



Transformation of Productive Zakat for the Empowerment of Urban Poor Families

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ARTICLE INFO

Keywords:

Family empowerment, Microeconomics, Poor families, Productive Zakat, Zakat institutions

DOI:

10.65586/jpr.v1i2.23

Article History:

Submitted: 25-03-2025

Revised: 29-06-2025

Accepted: 28-07-2025

Published online: 15-08-2025

Published by:

Mahkota Science Publishers

ABSTRACT

Zakat, which should be a strategic instrument of social justice, is often still positioned as short-term charitable assistance rather than transformative socio-economic capital. This study proposes an understanding of productive zakat not only as an Islamic economic instrument but also as a welfare policy practice with broad implications for the configuration of social justice in Indonesian urban spaces. This study uses a non-empirical qualitative method, with a critical literature review and an integrative conceptual analysis. The results indicate that productive zakat in Indonesia will be truly meaningful only if it does not stop at mere religious jargon or a financial redistribution mechanism, but becomes a social movement that upholds structural justice in a capitalist, unequal urban ecosystem. Zakat must transcend its role as an aid and function as an agent of change that challenges the roots of poverty, reorganises the power relations between muzakki, amil, and mustahik, and restores the spirit of *maqāṣid al-syarī'ah* as an ethical energy for the liberation of humans from dependence and injustice. The success of productive zakat, therefore, is not measured by the number of program success reports or nominal increases in funds, but by the courage of zakat institutions to position themselves as a space for moral resistance against an economic system that breeds inequality by proving that Islamic spirituality not only teaches compassion, but also solidarity with those who are most marginalised in the city.

A. Introduction

Amidst Indonesia's Muslim majority population and enormous potential for zakat, urban poverty has become increasingly complex, chronic and multi-layered. Low-income families in urban areas face not only limited income but also job insecurity in the informal sector, high living costs, limited access to decent housing, poor access to basic services, and fragile social protection networks (Latif et al., 2025; Pérez et al., 2022). In this context, zakat, which should be a strategic instrument of social justice, is often still positioned as short-term charitable assistance rather than transformative socio-economic capital. This is where the discourse of productive zakat emerges as an effort to shift the paradigm of zakat distribution from merely consumptive to social investment aimed at breaking the chain of poverty and strengthening the independence of low-income families, especially in urban areas, which have become a new locus of inequality.

Productive zakat assistance can increase the *mustahik's* income and business capacity (Mawardi et al., 2023). Still, this effect does not automatically lead to long-term independence when changes in the structure of opportunities and social protection do not follow it. This shows that productive zakat is often treated as a purely economic intervention, while social, cultural and structural dimensions, such as gender relations in the household, the double burden on women, children's access to quality education, and vulnerability to urban gentrification, are not adequately integrated into programme design (Riandi et al., 2025; Wiranti et al., 2025). In other words, there is still a gap between the discourse of productive zakat as a holistic empowerment instrument and its implementation in the field, which is often reductionist and oriented towards short-term outputs such as increased income or expanded business assets.

The urban context in Indonesia adds a layer of complexity that cannot be ignored (Hibbatulloh et al., 2025). Low-income families in big cities generally live in environments with high living costs, dependence on unstable informal sector jobs, limited access to land and business space, and exposure to social risks such as crime, narcotics, or eviction. The transformation of productive zakat in this context means more than just providing business capital and entrepreneurship training, as it requires social engineering that can strengthen the resilience of low-income families, expand their support networks, and open up opportunities for their participation in an urban economy that is often exclusive. The approach to family empowerment in an urban perspective thus requires a re-reading of the zakat paradigm, which was initially merely a redistribution of wealth, to a mechanism for strengthening the bargaining position of low-income families in the urban socio-economic structure, including through recognition of unpaid care work, the role of women in the household economy, and their children's educational aspirations.

Previous studies on productive zakat in Indonesia have generally placed the unit of analysis on individual *mustahik* or business groups supported by zakat institutions (Mawardi et al., 2023). At the same time, families only appear implicitly as parties that feel the impact. Productive zakat programmes are also more often communicated as economic programmes and are rarely framed as comprehensive family empowerment interventions (Hagawe et al., 2023). In reality, however, the financial decisions of *mustahik* are never separated from the dynamics of family relationships: who controls capital, how domestic and productive work is divided, and the extent to which children are involved in economic activities to increase family income or, conversely, have their access to education sacrificed.

