

PRODUCTIVE ZAKAT: A ROBUST MODEL FOR THE ECONOMIC WELFARE OF MUSTAHIQ

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Abstract: *The principal aim of this article is to scrutinise the efficacy of productive zakat within the context of zakat institutions in supporting startups and entrepreneur mustahiq. A mixed-methods approach combining qualitative and quantitative data, relying on library research, was employed to achieve the study's main objectives. The significant findings reveal that not only is there no profound rejection of zakat disbursement in the form of investment from the period of the Prophet (saw) and jurisprudence, but also there exists motivation and a clear guideline for contemporary scholars to expand the concept of zakat investment based on the current needs of Muslim societies. Furthermore, some success stories of zakat institutions from the literature revealed that zakat management has been transformed to enable more effective collection and distribution, thereby decreasing poverty and encouraging the poor to be involved in the production process and to gain income for themselves. In the meantime, several challenges identified in the existing literature indicate the need for further improvement. Notably, one of the main challenges lies in the limited consideration and practical application of productive Zakat within international contexts. Subsequently, the study offers valuable recommendations for enhancing zakat institutions' policies on productive zakat distribution. It serves as a foundation for future research, illuminating avenues for further exploration of this subject.*

Keywords: *Zakat Distribution, Zakat Investment, Asnaf Welfare, Startups, Zakat Institution Policies*

Introduction

Poverty and Inequality are still the most significant challenges of the present modern world. Despite several decades of continuous efforts to reduce global poverty and income inequality, which actually helped the extreme poverty fall from about 36% in 1990 to 9.2% in 2022 (Tamburini, 2024; World Bank, 2023) The world is still the home of 1.1 billion poor out of 6.1 billion living in developing countries (Univerty of Oxford, 2023), in which 700 million (9.2%) live in extreme poverty, defined as living on less than 1.9 US Dollars per day. In addition to those living in extreme poverty, about 26% of the global population, or about 1.3 billion people, live in moderate poverty, which is defined as living on between \$1.90 and \$3.20 per day (Tamburini, 2024). Approximately 40% of the mentioned poor population belongs to Muslim countries despite having a strong spiritual fabric in terms of sharing welfare. As the Islamic world has left a good example of fair distribution of wealth in practice. During the reign of Umar bin Al-Khattab, when the Yemen governor sent all the Zakat collection to Umar because they couldn't find anyone in need of the Zakat funds. The same scenario was repeated in the reign of Umar Ibn Abdul Aziz, as no one was willing to take Zakat, which indicates a period with zero poverty (Farah Aida, AbdRahman, & Omar, 2017). Vis-à-vis this scenario, researchers argue that since 1990, the Muslim societies have witnessed the most significant increase in income inequality compared to all other religious groups (Navarro & Skirbekk, 2018). All signs of underdevelopment, including high population growth, low productivity, an acute scarcity of skills development programs, low level of resource utilisation, low per capita income, and poor institutional and physical infrastructure, are present in most Muslim countries (Anwar, 1995). Hence, the substantial rise in poverty, high rates of unemployment, and the notable surge in inequality prompt us to contemplate the elements missing from the overall solution. It is acknowledged that one key missing component is the lack of adequate, high-quality institutions and the failure to integrate Islamic principles to address these issues effectively. For example, there is a deficiency in implementing policies that align with the contemporary needs of Islamic societies, particularly in accommodating a comprehensive Zakat system, and an apparent lack of governmental commitment to incorporate such systems or support charitable organisations. This deficiency is evident in several Islamic countries that lack a formal, systematic Zakat collection and distribution infrastructure, potentially contributing to increased poverty and the persistence of inequality.

Zakat, an integral component of Islamic social finance, plays a crucial role in fostering socioeconomic progress and ensuring social security and welfare (Bilo & Machado, 2020; Mawardi et al., 2023). Today, Zakat management by government and institutions shows a positive result not only in alleviating poverty but also in cooperating with the economic growth and overall socioeconomic development process in many Muslim countries (Ali & Khakwani, 2019; Aziz et al., 2020; Hoseini & Ansari, 2017; Mian & Afzal, 2014; Choiriyah et al., 2020; Pratama, 2023; Sari et al., 2019; Suprayitno, 2020; Suprayitno, 2019; Sulaeman et al., 2021; Beik & Arsyianti, 2016). Particularly, countries like Indonesia and Malaysia have been relatively successful in reducing the percentage of poor people significantly by accommodating the Zakat system (Mesawa & Rana, 2021).

On the other hand, the expectation from the Zakat system today is to respond to the current needs of Muslim societies, which is beyond what has been recognised as a proper mechanism for addressing poverty in the past. Because the poverty definition and its dimensions in the present world are comprehensive and complex, the current needs of contemporary Islamic

societies require the Zakat system to be prioritised in government fiscal policies and to be directed towards economic development rather than providing only short-term relief to its recipients. Therefore, many Islamic economists and writers propose that, to manage Zakat funds for long-term poverty alleviation and economic development, it's better to invest them in productive activities, finance startups, and support Mustahiq entrepreneurs. Today, there can be seen several successful examples of Zakat institutions, investing Zakat funds in profitable activities for the purpose of increasing Mustahiq's economic welfare and poverty alleviation. The primary objectives of this study revolve around evaluating the effectiveness of existing policies in enhancing the well-being of Zakat recipients, particularly Mustahiq entrepreneurs and startups. It also aims to identify the applicability of Zakat investments in socio-economic projects in accordance with Sharia principles, review successful case studies, and highlight the main challenges associated with productive-based Zakat. Furthermore, institutions that provide productive Zakat to Mustahiq entrepreneurs and startups will be comprehensively and critically examined to offer valuable insights and guidance for policy reform among practitioners and relevant stakeholders.

