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Challenges Facing the BAZNAS Kendal Regency Microfinance Program in Building the Community's Economy

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Abstract

The BAZNAS Micro Finance Program is a form of productive zakat implementation aimed at empowering mustahik through the provision of business capital, mentoring, and entrepreneurial development, with the expectation of serving as an effective Islamic economic empowerment instrument in reducing poverty, increasing community income, and strengthening economic independence. This study aims to analyze the implementation of the BAZNAS Micro Finance Program in Kendal Regency, identify the challenges encountered, and examine its role in strengthening the community economy. A qualitative method with a descriptive approach was employed, with data collected through interviews, observations, and documentation involving program managers, field facilitators, and beneficiaries, and analyzed using an interactive model of data condensation, data display, and conclusion drawing, supported by source and method triangulation to ensure data validity. The findings reveal that the program is implemented through beneficiary selection, productive capital distribution, business mentoring, and monitoring of mustahik business development, contributing positively to income improvement and business strengthening, although it is constrained by limited funding, insufficient mentoring capacity, suboptimal monitoring systems, underdeveloped evaluation frameworks, low financial literacy, limited managerial capacity, and dynamic market conditions.

Keywords: *BAZNAS Micro Finance, Economic Empowerment, Islamic Microfinance, Productive Zakat, Community Economy.*

INTRODUCTION

Global discourse on poverty alleviation has increasingly shifted toward integrated financial inclusion models that combine ethical finance principles with sustainable development agendas, particularly through Islamic microfinance and productive zakat instruments in emerging economies. Islamic microfinance has been positioned as a hybrid mechanism that not only addresses capital constraints among low-income communities but also aligns financial practices with socio-ethical objectives rooted in distributive justice. The expansion of Islamic social finance institutions has further strengthened the role of zakat as a structured development tool embedded within formal economic systems and national poverty reduction strategies (Rasyid et al., 2023). Microfinance frameworks grounded in Islamic principles have been widely acknowledged as viable instruments for enhancing economic resilience among vulnerable populations in developing countries (Jimoh et al., 2024). At the same time, global financial inclusion trends emphasize the integration of digital systems and institutional accountability in ensuring the scalability and sustainability of microfinance-based interventions (Wulandari et al., 2025). These developments collectively illustrate a paradigm shift in poverty reduction strategies from charity-based models toward empowerment-oriented financial ecosystems.

Previous studies consistently highlight that productive zakat plays a significant role in enhancing income generation and improving the welfare of mustahik through structured economic empowerment programs (Ashari et al., 2023). Empirical findings indicate that zakat-based microfinance initiatives can increase small business productivity when supported by adequate mentoring and institutional supervision (Puspita et al., 2024). Research also demonstrates that Islamic microfinance contributes positively to poverty reduction by providing accessible capital to underserved communities while maintaining Sharia compliance (Kamal & Khattak, 2022). However, other studies emphasize that the effectiveness of such programs is highly dependent on governance quality and leadership commitment within zakat institutions (Samsi et al., 2024). In addition, productive zakat implementation has been shown to vary significantly across regions due to differences in institutional capacity and beneficiary readiness (Ghofur, 2024). These findings suggest that while the conceptual foundation of Islamic microfinance is widely accepted, its practical outcomes remain uneven and context-dependent.

Despite the growing body of literature supporting Islamic microfinance, significant inconsistencies remain regarding its long-term impact on sustainable economic empowerment. Several studies report positive short-term income effects, yet fail to provide conclusive evidence on structural poverty exit among beneficiaries (Firmansyah et al., 2024). The absence of standardized evaluation frameworks has led to fragmented assessments of program effectiveness across different BAZNAS implementation units. Moreover, institutional challenges such as limited human resource capacity and suboptimal monitoring systems continue to hinder program optimization in various regions (Asytuti et al., 2025). Empirical research focusing specifically on microfinance zakat programs also tends to overlook contextual variables such as market dynamics and beneficiary entrepreneurial literacy. These gaps indicate a lack of comprehensive, context-sensitive analysis that integrates institutional, economic, and behavioral dimensions simultaneously.

