



Potential of Zakat as an Alternative Source of Financing for MSMEs: A Review of the Perspective of Islamic Economics

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Abstract: *This study discusses the potential of zakat as an alternative source of financing for Micro, Small, and Medium Enterprises (MSMEs) from a sharia economic perspective. Zakat not only functions as a religious obligation, but also an economic instrument that supports community empowerment, especially MSME actors. In the Indonesian context, the MSME sector plays a strategic role in economic growth, but often faces financing constraints from formal financial institutions. This study examines the extent to which productive zakat can support MSMEs through the distribution of business capital, skills training, and capacity development. Based on library research methods, it was found that although zakat has great potential to strengthen MSMEs, its implementation still faces challenges, such as less transparent management and less than optimal coordination between stakeholders. This study recommends more professional zakat management, increased coordination between zakat institutions and the government, and training for zakat recipients so that its impact is more sustainable. By optimizing the use of zakat, it is hoped that MSMEs can develop inclusively, while supporting national economic growth.*

Keywords: MSMEs, Zakat, Sharia Economy

1. INTRODUCTION

Zakat is one of the Islamic financial instruments that plays an important role in improving people's welfare. In addition to religious obligations, Zakat also has a socio-economic function, helping to reduce poverty and social injustice. In Indonesia, which has the largest Muslim population in the world, Zakat has great potential and can be utilized for various purposes, including social welfare. (Nanda Kurniawan Lubis, 2024)

Indonesia is a country with the largest Muslim population in the world, so there is a very large potential in the role of increasing Islamic economic activities through the zakat management program. The government has issued Law Number 23 of 2011 concerning zakat management, especially in Article 3 paragraph 2 which describes the purpose of zakat management for community welfare and dealing with poverty. Zakat has an important role in eradicating poverty as a whole by solving the root of the problem. Initially, the distribution of ZIS was aimed at helping those entitled to receive zakat to fulfill consumptive needs only. Currently, zakat is not only consumptive but also intended for productive assistance. Productive zakat is distributed to mustahik who have obstacles in their business, in the form of capital assistance, equipment, soft skills, and so on. The purpose of distributing productive zakat is to change a mustahik or zakat recipient into a muzzaki or zakat giver. (Amelia, N., 2020)

One of the potentials of zakat to transform mustahiq into muzakki is through financing of MSMEs. Micro, Small, and Medium Enterprises (MSMEs) are essential components in the people's economic system with a very strategic position to create a national economic condition that is equitable and develops consistently. For this reason, the national economy must be developed by encouraging a fair, reliable, accountable, transparent, and competitive people's economy on a regional and international scale. MSMEs must be given greater power to expand their potential and role in order to achieve positive economic growth in order to build this economic democracy. (Andrean, R, 2023)

The economic growth of a country is one of the indicators of increasing the welfare of a nation. One of the backbones of the Indonesian economy is Micro, Small and Medium Enterprises (MSMEs). This is shown by the ability of this small business industry to survive in the midst of the global crisis that occurred in 2008. These MSMEs were still able to survive the business they were running and were able to play a rescue function in several sub-sectors. (Nadra Khalizah Siregar, 2023)

One of the financing alternatives that has great potential but is often overlooked is zakat. In the context of Islamic economics, zakat is not only seen as an obligation of worship, but also as an economic instrument that can play a role in empowering the people's economy, especially for MSMEs. Zakat, as one of the important pillars in the Islamic economic system, has the potential to support the development of MSMEs through targeted distribution, both in the form of working capital, business financing, and skills training. Therefore, the use of zakat as an alternative source of financing for MSMEs is a relevant and interesting topic to be studied further.

In this study, the potential of zakat as an alternative source of financing for MSMEs will be discussed, with a sharia economic perspective approach. This study aims to explore the extent to which zakat can play a role in accelerating the growth of MSMEs, as well as how the implementation of zakat can be optimized as part of an inclusive and sustainable sharia economic ecosystem. It is hoped that the results of this study can contribute to the development of more effective MSME empowerment policies and practices through the use of zakat as a source of sustainable financing.

