

## Enhancing Economic Empowerment: Program Strategy and Impact of Productive Zakat for Beneficiaries at LAZISMU DIY

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### ABSTRACT

*This study aims to examine the program strategy and impact of productive zakat in enhancing the economic empowerment of beneficiaries at LAZISMU Special Region of Yogyakarta (DIY). Productive zakat serves as a strategic instrument of Islamic social finance designed not only to provide temporary assistance but also to strengthen the economic capacity of beneficiaries through sustainable income-generating activities. This research employed a qualitative approach with a case study method. Data were collected through in-depth interviews, observation, and documentation involving LAZISMU DIY management and beneficiaries of productive zakat programs. Data analysis was conducted through data reduction, data presentation, and conclusion drawing. The findings indicate that the productive zakat strategy at LAZISMU DIY is implemented through several stages, including beneficiary identification, business feasibility assessment, provision of business capital, mentoring, entrepreneurship training, and periodic monitoring and evaluation. The program mainly targets micro-enterprise sectors such as trade, culinary businesses, agriculture, and services. The impact of the program demonstrates significant improvements in beneficiaries' income, business productivity, entrepreneurial capacity, and financial independence. Furthermore, the program contributes to reducing dependence on consumptive aid and encourages long-term self-reliance. However, challenges remain, including limited capital allocation, low business literacy among some beneficiaries, and market uncertainty. This study concludes that productive zakat can effectively enhance economic empowerment when supported by integrated strategies involving financial assistance, continuous mentoring, and sustainable program evaluation.*

## INTRODUCTION

Productive zakat has increasingly become an important instrument in Islamic social finance for addressing poverty and promoting sustainable economic development. Unlike consumptive zakat, which is distributed for immediate needs, productive zakat is allocated as business capital, equipment, training, or other income-generating resources to help beneficiaries improve their livelihoods. This approach aligns with the broader objective of zakat in transforming mustahik into financially independent individuals who may eventually become muzakki (Ascarya & Yumanita, 2023). Therefore, productive zakat has gained attention as an effective model for long-term poverty alleviation.

Economic empowerment remains one of the central challenges in many developing countries, including Indonesia. Although poverty rates have gradually declined, vulnerable households still face limitations in access to capital, skills, and market opportunities. In this context, zakat institutions are expected to complement government welfare programs by providing targeted economic assistance. Studies indicate that Islamic philanthropic institutions can play a strategic role in reducing inequality and promoting inclusive growth through well-managed productive zakat programs (Karim et al., 2022). Consequently, zakat management must move beyond charity-based distribution toward empowerment-oriented strategies.

Indonesia has enormous zakat potential due to its large Muslim population. However, the realization of zakat collection and distribution remains below its estimated potential. This gap suggests the need for more innovative and professional management by zakat institutions. Productive zakat programs can enhance public trust because they demonstrate measurable socioeconomic impacts rather than short-term relief alone. Previous research found that institutions adopting transparent and empowerment-based programs tend to attract higher donor participation and stronger stakeholder confidence (BAZNAS, 2024).

LAZISMU, as one of the leading zakat institutions under Muhammadiyah, has actively developed various productive zakat initiatives across Indonesia, including in the Special Region of Yogyakarta (DIY). LAZISMU DIY has implemented programs focused on micro-enterprise development, business assistance, vocational support, and community-based empowerment. These initiatives are designed to improve the welfare of beneficiaries while strengthening local economic resilience. The institutional capacity and extensive Muhammadiyah network make LAZISMU an important case for examining the effectiveness of productive zakat management (Fauzia & Riyadi, 2021).

The concept of economic empowerment emphasizes increasing people's capacity to access resources, make economic decisions, and improve their standard of living. In the context of productive zakat, empowerment is reflected in rising income, stronger entrepreneurial skills, greater financial independence, and reduced dependency on external aid. Scholars argue that empowerment-based zakat distribution creates multiplier effects because beneficiaries not only receive assistance but also develop capabilities to sustain their businesses (Hasan & Abdullah, 2022). Thus, productive zakat should be assessed not merely by distribution volume but by its transformative outcomes.

