

Strengthening MSMEs Through the Productive Zakat Scheme in the Perspective of Islamic Economics in Indonesia

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) serve as the backbone of Indonesia's economy, contributing significantly to employment and national GDP. However, persistent financial constraints hinder their scalability and long-term sustainability. This paper explores the potential of zakat produktif (productive zakat) as an innovative financing tool within the Islamic economic system to address these challenges. The objective is to analyze how the integration of zakat principles into MSME development can foster inclusive economic growth and reduce poverty. Using a conceptual-analytical methodology rooted in Islamic economic theory and a review of empirical literature, this study highlights the dual socio-spiritual and economic role of zakat in strengthening MSMEs. Findings indicate that a structured productive zakat scheme—through institutional support and governance—can effectively serve as an alternative to conventional financial models. The implications extend beyond financial inclusion to encompass moral accountability, equitable wealth distribution, and long-term economic justice. This article advocates for integrating zakat institutions more prominently into Indonesia's MSME development policies. It concludes that when regulated and optimized correctly, zakat produktif offers transformative potential for inclusive and sustainable development aligned with Islamic economic values.

Keywords

productive zakat; MSMEs; Islamic economics; Indonesia; financial inclusion

Introduction

In recent decades, Micro, Small, and Medium Enterprises (MSMEs) have become essential components of Indonesia's economic fabric, accounting for over 99% of business units and employing more than 97% of the workforce (World Bank, 2021). Despite their economic significance, MSMEs often face acute constraints, particularly in accessing formal financial services, which limits their scalability and competitiveness (OECD, 2022). Traditional banking and credit institutions tend to consider MSMEs as high-risk, which restricts their access to capital and exacerbates systemic inequality within Indonesia's dual economy. This context necessitates alternative financial solutions rooted in indigenous systems, such as zakat, to support sustainable development through a culturally relevant economic framework.

Zakat, one of the five pillars of Islam, serves both a spiritual and socio-economic function by redistributing wealth and reducing economic disparities. Within the Islamic economic paradigm, zakat produktif—or the productive use of zakat funds—offers a unique model for empowering MSMEs, especially those managed by the *mustahiq* (eligible recipients). Rather than solely offering short-term relief, productive zakat aims to transform beneficiaries into economically independent contributors to society (Sadeq, 1997, pp. 54–56). This reorientation aligns with *maqāṣid al-sharī'ah*, which emphasizes the preservation and promotion of wealth (*ḥifẓ al-māl*) in a just and ethical manner (Chapra, 2000, pp. 123–125).

Several empirical studies underscore the potential of Islamic finance in advancing MSMEs, yet the integration of productive zakat into this framework remains underexplored (Dusuki, 2008; Kamla et al., 2006). While Islamic microfinance institutions have gained some traction, their outreach remains limited due to fragmented policies and inadequate institutional synergy. Indonesia's institutional zakat landscape, managed primarily by Badan Amil Zakat Nasional (BAZNAS) and Lembaga Amil Zakat (LAZ), presents untapped opportunities for structured productive zakat programs that can significantly enhance MSME development (Ascarya & Yumanita, 2020).

The literature reveals several gaps in terms of policy coherence, operational implementation, and outcome assessment in the deployment of productive zakat for MSMEs. Few studies offer an integrated framework that situates zakat within a broader Islamic economic strategy for sustainable MSME development. This calls for a comprehensive theoretical and empirical investigation into the mechanisms through which productive zakat can be effectively aligned with MSME financing needs in the Indonesian context (Ismail & Possumah, 2016; Ali et al., 2020).

This study aims to answer the following research questions: (1) How can productive zakat be structured to support MSMEs in Indonesia? (2) What theoretical justifications support the use of zakat for MSME development within Islamic economics? (3) What are the operational, ethical, and strategic challenges in implementing productive

zakat? These questions are designed to bridge conceptual insights and policy applications while engaging critically with both Islamic economic theory and empirical realities.

