

Syariah Fintech as An Innovative Solution for Transparency and Efficiency in Zakat and Wakaf Management in Indonesia

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Abstract

The development of digitalization has brought significant changes in the management of zakat and waqf in the Islamic economy, by introducing innovations that increase efficiency and transparency through the application of sharia financial technology. This study aims to examine the contribution of sharia fintech, which involves technologies such as blockchain, artificial intelligence (AI), and crowdfunding platforms, in increasing effectiveness, transparency, and accountability in the management of zakat and waqf. Using a descriptive qualitative approach, this study analyzes the application of the technology in several countries and identifies the challenges and opportunities that exist. The results show that blockchain technology allows for more transparent and real-time transaction recording, while artificial intelligence (AI) plays a role in predicting the needs of beneficiaries more precisely. In addition, fintech-based crowdfunding platforms have expanded public involvement in productive waqf funding. However, the challenges faced include the limitations of supporting regulations, potential cybersecurity threats, and the low level of digital literacy among the public. Therefore, collaboration between the government, Islamic financial institutions, and fintech companies is urgently needed to optimize the potential of sharia fintech, support the achievement of the Sustainable Development Goals (SDGs), and create a more inclusive and sustainable Islamic financial ecosystem. This research suggests the importance of strengthening regulations, increasing digital literacy, and improving cooperation between various stakeholders to realize the potential of sharia fintech in the management of zakat and waqf.

Keywords: Sharia Fintech, Zakat, Waqf, Blockchain, Islamic Economy

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1. Introduction

Digitalization has become an important element in driving innovation and efficiency in various sectors, including the Islamic economy, especially in the management of zakat and waqf. In the era of the Industrial Revolution 4.0, the use of technologies such as blockchain and artificial intelligence offers innovative solutions to increase efficiency, transparency, and accountability in the management of Islamic social funds. This technology helps ensure that every transaction and allocation of funds is in accordance with sharia principles, supports the welfare of the community, and encourages community participation in paying and distributing philanthropic funds more widely and efficiently (Khairi et al., 2023)

Financial technology (fintech) plays a significant role in advancing Islamic philanthropy by providing a digital platform that enables real-time transaction recording, building trust, and expanding the reach of zakat and waqf fund distribution to previously unreachable community groups (Kasmon et al., 2024) . In addition, the adoption of this technology supports the achievement of the Sustainable

Development Goals (SDGs) through efficiency and transparency in zakat and waqf management, although it still faces challenges such as cybersecurity risks, lack of public understanding, and the need for compliance with sharia principles (Omar & Khairi, 2021)

Therefore, this study aims to explore how Islamic fintech can improve transparency and efficiency in zakat and waqf management, as well as identify existing opportunities and challenges. This study will analyze the implementation of technologies such as blockchain and artificial intelligence in various countries to build a framework that can be adapted by Islamic financial institutions to increase public trust and better operations (Muharam & Osman, 2024).

2. Literature Review

Zakat and waqf management has become an important focus in the development of Islamic economics, especially in the digital era. Research shows that Islamic financial technology (fintech) has great potential to overcome the challenges of transparency and efficiency in the management of Islamic social funds. Blockchain, for example, allows for transparent, permanent, and real-time traceability of transaction records. This technology not only minimizes the risk of misappropriation of funds but also increases public trust in zakat and waqf management institutions (Mohamed et al., 2023).

In addition to blockchain, fintech-based crowdfunding has become a significant innovation in productive waqf fundraising. With this digital platform, community participation increases, and the reach of funding becomes wider, including from previously difficult-to-reach locations. This enables the realization of high-impact Islamic philanthropic projects, such as the construction of schools, hospitals, and public infrastructure (Napitupulu & Sukmana, 2023)

The study also highlighted the use of artificial intelligence (AI) in optimizing the distribution of zakat and waqf funds. AI helps institutions to analyze the needs of beneficiaries more accurately, so that the distribution of funds becomes more targeted. This technology provides advantages in managing social programs that are more relevant to the needs of the poor (Khairi et al., 2023).

However, the implementation of sharia fintech faces several significant challenges. One of the main challenges is the lack of regulations that optimally support this innovation. Without a clear regulatory framework, the growth of sharia fintech has the potential to be hampered. In addition, cybersecurity threats and low digital literacy among the community are also obstacles that need to be addressed immediately (Muryanto et al., 2021).