Despite its potential, the implementation of productive zakat often encounters several challenges.

Some beneficiaries have limited business experience, weak financial literacy, or insufficient motivation to manage enterprises effectively. In addition, market competition, unstable demand, and inadequate mentoring can reduce program success. Institutional constraints such as limited monitoring systems and insufficient human resources may also hinder long-term impact (Rahman et al., 2023). Therefore, understanding program strategy is essential to evaluate why some productive zakat initiatives succeed while others underperform.

Several previous studies have examined productive zakat in Indonesia, mostly focusing on poverty reduction, beneficiary income growth, and zakat governance. However, fewer studies specifically investigate how strategic program design influences empowerment outcomes at the regional institutional level. Moreover, limited research has explored LAZISMU DIY as a case study, despite its active role in implementing community-based productive zakat programs. This creates an empirical gap that deserves further scholarly attention (Sutrisno & Sumardi, 2025).

From a theoretical perspective, this study draws upon empowerment theory and Islamic social finance principles. Empowerment theory stresses the importance of capacity building, participation, and access to productive assets, while Islamic social finance emphasizes justice, redistribution, and welfare enhancement. The integration of these perspectives provides a comprehensive framework for understanding how productive zakat can support socioeconomic transformation. In practice, strategic management of zakat requires planning, implementation, mentoring, and evaluation to ensure sustainability (Ismail et al., 2022).

This study is significant for several reasons. First, it contributes to academic discussions on the role of zakat institutions in fostering economic empowerment. Second, it provides practical insights for zakat managers regarding effective strategies in designing productive zakat programs. Third, it supports policymakers in recognizing zakat as a complementary instrument for poverty alleviation and microeconomic development. As Islamic philanthropy grows globally, evidence-based assessments become increasingly important for policy and institutional improvement.

Based on the above background, this study aims to analyze the program strategy and impact of productive zakat for beneficiaries at LAZISMU DIY. Specifically, it investigates how productive zakat programs are designed, implemented, and monitored, as well as how they influence beneficiaries' economic conditions. By examining this case, the study seeks to provide recommendations for enhancing the effectiveness of productive zakat in promoting sustainable economic empowerment.

## **LITERATURE REVIEW**

Productive zakat has emerged as a significant topic within Islamic social finance because it emphasizes long-term welfare creation rather than short-term consumption support. Traditional zakat distribution often focuses on meeting urgent needs such as food, clothing, and shelter, while productive zakat aims to provide beneficiaries with resources that generate sustainable income. Scholars argue that this shift reflects the *maqāṣid al-sharī'ah* principle of preserving wealth and promoting social welfare through economic participation (Ahmed, 2021). Therefore, productive

zakat is increasingly recognized as an effective instrument for socioeconomic transformation.

The concept of productive zakat is closely linked to poverty alleviation strategies. Poverty is multidimensional, involving limited income, low access to education, restricted productive assets, and weak market participation. Productive zakat addresses these barriers by providing capital support, business tools, and capacity-building programs for low-income households. Empirical studies in several Muslim-majority countries show that zakat recipients who receive productive assistance tend to experience higher income growth than those receiving consumptive transfers only (Rahman & Yusuf, 2022). This indicates the developmental value of zakat when managed strategically.

Economic empowerment is one of the main expected outcomes of productive zakat. Empowerment refers to increasing an individual's ability to make choices, control resources, and improve living standards. In the zakat context, empowerment includes improved entrepreneurial capacity, stronger decision-making ability, financial confidence, and business independence. According to Sen's capability approach, poverty reduction should not only increase income but also expand people's freedoms and opportunities (Sen, 1999). Productive zakat aligns with this framework by enabling beneficiaries to develop their economic potential.

