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ADVANCING SUSTAINABLE FINANCE THROUGH ZAKAT: ISSUES AND CHALLENGES FROM THE MALAYSIAN ZAKAT ECOSYSTEM

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Abstract:

Sustainable finance has emerged as a global agenda for the promotion of environmental sustainability, social inclusion, and economic resilience. The function of Islamic social finance, particularly zakat, remains underexplored, despite the fact that existing studies have primarily concentrated on environmental, social, and governance (ESG) investing and green finance. Zakat has the potential to significantly contribute to sustainable development by promoting social inclusion, poverty alleviation, and equitable wealth distribution as a compulsory wealth redistribution mechanism. Nevertheless, prior research has primarily focused on the governance and distribution efficacy of zakat, with a limited focus on its potential to promote sustainable finance. This

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conceptual paper analyses the potential and challenges associated with positioning zakat as a sustainable finance instrument within the Malaysian zakat ecosystem by conducting a conceptual review of the literature on Islamic social finance and sustainable finance. The paper emphasises critical issues concerning governance, accountability, and social performance, and it explores the implications of these issues for the improvement of zakat's contribution to sustainable and inclusive socio-economic development.

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Introduction

As a means of advancing social justice, long-term economic growth, and environmental sustainability, sustainable finance has drawn more and more attention on a global scale. To address issues including poverty, inequality, social exclusion, and climate change, governments, financial institutions, and international organisations are progressively integrating sustainability considerations into financial decision-making. As a result, by including environmental, social, and governance (ESG) factors to support sustainable development and favourable social outcomes, sustainable finance has grown beyond traditional financial performance (Raimi & Bamiro, 2026).

The literature on sustainable finance has mostly concentrated on traditional instruments like green bonds, sustainability-linked financing, responsible investment, and ESG investing, despite this expanding significance. In contrast, the discussion of sustainable finance still does not fully incorporate Islamic social finance, especially zakat. Islamic social finance includes Shariah-compliant tools that support financial inclusion, wealth redistribution, and social justice, such as zakat, waqf, sadaqah, and qard hasan. Among these tools, zakat plays a unique function as a required religious duty that enables the transfer of wealth to qualified receivers (asnaf), hence promoting socioeconomic growth and the alleviation of poverty (Habibullah & Haron, 2025).

In addition to its religious purpose, zakat is an institutionalised method of income transfer that aligns with the goals of Maqasid al-Shariah, including social welfare and economic fairness (Abd Wahab & Abdul Rahman, 2011). Its socioeconomic role includes supporting vulnerable communities, redistributing wealth, and reducing poverty. Through initiatives in the areas of education, healthcare, entrepreneurship, disaster relief, and other social welfare, zakat organisations in Malaysia have increasingly supported government initiatives.

With the help of recognised zakat institutions, well-established procedures for collection and distribution, and increasingly professionalised management techniques, Malaysia has constructed a highly institutionalised zakat management system. Alongside innovations like zakat wakalah, corporate zakat, digital payment systems, and collaborations with government agencies, universities, and non-governmental organisations, zakat collection and distribution have grown significantly over the last ten years (Amin, 2024; Nizar & Mohamad, 2024; Nor Paizin et al., 2021). Zakat has the capacity to produce longer-term socio-economic value beyond short-term charitable help, as seen by the diversification of distribution programs toward education, healthcare, entrepreneurship, housing, and livelihood development.

However, not enough research has been done on zakat's potential as a sustainable financial tool. While sustainable finance research has focused on ESG investing, green finance, responsible investment, and sustainability-linked instruments, zakat research has primarily addressed governance, collection efficiency, distribution, compliance, accountability, and poverty reduction (Johari, 2024; Kappen et al., 2019; Raimi et al., 2024; Rosman et al., 2022). This suggests a conceptual gap between the two streams of literature: while sustainable finance literature has paid little attention to zakat as a faith-based mechanism for promoting social sustainability, zakat research has not sufficiently engaged with sustainable finance principles and impact considerations.

