



ISLAMIC SOCIAL FINANCE REINVENTED: A CONCEPTUAL PAPER ON STRETEGIC FRAMEWORK FOR SOCIOECONOMIC DEVELOPMENT

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ABSTRACT

Islamic Social Finance (ISF) offers a comprehensive ecosystem for addressing poverty, inequality, and financial exclusion, encompassing key instruments such as zakat, waqf, sadaqah, and Islamic microfinance. While zakat remains central to ISF, its full potential is often undermined by fragmented implementation and lack of synergy with complementary tools. This conceptual paper proposes a unified ISF framework that positions these instruments as a strategic pillar within an integrated model of Islamic philanthropy and financial inclusion. The objective is to develop a conceptual structure that enhances the collective impact of ISF instruments through improved governance, institutional collaboration, digital integration, and alignment with Maqasid al-Shariah and the Sustainable Development Goals (SDGs). Using a qualitative conceptual methodology, the study synthesizes existing literature, policy discussions, and institutional practices to construct a framework that facilitates effective resource mobilization and targeted social impact. This paper contributes by highlighting the importance of integrated ISF strategies to strengthen the role of zakat in national and global development agendas.

Keywords: *Islamic Social Finance; Zakat; Waqf; Sadaqah; Microfinance; Database*

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INTRODUCTION

Islamic Social Finance (ISF) has garnered increasing recognition as a vital instrument in advancing sustainable development, alleviating poverty, and promoting financial inclusion, particularly within Muslim-majority contexts. In Malaysia, ISF key instruments particularly zakat, waqf and sadaqah serve as foundational mechanisms for addressing socio-economic disparities and supporting marginalized populations including *asnaf* (eligible zakat recipients) and low-income microentrepreneurs (Abdullah, 2018; Kuanova et al., 2021; Abdullah Thaidi, 2024). Anchored in the principles of ethics and social justice, ISF not only fulfills religious and





ethical principles but also aligns strategically with national development objectives, particularly those related to inclusive economic growth and community empowerment.

Despite its significant potential, the operationalization of ISF in Malaysia remains constrained by a range of systemic and structural impediments. These include fragmented governance structures, inter-state policy divergences, insufficient coordination among ISF instruments, and low levels of financial and digital literacy among intended beneficiaries (Adinugraha et al., 2023; Rosman et al., 2022). These issues have tangible implications on the ground. For instance, the lack of centralized coordination often results in beneficiaries receiving overlapping assistance from multiple zakat institutions and federal agencies, leading to inefficient resource allocation. Furthermore, the absence of integrated data systems hampers efforts to effectively monitor and evaluate the socio-economic transformation of *asnaf*, making it difficult to assess long-term impact or tailor interventions accordingly. While digitalization offers substantial opportunities to improve transparency, efficiency, and outreach, its adoption within ISF ecosystems remains sporadic and uneven across institutions. Furthermore, the limited adoption of technological innovations continues to hinder the transformative capacity of ISF. Although digitalization presents considerable promise in enhancing transparency, operational efficiency, and outreach, its integration within ISF practices remains sporadic and institutionally uneven.

A particularly critical gap lies in the absence of a comprehensive, integrated reporting mechanism capable of capturing the performance, impact, and challenges of ISF initiatives nationwide. While numerous entities oversee discrete aspects of the ISF ecosystem, the lack of standardized data collection and performance benchmarks inhibits robust evaluation, replication of best practices, and the formulation of coherent national strategies. This deficiency also restricts scholarly inquiry and public awareness regarding the broader developmental contributions and latent potential of ISF.

Beyond operational and technological limitations, the literature reveals a deeper conceptual and institutional gap in the way Islamic Social Finance is framed and governed. Existing studies largely focus on the performance of individual instruments such as zakat, waqf, and Islamic microfinance, with limited attention to their systemic integration under a coherent governance and data architecture. As a result, Islamic Social Finance continues to be discussed at the instrument level rather than as a strategic socio-economic system capable of generating cumulative and measurable impact. This gap is particularly critical in the Malaysian context, where Islamic social finance operates within a multi-layered institutional environment involving religious authorities, regulatory bodies, and socio-economic agencies. The absence of a strategically governed and institutionally grounded framework constrains evidence-based policymaking, weakens impact assessment, and limits the alignment of Islamic Social Finance initiatives with national development priorities and global sustainability agendas.