This paper is significant as it raises several important issues related to productive Zakat. It includes four sections: First, background information about the perspective topic and the need for study is discussed in the Introduction. Second, previous studies in this context are reviewed. Third, the conceptual framework for this study is defined, and in the fourth section, a discussion and conclusion of the findings are provided.

Literature Review

Zakat Investment From The Time Of Classical Jurists

When there is a dispute on investment of Zakat, issues of their legality from the Sharia perspective arise as a serious concern. All in all, Zakat investment as a standalone issue of Fiqh cannot be found in the time of the Prophet and the classical jurists. However, instances indicate that Zakat investment has occurred throughout Islamic history, dating back to the time of the Prophet (Ahmad, 2012). The doctrines that permit Zakat funds to be invested in projects are analogised from two hadiths; in the first, narrated by Anas, a group of people from Urayna arrived in Medina in poor condition due to sickness. The Prophet (pbuh) invited them to drink from the camel's milk paid as Zakat [1]. The hadith shows that Zakat can be given to the recipients not only in its asset form but also in its benefits or usufructs (in this case, the camel's milk). Rearing the camels for their benefits, or, in other words, withholding the assets from consumption, is a kind of investment in the sense that the assets are utilised to produce future benefits. In the second Hadith, the Prophet, when asked by Qubaysa for Zakat to repay the amount of money that he had spent to settle a dispute, said, "Asking for Zakat is not allowed except for three persons. A person who lent his money to settle a dispute ..., a person who is in need and can be given Zakat till he is enriched" (Ahmad, 2012). This Hadith among the Shafis became the basis for allowing the payment of Zakat not only to fulfil the recipients' consumption needs but also to provide them with tools or assets that enable them to participate in the economy and earn their own living. Additionally, to the question "what should be done with the idle money of Zakat?" Anwar (1995) cited the Hadith of the Prophet (pbuh) on the idle money of orphans, urging them to invest the wealth in profitable ventures to prevent its gradual erosion due to Zakat. Anwar further argues that investing orphans' idle private wealth in profitable projects is encouraged; therefore, the Zakat fund, as public property, has a similar

status to the orphans' wealth. Therefore, from the Shariah perspective, there is no objection to channelling the Zakat fund into profitable ventures, mainly when the public funds are utilised for the welfare of the public. Thus, the type of Zakat investment, whereby Zakat is used to buy tools and machinery which can assist the recipients in earning a better income, has been recognised since the early period of Islam and has been accepted as a *modus operandi* in the distribution of Zakat by the classical jurists, especially by the Shafis. Because Shafi'i scholars do not oppose utilizing Zakat funds for productive endeavors, and they have not stipulated any fixed limit on such disbursements (Sarif et al., 2024). Aside from this allowance, it has also been accepted by the classical jurists that the recipients of Zakat, as complete owners of Zakat, have the right to utilise the funds that they received as they wish. Thus, Zakat investment by the recipients is made possible by disbursing an amount of Zakat that exceed the recipients' consumption needs or by the provision of facilities and tools for the recipients to work with, and this has always been allowed by the classical jurists. Taking Hanafi's perspective into consideration, that suggests the poor may receive only a small amount (no more than Nisab) to alleviate their immediate needs temporarily. However, this viewpoint may not fully address the need for substantial funds to help the poor establish sustainable sources of income through productive Zakat. Since significant financial resources are often required to support initiatives aimed at empowering the poor and enabling them to generate long-term income, providing only small amounts may not be sufficient to achieve this goal effectively. Therefore, while Hanafi's opinion acknowledges the immediate necessities of the poor, it may fall short in facilitating comprehensive and sustainable solutions to poverty alleviation (Sarif et al., 2024). In contrast to the Hanafi school of thought, as mentioned by Sarif et al. (2024), regarding the amount of Zakat disbursement to the beneficiaries, Al-Nawawi argued that those who have lost their jobs or businesses should be cooperated and said:

“A craftsman would be offered an adequate amount to acquire tools and equipment that enable him to work and earn his sustenance. This surely varies according to time, place, and a person's capabilities. Our colleagues give examples that a vegetable seller might be given five or ten dirhams, while a jeweller might be given ten thousand dirhams”

Consequently, classical scholars are considered the primary references for modern scholars who developed the concept of productive Zakat in the present contemporary era of Islamic economics. The Hanafi school of thought also do not entirely reject the idea of spending Zakat funds for income generation. They only declared the “Nisab” that the needy should not be given Zakat more than Nisab, and their primary concern about poverty alleviation is about the sufficient amount that is needed for a long time for Mustahiq to be free from poverty. Therefore, looking at their overall opinions, there is no objection from any classical jurist to Zakat being used for productive purposes. However, a notable gap identified in the literature of classic jurists is the absence of consensus on utilising Zakat funds to provide training for Zakat recipients. Classical scholars have not explicitly addressed this matter, leaving it relatively unexplored. It is foreseeable that Hanafi scholars may disapprove of such a provision, deeming it an intangible disbursement.

The Contemporary Approach Of Zakat Disbursement In The Form Of Investment

Zakat investment is defined as the utilisation of *Zakat* funds to enhance the future welfare of *Zakat* recipients, or any transactions that involve *Zakat*, nurturing it and benefiting those entitled to receive it. In Arabic, this concept is known as "*Istithmar Al-Zakat*" (Mushkalamzai, 2022).

