

The Effectiveness of Productive ZIS Funds On Smes Affected By Covid-19

Fifi Hakimi^{1*}, Farokhah Muzayinatun Niswah², Naajihah Mafruudloh³

^{1,2,3} Universitas Muhammadiyah Lamongan

*Email correspondence: fifi_hakimi@umla.ac.id

Abstract

This study aims to determine how effective the distribution of productive zakat, infaq, and alms funds to SMEs affected by COVID-19 and to find out the model for distributing ZIS productive funds in improving the welfare of SMEs. The method used is a mixed method to produce more comprehensive facts. The quantitative data was obtained from the primary data, with respondents from as many as 30 Mustahiq SME assistance programs. Meanwhile, the qualitative method in this research used a case study approach. This study indicates that in the empowerment program, there is a training program held by the Amil Zakat institution as a form of business assistance that can increase the income of Mustahiq SMEs. This program has quite a practical impact on SMEs affected by COVID-19. Researchers found an effective ZIS fund distribution mechanism model with a business assistantship that Amil Zakat institutions must carry out through business development training programs, spiritual improvement, and financial planning. This study aims to improve the skills, faith, and finances of the mustahiq to achieve a level of welfare.

Keywords: Zakat, Infaq, Alms, SMEs, Islamic Social Finance

Citation suggestions: Ilmi, H., & Ambariyanto. (2024). The Effectiveness of Productive ZIS Funds On Smes Affected By Covid-19. *Jurnal Ilmiah Ekonomi Islam*, 10(01), 121-129. doi: <http://dx.doi.org/10.29040/jiei.v10i1.12366>

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1. INTRODUCTION

The COVID-19 pandemic has had a tremendous impact on the world economy, especially in developing countries like Indonesia. In two consecutive quarters, Indonesia's economic growth contracted to 5.32% (Junaidi, 2020). This also has an impact on the individual economy of the Indonesian people. People experienced a decline or even bankruptcy in their business, especially small and medium business actors (SMEs). Based on BPS data for the second quarter (2020) for many business operational activities, 6.78% stopped operating, and 14.09% stopped operating due to regulatory factors during the COVID-19 pandemic. Where the income of business actors also experienced a decrease in income by 66.09%, which had an impact on a surge in a workforce reduction of 11.63% (BPS quarter II, 2020).

As a result, there has been a growth in the poverty rate in Indonesia. One of the factors is the unemployment rate during the COVID-19 pandemic of 0.49% (Worldbank, 2020). The number of poor

people increased by 26.50 million people, which in 2019 was only 24.78 million people (Badan Pusat Statistik, 2022). Efforts to overcome the problem of poverty in Indonesia during the COVID-19 pandemic are not only focused on how to accelerate the reduction of the number of have-nots. But the important is how to empower the have-nots so that they can get out of poverty to achieve prosperity. With the behavior of the Indonesian people, who are quite generous, the potential for community empowerment to achieve prosperity can be realized.

Indonesia is known as the most princely country in the world (World Giving Index, 2018), and this country has great potential for the expansion of Islamic social finance. Therefore, it is no stranger that in Indonesia, there are social institutions, one of which is the Zakat Management Organization. Based on Governor Regulation Number 38 of 1999 concerning Zakat Management stated that Zakat Collecting Organizations (OPZ) operate in the form of collecting zakat, infaq, alms, hibah, inheritance, and kafarat funds which are intended for distribution or financing

of productive businesses. However, ZIS funds did not play an optimal part in overcoming poverty as expected. It was a problem that must be resolved together, especially with the government and the Zakat Management Organization in Indonesia. ZIS funds have great potential in overcoming the problem of poverty, especially for business actors affected by COVID-19 due to bankruptcy. The use of ZIS funds in Indonesia could be utilized not only for consumptive purposes but also for productive activities. ZIS expected to have a greater impact on poverty alleviation.

SMEs operating with ZIS funding help can take on labor to lower the unemployment rate. SMEs can boost consumer purchasing power for a good or service and productivity in the real estate sector. This is one indicator of the growing economy (Sartika, 2008). Islamic Social Finance, especially productive *zakat*, has a role in macroeconomic growth (Arifin & Anwar, 2021). In recovering the economy after being affected by the COVID-19 pandemic properly, here Islamic Social Finance, especially *zakat*, has an important role. Islamic Social Finance can improve in terms of reducing or alleviating poverty and improving the welfare of people whose economies are affected by COVID-19.

