

Prospects and Challenges of Zakat in the Modern Economy

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Abstract

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This study aims to comprehensively analyze the prospects and challenges of implementing zakat as an instrument of Islamic philanthropy in the modern economic system. Using a literature review method, this article synthesizes findings from various scientific literature. The analysis shows that zakat's prospects lie in its great potential as an economic stabilizer, a tool for wealth distribution, and a driver of inclusive growth, supported by the digitalization of management (Zakat Fintech) and its application to contemporary assets (such as professional zakat and digital assets). However, the main challenges faced include harmonizing Islamic jurisprudence regulations regarding new financial instruments, increasing zakat payer compliance, issues of accountability and institutional governance, and the urgent need for measurable impact measurement. Optimizing the role of zakat requires institutional synergy, technological innovation, and policy reforms that support the transformation of zakat funds from consumptive to productive.

INTRODUCTION

Zakat is a central pillar of the Islamic socio-economic system, serving both religious (ta'abbudi) and socio-economic (mu'amalah) functions. Economically, zakat serves as a mandatory mechanism for the circulation of wealth, preventing hoarding, and ensuring equitable distribution to the eight groups of recipients (ashnaf).

In the 21st-century context, the global economy is characterized by the complexity of financial instruments, the acceleration of technology (digitalization), and a sharp increase in global income inequality (Oxfam, 2024). Amid this landscape, the role of zakat must be reexamined to remain relevant and effective. The growth of non-traditional assets, such as professional income, capital market investments, and digital assets, raises new fiqh questions regarding the nishab (the threshold) and haul (the threshold). Meanwhile, technology offers new solutions for efficient collection and distribution.

Therefore, this literature review research is crucial for:

- a. Identifying the potential for optimizing zakat in the midst of a modern economic system
- b. Analyzing regulatory and operational barriers faced by zakat institutions
- c. Synthesizing policy guidelines to maximize the impact of zakat.

2. Literature review

a. The prospects for zakat in the modern economy are rooted in the adaptation of fiqh to contemporary financial instruments and the utilization of technological efficiency.

1) Instruments of economic stabilization and wealth redistribution

Theoretically, zakat is a non-tax fiscal instrument that acts as an automatic stabilizer (Kahf, 2014). By diverting funds from the wealthy (muzaki) with a surplus to the poor (mustahik) with a high consumption propensity, zakat directly increases aggregate demand. This helps stabilize the business cycle and mitigate the impact of recessions (Ascarya & Sukmana, 2019). This role is

particularly vital amidst conditions of extreme global inequality. Zakat not only reduces poverty but also eliminates the roots of economic injustice by forcing the circulation of wealth.

2) Adaptation of zakat to contemporary assets

Recognition of zakat obligations on new sources of income opens up the prospect of enormous revenue:

a) Professional Zakat: Most contemporary literature, following the view of Yusuf Al-Qardawi (2000), supports the obligation of zakat on professional income or salary, measuring the nishab based on monthly or annual income after deducting basic needs. Widespread implementation of professional zakat has the potential to multiply the funds collected (Choudhury, 2015).

b) Zakat on Digital Assets and Finance: The application of zakat to capital market instruments (stocks, Islamic bonds) and newer assets such as cryptocurrencies has become a focus of modern Islamic jurisprudence studies. Nizar (2019) notes that despite differing views, the majority of scholars see the potential for zakat liability on digital assets that meet the criteria for growing wealth, although the challenge of determining the nishab due to volatility remains an issue.

3) Digitalization of management (Zakat Fintech)

The integration of zakat with financial technology (Fintech) is the most transformative prospect (Hudaefi, 2020). Digitalization enables:

a) Accessibility and Efficiency: Muzaki can calculate, pay, and track zakat distribution in real-time through the application, eliminating geographical and time barriers.

b) Transparency and Accountability: Blockchain technology or digital reporting systems can increase the transparency of funds from muzaki to mustahik, which directly increases public trust and compliance.

b. The challenges of zakat in the modern economy, despite its bright prospects, the implementation of zakat is faced with structural and operational obstacles.

1) Harmonization of fiqh and regulations

The biggest challenge is the lack of uniformity and accuracy in Islamic jurisprudence regulations for new assets. Determining the nishab (minimum threshold) and haul (haul) for complex instruments such as investments in derivatives markets or cryptocurrencies still requires international consensus among scholars. Without standardization, legal certainty for zaki (the payer of zakat) is weakened. Syaukani (2018) highlights that integrating zakat policy with the state tax system (zakat-tax integration) also poses a significant regulatory challenge, as fiscal incentives are needed to encourage compliance.

