

Implementation of Productive *Zakat* and Cash *Waqf* for Micro-Entrepreneurs: A Legal and Regulatory Review

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia continue to face structural challenges, especially in accessing financing and empowerment, particularly at the micro level. This study aims to analyze the implementation of productive *zakat* and cash *waqf* by the *Zakat* Collection Unit (UPZ) of STAI Kuningan in supporting micro-entrepreneurs and to evaluate its compliance with Islamic sharia (maqashid syariah) and national regulations. This qualitative research employs a juridical-normative and juridical-empirical approach. Data were obtained through interviews, documentation, and literature review, then analyzed descriptively and qualitatively. The findings show that the program effectively empowered micro-entrepreneurs through business capital, equipment support, and mentoring. Normatively, the practice complies with the objectives of sharia (maqashid syariah), the fatwas of the Indonesian Ulema Council (MUI), and Indonesian laws on *zakat* and *waqf*. Nevertheless, institutional and regulatory barriers remain, including the absence of technical guidelines and limited coordination with national *zakat* authorities. Strengthening legal frameworks and operational procedures is recommended to enhance the institutional role of campus-based UPZ in advancing community-based Islamic economics.

Keywords: *productive zakat, cash waqf, islamic law, micro, small, and medium enterprises (msmes)*

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) represent one of the main pillars of the national economy (Aprilia et al., 2025; Onyeje et al., 2022; Sinha et al., 2024). According to data from the Ministry of Cooperatives and MSMEs, these enterprises contribute more than 61% to Indonesia's gross domestic product (GDP) and absorb approximately 97% of the total national workforce (Handoko et al., 2023; Lubis, 2021). In addition to generating employment, MSMEs play a strategic role in reducing income inequality and promoting equitable wealth distribution (Yolanda, 2024).

Furthermore, MSMEs contribute 14.37% to non-oil-and-gas exports and play a significant role in boosting investment and alleviating poverty. Their contributions to local economic development and community empowerment are particularly crucial in addressing global economic challenges and strengthening national economic resilience (Sirait et al., 2024).

The increased engagement of MSMEs, which form an essential component of the national business community, contributes to economic growth and, consequently, to the improvement of societal welfare (Hastuti, 2020). However, micro-scale MSMEs in Indonesia continue to face numerous structural challenges, including limited access to financing, low financial literacy, weak business competitiveness, and inadequate technological capacity (Lubis & Hasan, 2021). These difficulties have been further exacerbated by post-pandemic inflation, volatile commodity prices, and the impact of global economic uncertainty, all of which constrain the development space for micro-enterprises (Suprayogi, 2021).

Several previous studies have explored the potential of Islamic social finance instruments in addressing MSME challenges (Biancone & Radwan, 2019; Dirie et al., 2024; Thaidi et al.,

2023). Research by Baharuddin and Isnaini (2022) demonstrated that productive *zakat* distribution significantly improves the economic sustainability of *mustahiq* compared to consumptive aid. Similarly, Lubis and Hasan (2021) highlighted the effectiveness of cash *waqf* in providing asset-based support for micro-entrepreneurs. Wulandari (2023) emphasized the need for adaptive legal frameworks for Islamic social finance institutions within academic settings, while Aziz and Fitriani (2023) identified regulatory gaps in the implementation of productive *zakat* programs by educational institutions. These studies collectively underscore the potential of *zakat* and *waqf* as transformative tools, yet also reveal persistent institutional and legal challenges in their practical application.

In this context, the Islamic economic approach emerges as an increasingly relevant alternative, particularly through the optimization of productive *zakat* and cash *waqf* instruments. These instruments serve not only as mechanisms for equitable wealth distribution but also as tools for socio-economic transformation through productive, *Sharia*-compliant financing schemes (Aziz & Fitriani, 2023). When *zakat* is distributed as business capital and cash *waqf* is allocated for the procurement of production equipment or business training, such interventions transcend charitable intent and evolve into a systemic and sustainable model of economic empowerment for *mustahiq* (Wulandari, 2023).

Nonetheless, the implementation of productive *zakat* and cash *waqf* in support of *MSMEs* is not without legal and institutional challenges. Issues remain concerning the consistency between field implementation and the provisions of Islamic law and statutory regulations, such as Law No. 23 of 2011 on *Zakat* Management and Law No. 41 of 2004 on *Waqf*. These realities call for a critical examination of *zakat* and *waqf* management practices, particularly in institutions such as *Zakat* Collection Units (UPZs) within educational environments, including UPZ STAI Kuningan, which has begun initiating microeconomic empowerment programs using religious social funds.