This conceptual void makes the study of the transformation of productive zakat for the empowerment of urban low-income families not only academically relevant, but also morally and policy-wise urgent. From a policy discourse perspective, contemporary literature emphasises that the shift from consumptive to productive zakat is part of efforts to strengthen zakat's role as a public policy instrument for poverty alleviation (Nurizka, Islami, et al., 2025).

Emphasis is placed on integrating zakat programmes with the sustainable development agenda, improving Islamic financial literacy, and strengthening the governance of zakat institutions to make them more transparent and accountable (Ma & Sukmana, 2025; Sawmar & Mohammed, 2021). However, amid these normative efforts, critical questions remain: to what extent does this transformation truly address the root causes of poverty among urban low-income families? Does productive zakat merely replace rice and cash assistance with business tools and small capital, without changing the structure of dependency and vulnerability? Or is it capable of becoming a gateway for the reconstruction of the social and economic relations of low-income families, so that they are no longer positioned as objects of pity, but as empowered subjects whose contributions to the urban economy are recognised?

Starting from these conceptual and empirical gaps, this study aims to analyse more sharply the characteristics of urban low-income families and how they interpret and respond to productive zakat interventions in their daily household lives, not only in terms of changes in income but also in terms of power relations within the family, decision-making patterns, and the aspirations of the younger generation. This study also aims to analyse the models of productive zakat implementation developed by zakat management institutions in Indonesia, namely BAZNAS and LAZ, with a focus on how these programmes are designed, implemented, and evaluated when targeting low-income families in urban areas with limited space and opportunities.

B. Method

This study uses a non-empirical qualitative method, a critical literature review, and a conceptual-integrative analysis approach. All data are secondary, in the form of academic books, scientific journal articles, dissertations and theses, reports from zakat management institutions, regulations related to zakat and poverty alleviation, and national and international reports on urban poverty in Indonesia. The literature collected covers three main clusters: first, Islamic economics and zakat jurisprudence (including the concepts of productive zakat, *mustahik*, and *maqāṣid al-syari'ah*); second, studies on urban poverty and family studies (gender relations, household survival strategies, and opportunity structures in cities); third, empowerment theory, capability approaches, and social capital. These sources were selected deliberately for their substantial relevance and academic authority, then read closely to identify key concepts, latent assumptions, and analytical gaps, rather than simply summarising the content descriptively.

Analytically, this study combines qualitative content analysis, thematic analysis, and comparative analysis reinforced by theoretical triangulation. The main themes, such as the construction of productive zakat as business capital, patterns of *mustahik* assistance, the transformation of *mustahik* into *muzakki*, family economic independence, and the structural vulnerability of urban low-income families, were drawn from various sources and then compared across contexts and theoretical approaches. Islamic economic theory on justice and zakat is discussed in relation to structural poverty theory (Ali, 2016), Amartya Sen's capability approach, family theory, and empowerment theory (power within, power to, power with), to produce a non-reductionist analytical framework (Ferrero y De Loma-Osorio & Zepeda, 2019). The validity of the argument is maintained through careful selection of literature, consistent use of concepts, transparency in concluding, and reflexivity on the study's normative position. Thus, the main output of this study is not quantitative data but a normative-critical conceptual model of the transformation of productive zakat as an instrument of empowerment for urban low-income families, which can serve as a theoretical basis and practical reference for the design of zakat policies and programmes in Indonesia.

C. Results and Discussion

1. The New Paradigm of Productive Zakat

Amidst urbanisation and increasingly sharp structural inequality, the logic of distribution that stops at short-term consumption has become increasingly problematic. Mustahik remain poor, only slightly more comfortable for a few days or weeks. It is at this point that the idea of productive zakat emerges as both an epistemological and practical challenge, because zakat is no longer understood merely as a one-way flow of funds from the muzakki to the *mustahik*, but as socio-economic capital that is invested in a planned manner to build the capacity, assets, and bargaining power of the mustahik so that they will eventually be able to stand on equal footing, and even have the potential to transform into muzakki. Developments in contemporary fiqh and state policy support this shift. Since 1982, MUI fatwas have paved the way by allowing zakat funds to be used for productive activities and the public good, provided the *mustahik* remain the primary beneficiaries and the principles of sharia are upheld (Al Hamid et al., 2025; Mufid & Muhammad, 2023).

The subsequent compilation of MUI zakat fatwas reaffirmed the scope of zakat funds for investment and productive programmes, provided that the management is trustworthy, transparent, and accountable. State regulations through the Minister of Religious Affairs Regulation governing sharia, calculation methods, and the utilisation of zakat for productive enterprises then institutionalised this paradigm into a formal legal framework (Ayu et al., 2025), which was later refined through specific regulations on the utilisation of zakat for productive enterprises as an instrument for the sustainable handling of people with low incomes.