2) Muzaki compliance and institutional governance

The level of compliance with zakat obligations (muzaki) is generally still suboptimal in many Muslim countries. This is often attributed to two factors: low awareness and doubts about the management of zakat institutions. Setyaningsih and Haron (2020) emphasize that accountability, transparency, and good governance are key to building trust. If operational costs are too high or fund distribution is opaque, muzaki will tend to pay zakat directly (as individuals) rather than through official institutions.

3) Distribution challenges and impact measurement

The paradigm shift from consumptive zakat (direct assistance) to productive zakat (economic empowerment) is a difficult implementation challenge. Productive programs, such as skills training or providing business capital, require long-term monitoring and greater investment (Nurzaman, 2017). The methodological challenge lies in how to quantitatively measure the social and economic impact of zakat, for example by using the Social Return on Investment (SROI) method to prove that the distributed funds effectively change the status of mustahik to muzaki.

Zakat constitutes a foundational pillar of Islamic teaching and represents a mandatory socio-economic mechanism aimed at promoting justice, equity, and collective welfare. Beyond its religious significance, zakat embodies a structured system of wealth redistribution designed to prevent excessive accumulation of resources and to ensure the circulation of wealth within society.

In the context of the modern economy—characterized by rapid technological advancement, financial globalization, widening income inequality, and persistent poverty—the relevance of zakat extends far beyond its traditional role as an act of worship. Contemporary economic challenges increasingly demand ethical and inclusive solutions, positioning zakat as a potentially powerful instrument within modern economic and development frameworks.

Despite sustained global economic growth, modern economic systems continue to struggle with structural inequality and social exclusion. Market-driven mechanisms, while efficient in resource allocation, often fail to ensure equitable distribution of income and opportunities. As a result, poverty and vulnerability remain significant concerns even in economically dynamic societies. Within this landscape, zakat offers an alternative paradigm grounded in moral responsibility and social solidarity. By mandating wealth transfer from those with surplus resources to designated beneficiary groups, zakat seeks to balance economic efficiency with social justice, a principle that resonates strongly with contemporary debates on inclusive and sustainable development.

However, the practical implementation of zakat in the modern economy is not without challenges. Changes in the nature of wealth, the complexity of financial assets, institutional fragmentation, and governance limitations have created gaps between the normative objectives of zakat and its real-world outcomes. In many contexts, zakat collection remains far below its potential, and distribution mechanisms often lack strategic orientation toward long-term economic empowerment. These challenges raise critical questions regarding the adaptability, effectiveness, and institutional relevance of zakat in addressing modern socio-economic problems.

Against this background, this discussion aims to critically examine the prospects and challenges of zakat within the modern economic environment. By situating zakat within Islamic economic theory and contemporary development discourse, the analysis seeks to highlight its potential contributions to poverty alleviation, income redistribution, and sustainable development, while also identifying key structural and institutional constraints. Understanding these dynamics is essential for repositioning zakat as a strategic instrument capable of responding to the evolving demands of the modern economy while remaining faithful to its ethical and spiritual foundations.

METHODS

This research employed a descriptive-qualitative literature review method. Data collection was conducted through searching and identifying relevant primary literature from academic databases (such as indexed journals, books, seminar proceedings, and official reports from zakat institutions). The analytical approach employed was Thematic Synthesis, which involves grouping, comparing, and integrating findings from various previous literature. The study on the prospects and challenges of zakat in the modern economy adopts a qualitative descriptive-analytical method grounded in Islamic economic theory and contemporary development economics. This approach is appropriate because the research seeks to explore normative principles, institutional dynamics, and socio-economic implications of zakat rather than to test causal relationships statistically. The qualitative design allows for an in-depth examination of how zakat functions conceptually and practically within modern economic systems characterized by financial complexity, digital transformation, and evolving governance structures.

Data for this study are obtained through a systematic literature review of authoritative and up-to-date sources, including classical Islamic jurisprudence (*fiqh al-zakāh*), contemporary Islamic economics literature, peer-reviewed journal articles, policy reports from zakat institutions, and publications by international development organizations. These sources provide both theoretical

foundations and empirical insights into zakat management, poverty alleviation, and socio-economic development. The literature selection process follows clear inclusion criteria, prioritizing relevance, academic credibility, and contextual alignment with modern economic challenges.

The analytical framework employed in this study integrates normative Islamic economic principles—such as justice (*‘adl*), welfare (*maṣlaḥah*), and wealth circulation—with modern institutional and development perspectives. Through content analysis, the study identifies key themes related to the opportunities presented by zakat, including poverty reduction, economic empowerment, digitalization, and alignment with sustainable development objectives, as well as critical challenges such as governance weaknesses, compliance gaps, regulatory constraints, and impact measurement limitations. This thematic analysis enables a structured comparison between the ideal objectives of zakat and its contemporary implementation.

