

IMPLEMENTATION OF ZAKAT FOR DEVELOPING NEW ENTREPRENEURS IN MEDAN, INDONESIA

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Abstract

This paper aims to investigate the implementation of Zakat as a means of developing new entrepreneurs in Medan, Indonesia. The study utilizes a qualitative research methodology, including interviews and case studies, to understand the current situation and the potential impact of Zakat on entrepreneurship development. The results show that Zakat has the potential to provide financial and non-financial support to budding entrepreneurs, empowering them to start and grow their businesses. Moreover, the study discusses the role of Zakat in addressing social and economic inequalities, promoting sustainable development, and fostering a culture of philanthropy and entrepreneurship in the community. The findings highlight the need for strategic collaboration between Zakat institutions, government agencies, and local communities to create effective programs and initiatives that can harness the full potential of Zakat for entrepreneurial development. Overall, this paper contributes to the ongoing discourse on the role of Zakat in promoting economic development and social welfare, specifically within the context of fostering entrepreneurship in Medan, Indonesia.

Keywords: Zakat, Entrepreneurship, Economic Development, Social Welfare, Financial Literacy, Mentorship.

JEL Codes: L26, H20, G23, O10.

1. INTRODUCTION

Entrepreneurship stands as a cornerstone for fostering economic advancement, particularly within developing nations (Sutter, Bruton, and Chen 2019). Nonetheless, aspiring entrepreneurs in these contexts confront substantial obstacles, including restricted access to capital, insufficient business acumen, and constrained market entry, hindering their potential contributions to economic progress (Klapper 2008). To address these challenges and promote the development of new entrepreneurs in Indonesia, the implementation of zakat can play a significant role (Muhamat et al. 2013).

Zakat, a fundamental pillar of Islamic finance and an obligatory act of worship for Muslims, has the potential to alleviate poverty and spur economic growth (Rahman et al. 2023). One way that zakat can be utilized to support new entrepreneurs in Medan is by establishing a zakat fund specifically designated for entrepreneurial development. This fund can provide interest-free loans to individuals seeking to start or expand their businesses but are unable to access traditional financing due to financial constraints or lack of collateral (Sinaga, Adilla, and Sriani 2020). Additionally, the zakat fund can offer mentorship and training programs to enhance the business acumen of these aspiring entrepreneurs, equipping them with the necessary skills and

knowledge to succeed in their ventures (Hafizi and Halipah 2021). Moreover, the implementation of zakat can also involve partnerships with existing micro-finance institutions or business development organizations to create a support system for entrepreneurs. By leveraging zakat funds to augment existing support structures, aspiring entrepreneurs can receive comprehensive assistance that goes beyond just financial aid (Ibrahim et al. 2021). This integrated approach can address the multifaceted challenges that entrepreneurs face and contribute to the sustainable development of new business ventures. Incorporating zakat into the entrepreneurial landscape not only has the potential to uplift individuals from poverty but also to stimulate economic growth at a grassroots level (Kafabih and Wahyudi 2021). This strategic implementation can harness the power of zakat to nurture a culture of entrepreneurship and innovation, ultimately contributing to the socioeconomic development of the region (Jedidia and Guerbouj 2020).

Interestingly, impediments to entrepreneurial advancement include limited access to financing, inadequate infrastructure, and a lack of business expertise, hindering economic growth (Absah, Sadalia, and Juliaty 2022). Therefore, the implementation of zakat as a mechanism for developing new entrepreneurs has the potential to address these obstacles and create a conducive environment for entrepreneurial growth (Muhamat et al. 2013). Previous study highlights the potential of Zakat, an Islamic practice supporting the disadvantaged, in addressing these challenges and promoting economic empowerment (Sutrisno and Haron 2022).

However, very limited understanding exists about how effective zakat is in fostering the economy of the ummah especially in Medan City. What are the objectives of the productive Zakat program for the development of new entrepreneurs in Medan City? How is the entrepreneur development model used in business development in Medan City?

