

Zakat Distribution Strategy of Poverty Alleviation in the Perspective of SDGs: A Case Study in Indonesia and Malaysia

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Abstract

Zakat is considered to be a critical Islamic social finance mechanism for helping alleviate poverty and achieving sustainable development goals in countries with Muslim populations. The purpose of this research is to examine the contribution of Zakat distribution towards realizing SDGs, particularly poverty reduction, in Indonesia and Malaysia using the qualitative research methodology that involves interviews of key players at BAZNAS (Indonesia), MAIS (Malaysia) and UiTM as well as document review of the organizations' institutional reports and scholarly literature. It has been found out that Zakat organizations work towards achieving SDG targets, namely eradication of poverty (SDG 1), reduced inequalities (SDG 10), and economic growth (SDG 8) through the implementation of different programs, which involve financial assistance, vocational training, and educational activities. For instance, BAZNAS in Indonesia uses technology in Zakat for entrepreneurship programs to target poor people and increase their economic independence. At the same time, MAIS in Malaysia focuses on education and healthcare to tackle structural problems related to socio-economic mobility. However, some limitations related to Zakat distribution include inefficiency in coordination, lack of transparency, and cultural resistance to modernization. The study suggests some recommendations for solving the aforementioned challenges, which include introduction of centralized.

Keywords: Zakat Distribution; Poverty Alleviation; SDGs; Indonesia; Malaysia

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Introduction

Zakat represents both a spiritually embedded and socio-economic institution as one of Islam's five pillars. Zakat's institutionalization in most countries and its international institutionalization as a matrix of Muslim charity derives from the fact that Muslims who meet specific requirements grant 2.5% of their total wealth and/or income on an annual basis. The implementation of zam aims to address several socio-economic issues, especially the welfare of the most disadvantaged. By being a religious practice, zakat transforms the system of wealth redistribution, and its practice serves to alleviate poverty and promote social justice (Hoque et al., 2015; Saïd et al., 2023).

Islam promotes the fulfillment of zakat as a social duty to reduce poverty and inequality. The *Quran*, in *Surah al-Tawbah* (9:60), states that the poor (*fuqarā'*), the needy (*masākīn*), Zakat collectors (*āmil*), the new Muslims (*mu'allaf*), the people of slavery (*riqāb*), the debtors (*ghārimīn*), and those who strive in the way of Allah (*fī sabīl Allāh*) and the stranded travelers (*ibn al-sabīl*) are the people eligible to receive zakat. When zakat is strategically and systematically distributed, it can potentially address a variety of development challenges, such as health, education, and income inequality, and address the challenges of development at both the national and global levels (Wahab & Rahman, 2011; Hudaefi et al., 2020). Recently, the United Nations Sustainable Development Goals (SDGs) offer a standardized method of addressing common problems regarding the elimination of poverty, the reduction of disparity, and sustainable development. As Islamic countries, Indonesia and Malaysia, utilizing the SDGs, have adjusted their national development strategies accordingly. Indonesia has pledged formally with Presidential Regulation Number 59 of 2017, and Malaysia has incorporated SDG strategies in its socio-economic policies (Islam et al., 2022; Kiprizli, 2022).

In both Malaysia and Indonesia, poverty alleviation and the implementation of the SDGs rely heavily on zakat. For instance, the un-tapped potential of zakat in Indonesia for 2024 is estimated to be IDR 327 trillion (BAZNAS, 2024). This is hindered by poor coordination among zakat institutions and a lack of proper distribution. Likewise, zakat in Malaysia has contributed to alleviating poverty but suffers from poor transparency and inequitable distribution (Shamsuddin & Bakar, 2021). Zakat is believed to have a significant role to play in assistance in the achievement of SDG targets of poverty alleviation, decent work, and sustained economic growth (Shaikh & Ismail, 2017). There is considerable divide in the literature regarding the effectiveness of zakat. In some of the literature, zakat has a

significant and positive impact on the social welfare and human development, particularly in the less developed countries. Yet, there is some literature that has argued that zakat can potentially alleviate poverty to a greater extent in less developed countries ([Salleh et al., 2022](#)).