To strengthen analytical rigor, the study also applies a conceptual synthesis approach, linking theoretical propositions with observed practices in various socio-economic contexts. Rather than focusing on a single country case, the discussion draws on cross-contextual evidence from Muslim-majority economies to enhance analytical generalizability. This method allows the study to generate policy-relevant insights and strategic recommendations while maintaining theoretical coherence. Overall, the chosen methodology ensures that the discussion is systematic, logically structured, and capable of capturing the multidimensional role of zakat in the modern economy.

RESULTS AND DISCUSSION

The synthesis of findings shows that optimizing zakat in the modern era requires a holistic approach that combines technological innovation and institutional-regulatory reform.

On the one hand, Zakat Fintech (Hudaefi, 2020) offers the prospect of increasing the efficiency and transparency of mass collection. However, on the other hand, this potential will not be realized without clear regulatory support (Syaukani, 2018) and professional governance (Setyaningsih & Haron, 2020) that ensure the strategic distribution of collected funds.

The ideal model is the Digitally Integrated Productive Zakat model. This model collects zakat from modern sources (professions, digital assets) through a transparent fintech platform and distributes it through empowerment programs designed to achieve Sustainable Development Goals (SDGs) indicators with structured impact measurement (Ascarya & Sukmana, 2019). Zakat occupies a central position in Islamic economic thought as a compulsory instrument of wealth redistribution designed to achieve social justice, economic balance, and moral responsibility. Unlike voluntary charity, zakat is a binding obligation that reflects the integration of spiritual values with material life. In the modern economy—marked by globalization, financial complexity, technological disruption, and persistent inequality—the relevance of zakat becomes increasingly pronounced. Contemporary economic systems have generated remarkable growth, yet they have also intensified income disparities and social exclusion. Within this context, zakat offers an alternative and complementary mechanism to conventional fiscal tools by embedding ethical considerations into economic transactions. However, despite its normative strength and historical success, the practical implementation of zakat in modern economic systems faces multidimensional challenges that must be critically addressed to unlock its full potential.

From a theoretical perspective, zakat functions as more than a religious ritual; it is a structured economic instrument aimed at ensuring the circulation of wealth and preventing its concentration among a limited elite. Islamic economic theory emphasizes that wealth is a trust (*amānah*) from God, and its accumulation must be accompanied by social responsibility. Zakat operationalizes this principle by mandating the transfer of a portion of surplus wealth from those who possess it to designated beneficiary groups. In macroeconomic terms, this transfer can stimulate consumption among lower-income households, enhance aggregate demand, and contribute to

economic stability. Therefore, zakat aligns closely with modern economic objectives such as inclusive growth and social welfare, while maintaining a distinct moral and spiritual foundation.

One of the most significant prospects of zakat in the modern economy lies in its capacity to address poverty and income inequality. Poverty remains a persistent challenge even in economically growing nations, often exacerbated by unequal access to resources, education, and employment opportunities. Zakat, when collected and distributed effectively, can function as a targeted social safety net that directly reaches vulnerable populations. Empirical evidence from various Muslim-majority countries suggests that organized zakat programs have positively affected household income, improved access to basic services, and reduced dependency ratios among beneficiaries. Compared to conventional welfare systems that rely heavily on state budgets and taxation, zakat represents a community-based redistribution mechanism rooted in ethical accountability and social solidarity.

In addition to poverty alleviation, zakat holds strong prospects for supporting broader development agendas, particularly in relation to sustainable development. The objectives of zakat closely correspond with contemporary development frameworks that prioritize human development, social inclusion, and economic resilience. Zakat funds can be directed toward education, healthcare, skill development, and small-scale entrepreneurship, all of which are critical components of long-term economic progress. By aligning zakat programs with national development priorities and global development goals, zakat institutions can enhance their relevance and legitimacy within modern governance systems. This alignment also positions zakat as an indigenous Islamic contribution to global discussions on sustainable and ethical development.

Technological advancement further expands the prospects of zakat in the modern economy. Digitalization and financial technology have transformed the way financial transactions are conducted, offering new opportunities to improve zakat management. Online payment platforms, mobile applications, and digital accounting systems can simplify zakat calculation, increase compliance, and reduce administrative inefficiencies. Moreover, technology enhances transparency and accountability, which are essential for building public trust. In an era where digital finance is becoming mainstream, technology-driven zakat systems can attract younger generations and global Muslim communities, thereby increasing the overall zakat collection potential.