Because Malaysia's institutionalised zakat ecosystem offers a suitable framework for investigating whether zakat might support sustainable finance, this gap is especially pertinent there. Examining not only the quantity of zakat collected and distributed but also the social outcomes, accountability, transparency, and long-term value generated from zakat resources is made possible by the existence of well-established zakat institutions, a variety of socio-economic programs, corporate participation through wakalah, and extensive stakeholder collaboration. However, the conversion of zakat resources into long-lasting social outcomes may be hampered by issues with governance, social performance monitoring, transparency, institutional coordination, and stakeholder involvement.

In light of this, this conceptual paper examines the possible positioning of zakat as a sustainable finance instrument, with special reference to the Malaysian zakat ecosystem, by reviewing and integrating the literature on Islamic social finance and sustainable finance. The study critically examines the opportunities and difficulties of incorporating zakat into the sustainable finance discourse, particularly with regard to governance, accountability, social performance measurement, transparency, and stakeholder collaboration, rather than presuming that zakat is intrinsically sustainable. The study adds to the growing conversation on Islamic social finance and suggests future lines of inquiry and policy development to enhance zakat's role in inclusive and sustainable socioeconomic development by tying together these two mainly parallel bodies of literature.

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Literature Review

Sustainable Finance

The idea that financial operations should promote economic growth while addressing social and environmental issues has led to the emergence of sustainable finance as a significant framework within modern financial systems. Financial markets have always prioritised financial returns and shareholder wealth. However, the role of finance has changed to create long-term sustainable value due to increased concerns about social exclusion, inequality, environmental degradation, and climate change (Schoenmaker & Schramade, 2019). Therefore, when making financial decisions, sustainable finance takes social, environmental, and economic factors into account.

The literature typically links sustainable finance to the incorporation of environmental, social, and governance (ESG) aspects into investment, financing, and risk management decisions, notwithstanding the lack of a consensus definition (Schoenmaker & Schramade, 2019; OECD, 2020). In a similar vein, the European Commission (2018) defines sustainable finance as supporting sustainable economic development by integrating ESG factors into financial decision-making. Therefore, by taking into account the wider effects of financial activity on society and the environment, sustainable finance goes beyond financial profits.

Environmental, social, and governance are the three interrelated aspects of sustainable finance that are frequently identified in the literature. Growing interest in green bonds, green banking, and climate-related investments is a result of environmental sustainability's emphasis on topics including climate change, carbon reduction, biodiversity, renewable energy, and green infrastructure (Flammer, 2026). With tools like microfinance, social enterprises, impact investing, and development finance supporting these goals, social sustainability focuses on reducing poverty, financial inclusion, equitable wealth distribution, healthcare, education, and community development (OECD, 2020). In order to ensure that financial resources are managed appropriately and provide long-term results, governance places a strong emphasis on accountability, transparency, ethical leadership, stakeholder participation, and efficient institutional supervision (Flammer, 2026).

By pushing investors and financial institutions to take environmental risks, social obligations, and governance standards into account when making choices, the increasing popularity of ESG has further changed sustainable finance. As a result, evaluating long-term organisational sustainability and financial success now heavily relies on ESG factors (Ma'ruf et al., 2021). However, environmental issues—particularly climate finance and green investment—continue to have a significant impact on the discourse surrounding sustainable finance, while financial mechanisms that address poverty, inequality, and social inclusion have received relatively less attention (Schoenmaker & Schramade, 2019). This emphasises the need for a more comprehensive understanding of sustainable finance that takes human development and social sustainability into account.

This move toward more extensive social and environmental value creation is further evidenced by the rise of impact investment. Impact investing, in contrast to traditional investing, purposefully looks for quantifiable social and environmental benefits in addition to financial returns (Global Impact Investing Network, 2022). This is part of a larger shift away from shareholder-centered finance and toward stakeholder-oriented value creation, where financial resources are supposed to support broader societal goals.

Examining the role of Islamic finance, especially Islamic social finance, is made possible by this expanded knowledge of sustainable finance. Ethical behaviour, social justice, fair wealth distribution, risk-sharing, and group welfare are the cornerstones of Islamic finance. These ideas offer a foundation for analysing how Islamic social finance tools, especially zakat, could support equitable and sustainable socioeconomic growth. They also have significant parallels with the social goals of sustainable finance.