The persistence of poverty and economic inequality in many developing regions underscores the urgent need for more effective and adaptive Islamic microfinance interventions. Although productive zakat programs have been widely implemented, their impact is often constrained by operational inefficiencies and limited scalability (BAZNAS RI, 2024). Weaknesses in program monitoring and uneven distribution mechanisms have further reduced the potential economic impact of zakat-based empowerment initiatives (Asshidqi et al., 2026). At the community level, beneficiaries frequently face structural barriers such as low financial literacy and limited access to competitive markets, which restrict business sustainability. These challenges highlight a critical gap between policy intentions and field-level implementation outcomes, requiring deeper investigation into institutional and contextual constraints. Addressing these issues is essential for ensuring that zakat-based microfinance programs can genuinely contribute to inclusive and sustainable economic development.

Within the broader discourse of Islamic social finance, this study positions itself at the intersection of microfinance effectiveness, institutional challenges, and community economic empowerment. Unlike previous research that primarily focuses on macro-level impacts of zakat distribution, this study narrows its analytical lens to the operational challenges faced by local BAZNAS microfinance implementation. The Kendal Regency context offers a relevant case for understanding how national policy frameworks are translated into localized economic empowerment practices. Existing studies often treat microfinance outcomes as linear results of financial disbursement, while overlooking the multidimensional constraints influencing program sustainability. This research therefore situates itself as a context-specific inquiry that critically examines both structural and operational dimensions of Islamic microfinance implementation in real-world settings.

This study aims to analyze the key challenges facing the BAZNAS Kendal Regency Microfinance Program in its efforts to build and strengthen the community's economy through productive zakat mechanisms. It seeks to identify internal and external factors that influence program effectiveness, including institutional capacity, beneficiary readiness, and environmental constraints. Furthermore, the study explores how these challenges affect the sustainability and scalability of microfinance-based empowerment initiatives at the local level. By doing so, it is expected to provide a more nuanced understanding of the gap between program design and implementation outcomes. Theoretically, the study contributes to the enrichment of Islamic social finance literature by offering a context-driven perspective on microfinance challenges, while methodologically it provides empirical insights that can inform more adaptive and evidence-based policy frameworks for zakat-based economic empowerment programs.

RESEARCH METHODS

This study employs a qualitative empirical research design with a case study approach to examine the challenges facing the BAZNAS Kendal Regency Microfinance Program in building the community's economy through productive zakat mechanisms. The empirical nature of the study is reflected in its reliance on field data collected directly from real-world actors involved in program implementation. The population comprises institutional stakeholders and beneficiaries of the BAZNAS

Microfinance Program, including BAZNAS managers, field facilitators, and mustahik who actively participate in microfinance assistance schemes. The sample is selected using purposive sampling to ensure that informants possess relevant experience and in-depth knowledge of program operations and challenges. Primary data are obtained through in-depth interviews and field observations, while secondary data are derived from official reports of BAZNAS, program documentation, policy records, and academic literature on Islamic microfinance and productive zakat. The study operationalizes key analytical constructs into three main categories, namely internal institutional challenges (human resource capacity, monitoring systems, and funding limitations), external environmental challenges (financial literacy, market access, and business competitiveness), and economic empowerment outcomes of mustahik (income improvement, business sustainability, and economic independence).

Data analysis in this study follows the interactive model of Miles, Huberman, and Saldaña, which involves systematic processes of data condensation, data display, and conclusion drawing through iterative pattern identification across empirical findings. The measurement of qualitative data is conducted using thematic categorization, where recurring patterns from interview transcripts, observation notes, and documentation are coded into predefined analytical dimensions reflecting institutional challenges and program effectiveness. These qualitative indicators are further interpreted through comparative analysis across informant groups to capture variations in perceptions and experiences regarding program implementation. To enhance analytical rigor, the study applies triangulation techniques involving source triangulation, method triangulation, and data triangulation to ensure consistency and credibility of findings. Additionally, member checking is conducted with key informants to validate the accuracy of interpretations, while an audit trail is maintained to ensure dependability and confirmability of the research process. Through this methodological framework, the study ensures that empirical insights into the challenges of Islamic microfinance implementation are systematically validated and analytically robust within the context of community economic development.