Institutions such as BAZNAS promote the concept of *istitsmār* zakat funds, namely the development of zakat in the form of investments designed to improve the long-term welfare of mustahik, arguing that the enormous potential of national zakat will only have a significant impact if part of it is managed productively rather than consumed. In the realm of thought, scholars such as Yūsuf al-Qaradawi, through his reading of *maqāṣid al-syarī'ah*, have long emphasised that zakat should not be limited to consumptive schemes because it is valid and even recommended to be used for economic activities that empower the community, as long as the rights of the *asnaf* are not denied.

This paradigm shift has forced zakat institutions to move away from their traditional role as distributors of temporary aid to become economic agents that manage community funds through a social investment approach. On the one hand, zakat institutions remain strictly bound by sharia provisions that zakat is the property of the *mustahik*, not the capital of the institution (Nurizka, Jamil, et al., 2025). On the other hand, they are encouraged to engineer programmes so that the same funds have a multiplier effect on the lives of mustahik.

When zakat is distributed as business capital, means of production, or micro-investment support accompanied by mentoring, recipients' incomes tend to increase, their businesses grow, and their dependence on consumptive assistance decreases. However, these results are not automatic and carry risks. In terms of fiqh, the key debate revolves around two points: the status of zakat ownership and the time limit for *tasyaruf*. Once zakat is collected, it becomes the right of the mustahik; therefore, any delay in delivery and any form of *istitsmār* must be justified as an effort to optimise the mustahik's welfare, not merely to pursue the institution's profits. The MUI fatwa and contemporary fiqh studies agree that the use of zakat for productive businesses can be justified if three main conditions are met: first, the target beneficiaries are clearly eligible recipients; second, the business risks are managed carefully so as not to cause the loss of the principal zakat; third, the management and distribution of benefits are transparent, auditable, and free from elements of usury, *gharar*, and *maisir*.

To understand this productive logic more sharply, the *maqāṣid al-syarī'ah* paradigm offers a fertile theoretical framework. From the *maqāṣid* perspective, zakat is not an end in itself, but rather an instrument for realising the preservation of religion, life, intellect, lineage, and

wealth (*hifz al-dīn, al-nafs, al-'aql, al-nasl, al-māl*) (Karimullah, 2023; Rahmani et al., 2023). Poverty alleviation, the reduction of inequality, and the strengthening of the dignity of the mustahik are direct manifestations of these objectives. Thus, if the productive use of zakat, for example, as business capital, strengthening communal industries, or other social investments, is more effective in realising these maqāṣid than short-term consumptive giving, then normatively it is closer to the spirit of sharia (Bukido et al., 2025; Insani et al., 2024).

Shifting zakat from a consumptive to a productive model can increase the community's ability to escape structural poverty, especially if its utilisation is integrated with capacity building, financial literacy, and extensive socio-economic networks (Rembulan et al., 2025). Here, the productive zakat paradigm resonates with the capability approach developed by Amartya Sen, which emphasises that what is essential is not merely additional income, but the expansion of the capabilities of mustahik to choose the life they value. Productive zakat, when designed appropriately, not only provides a means of earning a living but also expands life options, enabling mustahik to send their children to higher education, reduce dependence on moneylenders, and build stronger business networks. However, it is at this point that the risk of deviation also lurks (Wahyudi et al., 2025).

Once zakat institutions enter the realm of investment, there is a tendency for some managers to be tempted to use the logic of commercial financial institutions that pursue the highest possible returns, borrow loan mechanisms (*qardh*) that come with full repayment obligations, or prioritise the security of institutions' portfolio over the security of beneficiaries' lives. Several models of productive zakat distribution based on *al-qardh al-ḥasan*, for example, are permissible in fiqh as long as there are no additional requirements for the amil. However, in practice, this scheme is prone to becoming a crippling debt, as mustahik who have failed in business are still required to repay the principal, so that zakat, which is supposed to lift them, instead adds to their burden.

Another risk arises when zakat funds are invested in large-scale, complex projects, such as investment partnerships with third parties, where the zakin institution's bargaining position is weak, and its supervisory mechanisms are not yet mature. If the project fails, the mustahik may lose the rights they are entitled to, while the muzakki and the public lose trust. Therefore, the transformation of the productive zakat paradigm requires not only conceptual courage but also institutional discipline, with strict risk governance, a clear separation of zakat, infaq, and other social funds portfolios, and mechanisms to mitigate business failure that do not shift the risk entirely to the mustahik.