Islamic Social Finance and Sustainable Development

Scholars and decision-makers are increasingly focusing on Islamic social finance as a viable alternative to employing ethical, religiously based financial techniques to deal with socioeconomic problems. Islamic social finance is committed to promoting social justice, equitable wealth distribution, financial inclusion, and overall well-being in addition to fostering sustainable economic growth. It is based on the principles of Shariah. In contrast to commercial Islamic finance, which prioritises profit-generating financial activities through Shariah-compliant contracts, Islamic social finance specifically aims to accomplish social welfare (maslahah) and the goals of Maqasid al-Shariah, which include the preservation of religion, life, intellect, lineage, and wealth (Dusuki & Abdullah, 2007).

Zakat, waqf, sadaqah, qard hasan, and Islamic microfinance are just a few of the many philanthropic and redistributive tools that fall under the umbrella of Islamic social finance. Despite having distinct legal characteristics and operational strategies, these tools aim to increase social welfare and decrease socioeconomic disparity. By raising money to support economic empowerment, healthcare, education, food security, and poverty alleviation, Islamic social finance has the potential to significantly enhance national development strategies (Rosman et al., 2022). Unlike traditional social welfare programs that mostly rely on government spending, Islamic social finance mobilises both mandatory and voluntary contributions from society, creating an alternative source of funding for sustainable development.

Interest in Islamic social finance has grown as sustainable development has gained more attention. The United Nations' 2015 ratification of the Sustainable Development Goals (SDGs) prompted governments and financial organisations to consider innovative financing strategies that might address persistent development problems like poverty, hunger, unemployment, inequality, and social exclusion. Islamic social finance is becoming acknowledged as an additional financing instrument for accomplishing the SDGs due to its emphasis on social justice and economic redistribution (Ahmed et al., 2018; Ahmed Shaikh & Ghafar Ismail, 2017).

Numerous research has demonstrated the direct contribution of Islamic social financing to various SDGs. SDGs 1 (No Poverty) and 2 (Zero Hunger) are promoted, for instance, by zakat and sadaqah, which provide financial assistance to the most vulnerable communities. Waqf supports SDGs 3 (Good Health and Well-Being) and 4 (Quality Education) by providing public infrastructure, healthcare, and education. By encouraging the growth of entrepreneurship and enhancing financial inclusion, Islamic microfinance and qard hasan support SDGs 8 (Decent Work and Economic Growth) and 10 (Reduced Inequalities). Consequently, Islamic social finance is becoming more widely acknowledged as a vital tool for promoting inclusive and sustainable development.

Despite these developments, academics are increasingly arguing that closer integration of Islamic social finance instruments is necessary to maximise their socio-economic impact. Islamic microfinance, qard hasan, waqf, and zakat can be combined to form a comprehensive ecosystem for sustainable development instead of operating separately. For example, waqf finances long-term communal infrastructure, Islamic microfinance facilitates income-generating pursuits, and zakat may provide immediate financial support to destitute households. Instead of providing short-term welfare support, this integration creates routes for sustainable development.

Scholarly interest in the connection between Islamic social finance and ESG principles has also increased. The core ideas of ESG are very similar to those of Islamic finance, even though its roots are in traditional responsible investing. Both paradigms promote ethical behaviour, accountability, transparency, long-term sustainability, and stakeholder welfare. In contrast, the environmental dimension encourages prudent use of natural resources, while the social dimension places a higher priority on community development, financial inclusion, employee welfare, and poverty reduction. The main goals of governance are accountability, transparency, moral leadership, and responsible institutional management. Islamic social finance is a logical complement to contemporary sustainable finance projects, as these concepts closely match with the goals of Maqasid al-Shariah.