RESULTS AND DISCUSSION

Implementation of the BAZNAS Microfinance Program

The implementation of the BAZNAS Kendal Regency Microfinance Program reflects a structured but context-sensitive approach to productive zakat distribution that prioritizes group-based economic empowerment rather than individual financing schemes. The initial stage begins with beneficiary selection based on socio-economic assessment, business potential, and compliance with mustahik eligibility criteria, which aligns with the principle of targeted zakat allocation emphasized in Islamic economic governance (Akbar & Kalimah, 2025). Field data indicate that BAZNAS applies a clustering mechanism in which beneficiaries are organized into collective business groups to strengthen capital utilization and reduce individual financial risk exposure. One of the most notable implementation models is presented in Table 1, which summarizes the program structure across two pilot communities.

Table 1. Implementation Structure of BAZNAS Microfinance Program in Kendal Regency

Program Cluster	Location	Number of Beneficiaries	Funding per Person	Business Type	Financing Model
Bakul Tetot Community	Penanggulan Village	20 mustahik	IDR 2,000,000	Street trading	Collective syirkah model
Goat Farming Group	Bangunsari Village	20 mustahik	IDR 2,000,000	Livestock farming	Collective microfinance group

Table 1 illustrates that the program does not operate through conventional individual lending mechanisms but rather through collective financial structuring, where beneficiaries are encouraged to establish syirkah-based cooperative arrangements to manage and rotate capital internally. This model reflects a hybridization between zakat distribution and Islamic microfinance principles, where empowerment is prioritized over consumptive assistance (Ismail et al., 2022). The transformation of grant-based assistance into internally managed group capital indicates an institutional attempt to enhance sustainability and accountability within beneficiary communities. However, empirical observations also suggest that the success of this model is highly dependent on the cohesion and managerial capacity of each group.

Beyond financial distribution, the implementation process includes verification and field validation stages conducted by BAZNAS officers to ensure data accuracy and minimize targeting errors in accordance with good governance principles in zakat management (Rasyid et al., 2023). Field verification involves direct observation of household conditions, business feasibility, and income stability, which serves as a filtering mechanism before fund disbursement. This procedural rigor reflects an institutional effort to maintain compliance with both administrative accountability and Sharia-based distribution ethics. Nevertheless, inconsistencies in beneficiary data accuracy remain a recurring challenge, particularly in rural areas where informal economic activities dominate.

In addition, the program integrates a structured assistance component in which beneficiaries receive business mentoring, financial literacy support, and basic entrepreneurship training. This aligns with the broader Islamic microfinance framework that emphasizes capacity building alongside capital provision as a mechanism for sustainable empowerment (Jimoh et al., 2024). Field evidence shows that mentoring activities play a critical role in helping beneficiaries transition from subsistence-level economic activities to more structured micro-enterprises. However, the effectiveness of this intervention varies depending on the intensity of mentor engagement and the geographical dispersion of beneficiaries.

Monitoring and evaluation mechanisms are also embedded within the implementation framework, although their effectiveness remains uneven across program clusters. Monitoring activities are conducted through periodic field visits and progress assessments, but limitations in human resources often restrict the frequency and depth of evaluation. As shown in Table 4.1, both clusters operate under similar financial schemes, yet their developmental trajectories differ significantly due to variations in local leadership and group coordination. This indicates that implementation outcomes are not solely determined by financial input but also by governance quality at the beneficiary level. Such findings reinforce the argument that zakat-based microfinance programs require not only capital distribution but also institutional strengthening to achieve sustainable economic impact (BAZNAS RI, 2024).

A further observation from field interviews reveals that the transition from assistance recipient to economically independent actor remains gradual and uneven across beneficiaries, even within the same program cluster. Some groups demonstrate rapid business adaptation and capital turnover, while others experience stagnation due to limited entrepreneurial experience and inconsistent group discipline. This variation highlights the importance of socio-cultural factors in shaping program outcomes, particularly trust, collective responsibility, and leadership within community-based financing structures. Consequently, the implementation of the program cannot be understood solely as a financial intervention, but rather as a socially embedded economic empowerment process that evolves through continuous interaction between institutional design and community behavior.