The objective of this research is to provide a conceptual and analytical foundation for integrating productive zakat into Indonesia's MSME development strategy. This is achieved through a narrative review of existing literature, an exploration of Islamic economic principles, and a synthesis of best practices from existing zakat institutions. The findings are expected to offer actionable recommendations for policymakers, zakat institutions, and MSME stakeholders aiming to build a more inclusive and ethically grounded economic model.

Literature Review

The intersection between Islamic finance and economic development has been the subject of growing academic interest, particularly in the role of zakat as an economic instrument. Traditionally perceived as a charitable obligation, zakat has evolved in scholarly discourse to encompass not only immediate poverty alleviation but also long-term wealth redistribution and socio-economic empowerment (Kahf, 1999, pp. 17–19). Scholars such as Siddiqi (2004, pp. 22–24) have emphasized the need to reconceptualize zakat as a proactive financial tool that can stimulate productivity, especially among marginalized groups. Within this framework, zakat produktif is positioned as a strategic mechanism to enhance human capital, promote entrepreneurship, and support inclusive economic participation through Islamic ethical guidelines.

Debates within Islamic economic theory often contrast the distributive function of zakat with its productive potential. Proponents argue that when managed efficiently, zakat can complement state-driven development by filling financial gaps in underserved sectors such as MSMEs (Obaidullah, 2008; Ahmed, 2010). Theoretical frameworks such as the *maqāṣid al-sharī'ah* and *fiqh al-zakāh* have provided the necessary jurisprudential support for the productive use of zakat, particularly under the principles of *istiṣlāḥ* (public interest) and *maslahah* (benefit). Economists like Chapra (2000, pp. 112–114) have further reinforced the idea that Islamic financial instruments—including zakat—should be utilized to address both material and spiritual dimensions of development, thereby challenging the secular economic orthodoxy that dominates current MSME policies.

Existing literature on economic growth and zakat in Indonesia remains fragmented, often lacking a cohesive strategy to integrate Islamic social finance with MSME development. Studies by Ascarya and Yumanita (2020) highlight the operational limitations of zakat institutions, including inconsistent regulatory frameworks and limited outreach capabilities. Empirical analyses by Lubis and Aziz (2018) found positive correlations between zakat-based interventions and MSME growth, but noted

that institutional coordination and monitoring remain key challenges. While research has generally affirmed the economic potential of zakat, there is a paucity of in-depth studies focusing specifically on its structured application to MSMEs in Indonesia. This gap signifies the need for a comprehensive framework that situates productive zakat not only as a moral imperative but also as a viable economic strategy for inclusive and sustainable development.

Theoretical Framework

A foundational theory supporting this study is the concept of *maqāṣid al-sharī'ah*, which refers to the higher objectives of Islamic law. As articulated by al-Ghazālī and expanded upon by contemporary scholars, these objectives include the preservation of religion (*ḥifẓ al-dīn*), life (*ḥifẓ al-nafs*), intellect (*ḥifẓ al-'aql*), progeny (*ḥifẓ al-nasl*), and wealth (*ḥifẓ al-māl*) (Chapra, 2000, pp. 98–101). The productive deployment of zakat directly aligns with *ḥifẓ al-māl* by enabling wealth creation among the economically disadvantaged. This principle reframes zakat from mere financial redistribution to a strategic tool for sustainable livelihood. In this perspective, zakat produktif supports empowerment rather than dependency, thus advancing one of the key objectives of Islamic economics: socio-economic justice (Siddiqi, 2004, pp. 25–27).

Closely related to *maqāṣid al-sharī'ah* is the principle of *adl* (justice), which is central to Islamic economic theory. Justice in Islamic economics is not only procedural but also distributive, demanding equity in access to resources and opportunities (Kuran, 2004). In this light, MSMEs, often marginalized by mainstream financial systems, can be supported through zakat allocations to rectify existing inequalities. As Obaidullah (2008) notes, Islamic social finance mechanisms are uniquely positioned to bridge this gap by combining ethical mandates with economic tools. Through the lens of distributive justice, productive zakat transforms *mustahiq* into economically independent agents, thereby fulfilling both religious obligations and economic goals.