Zakat investment in its current form is a modern phenomenon that emerged in the late 1930s, primarily spurred by the advancement of contemporary Islamic economics in the early 20th century. It gained significant momentum in the 1970s and 1980s. During this period, Islamic economic theories reached their pinnacle, with extensive debates on the potential of *Zakat* and its practical implementation gaining prominence. Many Muslim scholars became convinced that *Zakat* could serve as a primary source of revenue for an Islamic state. It is perceived and demonstrated to foster economic justice, establish a social security system, eradicate poverty and dependency, empower the impoverished towards self-sufficiency, and enhance overall wealth and well-being within society. Concurrently, the notion of investing *Zakat* funds garnered interest among Muslim economists, prompting concerns about their legality from a *Sharia* perspective, given the sanctity of *Zakat* as a religious obligation. Therefore, numerous forums and discussions were convened, attended by renowned Muslim scholars, to address issues concerning *Zakat* investment. As an outcome of these discussions, several resolutions or *Fatwas* were issued in the mid- and late 1980s and in the 1990s. The early and important *Fatwas* that allowed investment of *Zakat* are issued by: the Board of the Islamic *Fiqh* Academy in its third convention held in Amman, Jordan, in October 1986, The Board of *Fatwa* of the Ministry of *Awqaf* of Kuwait, The *Sharia* Committee of the *Bayt al-Zakat* of Kuwait, and *Majma-e- al-Fiqh al-Islami* in 1998 (Ahmad, 2012).

Concerning *Zakat* investment, numerous studies have surfaced exploring its potential and advantages in alleviating poverty, fostering the development of Muslim communities, and proposing that well-executed *Zakat* initiatives empower beneficiaries with sustainable socioeconomic resilience in the long run (Beik & Arsyianti, 2016). Among the initial studies found, which delved into the detailed utilisation of *Zakat* as a means of investment for the socioeconomic advancement of Muslims, was a paper presented during the first Regional Conference of Muslims from Southeast Asia and the Far East held in Kuala Lumpur in 1964. In this paper titled "A Socio-Economic Power for the Development and Progress of the Muslim Community," the emphasis was placed on *Zakat* being a significant socioeconomic element within the Muslim community, advocating for its allocation towards productive ventures rather than solely disbursing it as individual, minimal financial aid. Hence, directing *Zakat* funds toward enduring investments is deemed essential to accelerate development in Muslim nations. Considering the widespread issue of low per capita income and productivity in numerous Muslim countries, *Zakat* stands poised to emerge as a fresh reservoir of funding to fuel economic growth (Anwar, 1995). In this regard, Qardawi (2000) Proposed that the government should be permitted to establish manufacturing firms, buildings, and business ventures funded through *Zakat*, which could be partially or wholly owned by the poor. Similarly, Mannan (1988) argued that while continuous aid is crucial for meeting the basic needs of the poor and needy, particularly those who remain capable of productivity, it may inadvertently create a social security dilemma in which recipients lack the motivation to work. Therefore, for those who can work, Muslim economists advocate that *Zakat* provide capital, alongside physical

infrastructure and institutional support, to enable capable individuals to engage in the labour market and earn their own income. They suggest that tailored programs should be devised to provide educational and skill development assistance to the poor, enhancing their capacity to generate income independently of *Zakat* in the future (Ahmed, 2004).

The contemporary theoretical framework of *Zakat* emphasises its transformative potential beyond immediate relief. It encourages the utilisation of *Zakat* funds for projects and initiatives that empower individuals and communities to break the cycle of poverty (Auda, 2018; Mawardi et al., 2023). Therefore, the majority of scholars propose *Zakat* investment for the long-term benefits of the recipient, both economically and socially and with the ultimate aim of making them financially independent (Gafoordeen et al., 2016). In contrast to classical jurisprudence, contemporary scholars believe that intangible disbursements to the poor are also permissible. Many scholars have suggested that *Zakat* funds can be used to pay training and education fees to improve recipient skills and their productive capabilities (Gafoordeen et al., 2016; Sarif et al., 2024). As believed by Sadeq (1996) in order for *Mustahiq* to become independent of *Zakat* in the future, a specific program should be designed to provide them support for education and skill development that may enhance their ability to earn their own income. The author suggested that *Zakat* should also be spent to provide physical capital for the *Mustahiq* (e.g., a sewing machine, a taxi, etc.) and financial capital to potential entrepreneurs among the poor recipients, enabling them to start a business. As investments in education, skills development, and income-generating activities can lead to long-term improvements in the socio-economic conditions of the recipients and overall society (Auda, 2018; Zazli, 1998).

Consequently, in line with contemporary interpretations of *Zakat* and the latest perspectives of Islamic scholars, it is concluded that *Zakat* serves a dual role. Firstly, it sustains impoverished individuals and meets their basic necessities. Secondly, *Zakat* can function as a tool for productive, enduring investments. Through productive *Zakat*, *Mustahiq* has the opportunity to escape from the poverty cycle, gain more income, and fulfil their basic needs.