This study endeavors to fill the gap by investigating the potential impact and effectiveness of leveraging Zakat for promoting entrepreneurial ventures in Medan, Indonesia. By doing so, the research aims not only to contribute to academic discourse on entrepreneurship and economic development but also to offer practical insights for policymakers and stakeholders involved in Zakat administration and economic empowerment initiatives. This research will be instrumental in shedding light on the potential of Zakat as a tool for fostering entrepreneurship and economic development in Medan and similar context.

2. METHODOLOGY

To conduct the study, a qualitative approach is taken using a cross-sectional method to provide a comprehensive understanding of the implementation of zakat for developing new entrepreneurs in Medan (Kim, Sefcik, and Bradway 2016). Qualitative data has been collected from August to November 2023 through interview to zakat recipients who are engaged in entrepreneurial activities in Medan. The interview gathered information on the recipients' perceptions of the zakat program, the level of support received, and its impact on their entrepreneurial ventures. The interviews will provide valuable insights into the challenges, successes, and potential improvements of the zakat program for entrepreneurial development

in Medan. Furthermore, the qualitative research method employed in this study aligns with previous research who utilized a similar approach to explore the impact of zakat on entrepreneurial development in a different context (Hoque, Khan, and Mohammad 2015).

Primary data was obtained through data collection procedures and techniques in interviews, observations, or measurement instruments designed specifically for the purpose @. While secondary data was data obtained from indirect sources, usually in the form of the official documentation, archival data, and academic journals. The informants involved in this study were; Management of LAZISMU PP Muhammadiyah DR. Mahli Zainudin, Chairman of LAZISMU Medan Muhammad Arifin Lubis, and selected recipients of zakat for entrepreneurial development in Medan or as so called *Mustahaq Medan City*.

Qualitative data analysis has been referred to a comprehensive guide of financial qualitative research (Moskovicz 2019). Initially, we observed and coded field notes to maintain data traceability. Subsequently, they gather, organize, categorize, synthesize, summarize, and index the data. Analytical thinking was then employed to imbue data categories with significance, detect patterns and connections, and uncover overarching themes. These steps align with the broader stages of data analysis, which include recording and verifying data from various sources such as interviews, observations, and documents, as well as collecting, organizing, synthesizing, surveying, and categorizing data to address the research question effectively. Through systematic categorization of the data, we scrutinized the relationships therein to derive overarching conclusions pertinent to problem formulation (Ranganathan and Gogtay 2019). To ensure the validity of our findings, several steps were undertaken: continuous observation, triangulation (utilizing multiple data sources, methods, and external studies), member checking, peer discussions, and assessment of reference adequacy (Grossoehme 2014).

3. RESULTS AND DISCUSSION

3.1 Effectivity of zakat in fostering the economy

In distributing productive zakat funds LAZISMU Medan runs a Micro, Small and Medium Enterprises Empowerment program or briefly UMKM which is included in the Economic Milestones. Through the MSME Empowerment program, the Amil Zakat Infaq Sadaqah Institute, Muhammadiyah uses strategies that can increase Mustahiq's virtue. The implementation of zakat for developing new entrepreneurs in Medan has shown positive outcomes (Ainolyaqin 2022).

This study revealed that the implementation of zakat for developing new entrepreneurs in Medan has shown positive outcomes (Rifaí, Hidayat, and Zuska 2020). An obstacle encountered in implementing the MSME Empowerment Program was insufficient funding; however, LAZISMU Medan City has not faced this issue due to the allocation of zakat funds for all assistance programs, including MSME Empowerment. LAZISMU conducts a preliminary review before distributing zakat funds.