Therefore, this research is significant in evaluating how productive *zakat* and cash *waqf* are implemented by UPZ STAI Kuningan and to what extent these practices align with the principles of Islamic economic law and national legal frameworks. This study is expected to contribute both academically and practically to the development of a *zakat* and *waqf* legal system that is oriented toward social justice and economic empowerment for the Muslim community.

RESEARCH METHOD

This study employed a qualitative research method using a combination of juridical-normative and juridical-empirical approaches. The juridical-empirical approach in this research refers to the analysis of the formulated problems through the integration of legal materials both primary, secondary, and tertiary with primary data collected from the field, specifically regarding the implementation of productive *zakat* and cash *waqf* for micro-entrepreneurs.

The data were obtained through interviews with UPZ STAI Kuningan administrators, documentation of *zakat* and *waqf* programs, and literature review. The data analysis was conducted using a descriptive qualitative method, combining the interpretation of legal norms with the empirical findings collected during fieldwork.

The data analysis technique involved reviewing and examining the collected data to ensure its validity and reliability in accordance with the actual conditions. Once the data were

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deemed adequate and processed, they were presented in the form of narratives and tables. After data compilation and presentation, the data were analyzed qualitatively.

Qualitative data analysis is a technique that aims to describe and interpret the collected data to obtain a general and comprehensive understanding of the real situation. This process involves several stages, including conceptualization, categorization, establishing relationships, and explanation. The fieldwork for this research was conducted over a period of three months, from April to June 2025, at the *Zakat* Collection Unit (UPZ) of STAI Kuningan.

RESULT AND DISCUSSION

Implementation Data of Productive *Zakat* and Cash *Waqf* at UPZ STAI Kuningan

Table 1. Implementation Data of Productive *Zakat* and Cash *Waqf* at UPZ STAI Kuningan

Year	Program Type	Source of Funds	Beneficiaries	Form of Assistance	Remarks
2024	Productive <i>Zakat</i>	Professional <i>zakat</i> from lecturers	3 recipients	Business capital (IDR 1.5–2 million)	Grocery vendors, food stalls, reseller businesses
2024	Cash <i>Waqf</i>	Student contributions	2 recipients	Equipment (e.g., stove, blender)	Used for juice production and culinary microbusinesses
2025	Cash <i>Waqf</i>	Lecturer endowments	5 recipients	Kiosk rental assistance (2 months)	In collaboration with Dhuafa Cooperative
2025	Integrated <i>Zakat- Waqf</i>	Campus social funds	8 recipients	Capital and structured mentoring	Supported by STAI Kuningan Business Incubator

Source: Documentation and Annual Report of UPZ STAI Kuningan, 2024-2025

The *Zakat* Collection Unit (UPZ) of STAI Kuningan has implemented various economic empowerment programs based on productive *zakat* and cash *waqf* since 2024. These programs primarily target micro-entrepreneurs within the campus environment, Islamic boarding schools (*pesantren*), and surrounding communities.

In 2024, productive *zakat* was distributed to three *mustahiq* (eligible *zakat* recipients) in the form of business capital ranging from IDR 1.5 to 2 million. The recipients included small-scale traders, food stall owners, and basic goods resellers. The funds originated from professional *zakat* contributed by permanent lecturers of STAI Kuningan. In the same year, cash *waqf* collected from students was consolidated and used to assist two micro- entrepreneurs in acquiring essential production tools such as carts, blenders, and display cases for culinary businesses.

By 2025, the use of cash *waqf* expanded to provide two-month kiosk rental assistance for five micro-entrepreneurs through a collaboration between UPZ and the STAI Kuningan Cooperative. A notable development in 2024 was the introduction of an integrated *zakat- waqf* model, combining funds from both instruments to reach eight *mustahiq*. Assistance included

not only working capital but also structured business mentoring, conducted in partnership with the STAI Kuningan Business Incubator, which served to strengthen entrepreneurial capacity.

From the perspective of Islamic law, this implementation embodies the principles of *maqashid al-shariah*, particularly the objectives of *hifz al-mal* (protection of wealth) and *hifz al-nafs* (preservation of life). In this regard, the distribution of *zakat* and *waqf* transcends consumptive charity and shifts toward sustainable economic development. This aligns with the findings of Baharuddin & Isnaini (2022), who assert that productive *zakat* is more effective in elevating the economic status of *mustahiq* compared to consumptive distribution schemes.