This conceptual paper seeks to address these issues by proposing a harmonised and standardized ISF reporting framework for assessing and strengthening the role of ISF in Malaysia. Specifically, it contributes to the extant body of literature by mapping the current institutional landscape, critically examining governance dynamics, and emphasizing the role of digital innovation as a transformative enabler. The paper identifies core challenges and emergent opportunities, culminating in a forward-looking framework that offers actionable insights for policymakers, regulators, and financial practitioners. Adopting an interdisciplinary perspective, this study aims to bridge theoretical discourse with practical imperatives in the evolving field of Islamic Social Finance.

The structure of this paper is as follows: the subsequent section presents a critical literature review on Islamic Social Finance and its Malaysian context. This is followed by a proposed conceptual framework delineating key components for strategic ISF enhancement.





The paper concludes with a discussion on policy implications, future research trajectories, and recommendations for positioning ISF as a catalyst for inclusive and sustainable socio-economic development.

LITERATURE REVIEW

Islamic Social Finance (ISF) encompasses financial activities and instruments rooted in Shariah (Islamic law), aimed at promoting social welfare, economic justice, and financial inclusion. It comprises mechanisms such as zakat (obligatory almsgiving), waqf (endowments), sadaqah (voluntary charity), *infaq* (charitable spending), *qard hasan* (benevolent loans), and Islamic microfinance (Abduh, 2019). These instruments serve both religious and socio-economic functions, ensuring wealth redistribution, poverty alleviation, and community empowerment. Rehman (2019) frames ISF as a financial framework grounded in Islamic ethical principles that are socially oriented and developmentally driven.

In recent years, ISF has increasingly integrated Islamic microfinance as a complementary tool to provide accessible, Shariah-compliant financial services for low-income communities. The principles of ISF emphasize the moral obligation to support the vulnerable and promote equitable wealth distribution through institutionalized giving. Syed Azman and Engku Ali (2019) note that ISF operates on values of social responsibility, compassion, and distributive justice, fostering inclusive development and financial dignity.

ISF offers multi-dimensional socio-economic benefits. It acts as a key instrument for poverty alleviation by redistributing wealth to meet basic needs and supporting entrepreneurship among low-income individuals (Ahmed, 2015; Atah et al., 2018; Hamad & Adeyemi, 2021). Zakat and sadaqah address immediate consumption needs, while waqf provides sustainable support through the development of public goods such as education, healthcare, and infrastructure (Abdul Razak, 2020). Islamic microfinance enables financial inclusion by offering interest-free financing to unbanked populations, thus empowering small business growth and reducing socio-economic disparity (Shikur & Akkas, 2024; Ozdemir et al., 2021).

The alignment of ISF with the Maqasid al-Shariah further underscores its relevance in achieving socio-economic justice. Güney (2024) highlights how zakat promotes wealth distribution (preservation of wealth), waqf sustains life and intellect through support for social services, and Islamic microfinance preserves dignity and livelihood by fostering economic resilience.

Despite these benefits, literature reveals persistent challenges that hinder ISF's full potential. Key governance issues include regulatory fragmentation, jurisdictional inconsistencies across states, and the absence of a standardized operational framework (Hassan & Noor, 2021). While digital innovations such as blockchain and Islamic fintech are emerging, adoption remains uneven among zakat and waqf institutions (Nazeri et al., 2023; Razak et al., 2024). This limits transparency, accountability, and outreach. Additionally, public awareness and digital literacy remain low, curbing participation and philanthropic engagement (Khan et al., 2020; Abdullah Thaidi et al., 2024).

