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Empowering Malaysia's Islamic Social Finance System: Integrating Zakat Management Through Financial Technology

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ABSTRACT

State Islamic Religious Councils (SIRCs) play a pivotal role in managing and regulating Islamic affairs in Malaysia. According to the Second Schedule, Ninth Schedule of the Federal Constitution, SIRCs are constitutionally empowered to manage *zakat* collection and distribution. As the nation strives toward financial inclusion and economic sustainability, Islamic social finance (ISF) emerges as a critical pillar. The national digitalisation agenda facilitates these ambitions. SIRCs are responsible for ensuring the socio-economic development of the *asnaf* (eligible zakat recipients). However, there remains an inconsistency in *zakat* and *waqf* management across different states in Malaysia. Legally, *zakat* falls under state jurisdiction, as enshrined in the Constitution, resulting in non-uniform systems nationwide. Moreover, this study examines the potential of financial technology (FinTech) in *zakat* operations. Using doctrinal research methodology and secondary data from reputable sources, this study proposes strategic approaches to strengthen ISF systems through digital integration and advocates for a harmonised legal framework. The findings aim to contribute to the development of a more robust Islamic social finance system in Malaysia.

Keywords: Islamic social finance; Zakat; FinTech; Legal framework; Malaysia

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1. Introduction

In the effort to develop a socially and economically balanced society, the Islamic social finance system plays a crucial role. It functions not only as an act of worship but also as a socio-economic development instrument aligned with the principles of *Maqasid Shariah*, particularly in the preservation of wealth (*hifz al-mal*) and the well-being of society.¹ Essentially, Islamic social finance encompasses the management of funds and investments aimed at resolving social issues such as poverty, lack of public infrastructure, and upholding human dignity and livelihood. In the Malaysian context, the main instruments of Islamic social finance include *zakat*, *waqf*, *infaq*, and *sadaqah*, which are used to support, assist, and empower the *asnaf* (eligible *zakat* recipients). *Zakat*, as one of the five pillars of Islam, is a crucial instrument in the Islamic social finance system. It acts as a mechanism for wealth redistribution from the affluent to the needy, especially the *asnaf* as stipulated in *Surah at-Taubah* verse 60. The verse clearly mentioned the eight qualified individuals namely the fakir (poor), the miskin (needy), amil (the *zakat* collector), mualaf (reconciliation of hearts), riqab (ransoming of slaves), gharimin (those who are in debt), fi sabilillah (in the cause of Allah) and Ibnu Sabil (the wayfarer). Through the collection and distribution of *zakat*, not only are the basic needs of the *asnaf* met, but it also provides them the opportunity to be self-sufficient and transition from recipients to contributors of *zakat*. Therefore, the effectiveness of *zakat* management is critical to ensure it truly achieves its objectives of eradicating poverty and narrowing the social gap within the community.

However, one of the main challenges in the *zakat* distribution system in Malaysia is the lack of uniformity in the implementation and management of *zakat* across different states.² This is due to the Federal Constitution of Malaysia (Ninth Schedule, State List), which places matters related to *zakat* and *waqf* under state jurisdiction and the administration of the State Islamic Religious Councils (SIRCs).³ This has resulted in each state having its own procedures, collection structures, distribution methods, and investment strategies for *zakat* and *waqf*. Consequently, there are significant disparities in terms of the efficiency of program implementation, collection and distribution amounts, and the overall effectiveness of *zakat* aid across states. At the same time, the development of financial technology (fintech) has created new opportunities to improve the Islamic financial system, including *zakat* management. Fintech refers to the use of technologies such as digital applications, electronic payments, digital wallets, and artificial intelligence (AI) to enhance the efficiency, accessibility, and transparency of financial services. Blockchain technology directly addresses key challenges in *zakat* management. Its decentralised and immutable ledger creates a transparent, auditable record from contributor to recipient, ensuring funds are

¹ Tengku Mohd Azizuddin Tuan Mahmood and others, 'Issues and Challenges of Zakat Institutions Achieving Maqasid Syariah in Malaysia' (2021) 2(1) AZKA International Journal of Zakat and Social Finance 119.

² Mohd Suffian Mohamed Esa, Mohd Ali Mohd Noor and Hairunnizam Wahid, 'Cadangan Kodifikasi Akta Zakat Nasional dan Penubuhan Majlis Zakat Negara' (2018) 52(1) Jurnal Ekonomi Malaysia 145.