Normatively, the line between legitimate investment and deviant speculation in zakat management lies in several key principles, first among them the principle of priority of mustahik rights. Since zakat essentially belongs to the mustahik, every *istismār* scheme must designate the mustahik as the primary beneficiary, whether through business ownership, profit-sharing, or access to productive assets. Zakat institutions only act as temporary administrators, not as owners or parties that accumulate assets on behalf of zakat. Second, the principle of prudence (*iḥtiyāt*) and non-speculation, because zakat funds should not be invested in high-risk instruments, especially those that contain speculative elements with unclear objects and results. Third, the principles of transparency and accountability: the entire process of determining projects, allocating funds, and distributing results must be traceable and auditable by independent authorities, including the Sharia Council and external auditors. Fourth, in the event of business failure, the principles of fairness and protection of the weal must be ensured through institutional design. This design must prevent mustahik from bearing the most significant losses, for example, through internal guarantee schemes or business diversification that reduces individual risk. At this point, the theory of Islamic social justice and *mmaqāṣid* aligns with the modern theory of social protection, because productive zakat should not be a mechanism for transferring risk from institutions to low-income families, but rather a risk buffer that makes them safer to do business with

The experience of several zakat institutions in Indonesia shows that the transition from consumption to production is effective only when it is accompanied by fundamental changes in how they operate. Programmes by BAZNAS, Dompot Dhuafa, and other institutions that develop productive zakat schemes, ranging from micro-business capital to livestock villages to communal agricultural industries, provide an essential lesson: financial capital is only one of many dimensions that determine success. In practice, mustahik businesses supported by zakat capital are likely to falter without intensive assistance, market access, strengthened social networks, and improved business literacy. This is where the theory of social capital and empowerment becomes relevant.

Productive zakat that only distributes capital without building self-efficacy, the ability to organise oneself, and networks to markets and suppliers, runs a high risk of failure or a return to the logic of one-off assistance when the business stalls (Sarif et al., 2024). Conversely, when zakat institutions act as facilitators connecting mustahik with the economic ecosystem, such as cooperatives, *Baitul Maal wat Tamwil*, digital platforms, entrepreneurship training, and business mentors, zakat funds serve as a ticket for mustahik to enter an arena that was previously closed to them. This approach makes zakat institutions not merely distributors of aid, but agents of socio-economic development that orchestrate various resources for the benefit of the mustahik.

From the perspective of empowerment theory, this change in the role of zakat institutions can be interpreted as a shift from a model of power over to power with and power to. As long as zakat is framed as charity, the dominant relationship is one of power over: the muzakki and institutions determine who is eligible to receive, how much is given, and when assistance is discontinued. *Mustahik* are portrayed as passive recipients, either grateful or silent. In a truly productive paradigm, zakat is used to build power within (self-confidence, awareness of rights) and power to (capacity to act) among mustahik, through a process of mentoring, participation in business decision-making, and collective ownership of productive assets. When zakat institutions enter the realm of investment without changing these power relations, they merely change the form of assistance without changing the structure of dependency. Worse still, mustahik can be dragged into pseudo-investment mechanisms in which they are asked to bear the risks but lack meaningful control over the business. Therefore, the new paradigm of authentic, productive zakat must dare to criticise management models that remain paternalistic, even when packaged as empowerment.

When the potential of national zakat is estimated to reach hundreds of trillions of rupiah per year, allowing such a large amount of funds to flow into consumptive schemes is tantamount to wasting one of the most important fiscal-social instruments available to the community. However, making it productive without a mature regulatory, supervisory, and integration framework risks abuse and the loss of public trust (Kurniawan et al., 2025; Rifa'i et al., 2025). The latest regulations on the utilisation of zakat for productive enterprises provide a minimal framework. Still, their implementation requires institutional capacity, namely an *amil* who understands risk management, a progressive yet strict Sharia Council, and a reporting system that is accessible to the public. In this context, the new zakat paradigm should not stop at slogans about moving from consumption to productivity in brochures and annual reports. Still, it must be realised in governance that balances the courage to innovate and the vigilance to safeguard trust.

2. Zakat as an Instrument of Islamic Social Economics in the Urban Ecosystem

Rapid urbanisation has created a large informal working class, including online motorcycle taxi drivers, street vendors, domestic workers, casual labourers, and creative service workers who live on day-to-day income (Khan, 2024). In this configuration, zakat can no longer be understood merely as an individual ritual performed once a year before Eid al-Fitr, but rather as a redistributive institution capable of intervening in structures of injustice in

urban spaces. National law explicitly positions zakat as an instrument for poverty alleviation and welfare improvement, as affirmed in Law No. 23 of 2011 and the BAZNAS report on zakat and poverty alleviation.