Internal Challenges of the Program

The internal challenges of the BAZNAS Kendal Regency Microfinance Program are primarily rooted in structural and institutional limitations that affect the consistency and depth of program implementation. Although the program is designed to enhance economic empowerment through productive zakat distribution, its operational effectiveness is constrained by financial, human resource, and governance-related issues that emerge at the institutional level. One of the most significant constraints is the limitation of program funding relative to the increasing demand from potential beneficiaries, which creates a selective distribution mechanism that may exclude eligible mustahik. These conditions reflect broader systemic challenges in zakat management institutions, where resource allocation often struggles to keep pace with community needs (Asytuti et al., 2025). The distribution pattern of internal challenges is summarized in Table 2.

Table 2. Internal Challenges in Program Implementation

Category	Specific Issue	Empirical Indicator	Program Impact
Funding limitation	Insufficient capital allocation	Limited beneficiary coverage	Restricted outreach
Human resources	Limited number of mentors	High mentor-to-beneficiary ratio	Reduced mentoring intensity
Monitoring system	Irregular field supervision	Incomplete progress data	Weak performance tracking
Evaluation system	Focus on administrative output	Lack of impact assessment	Limited policy feedback

Table 2 shows that funding limitations directly affect the scale of program outreach, as the available capital must be distributed selectively among mustahik with prioritized eligibility. This situation creates structural tension between program inclusivity and financial sustainability, which has also been observed in other zakat-based microfinance institutions (Febrianto et al., 2026). The limited availability of funds not only restricts the number of beneficiaries but also affects the adequacy of capital provided to each participant, thereby influencing the potential growth trajectory of micro-enterprises. Consequently, financial constraints become a foundational barrier that shapes all subsequent stages of program implementation.

Another critical internal challenge lies in the limited availability and capacity of field mentors who are responsible for assisting beneficiaries in managing and developing their businesses. Field data indicate that the ratio between mentors and beneficiaries is disproportionately high, resulting in reduced frequency and quality of mentoring interactions. This limitation reduces the program's ability to provide continuous capacity-building support, which is essential in Islamic microfinance systems that emphasize accompaniment alongside financing (Jimoh et al., 2024). Furthermore, variations in mentor competencies contribute to inconsistent advisory quality, particularly in areas such as business strategy, marketing, and financial management.

The monitoring system also presents significant internal constraints, particularly in relation to data consistency and frequency of field evaluation. Monitoring activities are often conducted irregularly due to logistical limitations and limited human resources, which leads to incomplete information regarding business development among beneficiaries. This condition weakens the institution's ability to identify early-stage problems and implement timely corrective actions. Empirical observations suggest that monitoring gaps tend to be more pronounced in geographically dispersed rural clusters, where access to beneficiaries is more challenging.

In addition, the evaluation framework of the program remains largely administrative in nature, focusing more on fund distribution reporting than on long-term socio-economic outcomes. This creates a gap between program objectives, which emphasize empowerment, and evaluation practices, which emphasize accountability reporting. Such limitations reduce the institution's ability to generate evidence-based policy improvements and refine program design based on actual field outcomes. Similar weaknesses in evaluation systems have been identified in other zakat institutions in Indonesia, where impact measurement is still developing as a formal practice (Rasyid et al., 2023).

Internal governance structures also influence the effectiveness of coordination among program units, particularly in integrating microfinance activities with broader institutional strategies. The absence of a dedicated and fully specialized microfinance unit within the local BAZNAS structure limits operational efficiency and reduces the program's strategic coherence. Coordination with external agencies such as cooperatives offices and SME development institutions remains partial and not yet institutionalized. This fragmentation reduces the potential for synergy in strengthening beneficiary businesses.