In Indonesia, the Central Statistics Agency reported that the number of poor people increased from 26.42 million in March 2020 to 27.54 million in March 2021 ([BPS-Statistics Indonesia, 2021](#)). This situation shows that there are socio-economic problems that require the use of zakat with appropriate priorities and strategies. To minimize wastage and maximize the goals in mind, the activities of all zakat channels (BAZNAS and others) need to be coordinated. Malaysia is also similar to Indonesia in that coordinated zakat channels at the present moment are vital to overcome regional imbalances and to achieve a greater impact in reducing poverty. There are numerous articles and books on zakat and sustainable development. However, the majority of the studies on zakat are of a religious nature, a national policy approach, or a one-country case study. There is an absolute dearth of systematic, comparative research on how zakat strategies are employed to target the Sustainable Development Goals, especially in the context of most Muslim-majority countries.

There are also very few studies that look at the zakat development outcomes and the interlinked practices of institutions, technology, governance, and culture. The study utilizes qualitative cross-country research to bridge these gaps through primary interviews with stakeholders from BAZNAS, MAIS, and UiTM (as well as an institutional document analysis). This research is the first of its kind to include a comparative framework for zakat distribution approaches to specific SDGs, particularly SDGs 1, 4, 8, and 10. Furthermore, it outlines context-driven implementation challenges and offers realistic policy recommendations. Therefore, the study allows for an innovative framework to evaluate the contribution of Islamic social finance to the global development agenda.

This research investigates zakat distribution and its potential to promote sustainable development by employing the SDGs as a framework. More specifically, this study explores the placement of zakat institutions within the case study of Indonesia and Malaysia and focuses on the intentional placement of zakat institutions within the framework in order to allow for the greatest impact for the reducing of poverty. Given the existing frameworks and the analysis of what is in practice, this research aims to present practical approaches to the distribution of zakat and its potential to promote sustainable development within both frameworks.

Literature Review

Zakat is a key wealth redistribution method and poverty alleviation mechanism for Muslim societies. Its significance is not just in the religious aspect, as an Islamic economic tool, its functionality coincides with the contemporary world and its needs as described in the aims of the United Nations' Sustainable Development Goals (SDGs). Numerous authors have analyzed Zakat and its role in sustainable development in the context of poverty ([Aziz et al., 2020](#); [Kholis & Mugiyati, 2021](#); [Amijaya et al., 2023](#); [Muhammad et al., 2023](#)), education ([Kamaruzaman et al., 2023](#); [Aziz et al., 2025](#)), economic inequality ([Ibrahim et al., 2020](#); [Ayuniyyah et al., 2022](#); [Putri & Herianingrum, 2025](#)), and partnerships for development ([Asmalia et al., 2018](#); [Syarif & Fahry, 2025](#)).

Zakat fulfils one of its primary purposes by alleviating poverty and speaks to the first SDG of no poverty. Zakat is an obligatory form of charity, and eligible Muslims are expected to give a certain proportion of their wealth to assist those in need. [Kahf \(2004\)](#) explains that the redistribution of Zakat is channelled to the most impoverished, and through the institutionalization of Zakat, the structural problems of poverty are addressed. In Indonesia and Malaysia, Zakat institutions focus on the poorest households and allocate their funds to aid in the provision of food, and health and education services, which facilitate their economic empowerment ([Hassan et al., 2024](#)). Zakat funding for education also advances SDG 4, which calls for affordable and quality education for all. [Ahmed \(2004\)](#) argues that investment from Zakat would close gaps in education by funding scholarships, constructing schools, and supplying learning materials for children from low-income families. Zakat's example in Indonesia targets the underserved by funding BAZNAS. This gives children in poor families the quality education that is critical in breaking the cycle of poverty and inequality.