A central concern highlighted in the literature is the lack of comprehensive and integrated data on ISF initiatives in Malaysia. Existing records are fragmented across institutions and states, making it difficult to evaluate impact, identify best practices, or compare outcomes. This absence of standardized data and consolidated reporting impedes evidence-based policy-making, restricts academic discourse, and hinders the development of effective





ISF strategies. It also limits Malaysia's ability to align ISF outcomes with national development goals or international benchmarks such as the Sustainable Development Goals (SDGs).

Islamic social finance in Malaysia operates within a distinct institutional and constitutional framework, where religious authority over zakat, waqf, and other Islamic charitable instruments resides primarily with the State Islamic Religious Councils (Majlis Agama Islam Negeri, MAIN). Under the Federal Constitution, matters relating to Islamic affairs and religious administration fall within state jurisdiction, resulting in decentralized governance structures across Malaysian states (Che Mohd Salleh & Chowdhury, 2020). Consequently, zakat and waqf institutions function under the authority, supervision, and policy direction of their respective MAIN, leading to variations in operational practices, reporting standards, and data availability across states.

The literature highlights that while this decentralized model preserves religious autonomy and contextual sensitivity, it also contributes to fragmentation, limited inter-state coordination, and challenges in consolidating data at the national level. Existing ISF studies often emphasize efficiency, digitalization, and impact outcomes but pay limited attention to how institutional authority and governance arrangements shape these outcomes. The absence of a governance-aware analytical lens has constrained the development of integrative frameworks that respect religious jurisdiction while enabling strategic coordination across institutions.

From a governance perspective, effective ISF reform does not necessitate the centralization of religious authority but rather the establishment of interoperable systems, standardized reporting protocols, and collaborative mechanisms that operate within the existing institutional architecture. Recognizing MAIN as the primary authority over zakat and waqf is therefore critical in designing any strategic ISF framework. Without such institutional anchoring, proposed reforms risk being conceptually detached from the legal and religious realities governing Islamic social finance in Malaysia.

Globally, models such as Indonesia's BAZNAS and Turkey's waqf institutions demonstrate the utility of centralized ISF reporting systems in improving transparency, accountability, and strategic planning. These examples highlight the feasibility and advantages of adopting similar frameworks in Malaysia. Comparative insights suggest that integrated reporting not only enhances operational efficiency but also fosters donor trust and inter-institutional collaboration.

Given these gaps, it emphasizes the need for a strategic framework that consolidates ISF data, tracks key performance indicators, and enables better governance. The proposed development of a national ISF report could serve as a unifying platform to compile financial and impact data from zakat boards, waqf agencies, Islamic banks, and fintech-based ISF initiatives. Such a report could include standardized metrics, Maqasid al-Shariah impact indicators, digital adoption levels, and success stories. It would also strengthen policy coherence across federal and state authorities. From a theoretical standpoint, ISF literature can benefit from the application of Institutional Theory to explain the fragmented governance environment, or Social Capital Theory to analyze community-based empowerment mechanisms. Embedding the literature within such frameworks enhances analytical depth and supports the case for systemic reform.

Therefore, the literature affirms ISF's transformative potential in promoting socio-economic justice and inclusive development. However, governance inefficiencies, technological gaps, and the lack of integrated data significantly constrain its effectiveness. A comprehensive ISF report, conceptually grounded in Islamic ethical principles and supported by empirical data, can enhance transparency, foster stakeholder confidence, and align ISF





practice with national and global development priorities. This literature review serves as a conceptual foundation for advancing the discourse on standardized ISF reporting in Malaysia.