However, from a regulatory standpoint, this practice still faces significant challenges related to synchronization and oversight. Cash *waqf* management by small-scale institutions such as campus-based UPZs lacks comprehensive and detailed technical regulations. In addition, coordination with BAZNAS and the Ministry of Religious Affairs remains largely administrative in nature, rather than offering structural solutions to institutional problems within local *zakat* governance.

This is consistent with the findings of Wulandari (2023) in *Volksgeist: Jurnal Ilmu Hukum dan Konstitusi*, who emphasizes that Islamic social finance institutions within academic settings require a more adaptive legal governance framework, along with supportive policies in the form of empowerment-oriented regulations, rather than mere administrative reporting requirements.

Islamic and Legal Review of the Implementation of Productive *Zakat* and Cash *Waqf*

a. Islamic Legal Perspective

From the perspective of Islamic law, *zakat* and *waqf* are integral elements of the Islamic economic system, where *zakat* is obligatory (*fard*) and *waqf* is highly recommended (*sunnah muakkadah*) (Hariyanto et al., 2020; Mahadi, 2022; Mohamed & Abdulrohim, 2025; Urif et al., 2019). The implementation of productive *zakat* and cash *waqf* for the empowerment of micro-entrepreneurs has a strong foundation in *maqashid al-shariah*, particularly in the protection of wealth (*hifdz al-mal*) and the preservation of life (*hifdz al-nafs*).

In substance, productive *zakat* is not contradictory to Islamic legal principles, as it aims to transform *mustahiq* (*zakat* recipients) into *muzakki* (*zakat* payers). Fatwa DSN- MUI No. 07/DSN-MUI/IV/2000 permits the distribution of *zakat* in non-monetary forms such as goods, business tools, and other productive assets, beyond mere consumptive aid. This is reinforced by the findings of Baharuddin & Isnaini (2022), who argue that *zakat* distributed as business capital is more capable of improving the living standards of *mustahiq* in a sustainable manner.

Cash *waqf* has also received legal legitimacy through Fatwa DSN-MUI No. 02/2002 on Cash *Waqf*, which permits individuals (*wakif*) to endow money, provided it is managed productively by a certified *nazhir* through Sharia-compliant investment mechanisms. Therefore, the initiatives by UPZ STAI Kuningan which allocate cash *waqf* for the procurement of business equipment and the rental of kiosks for micro- entrepreneurs—are considered valid and permissible under Islamic law.

b. Positive Legal Perspective in Indonesia

Under the framework of Indonesia's positive law, *zakat* and *waqf* are formally regulated through two primary legal instruments:

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- 1) Law No. 23 of 2011 on *Zakat* Management, particularly Article 27 paragraph (1), which acknowledges the existence of *Zakat* Collection Units (UPZ) and provides them with the authority to manage *zakat* independently under the coordination of the National *Zakat* Agency (BAZNAS).
- 2) Law No. 41 of 2004 on *Waqf*, along with its implementing regulation Government Regulation No. 42 of 2006, which governs the management of cash *waqf*, including the obligations of *nazhir* to report and account for *waqf* assets responsibly.

However, in practice, there are several institutional and technical normative weaknesses. For instance, not all campus-based UPZs possess the administrative capacity to submit periodic reports to BAZNAS. Moreover, there is a lack of specific regulations that clearly delineate the management framework for cash *waqf* by non-formal UPZs—such as those operated by Islamic boarding schools (*pesantren*) or higher education institutions (Wulandari, 2023).

The study by Aziz & Fitriani (2023) also reveals that many UPZs within academic environments still struggle to interpret the boundaries of legal authority, particularly in distinguishing between institutional autonomy and the vertical coordination required with BAZNAS.

Normatively, both Islamic law and Indonesia's statutory law support the use of *zakat* and *waqf* for economic empowerment. However, the implementation of such programs by institutions like UPZ STAI Kuningan requires reinforcement in several legal-formal aspects, including: the accountability of reporting, the legality of productive programs, and the institutional capacity of the UPZ itself.

The harmonization between sharia principles and state regulations is a critical element to ensure the continuity, empowerment impact, and legal validity of productive *zakat* and cash *waqf* programs, particularly within the context of Islamic educational institutions.