³ Hairunnizam Wahid, 'Pengagihan Zakat Oleh Institusi Zakat di Malaysia: Mengapa Masyarakat Islam Tidak Berpuas Hati?' (2009) 17(1) International Journal of Mechanical and Materials Engineering 89.

distributed accurately to verified *asnaf*. This enhances trust, reduces administrative costs, and facilitates efficient, global *zakat* collection and distribution.⁴

Islamic social finance has long existed as an approach that emphasises justice in society. It stresses social responsibility towards the underprivileged through ethical and systematic wealth redistribution.⁵ In Malaysia, the role of Islamic social finance through instruments such as *zakat*, *waqf*, *infaq*, and *sadaqah* has increasingly gained prominence in national development strategies, particularly in achieving the Shared Prosperity Vision 2030 and the Sustainable Development Goals (SDGs).⁶ The ability of these instruments to support both social and economic goals them a vital component of Islamic fiscal policy. The *asnaf*, especially the *fuqara'* (destitute) and *masakin* (poor), are the primary groups prioritised in *zakat* distribution. Based on the guidelines provided by the SIRC and deliberations among the religious scholars, the definitions of *fuqara'* and *masakin* are adjusted according to current indicators such as the *Had al-Kifayah* and the Poverty Line Income (PLI). This approach emphasises a realistic assessment of basic life necessities, including food, housing, education, healthcare, and transportation.⁷

Nevertheless, the implementation of *zakat* entrepreneurship programs such as the Asnaf Entrepreneurship Program (AEP), which aims to transform *asnaf* into self-reliant individuals and economic contributors, continues to face various challenges. Studies have found that a comprehensive rural *asnaf* development model is needed.⁸ This indicates the need for systemic improvements to enhance the accuracy of *asnaf* selection, program monitoring, and sustainable use of *zakat* funds.

In the current digital era, the use of technology through fintech is seen as a catalyst for reforming *zakat* management. This technology not only improves transparency and efficiency in *zakat* collection and distribution but also strengthens systems for data matching, *asnaf* eligibility assessments, and more organised delivery of aid.⁹ Therefore, this study will

⁴ Mohd Ariff Bin Mohd Salimin and Nur Harena Binti Redzuan, 'Empowering Zakat Management Through the Viability of the Financial Technology' in Bahaeddin Alareeni and Allam Hamdan (eds), *IoT and Digital Transformation: Innovating Business Models for the Connected World* (ICBT 2024, Lecture Notes in Networks and Systems, Vol 1575, Springer, Cham) 547.

⁵ Azman Ab Rahman and Mursyid Junaidi Mohd Faisal Yeap, 'Memperkasa Pengurusan Agihan Zakat Di Institusi Masjid Malaysia: Isu dan Cabaran (Empowering Zakat Distribution Management in Mosque Institutions of Malaysia: Issues and Challenges)' (2019) 6(2-2) UMRAN–Journal of Islamic and Civilizational Studies.

⁶ Mohamed Fairouz Abdul Khir and others, 'Islamic Social Finance and SDG 2: Measuring the Social Impact of Islamic Religious and Malay Tradition Council in Perak State' (2025) 13(1) Malaysian Journal of Syariah and Law 134.

⁷ Norafzan Awang and others, 'Taksiran Zakat Di Malaysia: Isu Dan Cadangan Solusi' (2019) 6(1) Jurnal Studi Manajemen Dan Bisnis 43.

⁸ Mohd Arif and others, 'Vital Factors in the Development of Rural Asnaf Entrepreneurship: A Review' (2022) 26(2) Al-Qanatr: International Journal of Islamic Studies 96.

⁹ Aisyah Abdul-Rahman, Shifa Mohd Nor and Salmy Edawaty Yaacob, 'Technological Integration Within Zakat Institutions: A Comprehensive Review and Prospective Research Directions' (2023) 24(Dec) International Journal of Islamic Thought 31.

explore the role and potential of fintech integration in the Islamic social finance system, specifically in empowering *asnaf zakat* management in Malaysia more effectively.

The objective of this study is to examine the enhancement of Malaysia's Islamic social finance system through *zakat*. Among the key instruments for Islamic social finance are the forms of assistance to the *asnaf* group, namely *zakat*. To strengthen this system, all necessary efforts must be undertaken to address the readiness in adopting modern technologies to create a more organised and standardised system across all states.