The literature now in publication, however, indicates that Islamic social finance's contribution to mainstream sustainable finance research is still under-represented. Faith-based financial mechanisms have received very little attention in sustainable finance research, which has mostly concentrated on ESG investing, green finance, sustainability-linked financing, and impact investing (Kuanova et al., 2021). Similarly, Islamic banking, sukuk, and Shariah-compliant capital markets have been the main topics of Islamic finance literature. On the other hand, despite its clear social development goals, Islamic social finance has received comparatively little attention. This disparity makes it more difficult to comprehend how Islamic social finance might enhance traditional sustainable finance tools to support sustainable development.

Furthermore, a large amount of the research on Islamic social finance that has been written up to this point has concentrated on specific instruments alone. Many studies have looked at Islamic microfinance, zakat governance, waqf development, and qard hasan separately, without clearly relating these tools to the larger ecosystem of sustainable finance. Consequently, there is still no theoretical integration between Islamic social finance and sustainable finance. Furthermore, despite stakeholders' increasing desire for proof of social value creation, the long-term social outcomes and societal benefits that Islamic social finance initiatives provide have not been sufficiently assessed in current research (Rosman et al., 2025).

As a result, a shift from a focus on operational efficiency to an evaluation of the effectiveness and impact of Islamic social finance programs has been recommended by recent research. The researchers argue that rather than depending only on the amount of money raised or disbursed, Islamic social finance organisations should show quantifiable gains in the recipients' quality of life, financial resilience, and community development. This impact-oriented viewpoint aligns

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with the evolution of sustainable finance, which prioritises value creation, stakeholder accountability, and social effect measurement.

Zakat as an Instrument of Sustainable Finance

One of the five pillars of Islam, *zakat* is a mandatory financial duty placed on qualified Muslims who fulfill the *nisab* and *haul* conditions. Zakat is a required method of wealth transfer intended to advance social justice, economic equity, and communal prosperity, in contrast to voluntary charitable giving (*sadaqah*). Zakat's main goal is to create a balanced socioeconomic system that minimises poverty, lessens wealth inequality, and improves societal welfare rather than just transferring wealth from the wealthy to the less fortunate. This goal is in line with the larger Islamic economic concept, which aims to distribute wealth fairly in order to accomplish justice *(adl),* charity *(ihsan),* and the public interest *(maslahah).* The importance of wealth movement within society is expressly emphasised in the *Qur'an*. According to Allah SWT:

> *"...so that wealth does not merely circulate among the rich among you."*
> *(Al-Hashr, Surah 59:7)*

This verse, which emphasises that wealth should continuously flow within society rather than getting concentrated among a small number of people, has often been highlighted as one of the core ideas underlying Islamic economic thinking. One of the distinctive features of Islamic economics, according to Chapra (2016), is wealth circulation, where financial resources are mobilised not only for economic growth but also for attaining social justice and enhancing community wellbeing. In a similar vein, Siddiqi (2006) argues that Islamic finance is essentially different from conventional finance due to its emphasis on moral accountability and fair resource distribution.

Sustainable finance has become a key agenda item in recent years for tackling global issues like financial exclusion, poverty, inequality, and climate change. By integrating ESG factors into financial decision-making, sustainable finance goes beyond financial returns (Nicholls, 2021, OECD, 2020). Scholars have increasingly acknowledged that social finance is crucial to advancing equitable and sustainable development, even while the majority of the literature on sustainable finance is on green finance, responsible investment, and ESG investing (Kashi & Shah, 2023). Because both ideas have the same goals of generating long-term social value and enhancing societal well-being, this wider view offers a chance to present zakat as a crucial part of sustainable finance.

According to the literature on Islamic social finance, zakat has a number of features that closely correspond with the ideas of sustainable finance. First, by allocating wealth to economically disadvantaged groups, zakat fosters financial inclusion by enhancing their access to healthcare, education, basic necessities, entrepreneurship opportunities, and income-generating activities (Shahrul Nizar & Mohamad, 2024, Rosman et al., 2022). Productive zakat programs increasingly concentrate on enabling beneficiaries to become financially independent, hence producing durable socio-economic effects, rather than offering short-term financial support. SDGs 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good Health and Well-Being), SDG 4 (Quality Education), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequalities) are all in line with this strategy.

