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# SOCIAL FINANCE INNOVATION: *QARDH-WA'AD* FOR SUSTAINABLE BAZNAS MICROFINANCE DESA (BMD) FINANCING THROUGH PRODUCTIVE *ZAKAT*

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## ABSTRACT

This study examines innovations in the distribution of productive *zakat* carried out by BAZNAS Microfinance Desa (BMD) through a combination of *qardh* and *wa'ad* contracts, as well as the legal culture of the community in financing schemes in Bogor and Bukittinggi, Indonesia. Data were collected using multiple methods, including document analysis, in-depth interviews, direct observation, and Focus Group Discussions. The study finds that BMD employs the *qardh* contract as the foundation for distributing productive *zakat* funds. The use of a commitment sheet (*wa'ad)* as a guarantee for fund repayment further reinforces this mechanism. BMD adopts a community-based financing approach that aligns with the Indonesian cultural value of *gotong royong*, which emphasizes mutual cooperation. Data analysis, conducted through a cyclical approach, reveals that the application of qardh mechanism with *wa'ad* contract— alongside specific eligibility requirements—is effective in generating sustainable impact. The findings indicate that this community-based model significantly contributes to the success of fund recovery. The study suggests combining different contractual instruments in the allocation of productive *zakat*, within the framework of social financing, has the potential to yield substantial and enduring benefits for the wider community. The implications of this study extend to the realm of a novel approach to the distribution of productive *zakat*, one that utilizes the legal culture of the community.

## Introduction

The BAZNAS Microfinance Desa (BMD) is a productive financing program designed for micro-entrepreneurs who are also classified as *mustahik* (*zakat* recipients). It promotes a not-for-profit principle aimed at business development and serves as part of a broader poverty reduction strategy (Asmita et al., 2020; Nurfiyani & Khanifa, 2021). The program is managed by BAZNAS Microfinance (BMFi) and was launched in 2018, with three pilot locations: Bojongrangkas in Bogor, Bukittinggi in West Sumatra, and Gunungsari in Lombok. The BMD financing scheme seeks to strengthen economic, social, and spiritual capital (Yolanda, 2021).

Productive financing is implemented through a combination of financial lending and mentoring. The program adopts a *tanggung-renteng* (joint responsibility) model using, utilizing *qardh* (benevolent loan) and *wa'ad* (promise) contracts. *Zakat* distribution is facilitated through *qardh* contracts, with beneficiaries organized into groups. Each group signs a collective *wa'ad* commitment, symbolizing their shared responsibility. This collective approach is reflected in the members' commitment to mutual support in the event of repayment difficulties, thereby fostering solidarity, mediating financial risks, and enhancing the sustainability of the *zakat* distribution cycle.

Funds are disbursed in groups with varying amounts, determined by several predefined factors, including the type of business, the business group, and the potential for business development and workforce absorption. By the end of 2019, BMD Gunungsari successfully distributed a total of IDR 1,277,500,000 (approximately USD 78,656) to 580 partners, organized into 59 groups (Asmita et al., 2020). In an interview conducted on August 1, 2023, Erri Dwi Herdianto stated that BMD Bojongrangkas had reached 580 partners, while as of August 2022, BMD Bukittinggi had 500 partners across 71 groups, with total funds distributed amounting to IDR 1,422,550,500 (approximately USD 87,586).

As of January 2021, at least 10 BMDs were operating across Indonesia, namely: Bojongrangkas, Bukittinggi, Gunungsari, Jabon Mekar, Sukaindah, Sigi, Lampaseh Kota, Yogyakarta, Bedono, and Sawojajar (Baznas Republik Indonesia, 2021). Given the actual development of BMDs, further in-depth research is warranted on the empowerment outcomes in the two initial pilot locations—BMD Bojongrangkas and BMD Bukittingi—to assess their long-term impact and scalability.

## Literature Review

In recent years, Islamic finance literature has garnered significant attention and sparked ongoing discourse within academic circles (Kuanova et al., 2021). The Islamic social finance sector encompasses a range of institutions, including traditional philanthropic instruments such as *zakat*, *sadaqa*, and *waqf*; cooperative-based mechanisms like *qardh* and *kafala* (Nugraheni & Muhammad, 2024); and emerging Islamic microfinance institutions aimed at poverty alleviation (Islamic Research and Training Institute, 2020). The social dimension of Islamic finance promotes community-oriented financing, encouraging the use of financial instruments to address societal challenges. Instruments such as *zakat* and *qardh hasan*, have been employed to tackle issues like social inequality and poverty (Abbas & Shirazi, 2015).