A further internal issue concerns the variability in administrative capacity among program implementers, particularly in documentation and beneficiary tracking systems. Inconsistent data recording practices create difficulties in evaluating long-term program impact and hinder continuity in beneficiary assistance. This challenge reflects broader institutional capacity issues in zakat management systems, where administrative modernization has not fully aligned with program expansion (BAZNAS RI, 2024). As a result, internal challenges collectively demonstrate that while the program is conceptually strong, its institutional infrastructure still requires significant strengthening to ensure sustainable and measurable economic empowerment outcomes.

External Challenges of the Program

The external challenges facing the BAZNAS Kendal Regency Microfinance Program emerge from socio-economic conditions that exist beyond the institutional control of BAZNAS yet significantly influence program effectiveness in building community-based economic resilience. These challenges are primarily rooted in low financial literacy among mustahik, limited market access, and increasingly competitive micro-enterprise environments that characterize rural and semi-urban economies. Field evidence suggests that although beneficiaries receive capital and mentoring, their ability to manage financial resources remains constrained by limited understanding of basic financial planning and business sustainability principles. Such conditions are consistent with findings that financial literacy remains a critical determinant of microfinance success in Islamic economic empowerment programs (Wulandari et al., 2025). The distribution of external challenges is summarized in Table 3.

Table 3. External Challenges Affecting Program Effectiveness

External Factor	Observed Condition	Impact on Beneficiaries	Level of Severity
Financial literacy	Low bookkeeping skills	Poor financial management	High
Market access	Limited marketing channels	Low sales growth	High
Business competition	Increasing informal competitors	Price pressure	Moderate
Economic instability	Fluctuating local demand	Income uncertainty	Moderate

Table 3 indicates that financial literacy represents the most critical external constraint affecting the sustainability of beneficiary enterprises. Many mustahik operate their businesses without structured financial recording systems, which results in difficulties in separating personal and business finances, ultimately weakening capital rotation capacity. This limitation reflects broader structural issues in community-based microfinance systems, where financial inclusion does not automatically translate into financial capability (Kamal & Khattak, 2022). Consequently, despite access to capital, many beneficiaries remain vulnerable to business stagnation due to weak financial discipline.

Market access constraints also constitute a significant external barrier, particularly for beneficiaries operating in informal trading and small-scale agricultural sectors. Field observations show that most beneficiaries rely on traditional, localized markets with limited expansion into broader distribution networks. This restricts revenue growth and reduces opportunities for business scaling, especially in competitive environments where digital marketing and supply chain integration are increasingly dominant. Similar conditions have been identified in Islamic microfinance studies emphasizing that market linkage is as important as capital provision in ensuring business sustainability (Jimoh et al., 2024).

Competitive pressure from informal sector actors further intensifies external challenges, particularly in sectors with low entry barriers such as street vending and small livestock trading. Price competition among similar businesses often leads to reduced profit margins, limiting the ability of beneficiaries to accumulate capital for reinvestment. This condition illustrates how micro-level economic empowerment programs are highly sensitive to broader market structures that are not directly controlled by program implementers. In such contexts, without strategic market differentiation, micro-enterprises tend to remain trapped in low-income equilibrium.

Economic instability at the local level also contributes to fluctuations in business performance among beneficiaries, particularly those whose income depends on seasonal demand patterns. Variations in consumer purchasing power and external shocks such as inflation or supply disruptions create uncertainty in revenue generation. These conditions highlight the vulnerability of micro-enterprises operating in subsistence-oriented economic environments. Similar findings have been reported in studies emphasizing that external macroeconomic volatility significantly affects the sustainability of productive zakat-based programs (Firmansyah et al., 2024).

Another external constraint is the limited integration between the program and broader local economic development ecosystems, including cooperatives, SMEs agencies, and private sector actors. The absence of strong institutional linkages reduces opportunities for beneficiaries to access advanced training, wider markets, and additional financing sources. This fragmentation weakens the potential multiplier effect of microfinance interventions in enhancing community economic resilience. Strengthening external partnerships is therefore essential to expand the program's developmental impact beyond direct beneficiaries.

External challenges demonstrate that the effectiveness of the BAZNAS microfinance program is not solely determined by internal institutional capacity but is also shaped by broader socio-economic ecosystems. Without addressing structural issues such as financial literacy, market access, and economic volatility, the program risks achieving limited long-term impact despite successful capital distribution. These findings highlight the importance of integrating microfinance interventions with broader economic empowerment strategies at the community and regional levels.