Second, by fostering social cohesiveness and lowering socio-economic gaps, zakat promotes social sustainability. Zakat is an institutional system that redistributes income while promoting solidarity between the rich and the poor, according to Kahf (1999). This redistribution function encourages inclusive economic growth and a more equitable distribution of resources. Zakat is a faith-based financial mechanism that supports public social protection programs, as opposed to traditional welfare systems that mostly rely on government taxation and spending.

Third, one of the key elements of sustainable finance is ethical and responsible financing, which zakat encourages. The tenets of fairness, accountability, openness, and shared responsibility—all of which are increasingly highlighted in modern ESG frameworks—are the foundation of Islamic finance. According to Rosman et al. (2025), Islamic social finance mechanisms are intrinsically moral since they prioritise the welfare of society over personal financial gain. As a result, zakat should be viewed as both a strategic financial tool with quantifiable social impact and a religious requirement.

Despite these important contributions, the majority of the zakat literature that has already been written has focused on institutional and operational problems. Zakat compliance factors, governance quality, collecting efficiency, distribution efficacy, accountability, and institutional performance have all been the subject of several research (Wahab & Rahman, 2011; Abdullah et al., 2015; Saad et al., 2016). Other scholars have assessed how well zakat-funded initiatives have improved the socioeconomic circumstances of *asnaf* through housing programs, healthcare support, education, entrepreneurship development, and disaster relief (Herianingrum et al., 2024, Marzuki et al., 2023, Samir & El-Fadili, 2019). Despite offering insightful information on zakat management, these studies primarily evaluate organisational performance rather than the strategic role that zakat plays in sustainable financing.

The Malaysian Zakat Ecosystem

With the use of formal governance frameworks and state-level zakat institutions, Malaysia has developed a highly institutionalised and comparatively extensive zakat administration system. The State Islamic Religious Councils (SIRCs) are in charge of zakat administration, which has institutional frameworks for zakat fund collection, management, and distribution. Zakat institutions are able to meet local socioeconomic demands while adhering to Islamic precepts because to this decentralised governance system. The ecosystem has changed significantly in the last thirty years. Digital payment platforms, integrated databases, and performance monitoring systems have been made possible by the adoption of corporatised management models by numerous states since the 1990s in an effort to increase productivity, professionalism, and public trust (Nor Paizin et al., 2022). States differ in the degree of corporatisation, nevertheless. Zakat payers, asnaf, corporations, government agencies, financial institutions, NGOs, educational institutions, and community organisations are among the many stakeholders in the ecosystem. Their cooperation facilitates collection, beneficiary identification, program implementation, and monitoring (Arshad et al., 2021).

Diversifying distribution programs from short-term consumptive assistance to productive activities that support longer-term socio-economic empowerment is a noteworthy development in the Malaysian zakat ecosystem. These include housing, healthcare, education, microenterprise development, entrepreneurship, vocational training, and disaster assistance. Thus, productive zakat represents a move toward sustainable livelihood development in line with the SDGs and *Maqasid al-Shariah's* goals. Zakat *wakalah*, in which authorised zakat institutions designate qualified zakat payers especially corporations to transfer a portion of their zakat directly to qualified beneficiaries, is another noteworthy innovation. *Wakalah* aims to increase stakeholder participation and distribution efficiency. It was first introduced by the Federal Territories Zakat Collection Center and later adopted by a number of state institutions (Nor Paizin & Sarif, 2021). Nonetheless, the need for more uniformity and precise operational rules is highlighted by differences in implementation, governance procedures, and legal interpretation among nations. By enhancing accessibility, administrative efficiency, and opportunities for more timely transparency and reporting, digitalisation has further strengthened the ecosystem through online payment platforms, mobile applications, salary deductions, internet banking, and electronic payment channels (Amin, 2024; Nor Paizin et al., 2022).