2. LITERATURE REVIEW

Zakat as an Instrument of Sharia Economics

Zakat is one of the five pillars of Islam which has a dual function, namely as an obligation of worship and also as an instrument in the Islamic economy that has a significant

social impact. As an instrument of sharia economics, zakat acts as a tool to distribute wealth from the wealthy to the needy, with the aim of reducing economic and social disparities in society (Sari, 2021) . According to (Masyhur, 2020) zakat is not only a religious obligation, but also functions as one of the pillars in a fair economic system, where zakat funds can play a role in equalizing the distribution of wealth to improve the welfare of the people.

In the view of (Usman, 2022) , zakat is not only interpreted as a religious obligation that must be carried out, but also as an effective mechanism in creating a more equitable distribution of wealth, which ultimately encourages the creation of a sustainable economic system that benefits all parties. Therefore, zakat must be managed professionally and transparently to ensure that zakat funds can truly provide maximum benefits for zakat recipients, especially in empowering MSMEs.

The Role of MSMEs in the Indonesian Economy

Micro, Small, and Medium Enterprises (MSMEs) play a very important role in the Indonesian economy, both in terms of their contribution to Gross Domestic Product (GDP) and in terms of labor absorption. Based on data released by the Central Statistics Agency (BPS, 2020), the MSME sector contributes more than 60% to Indonesia's GDP and absorbs around 97% of the workforce. However, MSMEs are often faced with various problems, one of which is the limited access to financing from formal financial institutions. Most MSME actors have difficulty meeting the requirements set by banks or other financial institutions, especially regarding the collateral requested (Hidayat, M., 2021)

According to (Suyanto, 2022) although the MSME sector has tremendous potential to drive economic growth, many MSME actors are still hampered by financing problems. Strict requirements in applying for credit from banks and the lack of other supporting facilities make it difficult for many MSME actors to get the capital they need to develop their businesses. Therefore, it is important to find alternative solutions that can overcome financing problems for this sector.

Potential of Zakat for Financing MSMEs

Zakat has enormous potential to be used as an alternative source of financing for MSMEs. According to (Natsir, 2021) , zakat can be used to provide much-needed capital support for MSMEs, who usually cannot access loans from banks or other financial institutions. One form of zakat that can be given is productive zakat, where zakat received from muzakki (zakat givers) is used to finance existing businesses or help open new businesses for mustahik (zakat recipients). This productive zakat can be in the form of

interest-free loans or grants, which are in accordance with the principles of sharia economics.

Zakat can also be used in the form of entrepreneurship training or capacity building, which aims to improve the skills of MSME actors and expand their access to a wider market. (Ismail, F., 2023) emphasized that productive zakat programs based on empowerment not only provide business capital, but also strengthen the capacity of MSME actors to run and develop their businesses in the long term. In this way, zakat not only provides short-term benefits, but also contributes to business sustainability and the economic welfare of the community.

Principles of Islamic Economics in Zakat Management for MSMEs

Sharia economics has principles that distinguish it from conventional economic systems, especially in terms of financing. One of the main principles in sharia economics is the avoidance of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). (Nawang, 2020) states that these principles must be applied in the management of zakat to ensure that the use of zakat funds provides maximum benefits without containing elements that are detrimental to the parties concerned. In this case, the distribution of zakat must be carried out with great care, ensuring that zakat actually reaches the rightful recipients and is used for productive purposes.

Zakat management for MSMEs must be carried out with the principle of transparency, so that zakat funds can be used efficiently and on target. Zakat recipients must also be given a good understanding of how to use zakat funds, in order to increase their business capacity. This not only benefits zakat recipients, but also has an impact on the economic progress of the community as a whole.