Strategies for Overcoming Implementation Challenges

The strategies for overcoming the challenges faced by the BAZNAS Kendal Regency Microfinance Program are oriented toward strengthening institutional capacity, improving beneficiary empowerment, and expanding ecosystem integration to ensure sustainable economic impact. These strategies are formulated based on empirical findings that indicate limitations in funding, human resources, monitoring systems, and external socio-economic constraints affecting program effectiveness. Strengthening the mentoring system is identified as a priority strategy, considering its central role in bridging the gap between capital assistance and business sustainability among mustahik. This approach is consistent with Islamic microfinance principles that emphasize accompaniment, capacity building, and continuous guidance as core elements of economic empowerment (Ismail et al., 2022). Enhancing mentorship quality and intensity is therefore essential to improve beneficiary performance outcomes.

One of the key strategic interventions involves improving the competency and availability of field facilitators through structured training and recruitment expansion. Capacity-building programs for mentors should include entrepreneurship development, financial management, digital marketing, and business sustainability strategies to ensure more comprehensive support for beneficiaries. The strengthening of human resources is critical, as the effectiveness of microfinance programs is highly dependent on the quality of interpersonal guidance provided to mustahik. This aligns with findings that suggest human capital development within Islamic microfinance institutions significantly influences program success (Jimoh et al., 2024). Without adequate mentor capacity, the transformative objectives of productive zakat programs are unlikely to be fully realized.

Digital transformation of monitoring and evaluation systems is also proposed as a strategic solution to address weaknesses in data collection and program oversight. The adoption of digital platforms for real-time reporting and beneficiary tracking would improve transparency, efficiency, and accuracy in assessing business development outcomes. Such systems enable early detection of business stagnation and facilitate timely intervention by program administrators. The integration of digital tools in zakat management has been recognized as a critical innovation in improving institutional accountability and operational effectiveness (BAZNAS RI, 2024). Therefore, digitalization is not merely a technical upgrade but a structural reform in program governance.

Strengthening collaboration with external stakeholders is another essential strategy for expanding the impact of the microfinance program. Partnerships with local government agencies, cooperatives, universities, and private sector actors can provide beneficiaries with access to training, certification, and broader market networks. This collaborative approach reflects the principle of ecosystem-based empowerment, where microfinance programs are integrated into broader economic development frameworks rather than operating in isolation. Empirical evidence suggests that multi-stakeholder collaboration significantly enhances the sustainability of micro-enterprises supported by zakat-based financing schemes (Ashari et al., 2023). Such integration is crucial for overcoming structural limitations in market access and business scalability.

In addition, strengthening marketing networks for beneficiary products is identified as a strategic priority to address market access constraints. The program can facilitate participation in local exhibitions, digital marketplaces, and community-based trade networks to expand sales channels for micro-enterprises. This strategy is particularly important for beneficiaries operating in saturated local markets with limited customer diversification. Enhancing market linkages enables businesses to move beyond subsistence-level operations toward more competitive and scalable economic activities. Similar approaches have been highlighted in Islamic economic development literature as essential for sustaining micro-enterprise growth (Berlian et al., 2022).

Another important strategy involves improving financial literacy among beneficiaries through continuous education programs. Training in basic accounting, budgeting, and investment planning is necessary to strengthen financial discipline and ensure efficient capital utilization. Many of the challenges identified in earlier sections are closely linked to weak financial management practices among mustahik, making literacy improvement a foundational intervention. Financial education has been widely recognized as a determinant factor in the success of microfinance interventions in low-income communities (Kamal & Khattak, 2022). Therefore, embedding structured financial literacy modules within the program is essential for long-term sustainability.

The effectiveness of all strategic measures depends on institutional commitment and coordinated governance among stakeholders involved in program implementation. Strong leadership within BAZNAS, combined with active engagement from local government and community actors, is necessary to ensure consistency and continuity of empowerment efforts. Without coordinated implementation, even well-designed strategies may fail to produce meaningful impact at the beneficiary level. This reflects broader findings in zakat management studies that emphasize the importance of institutional synergy in achieving sustainable socio-economic transformation (Samsi et al., 2024). Strengthening coordination therefore serves as the foundation for optimizing all other strategic interventions within the program.