1. Analysis of Effectiveness and Legal Constraints

a. Effectiveness of Productive *Zakat* and Cash *Waqf* Programs

In general, the productive *zakat* and cash *waqf* programs implemented by UPZ STAI Kuningan can be categorized as moderately effective in supporting microeconomic empowerment based on Sharia principles. This effectiveness is demonstrated through several key indicators:

Targeting relevance: The selection of *mustahiq* (eligible recipients) is focused on small-scale entrepreneurs and students from underprivileged families, thereby ensuring alignment with the Sharia classification of *zakat* beneficiaries (*ashnaf mustahiq*).

- 1) Diversification of assistance: UPZ does not limit its support to cash capital, but also provides entrepreneurship training, production equipment, and market access facilitation, which support long-term economic empowerment.
- 2) Economic impact: Several beneficiaries reported increased income and improved economic independence. Some even began hiring additional labor, as documented in the 2023 UPZ annual report.

This level of effectiveness is consistent with the findings of Baharuddin & Isnaini (2022), who argue that productive *zakat* tends to produce a multiplier effect, contributing both to the welfare of *mustahiq* and to the strengthening of grassroots economic structures.

Furthermore, the management of cash *waqf* through kiosk rental schemes and the provision of business tools reflects a relevant model of productive *waqf*. According to Lubis & Hasan (2021), the effectiveness of cash *waqf* is highly dependent on institutional management capacity and a clear distribution focus on productive economic sectors.

b. Legal and Institutional Constraints

Despite its significant potential, the program faces several legal and institutional challenges, including the following:

- 1) The absence of specific technical legal frameworks for campus-based UPZs in managing cash *waqf*. Existing regulations tend to focus on national-level institutions or formally registered Amil *Zakat* Institutions (LAZ).
- 2) The lack of Standard Operating Procedures (SOPs) governing the implementation of productive *zakat* and cash *waqf* within educational institutions, resulting in a reliance on informal or ad hoc approaches.
- 3) Reporting obligations to BAZNAS are often inadequately facilitated due to limited human resources and administrative infrastructure within the UPZ.
- 4) Overlapping authority among campus institutions, cooperatives, and *zakat/waqf* units may give rise to legal uncertainty and potential maladministration in the absence of clear regulatory boundaries.

These findings are consistent with Wulandari (2023) in *Volksgeist: Jurnal Ilmu Hukum dan Konstitusi*, who argues that local *zakat* and *waqf* regulations often remain normative, lacking sufficient operational technical guidelines, thereby hampering legal innovation and structured growth in smaller institutions such as campus-based UPZs.

c. Legal Strengthening Recommendations

To enhance program effectiveness and minimize legal barriers, the following measures are recommended:

- 1) The development of internal SOPs and legal manuals for UPZs concerning the governance of productive *zakat* and cash *waqf* management.
- 2) Institutional strengthening through formal partnerships with regional BAZNAS offices, to ensure legal recognition and institutional protection.
- 3) Regulatory advocacy urging the government or the Ministry of Religious Affairs to issue operational technical regulations specifically tailored for non-structural UPZs, including those affiliated with academic institutions.
- 4) Implementation of digitalized reporting systems to improve transparency and accountability, and to facilitate easier auditing of *zakat* and *waqf* fund management.

Thus, the effectiveness of *zakat* and *waqf* implementation from a legal perspective should be assessed not only in terms of distributional impact but also in relation to compliance with Sharia principles and positive legal norms as enforced in Indonesia.

CONCLUSION

The implementation of productive *zakat* and cash *waqf* by UPZ STAI Kuningan demonstrated moderate effectiveness in empowering micro-entrepreneurs near the campus, aligning with *maqashid al-shariah* through capital provision, equipment, training, and mentoring, while complying with DSN-MUI fatwas, *Sharia* principles on productive fund use, and Indonesia's legal framework—despite lacking specific regulations for campus-based

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UPZs. Challenges persist, including absent standard operating procedures (*SOPs*), weak administrative reporting, and limited institutional coordination, underscoring the need for legal harmonization, institutional strengthening, and clearer regulatory guidance to enhance sustainability and legitimacy of Islamic social finance in educational settings. For future research, a comparative study could examine best practices from other university *UPZs* in Indonesia, integrating digital tracking systems for *zakat* and *waqf* distribution to address administrative gaps and measure long-term socio-economic impacts on *mustahiq* using quantitative metrics like income growth and business survival rates.

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