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Value-Based Governance (VBG) for ZISWAF Institutions: Designing a Shariah–ESG Audit Framework to Achieve Outcome Accountability and Sustainable Maqashid Syariah

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Abstract. *Zakat, infaq, sadaqah, and waqf (ZISWAF) institutions have a strategic contribution in reducing poverty and social inequality. However, governance practices that are still limited to input-output accountability result in weak transparency and low measurement of socio-economic outcomes, which should be the core of Maqashid Syariah. This article aims to develop a Value-Based Governance (VBG) framework for ZISWAF institutions through the design of Shariah-ESG Audits, which integrate Shariah principles with global sustainability standards. The research uses a library research approach based on a systematic literature review. The results of the study reveal three main findings. First, Shariah audits still predominantly emphasize fiqh compliance, without assessing the effectiveness of ZISWAF program outcomes. Second, the financial reports of Islamic philanthropic institutions are mostly input-output, not outcome-based, so they are unable to show the extent to which mustahik are truly empowered. Third, the integration of ESG with maqāṣid is still limited, even though there is substantive alignment between the two: Environmental with hifz al-bi'ah, Social with hifz al-nafs and hifz al-nasl, and Governance with hifz al-māl. This article contributes by offering a VBG-based Shariah–ESG Audit framework consisting of five components: maqāṣid-based value principles, integrated Shariah–ESG–maqashid indicators, digital reporting mechanisms, independent audits, and a continuous improvement cycle (governance loop). Theoretically, this framework expands the discourse on Islamic philanthropy governance to align with global standards without losing its Shariah identity. Practically, this model can help regulators set national standards, encourage ZISWAF institutions to improve transparency, and strengthen public trust. Thus, the application of VBG-based audits that integrate sharia and ESG not only increases outcome accountability but also ensures the sustainable achievement of sharia maqashid objectives in the context of modern socio-economic development.*

Keywords : ESG, Sharia Audit, Sharia Maqashid, Value-Based Governance, ZISWAF Institutions.

1. Introduction

ZISWAF institutions are an important part of the modern Islamic economic system. Zakat, infaq, sadaqah, and waqf are not only instruments of worship, but also means of socio-economic development that can address the challenges of poverty, inequality, and limited access to productive financing. However, many studies reveal weak governance of ZISWAF institutions, particularly in terms of transparency, outcome accountability, and integration with global standards, (Ferdi et al. 2024).

In this context, Value-Based Governance (VBG) emerges as a new paradigm. VBG places value at the core of institutional governance, ensuring that every operational

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activity is oriented towards long-term impacts that are in line with maqāṣid al-sharīʿah. The challenge is that most ZISWAF institution reports still only show inputs (amount of funds received) and outputs (amount of funds distributed), not yet reaching outcomes (socio-economic changes for mustahik). This creates an accountability gap, especially in answering the question: to what extent do ZISWAF programs truly empower beneficiaries. On the other hand, the modern financial world is moving towards adopting Environmental, Social, and Governance (ESG) principles as sustainability standards. ESG principles are in line with sharia objectives such as environmental protection (hifz al-bi'ah), social justice (hifz al-nafs and hifz al-nasl), and fair governance (hifz al-māl)[5]. Therefore, the integration of ESG with sharia auditing has the potential to strengthen accountability and public trust in ZISWAF institutions.

This article aims to: (1) review the latest literature on ZISWAF governance, sharia auditing, and ESG; (2) identify gaps in outcome accountability; (3) offer a VBG-based Sharia-ESG Audit framework.

2. Methods

This study uses a library research approach with a systematic literature review (SLR) method. This approach was chosen because it is relevant for an in-depth examination of the development of ZISWA institutional governance, sharia auditing, and ESG integration from the perspective of Maqashid sharia.

3. Results and Discussion

3.1. Trends in ZISWAF Institutional Governance

In recent years, the governance of ZISWAF institutions in Indonesia and Southeast Asia has undergone significant developments. A number of national zakat institutions such as BAZNAS, Dompet Dhuafa, and Rumah Zakat have begun to adopt publicly accessible digital financial reporting practices, thereby increasing transparency. Research by Ansoriyah and Kushandajani (2023) shows that muzaki perceptions of fairness, transparency, and accountability of zakat institutions greatly influence public trust. However, fundamental weaknesses remain, especially in small and mosque-based institutions, where accounting practices are often still simple and program outcome reports are rarely produced.