Several scholars have highlighted the role of zakat institutions as intermediaries in ensuring the success of productive zakat programs. Institutions such as BAZNAS and LAZISMU are responsible for collecting funds, selecting eligible beneficiaries, designing programs, and monitoring outcomes. Strong governance, transparency, and accountability are considered crucial for maintaining public trust and donor confidence. Research by Wahab and Rahman (2021) found that professionally managed zakat institutions are more likely to achieve measurable socioeconomic impacts through productive programs than institutions relying solely on traditional distribution methods.

Program strategy is another critical factor in productive zakat implementation. Effective strategies usually begin with proper beneficiary identification and needs assessment. Not all beneficiaries possess the same readiness for entrepreneurship; therefore, institutions must evaluate skills, motivation, and market opportunities before distributing capital. Studies suggest that zakat programs using business feasibility screening and targeted assistance produce better outcomes than generalized aid distribution (Hassan et al., 2023). Strategic targeting helps reduce misuse of funds and increases program sustainability.

Business capital assistance is one of the most common forms of productive zakat. This support may include cash financing, equipment, livestock, seeds, or inventory depending on the beneficiary's economic activity. However, capital alone is often insufficient to ensure success. Many small enterprises fail due to weak managerial skills, lack of bookkeeping, and limited market access. Consequently, scholars emphasize that capital support must be accompanied by mentoring and training to generate lasting impact (Karim & Ali, 2022).

Mentoring and capacity development are widely recognized as essential components of empowerment-based zakat programs. Mentoring includes regular consultations, business coaching, motivation building, and technical guidance. Entrepreneurship training may cover marketing,

financial literacy, digital commerce, and customer service. Evidence from Indonesia shows that beneficiaries receiving continuous mentoring demonstrate better business survival rates and stronger income growth than those receiving one-time capital assistance (Nurzaman et al., 2021). This highlights the importance of non-financial support in productive zakat models.

Monitoring and evaluation systems also determine the effectiveness of productive zakat programs. Without regular assessment, institutions may struggle to measure whether assistance leads to real welfare improvements. Indicators commonly used include income change, business growth, savings behavior, debt reduction, and household welfare. According to Ismail and Taufiq (2022), zakat institutions with structured monitoring frameworks are more capable of adjusting programs, identifying risks, and scaling successful initiatives. Thus, evaluation is necessary for accountability and continuous improvement.

LAZISMU has become one of the prominent zakat institutions implementing productive zakat in Indonesia. Supported by Muhammadiyah's organizational network, LAZISMU operates community empowerment programs in sectors such as microbusiness, agriculture, education, and disaster recovery. Previous studies note that LAZISMU's local branch model enables closer engagement with communities and faster response to beneficiary needs (Fauzia & Kassim, 2020). This decentralized approach provides an interesting institutional model for productive zakat implementation.

In the context of Yogyakarta, productive zakat programs have strategic relevance because the region has a high concentration of micro and informal enterprises. Many households rely on small trade, culinary businesses, handicrafts, and service activities as their primary income source. Productive zakat can strengthen these sectors by easing capital constraints and improving business capabilities. Regional studies show that community-based economic assistance in Yogyakarta often succeeds when combined with social mentoring and local market integration (Sutrisno & Sumardi, 2025). Therefore, LAZISMU DIY offers a valuable case for examining localized empowerment strategies.

Despite positive findings, several challenges continue to affect productive zakat programs. Some beneficiaries face low entrepreneurial motivation, weak discipline in fund utilization, and vulnerability to market shocks. External factors such as inflation, competition, and declining purchasing power may also limit business performance. At the institutional level, limited human resources and insufficient data systems can constrain effective supervision. Rahmat and Hidayat (2023) conclude that productive zakat requires adaptive management and collaborative partnerships to remain effective in changing economic environments.

Based on previous literature, it can be concluded that productive zakat has strong theoretical and empirical potential to promote economic empowerment when supported by proper strategy, mentoring, and institutional governance. However, outcomes vary depending on program design and implementation quality. A research gap remains regarding how local zakat institutions formulate strategies that directly influence beneficiary empowerment at the regional level. Therefore, examining the strategy and impact of productive zakat at LAZISMU DIY is important to enrich both academic understanding and practical policy development.