BMD represents one of Indonesia's key innovations in *zakat* management. Initiated by BAZNAS (the National Zakat Agency) a decade ago, BMD focuses on empowering *mustahik*—individuals eligible to receive *zakat* based on their socioeconomic conditions—with a particular emphasis on micro-entrepreneurs. This approach aligns with the principle of productive *zakat*, which seeks to enhance the welfare of *mustahik* in a sustainable manner (Avdukić & Smolo, 2024; Mahomed & Saba, 2024). The Islamic microfinance model underpinning BMD integrates Islamic financial principles with conventional microfinance practices (Yumna & Clarke, 2011). Beyond capital provisions, BMD also offers non-financial services, such as business mentoring, to support the long-term sustainability of *mustahik* enterprises (Yumna, 2019).

Several studies have been conducted to evaluate the effectiveness of the BMD program. A study conducted by Yolanda (2021) at BMD Bukittinggi found that the program had a significant impact on fulfilling basic needs such as food, clothing, and religious obligations. Meanwhile, a separate study at BMD Bojongrangkas emphasized the importance of a rigorous selection mechanism and strict supervision in fund distribution (Febriansyah et al., 2021). However, efforts to enhance partner skills were found to be suboptimal. Further research by Salsabiela et al., (2023) at BMD Bojongrangkas concluded that *mustahik* empowerment depends not only on capital financing but also on continuous business coaching and mentoring. A successful BMD program, they argue, can transform *mustahik* into independent and productive individuals.

In her study at BMD Bedono, Ni'mah (2022) found that the *qardh hasan* financing scheme was consistent with Islamic principles and provided substantial benefits to business actors through capital strengthening and mentoring services. Supporting these findings, research at BMD Maros demonstrated that the program effectively helped partners develop their businesses, increase income, and acquire new knowledge in areas such as financial management, marketing, and market access.

Asmita et al., (2020), in their study at BMD Gunungsari, reported a significant positive impact of the BMD program, particularly in increasing *mustahik* income by IDR 3,725,584.00 (approximately USD 230) per *mustahik* during the program period. However, no significant increase in assets was observed. Meanwhile, a study at BMD Jabon Mekar concluded that coaching for micro-entrepreneurs has been effective, though several challenges remain. These include the diverse profiles of business actors, lack of coordination between institutions, and limited facilities and infrastructure (Kamarullah, 2020).

Overall, the BMD program demonstrates strong potential for poverty reduction and community welfare enhancement (Khumaini & Apriyanto, 2018; Suganda, 2022). Nevertheless, its implementation continues to face challenges, such as limited impact across certain welfare dimensions and ineffective mentoring approaches. The BMD initiative deserves recognition for its role in optimizing *zakat* utilization for economic empowerment. While existing research highlights its considerable potential, further improvements and expansion are necessary—particularly in the areas of business assistance and broadening the scope of impact.

## Methodology

This research adopts a qualitative approach, relying on data presented in the form of words and narratives (Creswell, 2013). The study utilizes both primary and secondary data sources. Primary data was collected through non-participatory observation, in-depth interviews, and focus group discussions involving BMD functionaries and partners in Bojongrangkas and Bukittinggi. The selection of 10 partners as informants was based on their completion of the initial financing cycle and progression to the subsequent cycle. Secondary data was gathered from various sources, including scientific publications and relevant legal documents. This study employs an area sampling technique, focusing on two BMDs that serve as pilot projects—namely, BMD Bojongrangkas and BMD Bukittinggi. These locations were selected based on their status as pioneers in the implementation of *zakat*-based microfinance programs. The analysis follows a qualitative descriptive method, incorporating both technique triangulation and source triangulation (Creutzfeldt, 2020; Denzin & Lincoln, 2005, 2013; Flick, 2004). The collected data is then examined in depth to explore the model of sharia-compliant implementing within a productive financing scheme that leverages social collectivity.

## Results and Findings

### *Social Capital and the Segmentation of Partnership Groups*

BMD employs a collective scheme in its fund distribution, utilizing a refund mechanism based on the principle of *tanggung-renteng* (joint responsibility). Unlike conventional microfinance institutions, BMD views groups as a form of social capital, aiming to foster collective awareness among *mustahik*. This approach is grounded in the understanding that Indonesian society progresses strong social capital, exemplified by cultural values of *gotong royong* (mutual cooperation) and communal solidarity. It is hoped that this social capital can serve as a catalyst for economic development at the community level. The program's objective is to cultivate collective consciousness, premised on the assumption of a homogeneous and effective adherence to the cultural principle of *gotong royong* across diverse communities. However, this assumption may face limitations due to regional disparities in social cohesion, particularly in urban contexts, where individualistic tendencies are more prevalent. The implementation of the BMD program involves several structured management steps, ranging from the selection of prospective partners to the collective repayment mechanism. Each stage is governed by clear standard operating procedure to ensure that the distribution of productive *zakat* aligns with sharia principles and applicable regulations.