The specific purpose of the study will be to raise how effective the supply of productive *zakat*, *infaq*, and alms funds is to SMEs affected by COVID-19. Based on a survey of researchers at LAZIS Muhammadiyah and LAZ Inisiatif Zakat Indonesia (IZI), many business actors who went bankrupt due to the impact of COVID-19 came to them to ask for business capital assistance. Another objective of this study is to find out the model of distribution and the use of ZIS productive funds in improving the welfare of SMEs after being affected by the COVID-19 pandemic. This is expected to increase the distribution of Islamic Social Finance funds, especially *zakat*, through official *zakat* institutions.

This research can be used as an expansion and evaluation of *amil zakat* institutions in Indonesia, especially in empowerment programs that focus on increasing SMEs. This research aim is also to be the basis of government policies in strengthening the regulation of *zakat* obligations for Indonesian Muslims, developing community empowerment programs, and additional poverty alleviation literacy for Indonesian academics.

2. MATERIALS AND METHODS

2.1. The Previous Studies

Zakat, Infaq, and Shodaqoh (ZIS) in Islamic economics have a transfer of wealth function, which can be interpreted as transferring income from the rich (*agniya*) to the poor. Meanwhile, ZIS fund productive given to beneficiaries are not only consumptive but are also produced with an empowering nature, one of which is working capital, with the aim that the beneficiaries can generate profits for their daily needs (Adnan et al., 2019; Alaydrus & Widiastuti, 2017; Putri et al., 2019). According to Qardhawi's theory (1998), productive *zakat* is predicted to end the cycle of poverty, boost levels of prosperity, and create value that is added to society. Concerns over the realities of Islamic civilization, which had been mired in poverty his entire life, led Qardhawi to develop his vision of eradicating poverty through his efforts. Qardhawi defined this concept into six poverty alleviation means work, collateral for relatives, *zakat*, *baitul maal* guarantees, obligations outside of *zakat*, voluntary alms, and individual generosity (Qardhawi, 1987). *Zakat's* principal goals are to reduce poverty by providing aid to the less fortunate and to create socioeconomic justice by eliminating the gap between the wealthy and the poor (Raies, 2020).

The evidence used as the basis for allowing and even advocating productive *zakat* is the hadith narrated by Muslims. The Prophet Muhammad SAW once gave *zakat* in the form of money to Umar bin Al-Khattab R.A. As *amil zakat* at that time, the Messenger of Allah said, "Take it once, then have it (make it useful) and give it to others and what comes to you from this wealth while you do not need it and do not ask for it, then take it. And what is not so, do not fulfill your desires" (H.R.Muslim). The view of Ibn Qodamah, as quoted by Qardhawi (1998), The main goal of *zakat* is to give enough meaningful alms to the less fortunate so they can escape poverty and independently take care of their own and their family's needs.

Based on Law Number 23 of 2011, there are two specific purposes for *zakat* management in Indonesia: (a) improving the effectiveness and efficiency of *zakat* management services and (b) raising *zakat* revenues to achieve community welfare and poverty alleviation. To accomplish these two objectives, all parties (stakeholders) involved in the management of *zakat* in Indonesia must align their work procedures.

ZIS funds are justified as pillars of social funds in influencing economic growth. ZIS is one of the funding solutions for the community's economic development by producing goods and products, then accompanied by an increase in community welfare (Faisal & Yuliani, 2018). Adam Smith (1776) explained that the theory of national development was based on: a) natural law; b) the division of labor; and c) the process of accumulation and growth of capital. Meanwhile, John Stuart Mill (1848) stated that economic development was influenced by: a) the rate of the capitalist economy; b) the rate of profit; c) the stationary state; and d. the role of the government. In addition, the leading economist of the last century, Schumpeter (1939), believed that economic expansion was created by a group of innovative entrepreneurs who organized community groups to produce the goods needed.

Empowerment and development of SMEs is an effort made by the government to overcome the problems of unemployment and poverty. One of the programs to release them from poverty is the provision of capital to grow micro and medium businesses or SMEs. SMEs are business activities that could improve employment opportunities and provide economic services to the wider community. It also plays an important role in equity, increasing people's income process, encouraging economic growth, and realizing national stability. In addition, SMEs are one of the main pillars of the national economy that receive priority support, protection from the state, and essential development which is widely seen as a form of enterprise for a group of people's economic activities, without neglecting the role of large companies and government-owned enterprises (Alaydrus & Widiastuti, 2017).