Zakat further supports SDG 8, Decent Work and Economic Growth. Zakat generates economic participation in the marginalized population by funding small ventures or providing interest-free loans to start businesses. According to [Simbolon & Afdawaiza \(2023\)](#) this effort creates the means to be self-supporting for the beneficiaries and helps the economy grow by increasing jobs and businesses. This shows how Zakat changes beneficiaries from being passive participants to active participants of economic growth. Besides the economic advantages of Zakat, there are also social benefits tied to lessening disparities as established in SDG 10. Considering Zakat's aim of redistribution, Zakat contains a mechanism to decrease disparities of income and wealth within a community. Zakat, as described by

[Obaidullah & Shirazi \(2021\)](#) promotes social cohesion through the redistribution of wealth to people in need. This mechanism helps to narrow the gap between the rich and the poor as well as strengthen the feeling of responsibility and oneness of a community.

The proper management and distribution of Zakat correlate with SDG 17, which discusses collaboration to achieve goals. Adequate administration and distribution of Zakat require collaboration of the public sector, private sector, and civil society. [Alam et al. \(2021\)](#) describe Malaysia, with its formal systems of Zakat, as a positive example of collaborative work. Successful collection and distribution of Zakat demonstrates the possibility of utilizing Zakat to help achieve the goals of sustainable development on a national scale. BAZNAS's productive Zakat programs empower beneficiaries in Indonesia via entrepreneurship assistance, vocational training, educational support, and digital inclusive finance. For instance, [Hudaefi and Beik \(2021\)](#) explain how the Zakat for Entrepreneurship program assists low-income communities in becoming economically independent by providing business capital with accompanying aid and mentorship. MAIS in Malaysia provides welfarism and community development programs such as healthcare, education, and poverty relief programs which help the vulnerable improve their quality of life and promote social mobility ([Mohd Nor et al., 2022](#); [Mohd Alias et al., 2024](#)). The Zakat programs in the two countries mentioned above promote sustainable development, collaborative governance, and socio-economic empowerment.

While Zakat can help achieve the SDGs considerably, a range of problems, as listed by [Shaikh \(2018\)](#), such as insufficient frameworks for regulation, opaque fund management, and ineffectiveness in the collection and distribution of funds, impede its use. Without addressing these challenges, Zakat's use to reduce poverty and promote sustainable development will be limited. Institutional reforms, new technologies, and low-cost public campaigns to build trust and participation in Zakat are among the changes required to address these problems. Combining modern financial methods and systems with Zakat practices will promote more Zakat's use for its intended purpose of sustainable development.

Methods

This study examines the qualitative nature of zakat distribution and its relationship with the Sustainable Development Goals (SDGs) concerning poverty alleviation in Indonesia and Malaysia. The qualitative nature of this study aims to provide deeper insights into the perspective and experiences of zakat distribution

plurality within the key stakeholders (Creswell & Creswell, 2018; Yin, 2018). Thematic analysis is the tool of choice in this study to explore the data in context and provide direction regarding the potential for zakat distribution alignment within the framework of SDGs (Braun & Clarke, 2006).

The primary data of this research were obtained through a combination of interviews and secondary data in the form of documents. The researcher undertook semi-structured interviews in the months of October and November 2022, with representatives from the following institutions: BAZNAS (Badan Amil Zakat Nasional) Indonesia, Lembaga Zakat Selangor, Majlis Agama Islam Selangor (MAIS) Malaysia, and University Teknologi MARA (UiTM) Malaysia. BAZNAS, as the national zakat institution of Indonesia, explained the ways zakat distribution is implemented within the context of poverty reduction and the related SDG pathway and added the barriers to the efforts (Puskas-BAZNAS, 2021). As a prominent zakat institution in Malaysia, MAIS explained the poverty reduction strategies and SDG indicators within the zakat framework. The zakat distribution and sustainable poverty alleviation strategies in Malaysia were explained by the researchers and scholars from UiTM (Suprayitno et al., 2017). The duration of each interview was between 60 to 90 minutes and was recorded with permission for a formal transcription of the text and accuracy of the analysis (Creswell & Creswell, 2018).