Within the framework of Islamic social economics, zakat has a dual function, namely as a mechanism for wealth redistribution and as an instrument of social protection inherent in faith, not merely a technocratic state policy. Contemporary discourse often positions zakat as a form of religious social safety net, referring to both the practices of the *khul'fā' al-rāsyidīn*, such as Umar bKhattab's policy of expanding the scope of zakat recipients and ensuring the continuity of support, and modern institutional experiments in various Muslim countries.

In Indonesia, improving the effective management of zakat can reduce poverty and improve welfare at the provincial level (Herianingrum et al., 2024). It can even minimise inequality when combined with other redistribution instruments, such as infaq, alms, and social assistance. However, in large cities, zakat must confront the reality of poverty, which is not only about income deficiency but also job insecurity, high living costs, spatial marginalisation, and discrimination in access to housing, education, and formal financial services. At this point, the function of zakat as a safety net can no longer be interpreted as simply providing food packages when rice prices rise, because it must transform into a social protection system capable of mitigating short-term shocks while laying the foundation for long-term social mobility.

The configuration of urban poverty has structural characteristics that distinguish it from rural poverty. In cities, low-income families do not have land to cultivate when they lose their jobs because they depend on the informal labour market, which is highly volatile and vulnerable to macro shocks such as pandemics, recessions, or technological disruptions (Karimullah, 2025). The decline of traditional communal solidarity, the rise of individualism, and the high cost of living in urban areas have placed poor households in a situation of permanent uncertainty, as one illness, one work accident, or one eviction can push them deeper into poverty.

The state's social protection system, despite developments in social security schemes, conditional cash assistance, and other assistance cards, is not always able to cover the diversity of informal work and high urban population mobility. It is in this gap that zakat comes in, not as a substitute for the state, but as a layer of protection whose central mediators are religious values, community networks, and social trust, which state-based social protection schemes are challenging to replicate (Hayatullah, Ikhsan, et al., 2025). For poor urban workers who are often not registered administratively, proximity to mosques, *majelis taklim* (Islamic study groups), and local zakat institutions can be the first port of call for accessing assistance when a crisis strikes.

The role of zakat as a social safety net in the urban ecosystem, when viewed dynamically, encompasses both protection and promotion (Mahomed & Saba, 2024). Protection refers to zakat's ability to cushion sudden income shocks, such as cash assistance, food aid, school fees, or rent payments, and to provide emergency interventions during disasters or health crises. Promoting means zakat's ability to encourage social mobility through sustainable scholarships, skills training, and, most discussed in the last decade, productive zakat programmes that direct assistance not only towards consumption but also towards building micro and small businesses. The utilisation of productive zakat in various cities shows that when zakat is directed towards professionally managed business capital, the income of mustahik increases, their companies become more resilient to shocks, and their dependence on regular assistance decreases.

Another dimension often overlooked but crucial to the urban ecosystem is the role of zakat in building social capital. Social capital theory distinguishes among bonding, bridging, and linking social capital. In large cities, bonding social capital still survives in the form of neighbourhood associations, ethnic ties, and religious communities, but bridging and linking

social capital are often imbalanced, as poor groups are trapped in narrow networks of fellow poor people, without sufficient bridges to access employment opportunities, markets, or financial institutions. Zakat institutions, if managed with vision, can serve as brokers of trust, connecting mustahik with a broader economic and institutional ecosystem (Jamaludin et al., 2025). Group-based business assistance programmes, joint training, mustahik cooperatives, and small business networking forums facilitated by zakat institutions simultaneously build confidence, horizontal solidarity, and vertical relationships with market players and local authorities.

A concrete example of the role of zakat in building social capital in urban areas is the urban economic programmes developed by BAZNAS, such as ZMART and ZCHICKEN, which target micro stalls and culinary businesses in various cities. Through the ZMART programme, for example, BAZNAS not only provides capital for product diversification but also assists in renovating and strengthening stall branding, building a more efficient supply chain, providing business assistance, and introducing simple technology for record-keeping and stock management (Muttaqin et al., 2025; Nuriskandar et al., 2025; Parhi et al., 2025). Here, zakat is not just cash, but a ticket for small shop owners to enter a distribution network previously monopolised by modern retailers. Social capital is built when mustahik not only get to know the zakat collectors but also connect through business groups, learn from one another, and jointly negotiate with suppliers or landowners.