At the international level, Malaysia is often considered more advanced in zakat and waqf governance. Institutions such as the Federal Territory Zakat Collection Center (PPZ) implement relatively consistent reporting standards and have conducted external sharia audits. Recent research by Hasan et al. (2024) confirms that public trust in Malaysia is higher due to regular audit mechanisms and the involvement of an independent supervisory board. This gap shows that ZISWAF governance is not yet fully based on Value-Based Governance (VBG). The majority of institutions still emphasize input (amount of funds received) and output (number of aid recipients), while outcome (changes in the quality of life of mustahik) is rarely used as a key performance indicator. In fact, it is these outcomes that are more relevant to the maqashid syariah, such as poverty alleviation (hifz al-māl) or improving the quality of education (hifz al-'aql).

3.2. Sharia Audit: Scope and Limitations

Sharia audit is one of the important pillars of sharia financial institution governance. However, in the context of ZISWAF, sharia audit is still limited to verifying compliance with fiqh law, for example, ensuring that zakat is distributed according to asnaf, or that waqf is used in accordance with the wakif's pledge[4]. Research by Roslan and Muhamad (2024) highlights that waqf reporting standards in Southeast Asia are still fragmented and there is no uniformity in audits that measure the social effectiveness of programs.

In addition, most sharia audits are conducted internally, so their independence is still questionable. Nurhasanah (2024) found that in mosque-based ZISWAF institutions in Indonesia, sharia audits are often conducted by internal administrators without involving independent third parties, so the potential for conflicts of interest is quite large. On the other hand, several countries such as Bahrain and Malaysia have begun to expand the scope of Shariah auditing by including aspects of compliance with ESG (Environmental, Social, Governance) principles. However, this audit model is still limited to the Islamic banking sector and has not yet touched on ZISWAF institutions as a whole. This indicates an opportunity to develop a more comprehensive Shariah-ESG Audit framework that is in line with the needs of Islamic philanthropy.

3.3. ESG and its Relevance to Sharia Objectives

ESG principles have become a global trend in organizational governance, especially in the financial and investment sectors. Many studies show that there are points of convergence between ESG and Sharia objectives. For example, the Environmental aspect is in line with hifz al-bi'ah (environmental protection), the Social aspect is in line with hifz al-nafs (protection of life) and hifz al-nasl (protection of offspring), while the Governance aspect is related to hifz al-māl (protection of property) and the principle of justice in distribution.

A study by Awaludin (2025) shows that Sharia companies with high Sharia compliance tend to have better ESG scores, because Sharia principles essentially promote social justice, transparency, and sustainability. This supports the idea that integrating ESG into the governance of ZISWAF institutions is not something foreign, but rather in line with maqāṣid.

However, the challenge is to adapt ESG indicators to suit the characteristics of ZISWAF institutions. For example, the E indicator in ZISWAF institutions is not only about carbon emissions, but also how agricultural waqf programs pay attention to land sustainability. The S indicator is not just about employee satisfaction, but also the extent to which mustahik (recipients) have succeeded in escaping poverty. The G indicator is not just about the composition of the board of directors, but also how zakat funds are managed transparently and fairly. A study by Ash-Shiddiqy et al. (2025) emphasizes that social outcome indicators in ZISWAF must be specifically designed to measure the real impact on society.

3.4. The Concept and Practice of Value-Based Governance (VBG)

Value-Based Governance (VBG) is a governance model that places value at the core of every organizational decision. In ZISWAF institutions, this value is maqashid syariah, which are the objectives of sharia law that are to be achieved through the distribution of zakat, infaq, sadaqah, and waqf funds.

Mustaqim's (2024) research states that corporate-based ZISWAF institutions that apply value principles are better able to build public trust because they focus on tangible outcomes, not just administrative compliance[11]. Another study by Nurhasanah (2024) found that mosque-based institutions that adopt the principles of participation and transparency have succeeded in increasing the trust of their congregations, because fund management is not only reported, but also linked to social benefits such as education and health.

At the global level, the concept of VBG has begun to be adopted by Islamic philanthropic institutions in the Middle East. For example, waqf institutions in the United Arab Emirates have begun to apply outcome indicators that are oriented towards sustainability, such as increasing the financial literacy of beneficiaries and creating new jobs. However, research by Hassan et al. (2023) shows that this practice is still limited to large institutions, while small institutions still focus on routine distribution without outcome evaluation. Thus, VBG in ZISWAF institutions requires audit instruments and indicators that assess social and sustainability impacts, not just procedural compliance.