The information gathered in interviews was enhanced by the data pertaining to documents and provided more contextual and substantial foundations for understanding zakat distribution practices. Among other documentation, BAZNAS Annual Reports 2019-2021 were examined. These reports discussed collection, distribution, and the socio-economic effects of zakat within Indonesia in conjunction with the assessment of the impact of zakat vis-a-vis the SDGs. Reports and plans of MAIS provided information on how zakat was distributed by MAIS to meet its socio-economic objectives on the SDGs. Relevant academic literature and policy papers had a great impact on the findings of the research, and covered relevant theories and contexts, and helped identify recurring patterns and the historical background (Suprayitno et al., 2017; Ayuniyyah et al., 2022).

Thematic analysis was the main technique applied to the data, and required a series of steps to methodically identify and organize patterns or themes in the data, and to describe the findings (Braun & Clarke, 2006). The initial step was familiarization, where interviews and documents were read in detail to discern potential themes. The next step was to prepare a preliminary coding of the data and significant aspects were documented. Initial codes were then clustered into theme

constructs such as strategic alignment of zakat with SDGs, implementation challenges, and zakat's role in poverty alleviation. Zakat SDGs themes were differentiated and modified for impact and relevance. Zakat SDGs themes were named, defined and described systematically for research goals, and findings were articulated in a manner with minimal disruptions to the existing body of research on zakat and SDGs (Suprayitno et al., 2017; Yin, 2018).

Throughout the entire course of the study, ethical issues were of paramount concern. In accordance with Creswell & Creswell (2018), before the start of the interviews, they were clearly told the purpose of the study, what their role would be in the study, and what their rights were, and consent was also gained. Before writing the report, each participant's identity and the information that could lead to their identification were removed to ensure that the participants' identities were protected. Participants were also free to withdraw at any time, and were not subject to any form of punishment, in accordance with (Creswell & Creswell, 2018). In accordance with (Yin, 2018), all data in the form of recordings of interviews, transcripts, and other documents, were kept in a safe, password protected environment. This permits a great deal of flexibility while remaining rigorous within the context of the study. The combination of both interviews and documentation will provide the participants opportunities to express their views on the challenges they face, and the opportunities they see with respect to the alignment of the Zakat with the SDG's.

Results and Discussion

Results

Thematic analysis provided an in-depth understanding of the distribution of Zakat and the challenges it presents with regards to the alleviation of poverty and the realization of the Sustainable Development Goals (SDGs) of both Indonesia and Malaysia. The results of the study show the ways in which various Zakat institutions implement and execute their operations, deal with the challenges presented to the attainment of specific SDGs, and the various challenges presented to the implementation of the SDGs. The analysis also presents Zakat and its long term sustainability potential.

1. Strategic Alignment with SDGs

Zakat institutions in Indonesia and Malaysia both made clear efforts to incorporate the relevant key SDGs into their distribution strategies. Specifically, these SDGs include those related to the eradication of poverty (SDG 1), zero hunger (SDG 2), quality education (SDG 4), and the SDG 10 of reducing inequalities.

Indonesia (BAZNAS)

To support the *mustahiq* (zakat recipient) community in alignment with the SDG, BAZNAS has developed targeted, structured programs. In particular, the Zakat Community Development program addresses the multiple SDGs by supporting the community with financial resources, vocational training, and improvement of existing community infrastructure. Interview responses included the terms the “holistic poverty alleviation” and “structured SDG alignment” to comment on the integrated approach of BAZNAS. BAZNAS Annual Reports documented various community development initiatives that provided capital assistance, capacity building, and support for microenterprises, thereby contributing to poverty reduction and productive economic participation (BAZNAS, 2022).

One BAZNAS representative explained:

“Our Zakat programs are not only focused on providing short-term assistance, but also on empowering mustahiq through entrepreneurship training and economic development initiatives aligned with the SDGs.”