Programmes such as this show that in a competitive urban ecosystem, productive zakat can be an instrument of repositioning: from marginalised economic actors to participants with stronger networks and collective identities. However, all this optimism cannot be separated from the fundamental clash between the logic of urban capitalist economics and the Islamic values of social justice that underpin the practice of zakat.

The city is a space where land, water, air, labour, and even leisure time are commodified because everything is measured by exchange value. Financialisation has spread to the household level, from gadget and vehicle instalments and consumer credit to online loans and paylater schemes that target the urban working class, including people with low incomes, who are often the targets of aggressive advertising. In this situation, zakat presents a contradictory logic: it affirms that some wealth does not belong to its formal owner in an absolute sense. Still, it is the social right of the mustahik group, and that redistribution is not a form of voluntary charity but an obligation.

Islamic social justice demands that wealth should not revolve around a small group of people (QS. al-Hasyr: 7), while urban capitalism tends to concentrate assets in the hands of a handful of landowners, developers, and investors who can play in the financial markets. In this context, zakat has the potential to become a counter-hegemonic discourse that disrupts the normality of the neoliberal city, reminding us that inequality is not merely a consequence of the market but a form of structural injustice. However, this counter-hegemonic potential does not automatically materialise.

There is a risk that zakat will be absorbed into the neoliberal agenda as a charitable mechanism that patches up the state's shortcomings and appeases the middle class, without touching the roots of structural injustice. Productive zakat programmes that encourage mustahik to become independent entrepreneurs may, unwittingly, align with the logic of a flexible labour market that leaves all the risks to the individual. At the same time, the wage structure and social security remain unchanged.

At this point, mainstreaming the concept of *maqāṣid al-syarī'ah* and the capability approach becomes important because zakat should not be reduced to a religiously cloaked micro-credit mechanism, but must be assessed in terms of the extent to which it truly expands the capabilities of mustahik to escape the trap of exploitation, have time to educate their children, participate in community life, and participate in determining the direction of the city.

The competition and, at the same time, the opportunities for synergy between zakat institutions and microfinance and fintech institutions are another chapter in this story. In the last decade, Indonesia has witnessed an explosion of Islamic microfinance institutions, such as Baitul Maal wat Tamwil, sharia cooperatives, Sharia People's Economy Banks, and the rise of fintech, including sharia fintech targeting the MSME segment and informal workers in cities. Both contribute positively to financial inclusion and poverty reduction, but also face serious challenges related to cost structures, default risks, financial literacy, and the potential for abuse and consumer disputes.

Unlike microcredit and fintech, which are based on the logic of repayable loans, zakat is essentially a mandatory grant that cannot be repaid to the *muzakki*. In the urban ecosystem, *mustahik* who need small-business capital are often at a crossroads: they can apply for productive zakat assistance, which is relatively complicated and selective, or take out quick loans from fintech, which are very easy but costly. Here, zakat institutions and financial institutions compete for the trust and preferences of the urban poor.

Zakat institutions that remain stuck in conventional patterns, such as long queues, manual procedures, and a lack of assistance, will lose out to the speed and convenience of fintech, which only requires a mobile phone and ID card (Uddin & Sultana, 2022). Digital transformation in zakat management, from collection to distribution, is a prerequisite for zakat institutions to remain relevant to the urban generation living in an app ecosystem. Several institutions have developed digital platforms for zakat payments, *mustahik* mapping, and impact reporting (Bashori et al., 2024; Faizin et al., 2024). Still, a more radical transformation is needed on the distribution side, such as integrating *mustahik* data with digital identity systems, monitoring business development through applications, and collaborating with marketplaces or logistics platforms to market *mustahik* products.

In an ideal scenario, zakat institutions would not only compete with fintech but also utilise the same digital infrastructure for different purposes, not to maximise profit but to maximise benefits and fairness in distribution. However, adopting modern technologies and financial approaches without ethical reflection can lead zakat institutions astray from their mission (Khoirunnisa, 2025). When success indicators are narrowed down to the number of business partners, turnover, and return on investment, zakat institutions may be tempted to imitate the logic of banks or fintech by selecting the most bankable *mustahik*, minimising portfolio risk, and subtly avoiding the most vulnerable and unprofitable groups. This is where creative institutional design is needed, for example, through social blended finance schemes, such as placing zakat funds as a risk buffer layer that allows microfinance institutions and sharia fintech to channel financing to high-risk groups without increasing costs for them. As part of the urban ecosystem, zakat must also be read in relation to state social policies and global development agendas such as the Sustainable Development Goals (SDGs). Zakat, Infaq, and Sedekah (ZIS) in Indonesia are increasingly positioned within the framework of achieving the SDGs, particularly the goals of poverty eradication, reducing inequality, and promoting decent work.

