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Zakat Management for Poverty Reduction and Inclusive Economic Development: The Role of Institutional Governance and Productive Empowerment

Zulfatun Anisah
Universitas Negeri Surabaya, Indonesia
zulfatun.anisah.23@gmail.com

Abstract: Zakat plays an important role in Islamic social finance as an instrument for wealth redistribution, poverty alleviation, and inclusive economic development. However, its effectiveness depends not only on the amount of funds collected and distributed but also on the quality of institutional governance and the sustainability of economic empowerment programs. This study aims to examine the role of zakat management in reducing poverty and supporting inclusive economic development, with particular attention to institutional governance, productive zakat, and socioeconomic empowerment. This research employs a qualitative descriptive-analytical approach based on a review of relevant academic literature, institutional publications, and regulatory documents. The data are analyzed thematically by examining institutional accountability, distribution effectiveness, productive economic empowerment, and the contribution of zakat to inclusive development. The analysis indicates that effective zakat management can strengthen poverty alleviation through targeted distribution, productive assistance, entrepreneurship development, and continuous mentoring for mustahik. Furthermore, productive zakat has the potential to improve household income, support microenterprise development, and expand economic participation among disadvantaged communities. Nevertheless, these contributions require transparent governance, professional management, accurate beneficiary identification, and stronger coordination between zakat institutions and relevant stakeholders. This study highlights that zakat should be positioned not merely as a charitable instrument but as a strategic mechanism of Islamic social finance for promoting equitable opportunities, economic resilience, and sustainable inclusive development.

Keywords: Zakat Management; Poverty Reduction; Productive Zakat; Islamic Social Finance; Inclusive Economic Development.

INTRODUCTION

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Poverty in contemporary economic development is no longer understood merely as a condition of insufficient household income but rather as a multidimensional phenomenon associated with limited access to education, healthcare, productive assets, employment opportunities, and participation in economic activities. This condition indicates that economic growth does not automatically translate into equitable welfare when the distribution of resources and economic opportunities remains concentrated among particular groups. Consequently, inclusive economic development has emerged as an important framework for addressing structural inequalities and reducing poverty. This approach emphasizes that the benefits of economic progress should be accessible to all segments of society, particularly disadvantaged and vulnerable populations. In this context, social finance instruments play a strategic role because they are not exclusively concerned with economic growth but also emphasize equitable wealth distribution, social protection, and the strengthening of economic capabilities among marginalized communities (United Nations, 2015; World Bank, 2018).

One of the social finance instruments with considerable relevance to inclusive economic development is zakat. As one of the fundamental pillars of the Islamic economic system, zakat encompasses both religious obligations and socioeconomic responsibilities aimed at promoting wealth redistribution and protecting vulnerable members of society. The allocation of zakat to eight eligible categories of recipients (asnaf), as stipulated in Qur'an Surah At-Tawbah (9:60), demonstrates its normative function in reducing socioeconomic disparities and strengthening economic solidarity. Unlike social assistance mechanisms that primarily depend on government fiscal policies, zakat provides a redistribution mechanism grounded in religious obligations and collective social responsibility. Accordingly, zakat has the potential to serve as both an alternative and complementary instrument for poverty alleviation policies, particularly in countries with substantial Muslim populations (Chapra, 2008; Kahf, 1999).

In practice, the effectiveness of zakat in reducing poverty largely depends on the quality of institutional governance, fundraising mechanisms, distribution accuracy, and the orientation of economic empowerment programs. Zakat management that focuses exclusively on consumptive assistance tends to generate short-term effects by addressing the immediate basic needs of mustahik (zakat recipients). Conversely, productive zakat programs involving business capital assistance, entrepreneurial mentoring, skills development, and market access have the potential to generate more sustainable income opportunities. Herianingrum et al. (2024) demonstrate that empowerment programs implemented by zakat institutions in Indonesia consider beneficiaries' priorities and productive potential to support improvements

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in their economic conditions. This suggests that zakat should not be positioned merely as a mechanism for transferring wealth but also as an instrument of economic empowerment that facilitates the transformation of mustahik from aid recipients into economically independent individuals. Therefore, zakat management should integrate short-term social protection with long-term economic productivity enhancement.

Empirically, several studies have provided evidence regarding the contribution of zakat to poverty reduction and improvements in societal welfare. Choiriyah et al. (2020), through a panel data analysis covering 28 provinces in Indonesia during the 2017–2018 period, found that improvements in zakat effectiveness, measured through the BAZNAS Prosperity Index, had a significant effect on reducing the poverty headcount ratio. However, its effects on the poverty gap index and poverty severity index were not statistically significant. These findings indicate that the effectiveness of zakat in reducing the number of people living in poverty does not necessarily translate into addressing the depth and severity of poverty. Meanwhile, research by Fajri and Kusumawardhani (2025) indicates that zakat contributes to inclusive economic growth in Indonesia based on provincial panel data covering 34 provinces during the 2017–2022 period. This evidence strengthens the argument that zakat should not be evaluated solely in terms of the amount of funds collected and distributed but also in terms of its capacity to expand the distribution of economic growth benefits among lower-income populations.