Micro and ultra-micro entrepreneurs—often categorized as unbankable—frequently encounter obstacles in accessing funding from conventional financial institutions. BMD emerges as a solution to address these challenges. Unlike conventional microfinance institutions, which are primarily oriented toward profitability, BMD specifically targets *mustahik*, or individuals eligible to receive *zakat* (Badan Amil Zakat Nasional, 2023). This focus stems from the belief that every individual has the potential to improve their welfare if provided with equal opportunities. While both conventional microfinance institutions and BMD aim to promote economic empowerment, their core objectives differ. Conventional microfinance institutions emphasize financial inclusion and economic growth, often with a profit-driven approach. In contrast, BMD, as a non-profit institution, prioritizes the distribution of productive *zakat* to *mustahik*. Accordingly, BMD applies more specific selection criteria for its partners, focusing on individuals classified as *miskin* (poor), but not *fakir* (destitute) category. A *fakir* is defined as someone who lacks sufficient income to meet their fundamental needs within a given timeframe. In contrast, *miskin* refers to individuals who possess some income or assets, yet remain unable to adequately provide for themselves and their dependents (Nafi et al., 2024; Rodin, 2015). Prospective BMD partners must meet three criteria: they must be eligible as *mustahik*, economically viable, and worthy of receiving benefits.

The primary requirement to be a BMD partner is having the status of an eligible *mustahik*. Eligible *mustahik* are individuals who are able to meet their basic needs but still require support to enhance their standard of living. To determine eligibility, BMD employs an income distribution decile analysis, which divides the population into ten groups based on income, with each group representing 10% of the total population. *Mustahik* who fall within deciles 3 to 5, with a monthly income ranging from IDR 2.2 million (approximately USD 135) to IDR 4.2 million (approximately USD 260), are considered eligible to become BMD partners. This classification is based on poverty level categorization from the Integrated Database (BDT) system (Kementerian Sosial Republik Indonesia, 2013). The upper income threshold—decile 5—is designated as *had kifayah*, which refers to the minimum income level deemed sufficient to meet basic living needs (BAZNAS, 2023). These criteria are grounded in the principle that productive *zakat* is intended to empower *mustahik* who have the potential to achieve economic independence. *Mustahik* in deciles 1 and 2, whose basic needs remain unmet, are more appropriately supported through consumptive *zakat* programs. By applying these criteria, BMD ensures that *zakat* funds are distributed effectively and efficiently, thereby advancing the overarching goal of poverty alleviation.

In an interview conducted on August 1, 2023, Informant, stated that to become a BMD partner, a *mustahik* must also meet several economic eligibility criteria. First, prospective partners must operate a business that has been running for at least two years. This requirement is intended to ensure the sustainability of the business and the partner's ability to repay the financing. Second, the partner must be of productive age, enabling active management of the business and fulfilment of repayment obligations. Third, the type of business financed must comply with Islamic sharia principles. Fourth, the business must be of micro or ultra-micro scale, and not a franchise. Through these criteria, BMD selectively identifies *mustahik* with the potential to develop their businesses. The program is designed to empower individuals with entrepreneurial initiative who are constrained by limited financial resources. In doing so, BMD contributes to community welfare and promotes sustainable economic growth.

BMD prioritizes financing to businesses that have the greatest impact on *mustahik* welfare. Businesses that serve as the primary source of family income are given precedence. Additionally, BMD considers the a business's potential to create new employment opportunities. Thus, BMD not only provides financial assistance, but also actively promotes inclusive and sustainable economic development. Businesses capable of absorbing labor not only increase the income of partner families but also contribute to the wider community's welfare. This approach aligns with the principles of social finance, which aim to empower *mustahik* to eventually become *muzakki* (a person who pays *zakat*).

### *Implementation: Education, Assistance, and Supervision*

BMD implements a group financing scheme, in which each group—comprising 5 to 15 members—must undergo a selection process prior to receiving financing. Once the *qardh* contract is signed, along with *wa'ad* (a commitment sheet), funds are disbursed to each member. The initial funding amount ranges from IDR 1,500,000 (approximately USD 92) to IDR 3,000,000 (approximately USD 185) per person. These funds can be used directly for business development. Group members typically share a similar type of business or live in the same area. Installment payments are made weekly and collectively, reinforcing the principle of joint responsibility. Group meetings are often integrated with religious activities, fostering both economic and spiritual engagement.