The COVID-19 pandemic has affected all aspects, especially SMEs (Lutfi et al., 2020). Moreover, SMEs are an important measure of the country's economic growth. In Indonesia, the government has sought to reduce the socioeconomic impact of COVID-19 with policies to restructure SME loans, provide assistance to have-nots, and vulnerable households, tax incentives, and credit for businesses (OECD, 2020). However, the distribution of this program has not been evenly distributed to the have-nots' regions. Many of them did not get this assistance and fell into moneylenders. The policy in Islamic economic development has not been effective because of the lending of SMEs' business capital.

Economic development in Islam is a process to reduce poverty, create peace and comfort, and also uphold morals and ethics in the process. It can also be interpreted that economic development is adapted from Islamic multidimensionality, and involves both quantitative and qualitative aspects (Faisal & Yuliani, 2018). The goal is not only on the material aspects of the world but also aspects of the hereafter, usually referred to as *Falah* (prosperity of the world and the hereafter). Where the advantages of Islamic development compared to the concept of modern development (Mannan, 1997), it's the motivation superiority deceits to develop Islamic economics, not only from the economic aspect but also from the aspect of Islamic norms and values sourced from the Qur'an and Hadith.

On the other hand, the growth of micro-enterprises requires a boost from Islamic development. Islamic economic development provides a solution to grow SMEs. It requires capital accumulation through productive ZIS funds, which will become a hallmark of Islamic economic growth (Alaydrus & Widiastuti, 2017; Raimi et al., 2014). Moreover, this not only supports the sustainable growth of micro-enterprises but also affects the growth of production factors. In the end, the growth of production factors can be a positive signal in increasing economic growth (Müller, 2017). Additionally, business capital obtained through productive ZIS funds can enhance social welfare, particularly for the recipients of the capital (*mustahiq*).

ZIS productive recipients who own micro-enterprises use the funds or capital to expand their businesses or establish a business instead of spending for daily consumption. The development can be in the form of expansion of production scale, diffusion of new markets, and development of product variation. Thus, ZIS productive has a more significant impact on poverty alleviation than is distributed consumptively in the long term (Widiastuti et al., 2021). In the end, business capital using productive ZIS funds can contribute to the welfare of the community, especially the beneficiaries who have received business capital.

In implementing ZIS productive, investment is one of the important things that must be given to *zakat* recipients to assist development efforts or to start productive businesses of recipients, similarly, with the knowledge or experience ZIS recipients have in operating their businesses. This training should be provided to beneficiaries of productive ZIS funds to

improve their skills (Hamidi et al., 2019). Therefore, it is necessary to provide assistance and operational supervision of businesses receiving productive ZIS funds (Widiastuti et al., 2021) so that their micro businesses can survive in the long term.

2.2. Method of Research

This study used a mixed methodology that combines qualitative and quantitative research methods (Creswell, 2016). The quantitative data was obtained from the primary data, with respondents from as many as 30 *Mustahiq* SME assistance programs, where the filling used a Likert scale. The Likert scale contained five answers regarding the respondent's agreement with the statement put forward by the researcher (Hair, et.al., 2021). Respondents were SMEs assisted by LAZIS Muhammadiyah (LAZISMU) and LAZ Inisiatif Zakat Indonesia (IZI) East Java. PLS-SEM analyzed the Likert scale obtained from the respondents as a statistical tool that is flexible, credible, and has advantages in predicting research theory testing (Hair, et. al., 2021; Henseler et al., 2016).

Meanwhile, the qualitative method in this research used a case study approach. A case study is a study to explore a system structure or case in detail (Sukoharsono, 2006). This method also used field data from the results of a collection with interview techniques which were interpreted in words that later complemented the results of the objectives of this study (Creswell, 2013). Interviews were conducted with 34 informants, namely representatives from the ZIS fund distribution division from LAZISMU and LAZ IZI East Java, totaling four informants, then 30 informants from the recipients of SME capital assistance during the COVID-19 period. With the mixed method, the researcher combined the results of several data analysis techniques studied with descriptive analysis to obtain research results. This descriptive type described systematically and accurately the facts and characteristics of the data obtained (Creswell, 2013).