According to Law No. 23 of 2011 on Zakat Management, Chapter III, Case 27, zakat can be utilized for productive business ventures. In this form, zakat funds serve as capital for mustahiq

individuals experiencing economic hardship, facilitating entrepreneurship and enhancing their overall quality of life across social, economic, and religious domains (Hamidi, Atiyatna, and Efriandy 2020). LAZISMU Medan's empowerment program in the economic sector, such as the revolving fund, indirectly impacts recipients by providing capital. For instance, Mr. Sulpari, a mustahiq, received assistance to bolster his shoe repair business, which has thrived for over two decades. This support has led to tangible improvements, enabling Mr. Sulpari to meet his needs more effectively.

Ms. Hadisyah, one of the members of LAZISMU Medan's empowerment program for MSMEs, revealed in the interview that; *"Alhamdulillah, after receiving capital from Lazismu, my orange-milk business can develop because at first it was difficult to make capital, after getting a loan from Lazismu of two million I was able to develop a milking oren business. And now I have also given alms from the proceeds of the milked orange business." How also with such funds can wake up many people, and the funds can grow. I personally appreciate LAZIS which is good, and can lift the lives of people under its guidance"*.

The level of success of the empowerment program, according to LAZISMU, is that there are real changes seen in various aspects. In addition, Mr. Arifin explained in his interview; *"The level of success of empowerment using the cascade marker is change. Change in terms of the beginning, the process and the final result. Because the initial example is limited, mobility is limited, i.e. the initial chip seller enters in marketing his product, after we are assisted to develop its marketing. In addition to developing its production. So you can ride using the bike, then more production and wider marketing. The change is that it increases productivity so that it can reach places that were not possible before. So the change is real or measurable. It can also be optimized with help"*.

LAZISMU Medan implements a utilization program to support MSME development through financial aid and productive facilities. Funds distributed by LAZISMU are not provided in cash but in the form of SME equipment and capital for consumables. This approach aims to prevent the misappropriation of ZIS funds by mustahiq or potential recipients. The utilization of ZIS funds distributed by LAZISMU in the MSME program significantly aids mustahiq in business development. Over the years, there has been a substantial increase in both the amount of ZIS funds distributed and the number of recipients. In 2019, Rp. 28,036,000,- was distributed to 14 MSME, while in 2020, this amount rose to Rp. 121,220,000,- benefiting 60 MSMEs, marking a notable increase in both funds and recipients.

LAZISMU utilizes the Zakat, Infaq, and Sadaqah (ZIS) funds distribution system to develop MSME through two methods: *the Delik System*, involving direct field observations to identify eligible MSME for ZIS fund assistance, and *the Application System*, where potential recipients submit administrative requirements to LAZISMU Medan for ZIS funding. Approximately 70% of MSME have seen income growth, while 30% have experienced a decrease from the distributed ZIS funds by LAZISMU Medan. Our research conducted on four MSME reveals that three MSME experienced increased income, while only one MSME saw a decrease after receiving financing from LAZISMU Medan. This decline was attributed to natural factors impacting the business income of the Mustahiq government.

Our research results delved deeply into the effectiveness of zakat in fostering the economy, specifically through MSME's empowerment program. The findings illustrate the positive outcomes of using zakat funds to support new entrepreneurs, with beneficiaries experiencing tangible improvements in their businesses and overall quality of life. The effectiveness of the program is further highlighted by the significant increase in both the amount of zakat funds distributed and the number of recipients over the years, as evidenced by the data provided for 2019 and 2020 (Hamidi, Atiyatna, and Efriandy 2020).

3.2 Objectives of zakat for entrepreneurs development

The amount of zakat allocated to the poor isn't determined solely by the collected funds. Zakat aims to empower recipients to fulfill their needs and enhance their welfare. According to Fiqh, zakat is distributed as a gift and transfer of rights, ensuring its full utilization by the mustahiq (Ibrahim et al. 2021). The distribution method should facilitate self-sufficiency, enabling beneficiaries to fulfill life necessities through their own endeavors, aligning with zakat's objectives (Hamidi, Atiyatna, and Efriandy 2020). In connection with the impression of the triumph of the income of the mustahiq while accompanying this empowerment program are described as the following:

1) Income Enhancement, which aims to develop a network and additional income after being assisted through capital from the empowerment program. As stated by Ms. Khairani as a provider of information and one of the recipients of business capital revealed that: *"There is definitely a change, before being given capital, I did not have a support tool, now I have it. So the capital was used to buy equipment for my catering business. Alhamdulillah, now it makes it easier for me to run my business"*. This statement implies that the capital provided through the empowerment program has led to tangible improvements in the business operations of the recipients, resulting in increased productivity and efficiency (Darwanto et al. 2018).