On the other hand, Islamic fintech provides great opportunities in supporting the Sustainable Development Goals (SDGs). By supporting poverty reduction, increasing access to education, and healthcare, this technology plays a vital role in creating an inclusive and efficient Islamic financial ecosystem. Research suggests that collaboration between the government, Islamic financial institutions, and fintech companies is key to maximizing the potential of Islamic fintech in managing zakat and waqf (Kasmon et al., 2024).

Overall, the existing literature suggests that Islamic financial technology has great potential to revolutionize zakat and waqf management. Despite challenges such as regulation and literacy, innovations such as blockchain, AI, and crowdfunding have opened up new opportunities for efficiency and transparency. With a strategic and collaborative approach, Islamic fintech can be a key instrument in achieving better social and economic welfare for Muslims.

3. Research Design and Method

This study uses a qualitative approach with a descriptive method to explore the implementation of sharia fintech as an innovative solution in managing zakat and waqf. Data were collected through literature studies from various scientific journals and relevant articles. The main focus is to analyze the application of

technologies such as blockchain, artificial intelligence (AI), and crowdfunding platforms, and identify the challenges and opportunities that arise in a global context.

Data analysis was conducted using thematic techniques to identify key patterns and themes related to efficiency, transparency, and accountability in the management of Islamic social funds. Data were analyzed based on the principles of maqasid al-shariah to ensure that the proposed technological solutions are in accordance with sharia values. In addition, this study evaluates the impact of technology on achieving the Sustainable Development Goals (SDGs) and more inclusive and efficient management of zakat and waqf funds.

This study also uses a case study approach to examine the implementation of Islamic fintech in the Java region in Indonesia which has significant experience in implementing Islamic financial technology. This case study provides in-depth insights into best practices, regulatory challenges, and collaboration strategies between the government, financial institutions, and the community in supporting a sustainable Islamic financial ecosystem.

Qualitative methods

The word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured in terms of quantity, amount, intensity, or frequency. Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry. Such researchers emphasize the value-laden nature of research. They seek answers to questions that stress how social experience is created and given meaning. In contrast, quantitative studies emphasize the measurement and analysis of causal relationships between variables, not processes. Qualitative forms of inquiry are considered by many social and behavioral scientists to be as much a perspective on how to approach investigating a research problem as it is a method.

4. Results and Discussion

Digitalization and Innovation in Zakat and Waqf Management

Digitalization has had a major impact on the management of zakat and waqf. With blockchain technology, transparency in recording transactions is improved. This technology allows every donation and distribution to be recorded permanently and can be tracked in real-time, so that the risk of misappropriation is significantly reduced (Mohamed et al., 2023) In addition, crowdfunding-based fintech platforms have increased public participation in raising productive waqf funds. This innovation reaches more people and provides opportunities for the community to contribute consistently, which is difficult to achieve through traditional methods (Napitupulu & Sukmana, 2023)

The use of fintech has also been proven to increase operational efficiency. Management costs and distribution time can be reduced, so that more funds are allocated to beneficiaries in need. Thus, this technology not only brings practical benefits but also supports the social mission of Islam for justice and the welfare of the people.

Challenges and Opportunities in Sharia Fintech

Despite the significant benefits of digitalization, the implementation of Islamic fintech is not without obstacles. One of the biggest challenges is the inadequate regulation to optimally support this innovation. The lack of regulation can create uncertainty for industry players, which ultimately reduces public trust (Muryanto et al., 2021)

In addition, cybersecurity is an important issue. Threats such as data theft and digital fraud require large investments in developing security systems. On the other hand, the low level of digital financial literacy in society is also a challenge, which requires a comprehensive education program to increase public

understanding of the benefits of Islamic fintech (Ramadhan et al., 2023)

However, sharia fintech has great potential, especially in supporting the achievement of the Sustainable Development Goals (SDGs). This technology helps reduce poverty, improve education, and provide health services through more targeted fund allocation. Collaboration between the government, financial institutions, and the community is key to maximizing this opportunity.

