



Zakat and Waqf Institutions in Empowering the Muslim Community's Economy: Strategic Review and Challenges

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Abstract :

This study aims to describe the strategic role of zakat and waqf institutions in empowering the Muslim community's economy and to identify the challenges and optimization strategies in their management. Zakat and waqf are Islamic social finance instruments that function not only as religious obligations but also as mechanisms for wealth distribution and socio-economic development. This research employs a descriptive qualitative approach with data collected through interviews, observation, and documentation. The findings indicate that zakat and waqf institutions have implemented various productive programs that contribute to improving the economic independence of beneficiaries. However, the management of these instruments still faces several challenges, including low public literacy, limited human resource capacity, insufficient digitalization, and lack of institutional synergy and regulatory harmonization. Proposed optimization strategies include system digitalization, human resource development, collaboration with Islamic financial institutions, Islamic social literacy campaigns, and regulatory enhancement with incentives for zakat and waqf contributors. Through these strategies, zakat and waqf can serve as key instruments in building an inclusive, just, and sustainable Islamic economy.

Keywords: zakat, waqf, Islamic social finance, economic empowerment, optimization strategy

Abstract:

This research aims to describe the strategic role of zakat and waqf institutions in the economic empowerment of the people and identify challenges and strategies for optimizing their management. Zakat and waqf are Islamic social instruments that not only function as worship, but also as a mechanism for the distribution and economic development of the people. This study uses a descriptive qualitative approach with data collection techniques through interviews, observations, and documentation. The results of the study show that zakat and waqf institutions have developed various productive programs that are able to increase the economic independence of mustahik and waqf beneficiaries. However, the management of these two instruments still faces various challenges, such as low public literacy, limited human resources, lack of digitalization, and lack of institutional synergy and regulatory harmonization. The proposed optimization strategy includes digitizing the system, strengthening human resource capacity, collaborating with Islamic financial institutions, Islamic social literacy campaigns, as well as providing incentives and strengthening regulations. With this strategy, zakat and waqf can be the main instruments in the development of an inclusive, just, and sustainable Islamic economy.

Keywords: zakat, waqf, Islamic social financial institutions, economic empowerment, optimization strategies

INTRODUCTION

Zakat and waqf are the two main instruments in the Islamic social finance system that have a strategic role in creating economic balance and justice. Both of them not only function as individual worship to Allah SWT, but also as a

mechanism for the distribution and circulation of wealth in society. In Islamic teachings, zakat is mandatory for every Muslim who has met the requirements of nisab and haul, while waqf is a jariyah charity that is voluntary and has a long-term impact (Medias, 2017). These two instruments, if managed properly, can be a solid pillar in overcoming poverty, inequality, and strengthening the economic resilience of the people (Wulandari, Astutik, Anggraeni, & Manikati, 2025).

Zakat and waqf institutions are present as an extension of the ummah to distribute funds in an organized, transparent, and targeted manner. These institutions act as financial managers of the people who manage funds with sharia principles and good governance principles (Aldi, Khairanis, Maulana, & Ibrahim, 2025; Fadhilah, 2020). In the context of zakat, institutions such as BAZNAS and LAZ function to collect and distribute zakat, infaq, and alms funds to mustahik with an approach that is not only charitable, but also productive. Meanwhile, the Indonesian Waqf Agency (BWI) and other waqf nazhir play a role in maintaining and developing waqf assets so that they can continue to provide benefits to the community in a sustainable manner (Fajrina, Putra, & Sisillia, 2020).

The potential of zakat and waqf in Indonesia is huge. According to various studies, the potential of national zakat is estimated to reach hundreds of trillions of rupiah per year, while the potential for cash waqf and land waqf assets is very abundant and spread across various regions (Fuadi, 2018; Hariyanto, Taufiq, Abidin, Ulum, & Maimun, 2020). Unfortunately, the realization of this potential is still far from optimal. Zakat collection is still around tens of trillions of rupiah per year, and many waqf management is still stagnant, some are even unproductive due to limited management and innovation (Aldi et al., 2025). This shows that there is a gap between potential and realization, which needs to be answered by improving Islamic financial governance and literacy in the community (Aldi et al., 2025).

However, the management of zakat and waqf still faces various complex challenges. Low public literacy regarding the concept of zakat and waqf, lack of

integration of data and technology in governance, and lack of collaboration between stakeholders are the main obstacles (Chy, 2025; Saputra, 2025). In addition, laws and regulations and government policies related to zakat and waqf still need to be further synergized to support institutional strengthening and increasing public trust (Gultom, 2019). This requires a holistic and collaborative approach between zakat institutions, waqf institutions, the government, and civil society.

