

Zakat as Social Capital: The Potential of Zakat As An Impact Investment on The Inclusive Economy

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ABSTRACT

As a primary instrument in the Islamic economic system, zakat has a strategic role in the redistribution of wealth to reduce poverty and social inequality through its role as social capital. This article examines the potential of zakat as social capital and can be used to encourage inclusive economic growth through an impact investment framework. The methodology used is library research, by reviewing relevant literature on zakat management, its impact on economic empowerment, and the relationship between zakat and inclusive economy. So far, zakat has been known as a direct wealth distribution tool, but now, zakat can be optimized into an instrument of sustainable economic empowerment through management that focuses on social investment that focuses on sustainable results. It has been proven that zakat investment in productive sectors can create jobs, improve the quality of life and increase economic inclusion throughout society. Zakat given in this way not only helps mustahik in the short term, but also helps them become more financially independent. This study shows that zakat and impact investment can work together to provide broader and more sustainable economic opportunities for marginalized communities. Therefore, zakat may be a key driver for an inclusive and equitable economy in the future.

Keywords: *Compliance Index, Shariah Compliance, Zakat*

INTRODUCTION

As one of the five pillars of Islam, zakat plays a vital role in assisting the wealth distribution system aimed at reducing poverty and social inequality. Zakat has historically been viewed as a tool to meet the basic needs of zakat recipients through direct distribution. However, zakat must be expanded to meet the needs of more inclusive and sustainable economic development as the economy progresses. Zakat can serve as social capital in such situations, with the ability to increase economic productivity through financing and not just providing assistance. In the effort to achieve the sustainable development goals (SDGs), zakat as social capital is increasingly relevant. This is especially true for the aspects of poverty

alleviation (SDG 1) and inequality reduction (SDG 10).

The concept of impact investment has grown rapidly in recent years as a way to generate significant social impact through investment. By considering long-term outcomes and sustainability, impact investment focuses on achieving beneficial social and economic goals. As a result, by combining zakat with the principles of impact investment, there is a new opportunity to increase the efficiency of zakat fund usage so that it can generate greater added value in empowering the mustahik economy. By utilizing zakat as social capital, its management can be directed to support productive businesses that not only provide direct benefits, but also create job opportunities and improve skills.

As a tool for wealth redistribution, zakat is expected to have a significant

impact on poverty alleviation and community economic empowerment. However, amidst increasingly complex developments, zakat management faces several challenges that affect its effectiveness in achieving this goal. The distribution of zakat that is not yet fully productive is one of the biggest challenges in zakat management. Without efforts to improve the economic capacity of zakat recipients, this unproductive distribution of zakat risks prolonging their dependence. In addition, it should be noted that zakat management is not transparent. In terms of fund distribution and resource use, zakat management is often not transparent. The absence of innovation in zakat management that is in accordance with the demands of contemporary society is an additional challenge.

Zakat has enormous potential as a tool for wealth redistribution, but its socio-economic effects are often not commensurate with its potential. Zakat collected annually should be able to reduce poverty and social inequality, but its effects are temporary because it is often channeled consumptively and unproductively. Without a sustainable economic empowerment approach, much zakat funds are used for direct assistance. In addition, the socio-economic impacts that can be achieved are greatly hampered by inefficient zakat management and non-transparent distribution. As a result, innovation in zakat management is needed. Innovations such as combining with impact investment models will meet the basic needs of zakat recipients and empower them economically in the long term.

In this study, a library research approach is used to analyze literature from various sources such as books, journal articles and the latest research reports published in the last 10 years. This approach aims to explore in depth

the potential of zakat in creating social capital and its contribution to realizing a more inclusive economy. This study integrates the concept of Islamic economics with theories inherent in social capital and inclusive economics to form a comprehensive and integrated framework.

The uniqueness of this study lies in the conceptual approach that emphasizes zakat as social capital by focusing on the orientation of impactful investment. This distinguishes it from other studies that generally focus more on the technical aspects of organizing and distributing zakat. This study is expected to be able to provide a significant contribution to the development of literature in the field of Islamic economics, while promoting fundamental strategies for zakat managers and policy makers to optimize zakat capacity in supporting the realization of inclusive and equitable economic development.