## RESEARCH METHOD

This study employed a **qualitative approach** with a **case study design** to analyze the program strategy and impact of productive zakat for beneficiaries at LAZISMU Special Region of Yogyakarta (DIY). A qualitative method was chosen to gain an in-depth understanding of how productive zakat programs are planned, implemented, and evaluated, as well as how they influence the economic empowerment of beneficiaries. LAZISMU DIY was selected as the research site because it is one of the active zakat institutions implementing productive zakat programs through business capital assistance, entrepreneurship training, and mentoring for low-income communities (Creswell & Creswell, 2018).

The participants consisted of LAZISMU DIY management staff, program facilitators, and beneficiaries who had received productive zakat assistance. Informants were selected using **purposive sampling** based on their direct involvement and relevant experience in the program. Data were collected through **in-depth interviews, observation, and documentation**. Interviews were conducted using semi-structured questions covering program strategy, beneficiary selection, implementation mechanisms, mentoring processes, and program outcomes. Observation was used to examine field implementation and beneficiary business activities, while documentation included institutional reports, beneficiary records, and monitoring data (Patton, 2015).

The collected data were analyzed using the interactive model of **Miles, Huberman, and Saldaña (2014)**, which includes data condensation, data display, and conclusion drawing. The researcher organized the data into key themes such as program strategy, economic empowerment outcomes, and implementation challenges. To ensure trustworthiness, this study applied **data triangulation** by comparing findings from interviews, observations, and documents, as well as source triangulation among managers, facilitators, and beneficiaries. Through this method, the study aimed to produce comprehensive and credible findings regarding the effectiveness of productive zakat programs at LAZISMU DIY.

## RESULTS AND DISCUSSION

The findings reveal that productive zakat programs implemented by LAZISMU DIY are designed as an empowerment-oriented model rather than a charity-based distribution system. The institution emphasizes sustainable assistance by transforming zakat funds into productive capital that can generate long-term income for beneficiaries. This approach reflects the shift in zakat management from short-term relief toward economic development. Through this model, beneficiaries are expected to gradually improve their livelihoods and reduce dependence on consumptive assistance (Ahmed, 2021).

One of the main strategies identified in this study is the careful selection of beneficiaries. LAZISMU DIY applies a screening process to determine whether prospective recipients meet both economic eligibility and business readiness criteria. Beneficiaries are generally selected from low-income households who already operate small businesses or possess clear entrepreneurial potential. This

strategy is important because productive zakat requires recipients who are willing and able to utilize assistance effectively. Proper targeting increases the likelihood of successful program outcomes (Hassan et al., 2023).

The institution also conducts needs assessments before distributing assistance. Rather than providing uniform support, LAZISMU DIY tailors the form of aid based on the beneficiary's business sector and operational needs. Some beneficiaries receive cash capital, while others receive equipment, inventory, or production tools. This customized strategy ensures that zakat assistance directly addresses the specific constraints faced by microenterprises. As a result, beneficiaries can use the support more efficiently and productively (Karim & Ali, 2022).

The productive zakat program mainly supports microbusiness sectors such as food stalls, street vendors, tailoring services, agriculture, livestock, and household industries. These sectors were chosen because they require relatively small capital and have immediate income potential. In Yogyakarta's local economic context, microenterprises remain an important source of livelihood for many families. Therefore, supporting these sectors through zakat contributes not only to household welfare but also to local economic circulation (Fauzia & Kassim, 2020). Another important finding is the role of mentoring and business guidance. LAZISMU DIY does not limit its intervention to capital assistance but also provides regular mentoring through facilitators. Beneficiaries receive guidance in business management, motivation building, financial discipline, and simple bookkeeping. This mentoring process helps recipients improve managerial skills that are often lacking among small entrepreneurs. The findings indicate that beneficiaries who actively participate in mentoring sessions tend to show stronger business progress (Nurzaman et al., 2021).