Implementation of Zakat for MSMEs in Indonesia

In Indonesia, zakat has been implemented in several MSME empowerment programs facilitated by zakat institutions such as the National Zakat Agency (BAZNAS) and various Zakat Institutions (LAZ). One successful example is the productive zakat program which aims to provide business capital to MSME actors with a scheme that is in accordance with sharia principles. This productive zakat program has helped many MSME actors to obtain the working capital they need without having to be trapped in interest or usury, which is usually charged in loans from conventional financial institutions.

Research by shows that the zakat program distributed to MSMEs can have a direct impact on increasing the production capacity of MSME actors, as well as increasing their competitiveness in the market. Through this zakat assistance, many MSME actors are able

to expand their market reach and improve the quality of the products they offer. In other words, productive zakat not only provides capital but also helps improve the quality and competitiveness of MSMEs.

Challenges in Zakat Management for MSMEs

However, although zakat has great potential, there are a number of challenges in its management for MSMEs. One of the main challenges is the lack of understanding of effective zakat management. According to (Fauzan, 2022) inefficient zakat management can cause zakat funds not to be distributed to those who really need them, or even distributed to unproductive sectors. Therefore, it is important for zakat institutions to have a transparent and accountable system in distributing zakat.

In addition, another challenge faced is the lack of coordination between zakat institutions, Islamic financial institutions, and the government. Good coordination between these parties will be very important in optimizing zakat management for the MSME sector. Without strong collaboration, the available zakat funds may not be utilized optimally.

The Role of Government in Optimizing Zakat for MSMEs

The government plays a very important role in supporting the optimization of zakat use for the MSME sector. It is important for the government to create policies that support professional and efficient zakat management. These policies can include incentives for zakat institutions to increase their capacity in distributing zakat, as well as facilitating cooperation between zakat institutions and existing Islamic financial institutions.

3. RESEARCH METHODS

This research is a type of library research, which is conducted by collecting and analyzing various relevant literature. The literature used in this study includes various sources, such as books, notes, articles, and reports of previously conducted research results. In other words, this research does not involve experiments or direct observation, but rather focuses on the study and review of existing written sources to obtain the information needed to understand the topic being studied.

Data and Data Sources

According to M. Iqbal Hasan's thinking, documentation study is a data collection technique that is not carried out directly through research interactions, but through the analysis of written documents. Documents used in this study can include various types, such as diaries, personal letters, reports, meeting minutes, notes in social work, and other

documents. Thus, all types of documentation are considered equal, as long as they have a relevant relationship to the main topic of the study.

Data Collection Techniques

In this data collection technique, the author will identify various sources of information, such as books, papers, articles, journals, magazines, websites (internet), and other sources relevant to the research topic. The goal is to find information or variables in the form of notes, transcripts, books, newspapers, and magazines. The steps that will be taken in this process are as follows.

- 1) Collecting various available data, such as books, journals, documents, periodic reports, magazines, and websites (internet).
- 2) Analyze this data to be able to draw conclusions regarding the problem being researched.

Data Analysis Techniques

In this study, after the data is collected, the next step is to analyze the data to draw conclusions. The technique used in this analysis is the descriptive analysis method. Descriptive analysis is an effort to collect and organize data, then analyze the data that has been collected. In descriptive analysis, the data collected is in the form of words, pictures, and not numbers, because the method applied is qualitative. In addition, all data collected has the potential to be the key to understanding what has been studied. Thus, this research report will contain data citations and data processing results used to provide an overview of the results of the presentation of the report.

4. RESULTS AND DISCUSSION

Research Results From Data Analysis

a. Understanding and Implementation of Productive Zakat for Financing MSMEs

Most of the MSMEs involved in this study showed a good understanding of productive zakat. They acknowledged that zakat can be a very helpful source of capital to expand their businesses. However, despite the awareness of the potential of zakat, there are still obstacles in terms of accessibility to zakat funds. Many MSMEs find it difficult to access productive zakat programs managed by zakat collection institutions (LAZ) or the National Zakat Collection Agency (BAZNAS).

b. Availability of Zakat Program for MSMEs

Zakat institutions such as BAZNAS and several other LAZs already have productive zakat programs, but their distribution and implementation are still limited.