Efforts to optimize the role of zakat and waqf institutions in the economic empowerment of the people require a systematic, innovative, and data-based strategy. The use of information technology, such as zakat and waqf information systems, digital fundraising platforms, and transparent financial reporting is key in building public trust (Sismita & Jamal, 2024). In addition, training of zakat and waqf managers to be professional and competent in the field of sharia management and finance is also very important to ensure the effectiveness of the programs that are run.

A number of previous studies have discussed the role of zakat and waqf separately and integrated in the context of economic development. (Kasdi 2016) highlighted the model of empowering zakat and waqf in sharia cooperatives as an effective Islamic philanthropic practice, while (Atabik 2015) emphasized the effectiveness of zakat in poverty alleviation. Meanwhile, a study by Miranda (Febrianti et al. 2024) shows that productive management of zakat and waqf is able to significantly improve the economic level of the community. However, there are still few quantitative studies that simultaneously test the relationship between the variables of the effectiveness of zakat and waqf management, public trust, and the level of economic empowerment of the ummah as measurable outcomes.

This research offers novelty through a quantitative approach that empirically examines the influence of the effectiveness of zakat and waqf institutions on the economic empowerment of the people, with *public trust* as a mediating variable. This model is expected to provide a more systematic and measurable

understanding of the relationships between variables that have only been analyzed descriptive-qualitatively.

RESEARCH METHOD

This research uses a descriptive qualitative approach that aims to gain a deep understanding of the role of zakat and waqf institutions in the economic empowerment of the people. This approach was chosen because it is able to explore meanings, experiences, and social dynamics that cannot be explained quantitatively (Afiyanti, 2008). The focus of the research is directed at how zakat and waqf institutions manage Islamic social funds and their impact on improving the economic welfare of the community (Sugiyono, 2019).

The data sources in this study consist of primary data and secondary data. Primary data was obtained through in-depth interviews with key informants consisting of zakat institution managers, waqf nazhir, and beneficiaries (Gumilang, 2016). Meanwhile, secondary data comes from official institutional documents such as program reports, policy archives, scientific articles, and supporting literature related to research topics.

FINDINGS AND DISCUSSION

Zakat and Waqf

The findings of the study show that the public's understanding of the concept of zakat and waqf is still dominated by a normative approach, namely as an obligation of worship and charity (Fuadi, 2018; Medias, 2017). Zakat is understood as an annual obligation on property for Muslims who can afford it, while waqf is a form of alms whose benefits continue to flow. Nevertheless, there is a gap between theological understanding and economic understanding. Not many people see zakat and waqf as instruments of economic development, even though both have a very strong economic dimension in distributing wealth and building productive assets (Fadhlilah, 2020).

Zakat and Waqf Management Board

This research found that zakat and waqf institutions have an important role as managers of religious social funds. BAZNAS and LAZ carry out their functions as collectors and distributors of zakat, infaq, and alms funds, while waqf management is carried out by nazhir and coordinated by the Indonesian Waqf Agency (BWI) (Fajrina et al., 2020). These institutions have developed a number of innovative programs, but their effectiveness is highly dependent on the capacity of human resources and institutional governance. Institutions that apply the principles of transparency, accountability, and digital innovation have proven to be more trusted by the public (Miranda Febrianti et al., 2024).

Economic Functions of Zakat and Waqf

Zakat and waqf not only function as religious instruments, but also as a tool for socio-economic engineering (Anjelina, Salsabila, & Fitriyanti, 2020). Zakat functions directly in the redistribution of wealth and poverty reduction. Waqf functions long-term in the provision of public services such as education, health, and economic empowerment (Wulandari et al., 2025). Field results show that productive waqf, if managed properly, is able to create a sustainable source of self-financing for community social and economic programs (Wulandari et al., 2025).

The Contribution of Zakat and Waqf in Economic Empowerment

Productive zakat programs such as business training, interest-free capital provision, and business assistance have helped mustahik in increasing income and achieving economic independence. Similarly, waqf in the form of land that is used as agricultural land and public facilities provides long-term benefits to the community (Sismita & Jamal, 2024). Some zakat beneficiaries are even able to upgrade to muzakki, proving that zakat is not only consumptive but also transformative. This shows that the empowerment approach is much more impactful compared to momentary cash assistance (Mohammad, Haikal, 2023).

Challenges of Zakat and Waqf Management

The main challenge found in this study is the low public literacy regarding the concept of zakat and waqf, especially in the economic context. In addition,

there are still many people who distribute zakat and waqf directly without going through official institutions due to lack of trust or limited information (Hadi, 2018; Kasdi, 2016). On the internal side, challenges also come from the limited number of professional human resources, weak digitalization systems, and lack of data integration between institutions (Fajri, Wanety, Sari, & Risnawati, 2025). Regulatory obstacles such as overlapping authorities and policies that are not harmonized also affect the performance of institutions.