Research purposes

This research aims to:

Analyzing the Role of Zakat as Social Capital: To examine how zakat can be utilized as social capital in order to strengthen the economic structure of society, with a focus on economic empowerment of underprivileged groups, such as mustahik (zakat recipients), through a more productive and sustainable approach.

Identifying the Potential of Zakat in Encouraging an Inclusive Economy: Investigating how zakat, when managed more innovatively and productively, can serve as a tool to promote an inclusive economy that reduces socio-economic disparities in society, as well as improving the economic welfare of zakat recipients in the long term.

Developing a Zakat Management Model Based on Impact Investment: Developing a model that integrates zakat

within the impact investment framework, where zakat is not only used for direct distribution, but is invested in productive businesses that can increase the economic capacity of zakat recipients, while creating positive and sustainable social impacts.

Assessing the Social and Economic Impact of Productively Managed Zakat: Measuring the impact of zakat management that focuses on empowerment and productive investment on improving the economic welfare of zakat recipients and its impact on reducing poverty and socio-economic inequality in society.

Providing Policy Recommendations for Optimizing Zakat Management: Prepare recommendations for zakat management institutions and policy makers on how to optimize zakat as a resource to create an inclusive economy, as well as increase transparency and accountability in its management in order to produce maximum socio-economic impact.

With these objectives, this research is expected to contribute to more innovative, productive, and impactful thinking and practice of zakat management in creating a more just and prosperous society socio-economically.

Scope of Research

This study will discuss the role of zakat as social capital and the potential of zakat in supporting an inclusive economy through an impact investment model. The scope of this study is limited to the following aspects:

Focus on Productive Zakat Management

This study will focus on the potential of zakat that can be managed productively, namely not only used for consumptive assistance, but also to empower the long-term economy for zakat recipients (mustahik). This study

will examine several models of zakat management based on providing business capital, skills training, and support for micro, small, and medium enterprises (UMKM) as an effort to create sustainable social and economic impacts.

Impact Investment Approach in Zakat

This study will explore the concept of impact investment as a framework for managing zakat funds with the aim of generating positive and sustainable socio-economic impacts. This study will discuss how zakat can be integrated into a social investment model that provides long-term impacts for mustahik and encourages their economic empowerment, by considering the principles of transparency, accountability, and sustainability.

Analysis of Zakat Management Institutions

This study will limit its focus to the analysis of zakat management institutions, both formal and non-formal zakat institutions, which play a role in collecting and distributing zakat. The study will explore various approaches applied by these institutions in managing zakat, as well as evaluating the socio-economic impact of zakat programs that have been implemented, both in the short and long term.

Geographic Coverage

This research will be conducted with a focus on zakat management practices in Indonesia, taking into account the country's unique social, economic, and cultural contexts. However, this research may also discuss examples of good practices from other countries that are relevant in the context of zakat as an impact investment.

Time Limit

This study will cover the latest data and information on zakat management taken in the last 5-year period (2018-2023), to ensure the relevance and feasibility of the analysis provided on the challenges and opportunities of zakat management in the modern era.

With the scope that has been explained above, this study aims to provide a deep understanding of the potential of zakat as social capital that can support inclusive economic development through an impact investment approach, as well as provide recommendations for optimizing more efficient and effective zakat management.

METHODOLOGY

This study uses a library research approach to explore in depth the potential of zakat as social capital and its impact in supporting an inclusive economy. This study is designed as a qualitative descriptive study with an analytical approach. This study focuses on integrating the concepts of Islamic economics, social capital, and inclusive economy through a literature review. The purpose of this approach is to build a conceptual framework that can describe the strategic contribution of zakat as social capital and its potential as an impactful investment for inclusive economic development.

Data source

The research data comes from literature that includes:

Book: Key literature on zakat, Islamic economics, social capital, and inclusive economics.

Academic Journal Articles: Empirical and conceptual research published in reputable international and national journals.