Despite these advancements, Malaysian zakat organisations still struggle with issues of public trust, accountability, openness, and proving quantifiable social benefit. Instead of just reporting the quantity of zakat collected and dispensed, stakeholders now want institutions to show results (Sawmar & Mohamad, 2021). Current reporting procedures typically place a strong emphasis on financial and activity-based metrics, such as the number of beneficiaries, distribution rates, and collection growth, which offer little proof of the long-term results produced by zakat-funded initiatives (Zaini et al., 2025; Johari, 2024). Given the growing emphasis on effect measurement, value creation, and stakeholder responsibility in the discourse surrounding sustainable finance, this restriction is especially crucial. As a result, in order to show how they contribute to sustainable socioeconomic growth, zakat organisations need more thorough performance evaluation tools.

Thus, the Malaysian zakat ecosystem offers a particularly pertinent framework for analysing zakat as a sustainable financial tool. The institutional conditions required to examine both the mobilisation of zakat resources and the social outcomes generated from their allocation are provided by its well-established governance structures, specialised institutions, varied distribution programs, corporate participation through *wakalah*, vast stakeholder networks, and increasingly digitalised systems. Because of these features, zakat can be viewed as a possible means of creating long-term social benefit in addition to its traditional welfare role. However, increasing zakat resources and institutional maturity may not always ensure long-term socioeconomic effect. Whether zakat to realise its promise as a sustainable financing tool depends on its institutions' capacity to exhibit good governance, accountability, transparency, stakeholder involvement, and quantifiable long-term results.

Zakat and Sustainable Finance: Issues and Challenges

There are now more chances to include Islamic social finance into the global sustainability agenda due to the increased focus on sustainable finance. In order to provide long-term economic, social, and environmental value while assisting in the accomplishment of the SDGs, sustainable finance aims to mobilise financial resources. Zakat has several features that align with sustainable finance concepts, given its goals of wealth redistribution, poverty alleviation, social inclusion, and community empowerment. However, a number of institutional, governance, and operational issues still restrict zakat's strategic placement within the sustainable finance ecosystem, despite its enormous potential.

The Need to Reposition Zakat Beyond Charity

The first issue is the widespread perception that zakat is fundamentally a religious obligation or a charitable payment. Because a significant amount of the literature currently in publication evaluates zakat in terms of compliance behaviour, distribution effectiveness, and collection efficiency, it is primarily viewed as a welfare mechanism that addresses the immediate needs of recipients rather than as a strategic financial instrument for long-term socio-economic development (Sawmar & Mohamad, 2021; Bin Nashwan et al., 2020). In contrast, sustainable finance concentrates on generating long-term value through financial activities that yield measurable environmental, social, and economic outcomes. Zakat needs to be recast as a social investment tool rather than a mechanism centred on consumption, as seen by the shift from short-term aid to long-term effects. Successful zakat initiatives that promote entrepreneurship, education, vocational training, healthcare, and income-generating activities demonstrate zakat's potential congruence with the broader objectives of sustainable finance. These initiatives demonstrate how zakat can support long-term social effects and sustainable livelihoods.

Governance and Institutional Effectiveness

Effective governance is another prerequisite for establishing zakat as a long-term financial instrument. To increase public confidence and guarantee that financial resources produce sustainable results, sustainable finance places a strong emphasis on accountability, transparency, stakeholder participation, and ethical governance (Flammer, 2026). In a similar vein, zakat organisations must handle zakat funds in an efficient, open, and responsible manner. Through professionalisation, corporatisation, and digitalisation, Malaysia has established a highly institutionalised zakat management system; however, governance issues still exist, such as inconsistent governance frameworks, duplication of assistance programs, differences in administrative practices between states, and disparities in the interpretation of zakat distribution policies (Asni et al., 2024; Taha et al., 2017; Abdul Wahab & Abd Rahman, 2011). In addition to raising stakeholder expectations for increased transparency regarding the use of zakat monies and the socioeconomic results of distribution programs, these institutional variations may restrict cooperation and scalability. Therefore, improving institutional legitimacy and establishing zakat as a reliable part of sustainable finance requires strengthening governance and accountability.