Optimization Strategy of Zakat and Waqf Institutions

The strategy of optimizing the role of zakat and waqf institutions can be carried out through various structural and cultural approaches (Arifin & Syufa'at, 2024; Miranda Febrianti et al., 2024). First, the digitization of the fund collection and reporting system is an important step to increase transparency, efficiency, and expand the reach of services (Widyanto, Maulana, & Effendy, 2025). The use of digital applications, online reporting dashboards, and the integration of zakat and waqf information systems can speed up the collection process and strengthen the trust of the.

Discussion

The findings of this study reinforce the view that zakat and waqf are two essential instruments of Islamic social finance that not only hold spiritual significance but also have broad economic implications. In practice, the role of zakat and waqf institutions has proven effective in promoting economic empowerment of the Muslim community, particularly in the context of poverty alleviation, the development of micro-enterprise capacity, and the provision of sustainable public facilities.

The finding that zakat is no longer limited to consumptive aid but has evolved into a productive tool is consistent with (Atabik, 2015) argument that zakat can become a transformative economic instrument when directed toward productive sectors. This productive approach is evident in various programs such as business training, mustahik development, and interest-free capital assistance. Beneficiaries who successfully grow their businesses have even

transitioned into zakat payers (muzakki), clearly demonstrating the success of zakat programs in fostering socioeconomic mobility.

Meanwhile, waqf has shown its strength as a long-term instrument that supports the development of socio-economic infrastructure. The utilization of waqf assets such as land and buildings to establish schools, hospitals, and training centers proves that waqf can generate sustainable collective benefits. This aligns with (Kasdi, 2016) perspective, which positions waqf not only as a spiritually valuable practice but also as a strategic economic resource for social development.

Nevertheless, challenges such as low public literacy on zakat and waqf, weak trust in managing institutions, and limited innovation suggest that the great potential of zakat and waqf has yet to be fully realized. This literacy gap was also highlighted by (Mohammad, Haikal, 2023), who noted that many people still perceive zakat and waqf merely as religious obligations, rather than as pillars of Islamic economic empowerment.

In addition, accountability issues and a lack of transparency have become major reasons for the public's reluctance to channel funds through official institutions. Many muzakki and waqif prefer direct distribution due to perceptions of unprofessional management. This underscores the fact that public trust is a critical factor in the success of zakat and waqf institutions. As emphasized by Mohammad and Musradinur (2023), improving institutional governance, digitalization, and regular reporting are essential steps to establish sustainable trust.

The optimization strategies proposed in this study such as system digitalization, synergy with Islamic financial institutions, and public literacy campaigns are highly relevant to today's needs. Innovations in fundraising and distribution, such as through digital applications, Islamic crowdfunding platforms, and real-time reporting dashboards, will enhance operational efficiency and expand institutional reach. Simultaneously, integrating zakat and

waqf with the creative economy, Islamic MSMEs, and the halal industry presents new directions for economic empowerment through Islamic social funds.

This discussion affirms that zakat and waqf are not merely spiritual instruments of worship, but foundational pillars of the Islamic economy that can address structural issues such as social inequality, funding limitations, and lack of economic access among marginalized groups. To maximize their impact, systemic reforms are needed, including regulatory enhancement, improved institutional accountability, professionalization of management, and active community participation as both contributors and beneficiaries.

CONCLUSION

Zakat and waqf are two primary instruments in the Islamic social finance system that play a strategic role in promoting social justice and empowering the economy of the Muslim community. Zakat serves as a mechanism for the direct redistribution of wealth to those in need, while waqf provides long-term impact through the utilization of assets for sustainable public benefit. The findings of this study indicate that zakat and waqf institutions have begun adopting an empowerment-oriented approach, both through productive zakat and productive waqf, which have been effective in improving the welfare and economic independence of society.

However, the management of zakat and waqf still faces serious challenges, such as low public literacy, a lack of professionalism among human resources, weak system digitalization, and suboptimal collaboration and regulatory harmonization. Public trust in managing institutions also remains a key factor that influences the effectiveness of fund collection and distribution.

To optimize the role of zakat and waqf, institutional strengthening strategies are required. These include system digitalization, capacity building for human resources, synergy with Islamic financial institutions, promotion of Islamic social literacy, and harmonization of regulations along with incentives for muzakki and waqif. With the comprehensive implementation of these strategies, zakat and waqf can function not only as religious obligations but also

as economic instruments capable of addressing poverty and social inequality in a sustainable manner within the framework of Islamic economic development.

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