2. Comparison of Zakat Systems Across States

The administration of *zakat* in Malaysia is a state-level responsibility, as mandated by the State List in the Ninth Schedule of the Federal Constitution. Consequently, oversight is delegated to individual State Islamic Religious Councils (SIRCs), resulting in a non-uniform system across the country. This decentralised structure means that the performance and efficacy of *zakat* collection and distribution are not consistent and vary from one state to another.

2.1 Selangor

Lembaga Zakat Selangor (LZS) exemplifies the transformative power of digital innovation in modernising *zakat* management. By embracing a digitally-driven strategy, LZS has fundamentally reimagined its role beyond traditional collection, leveraging technology to enhance transparency, accessibility, and donor engagement. Central to this transformation are initiatives like Crowd Zakat, a crowdfunding platform that allows donors to direct contributions to specific causes, and RADIUZ, an affiliate program that harnesses digital marketing to expand outreach. These platforms democratise philanthropy, foster trust through transparency, and attract younger, tech-savvy generations, ensuring the institution's continued relevance. Furthermore, LZS has diversified payment channels through partnerships with financial and tech entities, offering seamless options from online portals to mobile banking, thus simplifying the fulfilment of *zakat* obligations for all demographics.

The impact of LZS's digital transformation extends to operational efficiency and socio-economic development. Strategic partnerships, such as the collaboration with MEDKAD Sdn Bhd to launch the Al-Amal system, digitise critical processes like medical aid distribution, ensuring faster and more effective support for *asnaf*. This holistic digital approach—encompassing collection, distribution, and management—has not only optimised *zakat* operations but also reinforced LZS's role as a catalyst for sustainable community development. By blending religious obligation with cutting-edge technology, LZS has built a model of transparency, accessibility, and innovation that strengthens public trust and serves as a blueprint for *zakat* institutions worldwide.¹⁰

¹⁰ Lembaga Zakat Selangor, *Tahun Jalinan Harapan Membangun Kehidupan* (Laporan Tahunan 2024, 30) 129-130.

2.2 Federal Territories

In the Federal Territories, zakat administration features a unique split model: collection is managed by the specialised Pusat Pungutan Zakat (PPZ), while distribution is handled by the Baitulmal Division, both operating under the oversight of the Federal Territories Islamic Religious Council (MAIWP). PPZ has been a pioneer in innovative payment solutions, introducing drive-through services, self-service kiosks, and robust online and mobile app platforms. The adoption of financial technology has driven a comprehensive digital transformation. PPZ-MAIWP launched several digital platforms, including e-Counter Zakat, the i-Zakat mobile app, and the PPZ-TV YouTube channel in 2013. A major milestone was the 2017 upgrade to the web-based SiZA.my system. More recently, the introduction of the MyWakalah app (2020) for refunds and the MyZakat app (2021) with digital agents has further streamlined the process. Continuous improvement remains a priority, with the portal and MyWakalah system being upgraded to Version 2 in 2023 based on user feedback. This technological evolution has been instrumental in optimising *zakat* collection rates, which is fundamental to PPZ-MAIWP's role in improving the economic status of the Muslim community.¹¹

2.3 Kedah

In Kedah, *zakat* management remains under the direct purview of a state board rather than a corporatised entity. The Lembaga Zakat Negeri Kedah (LZNK), constituted by the Kedah Darul Aman Zakat Board Enactment 2015 and supervised by the State Islamic Religious Council (MAIK), is undertaking a transformation towards modern administration. This includes implementing online *zakat* systems alongside traditional collection methods. The Kedah State Zakat Board (LZNK) is empowering *zakat* through digital technology, specifically via the Zakat OnTouch platform as a form of digital social contract that fosters trust, solidarity, and accountability between the ummah and the institution. This innovation signifies a structural shift from a linear distribution model to an interactive, transparent, and responsive digital social network. Through live dashboards, real-time distribution maps, and impact narratives on social media, *zakat* is no longer a 'societally detached entity' but now flows within cyberspace as an instrument of contemporary Islamic moral and social legitimacy. LZNK's digitalisation reinterprets the cultural meaning of giving, charity, and group solidarity, using the language of technology and data as a new medium to convey Islamic humanitarian values. The Zakat OnTouch is not just an application but a modern cultural artefact that carries the collective identity and digital selfhood of Kedah's Muslim community.¹²

¹¹ Pusat Pungutan Zakat, *Teknologi Pemangkin Realiti* (Laporan Tahunan 2023) 16-17.