Nevertheless, the substantial potential of zakat does not necessarily correspond to the effectiveness of its management in addressing poverty. This challenge is associated with the gap between potential zakat collection and actual realization, limited institutional capacity, inadequate zakat literacy, transparency issues, and insufficient integration between zakat programs and national development policies. From an institutional perspective, zakat management requires an accountability system that ensures funds are administered professionally, transparently, and in an outcome-oriented manner. These dimensions are important because the success of zakat management cannot be measured solely by the amount of funds distributed but must also consider the socioeconomic changes experienced by beneficiaries. Herianingrum et al. (2024) emphasize the importance of empowerment approaches that consider the characteristics and productive capacities of mustahik. Furthermore, research examining the effects of zakat on poverty reduction and income inequality suggests that program effectiveness may vary according to the characteristics of beneficiary households (Ayuniyyah et al., 2022). Therefore, strengthening institutional

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governance and impact measurement represents an essential prerequisite for ensuring that zakat generates sustainable improvements in social welfare.

At a broader level, the contribution of zakat to poverty reduction also needs to be understood through income distribution, equality of economic opportunities, and the socioeconomic characteristics of beneficiaries. Ayuniyyah et al. (2022), in their study of 1,300 zakat recipients across five regions in West Java, Indonesia, using the Center of Islamic Business and Economic Studies (CIBEST) model, demonstrate that zakat distribution programs produce different impacts on material poverty, spiritual poverty, and household welfare depending on beneficiaries' gender characteristics. These findings indicate that the success of zakat programs cannot be assessed solely through the amount of assistance provided but must also consider beneficiary characteristics, economic needs, and changes in household welfare following the receipt of assistance. Within the framework of inclusive economic development, this approach is particularly relevant because poverty alleviation must address vulnerable groups facing limited access to productive resources. Consequently, zakat management that responds to beneficiaries' specific needs can strengthen its redistributive function while expanding economic opportunities for populations that have traditionally remained outside the mainstream development process.

Although previous studies have demonstrated the contribution of zakat to poverty reduction, considerable opportunities remain for further investigation into the relationship between zakat management quality, economic empowerment effectiveness, and inclusive economic development outcomes. Some studies primarily emphasize the relationship between zakat distribution and poverty indicators, whereas others focus on the effects of zakat on economic growth and income inequality. Fajri and Kusumawardhani (2025), for instance, examine zakat within the framework of inclusive economic growth using the Poverty Equivalent Growth Rate (PEGR). Meanwhile, Choiriyah et al. (2020) investigate the effects of zakat on several poverty indicators at the provincial level. Although these studies provide important contributions, a more integrated understanding is still needed regarding how institutional governance, fundraising and distribution effectiveness, and productive economic empowerment jointly determine the contribution of zakat to inclusive economic development. This research gap is particularly important because the success of zakat management is not determined exclusively by the amount of funds distributed but also by the ability of zakat institutions to generate sustainable socioeconomic transformation.

Furthermore, institutional governance represents another important dimension requiring greater academic attention. Zakat institutions are responsible for establishing public

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trust through transparency, accountability, professionalism, and effective financial management. Baehaqi et al. (2025), through a meta-narrative review of research on zakat institutional governance, identify the need for further development in integrating digital technology, sharia auditing, and risk management systems. These findings suggest that governance should not be regarded merely as an administrative function but rather as an institutional factor that potentially determines the effectiveness of zakat programs. Without a strong institutional framework, the redistributive potential and economic empowerment functions of zakat may encounter substantial implementation barriers. Conversely, transparent and accountable governance can strengthen muzakki (zakat payers) confidence, increase public participation, and improve the effectiveness of zakat distribution among eligible beneficiaries.

Based on these considerations, the study entitled Zakat Management and Poverty Reduction: Assessing Its Role in Inclusive Economic Development seeks to re-examine the position of zakat management within the broader agenda of inclusive economic development. Specifically, this research aims to analyze how zakat management systems contribute to poverty reduction, equitable welfare distribution, and the strengthening of community economic capabilities. Conceptually, the study positions zakat management as an institutional mechanism connecting social Islamic finance mobilization, targeted distribution, productive economic empowerment, and improvements in mustahik welfare. Its expected contribution extends beyond expanding the literature on zakat as an instrument of Islamic social finance toward developing a more comprehensive understanding of the relationship between zakat governance and inclusive economic development. Ultimately, this research is expected to provide theoretical implications for the advancement of Islamic economics and practical recommendations for zakat institutions and policymakers in designing more sustainable, equitable, and participatory poverty alleviation strategies.

RESEARCH METHOD

This study employs a qualitative research approach using a descriptive-analytical method to examine the role of zakat management in poverty reduction and inclusive economic development. A qualitative approach was selected because the study seeks to understand, interpret, and critically analyze the institutional mechanisms, management practices, and socioeconomic implications of zakat distribution in addressing poverty and promoting equitable economic participation. The research focuses on the management of zakat institutions, particularly the processes of zakat collection, distribution, utilization,

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accountability, and productive economic empowerment. Data were collected through a review of relevant academic literature, institutional reports, regulatory documents, and other authoritative publications related to zakat management and Islamic social finance. The collected data were analyzed using the interactive model of Miles et al. (2014), which consists of data condensation, data display, and conclusion drawing and verification. The analysis was conducted thematically by identifying key dimensions, including institutional governance, transparency and accountability, zakat distribution effectiveness, productive empowerment, and poverty reduction outcomes. Furthermore, an interpretative and comparative analysis was employed to examine how zakat management practices contribute to improving beneficiaries' economic conditions and expanding their participation in economic activities. The findings were subsequently synthesized to develop a comprehensive understanding of zakat as an instrument of Islamic social finance that supports poverty alleviation and inclusive economic development.