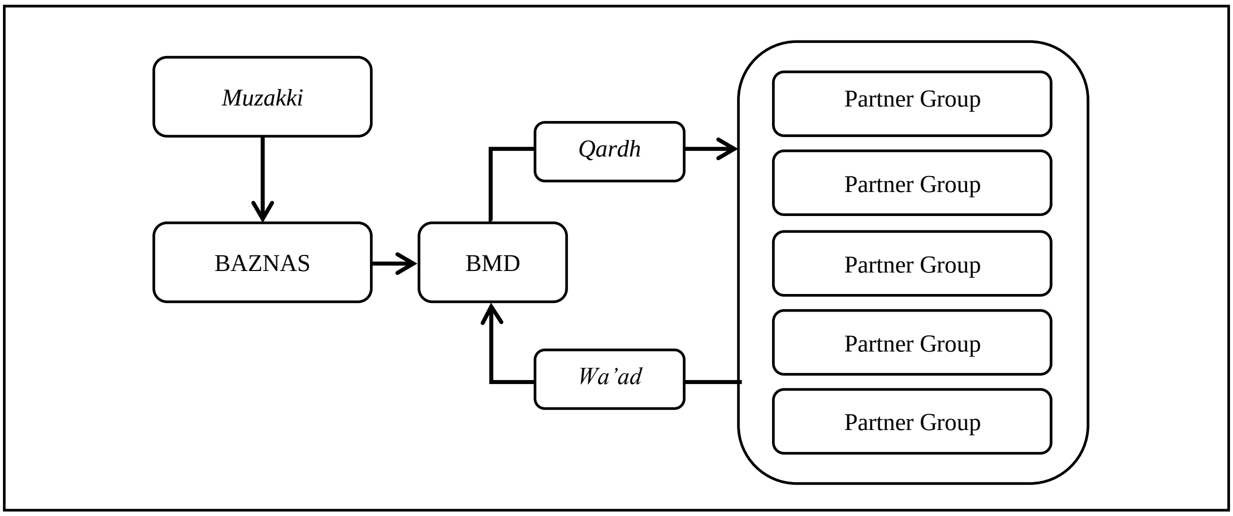


**Figure 1.** Productive *Zakat* Distribution Scheme on BMD

The weekly repayment schedule and regular group meetings are designed to strengthen social capital among partners. Through these interactions, partners can share information, exchange business experiences, and expand their business networks. If a member encounters difficulty in making installment payments, other group members are expected to provide support. This practice of mutual cooperation is intended to foster a spirit of collectivity and enhance the success of community empowerment.

However, the implementation of the community financing scheme within the BMD program faces several challenges, including variations in business location and type of businesses among partners. Despite these challenges, BMD conducts regular on-site inspections to offer technical assistance and supervision. The support provided includes both technical guidance, such as assistance in obtaining product certification, and business development services, such as digital marketing training. A key focus of BMD's assistance is on improving product quality and expanding market access for business partners. For instance, BMD Bojongrangkas has facilitated the acquisition of halal certification for partners involved in food production. To ensure the sustainability and effectiveness of the program, BMD implements a supervision mechanism involving multiple stakeholders, including managers, field assistants, the BAZNAS Microfinance division, and the BAZNAS Center for Strategic Studies. The findings from regular supervision activities are used as evaluation material for program enhancement and the formulation of internal policies within BAZNAS.

## Discussion

### *Qardh and Wa'ad: Mechanism of Disbursement and Guarantee of Zakat Funds in Financing*

*Qardh* is a contract for interest-free lending, intended to promote mutual assistance. The debtor is obligated to repay the exact amount borrowed at the agreed-upon time (Ath-Thayar, 2009). The practice of *qardh* is often viewed as a means of spiritual closeness to Allah, achieved through acts of generosity and support for others. From a sharia perspective, *qardh* falls under the category of '*aqad tabarru'*, which refers to contracts based on the intention to do good without expecting any financial return. However, the debtor is permitted to offer a voluntary donation (*hibah*) to the lending institution, provided it is not stipulated in the contract. The source of *qardh* funds may include Islamic capital from financial institutions, as well as *zakat*, *infaq*, or *waqf* (Rukiah, 2019; Selim, 2019). The use of *zakat*, *infaq*, and *waqf* for productive *qardh* financing is aimed at empowering the poor and promoting inclusive economic growth (Ichsan, 2016).