3. RESULT AND DISCUSSION

3.1. Result

3.1.1. Productive ZIS Fund Distribution Model for Real Sector Economic Empowerment Category (SMEs)

The productive ZIS distribution method could be carried out in two directions: button-up and top-down

(Arifin & Anwar, 2021). The button-up method distributes ZIS based on suggestions from the community, whether submitted by individuals or community groups to the *Amil Zakat* institution. Meanwhile, the top-down distribution method that employs *amil zakat* institutions chooses a *mustahiq*.

Based on research in the field, the distribution of productive ZIS funds was not always for alleviating community stunting. However, many empowerment models have been implemented using ZIS funds. The empowerment system gave *Mustahiq* sufficient competence and quality to support themselves independently (Putri et al., 2019). This empowerment model aimed to change the status of *mustahiq* into *muzakki*, who have the right to issue *zakat*.

Based on the results of research in the field with the object of the *Amil Zakat* Institutions LAZISMU and LAZ IZI, found that the distribution of *zakat* with an empowerment system is classified into five categories: 1) health; 2) education; 3) social and humanitarian; 4) economy; 5) religious. The focus was on the economic category, where *mustahiq* economic empowerment had several programs, such as the real and financial sectors. The real sector program was in the form of distributing funds or helping SMEs who were unable or in the eight categories of *asnaf*. Meanwhile, this financial sector program was only available at LAZISMU in the form of the ZISKA Bank program, whose system was based on the *Qardhul Hasan* financing agreement without interest.

Focus on the real sector, where the two objects of *amil zakat* institutions implemented empowerment programs to improve the welfare of SMEs. The *Amil Zakat* Institution had different mechanism of distribution procedures, even though it used button-up and top-down methods. Based on the interview with the East Java LAZISMU secretary, they used both methods. The head of the Gresik LAZISMU, Minal Abidin, also confirmed the use of the two methods. The details mechanism is as follows:

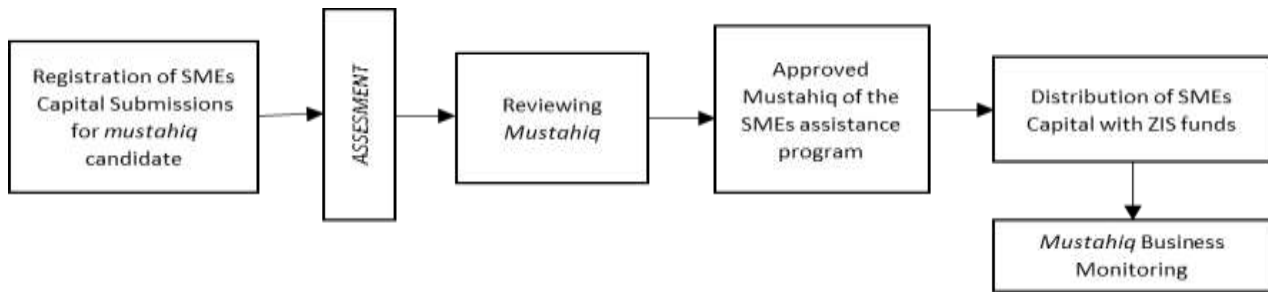


Figure 1. Bottom-up Mechanism

Source: Author's

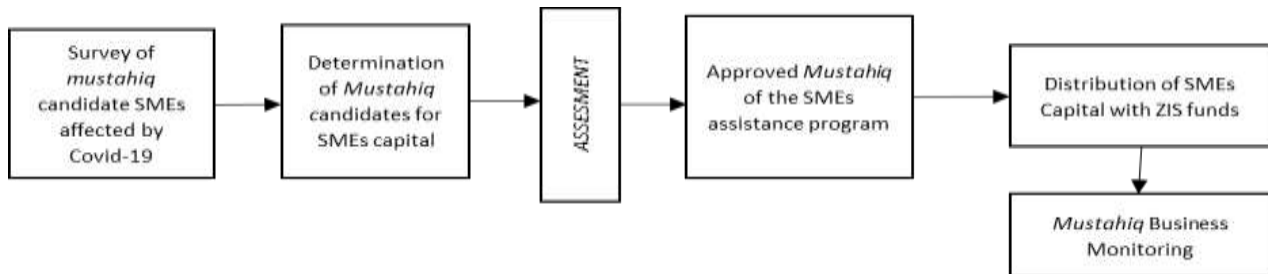


Figure 2. Top-down Mechanism

Source: Author's

3.1.2. Productive ZIS effectiveness for SMEs affected by Covid-19

The research effectiveness used effective *zakat* empowerment programs indicators, business assistance, and *mustahiq* welfare (Mawardi et al., 2022; Widiastuti et al., 2021), which were used as the

questionnaires. The data obtained from the questionnaire and interviews with 30 SMEs that were helped by *Amil Zakat* institution were processed as quantitative methods. The effectivity from each variable results as follows:

Table 1. Description of Research Variables.