METHODOLOGY

This conceptual paper adopts a qualitative, library-based methodology grounded in literature synthesis, comparative analysis, and theoretical abstraction. First, the study reviews academic and institutional literature on Islamic Social Finance specifically zakat, waqf, and Islamic microfinance with emphasis on digitalization, governance, and data integration. The analysis is anchored in interdisciplinary frameworks, including Digital Public Infrastructure (DPI), Maqasid al-Shariah, and systems thinking, to examine the strategic role of data infrastructure in ISF. Second, the paper draws on illustrative cases from Malaysia and Indonesia to highlight institutional efforts such as Malaysia's centralized zakat reporting and Indonesia's BAZNAS platform. These countries are selected due to their pioneering roles in institutionalizing Islamic Social Finance through strong regulatory frameworks, national-level digital infrastructure, and coordinated governance. Malaysia's future centralized zakat reporting system and Indonesia's BAZNAS digital platform offer valuable insights into how integrated data systems can enhance transparency, efficiency, and impact measurement in ISF. These cases reveal progress in data consolidation but also expose gaps in cross-vertical integration and national policy coherence. Finally, based on this synthesis, the study proposes a conceptual framework for a centralized ISF database, outlining its core functions, governance mechanisms, and strategic enablers. This methodological approach enables the development of a normative, policy-relevant framework that addresses structural inefficiencies while guiding future research and implementation in ISF system reform.

Proposed Concept

The establishment of a centralized Islamic Social Finance (ISF) database represents a transformative step towards enhancing the effectiveness, transparency, and accessibility of ISF mechanisms in Malaysia. By providing a digital infrastructure that collects, standardizes, and visualizes data on ISF flows, beneficiaries, and outcomes in the proposed database will serve as a cornerstone for enhancing governance, policy development, and operational efficiency across ISF institutions. This conceptual framework outlines the key components and principles guiding the design, development, and operationalization of the ISF database which includes zakat, waqf, sadaqah, and Islamic microfinance.

Database Structure and Design

At the core of the proposed ISF database is a comprehensive data structure that defines the key entities and their interrelationships. These entities include zakat recipients, waqf projects, sadaqah donations, microfinance beneficiaries, and the corresponding financial flows. A key aspect of this design is ensuring the database adheres to normalization principles to prevent data redundancy and maintain consistency (Valacich et al., 2012). Additionally, the database will incorporate metadata that clearly defines data classifications, formats, and relationships, ensuring uniformity in data interpretation across diverse stakeholders (Buchanan et al, 2021). This structured data design will facilitate comprehensive tracking of resource allocation and impact assessment across various ISF mechanisms.





Data Collection and Integration

The ISF database will need to support seamless integration of data from a variety of sources, including zakat institutions, waqf boards, Islamic microfinance units, fintech platforms, and government agencies. The integration process must ensure consistency, accuracy, and elimination of redundancies when consolidating data from disparate systems, such as government-run portals, NGO databases, and financial institutions (Tadi, 2019; Abraham et al., 2019). Furthermore, the database will support the continuous flow of real-time data, which is crucial for dynamic policy-making and operational efficiency. For example, Singapore has developed these platforms such as ‘SupportGoWhere’ portal and ‘SSNet’ platform that exemplify how centralized systems enhance transparency, reduce duplication, and ensure timely disbursement of assistance. Such infrastructure not only improves operational efficiency but also strengthens the accountability and impact measurement of social finance programs.

Governance and Security

Effective data governance is a critical component of the ISF database framework. This involves the implementation of policies that govern how data is collected, processed, stored, and disseminated in a manner that upholds ethical standards and aligns with Shariah principles such as transparency, fairness, and accountability. Ensuring the integrity of sensitive data, especially related to zakat recipients and microfinance beneficiaries, is vital as zakat fundamentally aims to uphold the dignity of its beneficiaries (Nazeri et al., 2023). As such, robust data security protocols must be embedded into the system to ensure confidentiality and accuracy of information.

Technological Infrastructure

The ISF database will be built on a scalable, cloud-based infrastructure capable of handling large volumes of data, with an option for blockchain integration to enhance auditability and transparency. This infrastructure will support real-time updates and allow for data accessibility by various stakeholders, including policymakers, financial institutions, and researchers (Allen & Castro, 2022; Salzano et al; 2024). The choice of cloud platforms ensures flexibility, scalability, and cost-effectiveness while enabling the adoption of advanced technologies such as artificial intelligence for predictive analytics and big data for comprehensive analysis (Putta et al, 2021; Amajuoyi et al., 2024).