Malaysia (MAIS)

MAIS focused on educational and income equity regarding zakat distribution. One key strategy included offering scholarships and educational aid to underprivileged students. This gave rise to the concept “education as empowerment,” and was related to SDG 4 regarding quality education. This would help break the cycle of poverty which spans multiple generations. MAIS also had alignment with SDG 10 regarding reduced inequalities with microfinance support directed to small-scale business (Ayuniyyah et al., 2022). AMAIS representative stated:

“Education is one of the most effective ways to break the cycle of poverty, which is why many of our Zakat programs prioritize scholarships and educational assistance for vulnerable communities.”

2. Challenges in Implementation

While the strategies showed alignment to the SDGs, both zakat institutions experienced challenges in the distribution of their programs. The challenges noted were similar in both countries with variances to the nature and the level of challenge.

Coordination and Overlap

In Indonesia, BAZNAS members stated that one of the challenges with the national zakat institutions was poor coordination, thus leading to many institutions providing assistance to the same beneficiaries, which in turn caused a loss of efficiency (Suprayitno et al, 2017).

One respondent noted:

"Sometimes the absence of integrated data leads to overlapping assistance, where some beneficiaries receive support multiple times while others are left unserved."

In Malaysia, MAIS noted similar problems, but they were less severe. This was particularly noted to be the case with coordination of the local branches and was noted to be focused more on standardizing the processes that would lead to the creation of regional gaps.

Transparency and Trust

To build public trust in both institutions, opacity was insufficient. "Enhancing governance" was a common theme. Stakeholders in both countries called for improved reporting systems (Ayuniyyah et al, 2022).

A participant explained:

"Public trust depends on how transparent Zakat institutions are in reporting fund collection and distribution activities."

BAZNAS developed Digital Zakat for improved transparency. However, gaps remain regarding the timely posting of the results and accurate reporting. MAIS has been fairly successful in maintaining the trust of their constituents but advised the need for periodic audits and community forums (Suprayitno et al, 2017).

Cultural Barriers

Resistance to modernizing zakat systems was an additional challenge. In Indonesia, for example, some communities prefer zakat collection and distribution methods that are traditional and view collection and distribution via digital methods

as untrustworthy (Suprayitno et al, 2017). Among the barriers that were identified, “resistance to change” was most prominent.

One interviewee stated:

“Some communities still prefer traditional face-to-face Zakat distribution because they feel more confident with direct interaction than digital systems.”

In Malaysia, such resistance was less, but, in communities that are rural and less developed, traditional methods prevail.

3. Targeting and Beneficiary Identification

Targeting in the distribution of zakat and in the context of this research, was identified as a critical factor in enhancing the success of zakat distribution. Although methods differ, both countries utilize methods to identify and target those most in need.

Indonesia (BAZNAS)

To enhance the accuracy of targeting, BAZNAS has focused the use of technology. An example of this is the Integrated Database System for Mustahiq Identification, which is intended to facilitate the accurate targeting of zakat distribution. This is made possible through the use of technology and the large reduction of probability errors. Participants in both interviews and document analysis referenced the same theme of “data-driven zakat management (Suprayitno et al, 2017).

A BAZNAS representative indicated the following regarding MAIS’ beneficiary identification processes:

“Technology helps us identify eligible beneficiaries more accurately and reduce errors in Zakat distribution.”

Malaysia (MAIS)

MAIS utilizes community-based methods through local stakeholders to identify potential beneficiaries. During the thematic analysis, this method was often identified as “grassroots targeting.” Although this method is contextually relevant and culturally appropriate, it also can lead to bias. This was noted during interviews in which some beneficiaries expressed that favoritism is an issue (Ayuniyyah et al, 2022).

4. Integration of Socio-Economic Programs

Integration of zakat distribution with initiatives of a socio-economic nature was a leading theme in the data, and was recognized as an innovative method for the creation of sustainable frameworks for the alleviation of poverty. This method signified a movement away from the conventional notion of charity to development.