¹² Mohd Faisal Mustafa, 'Siri Wacana KITA Bil 3/2025: Transformasi Pengurusan Zakat Berasaskan Teknologi Dan Digital Di Negeri Kedah Dalam Membangunkan Asnaf Dan Komuniti' (Siri Wacana KITA, UKM, Bilik Mesyuarat KITA UKM, 8 Julai 2025).

2.4 Penang

Penang took early steps in corporatising its *zakat* institution with the establishment of Zakat Pulau Pinang (ZPP) in 1994. ZPP operates under the administration of the Penang State Islamic Religious Council (MAINPP) and is fully responsible for *zakat* collection and distribution. The operational efficiency of ZPP has enabled the implementation of various comprehensive *zakat* distribution programs for the *asnaf* community.¹³ Additionally, ZPP has set up *zakat* counters at selected mosques, such as the Penang State Mosque and other designated mosques, to facilitate *zakat* payments by the local community without the need to visit the main office. This approach not only increases *zakat* collection but also strengthens the role of mosques as centres of *ummah* development.¹⁴ On the 16 January 2025, the rebranding of the name and logo of Zakat Pulau Pinang, Majlis Agama Islam Negeri Pulau Pinang (Islamic Religious Council of Penang) to its new corporate name, Zakat MAINPP, was officiated by the Deputy Chief Minister I, who is also the President of the Islamic Religious Council of Penang, YB Dato' Dr Mohamad Abdul Hamid. The institution was established with the primary goal of increasing *zakat* collection in Penang by implementing a systematic, computerised system. It aims to remind the Muslim community of *zakat*'s vital role in strengthening their socio-economic standing and to provide efficient, fair, and transparent services for payment and distribution, thereby building public trust and satisfaction. Furthermore, it seeks to instil a professional corporate culture in its operations and to become a premier *zakat* institution as a central pillar of the Muslim socio-economy founded on quality service, robust management, the adoption of cutting-edge technology, human resource development, and strong collaborative partnerships.¹⁵

2.5 Perlis

The state of Perlis retains a traditional structure, whereby *zakat* collection and distribution are handled by the Baitulmal of Perlis under the administration of the Perlis Islamic Religious and Malay Customs Council (MAIPs). Although it has not been corporatised, MAIPs has introduced various improvements since 2011. Among them are the establishment of the MAIPs Baitulmal Committee and a more systematic distribution through direct monitoring of *zakat* recipients. MAIPs have also increased efforts to collaborate with educational institutions and community organisations to identify eligible *zakat* beneficiaries. Zakatperlis.com serves as the official online payment platform appointed by the Perlis Zakat Centre (MAIPs), marking a significant advancement in the digitalisation of Islamic philanthropy in the state. This platform offers payers a seamless and flexible experience, supporting a wide array of payment methods including credit/debit cards, popular e-wallets like Touch 'n Go and GrabPay, BNPL services, and online banking—without any additional processing fees, though a minimum payment of RM10.00 applies. More than just a simple

¹³ Azman and Yeap (n 5).

¹⁴ Mohd Faisal Ibrahim, 'Perbandingan Kaedah Kutipan Zakat Harta Oleh Institusi Zakat Di Negeri-Negeri Utara Malaysia' (2020) 2(1) International Journal of Zakat and Islamic Philanthropy 114.

¹⁵ 'Transformasi Zakat' (ZAKAT MAINPP, 2025) <<https://www.zakatpenang.com/utama/>>.

upgrade, this system greatly expands its scope beyond *zakat* contributions to include wakaf, general donations, sedekah, and even rental payments for MAIPs properties. Officially launched by Tuanku Syed Faizuddin, this initiative is a cornerstone of MAIPs' strategic vision, directly aligned with its Digitalisation Plan (2023–2027) and Strategic Plan (2021–2025), designed to enhance accessibility, convenience, and trust in digital religious payments.¹⁶