Standardization and Compatibility

For the ISF database to be truly effective, data standardization is imperative. The database will adopt standardized formats for financial reporting, beneficiary classifications, and donation categorization, ensuring that data from different ISF entities can be effectively integrated and analyzed. In addition, compatibility is a key consideration ensuring that the ISF database can interact seamlessly with other national or regional databases, such as national poverty reduction systems or financial inclusion platforms. This compatibility will allow for comprehensive cross-institutional collaboration, enabling stakeholders to gain a holistic view of ISF activities and their impact. By adopting a lateral structure, the database will facilitate horizontal coordination among government agencies, religious authorities, and financial institutions





enhancing the ability of public bodies to cross-check data, ensure consistency, and align ISF implementation with national policy objectives.

Impact Measurement and Analytics

One of the central functions of the ISF database is its role as an analytical tool for measuring the impact of ISF initiatives. By incorporating key performance indicators (KPIs) related to poverty alleviation, financial inclusion, and social development, the database will enable real-time monitoring of the effectiveness of various ISF programs. Additionally, analytics tools will provide stakeholders with actionable insights, such as the number of beneficiaries reached, funds distributed, and socio-economic outcomes achieved, thus facilitating data-driven decision-making and informed policy formulation (Hassan & Noor, 2021; Widiastuti et al., 2022).

User Interface and Reporting

The user interface (UI) of the ISF database must cater to the diverse needs of its users, which include regulators, financial institutions, researchers, and the general public. Customizable dashboards will allow users to tailor the presentation of data according to their specific interests, such as zakat distribution, waqf projects, or microfinance disbursements. Furthermore, the database will feature query systems that allow users to generate reports based on customizable criteria, such as geographic region, ISF instrument, or beneficiary profile.

Access Layers

To ensure that the ISF database serves its varied stakeholders effectively, the database will include role-based access layers. This will allow different categories of users, such as regulators, institutions, researchers, and the public, to access data according to their specific needs and permissions. The access control will ensure that sensitive data is protected, while also allowing for transparency and accountability. This system will enable stakeholders to access relevant data without compromising data security or violating Shariah principles of confidentiality and fairness.

The proposed centralized ISF database is a critical tool for enhancing the effectiveness and sustainability of Islamic social finance mechanisms in Malaysia. By focusing on key elements such as data structure, integration, security, impact measurement, and user accessibility, the database will contribute significantly to the efficient management and transparency of ISF resources. The proposed centralized ISF database is a critical tool for enhancing the effectiveness and sustainability of Islamic social finance mechanisms in Malaysia. By focusing on key elements such as data structure, integration, security, impact measurement, and user accessibility, the database will contribute significantly to the efficient management and transparency of ISF resources. However, as highlighted in the UNDP (2023), the current level of digital adoption in many Islamic finance institutions, including those in Malaysia, remains primarily concentrated at the collection stage particularly in zakat and waqf contributions, while areas such as distribution process, monitoring, and *asnaf* impact evaluation are still underdeveloped. This underscores the need for a more comprehensive, end-to-end data infrastructure that supports not only the inflow of resources but also their strategic deployment, governance, and measurable socio-economic outcomes.





The integration of advanced technologies such as cloud computing and blockchain, combined with a robust governance framework, will ensure that the ISF database can support evidence-based policymaking, improve financial inclusion, and foster social development in line with Islamic principles of justice and equity. Ultimately, this database will help enhance public trust in ISF programs and contribute to broader goals of poverty alleviation, economic justice, and socio-economic empowerment.