Applicability Of Zakat Investment According To Contemporary Muslim Scholars

Given the significant growth and intricacy of economic endeavours and business transactions in today's modern world, understanding the validity and applicability of *Zakat* investment in projects approved by contemporary Islamic scholars in the light of *Sharia* law is crucial. All in all, transactions and dealings within investment activities should strictly adhere to Islamic law. Investment in prohibited goods, or involving the prohibitive elements similar to interest (*Riba*), gambling (*Maysir*) and uncertainty (*Gharar*) must be avoided (Gafoordeen et al., 2016). Therefore, a review of literature exposes the applicability or non-applicability of *Zakat* investment in the subsequent situations, as provided in the following table (1).

Table 1: Different Scenarios of Applicability of Zakat Investment

Scenario	Applicability	Justification	Sources
Microfinance Projects	Applicable	If the project is designed to offer interest-free loans to needy entrepreneurs, to eventually transfer business ownership to them, and the immediate needs of recipients are already met.	(Zakariyah et al., 2021)
Educational Scholarships	Applicable	When scholarships or educational programs are established to benefit <i>Zakat</i> recipients directly, with the long-term goal of empowering them, and after addressing their immediate necessities.	(Anwar, 1995) & (Sadeq, 1996)
Healthcare Facilities	Applicable	If healthcare services are provided for the poor and needy, and these facilities are intended to become self-sustaining or expand their services through investment, without neglecting immediate healthcare needs.	(Sadeq, 1996) & (Ahmed, 2004)
Agricultural Development	Applicable	When investments in agricultural projects aim to provide employment and food security to the needy, with a structure in place that eventually grants them stake or ownership in the project, after their urgent needs are addressed.	(Anwar, 1995)
Real Estate or Property Investments	Conditionally Applicable	The direct benefits to <i>Mustahiqs</i> are crucial in this regard, such as providing housing or generating rental income as a sustainable financial resource. This is to ensure they align with the goals of <i>Zakat</i> and the welfare of <i>Mustahiqs</i> . If the investment in real estate or properties not directly benefiting <i>Zakat</i> recipients or is not intended for their eventual ownership, especially if the immediate needs of the eligible are not yet met, such investment should be avoided.	(Ahmad, 2012)
High-risk Investments	Not Applicable	Investments with a high risk of loss, which could jeopardize the principal amount of <i>Zakat</i> funds, thus failing to secure the necessary safeguards against loss.	Majma al-Fiqh al-Islami cited in (Ahmad, 2012) pp.22-23
Long-term Infrastructure Projects	Conditionally Applicable	Only applicable if these projects directly benefit the <i>Zakat</i> recipients in the long term, their immediate needs are already fulfilled, and there are guarantees to mitigate risks.	(Qardawi, 2000) & (Anwar, 1995)

Stock Market Investments	Not Applicable	Due to the high volatility and risk of loss, unless there's a secure, <i>Sharia</i> -compliant strategy that ensures no loss to the principal <i>Zakat</i> amount and immediate needs are already covered.	(Anwar, 1995)
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Source: Author's Work

Some Success Stories Of Zakat Investment

More recent studies reveal that productive *Zakat* positively impact the *Mustahiq's* economic situation, and there exists a positive relationship between effective *Zakat* empowerment programs and *Mustahiq's* welfare (Mawardi et al., 2023). In this regard, a valuable contribution is made by Nurzaman (2015), proven that productivity-based *Zakat* has a significantly positive impact on the *Mustahiq's* financial self-sufficiency. There are several success stories of productive *Zakat* in different parts of Muslim countries. In Bangladesh, the private *Zakat* institutions have different development programs through which they distribute *Zakat* funds (Ali et al., 2019). They use the funds for scholarships for underprivileged students, women's empowerment training, housing for those in need, providing rickshaws to unemployed youth, and supporting widows' rehabilitation (Jahangir & Bulut, 2022). The Centre for *Zakat* Management (CZM), which was established as an independent *Zakat* collection centre in Bangladesh in 2008, is actively engaged in various development programs, including initiatives like *Zakat*-based livelihood programs, micro-enterprise development, technical training and employment for unemployed youths, scholarships for undergraduate students, and support for women and children's welfare (Miah, 2021). One prominent example is the implementation of a sustainable livelihood program in the village of Mohora, Chittagong district, Bangladesh. The village's residents, primarily fishermen and bamboo craftsmen, benefited from this program. It involved an investment in 450 poor families, including non-Muslims. In this project, 30 individuals were grouped into about 15 collectives, with a capital investment of 600,000 Bangladeshi Taka (BDT), providing each family with around 20,000 BDT. As a result, families that used to earn about 7,000 BDT have seen their income increase to a total of 13,000 BDT, significantly improving their financial well-being (Uddin, 2016).

In Malaysia, one of the crucial forms of *Zakat* distribution is the productive *Zakat* that has started since 1980 (Ismail & Hussain, 2017). *Zakat* institutions in the country actively engage in various community empowerment initiatives focused on business development programs that improve *Mustahiqs'* economic welfare through *Zakat* distribution (Pamuncak et al., 2021; Purwatiningsih & Yahya, 2020). This form of *Zakat* is used to finance the Micro, Small, and Medium Enterprises (MSMEs), startups, and businesses (Pamuncak et al., 2021; Purwatiningsih & Yahya, 2020), in the form of business capital assistance, business tools assistance, business financing, working salaries, human development programs and particularly their economic development programs consisting of equipment, machinery, and technology. Also, assistance and programs involving short-term courses, trainings, as well as mentoring to enhance *Asnaf* skills and productivity and provide their other business-related needs (Ismail & Hussain, 2017; Bahari & Doktoralina, 2019). Some of the *Zakat* centres have developed a strategy for marketing to sell *Asnaf* products by providing a site or place of business and entrepreneurs who would easily sell *Asnaf* products and services (Bahari & Doktoralina, 2019).