Another promising dimension of zakat in the modern economy is the growing emphasis on productive zakat. Traditionally, zakat distribution focused largely on consumptive assistance aimed at meeting immediate needs. While this approach remains important, modern economic challenges require more sustainable solutions. Productive zakat seeks to empower beneficiaries through income-generating activities, such as micro-enterprises, vocational training, and access to productive assets. This approach resonates with contemporary development economics, which stresses empowerment, self-sufficiency, and capability enhancement. By enabling beneficiaries to participate actively in economic activities, productive zakat can transform recipients into contributors, fostering a sustainable cycle of economic inclusion.

Despite these promising prospects, zakat faces substantial challenges that limit its effectiveness in the modern economic environment. One of the most critical challenges is institutional weakness and governance fragmentation. In many countries, zakat management is divided among multiple organizations operating with varying standards, levels of professionalism, and accountability mechanisms. This fragmentation often leads to inefficiencies, overlapping programs, and limited strategic coordination. Weak governance structures, coupled with inadequate transparency and reporting practices, can erode public trust and discourage compliance. In the context of modern

economies that emphasize performance, accountability, and evidence-based policy, such institutional shortcomings significantly constrain the impact of zakat.

Another major challenge relates to low compliance and limited awareness among potential zakat payers. Although zakat is a religious obligation, actual collection often falls far below its estimated potential. This gap can be attributed to insufficient literacy regarding zakat rules, lack of confidence in zakat institutions, and the absence of effective enforcement mechanisms. Unlike modern taxation systems supported by legal sanctions, zakat largely depends on voluntary compliance driven by moral consciousness. Furthermore, the complexity of modern wealth forms—such as financial investments, business shares, digital assets, and intellectual property—creates uncertainty in zakat calculation. Without clear and widely accepted jurisprudential guidance, many individuals may unintentionally underpay or neglect their zakat obligations.

Legal and regulatory constraints also pose significant challenges to the integration of zakat within modern economic systems. In some contexts, zakat operates entirely outside the formal public finance framework, resulting in weak coordination with government policies and social programs. In other cases, the absence of comprehensive zakat legislation limits the authority of zakat institutions to collect and distribute funds effectively. Balancing the voluntary religious character of zakat with the regulatory requirements of modern states remains a complex issue. Without harmonization between zakat and fiscal policy, the macroeconomic contribution of zakat remains fragmented and underutilized.

Another critical challenge is the difficulty of measuring the socio-economic impact of zakat programs. Many zakat institutions focus primarily on administrative indicators, such as the amount of funds collected or the number of beneficiaries served. While these indicators are important, they do not adequately capture long-term outcomes such as poverty reduction, income mobility, or economic resilience. The lack of rigorous impact evaluation frameworks limits the ability of zakat institutions to design evidence-based programs and demonstrate their effectiveness to stakeholders. In a modern policy environment that prioritizes measurable outcomes, this limitation undermines the strategic positioning of zakat as a credible development instrument.

Addressing these challenges requires a comprehensive and forward-looking strategy. Institutional reform is essential to strengthen governance, standardize management practices, and enhance professionalism in zakat organizations. The adoption of digital technologies should be accelerated to improve efficiency, transparency, and outreach. At the normative level, contemporary Islamic jurisprudence must continue to evolve through contextual *ijtihād* to address modern economic realities and emerging forms of wealth. Additionally, stronger collaboration between zakat institutions, governments, financial institutions, and civil society organizations can amplify the developmental impact of zakat and ensure policy coherence.

In conclusion, zakat possesses substantial prospects as an ethical and redistributive instrument capable of addressing key challenges in the modern economy. Its potential to alleviate poverty, reduce inequality, promote economic empowerment, and support sustainable development is deeply rooted in Islamic economic principles and increasingly supported by empirical evidence. Nevertheless, structural, institutional, legal, and methodological challenges continue to constrain its effectiveness. By integrating strong governance, technological innovation, and contemporary economic thinking with its foundational moral values, zakat can evolve from a fragmented charitable practice into a strategic pillar of inclusive and sustainable economic development in the modern world.

CONCLUSION

Zakat has enormous potential to become a powerful non-tax fiscal instrument in the modern economy. This potential stems primarily from adapting Islamic jurisprudence to contemporary sources of wealth and the adoption of digital technology. However, this prospect is hampered by complex regulatory challenges, low compliance by zakat payers related to governance issues, and the urgent need to improve the effectiveness of productive distribution programs. Optimizing zakat requires institutional innovation, harmonization of fatwas (religious edicts), and a commitment to making zakat a tool for sustainable development.

Theoretical suggestion: future empirical research should focus on developing an impact measurement model (IMM) that is specific to productive zakat programs, such as calculating SROI in various economic sectors.

Practical advice: regulatory bodies (zakat authorities) should immediately establish a joint fatwa council tasked with developing a single fiqh standard for zakat on contemporary assets (such as cryptocurrency and fintech), as well as implementing strict accounting and reporting standards (such as AAOIFI standards) to ensure accountability.

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