Indonesia (BAZNAS)

This shift from the use of zakat to provide relief, to a more empowering approach, was evidenced through programs like vocational training and microfinance. An example of this is the Zakat for Entrepreneurship program, which offers mustahiq both skilling and financial resources to establish micro enterprises, thus addressing SDG 8 (Suprayitno et al., 2017). is aimed at enhancing sustainability, and was articulated as “capacity building through zakat.”

One participant emphasized:

“The goal is not only to provide assistance, but also to help mustahiq become economically independent in the long term.”

Malaysia (MAIS)

MAIS implements health and education strategies in their zakat programs through their support of rural health clinics and the provision of scholarships to needy students. Data showed a frequent use of the term “holistic development through zakat,” and a comprehensive approach to addressing the root causes of poverty. Accordingly, these strategies fit SDG 3 (good health and well-being) and SDG 4 (quality education) (Ayuniyyah et al., 2022).

5. Monitoring and Evaluation

Both institutions understand the necessity of monitoring and evaluating their zakat programs to improve effectiveness and to ensure that their programs are in line with the targets of the SDGs.

Indonesia (BAZNAS)

BAZNAS created digital tools for monitoring the impact of its programs. Numerous references to the “performance-based evaluation” theme noted a shift toward a stronger emphasis on the better use of data. In particular, routine interviews with recipients provided a mechanism for the appraisal of the program

by the targeted beneficiaries and consequently gave grounds for the adjustment of programs offered by BAZNAS (Suprayitno et al., 2017).

Malaysia (MAIS)

MAIS offered many opportunities for audits and for feedback from the community. Involvement of “stakeholders” (“stakeholders’ accountability”) and integration of feedback mechanisms were the most commonly cited themes. Interviews showed that MAIS regularly engaged beneficiaries to assess their needs in order to better deliver their services.

A MAIS representative explained:

“Community feedback is important because it helps us evaluate whether our programs truly meet beneficiaries’ needs.”

A thematic analysis shows that zakat institutions in Indonesia and Malaysia are working toward integrating their distribution approach with the SDGs’ targets for poverty alleviation. Coordination challenges, cultural barriers, and a critical lack of transparency point out existing gaps. Zakat’s full potential for alleviating poverty sustainably will be realized through the integration of social and economic programs, improved targeting, and strong monitoring. This may help policymakers by addressing the gaps in coordination, targeting, and transparency, and by incorporating advanced technologies in targeting the beneficiaries. Improvement will focus on increased transparency and management of zakat institutions. There is potential for zakat institutions to improve their contributions by reaching the targets of the SDGs through addressing these challenges.

Discussion

A thematic analysis helps to provide a better understanding of the operational and strategic alignment of zakat distribution in Malaysia and Indonesia, and of its contribution toward poverty alleviation within the framework of the Sustainable Development Goals (SDGs.) Zakat, which is a religious obligation, indicates a rapid change of the socio-economic context, and has the propensity to address poverty and inequality, and promote and enhance sustainable development. In the covering of the findings, this discussion seeks to address the contribution of zakat toward the attainment of the SDGs, the challenges of zakat institutions, and the implications of this for policy and practice, and for theories. Interview participants consistently emphasized the importance of zakat as a mechanism for the long-term socio-

economic empowerment of beneficiaries, integrated with the goals of sustainable development, rather than just serving as a form of charitable aid.

