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Zakat and Waqf in Local Economic Development Case Study in LAZISNU DIY

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ABSTRACT

Purpose — *This research aims to explore and analyze the roles of zakat (charitable donations) and wakaf (endowments) in local economic development.*

Method — *The study adopts a qualitative approach with a case study research method. The research method utilized is a case study. This study will identify and analyze the practices of zakat and wakaf in the context of local economic development in specific regions or communities. Data will be collected through interviews with relevant parties, field observations, and analysis of relevant documents. The data will be qualitatively analyzed to identify the roles, impacts, and challenges associated with the utilization of zakat and wakaf in local economic development.*

Result — *This research is expected to provide valuable insights into the contributions of zakat and wakaf in local economic development and assist in formulating policy recommendations to enhance the effectiveness of fund utilization for the economic benefit of the local community.*

Novelty — *The main objectives of this research are to understand the roles of zakat and wakaf in local economic development, identify factors influencing the effectiveness of zakat and wakaf utilization in the context of local economic development, and recognize challenges that may arise in the implementation of zakat and wakaf in local economic development.*

Keywords: Zakat, Waqf, Local Economic, Development, LAZISNU DIY

INTRODUCTION

Zakat and Waqf, as pillars of Islamic philanthropy, have played a crucial role in advancing socio-economic development within society. This research explores and analyzes the distinctive contributions of Zakat and Waqf in the context of local economic development, with a specific focus on LazisNU DIY (Lembaga Amil Zakat, Infaq, dan Shadaqah Nahdlatul Ulama Daerah Istimewa Yogyakarta). As integral components of Islamic finance, Zakat and Waqf have the potential to serve as powerful instruments in addressing economic disparities, promoting sustainable development, and enhancing the well-being of the local population.

The aim of this research is to comprehensively investigate the roles of Zakat and Waqf within the framework of local economic development, utilizing LAZISNU DIY as a case study. LAZISNU DIY, as an established institution under Nahdlatul Ulama, provides a unique context to explore the practical applications and impacts of Zakat and Waqf in the region. Through qualitative research methods, including interviews, field observations, and document analysis, this study aims to identify specific practices, challenges, and successes related to the utilization of Zakat and Waqf in contributing to the economic growth of the local community.

By understanding the dynamics of Zakat and Waqf in the context of local economics, this research aims to provide valuable insights that can inform policy decisions and enhance the effectiveness of these Islamic financial instruments in promoting sustainable and inclusive economic development. The findings of this research are expected to illuminate the complex relationship between religious philanthropy and economic progress, offering recommendations to optimize the utilization of Zakat and Waqf funds for the benefit of the community served by LAZISNU DIY.

Empowering local economies is no longer just a concept but a necessity in efforts to achieve sustainable development. Amidst the complex dynamics of society and development challenges, the role of zakat and waqf as instruments of Islamic finance emerges as a central point capable of creating a significant impact. More than just reflecting religious dimensions, zakat and waqf directly permeate the structure of the local economy, forming a solid foundation for growth and prosperity. Zakat and waqf, as forms of Islamic philanthropy, present a unique and holistic approach to addressing inequality and improving the well-being of local communities (Abdul Jalil, 2003; 56-69).

METHODS

The choice of a qualitative approach and a case study method is not merely coincidental but a reflection of a deep-seated desire to thoroughly immerse in the local context. This case study encompasses not only the identification of zakat and waqf practices that serve as pillars of the economy in various regions or communities but also aims to uncover the nuances and complexities of each of these practices. Involving in-depth interviews with relevant parties, meticulous field observations, and comprehensive document analysis, this method ensures that the gathered data provides a rich and accurate depiction of the on-the-ground reality (Rahardj, M., 2017).

RESULT AND DISCUSSIONS

From the research findings obtained, it is evident that the practices of zakat and waqf play an undeniable role in supporting local economic development. Comprehensive analysis indicates that the success of utilizing zakat and waqf is heavily influenced by several factors, including the level of community participation and active involvement of the local government. This research also highlights the fact that the utilization of zakat and waqf not only positively impacts local economic growth but also encourages increased community income and the development of better infrastructure. (Karuni, M. S., 2020: 2).