Indonesian *Zakat* institutions place significant emphasis on using *Zakat* to address poverty through productive initiatives, as outlined in Law No. 23 of 2011. The National Board of *Zakat* for the Republic of Indonesia (BAZNAS) identifies two types of beneficiaries —productive and unproductive *Mustahiq*, and tailors support them accordingly. Unproductive *Mustahiq*, such as the elderly, disabled, widows, and orphans, receive assistance for basic survival needs. At the same time, productive *Mustahiq* are empowered to enhance their capacity and abilities, with a focus on various business sectors. Therefore, BAZNAS implements programs such as *Zakat Community Development (ZCD)* to empower disadvantaged communities, and it established the *Mustahiq Economic Empowerment Institute* to enhance the quality of life through agricultural and economic empowerment initiatives. This approach has successfully transformed *Mustahiq* into *Mozaki* (Herianingrum et al., 2023). In this regard, one of ZCD's successful initiatives is the *Bone Buntu Sisong Village* project in *Tanah Toraja*. This program was designed to support coffee farmers, increasing their sales and market share. As part of the empowerment program, efforts were made to attract foreign tourists by developing a coffee tourism area known as *Tondok Lemo*. The program yielded positive results, with farmers experiencing an increase in income of Rp. 7,000 per kilogram of coffee sold. Moreover, it contributed to enhancing the spiritual well-being and overall quality of life for the farmers involved (BAZNAS, 2019). Alongside the ZCD program, BAZNAS established the *Mustahiq Economic Empowerment Institute (LPEM)* to enhance the quality of life of those in need through empowerment initiatives across various sectors, including agriculture, animal husbandry, fisheries, marine activities, plantations, and forestry. The establishment of LPEM has demonstrated its capacity to uplift *Mustahiq* individuals, transforming them into *Mozaki* (Rizkiningsih et al., 2019). A recent study evaluated the efficacy of the Indonesian *Zakat Initiative (IZI)* program in North Sumatra on beneficiaries' welfare. The results indicate that out of six beneficiaries, five claimed to have become self-reliant; however, one informant is still not self-reliant while practising the IZI program (Husna & Siregar, 2023).

Consequently, the literature review reveals a considerable lack of widespread implementation of productivity-oriented *Zakat* management policies within *Zakat* institutions around the world. To shed light on this issue, we found it necessary to conduct a bibliographic analysis, the details of which are presented in the following section.

Challenges in *Zakat* Investment

The Neglected Potential Of Productive *Zakat* Internationally

The concept of *Zakat* Investment, or Productive *Zakat*, has not been adequately explored by international researchers. This has led to a bibliometric analysis conducted by this study. A sample of articles on *Zakat* investment and Productive *Zakat* was selected from Scopus. The findings show that only 1298 articles have been written about *Zakat*, of which 21 are about Productive *Zakat* and only 3 are about *Zakat* investment.

The total articles written about *Zakat* shows that the words *Zakat*, *Zakah*, and *Zakät* occurred (377, 6, 12) times respectively. However, the word *Zakat*, with a total link strength of 665, has the strongest appearance among other keywords.

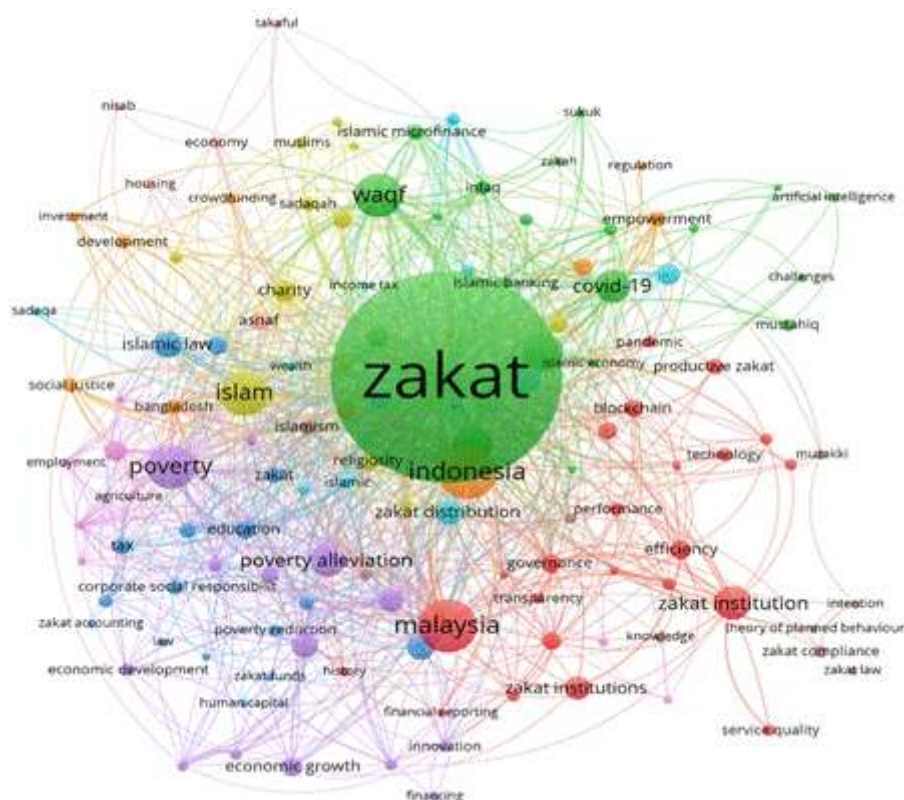


Figure 1: Bibliometric Overview On Zakat

Source: Data retrieved from Scopus

The number of research articles on zakat in Scopus is promising; however, the main issue is the scarcity of research on Productive Zakat. The keyword “Productive Zakat” occurs in a total of 22 articles, with 12 occurrences and 50 total links of strength.