FINDINGS AND DISCUSSION

Governance Framework

The governance of Islamic Social Finance must be grounded in the institutional and religious authority structures that govern its core instruments. In the Malaysian context, zakat and waqf fall under the jurisdiction of the respective State Islamic Religious Councils (Majlis Agama Islam Negeri, MAIN), which serve as the principal authorities responsible for policy direction, Shariah oversight, and institutional governance. Accordingly, any strategic Islamic Social Finance framework, including the proposed centralized ISF database, must be designed to operate within this established religious governance architecture rather than superseding it.

Within this institutional context, a robust governance framework is essential to ensure the legitimacy, transparency, and effectiveness of the Islamic Social Finance (ISF) database. Given the significant role of ISF in addressing social welfare and economic empowerment, the governance of the database must ensure that data is accurately collected, securely managed, and transparently shared in a manner consistent with Shariah principles. To achieve this, a multi-stakeholder governance approach is proposed, integrating key religious, regulatory, and policy actors to foster coordination, accountability, and long-term sustainability. The following section outlines the key components of the proposed governance structure for the ISF database.

Multi Stakeholder Governance Body

The governance of the proposed Islamic Social Finance (ISF) database should be overseen by a multi-stakeholder governance body that reflects the institutional realities of Islamic social finance in Malaysia. At its core, this governance structure must recognize the State Islamic Religious Councils (Majlis Agama Islam Negeri, MAIN) as the principal authorities over zakat and waqf, consistent with their constitutional mandate over Islamic religious affairs. MAIN play a central role in setting policy direction, ensuring Shariah compliance, and supervising institutional practices related to Islamic social finance instruments.

Within this framework, zakat and waqf institutions operating under the respective MAIN serve as primary data custodians and implementers. Their participation ensures that data relating to collection, distribution, beneficiaries, and program outcomes is accurately represented and aligned with Shariah principles. The involvement of these institutions is essential for preserving the religious integrity, confidentiality, and ethical treatment of beneficiary data, particularly in relation to *asnaf*.

Federal-level institutions, including Bank Negara Malaysia (BNM), the Securities Commission Malaysia (SC), and relevant ministries such as the Ministry of Economy and the Ministry responsible for Islamic affairs, play a complementary and enabling role within the governance structure. Rather than exercising authority over Islamic social finance instruments, these institutions facilitate coordination, interoperability, and policy alignment. Their functions include supporting standardized data protocols, integrating ISF indicators into national





financial inclusion and socio-economic planning frameworks, and enabling regulatory innovation through mechanisms such as regulatory sandboxes.

In addition, technical experts, academic institutions, and selected civil society organizations may be included in an advisory capacity to provide expertise in data governance, impact measurement, and system design. Their role is to support evidence-based decision-making and continuous system improvement without encroaching on religious or institutional authority.

This multi-stakeholder governance arrangement balances religious authority, regulatory facilitation, and technical coordination. By anchoring governance in MAIN while enabling collaboration across institutional boundaries, the proposed structure ensures that the ISF database enhances transparency, accountability, and policy coherence without disrupting existing constitutional and Shariah governance arrangements.

Key Governance Functions

The governance body will be tasked with a variety of essential functions to maintain the integrity and effectiveness of the ISF database:

Data Standards and Compliance

The governance body will ensure the standardization of data entry protocols, reporting formats, and classification systems across the ISF sectors. Central banks, along with technical experts, will work to ensure that all data put into the database complies with established national and Shariah standards, ensuring transparency and consistency across all ISF institutions.

Regulatory Oversight and Policy Integration

Bank Negara Malaysia can support the ISF database by endorsing regulatory sandboxes for digital ISF tools enabling the testing of new financial technologies in a controlled regulatory environment. The regulatory sandbox will help ensure that emerging digital tools comply with both national financial regulations and Islamic principles. The governance body will also facilitate the integration of ISF metrics into national financial inclusion and sustainability reporting frameworks, allowing for the tracking of Islamic finance contributions to the broader national development agenda.

Shariah Compliance and Ethical Oversight

A specialized sub-committee within the governance body will be tasked with overseeing the Shariah compliance of all activities related to the ISF database. This includes ensuring that the allocation and distribution of funds across zakat, waqf, sadaqah, and microfinance initiatives adhere strictly to Islamic principles of justice, equity, and accountability.