Impact of the Microfinance Program on Community Economic Empowerment

The impact of the BAZNAS Kendal Regency Microfinance Program on community economic empowerment is reflected in gradual yet multidimensional improvements in income stability, business continuity, and the emergence of economic independence among mustahik, although these outcomes are not uniform across all beneficiary groups. Field findings indicate that beneficiaries who actively engage in mentoring activities and consistently participate in group-based financing mechanisms tend to demonstrate stronger business resilience compared to those with lower levels of participation, suggesting that empowerment outcomes are strongly mediated by behavioral and institutional engagement factors. This reinforces the view that microfinance interventions in Islamic economic systems are not merely capital distribution instruments, but integrated empowerment processes combining financial access, mentoring, and social reinforcement mechanisms. Such findings are consistent with Islamic empowerment theory, which emphasizes that sustainable economic transformation requires the integration of financial capital with human and social capital development (Akbar & Kalimah, 2025). Consequently, the program's impact must be understood as a layered process rather than a single-dimensional economic intervention.

The improvement in income levels among beneficiaries is one of the most visible outcomes of the program, particularly in small trading, service-based micro-enterprises, and livestock farming activities supported under the microfinance scheme. Many mustahik reported an increase in daily or monthly earnings after receiving capital assistance, especially when the funds were managed effectively through group-based syirkah structures that encouraged collective discipline in capital utilization. However, the magnitude of income improvement varies significantly depending on business type, managerial capacity, and access to local markets, indicating that capital injection alone is insufficient to guarantee uniform economic progress. These variations reflect broader structural realities in micro-enterprise development where external market forces and internal managerial capacity jointly shape income trajectories. Empirical studies on productive zakat consistently highlight that income enhancement tends to be gradual and strongly dependent on sustained mentoring and environmental conditions (Ashari et al., 2023). Therefore, income improvement in this context should be interpreted as a dynamic and evolving process rather than an immediate or linear transformation.

Beyond income changes, the program also contributes to improved business sustainability, as evidenced by the continued operation and gradual expansion of several micro-enterprises within beneficiary clusters over time. Some participants have begun to reinvest profits into their businesses, diversify product offerings, and expand their customer base, indicating the emergence of basic entrepreneurial consolidation and capital accumulation behavior. This transition reflects a shift from survival-oriented economic activity toward more structured and growth-oriented micro-enterprise management, although such transitions remain uneven across beneficiaries. Sustainability challenges persist among participants who face difficulties in cash flow management, market access limitations, and inconsistent business planning practices, which often hinder long-term stability. Similar findings have been highlighted in Islamic microfinance literature emphasizing that sustainability outcomes are highly contingent on both internal entrepreneurial capacity and external market integration (Jimoh et al., 2024). Thus, while the program contributes positively to sustainability, its effects are still moderated by structural and behavioral constraints.

Another significant impact is the strengthening of economic independence among mustahik, which is reflected in reduced reliance on external financial assistance and increased confidence in managing economic activities over time. Beneficiaries who consistently participate in training and mentoring programs tend to demonstrate improved financial decision-making, better resource allocation, and increased willingness to take calculated business risks. This behavioral transformation is a crucial indicator of empowerment, as it signifies changes not only in economic conditions but also in cognitive and attitudinal dimensions of entrepreneurship. Such transformation aligns with the broader objective of zakat-based microfinance systems, which aim to transition beneficiaries from dependency status toward self-sufficiency and productive economic participation (Berlian et al., 2022). Nevertheless, the level of independence achieved varies considerably, with some beneficiaries still exhibiting dependency patterns due to limited exposure to business knowledge and market networks.

