strong and efficient tax system, which contributes significantly to economic development and social welfare. The *Einkommensteuer* (income tax) is one of the state's primary revenue sources and is managed progressively, with higher tax rates imposed on higher income groups (Bach et al., 2013; Harhoff

& Ramb, 2001). The proceeds from income tax are used to finance various social welfare programs, such as universal health insurance, pensions, and free education. Additionally, Germany has the *Solidaritätszuschlag* (solidarity tax), initially introduced to support German reunification and later used for economic development in the former East Germany (Lengfeld et al., 2020). This tax illustrates how taxation can be directed toward specific goals and have a significant impact on regional development.

### 7.3 Taxation Case Study in Singapore

Singapore offers an example of how efficient and low taxation can drive rapid economic growth. Singapore imposes relatively low corporate and personal income tax rates, yet it has maintained strong state revenue through strict fiscal policies and effective financial management. The Goods and Services Tax (GST) in Singapore, though relatively low, is a significant revenue source for the government and is used to fund high-quality public services, including housing, healthcare, and infrastructure (Ikhsan et al., 2022). Singapore also leverages its tax system to promote innovation and investment through various tax incentives, such as the Productivity and Innovation Credit (PIC), which provides tax deductions for companies investing in new technologies and employee training. This approach has helped Singapore become one of the most competitive economies in the world.

### 7.4 Taxation Case Study in the United States

The United States implements a highly comprehensive progressive tax system, where individuals and corporations are taxed based on their income. Federal income tax, one of the government's largest revenue sources, is used to finance various social programs such as Social Security, Medicare, and education (Piketty & Saez, 2007). Additionally, the United States uses Corporate Income Tax as a tool to regulate and influence corporate behavior, for example, through tax credits for research and development (R&D) and investments in renewable energy. The U.S. tax system also involves state and local taxes, which support various public services at the community level, including education, security, and infrastructure. The flexibility and complexity of the U.S. tax system allow for various incentives and policies that can be adapted to local and national needs.

### 7.5 Taxation Case Study in Japan

Japan has a tax system designed to support economic stability and social welfare, particularly in the context of an aging population. The Consumption Tax (similar to VAT) is one of the government's main revenue sources, used to finance healthcare services and social security for the elderly (Bessho & Hayashi, 2005; Keen et al., 2011). Japan also has a high Inheritance Tax, which serves to reduce wealth inequality across generations and supports economic redistribution (Niimi, 2019). Moreover, Japan has introduced Environmental Taxes aimed at reducing carbon emissions and supporting the transition to clean energy. These taxes demonstrate how taxation can be used as a policy tool to achieve environmental and sustainability goals.

### 7.6 Taxation Case Study in Australia

Australia is known for its progressive and straightforward tax system, particularly through the Goods and Services Tax (GST) and Personal Income Tax. The GST in Australia is broadly applied and serves as a major revenue source for the federal government, which then distributes it to states to finance healthcare, education, and infrastructure services (Giesecke & Tran, 2018). The personal income tax system in Australia is also designed to support social justice, with higher tax rates for higher-income groups. Australia also has a Superannuation System, where mandatory pension contributions are taxed to ensure the economic well-being of citizens in retirement (Pearl, 2016).

These cases demonstrate that a well-managed progressive tax system can be an effective tool in achieving social justice and wealth redistribution. However, the success of this model heavily depends on government integrity and transparency in managing public funds.

## 8 Comparative Effectiveness of Waqf and Taxation

A comparison of waqf management in Muslim-majority countries like Indonesia, Turkey, Malaysia, Egypt, and Saudi Arabia with tax management in non-Muslim countries such as Scandinavia (Sweden, Denmark, and Norway), Germany, Singapore, the United States, Japan, and Australia reveals that both systems have their respective advantages in public financing and wealth redistribution. Case studies from various countries, both in the context of waqf and taxation, provide valuable insights into how each system can be adapted to support social and economic development.

Waqf in Indonesia, although still facing challenges in management and regulation, shows great potential in supporting social development with a more spiritual and sustainable approach. The success of waqf management in Turkey and Malaysia highlights the importance of professional and transparent management in maximizing the potential of waqf for public welfare. Meanwhile, waqf in Egypt and Saudi Arabia demonstrates the importance of centralized and professional management in maximizing the social benefits of waqf assets.