*Qardh* reflects the social responsibility of Islamic financial institutions in supporting individuals in need. As a form of soft loan, *qardh* offers flexibility to customers facing financial hardship. If a debtor is unable to repay the loan as agreed, the lending institution may offer relief measures, such as an extension of the repayment period or a partial or full debt write-off (Haida, 2015). This approach aligns with Islamic principle of compassion and assistance, aiming to alleviate the burden on customers.

There is a divergence of opinion among scholars regarding the use of *qardh* in the distribution of *zakat*. Al-Qaradawi (1994) and several other scholars permit this practice, arguing that there is no explicit *dalil naqli* prohibiting it. They contend that if *zakat* may be used to settle debts, then its utilization in the form of loans for business development is likewise permissible. In this view, *zakat* can serve as an instrument to empower *mustahik* and alleviate poverty in a sustainable manner. However, other scholars, such as Muhammad ibn Salih al-Uthaymeen, disagree. They assert that *zakat* must be distributed immediately to *mustahik* in accordance with *shariah* provisions (Nurcahya et al., 2019). Delaying its distribution—including through *qardh*—is deemed unjustifiable, as it contradicts Allah's absolute right over *zakat*.

The concept of *maslahah* has inspired various innovations in *zakat* management, particularly in the productive distribution. Contemporary *ijtihad* increasingly prioritizes long-term societal benefits in the administration of *zakat*. The development of Islamic banking—especially *qardh*-based products—offers insight into the potential application of similar mechanisms within *zakat* distribution. Recent data indicates a significant rise in the use of *qardh* contracts in Islamic banking, notably among microfinance institutions such as Sharia Rural Bank (*Bank Pembiayaan Rakyat Syariah*, BPRS) (Otoritas Jasa Keuangan Republik Indonesia, 2023). This trend underscores the considerable potential of *qardh* in empowering communities through *zakat*, and highlights the critical role of non-profit financial institutions in advancing productive *zakat* initiatives.

BAZNAS North Sumatra and Semarang have implemented a *qardh* scheme in productive *zakat* distribution through Baitul Qiradh BAZNAS (BQB) program (Asni et al., 2023). BQB aims to empower the poor by providing interest-free loans. However, an evaluation of the program revealed a low repayment rate (Nurcahya et al., 2019). In response, a new approach known as BMD emerged. Under BMD, the *mustahik* is regarded as a partner who pledges to repay the loan according to their capacity. The repaid funds are then redistributed to other *mustahik*. This model differs from BQB, which is primarily oriented toward direct financial assistance.

The fundamental distinction between BQB and BMD lies in the contractual; framework. BQB employs a *qardh* contract, which entails a formal debt and credit agreement. In contrast, BMD adopts the concept of *wa'ad* (promise), offering greater flexibility. Through *wa'ad*, *mustahik* commit to repayment without being bound by a rigid contractual obligation. This approach is expected to enhance the *mustahik*'s sense of responsibility and promote the sustainability of the program.

Etymologically, *wa'ad* shares a root with the term *hadda*, which connotes *al-wa'id* (threat) or *takhawwuf* (fear). Terminologically, *wa'ad* refers to a declaration—whether verbal or behavioral—expressing one's intention to perform an act that benefits another party (Putra, 2018). Essentially, *wa'ad* is a morally binding commitment rather than a legally enforceable one. Its fulfilment is regarded as an ethical virtue and is grounded in a benevolence-based contract, akin to a grant (Djamil, 2013; Rahman & Luhur, 2021).

There is a divergence of opinion among scholars concerning the legal status of *wa'ad*. The majority—including scholars from the Hanafi, Shafi'i, Hanbali and some Maliki schools—hold that while a promise constitutes a religious obligation, it is not legally binding (Syubair, 1992; Hosen & Muayyad, 2014). They classify *wa'ad* under *tabarru'* (non-reciprocal) contracts, which are inherently non-binding. Consequently, fulfilling such a promise is recommended (*mustahabb*) but not legally obligatory (Al-Sarkhasi, 1986). This view rests on several considerations (Hattab, 2000). First, *wa'ad* resembles *hibah* (gift) in that both are voluntary and lack legal enforceability prior to execution. Second, the recipient of the promise does not possess a definitive right to compel its fulfillment.