3. Problem Statement

A central and persistently debated issue in Malaysian *zakat* management is the profound inter-state imbalance in *zakat* distribution, a direct consequence of its constitutionally mandated, decentralised administration. The Federal Constitution's Ninth Schedule (State List) categorises *zakat* and waqf as Islamic affairs under the exclusive jurisdiction of each state's Sultan or Ruler, executed through their respective State Islamic Religious Councils (SIRCs). This legal structure has resulted in a fragmented landscape without a uniform national framework. Each SIRC autonomously determines its procedures for collection rates, fund distribution, investment strategies, and the utilisation of *zakat* and waqf assets. These disparities create significant operational challenges, particularly for implementing large-scale, national aid programs due to inconsistent regulations and data silos across state borders. Furthermore, this structural imbalance is compounded by a critical technological divide. The absence of a centralised national framework has led to an uneven adoption of digital solutions across SIRCs. While some states have pioneered advanced collection technologies (eg, fintech apps, data analytics), others lack the resources to modernise. This technological disparity creates inefficiencies, hinders the creation of a unified national *asnaf* database, and ultimately weakens the overall ecosystem by preventing data-driven, cross-state poverty mapping and resource allocation. Therefore, the problem is not merely fiscal or legal but is intrinsically linked to the inconsistent technological capacity across state jurisdictions, which undermines the potential for a more equitable and efficient national *zakat* system.

4. Research Methodology

This study is conducted through doctrinal research by referring to authoritative legal sources. For data collection, various methods were utilised, including library research, data obtained from recognised websites, and surveys. The library collection employs references to statutes, journals, articles, and books, and will also use platforms such as LexisNexis and Google Scholar to gather relevant data.

¹⁶ Jabatan Mufti Negeri Perlis, 'Raja Muda Perlis Lancar Sistem Bayaran Dalam Talian' (*Jabatan Mufti Negeri Perlis, Kangar*, 26 September 2023) <<https://muftiperlis.gov.my/index.php/en/berita-terkini/816-raja-muda-perlis-lancar-sistem-bayaran-dalam-talian>>.

5. Literature Review

The existing body of scholarly work on *zakat* administration in Malaysia highlights a convergence on several critical themes: the potential of technological innovation, the imperative of good governance, and the systemic challenges posed by the current state-based legal framework.

A significant strand of contemporary research advocates for the integration of digital technology to enhance operational efficiency. Muhammad Iqmal Hisham Kamaruddin et al (2023) posit that Financial Technology (FinTech) can significantly advance Islamic social finance by revolutionising the collection, management, and distribution mechanisms for *zakat* and waqf.¹⁷ This perspective is reinforced by Harsono and Suprapti (2024),¹⁸ who describe FinTech not merely as a tool for digitalisation but as a transformative force that fundamentally reshapes traditional financial paradigms. The potential of a specific technology is explored in depth by Amelia Nur Natasha Nazeri et al (2023),¹⁹ who investigate the application of blockchain. Their research argues that the core features of blockchain—transparency, immutability, and traceability—are intrinsically aligned with the objectives of *zakat*. They propose a model whereby blockchain technology could address persistent issues of public trust and operational efficiency within *zakat* institutions.

Beyond technological solutions, other scholars focus on the strategic and governance shortcomings that hinder the system's effectiveness. Tengku Mohd Azizuddin Tuan Mahmood (2021) contends that the realisation of Maqasid Syariah through *zakat* remains incomplete. He identifies a lack of systematic, transparent, and development-oriented approaches, exacerbated by difficulties in accurately identifying eligible recipients (*asnaf*) and weaknesses in monitoring and evaluation systems.

This critique connects directly to a crucial structural challenge identified in the literature: the disparity in *zakat* resources across states. Mohd Suffian Mohamed Esa et al (2023) provide empirical evidence of this imbalance.²⁰ Their analysis of 2019–2020 data reveals a stark incongruence: states with high *zakat* collections (eg, Selangor and the Federal Territories) have a lower incidence of absolute poverty, while states with the greatest need (eg, Sabah and Sarawak) report lower *zakat* collections. The authors identify the localised legal framework as the primary factor inhibiting the equitable redistribution of *zakat* funds across state borders. Their proposed solutions include reviewing extant fatwas, enhancing

¹⁷ Muhammad Iqmal Hisham Kamaruddin and others, 'Development of Fintech in Islamic Social Finance in Malaysia' (2023) 31(1) International Journal of Economics, Management and Accounting 177.

¹⁸ Iwan Harsono and Ida Ayu Putri Suprapti, 'The Role of Fintech in Transforming Traditional Financial Services' (2024) 1(1) Accounting Studies and Tax Journal 81.

¹⁹ Amelia Nur Natasha and others, 'Exploration of an New Zakat Management System Empowered by Blockchain Technology' (2023) 15(4) International Journal of Islamic 127.