RESULTS AND DISCUSSION

The findings of this study identify three major dimensions through which zakat management contributes to poverty reduction and inclusive economic development. These dimensions encompass institutional governance, productive economic empowerment, and socioeconomic inclusion. The analysis demonstrates that zakat effectiveness depends not only on the amount of funds collected and distributed but also on the quality of institutional management and the sustainability of its economic impact.

1. Institutional Governance and Effectiveness of Zakat Management

The findings indicate that institutional governance is a fundamental determinant of the effectiveness and sustainability of zakat management in supporting poverty reduction and inclusive economic development. Governance is not merely an administrative mechanism for managing zakat funds but represents an institutional framework that determines how resources are collected, managed, distributed, monitored, and evaluated to achieve broader socioeconomic objectives. In this context, zakat institutions are expected to operate through professional management systems that integrate transparency, accountability, organizational effectiveness, and compliance with Islamic principles. These dimensions are particularly

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important because zakat represents a form of social finance entrusted by muzakki to institutions responsible for distributing resources to eligible beneficiaries. Consequently, the credibility and effectiveness of zakat institutions depend significantly on their ability to demonstrate responsible financial management and measurable social outcomes. Strong institutional governance also provides a foundation for ensuring that zakat distribution is not conducted merely as a charitable activity but becomes part of a systematic poverty alleviation strategy. This finding reinforces the argument that the institutional quality of zakat management determines its capacity to transform religious obligations into sustainable economic and social benefits.

Furthermore, transparency constitutes an essential component of institutional governance because it enables muzakki and the wider community to understand how zakat funds are collected, allocated, and utilized. Transparent financial reporting provides information regarding institutional performance, fundraising achievements, distribution priorities, and the implementation of empowerment programs. The availability of reliable information can strengthen public confidence and encourage greater participation in zakat payment through formal institutions. In the absence of adequate transparency, potential muzakkis may prefer informal distribution mechanisms, thereby limiting the institutional capacity to mobilize zakat resources on a broader scale. Therefore, zakat institutions need to establish accessible reporting systems supported by standardized financial documentation and periodic performance evaluations. Transparency should also extend beyond financial statements to include information about beneficiary selection, program implementation, and the socioeconomic outcomes experienced by mustahik. Such practices allow stakeholders to assess whether zakat funds have been distributed according to Islamic principles and institutional objectives. From this perspective, transparency functions as both a mechanism of public accountability and an instrument for strengthening the legitimacy of zakat institutions within the Islamic social finance system.

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Accountability is another important dimension that influences the effectiveness of zakat management. Zakat institutions have responsibilities not only to muzakki but also to beneficiaries, regulatory authorities, and society. These responsibilities require institutions to demonstrate that collected funds are managed according to established regulations, Islamic legal principles, and clearly defined organizational objectives. Accountability mechanisms should therefore include financial audits, internal supervision, performance monitoring, and systematic evaluations of distribution programs. Baehaqi et al. (2025) emphasize the relevance of strengthening zakat institutional governance through digital technology, sharia auditing, and risk management. Their discussion indicates that institutional accountability requires an integrated governance system capable of identifying operational weaknesses and improving organizational performance. In practical terms, accountability enables zakat institutions to minimize potential irregularities, improve resource allocation, and ensure that funds reach eligible recipients. Moreover, effective accountability mechanisms can strengthen institutional discipline and encourage continuous improvements in management practices. Accordingly, accountability should be understood as a strategic governance instrument that connects institutional responsibilities with the achievement of measurable poverty reduction outcomes.

The findings also demonstrate that professionalism in organizational management contributes significantly to the effectiveness of zakat institutions. Professionalism involves the availability of competent human resources, clearly defined organizational structures, appropriate management procedures, and the capacity to implement zakat programs effectively. Zakat management requires individuals who possess knowledge of Islamic jurisprudence, financial administration, social development, and economic empowerment. The combination of these competencies is necessary because zakat distribution involves complex considerations, including beneficiary eligibility, socioeconomic conditions, resource prioritization, and program sustainability. Institutions that lack adequate human resource

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capacity may encounter difficulties in identifying the most appropriate beneficiaries and designing effective empowerment interventions. Consequently, strengthening institutional professionalism requires continuous training, improved management standards, and the development of performance-based organizational systems. Professional zakat management also encourages the adoption of strategic planning, risk assessment, and evidence-based decision-making. Through these improvements, zakat institutions can enhance their operational efficiency and strengthen their contribution to socioeconomic development. Therefore, human resource development should be considered an integral component of institutional governance rather than an additional administrative activity.