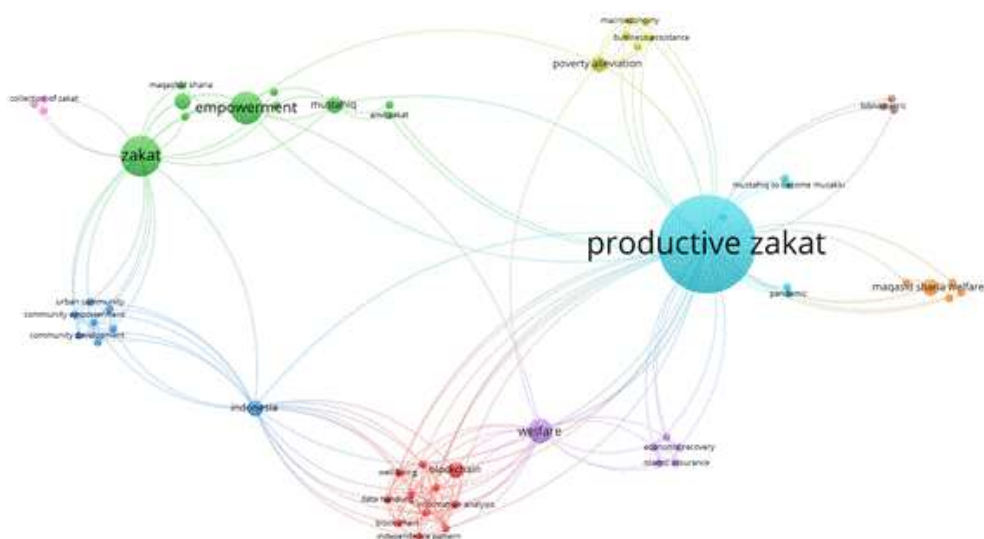


Figure 2: Bibliometric Analysis On Productive Zakat

Source: Data retrieved from Scopus

Greater concern lies in the number of articles written about Investment of Zakat; the data analysis found only three articles with three occurrences and a total link strength of 14.

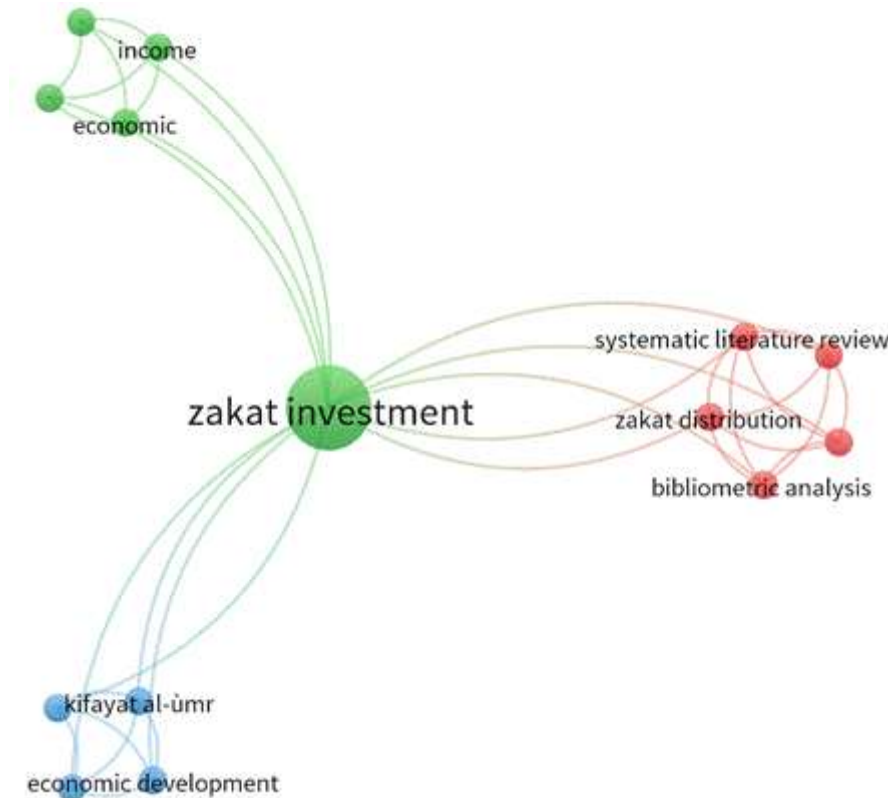


Figure 3: Bibliometric Analysis On Zakat Investment

Source: Data retrieved from Scopus

All these analyses clearly demonstrate that the concept of *Zakat* investment, or productive *Zakat*, has not garnered sufficient attention among scholars at the international level. This represents a significant gap in the discourse that deserves to be addressed within the framework of contemporary Islamic economics, particularly in relation to its potential for sustainable development and poverty alleviation.