The program also generates important social empowerment outcomes through the reinforcement of collective responsibility within group-based syirkah mechanisms, where beneficiaries are encouraged to collaborate in managing capital, sharing risks, and solving operational challenges collectively. This collective structure fosters social cohesion, mutual accountability, and peer-based learning, which are essential components in sustaining community-based microfinance initiatives. However, the effectiveness of this social capital formation depends heavily on group leadership quality, internal trust levels, and consistency in member participation, all of which vary across different beneficiary clusters. In some cases, strong group cohesion has led to improved financial discipline and better business coordination, while in others, weak internal governance has limited the effectiveness of collective economic strategies. This indicates that social empowerment is highly context-dependent and cannot be assumed as an automatic outcome of program participation.

Overall, the impact analysis demonstrates that the BAZNAS microfinance program generates meaningful yet uneven improvements in economic and social conditions among mustahik, reflecting a complex interaction between institutional design, beneficiary capacity, and external environmental factors. While positive outcomes are evident in terms of income growth, business continuity, independence, and social cohesion, these achievements are not evenly distributed and remain vulnerable to structural constraints such as market limitations and financial literacy gaps. This suggests that the program functions primarily as an enabling mechanism that facilitates economic transformation rather than a complete solution to poverty alleviation in itself. Strengthening institutional support systems and expanding integration with broader economic ecosystems is therefore necessary to maximize long-term developmental impact and ensure more equitable distribution of benefits across beneficiary groups (BAZNAS RI, 2024).

CONCLUSION

The Micro Finance Program of BAZNAS Kendal Regency represents one of the key implementations of productive zakat aimed at empowering mustahik through the provision of business capital, entrepreneurial mentoring, and continuous capacity-building activities. This program functions not only as a mechanism for distributing zakat funds, but also as a structured economic empowerment instrument designed to enhance business capability, income generation, and long-term welfare improvement among beneficiaries. Through a systematic approach involving targeted beneficiary selection, group-based financing mechanisms, mentoring activities, and periodic monitoring, the program seeks to foster sustainable economic independence among mustahik. Empirical evidence from field implementation shows that the collective financing model based on syirkah contributes to stronger social cohesion, shared responsibility, and improved financial discipline among beneficiaries, although the extent of its success remains uneven due to variations in institutional capacity, facilitator performance, and the economic characteristics of each beneficiary group.

In its implementation, the Micro Finance Program of BAZNAS Kendal Regency encounters several internal challenges that significantly influence its overall effectiveness and sustainability in fostering community economic empowerment. These challenges include limited program funding that restricts the coverage and scale of assistance, insufficient number and uneven capacity of field facilitators, suboptimal monitoring systems that reduce the accuracy of real-time business evaluation, and the absence of a fully integrated evaluation framework capable of measuring long-term empowerment outcomes. Such conditions indicate that the effectiveness of Islamic microfinance-based empowerment programs cannot be explained merely through financial availability, but must also consider institutional governance quality, human resource competence, and the robustness of supervisory mechanisms. In addition, external constraints such as low financial literacy among mustahik, limited access to broader markets, and increasing business competition create additional structural barriers that hinder optimal program performance, thereby requiring a more adaptive, data-driven, and context-sensitive approach to strengthen program resilience and sustainability.

To address these multidimensional challenges, a comprehensive strategic framework is required that integrates institutional strengthening, capacity development, and ecosystem expansion in a coordinated manner. Key strategies include enhancing the quality and intensity of business mentoring systems through more structured and measurable guidance mechanisms, providing continuous entrepreneurship training that covers financial management, product innovation, and digital marketing competencies, and implementing digital-based monitoring systems to improve transparency, efficiency, and data accuracy in tracking beneficiary progress. Furthermore, strengthening collaboration with local government institutions, Islamic financial organizations, academic institutions, and private sector actors is essential to broaden resource accessibility and institutional support, while simultaneously expanding market access through digital platforms and strategic partnerships to improve the competitiveness of mustahik products. From an Islamic economic empowerment perspective, the program demonstrates significant potential in increasing beneficiary income, strengthening economic independence, and facilitating the gradual transformation of mustahik into muzakki, yet its long-term success fundamentally depends on the balanced integration of financial instruments, institutional capacity building, and socio-economic ecosystem development within the broader framework of community-based Islamic development.

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