In addition to transparency, accountability, and professionalism, compliance with Islamic principles represents a distinctive characteristic of zakat institutional governance. Zakat institutions must ensure that fundraising, management, and distribution activities comply with the provisions of Islamic law, particularly concerning eligible beneficiaries and the appropriate utilization of zakat funds. The distribution of zakat to the eight categories of recipients specified in Qur'an Surah At-Tawbah (9:60) establishes a normative foundation for determining beneficiary eligibility and distribution priorities. This principle requires institutions to maintain a balance between religious compliance and socioeconomic considerations when designing poverty alleviation programs. In this regard, the interpretation of zakat utilization should consider the actual needs and economic circumstances of mustahik while remaining consistent with applicable Islamic legal principles. Compliance with sharia principles also strengthens the moral legitimacy of zakat institutions because their operations are expected to reflect justice, trustworthiness, and social responsibility. Thus, sharia compliance is not simply a legal requirement but also an ethical foundation that distinguishes zakat management from conventional charitable and financial distribution mechanisms.

Another important finding concerns the role of digital technology in strengthening institutional governance and improving the effectiveness of zakat management. Digital

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transformation provides opportunities for zakat institutions to develop more integrated systems for fundraising, financial reporting, beneficiary identification, and distribution monitoring. Digital payment platforms, online fundraising applications, integrated databases, and automated financial reporting can improve administrative efficiency while reducing operational barriers. Technology can also facilitate the collection of beneficiary information, enabling institutions to identify socioeconomic characteristics and determine appropriate distribution strategies. In addition, digital reporting systems can improve transparency by providing muzakki with accessible information about institutional activities and fund utilization. However, technology adoption must be supported by adequate human resource capabilities, information security, and reliable organizational procedures. Without these supporting elements, digitalization may create additional operational risks rather than improving institutional effectiveness. Therefore, digital transformation should be integrated into a broader governance framework that combines technological innovation, professional management, and accountability. This integration can strengthen institutional capacity and improve the ability of zakat organizations to respond to changing socioeconomic needs.

Furthermore, effective zakat management requires the integration of fundraising strategies and accurate beneficiary identification. Fundraising effectiveness determines the availability of resources, whereas beneficiary identification influences the quality and distributional impact of zakat programs. Zakat institutions need to develop systematic approaches to expanding public participation through educational campaigns, digital payment facilities, institutional partnerships, and strengthened relationships with muzakki. At the same time, distribution decisions should be based on reliable information concerning household income, employment conditions, economic vulnerability, and access to productive resources. Accurate beneficiary identification is particularly important because poverty is multidimensional and cannot be adequately addressed through income-based criteria alone. Some households may experience limited access to education, healthcare, employment, and

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business opportunities despite having income levels that do not fully reflect their vulnerability. Therefore, zakat institutions should adopt more comprehensive beneficiary assessment procedures to ensure that assistance reaches the most disadvantaged groups. The integration of effective fundraising and accurate targeting can improve resource allocation and strengthen the contribution of zakat to poverty reduction.

The institutional governance perspective also highlights the importance of monitoring and evaluating zakat distribution outcomes. The effectiveness of zakat management should not be measured exclusively through the amount of funds collected, the number of beneficiaries reached, or the percentage of funds distributed. These indicators provide information about institutional activities but do not necessarily demonstrate whether zakat programs have generated meaningful improvements in beneficiaries' economic conditions. A more comprehensive evaluation framework should consider changes in household income, employment opportunities, business performance, financial independence, and access to essential services. Such measurements enable institutions to distinguish between short-term assistance and sustainable economic empowerment. Furthermore, systematic monitoring can identify implementation challenges, evaluate program effectiveness, and provide evidence for improving future distribution strategies. The application of measurable social performance indicators also strengthens institutional accountability because zakat organizations can demonstrate the extent to which their activities contribute to poverty alleviation. Consequently, outcome-oriented evaluation should become an essential component of professional zakat governance and institutional development.

The findings further suggest that institutional governance influences the relationship between zakat management and inclusive economic development. Well-governed zakat institutions have greater potential to transform collected resources into economic opportunities for disadvantaged communities. Through effective management, zakat can support microenterprise development, improve access to productive resources, strengthen

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household economic resilience, and expand participation in local economic activities. These contributions are particularly important for individuals and households that experience structural barriers to economic participation. Nevertheless, achieving inclusive development requires coordination between zakat institutions, government agencies, Islamic financial institutions, educational organizations, and community-based economic initiatives. Institutional collaboration can expand access to training, financing, business networks, and market opportunities for mustahik. Such integration also reduces the possibility of overlapping assistance programs and improves the efficiency of available social finance resources. Therefore, institutional governance should incorporate collaborative management arrangements that connect zakat distribution with broader development priorities. Through this approach, zakat institutions can contribute not only to immediate poverty alleviation but also to the creation of more equitable and sustainable economic opportunities.

Overall, the findings establish that institutional governance and management effectiveness are interconnected elements in maximizing the socioeconomic contribution of zakat. Transparency strengthens public trust, accountability ensures responsible resource utilization, professionalism improves organizational performance, and sharia compliance maintains the normative legitimacy of institutional activities. Meanwhile, digital transformation, accurate beneficiary identification, and systematic impact evaluation enhance operational efficiency and distribution effectiveness. These dimensions collectively demonstrate that the success of zakat management depends on the institutional capacity to transform religious obligations into measurable social and economic outcomes. Therefore, strengthening governance should be positioned as a strategic priority for zakat institutions seeking to improve poverty alleviation performance and support inclusive economic development. This perspective also suggests that institutional effectiveness must be assessed through both organizational performance and the actual improvements experienced by beneficiaries. Ultimately, professional, transparent, and accountable zakat governance

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provides an essential foundation for developing an Islamic social finance system that promotes economic justice, reduces socioeconomic disparities, and strengthens sustainable community welfare.