Collaboration and Synergy for the Sustainability of the Islamic Financial Ecosystem

The importance of synergy between Islamic financial institutions and fintech has been identified as a key factor in creating a more inclusive Islamic financial ecosystem. This collaboration enables a more structured and efficient management of social funds, supported by adequate digital infrastructure (Mohamed et al., 2023)

The use of artificial intelligence (AI) technology has also been identified as an important tool in predicting the needs of beneficiaries more accurately. This helps optimize the distribution of zakat and waqf funds. In addition, this synergy allows for the optimization of productive waqf in important sectors such as education and health, which ultimately supports sustainable economic development (Napitupulu & Sukmana, 2023)

In conclusion, the implementation of sharia fintech provides great benefits in the management of zakat and waqf, both in terms of efficiency and financial inclusion. Challenges such as regulation, security, and technological literacy need to be addressed through strong collaboration between the government, financial institutions, and the community to support the development of this ecosystem in the future.

Innovative Solutions for Transparency and Efficiency in Zakat and Waqf Management

Digitalization has brought about major changes in the management of zakat and waqf. One of the main innovations is the implementation of blockchain technology that allows for permanent recording of transactions and can be tracked in real-time. This technology not only increases transparency but also minimizes the risk of misappropriation of funds. Donors and beneficiaries can monitor the distribution of funds directly, which provides a sense of security and greater trust to Islamic social fund managers (Mohamed et al., 2023)

Another very significant innovation is the use of fintech-based crowdfunding platforms. With this platform, people can easily contribute to productive waqf projects that have long-term goals such as building schools, hospitals, or other infrastructure. This technology opens up opportunities for more people to get involved in Islamic philanthropy, even from remote locations, thus reaching global donors (Napitupulu & Sukmana, 2023)

In addition, digital payment systems are a practical solution to increase efficiency in fundraising. With mobile applications and e-wallets, donations can be made quickly and without geographical barriers. This method reduces manual involvement, speeds up the fundraising process, and lowers operational costs, so that more funds can be allocated to the main purpose of philanthropy (Kasmon et al., 2024)

Artificial intelligence (AI) technology is another important tool used to predict beneficiary needs. By analyzing data, AI can help fund managers make more targeted distribution decisions. This technology also allows institutions to design social programs that are more effective and relevant to the needs of the poor.

In addition, blockchain-based smart contract technology provides automation in fund management. This smart contract regulates the distribution of funds based on certain predetermined criteria. With this technology, fund management becomes more transparent, accountable, and efficient because it does not require human intervention in the transaction execution process (Omar & Khairi, 2021) .

Big data also makes a big contribution in analyzing social fund management strategies. By using big data, management institutions can identify patterns of zakat and waqf contributions, and determine trends in community needs. This information is very valuable for designing more targeted programs that have a big impact on the welfare of the community.

In addition to technology, digitalization of administration and reporting is also an important aspect in increasing public trust. With a digital system, management institutions can provide more transparent financial reports that can be accessed by donors at any time. This strengthens the accountability of zakat and waqf management institutions to stakeholders.

No less important is digital education for the community. Digital literacy is still a major challenge in many countries with large Muslim populations. Therefore, educational programs that teach how to use sharia fintech platforms can help improve public understanding and expand the adoption of this technology in Islamic philanthropy (Muryanto et al., 2021)

Collaboration between sharia fintech and Islamic financial institutions is also important to build a sustainable ecosystem. Financial institutions can provide infrastructure while fintech presents technological innovations that support financial inclusion. This synergy opens up opportunities to create more holistic solutions that have a big impact on the economic development of the people.

Overall, technological innovation offers great opportunities to increase transparency and efficiency in the management of zakat and waqf. By addressing challenges such as regulation, digital literacy, and cybersecurity, technology can be an effective tool in supporting the social mission of Islam and creating prosperity for the wider community.

5. Conclusions

The results of the discussion show that sharia fintech offers innovative solutions to increase transparency and efficiency in the management of zakat and waqf. Technologies such as blockchain, AI, and crowdfunding not only accelerate the process of collecting and distributing funds, but also build public trust through transparent and accountable transaction recording. Challenges such as inadequate regulation, cybersecurity risks, and public digital literacy need to be addressed through education and collaboration between various stakeholders.

Overall, Islamic fintech has great potential to support the achievement of the Sustainable Development Goals (SDGs) by creating an inclusive, efficient, and sustainable Islamic financial ecosystem. With the application of the right technology and an adaptive framework, zakat and waqf management can be an important instrument to support economic development and social welfare of the community

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19545

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