No	Variable	Mean	Category
1	Productive ZIS Empowerment Program	3,58	Quite Adequate
2	SMEs Training Program	3,4	Quite Adequate
3	<i>Mustahiq</i> Skill Improvement	4,08	Adequate
4	Increase in <i>Mustahiq</i> SME's Income	3,62	Quite Adequate

Source: Author's

The data was analyzed by using SEM-PLS. To test the hypothesis of the two exogenous variables, namely the productive ZIS empowerment program and SME training. Then one of the intervening variables, namely increasing skills, on an endogenous variable, namely increasing the income of SMEs

affected by COVID-19 after being assisted by the *Amil Zakat* institution which was used as the object of this research. The following results from the data obtained by researchers, using SEM-PLS can be seen as follows:

Table 2. Path coefficient

Hypotheses	Original Sample (O)	T Statistic	P Values	Result
Productive ZIS Empowerment Program (X1) → Improve the skills of <i>mustahiq</i> SMEs (X2)	0.047	0.104	0.919	Not Significant
Improve the <i>mustahiq</i> skills of SMEs (X2) → Increase in <i>Mustahiq</i> SMEs Income (Y)	0.035	0.175	0.876	Not Significant
SMEs Training Program (X3) → Improve the <i>mustahiq</i> skills of SMEs (X2)	-0.346	0.812	0.455	Not Significant
SMEs Training Program (X3) → Increase in <i>Mustahiq</i> SMEs Income (Y)	0.573	4.345	0.000	Significant

Source: Author's

The results of the outer model of the hypothesis are as follows:

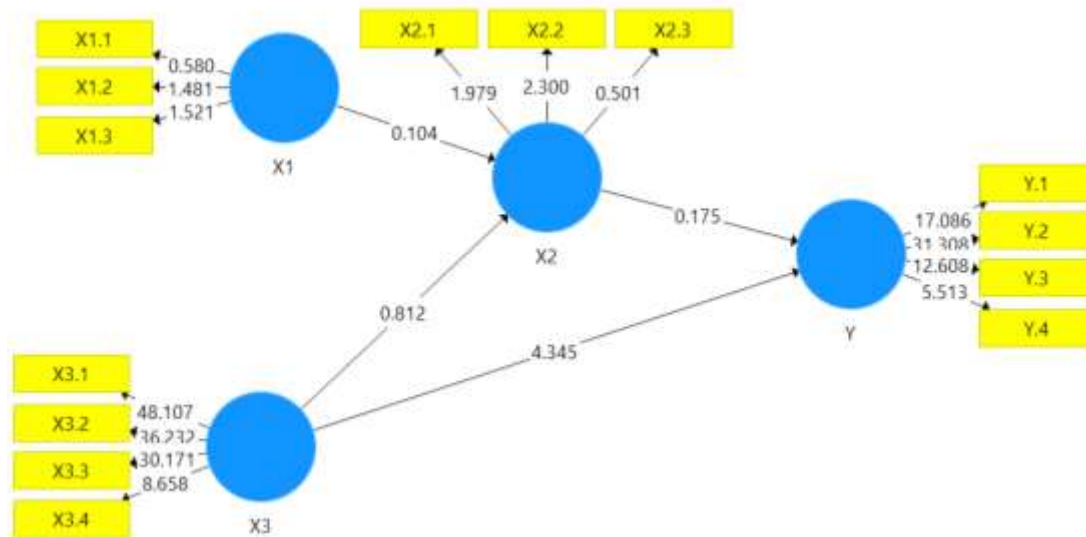


Figure 3. Outer Model PLS

Source: Author's

From these results, it is stated that: H1a; the productive ZIS empowerment program on improving the skills of *Mustahiq* SMEs, did not have a positive effect. H1b; The SMEs Training Program on improving the skills of *mustahiq* SMEs did not have a positive effect. H2; Improving the *mustahiq* skills of the SMEs in increasing their income of SMEs did not have a positive effect. H3; The SMEs' Training Program had a positive effect on increasing SMEs' income.