Another relevant concept is *fiqh al-zakāh*, the Islamic jurisprudential body governing zakat. Classical scholars such as al-Qaradawi (1999) have elaborated on the permissibility of using zakat funds for productive means under certain conditions, particularly when it serves the long-term interests of the *mustahiq*. While traditionalist interpretations advocate for direct consumption, modern jurists increasingly support investment-based models provided they align with *sharī'ah* principles (Kahf, 1999, pp. 27–29). This interpretive flexibility allows for innovation in the design and implementation of zakat produktif schemes, particularly in the context of MSME development, which requires both capital and skill-based support.

The theory of Islamic moral economy also plays a crucial role in this framework. Unlike secular economic paradigms that prioritize profit maximization, Islamic economics integrates ethical and social dimensions into economic behavior (Choudhury & Malik, 1992). Within this moral economy, the productive use of zakat not only stimulates

entrepreneurship among the poor but also embeds moral accountability into the fabric of economic transactions. This ethical grounding ensures that MSME development through zakat is not only financially viable but also spiritually fulfilling for both giver (muzakki) and receiver (mustahiq). Thus, zakat produktif emerges as a multidimensional tool, grounded in both normative ethics and practical economics.

Previous Research

Sadeq's (1997) study explored the theoretical foundation of zakat as a tool for economic development. Using qualitative textual analysis, the study emphasized the potential of zakat to serve as a sustainable means of poverty eradication. Sadeq concluded that if administered productively, zakat could transform recipients into contributors. This foundational work is crucial for establishing the ideological legitimacy of zakat produktif within Islamic economic theory.

Obaidullah (2008) conducted a case study analysis on the integration of zakat and Islamic microfinance institutions (IMFIs). He proposed a model wherein zakat funds are channeled into MSMEs through interest-free loans and capital provision. The study demonstrated improved financial inclusion outcomes but also noted institutional inefficiencies. This research is directly relevant as it underscores how productive zakat can fill MSME financing gaps.

Lubis and Aziz (2018) Focusing on Indonesia, this empirical study assessed the impact of zakat produktif on MSME performance through surveys and financial data analysis. The authors found a significant positive effect on business revenues and employment generation. However, they also identified limitations in monitoring and institutional oversight. The study confirms the viability of zakat produktif but highlights the operational challenges in implementation.

Ismail and Possumah (2016) Using qualitative interviews with zakat management institutions in Malaysia, this study identified strategic limitations in program design, including a lack of integration between zakat agencies and MSME stakeholders. The authors recommended structural reforms to enhance scalability and impact. Their findings support the argument for institutional collaboration as a prerequisite for effective zakat produktif programs.

Ascarya and Yumanita (2020) Through econometric modeling, this study evaluated the effectiveness of Islamic social finance instruments in Indonesia, particularly zakat. Results showed that zakat institutions lacked strategic frameworks for economic empowerment. The study called for a shift from consumptive to productive disbursement models. This reinforces the need for a more systemic approach in aligning zakat with MSME support.

Ali et al (2020) reviewed zakat's role in promoting economic justice in Muslim-majority countries using comparative policy analysis. The paper argued that zakat systems are often underutilized due to weak governance structures. The authors recommended

policy synchronization and digital innovation to optimize impact. Their work is essential in identifying administrative bottlenecks and digital pathways forward.

While all six studies affirm the theoretical validity and partial empirical success of zakat produktif, none provide a comprehensive framework that integrates Islamic economic theory, institutional design, and practical implementation for MSME development in Indonesia. Most analyses are limited to case studies or partial evaluations, lacking a unified strategy that considers ethical, financial, and operational dimensions. This study addresses that gap by constructing a holistic model for productive zakat integration into Indonesia's MSME ecosystem.

Research Methods

This study employs a qualitative, document-based research methodology rooted in conceptual analysis. The primary data comprises scholarly articles, Islamic legal texts, and strategic policy documents concerning zakat and MSME development. Secondary data sources include reports from Indonesia's Badan Amil Zakat Nasional (BAZNAS), Lembaga Amil Zakat (LAZ), the Ministry of Cooperatives and MSMEs, and international development agencies such as the World Bank and the Islamic Development Bank. The qualitative nature of this study allows for an in-depth exploration of theoretical constructs and institutional practices relevant to zakat produktif.