Research Reports and Policy: Official documents from zakat

management institutions, international organizations, and relevant related institutions.

Type and Amount of Data

The data used in this study are secondary, including qualitative data derived from theoretical studies, previous research results, and statistical reports. The amount of data analyzed is based on its relevance and contribution to the discussion.

Data collection technique

The data collection process is carried out through several stages:

Literature Search: Data were collected through searches in academic databases such as Google Scholar, ProQuest, Scopus, and other reputable journals. Keywords used include "zakat", "social capital", "inclusive economy", and "impact investment".

Literature Selection: Relevant literature was selected based on the criteria of recent publications (last 5–10 years) and relevance of the content to the research topic.

Data Classification: The selected literature is categorized based on main themes, such as the role of zakat, social capital, and its impact on inclusive economy.

Data Analysis Techniques

The collected data was analyzed using a descriptive-analytical approach with the following stages:

Data Reduction: Data is selected and simplified to identify relevant information.

Data Presentation: The reduced information is arranged in a systematic narrative form to facilitate analysis.

Drawing Conclusions: The analyzed data is used to develop a conceptual framework on the potential of zakat as social capital and investment

that has an impact on the inclusive economy.

This method allows researchers to identify the relationship between zakat, social capital, and inclusive economy comprehensively, while offering new insights that can enrich Islamic economics literature.

RESULT

The Potential of Zakat as Social Capital in Realizing an Inclusive Economy

Zakat, as an instrument of wealth redistribution, has great potential to improve the welfare of the poor if managed with a productive approach. Zakat institutions that focus on economic empowerment can transform zakat into social capital that can be used for long-term investment. From the results of research from zakat institution reports, it was found that zakat can be used to fund several empowering programs, such as the establishment of micro-enterprises, skills training, and providing business capital to mustahik. This shows that zakat not only provides consumptive assistance, but can be an effective empowerment tool for poor groups to reduce dependency and improve their welfare.

For example, one of the largest zakat institutions in Indonesia, Dompot Dhuafa, has developed a Productive Zakat program with the aim of encouraging mustahik to start their own micro-businesses and providing skills training. In addition to offering consumptive assistance, the program diverts zakat funds to investments in businesses that can generate sustainable income.

Implementation of Impact Investment through Zakat

Most of the zakat institutions involved in this study have begun to adopt the principle of impact

investment, which is an investment that aims to generate sustainable positive social impacts, in addition to financial benefits. Zakat-based empowerment programs show that investment in micro-enterprises and skills training can create jobs and increase the income of zakat recipients. For example, zakat institutions that have implemented impact investment programs have succeeded in developing small and medium enterprises (UMKM) managed by mustahik and have been able to increase their income significantly. These programs not only provide capital assistance, but also equip zakat recipients with the skills to run their own businesses independently.

For example, Dompot Dhuafa through the Productive Zakat program has succeeded in developing small and medium enterprises (UMKM) managed by mustahik. In this program, zakat is used as capital to start a micro business, such as a grocery store, culinary business, or workshop. However, what distinguishes this program from simply providing capital assistance is the intensive mentoring and training provided to zakat recipients. Zakat recipients are not only equipped with business capital, but also with the managerial and technical skills needed to manage the business sustainably.

The Impact of Zakat on Inclusive Economy

Zakat managed with a productive approach shows a significant impact on the inclusive economy. Mustahik involved in zakat empowerment programs experience a steady increase in income, reduce dependence on consumer assistance, and improve their quality of life. Zakat programs based on impact investment help expand poor people's access to economic resources, which were previously limited. Along with increased skills and business capital

provided, zakat recipients become more independent and can contribute more to the local economy. Several zakat institutions involved in this study reported that the programs they run were able to create more jobs and encourage economic growth in areas that were previously classified as poor.

Challenges in Managing Zakat as Social Capital

Despite the many positive potentials, this study also found several challenges in zakat management that need to be addressed to maximize its impact. The main challenges faced by zakat institutions include:

Lack of Transparency: Many zakat institutions still have problems in terms of transparency in managing zakat funds, both in terms of fund use, distribution, and reporting of program results. This can lead to a decrease in the level of public trust in zakat institutions.