2. Productive Zakat and Sustainable Economic Empowerment

productive zakat represents an important instrument for strengthening the economic capacity and independence of mustahik through a more sustainable approach to poverty alleviation. Unlike consumptive zakat, which primarily addresses immediate household needs, productive zakat is oriented toward developing beneficiaries' economic potential through business capital assistance, entrepreneurship training, technical guidance, and continuous institutional support. This approach positions zakat not merely as a mechanism for redistributing wealth but also as a strategic instrument for creating productive economic activities. The utilization of zakat funds for productive purposes enables beneficiaries to develop small businesses, improve their income-generating capacities, and gradually establish greater financial independence. In this regard, productive zakat reflects a transformation in Islamic social finance from traditional charitable distribution toward a development-oriented model that emphasizes economic empowerment. Ali et al. (2016), through their comparative study of productive and consumptive zakat using the CIBEST model, demonstrate that both distribution mechanisms improve mustahik welfare, although productive zakat produces a greater poverty alleviation effect. This finding reinforces the argument that productive zakat has considerable potential to address structural poverty by strengthening the economic capabilities of disadvantaged communities.

Furthermore, productive zakat plays an important role in transforming the economic position of mustahik through the provision of business capital and productive resources. Access to financial resources remains one of the major constraints experienced by low-income households, particularly individuals who have limited opportunities to obtain financing from conventional financial institutions. Productive zakat addresses this limitation by providing

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financial assistance that enables beneficiaries to initiate or expand microenterprises according to their skills, experience, and local economic potential. The assistance may take the form of working capital, business equipment, production facilities, or other resources required to support economic activities. However, the effectiveness of capital assistance depends on the suitability of the amount and type of assistance provided to beneficiaries' business characteristics. Gofur and Kasri (2025), examining data from 1,631 mustahik in Indonesia, found that the amount of productive zakat assistance positively influences income improvement among beneficiaries. Their findings also indicate that business ownership prior to receiving assistance contributes to the likelihood of income growth. These results suggest that productive zakat programs should consider beneficiaries' entrepreneurial readiness and existing economic activities when determining the allocation of productive resources.

Another important finding concerns the integration of financial assistance with entrepreneurship training and continuous mentoring. Productive zakat cannot generate sustainable economic outcomes when beneficiaries receive business capital without adequate knowledge and managerial capabilities. Many microenterprise owners face difficulties in financial planning, production management, marketing, business development, and adapting to changing market conditions. Consequently, zakat institutions need to complement financial assistance with structured capacity-building programs that improve beneficiaries' entrepreneurial competencies. Such programs may include business planning, financial literacy, bookkeeping, product innovation, marketing strategies, and digital business management. Gofur and Kasri (2025) identify training and mentoring as important factors positively associated with income improvement among mustahik. Similarly, Hosen et al. (2024), in their study of BAZNAS economic empowerment programs, demonstrate that the empowerment process mediates the relationship between program inputs and improvements in mustahik welfare. Their findings emphasize that zakat funds and mentoring support need to be integrated into an effective empowerment process. Therefore, productive zakat should

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be implemented through a comprehensive intervention that combines financial resources, entrepreneurial education, and continuous assistance.

The findings also reveal that the sustainability of productive zakat programs depends on the institutional capacity to develop empowerment models that correspond to beneficiaries' economic circumstances. Each mustahik has different capabilities, business experiences, educational backgrounds, and access to productive resources. Therefore, standardized assistance programs may not produce equally effective outcomes for all beneficiaries. Zakat institutions need to adopt a beneficiary-oriented approach that considers individual characteristics and local economic opportunities before determining the form of assistance. Hosen et al. (2024) demonstrate that empowerment processes provide more substantial contributions to mustahik welfare when supported by appropriate financial resources and mentoring at individual, organizational, and community levels. Their findings also indicate that the Z-Chicken initiative did not generate a substantial positive influence on beneficiary welfare, highlighting the importance of evaluating program suitability rather than assuming that every productive zakat initiative will automatically succeed. This evidence suggests that program effectiveness requires careful planning, appropriate business selection, and institutional support that responds to the actual needs of beneficiaries. Accordingly, productive zakat should be designed as a flexible empowerment mechanism rather than a uniform distribution program.

In addition, the development of productive zakat requires continuous monitoring and evaluation to ensure that financial assistance generates sustainable economic improvements. Monitoring enables zakat institutions to identify business constraints, assess the utilization of funds, and determine whether beneficiaries are achieving their intended economic objectives. Without systematic supervision, productive zakat assistance may be used for purposes unrelated to business development or may fail to generate sufficient income to maintain household economic stability. Saraswati (2025), in a qualitative study of productive zakat

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programs in Madiun Regency, identifies improvements in mustahik income and economic independence through an empowerment program involving livestock business assistance. However, the study also identifies limitations associated with insufficient continuous mentoring and suboptimal beneficiary selection. These findings demonstrate that the sustainability of productive zakat depends not only on initial capital distribution but also on the quality of post-distribution assistance. Therefore, zakat institutions should establish regular monitoring mechanisms, business performance assessments, and evaluation procedures that enable beneficiaries to address operational difficulties and maintain business continuity. Such mechanisms can strengthen the accountability of productive zakat programs while improving their long-term poverty alleviation impact.