Al-Jashsash (1984) and Ibn Al-'Arabi (2000) stated that an alternative scholarly opinion holds that a promise (*waʿad*) is both obligatory and legally binding. Proponents of this view include Umar bin Abdul Aziz, Hasan Bashri, Ibn Hajar al-'Asqalani, Ishaq bin Ibrahim bin Rahawiya (the teacher of Imam al-Bukhari), al-Subki, Ibn Taymiyah, Ibn Qayyim, Ibn al-Ashur, Muhammad bin Ismail al-Bukhari, Ibn

Shubrumah, al-Ghazali, Abu Bakr al-Razi, Sami Hammud, and Al-Qaradawi. This position is grounded in the imperative to fulfil one's word, as emphasized in the Qur'an—Surah al-Saff (61:2-3), Surah al-Tawbah (9:77, 114), and Surah Maryam (19:54)—as well as in *hadith* concerning the signs of hypocrisy. This view is further reinforced by the practical benefits of legally binding promises in financial transactions, including the prevention of disputes and the promotion of trust in business dealings.

Additionally, some scholars from the Maliki school argue that a promise becomes binding when made for a specific cause, even if that cause is not explicitly stated. Ibn Qasim, a prominent Maliki jurist, contends that a promise is binding only when the cause is clearly articulated within the promise itself. This necessity is supported by several considerations. First, avoidance of *gharar* (uncertainty) which negatively affects *mu'amalat* (transaction) and must be mitigated. Second, prevention of harm, where binding promises help avert potential injustices or losses. Third, freedom to stipulate conditions, whereby in principle, individuals possess the liberty to define contractual terms unless explicitly prohibited by evidence.

Scholars hold differing views on the legal status of promises. The majority regard a promise as a moral obligation rather than a formal legal commitment, emphasizing its spiritual dimension in terms of fulfilment. In contrast, some scholars argue that promises can be legally binding, particularly when they pertain to transactions or formal agreements. The Council of Islamic Fiqh Academy (CIFA) tends to support this latter view, asserting that a promise may be legally binding if it satisfies specific conditions (Djamil, 2013). A similar stance is adopted by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), which stipulates that promises in Islamic financial transactions are binding and must be fulfilled if they meet certain criteria—such as being documented in writing and not contradicting sharia principles. It is important to distinguish *wa'ad* from a formal contract. *Wa'ad* binds only the promisor, and its consequences are primarily moral in nature (Ichsan, 2016). In contrast, a contract involves two or more parties and carries stronger legal enforceability.

Within DSN-MUI fatwas, there are varying interpretations regarding the legal status of *wa'ad*. Some fatwas affirm its binding nature, while others remain silent or ambiguous on the matter. The application of *wa'ad* in BMD as a form of partner commitment in utilizing productive *zakat* funds reflects the spirit of *tabarru'*. '*Aqd tabarru'* refers to contracts founded on sincere intentions to do good without expecting material compensation. In practice, BMD does not derive profit from the *zakat* funds it distributes. The administrative fee charged is solely to cover operational expenses and is not profit-oriented. All funds recovered from partner repayments are reallocated to other *mustahik*. This demonstrates that the ethos of mutual assistance and public benefit forms the core foundation of productive *zakat* management within BMD.

The commitment to implementating *qardh* within the BMD framework is expected to generate broader benefits for other *mustahik*. This is made possible by the mechanism through which repaid financing is redistributed to new beneficiaries. The *qardh* repayments made by *mustahik* are deposited into a dedicated account that is separate from the main BAZNAS account. These funds are then fully reallocated to other *mustahik* in the form of similar *qardh* financing. They do not revert to BAZNAS but are exclusively earmarked for partner financing in subsequent cycles. This scheme is designed to operate continuously, enabling BMD to expand its reach and serve a wider segment of *mustaḥik* through productive *zakat* distribution. Importantly, the sustainability of BMD is safeguarded by the financial structure: the BMD manager's salary is directly funded by BAZNAS, ensuring that the capital allocated for *mustaḥik* remains intact and undisturbed.

Initially, BMD was perceived primarily as an institution responsible for managing *qardh* repayments. However, its broader purpose is to cultivate commitment, responsibility, and financial literacy among *mustaḥik* who serve as beneficiary partners. Drawing on the experience of *qardh ḥasan* in previous *zakat* distribution models, the integration of *waʿad* within the *qardh* framework aims to facilitate wider and more equitable distribution of *zakat* benefits—without diminishing the principal funds. This approach is particularly significant given the potential multiplier effects that can arise from successful program implementation. Moreover, the use of *waʿad* is envisioned as a tool to foster a constructive legal culture among *mustaḥik*, reinforcing ethical behavior and accountability in the context of productive *zakat* utilization.