The Use of Zakat Funds for Alleviating Poverty

Zakat has become a crucial source of state financial income with a significant role, one of which is providing assistance for the social welfare of less fortunate communities such as the poor and others in need. One of the roles of zakat is its contribution to reducing poverty in society.

The position and significance of zakat in Islam can be observed through several aspects:

1. Zakat is one of the five pillars of Islam, based on a hadith from Ibn 'Umar RA. Prophet Muhammad SAW once stated that Islam is built upon five pillars: (1) Testimony of the oneness of Allah and the prophethood of Muhammad, (2) Performing prayers, (3) Paying zakat, (4) Fasting during the month of Ramadan, and (5) Performing the pilgrimage to the Kaaba for those who are able [Muttafaqun'alaihi].
2. Allah Azza Wa Jalla often links the command to pay zakat with the command to perform prayers in the Qur'an in twenty-eight different verses. This indicates the importance and elevated position of zakat in Islam. Sometimes, the word 'prayer' is mentioned in many verses in the Qur'an, sometimes along with 'faith,' and sometimes along with 'zakat. (Abdul Jalil, 2023: 60).

At times, these three elements are mentioned along with good deeds, which is a logical sequence. Faith, as the foundation of actions of the heart, is the basis, while good deeds, as physical actions, are the evidence that strengthens the truth of faith. The first action required of a believer is prayer, which is a physical worship, followed by zakat, which is a form of worship related to wealth. Therefore, after calling to faith, the call to prayer and zakat precedes the other pillars of Islam.

This is based on the hadith of Ibn Abbas RA. from Prophet Muhammad SAW. When he sent Mu'adz RA. to Yemen, he said to him: Refer to "Al-Mu'jam al-Mufahras li Alfazhil Qur'an al-Karim," Muhammad Fuad 'Abdul Baqi p. 421: "Certainly, there will come to a people from the People of the Book, invite them to testify that there is no true God but Allah and that I am the messenger of Allah. If they obey your invitation, then tell them that Allah has made it obligatory for them to perform five prayers throughout the day and night. If they obey your invitation, then tell them that Allah has made obligatory upon them the charity taken from their rich and given to their poor." (Edo Segara Gustanto, 2023).

Prophet Muhammad SAW. only mentioned prayer and zakat (in the above hadith) because of their great importance, and both are prioritized over the preaching of Islam. Also, it follows the principle of at-tadarruj (gradual phase by phase) in explaining the obligations of Islam. There are many more proofs from the Qur'an and hadiths that show the high position of zakat in Islam. In an economic context, zakat plays a role in avoiding the accumulation of wealth concentrated in a few individuals and obliging wealthy individuals to share their wealth with less fortunate groups, such as the poor and needy. Additionally, zakat functions as a potential source to address poverty-related issues. Zakat can also serve as capital for business ventures for those less fortunate, enabling them to start businesses and create job opportunities, thus earning income to meet their daily needs. (Edo Segara Gustanto, 2021).

Zakat and Waqf in Local Economic Development

Zakat and waqf play a significant role in local economic development within the context of Islamic economics. These financial instruments, despite having primary religious objectives, are also recognized as tools that can have a positive impact on the well-being of the local community. Here are several aspects regarding the roles of zakat and waqf in local economic development:

1. **Fair Wealth Distribution:** Zakat is the financial obligation of Muslims to give a small portion of their wealth to those in need. In the context of local economic development, zakat plays a role in distributing wealth more equitably, reducing economic disparities between the rich and the poor. Meanwhile, waqf involves contributions for the public interest, including infrastructure development such as schools, hospitals, and other public facilities. Waqf not only focuses on wealth distribution but also on physical development that can improve local infrastructure, create job opportunities, and provide better access to basic services. Through these Islamic financial instruments, there is potential to create a significant positive impact in supporting local economic development and improving community well-being.
2. **Community Empowerment:** Zakat distribution not only includes financial assistance but can also be directed towards training and educational programs to enhance the skills and economic empowerment of zakat recipients. Meanwhile, waqf can be used to establish skill training centers, business incubation centers, or other initiatives that promote the economic self-sufficiency of the local community. With this approach, it's not just funds being channeled, but also efforts to enhance the capacity and capabilities of the local community, creating more sustainable impacts in supporting economic development and community empowerment.
3. **Social and Economic Investment:** Zakat can be directed to support economic programs such as small loans or capital for local entrepreneurs, encouraging micro and small to medium-sized economic growth at the local level. Meanwhile, waqf funds can be invested in productive projects such as agriculture, local industries, or small and medium enterprises. This investment approach provides long-term financial support for local economic development. Through the use of zakat and waqf as investment instruments, there is potential to accelerate economic growth, create jobs, and make a positive and sustainable contribution to local economic development.
4. **Meeting Basic Needs:** One of the primary goals of zakat is to help meet the basic needs of those less fortunate. Proper allocation of zakat can include providing for food, education, and healthcare needs at the local level. Meanwhile, waqf can be used to build essential facilities such as hospitals, educational centers, and other basic infrastructure, directly addressing the needs of the local community. By combining zakat and waqf resources, a synergy is created that can have a broader and more sustainable positive impact in meeting basic needs and improving the quality of life for the local community.