The analysis further indicates that productive zakat contributes to sustainable empowerment by strengthening the entrepreneurial capabilities and economic independence of mustahik. Economic empowerment should not be measured exclusively through increases in household income but also through improvements in beneficiaries' ability to manage businesses, make financial decisions, access economic opportunities, and sustain productive activities independently. In this context, productive zakat provides opportunities for mustahik to develop their economic capabilities and reduce their dependence on external assistance. Sutrisno and Hakimi (2026), in their qualitative research on zakat-based empowerment programs in Yogyakarta, identify capital assistance, capacity building, and continuous mentoring as interconnected components of effective income-generating activities. Their findings highlight the importance of structured training, intensive mentoring, appropriate business model selection, and financial literacy in supporting microenterprise sustainability. This evidence indicates that productive zakat should be understood as a process of capability development rather than a one-time financial intervention. By strengthening entrepreneurial knowledge and managerial competencies, zakat institutions can support beneficiaries in developing more resilient businesses and improving their long-term economic prospects.

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Moreover, productive zakat has the potential to generate broader socioeconomic benefits through employment creation, local economic development, and increased participation in community-based economic activities. When beneficiaries successfully establish and expand microenterprises, their businesses may create additional employment opportunities, strengthen local supply chains, and stimulate economic transactions within their communities. These effects demonstrate that productive zakat can contribute beyond individual household welfare by generating positive economic externalities. The development of microenterprises supported by zakat funds can also strengthen the economic participation of vulnerable groups who experience limited access to formal employment and productive assets. However, achieving these broader benefits requires coordination between zakat institutions, local governments, business associations, Islamic financial institutions, and other relevant stakeholders. Such collaboration can facilitate access to markets, technical assistance, business networks, and additional economic resources. The findings of Hosen et al. (2024) regarding the importance of individual, organizational, and community-level empowerment reinforce the significance of integrating productive zakat with broader institutional and community development initiatives. Consequently, productive zakat should be positioned as part of a wider strategy for strengthening local economic resilience and promoting inclusive development.

Another significant dimension concerns the relationship between productive zakat and the transformation of beneficiaries from mustahik into potential muzakki. This transformation represents an important long-term objective of zakat-based economic empowerment because it reflects a shift from economic dependency toward financial independence and social contribution. Nevertheless, such transformation requires sustained improvements in business performance, income stability, financial management, and household welfare. It should not be regarded as an immediate or universal outcome of productive zakat distribution. Gofur and Kasri (2025) demonstrate that the effectiveness of productive zakat in improving income is

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influenced by the amount of assistance, training, mentoring, and beneficiary characteristics. These findings suggest that economic independence emerges through a gradual process that requires appropriate institutional intervention and individual commitment. Therefore, zakat institutions should establish realistic empowerment targets that prioritize business sustainability and improvements in household economic conditions before expecting beneficiaries to become muzakki. This approach provides a more comprehensive understanding of economic transformation and ensures that the objectives of productive zakat remain consistent with the principles of social justice and sustainable welfare.

The findings establish that productive zakat is a strategic instrument for sustainable economic empowerment when implemented through an integrated and beneficiary-oriented approach. Its effectiveness depends on the combination of adequate business capital, entrepreneurial training, continuous mentoring, appropriate beneficiary selection, institutional monitoring, and access to sustainable markets. These dimensions demonstrate that productive zakat should not be limited to the distribution of financial assistance but should be developed as a structured process for strengthening economic capabilities and improving beneficiaries' livelihoods. The evidence presented by Ali et al. (2016), Hosen et al. (2024), Gofur and Kasri (2025), and Sutrisno and Hakimi (2026) reinforces the importance of integrating financial and non-financial interventions in zakat-based empowerment. Accordingly, the contribution of productive zakat to poverty reduction becomes more meaningful when beneficiaries can maintain productive activities, improve household income, and participate more actively in economic development. Ultimately, productive zakat provides an important foundation for transforming Islamic social finance into a sustainable empowerment mechanism that promotes economic independence, reduces structural poverty, and strengthens inclusive economic development.

3. Zakat and Inclusive Economic Development

Zakat represents an important instrument for promoting inclusive economic

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development through wealth redistribution, poverty alleviation, and the expansion of economic opportunities for disadvantaged communities. Unlike conventional economic mechanisms that primarily emphasize capital accumulation and market efficiency, zakat incorporates social justice and equitable resource distribution as fundamental principles of economic development. Through the redistribution of wealth from muzakki to eligible beneficiaries, zakat creates opportunities for vulnerable populations to access resources necessary for improving their economic conditions. This mechanism is particularly relevant in developing economies where income inequality, limited employment opportunities, and unequal access to productive assets remain significant challenges. From the perspective of Islamic economics, zakat is not merely a religious obligation but also a socioeconomic instrument designed to strengthen solidarity and reduce disparities within society. Chapra (2008) explains that Islamic development emphasizes the integration of material prosperity, social justice, and human well-being. Accordingly, zakat contributes to inclusive development by connecting economic growth with distributive justice and social responsibility. Its effectiveness, however, depends on the ability of zakat institutions to translate financial resources into meaningful economic opportunities for individuals and communities experiencing economic vulnerability.