3.5. Implementation Gap in ZISWAF Institutions

Based on a literature review, there are several major gaps in the implementation of ZISWAF institutional governance:

a. Fragmentation of audit and reporting standards.
   Each institution uses its own standards in preparing reports. A study by Roslan and Muhamad (2024) confirms that waqf reporting in Southeast Asia is very diverse, making it difficult to compare and benchmark between institutions.
b. Focus on input-output, not outcomes.
   Most annual reports of zakat institutions only record the amount of funds collected and the number of beneficiaries. In fact, what is more important is the outcome: whether the mustahik can be economically independent or not. Ash-Shiddiqy et al. (2025) highlight this as a fundamental weakness that reduces the effectiveness of ZISWAF.
c. Limitations in digitization capacity
   Large institutions have begun to adopt digital reporting systems, but many small institutions still use manual recording. This makes reporting slow, prone to errors, and difficult to audit. Recent research by Rini & Kusuma (2023) shows that digitization greatly determines the quality of transparency of zakat institutions in Indonesia.
d. Lack of third-party assurance.
   Many institutions do not yet use independent external audits. Internal audits are often conducted, but they are prone to conflicts of interest. Nurhasanah (2024) asserts that without independent audits, it is difficult to increase public trust.

3.6. Proposed VBG-Based Shariah–ESG Audit Framework

Based on a synthesis of the literature, the proposed audit framework has five main components:

a. Value Principles.
   All ZISWAF activities are directed towards maqashid: protection of property (hifz al-māl), improvement of education (hifz al-ʻaql), protection of life (hifz al-nafs), and social welfare (hifz al-nasl).
b. Integrated Indicators (Shariah–ESG–Maqāṣid KPI).
   a) Governance: report disclosure, fund transparency, oversight mechanisms.

b) Social: level of mustahik independence, income improvement, access to basic services.
c) Environment: sustainability of productive waqf projects, e.g., environmentally friendly agriculture.
d) Maqashid; percentage of programs oriented towards Shariah objectives.

c. Data and Reporting Mechanisms.
Use of digital dashboards to display data on incoming funds, distribution, and outcomes. This system is accessible to the public, thereby increasing the trust of muzaki.
d. Audit and Assurance.
Sharia audits not only examine fiqh compliance, but also the suitability of outcomes with ESG and maqāṣid. Independent audits by third parties are a must.
e. Governance Loop (Continuous Improvement).
Audit results are used to improve subsequent programs, creating a cycle of continuous improvement.

3.7. Comparison of National and International Practices

In Indonesia, large institutions such as BAZNAS have implemented digital reporting systems and involve independent audits. However, ESG standards have not been fully integrated. In contrast, in Malaysia, zakat institutions have begun to adopt ESG principles in financial reporting, although this is still limited to social and governance indicators.
A study by Hassan et al. (2023) shows that in the Middle East, waqf institutions have begun to link programs to sustainability indicators, such as the number of jobs created from productive waqf projects. However, both in Indonesia and internationally, there is no audit model that explicitly combines sharia, ESG, and maqashid.

3.8. Theoretical and Practical Implications

Theoretically, this study contributes by proposing a new audit framework that integrates sharia, ESG, and maqashid into VBG. This broadens the understanding of how the governance of Islamic philanthropic institutions can be aligned with global standards without losing sharia values. In practical terms, this framework can help:

a. Regulators, in creating outcome-based national standards for ZISWAF reporting.
b. ZISWAF institutions, to improve transparency, accountability, and public trust.
c. The community and muzaki, to assess the effectiveness of ZISWAF programs with clearer indicators.

4. Conclusions

This study shows that the governance of ZISWAF institutions still faces major challenges, particularly in terms of transparency, outcome accountability, and integration with global standards. Current sharia audits focus more on compliance with fiqh law, rather than measuring the real social impact on mustahik. Meanwhile, the ESG principles that are developing at the global level are strongly aligned with maqāṣid al-sharīʿah, but have not been systematically adopted in ZISWAF institutions. Value-Based Governance (VBG) offers a new paradigm that can bridge this gap. By integrating Shariah, ESG, and maqashid audits, ZISWAF institutions can improve outcome accountability, build public trust, and ensure socio-economic sustainability. The Shariah-ESG Audit Framework proposed in this study emphasizes the importance of outcome indicators, digitalization of reporting, independent audits, and a continuous improvement cycle.

Acknowledgements

1. Regulator: It is necessary to develop national standards for outcome-based ZISWAF reporting that integrates sharia principles, ESG, and maqashid.
2. ZISWAF Institutions: It is recommended to expand the digitization of reporting, involve independent auditors, and publish outcome indicators in order to increase public trust.
3. Academics: Empirical research on measuring maqashid outcomes in ZISWAF needs to be developed so that it can be widely applied.
4. Community: As muzaki and wakif, the community needs to be more critical in assessing the performance of institutions by paying attention to the aspects of transparency, accountability, and the social impact of programs.
5. International collaboration: ZISWAF institutions in Southeast Asia can learn from best practices in Malaysia and the Middle East, while developing Sharia-ESG audit standards that are appropriate to the local context.

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