²⁰ Mohd Suffian Mohamed Esa, Wan Nur Fazni Wan Mohamad Nazarie and Abdul Hayy Haziq Mohamad, 'Ketidakseimbangan Agihan Zakat Antara Negeri-Negeri di Malaysia: Solusi Merentasi Sempadan Lokaliti' (Conference Paper, International Halal Management Conference 2023, Nilai, Negeri Sembilan, November 2023).

inter-state agency cooperation, creating a centralised management system, and ultimately codifying a National Zakat Act to ensure a more equitable and comprehensive distribution system.

Synthesising these perspectives, it is evident that the literature calls for a dual approach: adopting innovative technologies to improve efficiency and transparency at the operational level, and addressing the fundamental legal and administrative disparities at the systemic level. This present study builds upon this foundation by aiming to improve the Islamic social finance system in Malaysia through a focused advocacy for both digital integration and a harmonised legal framework. By addressing these intertwined challenges, the research seeks to contribute to the establishment of a more structured, standardised, and effective system for delivering aid to *asnaf* groups across all states.

Based on all the reviewed literature, this study differs in that it aims to improve the Islamic social finance system in Malaysia through digital integration and advocates for a harmonised legal framework. Among the key instruments in Islamic social finance are the aid mechanisms provided to *asnaf* groups through *zakat*. To further strengthen this system, all necessary efforts must be taken to address existing challenges, particularly through the integration of modern technologies, to establish a more structured and standardised system across all states.

6. Findings

6.1. The Digital Transformation of Zakat Management in Malaysia: A Comparative Study Across Five States

Zakat, one of the Five Pillars of Islam, represents a religious obligation for Muslims to distribute a portion of their wealth to those in need. In Malaysia, the administration of *zakat* is decentralised, falling under the jurisdiction of individual states as stipulated in the Federal Constitution. This decentralised approach has resulted in varying levels of efficiency, innovation, and effectiveness in *zakat* management across different states. In recent years, digital transformation has emerged as a critical factor in enhancing *zakat* collection, distribution, and overall management. This essay explores the digital evolution of *zakat* administration across five Malaysian states, namely Selangor, Federal Territories, Kedah, Penang, and Perlis, highlighting their unique approaches, achievements, and challenges.

Table 1: Digital Transformation of Zakat Management: A Comparative Analysis

State	Lead Institution	Key Digital Initiatives and Features	Primary Approach and Focus	Level of Digital Integration
Selangor	Lembaga Zakat Selangor (LZS)	Crowd Zakat Donor-directed crowdfunding. RADIUZ: Affiliate marketing program. Al-Amal System: Digital medical aid distribution. Diverse online payment channels.	Holistic Integration. End-to-end digital ecosystem covering collection, distribution, and community engagement. Focus on transparency, donor choice, and socio-economic impact.	Advanced and Comprehensive
Federal Territories	Pusat Pungutan Zakat (PPZ)	MyZakat and MyWakalah. Apps SiZA.my Web-based management system. Early adopter of kiosks, drive-through, and online payments.	Incremental Innovation. Focus on modernising and refining the collection process through user-friendly, convenient channels.	Advanced Focused

State	Lead Institution	Key Digital Initiatives and Features	Primary Approach and Focus	Level of Digital Integration
Kedah	Lembaga Zakat Negeri Kedah (LZNK)	Zakat OnTouch Platform Live dashboards, real-time tracking	Strong social media integration for impact stories. Framed as a 'digital social contract'. Cultural-Technological Bridge Using technology to reinforce trust, community solidarity, and the religious meaning of zakat. Focus on transparency and narrative	Moderate (High-Impact Narrative)
Penang	Zakat MAINPP	Computerised systems for efficiency Zakat counters at mosques for accessibility.	Strategic Modernization. Focus on foundational infrastructural upgrades and corporatization as a first step towards broader digitalization.	Developing (Foundational)

State	Lead Institution	Key Digital Initiatives and Features	Primary Approach and Focus	Level of Digital Integration
Perlis	MAIPs (Baitulmal)	Zakatperlis.com Supports e-wallets, BNPL, online banking. Multi-purpose payment portal.	Emerging Digital Adoption Leveraging third-party payment tech to enhance accessibility and convenience within a traditional administrative structure.	Early Stage (Payment-Focused)

6.2. The Decentralised Framework of Zakat Administration in Malaysia

The Ninth Schedule of the Federal Constitution of Malaysia places *zakat* under the State List, granting each state the authority to manage its *zakat* affairs through its respective State Islamic Religious Council (SIRC). This decentralisation has led to a lack of uniformity in *zakat* administration, with states adopting different operational models, technological advancements, and strategic priorities. While this autonomy allows states to tailor their approaches to local needs, it has also resulted in significant disparities in efficiency, transparency, and technological adoption.