Furthermore, zakat contributes to inclusive economic development by improving the distribution of income and reducing socioeconomic disparities. Unequal income distribution frequently restricts the ability of low-income households to participate in productive economic activities because they have limited access to education, financial resources, business opportunities, and essential services. Zakat provides a redistributive mechanism that can partially address these structural limitations by transferring resources to individuals and households entitled to receive assistance. This redistribution can improve purchasing power, support household consumption, and create opportunities for greater participation in local economic activities. Ayuniyyah et al. (2022) demonstrate that zakat distribution contributes

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to improvements in material and spiritual welfare among beneficiaries in West Java, Indonesia. Their findings emphasize that the impact of zakat extends beyond financial assistance because it also relates to broader dimensions of household well-being. Therefore, zakat distribution should be understood as an important mechanism for strengthening economic inclusion, particularly when assistance is directed toward households facing persistent economic disadvantages. Through appropriate distribution strategies, zakat can help reduce barriers to economic participation and support a more equitable allocation of development benefits.

Moreover, zakat contributes to inclusive economic development by supporting the expansion of economic opportunities and improving the productive capacity of disadvantaged communities. Economic inclusion requires more than equal access to financial resources; it also involves the ability of individuals to participate in productive activities, obtain employment, develop entrepreneurial skills, and access broader economic networks. In this regard, zakat can function as a financial instrument that facilitates the participation of low-income communities in economic activities through business capital assistance, entrepreneurship development, and community-based empowerment programs. Widiastuti et al. (2021) demonstrate that business growth plays a mediating role in the relationship between zakat empowerment programs and mustahik welfare. This finding suggests that the contribution of zakat to economic inclusion becomes more substantial when financial assistance generates actual business development and improvements in beneficiaries' economic conditions. Therefore, zakat institutions should strengthen the connection between social assistance and productive economic opportunities. Such an approach enables beneficiaries not only to receive financial support but also to develop the capabilities necessary to participate independently in economic activities. Consequently, zakat can contribute to a more inclusive economic structure by reducing barriers to entrepreneurship and expanding opportunities for vulnerable populations.

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Another important finding concerns the relationship between zakat and inclusive economic growth at the regional level. Inclusive growth refers to an economic development process in which the benefits of economic expansion are distributed more equitably across different population groups and regions. Zakat can support this process by directing financial resources toward communities that experience limited access to economic opportunities. Fajri and Kusumawardhani (2025), in their study using panel data from 34 Indonesian provinces during 2017–2022, found that zakat contributes significantly to promoting inclusive economic growth and improving income distribution. Their findings also indicate that the potential of zakat has not been fully optimized, suggesting that institutional and distributional improvements remain necessary. An important aspect of their research is the identification of differences in regional development performance, particularly between Eastern Indonesia and Java. This evidence demonstrates that the contribution of zakat should be considered within the broader context of regional economic disparities. Accordingly, zakat distribution strategies need to consider geographical conditions, local economic characteristics, and the development potential of different regions to ensure that financial resources generate more balanced economic opportunities.

Furthermore, the contribution of zakat to inclusive economic development cannot be separated from its relationship with broader macroeconomic and fiscal policies. Although zakat has a redistributive function, its capacity to address structural poverty and economic inequality may be limited when implemented independently of other development instruments. Government expenditure, regional fiscal capacity, infrastructure development, education, and employment policies remain important determinants of economic inclusion. Anggraeni (2025), in her analysis of zakat and socioeconomic factors in supporting inclusive economic development, identifies three important dimensions: economic growth, poverty and inequality, and the expansion of access and opportunities. Her findings indicate that zakat fitrah has a significant positive relationship with the economic growth dimension, whereas

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regional income plays an important role in addressing poverty, inequality, and access to opportunities. These results suggest that religious social funds and government fiscal policies have complementary functions in promoting inclusive development. Zakat provides a community-based redistribution mechanism, while government policies address broader structural constraints affecting economic participation. Therefore, institutional collaboration between zakat organizations and public authorities is essential to improve the effectiveness of poverty reduction strategies and strengthen the distribution of development benefits.

The findings also demonstrate that the contribution of zakat to economic development extends beyond poverty reduction and income redistribution to include improvements in human welfare and sustainable development. Inclusive economic development requires improvements in people's capabilities, including access to education, healthcare, employment, and opportunities for social mobility. From the perspective of Islamic economics, these dimensions are consistent with the objectives of Maqasid al-Shariah, particularly the protection of wealth (hifz al-mal) and the preservation of human dignity and welfare. Beik and Arsyianti (2015) developed the CIBEST model to measure poverty and welfare from an Islamic perspective by incorporating both material and spiritual dimensions. This approach provides a broader framework for evaluating the impact of zakat because economic welfare cannot be adequately represented by income indicators alone. Through appropriate distribution and empowerment programs, zakat can support improvements in household consumption, productive capacity, and social well-being. Consequently, evaluating zakat contributions requires multidimensional indicators that capture not only financial improvements but also changes in the quality of life and economic capabilities of beneficiaries. This perspective strengthens the conceptual relationship between Islamic social finance and inclusive development by emphasizing that economic progress should be accompanied by improvements in human welfare.