2) Increased Family Income, which means the business profits obtained from the capital provided through the Social Microfinance program by LAZISMU and have an impact on family finances, as well as being said by Mr. Jamaluddin Ibnu that: *"After receiving capital from LAZISMU, alhamdulillah my income can provide for my family and not be unemployed after being laid off work I also don't support my wife anymore. Started saving a little from the proceeds of the business of selling fresh fish"*. This implies that assistance in the form of capital to small entrepreneurs is very helpful in increasing the business income. In addition, it also fosters an attitude of independence and good character traits such as discipline, and responsibility (Rachapaettyakom et al. 2020).

3) Increased knowledge and skills, are changes experienced by recipients of capital assistance from these aspects to support the smooth running of the business. Mr. Jamaluddin Ibnu, through his interview with the investigator, explained that the training, regular meetings, and religious activities carried out during his time as a member of this fisheries group were very useful to him. He said: *"So after participating in activities here, I gained a lot of knowledge, especially in the fisheries section. Training is usually given material about food, how good pond capacity, serving users, it turns out there is new technology and others. If it's a regular meeting, it's*

usually discussing the group's goals and then there's input from some of the network experts so we talk if there are obstacles, then both of them find solutions too. Alhamdulillah, my insight has become broad". This testimonial demonstrates the positive impact of the training and support provided through the empowerment program. It highlights the importance of not only financial assistance but also the development of knowledge and skills for the sustainable growth of MSMEs (Devi and Ramachandran 2011).

In distributing Zakat, Infaq, and Sadaqah (ZIS) funds, LAZISMU has a mission to create a quality socio-economic life of the people as a bulwark against the problems of poverty, backwardness and ignorance in society through various programs developed by Muhammadiyah (Ahmad et al. 2019). In order to achieve this mission, LAZISMU has decided the policies in the distribution of ZIS in the future (Olii, Caco, and Hula 2021), including the following:

1. The priority of the beneficiaries is the poor, and fisabilillah.
2. The distribution of ZIS is implemented programmatically (planned and measurable) according to the core of the Muhammadiyah movement, namely: education, economy, and social-preaching.
3. Synergize and bring together Muhammadiyah institutions, organizations and charities in realizing this program.
4. Synergize with institutions and communities outside of Muhammadiyah to expand the domain of da'wah while increasing community awareness of the company.
5. Reduce emergency aid such as in disaster-prone areas and rescue efforts.
6. Mediation for any effort that creates conditions and supporting factors to realize a true Islamic society.
7. Mobilize the institutionalization of the ZIS movement throughout the Muhammadiyah structure and charity efforts.

An analysis of 2019 and 2020 data reveals substantial growth in both Zakat funds distributed and the number of recipients, highlighting the program's expanding impact. Approximately 70% of MSMEs reported income growth after receiving Zakat assistance, demonstrating the effectiveness of these funds in promoting economic empowerment and improving the welfare of recipients (Sutrisno and Haron 2022). Testimonials from beneficiaries also indicate significant improvements in their businesses and quality of life. The case study data show that LAZISMU's distribution of Zakat, Infaq, and Sadaqah (ZIS) funds has significantly supported MSME development. The increase in distributed funds and recipients between 2019 and 2020 underscores the program's success in fostering economic growth and entrepreneurship (Hadinata and Zaki 2022).