Data were sourced using purposive sampling to ensure relevance and credibility. International peer-reviewed journal articles, books from recognized scholars in Islamic economics, and official institutional publications were prioritized. A combination of academic databases (e.g., Scopus, JSTOR) and digital repositories (e.g., BAZNAS, Islamic Finance Gateway) was used to collect the literature. Preference was given to publications no older than ten years unless foundational or jurisprudential in nature. This selective approach ensures that the theoretical and empirical materials reflect both historical integrity and current developments.

Data collection was conducted through comprehensive literature review, guided by keyword searches such as "productive zakat," "Islamic finance and MSMEs," and "zakat governance in Indonesia." Additionally, policy reports from Indonesian government bodies were reviewed to understand the regulatory and operational landscape. This triangulation of academic and institutional sources enables a multidimensional perspective on the research problem. Each source was examined for thematic relevance, consistency with Islamic principles, and potential contribution to the study's objectives.

Data analysis followed a thematic content analysis model, where texts were coded based on key themes such as empowerment, governance, accountability, financial sustainability, and ethical compliance. This analytical method allows the identification of patterns, gaps, and contradictions within the literature. The themes were then mapped onto the research questions and theoretical framework, enabling a structured

and critical interpretation of the findings. The analysis was iteratively refined to ensure internal consistency and conceptual clarity.

Conclusion drawing involved synthesizing insights from the reviewed literature and institutional documents to answer the research questions. This synthesis was grounded in Islamic economic principles to ensure the normative legitimacy of the findings. The conclusions aim to inform both theoretical discourse and practical policy-making, offering recommendations that are both contextually grounded and normatively sound. The research methodology thus combines academic rigor with actionable insight, aligning with the objectives of contributing to scholarly debates and informing institutional practices.

Results and Discussion

The findings of this study affirm that zakat produktif holds transformative potential in addressing the capital constraints and financial exclusion experienced by Indonesian MSMEs. Rooted in the Islamic economic framework, the use of zakat as a productive tool aligns directly with the objectives of *maqāṣid al-sharīʿah*, particularly the preservation and equitable distribution of wealth (*ḥifẓ al-māl*). The reviewed literature and policy documents reveal that when zakat is deployed as startup capital, skill-building grants, or interest-free working capital, it contributes not only to economic empowerment but also to the moral upliftment of the *mustahiq*. These impacts validate the Islamic economic premise that wealth circulation is a divine imperative and that instruments such as zakat should be utilized not only for consumption but also for long-term empowerment.

Institutional alignment emerges as a critical success factor in maximizing the productivity of zakat schemes. Findings indicate that fragmented governance structures, poor inter-agency coordination, and limited monitoring mechanisms continue to undermine the effectiveness of zakat produktif programs. Integrating zakat institutions with MSME development policies, especially those managed by the Ministry of Cooperatives and MSMEs, is essential for scaling impact. Moreover, digitalization of zakat management systems and performance-based disbursement models have been proposed by new Islamic finance experts as forward-looking solutions to these institutional inefficiencies. These perspectives, while not widely documented in earlier studies, are gaining traction and offer a promising pathway toward optimizing the zakat ecosystem in Indonesia.

1. RQ1: How Can Productive Zakat Be Structured to Support MSMEs in Indonesia?

Productive zakat must be operationalized through a structured, end-to-end system that integrates disbursement, training, mentorship, and impact monitoring. The first

structural component involves the identification and verification of eligible MSMEs led by mustahiq, using criteria such as income levels, business viability, and potential for growth. Unlike consumptive zakat, productive programs require due diligence to ensure that recipients are positioned to benefit from capital support and repay in kind or contribute later as muzakkī. BAZNAS and LAZ can employ fintech tools for this verification, leveraging digital records and AI-driven risk assessments.