Based on an analysis of existing regulations, BMD is projected to be capable of redistributing assets within two to three years. This projection is feasible given that the planned financing cycle spans one year. Once the financing provided has been fully repaid by the partners—accompanied by voluntary *infaq* contributions—it will be classified as a BMD asset. These assets will then be reallocated through the financing program in the subsequent year. Furthermore, it is likely that the asset pool will grow annually due to the *infaq* contributions made by partners during the repayment process.

***New Approach to Productive Zakat Distribution: Social Finance and Empowering Mustahik***

*Zakat* distribution in Indonesia has undergone a significant transformation, shifting from a traditional model to a more structured and professionalized approach. Nevertheless, challenges related to public awareness, accountability, and economic inclusion remain and must be systematically addressed. Effective *zakat* distribution plays a crucial role in embodying the values of social justice and compassion upheld in Islam. Generally, *zakat* can be distributed through various mechanisms (Zahri et al., 2023), including direct disbursement to *mustahik* or via productive investment models (Dafa et al., 2022). To achieve broader and more sustainable impact, the productive *zakat* distribution approach is increasingly preferred. In this model, *zakat* serves as capital to empower *mustahik* toward economic self-sufficiency.

Productive *zakat* distribution not only provides financial assistances but also encompasses skill development, market access, and technical support. Its ultimate goal is to foster long-term transformation in the lives of *mustahik*, reducing their dependence on *zakat* assistance. Accordingly, productive *zakat* is expected to contribute meaningfully to poverty alleviation and the enhancement of social welfare. For such programs to operate effectively, rigorous supervision and continuous mentoring of *mustahik* are essential. Moreover, *zakat* fund management must be transparent and accountable. By integrating the principles of Islamic finance with social development objectives, productive *zakat* distribution can serve as a powerful instrument in realizing a just and prosperous society.

Currently, there are at least four main approaches to *zakat* distribution. First is the traditional consumption model, which provides *zakat* directly in the form of daily necessities. This model is short-term in nature and aims to address immediate needs. Second is the creative consumption model, which distributes *zakat* in the form of targeted consumption goods to address specific socio-economic challenges. Third is the conventional productive model, which supplies productive assets to support *mustahik*-owned businesses. Finally, the creative productive model offers revolving capital to facilitate small business development.

Over time, *zakat* management has undergone various innovations, one of which is the microfinance model. This approach involves distributing *zakat* funds as microloans to support Micro, Small and Medium Enterprises (UMKM). Its primary goal is to empower *mustahik* to improve their standard of living independently. Beyond economic assistance, this model also promotes financial inclusion and contributes to broader community-based economic growth.

Malaysia has emerged as a leader in the implementation of *zakat*-based microfinance. Through its productive *zakat* programs, the country has successfully empowered communities, particularly in the area of poverty alleviation. The application of strict *sharia* principles within the *qardh* scheme has proven effective in liberating *mustahik* from the trap of *riba* (N. I. Muhd. Adnan et al., 2017). Comparable successes have been documented in Nigeria (Shittu et al., 2022), Bangladesh (Muneer & Khan, 2019, 2022) and Iran, where this model has effectively addressed the financial challenges faced by small traders and farmers (N. U. Muhd. Adnan et al., 2019). In Indonesia, Baitul Mal Aceh has also implemented this model with notable success. As a result, many micro-entrepreneurs have improved their welfare and demonstrated timely loan repayment (N. I. Muhd. Adnan, 2015, 2016). BMD emerges as a strategic solution to the persistent constraints on capital access commonly faced by micro-entrepreneurs—a global challenge that impedes the growth of small businesses.

These entrepreneurs often struggle to secure business capital due to lack of collateral, limited financial literacy, and high borrowing costs. To address these barriers, interventions such as training, network development, and supportive policy frameworks are essential. BMD introduces a group financing scheme that diverges from the conventional principles of mainstream microfinance institutions. Its core focus lies in empowering *mustahik* through social and educational approaches, rather than imposing punitive sanctions on partners experiencing financial difficulties.

BMD possesses distinct characteristics that set it apart from conventional microfinance institutions. As a program under BAZNAS, all BMD financing activities are fully funded by BAZNAS. Its financial management adheres to Statement of Financial Accounting Standard 109 (PSAK 109), which specifically governs the accounting of *zakat*, *infaq*, and *sadaqah*. The revised PSAK 109, issued in 2022, offers more comprehensive guidelines for *amil* institutions in managing *zakat* funds. This updated standard officially takes effect on January 1, 2024, although some institutions have adopted its provisions earlier.