Practical Challenges

Despite many scholarly articles reflecting positivity in implementation of productive Zakat to empower the Mustahiq individuals (Wutsqah, 2021; Darsono et al, 2019; Romdhoni, 2018; Kholis & Mugiyati, 2021; Mawardi et al, 2021; Arifin & Anwar, 2021; Firmansyah et al, 2024), several authors criticizing on the effectiveness of productive Zakat programs as well, highlighting the failures, and pointing on further improvements. A case study in the context of Indonesia found that the management of productive Zakat funds is unsatisfactory mainly align with the low distribution rate and the management ability of Zakat institutions (Riyadi and etal, 2021). The problems often encountered includes the misuse of money as evidenced that the capital is used for consumptive purpose rather productive by Mustahiqs, incapacibilities of Mustahiq's mentality in sufficiently utilizing the funds, lack of trust, and the seemingly less effective education provided by Zakat institution to transform the Mustahiq (Ryandono & Nanda, 2020). As mentioned by Toni (2020), weak commitment of beneficiaries utilizing productive Zakat in terms of carrying out the predetermined plan by Zakat institution and lack

of supervision and monitoring the activities of Mustahiqs from Zakat institutions are some of the challenges (Toni, 2020). Another fine study undertaken at Tanah Datar district, west Sumatera to utilize the effectiveness of the productive Zakat. The results of the study called the program ineffective that failed to achieve the main objective of the ZCD program. There are several factors that have been identified as the ineffectiveness of the program; the top-down approach adopted to introduce the program, the lack of institutional capacity of the local Zakat board to carry out the program, the low involvement of stakeholders and the lack of transparency and accountability of the program. As well as the complexity of program implementation is another challenge in productive Zakat highlighted by the study (Putriana, 2021). Furthermore, the significant identified challenges faced by Zakat recipients entrepreneurs are: Beneficiary's lack of knowledge and skills to enhance their business management efficiency and effectiveness through structured entrepreneurship programs, insufficient physical and financial support, lack of training in the aspects of entrepreneurial functioning, periodic motivation, monitoring, and caring that need to be integrated into the program (Hashim, Mohamad, & Othman, 2020).

Methodology

This research employed a mixed-methods approach, combining quantitative and qualitative methods, primarily relying on library research. The gathered literature was subjected to content analysis, with particular emphasis on utilising secondary sources, including scholarly journal articles, academic dissertations, conference proceedings, literature surveys, online references, research reports, organisational documents, discussions, and working papers, particularly relevant to the investment of Zakat. A literature-based qualitative review is crucial in research methodology because it synthesises existing knowledge, offering a comprehensive understanding of the research problem's historical, cultural, and theoretical contexts. This type of review identifies trends, patterns, and gaps in the literature, contributing to the development and refinement of theoretical frameworks. It provides methodological insights and a critical evaluation of existing studies, ensuring the reliability of findings. By integrating diverse perspectives, qualitative literature reviews generate informed hypotheses, guide practice and policy, and support evidence-based research planning, making new studies more robust and grounded in existing knowledge. In the qualitative part, we have used a bibliographic analysis approach that required secondary data. The data was retrieved from Scopus and the International Journal of Economics and Management Sciences. The collected data were then analysed through Vosviewer software.

Discussion and Conclusion

The primary objective of this study is to emphasise the significance of utilising Zakat for productive purposes as an effective strategy for reducing poverty. Also, it has been attempted to highlight the major challenges and critically review the important aspects. The research findings demonstrate that the practice of investing Zakat has roots in early Islamic history. Moreover, not only is there little opposition to this practice within Islamic jurisprudence, but there is also a clear guideline for contemporary scholars to adapt and expand upon this concept to meet the current needs of Muslim communities. Consequently, the modern interpretation of Zakat extends beyond mere collection and distribution for immediate consumption, urging Zakat institutions to actively engage in broader socioeconomic development initiatives within Muslim societies over the long term. Due to the reason that nowadays the economic activities have been widely expanded in different aspects and require a deep understanding of Zakat

investment, considering the Sharia law. Therefore, our findings show that all investments that are not prohibited by Islamic Sharia and can directly benefit Mustahiq's welfare, the Zakat investments are allowed. In the meantime, those projects that have a high risk and may negatively impact the Zakat funds are prohibited.

The application of Zakat investments in practice has resulted in both success and failure. Despite the productive Zakat causing Mustahiq's self-sufficiency and poverty reduction in many cases through different projects in some Muslim countries, the concept of Zakat investment, or productive Zakat, has not garnered sufficient attention among scholars at the international level. Furthermore, it faces many challenges in practice. Such as accurately identifying and targeting beneficiaries, ensuring effective implementation, managing funds properly, building institutional capacity, and complying with regulatory requirements. Another challenge is the lack of a specific model for productivity-based Zakat in Zakat institutions, as highlighted in the literature. To overcome these challenges and for the productive Zakat to be well-utilised and successfully applied, it is recommended that the Zakat institutions should re-engineer and expand their activities beyond the classical tasks and set strategies and policies based on the current socio-economic needs of their societies. Therefore, at first, it is required that the Zakat institutions design a specific and coherent model for utilising productive Zakat funds, as the majority of the Zakat institutions utilise Zakat funds without any formal and pre-designed strategy. In this regard, the proposed key factors and processes could be an asset. Since many highly successful and well-known individuals and businesses began as startups and from holding very limited resources, the Zakat institutions have the potential to form a comprehensive ecosystem in which they can provide support to Mustahiq entrepreneurs and startups during their early stages, increasing their chances of success in the challenging business world. The processes typically involve a combination of physical infrastructure, mentorship, networking opportunities, and various support services. Here is an overview of the processes and the features recommended for Zakat institutions while offering productive Zakat: Identification of Potential Startups/Mustahiqs: Zakat institutions should identify potential and promising startups/Mustahiqs with profitable and innovative ideas or solutions. This can be done through outreach programs, partnerships with universities, or open application processes.