Research findings reveal that Zakat funds have positively impacted new entrepreneurs, with beneficiaries experiencing tangible business improvements and enhanced quality of life (Sinaga, Adilla, and Sriani 2020). Further analysis of four MSMEs indicated that most saw

income growth after receiving LAZISMU financing, highlighting the program's role in promoting self-sufficiency and economic development. These findings affirm Zakat's objectives of enhancing recipient welfare and underscore the program's contribution to socio-economic development by fostering independence, knowledge, and skills among beneficiaries (Anis and Kassim 2016). LAZISMU's policies and mission emphasize a comprehensive approach to ZIS fund distribution, addressing poverty, education, and social development, aligning with the core principles of the Muhammadiyah movement and reflecting a strategic and holistic vision for the future (Handriani et al. 2019).

3.3 Entrepreneur development model used in business development

In the case of zakat for productive businesses, its implementation must meet the provisions as stipulated in article 29 of Law number 38 of 2016, as follows:

a. Feasibility Study; an effort to gain confidence that businesses financed from zakat funds can really grow and can repay their loans. The results of this feasibility study should show; 1) Clear data on Mustahiq candidates. 2) Definite loan requirements (maximum and minimum ceiling). 3) Ability to return with a clear timeframe. 4) Amount of profit sharing payable (if applicable). 5) Clear allocation of loans (Nurhasanah, Nurzaman, and Wibisono 2019).

b. Establishing a Productive Type of Business; This step involves two scenarios. First, if the mustahiq does not have a business, the amil's responsibility is to encourage and guide the mustahiq to start a viable business. Second, if the mustahiq already has a business that is not growing, the amil must analyze the business. This analysis can result in two outcomes. The first possibility is that the business has potential for development, in which case the amil should motivate the mustahiq and identify steps for growth. The second possibility is that the business is unlikely to succeed, necessitating the identification of an alternative business. In this scenario, the amil must convince the mustahiq of the poor prospects of the current business and assist in finding a suitable replacement (2023).

c. Guiding and providing counseling; a duty to ensure that his business continues to run and grow and to get his zakat funds. Without this function, it is feared that zakat funds will be misused for interests that do not follow his recommendations. This function should be played by a consultant for the company (Kholidah, Arifiyanto, and Hakim 2020).

d. Monitoring, Control and Supervision; this task becomes difficult when mustahiq is not aware of the importance of control. Although the amil is responsible for monitoring and supervision, the most important thing is actually creating awareness of supervision by the mustahiq himself. This means educating the mustahiq to be responsible for all business decisions and social behavior (Hannang, Salju, and Qamaruddin 2020).

e. Carrying out evaluation; a systematic and continuous process to improve the quality (value and meaning) of something, based on certain considerations and criteria in the framework of decision making. Zakat management institutions need to make an assessment after giving productive funds to mustahiq. This method is carried out to determine the business development of mustahiq productive zakat recipients (Anis and Kassim 2016).

f. Making a Reporting Report; a form of transparency and accountability of zakat institutions. The results of the use of zakat for productive businesses must be reported openly to the community including the government and the muzakki themselves. Reporting can be quantitative as well as qualitative (Tahliani 2018).

Our research presented the testimonies from recipients of the empowerment program clearly indicate the profound impact of the support provided. It goes beyond just financial assistance and encompasses a holistic approach to business development. The case of Ms. Khairani and Mr. Jamaluddin Ibnu exemplifies how the empowerment program has not only provided capital but also equipped them with the necessary tools and knowledge to enhance their businesses. The empowerment program's emphasis on entrepreneurial development models aligns with the comprehensive approach to ZIS fund distribution, addressing poverty, education, and social development (Rizki 2021). It is clear that LAZISMU's mission extends beyond mere financial aid and aims to foster independence, knowledge, and skills among beneficiaries (Mardiantari 2019). The case studies and research findings support the program's role in promoting self-sufficiency and economic development, affirming Zakat's objectives of enhancing recipient welfare (Anis and Kassim 2016).