The implementation of zakat and waqf in local economic development not only creates positive social impacts but also supports the principles of justice and the common welfare in the perspective of Islamic economics. Therefore, effective management and utilization of zakat and waqf can be effective instruments in promoting local economic growth and enhancing community well-being.

The Utilization of Zakat and Waqf in the Context of Local Economic Development

The utilization of zakat and waqf in the context of local economic development has significant potential to enhance the well-being of the local community. Here are several ways in which zakat and waqf can be applied to support local economic development:

1. **Empowering Micro and Small Businesses:** Zakat funds can be allocated to provide small business capital to local entrepreneurs. These small loans can assist in establishing or expanding micro and small businesses, thereby supporting local economic growth. Meanwhile, waqf can be used to establish business incubation centers or provide scholarships and training for local entrepreneurs, enhancing their capacity and supporting various economic sectors. By combining zakat and waqf resources, a synergy is created that strengthens efforts to empower local entrepreneurs and promote inclusive economic development at the local level.
2. **Education and Skills Training:** Zakat can be focused on education and skills training programs, including providing access to quality education and enhancing skills relevant to the local job market. Meanwhile, waqf funds can be directed to establish schools or skills training centers that focus on local needs, improving the qualifications and competitiveness of the local workforce. Through synergy, zakat and waqf can play a role in creating better education and training opportunities, supporting the development of local skills, and strengthening the workforce's readiness for local job market demands.
3. **Infrastructure and Physical Development:** Zakat can be used to support the development of basic infrastructure such as roads, bridges, and clean water facilities. Quality infrastructure improves accessibility and the quality of life for the community. Meanwhile, waqf can be allocated to establish or maintain public facilities such as hospitals, health centers, and local markets, supporting economic development and community well-being. By combining zakat and waqf resources, synergy is created that can significantly contribute to improving infrastructure and public services, creating a better environment for economic development and the well-being of the community.
4. **Health and Well-being Enhancement:** Zakat can be used to provide healthcare assistance to those in need, including providing basic healthcare services, vaccinations, and community health programs. Meanwhile, waqf funds can be used to establish or support hospitals, health clinics, or rehabilitation centers, providing better access to healthcare services and supporting community productivity. Through the combination of zakat and waqf, joint efforts are made to improve public health, create an environment that supports sustainability, and enhance the general well-being at the local level.
5. **Poverty Alleviation and Social Assistance:** One of the main goals of zakat is to reduce poverty. Zakat can be applied to provide cash assistance, food, and clothing to families in need. Meanwhile, social waqf can be established to provide sustainable social assistance, such as orphanages, shelters, or food assistance programs. By combining zakat and waqf resources, holistic support is created to reduce poverty, provide protection to needy families, and build a stronger foundation for well-being at the local level.

The utilization of zakat and waqf in local economic development is not just about providing financial assistance but also about building sustainability and enhancing the capacity of the local community. Through wise and strategic management, zakat and waqf can be key drivers of local economic growth and the improvement of community well-being.