In addition, zakat can contribute to inclusive economic development by strengthening

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local economic activities and supporting the growth of micro, small, and medium-sized enterprises (MSMEs). MSMEs play an important role in generating employment, supporting household income, and maintaining economic activities within local communities. However, many small enterprises face limitations in accessing capital, technology, business networks, and formal financial services. Zakat-based economic empowerment can help address these constraints by providing productive resources and supporting business development among disadvantaged entrepreneurs. The economic impact of such programs may extend beyond individual beneficiaries because successful microenterprises can generate additional employment opportunities, increase demand for local products, and stimulate community-based economic transactions. Putriani et al. (2020), through an agent-based simulation of zakat's multiplier effects on economic growth, provide a theoretical basis for understanding how zakat distribution can stimulate economic activity through successive rounds of expenditure. This perspective indicates that the economic contribution of zakat is not limited to the initial transfer of funds but may also extend to broader economic circulation. Therefore, integrating zakat programs with MSME development, business mentoring, and market access initiatives can strengthen the capacity of Islamic social finance to support inclusive economic growth.

The analysis further highlights that the effectiveness of zakat in promoting inclusive economic development depends on the quality of institutional coordination and the integration of distribution programs with broader development objectives. Zakat institutions cannot independently resolve all dimensions of poverty and inequality because these problems involve structural, institutional, and geographical factors. Effective implementation therefore requires cooperation among BAZNAS, private zakat institutions, government agencies, Islamic financial institutions, educational organizations, and local communities. Such cooperation can improve beneficiary identification, prevent overlapping assistance, expand access to financing, and provide more comprehensive economic empowerment services. In

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addition, the integration of zakat with other Islamic social finance instruments, including infaq, sadaqah, and waqf, can create broader opportunities for sustainable development financing. These instruments have different operational characteristics but share a common orientation toward social welfare and economic justice. The combined utilization of these resources can support education, healthcare, entrepreneurship, and community development programs. Nevertheless, institutional integration requires clear responsibilities, transparent financial arrangements, and measurable performance indicators. Through effective collaboration, zakat can become part of a coordinated social development framework rather than operating as an isolated charitable mechanism.

Another dimension emerging from the analysis is the importance of measuring the actual contribution of zakat to inclusive development through multidimensional indicators. Conventional evaluations frequently emphasize the amount of zakat collected, the number of beneficiaries, and the total funds distributed. Although these indicators are useful for assessing institutional performance, they do not fully explain whether zakat has generated sustainable improvements in economic inclusion. A more comprehensive evaluation should consider changes in household income, employment participation, business ownership, access to productive assets, financial inclusion, and the reduction of material poverty. Beik and Arsyianti (2016) demonstrate the relevance of the CIBEST model in measuring the impact of zakat on poverty and welfare by incorporating material and spiritual dimensions. Similarly, the inclusive growth framework employed by Fajri and Kusumawardhani (2025) illustrates the importance of examining income distribution and regional economic performance when evaluating zakat's contribution to development. These approaches suggest that zakat institutions should adopt outcome-oriented evaluation systems that assess both individual welfare and broader economic participation. Such measurement is essential to distinguish between temporary improvements resulting from financial assistance and sustainable transformations in beneficiaries' socioeconomic conditions.

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Overall, the findings establish that zakat contributes to inclusive economic development through three interconnected mechanisms: equitable wealth redistribution, expansion of productive economic opportunities, and improvement of multidimensional social welfare. These mechanisms demonstrate that zakat has the potential to complement conventional economic development policies by addressing inequalities that restrict the participation of disadvantaged populations. However, its contribution is conditional upon effective institutional governance, accurate beneficiary targeting, productive distribution, and coordination with broader development programs. The evidence from Fajri and Kusumawardhani (2025), Anggraeni (2025), Ayuniyyah et al. (2022), and Widiastuti et al. (2021) reinforces the importance of understanding zakat not merely as a charitable transfer but as an instrument capable of supporting economic inclusion and social transformation. Therefore, zakat management should be directed toward generating sustainable economic opportunities, strengthening community capabilities, and reducing structural disparities. Ultimately, the integration of zakat distribution, productive empowerment, and inclusive development policies can strengthen the contribution of Islamic social finance to a more equitable, participatory, and sustainable economic system.

CONCLUSION

This study concludes that zakat management plays a strategic role in supporting poverty reduction and promoting inclusive economic development through institutional governance, productive economic empowerment, and equitable wealth distribution. The findings demonstrate that the effectiveness of zakat is not determined solely by the amount of funds collected and distributed but also by the quality of institutional management, transparency, accountability, and the capacity to develop sustainable empowerment programs. Strong institutional governance provides the foundation for improving public trust, optimizing zakat resources, and ensuring that distribution mechanisms reach eligible beneficiaries effectively. Therefore, professional and accountable zakat management is essential for

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transforming zakat from a religious obligation into an effective instrument of Islamic social finance.

Furthermore, productive zakat contributes to sustainable economic empowerment by providing business capital, entrepreneurship training, mentoring, and access to productive resources for mustahik. This approach enables beneficiaries to improve their income-generating capacity, develop microenterprises, and gradually achieve greater economic independence. The study also highlights that zakat contributes to inclusive economic development through income redistribution, poverty alleviation, and the expansion of economic opportunities for disadvantaged communities. Its contribution extends beyond improving individual household welfare to strengthening economic participation and reducing socioeconomic disparities. However, achieving sustainable outcomes requires continuous institutional assistance, appropriate beneficiary selection, and integration with broader economic development policies.

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