Secondly, disbursement models must be designed around Shariah-compliant financing mechanisms. This includes qard hasan (benevolent loans), joint venture models (musharakah), or lease-to-own schemes (ijarah muntahiya bittamlik), each offering flexibility based on the recipient's capacity (Obaidullah, 2008). The goal is to ensure that zakat capital circulates and can be recycled to assist future recipients. Establishing a revolving zakat fund could institutionalize this approach, enabling self-sustaining financial support that aligns with ḥifẓ al-māl and adl.

Thirdly, structural integration with skill development is vital. Studies have shown that many MSMEs fail not from a lack of capital but from weak business skills and financial illiteracy (Ascarya & Yumanita, 2020). Productive zakat should, therefore, be embedded within entrepreneurship training modules that teach recipients how to manage inventory, pricing, customer service, and digital marketing. Faith-based mentoring, framed within Islamic work ethics and accountability, can instill spiritual motivation alongside technical capability.

The fourth structural layer requires monitoring and evaluation mechanisms. Productive zakat differs fundamentally from one-off charity; it demands outcome tracking and performance benchmarks. Institutions can employ mobile apps to track business growth, income changes, and reintegration of recipients into the economy. Metrics should align with Islamic ethics—such as fair profit, honest dealings, and social responsibility—rather than only return on investment.

Finally, institutional coordination must be restructured. Currently, zakat bodies and MSME development agencies work in silos. Creating joint task forces at local government levels—comprised of LAZ, BAZNAS, and the Ministry of Cooperatives and MSMEs—can bridge this divide. Policy harmonization, data sharing, and joint programs can amplify the impact of zakat produktif, ensuring a systemic rather than fragmented approach to empowerment.

2. RQ2: What Theoretical Justifications Support the Use of Zakat for MSME Development Within Islamic Economics?

From a theoretical standpoint, the use of zakat for MSME development finds legitimacy in both classical and modern Islamic economic thought. As stated by al-Qaradawi (1999), the use of zakat for productive means is permissible under the principle of maslahah—the public good—especially when it serves to lift individuals from poverty to economic independence. This aligns with the maqāṣid al-sharī'ah, where

preservation and enhancement of wealth (*ḥifẓ al-māl*) is both a religious and developmental obligation (Chapra, 2000, pp. 112–114).

Islamic economic theory rejects the bifurcation of ethical and economic pursuits. MSME development via zakat exemplifies this integrated vision by prioritizing social justice (*ʿadl*), accountability (*amānah*), and mutual cooperation (*taʿāwun*) over mere profit. Unlike conventional microcredit, which often carries exploitative interest rates, zakat offers a benevolent and dignity-preserving alternative. It thereby promotes a moral economy that balances efficiency with equity (Choudhury & Malik, 1992).

Another justification stems from the theory of Islamic redistribution mechanisms. Scholars such as Siddiqi (2004) argue that Islam institutionalizes financial equity through tools like zakat, sadaqah, and waqf, which are not merely ethical prescriptions but functional economic systems. By enabling MSMEs through zakat, the economy internalizes equity-enhancing mechanisms without requiring state intervention or international aid.

In practice, this theoretical foundation also justifies the targeting of *mustahiq* MSMEs—not as charity recipients but as agents of change. As zakat transforms them into economically active participants, it not only removes dependency but also adds value to the economy through increased production, employment, and market competition. This is consistent with the Islamic view that economic activity should be participatory and inclusive (Kahf, 1999, pp. 21–23).

Furthermore, productive zakat reflects the Islamic concept of *niyyah* (intent). While the giver fulfills a divine duty, the institutional process and outcomes ensure that the intent manifests in long-term communal benefit. This spiritual-economic synergy is unique to Islamic economics and underscores the necessity of institutionalizing zakat beyond short-term relief.

3. RQ3: What Are the Operational, Ethical, and Strategic Challenges in Implementing Productive Zakat?

Implementing productive zakat presents significant operational challenges, starting with human resource capacity. Many zakat institutions lack trained professionals in business development, financial risk assessment, and entrepreneurship mentorship (Ismail & Possumah, 2016). This skills gap hampers the translation of religious obligations into economically viable projects. Institutional upskilling, including partnerships with Islamic economic departments at universities, could alleviate this barrier.