Challenges in Implementing Zakat and Waqf in Local Economic Development

Despite the significant potential of zakat and waqf in supporting local economic development, their implementation is confronted with several challenges that can affect their effectiveness and the sustainability of their impact. Here are some key challenges commonly faced in implementing zakat and waqf in the context of local economic development:

1. **Lack of Transparency and Weak Governance:** Issues of transparency and weak governance in the collection and distribution of zakat can hinder public trust. Lack of accountability can result in zakat funds not reaching their intended targets. Similarly, weak governance in waqf management can lead to inefficient use or even misuse of funds, diminishing the positive impact that can be achieved. Both Islamic financial instruments require efforts to enhance

- transparency, accountability, and good governance to provide maximum benefits to the community and build the necessary trust for sustained success.
2. **Limited Understanding of Concepts and Benefits:** Some communities may have a limited understanding of the concepts and benefits of zakat. This lack of understanding can be a barrier to active and effective participation in the zakat system. Similarly, limited awareness of waqf and its potential for local economic development can reduce interest and participation in developing waqf initiatives. Broad educational and awareness efforts are needed to improve community understanding of zakat and waqf, allowing their potential contributions to be felt more widely and sustainably at the local level.
 3. **Unequal Distribution of Funds:** Unequal distribution of zakat among sectors or regions can create additional economic inequalities. Similarly, uneven distribution of waqf can lead to some areas or groups receiving greater benefits than others. It is essential to ensure fair and equitable distribution from both funding sources to prevent increased economic inequality and ensure that the benefits are inclusively felt by the entire community.
 4. **Lack of Coordination among Institutions and Stakeholders:** Insufficient coordination between zakat institutions and local development agencies can hinder the effectiveness of zakat in empowering the local economy. Similarly, for waqf, coordination between Islamic financial institutions, local governments, and the community needs improvement to ensure the optimal utilization of waqf funds. Enhanced coordination is key to maximizing the positive impact of zakat and waqf in supporting local economic development, avoiding overlap, and achieving more efficient synergies at the community level.
 5. **Legal Uncertainty and Regulations:** Legal uncertainty regarding zakat regulations and a lack of clear regulations can make it challenging to manage and distribute zakat effectively. Similarly, ambiguous or unsupportive regulations and laws can be a constraint in managing and optimizing waqf potential. Addressing these regulatory challenges is crucial to encouraging the formulation of clear and supportive regulations for zakat and waqf to create a conducive environment for more effective fund management and distribution, as well as to instill confidence in participating communities.
 6. **Changes in Attitudes and Community Priorities:** Changes in community attitudes or priorities towards zakat, especially amid economic or social changes, can affect the amount and types of zakat received. Similarly, shifting community priorities or a lack of understanding of the benefits of waqf can reduce community participation and support. Therefore, continuous efforts to improve community understanding of zakat and waqf and their relevance to local needs are crucial to ensuring the sustainability and effectiveness of these two Islamic financial instruments in supporting local economic development.
 7. **Economic Instability and Financial Crises:** Economic instability and financial crises can reduce the amount of zakat given by the community due to limited economic resources. In challenging economic situations, waqf funds may be affected, diminishing the drive for local economic development initiatives. Therefore, unstable economic conditions can pose additional challenges to the potential of zakat and waqf in supporting local economic development. In facing this uncertainty, appropriate strategies are needed to maintain and maximize the contribution of these two Islamic financial instruments for the sustainability of local economic development.

Addressing these challenges requires joint efforts from the government, Islamic financial institutions, philanthropic organizations, and the general public. Strengthening regulations, improving transparency, and community education can be key steps in maximizing the contributions of zakat and waqf to sustainable local economic development.

Utilization Practices of Zakat by LAZISNU for Local Economy

LAZISNU Special Region of Yogyakarta (DIY) initiated the implementation of the "Kampung Nusantara" (Archipelago Village) Program in rural areas. This program is specifically targeted at villages with economic incomes below the average. To kick off the program, LAZISNU DIY conducted a Focus Group Discussion (FGD) in Kalurahan Kanigoro, Kapanewon Saptosari, Gunungkidul Regency.

"The FGD took place on September 30, 2023, attended by several representatives from stakeholders such as Kalurahan Kanigoro, GARFA, Muslimat NU, MWCNU Kapanewon Saptosari, LAZISNU

Gunungkidul Regency, PCNU Gunungkidul Regency, representatives from the Ministry of Home Affairs, Ministry of Religion, and LAZISNU PWNU DIY," said the Chairman of LAZISNU DIY, Mamba'ul Bahri, in an interview on Thursday (5/10/2023). (Interview by LAZISNU DIY, Mambaul Bahri).