The legislative framework for *zakat* management in Malaysia varies significantly across states, reflecting a spectrum from traditional administrative models to modern corporatised structures.

In Malaysia, the administration of *zakat* is a unique and powerful example of a modern state leveraging a classical Islamic institution for socio-economic development. As a matter of constitutional and legislative authority, *zakat* falls under the purview of the individual states. This has resulted in a diverse ecosystem of administration, where each state tailors its approach while adhering to universal Islamic principles. A comparative analysis of the systems in Selangor, the Federal Territories (Kuala Lumpur, Putrajaya, and Labuan), Kedah, Penang, and Perlis reveal a spectrum of models, from highly centralised and technologically advanced to more traditional structures, all unified by the common goal of effective poverty alleviation and wealth purification.

6.3. The Constitutional and Legal Framework

The foundation of *zakat* administration in Malaysia is established in the Federal Constitution's Ninth Schedule (State List), which places 'Islamic law and personal and family law of persons professing the religion of Islam', including *zakat*, under state authority. Consequently, each state has enacted its own *Zakat Collection and Distribution Enactment*. This state-centric model means that a Muslim resident is obligated to pay *zakat* to the authority of the state in which they reside. The administration is typically delegated to a State Islamic Religious Council (SIRC), or *Majlis Agama Islam*, which acts as the sole trustee (*amin*) for the collection and distribution of *zakat*.

6.3.1 Selangor: The Benchmark of Modernisation and Integration

Lembaga Zakat Selangor (LZS) is widely regarded as a benchmark for efficient and technologically advanced *zakat* administration in Malaysia. Its success is underpinned by a centralised and professional management structure operating as a corporatised body under the Selangor Islamic Religious Council (MAIS), which enables strategic planning, specialised operational departments, and strong accountability mechanisms. A key pillar of this success is its digital innovation, particularly through pioneering e-*zakat* platforms like the ZakatPay mobile application and online portal, which facilitate seamless transactions via internet banking, card payments, and salary deductions—significantly enhancing collection efficiency and convenience for payers. Furthermore, LZS has established a transparent and impactful distribution system that extends beyond one-time financial assistance to include sustainable development programs such as educational scholarships, business capital grants, and healthcare support, ensuring long-term socioeconomic benefits for *asnaf* and aligning *zakat* distribution with the broader objectives of wealth redistribution and poverty alleviation.

6.3.2 Federal Territories: A Unified Federal Entity

The administration of *zakat* in the Federal Territories (WP) presents a unique administrative model where Islamic affairs, including *zakat* collection and distribution, are managed centrally by Pusat Pungutan Zakat (PPZ) under the Federal Territories Islamic Religious Council (MAIWP). Despite operating in a federal entity, PPZ's approach shares significant similarities with Selangor's advanced system, particularly in its scale and reach. Serving the capital city of Kuala Lumpur, Putrajaya, and Labuan, PPZ manages one of the largest *zakat* collections in Malaysia, leveraging its dense urban population and high concentration of corporate entities to maximise revenue. A defining feature of its success is its specialised expertise in corporate *zakat*, where it provides comprehensive guidance to businesses on calculating and disbursing *zakat* on wealth, making corporate contributions a major revenue stream. Furthermore, PPZ employs highly integrated digital systems that facilitate seamless online payments for both individual and corporate users, ensuring accessibility, efficiency, and transparency in line with the expectations of a modern, urban population.

6.3.3 Kedah and Perlis: Traditional Structures with Modernising Efforts

The northern states of Kedah and Perlis exemplify a more traditional approach to *zakat* administration, though both are undertaking efforts to modernise their systems. In Kedah, the Kedah Zakat Board (LZNK) operates under the state's religious council, maintaining a strong reliance on grassroots networks such as district *zakat* offices and local agents (*amil*) to ensure widespread coverage, particularly in rural areas. While this decentralised model supports community engagement, it occasionally introduces challenges related to operational uniformity and efficiency. Nevertheless, LZNK has begun integrating online payment channels and is progressively enhancing its distribution mechanisms to include more developmental programs. Similarly, Perlis, being the smallest state in Malaysia, manages *zakat* through a compact unit under the Perlis Islamic Religious and Malay Customs Council (MAIPs). Its administration benefits from a closely-knit, community-oriented approach that allows personalised service and direct interaction with *asnaf*. However, due to its limited resources, Perlis often depends on technological solutions developed by larger states or federal agencies, which may constrain its capacity for independent innovation.