1. Application and Selection: Mustahiq entrepreneurs for getting productive Zakat should submit applications detailing their business concept, market potential, and team. The Zakat institution then evaluates and chooses the most promising candidates based on various factors, such as the originality of the idea, market demand, and the team's capabilities. This screening process is pivotal as it can attract promising startups and ensure a consistent stream of successful beneficiaries from the Zakat institution. Consequently, the primary aim of any selection process should be to identify business proposals and ideas with the highest likelihood of success. Below are some methods for client selection that Zakat institutions can employ:
 - ✓ Establish clear admission criteria, including the type of business and its potential for growth.
 - ✓ The subsequent step typically involves an informal exchange of information, either through a formal application or submission of a business plan.
 - ✓ Applicants meeting the initial criteria would then be invited for a formal interview conducted by a selection committee. During this interview, the

applicant's needs are clarified, and the committee evaluates whether the program can adequately address those needs.

- ✓ The selection process should also involve a comprehensive discussion of expectations. As a result, the aim of selection is to evaluate the prospective client's potential capabilities to attain successful new venture creation.
- 2. **Physical Infrastructure:** Mustahiq entrepreneurs should be provided with physical space, including office facilities, meeting rooms, and shared resources. This support serves to alleviate the initial financial strain on startups or Mustahiqs, enabling them to concentrate on their primary business endeavours.
- 3. **Mentorship and Guidance:** Zakat institutions may connect startups/Mustahiqs with experienced mentors and advisors who guide various aspects of business development, including strategy, marketing, finance, and operations. This mentorship helps them avoid common pitfalls and accelerates their learning curve.
- 4. **Access to Funding:** Zakat institutions facilitate access to funding by connecting startups with potential investors, venture capitalists, or angel investors. This support can be crucial to secure the necessary capital to scale their operations.
- 5. **Networking Opportunities:** Zakat institutions may create a collaborative environment where startups can interact with other entrepreneurs, industry experts, and potential partners and/or with the successful graduates from Zakat institutions. Networking events, workshops, and seminars should be organised to foster collaboration and knowledge exchange.
- 6. **Business Development Support:** Zakat institutions may provide ongoing support in terms of business development, helping startups/Mustahiqs refine their business models, conduct market research, and create sustainable growth strategies.
- 7. **Graduation and Independence:** The ultimate goal of the Zakat institution is to prepare Mustahiq entrepreneurs and startups for independence, relying on their own resources. Once the Mustahiq and the startup achieve a certain level of maturity and sustainability, it will be "graduated" from the Zakat institution and continue its growth in the broader business ecosystem.
- 8. **Monitoring and Evaluation:** Zakat institutions should continuously monitor the progress of their accepted Mustahiq entrepreneurs, evaluating their performance and impact. This feedback loop helps the institution improve its processes and better support future startups.
- 9. **Community Engagement:** Zakat institutions in order to be successful, may contribute to the development of a thriving entrepreneurial community. Alumni of the Zakat institutions may continue to engage, mentor new startups, or even invest in the next generation of entrepreneurs.

Scope for Future Studies

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Appendixes

Renowned Fatwas by Islamic Academies and Institutions

The Board of the Islamic Fiqh Academy

“Utilizing the Zakat fund for investment on projects as a principle is permitted, provided that the ownership of the fund is eventually transferred to the designated recipients, or to be put under the authority of a religious committee that is responsible for the collection and disbursement of Zakat. The investment, however, may only be conducted after fulfilling any immediate and urgent need of the recipients and due diligent care has been taken to avoid loss”.

The Board of Fatawa of the Ministry of Awqaf of Kuwait

“For Zakat, the general obligation is to pay to the recipients immediately after obligation. However, the payment is allowed to be delayed when there is an inability to fulfil the need or for the purpose of distributing it according to a fixed timetable that ensures a continuous fulfilment of the recipients’ needs like in an investment. The investment, however must be in the fields which allow its liquidation in time of need, for instance deposits in Islamic banks. If there is an allocation above the amount needed, investment on projects is allowed with the stipulations that the investment is on projects allowed by the Sharica and the profits must be spent on the recipients only. For the Zakat invested on fixed assets, it must be treated according to the principles of Zakat. When there is a need to dispose of the assets in the future, the asset can be sold but the value must be channelled back to the recipients only. The sale can only be executed when the need is very urgent”.

The Sharica Committee of the Bayt al-Zakat of Kuwait

“Investment of Zakat in developing manufacturing factories whereby the profits are spent on Islamic activities is allowed as long as the activities are Islamic and are meant for the recipients. The assets of the manufacturing factories also must remain part of the Zakat fund and if disposed, its value must be given back to the recipients only.”

A more recent fatwa was issued by Majmac al-Fiqh al-Islami in 1998. The fatwa reads

“Payment of Zakat must be conducted immediately, and this can be accomplished by transferring the Zakat ownership to the existing recipients of Zakat at the time of obligation. The recipients must be those determined by Allah in the Quran, which reads, “The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarer; a duty imposed by Allah. Allah is Knower, Wise”. Thus, investment of Zakat for the sake of one group of recipients like the poor is not permitted. The reasons are the violation of various religious principles among which are the failure to pay Zakat immediately, failure to transfer the Zakat ownership to the recipients of Zakat at the time of obligation and the burden on them (from not getting the Zakat instantly).