On the other hand, the taxation system in Scandinavia shows how effective taxation can be used to finance extensive public services and achieve high levels of social welfare. Effective taxation models in Germany and Singapore demonstrate how well-managed taxation can support economic development and provide high-quality public services. Meanwhile, various tax case studies from the United States, Japan, and Australia show how taxation can be adapted to achieve various goals, including wealth redistribution, economic stability, and environmental sustainability.

Lessons from these waqf and taxation case studies underline the importance of local adaptation and effective management in both systems to achieve sustainable and equitable development goals. Both models offer important lessons in their respective contexts: waqf highlights the importance of community participation and trust in managing assets for the public good, while taxation shows how governments can use their legal power to effectively collect and distribute wealth. Integrating or adapting elements from both models can provide valuable insights for other countries seeking to enhance their public financing systems. This discussion broadens the understanding of various examples of effective waqf and tax implementation in other countries and offers a broader comparison of how these systems can be implemented to support public financing and social development.

## 9 Strategies to Optimize Public Finance Effectiveness in Muslim Countries

In efforts to improve the effectiveness of public financing in Muslim countries, several strategic steps can be taken concerning waqf management and the taxation system. First, it is important to strengthen the legal framework of waqf to ensure more transparent and efficient management. Governments should update waqf laws by establishing clear rules regarding ownership rights, management, and financial reporting of waqf. The development of digital platforms is also highly recommended to facilitate reporting and asset management of waqf, thereby enhancing transparency and data accessibility. Moreover, education and training for waqf managers should be improved, providing training programs and certification to enhance their capacity in asset management and accounting.

On the other hand, the taxation system needs to be reformed to encourage social investment. Governments can offer tax incentives to companies and individuals who donate funds for social programs or waqf, thereby motivating greater participation from the private sector. Implementing a progressive tax system is also crucial to enhancing social justice and wealth redistribution. With higher tax rates for higher-income groups, additional revenue can be allocated to fund various welfare programs. Transparency and accountability in tax utilization should also be strengthened, with the implementation of open reporting mechanisms and independent audit systems to ensure that tax funds are used efficiently.

Integrating the waqf and taxation systems can provide significant benefits. A hybrid public financing model combining these two systems can maximize social impact. In this model, waqf can be used to fund long-term and sustainable projects, while taxes can be used to meet urgent funding needs and fair resource distribution. Collaboration between the government and waqf institutions is also essential to ensure the success of social and infrastructure projects. This partnership allows for a more effective sharing of responsibilities and resources, as well as joint monitoring mechanisms to ensure transparency and optimal results. Additionally, public education on waqf and taxation should be enhanced to increase public understanding of their roles and responsibilities. Educational programs that explain the benefits and implications of these two systems can include seminars, workshops, and easily accessible educational materials.

Furthermore, research and innovation in waqf and tax management should be encouraged to identify best practices and areas for improvement. Such research can help understand the impact and effectiveness of various policy approaches. Additionally, the development of innovations, such as the use of the latest technologies and data-based systems in waqf management, can enhance efficiency and transparency. With these steps, Muslim countries can create a more just, sustainable, and effective public financing model.

## 10 Conclusion

The comparison between waqf and taxation in the context of public financing reveals that both systems have their unique strengths, reflecting different values and objectives within Islamic and conventional frameworks. Waqf, as a distinctive instrument in Islamic economics, demonstrates its potential in supporting sustainable social development through voluntary participation and asset management focused on long-term interests. Examples from countries such as Indonesia, Turkey, Malaysia, Egypt, and Saudi Arabia show how waqf can play a crucial role in providing public services, including education, healthcare, and social infrastructure.



In contrast, taxation in the conventional economic system serves as a more direct and mandatory tool for wealth redistribution and financing various social welfare programs. Case studies from developed countries like Scandinavia, Germany, Singapore, the United States, Japan, and Australia show that well-managed taxation can result in high-quality public services and equitable wealth distribution. The success of the taxation system in these countries is often associated with transparency, trust in government, and the effective use of tax revenue.

The lessons learned from these various case studies underline the importance of effective management, transparency, and innovation in both waqf and taxation. In the context of Muslim countries, integrating the principles of waqf with taxation can provide a unique and potentially powerful approach to public financing. By combining the voluntary and spiritual nature of waqf with the mandatory and structured nature of taxation, Muslim countries can build a more inclusive, sustainable, and just public financing system. This integration can lead to more equitable wealth distribution, more effective public services, and stronger social cohesion, ultimately contributing to the broader goals of economic and social development in line with Islamic values.

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