Furthermore, the requirements outlined in the Law number 38 of 2016 underscore the program's commitment to ensuring the feasibility and sustainability of the businesses supported by Zakat funds. Measures such as feasibility studies, establishment of productive businesses, guidance, and counseling demonstrate the meticulous approach employed to ensure the success of the recipients (Muhamat et al. 2013). The focus on monitoring, control, and evaluation emphasizes the institutional responsibility to continuously improve the quality and impact of the support provided (2019).

The holistic vision and strategic approach of LAZISMU's policies and mission are reflected in the success stories and research findings, shedding light on the program's transformative impact on entrepreneurship and socio-economic development (Egboga and Zubairu 2020). The emphasis on knowledge transfer, skill-building, and sustainable business growth further underscores the program's commitment to creating lasting change and fostering a conducive environment for entrepreneurial success (Efobi and Orkoh 2018). In this research, we found that the entrepreneur development model associated with LAZISMU programs in distributing ZIS funds were divided into several sectors, including economy, education, social society, religion and humanitarian. Where in the economic sector the form of the use / distribution program is as follows:

1. Empowered Women

Empowered women is a women's empowerment movement through the development of family-based economic businesses known as the BUEKA (Family Economic Business Development) program. The BUEKA program is carried out through a joint business development strategy (Women's Group Business). The BUEKA program is a form of commitment and responsibility of Aisyiyah and LAZISMU to play an active role in improving women's quality of life in various aspects including mental and economic aspects. This Iltizam

is a call to the preaching of amar makruf nahi munkar so that Islam is realized as rahmatan lil alamin (Kuswardani et al. 2022).

2. YES (Youth Entrepreneurship)

YES is a program to develop and empower the entrepreneurship of the young generation. The YES program aims to guide young entrepreneurs by designing activities that include: education and training, entrepreneurship studies, business assistance and capital assistance. This program is a collaboration with the Economic and Entrepreneurship Council (MEK) PD. Muhammadiyah and various entrepreneurial and community organizations. While the BUEKA program targets women in family-based economic businesses, the YES program is dedicated to guiding and empowering the younger generation in entrepreneurship. Both programs emphasize education, training, and business assistance, aiming to provide capital and support for sustainable business growth (Wood, Ng, and Bastian 2021).

3. Empowered Village

Kampung Berdaya or Empowered Village is a rural community empowerment program in the fields of agriculture, economy, education, religion, environment and health. This program aims to build an empowered and independent village community model. The *Kampung Berdaya* program aims to synergize community empowerment programs from all Muhammadiyah assemblymen. The program's emphasis on entrepreneurial development models aligns with the comprehensive approach to ZIS fund distribution, addressing poverty, education, and social development, ensuring a long-lasting impact on the beneficiaries (Olii, Caco, and Hula 2021)(Ibrahim 2022)(Hakim, Sarif, and Rofiq 2023)(Ahmad et al. 2019)

4. CONCLUSION

Overall, LAZISMU's commitment to strategic policies, transparent processes, and targeted programs underscores its dedication to creating a positive and lasting impact on the socio-economic landscape, in alignment with the overarching mission of the Muhammadiyah movement. The entrepreneur development model used in business development encompasses feasibility studies, guidance and counseling, monitoring, evaluation, and reporting. This meticulous process ensures that zakat funds allocated for productive businesses are utilized effectively and transparently, contributing to the sustainable growth of the recipients' businesses.

The various programs associated with LAZISMU, such as Empowered Women, YES, and Empowered Village, represent targeted efforts to empower different segments of society, including women, youth, and rural communities. By addressing economic, educational, social, and religious aspects, LAZISMU's initiatives reflect a holistic approach towards community development. Overall, LAZISMU's commitment to strategic policies, transparent processes, and targeted programs underscores its dedication to creating a positive and lasting impact on the socio-economic landscape, in alignment with the overarching mission of the Muhammadiyah movement.

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