Transparency and Reporting

To enhance public trust, the governance body will ensure that the database is transparent and that reports are publicly available for scrutiny. This includes regularly published audit reports, impact assessments, and annual reviews that highlight the effectiveness of the ISF initiatives in addressing key social challenges such as poverty alleviation, financial inclusion, and social development.





Technological and Security Oversight

A dedicated technical committee within the governance body will be responsible for ensuring the data security and technical integrity of the ISF database. This committee will establish policies for:

1. ***Data Security and Privacy***

The committee will oversee the implementation of security protocols to protect sensitive information, such as the financial and personal data of zakat recipients and microfinance borrowers. This will include encryption standards, access control systems, and data backup procedures to safeguard the integrity of the information.

2. ***System Maintenance and Updates***

Regular maintenance and system updates will be mandated to ensure the ISF database remains functional, secure, and adaptable to new technologies. This includes the integration of innovative technologies such as artificial intelligence and blockchain to enhance data analytics and improve auditability.

Stakeholder Engagement and Public Access

In order to maintain legitimacy and foster trust among the broader public, the governance body will facilitate ongoing discourse with stakeholders through public consultations, surveys, and community engagement initiatives. This will ensure that the ISF database remains responsive to the needs of its beneficiaries and that its development aligns with the broader goals of social equity and economic justice. The governance structure proposed for the Islamic Social Finance database is designed to be inclusive, transparent, and Shariah-compliant, integrating key stakeholders such as central banks, zakat authorities, waqf boards, government ministries, and civil society organizations. By adopting a multi-stakeholder approach, the framework ensures that the database operates with accountability, meets national and international standards, and effectively contributes to the broader objectives of poverty alleviation, financial inclusion, and social justice. This governance model also paves the way for policy integration, regulatory innovation, and technological advancement, ensuring that the ISF database remains a valuable tool for enhancing the efficacy of Islamic social finance initiatives in Malaysia and beyond.

Case Illustrations: Malaysia and Indonesia

The experiences of Malaysia and Indonesia offer instructive case illustrations in the development of Islamic Social Finance (ISF) data systems. Both countries have taken significant steps toward enhancing transparency, efficiency, and accountability in ISF management particularly in zakat management. However, their current frameworks remain limited in scope and disconnected from a broader, integrated ISF data ecosystem that could enable more effective policymaking, resource allocation, and impact measurement.

Malaysia: Toward Centralized Zakat Reporting

In Malaysia, the governance of zakat and other Islamic social finance instruments is constitutionally vested in the respective State Islamic Religious Councils (Majlis Agama Islam





Negeri, MAIN), resulting in a decentralized institutional structure across states (Che Mohd Salleh & Chowdhury, 2020). Each MAIN exercises authority over policy direction, administration, and oversight of zakat institutions within its jurisdiction. While this structure preserves religious autonomy and contextual responsiveness, it has also contributed to variations in reporting practices, data standards, and levels of digital adoption across states.

At the federal level, agencies such as the Department of Islamic Development Malaysia (JAKIM) and the Department of Waqf, Zakat and Hajj (JAWHAR) play a coordinating and facilitative role by compiling zakat-related information submitted by State Islamic Religious Councils. However, these efforts remain largely retrospective and non-standardized, relying on periodic reporting rather than real-time, interoperable data systems. As a result, zakat data across states is fragmented in format, scope, and depth, limiting cross-state comparability and comprehensive national-level analysis (JAWHAR, 2025).

Importantly, the absence of a unified digital interface does not reflect a lack of institutional authority at the state level but rather the lack of an interoperable data governance mechanism that operates within the existing religious governance framework. Zakat data is not systematically integrated with broader national socio-economic databases or financial inclusion indicators maintained by institutions such as Bank Negara Malaysia or the Department of Statistics Malaysia. This institutional disconnect constrains the ability to link zakat distribution outcomes with national poverty alleviation strategies, social protection programs, and long-term impact assessment.