Zakat institutions are formally recognised by the government as partners in poverty alleviation, with a mandate to strengthen social protection networks outside state/regional budgets. However, in practice, this synergy has not always been systematically realised in cities. Government poverty databases are not always up to date and do not fully capture the dynamics of informal workers, while zakat institutions' data on *mustahik* (recipients) is sometimes fragmented and not integrated. On the other hand, when zakat institutions collaborate with local governments on community empowerment programmes, including those targeting female heads of households, the impact on household economic resilience and social cohesion can be significant. This shows that zakat in the urban ecosystem should not stand alone but be positioned within a mosaic of non-state policies and initiatives that, together, challenge the structures of urban injustice.

3. Accountability and Effectiveness of Zakat Institutions in Social Transformation

The accountability and effectiveness of zakat institutions in Indonesia's social transformation have become an increasingly urgent issue as the gap between potential and actualisation widens. The potential of zakat in Indonesia is estimated at US\$18–25 billion per year, or more than 300 trillion rupiah. However, actual collection is still below 5 per cent of that figure, and most zakat is still managed informally outside the balance sheets of official institutions. This striking gap cannot be explained solely by low zakat literacy, but also by issues of public trust in zakat management organisations (OPZ), both BAZNAS and LAZ, particularly regarding the accountability of fund management and the transparency of programme impact, including productive zakat programmes.

In the context of productive zakat, public trust becomes even more crucial because zakat institutions no longer distribute consumptive aid that is clearly finite, but manage funds to be invested in the economic activities of *mustahik* (Juhro et al., 2025). In terms of fiqh, the MUI fatwa has opened up considerable scope for the productive use of zakat, including through investment and *al-qardh al-ḥasan* schemes, as long as the rights of the *mustahik* are guaranteed and management follows the principle of prudence and does not enter into speculative territory. However, from the perspective of the *muzakki* (zakat payer), the more complex the zakat management scheme, the greater the demand for transparency, such as where the funds are invested, who receives them, how risks are managed, and to what extent the *mustahik* truly obtains sustainable benefits, rather than becoming objects of economic experimentation. It is at this point that accountability is not merely understood as administrative compliance with financial reporting standards, but as the ability of zakat institutions to convincingly explain the moral, sharia, and social logic behind every decision regarding productive zakat management.

Various initiatives have been undertaken to strengthen the accountability and governance of zakat institutions. BAZNAS, for example, publishes the National Zakat Report and conducts an annual Zakat Impact Assessment survey that measures the impact of programmes on the welfare of *mustahik* using several poverty standards and the BAZNAS Welfare Index instrument (Perdana et al., 2024). Recent results even show that hundreds of thousands of people have been lifted out of poverty or extreme poverty through zakat programmes, including productive zakat, which increases the income and economic resilience of *mustahik* households. On the other hand, the accountability and transparency of OPZ reveal a significant gap between ideal practice and reality, including uneven website-based reporting, inconsistent implementation of specific zakat accounting standards, and public information that is often more promotional than critical.

Normatively, the measure of productizakat's success is often reduced to technical indicators, such as the amount of funds distributed, the number of beneficiaries, and the percentage of *mustahik* who have risen above the poverty line or even become *muzakki*. These indicators are essential, but they become problematic when not accompanied by a deeper understanding of the process and quality of change. Zakat can improve the material, spiritual, educational, health, and independence dimensions of the *mustahik* before and after receiving assistance. However, index figures still cannot fully capture how power relations within families change, how *Mustahik's* self-confidence grows, or how they participate in the community after receiving productive zakat interventions.

This is where an evaluation paradigm that integrates three dimensions simultaneously is needed, such as spiritual, economic, and social, not just as separate lists, but as a single entity that influences each other. From the spiritual dimension, the measure of the success of productive zakat does not stop at increasing *muzakki's* compliance in fulfilling their obligations, but also at transforming the collective consciousness to recognise that wealth has an inherent social dimension.