The findings indicate that zakat funds relate to a number of SDG targets, such as SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 4 (Quality Education), SDG 10 (Reduced Inequalities), and SDG 8 (Decent Work and Economic Growth). In Indonesia, BAZNAS facilitates zakat through various programs, such as Zakat Community Development, that provide financial aid, develop infrastructure, and promote skills development for poor communities. This development-oriented zakat approach seeks to transition recipients (*mustahiq*) of the aid from a state of dependence to one of self-sustainability. This was further supported by respondents that cited the development of entrepreneurship and the provision of vocational training as the most important strategies to achieve economic self-sustainability. This is also in agreement with [\(Suprayitno et al., 2017\)](#), who claim that the zakat sector can implement programs that stimulate and foster social and economic empowerment and inclusion. In the same way, MAIS in Malaysia focuses on educational and economic social justice through zakat in the form of provision of scholarships and zakat microfinance of small businesses, thereby addressing the immediate and systemic challenges of poverty. This also substantiates [Ayuniyyah et al. \(2022\)](#) 's assertion related to the impact of educational zakat programs on long-term development.

The full potential of zakat institutions in facilitating the achievement of SDGs faces several challenges, even with these contributions. In Indonesia, coordination problems become the dominant issue with fragmented and un-integrated collaboration between BAZNAS and regional zakat collection agencies (LAZ), which often results in duplicated aid or coverage gaps. For example, multiple institutions provide assistance to the same beneficiaries, while others remain needy. Participants had cited aid distribution overlapping and the lack of integrated data on beneficiaries as key challenges for zakat programs. Combined with the lack of a centralized, integrated database, these challenges continue to perpetuate inefficiencies. This correlates with earlier critiques on the decentralized system of zakat, which prioritize the creation of formalized data integration agreements as an important step towards granting greater fairness and efficiency [\(Suprayitno et al., 2017\)](#). MAIS in Malaysia has a more centralized structure, resulting in the relative diminishment of inequities across the country. However rural program inequities persist due to a lack of resources and logistical issues. This demonstrates the need for improved collaboration with zakat programs.

Confidence in zakat institutions hinges on their transparency and accountability. BAZNAS' advancements in digital reporting have not addressed the issues in reporting timeliness and detail, thus decreasing public trust ([Suprayitno et al., 2017](#)). Because zakat institutions have unfulfilled public demand to show measurable results for their zakat and corporate governance, reporting trust will support increased participation in Zakat. Transparent reporting supports trust and participation in Zakat. MAIS has, and BAZNAS lacks, sufficient transparency from regular audits, public reporting, and stakeholder engagement. Trust and efficient reporting require constant improvement to trust BAZNAS ([Ayuniyyah et al., 2022](#)).

These results support previous research on the same topic. For example, research by Ashraf et al. regarding lack of trust in Pakistan's Zakat collection within government agencies cited transparency and accountability and poor communication as significant factors in public confidence in Zakat management. This research shows that transparency and governance issues extend beyond Pakistan to Indonesia and Malaysia regarding digital reporting and governance of Zakat institutions and systems. In Indonesia, contextual barriers to modernizing zakat systems include culturally ingrained practices for zakat collection and distribution. Face-to-face zakat practices inspire confidence among members of many communities. So, digital systems that collect and distribute zakat are perceived as cold and impersonal ([Suprayitno et al., 2017](#)). As a result, the adoption of new practices that integrate digital systems for identification of beneficiaries and cashless zakat disbursements are resisted. Trust of face-to-face zakat distribution in the community was reported even when zakat was disbursed through digital means. Cultural resistance to zakat system modernization is especially prevalent in rural Malay communities of Malaysia, and correlates to traditional rural outlooks. Resistance to the modernization of zakat systems indicates the evolving nature of culturally engaged education and marketing necessary for the adoption of modern practices.

The accurate targeting of zakat beneficiaries is important to its effective distribution. In Indonesia, the use of the Integrated Database System for Mustahiq Identification by BAZNAS, illustrates how modern techniques of beneficiary profiling can enhance equity in zakat distribution. Targeting techniques that embrace modern rationality and analytic systems optimize the best use of zakat resources to assist those in the greatest need, and aid in the more equitable distribution of zakat. Technology based targeting systems also promote reduced distribution error, and increased beneficiary selection equity, within BAZNAS

(Suprayitno et al. 2017). In Malaysia, MAIS uses a community-centered method to identify beneficiaries. This method recruits representatives who have a better understanding of the needs of their local communities. While using this method makes sure that the needs of the community are met, culturally relevant methods can lead to favoritism and bias. This was evident from the concerns voiced by some beneficiaries during their interviews (Ayuniyyah et al., 2022). To create a better environment, the organization needs to put standardized practices into place alongside some control measures.