The FGD, which took place at TK Masyitoh in Dusun Gebang, Kalurahan Kanigoro, Kapanewon Saptosari, was organized with the theme of the Archipelago Village Program for Accelerating Economic Recovery and Strengthening Reform.

Mamba'ul Bahri stated, "Kampung Nusantara is a tangible form of Nahdlatul Ulama's khidmah in building the ummah, developing communities, and constructing villages."

"Kampung Nusantara consists of nine fundamental pillars of the NU Care-LAZISNU program, namely Social-Religious, Disasters, Education, Economy, Health, Human Rights and Humanity, Culture and Tourism, Resources and Processing, as well as the Environment and Energy," he added. (Interview by LAZISNU DIY, Mambaul Bahri).

Miftakhul Khoiri, Head of Distribution and Utilization Division, explained the calculation tool for determining the village's zakat with the Zakat Village Index (IDZ) Analysis. He began his presentation by explaining how to calculate, what dimensions are integrated into the IDZ calculation, and presenting survey results based on the IDZ calculation. (Interview by Distribution Coordinator LAZISNU DIY, Miftahul Khair).

The Chairman of MWCNU Saptosari, Kandaryana, conveyed the Social and Humanitarian Life in Kalurahan Kanigoro both geographically and demographically. "Kalurahan Kanigoro is a strategic area in terms of tourism because it is a coastal area," said Kandaryana. With the Kampung Nusantara program, he hopes to empower resources that have not been maximally utilized.

Kandaryana also explained that the Kampung Nusantara Program in Kalurahan Kanigoro prioritizes Education, Social Protection, Infrastructure, Food Security, and Tourism.

Meanwhile, the Ministry of Religion of Gunungkidul Regency, represented by Zuhdan Aris, also expressed support for the program. "Certainly, with the Kampung Nusantara program, we can collaborate with our program, the Family Welfare Movement (GKM)," he said.

As for the Ministry of Home Affairs, Fajar Sodiq Irawan stated readiness to assist with village apparatus and fully support synergy and coordination between village government, LAZISNU, and other organizations to create community welfare. "The Ministry of Home Affairs is ready to highlight Kampung Nusantara as one of the manifestations of the uniqueness in DIY," he added.

The Practice of Cash Waqf by LAZISNU DIY for MSME Financing

Micro, Small, and Medium Enterprises (MSMEs) operating in the halal industry or production must seek funding from halal sources. This is because halal encompasses not only the production aspect but also funding sources. However, it is undeniable that a common challenge faced by MSMEs is access to funding from banking institutions. This is primarily due to administrative issues in general. These constraints make it difficult for MSMEs to develop their businesses and achieve optimal income targets.

Administrative challenges in applying for financing to obtain capital are a major issue faced by most MSME entrepreneurs. This condition sometimes leads small businesses like MSMEs to turn to more promising funding sources administratively, even at the expense of their halal status. Such funding sources may come from non-banking financial institutions, online loans, or individual loans such as loan sharks.

The difficulty in obtaining funding, especially access to banking, poses a barrier for MSMEs to develop their businesses effectively. If this situation persists, it could threaten the sustainability of their businesses, leading to bankruptcy or the cessation of production processes. Thus, cash waqf could be one of the solutions to these challenges, but it's worth noting that assistance through cash waqf can only come from the profit-sharing of cash waqf placed in banks. This is also practiced by LAZISNU DIY. Furthermore, this MSME financing is directed towards businesses that comply with Sharia principles.

In implementing the distribution of waqf to MSME financing, LAZISNU DIY must assess the suitability of this mechanism with Sharia principles. Some provisions related to the distribution of waqf include: 1) the prohibition of allocation to financing for prohibited businesses, 2) financing that produces benefits for the wider community, and 3) not engaging in financing from prohibited business profits.

Based on these provisions, it is known that waqf can be optimized through distribution to MSME actors as waqf recipients (*mauquf 'alaih*). This is done by ensuring that the businesses run by MSME beneficiaries comply with Sharia principles. Additionally, it must be ensured that the contract between the waqf manager and MSME actors as beneficiaries is in accordance with Sharia principles, free from elements of usury, *gharar*, *taqlis*, or other prohibited forms of transactions.