Zakat managed in an accountable and impactful manner will strengthen the muzakki's trust that their religious obligations truly change the fate of others, rather than merely transferring funds from personal to institutional accounts, thereby increasing the continuity and quality of zakat payments (Munir, 2021). At the same time, for mustahik, productive zakat designed with an empowerment approach can restore their spiritual dignity, as they no longer feel like mere recipients of charity, but partners in a religiously valuable social justice project. This spiritual measure is indeed difficult to quantify. Still, it can be indicated through changes mustahik's perceptions of themselves and their future, their involvement in religious and social activities, and a decrease in feelings of shame or stigma as poor people living on aid.

From an economic dimension, the most commonly used measures of success are an increase in household income, diversification of income sources, an increase in productive assets, and the mobility of beneficiaries from the category of extreme poverty to poverty, or from poverty to non-poverty, based on the official poverty line and internal criteria of zakat institutions such as had *kifayah* or the National Zakat Index. However, if zakat is to become a catalyst for social transformation, truly, economic indicators must be developed beyond static before-and-after comparisons. Evaluations need to assess whether zakat-supported productive enterprises are sufficiently resilient to economic shocks, whether beneficiaries have sustainable access to formal markets and financial institutions, and whether they can accumulate savings or assets that enable long-term investments, such as children's education and housing.

Productive zakat that only increases turnover without strengthening the bargaining position of mustahik in the local economic structure risks creating a false sense of success that can easily collapse in the event of a health crisis, disaster, or policy change. Meanwhile, from a social perspective, the measure of productive zakat success should include strengthening social networks, increased community participation, and changes in power relations at both the family and community levels.

Effective zakat programmes not only increase individuals' ability to strive, but also build social capital through joint business groups, cooperatives, learning communities, and mustahik deliberative forums (Abd Rashid et al., 2018; Muthohar, 2017). Transparency, stakeholder involvement, and cross-sector cooperation are prerequisites for zakat to strengthen social cohesion rather than merely reduce poverty figures on paper. From this perspective, the success of productive zakat can be indicated by a decrease in social conflict due to economic inequality in specific environments, increased participation of mustahik in community organisations, and increased dialogue between poor groups and local policy makers, some of which may be facilitated by zakat institutions.

The accountability of zakat institutions is the link that connects all these evaluation dimensions. Without accountability, spiritual claims of sincerity and justice will ring hollow, because figures on income growth are easily questioned. Without accountability, narratives of community strengthening risk being mere rhetoric. Accountability here includes financial dimensions (independent audits, periodic reporting, zakat accounting standards), programmatic dimensions (transparent monitoring and impact evaluation), and participatory dimensions (space for mustahik and muzakki to file complaints, provide input, and participate in planning).

The accountability and effectiveness of zakat institutions are not merely a matter of reporting and auditing mechanisms, but are an ethical, theological, and political battleground regarding the very meaning of zakat in a changing society (Hayatullah, Rohman, et al., 2025). Productive zakat will only become an instrument of social transformation if it is managed by institutions that can maintain a difficult balance between economic innovation and sharia compliance, between statistical performance and moral integrity, and between branding demands and commitment to structural change.

D. Conclusion

Productive zakat in Indonesia is at a critical juncture between the idealism of Islamic social justice and the reality of philanthropic practices that are often drawn into the logic of the market, bureaucracy, and religious image-building. The transformation from consumptive zakat to productive zakat has indeed marked a paradigm shift. Still, it has not yet entirely shifted the structural inequality that keeps urban low-income families trapped in a cycle of vulnerability. In this context, productive zakat is not enough to talk about empowerment in the sense of microeconomics, because it must dare to challenge the socio-economic system that makes poverty a logical consequence of capitalist urban development. In other words, the success of productive zakat is not measured by how many *mustahik* (recipients) have risen in economic class, but by the extent to which it challenges the system that keeps thousands of other people trapped as new *mustahik* every year.

The future of zakat as an instrument of social transformation depends on moral courage, epistemic discipline, and institutional integrity. Zakat institutions must dare to break free from the trap of administrative and performance-reporting logic and move towards a culture of reflective accountability, which not only counts the money distributed but also assesses its spiritual, social, and political impact on the structure of society. Productive zakat, when managed with critical awareness, can become a medium for the moral reconstruction of the city's economy by uniting faith with the structures of social justice. However, suppose it remains trapped as a financial ritual that polishes the face of capitalism with a religious touch. In that case, zakat will lose its prophetic spirit, which should shake, not calm, the social status quo in Indonesia.

E. Acknowledgments

The authors gratefully acknowledge the Editor and anonymous reviewers for their rigorous evaluation and incisive, constructive feedback, which substantially improved the clarity, coherence, and scholarly contribution of this manuscript. Any remaining shortcomings are solely the authors' responsibility.

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