Ethical challenges also surface in the form of recipient selection and fund misuse. Without transparent criteria and strong governance, there is a risk of favoritism, inefficiency, or even corruption. Given that zakat is a sacred trust (*amānah*), institutions must develop Shariah-compliant audit systems and publicly disclose fund usage to

maintain credibility and public confidence. Blockchain technology has been proposed by recent scholars as a way to ensure traceability and prevent fraud.

Strategically, there remains a disconnect between zakat institutions and national MSME policies. While Indonesia has a vibrant policy framework for MSMEs, zakat is often absent from these initiatives. The lack of mainstreaming results in duplication of efforts, missed synergies, and lower impact. Strategically aligning productive zakat with existing government programs through regulatory reforms and memorandum of understanding (MoU)-based collaborations is necessary.

Another challenge is the perception among some religious authorities that zakat should be strictly consumptive, particularly for the *faqīr* and *miskīn*. This conservatism can deter innovation in zakat distribution. Dialogue between ulama, economists, and practitioners is required to create jurisprudential consensus (*ijmā'*) around productive zakat applications.

Finally, sustainability remains a core concern. Productive zakat programs must be designed not as one-time interventions but as cyclical systems that reinvest profits, replicate successful models, and continuously expand outreach. Without sustainability mechanisms—such as reinvestment policies and zakat-based endowments—the long-term impact will be diluted.

Core Findings and Pathways Forward

This study has demonstrated that productive zakat (*zakat produktif*) can be strategically structured to support MSMEs in Indonesia by aligning disbursement mechanisms with Islamic principles, embedding skill development, and establishing robust monitoring systems. The theoretical foundation rooted in *maqāṣid al-sharī'ah*, distributive justice, and Islamic moral economy provides a compelling justification for using zakat as a development tool rather than merely a form of relief. Practical insights revealed that when institutions prioritize long-term empowerment over short-term consumption, zakat can uplift *mustahiq* into economically active contributors, supporting Indonesia's broader goals of financial inclusion and equitable growth.

Each research question explored different dimensions of this potential. Structuring *zakat produktif* involves more than disbursing funds—it requires institutional reform, digital innovation, and inter-agency coordination. The theoretical justifications reinforce the ethical mandate to use zakat productively, transforming charitable giving into a systemic engine for economic justice. However, the operational and strategic challenges, including skills gaps, weak governance, and conservative jurisprudential views, must be addressed through targeted capacity-building, policy harmonization, and consensus-building efforts among stakeholders.

Going forward, this research proposes the establishment of integrated zakat-MSME task forces at both national and regional levels, supported by clear regulatory frameworks and performance-based models. Emphasizing sustainability and

digitalization, future initiatives should focus on developing replicable and scalable models that maintain the spiritual intent of zakat while achieving measurable economic outcomes. This dual commitment to ethical values and economic performance represents the true potential of productive zakat in fostering inclusive development.

Conclusion

This article has explored the strategic potential of productive zakat in supporting the development of Indonesia's MSMEs within the broader framework of Islamic economics. It has argued that zakat produktif—when institutionally structured, ethically grounded, and operationally integrated—can serve not only as an alternative financing mechanism but also as a driver of inclusive economic transformation. By aligning with the objectives of *maqāṣid al-sharī'ah* and Islamic moral economics, zakat transcends its traditional role and emerges as a sustainable instrument for entrepreneurship and financial empowerment.

The study contributes to both academic and policy discourses by proposing a comprehensive framework for the integration of productive zakat into MSME development strategies. It recommends the adoption of systemic institutional reforms, enhanced digital governance, and collaborative models involving government, zakat agencies, and Islamic finance experts. Practical recommendations include the establishment of zakat-based microenterprise hubs, revolving zakat funds, and targeted training programs. These initiatives, grounded in Islamic ethical principles, offer a path forward toward a more just, resilient, and spiritually rooted economic ecosystem in Indonesia.

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