The status of funds managed by BMD also reflects unique characteristics. According to PSAK 109 Year 2022, funds that have been distributed do not revert to BAZNAS. This differs from the view of certain scholars who permit *qardh* contracts in *zakat* distribution (Al-Qaradawi, 1994). Such flexibility is grounded in the interpretive approaches to religious texts and considerations of *maslaha* (Zahri et al., 2023). Surah al-Taubah (9:60) is frequently cited in discussions on *zakat* distribution. The verse employs the propositions "*li*" and "*fi*", both of which carry multiple semantic nuances. Contemporary scholars argue that overly rigid interpretations of these terms may constrain the permissible forms of *zakat* distribution. They maintain that the primary objective of *zakat* is to enhance the welfare of *mustahik*, and therefore, its modes of distribution should be adaptable to evolving socio-economic contexts.

The understanding of the concept of *lil al-tamlik* in *zakat* distribution requires re-examination. Contemporary socio-economic dynamics call for renewed *ijtihad* in interpreting and applying Islamic law. Scholars such as Al-Qaradawi (1994) and Al-Zarqa' (Al-Zarqa', 1984) contend that *zakat* distribution need not be rigidly confined to the notion of direct ownership. Instead, the principle of *maslaha*—the public good—should serves as the primary consideration in determining distribution models that align with present-day realities. There is no explicit *dalil naqli* prohibiting the distribution of *zakat* through microfinance mechanisms. Foundational principles in *fiqh al-muamalat*, such as *maslaha* and *maqasid al-sharia*, provide legitimate space for the development of innovative *zakat* distribution frameworks. The state also plays a critical role in regulating *zakat* management to promote societal welfare. Distributing *zakat* via microfinance can be classified as *maslaha tahsiniyah* (Basyah, 2009),—an effort aimed at enhancing the quality of life within the community. The overarching objective of *zakat* is to eradicate poverty and improve welfare. When channeled through microfinance, *zakat* has the potential to foster economic independence among *mustaḥik* and mitigate social inequality. In this way, *zakat* functions not only as a tool for immediate relief but also as a transformative instrument that empowers *mustaḥik* to eventually become *muzakki*.

Based on the aforementioned considerations, several contemporary *fatwas*—including those issued by scholars such as Al-Qaradawi (1994) and Abdullah Wahab Khalaf (1969)—support the distribution of *zakat* through microfinance schemes. This approach has been adopted by institutions such as Baitul Mal Aceh and Pusat Pungutan Zakat (PPZ) Malaysia, both of which utilize *qardh* contracts in their distribution mechanisms. Through the *qardh* model, the benefits of *zakat* can be extended to a larger number of *mustaḥik* without compromising the entitlements of others. The implementation of *zakat*-based microfinance in Indonesia differs significantly from the model applied in Malaysia (Mushkalamzai et al., 2023). Notably, the Malacca Fatwa Committee issued a ruling in 2011 permitting the distribution of *zakat* through microfinance schemes under specific conditions. One key distinctions is that in Malaysia, *zakat* distributed via *qardh* contracts may be granted to all categories of *mustahik gharimin*, regardless of income level (Mohamed et al., 2018), provided the business activities adhere to *sharia* principles. Nevertheless, due to the limited availability of *zakat* funds, Malaysia enforces prioritization policy to ensure equitable access among eligible *mustahik*. This policy includes criteria such as targeting individuals who have recently initiated a business and have been unsuccessful in securing financing from other Islamic financial institutions (N. U. Muhd. Adnan et al., 2021).

## Conclusion

BMD Bojongrangkas and Bukittinggi employ distinct approaches to *zakat* management. Both institutions provide funds to individuals aspiring to become entrepreneurs. Prior to receiving financing, applicants must fulfil specific eligibility criteria. The objective is to support business development and enhance family welfare. In this way, *zakat* funds are not merely disbursed but strategically utilized to generate broader community benefits. To ensure the return of the loaned *zakat* funds, BMD requires recipients to sign an agreement letter outlining their commitment to repay the borrowed amount. This formal agreement enhances BMD's confidence that the funds will be used responsibly and returned as promised.

The productive *zakat* management models adopted by BMD Bojongrangkas and Bukittinggi have yielded promising outcomes. Through a revolving financing scheme, the distributed *zakat* funds are not only disbursed but also recovered and reallocated to other *mustaḥik*. This cyclical process generates a positive multiplier effect: the more partners who succeed in developing their businesses, the greater the potential for *zakat* funds to reach a wider segment of the community. This management model offers not only economic solutions but also contributes to social welfare and sustainable community empowerment. The study presents valuable insights from two pioneering institutions in Indonesia, while acknowledging that outcomes may vary across newer or differently structured institutions. Future research is recommended to conduct a more comprehensive evaluation across a broader sample of *zakat* management entities.

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