Lack of Innovation in Programs: Some zakat institutions still do not have sufficient capacity to manage zakat with a more productive approach. Many zakat institutions still use the traditional zakat distribution model, which focuses more on consumer assistance, and not many have switched to an empowerment model based on impact investment. This requires developing the capacity of zakat institutions to design and implement more productive and sustainable programs.

Inadequate Regulation: Although zakat has great potential to drive economic development, some zakat institutions feel that they are limited by existing regulations. The government needs to provide greater support in terms of policies that make it easier for zakat institutions to manage and distribute zakat funds in a more productive manner, as well as provide incentives for zakat institutions that implement

zakat-based economic empowerment programs.

The gap between the potential of zakat and the resulting socio-economic impacts indicates a challenge in maximizing the effectiveness of zakat. This problem is very relevant in the current economic context, where the challenges of poverty and inequality are increasingly complex. By optimizing zakat as an impactful investment instrument, it is hoped that zakat will not only provide short-term benefits, but also contribute to creating deep and sustainable social change.

The Importance of Collaboration between Government, Zakat Institutions, and Society

To improve the effectiveness of zakat in creating inclusive economic impacts, better collaboration is needed between zakat institutions, the government and the community. The government needs to provide support in the form of regulations that encourage zakat institutions to manage zakat more productively and transparently. Such as providing tax incentives to zakat providers or creating a legal framework that makes zakat institutions more transparent and accountable. As a facilitator, the government can use national poverty data to help zakat institutions map beneficiaries more accurately. In addition, zakat institutions need to be more innovative in designing programs that not only help zakat recipients temporarily, but also increase their ability to be economically independent. Support from the community is also very important in increasing zakat participation and expanding the scope of beneficiaries.

Recommendations for More Productive Zakat Management

Based on the results of this study, several recommendations can be put

forward to improve the management of zakat as social capital and impact investment:

Increasing Transparency: Zakat institutions need to increase transparency in the management of zakat funds by providing clear and accurate reports on the use of zakat funds, thereby increasing public trust.

Development of Sustainable Economic Empowerment Programs: Zakat institutions must design more sustainable programs based on improving skills and business capital for mustahik. These programs must be directed to creating long-term economic independence for zakat recipients.

Supportive Government Policies: The government needs to formulate policies that support more productive zakat management, including providing incentives for zakat institutions that run impact investment programs and zakat-based economic empowerment.

Collaboration between Zakat Institutions and the Private Sector: To expand the reach of social impact, zakat institutions can collaborate with the private sector in building economic infrastructure and creating business opportunities for the poor.

Thus, the results of this study confirm that zakat, if managed properly, can be an effective instrument in creating an inclusive economy and empowering poor communities, while also functioning as social capital in creating sustainable social impacts.

CONCLUSION

This study reveals that zakat has great potential to become social capital that can encourage the creation of an inclusive economy. As an instrument of wealth redistribution in Islam, zakat can not only function as a religious obligation, but also as a means for community economic empowerment, especially the poor and marginalized

groups. Zakat management based on an impact investment approach can create a sustainable long-term social impact, by providing business capital, skills training and opening up job opportunities for mustahik.

Zakat managed with an economic empowerment strategy shows that zakat recipients not only receive consumptive assistance, but also opportunities to be economically independent and improve their quality of life. Zakat institutions that adopt an impact investment approach can create jobs and increase the income of mustahik, as well as contribute to more inclusive and equitable economic growth.

However, to maximize the potential of zakat as social capital, there are several challenges that need to be overcome, such as the lack of transparency in zakat management, the low capacity of zakat institutions in designing productive programs, and the lack of regulations that support efficient zakat management. Therefore, closer collaboration is needed between zakat institutions, the government and the community in designing policies that support zakat management based on economic empowerment.

Overall, with the right approach, zakat can be a very effective tool in creating sustainable social impact and supporting the creation of a more just and equitable inclusive economy.

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