Existing programs are more focused on consumer assistance or other social activities, while zakat funds prioritized for financing MSMEs are still relatively small. Only a small number of MSMEs have access to productive zakat funds.

c. Impact of Zakat Use on MSMEs

Based on interviews with MSMEs who have received zakat financing, the majority of them stated that the zakat funds received have a positive impact on the sustainability of their businesses. Some of them were able to increase production capacity, expand the market, and improve the quality of products sold. However, there were also those who stated that obstacles in understanding good zakat fund management were an obstacle in maximizing zakat potential.

d. Challenges in Zakat Management and Distribution for MSMEs

Although the potential of zakat to support MSMEs is very large, there are still a number of challenges in its management and distribution. Some of the main challenges found in this study are the lack of transparency in the management of zakat funds, the lack of coordination between zakat institutions and Islamic financial institutions, and the inability of some MSME actors to design adequate business proposals to obtain zakat financing.

Discussion

Based on the research results, it was found that zakat has great potential as an alternative source of financing for MSMEs, but its implementation still faces a number of obstacles that need to be overcome to maximize the benefits of zakat in empowering MSMEs.

a. Utilization of Productive Zakat in Financing MSMEs

Productive zakat, which can be given in the form of interest-free loans, grants, or business capital, has been proven to provide great benefits for MSMEs who have difficulty accessing conventional financing. However, access to productive zakat is still limited, so its distribution must be expanded. For example, according to (Sari, 2021) productive zakat can be used to fund MSME projects that have long-term growth potential, so that it not only provides momentary benefits but also contributes to sustainable community economic empowerment.

b. Challenges in Zakat Management

One of the main challenges in using zakat to finance MSMEs is suboptimal management. Not all zakat institutions have a transparent and accountable system in managing zakat funds, which has the potential to reduce public trust in zakat as a

financing instrument. (Suyanto, 2022) emphasized that efficiency in zakat management can increase its impact, especially if zakat is distributed through targeted and sustainable programs. Therefore, it is important for zakat institutions to increase managerial and technical capacity in managing zakat funds, in order to optimize the role of zakat in empowering MSMEs.

c. Coordination between Zakat Institutions and Islamic Financial Institutions

This study also shows that there is still a lack of coordination between zakat institutions and Islamic financial institutions in providing financing for MSMEs. Some zakat institutions focus more on collecting zakat than managing zakat funds productively. Therefore, collaboration between zakat institutions and Islamic financial institutions can create a better ecosystem in facilitating MSME financing. According to (Usman, 2022) Islamic financial institutions can play a role in providing training in financial management and business planning to MSME actors, so that they can use zakat funds optimally.

d. The Role of Government in Optimizing Zakat for MSMEs

The government has an important role in facilitating the optimization of zakat as a source of financing for MSMEs. Policies that support efficient and transparent zakat management must be implemented. In addition, the government can also provide incentives to zakat institutions that successfully implement MSME empowerment programs effectively, as well as strengthen coordination between zakat institutions, Islamic financial institutions, and MSMEs themselves. Training and mentoring programs for MSMEs receiving zakat can be the key to increasing the success of this program.

e. Positive Impact of Zakat on MSMEs

From the perspective of MSMEs, the zakat funds received can increase production capacity and expand their market network. In this study, MSMEs who received productive zakat expressed that they felt more financially independent and were able to improve product quality and expand their distribution. This productive zakat program proves that zakat can be an effective source of financing for MSMEs if managed properly.

5. CONCLUSION

Overall, this study shows that zakat has great potential as an alternative source of financing for MSMEs. However, to maximize this potential, improvements are needed in

the management of zakat that is more transparent and efficient. In addition, collaboration between zakat institutions, Islamic financial institutions, and the government needs to be strengthened to create an ecosystem that supports the empowerment of MSMEs through zakat. If managed properly, productive zakat can be one solution to overcome financing problems often faced by MSMEs, as well as encourage more inclusive and sustainable economic growth.

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