Training programs also contribute significantly to empowerment outcomes. Several respondents reported receiving entrepreneurship training related to marketing, customer service, product packaging, and digital sales strategies. These skills are particularly relevant in today's competitive business environment. By improving business knowledge, beneficiaries become more adaptive and innovative. Thus, productive zakat functions not only as financial support but also as human capital development (Rahman & Yusuf, 2022). In terms of economic impact, the majority of beneficiaries experienced increased business income after receiving assistance. Respondents stated that additional capital enabled them to expand stock, improve production capacity, or diversify products. Some participants reported more stable daily earnings compared to their condition before joining the program. Although income growth varied across beneficiaries, the overall trend indicates that productive zakat positively contributes to improving economic resilience among low-income households (Wahab & Rahman, 2021).

Besides income growth, productive zakat also encouraged better financial behavior. Several beneficiaries began separating personal and business finances, maintaining simple records, and saving part of their profits. These behavioral changes are essential indicators of economic empowerment because they reflect greater financial awareness and long-term planning capacity. Improved financial discipline can strengthen business sustainability and reduce vulnerability to future shocks (Ismail & Taufiq, 2022). The study also found social and psychological impacts beyond economic indicators. Beneficiaries expressed greater confidence, motivation, and dignity after being

trusted with productive assistance rather than one-time charity. Many respondents felt more respected because they were encouraged to become economically independent. This finding supports the argument that empowerment programs create stronger self-esteem and agency than purely consumptive aid models (Sen, 1999).

However, the implementation of productive zakat also faces several challenges. Some beneficiaries have limited entrepreneurial skills and require intensive supervision. Others struggle with inconsistent commitment, weak discipline, or difficulty adapting to market competition. External factors such as inflation, rising raw material prices, and declining purchasing power also affect business performance. These challenges show that capital assistance alone is insufficient without continuous support systems (Rahmat & Hidayat, 2023).

Institutional challenges were also identified. Limited human resources and time constraints make it difficult for LAZISMU DIY to conduct frequent monitoring of all beneficiaries. As the number of recipients increases, maintaining personalized mentoring becomes more demanding. In addition, measuring long-term impact systematically remains a challenge for many zakat institutions. Therefore, stronger monitoring systems, digital data management, and collaborative partnerships are needed to improve program effectiveness (Ismail & Taufiq, 2022).

Overall, the findings demonstrate that productive zakat at LAZISMU DIY has played a meaningful role in enhancing economic empowerment among beneficiaries. The combination of selective targeting, customized assistance, mentoring, and training has generated positive outcomes in income, business capacity, and self-reliance. Nevertheless, sustainability depends on continuous supervision and adaptive management in responding to economic challenges. This study confirms that productive zakat can become a strategic instrument for poverty alleviation when managed professionally and integrated with empowerment-based approaches (Ahmed, 2021; Wahab & Rahman, 2021).

## **CONCLUSION**

This study concludes that the productive zakat program implemented by LAZISMU DIY has demonstrated an effective strategy in enhancing the economic empowerment of zakat beneficiaries. The program is managed through a systematic approach consisting of beneficiary selection, needs assessment, distribution of business capital, mentoring, entrepreneurship training, and periodic monitoring. These integrated strategies have contributed positively to improving beneficiaries' business performance, increasing household income, strengthening financial management skills, and fostering greater economic independence. The findings indicate that productive zakat is not merely a charitable mechanism, but a sustainable instrument of Islamic social finance that can transform beneficiaries into more self-reliant economic actors.

However, the study also identifies several challenges, including limited entrepreneurial capacity among some beneficiaries, market competition, unstable economic conditions, and institutional constraints in monitoring and supervision. These issues suggest that the long-term success of productive zakat depends not only on capital assistance but also on continuous mentoring, adaptive

program management, and stronger institutional support systems. Therefore, LAZISMU DIY and other zakat institutions are encouraged to strengthen capacity-building programs, develop digital monitoring systems, and expand strategic partnerships to maximize the impact of productive zakat on poverty alleviation and sustainable community welfare.

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