These challenges underscore the need for a governance-aware integration approach one that respects the constitutional authority of MAIN while enabling standardized reporting, data interoperability, and coordinated policy analysis at the national level. A centralized ISF database, designed as a facilitative and interoperable platform rather than a centralizing authority, offers a practical pathway to strengthen coordination, enhance transparency, and support evidence-based socio-economic planning without disrupting existing religious governance arrangements.

Indonesia: BAZNAS Digital Innovations

Indonesia has made significant progress through the digital transformation efforts led by the Badan Amil Zakat Nasional (BAZNAS) (Triko & Nurmasari, 2024). The institution has implemented a centralized zakat information system, which consolidates data from provincial BAZNAS branches and accredited amil zakat institutions. The system includes modules for zakat collection, distribution, program implementation, and performance evaluation. Additionally, BAZNAS publishes annual reports and zakat statistics, improving transparency and public trust (BAZNAS, 2024). However, despite these achievements, the platform remains largely confined to zakat and lacks formal integration with other ISF instruments such as waqf (managed separately by BWI Badan Wakaf Indonesia) Islamic cooperatives, and Islamic microfinance institutions. Moreover, cross-linkages with national development planning systems or fintech-enabled welfare distribution platforms are still underdeveloped, hindering the optimization of ISF's full potential in supporting national development goals.

The Case for a Unified and Policy-Connected ISF Data Platform

The cases of Malaysia and Indonesia demonstrate both progress and persisting fragmentation in ISF data management. While both countries have moved toward greater digitalization and reporting standardization in zakat, they stop short of achieving full integration across the verticals of Islamic Social Finance namely, zakat, waqf and Islamic microfinance instruments.





Additionally, neither country has fully embedded ISF data flows into their broader national financial architectures or socio-economic policy planning frameworks.

This highlights the urgent need for a unified, interoperable, and policy-connected ISF data infrastructure one that enables dynamic exchange of information between religious authorities, financial regulators, development agencies, and civil society. Such a platform would facilitate evidence-based decision-making, enhance impact measurement, and support the alignment of ISF activities with national development agendas, such as the Shared Prosperity Vision 2030 (Malaysia), Pembangunan Jangka Menengah Nasional (RPJMN) Tahun 2025-2029 even contribute the achievement of Sustainable Development Goals (SDGs). By leveraging blockchain, open APIs, and integrated dashboards, future ISF databases can promote transparency, coordination, and inclusivity, while preserving the ethical and religious mandates of Islamic finance.

CONCLUSION

The call for a centralized Islamic Social Finance (ISF) database emerges as both timely and necessary for Muslim-majority economies navigating the complexities of digital transformation, financial resilience, and sustainable development. This paper has highlighted the fragmented nature of existing ISF data ecosystems particularly in zakat, waqf, and Islamic microfinance and the critical gaps in integration, standardization, and policy linkage. Without a unified digital infrastructure, the full developmental potential of ISF remains constrained by institutional silos, data opacity, and operational inefficiencies.

A centralized ISF database offers a foundational step toward overcoming these barriers. While central banks and regulatory authorities may not directly manage ISF instruments, they can play a pivotal role in enabling interoperability, ensuring governance coherence, and embedding ISF within broader national development and financial inclusion strategies. Such an infrastructure would not only enhance transparency and impact measurement but also foster collaboration across religious, financial, and social sectors. Looking ahead, future efforts should focus on designing inclusive governance frameworks, leveraging emerging technologies and embedding the ISF database within national digital public infrastructure initiatives. Research should also examine legal harmonization, stakeholder buy-in, and data ethics to ensure the system is both effective and aligned with Islamic values. The proposed ISF database is not merely a technological tool but a moral and policy imperative for actualizing the full potential of Islamic finance in national development. Its realization depends on cross-sectoral collaboration, ethical data stewardship, and sustained commitment from public and religious institutions

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