Combining zakat with wide-ranging socio-economic programs shows the ability of zakat to move away from a short-term charity model to a sustainable development mechanism. An example of this can be seen in the Indonesian program “Zakat for Entrepreneurship”, which offers vocational training along with zakat to help mustahiq start small businesses, achieve economic independence, and contribute to SDG 8 (decent work and economic growth). MAIS, or the Malaysian Islamic Welfare Organisation, integrates zakat with health and education programs alongside the active Khmer community in Malaysia. This also contributes to the same SDG 3 (good health) and SDG 4 (quality education) for a better future through zakat and for a Multi-Development Perspective. The alignment of zakat programs with monitoring and evaluation systems establishes the ability of zakat to meet the Sustainable Development Goals (SDGs). An example of this is the digital transformation BAZNAS has undertaken to monitor the performance of its programs along with the collection of feedback by beneficiaries, which improves the distribution methods used by BAZNAS, as seen in new development finance techniques. MAIS focuses on community input and improves control measures along with trust frameworks (Ayuniyyah et al., 2022), which are new management methods, and illustrates the significance of design control in improving the performance and trust in zakat institutions.

According to the findings, zakat institutions in both Indonesia and Malaysia have put themselves in an ideal position to strategically pool their distribution to the SDGs focusing on poverty and inequality. Challenges such as poor coordination, poor transparency, cultural opposition, and poor targeting of beneficiaries have to be addressed in order to optimize Zakat’s Effect. These institutions have the ability to integrate Zakat with innovative technologies, governance, and the socio-economic support programs to achieve their goals for sustainable development. This helps the practitioners in the field while also helping the scholars to understand more about the zakat’s development in the Islamic social finance field.

Conclusion

As established in the preceding chapter, zakat institutions in Indonesia and Malaysia are strategically positioned to address SDGs related to poverty, the quality of education, and the gaps in social and economic inequality. Among the programmatic elements included are entrepreneurship, education and health service empowerment programs, and scholarships. Zakat is an effective tool to increase the social and economic independence of the `mustahiq` and is effective in breaking the structural barriers of social immobility.

Challenges remain to the effectiveness of zakat. In Indonesia, poor coordination among BAZNAS and local LAZs has resulted in duplication and gaps in assistance, and in Malaysia, poor coordination among local LAZs has led to standardization of procedures. Transparency, poor accountability in reporting and governance, and cultural opposition to modernization of the digital zakat system remain challenges. Comprehensive, strategic reforms must be developed to overcome these issues. First, inter-institutional coordination must be improved using a centralized database and an integrated platform to facilitate equitable and efficient allocation. Beneficiary identification, monitoring, and reporting must rapidly adopt digital technology, and public campaigns aimed at shifting public opinion must be utilized to reduce negative attitudes toward change. Governance must be improved with more frequent beneficiary audits and the inclusion of beneficiary feedback mechanisms. Together, these changes will improve trust and confidence in governance systems.

Vocational training, microfinance interventions, and entrepreneurship initiatives will provide valuable integration opportunities to optimize the sustainable development impacts of the integration of zakat with other wider socio-economic intervention programs. In order to achieve alignment of initiatives and the zakat framework with national priorities and the Targets of the Sustainable Development Goals, integration of zakat with Government and Non-Government Organizations will be both necessary and sufficient. When coupled with a sustainable regional system of monitoring and evaluation, zakat will fulfill the role of an innovative and sustainable socio-economic integration instrument. Furthermore, it will serve the purpose of Islamic financing-based development mechanisms, which are specifically designed to be flexible and responsive to the world's greatest challenges.

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