In practice, the distribution of waqf benefits must be done by referring to at least two aspects. First, the distribution of benefits from waqf management must be carried out according to its intended purpose. Second, the distribution of waqf benefits can be done directly or indirectly. Direct distribution takes the form of mentoring and empowering communities managed directly by the waqf manager. Meanwhile, indirect distribution is carried out in the form of community empowerment through partnerships with other empowerment institutions that meet the specified criteria.

Referring to these provisions, the distribution of waqf to MSME actors must be done by considering its Sharia aspects. Therefore, the distribution of waqf as capital for MSMEs can only be carried out if it is ensured that the business and efforts carried out by MSMEs fulfill the halal criteria and comply with Sharia principles. Hence, only MSMEs producing halal products can receive financing from waqf funds. In addition to being halal, the business of prospective recipients of waqf financing must also provide benefits to the wider community, especially in meeting their needs. (Ade Nur Rohim, 2020).

Secondly, the distribution of cash waqf assets for providing capital to MSMEs is done directly. This is based on the fact that cash waqf assets, in the form of money, can be invested in the real or financial sectors. The investment of cash waqf funds can be allocated, one of which is in the real sector, to MSMEs that adhere to Sharia principles and have experienced an increase in business scale or income. In its implementation, this pattern can be carried out with a profit-sharing scheme, either with a *mudharabah* or *musharakah* contract, or other relevant contracts based on Sharia principles. This pattern can be done by considering the principles of preserving the sustainability of waqf assets and compliance with Sharia principles, both in terms of contracts, the halal nature of the business run by the producers, and management aspects.

Based on the provisions in BWI Regulation No. 1 of 2020, the investment of cash waqf funds is carried out either directly or indirectly. Direct investment is carried out if it meets the specified criteria, namely compliance with Sharia principles, fulfillment of eligibility requirements, and the source of returns can be calculated based on a feasibility study. This indicates that the distribution of cash waqf assets to halal MSME financing can be done by referring to the results of the review conducted by BWI regarding eligibility. This is a fundamental aspect in determining MSMEs receiving waqf funds.

Considering that waqf funds are community funds that must be safeguarded perpetually, a feasibility study for waqf recipients is crucial. This ensures that the goals and benefits of waqf can be realized by promoting community economic growth and improving the effectiveness of waqf fund management for the welfare of the community.

In addition to providing guidance and empowerment, LAZISNU DIY as the waqf manager also has a crucial responsibility. This responsibility is carried out in the form of mentoring and guidance to waqf recipients, especially in providing access to business capital. This is expected to encourage MSME actors as waqf recipients to optimize their business performance and efforts by utilizing the waqf funds received. Therefore, a professional waqf manager is needed to provide mentoring and guidance to MSME actors receiving waqf.

CONCLUSION

In conclusion, it can be inferred that the roles of zakat and waqf are highly significant in local economic development, particularly within the context of LazisNU DIY. Through this case study, several crucial aspects have been identified that reflect the positive impact of utilizing zakat and waqf:

1. Contribution to Wealth Distribution: Zakat and waqf play a crucial role in the fair distribution of wealth within society, reducing economic disparities between the rich and the poor. This distribution encompasses not only financial aspects but also physical development through waqf, such as the establishment of schools and hospitals.
2. Empowerment of Communities: Beyond providing financial assistance, zakat and waqf can be directed towards community empowerment programs, including skill training and support for local entrepreneurs. This creates a long-term impact by enhancing the capacity and self-sufficiency of communities receiving zakat and waqf.
3. Social and Economic Investments: The use of zakat for economic programs, such as small loans, and waqf investments in productive projects, can stimulate the growth of micro and small-to-medium enterprises, create job opportunities, and provide a positive long-term contribution to local economic development.
4. Fulfillment of Basic Needs: Zakat and waqf play a key role in meeting the basic needs of communities through financial assistance and infrastructure development. The utilization of these funds directly supports food, education, and healthcare needs at the local level.

By combining the resources of zakat and waqf, LazisNU DIY has successfully created a strong synergy to support local economic growth and enhance the well-being of the community. This conclusion emphasizes that zakat and waqf, aside from their religious dimensions, are effective Islamic financial instruments in realizing sustainable and inclusive economic development at the local level.

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