3.2. Discussion

Empowerment by using ZIS funds is an effective method in helping the survival of the have-nots, protecting them from *riba* loans, and improving their economic condition (Undang-Undang No. 23 Tahun 2011, 2011). The descriptive data found that the distribution or empowerment of SME capital assistance programs affected by the COVID-19 pandemic was quite effective (see Table 1). It was not effective because the productive ZIS empowerment and training programs held by the institution did not have an impact on the *mustahiq* skills of SME actors improvement who have been assisted. So the SME actors' skills improvement also did not impact the *mustahiq* income of the SME program development.

It is supported by the interviews with several *Mustahiq* SMEs in which the empowerment program may not necessarily improve the skills of SME actors because the empowerment program carried out by the *Amil Zakat* institution was only in the form of distributing funds without any business assistance. It was also found from the results of an interview with

Ifa Uzlifah the East Java LAZISMU empowerment team, some of them did not receive business training programs. For this funding program to be sustainable, business training is needed to support the welfare of the *mustahiq* (Raimi et al., 2014).

This finding is also in line with Hamid & Hamid, (2020) that empowerment programs without being accompanied by *mustahiq* skills have not been able to improve their standard of living. This is not in line with the findings of Hamidi et al., (2019), which state that productive *zakat* funds positively affect the improvement of *mustahiq* skills. With that, it takes a strong commitment and cooperation between *zakat* institutions, the government, and the community to carry out this program because the ZIS empowerment productive program has optimal potential to reduce the number of hardline have-nots and minimize the burden borne by ZIS fund management institutions and the government.

Although this training program did not affect the SMEs' skills development, it turns out that the training program could have a positive effect on the increasing respondents' income, namely the *Mustahiq* SMEs assistance program. This is in line with the findings of Mawardi et al., (2022); Widiastuti et al., (2021); dan Bonandar, (2018) that business development in the form of training programs can have a positive effect on increasing income, wealth, and better education for *mustahiq*. *Amil zakat* institutions have a role in increasing *mustahiq* by guiding them in running their business. Furthermore, the process of assistance, monitoring, and evaluation will create a sense of

responsibility for *mustahiq* to keep thinking more maturely in managing their business to be sustainable (Widiastuti et al., 2021).

The distribution of productive ZIS funds was effective in helping SMEs affected by COVID-19. However, 50% of productive ZIS recipients' SME programs showed that the assistance had not improved their economic level. It was just that they were able to sell again after experiencing losses due to the COVID-19 pandemic. The following table shows the average income of *mustahiq* respondents from the SME assistance program from the two *Amil Zakat* institutions:

Table 3. Average Income of *Mustahiq*

Institution name	Before Program	After Program	Change (%)
LAZ IZI	3,288,000	7,580,000	53%
LAZISMU	2,072,500	3,807,550	53%

Source: Author's

The distribution of the SME assistance program to *mustahiq* was carried out during the COVID-19 pandemic. Table 2 showed that the average income before being assisted by *Mustahiq* LAZ IZI was 10 respondents; during the covid pandemic, the average income was IDR 3,288,000, while after being assisted,

there was an average increase of 53% from the previous income. From LAZISMU, with 15 respondents. It showed that the average income during the COVID-19 pandemic before being assisted was IDR 2,072,500, the increase in income after being assisted reached an average of 53% of income before the assistance program.

Helmy, the head of the LAZ IZI East Java branch, said that the economic empowerment program assisted SMEs through business facilities such as carts, capital, tools, and business training. Minal Abidin also did this in the SME empowerment program, where LAZISMU assisted in carts, capital, tools, and business training. Meanwhile, Rudi Setiawan LAZISMU in the Lamongan area was slightly different, only providing the business capital. With the SME assistance program carried out by *Amil Zakat* institutions using ZIS productively, a model for distributing these formulated to help SMEs affected by COVID-19. The following were the findings of the machine model for the distribution and use of ZIS productive funds in improving the welfare of small and medium enterprises using button-up and top-down methods:

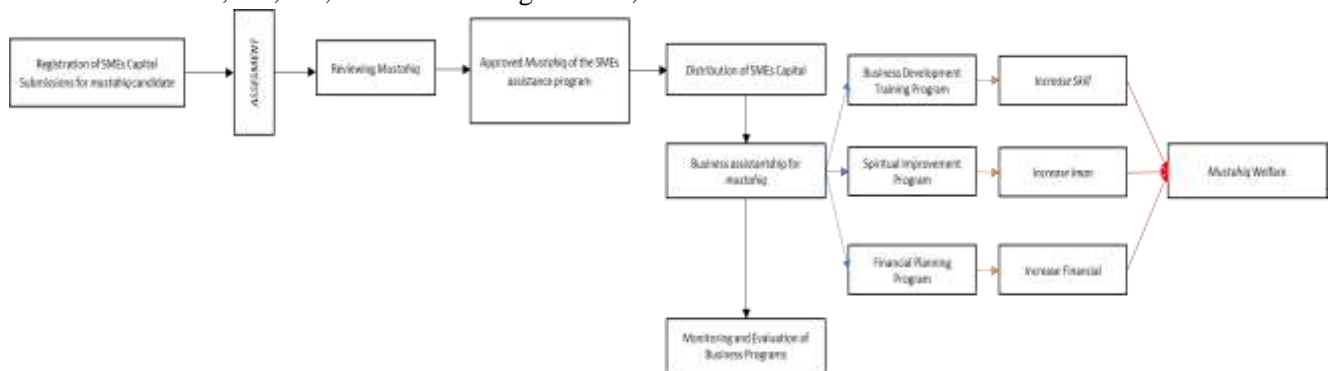


Figure 4. The mechanism of productive ZIS funds distribution is to give welfare to SMEs by using a button-up model

Source: Author's

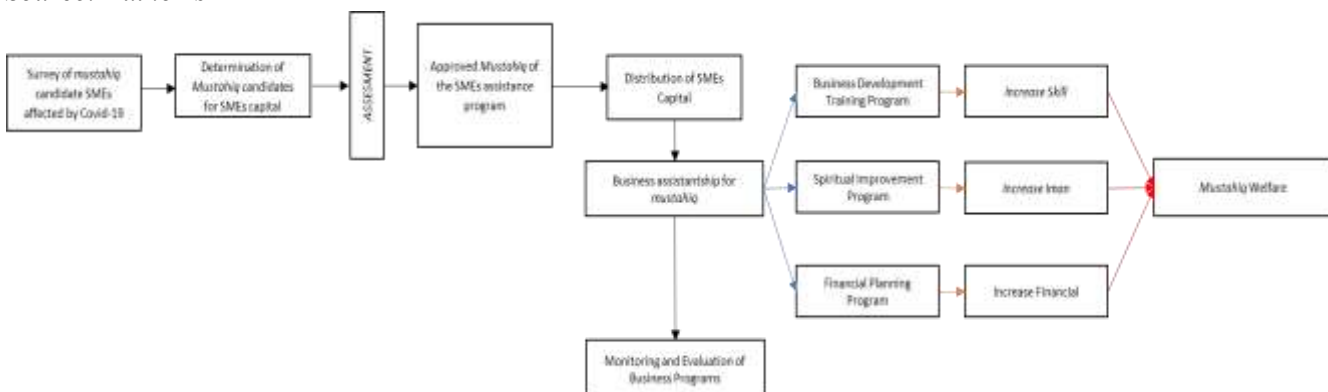


Figure 5. The mechanism of productive ZIS funds distribution is to give welfare to SMEs by using a top-down model.

Source: Author's

4. CONCLUSION

The research result showed that 37% of the *mustahiq* respondents of the SME assistance program have been able to distribute *zakat* and *infaq* to *zakat* institutions that help them. It also found that the *Amil Zakat* institution in this study has been quite effective in assisting SME programs affected by COVID-19. However, it was not yet one hundred percent effective. The results showed that this empowerment program has not been able to improve the skills of SMEs. It's also found that the training held by *Amil Zakat* institutions in improving *mustahiq's* business skills also did not affect them. However, it found that training programs directly increased the *mustahiq's* business income. With this, the researcher concluded that *mustahiq* skills have not been effective in increasing their income, whereas, with frequent training programs, they can increase their income.

On average, the income of the *mustahiq* respondents of the SME empowerment program also increased by 53%. So, the researchers found a model of the ZIS productive distribution mechanism in which there were *mustahiq* business assistantship programs in the form of providing business development training programs, spiritual improvement, and financial planning. It aims to improve the skills, faith, and finances of the *mustahiq* so they can achieve a level of welfare. The limitation of the research was that its scopes were two subjects of *Amil Zakat* institutions and 30 respondents. However, the researcher believed that these findings could provide an overview of the mechanism model for the productive ZIS funds distribution for the SMEs' welfare.

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