Accountability and Social Performance Measurement

Another significant challenge is measuring and holding individuals responsible for their social performance. Samir and El Fadili (2019) claim that traditional zakat performance indicators, such as zakat collected, funds distributed, and beneficiaries assisted, primarily assess financial and operational performance but provide scant evidence of how zakat-funded initiatives improve the quality of life for beneficiaries or foster long-term socioeconomic development. However, in sustainable finance, impact-oriented evaluation and measurable long-term social effects are becoming increasingly significant (Engku Abdul Rahman et al., 2024). Therefore, in addition to financial reporting, zakat organisations should apply social performance measurement that documents outputs, results, and long-term effects. Such measurement can enhance stakeholder responsibility, public trust, and organisational learning in addition to demonstrating how zakat fosters financial inclusion, poverty reduction, community resilience, and sustainable development (Zaini et al., 2025; Johari, 2024). Zakat governance must include social performance monitoring if it is to be included in the sustainable finance agenda.

Stakeholder Collaboration

Another crucial factor in placing zakat inside sustainable finance is cross-sector cooperation. Collaboration between governments, financial institutions, corporations, non-governmental organisations, academic institutions, and local communities is becoming increasingly important for sustainable finance. In a similar vein, stakeholder participation in zakat fund collection, distribution, and oversight is essential for efficient zakat administration (Noordin & Syed Jaafar Alhabshi, 2023; Marzuki et al., 2023). Through corporate zakat, zakat wakalah, and collaborations with healthcare providers, universities, and community organisations, the Malaysian zakat ecosystem has exemplified this kind of cooperation. However, there is still little cooperation between zakat institutions and more general sustainable finance actors such impact investment funds, social entrepreneurs, development financial institutions, and ESG-focused investors (Arshad et al., 2021). The social effect and reach of zakat-funded projects, program sustainability, and resource mobilisation could all be improved by fortifying these cross-sector collaborations.

Future Research Directions

There are still a number of research gaps despite the significant increase in scholarly interest in Islamic social finance. First, there is still a dearth of empirical data supporting zakat's role in sustainable financing. Instead of looking at how zakat contributes to long-term social value creation, the majority of current research focuses on governance, compliance, efficiency, and poverty reduction.

Second, little research has been done to create thorough frameworks for assessing the social results and effects of zakat-funded initiatives. Future research should look into suitable performance metrics that capture results related to sustainable development, beneficiary empowerment, and social value.

Third, a comparative analysis of how different national zakat systems facilitate sustainable finance would provide valuable insights into institutional best practices. Finally, further interdisciplinary research integrating Islamic social finance, ESG, impact investment, and sustainable finance would build a more comprehensive theoretical foundation for recognising zakat as a strategic tool of sustainable finance.

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Ethics Statement: This study is a conceptual paper that relies exclusively on a critical review and synthesis of existing literature, including peer-reviewed journal articles, books, policy reports, and other publicly available academic sources. The study does not involve the collection or analysis of primary data, nor does it include human participants, animals, or access to confidential or personal information. Consequently, ethical approval from an institutional review board or research ethics committee was not required. Throughout the research process, the authors adhered to the principles of academic integrity by ensuring accurate representation of the reviewed literature, proper citation of all sources, and objective interpretation of the findings. Every effort has been made to minimise bias and maintain transparency in the review process to provide a balanced and reliable discussion of the role of zakat in advancing sustainable finance.

Author Contribution Statement: Naimah Zaini conceived the study, developed the research idea, conducted the literature review, and prepared the original manuscript draft. Nor Asyiqin Salleh contributed to the conceptualisation of the study, critically reviewed the literature, and assisted in refining the theoretical arguments. Sunarti Halid contributed to the interpretation and synthesis of the literature, provided intellectual input, and reviewed the manuscript for important academic content. Haslinawati Che Hasan participated in the critical revision of the manuscript, validated the conceptual discussion, and contributed to improving the overall structure and coherence of the paper. Rahayu Abdul Rahman supervised the research, provided overall guidance throughout the study, critically reviewed and edited the manuscript, and approved the final version for submission. All authors have read and agreed to the published version of the manuscript.

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