In contrast, Penang demonstrates a hybrid and progressive model through the Penang Zakat Board (LZPP), which effectively merges modern corporate practices with community-focused outreach. LZPP has implemented efficient digital payment systems and prioritised public education on *zakat* obligations, particularly concerning income-based contributions. Beyond collection efficiency, the institution is distinguished by its holistic development programs, which extend past mere financial assistance to encompass counselling, skills training, and youth empowerment initiatives. This approach aims to foster self-reliance among *asnaf* and aligns with broader socio-economic goals, positioning Penang as an adaptable and forward-thinking administrator within Malaysia's *zakat* landscape.

7. Conclusion

This study has critically examined the structural, operational, and regulatory dimensions of *zakat* management within Malaysia's Islamic social finance landscape. While acknowledging the considerable progress made in developing shariah-compliant financial institutions, the analysis reveals that the current system remains constrained by fundamental structural fragmentation arising from the state-based governance model enshrined in the Federal Constitution. This constitutional arrangement has perpetuated significant disparities in fiscal capacity, operational efficiency, and distributive justice across states, ultimately undermining the redistributive purpose of *zakat* as a pillar of Islamic economics.

The findings reveal a significant disparity in the readiness of Malaysian states to effectively manage and distribute *zakat*, creating a two-tiered system that hinders national cohesion. Economically advanced states such as Selangor and the Federal Territories demonstrate a high degree of readiness, characterised by robust collection mechanisms, administrative capacity, and technological infrastructure that consistently generate *zakat*

surpluses. In stark contrast, states like Sabah, Perlis, and Sarawak exhibit a lower level of readiness, constrained by limited resources, operational capacity, and inconsistent reporting protocols, which result in persistent deficits and an inability to fully address local needs. This divergence in readiness not only contravenes the ethical objectives of *zakat* but also highlights the regulatory failure of a governance model that isolates less-ready states, prohibiting resource sharing even in contexts of acute need.

Furthermore, the varying levels of administrative readiness evident in inconsistent procedures and low payer satisfaction reflect systemic weaknesses that transcend organisational form. Public trust is eroded less by the corporatised or traditional structure of an institution and more by underlying deficits in operational readiness, including inefficiency, a lack of transparency, and weak accountability mechanisms. These concerns directly impact *zakat* compliance and threaten the perceived legitimacy of the entire system, underscoring an urgent need to elevate the readiness of all state institutions to a common standard.

In response, this study argues for a transformative reconceptualisation of *zakat* governance through two synergistic strategies: legal harmonisation and technological integration.

Legal transformation must begin with the development of a National Zakat Framework Act, which would establish uniform standards for *zakat* calculation, collection, and distribution while respecting the constitutional jurisdiction of states. Such legislation would provide a coherent legal foundation for inter-state coordination, enabling the redistribution of surpluses from contributor to recipient states under the oversight of a national shariah advisory body. This would operationalise the principle of fiscal equity without violating state autonomy, thereby aligning legal administration with the ethical aims of *zakat*.

Concurrently, digital transformation is essential to modernise operations and restore public confidence. Investment in centralised fintech solutions including blockchain-based traceability mechanisms, interoperable databases for *asnaf* verification, and AI-driven disbursement systems—can significantly enhance transparency, reduce leakage, and improve the responsiveness of *zakat* distribution. These technologies not only streamline processes but also embed accountability and auditability into the core of *zakat* management.

Ultimately, *zakat* must be reimagined not merely as a religious duty, but as a powerful instrument of socioeconomic policy capable of driving equitable development and financial inclusion. By advancing legal harmonisation and systemic digitalisation, Malaysia can transform its *zakat* system into an integrated, efficient, and nationally cohesive institution. Such reform is crucial not only for fulfilling the spiritual and material objectives of *zakat* but also for reinforcing Malaysia's position as a global leader in Islamic finance. The transformation of *zakat* law and administration is therefore imperative for the future sustainability and moral credibility of the Islamic socioeconomic system in Malaysia.

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